Tax Working Group Public Submissions Information Release

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Capital Gains Tax – A chance for New Zealand to grow

The first thing to note in this paper is that the writer has no axe to grind rather has a desire to truly make New Zealand a better society as a whole.

For many years I have seen investments being made for capital gains purposes solely rather than truly economically viable investments. It is the drug of the New Zealand investment community and it is time for the country to be weaned off the drug and in this case the best way is to go cold turkey.

By way of background the writer is a chartered accountant with a practice in the south of Taranaki which is predominately agricultural focus. Most of the ideas expressed in this paper come from discussions with farmers and incorporate the responses of those farmers thus ensuring a balanced and fairly equitable approach.

Capital Gains Tax – The simplier the better

The most successful taxes to be implemented are those that are seen as legislatively simple to understand, easy to manage and enforce, with very limited if any scope for abuse.

New Zealand was a leader in this field with the implementation of the Goods and Services Tax regime in the mid 80's. Even today New Zealand's Goods and Services Tax regime is the envy of the western world for its simplicity and ease of use.

This approach has to be applied to any Capital Gains Tax regime.

In order to be successful any tax must be as broad as possible so as to limit any scope for opting out of the regime. Coupled with that the rate of the tax must be set at a level so as to positively encourage compliance and minimize the potential of abuse. This said by setting the rate at the correct level there becomes a societal pressure to comply thus ensuring the enforcement is both effective and wide ranging.

What should be caught.

It is the writer's view that capital gains should apply to all capital gains with absolutely no exemptions. Remember it is often not the tax that is unpalatable but rather the rate at which the tax is administered.

Thus the family home is included in the net, as too capital gains on the sale of shares, art work, wine, collectibles, crypto currency, commercial buildings, farms, orchards and so forth. Basically if you make a capital gain you will be liable for capital gains tax, full stop. Yes I know this could be seen as political suicide but the reality is that the greater good for New Zealand is the aim of implementing a simple and transparent tax base not popularity.

That said I also firmly believe that it is not the governments role to subsidise poor investment decisions and processes and thus there should be no allowances made for capital losses. Those losses should be bourn solely by the investor and not the government.

The rate of Capital Gains Tax

The moment you link a capital gains tax to income tax rates the government of the day is asking for a scrap. The clear answer here is to make the capital gains tax a separate and stand alone tax.

In the process you would significantly reduce the volume of the current taxation acts and thus truly achieve significant tax simplification. By my rather limited analysis approx. 2/3rd if not one entire volume of the tax act could be removed and replaced which something no larger than the GST Act.

In discussing this issue with a vast cross section of the client base it would appear that an acceptable rate to be applied would be in the area of 10 – 15%.

I felt there would be significant push back from a client group that had been raised on the drug of farming for capital gains however they were in most part completely comfortable with a capital gains tax of this level and many commented that they thought this was fair and reasonable.

They were also completely comfortable with including the family home as it makes it so simple to apply and the rate is not seen as excessive.

How do we calculate the Tax

Lets try and keep this as simple as possible, the most basic form would be

(Selling price – (Purchase Price plus and capital improvements)) x Capital Tax Rate = Capital Gains Tax

There will be those who state that an allowance needs to be made for inflation etc etc. To these I say rubbish. The capital gain is the capital gain, raw and simple. Don’t forget the more rules the more options for ripping the system.

The family farm was bought in 1985 for say $500,000 and was sold in 2020 for say $4,000,000. Capital Improvements (As per Tax Law) were say $400,000 during that time. The rate of tax is 10%. Therefore the amount of Capital Gains Tax would be

(4,000,000-(500,000 + 400,000)) x 10% = $310,000 Capital Gains Tax

Perhaps this is overly simplistic but it does follow the KISS principle and severely limits the scope for abuse.

In Summary

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- Yes to a capital gains tax
- Yes to making it stand alone
- Yes to making it comprehensive
- Yes to making it fair and simple.

My challenge to the review group is Be Bold, be Radical in Thought and most importantly Be Brave.

Dean Pratt

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