

Tax Working Group Public Submissions Information Release

Release Document

September 2018

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Tax review submission paper – Tax Issues.

To : submissions@taxworkinggroup.govt.nz
From : Jan Wijninckx (pronounced Yan Vaynings), private citizen, small business owner.
Date : 29-Apr-2018

Purpose : Suggestions to address imbalances and readying the tax system for the near future.

1. What I would like to see the tax working group address

- 1 For businesses under 20 people, waive “use of money interest” as it stalls business growth;
- 2 To redress “vertical” imbalances of double income earners versus single income earners, determine the tax bracket based on combined income of both partners.
- 3 Remove the irregularities of withholding income tax on contractor earnings, as this irregularity causes too much of an accounting headache and cost of accounting.
- 4 Force ACC to give an invoice with the full GST listed, to ease accounting and cost of accounting.

2. Rationale

2.1 Use of money interest

In the third year of my business I was lucky and saw a significant increase in consulting sales over the year. The growth was luck and I could not forecast that. As a result, I got hammered with a large bill for use of money interest and had to pay additional provisional tax for the next year, despite having no guarantee that I would have a bumper year again. Instead of being happily in the plus, all of a sudden I was in negative cashflow territory.

Every small business owner I know bitterly complains about this unfair tax. Many (myself included) will stop work / selling when we hit our forecast for the year, as the 2% per annum compounded (14% pa) is just not worth it. In some industries they do as much as possible in cash come January if they have hit their target to avoid this taxation. Revenue collection would significantly benefit from not having this penalty tax.

No small business can forecast its growth, or accurately forecast the next year if one is small. As one grows one can be lucky and get awarded all the tenders, or none, or anything in-between. To grow fast is almost impossible due to this unfair tax, as resulting cashflow issues would be killing. For small business, tax should be settled at the end of the year without use of money penalties, on good faith. If you wish, settle twice a year, but no more than that.

2.2 Tax bracket based on combined income

If in a household the two partners each earn 80k, their tax payment is substantially lower than for the household where one person works 12 hour days to earn the same 160k. To enable 12 hour days it is the partner who has to pick up the slack in the home and who then can't earn money. This applies to most small business owners, including farmers; ours are man and wife businesses, yet IRD won't let us pay each a salary of 80k. There is no “vertical” justness in this and this should be urgently addressed. It is also “vertically unjust” towards single income parents. High time for a change.

2.3 Remove the irregularities of withholding income tax on contractor earnings

Now and then I get work through contracting agencies. The IRD has a new rule to deduct the tax at source by these agencies. However, this creates an accounting nightmare, until you get dispensation from this by filling in an IR 330. However, in the intermediate weeks that this takes, one has to have specials in the tax calculation for GST as the 15% rule does not apply to the net income received (to get the right GST it's 40.243902...%). The result is additional time to compensate for broken rules, and additional cost for the accountant to fix it up, as well as overpaying tax as it is a flat 33% rate on all income without brackets. Please remove this rule as soon as you can.

2.4 ACC invoices are costly to account for as they don't clearly state the GST

Every year it is the same: ACC does not provide an invoice with transactional records showing cost records and for each the GST / or GST exempt status. Because they don't do this, I have to pay the accountant additional time to sort this mess out. The IRD should tackle ACC over this, ACC should have to calculate and invoice GST properly like everyone else has to.

3. Declaration by the author

- 1 I have a business interest in property development, developing new in-fill housing;
- 2 My main business is a small consulting business, combined with on-line software sales.
- 3 I am the sole breadwinner.