Tax Working Group Public Submissions Information Release

Release Document

September 2018

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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.

30 April 2018

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Introduction

1. Retail NZ is a membership organisation representing the interest of New Zealand's retail sector. We have about 4000 members throughout the country who collectively make up two-thirds of total retail spending. Retailers in New Zealand employ over 215,000 Kiwis throughout the country in a variety of roles, and New Zealand is home to 27,000 retailers, including more than 16,500 single store outlets. Every New Zealander interacts with retail in some form or another, and the retail sector is a vital part of our economy.

2. We are writing to inform the Tax Working Group on our views regarding the tax system. We ask the Tax Working Group to be conscious that changes to the tax system will not only impact retailers as businesses in the economy, but will have significant impacts on the consumers who put money back into the New Zealand economy through retail spending.

GST should remain universal and coherent - and be applied consistently to all goods and services

3. New Zealand's simple GST system, largely free of exemptions and complexity has long been the envy of the world. While it does create administrative headaches for businesses which have to collect tax and file GST returns, it largely works well, ensuring that final consumption by New Zealanders generates a simple source of revenue for the Crown.

The de minimis

4. A key issue for retailers is that foreign firms are able to do business in New Zealand over the Internet and sell direct to New Zealanders without accounting for GST. In the absence of a requirement for foreign vendors to register for GST, Customs collects tax at the border, but typically only when goods are worth more than $400 (depending on the product). This situation is fundamentally inequitable and creates a competititive *disadvantage* for New Zealand firms, who are losing market share to foreign competitors which do not pay tax here.
5. Australia and New Zealand have been unique internationally in having both a consumption tax and a very high effective tax-free thresholds (most countries with a VAT system have a de minimis threshold of between $NZ20-40). The Australian Government has moved to require foreign firms selling online there to register for and collect Australian GST from 1 July 2018.
6. From 1 July,New Zealand will be alone in the world in having a consumption tax and a high de minimis threshold. It will also mean that New Zealand firms selling into Australia will have to pay Australian GST to the Government in Canberra, while Australian online retailers make no contribution towards New Zealand GST - even though they are active in the New Zealand market and selling here.

7. This is a significant issue for New Zealand retailers, and is negatively impacting businesses. Urgent action is required to resolve the issue.
8. We note from your discussion document that you have already provided advice to Ministers on the subject. We are not privy to the advice you have already provided, but ask that, in your further deliberations, you recommend that New Zealand follows the Australian model for offshore registration as a matter of urgency.

Should GST be removed from things that are good for us?

9. It has sometimes been suggested that GST should be removed from items which are good for people, including fruit and vegetables, sanitary and feminine hygiene products, and potentially other essentials such clothing, shoes, nappies, books and oral care items.
10. While this suggestion is well-intentioned, Retail NZ does not support the removal of GST from such items as this would fundamentally undermine the coherence of our simple and universal GST system. It would add significant complexity to retail pricing, and create compliance costs for businesses trying to grapple with categorising products and pricing them differently.

We do not support higher taxes on unhealthy products

11. For the same reasons, Retail NZ does not support levying higher GST rates on sugar, soft drinks or products containing high amounts of salts and sugars. Differential GST rates would again undermine the simplicity of the GST system and add substantial confusion and compliance costs for business.
12. Moreover, there is no evidence that these higher taxes will have a material impact on consumer behaviour - unless those taxes were set at an extraordinarily high rate - such as those levied on tobacco. This is unlikely to be acceptable to most consumers.
13. We note that price is not, in itself, a sufficient method to deliver improved public health outcomes. Education and healthy exercise are also key factors to a healthy lifestyle, along with healthy eating habits; and many suppliers are also reformulating their products to make them healthier.

Corporate income taxes

Multinational companies operating in New Zealand must pay their fair share

14. In addition to the de minimis issue, a key issue facing the tax system is that many multinationals deriving profit from New Zealand are doing business here but not paying New Zealand income tax on their profits from New Zealand. We appreciate that work is already underway within the Inland Revenue Department on issues associated with base erosion and profit sharing, but we think this needs to be a key focus moving forward.

