

COMPLIANCE AS A FIXED COST: ADMINISTRATIVE BURDEN AND THE SMALLEST FIRMS

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ABSTRACT

A tax rate is proportional by design. The cost of complying with it is not, because understanding a rule, keeping the records it requires and filing the returns it demands cost roughly the same whatever the firm's turnover. This study treats that asymmetry as a distributive instrument in its own right and asks what the evidence establishes about who bears it. The method is a structured conceptual review of research published between 2017 and 2024 across tax compliance costs, tax digitalisation, subsidised credit, banking access and administrative burden in public programmes. Five findings follow. Compliance cost is substantially fixed, so its incidence falls as a share of turnover and rises as a share of the smallest firms' margin, making it regressive by construction rather than by policy choice. Digital tax administration reduces the burden only where the firm already possesses the complementary capability, so an instrument justified as simplification can widen the gap it was meant to close. Credit instruments designed for the same firms carry their own application burden, and the evidence on guaranteed and subsidised lending finds effects concentrated among firms that were already bankable. Presence is not access: branch density raises the odds that small firms adopt conservative debt-avoiding policies rather than borrowing. And the burden is measurable with instruments already in use, which means its absence from regulatory impact assessment is a choice. The study proposes that compliance cost be estimated before a rule is issued and reported by firm size band.

ABSTRAK

Tarif pajak dirancang bersifat proporsional. Biaya untuk mematuhi tidak, sebab memahami aturan, menyelenggarakan pembukuan yang dituntutnya, dan menyampaikan pelaporannya menelan ongkos yang kurang lebih sama berapa pun omzet perusahaannya. Kajian ini memperlakukan ketimpangan tersebut sebagai instrumen distribusi tersendiri dan menanyakan apa yang ditetapkan bukti mengenai siapa yang menanggungnya. Metodenya adalah telaah konseptual terstruktur atas riset terbitan 2017 hingga 2024 pada bidang biaya kepatuhan pajak, digitalisasi perpajakan, kredit bersubsidi, akses perbankan, dan beban administratif pada program publik. Lima temuan mengikutinya. Biaya kepatuhan sebagian besar bersifat tetap, sehingga insidensinya menurun sebagai bagian dari omzet dan meningkat sebagai bagian dari margin usaha terkecil, menjadikannya regresif menurut konstruksinya dan bukan menurut pilihan kebijakan. Administrasi perpajakan digital menurunkan beban hanya bila perusahaannya sudah memiliki kemampuan pelengkapannya, sehingga instrumen yang dibenarkan sebagai penyederhanaan dapat melebarkan jurang yang hendak ditutupnya. Instrumen

	kredit yang dirancang untuk perusahaan yang sama membawa beban pengajuannya sendiri, dan bukti mengenai penjaminan serta kredit bersubsidi menemukan dampaknya terpusat pada perusahaan yang memang sudah layak bank. Kehadiran bukanlah akses: kerapatan kantor cabang justru menaikkan peluang usaha kecil menempuh kebijakan pendanaan konservatif yang menghindari utang. Adapun bebannya dapat diukur dengan instrumen yang sudah dipakai, sehingga ketiadaannya dalam penilaian dampak regulasi merupakan pilihan. Biaya kepatuhan sepatutnya diperkirakan sebelum aturan diterbitkan dan dilaporkan menurut kelompok ukuran usaha. Kata kunci: biaya kepatuhan; beban administratif; usaha mikro dan kecil; digitalisasi perpajakan; akses pembiayaan
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1. INTRODUCTION

Two firms face the same tax rate. One turns over a hundred times what the other does. Both must understand the rule, keep the records it requires, complete the return, and hold themselves ready for examination. The rate is identical; the cost of arriving at the point where the rate applies is roughly identical too — and that is the problem, because a cost that does not vary with size is regressive with respect to size.

This is not a subtle effect. Eichfelder and Hechtner (2018), examining tax compliance costs and their reliability as an estimate, establish both that the burden is substantial and that measuring it is harder than measuring the tax itself, which is why it is routinely omitted from the assessment of a rule. Coffey et al. (2020), estimating the cumulative cost of regulations, find the accumulated stock rather than any individual rule to be the binding constraint — an important qualification, because it means no single regulator's impact assessment would detect the problem even if one were performed.

