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;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

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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.

To The Tax Advisory Group

My name is John Whyte, I have been self employed for the past nine years. I have for the past two years done some contracting work for a small local accountant who has enough work for one and a quarter people. I want to offer a submission from the 'coal face' as it were, in terms of experience of myself, my friends, and my clients, within New Zealand's tax regime.

Simplicity

New Zealand's tax system is fantastic for its simplicity. In my experience most small business owners, if they are prepared to put the time into it, can complete their own tax affairs. This is not to say that everyone wants to, or that everyone should. Not everyone wants to be involved in the creation of their own website, or the changing of the air filter on their vehicle, or setting up an auto response on their own emails. But these are all topics that with some google searching, and the application of some study, a person is able to do. Taxes should be in this category as well. Whether it be GST, Income Tax, Company Tax, or any other sort of tax.

One of the reasons I am very keen to mention simplicity is that a lot of clients I see, with my work in accounting, are not spectacularly successful. There are part time business owners. There are mums who do a bit on the side. These businesses often profit less than $20,000 per annum. The cost of their job is usually $1,000-$1,500. As a percentage of their take home income their compliance costs are large. A successful small business is returning $100,000-$120,000 per annum, and this size of job frequently costs $2,000-$2,500 their compliance costs constitute 2% of their income. Adding complexity to the tax system will only increase the regulatory cost to these operators. I want to talk specifically about a friend who runs a small business making cakes, slices, and energy bars. He has two main lines, supplying a gym energy bars, and creating birthday cakes. His profit is about $5,000 per annum which he pays tax on as well as paying PAYE through his day job. The complications inherent in trying to tax unhealthy food will impact people like him and many others. Adding complication, particularly by trying to change behaviour, will have a large impact on those least able to afford it.

In addition I believe increasing the complexity of the tax system will increase errors by tax filers. The area where I see the most errors in returns clients have prepared are where there are exceptions. Claiming GST on financial transactions is a common mistake. Claiming entertainment expenses incorrectly is another common mistake as this class of expenses has its own rules regarding deductibility.

Recommendation: I strongly urge the working group to consider the simplicity of the tax system as a whole when making recommendations. The simplicity of New Zealand's tax system is a great strength.

Capital Gains and how they link with our current system

Whilst in general I am in favour of taxing capital, I am very nervous about their implementation and the prospect of them becoming capital losses.

If capital gains are to be taxed before they are realised there will become a cottage industry of revaluation of houses in order to produce a loss to offset against other income. We will also see distortions; one that I can think of is a horde of business owners will agree to renovate the bach, wanting to get the work started in March as this will produce a claimable expense.

If capital gains are taxed at realisation, then we will have to have a complex set of rules about associated persons for the loss. Otherwise there is a real potential to 'sell at a loss' to a trusted family member. Likewise the prospect of holding property in a company and/or a trust and selling the controlling entity to avoid producing a capital gain becomes real.

There are also perception issues with capital losses. Our tax system is built on a system that all profits and losses are joined together at the end of the financial year. All losses roll forward. It makes life simple. A capital gains tax could easily result in a situation where persons like Rod Petricevic, or Mark Byres, do not have to pay any tax for many years because their shareholding in their companies went from a large value, to zero.

Recommendation : I encourage the tax working group to consider the difficulties of capital losses and how they are likely to introduce complexity into the tax system.

Perceptions

There is a general perception with the clients I deal with that they pay too much tax. These clients are almost always self-employed in labour intensive fields, such as subcontracting electricians, or consultants. From their perspective they pay over 50% in tax, (15% in GST and 33%/39% in income tax). These clients often justify their (unjustifiable) tax positions as 'the tax man takes too much'. They make extra claims relating to their partner's motor vehicle. They miscalculate their use of home percentage. They claim restaurant invoices as entertainment. I suspect that if their direct tax burden was reduced (either through a reduction in the personal tax rate, or GST) they would me more inclined to engage correctly with the tax system.

Recommendation : That the tax working group attempt to determine if a reduction in the tax burden for small self-employed businesses would see compliance raised within this category.

Perceived Weakness in the Tax Environment

The biggest weakness I see in the tax environment is persons bypassing the tax system entirely. One large threat here is Paypal. People and businesses sell items online, and across borders, take the payment in Paypal, spend the money on their account, and have access to banking facilities outside the bank system, and the IRD oversight. The entire process is too easy to do. I would urge you to consider a currency conversion tax. Such a tax could collect upon multinationals moving funds off shore, persons making purchases elsewhere and evading GST, as well as those exporting funds to a Paypal account. The burden of collecting a tax could be placed with institutions with resources to collect it. For ease of use I would suggest placing this tax rate at an amount equal to the GST rate, and allowing importers to offset any currency conversion tax paid against any GST payable. This could also solve the issue of collecting GST on small payments offshort.

Recommendation : That the tax working group investigate a tax upon currency conversions.

Thank you for taking the time to read my submission. [1]

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