

**Ministerial Response to
the referral of the Petition of Alisha Riley
on
Increase the GST threshold**

Presented to the House of Representatives

In accordance with Standing Order 380

Minister of Revenue's response to the referral of the Petition of Alisha Riley on Increase the GST threshold

Introduction

- 1 I have carefully considered the Petition Committee's referral of the Petition of Alisha Riley on increasing the GST threshold.
- 2 I welcome the Petition, which requests that the House of Representatives urge the Government to increase the GST threshold in its 2024 tax policy work programme.
- 3 The Petitioner's reasoning for this request stated:

I believe wage inflation is the main driver of expenses in low-input businesses. In my view, the GST threshold should be \$130,800, proportional to the increase in the minimum wage since 1986.

I have also reviewed the Petitioner's written submission to support their petition. In this submission, the Petitioner argues that low-input businesses are adversely impacted by the current GST registration threshold. The Petitioner believes increasing the GST registration threshold in line with the costs faced by low-input businesses will increase the growth of these businesses.
- 4 I have decided that no increase will be made to the GST registration threshold at this time. Details of this and an explanation of my decision can be found below.
- 5 Below is my response to the referral of the Petition in accordance with Standing Order 380.
- 6 The Petition was presented to the House on 23 February 2024 and referred to the Petitions Committee. On 11 March 2024, the Petitions Committee agreed to refer the petition to a Minister for response.
- 7 The Petitions Committee indicated that it had referred the petition to a Minister for response on the possibility of adjusting the registration threshold annually in line with inflation.
- 8 I have considered the Petition of Alisha Riley on 29 April 2024, and thank the petitioner for drawing my attention to this matter.

Request and Ministerial response

- 9 The Petition requests: that the House of Representatives urge the Government to increase the GST threshold in its 2024 tax policy work programme.
- 10 I am not recommending any changes to the GST registration threshold. Increasing the registration threshold would likely impact other businesses and would likely impose a significant fiscal cost.

- 11 The Government recognises the cost pressures and tough economic conditions businesses are facing, especially small and medium enterprises (SMEs). The Government is committed to reducing compliance costs and making it easier for all businesses to meet their tax obligations so they can focus on growing their business. Compliance cost reduction initiatives will be considered for prioritisation as part of setting the Government's Tax and Social Policy Work Programme.

Considerations when setting the GST registration threshold

- 12 Currently, businesses with an annual turnover of \$60,000 or more are required to be registered for GST. They are required to charge and collect GST on their sales, and they can claim back GST they have paid on their business costs. The purpose of the GST registration threshold is to strike a balance between having a broad-based GST system that applies to almost all forms of consumption, not imposing undue distortion on business competition, and ensuring compliance costs are minimised where possible.
- 13 New Zealand's GST system is highly regarded internationally, in part, because it broadly applies to almost all goods and services with very few exemptions. Increasing the registration threshold to \$130,800 would narrow the GST tax base by applying GST to fewer goods and services sold in New Zealand.
- 14 A relatively low registration threshold means most businesses face the same cost and pricing considerations, as it's likely their prices are subject to GST. A higher threshold of \$130,800 would likely increase the risk of market distortion as GST registered suppliers would have to compete with a larger number of unregistered suppliers who are not charging GST. This could create an uneven playing field for these competing businesses.
- 15 Since the last increase in the registration threshold in 2009, compliance costs for SMEs have decreased. One reason for this is Inland Revenue's Business Transformation which has provided improved digital services for businesses¹.
- 16 At this time, I consider the \$60,000 GST registration threshold balances these considerations.

Adjusting the threshold annually for minimum wage or inflation

- 17 There are several considerations when setting the registration threshold. Adjusting the registration threshold by only inflation or minimum wage would not be the most appropriate methodology, as it does not fully take into account these considerations. While inflation or minimum wage may be indirectly considered (for example, as a factor in calculating compliance costs), inflation or changes to the minimum wage are not explicitly considered.
- 18 However, if either measure were to be used as a basis to adjust the registration threshold, inflation would be the more appropriate measure given inflation relates to a

¹ This is reflected in Inland Revenue's most recent Micro and Small/Medium Enterprises (SME) survey that found the median hours spent complying with GST decreased from 24 hours in 2013 to 16 hours in 2021 for small businesses.

broader range of costs incurred by all businesses. If the registration threshold was adjusted by inflation, the registration threshold today would not be significantly higher. When GST was introduced in 1986, the registration threshold was \$24,000. Inflation-adjusting the registration threshold to today (March 2024) means it would be approximately \$65,774. While this inflation-adjusted registration threshold is above today's registration threshold of \$60,000, the difference is not significant.

- 19 There is a concern that requiring annual changes to the registration threshold could impose additional compliance costs on businesses (such as regularly monitoring the registration threshold and IT systems changes) and create uncertainty for businesses over potential future changes to the registration threshold. On this basis, I do not support indexing the registration threshold annually for inflation.

The size of the benefit group and fiscal cost

- 20 In the 2023 calendar year, almost 105,000 GST-registered taxpayers had a turnover between \$60,000 and \$130,800, accounting for approximately \$463.38 million of GST collected (or 1.7% of total GST collected). Although it is unlikely that these taxpayers would deregister if the registration threshold was increased, these figures provide an indication of the potential impact if taxpayers were otherwise able to delay registering for GST. For some GST-registered taxpayers, such as not-for-profits and exporters, the GST rules means they will always choose to remain GST-registered (as the GST on their costs is greater than their GST to pay), regardless of the registration threshold.

Impediments to growth

- 21 The registration threshold can unduly influence commercial behaviour and result in businesses choosing to limit their growth. For example, it has been observed that some businesses that are expected to exceed \$60,000 annual turnover (at which they are required to register for GST) may choose to reduce their sales to prevent them being over the registration threshold. If the registration threshold was increased to \$130,800, this higher threshold may further incentivise businesses to limit their growth.
- 22 If the registration threshold was required to be adjusted annually, the issue of the registration threshold driving commercial behaviour may be worse. This is because an unregistered business may choose to reduce their sales in the understanding that the upcoming annual increase to the registration threshold will mean they remain under the threshold for another 12 months.

Conclusion

- 23 The Government recognises small businesses are doing it tough right now. However, I do not consider now is the right time to increase the GST registration threshold as it is not the most effective way to support all small businesses facing cost pressures.
- 24 The Government is committed to reducing compliance costs for SMEs and is working with the private sector and government agencies such as Inland Revenue to identify new policy initiatives to reduce compliance costs for all businesses.