Tax Working Group Public Submissions Information Release

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Submission to the
Tax Working Group

Tax Working Group
Te Awheawhe Tāke

A practical integrated tax based approach targeting the most troubling issues in the New Zealand economy.

Addressing Causes
Not Symptoms

Addendum 1 – 2 May 2018

Contents

1. Submitter background

[1]

Charles Wilson is a retired business consulting professional.

- Qualifications:
  - Bachelor of Engineering;
  - MBA.
- 35 yrs senior executive, and consulting experience.
- 28 Years senior consulting roles in New Zealand:
  - Consulting director for Coopers & Lybrand Auckland;
  - Head of business consulting for Andersen World Wide in Auckland;
  - Head AdvisorBase Ltd., Auckland.
- 8 yrs NZ energy sector consulting (1989-1997).
- 20 yrs NZ FMCG sector consulting (1997 – 2017)
- Specific expertise in:
  - Systems thinking and systems dynamics.
  - Scenario planning and scenario modelling;
  - Strategic planning.
- Specific interest in dynamics of tax systems and the economic and social outcomes.

[1]

2. Introduction

Firstly let me compliment those who compiled the documentation the accompanied the invitation for submission. In particular the identification of the challenges, risks, and opportunities.

The documents identify the problem of the non-collection of a fair tax from multi-nationals and offshore companies carrying out business in NZ. I would draw attention to:

1. the competitive disadvantage this is to NZ businesses due to the greater tax burden they carry as a result;
2. the resulting increased burden on all taxpayers

This submission presents a restructured approach to tax in NZ rather than applying issue specific "Band-Aids" to the current system

Specifically, it:

1. Provides a comprehensive, internally and externally consistent tax system that addresses the current challenges with a future proof solution;
2. Builds on existing tax mechanisms;
3. Provides a simple, robust and cost effective approach.

This submission is at a high level, intended only to outline the concepts. Should the Working Group be interested in exploring the proposal in any detail I will be happy to provide further material or discuss the submission.

3. Response to specific challenges - Don’t tinker

The Government has directed the Tax Working Group to advise on a number of specific challenges:

- A *capital gains tax.*
- A *progressive company tax.*
- *Environmental taxation.*
- *Assist low-income groups* by introducing *GST exemptions.*

Unfortunately the approach implicit in the above *‘specific challenges’ instruction* is one of tinkering with the existing tax system rather than re-thinking it and making it truly fit for purpose and future proof.

Addressing *‘specific challenges’* through one off tax tweaks produces:

1. A cumbersome, often internally inconsistent, difficult to manage system, benefitting only the tax advisors;
2. Distortions in the economy, usually with unpredicted (not necessarily unexpected) effects.
3. Latent problems which will require further patches to fix.

The proposed tax system addresses all the considerations underlying the above specific challenges and does so with a composite, internally and externally consistent simple tax system; intended to stand the test of time.

4. Overview of proposed tax system

It is proposed that a tax system be implemented with three primary tax vehicles, which all have their roots in the present tax system:

1. CGST, an extension of GST to a broader tax collected:
   i. As a fixed percentage from the payor on any and all payments. If money changes hands it pays CGST;
   ii. On a cumulative basis, not as net/value-added like GST.
2. Company income levies (CILs) collected as a percentage of income, not profit, specified by industry group and progressive with income levels.
3. Personal income levies (PILs) collected as a percentage based on progressive income levels for all payees (recipients).

The proposed collection mechanism is simple.

1. All CGST and CIL/PIL levies are collected by the transacting banks.
2. Monies (including cash) payments out of the NZ banking system are not exempt from 'income' levies, except these are collected from the payor together with CGST.
3. Offshore, internet and multinational companies not registered in NZ for tax purposes are not exempt from revenue levies except these are collected from the payor together with CGST.

Tax revenue is based on monies paid and received rather than the traditional 'earnings' or 'profit', devices which are being rendered unreliable in the changing business environment.