The distributive consequence has a specific form. A fixed cost is a barrier at entry and a margin reduction thereafter. It does not stop a large firm doing anything. It can stop a micro-enterprise formalising, and where it does, the firm remains outside the tax net, outside the credit system and outside the statistics — which means the burden that excluded it is invisible in the data used to assess the rule.

Two policy responses dominate. The first is digitalisation, on the theory that an electronic process is cheaper than a paper one. The second is subsidised or guaranteed credit, on the theory that the excluded firm's problem is capital. This study assesses both against the evidence and finds each conditional in the same way: the instrument delivers to firms that already possess a complementary capability, and the firms it was justified by are the ones least likely to possess it.

Four questions organise the analysis. First, what is known about the size and structure of compliance cost? Second, does digitalisation reduce it, and for whom? Third, do the credit

instruments aimed at small firms reach them? Fourth, what would it cost to measure the burden before a rule is issued?

2. LITERATURE REVIEW

The size and structure of the burden

Bruce-Twum et al. (2022), examining determinants of tax compliance costs among small and medium enterprises, establish that the burden varies with firm characteristics in ways that are systematic rather than idiosyncratic. Bruce-Twum et al. (2023), surveying tax professionals in the same setting, add the practitioner view and identify the components that dominate — record-keeping, advisory fees and the time cost of filing.

Eichfelder and Hechtner (2018) supply the methodological caution that governs how these estimates should be read: compliance cost estimates are sensitive to elicitation method, and the resulting figures carry wider uncertainty than tax revenue figures do. That uncertainty is one reason the burden is excluded from regulatory assessment, and it is a poor reason, because an uncertain estimate of a real cost is more informative than an implicit assumption that the cost is zero.

Coffey et al. (2020) reframe the question from the individual rule to the stock. Their estimate of the cumulative cost of regulations establishes that the accumulated requirement, not any single instrument, is what constrains firm behaviour. For a subnational setting this matters doubly, because a firm faces requirements from several tiers simultaneously and no tier assesses the total.

Halling and Baekgaard (2024) supply the conceptual apparatus. Administrative burden decomposes into learning costs, compliance costs and psychological costs, and the third is neither negligible nor reducible by simplifying forms. Baekgaard et al. (2024), through quasi-experimental design, examine how burden changes behaviour rather than merely how it is experienced. Both establish that burden is an instrument with effects, not a friction to be apologised for.

Digitalisation: for whom does it simplify?

Bellon et al. (2022), examining digitalisation to improve tax compliance, find electronic invoicing raising reported sales and tax payments, with the effect concentrated among firms with weaker prior compliance. The finding is favourable for revenue and silent on burden: an instrument that raises reported liability among previously under-reporting firms has changed what they pay, not what it costs them to pay it.

Okunogbe and Pouliquen (2022) examine electronic filing and find it reducing the time cost of compliance while also changing the incidence of what is paid, with effects varying by firm characteristics. Kochanova et al. (2020) assess whether digital government reduces the burden on firms and find the relationship conditional on complementary institutional quality. Vincent (2023) examines digital tax administration in a developing setting and finds implementation gaps between the system as designed and as encountered.

Abrori et al. (2024), examining digital transformation in a local tax system, ask directly whether it strengthens revenue and find the answer conditional on administrative readiness. Anatan and Nur (2023) assess the readiness of micro, small and medium enterprises for digital transformation and find it uneven — which is the complementary capability the tax digitalisation literature assumes. Where that capability is absent, a digital requirement converts a paper burden into a digital one and adds an acquisition cost on top.

Rusliana et al. (2023) examine the performance of small and medium enterprises and identify the factors that separate the growing from the static. Read alongside the readiness evidence, the pattern is consistent with the general result of this study: instruments justified by the needs of the weakest firms deliver first to firms that already have something the weakest lack.

Credit: does the instrument reach the firm it names?

Subsidised and guaranteed credit is the second standard response, and the evidence on it is more developed than the evidence on compliance cost. Brown and Earle (2017), examining finance and growth at firm level through a guaranteed lending programme, find employment and survival effects that are real and concentrated. Bertoni et al. (2023) examine the long-term effects of loan guarantees on firm performance and find persistence beyond the guarantee period, which is a stronger result than contemporaneous take-up.