Progressive company tax rates

15. Small businesses are the lifeblood of the New Zealand economy, and the retail sector includes 16,500 owner-operated businesses. These businesses are currently burdened by a one-size-fits-all corporate tax regime that sees all businesses pay the same tax rate. The Government could usefully provide support for small businesses by introducing a progressive corporate tax regime on the same basis as the progressive personal tax regime: tax could be paid at a lower rate on the first portion of profit.

A tax-free threshold would be an alternative

16. An alternative means of supporting small businesses could be to introduce a tax-free system for businesses that turnover less than half a million dollars. Business owners would still, of course, be liable for PAYE on wages or salaries that they pay to themselves, and income tax on any dividends paid.

Household taxes

17. Household budgets are substantially impacted by tax, although much of the impact of taxation is hidden from typical consumers: PAYE is deducted at source for wage and salary earners; prices to consumers are typically inclusive of GST; and Council rates (a significant and growing impost) are invisible to any household which pays rent.

18. Despite the relative invisibility of many taxes, they are nonetheless a significant constraint on household spending. This has a direct impact on the retail, hospitality, tourism and financial services sectors. When Government (or local government) takes money away from households, it directly impacts the ability of households to spend their own money. This translates into a reduced ability to spend in retail and other sectors, or to save and invest. The Government should therefore take care to minimise its take from households in order to support and boost consumer confidence.

Marginal tax rates should be inflation-indexed

19. When wage inflation pushes incomes slowly higher, over time this can push individuals into higher tax brackets, even if their incomes remain relatively low compared to others in the community. They are therefore worse off, while the Government makes a windfall gain in terms of revenue from "bracket creep".
20. We propose that personal income tax brackets should be indexed to take account of wage inflation, to ensure that lower income individuals are not penalised for general wage growth in the economy.

Secondary Tax rates should be abolished

21. We recommend that Secondary Tax rates should be abolished.
22. The purpose of secondary tax is to prevent people from receiving a tax bill at the end of the year, in the event that the secondary income boosts their total income to a point where it crosses a marginal tax threshold. In practice, however, it means that a significant number of low income families struggle with cashflow week to week before potentially receiving a windfall at the end of the tax year. Abolishing secondary tax would be extremely beneficial in helping these low income families on an ongoing basis.

A statutory limit on Council rate rises should be introduced

23. Council rate rises can be crippling for consumers, especially older generations, leaving consumers with less money in their pockets while in some extreme cases, forcing people to move from their homes. For businesses and retailers who own property and pay Council rates, continuous increases have a significant impact.
24. Local government finances are increasingly squeezed - partly because of aging infrastructure but also of a gradual expansion away from core Council business. The rating system is fundamentally inequitable, and local government should be required to manage its finances and priorities better by moving to direct charges for the users of particular services; and to keep rates rises within household income inflation.

Retail NZ does not support a capital gains tax, a wealth tax or the introduction of a land tax

25. Generally, our current tax system works relatively efficiently, and we do not support the introduction of new taxes on capital gains, land or wealth.
26. We note that much of the discussion around capital gains taxes has centred on the residential property market. Capital gains from active property investment and development are already subject to income tax.

Retail NZ

27. We are concerned that a new capital gains would penalise those seeking to sell small business, in particular; and create a disincentive for entrepreneurs to develop business.
28. As a land tax would exempt owner-occupied dwellings, the biggest impact would be on commercial properties, and therefore businesses. There are many retail businesses that are already unduly burdened by tax obligations, and a land tax would only increase this burden. There would be complexities in introducing a land tax on commercial buildings where a tax must be shared, such as malls who host a number of retailers and businesses in one complex.

Conclusion

29. Thank you for taking our feedback into consideration and please feel free to contact me should you require additional information.

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