

Newman Weekly

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5 August 2006



The New Zealand Centre for Political Debate

Unsung Heros

New Zealand's unsung heroes are small businesses. These enterprises, which largely begin their life as family-based operations, keep the wheels of commerce turning. They provide the goods and services that consumers need and in the process, create the jobs and wealth that are necessary for the healthy functioning of our economy.

For many people a job is more than just an income – it's an important part of our way of life, giving us purpose and direction. As John D. Rockefeller III put it: "The road to happiness lies in two simple principles: find what it is that interests you and that you can do well, and when you find it, put your whole soul into it - every bit of energy and ambition and natural ability you have."

Whether it's the baker, the builder, the engineer, the jeweler or the IT expert, business success requires a vision, skills, determination and courage. To turn a good idea into a thriving business, entrepreneurs must be prepared to take the risk and make the investment – often mortgaging virtually everything they own – only to then have to work 24 hours a day, seven days a week until the operation can stand alone.

While it's always been tough running a small business, the stark reality is that the difficult road to small business success has become even tougher over the last few years because of the anti-business changes introduced by the Labour Government.

Labour's industrial relations agenda - putting the unions in charge of the workplace, adjusting wage rates, and changing holiday entitlements - has severely damaged the flexibility of the employer-employee relationship, which has always played a key role in enabling small businesses to react swiftly and effectively to market changes. The present union furore over the introduction of a probationary period for new workers is

indicative of the alienation they are fuelling, with the move being promoted as a significant threat to workers rights, when it is simply a common sense practice to make sure a new employee is suitable for the job that they have been hired to do.

ACC continues to be a thorn in the side of small business with Labour's re-nationalisation imposing heavy costs on many safety-conscious businesses with impeccable safety records that are forced to pay excessive premiums because of the actions of careless operators in their industry. Further, when the self-employed call on ACC for help, they continue to find that it fails to provide the support that they need.

Under Labour's regulatory zeal, there are increasingly excessive and costly OSH regulations to comply with, changes in dealing with hazardous substances, new building codes, amendments to the Resource Management Act, endless statistics to collect, a multitude of new local

body regulations to deal with – and that is just the tip of the iceberg! A survey produced by Business NZ last year estimated the annual cost of compliance for medium size enterprises to be around \$53,000 with an average of 1200 hours a year being spent on fulfilling government-imposed obligations (to view report see www.nzcpd.com)

The biggest compliance cost area by far, with almost three quarters of businesses surveyed reporting that it was their priority concern, was taxation. That it why, on the surface, it is good to hear that small businesses will have an opportunity to let the government know what they think about tax, through the Business Tax Review that is currently being carried out (the full report can be read on the NZCPD homepage - click the sidebar link to view>>>). I would recommend that everyone concerned about our high rates of tax send

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in a submission before the closing date of September 8th).

The stated objective of the Business Tax Review is to provide “better incentives for productivity gains and improved competitiveness with Australia”. With that in mind, the key proposal is to reduce company tax from 33 percent to 30 percent, to match the rate in Australia.

The question is, however, whether that move is enough on its own to stimulate business growth, particularly when it has been reported that almost 40 percent of small businesses in New Zealand are not incorporated and therefore pay taxes at the personal rates of 33 percent and 39 percent. Further, with the goal of good tax policy being to keep the system simple and the base broad, surely a sensible first step would be to reduce personal taxes down to 30 percent as well.

According to an OECD comparison of corporate taxes, at 33 percent, New Zealand has the 8th highest company tax rate in the OECD (to view report see www.nzcpd.com).

The lowest tax rates can be found in Ireland with a 12.5 percent rate, Hungary on 16 percent, Iceland on 18 percent, and Poland and the Slovak Republic on 19 percent. If our rate was reduced to 30 percent, almost half of the OECD countries would have lower rates.

When considering changes to New Zealand tax rates, it is worth recalling the recommendations made by Treasury to the incoming government after the last election. They proposed that the 33 percent

and 39 percent rates of personal income tax should be reduced, along with the 33 percent company tax rate. They also stated that high marginal tax rates: “discourage people from becoming entrepreneurs and starting their own businesses, inhibit the growth of these businesses, and increase the likelihood that entrepreneurial businesses will exit the market”.

The problem is that Government did not listen to the advice back then, and is unlikely to listen properly now. Sadly, Government is not the solution to our problems – it is the problem. Government is the main impediment to more jobs, more businesses,

higher growth and a rising standard of living. That is because Government continues to see bigger growth as a worthwhile goal: a decade ago, Government collected \$32 billion a year in taxes, now it collects \$50 billion and by 2010 it will be collecting

\$58 billion in taxes.

For such a small country, these tax rates are excessive. The priority for the reforms for a better future must be the reduction of big government. Reducing the size of Government would result in a small business renaissance, providing the helping hand that lower income New Zealanders need to be able to use their creative energies to rise up the employment ladder to become business owners and investors themselves. That is the opportunity provided by a vibrant small business sector. That is why small businesses are the unsung heroes.

The poll this week: *Do you support the Government's proposal to lower company tax from 33% to 30%?*

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