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Joint Statement
Finance and Revenue

Tax changes to lower costs for NZ businesses

Legislation to be introduced to Parliament next month will reduce tax-related compliance costs and remove tax impediments to the offshore expansion of New Zealand-resident businesses, Finance Minister Michael Cullen and Revenue Minister Peter Dunne announced today.

Lower compliance costs

Legislation will reduce the compliance costs for businesses – especially small and medium-sized enterprises, which represent a large portion of the economy and tend to bear a disproportionate tax compliance cost burden.

"Compliance costs will be reduced by raising a number of tax thresholds. That may mean fewer tax returns for businesses to complete, a reduction in the amount of information or number of calculations required to complete returns, and a reduction in the number of tax payments that must be made.

"These changes represent the first phase of the government's review of measures to reduce tax compliance costs for businesses. The second phase will consider initiatives that represent more significant departures from the normal tax rules that businesses have identified in consultation as being desirable, the Ministers said.

The main threshold changes include:

- The PAYE once-a-month filing and payment threshold will be raised from $100,000 to $250,000. That will allow more SME employers to file and pay PAYE deductions once a month instead of twice a month.
- The fringe benefit tax annual return filing threshold will be raised from $100,000 to $250,000. Annual filing will also be available for closely held companies if their FBT liability arises solely from the provision of up to two vehicles to shareholder-employees. The changes will increase the number of employers that can file and pay the tax annually rather than quarterly.
- The GST registration threshold will be raised from $40,000 to $50,000, which will mean fewer taxpayers will have to register for GST.

- The GST six-monthly return filing threshold will be raised from $250,000 to $500,000, which will allow more taxpayers to file returns on a six-monthly basis rather than a two-monthly basis.

The bill will introduce other threshold changes in relation to provisional tax, low-value trading stock and accounting for tax in respect of financial arrangements.

Better rules for taxing offshore income of NZ businesses

"The proposed legislation will also give effect to the first phase of changes to emerge from the government's continuing review of New Zealand's international tax rules," Michael Cullen and Peter Dunne said.

"The aim of the review is to improve the competitiveness of New Zealand's international tax rules by bringing them into line with the relevant rules of our main competitors. These changes will enable New Zealand businesses to compete more effectively in foreign markets.

"The central feature of the reform, announced in Budget 2007, is the introduction of a tax exemption for active income from the offshore operations of New Zealand-resident businesses. Our current rules tax that income, with the exception of income from operations in the so-called 'grey list' of eight countries that our law singles out as having tax systems comparable to our own.

"Extensive consultation with businesses has helped to shape other aspects of the reform as proposed in the forthcoming bill. The active income exemption will be available to all controlled foreign companies in all jurisdictions, which means the grey list of eight is no longer required.

"There will, however, be a 'grey list of one', which will consist of Australia. That means New Zealand companies setting up operations in Australia, which is usually the first country of choice for our small and medium-sized businesses that want to expand overseas, will not have to face the compliance costs associated with meeting the active business test.

Contact: Chris Ritchie (for Hon Dr Cullen) 04 4719 412 or 021 270 9013 or Ted Sheehan (for Hon Dunne) 04 470 6985 or 021 638 920