Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

Tax Policy Report: Joint Report: Small Business and KiwiSaver Exemptions

Date:	Friday 15 March	**Report No:**	T2019/760 IR2019/154
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the contents of this report.	Monday 18 March
Minister of Revenue (Hon Stuart Nash)	**Note** the contents of this report.	Monday 18 March

Contact for Telephone Discussion (if required)

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Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Tax Policy Report: Joint Report: Small Business and KiwiSaver Exemptions

Purpose of Report

1. This report provides additional preliminary advice on the potential design of small business and retirement exemptions in the design of a capital gains tax, following the high-level assessment of these options provided to you on 11 March (T2019/664 refers). It also explains how the options would affect the timelines for delivering policy and legislation.

2. The advice has been developed on a tight turnaround, and there may be policy issues or delivery risks that have not been identified in the time available. Both options are complex and will need further detailed development.

3. This report focusses on how best to design these exemptions. As previously advised, officials do not recommend either the small business exemption or the KiwiSaver exemption for gains on New Zealand and Australian shares.

Small business exemption

4. Annex A outlines the key design features of a potential lifetime exemption for gains from small businesses and farms. The exemption is based on the approach taken in Australia.

5. An exemption appears feasible, but has a number of negative implications. The exemption would be complex. It would impose all of the compliance costs associated with capital gains taxation, plus additional costs to determine eligibility and operationalise the exemption itself. It would require more restrictions on deducting capital losses.

6. The exemption would introduce significant integrity risks relative to the comprehensive taxation of capital gains. The ability to sustain the tax system in the face of a divergence between company and personal tax rates would be compromised.

KiwiSaver exemption

7. Annex B outlines some of the design issues associated with a KiwiSaver exemption for gains on New Zealand and Australian shares. An exemption would generate inefficient incentives for investors to reallocate their investments to take advantage of the exemption, with associated fiscal costs. These effects would arise to some degree even if a contributions cap or other measures were in place to manage the risk.

8. Officials have explored some of the ways in which a contributions cap could be operationalised, assuming that the Government adopts the TWG's recommendation for retaining the fair dividend rate method of taxing non-New Zealand and Australian shares. However, developing a robust option for a contributions cap would require detailed work and consultation with the industry (which has not been possible).

9. Industry consultation may raise new operational difficulties that require attention. This means it could be difficult to design a KiwiSaver exemption with a contributions cap, in conjunction with the rest of the package, within the desired timelines.

10. More broadly, our work on the KiwiSaver exemption illustrates the complexities and trade-offs that will arise as the design of the tax proceeds. There is a risk that we lack a full understanding of the costs and risks of the options in the timeframe available.

11. As an example, other changes to KiwiSaver property PIEs may be required to ensure tax does not apply to the gains from property held through KiwiSaver (if the goal is that no KiwiSaver accounts are worse off from taxing capital gains). Without consultation, however, it is difficult to know the full scale of these changes.

Timelines for delivering policy and legislation

12. The Government has indicated that it will release a 'full response' to the Final Report of the TWG in April 2019, with legislation introduced and passed in the current parliamentary term. We are working towards Cabinet decisions on Monday 8 April.

13. As previously advised, it is feasible (with the risks we have communicated to you) to deliver a robust comprehensive capital gains tax within the current timeframes, so long as the tax is broadly consistent with the TWG majority design, and key design decisions are taken within the next few weeks.

14. A capital gains tax that involves large exemptions will differ significantly from the TWG majority recommendation. There is a higher risk of errors and unintended policy outcomes if the Government attempts to design and implement such a tax within the current timelines.

15. There are four main risks associated with delivery in these compressed timeframes:

    - **Quality assurance and costing risks.** Officials are developing options for your consideration within very short turnaround times. In this context, we are not confident in our ability to identify all of the potential policy risks associated with the options. Officials are also unable to provide robust costings within short timeframes.
    - **Insufficient time for genuine consultation.** Consultation is an important means to test the proposals, identify problems before they arise, and ensure the legislative process runs more smoothly. The timeline allows little time for in-depth consultation.
    - **Implementation and delivery risks.** There are risks to the quality of legislation if too little time is allowed for policy decisions and drafting. Allowing more time in the process will reduce the chance of errors and unintended outcomes in the bill.
    - **Impact assessments.** There is little time for officials to conduct a rounded assessment of the wellbeing impacts of the tax package, or the coherence of the final design of the tax.

