Tax Working Group Public Submissions Information Release

Release Document

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Tax Working Group Submission from John Grigg

Members,

The main area that I would like to submit on is the Business taxes especially in regard to small Businesses.

1. The first issue needs to be the underlying principle of all business taxes.

   <u>Keep compliance costs to a minimum.</u>

   The introduction of GST increased costs significantly and has only been getting steadily worse. Not just in the Tax area but in all regulation. Each area says it is only a little bit extra compliance. But when you add the sum of all areas it become significant. Therefore, this principle must be considered in all regulation.
   E.g. A local young Builder has recently shut his Business down due to all the compliance costs and gone to work for another Builder. That Builder is nearing retirement and said to me that if he wasn't close to retirement he too would have shut his business down.

2. I have a new idea regarding Provisional Tax.
   I believe that Provisional Tax should be calculated on the average of the last three years submitted accounts. For a Business starting up they would need to have their return submitted 120 days after the end of the financial year and the Provisional tax would be 50% of the first years result spread over the next year.
   Second year has the same date for submitting, but 75% of average of two years and then on to the three-year average. The terminal tax conditions stay the same.

This method would give the Government more certainty on revenue and smooth out the tax take. It reduces the compliance costs associated with income equalisation. It minimises the double hit that a business can take if there is a fluctuation in income which can severely affect the cash flow. Also removing the guessing of future income. Which is extremely difficult especially in rural businesses dependent on the weather as well as market conditions. Reducing the risk of less tax take due to refunds when economic conditions drop.

3. Land Tax.
   I believe we already have a Land tax in the form of Local and Regional Council rates. Further land taxes from Central Government will counter the good work that these Councils are doing. A lot of businesses contribute significantly to this process.
   A Land Tax will also harm any hope of increasing Environmental outcomes. Land next to Towns and Cities becomes uneconomic to farm due to the high Rates and Land taxes.
   So the choices become;
      a. Move to the highest return business (Dairy)
      b. Subdivide and sell for houses or worse lifestyle blocks.
      c. Sell to Foreign buyers
      d. Borrow to pay taxes and gradually go broke, and no money to put into any Environmental enhancements.

   The recent report that said we are losing productive land is correct and will continue at a greater rate if Land and Wealth Taxes are imposed.
   Losing this land is Environmentally and Economically unstainable for this Country.

4. Wealth Tax
   This tax will again have the result mentioned above. It will also reduce the incentive to save and will hit hardest those business that are asset rich and cash poor. It will also be a disincentive for innovation.
   Eg. Zero, a business that has put a lot into development without any major profitable return but are now a business exporting their product overseas. With wealth taxes on their share price they may not have been able to build the business to the level they are now at.

This tax will again mean that the very wealthy will either leave or use expensive Lawyers and Accountants to reduce their exposure. It is likely to also reduce the amount of philanthropy in this Country. This just leaves the middle of New Zealand to be hit again. It also hits those who have taken a long term intergenerational approach to saving and building assets. This means that the highest return per Capital becomes the only option, when at present other factors are able to be considered. In the towns and Cities rents would have to increase to pay for this tax. This will hit the low and middle-income earners harder.

I was recently talking to a Rest Home owner who admitted that he was able to return 15 to18 % on his capital. Most of this was from Government payments. Unfortunately, the Export sector is only able earn what the oversea market dictates. A wealth tax is really a tax on the export capacity of this Country, and as this country lives on what its Exporters brings in. I feel this another disincentive to be in that sector.
Will Iwi be included in this wealth tax?

5. Capital Gains Tax
   This is already in process for those with foreign shares. It is costly to comply with, especially for smaller holdings. Again, the middle get hit. It also means that Savings schemes have a reduced ability to spread their portfolio risks overseas. This is probably why Kiwisaver schemes are such a large investor in our small economy. This not only distorts our investment base but could have severe issues if our economy falters.
   Your report says that this tax is costly to comply with and doesn't result in a significant tax take.

6. Environmental Taxes.
   These taxes may be thought of with good intent but are not without consequences. People have different views about Environmental out comes relevant to the position they are looking from. Whether it is from memories of what they did as children or from Television programs.
   From the purest views, cities are totally unsustainable. I could list numerous issues such as heavy metal contamination, waste, sewage and plastic pollution that need to be improved.

The other side is the view from the city that says Farmers and especially Dairy farmers are polluting the land and water ways.
For this country to improve Environmental outcomes, it needs to be a balanced approach, as all are involved. Targeting particular groups will only lead to bad outcomes and acrimony.
I believe that any Environmental spending should come from a combination of Central and Regional Government such as is done with Roading.

Summary
I believe the current tax system is complicated enough. The Government has enough tools to be able to run a successful society. Minor manipulation of the rates within these tools and careful management of the expenditure side is all that is needed. Some sections of Society will always want more, but we are a trading nation and we must also live within our means.

John Grigg
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