

Tax Working Group Public Submissions Information Release

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from Jenny Kirk, [1]

Submission to the Tax Working Group.

The Tax Working Group has raised five main issues for New Zealanders to discuss : the future of tax, The purpose of tax, Are we taxing the right things, Can tax make housing more affordable, and What tax issues do we think are important.

I will try to answer these queries, through the following comments.

1. We need a taxation system which enables everyone to share the cost of the country's infrastructure (transportation, sewerage, water, public health and education systems, housing, protection of the environment and so on), and we need a tax system which is reasonable and fair to everyone.
2. We need to keep NZ's tax system as simple as possible.
3. As a member of the NZ Labour Party, I have always believed that NZ's tax system should be progressive, and fair. "Progressive" in that the more you earn, the more you pay. And "fair" in that it is a reasonable system which everyone who pays tax feels comfortable with, and thinks it is relatively equitable.

But over recent decades, it seems to me that our tax system has become inequitable, and is not fair, and that low income people who use all their funds on basic living costs, are paying a disproportionate amount of tax on the income they earn. And that to a large extent, this is because everyone is taxed – whether they're on a benefit or NZ superannuation or are in some sort of paid employment – through GST, and also through the PAYE scheme.

It is unfair in that some wealthy people have their income assets in trusts which allows them to avoid paying tax on a considerable portion of their income. It is unfair in that people who have a "portfolio" of jobs are taxed at a secondary (higher) rate on their 2nd/ 3rd jobs when in fact their total income is probably only at an average level. It is unfair when the people on low incomes spend all their funds on goods and services which are taxed at 15% - on top of their basic income tax rate, and quite often on top of a secondary tax as well. And it is unfair when specific charitable organisations and churches do not pay tax on the earnings of their "business". There are a number of other "unfair" aspects about our current taxation system – but these ones are fairly basic, and need remediation as soon as is possible.

So it seems to me that the Tax Working Group needs to have a good look at what is fair and equitable, and how to counter the many loopholes that wealthy people manage to find, to avoid paying their share of our taxation system.

4. I would like to see a way to **tax the trusts** which wealthy people set up to avoid paying taxes on their assets and income.

5. I would like to see the **removal of secondary tax** from wage and salary earners. Removing secondary tax will allow those in 2 or 3 part-time jobs to pay the same amount of tax as if they were in one job only. This would be fair.

6. I query whether it is fair that CEOs and senior executives of large companies should be earning millions of dollars as salary, and paying only 33% of this in taxation – when those on the absolute minimum of benefits are paying at least 10% of their benefits in taxation.

7. I would like to see **the removal of GST on specific goods**.

(a) GST is at 15% on all goods and services - which means everyone who buys something, or uses a service, is taxed on that activity - as well as their income tax. Those who are on low to lower-middle incomes spend most of their income on foods, goods and services – so they are probably paying relatively a higher rate of taxation, than do wealthy people who can also travel overseas to buy their goods and services. Is it fair that girls and women HAVE to buy sanitary products regularly which have a 15% gst tax on them, which is something boys and men do not have to do.¹

(b) I would like to see GST removed from female sanitary products, nappies for babies/toddlers, and the adult nappies which older people sometimes need to wear on a regular basis. These are all essential hygiene items for a specific class of people – often people at the lower end of income availability.

(c) I would also like to see GST removed from all raw fruits, grains, nuts, meats and vegetables - this could encourage healthier eating by some people, reduce obesity and the illnesses which result from obesity. I would not include milk or dairy products or fruit juices in having GST removed. These are mostly processed products, and are not entirely raw, or have additives of some sort added. I am aware, of course, that some fresh milk is sold as organic – but there still remains a degree of processing with this milk. Ditto processed meats such as sausages, salami, etc. Breads are also processed foods. NB – I am not saying fresh foods. I am saying **raw** foods.

8. **Sugar tax?** NZ apparently has a very high rate of sugar in a large number of products. Apparently higher than many other countries. How easy, or complicated, would it be to introduce an extra tax for high sugar content of individual products? I think we could do this. And it

could be an important step towards solving some of NZ's obesity and diabetic health problems. And it would be an incentive to the companies producing the goods with high sugar content, to lower the sugar content.

9. As far as I am aware Churches and a number of charities do not currently pay tax on their **business activities**. They rely on their business activities (often with volunteer help) to provide their services. However, I think the actual business activity (whatever it is) should be paying a business tax on their net profits. People will argue that this will reduce some of their services. On the other hand it is known that some churches and so-called charities make enormous profits from their businesses, which do not necessarily go on charitable or community services for the good of all peoples. Examples which spring to mind are Destiny Church, GloriaVale, etc.