16. In light of these risks, if you wish to progress a capital gains tax with exemptions, we would recommend that you consider alternative delivery timelines that could reduce the risks while still allowing announcements in April. One option is to implement a broader tax with exemptions on a sequenced timeline (implementing residential property first, followed by other included asset classes later). Another option is to make high-level announcements at April only, followed by detailed consultation; this second option would involve introducing (but not passing) legislation in the current parliamentary term.

Next steps

17. Officials would welcome further guidance on your preferred timeline for progressing decisions on the tax package.

Recommended Action

We recommend that you:

a **note** that it is feasible (with risks) to design and implement a robust comprehensive capital gains tax within current timeframes, so long as:

i. the design is consistent with the TWG majority recommendation; and
ii. key decisions are taken within the next few weeks.

b **note** that there is a higher risk of errors and unintended outcomes if the Government wishes to design and implement a capital gains tax that differs significantly from the TWG majority recommendation within the current timelines.

Mark Vink
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Emma Grigg
Policy Director
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Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Annex A: Small business and farming life-time exemption[1]

Potential approaches

1. We have examined the approaches to providing life-time exemptions in Canada and Australia. [redacted] s6(a) and s9(2)(g)(i)

2. This note briefly describes the approaches taken in Canada and Australia[2] and then outlines the main design features and issues of a proposal for New Zealand, which are generally based on the Australian approach. The paper finishes with a simple example of how the exemption would work in practice.

Australia

3. The Australian exemptions apply to capital gains earned at the shareholder and company levels. There is a linkage between taxation of capital gains in the entity and the shareholder. Gains at the company level are notionally taxable, but can be passed out to shareholders who may apply their life-time exemption to shelter the gains from tax. This effectively links the exemption of gains in the company to the life-time exemption of the shareholder.

4. The Australian design is coherent as it applies equally to three economically equivalent transactions:

   - the sale of shares in a company holding qualifying assets;
   - the sale of those assets by a company; or,
   - the sale of similar assets, but owned through an unincorporated business (such as a sole trader).

5. One Australian exemption has a life-time cap of AU$500,000 and the other is uncapped. To qualify for the exemption the business must have less than AU$2 million (approximately NZ$2.1 million) of annual turnover and less than AU$6 million (approximately NZ$6.3 million) of net assets. Thresholds must be shared among commonly controlled businesses (40% or more common ownership).

6. The various Australian small business concessions (at least four) have different terms and conditions. While we are adopting the Australian approach, we are suggesting provisions that are adapted to the New Zealand situation.

Canada

7. In Canada, there are two types of exemption: an exemption for shares in an unlisted company and an exemption for farming and fishing assets. For small business other than farming and fishing, the exemption applies to small business shares only. Capital gains earned in the small business company itself are taxable. Therefore, economically equivalent transactions can be treated differently. The exemption is tied to the sale of a company. If an individual sells a small business which is not a company, the exemption will not apply. On the other hand, if a company sells an asset such as land or intellectual property, the capital gains will be taxed.

[1] Throughout, references to 'small businesses' should be read as applying to farms as well.
[2] The Australian, Canadian and South African exemptions were described in greater detail in the report *Extending the taxation of capital gains: response to Ministers' requests on business impacts*, (IR2019/015, T2019/18 refers).

8. There is also a wider exemption for farm and fishing property. Gains on farming and fishing assets are exempt whether held directly or in a company. Farming and fishing also qualify for the small business on sale of shares. The result is a rather ad hoc system, where farming and fishing are treated more generously than small businesses generally, and economically similar situations can be treated differently.

9. The small business exemption is capped at C$848,252 in 2018. The exemption applies to Canadian Controlled Private Corporations with at least 90% active assets. There is no size threshold. The farming exemptions are capped at C$1 million.

The proposed approach (based on the Australian approach)

10. We have developed a possible small business exemption based on Australia’s basic approach. The proposal appears feasible in broad outline, but further work is required to refine these provisions to ensure that they reflect the intent of the measure and to avoid unintended consequences. The proposal is for:

- A capped lifetime exemption of $500,000 for capital gains earned by New Zealand resident individuals from qualifying small businesses;

- The exemption applies to the sale of shares of a qualifying small business and sales of assets by the small business;

    - Applies to active business assets – sales of passive assets by an “active” company would be taxable;
    - Applies to shares in companies with at least 80% or 90% active assets – so some passive assets could qualify for exemption if shares sold;
    - Need to determine what happens when a “passive” company sells an active asset;

- Closely-held unlisted companies – (LTC limit of 5 or fewer shareholders would be an option); widely-held unlisted companies would compete for funds with listed companies, the shares of which would not qualify for the exemption;

- Businesses controlled by New Zealand tax residents;

- Limited to SMEs, threshold (aggregated across group companies) less than $5,000,000 of annual sales (based on a five-year moving average); and

- No foreign assets – so that unimputed foreign income would not build up in a company not subject to capital gains tax on its shares, reduces pressure on dividend avoidance.