Bachas et al. (2021) examine loan guarantees and credit supply and identify how the guarantee changes lender behaviour rather than only borrower access. Ehrl (2021), examining subsidised loans and firm survival, finds survival effects varying with firm characteristics at entry. Crawford et al. (2023) review government finance, loans and guarantees for small and medium enterprises and identify the design features that determine whether the instrument reaches its intended population.

The domestic evidence is specific about who is reached. Adha (2023) examines the welfare effect of a national subsidised credit programme on its recipients; Aristanto et al. (2020) trace the policy dynamics of the same programme; Darjana et al. (2022) examine whether credit

performance changed after a major shock. Together these establish that the instrument operates at scale and that its distribution among firm types is the open question.

Behr et al. (2017) examine cyclicalities of small-firm lending and government involvement in banks, finding public ownership changing the cyclical profile of credit supply. Englmaier and Stowasser (2017) find electoral cycles in savings bank lending, which introduces a political timing variable into who receives credit and when. Borsuk et al. (2024) examine state-owned banks and international shock transmission; Ashraf et al. (2018) examine whether better political institutions reduce political influence in lending. The collective implication is that the channel through which small-firm credit flows is itself shaped by factors unrelated to the firms' characteristics.

Presence is not access

Gama et al. (2024) supply the finding that most directly undermines the assumption connecting bank presence to firm finance. Higher bank branch density at municipal level raises the odds that local small firms adopt a conservative, debt-avoiding financing policy, while cooperative bank branches show the inverse relationship, with the effect economically larger for long-term than short-term debt.

Two conclusions follow. Presence and lending are different variables, and the direction of the relationship depends on the type of institution present. A policy expressed as branch coverage or institutional presence therefore specifies something whose relationship to the intended effect is unknown and, on this evidence, sometimes negative — the same inference problem that arises when a compliance policy is expressed as the availability of an online portal rather than as a measured reduction in the time firms spend.

What burden does when the payer is a citizen rather than a firm

The public administration literature on administrative burden supplies mechanisms that transfer directly to firms. Weigel (2020), in a field experiment across 356 neighbourhoods, finds door-to-door property tax collection raising compliance from 0.1 to 11.6 per cent and treated citizens' political participation rising by about five percentage points, with participation costing roughly a day's household income. Reducing the cost of paying raised both payment and engagement.

Bergeron et al. (2024), in a field experiment with nearly thirty-eight thousand property owners, find the prevailing rate above the revenue-maximising rate, so that cutting it by roughly one third would have raised revenue through improved compliance, and find the revenue-maximising rate rising with enforcement capacity by about forty per cent. Rate and

enforcement are complementary levers; optimising jointly yields about ten per cent more revenue than optimising either alone.

Balán et al. (2022) examine how local intermediaries function as state capacity in tax collection, finding local information improving collection where formal records are weak. Van den Boogaard and Beach (2023) find rural collection so inefficient that it yields little revenue after collection costs and produces neither substantive revenue nor improved accountability. Van den Boogaard et al. (2022) specify what tax bargaining requires: transparency that is comprehensive and related to taxpayers' priorities, and forums perceived as safe and sincere. Nupia (2024) models the political mechanism by which taxation strengthens demands without necessarily improving outcomes.

RESEARCH GAP

Three gaps follow. The first is that compliance cost is almost never estimated by firm size band before a rule is issued, although the elicitation instruments exist and have been applied retrospectively. The distributive consequence of a fixed cost is arithmetic once the cost is known, so the missing step is measurement rather than analysis.

The second is that the two dominant policy responses are evaluated on aggregate outcomes rather than on whether they reached the firms that justified them. The digitalisation literature reports revenue and average time savings; the credit literature reports survival and employment; neither routinely reports the effect for the smallest quartile, which is the population the instrument was defended by.

The third is that the cumulative burden across tiers of government is unmeasured. Coffey et al. (2020) establish that the stock rather than the individual rule constrains behaviour, and in a decentralised system a firm faces requirements from national, provincial and district authorities, none of which assesses the total.

3. METHOD

The study is a structured conceptual review. It generates no new estimates; it reads published findings against a distributive question the source studies were not organised around.

