

Tax Working Group Public Submissions Information Release

Release Document

September 2018

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

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

Office of Hon Stuart Nash



MP for Napier

Minister of Police

Minister of Fisheries

Minister of Revenue

Minister for Small Business

22 November 2017

Mr Digby Crompton

[1]

Dear Mr Crompton

On behalf of Hon Stuart Nash, Minister of Revenue, thank you for your letter suggesting some changes to the current tax laws, that has been referred here form the Office of the Prime Minister.

Your letter has been provided to the Minister for his consideration.

Thank you for taking the time to write.

Kind regards

[1]

8 November 2017

Digby Crompton
[1]

Dear Digby Crompton

I am writing on behalf of the Prime Minister, Rt Hon Jacinda Ardern, to thank you for your letter received on 1 November 2017, offering your congratulations to both Jacinda and the Rt Hon Winston Peters, and also proposing changes to tax laws to provide a basis of fair taxation. The material you attach to your letter has been noted.

As the issues fall within the portfolio responsibilities of both the Minister of Finance, Hon Grant Robertson, and the Minister of Revenue, Hon Stuart Nash, I am forwarding a copy of your letter to these Ministers' offices for further consideration.

Thank you for writing.

Best wishes

[1]

Prime Minister's Office
01 NOV 2017
RECEIVED

[1] For the Right Hon. Jacinda Ardern and the Right Hon. Winston Peters

It has been a long time since we have heard the words of a statesman:

"We had a choice to ratify the status quo, or for change. New Zealanders have come to view today's capitalism, not as their friend but as their foe, and they are not all wrong. That is why we believe that capitalism must regain its responsible human face"

Concise Oxford states: capitalism as an economic and political system in which a country's trade and industry are controlled by private owners for profit rather than by the state.

Surely then it is vital to rediscover the natural laws governing trade and industry. Sir William Blackstone wrote of the essence of English law (and hopefully of the Nature of NZ law) as being of the three Justinian principles: 'that we should live honestly, harm no one and render everyone their due.'

There is one imposed law that does not comply – namely the law of taxation which has exacerbated the gap between 'the so called haves and have nots'. The Laws of taxation preside over every transaction reliant on money. Money, however, is the circulating medium in all transactions, whether in cash or credit. It is in rediscovering the natural law applicable to taxation assessed and calculated in dollars that just economic freedom and prosperity will be found for all.

Can I respectfully ask that you study the enclosed, before passing this on to others who will have established and restrictive ideas on the subject? I would be more than happy to meet and enlarge on the study and support I have had in putting this to you both. It is possible to lead the world with a true and fair taxation system that enlivens trade, industry including goods and services for the Nation.

Its implementation is not difficult as Andrew Mc Laren Labour MP for Burslem in England once said "Simplicity and Truth stand together and wherever you get complexity, beware, because there is a falsity somewhere".

With very best wishes for the time ahead,

[1]

[1]

Sincerely,

Digby Crompton

[1]

Derivation of fair taxation

All of us, particularly at this time, need a clear understanding about the basis of fair taxation.

Provision of goods and services is not possible without sourcing a mix from Land, Employees and Capital. From these three arise the natural forces and accounting stream which defines the 'incoming' provision for all goods and services. Consequently, GST is payable as an 'outcome' by each registered taxpaying enterprise.

Instead of the current mix of additional tax types it would be preferable, if all other taxes were assessed equally on the cost of the same three natural incoming accounting streams namely: rent, wages & salaries etc., dividends and interest. Tax to be payable on the total paid out for the three income streams, at one rate for all enterprises. This would establish a true and fair 'in-come tax' payable by each enterprise which frees individuals from paying a personal tax! Generation of goods and services generates all the necessary tax. Genuine profit and therefore retained venture capital would not be assessed for tax except when paid out in dividends, bonuses etc. which overall must stimulate economic production and service.

This simplicity in accounting would economise tax assessment and collection for employing enterprises and for I R D and be fair for all.

“Some Advantages”.