Design issues

11. There are a variety of design issues that will need to be settled. The objective is to provide an effective exemption for small businesses with the fewest number of unintended effects and revenue loss.

Passing capital gains to shareholders

12. Capital gains earned in the company would notionally be taxable. However qualifying companies would be not be taxed on the capital gain on active assets if they distributed the gains their shareholders. The distributions received would notionally be subject to tax in the hands of the shareholders, but would be treated as a capital gain and so would be able to be sheltered by the life-time exemption of the shareholder. This

mechanism ensures that gains are only exempt if the shareholder has exemption room left to shelter the gain.

13. Australia requires that a distribution be made to the shareholder, which seems appropriate. Distributing the funds ensures that the shareholder does not have to use their exemption twice to shelter the same gain if they sold the shares.

14. Australia allows the company to allocate the distribution among the shareholders. Consideration would be required to determine if a pro rata distribution as with imputation credits would be appropriate.

Size threshold

15. If an annual test leads to the threshold being breached, then it may be desirable to allow the capital gains earned up to that date to qualify for the exemption. This helps avoid a cliff-face where companies lose their access to the exemption by growing too much. The accrued exempt amount could be carried-forward by the shareholder until the shares are sold. In order to determine the amount of accrued capital gains, there would need to be a valuation. Valuations are complex and can be manipulated for small businesses. Rules would be required to prevent artificial losses. The effect would be that on sale of the shares, any capital gains that have accrued up to the time when the revenue threshold was breached would qualify for the exemption, while capital gains that accrued after that date would not. As with many issues, there are complex technical issues that require further consideration.

16. The size limit could be reconsidered for the exemption. The TWG proposed a limit of $5,000,000 for their roll-over concession. This would remove almost all closely-held businesses from capital gains taxation, since 98% of all New Zealand businesses have annual sales of less than $5,000,000. Australia's limit is AU$2 million. Given an exemption is a permanent elimination of tax, while roll-over only affects timing, a lower threshold might be appropriate.

Losses

17. The most serious design issue is that gains on the shares and active business assets would be eligible for exemption, but without additional measures, losses would be able to be deducted against other income. Compared to the present system, taxing small businesses would not be revenue neutral because of the life-time exemption, but would be revenue negative. The Government would get less money than under the current system.

18. A number of possible responses include:

- Capital losses on all closely-held businesses would be ring-fenced so that they could only be deducted against capital gains. This would be a sharp departure from current proposals and would effectively tax risk which could discourage entrepreneurship and disadvantage innovative businesses;

- On entering the tax system, a business would need to make an irrevocable decision about whether they wished to be eligible for the exemption on the condition that losses would be ring-fenced or opt for no exemption and no ring-fencing. The election would be required before they knew if they would have a gain or a loss;

- Losses for controlling shareholders would be ring-fenced, but losses for minority investors would not.

19. Further consideration is necessary in this area.

Integrity

20. s6(a) and s9(2)(g)(i) [redacted]

21. As noted, integrity concerns under the current system involve income shifting to avoid the top personal tax rate in favour of the lower company tax rate; and dividend avoidance where the backstop function of the imputation system is avoided. Such avoidance costs revenue and is regressive as it is exploited by the better-off.

22. The exemption does not make the system worse than at present with respect to these integrity problems, since capital gains are currently untaxed. In fact, existing pressures may be reduced somewhat. Many dividend avoidance schemes seek to avoid tax on unimputed income. Unimputed income faces full personal tax rates on distribution. Currently most unimputed income is untaxed capital gains and exempt foreign income. Under the proposal, capital gains on passive assets would be taxed and capital gains on active assets would be passed out tax free. There would be no need for dividend avoidance transactions. Disqualifying companies with foreign assets from the exemption would also help by reducing the likelihood of unimputed dividends.

23. However, pressures due to the divergence of personal and company tax rates will persist; and grow if the divergence between rates were to increase in the future. The exemption would introduce a significant integrity risk relative to the comprehensive taxation of capital gains. Officials would need to examine whether specific anti-avoidance rules can be developed.

