

BC'S BUSINESS BRIEFS

What tax changes?

One of the positive things to come out of the last few weeks while we have been consumed by the general election, is the relative stability of our tax laws. After the new Labour leader lit the campaign up in the first couple of weeks of the election campaign with promises of a number of new taxes, the reality of public reaction to perceived money disappearing from people's pockets (by way of additional and new taxes) altered the Polls significantly. Consequently, Labour made a hasty 'U' turn and withdrew the possibility of any new taxes of significance until the following electoral term. The outcome appears to be that whichever party is successful in cobbling together a coalition, the whole tax area appears likely relatively unchanged. While Labour appears committed to unwinding the minor changes which are currently legislated to cut in from 1 April next year, they have also committed to not raising income tax in the next term of government from the current levels as they exist today.

It appears that there may be some weakening of the Labour Party position on a water tax as the political realities bite further and they have also already committed to seeking a fresh mandate at the next general election before implementing a Capital Gains Tax. In short it seems that whichever party is elected there will be no significant changes to taxes.

The real impact of MMP

With it being so hard for one party to obtain an outright majority, the practical effect of MMP appears to be that it is very hard for the dominant party to achieve all its policy aims. As an aside, this writer finds it hard to interpret the election result where the incumbent achieves a margin to the next highest opponent of more than 10% as a "vote for change", as the Labour leader is currently espousing. Sounds rather like an alternative description of the facts that she was critical of National for putting forward when describing her tax policy?

The act of cobbling together a coalition with one or more political adversaries inevitably involves compromises and tends to water down policy changes as deals are done to get control of the Treasury benches. While this may be seen as disadvantageous in some sense (and often makes it a much longer process to establish a new government) it does have the practical benefit of ensuring more stable government than the old First past the Post system that operated until 1994 in New Zealand.

It is most unlikely that the Fourth Labour Government that came to power in July 1984 would have been faced with the crisis situation that they were when they were elected (NZ had a major overseas loan due for refinancing within a very short period of time when they were elected and this debt would not have been able to have been refinanced without an indication of immediate economic reform which was needed to convince potential lenders of our ability to pay our way in future) as the checks and balances imposed on a

This newsletter is for guidance only, professional advice should be obtained before acting on any information contained herein.

dominant party or leader, tends to have the effect of making policies more “centrist” in their nature.

Volatility...and more Volatility...and more Volatility!

It seems to this writer that the only real constant faced by business today is change and the ever increasing pace of change. With the incredible speed of communication we can watch live TV and Internet streaming coverage of unfolding natural disasters such as hurricanes, experience live coverage as countries lurch towards conflict and be in the middle of the action when conflict breaks out. With the current conflict zones in the world in many cases appearing no closer to resolution than the day they started added to the unpalatable prospects of war on the Korean peninsula, it certainly appears that we all have to exist with the constant volatility that these conflicts on top of all the normal commercial risks, bring to us.

As someone who has been lucky enough to visit the DMZ between the two Koreas (albeit many years ago in what now appears far safer times), the prospect of all out war between Kim Jong Un’s North Korea and either of the USA or a coalition of the USA and others, is absolutely horrifying. The physical proximity of Seoul (with its 30 million residents) to the DMZ (the most heavily land mined area on earth) and the massive armed forces of the North being met by the might of the USA and South Korea so close by, the casualties of even a ‘non-nuclear’ war would be catastrophic. While the North Korean dictator appears to not value human life other than his own, the US President’s rhetoric appears to this writer at least, to be fast leading both countries to a point where some form of conflict while perhaps not being inevitable, certainly has a much higher risk of happening than it did in the most recent past. One can only hope that cooler heads than the two leaders of North Korea and the USA are being listened to.

The economic effects of a war on the Korean Peninsula are extremely hard to predict and what effect it may have on us in New Zealand. One thing that is certain is that we live in a connected world and even if we’re not in the direct firing line, we will feel the effects. What we can do to prepare is less clear, other than ensure that our businesses are able to react quickly to changes in economic conditions and we as business owners/managers are staying abreast of developments and constantly assessing whether we need to act.

Finally while we would undoubtedly feel the effects of a Korean conflict, it is at least a little reassuring to know we are at the bottom of the earth and hopefully far enough away to not have to experience the physical effects directly of such a war.

Ross Baigent



BAIGENT
CONSULTING LIMITED

301s Botany Road, Botany Downs, Auckland;
PO Box 64009, Botany, 2163;
Ph; (09)274-3075;
Website: www.baigentconsult.co.nz

This newsletter is for guidance only, professional advice should be obtained before acting on any information contained herein.