5. Relative share of tax revenue

It is envisaged that the relative portion of tax revenue will shift as follows:

1. CGST will become the largest contributor estimated to rise to >50% of tax revenue.
   i. Estimated at an applied rate of between 1.75% and most likely below 4%
   ii. CGST. Although a lower percentage than GST it contributes a greater amount due to:
      a. A wider base. If money changes hands it pays CGST, e.g. share market, house sales, rent, financial transactions, FOREX, share & gig economy etc.
      b. Being cumulative rather than net/value-added.
2. Company Income Levies (CILs) are estimated to still contribute around 17.5%
   i. While total dollar amount is up, NZ registered business pay a lower tax rate
3. Personal Income Levies (PILs) are estimated to contribute around 25%
   i. Shift in emphasis to CGST
   ii. No levies on low income groups (subsidised via WINZ)

6. Primary benefit targets of proposed system

The proposed system is modelled to target six specific areas:

1. Reduction in poverty, specifically child poverty, by reducing the tax burden thereby increasing the disposable income of low income families.
2. Eliminating the present system's competitive bias against NZ based businesses.
3. Sharing the NZ tax burden with offshore entities by eliminating international e-businesses avoiding tax in NZ.
4. Improving the attractiveness of investment in NZ through low taxes, encouraging retention of money in NZ and fully taxing offshore entities.
5. Simplified and comprehensive tax gathering, avoiding "Band-Aid" taxes, with an all encompassing tax structure and tax collection by the banks.
6. A future proof system.

The proposed system is cost effective for IRD and tax payers. The banks will whine but have the ability to deliver as they have can already levy charges on transactions. The cost to the government of bank collections should be nil.

7. Summary of response to extended list of challenges, risks, and opportunities

Challenges, risks, and opportunities	Comment
Reduces poverty, improves standard of living	Increases lower income group disposable income
Provides for demographic changes	Personal levies for superannuation (Kiwisaver) health etc. and potential for means testing user pays services
Competitive with falling international business tax rates	Reduces tax for NZ tax registered business.
Current bias against NZ based/owned businesses	Increases tax take from multi-nationals & offshore, improves NZ business competitiveness
Current excessive tax burden on NZ taxpayers	Shares tax burden with multi-nationals & offshore entities
Inherently 'future proof'	Embraces internet, shared, gig etc. economies
Fully compatible with technology trends	Trend is towards cashless, system is banking based
Hypothecating tax revenue	Levies largely hypothecated
Better progressive capacity for personal tax	Minimum wage threshold for levies, progressive subsidy reduction at higher incomes
Puts Māori economy on equal footing	Improved competitiveness and lower tax NZ together with progressive nature of company tax.
Progressive capacity for company tax	Progressive introduction of levies.
Discourages migration to cash economy	Value of applied CGST and levies to money leaving banking system less than present GST.
Simpler and more equitable than alternative solutions	Preferable to capital gains, BEPS and other tweaks to current framework
Encourages investment in NZ	Application of CGST and levies to money leaving banking system and low NZ tax rates encourages retention of funds in NZ
Discourages market speculation	All transactions taxed - housing, equities, other investments and assets
Accommodates global business trends	Equal treatment of all businesses irrespective of domicile jurisdiction
Accommodates environmental challenges	Industry levies (e.g. carbon, tourism infrastructure & conservation levy) target outcomes

8. The cornerstone; Comprehensive GST = CGST

At the core of the proposed system is an extended GST regime, called Comprehensive GST or CGST:

1. CGST is applied cumulatively not as net/value-added as at present.
2. CGST is applied to all transactions between bank accounts. If money changes it pays CGST.
3. CGST is paid by the entity making the payment (payor) not the recipient (payee).
4. CGST is collected by the banks as a charge on all payments/transfers made from a payor's accounts – if money changes hands it pays CGST.
5. CGST is also collected on cash withdrawals – payments out of the bank.
6. CGST is also collected on all payments to accounts outside the NZ banking system.
7. CGST will drive economic efficiencies by eliminating GST processing/returns and as businesses respond with fewer steps in transaction chains.
8. CGST estimated at an applied rate of between 1.75% and 4%
9. CGST. As a % lower than GST, CGST will still contribute more tax due to:
   a. A wider base. If money changes hands it pays CGST, e.g. share market, house sales, rent, dividends, financial markets, FOREX, Share economy etc
   b. Being cumulative rather than net.

The CGST revenue is not hypothecated (i.e. tagged for a specific Vote)

9. Personal Tax – meeting the challenges

Tax inroads into the disposable income of the poor has a greater impact on their quality of life and economic participation than on the wealthy.

- The current personal tax regime is not doing enough to significantly reduce poverty in NZ.
- The current tax regime does not provide an effective tax progression wedge.
- Multi-national and offshore company uncollected taxes place greater burden on all NZ taxpayers, impacting the poor most.

