

A brief introduction

In this paper, the New Zealand Institute of Chartered Accountants (NZICA) and Tax Management New Zealand Ltd (Tax Management NZ) provide a fresh look at the way New Zealand small businesses calculate and pay tax.

The proposals in this paper are designed from the small business owner's point of view and aim to make business income tax compliance simple and practical.

The Issue

In a nutshell, the tax process for small businesses in New Zealand is convoluted. The framework for taxing small business dates back to the 19th century, and while conceptually straight forward, it has been modified and amended so many times that it is now at the point when taxpayers need to be very tax literate to correctly comply.

But taxpayers do not go into business to learn about tax and how to fill out forms. Taxpayers now face elaborate processes when it comes to complying with tax laws. While the study of small business compliance costs has done much to add to our knowledge on what they are and how they impact on small businesses and the economy, little has been done to address how small businesses can better manage the tax process from start to finish.

Rather than sit on the sideline and snipe at Government to do something, NZICA and Tax Management NZ have decided to put this paper together as a constructive think piece to raise awareness and promote thought and discussion on some fresh approaches to tackling the ever wearisome tax compliance burden for small business.

The Purpose

The purpose of this paper is to help determine whether there is a mood with both policy makers and small business owners to tackle tax compliance costs: because we believe our proposals could help cut income tax costs for small businesses by approximately a quarter to a third.

Our framework

Our goal

Our goal for small business is no more than one hour, one return, and one payment every month for income tax and GST compliance.

Characteristics of a good tax system for small business

We believe the following characteristics should apply in designing any tax system for small business and have used these as a guide in preparing the ideas presented in this paper:

Simplicity: The tax system should be easy to administer and comply with.

Proportionality: The tax compliance burden should not be disproportionate to the business size: a small business should have a correspondingly small compliance burden.

Certainty: Certainty of tax liability is important for small businesses that sometimes need to make "seat of the pants" decisions.

Trade-offs favour compliance friendliness: In designing any compliance friendly tax environment, decision paths invariably meet at the intersection of accuracy, tax base protectionism and simplicity. For small business, the trade-offs need to favour simplicity.

Tax neutral: Overall our intention is not to change how much is paid. However, simplicity does not equal less tax. Trade-offs invariably mean there are unders and overs. In some cases more tax will be paid, and in some cases less tax will be paid.

Fairness: Tax and compliance burdens should always be seen to adhere to principles of fairness. That is, all other things being equal, we should pay what our neighbour pays.

