Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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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.

WEBSTER & COMPANY LIMITED

CHARTERED ACCOUNTANTS

26 April 2018

Tax Work Group Secretariat
PO Box 3724
Wellington 6140
New Zealand

Email: submissions@taxworkinggroup.govt.nz

Dear Sirs,

Preamble
Webster & Company has been in existence for 30 years, it's Principal has been a Chartered Accountant for 40 years as a Partner and/or owner for that time, it employs 7 full-time staff (6 Accountants), and has over 1,500 taxpayer clients.
We feel we have sufficient knowledge of our clients to make a submission.

A) Overview of Current System

- We believe that the current taxation system is inherently fair (unlike your chairman's comments on News Talk ZB with Michael Hoskings) when viewed in conjunction with targeted Social Welfare benefits, such as Working for Families.

- A capital gains tax is opposed in any form, although it has been allowed to slip in through the FIF investment rules and by default with extending the brightline test on property sale to 5 years.
- There are parts that can be tweaked to create certainty, such as a lot of "black hole" expenditure (i.e. costs investigating a new way of doing some process).

- The current taxation rules cover dealing with land and property sales are water tight but are not properly enforced or monitored by IR, especially in relation to foreign buyers.

B) Income Tax

- The current tax marginal rates of 33% for Individuals and Trusts is deemed acceptable by most clients. Higher than this leads to anti-tax behaviour.
- The 28% rate for Companies is a misnomer for private Companies as most are sold or closed during the owner's life time and the retained earnings in the Company's Profit and Loss (72%) need to be dividend out and are therefore effectively taxed at 33% with an allowance for the 28% already paid.
- Due to the tendency of the left wing Governments to increase personal rates above 33%, the amount private company owners may face in extra tax on these retained earnings could be significant when finally distributed.

- Capping all top marginal tax rates at the same level is fair.
- Lowering the rate for Private/small Companies will not work in the long run unless the effective tax rate on retained earnings is capped.
  SUGGESTION: Cap all retained earnings distribution by way of dividend at 28%, provided those retained earnings have been in place for 5 years or longer.

- Only Public companies, large Private companies or Offshore owned companies benefit from a lower tax rate as they do not need to distribute all profits and generally have a longer life span time, than SME's.

- Having less tax bands would help.
  SUGGESTION: A smaller number of tax bands would be a good move.

- There is little avenue to use a cash basis for returning income tax, as IRD perceive that cash sales maybe withheld until after year end. This will be true in the first year but after that this delayed determent will be eventually caught up and taxed.
  SUGGESTION: Consider allowing firms with turnover under $150,000 to return taxable income on a cash basis.

C) Goods and Services Tax (GST)

- GST is very simple and easy to administer with the exception of maybe property.

- The small number of exemptions from GST is a major benefit.

- Compliance Costs are minimal.

- The AIMS accounting method is being avoided by most Chartered Accountants when recommending it to clients, as most clients will make mistakes leading to far higher year end Accounting costs.

- The cash/payments basis is very helpful.
  SUGGESTION: Increase cash/payments basis to turnover of $5million per year or less.

- There should be no further exemptions to GST (such as on food), as the compliance costs will be out of proportion to the firms accounting and compliance costs for GST.

D) Capital Gains Tax

- We are completely opposed to such a tax.
- If a capital gains tax is imposed then a capital loss tax credit should be available.

- Our experience is that clients who invest in rental properties do so for a number of reasons,
  - It is easily understood.
  - They rely on their own judgement when buying property unlike shares.
  - Rental rates have been consistent for 20 years, unlike interest received (99% down to 1% now) and are not subject to some 800% reductions.
  - Property investment unlike shares or PIE investments require no specialised knowledge, does not have variable returns and most importantly do not have every man/firm and his dog taking a cut out of the return other than IRD.
  - Most hold their properties for well over 15 years and normally sell because of tenant issues.
  - 2/3rds of our clients are making rental profits and pay income tax.

- All clients who invest in managed funds or have their shares managed by a broker are passive investors themselves but their portfolios are actively managed, and in reality are traders. Those who invest directly do very little in the way of sales (normally as the result of a takeover or a very bad result i.e. Fletchers).
  SUGGESTION: If more than 5% of a portfolio (by company investment, not by $'s) is traded in a year than the investor is deemed to be a trader and taxed accordingly which will at least level the field with a PIE Investment Portfolio.

- The questions of which assets ae subject to capital gains tax will be long, if implemented.
- How are private companies to be valued, or shareholdings there in, is completely subjective.

- A capital gains tax brings with it a significant cost in terms of compliance by Accountants, Lawyers and valuers.

- It will lead to an increase in the shortage of rental properties as current landlords decide to cash in pre a capital gains tax, if there is any.
- We note that Property prices in the UK have officially fallen in March 2018 which is already happening in NZ.

- Whether as to an alternative rental investments would shift to more productive assets in the our view is highly unlikely, otherwise the share market would be highly liquid. Most taxpayers in NZ are very wary of investing in any project managed by others due to the correct perception that these projects are always promoted by those with entrepreneurial skills and with a view to making a killing themselves.

- Land Tax is a no go as proved in the post. Land Tax/Stamp Duty is imposed in the UK at a cut off level. It has not made better or more properties available to buyers under the threshold in the writer's view.
- Ring fencing of rental losses will lead to a significant fall off in rental property investments in our view.

Environmental Taxes
- Just another reason to tax others.
- Should be out of consolidated fund.
- No case to use environmental taxation.

Tax Free areas
SUGGESTION: It would be much better if there was a nil taxation policy for say 5 years in certain areas of NZ for new business start-ups to encourage growth. It would have to be audited by IRD obviously.

Thanking you for taking time to consider our submission.

Yours Faithfully
[1]

Bruce Webster CA, CPANZ