

A NEW AND FRESH PROPOSAL

for

ECONOMY IN TAXATION

in

NEW ZEALAND

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Invited Submission on New Zealand Taxation

In response to the invitation by the Minister of Inland Revenue for submissions on modernising and simplifying the present tax system, please consider the following proposal.

The cost and complexity of identifying and verifying income for the purpose of assessing income tax is still very high. There has also developed an associated general reluctance by individuals, companies and other tax entities to disclose real income or profit. Because of the inequities of the present system efforts to minimise income tax can easily become evasion or avoidance and later incur the additional cost of legal action to confirm assessment and recover tax debt.

A much simpler and more equitable tax base is proposed to replace income tax and the associated FBT and PAYE tax. These three taxes (INC, FBT, PAYE) are effectively treated as business expenses incurred and paid directly to IRD by the employer.

To have an effective tax system it has to be equitable, simple and clear, easy to assess and collect, inexpensive to administer and will not discourage production or service.

It is vital to get it right from the start.

Oxford Dictionary describes:

‘Tax’ as a compulsory contribution to state revenue.

‘Taxation’ as the levying of tax.

‘Incidence’ as the way in which the burden of tax falls upon the population.

The incidence of taxation falls on two groups:

Individuals – voting public basically see (PAYE + GST) tax as a cost to them personally.

Families of Enterprise: business entities are basically collectors of company & business tax for the IRD, from net profit generated, PAYE from employees and G.S.T. from the sales and service.

I.R.D. is charged with compliance and administration of its collections and funding government services and some payments under a social policy.

A world-class revenue organisation for New Zealanders must have a perception of fairness first, efficiency in administration and compliance costs second.

To get the true and fair incidence of taxation right from the start, reducing the notion of burden, to taxpayers it is necessary to return to true principles.

All classical economists agree that the ingredient for all production and service comes from the use of land, labour and capital. The extent of use of these three fundamental elements, which are necessary for any productive enterprise, provides a far simpler and more equitable basis for taxation. This use is clear, easy to calculate and is certain. Land offers rent, Labour offers wages, salaries etc. and capital offers dividends and interest. Whatever an organisation uses, in whatever mixture, it basically pays a percentage contribution to government I.R.D. on the total, easily calculated and assessed. Use of land is represented in financial accounts by rent; use of labour by wages or salary, and use of capital by interest or dividends.

The total amount of these expenses, rent, wages or salaries, interest and dividends, represents an accurate assessment of the exclusive 'claim' that any enterprise has made on input from the three sources. This becomes the 'taxable assessment' of the enterprise. One single percentage tax rate on the total of the combined input value would generate a single tax in the enterprise directly in proportion to the exclusive use by the enterprise of the three i.e. Land, Labour & Capital.

The percentage rate would need to be set at a level sufficient to generate the same tax revenue to Government as is currently collected through INC, FBT and PAYE taxes.

The new tax based on this total, becomes a 'pay as it uses' tax which could be identified as PAIU tax. It being the business unit, the company, the employer, sole trader, partnership, or farm. Drawings would be included as take home pay. (Refer diagrams)

The families of enterprise are the employers in the wider sense and they employ the use of Land and Capital and this would not happen without people.

When a project is for the satisfaction of individuals, families of enterprise and also government (representing the Society or Nation) if all gain from this project and use, then it is right, but if only one or two, of the three gain then it is simply not right! The more who share in the goodness and fairness of any project product or service the better for physical, mental and spiritual needs. New Zealand has a great spirit, obvious in sport, but there is need for a level playing field with a satisfying system for contribution to government which also lends certainty and encourages production and service (i.e. economic prosperity).

It has to be clear, simple, easy to assess and collect while inexpensive to administer, all round.

Looking around as far as the eyes can see we may discover two aspects:

- 1) The provision of Nature; land, natural elements and resources, and creatures. Economically 'Land'.
- 2) Modifications through human effort, intelligence and skill; these three cannot be 'seen' but certainly acknowledged in the modifications themselves (1) or in the moment of action. Economically 'Labour'.