- 1) Simplicity in assessing, collecting and paying taxes. Fair for all and not weighing on production or service
- 2) All calculations for tax are based on actuals
- 3) Great reduction in staff once necessary to handle tax collection for IRD and also for each enterprise
- 4) No spurious expenses can be used as deductions for an enterprise that can affect the tax take or give unfair advantage to employers/owners over employees.
- 5) No individual is assessed for tax on his input thus freeing IRD from individual assessments. The registered enterprise pays the tax at one rate on all employees.
- 6) IRD auditing will then be limited to enterprises already registered as GST payers.
- 7) A fair income tax is assessed universally on what is taken by the use of land, employees & capital and therefore pays back what is provided in adding value to the community
- 8) The Incentive to make profit is not deterred or burdened by a tax or by how to avoid such a tax
- 9) Retained earnings or venture capital is free of the burden of tax, as profit of the enterprise is not taxed unless paid out as bonuses, dividends etc.
- 10) No specific tax advantages is gained for those employees whether management, owners or those in production, clerical or service provision.
- 11) Human cost of employment becomes the same percentage on 'take home pay' for all as the enterprise contributes its tax to the nation.
- 12) Not allowing the deduction of expenses against profit for tax purposes will naturally increase a measure of economic expenditure and also increase productivity and efficiency morally within the enterprise.
- 13) Taxing sale of property on the land profit 'only' respects increase in prices being due to the presence of the community – ie not taxing human skill, intelligence and effort already paid for in the cost of any building on the property. Easily assessed from QV figures

Play up and Play the Game

New Zealanders love and respect fair play. It is part of our DNA! Embodied is this Spirit of endeavour - a NZ quality perhaps initiated from the name of Cook's ship!

It is easily acknowledged and highlighted with Hillary, Meads and Burling and exemplified further with Carrington, Adams and Devoy. They have the mark of dedication, enterprise and economy yet, quoting Shakespeare "money is not their suit"!

Somehow by energy, skill and intelligence they win through, not being burdened or taxed by difficulties as these are set aside in their 'endeavour' There are many things we cannot accomplish individually, but bound together in love and affection as a family within the Nation; as a group, a team or enterprise the possibilities are endless. It is from the government of a Nation that the laws of the game are established. When the rules are true and fair, then we all may prosper according to opportunity, endeavour and service. New Zealanders are fortunate that their laws are based on the Justinian principles inherent quintessentially in English law namely, "to live honestly, harm no one and render everyone their due"; but, with the one notable exception - the laws of taxation! They are far from equitable and tend to distort actions.

Consequently, we see our contribution to the welfare of the state and the country's infrastructure (which is unable to be organised individually or communally) as a burden.

It is vital we perceive 'this contribution or 'tax' afresh, as rules for taxation affect every transaction with money whether paid by individuals, enterprises or the nation. Money is the circulating medium, the currency which free flows through all transactions; but it is the tax rules that can give a framework toward true Economic success and prosperity.

