BC'S BUSINESS BRIEFS

2018 here we come

It barely seems like Christmas has been and here we are well through the hottest and driest summer this writer can remember, and the current year is well underway. Our new government have had their feet under the table for long enough that we can all say that very little has changed. No doubt the changes to the employment laws in the pipeline will have an effect on business people large and small in due course. While the noise from Parliament has contained the normal political chatter, far and away the loudest and longest has been the storyline of our Prime Ministers pregnancy announcement. Did Winston really not know about this when the coalition agreement was reached and if this is the biggest news story of the year to date, there really can't have been too much of great moment to report on, surely?

The indications currently are that the overall fiscal situation in NZ remains reasonably stable with latest predictions indicating that our inflation rate at present will allow the Reserve Bank to hold back on increasing interest rates until 2019. The 'experts' are saying that we may still see some interest rate movements this year, but they will be a result of overseas finance trends. The drop in our exchange rate, while unpleasant when it comes to petrol prices will be sustaining our exporters and therefore is welcome.

If there are grey clouds on the horizon, to a large degree they are out of our control, being predominantly overseas based. The threat of war on the Korean peninsula continues to hang around (although the moves between the two Korea's to collaborate at the winter Olympics must be positive) and we are perhaps seeing the initial blows in what may become something more significant by way of international trade disruption brought on by the USA and their policies to pull away from international trade agreements in the name of 'Make America Great Again'. Only time will tell whether the US President's rhetoric and now actions to impose tariff's (aimed not just at China but even some the of the US' closest allies) on some imports to protect American jobs will assist the US economy or harm it. If we see a full blown trade war develop between the world's two largest economies, we as a small trading nation, will inevitably suffer.

The NZ housing market appears to have cooled in recent months taking away one of our economies largest risk factors, to the extent that the Reserve Bank has slightly relaxed some of the lending restrictions placed upon the Banks. These restrictions appear to date to have been effective in slowing the market down without 'bursting the bubble' which must be a good thing for our economy. Our net immigration rates also appear to have peaked meaning that some of the immigration induced pressure on the housing market has also eased.

In recent days we have seen signs that the world sharemarket's have become overheated and a small but significant downwards correction has occurred. Whether this continues, or stabilizes will have a significant bearing on how world economies fare over the remainder of this year.

TAXES

While there are no immediate plans by the government to make major changes to tax law (depending on the outcomes from the current government appointed working group suggestions), it is well known that some of the political parties favour the imposition of a Capital Gains Tax.

It was extremely interesting to hear ex Reserve Bank governor and National Party leader Don Brash say recently that he now favours the introduction of a Capital Gains Tax. As anyone who has followed the views of Dr Brash will know, this represents a 180 degree 'U' turn on Capital Gains taxes. Equally as interesting was his rationale for the change in philosophy. He quoted the example of the sale of a piece of land in Flatbush for approx. $20m that had been acquired by the owners for under $900,000 approx 20 years before and expressed the view that he was offended by that level of capital profit.

While I don't have a strong view one way or another on a Capital Gains Tax (I believe there are arguments for and against and to some degree we already have a form of capital gains tax in the form of profits generated by the sale of property within two years being deemed taxable income) I do find the rationale for Dr Brash's change of heart interesting and perhaps showing signs of the old 'green eyed monster' rather than logical and soundly based economic principle's.

If a Capital Gains Tax had the impact of rechanneling some of the savings of New Zealanders from property (which we as a country have been traditionally heavily dependent on) into more productive areas of the economy, the country would undoubtedly benefit in the medium term. The benefits could come in the area of speeding up the development of a modern technology based economy and also free up some housing in our largest regional economy (Auckland) to the potential younger buyers whom we consistently hear are finding it more difficult to access the market.

The downside to a change of this nature may be the eroding of some baby boomers retirement funds as some of their property heavy investment portfolios underwent value corrections.

Whatever the answer is to whether a Capital Gains Tax is right for us or not, I believe it is widely recognized that a flat rate broad based taxation system has many benefits to us as a country as well as being, in general, the most equitable approach to taxation.

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