

Tax Working Group Public Submissions Information Release

Release Document

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SUBMISSION TO THE TAX WORKING GROUP

From Ron Cormack (Retired Chartered Accountant) ^[1]

[1]

24 March 2018

Introduction

I subscribe to a number of the statements made within the Group's Background Paper 15/3/18 including from page 53 "The New Zealand tax system has been justifiably commended internationally for being a simple and efficient system"; page 4 "...the central purpose of tax policy: to provide sufficient revenue to the Government to fund the provision of public goods, services and transfers"; page 7 that "tax revenue to remain at approximately 30% of GDP".

I am frustrated by the limitation of the Group's Terms of Reference which exclude consideration of the Personal Tax System and seems to be in conflict with the assertion on page 20 that fairness can only be assessed when the Tax System and the Transfer System are considered as a whole.

My submission follows the questions posed in Appendix 3 of the Background Paper.

I have recorded the questions in italics.

What do you see as the main risks, challenges, and opportunities for the tax system over the medium-to long-term?

I agree with the eight items listed on page 9. The Tax System needs to retain simplicity; that all income earned or created be taxed on the same basis; that the deficiencies of the present system be constantly addressed.

What of these are most important?

The changing nature of work; need for equality; that Labour income and Capital income be consistently taxed.

How should the tax system change in response to the risks, challenges, and opportunities identified?

The tax system should be changed so that Labour income and Capital income are taxed on the same basis.

How could tikanga Maori...help create a more future-focussed tax system?

Our Treaty obligations are such that tikanga Maori must be catered for in a future-focussed tax system.

What principles would you use to assess the performance of the tax system?

Fairness and consistency; that all income, both Labour and Capital is annually assessed.

How would you define 'fairness' in the context of the tax system?

Fairness must be defined by considering both the tax and transfer systems. I agree with the principles of vertical and horizontal equity (fairness) as outlined on pages 19 and 20 of the Background Paper.

What would a fair tax system look like?

One in which each taxpayer entity is paying tax on a consistent basis.

...‘broad based, low rate’ system. Is it still the best approach for New Zealand?

Yes

Should there be a greater role in the tax system for taxes that intentionally modify behaviour?

Yes. Like the tobacco tax. I would support a sugar drinks tax. A tax on housing capital profits would modify behaviour by discouraging speculation.

Should the tax system encourage saving for retirement as a goal in its own right?

I’m not in favour. I would support the reintroduction of financial incentives by Government to encourage membership of and contributions to Kiwi Saver.

Does the tax system strike the right balance between supporting the productive economy and the speculative economy?

No. Housing is part of the speculative economy and investment in that to achieve capital gains has skewed the market and rendered many houses unaffordable to many New Zealanders. Income from housing (other than the family home) must be included in the tax regime.

Does the tax system do enough to minimise costs on business?

If these costs are those of compliance and administration, then I believe that effort must continue to minimise costs on business.

Does the tax system do enough to maintain natural capital?

I don’t think the tax system should be used to maintain natural capital. Other mechanisms should be used to protect soil or allocate water use.

Are there types of businesses benefitting from low effective tax rates because of excessive deductions, timing of deductions or non-taxation of certain types of income?

I think the time has come for businesses run by charities to be fully taxable.

What are the main inconsistencies in the current tax system?

That capital income is largely not taxed.

Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?

Yes. Capital income of all types must be brought into the tax system. This may not be a *new* tax, in that it should be treated as income like Labour income. It will produce more tax for the Government. I would like to see a reduction in the rate of GST to match the tax take from fully taxing Capital income.

How and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability?

The fact that capital gains are non-taxable at the moment has encouraged speculation which has contributed to excessive growth of house prices. With owners purchasing at higher prices for housing to rent out, they have increased rent to maintain their return. Many people can no longer afford these high rents. I believe this is the most scandalous thing that has happened in New Zealand in recent years. Taxing Capital income from this sector will promote greater housing affordability by eliminating speculation and treating income from investment in this sector in the same way as other investment income

Should New Zealand introduce a capital gains tax?

No, as I would like to see Capital income being included in the definition of taxable income.

Should New Zealand introduce a land tax?

I am not in favour of a separate tax as I want to see all capital income being taxed.

What are the main opportunities for effective environmental taxation?

The environment is the issue of the day. I am in favour of formulating taxes/exemptions for industry/activities that are harmful to the environment and conversely to offer tax credits to industry/activities that reduce harmful effects. These taxes and credits could offset one another!

Should the tax system do more to support small business? In particular, is there a case for a progressive company tax?

I don't see the need for more support to small business. I would argue that this is counter-productive to keeping the system simple.

Should the tax system exclude some goods and services from GST?

I am not in favour of exclusions, on the grounds of keeping the system simple. I do favour taxing gains in Capital income and offsetting that tax revenue by reducing the rate of GST.

SUMMARY

1. The basic structure of the NZ Tax System is sound.
2. However, capital gains need to be included in the definition of taxable income, in particular as regards capital gains from the housing sector (excluding the family home).
3. That taxation revenue arising from item 2 be used to reduce the rate of GST.