



Business NZ recommendations to incoming Government: Tax

A nation's tax system is one of the most crucial factors in determining economic growth. A broad based, flat tax structure provides the simplest and most competitive way in which to boost growth in an economy while a complex and multi-layered tax structure brings substantial deadweight costs and prompts efforts at tax avoidance.

An ongoing pathway to tax reform is required in New Zealand, and Business NZ recommends measures to ensure our tax system is internationally competitive and conducive to growth.

Tax rates and thresholds

In addition to recent positive moves towards lower company and personal tax rates and higher thresholds, a continued programme of change is still required.

Further cuts to the company tax rate are a high priority. Further signaling of reductions below 30% is warranted, given New Zealand still does not have a company rate that is truly competitive with other countries (including Australia, which it only matches).

The decision to cut the top personal tax rate to 38% in 2009, and 37% in 2010, along with increases in thresholds through to 2011 is positive as many small businesses are unincorporated. The reduction in the top personal rate to 33% as conditions permit is also positive. Business NZ recommends more ambitious targets in future years, especially if the company rate is also earmarked for further reductions.

Australia has introduced more tax rate/threshold changes over recent years than New Zealand, making Australia more competitive and contributing to the pull of businesses and labour across the Tasman. New Zealand needs to be acutely attuned to what Australia is doing and ensure that changes to New Zealand's tax system make it competitive with Australia's.

Business NZ supports a mutual recognition of imputation and franking credits scheme between Australia and New Zealand and recommends strong government commitment to this, given the significant net benefit that could eventuate for New Zealand.

The separate review regarding a second best option for streaming and refundability of imputation credits is also important given that trans-Tasman mutual recognition may not eventuate. The issue of whether imputation credits should still exist has not been raised, but should be if we are to ensure New Zealand's tax policy is taking the

best steps forward. Business NZ supports the parallel review continuing to be given full Government backing.

Tax compliance costs have been the number one priority for change for businesses of all sizes for as long as the Business NZ-KPMG Compliance Cost Survey has been running (since 2003). PAYE and provisional tax are key concerns that require attention.

Innovation, a key enabler of economic growth, can be significantly affected by tax policy. With the decision to scrap the R&D tax credit for the 2009-2010 financial year onwards, it is critical that there are alternatives to enhance R&D expenditure in New Zealand. There are many businesses that have invested time and resources into ensuring that their R&D expenditure met the criteria outlined by IRD, and the focus by businesses in this area should not go to waste. Business NZ recommends a discussion process in early 2009 to provide options on how businesses can build on what they have already done in terms of identifying R&D expenditure to achieve tax elements that incentivise innovation.

Business NZ recommendations:

1. Reduce the company tax rate to a rate below Australia's
2. Reduce the top personal tax rate on an ongoing basis
3. Introduce mutual recognition of imputation and franking credits with Australia
4. Reduce tax compliance costs identified by the Business NZ-KPMG Compliance Cost Survey 2008
5. Review the merits of R&D tax credits vs other policy actions for encouraging increased private sector innovation expenditure

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