



30 April 2018

**SUBMISSION TO THE TAX WORKING GROUP  
ON THE FUTURE OF TAX**

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**HORTICULTURE IN NEW ZEALAND**

1. Horticulture New Zealand ("HortNZ") appreciates the opportunity to make a submission to the Tax Working Group ("Tax WG") on the Future of Tax Submissions Background paper. HortNZ are to conduct a short grower survey and ask to be able to present the results in person to the Tax Working Group along with our submission. The survey will be completed during May 2018. In making this submission reliance is placed on the attached NZIER report titled Taxing Times completed in March 2018.
2. This submission is endorsed and supported by the following named organisations:
  - Etrick Fruit Growers Association Incorporated
  - Hawkes Bay Fruitgrowers Association Incorporated
  - Hawkes Bay Vegetable Growers Association Incorporated
  - Katikati Fruitgrowers Association Incorporated
  - New Zealand Apples & Pears Incorporated
  - New Zealand Buttercup Squash Council Incorporated
  - New Zealand Kiwifruit Growers Incorporated
  - New Zealand Passionfruit Growers Association Incorporated
  - Onions New Zealand Incorporated
  - Potatoes New Zealand Incorporated
  - Process Vegetable New Zealand Incorporated
  - Strawberry Growers New Zealand Incorporated
  - Summerfruit New Zealand Incorporated
  - Te Puke Fruitgrowers Association Incorporated
  - Tomatoes New Zealand Incorporated
  - Vegetables New Zealand Incorporated
  - Beef + Lamb New Zealand Limited
3. We have read and support the submissions made by:
  - Dairy New Zealand Limited
  - Federated Farmers of New Zealand Incorporated
  - Irrigation New Zealand Incorporated

4. There are 5,000 commercial fruit, vegetable and berry fruit growers in New Zealand who employ over 60,000 workers. Due to the seasonal nature of horticulture our workers are a mixture of permanent and seasonal workers with many seasonal workers progressing to full time positions after a few seasons work and training. The growers in the industry are mostly small to medium sized businesses with a few larger corporates in some sectors. Therefore changes to tax law can have a dramatic effect on these businesses ability to remain profitable and continue to offer job opportunities to New Zealanders. Horticulture is therefore a significant employer and a key factor in the maintenance of provincial New Zealand's cultural and social character.

### **Principles**

5. We believe that the principles upon which the tax system is based are an important starting point and central to the design of that system. The principles identified by the Tax WG are:
  - Efficiency where impediments to growth and distortions are avoided.
  - Equity and fairness including procedural fairness.
  - Revenue integrity minimising tax avoidance and arbitrage.
  - Fiscally raising enough funds for the Government's requirements.
  - Minimised compliance and administration cost and give certainty to the taxpayer.
  - Coherence so that the individual reforms make sense in the context of the entire tax system.
6. We submit that these principles are appropriate and have stood the test of time. Therefore there is no reason to add or delete principles. But encapsulated within these principles are some core issues that are paramount to an efficient and effective tax system. In particular what is meant by equity and fairness and how the coherence of the entire tax system encourages compliance. There are many differences between individual and business tax payers and between the types of businesses including those in the primary sector. Out of this comes two important sub-principles in our submission: compliance costs being equal for small and large businesses and all tax payers being treated in the same way as further explained in the attached NZIER report at paragraph 1.3. We believe that all tax payers should have the same taxes and the same tax regime applied to them and that, no matter how big or small their operation, meeting the requirements of the tax system can be readily and cost effectively achieved. We are of the view that one category of tax payer should not be singled out and taxed in ways that all tax payers are not.

### **Core Questions**

7. In the following paragraphs, HortNZ will submit comments on each of the four core questions that the Tax WG asked.

#### **Does the current tax system operate fairly?**

8. We believe that the current tax system has served and is serving New Zealand well. We do not believe that the Submissions Background Paper makes out a case for substantive change away from the current broad-based and low rate structure. We do however submit that there should be one comprehensive tax system that accounts for all taxes that businesses and individuals are subject to. We are therefore opposed to additional taxes outside of the core tax system such as the proposed fuel tax.

#### **Does the tax system have the right balance between production and speculation?**

9. We believe that the critical advantage of the current tax system is that it uses the total economic income of individuals and organisations as the unit of comparison. We submit that to change that focus to what the source of that income is, and from what sort of assets that income has been generated, will not only make the tax

system more complex but it will create unintended and uneven consequences. The progressive increasing rate of taxation provides the requisite fairness - the more you earn the more you pay. We do submit however that taxation of companies and trusts should be done on the same progressive basis. This is because in the rural sector many of the businesses are intergenerational family businesses that use trusts as their business structure. Unless both companies and trusts are taxed on the same progressive basis unfairness results and there is an inherent distortion in the overall tax system.

**Are there changes that could be made to the tax system to make it more fair, balanced and efficient?**

10. We believe that any case for change will need to be carefully made out and needs to be based on the principles described earlier in this submission. While there may be some easy targets for increased and specific taxation it is our submission that land-based sectors should not be regarded as an “easy target” to bear a greater tax burden because they fit within the traditional scope of the income tax (producing goods from fixed locations).
11. We repeat our submission from above that taxes on companies and trusts should be levied on the same basis.
12. Local government in New Zealand currently uses land as the basis of tax, via rates, raising over \$5 billion in revenue in the year ended 30 June 2016. In addition we submit that any introduction of central government land taxes needs to take account of the existing burden of rates imposed both by regional and central government and across all types of taxation, for example fuel and roading taxes.