Passive assets

24. Passive assets would include listed shares, interests below some threshold in unlisted shares, and real property not connected to the active business of the company. For example, farmland and land attached to an active business premises would not be taxed, while rental real estate (residential and commercial) would be taxed.

25. If passive assets are held in a company and the company shares are sold, then some part of the capital gain on the shares could arise from gains in the value of the passive assets. A simple way of reducing this concern is to deny the exemption if the passive assets exceed some percentage of the assets of the company, say, 10 or 20% as in Canada and Australia respectively.

Multiplying thresholds

Multiplying exemptions

26. Splitting ownership across a family, including children, can multiply access to the exemption. At the least there should be a rule similar to the minor beneficiary rules to prevent dependents from holding shares to multiply the exemption.

Splitting companies

27. Larger companies can be broken up to multiply the $5,000,000 of sales threshold. It is necessary to aggregate sales across groups of commonly controlled companies when determining whether the business qualifies as small.

Rollovers

28. For consideration is whether, due to the exemption, the proposal for broad small business roll-over relief by the TWG would be replaced or modified.

An example of the exemption

29. Consider a shareholder who invests $1,000 in a company. The shareholder has a lifetime exemption cap of $500.

30. The company makes $100 from its active business operations, paying tax of $28 for after-tax income of $72, which it reinvests in active assets of the company.

31. It also sells an active asset for $200, on which it makes a capital gain of $50. The proceeds of $200 are reinvested in the active assets of the company.

32. The company makes a capital gains distribution of $50 to the shareholder, who reinvests the distribution in the company. The shareholder's cost base for their shares is increased by $50 to $1050. The company does not have to pay tax on its capital gain since it made the distribution. The shareholder would add $50 to their taxable income, but would be able to claim $50 of exemption, so there would be no net tax to pay. The shareholder would reduce their capital gains life-time exemption cap to $450 = (500 – 50).

33. The company now has assets with a market value of $1122 (=1000+72+50). The shareholder sells their shares for that amount. Their cost base is $1050, so there is a capital gain of $72. Because of the exemption, they again would have no tax to pay. The shareholder's remaining capital gains exemption cap would be reduced by a further $72 to $378 (=450 – 72).

34. The company and shareholder must fully comply with the rules of capital gains taxation, (valuation day, tracking of costs and proceeds), plus the mechanical rules to operationalise the exemption.

Annex B: Exempting New Zealand and Australian shares gains for KiwiSaver

1. As discussed at the Joint Ministers meeting on 12 March, if KiwiSaver accounts are exempt from paying tax on New Zealand and Australian share gains, officials recommend that there be a cap on this benefit. This is to prevent tax planning whereby Australasian shares are predominantly held through KiwiSaver (instead of other vehicles, including held personally). The change to a cap will cause some complexity both in the KiwiSaver rules and in administration of KiwiSaver funds.

2. As an initial point, we note that non-New Zealand and Australian shares would not need an exemption because they are already taxed comprehensively under the *Fair Dividend Rate* (FDR) regime.

3. This regime deems 5% of the market value to be income, on which tax is paid. Some in the media have raised the question of whether FDR is concessionary relative to capital gains tax treatment. However, once accounting for risk, including the fact that FDR is paid even when a fund earns less than 5%, and even when the return is negative, economically FDR is not concessionary relative to capital gains tax treatment. We will report further on this issue and how we propose to deal with it in the week beginning 18 March.

4. There may also have to be an exemption for capital gains through property PIEs where the property PIE itself is not a New Zealand or Australian listed company. These are small in number and value in regard to KiwiSaver, but would require consultation with the specific providers on to how to make such a system work.

5. The rest of this note covers initial analysis of how a KiwiSaver exemption for New Zealand and Australasian shares and the cap could work. Further work on this is required.

KiwiSaver exemption

6. The exemption for Australasian share gains for KiwiSaver PIEs but not other PIEs would require some systems changes for PIEs.

7. There is currently no tax distinction between a KiwiSaver PIE and a non-KiwiSaver PIE. This would have to change.

8. Investors invest in retail PIEs. These PIEs in turn invest in wholesale PIEs. The retail PIEs calculate tax obligations for the investors after receiving information on returns from wholesale PIEs.

9. Wholesale PIEs would have to collect and pass on information to retail PIEs on what amount of their return was attributable to New Zealand and Australian share gains. KiwiSaver PIEs would not pay tax on this income (unless the cap applied to the share gains rather than contributions – see below), but other PIEs would.

10. We would want to consult with the industry about other fishhooks, and the level of systems change this would require, but at this stage we do not think that these changes would be unduly onerous depending on measures to manage fiscal risk.

