NEW ZEALAND Labour

Media Statement

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Tax policy's contribution to growth and innovation

Tax policy has an important role to play in lifting New Zealand's economic performance, MP David Cunliffe, Parliamentary Private Secretary to the Minister of Finance and Revenue, told the Institute of Chartered Accountants' annual tax conference today.

Mr Cunliffe outlined the role of government tax policy initiatives over the next two years in helping to achieve the goal of the government's growth and innovation framework – to return New Zealand's per capita income to the top half of the OECD rankings.

The tax focus, he said, was on international tax, compliance costs for small to medium-sized enterprises, and specific issues identified by the private sector taskforces that are part of the growth and innovation framework.

"The sound, sensible, relatively simple tax system that we have in New Zealand is a key competitive advantage internationally. We will keep that," Mr Cunliffe said. "But there may be features of the tax system that are proving to be a barrier to growth and innovation, and we are keen to identify them and remove them where we can."

"One way tax policy can contribute to growth an innovation is to reduce the extent to which tax is a barrier to New Zealand doing business with the rest of the world," he said. The government was considering and consulting on recommendations by Tax Review 2001 to "rationalise the taxation of outbound investment and to make New Zealand more attractive to overseas capital and migrants."

"A second way tax policy affects growth and innovation is through the tax-related compliance costs of doing business. The government is seeking to reduce the compliance costs of tax, with the spotlight on small to medium-

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sized enterprises, since they form a more significant part of the economy in New Zealand than they do in most other countries."

"There is scope for improving tax design and tax administration that will help to reduce compliance costs for these businesses. But the emphasis now is moving away from simplifying systems per se, to looking at how those systems impact on growing business – in other words, looking at the business life-cycle and tax impacts at the key moments in that life-cycle."

"A third way tax policy can contribute to growth and innovation is for the government to be open to concerns of the various business sectors. This does not mean introducing tax incentives for target sectors. Rather, it means government and business working together to identify roadblocks to growth, and working in a co-operative way to unlock them."

Four private sector taskforces had been set up to identify and consider measures that will help their sectors to grow, Mr Cunliffe said. "Tax has already emerged as an issue as the taskforces progress their work, and officials are working closely with them to ensure that tax issues can be properly considered from different perspectives."

"The government expects there to emerge from this work a small but important package of useful tax issues that are central to the growth and innovation strategy. They will then be progressed through the normal generic tax policy process."

Mr Cunliffe said that, as announced in the budget, the government had released officials' analysis of the Tax Review 2001 recommendation to reduce the tax burden on new foreign direct investment from 33 percent to 18 percent. The report containing the analysis is on the website of Inland Revenue's Policy Advice Division at www.taxpolicy.ird.govt.nz.

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