

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**September 2018**

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# Review of New Zealand's Tax System

By email: [submissions@taxworkinggroup.govt.nz](mailto:submissions@taxworkinggroup.govt.nz)

30 April 2018

This document is the submission of Xero Limited (Xero) as part of the review of New Zealand's tax system being undertaken by the Tax Working Group.

## About Xero

Founded in 2006 in New Zealand, Xero is one of the fastest growing software as a service companies globally. We lead the New Zealand, Australian, and United Kingdom cloud accounting markets, employing a team of more than 2,00 people in 20 offices around the world.

Our cloud-based accounting software connects people with the right numbers anytime, anywhere, on any device. We're proud to be helping over 1 million subscribers worldwide transform the way they do business.

Forbes identified Xero as the World's Most Innovative Growth Company in 2014 and 2015. Among other recent awards, Xero won Product of the Year at the British Accountancy Awards 2017 in the UK, and was rated by Canstar Blue as Australia's best accounting software three consecutive years from 2015-2017.

Xero has more than 270,000 small business customers in New Zealand. Our ongoing market research and data analysis gives us a unique insight into the small business economy in New Zealand. It is with this focus on innovation that Xero provides comments on features we would like to see in New



Zealand's future tax system.

Xero's submission is as follows:-

### **Frameworks**

We support the current broad-based, low rate system and believe that it will continue to benefit New Zealand in the future. The current approach is generally consistent enough to allow for long term planning by small businesses and for small businesses to adequately forecast tax impacts.

### **Progressive company tax**

The concept of a progressive tax rate for small businesses has some appeal. A progressive tax rate offers the prospect of cost effective support for small or medium sized enterprises (SMEs). However, consideration of any progressive tax regime for small businesses should consider the possibility that the regime may add some administrative complexity to the tax system.

The first possible complexity is in the definition of a small business. In our experience a small or medium enterprise can have a mix of attributes such as turnover level, number of employees, or complexity of systems. Any one of these attributes on its own is too blunt an instrument to define a SME, whereas together they add considerable complexity in determining what a SME actually looks like.

The second possible complexity is that this approach may encourage some artificial business structures created solely for the purpose of capturing the lower SME tax rate. Medium size businesses may artificially break up into a number of smaller businesses that qualify for the lower tax rate. This action would introduce costs to the economy that are not born by those artificial SMEs but are borne externally. For instance, suppliers would have the complexity of multiple entities, and Inland Revenue would have more tax entities to deal with.

### **GST exemptions for particular goods**

We support the Government aim of assisting people with low incomes.



The Tax Working Group will be aware of the experiences of other jurisdictions showing that introducing exemptions (usually on foodstuffs) introduces complexity and uncertainty into the application of GST. For instance, GST may be exempted from fresh food, but this raises the question of when does food cross the boundary from fresh to cooked? One instance of this is that retailers would have different GST rules for hot chicken and cold uncooked chicken. At what point does a chicken cross the threshold from raw to cooked? Would a green salad served in a restaurant be regarded as fresh food, and therefore be exempt from GST? These types of uncertainties mean more complexity for all participants in the supply chain.

GST exemptions also benefit all consumers, not just low income consumers. Thus GST exemptions are a very blunt instrument when it comes to assistance for low-income people. A tax-free income threshold or targeted assistance through Working For Families may be better ways of getting the assistance where it is needed.

## GENERAL ISSUES RAISED IN THE ISSUES PAPER

### **Cash Basis Accounting For Small Businesses**

In the spirit of simplification of the tax system, we support the removal of the requirement for small business to prepare tax financial statements on an accrual basis. For the sake of simplicity, the threshold for cash basis tax reporting should be aligned with the GST cash basis threshold.

Cash basis tax reporting would significantly simplify the end-of-year process for many New Zealand SMEs. There would be a timing difference in tax payments as some tax revenue may be deferred to future periods. However timing differences will eventually work their way out of the tax system.

### **GST On Low Value Imported Goods**

Our response on this issue assumes that this problem is large enough to need solving.

A technological solution could provide a cost effective way of identifying the intended recipient, notifying them by text message or email, and collecting GST via credit card payment through a mobile phone app. Effective use of technology could allow a broad based approach where all imported goods are subject to GST, with very few exemptions.



This submission is not intended to be a full system description, however we believe that this problem is best solved by collecting the GST from the recipient (as Customs presently do with higher value items), rather than from the sender (as the Australian model intends to do).

Collecting GST on imported low value goods also has the advantage of helping to level the competitive playing field for many NZ businesses.

**Alignment Of Company Rate, Trustee Rate And Top Individual Rate**

We support the alignment of the top individual marginal rate of income tax with the current company tax rate and the trustee tax rate. Alignment of these tax rates would simplify tax planning and reduce the use of artificial structures designed purely to arbitrage the difference in tax rates. Alignment also contributes to the redirection of economic activity from tax minimisation toward productive economic uses.

\* \* \*

Thank you for the opportunity to submit on these matters. As part of this consultation process, we would like engage with Officials to discuss the points raised in this submission. I look forward to hearing from you to arrange this.

Yours faithfully

Grant Anderson  
Head of Government Relations

Xero Limited  
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