Behavioural response and fiscal risk

11. Exempting New Zealand and Australian share gains will incentivise behavioural responses and have a fiscal risk, as well as be a regressive exemption relative to taxing gains comprehensively. If there is no increase in investment in New Zealand and Australian shares through KiwiSaver compared to the historical average, the fiscal

consequences are manageable. However, there will be a strong incentive for investors who invest is such shares to do so through KiwiSaver.

12. This would be inefficient, distorting such investments to be held in institutional funds, and also create a fiscal risk as more New Zealand and Australian share investments are moved from being held outside KiwiSaver to be held through KiwiSaver.

13. With no restriction on how much New Zealand and Australian shares can be held in KiwiSaver, potential fiscal costs are:[3]

Cost of exempting KiwiSaver ($billion)	Five year total
No behaviour change	0.5
10% of shares held directly or by non-KS managed funds are converted to KS	0.8
20% of shares held directly or by non-KS managed funds are converted to KS	1.2
30% of shares held directly or by non-KS managed funds are converted to KS	1.5
50% of shares held directly or by non-KS managed funds are converted to KS	2.2

14. Two general approaches to manage fiscal risk are caps on contributions or benefits.

(a) Contributions cap

15. Currently, employees can elect to have their employer withhold and contribute 3%, or 4%, or 8%. From 1 April 2019 KiwiSaver employee contributions can also be 6% and 10%. Employers contribute 3%.

16. The simplest option would be to cap contributions at 6% (so remove the 8% and 10% options), and prevent employees from making voluntary contributions beyond this. This would, in effect, cap contributions at 6% of salary plus the 3% employer's contribution. In total, this would be 9% of an employee's salary.

17. Because the cap is linked to income, higher income taxpayers receive a higher dollar benefit of the tax concession, which some may regard as unfair.

18. Officials' initial view on a dollar amount cap is that such a system would be much more administratively complex in situations where people have two employers, and might result in situations where KiwiSaver providers had to refund the contributions to employers, who would then refund it to employees.

19. For self-employed or non-employees, there would have to be a dollar cap, or perhaps a percentage of the prior year's income. If it were a dollar cap, the amount would inevitably be arbitrary, but could, for example, be $18 000, which is 9% of $200 000. KiwiSaver funds would have to enforce this cap for the self-employed, which would require systems changes that we would want to consult on before providing final advice.

20. Because KiwiSaver accounts have no restrictions on withdrawals for those aged over-65, to reduce fiscal cost there may be a need to prevent those aged over-65 from contributing any additional money to KiwiSaver, given the locked-in nature of KiwiSaver is not providing any protection from planning opportunities from those over-65.

21. A weakness of the cap is the inability to restrict reallocation into KiwiSaver before the cap comes into effect. Because the cap must be enforced by the funds, it is impossible to implement the cap without giving prior notice. During this period, investors may freely make large investments into KiwiSaver funds that invest in New Zealand and Australian shares (funded by selling investments outside of KiwiSaver).

[3] These estimates are early and indicative and provided for illustrative purposes only

22. Even after the cap is introduced, there is likely to be substantial reallocation through investors switching their KiwiSaver accounts to have a greater focus on New Zealand and Australia, with corresponding offsetting changes in what other assets they hold outside KiwiSaver over time.

(b) Cap on untaxed New Zealand and Australia share gains

23. Another option is to have a rule that allows each KiwiSaver investor to have (say) $5000 of gains in New Zealand and Australian shares untaxed each year, with tax applying to amounts greater than this.

24. The advantage of this is it limits the benefit, similar to other KiwiSaver incentives (the Member Tax Credit). It is also progressive, with the benefit capping out for wealthier investors. It manages fiscal risk better than the contributions cap, because levels of contributions to KiwiSaver would not matter (there would be no need to cap these, and no risk of pre-implementation manipulation and tax planning).

25. There are two issues with this rule. It will likely be administratively more difficult to implement (and we would want to consult on this to find out just how much more difficult). Also, if the cap is to be binding, it will end up taxing some KiwiSaver accounts more than the status quo, which may not meet your objectives (although this can be calibrated so *most* KiwiSaver investors will not be worse off).

(c) Increase member tax credit

26. If your goal is that *most* KiwiSavers will be no worse off, and many will be better off, another alternative to the "exemption plus cap" is to increase the Member Tax Credit.

