

Tax Working Group Public Submissions Information Release

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Why New Zealand needs a Comprehensive Income Tax

The dictionary definition of “income” is “*the amount of monetary or other returns, either earned or unearned, accruing over a given period of time*” (Collins). For tax purposes the “given period of time” is 12 months ending on the 31st of March each year.

If you were to put that definition in front of the average person and ask them whether income tax should be applied first to **earned income** or to **unearned income** (often, but somewhat inaccurately, referred to as “capital gains”), most would chose the latter. They would agree with me that it is not fair that nurses for example, must pay taxes on their earnings, while those who add greatly to their wealth simply by owning assets, pay nothing! Yet that is exactly the position in New Zealand.

Many New Zealanders will be surprised to learn that in Australia and other developed nations, people **do** pay tax on unearned income. We are the outliers. Not only do people in New Zealand not pay tax on unearned income, but that income is also passed on untaxed to their descendants as well, since we have no estate tax. In short unearned income is passed on from one generation to another tax free!

This is wrong and it needs to change. If it does not, then the inequality in this nation, which is growing rapidly, will continue for all time. We will increasingly be a nation of the haves and have-nots.

Already the fast shrinking decline in home ownership rates means that a growing number of people will rent their home for their entire lives; experience hardship in retirement and leave little or nothing to their children.

This is not the New Zealand I want and is not what our ancestors longed for. Many of them left Britain for New Zealand because they despised the class system. Their philosophy was that “Jack is as good as his master” and they wanted to live that out in an egalitarian society.

People like Kate Sheppard and Michael Joseph Savage would be staggered to learn that their egalitarian dream is no more and that our beloved country is now divided, like the old world class system, between the rich and the poor. Prime Minister Savage’s policy was “from each according to their means, to each according to their need”. He described this as “practical Christianity” and it is (see St Paul 2 Corinthians 8:12-15).

Interestingly the social justice teaching of the Church places income from work (labour), ahead of earnings from capital gains; because it is through work that the great majority of us support ourselves and our families. The reality in New Zealand however is precisely the other way around. Here income from work is taxed and unearned income is exempt. We have it 100% wrong!

In 1988 the Royal Commission on Social Policy, chaired by the late Judge Sir Ivor Richardson (President of the Court of Appeal and one of New Zealand’s greatest experts on taxation), heard my submissions on this issue. When the Commission reported back to the then Labour Government, they concluded that “***viewed in terms of fairness (and economic efficiency) the argument for taxing capital gains is overwhelming***”

Their reference to fairness I have mentioned, but they also spoke of “economic efficiency” as a second reason for such a tax.

That is because, if one source of income (earned) is taxed and the other (unearned) is exempt, the whole economy is skewed towards the latter, since people are then incentivised to maximise their after tax income by seeking unearned income. An efficient economy with a level playing field, will tax both earned and unearned income at exactly the same rate and ensure that any tax owing (since unearned income is taxed only on realisation) is collected on death.

So why do those who have unearned income continue to pocket that wealth tax free? The answer is “because **we** elect parties that let them!”

In 1990 for example, the Labour Party’s policy was to introduce legislation to tax unearned income, but a group of well funded millionaires campaigned vigorously against it and National, who then and now seeks to preserve “no tax on unearned income”, was narrowly elected.

We must not let that continue to happen. It is estimated that there are 100,000 or so millionaires in New Zealand (many just because they own a freehold house in Auckland), but there are about 3.2 million people on the electoral roll, so the numbers are there to change the current law if we want to.

Are we going to allow the 10% of voters who already own 60% of the nation’s wealth (*source: Statistics New Zealand*), to continue to call the shots, or do we want a fair tax regime for all?

Gordon Copeland

6 April 2018