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THE PRINCIPLES OF TAX

FROM RORY NOORLAND

HIGHLIGHTS

***NEW* Article**

The Taxation Principles Reporting Bill was recently introduced to Parliament stating that “The Government would like to increase the public’s understanding of the tax system and promote informed debate and discussion about its future”. The Bill proposes 7 principles that are to be “universally accepted” as underpinning the design of good tax policy.

The principles identified are: horizontal and vertical equity; efficiency; revenue integrity; certainty and predictability; flexibility and adaptability; and compliance and administration costs.

This Bill comes off the back of 3 years of highly complicated and, at times, ad hoc changes to the tax settings that has occurred in the last 15 years.

The goal of efficiency is that “Tax revenue should be raised in ways that minimise distortions to the economy and the use of resources” whereas certainty and predictability aims that “People should be able to determine their tax obligations before they are due”.

Though being at the theoretical end of tax legislation, had these principles been applied earlier

we could have avoided the situation of having the ever increasingly complicated Bright-Line test rules and avoided the distortionary limitation of interest deductions on residential rental properties.

The interest limitation rules for residential rental properties is one of the most unnecessary and complicated changes to the taxation system seen in a long time. Had the 7 tax principles ruler been run across this legislation at the time it would have surely failed almost all of them. The rules are proving to be distortionary and producing an outcome where an arbitrary date determines whether a property is able to have interest deductions for a period of 20 years or no interest deduction at all. It is the worst example of using the taxation system to attempt to fix a non-tax issue without regard for the distortions and complexity it creates for taxpayers. It also opens the ability for the bigger and more well-resourced taxpayers to lobby for exemptions such as build-to-rent developers. There is no equity to giving larger landlords the ability to access an interest deduction due to scale vs the mum and dad investor who now cannot.

The 10-year (or 5-year if it is a new build) Bright-Line test is another example of the difficulty that taxpayers have in understanding their tax obligations without the assistance of tax professionals. Remembering that the principle of certainty and predictability means that taxpayers should be able to determine their tax obligations before they are due. Some of the recent tax policy decisions that have been made has resulted in a highly complicated and ever increasingly difficult set of tax rules for the everyday taxpayer to navigate. All too often taxpayers are caught out with a nasty surprise after they have sold the property, filed their tax return and merrily gone on with their lives. Often this is as a result of an accident rather than an attempt to derive income from property transactions, whether it is the misapplication of the main home exemption, of which there are now also different tests depending on when the property was purchased, through to change of circumstance situations for which there is no leniency.

Brightline began with an aim of taxing property speculators who ‘flipped’ houses for a living. Now we see an ever-increasing list of exemptions and roll over relief provisions necessary to ensure negative tax consequences can be avoided. This is a prime example of a set of rules are now far overreaching beyond their initial aim. There is very little flexibility in these rules, by design, which is resulting in tax outcomes not originally intended by the legislation.

We can only hope that the principles within this piece of legislation result in more rational and logical tax rules and that future governments both apply it to the tax policy they set and engage in a process of removing some of these unnecessary and at times punitive tax burdens that we have seen appear.

And finally, remember, “The hardest thing in the world to understand is the income tax” – Albert Einstein.

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HIGHLIGHTS

Gavin's retirement from Awarua Trust



Here at CooperAitken, we are proud of our community involvement and enjoy opportunities to engage and support local initiatives and projects. One of our core company values is Community– Working better together.

Many of our Partners sit on community boards, charitable trusts and devote time to supporting honorary clients – both near and far.

An example of this dedication to community spirit, is the contribution made by Gavin Haddon to the Awarua Trust as a Trustee, since its creation in 2007.

Gavin worked closely with Trust founder, Edna Money, to determine how the trust could best benefit people both during her lifetime and beyond. From here the Charitable Trust was established, and he

has enjoyed being part of its growth and development, ensuring its enduring legacy of supporting advancements in education and community projects

We wanted to take this opportunity to acknowledge and thank Gavin for all the time he has devoted to the Trust over the years. He now steps aside and hands over the reins to Peter Hexter as an appointed Trustee, to work alongside the other remaining trustees. Peter, like Gavin is dedicated to the amazing opportunities offered by the Awarua Trust to the local community and afar, and he is excited to continue with the excellent work done so far - living into our CooperAitken values.



HIGHLIGHTS

Attention Agri-businesses: Have you counted your stock?

The agri-business financial year has come to a close, and with each end of season, it's important to count your stock on farm.

Instead of sending our normal end-of-year questionnaires, this year we have emailed you a form to complete on screen.

If you haven't already, please take a few minutes to jump into the form and fill in the relevant fields.

If you haven't received this email and should have, please let us know at camarketing@cooperaikken.co.nz

HIGHLIGHTS

Coming up: Xero Events



We are running some Xero Tips & Tricks sessions in July & August for our Xero users. If you're looking to get more out of your Xero software or get a bit of a refresher, these sessions are for you.

See dates and locations above.

If you are a Xero user, keep an eye on your inbox for an invite coming very soon.

If you're not a Xero user but perhaps considering becoming one, reach out to our software team at xero@cooperaikken.co.nz They would be happy to have a chat!

HIGHLIGHTS

Coming up: Payroll drop-in sessions

Our payroll team are running monthly drop-in sessions at each of our office locations.

Drop in anytime at the relevant office location between 10am - 12.30pm for a free and no-obligation chat. Just bring along those burning payroll queries and our friendly payroll will be there to assist.

See next month's drop-in times listed below (note - the Matamata & Thames dates are the same dates as our Xero sessions if you'd like to try get to both).

Drop in for a coffee & a chat about anything payroll

MORRINSVILLE
Monday 24 July | 10am - 12.30pm

MATAMATA
Tuesday 25 July | 10am - 12.30pm

THAMES
Thursday 27 July | 10am - 12.30pm



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