27. This is less distorting, but is generally more costly than either (a) or (b). Because some accounts will have large New Zealand and Australian share gains in their KiwiSaver accounts (because their account balance is high, or because their allocation to New Zealand and Australia is high, or both), it is impossible to ensure that no KiwiSaver account is worse off through the Member Tax Credit (although it could be calibrated so most individual members are better off).

28. Even an increase in the Member Tax Credit to $781.50 (the Tax Working Group proposal) will only be enough to offset the taxation of $929 in New Zealand and Australian share gains at 28%. If someone has a $50 000 KiwiSaver balance allocated to New Zealand and Australian shares, this would mean that a mere 2% increase in the balance derived from capital gains would make them worse off than if the gains had not been taxed.

29. If you are interested in proposals that ensure that *most* KiwiSaver accounts are better off, while accepting that some will be worse off, officials could work on variants that try to make *most* KiwiSaver contributors better off at lowest fiscal cost.

Annex C: Data on small business

1. Table 1 provides the number of businesses and assets held by businesses with turnover of less than $5 million.

Table 1: Number and assets of small businesses

	Businesses with less than $5m turnover	Percentage of total businesses
Number of businesses	452,730	98%
Value of 'fixed assets' held (land, buildings, machinery)	$255 billion	59%
Value of 'total assets' held (fixed assets plus intangibles, subsidiaries, bank deposits and any other assets held)	$815 billion	43%

Source: Statistics New Zealand, Annual Enterprise Survey
Note: Results exclude residential property investors. 'Total assets' include intangible assets such as goodwill that many small businesses may not value. As a result, the value of 'total assets' for small businesses may be understated.
'Total assets' include a significant amount of financial assets held by the finance industry. If the finance industry is removed from these results then the total assets held by small businesses decreases to $420 billion which make up approximately 50% of total assets held by businesses (excluding the finance industry).
The Annual Enterprise Survey generally only includes businesses with at least $30,000 of taxable supplies. As a result, this data will exclude some very small businesses.

2. Tables 2 and 3 (over the page) provide the total number and value of assets held by small businesses split by industry (for industries with at least 10,000 businesses).

Table 2: Number of small businesses by industry

	Businesses with less than $5m turnover	Percentage of total businesses in the industry
Agriculture, forestry, and fishing	69,432	99.2%
Manufacturing	19,809	92.7%
Construction	55,095	97.7%
Wholesale trade	15,843	89.4%
Retail trade	26,307	94.6%
Accommodation and food services	20,361	98.9%
Transport, postal, and warehousing	15,354	96.8%
Financial and insurance services	18,717	96.0%
Rental, hiring, and real estate services	76,533	99.3%
Professional, scientific, and technical services	55,602	98.5%
Administrative and support services	16,554	98.2%
Health care and social assistance	18,159	98.1%

Table 3: Total assets of small businesses by industry

	Value of 'total assets' by businesses with less than $5m turnover in industry	Percentage of total assets held by businesses in that industry
Agriculture, forestry, and fishing	$131 billion	84%
Manufacturing	$9 billion	12%
Construction	$16 billion	52%
Wholesale trade	$9 billion	20%
Retail trade	$9 billion	35%
Accommodation and food services	$9 billion	66%
Transport, postal, and warehousing	$10 billion	25%
Financial and insurance services	$398 billion	37%
Rental, hiring, and real estate services	$171 billion	80%
Professional, scientific, and technical services	$19 billion	35%
Administrative and support services	$5 billion	52%
Health care and social assistance	$8 billion	42%

Total fiscal impact of exempting small businesses

3. We have not forecast the total fiscal cost of exempting small businesses because we are unable to forecast revenue from the sales of businesses due to a lack of available data.

4. Despite this difficulty in quantification, we expect the fiscal cost of exempting the sales of small businesses from a tax on capital gains to be potentially significant. The Reserve Bank estimates that the value of unincorporated businesses and unlisted shares held by New Zealand households is approximately $430 billion (which is approximately 20% of all household assets in New Zealand for December 2018).[4]

5. In addition, in Australia, the total amount of gains available for small business concessions was $4.4 billion in 2015/16. This implies that at least 12% of capital gains in Australia were a result of the sale of small businesses or assets held by small businesses that were eligible for the exemption.

6. A small business exemption would also reduce the revenue from taxing gains from the sale of non-residential property. However, this is not expected to result in a large reduction in revenue compared with that previously reported to you, This is because the fiscal cost of exemption in the short term is expected to be similar to the cost of the small business rollovers recommended by the TWG.

[4] The housing and land value in the calculation is taken for September 2018, due to data not being available for December 2018.