

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

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# Submission to Tax Working Group

April 2018

## 1. Introduction

We all recognise that the whole tax issue, including those around this working group, were a significant influence on last year's election. Therefore this whole process is likely to be politically charged. I have never been a Labour Party supporter, and never will be. Nevertheless I hope that all parties will approach this process in good faith, and that good ideas will be recognised as such, and will be implemented whichever party is in Government next term.

However I am against taxes which directly target certain portions of society, such as "rich taxes" or "poor taxes". I don't think GST falls into this category even though it tends to impact people on lower incomes more simply because they spend more of their income.

The following is a bit of a ramble of comments based on the Tax Working Group's paper. The comments are in no particular order. The issue that really made me write a submission was the idea of a progressive company tax system. I believe this could be of huge benefit to start-ups and the self employed, where there are only one or a few people in a company.

## 2. Progressive company tax

I strongly support the idea of a progressive company tax and suggest that the rates and steps should mirror those of personal tax. In this way they would have very little impact on companies with more than 10 staff or so.

I have just started my own business from home last year and am now looking to ramp up the business this year after taking some time to ensure things are set up correctly. One thing I now realise is that the time and costs required to set up a business are often more than initially anticipated.

Having recently stepped out on this path I very much appreciate the risks and rewards it can offer. I believe it is unfair to apply company tax at a flat rate because it has a big impact on small and single person businesses, especially when compared with doing a similar role as an employee of a larger firm. I believe our tax system should encourage small businesses, not penalise them.

Although it is theoretically possible to minimise taxes paid by carefully balancing company and personal income, in practice this is very difficult. As an example last year I made a payment on Thursday 30 March, hoping to get it in that financial year. However it wasn't processed until the following Monday. A rookie mistake perhaps, but it does illustrate how difficult it can be to get these balances right.

I recognise that if company taxes were progressive in the same way as personal tax there is the opportunity to pay less tax by splitting the income, for example \$21,000 at the lowest rate. However I think that is reasonable recognition of the risks taken by people getting into business, and it may help to improve the business failure rate statistics.

The example of the Australian small business tax rate is ridiculous. \$25m is an awful lot of revenue. I wouldn't regard that as a small business.

### 3. Expanding a small business

If I generate enough income to keep myself busy and well recompensed, and then want to expand I would need to consider hiring a second person. Suddenly I would have the enormous fixed costs of an additional employee including Kiwisaver, etc etc. This is an enormous jump and risk for any fledgling business looking to expand, and it could easily be several times the previous business costs. Because I am in a professional business the person I hire would be on a professional salary well above any minimum wage.

For example if I have enough work for 1.5 people, as business owner I would only receive the income of half a person because I would have to pay a salary to my staff member. Obviously this effect would lessen as a business employs more people, as would the effect on the company of the progressive company tax system.

I believe introducing progressive company taxes would make a big difference to the ability of small businesses to start up and expand.

### 4. Maori and tax

I would strongly object to differential tax treatment along racial lines (p11). Although I appreciate that the Treaty of Waitangi is a founding document for our nation, I am not happy with Maori culture and beliefs having such a significant role in the writing of our laws.

To put forward particular values such as kaitianga suggests a number of things that are completely untrue:

- That all Maori hold to these values.
- That non-maori do not hold values that are similar. For instance many European immigrants probably hold stronger environmental values than many Maori, but without the spiritual overtones.
- That the values of non-maori are of lesser importance.

The concept of Living Standards Framework and the “four capitals” is very airy fairy and almost New Age philosophy. This has no place in the establishment of our government and tax system. Certainly a tax system needs to consider a wide range of sources and needs, but let's not get all mystical about it.

A good tax system requires clarity, not mystical concepts and philosophy as its foundation.

### 5. Environmental issues

I have always been wary of the climate change cause. In my view this is far too simplistic and is analogous to a health system that concentrates solely on people's lungs but ignores the heart, the liver and everything else.

The climate change philosophy offers a relatively clean and easily quantifiable target in energy usage. However it ignores the myriad of other ways that mankind pillages and pollutes our environment.

I don't believe it is possible to create an environmental tax system that is able to account for all of the ways in which we damage the environment and therefore it is always going to be less effective than we might hope.

### 6. Equity issues

The report makes a very dubious statement on page 19: “it is clear that New Zealand as a society accepts that a progressive tax system is a fair system”. That statement depends entirely on how those progressive steps are set. Of course this statement also implies that a progressive tax system for company tax would equally be accepted as fair.

I would also say that raising the question of fairness between an employee and a contractor or business owner misses the point (p20, 2<sup>nd</sup> para). An employee has a fixed salary and therefore generally is able to plan against a fixed income and often doesn't need to worry about how that income is generated. A contractor or business owner on the other hand has a variable income reliant largely on their particular skills in developing and maintaining cash flows in their business. They also constantly need to make decisions around business costs and consider how they will impact or benefit the business. It is a far riskier proposition and I believe people in this position have every right to be treated differently by the tax system. The final statement of this paragraph suggesting equity implications itself suggests a particular political viewpoint.

Figure 11 is quite startling. The fact that 40% of New Zealanders effectively pay negative tax is alarming. This is essentially a massive welfare dependency and is surely very bad for the economy and the country. The final paragraph on page 34 suggests that paying excessive benefits has the effect of locking in dependency. That is something I have always felt to be true, and why I continue to worry about successive governments handing out more and more benefits to low and now middle income households and families. I think this is a much more serious problem than superannuation issue, as it has changed society, and is entirely the fault of the Government.