A corpus was assembled of peer-reviewed research published between 2017 and 2024 across five domains: tax compliance costs and regulatory burden; tax digitalisation and electronic administration; subsidised and guaranteed credit for small firms; banking presence and small-firm financing behaviour; and administrative burden in public programmes. Each item was verified against the publisher record, the digital object identifier resolver, or an

indexing record, and items in journals discontinued from major indexes or flagged as predatory were excluded regardless of topical fit.

Two analytical procedures were applied. Each instrument identified in the corpus was classified by whether its measured benefit is conditional on a firm-side capability the instrument does not itself supply. And each was assessed on whether the reported evidence disaggregates by firm size, since an aggregate result cannot establish that an instrument reached the population it was justified by.

Three limitations apply. Compliance cost estimates carry wide uncertainty and are not comparable across elicitation methods, so the illustrative arithmetic used below is a demonstration of structure rather than a measurement. The corpus draws on several national settings with different administrative arrangements. And the study establishes conditionality of instrument effects, not that any particular instrument failed.

4. RESULTS AND DISCUSSION

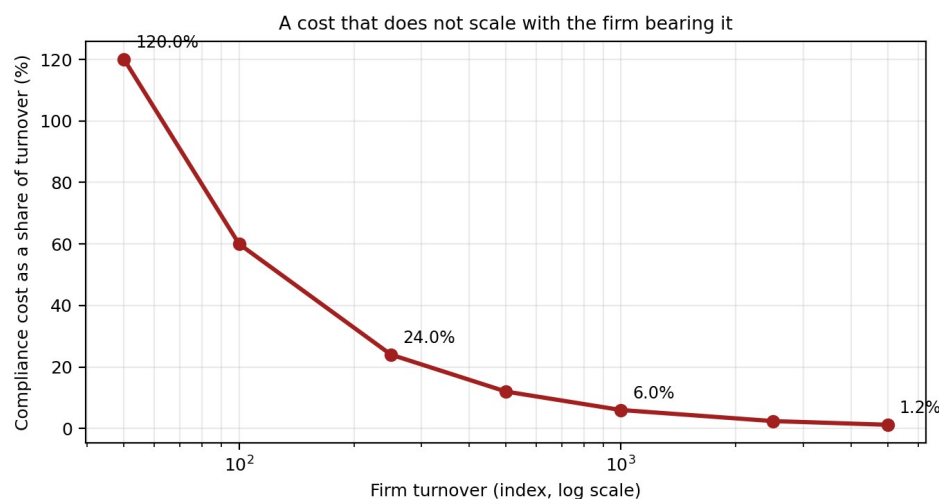


Figure 1. A fixed compliance cost expressed as a share of turnover

Finding one: the burden is regressive by construction

The structure of the cost, not any policy choice, produces the incidence. Halling and Baekgaard (2024) decompose administrative burden into learning, compliance and psychological components, and none of the three scales with the size of the entity bearing it. Understanding a rule takes the same effort whether the firm has one employee or a hundred. A ledger must be kept either way. The uncertainty of an impending examination weighs on the proprietor identically.

Expressed as a share of turnover, an identical cost of six units falls from twelve per cent for a firm at index fifty to 0.12 per cent for a firm at index five thousand — a hundredfold difference in incidence produced by no difference in the rule. That arithmetic is the argument, and it is why compliance burden functions as a regressive levy layered on top of whatever the nominal tax schedule provides.

Coffey et al. (2020) establish that what binds is the accumulated stock rather than any single requirement, which means the incidence compounds. Bruce-Twum et al. (2022, 2023) establish that the burden varies systematically with firm characteristics and that record-keeping, advisory fees and filing time dominate its composition — all three of them costs that a firm without an accounting function must purchase externally at a price set by the market rather than by its own scale.

