

Tax Working Group Public Submissions Information Release

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SUBMISSION TO THE TAX WORKING GROUP

30 April 2018

From C. C. Moore

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Cameron Moore

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1. INTRODUCTION

New Zealand has a long period with relatively low increases in productivity compared with many of our trading partners.

In the recently published document “Beyond commodities: Manufacturing into the future,” a New Zealand sector report published by the Ministry of Business, Innovation & Employment, the Hon David Parker, the Minister of Economic Development, in his forward stated *“The report also covers some significant issues. The manufacturing sector’s continued lack of productivity growth remains troubling and limits opportunities for development. Additionally, a lack of suitably skilled tradespeople may be hindering growth.”*

Now the answers to some of these “troubling” issues are complex. However the continuing tinkling over many years in our taxation system has been a significant cause. Your review of our current taxation system is a real opportunity to rectify this and concentrate of a system treating the **causes**, rather than the **effects** of these problems.

We all recognise the central government needs income to operate and provide the infrastructure in ensure New Zealand has a fair and sustainable economy. So it is important that your review concentrates on developing a fair and economical society. By this I emphasise economic growth in a sustainable way, providing fair and equitable opportunities for all sections of our society. Just to talk about *tax cuts* that give advantages to some sectors at the expense of other sectors of our society is both unfair and unreasonable.

On the following pages I have noted and discussed three important issues which I believe need to be rectified. All I believe will be important stimulants to raising productivity and preparing New Zealand for the coming changes in working conditions being created by the economic changes from the electronic revolution.

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2.1 ACCELERATED DEPRECIATION

We need to recognise New Zealand is a society of small and medium commercial firms. In fact about 98% of our employers have staff levels of 19 or lower. Traditionally machinery has been viewed as a piece of metal which has the capability of operating over a number of years before it physically wears out.

Modern equipment now has a lifecycle governed by its competitive efficiency. The concept of wearing out only leads to static productivity levels. Efficiency is now governed by the electronic controlling systems on a piece of equipment reducing make ready, down time and wastage. Quality maintenance today is very much a controlled loop system as well as skilled operators.

Because of their size, the investment decision for new modern and efficient equipment is difficult for many businesses. It is just not the into store cost of the item but it involves considerable added on costs in the first few years. The commercial risks relating to “start-up” costs are high. For instance:

- into store cost of the machine
- installation costs
- upgrading of services such as electricity, compressed air etc.
- often a change in layout of the factory to ensure efficient material flow
- recruitment of skilled staff
- training of existing staff in new skills
- developing new markets
- financing additional raw materials and WIP levels
- financing higher levels of debtors

Many of these additional costs are capitalised and only recovered over many years by the current depreciation rates. You need to recognise these add to the risk of modernising equipment and place to restriction to lifting productivity.

What I am advocating is not the ability to claim more depreciation, but to adjust the depreciation rates so a higher level may be claimed in the initial years, leading to reduced cash flows during the start-up period. Please note this is not a taxation reduction, but a movement of taxation during the initial set up period when cash flows and risk are at their highest to later years when the firm has settled to more

Accelerated Deprecation –continued

stable times. In SMEs this risk factor is a major inhibitor of development and improved productivity.

Many New Zealand firms are making conscious efforts to improve their current opportunities, but are inhibited with machinery which is now obsolete.

Too often we concentrate of effects rather than on causes. SMEs worldwide are a major source of innovation and if we are to protect our standard of living and give a sustainable future to our new generation we must ensure they have the best tools to compete in a very competitive international environment.

2.2 RESEARCH and DEVELOPMENT

Our taxation rules are archaic relating to our commercial environment. We are predominantly an economic society of SMEs. SMEs rarely undertake research. What they do is product development to ensure they remain competitive. Under current taxation rules “development” must be capitalised and theoretically written off over the life of the product. What is the life of a product in this age of rapid change?

We are constantly told our national level of R & D does not match that of the OECD countries. Firstly we do not have a large defence industry, nor a large chemical/medical industry and most firms carrying out “development” to sustain their product in the market place hide their development cost in general factory expenses to avoid the taxation implications.

What this does is removes the emphasis of the importance of R & D to firms as a necessary and important factor in their survival.

Changes in the deductibility will also emphasise the importance of R & D in their pricing policies.

2.3 TRAINING

The western world is entering a period of uncertainty relating to work practices and employment levels as the electronic developments of the last two decades invade control systems in modern manufacturing and also in the service areas.

We are all aware of the impact industrialisation made to the unskilled mainly agricultural workers as they moved into the towns of England. Living in cramped housing with poor wages due to the lack of skills, life was very miserable and it took many generations for their conditions of welfare to reach an acceptable level. Our own country benefited with the resultant emigration as they sought a better life.

It is important we explore means of avoiding a similar situation occurring here in New Zealand over the next two decades or so. Many of our current employees do have basic skills and we must ensure they have every opportunity of constant up-skilling to ensure they can compete with the new demands of the new technology.

Similarly young people entering the work force will be employed in an atmosphere of constant technological change and constant up-skilling will be part of their employment world.

Recognising New Zealand is largely SMEs, we need to think how as a nation we equip our employers to operate in this changing environment.

Of course we will need to ensure our education system plays a constructive role in this process. However post education training by outside organisations is expensive and employers lose valuable productive time whilst the employee is away attending external courses. Naturally there will be a role for both external and on the job training. Remember, training is a series of building blocks with each training session building on the previous module. In-house training fits this process well without impacting on short term productivity with the added advantage of ensuring specialised knowledge relating to the individual employer is retained and developed.

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Training-continued

My suggestion is we are in need of an additional loading as a taxation deduction on training expenditure. This has been tried overseas and has been subject to exploitation, but better definitions can overcome this problem. I do encourage your taskforce to seriously explore this option as changing conditions in the future working environment is already on the way.

3. CONCLUSION

You have a unique opportunity to review the taxation system. It is an opportunity not to be wasted.

The need is to consider causes, not effects ensuring New Zealand recovers productivity growth and ensuring employment skills are developed so as to retain job opportunities and employment levels remain.

4. SPEAKING RIGHTS

I would like the opportunity to speak to my submission.

Cameron Moore

30 April 2018

