

Minutes – Small Business Council Meeting

Date and location	10 October 2018 The Icehouse, 125 Saint Georges Bay Road, Parnell, Auckland
Attendees:	Terry Baucher, Alison Brewer, Rachel Brown, Antony Buick-Constable, Paul Dansted, Karen English, Jim Gordon, Jerry He, Tenby Powell, Matt Ritchie, Deb Shepherd, Tania Siladi, Keith Taylor, Leeann Watson, Nicole Buisson. Andy Hamilton, Ed Tregidga (Secretariat), Kathy Brightwell (Secretariat)
Guests:	Geoff Nightingale and Nick Malarao (Tax Working Group), Suzy Morrissey (Treasury)
Apologies:	Allison Lawton, Patti Poole (Secretariat)
Conflicts of Interest:	Managed in conjunction with the Chair

Item	Topic	Discussion	Action
1	General business	<p>Opening from the Chair</p> <ul style="list-style-type: none"> • Chair opened the meeting at 10.00am and advised that a number of Council members would be arriving late due to flight delays. Thanked The Icehouse for hosting the Council meeting. • Reminded members that a function would be held at the end of the meeting with local small business owners to provide an opportunity for them to meet, engage and ask questions of the Council members. • Noted that the purpose of the Small Business Council is the strategic coordination of MSME diversity. The focus of the Council comprises strategies done to enable increased performance of small businesses and to better contribute to their community. • Noted that he was receiving an increasing volume of correspondence including a number of requests to make submissions to the Council. Formal submissions will be sought on the Council's work at a later date and unsolicited submissions will not be received in the meantime. 	

		<ul style="list-style-type: none"> Noted that a recent article in the NZ Herald by the Chair of the Prime Minister’s Business Advisory Council contained references to the small business sector and views of small business owners on several issues. A number of comments have since been made to the LinkedIn Small Business Network complaining about the references and questioning whether the Prime Minister’s Business Advisory Council is qualified to speak for small business. The Chair advised that he had not publicly commented on the article or its contents but feels it does need to be addressed. Secretariat agreed to pass on the concerns regarding the article to the Minister for Small Business and that clarity is needed around who speaks for small business. 	Secretariat to raise the issue with the Minister for Small Business.
Item	Topic	Discussion	Action
2	Tax Working Group	<ul style="list-style-type: none"> Chair introduced Geoff Nightingale and Nick Malarao of the Tax Working Group (TWG). The speakers explained that the purpose of the TWG is to explore ways to improve the structure, balance and fairness of the tax system. The speakers outlined the TWG’s process and time frames, noting that it received 6,000 submissions on its consultation document, which officials analysed and compiled into a 300 page document of themes. The speakers outlined the findings and recommendations of the TWG’s interim report, particularly those of relevance to the small business sector. Points of note include: <ul style="list-style-type: none"> NZ has a simple, narrow-based tax system that predominantly taxes labour (through PAYE) and is efficient and low cost to run The tax base needs to shift because the labour component of GDP is expected to reduce over time due to advances such as automation One option under consideration for broadening the tax base is a capital gains tax (CGT) and this will have implications for small businesses Any CGT would need to be specifically designed for the New Zealand context (for example KiwiSaver and Māori land ownership). Council members commented that compliance costs for small businesses must not be underestimated. Noted that a capital gains tax would increase compliance costs for small businesses and asked that specific consideration be given to how this can be minimised. The speakers discussed overseas experiences with capital gains taxes and the impacts on economies, house prices, and rents, which were not as great as might be expected. The speakers noted that a capital gains tax would not enhance productivity but the tax system is not the right mechanism to achieve productivity gains. 	

		<ul style="list-style-type: none"> • Council members asked what the rationale was for not recommending a marginal tax rate for small business. The speakers explained that the TWG recommended against a progressive tax rate as it would have a dampening effect on growth and progressive taxation can already be accessed by small businesses through the Look-through Company structure (a tax structure for New Zealand companies with limited liability). • The speakers agreed that a progressive tax rate would off-set tax compliance costs, which fall more heavily on small businesses because they bear the same costs as large businesses. However, the TWG believes compliance costs are better addressed directly rather than indirectly through a progressive tax rate for small business. • Speakers advised that the TWG would be interested in receiving recommendations from the Council on how compliance costs for small business could be reduced. • Other issues discussed included: <ul style="list-style-type: none"> ○ Whether productivity could be encouraged through tax breaks for using tech tools. The speakers noted that most tech costs are already tax deductible. ○ Payday reporting is burdensome but there is a medium-term dividend to small business from automation ○ Loss continuity for start-ups and small business is still being considered where shareholders are added when capital or funding are brought in ○ The potential for tax-free thresholds on the sale of a business or across the board but this would add elements of a more progressive tax system ○ Implications of changing the tax system and difficulties many small businesses currently face in paying tax bills on time <p>Council discussion</p> <ul style="list-style-type: none"> • Following the presentation the Council agreed to write to the TWG to thank them for the presentation and noting the Council’s concerns around compliance costs for small businesses. • The Council agreed that the secretariats of the Council and TWG will meet to discuss the potential for the Council to give further consideration to taxation issues for small businesses. 	
			IRD to arrange a meeting between the TWG and Council secretariats.
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3	Living Standards	<ul style="list-style-type: none"> • Chair introduced Suzy Morrissey from the Treasury to present the Living Standards 	

