Unit 4 – Political influences

Political influences come from changes in the way local or national government operates. Government policies and decisions regularly affect businesses.

The Beehive and Parliament

Each political party has its own policies; for example concerning:

- subsidies for farmers, industries, and projects
- tax rates, tax cuts, import and export tariffs and regulations.

The following example shows how three different political factors might affect a large-scale agricultural business (farm).

Example: Effects of policies

Political factor	Effect on agricultural business
A new council changes zoning regulations, allowing subdivision of large farms close to the city.	Price of land may rise, allowing the farmer to subdivide, sell some unproductive land and put a large cash injection into the business.
Government provides 'tax breaks' for employers of local workers.	If the farm is employing staff from the local area (most are) it will have less tax to pay, leaving more money to return to the business.
Government increases carbon tax by 1%	Costs of running the farm (methane is a by-product of farming) increase because of the tax.

Government taxation and spending

Tax is paid by businesses and individuals to the government to run the country, pay for infrastructure and provide critical services (hospitals, schools, and so on) for all.

In 2014–2015, two-thirds of Crown (government) spending was divided almost equally between:

- social security and welfare
- health
- education.

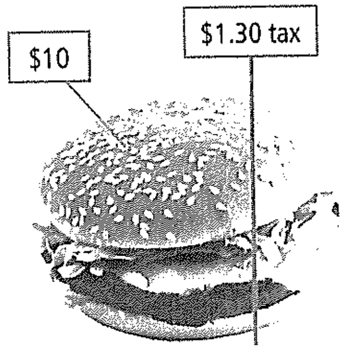
The other third was divided between core government services, finance costs, law and order, transport and communications and 'other'.

More than half of Crown revenue (income) comes from tax paid by individuals and from GST (goods and services tax). Another quarter comes from corporate (company) tax, with the remainder from other sources of taxation, interest and other revenue.

The two main types of tax that have an impact on companies are GST and company tax.

GST

End consumers are charged GST by businesses on behalf of the government. GST is calculated as a percentage of the sale price of an item, at a rate of 15%. This means that for every $10 (which includes GST) you spend at the dairy or school tuck shop buying food, the business has to pay $1.30 to the government.



Some businesses advertise their prices excluding GST (excl.) while others advertise prices that include it (incl.). GST is charged only to end users of goods and services, so businesses purchasing goods and services can claim back from the government the GST they have paid on those goods and services.

Company tax

Company tax is calculated as a percentage of profits. The tax rate for companies in 2014 was 28%. This means that if a business makes $10 000 profit (revenues less expenses) in a year, it must pay $2 800 to the government at the end of that year.

Other taxes

Other taxes are charged on goods such as alcohol, cigarettes and petrol to help offset the harm that individuals' consumption of these goods brings to the wider community.

Government expenditure

Government spending is set every year when the government releases its budget for the coming year. Most spending is on social welfare, health, and education. The expenditure is money paid to (mostly) households or businesses in return for goods and services, or labour. Changes in government spending can have a significant impact on business incomes.

Subsidies, duties, and tax incentives

Governments change the rules of doing business to support the growth of the New Zealand economy. They also use the following tools regularly to either help or hinder certain industries or businesses, depending on government priorities.

Subsidies are payments made to New Zealand businesses to encourage them to produce a certain good or service, to buy a certain product, or to employ local labour.

Duties are taxes on imports to help New Zealand companies compete with larger overseas companies.

Tax incentives are reductions in tax rules to encourage overseas (or New Zealand) businesses to set up in a particular industry in New Zealand. Tax incentives make doing business in New Zealand more appealing.

Impact of political factors

Each business is affected slightly differently by changes in government policies, taxes and spending. The following table is a brief summary of the usual effects of an increase in each of the factors (a decrease has the opposite effect).

	Effect of increase
Company tax	Generally negative. Less money is returned to shareholders. Less money is retained in the business for investment in future growth. Harder for businesses to start up or stay in business.
GST	Generally negative. Prices rise since there is more tax to pay, so consumers buy less; or company drops prices to keep the consumers buying the same amount, and profit is less.
Government spending	Positive for businesses that are suppliers to the government or that have customers that are suppliers to (or employees of) the government.
Subsidies	Positive for local businesses in that industry. Negative for overseas businesses (which do not receive the subsidy).
Duties	Positive for local competitors. Negative for the business charged the duty.
Tax incentives	Positive for businesses that can take advantage of the tax incentive. Negative for competitors of businesses that can take advantage of the tax incentive.

Business responses

Political factors are often signalled very early in election campaigns, at yearly budgets, or through the legislative process. Changes do not happen immediately, and often come into action the following year, or there may be graduated changes over several years. There is usually ample time to plan the business's response to the changes. Businesses affected by political factors may respond by:

- adjusting operations to comply with the change; e.g. changing suppliers, changing locations, entering or exiting a particular market, minimising tax obligations through business acquisition or philanthropy
- adjusting strategic objectives to ensure the objectives are realistic; e.g. raising or lowering profit targets.

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Activity: Political influences

1. Draw lines to link the words on the left with their correct definitions on the right.

Words	Definitions
a. company tax	The earnings of a business (revenues less expenses)
b. duties	Money paid by individuals and businesses to government to enable the running of the country
c. government	Tax charged to end consumers on all consumption spending
d. GST	Payments made to local businesses by government to encourage particular behaviours
e. profits	Import taxes
f. subsidies	Tax calculated as a percentage of a company's profits
g. tax	A group of representatives elected to make decisions about how best to run the region or country

2. Explain one way in which the government's decisions influence business in New Zealand.

3. Explain how government spending can affect a business that does not directly supply the government.

4. Complete the following tables by suggesting a possible impact of the political influences described.
   a. The impact on the strategic objectives of Spark New Zealand (communications service provider) if the government decided to put in a new data cable from New Zealand to the United States.

	Impact
Profit	
Return on investment (ROI)	
Market share	

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Cash flow	
Sales revenue	

b. The impact on the operations of Spark New Zealand if the government decided to double petrol taxes.

	Impact
Production	
Dispatch	
Human resources	
Sales	
Marketing	

5. Explain the importance of unions and employer associations in representing employer and employee views to government. Your answer should refer to *government expenditure* and *tax*.

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6. For a large local or regional business, discuss how a rise in GST from 12.5% to 15% might have affected the business. In your answer, you should:
   - explain the relevance of GST to the business
   - explain *two* different courses of action that could have been taken by the business in response to the increase in the tax
   - identify and justify the course of action that would be better for the long-term economic sustainability of the business.

7. With a partner, investigate subsidies and duties currently in place in New Zealand. Complete the following table for one duty or subsidy.

Duty or subsidy?	
Name	
Description	
Examples of products and types of business affected	