

**Submission to the Inland Revenue Department on the
Discussion Document
Making Tax Easier for Small Businesses**

The Association of Superannuation Funds of New Zealand Inc.

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Background

The Association of Superannuation Funds of New Zealand Inc.

This submission is made by The Association of Superannuation Funds of New Zealand Inc. (“ASFONZ”) on behalf of employer sponsored superannuation schemes. ASFONZ is a national non profit organisation whose membership of approximately 170 comprises the major employer/employee superannuation schemes as well as representatives of the superannuation schemes’ actuaries, legal advisors, insurers and investment and administration managers in New Zealand.

ASFONZ’s mission is to promote employment-related superannuation in New Zealand. It will achieve that mission by:

- Being the recognised voice;
- Representing the interests of trustees and employer/employee groups in areas such as economic, political and public education; and
- Supporting members through education and information on industry matters.

ASFONZ was established in 1969 at a time of considerable change. Although a variety of superannuation and pension schemes had been established many years before this they operated in isolation. The schemes, as such, had no real voice. The creation of the association provided an important vehicle for increasing understanding among sponsors and managers of schemes of the issues that they are facing. It enabled schemes to stand together with a representative voice to safeguard the interest of all concerned – members, beneficiaries, trustees and employers.

According to the Government Actuary's Newsletter No. 55 (November 2002) there were then 567 registered employer schemes with total assets of \$10 billion and 261,600 members. These figures include the National Provident Fund but exclude the Government Superannuation Fund. These figures also include the “multi-employer” superannuation schemes operated by life insurers and other institutions.

Submission

Timing and Frequency of Tax Payments (Chapter 4)

Proposal

The discussion paper proposes that taxpayers who are non-registered for GST purposes, and whose turnover exceeds \$1.3 million, would be required to pay provisional tax every two months, on the 28th of June, August, October, December, February and April.

Submission 1

That the proposal to change the provisional tax payment dates to every two months for taxpayers who are non-registered for GST purposes, whose turnover exceeds \$1.3 million, should not be adopted.

Submission 2

That all taxpayers that are non-registered for GST purposes be required to pay provisional tax twice a year.

Submission 3

That, in the alternative, the status quo of the timing of provisional tax instalments remains for non-GST registered entities.

Comment

The focus of the discussion document is to simplify compliance with the tax system for small to medium sized businesses. However, the proposed changes to provisional tax payment frequencies would potentially impact on a significant number of managed funds, who are not required to be registered for GST purposes because they make exempt supplies, but have significant “turnover”.

It is likely that a superannuation scheme for example, of modest size with reasonable assets will fall within the category of non-GST registered taxpayers with turnover exceeding \$1.3 million. It is unclear from the discussion document how “turnover” is defined. However, we have taken this to mean the gross income received by a taxpayer. This would result in these superannuation schemes (and other managed funds) being required to pay provisional tax six times a year, instead of the current three provisional tax instalments.

Provisional tax calculations for managed funds are already time consuming depending on the types of investment assets held by a managed fund, and the market value movement of these investments. Estimates of the current year tax position are difficult to make,

given the fluctuation in investment prices. A provisional tax liability can change substantially during an income year, due to these fluctuations in market prices.

The intended purpose behind the proposal is to simplify taxpayer compliance. There is no benefit to be obtained by linking the provisional tax payments for non-GST registered taxpayers to the same dates as GST payments. Furthermore, there is no apparent reason to link the frequency of provisional tax payments for non-GST registered taxpayers to a turnover of \$1.3 million. This will make provisional tax compliance far more complex for those managed funds whose gross income is higher than, or fluctuates around this amount.

For example, assume a managed fund has a “turnover” of \$1.5 million in year 1. Under the proposed changes, provisional tax would be payable in six instalments. In year 2, the managed fund has “turnover” of \$1 million. Provisional tax would then be payable in two instalments. In year 3 the “turnover” increases to \$1.4 million. Provisional tax would again be payable in six instalments. We cannot ascertain any compelling rationale to link the frequency of provisional tax payments for non-GST registered taxpayers to a turnover of \$1.3 million.

The risk of exposure to use of money interest on underpayments of provisional tax was raised as support for increasing the frequency of provisional tax payments for those taxpayers with fluctuating income. The tax pooling system has been introduced to reduce the exposure to use of money interest costs in such situations.

If superannuation schemes’ provisional tax payment dates were to increase from three times a year to six times a year, these schemes would incur at least double the current compliance costs associated with their provisional tax liability for an income year. There would be no corresponding benefit to the superannuation schemes for this increased frequency in payments, only a benefit to the Government.

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