**Could changes support the integrity of the income tax system?**

13. We believe that overall, the current tax system serves New Zealand well. The case for radical change away from a broad-base, low rate structure has not been made and in our view would require considerable empirical evidence in support. We believe that the best way to address income inequality is to increase incomes (both pre-tax and transfer) at the bottom of the scale, not further increase taxes at the top. We submit that a tax system that promotes employment is therefore one of the best contributions the Government can make to addressing income inequality.
14. We also submit that using the tax system to drive behavioural changes first would need vigorous and careful analysis. The tax system should not be used to achieve outcomes outside of the core principles discussed above. We submit that using the tax system to create housing affordability, to reduce the cost of productive land and to drive environmental outcomes, is asking too much of the tax system and will result in distortions and create further unintended consequences.<sup>1</sup>

**Land Tax**

15. As noted in paragraph 10, local government in New Zealand already imposes land tax on ratepayers to fund their operations. We therefore believe that any additional taxation on land first needs to take into account that existing taxation base.
16. The value of land that is used for primary production is the key ingredient for the lending of money to support that economic enterprise. Any reduction in the value of land will quickly translate into less funding being available to support growth and the financial viability of the enterprise. For that reason alone, we submit that a tax

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<sup>1</sup> This submission point is informed by the NZIER report “Taxing Times: Assessing proposed taxes on the primary sector,” March 2018, paras 2.2 – 2.4.

on land will have a counterproductive effect that will reduce that overall taxation received by the Government.

17. If a land tax were to be introduced, then other taxation methods such as company and particularly trust tax would need to be greatly reduced and somehow equity maintained between those businesses with little or no land and those that rely on the land for their production. We also believe that there would need to be a very carefully managed transition to a land tax so as to avoid inequities.

### **Environmental Tax**

18. At this time it is difficult to put forward a submission on the possibility of an environmental tax as the detail of how it would operate, what is to be achieved by it and how it may be used have not been provided. It is doubtful that the tax will continue to be applied solely for the purposes it was introduced for as over time it is likely it will be used for other purposes. We refer to the NZIER report noting that their summary of assessment<sup>2</sup> shows that taxes of this nature do not meet the taxation principles. We submit that there should be no environmental taxation proposed by the Tax WG as it does not meet these principles.

### **Progressive Company and Trust Tax**

19. We support any measures that assist small businesses, including primary production, which lowers compliance costs or through lower tax rates through the tax system. In addition, what is regarded as a small business needs to be reassessed as many primary producers (although classed small business) have large turnovers but small margins when compared with other businesses. Alternatively we submit that all businesses, be they small or large, should reap the benefits of simplicity, reduced compliance costs and lower tax rates. As noted above this will drive growth and employment, increase the collection of other taxes and promote New Zealand's economic prosperity.
20. Seasonal workers are a key component for successful horticultural production providing the extra labour needed for harvest and pruning. These are not permanent positions and in some cases employment may only last for a few weeks. We submit that determining whether a business is a small to medium sized enterprise (SME) should not, for horticulture, be based on full time equivalent employees (FTEs). This is because it is very difficult to determine how many FTEs there are in our businesses. Turnover is a preferable and more readily available measure provided its cut off point is set at a high enough level to accommodate our businesses. The survey we are to run will provide some empirical data to support this submission.

### **Minimising Business Costs**

21. We refer to the BusinessNZ and Deloitte tax survey of May 2017.<sup>3</sup> This survey developed 10 central themes that are in general supported by this submission, with a particular emphasis on: creating long term tax certainty, maintaining an internationally competitive rate (as New Zealand relies heavily on exports for its financial viability and has the disadvantage of being a considerable distance from its offshore markets); encouraging research and development (as that is how New Zealand maintains its competitive advantage); and putting New Zealand's interests first. To this end we believe tax credits for research and development need to be considered in terms of the overall tax system.

### **GST exemptions for particular goods**

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<sup>2</sup> 2.1, Table 1 of NZIER report – Taxing times

<sup>3</sup> [https://www.businessnz.org.nz/data/assets/pdf\\_file/0010/129187/170816-Major-companies-tax-survey-2017.pdf](https://www.businessnz.org.nz/data/assets/pdf_file/0010/129187/170816-Major-companies-tax-survey-2017.pdf)

22. We believe that the no exemptions policy for GST has created a fair and robust system of taxation. Removal of GST on categories of goods, such as fresh fruit and vegetables, however does have the advantage of promoting healthy eating and reducing the cost of diseases associated with different diets. Our membership is split on their support for such a proposal for the reasons noted above and we will survey members to ascertain their support for such a proposal. We believe that this option should be considered during the tax review but that any change should be based on the tax principles.
23. We believe, in line with the Business NZ submission, that of all of the various options for raising revenue and ensuring cost neutrality, increasing the GST rate should be viewed as a primary mechanism. Not only does GST reduce the taxation bias against savings and investment, it also means that any changes made are part of the existing tax structure, with no need to create another level of complexity in the system.

**Opportunity for Further Submissions**

24. We acknowledge that this is the first step in this comprehensive review of New Zealand's taxation system. We therefore ask for further opportunity to comment both in writing and in person.

Mike Chapman  
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Horticulture New Zealand

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