



NATIONAL COUNCIL OF WOMEN
OF NEW ZEALAND
TE KAUNIHERA WAHINE
O AOTEAROA

*Affiliated to the International
Council of Women*

**Submission to the Inland Revenue Department on
Making Tax Easier for Small Businesses**

4 November 2003

S03.83

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 42 National Societies and has 33 Branches spread throughout the country to which women from over 150 affiliated societies belong. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action. NCWNZ wishes to make the following comments on the above discussion document. The comments have been made by members of our Economics Committee.

We welcome the intention of the proposals to reduce the compliance costs of doing business recognising that the vast majority of New Zealand's businesses are small businesses employing less than 6 people.

SPECIFIC COMMENTS

Chapter 3 Covering part of the cost of using payroll agents

The subsidy proposed in the document at \$2.50 per employee per pay period is considered by our members to be insignificant and not an incentive to use this system. At this level we doubt that payroll agents could afford to provide a service at no additional cost to its clients.

3.18 As this proposal is limited to the first 5 employees we predict it will not have a large uptake as the time taken in liaising with a payroll agent will outweigh the financial benefit from the subsidy. In this group of small employers the changes in employees is frequent meaning many contacts would be required between the employer and the payroll agent. Also the gross wage varies every week as hours worked are often more flexible with small employers.

3.1 This discussion document perpetuates the myth that employers are compensated for processing the PAYE deductions by retaining them for some period before forwarding them onto the IRD. Table 2 details the current benefit to be approximately \$45 per employee per year. Employers would gladly give up this benefit if the requirement to deduct PAYE was stopped.

3.40 We appreciate the benefits of the proposal in terms of accuracy but disagree that it will in any way reduce the risk of PAYE payment default. We assume from reading the document that the contact with the payroll agent will be by the employer not the employee so fail to understand how collecting information on child support or student loan debt can be avoided.

3.46 Employers would not be locked into using a particular payroll agent any more than they are locked into using a particular solicitor or accountant.

Chapter 4 Improving the timing and frequency of tax payments

4.13 Our members support standardising dates definitely to the last week of the month but would prefer the last day because it is easier to remember. For taxpayers using a tax agent to prepare GST returns it would be impossible to bring the date forward even by a day as most taxpayers use a date that aligns with their balance date therefore the due date for returns is grouped and not spread evenly throughout the year. This results in most GST returns being due in October and April then the other even months and less in the odd months. We are concerned that tax agents would not be able to complete the work on time if the date was earlier than the last day of the month.

4.7 Taxpayers choose to return GST on a two monthly basis to keep book work up to date and reduce the strain on the cash flow by paying smaller amounts of GST at more regular intervals than by filing returns 6 monthly.

4.17 The issue of paying provisional tax at the same time as GST is a more complex decision. We agree that the calculation should be based on the GST return calculations for all the reasons outlined in the discussion document. But when the provisional tax is to be paid is a different matter. We suggest that the provisional payment be the last day of the following month. Remember we are discussing small business and any payment of the size of GST or provisional tax is a significant financial transaction and has to be planned for. We predict that if payment of provisional tax was to be made at the same time as GST then fewer small businesses would take up this option than the 3 times a year currently used.

4.32 The transition issues are significant especially for tax agents and we predict taxpayers will want to transfer between systems as the implications become apparent. There will be significant compliance costs to taxpayers but this should settle down over time.

4.34 If taxpayers currently file GST 6 monthly whether GST registered or not, we don't see a problem in paying provisional tax twice a year. There is nothing to stop taxpayers making voluntary payments to the IRD and this could be promoted by the IRD if an education campaign is undertaken to coincide with these changes. Some banks' online software promotes paying the IRD as an already set up bill payment which makes it easy to make voluntary payments.

Chapter 5 Provisional tax based on GST turnover

5.14 This document suggests that the option of calculating provisional tax on GST turnover would only work if the entities are the same. For this option to be extensively used we suggest that partnerships of 2 people also qualify, as partnerships are a huge proportion of the small business ownership structure.

The document notes that it would be difficult to link two entities to verify that they were using the correct ratio. We suggest as the tax system is largely self assessment now then a leap in faith is not required to allow partnerships to use this method. The IRD can undertake audits if they believe the ratios are incorrect. We suspect tax agents will in the majority of cases, be doing the ratio calculations for taxpayers using this method so correct compliance will not be an issue.

5.19 & 5.21 Either of these methods are acceptable and we appreciate the limitation on using ratios in that more provisional tax being paid may be the result but this would be considered by taxpayers in deciding whether to elect to use these methods.

5.30 We support taxpayers who use a tax agent being able to use the previous year's tax information for the calculation of ratios.

5.34 If penalties need to be recalculated they must happen automatically and not require taxpayers or their tax agents to contact the IRD.

5.42 We support the proposals because seasonality of income is a big issue for small businesses. The issue of another entity paying tax than the entity paying the GST is significant

as mentioned earlier. A restriction could be that the profit split in a year using the ratios must be the same split as the previous year. The GST adjusted option is more likely to benefit taxpayers with tax agents so the extra compliance cost will have been deemed to be worthwhile.

Chapter 6 A discount for individuals starting a business

6.9 We support the proposal to offer a discount for paying taxes earlier than the current provisional tax regime. The suggested 6.7% is significant and would attract a high rate of participation.

6.17 It is difficult to define the first year in business as many people move from a hobby to a business. The proposal to use it in the year before provisional tax payments begin seems to be the logical starting point.

GENERAL

These proposals are a huge change from the current system and an extensive education campaign would be required. Also it should be stressed that the change is voluntary and may not suit every small business.

NCWNZ thanks you for the opportunity to make comment on this document.

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National President

Gail McIntosh
Economics Standing Committee