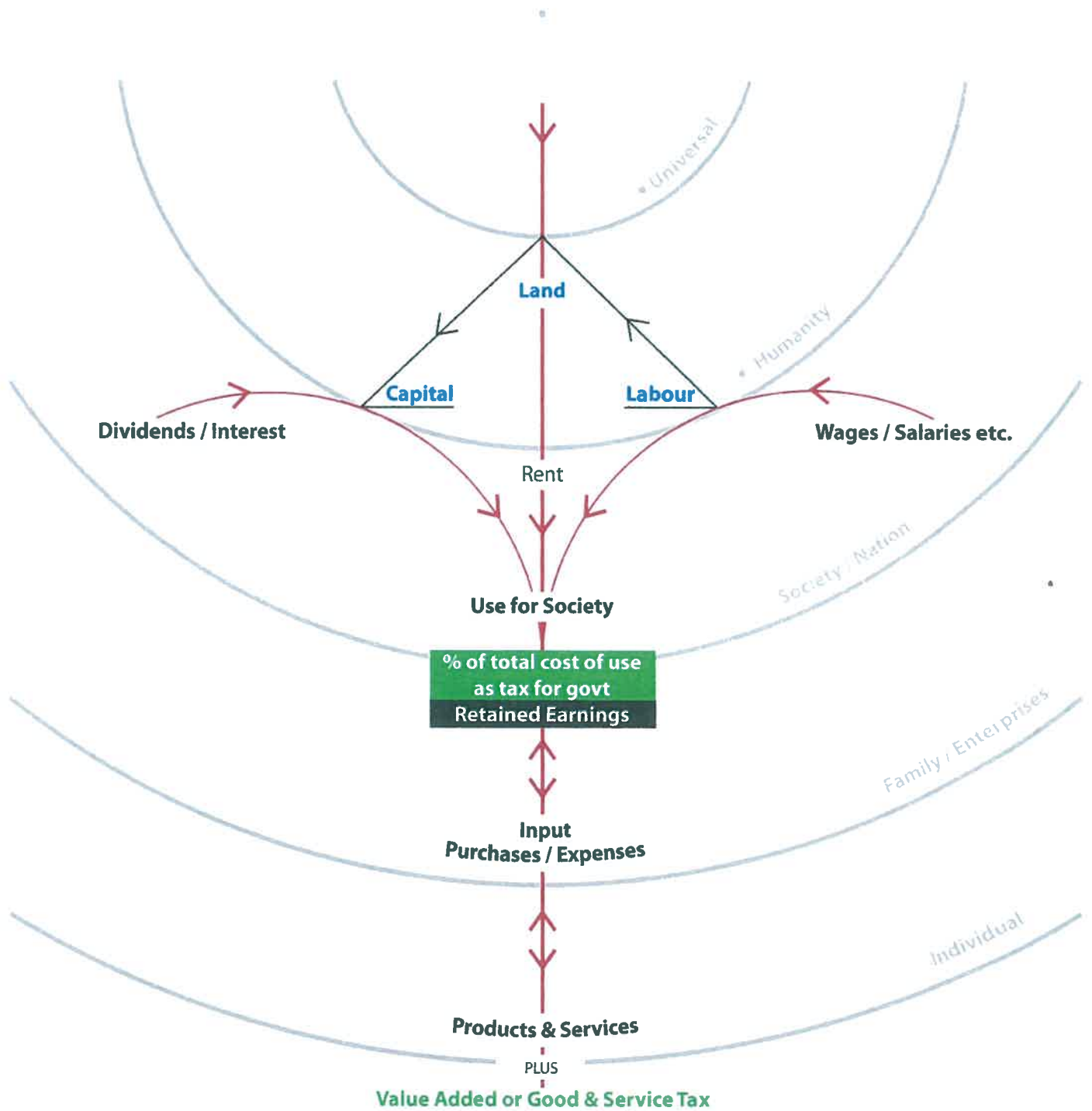
Our sports men and women find themselves mastering the elements of nature, character and will, while developing their own talents. Enterprises by being encouraged to make economic use of the three primal elements of production and service namely Land, Labour and Capital is a first step toward efficiently generating goods and services. How? By taxing their use, on the total, at one tax rate (i.e. on rent, salaries wages etc. & dividends and interest paid out.) This then represents a true 'in-come tax' while GST remains an 'out-come tax' and together it is a much more profitable proposition than taxing profits or individuals income which only blunts real incentive.

This invites a fair and prosperous outcome, and would also mean retained earnings (or profit) for all enterprises would not be taxed; and no individual would pay tax on his or her earnings; as all tax would be assessed and paid at one rate on the cost of use of the three productive streams of Land Labour and Capital by the enterprise. The freedom from responsibility for individuals with the change of incidence, plus encouraging all who participate in serving NZ and in the exportation of goods and services, means NZ could lead the world with a fair, honest and economic taxation system based on immediate values easily and true principles. Simplicity is closest to truth and a sure platform for advancing prosperity in NZ.