## 7. Wealth

It is very wrong to consider taxing wealth for a number of reasons. Firstly it is a very communist idea. The reality is that society is made up of a wide range of people who have very different interests and abilities, including when it comes to generating wealth. It is criminal and morally wrong to suggest that beneficiaries and entrepreneurs should both have the same income and wealth.

Secondly a person may have an asset, such as a house, and have owned it for many years during which time its value has increased tenfold. That doesn't necessarily mean they are rich or have significant liquid assets.

Thirdly if someone owns an asset that is not active, increasing in value or generating wealth it is entirely inappropriate to consider taxing it.

## 8. Tax and retirement savings

People use a very wide variety of approaches to building up retirement savings beyond just Kiwisaver. Therefore it would be very difficult to determine what are retirement savings and what are not, so I don't think it is appropriate to treat "retirement savings" differently from other savings. Tax exemptions on Kiwisaver create an imbalance in retirement savings. I don't believe Kiwisaver should have different tax status from other savings and investment options. The biggest beneficiaries in this scheme are the Kiwisaver providers, who reap all the fees. I have always felt that the system is a con job.

## 9. GST

I strongly disagree with reducing or eliminating GST on certain items, particularly for the express purpose of assisting lower income people. It would create all manner of anomalies and disparities between products. It could be argued that this would unduly advantage certain products and markets over others. It would also create all sorts of complexity with the tax affairs of businesses that use or sell these products.

It could also be used to "direct" consumers towards certain products that the Government thinks they should be buying. This is questionable on all sorts of levels.

## 10. Targeted taxes

I am very against targeted taxes such as the proposed sugar tax. I believe this particular example is unfair, arbitrary, ineffective and politically motivated. Talk of taxing certain types of drinks for example make me quite angry. Why should certain products be taxed while other similar products that are just as sugar filled are not? I think it is also incredibly arrogant to try to influence consumer behaviour by taxing certain products and not others. Removing GST from certain products and not others is equally arrogant.

Any attempt to apply these sorts of taxes will inevitably lead to a range of negative consequences.

On a slightly different note, remember that the Nazis used draconian tax laws to specifically target Jewish wealth in the lead-up to the holocaust. Obviously that is an extreme example, but I don't believe any state has any business using tax to target certain activities, products or people.

## 11. Digital economy

I think it is right to be concerned about multi-national companies paying their fair share of tax. However I believe that a one size fits all solution is not likely to work in all cases.

## 12. Housing affordability

I don't pretend to be any sort of expert on the economics of property. I do find it difficult to understand why a house seems to escalate in value over time while all other material items tend to reduce in value. The fact remains that houses, like any other material item, decay over time and need to be renovated and replaced too.

Commercial and industrial property have very different economic drivers than residential property, but are still an investment option. A commercial office block's value for example is largely driven by the value and length of the rental agreements with the tenants. Major and very expensive refits are required periodically. During these periods the property is generally not generating any income but continues to pay rates.

There is also now a wide variety of residential property from detached houses to large apartment complexes, rest homes and body corporates.

Any discussions about housing affordability need to include discussions about all forms of property.

Twenty or thirty years ago there were lots of books about how residential property investment with no money down would net great returns. These books would recommend people build huge housing portfolios. I'm not a property investor, but I don't think these numbers stack up anymore, and I think capital gains are probably the only factor that makes the game worthwhile now. Property investors would probably have a lot to say about this.

Labour governments also tend to side with the tenant rather than the landlord. Increasing the responsibilities on landlords with additional requirements such as warrants of fitness are also likely to change the game.

Although I agree that taxation in this area should be fair, I think it would be very difficult to make it so.

I think speculators operating in property investment are similar in many ways to speculators in the share market. Neither really contribute any value to the economy, but instead try to draw value from it. One of the big differences though is that people don't live in shares.

### 13. Capital gains tax

I can see some sense in a capital gains tax if it is carefully applied. I also think that dealing with losses needs to be carefully thought about. There were plenty of examples of people who owned apartments at the time of the Christchurch earthquake whose insurance costs suddenly increased by 1000%, and on top of that they were stung with hefty structural costs. People in this position were suddenly stuck with unsaleable properties.

The impact of capital gains tax, or any tax for that matter, on Maori is completely irrelevant. Land tax would have an unfair impact on farming interests.

### 14. Environmental taxes and incentives

I agree that environmental incentives are likely to have negative impacts on markets. An example is the renewable energy incentives in the UK. This had a big impact on solar power because it targeted that technology specifically at the expense of others. It caused a significant industry to develop. Then when the rules were changed after a period that industry was heavily impacted.

Another problem with that approach would be that it would encourage installation of solar panels without first looking at how to reduce energy consumption, which is the actual goal.

### 15. Various issues noted

Page 42, second paragraph states: "Tax that is not collected means that others pay more." What??! I thought there were rules for what tax is paid. I don't think there is any tax code in the world where that amount of tax paid by person A is dependent on whether person B pays their fair share of tax.

### 16. Summary

I have compiled arrange of comments. Some are just comments in passing that don't really affect me. In these cases, such as the property market, I'm sure there will be others heavily involved in these areas who would be able to provide much more detailed comment. I defer to their superior knowledge on these topics.

Progressive company tax is very important to me, since I have just started up my own business. I also think that is a very important issue of fairness which could help thousands of small businesses find their feet.

I am very deeply concerned with the depth that the welfare state has reach, with such a large portion of people effectively paying no tax. This is unsustainable and is a direct result of successive governments digging a deeper hole, which will now be very hard to climb out of.

Some of the issues put forward by the report are very unfair and unreasonable. These are likely to further worsen the welfare state problem.

I am very against taxes which are designed to benefit or inhibit certain people and/or products or activities.