

# MEMORANDUM

**Date:** 1 November 2018

**To:** Tax Working Group

**From:** Chartered Accountants Australia and New Zealand

**Subject:** Submission on Tax Working Group Interim Report – Business Tax

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Thank you for the opportunity to provide you with feedback on your Interim Report.

Following our workshop on 23 October 2018 we summarise our key recommendations below.

## Key principles

- Simplicity – increases productivity; increases voluntary compliance.
- Thresholds and exemptions where appropriate – legislation should be written for the vast majority of taxpayers who comply, not the very small minority who do not.
- Maintaining the integrity of the tax system – complexity means the rules may not be followed.
- Optionality – including a simple option allows a business to spend less time on compliance; most smaller businesses do not have the time or resources to carry out several complex calculations. Acknowledge (but do not agree with) officials’ position that optionality encourages businesses to “game the system” and increases compliance cost.

## Overall comments

- We agree with the decision in the Interim Report to not consider a bifurcated tax rate.
- A lost opportunity for large scale reform – for example presumptive taxes based on turnover or gross income, with rates set by IR, would remove all complexity around deductions and amounts returned would be “close enough”.

## Limiting the application of current rules

- Suggest limiting a series of regimes or sets of rules for businesses below a consistent turnover threshold e.g. \$5m.
- This could be done through a combination of some or all of the below.

## Comments on specific rules

- Low value asset write-off
  - Increase in threshold would be a significant simplification for all businesses, but could be limited to smaller businesses if subject to fiscal constraints.
  - We suggest a prospective rule that applies only to new assets.
  - Fiscal costs seems high – what assumptions were used for the modelling?
  - Should be retained as a measure for when the Government has sufficient fiscal headroom.
- Capital/revenue boundary
  - The capital/revenue boundary could be eliminated for expenses up to a certain level e.g. \$20,000.
  - This would be an expansion of the current rules for legal fees, which allow expenses up to \$10,000.
  - Even the thresholds suggested involve very modest amounts of tax and could be increased.
- Entertainment regime
  - We agree with suggestions to exclude all but the most significant costs.
  - We agree with suggestions that automation could also be helpful, but the technology would need to be accessible to all businesses and not just large businesses.
- Building depreciation
  - We agree that some commercial buildings do depreciate in value.
  - A specific amendment could be made for seismic strengthening costs to allow deduction or depreciation of those costs. This issue also manifests itself in the discussion regarding the taxation of income from capital. Depending on which, if any, recommendations are adopted, it is likely that a tax on income from capital could resolve the issue and would defer the cost to government until realisation. This would put new builds on the same footing as existing buildings.
  - We recognise that the fiscal cost is significant and that a degree of compromise may be required.
- FBT and motor vehicles
  - Allowing an up-front payment (or reduction in GST claimed) in return for no FBT payable and no GST adjustments would be a significant simplification. This measure could include an environmental element e.g. concession applies to electric vehicles.

- Current definition of “work related vehicle” incentivises use of double cab utes – rules should be relaxed to allow more exemptions for environmentally friendly vehicles
- Expansion of the “work related vehicle” exemption would also mitigate the current issues with the disproportionate FBT cost in respect of very limited availability for private use on a particular day.
- Financial arrangement rules – definition of “cash basis person”
  - We understand that an extension to the definition is on IR work programme.
  - Would create alignment with investment income information.
- Hybrid rules
  - Should not apply to small business and ideally should apply only to large multinational groups and structured arrangements.
  - Rules currently apply to simple business transactions including transfer of trading stock and utilisation of losses. The hybrid rules should not apply to these transactions.
- Depreciation rates
  - Should be reduced in number for small businesses.
  - We suggest small businesses be allowed to use a simplified set of default rates for the life of the asset e.g. a rate for motor vehicles, plant and machinery, office equipment, computers, buildings
- Threshold for GST adjustments
  - Increase the threshold for not requiring a change of use adjustment, which is compliance intensive for low revenue and poor compliance.
  - This concern was raised at the time of the regime’s introduction.
- “Same business test” for losses
  - Would remove the need for complex ownership / continuity calculations.
  - Would assist start-up businesses and those in growth phase.
  - Could be extended to allow loss carry back (which would also benefit start-ups).
  - If there is to be a “same business” test it must be crafted to work for the vast majority who are simply trying to comply – we recommend a “materially the same” test – that is applied in a practical way.
- AIM
  - We have held a workshop with officials to discuss how AIM could be made more accessible and more user friendly.
  - Following the workshop, officials are carrying out work to revise or eliminate certain determinations to reduce complexity and to consider incentives for entry.
- Feasibility
  - Implementing appropriate rules to ensure feasibility study costs are immediately deductible, or at least amortisable.

We would like to continue our involvement with the Tax Working Group and to provide further input as required. Please contact John Cuthbertson in this regard.

Yours sincerely



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Chair – Tax Advisory Group



John Cuthbertson  
NZ Tax and Financial Services Leader