

# Inland Revenue, New Zealand

## ITD Global Conference Presentation

Addressing the different tax policy and administrative challenges of micro, small and medium businesses  
October 2007

### Presenters

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# New Zealand Context – SME's

- SMEs collect approximately 36% of the tax revenue collected
- Account for 37.3% of the economy's total output
- A nation predominantly made up of SME
  - Over 90% of Businesses
  - 550k SMEs in Inland Revenue Database
  - Growth in numbers of 4% last year

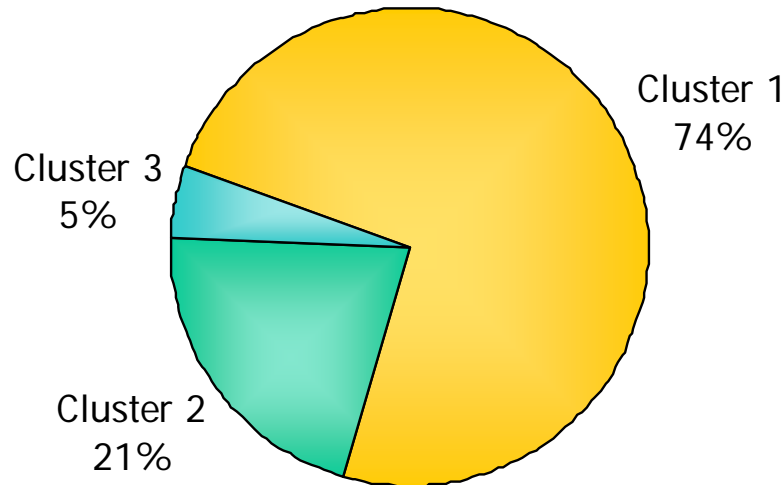
# New Zealand Context – SME Employment

- 96% employ 19 or less people
- 86% employ less than 5 people
- 65% have no employees
- 59% of all new jobs in 2006 were created in the SME segment
- Account for 30% of all employees

# SME Customer Segments

## Cluster 3

- Largest number of employees
- Most compliant cluster
- Highest turnover
- Have been in business the longest
- Mid-range interaction with Inland Revenue



## Cluster 1

- Generally zero employees
- Moderately compliant
- Lowest turnover
- Have been in business for an average of ten years
- Lowest level of interaction with Inland Revenue

## Cluster 2

- Have at least one employee
- Least compliant cluster
- Mid-range turnover
- Have been in business an average of almost seven years
- Most interaction with Inland Revenue

# The Policy Context

A broad based tax system is typically characterised as efficient and equitable with limited exemptions and other concessions.

Within a broad based tax system to what extent does the SME sector require specific policy consideration?

- Specific consideration may be needed because of:
  - The role of SMEs in economic growth
  - The range of business structures open to SMEs may give rise to different tax outcomes
  - There being a greater relative compliance cost burden on SMEs than larger businesses

# The Policy Context

Policy solutions to these considerations have been:

- While not SME specific, corporate tax rate reduction, research and development concessions;
- Improving the level on symmetry in tax treatment across business structures may be desirable
- Recognising that different rules for SMEs may be necessary to reduce the relatively higher compliance cost burden and to encourage voluntary compliance

# Policy approach to compliance and administration cost reduction across the 3 SME groups

New Zealand tax legislation does not specifically recognise or define SMEs

- New Zealand tax rules do not therefore differentiate between different sizes of business but rules may be designed to impact a group or groups - either SMEs generally or particular groupings
- Much of this is achieved through various thresholds that reduce the number of returns required, the level of information that must be presented or retained or simplifications in the process of interacting with Inland Revenue

# The Policy Context in New Zealand

## What are compliance costs?

Internal time + external advisor costs + opportunity cost of internal time spent - cash flow benefits

## Some features of New Zealand's tax system that support low compliance costs for SMEs:

- Limited income tax concessions
- No separate system for taxing capital gains
- Substantial reliance on withholding-type taxes
- GST system - broad base, low rate with low registration threshold and few concessions