Reducing the tax burden on lower income New Zealanders will increase disposable income:

- Reducing poverty – child poverty in particular;
- Improving participation in the social economy;
- Improving health outcomes;
- Improving education outcomes …
  - … leading to improved productivity in future;
  - … leading to greater participation in the digital environment.

Income tax based on earnings is not future proof and will become increasingly inequitable (rich – poor divide) as current trends away from traditional wage/salary based employment accelerate more in higher paid sectors.

10. A new approach to personal tax

It is proposed to shift from a tax on earnings base to a participation in part funding state personal insurance. All up the proposed levy is expected to total around 17% of income at the upper end.

Individuals will be liable for constant percentage of income (subject to government subsidies) for contributions to:

- ACC insurance (earner levy).
- Kiwisaver.
- Health (public system) insurance (from ambulance to GP to tertiary care) whether accessed or not.
- Unemployment insurance (unemployment, maternity leave etc)
- Welfare insurance.
- National education contribution.

Collection is through the banks and applied as a percentage (all levies summed) to all payments (note exemptions) into personal accounts.

1. Individual taxpayers are banded into annual income bands by IRD and registered as such with their bank. The band is reviewed annually (?)
2. The levies are applied according to the taxpayer's band and are progressive.
3. The progressive nature reflects a government subsidy linked to income. At the lowest income level, below the annualised minimum wage, the subsidy is 100%.
4. Individuals not registered for tax purposes pay the highest levy.

11. Company tax shifts from ‘profit’ to ‘income’ based as levies

In lieu of company tax a regime of levies is proposed.

These levies are applied to the income (money into company accounts) for all NZ tax registered companies.

The levies are collected by the banks from the payee on gross revenue/income into registered NZ business taxpayer accounts.

Companies not tax registered in NZ have the levy collected from the payor, from all payments leaving the NZ banking system:

1. Domestically as cash
2. Internationally to accounts on non-NZ tax registered entities.

All levies are summed, rounded to fit IRD established bands and advised to collecting banks to be collected on all inflows (i.e. gross income) into company accounts. A default (higher) levy is applied to all accounts not registered as NZ business taxpayer accounts.

This tax system treats NZ and foreign companies the same and thus meets international trade agreement requirements.

12. Company income levy types

Company/industry based levies, rule based and within IRD determined classifications.

1. Industry based levies:
   i. Such as the. fishing industry levy, intended to contribute to the regulatory, research and support functions of the Ministry.
   ii. ACC (employer levy), industry linked. Not related to employee numbers or payments
2. "Insurance" type levies:
   i. Staff based such as KiwiSaver (employer contribution)
   ii. Staff independent to include contributions to national (personal) insurance for health, unemployment (provides for paid parental leave) and welfare.
   iii. Environmental levies, (not unlike ACC in concept) based on company carbon footprint and/or other such as water use etc. These avoid the need for complexities such as carbon taxes or trading (which are broad brush, open to speculation and often avoid the issue of improvement through trading). See section 22 Environmental Outcomes.
3. Generic levies can be progressive, selectively applied at income thresholds.
   i. Specific infrastructure hypothecated levies, directed to part fund the core infrastructure Ministries such as Defence, Transport, Law and Order.
   ii. Social support hypothecated levies, directed to part fund the big social ministries such as Health, Education & Social welfare.
   iii. National infrastructure levy, not hypothecated.

13. Levies on monies leaving the NZ banking system, simpler & better than BEPS

CILS and CGST applies to all monies leaving the the NZ banking system.

A company levy on payments to companies not registered for NZ tax purposes or operating outside of the NZ Banking system will be added to CGST and collected from the payor.

1. Levy is collected on all payments leaving the NZ Banking system – cash or payments to offshore entities.
2. The levy is applied equally within NZ and to offshore entities – complying with trade agreements.
3. A single default levy is applied, which will be at the highest level applied to registered companies.
4. These “non-registered” levies are added to CGST and collected at the same time from the payor by the transaction NZ bank.
5. This method of collection (collected from payor) is different from that for tax registered companies which is collected from payee revenue.

This “non-registered” levy, together with CGST, will effectively tax offshore businesses and entities with a commercial interest in NZ.

As the “non-registered” levy applies to all payments leaving the NZ Banking system it will apply to all offshore and cash payments, including:

1. Dividends, royalties, professional and other fees, loans etc – if money leaves the NZ banking system.
2. Investments offshore and general funds transfers offshore.