Capital is established through modification by 'labour' on 'land' too, but, used to produce more wealth, as against consumption. Capital then establishes the basis for the various means of finance to invest and return dividends and interest for investor's. (Refer diagrams)

Work is to produce, attain, modify or purify something by the use of energy, skill and intelligence.

Humanity, past and present, provides the opportunity to use such intelligence, skill and effort each

moment, together in a team or, individually. Human potential is always available for work for the general economy of the Society or Nation in a team or individually.

Individuals are neither capable of living alone nor indeed have the courage to do so. It is impossible for mankind to be united in one great Society. The only true and natural foundation of society or a Nation are the wants and fears of individuals. When civil society once forms, government at the same time results as necessary to preserve and keep that Society in order. Taxation arises as a natural contribution to maintain that order desired by the voting public.

There are two basic inconsistencies in our present tax system which can cause economic stagnation and inequity for NZers.

- 1) PAYE is supposedly deducted, collected and paid on behalf of employees. PAYE is in fact used as an expense against net profit of the employing enterprise thus reducing its tax.
- 2) Input of capital into an employing enterprise is rightly not taxed, with one exception retained earnings evolved from the very intelligence, skill and energy of its employees.

Humanity holds the wisdom available to the Nation while the nation creates the law for ordering society. That includes the laws of taxation. (See Diagram)

Families of enterprise, from a taxation perspective (as separate entities) include companies, partnerships, sole traders and farmers. As previously stated they collect and pay PAYE, GST and tax on net profits generated by the enterprise by virtue of employee's energy, skill and intelligence.

It becomes obvious that employees have never paid the PAYE and have only been paid their take home pay.

It also becomes evident that to tax the very intelligence, skill and energy in creating profit would seem unreasonable and so profit and therefore venture capital (i.e. retained earnings) would best not be taxed. Capital invested or borrowed by the enterprise after all is not subject to tax (only interest and dividends), so why tax venture capital, earned and retained.

A system should not be altered unless those affected benefit and are not disadvantaged unjustly.

The three affected are individuals, families of enterprise and Society, or, the voting public, business employing enterprises and IRD. The benefits for:

1) Individual or voting public

It will release individual employees entirely from the burden of PAYE and income tax as is.

On implementation of this PAIU would not require any change to employees' wages or salaries. From then on those employees will not be responsible for tax. It will be the employer who still has the responsibility.

No individual would be taxed or could claim or cry privilege. The incidence of taxation falls on the business unit alone at one tax rate, nationwide.

Recognition that in some enterprises, employees were advantaged by claiming expenses thus reducing taxes assessed on the net profit of the enterprise. Other than the uses of Land, Labour and Capital as outlined there is not a tax advantage on expenses as there is no tax on profit.

Failure by IRD to equitably remedy this with FBtax.

A clear understanding that each dollar earned is what is received especially for piece work, bonus incentives, commission, overtime etc.

There is one rate of tax paid by the employers on all employees existing net wages.

GST would best not be altered at 15% as a consumer tax – although as seen as cost to consumers it is collected by the enterprise.

Employees contribute directly to efficiency and this contribution therefore is made to the Nation, directly along with PAIU.

2) Business and employing enterprises

The employment of goods and services, including human endeavour and capital is all within a separate administered entity discreet from the investor, employee or management.

The team plays for nation while the players play for the team.

Taxation laws would be the same for all businesses, professions, agricultural units etc. establishing a level playing field for economic growth with increase in production and service.

Clarification and simplification of assessment and collection of tax (or contribution to government PAIU).

Reducing to minimum compliance costs thus economising and releasing human capacity for adding value in any enterprise.

Profit, therefore retained earnings (i.e. venture capital) would not be taxed. Only profits distributed as Dividends attract tax. Too long has tax assessed on legitimate profit been a disincentive to enterprise.

Use of land (Rent) or borrowed capital (Interest) attracts tax at the same rate thus the flow of use being variable is justly assessed in one total (of Interest, Dividends, Rent, Wages/Salaries) at one rate.

