Tax Working Group Public Submissions Information Release

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Submission to New Zealand Tax Working Group **21 March 2018**

By Kerstin Keogh, Dunedin

My Background. I did a BCom in accounting in the late 1980s. I have previously worked as a chartered accountant in business services and company accountant for a listed company. Now I still do contract work for a small CA firm, and do the accounts and tax administration at home for about 8 entities involved in commercial property, investing and manufacturing. So I have nearly 30 years' experience in commerce. I live in Dunedin.

I would like to comment only on Capital Gains Tax, GST exemptions, land tax and progressive company tax, as those are areas I feel qualified to speak on.

Capital Gains Tax (CGT):

I believe it is a tax that sounds good to the uninformed voter, but that would be a retrograde step if implemented for the following reasons:

1 Too complex, high administration costs. Accountants and lawyers will be the winners here. What costs will be allowed against the CGT revenue. Is it simply a tax on inflation?

2 Australia took 15 years to realise significant revenue from this, as purchased assets were gradually drawn into the system, after the implementation date.

3 If we were to back date the base cost price for the calculation this would be arbitrary and onerous, as what date would this apply from? People may not have records for old assets.

4 How would capital losses be addressed?

5 Treatment of inherited assets? It would be essentially a de facto inheritance tax.

6 A CGT would reduce retirement savings for small business owners and shareholders. It would incentivise people towards investing more in the family home thereby favouring home owners more than at present. New Zealanders already favour home investment too much and should not be discouraged from investing in businesses and non-residential property.

7 It is effectively a subsidy for unaffordable cities. Is it fair that someone in Auckland can make a huge non taxed capital gain on their home whereas someone in Palmerston North might make a loss on their home?

8 It is a lumpy form of taxation revenue so the tax flows are difficult to predict. Governments will get hooked on the ability to spend more in the good years, and have to borrow to cover the reduced CGT payments in the poor years.

GST

1 There seems to be a social justice movement to change the structure of our GST system so that where perceived luxury goods are taxed more and so called necessities are taxed less. As someone who has been preparing GST returns for various entities since 1990, I would urge the government to leave the system as it stands. It should shout from the roof tops that our GST system is the envy of the tax world due to its comprehensive and simple nature, and its steady revenue stream of good money into the government

coffers. It is not the government's job to get involved in picking winners and losers in the GST stakes. Exceptions and differing rates would create many practical issues:

2 More work for accountants and lawyers, and software developers. Eg refer the ridiculous case in the UK where a jaffa cake/ biscuit dispute around VAT dragged on for years. We don't need to go down that rabbit hole.

3 Harder to predict GST revenues, and the lost revenue will have to be recovered from elsewhere.

4 If you take off GST from so called healthy food to assist affordability, how do you measure the effect some months later? Most produce is sold at market rates, which move weekly anyway. How would you know if the GST removal wasn't simply soaked up as extra profit margin by the supply chain?

5 The arguments around essential supplies would be mind numbing. One person's essential is another's luxury. Are men's shavers necessary? Makeup wipes?

6 We already have 'sin' taxes in the form of excise duties on alcohol and tobacco. Why introduce extra complexity into what is a fairly perfect administration and steady significant revenue stream for the government.

7 Once again, I believe uninformed people who love a soundbite and social justice, are being given too much prominence. The people who are at the coal face of business are too busy to contribute submission to the TWG, but they will be the most affected by any ideological changes.

Progressive Company Tax

As a small business accountant, this makes absolutely zero sense to me. It is a soundbite which on first hearing sounds like a good idea. But it shows a lack of understanding of what happens in practice now. What happens now for small companies is they do any or all of the following:

1 Pay a PAYE deducted salary to working shareholders

2 Pay an imputed dividend to shareholders

3 Allocate all of the pre-tax profits to shareholders via non PAYE shareholder salary in the company tax return, and the shareholders are responsible for their personal provisional tax.

How would a reduced company tax rate assist in any of these situations? It is a solution to a non-problem. It may give some people the ability to defer paying higher DRWT on dividends, but that is the only effect I can see, and that is a negative for the government's cash flow timing.

In my experience people complaining about tax on business are inevitably poor with money and they fail to invest in a decent accountant. They get tripped up on technically not owing tax in their first year in business, then get hit with the double whammy in the second year. The best accountant I know tells his clients to pay voluntary tax in the first year of business based off their on line monthly reports. He has never had any issues with clients getting behind on tax. The new AIM method may help with this.

Land Tax

1 As this will be on commercial properties, it will be a cost to the tenant businesses, and then passed onto consumers, so therefore inflationary. (All outgoings are paid by tenants in commercial leases)

2 It will incentivise investment away from real estate and may create distortions in the economy if set too high.

3 Residential landlords will likely increase rentals over time to cover the land tax as they are in business too but their leases don't cover outgoings. This will affect low income earners and may be an own goal for the government as accommodation supplement would need lifting.

4 This would be a good regular earner for the government and easy to collect, and difficult to avoid. Much more efficient than a CGT, and simple to adjust the rate. It may need to be introduced to cover increasing government expenditure, but I would prefer they didn't!

Conclusion:

1 Our tax system is actually a very fair and well administered one. Don't mess with the simple comprehensive GST system, as it is currently the best in the world.

2 CGT would be very complex with uncertain revenue streams, and would hit mainly small business owners saving for retirement. It is a tax on inflation and risk taking and would discourage investment. It would benefit home owners in wealthy areas who would pocket the largest non-taxed capital gains

3 Progressive company tax is a soundbite looking for a problem.

4 Land tax could be an option for a steady, non-avoidable revenue stream, but may be inflationary as rents will be affected for all tenants.

5 Housing affordability is a difficult issue in certain areas but not all areas. Should the poorer regions have to pay for the larger centres' neglecting to build affordable apartments in the last few years?

6 I think our income tax system is fair at present. Individuals are quite highly taxed when GST, excise duties, fuel levies and ACC are included. 33% top rate is about right, any higher and people start to look to avoid it or move away.