Tax Working Group Public Submissions Information Release

Release Document

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Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Submission on Future of Tax

1 The Tax Working Group has been directed to apply a particular focus on *__the future__* in its work……

- Robotics and artificial intelligence (eg driverless transport) will rapidly transcend the economy, much like computers, the web and social media has transformed today's working environment.
  Employment opportunities will arise for new skills, but the number of unemployed in the economy will rise significantly. However the latter will not occur within the Terms of Reference defined period of next 5-10 years.

- Pharmaceutical medicines and new healthcare practices will prolong the lifespan of the population.
  The aged will form an increasing proportion of the population placing an upward pressure on Government to fund NZ Superannuation and healthcare costs.

- It is generally accepted global warming and natural disasters like earthquakes are increasing.
  New Zealand's infrastructure is at risk and the Government faces the under-writing of most of the cost of disasters as the owner of roads, rail, hospitals….

- Increased unemployment will materially affect families, particularly in the provision of housing. A critical component of a stable society is having a home to house the family, community living and children regularly attending the same school.
  *Housing affordability will become a greater challenge to a larger proportion of the population, requiring even greater Government support in this area. Home ownership will continue to decline in numbers. Government will be faced with building more and more homes which it will **own and rent** as the present threshold of $600 000 which is regarded as an 'affordable home' will not be attainable to an **increasing proportion of the population who could never save the required deposit. Nor could they afford the rent on a market rental as rents will rise with landlords facing a lower return due to a capital gains or similar tax.***

- New Zealand's education and healthcare system is underfunded and/or operating under business models that are not workable. An example would be the model which funds the new capital needs of District Health Boards.
The pressure will increase on Government to spend more in these areas.

- Pressures on New Zealand's future economy will also emanate from overseas. Most of our monies to finance housing mortgages are borrowed from US banks. What if the US banking system collapsed? There are number of military conflicts around the world. What if we are forced to participate? Humanitarian issues continually arise in the Pacific and elsewhere. What is the future costs of our involvement?
There will be pressures on the Government's revenue stream from these sources as well.

2 The guidance in the Terms of Reference is for tax revenue to remain at approximately 30% of GDP. Currently the tax revenue is 32% of GDP and Table 1 shows that if historical spending patterns continue then in 2045 tax revenue must rise to 34% of GDP to achieve fiscal responsibility of a balanced budget.
Clearly with the future trends outlined in 1 above, tax revenue as a % of GDP will have to increase beyond 34%. To 40% in 20 years' time? Treasury to determine probabilities, timetable and dollars required to develop required strategies as these are outside the Tax Working Group's terms of reference.

3 It is important the Tax Working Group, in its deliberations, does not lose sight of the simplicity and fairness of the current tax regime. For example, New Zealand's system of widest coverage for Goods and Services Tax is the envy of the world. Introducing exemptions, say for food, will raise a lot of complex definitions and is open to rorts. This means the Government does not simply lose a stream of revenue, it also faces the additional costs of administration of ensuing compliance.

4 Areas the Tax Working Group may wish to evaluate to increase local and central governments' stream of revenue…..

- **Institutions which are currently exempt now be taxed**.
  Example: retirement villages and the non taxed gains made on turnover of Licences to Occupy; Church superannuation schemes; closer examination that trading profits occurring within Charitable Trusts meet the criteria of charitable

- **Increased efficiencies of collection within all areas of Government**
  Previously a tax audit could be expected by each business once every 7 years but that does not seem to occur anymore
  Many new migrants come from backgrounds where paying taxes is more about being caught and then a negotiation follows with the local inspector. Advice on tax obligations as part of the induction process for new arrivals?
  Penalties for serious tax offenders should be increased as they seem light compared to welfare fraud
  Hospital admissions for overseas tourists should require prior insurance /credit card payment like most countries overseas (except Australia and UK where a reciprocal arrangement is in place)

- **Opportunities to increase tax revenue**
  A tax of 5% to be applied to all internet trading within New Zealand.
  Sales tax of 10% paid by both the seller and purchaser on every property transaction including residential housing. A simpler system to capital gains tax. The buyer of a first home is exempt.
  Ring fence the tax loss made on any rental property income and hence remove the offset benefit against salary and wage income.
  Allow Regional Councils to charge (and collect) up to 10% on the room tariff of all hotels/motels/holiday homes/Airbnb to be spent on infrastructure for the community (say 50% of revenue applied to improving water quality) and tourism. This requires holiday homes etc to be registered by local city councils and proper administration put in place.

Tourist visas be charged at $100 a day for tourists aged above 25 as part of the focus to change our tourism philosophy from quantity to quality

- **NZ Superannuation**
  Give 10 years' notice that the age of eligibility is to be raised to 70.
  Introduce a means test that the superannuation is not available to those with a separate income of $100 000 or more. Sheltering of income within trusts or companies to achieve capital flows – treat the capital flows as income as part of the means test

- **Grow the economy**
  To encourage investment and increase employment opportunities lower the company tax rate to 25%

- **Outside Terms of Reference**
  Is one of the reasons for New Zealand's low wage economy the fact that any wage increase granted is offset by a lower tax credit and the individual is no better off? Are employers establishing pay structures that maximise the family tax credit at a cost to Government???? Would the payment of a living wage, and the removal of the family tax credit be better for the economy?
  Introduce a marginal tax rate of 40% for income above $100 000, and increase the trust rate of tax from 33% to 40%
  Migration needs to be closely controlled with greater use of specified period work permits. New Zealand does not want to add to the potential pool of unemployed which is forecast for the future

5 Implementation of any changes to the present tax regime, as they will generally be adverse in affect, will engender backlash from the various sectors of the population. But over riding same is the fact that the New Zealand population, by and large, is a caring society by world standards. As such they will respond positively to well communicated policies, which when implemented, will improve the lot of deserving people in need.

- Adverse changes are more easily made when the country is in a period of growth

- If surpluses arise pay down debt and/or add to a rainy-day category for investment in the Cullen Fund (much like Norway)

- Maintain the populations' confidence in the tax gathering system and application of specific taxes. Don't 'rob Peter to pay Paul' as happened with $m160 pa of road charges directed to the Consolidated Fund.

- Retain the incentive of reward for effort to keep folk in the workforce. Don't return to the oppressive tax regime of the early 1980s.

- Target the wealthier older population when developing new policies. They have benefited from wage inflation and house inflation. Todays population faces minimal or no wage growth and huge house inflation.

- Recognize that 70% of homes in Europe are rented, and that New Zealand's low wage economy prevents a large proportion of the population from paying of an economic rent. Making up the shortfall of rent falls on the Government and taxpayer. This will be a huge cost area in the long term.

6 Conclusion

One envisages a future where those not in employment will still be contributing to society in return for a benefit. Tending to community gardens, running organized sport for adults and children, providing assistance to music and other programmes in schools, planting trees, harvesting grapes and fruit……….interesting times ahead, but we are a resourceful lot and will adapt, survive and be happy.

Peter J Robertson B Com FCA (hon retired)

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28 March 2018