	Framework	<p>Framework (LSF).</p> <ul style="list-style-type: none"> The presentation covered the background and purpose of the LSF and described the four capitals that make up the framework. It was developed by Treasury from the OECD's Better Life Index as a policy analysis framework that incorporates factors other than financial cost. The Government has committed to using the LSF to inform Budget 2019 decisions. Presenter noted that the LSF is largely seen in regard to the individual rather than businesses. However, small businesses are made up of people and examples of how the LSF can apply to them are: <ul style="list-style-type: none"> Human Capital – many small businesses are employers Financial/physical Capital – small businesses contribute to GDP Social Capital – small business rely on being able to trust in people and institutions and the rule of law Natural Capital – issues such as sustainability, organic produce, and ethical treatment of animals are relevant to a range of small businesses. Small businesses could use the LSF as an integrated or holistic approach to reporting and accounting. <p>Discussion</p> <ul style="list-style-type: none"> Council members discussed how the LSF applies to the small business sector and what contribution small businesses could make to living standards and wellbeing. Members discussed that many businesses are contributing to the LSF unconsciously and the sector needs to understand it as an opportunity. Taking a balanced approach to the four capitals increases resilience, helps businesses be better and creates opportunities to grow. Many are already operating consistently with the LSF if they want to be modern and attract good people. The Chair noted that the Council wants to use the LSF as a roadmap in the development of a Small Business Strategy. 	
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4	Xero Small Business Insights	<ul style="list-style-type: none"> Nicole Buisson gave an overview of Xero's August Small Business Insights report and findings from the <i>Influencing Small Business to Confidently Handle the Ups and Downs</i> report. Key points were: <ul style="list-style-type: none"> Cash flow varies throughout the year but half of small businesses are cash flow 	

		<p>negative each month and tax time has a big impact</p> <ul style="list-style-type: none"> ○ Small businesses are time-starved ○ Only 33% want to grow and many of those that do not report fear, uncertainty and lack of knowledge on how to grow as the reasons ○ Many small businesses are not optimised for success because they do not use business tools or prepare business plans and many operate in isolation ○ The best way to reach small business owners and provide guidance is through trusted advisors, especially accountants. <ul style="list-style-type: none"> ● Council members discussed the need to inspire more small businesses to grow and to understand why they do not want to grow. It was noted that many 1-2 person businesses are happy with where they are at and do not need assistance. However, NZ needs more medium-sized businesses and it is important that support is given to scale-ups, not just start-ups. 	
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5	Communications	<p>Council discussion</p> <ul style="list-style-type: none"> ● Chair noted the need to begin communicating on the work of the Council and engaging with the small business sector. Council members discussed how media comments would be managed. ● Members agreed that the Council should consult with the sector and seek feedback on specific topics as the work progresses. ● Chair noted that Regional Economic Development will have important impacts on the small business sector and the Council should engage in that area. 	<p>Secretariat to provide the appropriate NZ Government logo to use alongside the Small Business Council logo</p> <p>Secretariat to draft a brief communications plan for agreement by the Council</p>
Item	Topic	Discussion	Action
6	Definition of Small Business	<p>Council discussion</p> <ul style="list-style-type: none"> ● Council members discussed whether a definition of small business is needed or useful, noting that definitions are often used to exclude people or groups. It was noted that care needs to be taken with regard to what a definition would be used for as the purpose would largely determine the nature of a definition. ● Noted the changing nature of businesses, especially the gig economy and tech innovations and other disruptors that will make a single definition difficult to develop ● The definition would therefore depend on the situation and context in which it is being 	

		<p>used.</p> <ul style="list-style-type: none"> • Chair proposed that the Small to Medium Enterprises (SME) classification be extended to Micro and Small to Medium Enterprises (MSME) to clearly cover and differentiate the businesses with 0-5 employees, which are the majority. It was noted that 70 percent of New Zealand’s small businesses are sole traders employing zero staff. • Discussed the importance of not overlooking medium sized businesses and the importance of supporting and enabling their growth to achieve a step change in productivity. • Information withheld consistent with S9(2)(f)(iv) of the Official Information Act 1982 	<p>Secretariat to prepare a draft paper presenting the Council’s views on a definition of small business.</p>
Item	Topic	Discussion	Action
7	Small Business Strategy	<p>Council discussion facilitated by Deputy Chair</p> <ul style="list-style-type: none"> • Council members reviewed the draft framework diagram and agreed to wait until more content is developed before progressing the design further. • Discussed that the strategy should be aspirational and the process should focus on the big questions before considering possible solutions. Structure follows strategy. • Discussed the time horizons for the Strategy and it was noted that a longer time frame allows the Council to be aspirational but can lack urgency. There are more immediate issues and solutions that the Council will want to cover in the Strategy. • Confirmed they will work to three time horizons: <ul style="list-style-type: none"> ○ Horizon 1 is the next 3-5 years ○ Horizon 2 is 5-10 years ○ Horizon 3 is beyond 10 years. • Agreed that the Strategy will be organised along themes and members would work on the themes in small groups. • The following themes were proposed: <ul style="list-style-type: none"> ○ Capital – accessing finance and capital ○ Management capability – building capability to manage and grow small businesses ○ Workforce - skills and education, future of work, immigration, diversity ○ Compliance – streamlining government processes, taxation policy, minimising compliance costs ○ Mind-set – future focus, resilience 	<p>Secretariat to circulate the list of themes ahead of the next meeting.</p>

		<ul style="list-style-type: none"> ○ Innovation – technology, digital ○ Development – regional, trade and export growth ○ Sustainability – environment and climate change ● Agreed that members would nominate which theme(s) they will work on. The work streams will include engagement and consultation with members of the small business community. 	<p>Members to nominate which themes they would like to work on.</p>
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