By taxing the use of Land, Labour and Capital attention will direct employees and management to efficient use of all three thus economising in a natural and fair way resulting in greater potential and therefore making way for a larger tax base.

A more accurate cost of goods and services can be calculated as the known tax rate on use can now be included (budgeting benefiting) simplifying accounting system.

Profligate expenditure will be reduced in that motivation for excessive additional employment of resources (includes labour and materials) does not reduce tax. Economising on use brings efficiency, and every citizen would rather look to economy of use necessary to compete in the market nationally and internationally upheld with a fair system of taxation and a beneficent law for economic growth.

3) Inland Revenue Dept. for Government

A simplified tax take system requires much less administration.

No need for annual tax assessments, no income statements or PTS reconciliations needed.

No individuals would be required to fill in tax forms, as individuals would no longer be taxed.

Rent received, interest received, dividends received now would all be paid by the enterprise that pay rent, interest and dividends, being the cost of use of Land and Capital.

Minimal possibilities of tax evasion. GST registered organisations would also represent the PAIU tax payers under the new user pay system.

Auditing tax payers would be simpler, with inexpensive test checking.

Less recording of data, less surveillance as tax collection is all directed towards the business employing entity.

Minimising tax evasion offers a great saving in time and legal costs.

With reduced opportunity for evasion accountants, taxation specialists, legal staff both in and out of IRD will be extensively reduced leaving greater capacity for employment in value added enterprises.

This new tax system will be known to be fair for all, even though bureaucracy costs in staffing will be substantially reduced as a result.

GST registered organisations therefore also represent the PAIU tax payers. It could also be seen as a consumer tax collected by the employing unit.

