Tax Working Group Public Submissions Information Release

Release Document

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Submission to Tax Working Group

From
Simon Casey
CEO Seekom Ltd
[1]

Proposal
That company tax laws are changed so that business with a revenue of < $5M do not pay tax on company profits. Rather that this profit is made available for business owners to reinvest back into their companies.

Background
I am a founder of a technology company and I am fully aware that growth and productivity performance are crucial to my business. According the Productivity Commissioner, New Zealand has a disappointing productivity performance when compared to other countries in the OECD. The Commissioner also states that lifting productivity is the key to higher wages and job creation.

I while ago, I attended a very challenging seminar on productivity by the late Sir Paul Callaghan. He was the first to give me a tangible productivity figure to aspire to.

Sir Paul stated that for technology companies, you should be achieving at least $100K in revenue per employee per year. We are still below that number but expect to exceed it this financial year.

But one of the keys to growth is access to capital to fund continuous product improvement and innovation that are keys to adding value to the product. There seem to be 3 sources of capital:

- Capital from investment
- Debt funding
- Revenue funding

Capital and debt funding are not easy to get and in our case we have funded our growth entirely through revenue growth. If a company is fortunate enough to be gaining sufficient sales growth to access this increase in revenue to fund growth, then it is by far the easiest method. However there are two key disadvantages:

- It is slowest form of growth
- Tax laws do allow businesses to make best use of this funding.

Comment
With the tax laws as they are now, we do all we can to expense the profit we earn within a financial year so that we do not have to pay tax on it. We would rather that profit earned at the

end of one financial year is able to be transferred tax free to the next financial year. This will allow for sound planning and allow this money to be spent at times that best benefit the business rather than by trying to mitigate a tax liability.

Of course the company will still be paying tax in the form of PAYE and tax on any dividend payments. In essence, what I am proposing is that only outgoings from the company are taxed - not retained earnings which can provide essential capital for productivity growth.

Benefit

I strongly believe that if businesses can keep retained earnings for investment, this will create productivity growth that will not only create new jobs but lif the earnings of current employees. The two main benefits for the government is:

- Increased tax take in terms of increased PAYE payments
- Growth in productivity from the small business sector which is a key goal of the Productivity Commission.