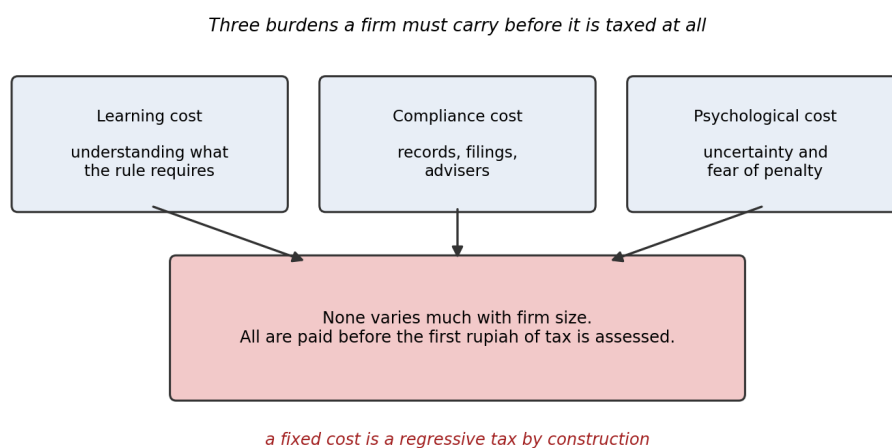


Figure 2. The three components of administrative burden

Finding two: digitalisation delivers to firms that are already ready

Bellon et al. (2022) find electronic invoicing raising reported sales and tax payments, concentrated among firms with weaker prior compliance. Okunogbe and Pouliquen (2022) find electronic filing reducing compliance time while changing incidence, with effects varying by firm characteristics. Kochanova et al. (2020) find the burden-reducing effect of digital government conditional on complementary institutional quality. Vincent (2023) documents implementation gaps between design and encounter. Abrori et al. (2024) find local tax digitalisation conditional on administrative readiness.

Set against these, Anatan and Nur (2023) find micro, small and medium enterprise readiness for digital transformation uneven. The two literatures answer each other. Digitalisation reduces burden where the firm can already operate the system; where it cannot, the

requirement adds an acquisition cost — equipment, connectivity, and either a skill or a paid intermediary — on top of the compliance obligation it was meant to lighten.

The policy implication is not that digitalisation is misguided. It is that an instrument justified by the burden on the smallest firms and evaluated on aggregate revenue has not been tested against its own justification, and the readiness evidence predicts that a size-disaggregated test would show the smallest firms gaining least or losing.

Table 1. Instruments aimed at small firms, and the capability each presupposes

Instrument	Stated purpose	Capability presupposed	Evidence on conditionality
Electronic filing and invoicing	Reduce compliance time	Digital readiness of the firm	Kochanova et al. (2020); Anatan & Nur (2023)
Local tax digitalisation	Strengthen local revenue	Administrative readiness of the authority	Abrori et al. (2024); Vincent (2023)
Loan guarantees	Extend credit to unbankable firms	Lender willingness to originate	Bachas et al. (2021); Bertoni et al. (2023)
Subsidised credit	Lower the cost of capital	Prior bankability and documentation	Ehrl (2021); Crawford et al. (2023)
Branch expansion	Improve access to finance	Nothing on the firm side; effect can invert	Gama et al. (2024)

Note. Compiled by the author from the reviewed corpus. 'Capability presupposed' identifies what the instrument requires but does not supply.

Finding three: credit instruments reach firms that were already close to bankable

The guaranteed-credit literature reports real effects. Brown and Earle (2017) find employment and survival effects at firm level; Bertoni et al. (2023) find them persisting beyond the guarantee period; Bachas et al. (2021) identify how the guarantee changes lender behaviour. Ehrl (2021) finds survival effects varying with firm characteristics at entry, and Crawford et al. (2023) identify the design features determining whether the instrument reaches its intended population.

The qualification these studies share is the one this article is about. A guarantee reduces the lender's loss given default; it does not produce financial statements, collateral records or a credit history. A firm lacking those remains unlendable to at any guarantee level, which means the instrument's binding constraint is documentation rather than risk — and documentation is precisely the administrative burden the firm could not carry in the first place.

The channel is itself variable. Behr et al. (2017) find public ownership changing the cyclical profile of small-firm credit supply. Englmaier and Stowasser (2017) find electoral cycles in savings bank lending. Borsuk et al. (2024) find state-owned banks transmitting international

shocks differently. Ashraf et al. (2018) find institutional quality moderating political influence in lending. A small firm's access therefore depends on the ownership, political calendar and external exposure of whichever institution happens to serve its district.

Finding four: presence has been mistaken for access

Gama et al. (2024) find higher bank branch density raising the odds that local small firms adopt a conservative, debt-avoiding financing policy, while cooperative bank branches show the inverse relationship, with the effect larger for long-term than short-term debt. The relationship between presence and borrowing is therefore conditional on institution type and can run in either direction.