10. **Fuel Tax.** I agree with the need to have fuel tax to provide funds for the transportation infrastructure. NZ has been under-taxed in this area for a long time, and the transportation infrastructure needs major repair, upgrade, and our public transport system needs to be properly funded. I would also like to see the trucking industry paying its fair share for road repairs. Road user charges come nowhere near enough to pay for the amount of damage heavy trucks do continuously all the time on our roading system.

11. **Property tax.** Negative gearing can mean the property owner can offset "losses" in rental properties against their other earned income. Owning a rental property needs to be regarded as a "business" activity, and as such, needs to be kept as a separate entity from other earned income. This raises questions for me : Should we, the taxpayer and the government, assist the property owner if they make a loss on their rental business? Do other business owners who have suffered a loss have the same access to reduction in taxation on their personal earned income?

Case study

Penny, a property investor, buys a unit for \$300,000, putting in \$50,000 of her own money and borrowing the remaining \$250,000. The interest of 7% each year is \$17,500 and the weekly rent is \$300 or \$15,600 a year.

Ongoing costs including rates, water, insurance, maintenance and depreciation allowance are \$2600 each year. After expenses, income for the year will be \$13,000 (\$15,600 minus \$2600), equivalent to a net rental yield of 4.3%. However, annual interest repayments are \$17,500, so she has actually lost \$4500 during the year (\$17,500 minus \$13,000 = \$4500).

The result is that Penny is eligible to receive a tax deduction of the loss accrued. But should we, the taxpayer, help Penny out to cover this loss?

Why didn't she factor in sufficient income from rent to cover her basic costs, including the interest on her mortgage?

12. **Capital Gains Tax**

(a) I personally think that people who own property other than their family home or business, should be paying some extra tax if they sell that other property or business at a profit within five years of buying it. Having this profit taxed will help reduce the enormous amount of property speculation currently happening in NZ – which has resulted in rising house and land costs to such an extent that people who are on wages or fixed salaries are unable to afford to house themselves and their families. It might also reduce the asset-stripping which goes on when NZ business is sold. ie might help stop business speculation, and might encourage proper investment into NZ businesses.

(b) There may be a need for some discretion in applying such a tax – for example, a family home purchased in one town, might need to be sold within a couple of years if the home owner gets a job in another town, or is made redundant and needs to downsize to a smaller home within that five year period. These types of exemptions could be built into the requirements of such a CGT.

(c) I don't think you can put a CGT onto people's personal collections of art, jewellery, etc. Some rich people donate their collections to their local communities, others leave them to future family members, and it could be a costly exercise trying to calculate what these assets are worth – possibly more costly than the actual tax achieved.

13. **Water.** Throughout the country, various regional councils have approved resource consent applications for the “take” of freshwater to be bottled and sold either overseas, or by overseas companies. Examples of this include the Poroti Springs Northland, Wiakoporupu Springs Takaka, Selwyn-Waimakiriri and Selwyn-Rakaia areas, the Bay of Plenty, etc. The sale of these waters competes with the actual needs of the local community which also uses these waters for their own personal and domestic use. And it could lead to the possibility of a “drought” being experienced by that local community, while the sale of bottled water continues to occur. It could also lead to the possibility of an overseas company such as Nestles taking over the entire water supply of a local community as has happened near Aberfoyle, Ontario, Canada in leaving the locals without an adequate water supply.

I do think there needs to be some sort of taxation on the profit of the sale of these waters. It could be called a Royalty. And it needs to be **substantial** so it provides a disincentive to overseas interests who are seeking to sell NZ's freshwater supplies for their own private profit.

14. **Cost of infrastructure** – transportation, sewerage, flood protection, domestic water supply.

(a) There are different ways of paying for these things – some through rates on properties to local authorities, some via special taxes like a fuel tax, and some via charges like registration of cars and other road charges. Sewerage is a big item for smaller local authorities to get right (and even for large local authorities – eg Auckland City does not have it right, throughout the whole city – part of this is historical, part of this is sudden rapid population growth).

(b) Because of the problems caused by this rapid population growth, and with changing climatic conditions causing more infrastructure problems, perhaps it is time the government set up an experts division which could provide advice, technical support to local authorities, and expertise in doing some of the work necessary to fix things. Maybe we could go back to having a Ministry of Works-type of govt department – but we could call it Ministry of Infrastructure, and the cost of doing this would come out of our basic taxation system.

Thank you for the opportunity to put forward my ideas and comments on NZ's taxation system.

Jenny Kirk MNZM
9 April 2018

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ⁱ The irony in this situation is, when GST was first mooted in the mid-1980s, one of its selling points was that varying amounts of sales tax was collected on a large variety of goods including sanitary products which – if I am recalling correctly – was at a high percentage rate (I think it was 15%). It was suggested then that a 3% GST would help reduce the high cost of these products.