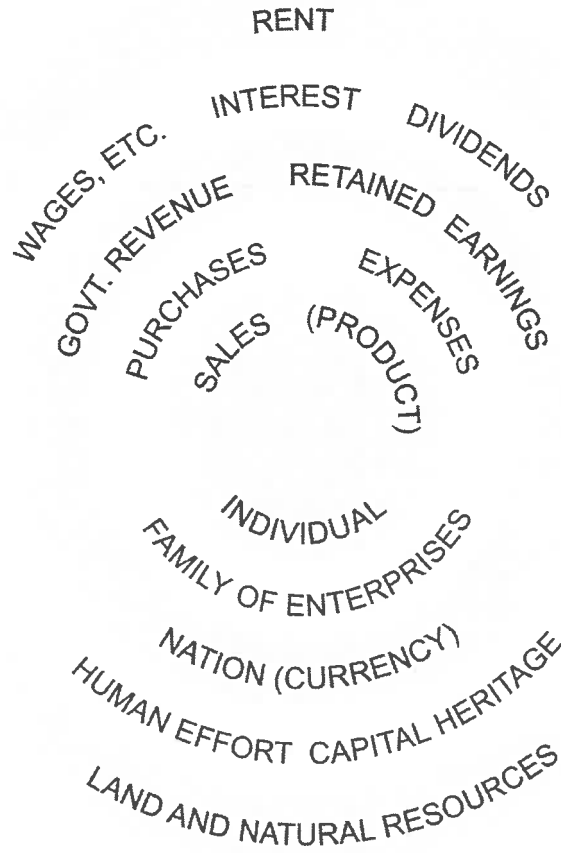
Value added and Tax Statement

Sales	\$	Use of:	Land:	Rent	\$
less					
			Human Effort:	Wages etc.	\$
Purchases & Expenses					
			Capital:	Dividends	\$
Value added	\$			Interest	\$
less				Total*	\$
					\$
Retained Earnings & Depreciation				_____ % of Total* for TAX	
Distributable	\$			Distributed	\$

Economic Framework for Taxation



UNIVERSE - HUMANITY - SOCIETY - FAMILY - INDIVIDUAL



' When a work is for the satisfaction of the individual and also society, if both gain from this production and use, then it is right; and, if only the producer makes a gain at the loss of society or nation, then it must not be morally justifiable.'

FIVE PRINCIPLES

ACTUAL CERTAIN AMOUNTS

Use of Natural Resources/Land

Rent

Use of Humanity
 Labour
 Capital

Wages, Salaries, etc.

Interest, Dividends

Provision for Nation/Society
 Government
 Retained earnings

Tax paid to Government

Retained Earnings (Venture Capital)

Incorporating Family of Employees
 Service Providers
 Suppliers of Goods

Expenses

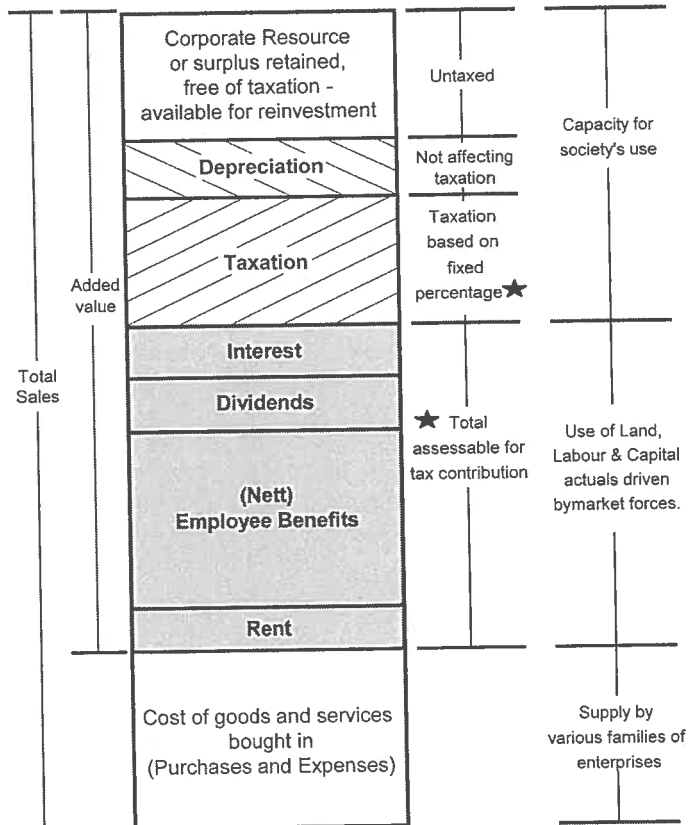
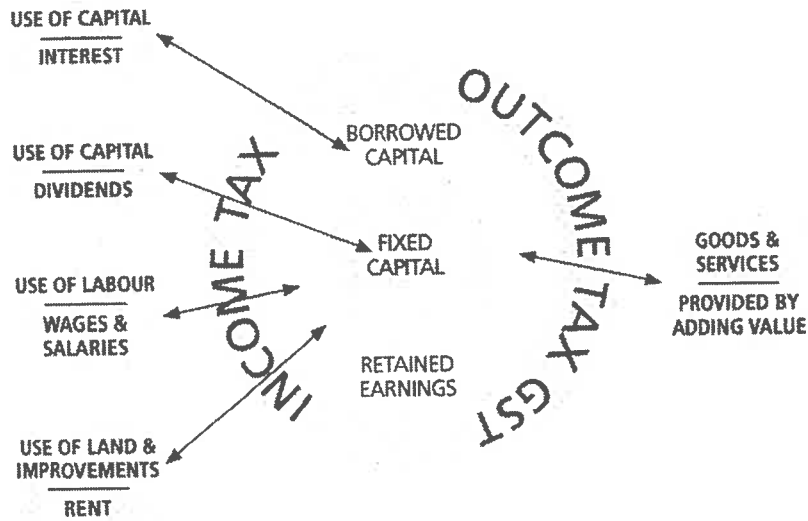
Purchases

