

What next for NZ tax?

*Position paper on Coalition Government's
post-Tax Working Group tax priorities*



The Coalition Government's decisions regarding the Tax Working Group recommendations signal the start of a significant tax policy workstream – the prioritisation and speed at which these items can be addressed will be key.

This document sets out the workstream decisions Chartered Accountants Australia and New Zealand (CA ANZ) supports, would like to see prioritised and disagrees with.

Long-term issues facing New Zealand's tax system require more work, in particular the reliance on a small number of individual taxpayers as the largest single source of the country's tax revenue. Individual income tax is New Zealand's highest revenue earner with more than 40 percent of the total tax take. It is crucial that we continue to think about the sustainability and future of our tax base, and the risks posed by a shrinking income tax pool due to advances in technology, the changing work landscape and ageing population.

Support

CA ANZ supports the following decisions made by the Coalition Government in response to the Tax Working Group report.

Government response / TWG recommendation	CA ANZ's position
<p>Not progressing with a Capital Gains Tax</p>	<p>The Coalition Government announced that under PM Jacinda Ardern's leadership, a capital gains tax will not be progressed.</p> <p>In our original submission to the Tax Working Group, CA ANZ recommended that the status quo be retained and that any extension to the taxation of speculative investments required be included within the Income Tax Act framework.</p> <p>We are pleased that Government listened to feedback regarding the challenges and risks of implementing a broad capital gains tax, and the need to maintain the simplicity of our system.</p> <p>Read our submission to the Tax Working Group</p>
<p>Continued participation in the OECD discussions on the future of the international tax framework</p>	<p>CA ANZ supports the Government's views on recommendations 39, 41 and 42, namely:</p> <p>39 supports New Zealand's continued participation in discussions at the OECD on the future of the international income tax framework.</p> <p>41 recommends that the Government actively monitor developments and collaborate with other countries with respect to equalisation taxes.</p> <p>42 recommends that the Government ensure, to the extent possible, that New Zealand's double tax agreements and trade agreements do not restrict New Zealand's taxation options in these matters.</p> <p>CA ANZ's supports the Tax Working Group's recommendation to continue participation at the OECD on the future of the international income tax framework.</p> <p>Read our media release or catch up on our NZ Tax News articles here, and here.</p>

<p>Seismic strengthening</p>	<p>CA ANZ is pleased that seismic strengthening has been identified by the Government as a high priority.</p> <p>Our recommendation to the Tax Working Group and to Ministers was to introduce a repairs and maintenance threshold to claim deductions for seismic strengthening, leaky building costs, and other capital costs. We felt this would have the added benefit of encouraging an appropriate level of property maintenance.</p> <p>At a minimum we felt that a deduction should be available for all seismic strengthening costs and consideration should be given to re-introducing depreciation on commercial and industrial buildings.</p> <p>Read our submission to the Tax Working Group</p>
<p>Hidden Economy</p>	<p>CA ANZ supports Government and Inland Revenue efforts to address the ‘Hidden Economy’.</p> <p>Our view is:</p> <ul style="list-style-type: none"> • The strategy adopted must be coherent and consistent, including the contemporaneous roll out of targeted and wider public awareness campaigns. • There is a behavioural aspect to addressing the hidden economy, e.g. there is strong anecdotal evidence that IR has a low profile outside of the main metropolitan centres, leading to the perception that compliance is low in the regions; this influences taxpayer behaviour. • Increasing/expanding the withholding tax rules does not address the issues at the consumer-to-business level –another plan is needed for this aspect. • More work is needed on whether it is appropriate to introduce a rule that would remove tax deductibility if a payer has not complied with withholding or reporting rules; and if such a rule were to be introduced, what the rule would look like (e.g. appropriate criteria and exceptions). <p>Read our memorandum on the administration and integrity of the tax system to the Tax Working Group, following the release of the Group’s interim report</p>

Prioritise

The following areas were designated for 'consideration for inclusion on the tax policy work programme'. CA ANZ believes these items should be prioritised and would be of significant benefit to taxpayers.

