

## Our questions to you

We have a number of questions that we seek your feedback to. They fall into three categories: general, micro, and small business taxation proposals.

### General

As we said at the outset, the proposals outlined in this report will only work if they make tax compliance easier.

- Do you consider that either or both of the proposals will provide material compliance cost savings?
- Do we have our definitions right? That is, have we correctly defined micro business as businesses with no employees and turnover below \$60,000 or \$5,000 per month and small business as businesses with turnover below \$1.2m or \$200,000 every two months?
- A turnover test does not deal well with high turnover / low profit margin business such as petrol stations for example. Are there ways to deal with this, for example businesses that have net profits or residual income tax below a set threshold?
- If enacted, should the proposals be optional or compulsory?
- If optional, should people be bound by their election one way or the other as long as the business continues to meet the criteria?
- Given the radically different basis of taxation, how would an existing business migrate across to the proposal if enacted, that is how would such things as capital assets, trading stock and retained earnings be dealt with?

### Micro Business Taxation Proposal

- Should the focus on turnover be a monthly test instead of a yearly one?
- Is the 15% flat rate the appropriate rate? The object is to strike the right balance between ensuring taxpayers pay a broadly equivalent amount to what they would have had had they gone through all of the calculations, but without the compliance costs.
- Should a GST registered person be allowed to enter the micro regime?
- Should one option for GST registered people in the micro rules while keeping their tax system as simple as possible, be to adjust the rate from 15% to a higher tax rate of 21% ( $15\% + 0.5 \times 12.5\%$  and rounded down) to compensate for GST output tax? We concede that could prejudice people who have one off large GST input tax credits, but they may be better in the small business taxation proposals.
- Should there be any restriction on the types of entities that can use the micro rules? For example, allowing a company or trust to pay tax on this basis could facilitate social assistance advantages.
- Should people with rental income or other passive income be eligible for the micro regime?
- It is proposed that a proportion of the tax paid be transferred to ACC to ensure micro business owners have ACC cover. Is this supported or unnecessary?

- Is the 50% reduction of income for social policy taxes appropriate?
- Would the amnesty under the transitional rules proposal create an incentive for people to enter the micro regime, or is this too generous?

### Small Business Regime

- As proposed, the small business regime is only available to people prepared to account on a cash basis. This is achieved by using the GST payments basis timing rules for both income tax and GST. Should the GST invoice and hybrid bases be available for income tax purposes also?
- For companies and partnerships, should a merger of the shareholders and the company, and partners and the partnership, be required when income tax is paid every two months with GST? As the proposal is set out in this paper, the two measures are linked.
- By removing the barrier between a small company and its shareholders, dividends and the need for shareholder salaries are removed from the tax equation. However an issue can arise if excessive drawings were funded by borrowings. We consider that this is not an issue as effectively shareholder equity is being replaced by debt. Should we switch off the automatic deduction for interest for companies?
- Should a company that has trustees as its shareholders, be taxed at the trustee rate of 33% or individual marginal tax rates?
- Is the two month cash net profit an appropriate base for child support, working for families' tax credit and student loans?
- Should each two month return period be a final period for social policy receipts and payments?
- Is the proposal for livestock as outlined in "Some questions and answers" section below workable in practice?

## What questions have you got for us?

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