Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

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

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

Submission on Tax

General principles:

1…All benefits that are individualized (ie can only be accessed by the individual eg not public health care or public education) should be completely taxed incl those provided by a trust or company.

2…all tax systems should be transparent and completely without exemption or loopholes (as these enable entities with resources to exploit to minimize their tax).

3…the tax take should reflect the amount of wealth accrued to the individuals in that cohort ie if the top 1% have 25% of the wealth, then they should shoulder 25% of the tax burden.

4…all persons or entities who earn their wealth from the country should pay tax. That MUST include overseas entities who currently do not pay sufficient NZ tax, and overseas online retailers.

5…it is legitimate to use tax as a way of curbing negative behaviour and rewarding positive behaviour.

In detail.

1…All people who reside in NZ and those who make their money in NZ (overseas registered companies) should shoulder the tax burden according to their wealth in NZ (or generated in NZ for overseas companies). If the top 1% of entities (people and overseas companies) have 25% of all the wealth of NZ, the tax structure should ensure that they collectively pay 25% of the total tax take.

2…to have tax that reflects the wealth of the cohort, we need a Capital Gains Tax as a complement to the highly regressive GST. The CGT should be on all items including the family home. However, to make it practical, the tax due can be suspended until the death of the owner or when ownership changes hands. We should also have a Financial Transaction Tax, again as a counter-weight to GST. If one or both of CGT and FFT are enacted, then GST can be lowered – perhaps back down to 10%.

Or the proportion of tax currently taken by GST should be split 33:33:33 by GST, CGT and FFT.

3…Company tax needs to be reformed in 2 particular areas. The first is that companies should be treated like individuals and taxed on their income and no exemption for their expenditures. If it is sufficiently fair that individuals are taxed solely on their income and no account is taken with regards to expenditure in general, then that should be the defacto standard method for companies.

Like individuals, there should be a sliding scale for company tax, depending on their income. If deemed beneficial, companies could have a tax holiday for a few years while they start up. They may also get a reduction if they take on new staff.

If this was adopted, then we would have a problem with overseas companies re-arranging their books to incur all the costs here and send all their profits overseas. This method of taxing on income must be mandatory for overseas companies.

Even if the principle of taxing companies by income is not acceptable (ie tax is still calculated on profit), it can still be far more transparent such that taxes cannot be reduced because of losses. Losses may result in no tax but cannot be used to write-off future tax take.

Also there should be no exemptions of any sort for capital depreciation or any thing else.

The second area that company tax needs to be tightened is where long-term (eg greater than 1 month continuously) fringe benefits are accrued to particular individuals. The use of a company car or phone with no costs accrued to the individual must be fully taxed. Similarly the ability to tack on a holiday after doing some company travel (often for highly dubious reasons). The current FBT regime isn't sufficient.

4…we should be taxing activities that have a negative externality eg carbon emissions, phosphate load on the land. We should also reward positive externalities like perhaps having no GST on fresh vegetables. Such taxes should be able to be changed relatively easily, depending on what behaviour needs changing.

Deriving wealth from non-productive activities is also a behaviour that is negative. The tax structure should reward productive investment and penalize activities that derive wealth by driving up price (just like a Ponzi scheme).

Another reason for making FBT punitive is that it probably encourages 'negative' behaviour eg excessive use of the company car, or unnecessary travel. Making FBT punitive and making the individual gaining the benefit liable for the tax (as opposed to the company) will also help reduce the "agency theory" problem here – as I'm sure it is not in the interest of the company per se for private car use or private holidays.

5…As all tax calculation is now electronically done with computers, it is unnecessary to have "hard, fixed" rates of taxation. Instead it is now feasible to have sliding tax rates. For instance, where the tax rate is now 10.5% for income of 0-$14k, and then a tax rate of 17.5% for income between $14k-$48k, you could have a sliding tax rate of 0-15% for income between $0-$48k. This would reduce to incentive to earn just below the threshold or some similar behaviour.

It may also reduce the sometimes very high marginal tax rates suffered by some welfare beneficiaries when they exceed their income limits and MSD starts clawing back their benefits.