# Recent tax policy initiatives aimed at compliance cost reduction:

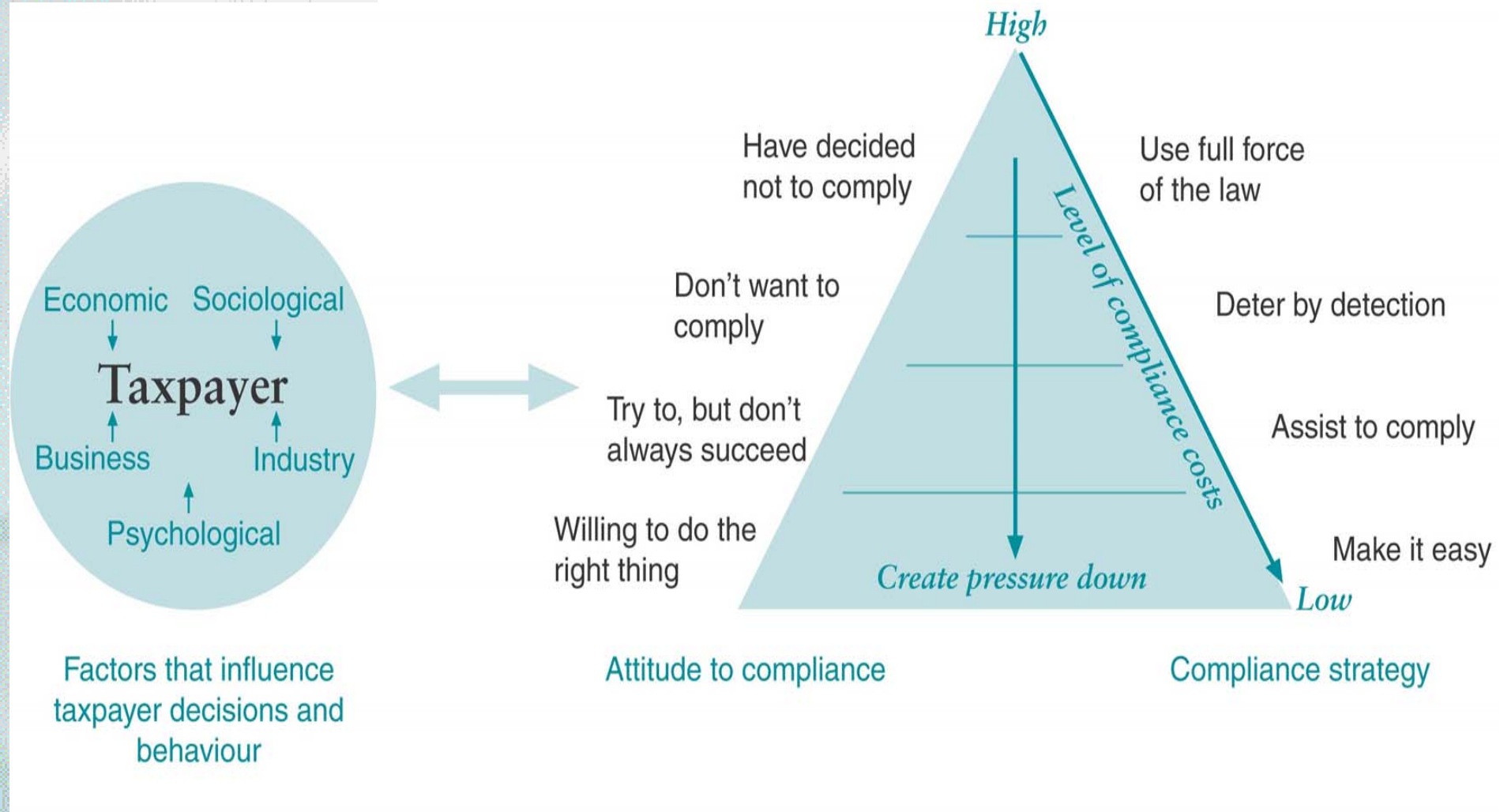
GST and provisional tax - basing provisional tax on GST, alignment of payment dates

- PAYE subsidy for intermediaries
- Fringe benefit tax - especially the minor benefits threshold
- Penalties - limited where taxpayer genuinely tries to comply

# Policy initiatives supporting administration cost reduction:

- Self-assessment (frees up Inland Revenue resources)
- Administration cost reduction may correlate with compliance cost reduction

# Achieving Compliance



# Benchmarking cost of compliance for SMEs

Compliance costs;