Resulting Individual — Individual Product

Sales/Income

Value added Accounting Statement

Sales	\$	Use of : Land :	Rent	\$
less				
Purchases & Expenses		Human Effort:	Wages etc.	\$
		Capital:	Dividends Interest	\$
less				\$
Value added	\$			\$
Retained Earnings & Depreciation			Total % of Total for Govt.	\$
	\$			\$
Distributable	\$	Distributed		\$



Comparative Financial Reporting

Profit & Loss Accounting

Sales (Revenue)	100.00	
Less Purchases	-60.00	
	<u>40.00</u>	
GP		
Less Expenses	-5.00	
Wages/Salaries (net)	-7.00	
* PAYE	-3.00	
Rent	-10.00	
Interest	-5.00	-30.00
	<u>10.00</u>	
Net Profit		
* Tax on Profit	-3.00	
	<u>7.00</u>	
Profit after Tax		
Dividend	-2.00	
	<u>5.00</u>	
Retained Earnings		\$ 5.00

Value Added Accounting

		100.00
Sales (Revenue)		-60.00
Less Purchases		<u>40.00</u>
GP		
Less Expenses	-5.00	
Retained Profit	-5.00	-10.00
		<u>30.00</u>
Distributable		
To the suppliers of land, labour & capital		
Rent	10.00	
Wages/Salaries (net)	7.00	
Interest	5.00	
Dividends	2.00	24.00
		<u>6.00</u>
* Tax Generated		<u>30.00</u>
Distributed to stakeholders		\$ 30.00

A Fair Tax on Profit on Sale of Property

Can I suggest that Land and Capital are mistakenly lumped together and combined as Assets!

Land and natural resources arise from Nature. Capital is that made by Man for further use (modifying natural resources). I.e. one has 'no' labour content: the other a labour content.

This is why classical economists such as Adam Smith classify the 3 as - land, labour and capital.

Any expenditure on existing homes or buildings supplies GST and also creates PAYE or taxable income for Government from the labour content, as well as providing employment for New Zealanders.

Increase in land value belongs to the presence of the community and is not consequential on human effort, intelligence or skill and therefore no one individual or group causes a tax content but the community could. How do we separate the two (ie profit on land v profit on improvement within the sale price). It is obviously unfair to tax any increase in the improvement portion of the profit on a sale

Surely, the ratio from Q.V. of land to total Cap Value (averaged if necessary) applied to the difference between Purchase price and Sale price up to say 5 years gives a land only profit which could be assessable for any property sold other than a family home ! This would catch the entrepreneurs relying on land value growth, obviously due to the community's presence, and so validate taxable profits.

This shows good faith and is workable. Tax on the increase in land value, could be as low as 15% (equal to GST for example) but without redress for any possible loss to government if property sold at a loss. .. It does find a just position between the arguments for and against CGT and acknowledges the benefit provided by the community, the means by which value of land increases due to public demand.

This Tax is simple, certain, easy to assess, calculate and pay, but, more importantly it is fair to all.