Government response / TWG recommendation	CA ANZ's position
<p>Feasibility and blackhole expenditure</p>	<p>CA ANZ supports the Government's decision on Tax Working Group recommendation 33, to reform the treatment of black-hole expenditure by spreading such expenditure over five years with a \$10,000 safe-harbour threshold for upfront deductions for feasibility expenditure</p> <p>CA ANZ supports implementing appropriate rules to ensure feasibility study costs are immediately deductible or at least amortisable</p> <p>Read our memorandum on Business to the TWG following the release of the interim report.</p>
<p>Reducing compliance costs for small businesses</p>	<p>CA ANZ recently wrote to the Ministers of Revenue and Finance outlining three key TWG recommendations we believe would produce significant benefits for small businesses:</p> <ul style="list-style-type: none"> • Increase \$10,000 automatic deduction for legal fees and expand to separately cover other categories of professional fees • Introduce a repairs and maintenance threshold to claim deductions for seismic strengthening, leaky building costs, and other capital costs. As an added benefit this should encourage an appropriate level of property maintenance. At a minimum a deduction should be available for all seismic strengthening costs and consideration should be given to re-introducing depreciation on commercial and industrial buildings. • Remove the resident withholding tax on close company-related party interest and dividend payments. We note this proposal could be expanded to apply to interest between associated parties, not just close companies. This would align the payment of interest and dividends with shareholder salaries which are not subject to PAYE.

	<p>Previously we suggested limiting the application of current rules, including:</p> <ul style="list-style-type: none"> • Low value asset write-off • Capital revenue boundary • Entertainment regime • Building depreciation • FBT & motor vehicles • Financial arrangement rules – definition of ‘cash basis persons’ • Hybrid rules • Depreciation rates <p>Read our memorandum on Business to the Tax Working Group following the release of the Groups interim report.</p>
Truncated disputes process	<p>We support the introduction of a truncated disputes processes, however our view is that it takes effect late in the disputes process and taxpayers would be better served by introducing a Tax Payer Advocate Services to assist with tax disputes at an earlier stage.</p> <p>Read our submission to the Tax Working Group</p>

Disagree

CA ANZ does not agree with the Coalition Government's position on the following recommendations.

Government response / TWG recommendation	CA ANZ's position
<p>Taxpayer advocate services and Ombudsman</p>	<p>CA ANZ is disappointed that the recommendation to establish a taxpayer advocate service to assist with the resolution of tax disputes will not be progressed. We believe this feature would make a significant contribution to enhance taxpayers' trust in the tax system.</p> <p>We fully support the establishment of a Taxpayer Advocate Service (TAS) as an independent "voice for the taxpayer" within the tax system. With appropriate safeguards this could operate as an autonomous unit within IR.</p> <p>The role of the TAS should promote the fairness of the tax system in terms of operation and also perception by taxpayers.</p> <p>Irrespective of whether or not a TAS is established it is imperative that taxpayer issues are able to be escalated within IR to avoid entrenchment of positions and taxpayer burn off.</p> <p>Read our memorandum on the administration and integrity of the tax system to the Tax Working Group, following the release of the Group's interim report</p>
<p>Digital Services Tax</p>	<p>CA ANZ does not support the Government's views on recommendation 40:</p> <p>(40) recommends that the Government stand ready to implement a digital services tax if a critical mass of other countries move in that direction and it is reasonably certain New Zealand's export industries will not be materially impacted by any retaliatory measures.</p> <p>CA ANZ believe pursuing an interim unilateral measure carries too many risks for a small exporting nation and distracts from the more important issue of reaching a workable and beneficial OECD solution for New Zealand</p> <p>Read our media release or catch up on our NZ Tax News articles here, and here.</p>

