BC'S BUSINESS BRIEFS

Lucky Dip!

We are now ¾'s of the way through the year and its 6 months since our last newsletter. My how time flies when you're having fun!

Since a newsletter is well overdue, this edition will cover a range of topics, only in the order that have come in to this writers head.

The NZ Economy seems to have held on reasonably well over the course of the last 12 months and while the Reserve Bank clearly doesn't believe we are on the verge of a boom, the fact that they are holding the OCR at current levels and signaling their expectation that this is likely to be the case for next couple of years, indicates their belief that things are not all doom and gloom.

Our largest company (Fonterra) appears to be doing everything it can to make a case for breaking itself up with its financial performance of recent times allied with the bad press it has received over the way it has treated its shareholders - including its farmer shareholders. As a result its management structure has come under increased scrutiny with a particular focus on salaries being paid to its upper management in particular but also to what would appear to be even middle level management positions. Only time will tell whether it survives in its current form or there is a further dimunition of its size and importance in the New Zealand business community.

Our government has made it through its first year in government, albeit with a few scrapes and bruises, a lot of which appear to have been self-inflicted. Winston's band of merry foot soldiers appear to have scored some pretty large victories – perhaps backing up those that believed the Labour party were so desperate to gain control of the treasury benches, they would basically give Winston whatever he wanted. Recent murmurings certainly indicate that NZ First are having far more influence in Government than their 7% vote indicates they deserve to have.

Whatever one thinks of the strengths, weaknesses and policies of our current Government and our Prime Minister, the fact that Jacinda Ardern is so different to the usual stereotype of a world leader appears to be putting some attention on us as a country internationally that we wouldn't otherwise get. Her reception on the world stage is out of all proportion to our importance as a country internationally so we should ensure we make the most of it while it lasts.

The escalating trade war between the USA and China particularly, but also the USA and most other developed countries used to calling the US its friend is probably the biggest cloud on the horizon for us as a country. While the direct impact on us to date has been pretty muted, the fallout from an escalating conflict will inevitably impact on us, even if it's in an indirect fashion. The fallout from the USA extricating itself from the Paris Climate accord hasn't really had a major impact as far as I can see yet (although this could change) and the weakening of the USA as a super power on the world stage not taking a leadership role, appears to be opening the door for China, in particular, to perhaps become the next great super power sooner rather than later. Are we seeing the initial stages of the inevitable decline of the USA? History suggests that perhaps we are.

TAXES

The Tax Working Group's recently released draft report appears to have been released in such a way that the Government can get a read on the reactions to a broadly based Capital Gains Tax by the voting public.

Under the draft proposal the CGT is proposed to be wide ranging covering most assets that may be seen to appreciate including Land (including farms), Shares, Investment Funds (including Kiwisaver accounts) and Goodwill. An exemption appears to have been proposed for the land on which a family home sits and the suggestion is that the tax rate applicable to profits from these sources will not be a special CGT rate but rather the standard income tax rates in force at the time. An exemption also appears to be suggested for assets owned at the time the new tax is introduced. There is also a suggestion that consideration be given to levying the tax annually on 'unrealised' profits, although this is seen as difficult to administer. It is also, in my view, wholly unfair and likely to create very significant hardship for asset owners.

The cross sell for a CGT appears to be a reduction of an equivalent value in GST, although the cost of a reduction in GST of even a modest amount (say from 15% currently to 13.5%) is extremely significant and if CGT is levied only on realised profits, the hit to government revenue is likely to be significant in the early years. If there happens to be any form of deterioration in the Government's accounts in the next 12 months as a result of a slowdown in economic activity reducing the governments tax take allied with their increased spending levels, one suspects that a CGT will quickly become less affordable and palatable from a Government perspective.

Whether one agrees with the principle of a CGT or not, it will take a huge amount of political will to introduce legislation to bring it about and one wonders whether Winston's base (in particular) would take kindly to the idea of a CGT. Underneath all of the Labour promises I also wonder if there really is a desire to totally alienate that large part of the voting base - including a chunk of their own! Regardless, if Winston is not in favour, the chances of it seeing the light of day in this election term appear to me – at least – to be remote and we all know what National think of the idea. I for one will not be unhappy if it never sees the light of day!

Overall taxes have not changed significantly from last year. Most of the rules that we operated under last year have remained constant for the current year. There could however be changes of significance in the next few years as IRD have indicated the desire to try and make the collection of the major taxes more automatic with less compliance required. One of the first changes of this nature is the new PayDay filing for PAYE which will become mandatory from 1 April 2019. Those people using Payroll providers software will likely find that the weekly/fortnightly/monthly payroll calculation will double up as the filing of that same information with IRD, thus reducing compliance. All major software suppliers will no doubt be currently well advanced on their products to achieve this by the cutover date.

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