



Tourism Industry Association New Zealand

Submission on central government's tax simplification proposals

October 2003

TIANZ and Tourism

The Tourism Industry Association New Zealand (TIANZ) represents the interests of the tourism industry.

Tourism is a \$14.3 billion industry and generates around 10% of New Zealand's GDP. The tourism industry employs 1 in 10 New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises. Not only is tourism important because of its size. It is also:

- highly employment intensive
- regionally dispersed
- has the flexibility to change its target markets quickly as conditions change.

New Zealand welcomes over two million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry. TIANZ estimates that over 75 million visitor nights are spent away from home by New Zealanders every year.

Introduction

This submission provides the following comments:

- Some background information on how this issue potentially affects the tourism industry
- Some general and more specific comments on these proposals.

Overview comments

TIANZ and other industry representatives have consistently raised the issue of tax compliance costs to central government and its agencies. In general, SMEs face many of the same compliance costs as larger businesses, but without the resources of larger businesses to enable them to cope with these compliance costs. In its briefing to central government, TIANZ called for:

“A renewed commitment by central government to a reduction in compliance costs (and ‘points of contact’) for small businesses.”

Overall, this package of initiatives is a start on the government's journey towards reducing tax compliance costs. The fact that central government is proposing these initiatives confirms that it has been reacting to the concerns expressed by SME operators.

In the sections below, we make some specific comments on the individual proposals.

Specific comments on proposals

Helping small businesses with PAYE through a payroll agent subsidy

In general this initiative has merits as management of PAYE is a noticeable burden for most small businesses. Most of our members do not have dedicated staff to undertake this task so the processing of PAYE ends up being undertaken by those already burdened with the running and management of a small business. A subsidy for a small business to employ a payroll agent would help relieve this burden. We agree that it would be most appropriate to target such an initiative at the smallest of businesses.

At the same time, TIANZ does have some concerns with the use of a subsidy for the following reasons:

- The employee number limits might serve as a disincentive for some companies to expand and employ more than five people (assuming this becomes the cut-off point for eligibility for the subsidy), unless it is clearly in their short-term financial interests to do so.
- While a payroll subsidy would help reduce compliance costs, there is a risk that if small businesses use agents rather than processing PAYE themselves, owner/operators will lose the skills involved in processing PAYE.

On balance, despite these concerns, TIANZ supports the introduction of a subsidy to help small businesses pay for a payroll agent, providing it is targeted at the smallest businesses, and this subsidy applies for a maximum time period. This would provide initial support for the business and would give the business time to build up its capacity to undertake PAYE processing itself.

Paying provisional tax and GST on the same day

TIANZ supports the alignment of provisional tax and GST payment dates. This would have a number of advantages including:

- Smaller payments would be required, albeit on a regular basis which would make it easier for businesses with tight 'cash-flows'

- Fewer tax payment dates to remember.

Basing provisional tax payments on GST turnover

TIANZ supports the proposal to base provisional tax payments on GST turnover. The tourism industry is strongly seasonal in nature and most tourism businesses have turnover that fluctuates widely. The basing of provisional payments on turnover would enable businesses to make payments based on their turnover at the time of payment which would provide considerable financial relief in times of slower business.

TIANZ agrees that this approach would especially suit smaller businesses with limited staff resources, and we support the ability of businesses to choose whether or not they wish to pay provisional tax on this basis.

A discount for self-employed people who pay provisional tax in their first year of business

TIANZ is strongly supportive of a discount of 6.7% for each dollar of tax paid during the first year.

Compliance costs in their wider context

On the whole, TIANZ is supportive of this package proposed by central government to help relieve the tax burden of small businesses.

At the same time, the issue of compliance costs goes much wider than tax compliance costs. In our briefing paper to the incoming government dated August 2003, we referred to research undertaken by Business New Zealand that shows there has been a marked increase in business compliance costs (and taxes) over the past four years. These have included:

- Local authority rate increases at twice the rate of inflation between 2000-2001
- Fuel tax increases of four cents a litre to pay for further investment in transport infrastructure
- Announcements of future carbon taxes and energy taxes as part of central government's climate change policies
- Increased ACC charges

- The introduction of paid parental leave, which is already increasing recruitment costs in our industry.

In essence, central government is attempting to reduce tax compliance costs while increasing compliance costs in other areas (taking with one hand and giving with the other).

TIANZ urges central government to implement the proposed tax simplification changes, and at the same time:

- Make a renewed commitment to reduce environmental and payroll costs for small businesses
- Make a commitment not to pass any new employment legislation (other than the Holidays (Four Weeks Annual Leave Bill) during this term of government that imposes new compliance costs on small businesses

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