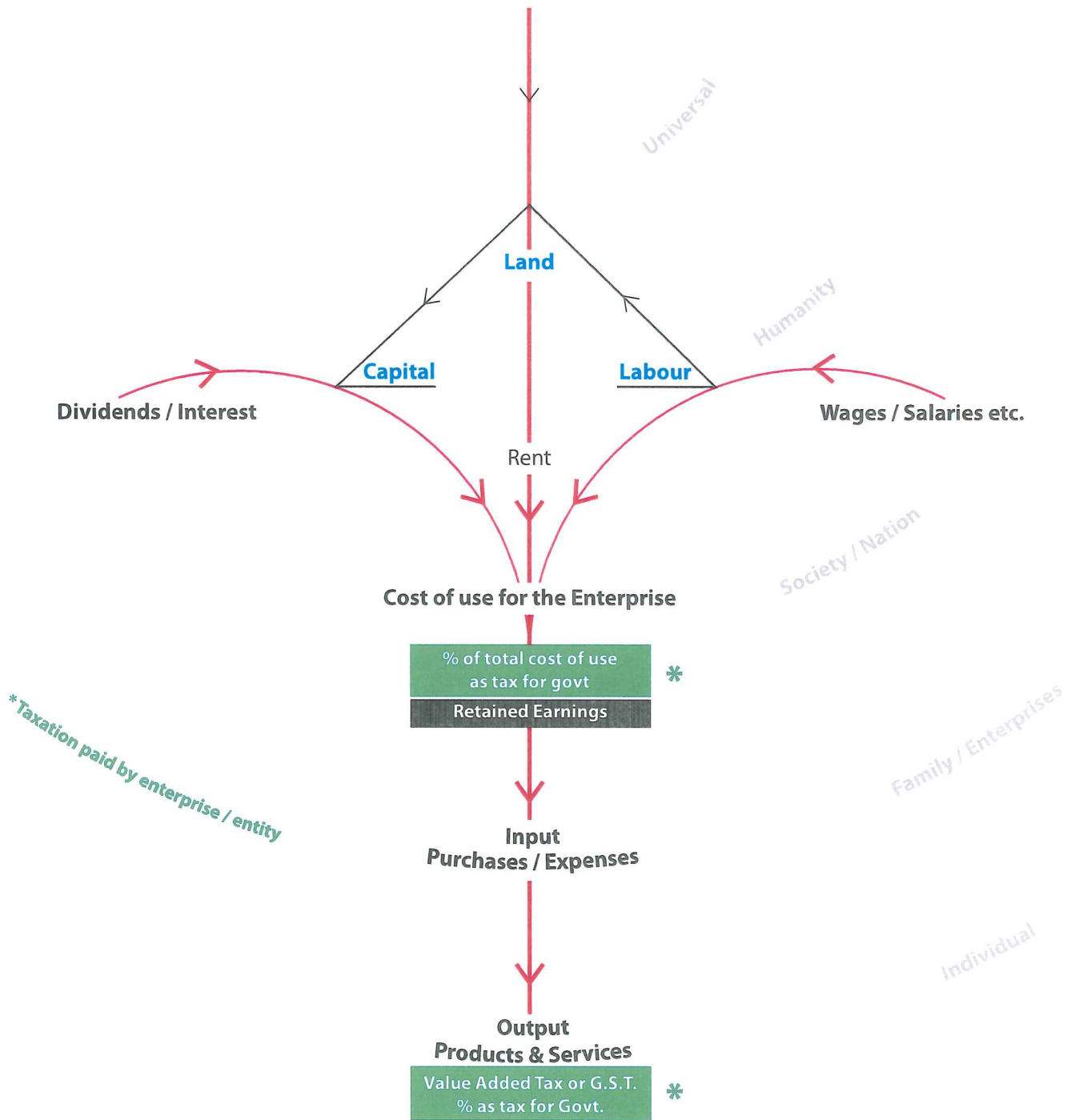
Ease of Implementation

- 1) Firstly treasury and/or IRD would need to match governments' income from profit and loss accounting against the new tax base on rent dividends and interest payable plus net pay to employees and so establish an effective single rate for tax.
- 2) Change over from PAYE to PAIU would be simple on any desired date as 'net pay' is paid out as take home pay and accounted for already.
- 3) To make up total tax base with one percentage rate to pay to IRD, employers will need to add total take home pay to cost of interest and dividends paid out and rent (which is for land and/or all capital items).

- 4) IRD would have the option of imposing PAIU monthly, two monthly or three monthly, or whatever! It could also arrange and monitor a tax break or period which would have an interest bearing cost. This negotiation could help fledging businesses get started allowing PAIU tax to be paid at a later date.
- 5) An option would be one payment to IRD for both PAIU and GST.

The economic employing unit will now be seen properly by both government, the IRD and individuals as generating, collecting and paying the tax for the Nation. The incidence of taxation falling this way ensures equanimity and equity forming the basis for economic prosperity.

Economic Framework for the Flow of Money



Comparative Financial Reporting

Profit & Loss Accounting

Sales (Revenue)	100.00
Less Purchases	-60.00
GP	<u>40.00</u>
Less Expenses	-5.00
Wages/Salaries (net)	-7.00
* PAYE	-3.00
Rent	-10.00
Interest	-5.00
Net Profit	<u>10.00</u>
* Tax on Profit	-3.00
Profit after Tax	<u>7.00</u>
Dividend	-2.00
Retained Earnings	<u><u>\$ 5.00</u></u>

Value Added Accounting

Sales (Revenue)	100.00
Less Purchases	-60.00
GP	<u>40.00</u>
Less Expenses	-5.00
Retained Profit	-5.00
Distributable	<u><u>-10.00</u></u>
To the suppliers of land, labour & capital	<u><u>30.00</u></u>
Rent	10.00
Wages/Salaries (net)	7.00
Interest	5.00
Dividends	2.00
* Tax Generated	6.00
Distributed to stakeholders	<u><u>\$ 30.00</u></u>

Value added Accounting Statement

Sales	\$	Use of : Land :		Rent	\$
less					
Purchases & Expenses			Human Effort:	Wages etc.	\$
			Capital:	Dividends	\$
Value added	\$			Interest	\$
less					\$
Retained Earnings & Depreciation				Total	\$
			% of Total for Govt.		\$
					\$
Distributable	\$		Distributed		\$