The inferential error the finding exposes is general. A policy expressed as an input — branches opened, portals launched, programmes established — specifies something whose relationship to the intended outcome is unknown until measured. Compliance policy contains the same error whenever an online system's availability is reported as a burden reduction. The measurable quantity is the time and money a firm spends; the reported quantity is usually whether a facility exists.

Finding five: the burden is measurable, and the citizen literature shows what changes when it falls

Weigel (2020) shows that reducing the cost of paying raised compliance from 0.1 to 11.6 per cent and raised political participation by about five percentage points, with participation itself costing treated citizens roughly a day's household income. Bergeron et al. (2024) show that the revenue-maximising rate sits below the prevailing rate and rises with enforcement capacity, so that rate and administration must be set together. Balán et al. (2022) show local intermediaries substituting for formal records where those are weak.

Van den Boogaard and Beach (2023) supply the necessary limit: rural collection can be so inefficient that it yields little revenue after costs and produces neither revenue nor accountability. Van den Boogaard et al. (2022) specify the conditions under which lowering burden produces a bargaining dividend rather than merely a compliance one. Nupia (2024) models why stronger demands do not automatically produce better outcomes.

For firms the transferable conclusion is that burden is a policy variable with measurable effects in both directions, and that the instruments used to measure it in the citizen literature — time diaries, randomised procedural variation, administrative records of filing behaviour — are available for firms and are not being applied to them at the design stage.

What a measurement requirement would specify

Four elements follow. First, compliance cost should be estimated before a rule is issued, in the units firms actually bear: hours, external fees, and equipment where the rule requires it. Eichfelder and Hechtner (2018) show these estimates carry wide uncertainty; an uncertain estimate is still better than the implicit assumption of zero that omission represents.

Second, the estimate should be reported by firm size band. The distributive consequence follows arithmetically once the level is known, and a single average conceals precisely the incidence that matters. Third, instruments justified by the burden on the smallest firms should be evaluated on the smallest firms, since the conditionality documented above predicts that aggregate and small-firm results diverge.

Fourth, and hardest, the cumulative requirement across tiers should be assessed periodically rather than rule by rule. Coffey et al. (2020) establish that the stock is what binds; in a decentralised system no single authority sees the stock, and the firm that does see it has no forum in which to report what it sees.

Limitations

Four limits bound the argument. The turnover-share arithmetic is illustrative and demonstrates structure rather than measuring any actual burden. Compliance cost estimates in the corpus are not comparable across elicitation methods. The corpus draws on several national settings whose administrative arrangements differ materially. And the study establishes that instrument effects are conditional on firm-side capability without estimating how large the unserved population is, which is the quantity a policymaker would most want.

5. CONCLUSION

A compliance obligation costs roughly the same whatever the firm's size, and a cost that does not scale is regressive with respect to scale. That is arithmetic, not ideology, and it means every rule carries a distributive effect that its impact assessment does not record.

The two standard remedies are conditional in the same direction. Digitalisation reduces burden where the firm already possesses digital capability, and the readiness evidence finds that capability uneven among exactly the firms the instrument is justified by. Guaranteed and subsidised credit reduces the lender's risk without producing the documentation the borrower lacks, and that documentation is the administrative burden again, appearing on the other side of the transaction.

The most instructive single finding is that bank branch density raises the odds that small firms avoid debt rather than take it. Presence is not access; a facility's existence is not a

burden reduction; and the difference between the two is measurable with instruments that already exist and are not being applied before rules are made.

What follows is modest. Estimate the cost before issuing the rule, report it by firm size, evaluate small-firm instruments on small firms, and count the accumulated stock periodically. None of this requires a new methodology. It requires deciding that a cost borne entirely by the regulated is worth the regulator's attention.

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Author contributions (CRediT)

Dr. Pipit Sundari: conceptualisation; methodology; formal analysis; writing - original draft. Tettie Setiyarti; Rahmawati Alfiana Putri: validation; writing - review and editing.

Conflict of interest

The authors declare that they have no competing interests.

Data availability

All data supporting the findings of this study are available within the article and from the publicly accessible sources cited therein.

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Declaration on the use of artificial intelligence

Claude (Anthropic) was used for language editing and for translation of the manuscript into English. The authors reviewed and verified all content, and take full responsibility for the final text. No generative tool was used for data analysis, for the interpretation of results, or for the generation of scholarly content. AI is not listed as an author.

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