14. Exemptions to CGST and levies.

The system is intended to have the minimum of exemptions

1. Transfers from the Government (e.g. national super or wellfare payments) are exempt CGST and recipients from PIL charges
2. Payments by the Government for goods, services etc are exempt CGST
3. Payments to registered charities are exempt CIL on receipt, but CGST when paid
4. Money entering the NZ banking system as cash or from offshore is exempt CGST (as payor is outside the system) but CIL/PIL is collected in the hands of the recipient (maybe exempt??)
5. Transfers of capital (not interest) between bank accounts of the same account holder (e.g. cheque to/from term investment) shall be exempt of both CGST and CIL/PIL otherwise in the current low interest rate environment any benefit from placing funds in higher interest accounts would be lost, distorting investment decisions. Interest is subject to CIL/PIL when received.
6. Transfers (gifts) between family members are exempt PIL on receipt, and CGST when paid. Requires registration with collecting bank (& IRD) of linked accounts..

15.. Additional taxes and fees

The system is intended to have the minimum of additional taxes.

1. Tourist infrastructure and conservation tax. Levied as a dollar amount per person per month of stay on arrival, by arrival authority.
2. Existing excise taxes on specific public harm products e.g. tobacco, alcohol. Collected as at present from company supplying products and incorporated into sell price by them. CGST applies. Yes CGST double dips on this.
3. Existing user pay type taxes such as RUC/fuel tax levied at point of sale (CGST applies) and paid by vendor.
4. User pays fees. Certain public services (e.g. in health and education) may be subject to means tested user part charges.

16. Tricky areas still exist

Some areas present problems gathering tax under any system. Examples.

1. Expenditure in NZ from overseas bank accounts. Example, tourist with UK bank VISA card. CIL is applied, and CGST is collected on the NZ processed transaction by the NZ bank processing the transaction on behalf of the credit card company.
2. Offshore company purchases goods/services from its wholly owned NZ registered company, without the transaction entering the NZ banking system. CGST and CIL are avoided. Solution is complex and requires applying a nominal value to the transactions and a withholding CIL until payment is received. Considering that CIL and CGST relatively low there is reduced incentive for these scams. However, imposing withholding or other measures complicates a simple system but cannot be ruled out.
3. Staff of offshore entities in NZ are paid minimum wage and balance of salary held offshore; payments of NZ expenses (e.g. rent) directly from. Avoids CGST and some PIL. Can be policed, but not simple.
4. How to properly collect tax revenue when the whole transaction is offshore: e.g. tourist package sold offshore and delivered in NZ by offshore owned providers. All NZ gets is CGST for inputs at cost.
5. NZ residents/businesses shipping $ offshore and operating all expenditure from offshore accounts. Solution is for it to be an offence to have undisclosed offshore accounts & disclosed accounts require reporting and application of CGST to all monies leaving the account whether back into NZ or offshore.

17. Hypothecating tax revenue.

Transparency in the tax system is considered a causal driver of efficiency in Government.

The levy system in particular creates the impression that specific government services are being purchased – e.g. ACC insurance.

In the long term some of the services may be fully funded by the levies leading to the government departments having to operate on a commercial and competitive basis.

With levies such as ‘health insurance’ individual accounts (like KiwiSaver) should be run BUT the levy (except for income progression) should be maintained at a universal level.

The universal nature of the levy is perhaps contradictory to the ideal of no demographic cross-subsidy (e.g. age linked health levy) but rather supports the concept of whanaungatanga.

18. Housing affordability

Speculation is the housing market is a causal driver of overpricing. A market with unsatisfied demand is highly vulnerable.

Not only is the NZ housing market overpriced. Base demand (the number of people who need houses to live in) is a supply and demand mismatch … but tax structures can incentivise speculation driving churn and apparent demand.

1. Capital gains tax is often touted a the solution.
   i. It requires quite complex rules.
   ii. It is difficult to apply to all capital transactions (e.g. collectable wine) – why only housing if it's such a good idea?
2. By taxing all expenditure and every transaction:
   i. Churn is discouraged, suppressing one source of demand.
   ii. Any 'tax free' status is eliminated further reducing demand.
   iii. All investment expenditure has equal tax appeal reducing 'preferred' market demand.

It's a bit late to turn the clock back on the current level of housing affordability, but this proposal is a future proof against it happening again.

19. Market performance

The proposed tax regime will have a similar impact on the equities market as that on the housing market.