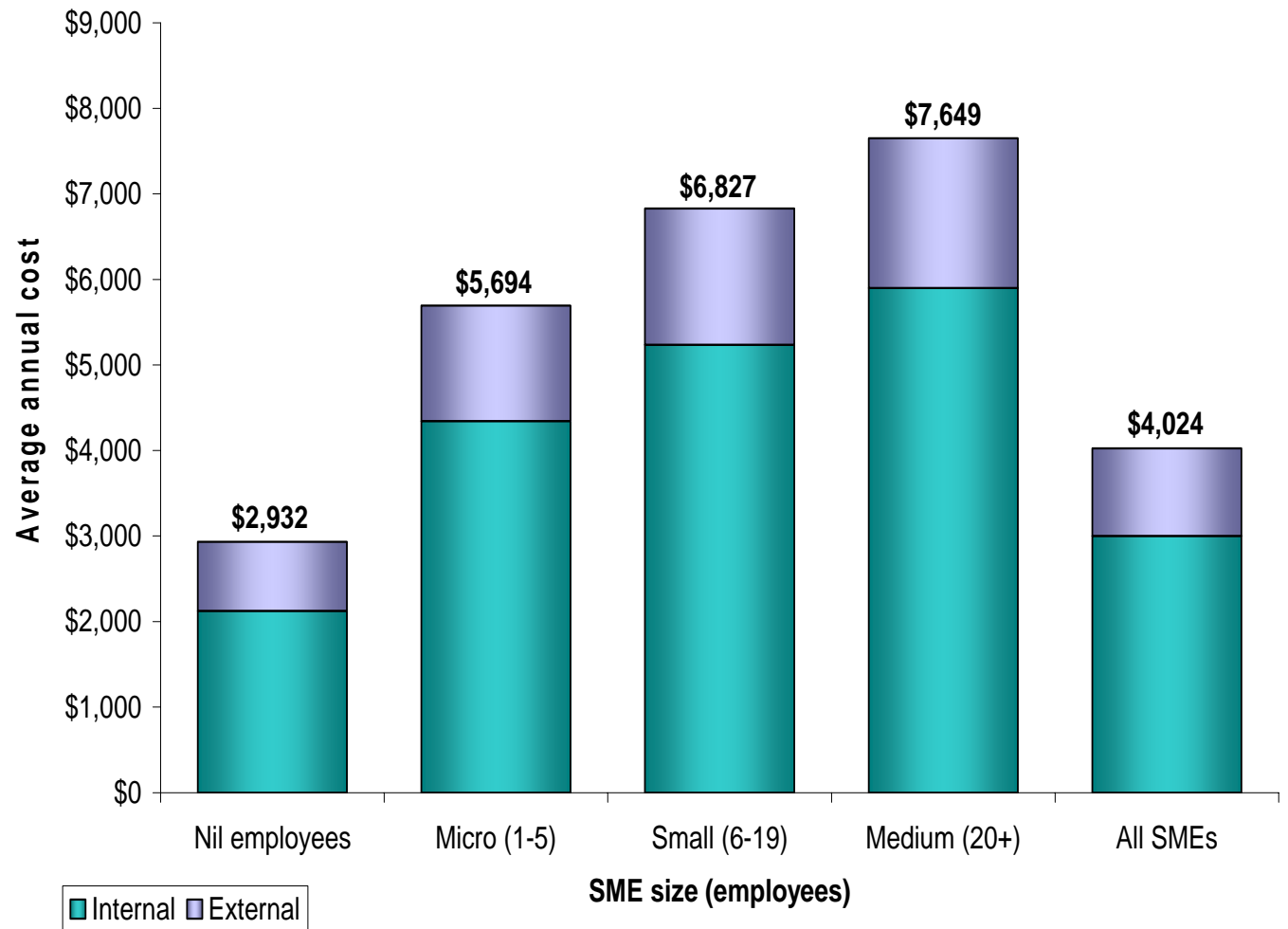
- Predict and model impacts
- Evaluate actual impacts

Where New Zealand sits internationally on levels of compliance cost?

- Second overall in ease of doing business
- Top 10 on ease of paying (World Bank and PWC)