1. Reduce churn.
2. Reduce speculation.
3. Reduce ‘tax-free’ status of some investment vehicles and transactions.
4. Provide tax parity between all investments.
5. Improve market stability.
6. Provide better linkage between value, yield and price …
7. … providing increased confidence to investors.

The tax treatment of multi-nationals in NZ will encourage the greater retention of earning in NZ, leading to greater liquidity and available capital for the market.

20. Capital Gains & Land Tax

Capital gains and land tax may appear to be thinking outside of the current tax system, but in effect are little more than applying "Band-Aids" to mask other economic problems. An integrated solution as proposed is preferred.

A separate capital gains tax is outmoded and considered an ineffective and distorting tax.

1. There are always problems distinguishing between income from trading in assets (e.g. cars – collectors' cars) or investing for gain.
2. The CGST approach eliminates the usually arbitrary nature of tests for capital gains or trade activity. The bright line test is so arbitrary that it keeps shifting.
3. Depending on the arbitrary line between trade profit and capital gain different tax rules (e.g.rate of taxation, deductibility of expenses) may apply.
4. Depending on the definitions the market may be skewed to favour certain investments or trades. (e.g. PIE).
5. CGST applies a single rate to all transactions irrespective of their nature avoiding a bias towards any activity or investment. It's all just money.
6. Discouraging investment in housing through a capital gains tax is likely to flow on to a restricted supply of rental accommodation and further rent escalation.
7. Given the low rate of the proposed CGST there appears to be no material issue requiring the exempting of family homes.

Land tax is considered unhelpful and unnecessary

1. Again this is adding complexity. Land on a cross-lease section?
2. This proposal effectively taxes land as part of transactions included in the CGST.

21. BEPS

The BEPS solution to uncollected tax from multi-nationals operating in NZ or offshore companies trading in NZ is a tax advisors dream come true.

The solution proposed here is simpler and more effective.

22. Environmental outcomes

The dominant thinking on influencing business and personal decision making on environmental issues hinges on tradable rights (e.g. water) or taxes (e.g. carbon credits).

Creating markets for tradable environmental factors takes the focus of the issues and directs it towards the market. Buying carbon credits (dodgy ones aside) does nothing to reduce carbon emissions in NZ.

The causal driver of good environmental performance is businesses taking the right decisions for the environment leading to actually delivering improvements.

Common sense dictates that the positive drivers of good environmental performance should be rewarded, and the negative drivers (or absence of positives) penalised. ACC sets it's levies this way – and it works.

Hence the recommendation of industry specific levies with an environmental component. To illustrate:

- Polluting or high carbon industries should face a higher levy, but one which can be reduced (at a company level) by demonstrating:
  1. A plan to mitigate – level 1 reduction in levy
  2. Successful implementation of the plan – level 2 reduction of levy
  3. Create environmental positives and/or innovation – level 3 reduction of levy

A. Appendix - Questions for submitters – Chapter 2

Chapter 2: The future environment

What do you see as the main risks, challenges and opportunities for the tax system? Which of these are most important? See sections 3, 6 &7

How should the tax system change in response to the risks, challenges, and opportunities you have identified? Specifically the tax system should not be subject to ad hoc changes to address current 'hot buttons'.

How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system? Tikanga Māori are an integral part of NZ culture and business life and the concepts of tikanga Māori can and should be allowed to influence thinking on a new tax system. One should not be captured by the sometimes expressed view that tikanga Māori are by their nature old and therefore irrelevant to NZ commerce today. The challenge the Working Group faces is to enunciate the tikanga Māori and envisage the extent to which there are specifics that should become objectives of the tax system and work towards them.

In this submission an attempt is made to at least acknowledge the values of:

- Manaakitanga are in part recognised in the tourist infrastructure and conservation levy which recognises NZ as being a special place to visit and share with the people of NZ and should be protected as such.
- Whanaungatanga are in a small way recognised in the free movement of capital between linked family accounts and in universal individual levies.
- Kaitiakitanga are expressed to some extent in the progressive nature of the environmental levies and the they way they are applied – been seen to do good – rather than the market focus of tradable rights/credits.

B. Appendix - Questions for submitters – Chapter 3

Chapter 3: Purposes and principles of a good tax system

Principles for assessment

What principles would you use to assess the performance of the tax system?

- Equity, efficiency (cost of assessment, collection and payment),positive economic causal drivers, future proof, transparent

Defining 'fairness'

How would you define 'fairness' in the context of the tax system?

- The tax burden should be shared evenly (universally) by all participants in every aspect of the NZ economy.
- Those with less should not subsidise those with more (business or individual).

What would a fair tax system look like?

This submission proposes a fair tax system.

C. Appendix - Questions for submitters – Chapter 4

Chapter 4: The current New Zealand tax system

Frameworks

New Zealand's ‘broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand?

- Broad-based and low rate yes.
- GST – not appropriate at present. Value-add based, too many exemptions.
- Income tax is ‘earnings’ (for individuals) and ‘profit’ (for companies) based. Both of these concepts are under threat with changes in the basis of internet and global commerce.

If not, what approach should replace it?

- Simply put, the system proposed here.
- Specifically, if money changes hands it should be taxed (exemptions apply) and gross income should be levied to reflect the nature of the entity being taxed in their interest in government services.

Taxes and behaviour

Should there be a greater role in the tax system for taxes that intentionally modify behaviour? Yes If so, which behaviours and/or what type of taxes? Multinational/offshore entity responsibility in NZ market & retention of income in NZ as proposed.

Retirement savings

Should the tax system encourage saving for retirement as a goal in its own right? Yes If so, what changes would you suggest to achieve this goal? As proposed compulsory KiwiSaver as a levy.

D. Appendix - Questions for submitters – Chapter 5

Chapter 5: The results of the current tax system

Fairness and balance

Does the tax system strike the right balance between supporting the productive economy and the speculative economy? No, speculation in assets is encouraged. If it does not, what would need to change to achieve a better balance? CGST as proposed.

Tax and business

Does the tax system do enough to minimise costs on business? No, the proposal eliminates returns (GST & income tax) and the calculation of tax provisions. Plus cost of IRD under present system flows onto business.

Does the tax system do enough to maintain natural capital?

Are there types of businesses benefiting from low effective tax rates because of excessive deductions, timing of deductions or non-taxation of certain types of income? The proposed system, by focusing on money changing hands (CGST) treats all businesses equally as it should. However the assumption at work is that all natural capital is charged for appropriately – e.g. water. The tax system is not appropriate for address problems in government and local government setting charges. At best the tax system can apply some notional value to the resource and attribute a notional payment that is taxed.

E. Appendix - Questions for submitters – Chapter 6

Chapter 6: Thinking outside the current system

What are the main inconsistencies in the current tax system?

1. Undue burden on NZ companies (and individuals) from non-collected tax from offshore entities.
2. Distortions between earnings from capital and production.

Which of these inconsistencies are most important to address?

Is there a case to consider the introduction of any new taxes that are not currently levied? Only in the context of a fully integrated system; no bolt-on or tinkering please!

Should any taxes be reduced if new taxes are introduced?

This submission demonstrates thinking outside the current system.

While all the taxes proposed have their root in an existing tax the overall system is new.

F. Appendix - Questions for submitters – Chapter 7

Chapter 7: Specific challenges

Housing affordability

How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend? - See proposal section 18

Capital gains tax Should New Zealand introduce a capital gains No - See proposal section 20

Land tax

Should New Zealand introduce a land tax? No - See proposal section 20

Environmental taxation

What are the main opportunities for effective environmental taxation? - See proposal section 22

Progressive company tax - See proposal section 11-12

Should the tax system do more to support small businesses? In particular, is there a case for a progressive company tax?

GST exemptions for particular goods

Should the tax system exclude some goods and services from GST? No - See proposal section 16

Addendum – GST applied to offshore vendors

Regarding the recent government announcement regarding requesting offshore vendors to register for GST it is appropriate to contrast that approach with this submission.

1. The government approach will:
   i. Require willing compliance from offshore vendors
   ii. GST is paid by the payor (purchaser) via the price charged
   iii. GST is collected and submitted by the payee – in this case the vendor
   iv. Separate administration by both IRD and vendors
   v. Tax only the sale – i.e. realise GST
2. The proposal in this submission
   i. No co-operation is required from offshore companies
   ii. The CGST is paid by the payor as a charge on the purchase transaction
   iii. The CGST is collected and submitted by the NZ transacting bank
   iv. In addition the vendor is taxed as a company doing business in NZ via the CIL applied to monies leaving the NZ banking system.

The proposal in this submission is cleaner and simpler than that proposed by government and more importantly:

1. Delivers an equitable treatment of NZ and offshore companies encompassing the equivalent of GST and company tax.
2. Is applied automatically as an integral, consistent, part of the tax system; not an add-on.