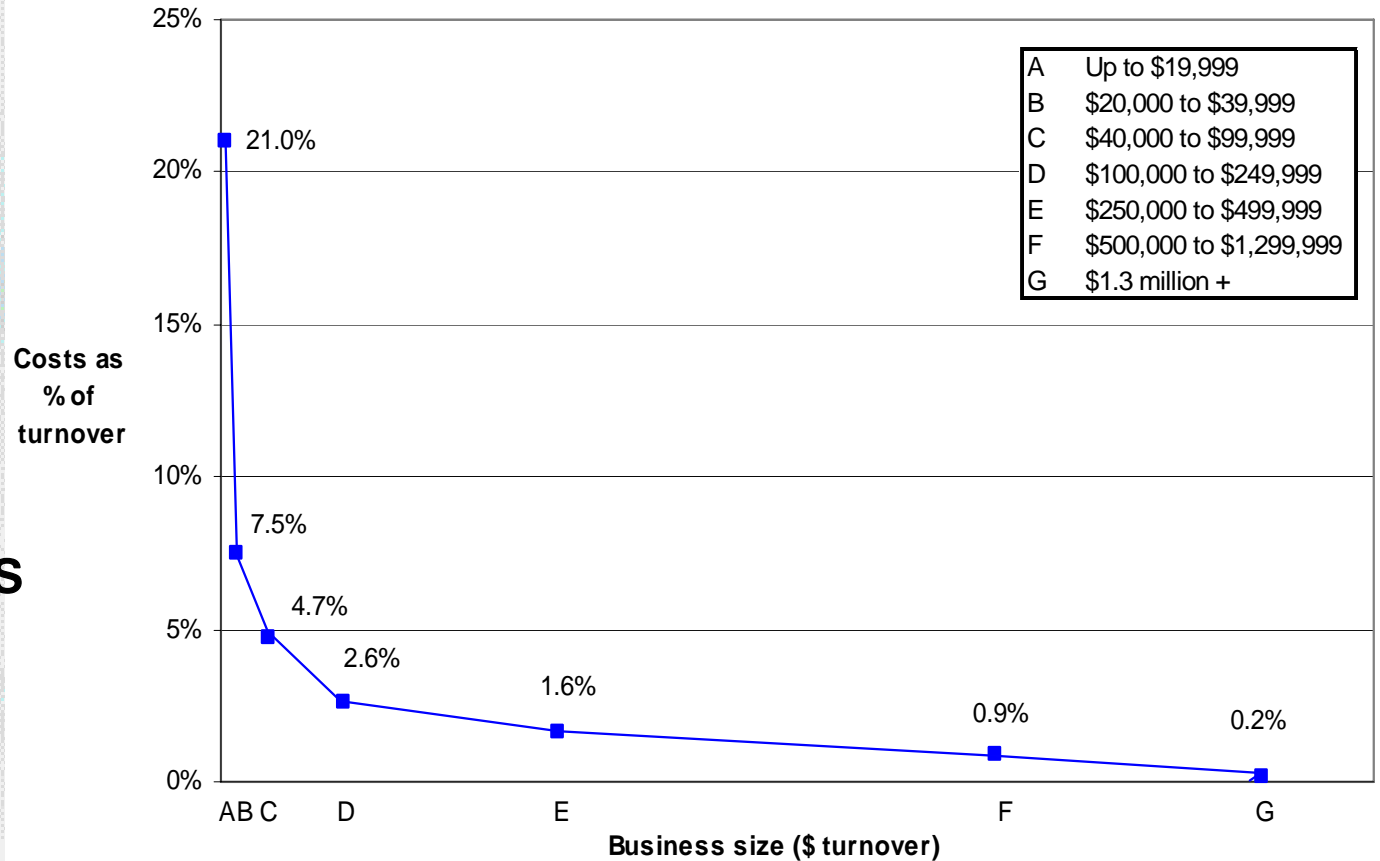
# SME Cost of Compliance

There's a strong correlation between compliance costs and SME size



# SME Cost of Compliance

As SMEs grow, combined compliance costs, expressed as a % of turnover, fall



# Policy pros and cons of greater differentiation in the SME Sector

## Possible benefits:

- Improves ability to target assistance
- More transparency and consistency
- Fewer optional rules could itself reduce compliance costs (though may increase the tax burden)

# Policy pros and cons of greater differentiation in the SME Sector

## Possible disadvantages:

- May reduce flexibility of design
- May give rise to “anti-growth” measures or “lock-in”

# The future of Policy design

- Compliance cost reduction is an ongoing process, especially as new policy measures are introduced by Governments.
- Government discussion document on compliance cost reduction for SMEs under consideration.

# The future of Policy design

Some key considerations and trade-offs:

- Accuracy
- Efficiency/distortions in economic decision-making
- Revenue base maintenance and administrative enforcement
- Transitional and ongoing fiscal costs

# Understanding the Customer

## Information Sources:

- Voice of Experience - Staff
- Relationships to capture the Voice of the Customer
- Research
- Data Analysis
- International trends

**By considering these jointly and testing theories with Customers we can:**

- Drive greater compliance
- Reduce the cost to comply

# Understanding the Customer

From understanding the Customer's needs and the way they absorb information we can:

Align communications and information to;

- meet their need
  - at the time they need it
  - in the form they need it
- Design compliance Solutions that target the trends identified when all information sources are considered together

# Influencing the Customer

- Industry Partnership (Hidden Economy) initiative supported:
  - Relationship building
  - Effective communications
  - Targeted solutions
- Working with Intermediary groups such as Tax Agents

# Discussion