

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

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# Responses to Questions

## Future of Tax Submission

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[Chapter 2: The future environment](#)

[Chapter 3: Purposes and principles of a good tax system](#)

[Principles for assessment](#)

[Defining 'fairness'](#)

[Chapter 4: The current New Zealand tax system](#)

[Frameworks](#)

[Taxes and behaviour](#)

[Retirement savings](#)

[Chapter 5: The results of the current tax system](#)

[Fairness and balance](#)

[Tax and business](#)

[Chapter 6: Thinking outside the current system](#)

[Chapter 7: Specific challenges](#)

[Housing affordability](#)

[Capital gains tax](#)

[Land tax](#)

[Environmental taxation](#)

[Progressive company tax](#)

[GST exemptions for particular goods](#)

## Chapter 2: The future environment

**What do you see as the main risks, challenges, and opportunities for the tax system over the medium- to long-term? Which of these are most important?**

- Wealth concentration in fewer hands with a smaller share of income from wages.
- Tax avoidance facilitated by mobile capital and favouring the wealthiest with the resources to minimise tax.

- A higher proportion of non-workers or underutilised workers due to age- and technology-related causes.

The most important opportunity is to use the tax system, through changes to what is taxed and redistributive measures, to reduce wealth and income inequality. This will produce both a stronger, more stable society and a stronger economy.

### **How should the tax system change in response to the risks, challenges, and opportunities you have identified?**

- Boost the share of land and financial transaction taxes which will (a) be harder to avoid and (b) be progressive so that those with greater wealth (not necessarily just greater income) pay a greater share of taxes, and (c) discourage financial speculation, especially NZD currency speculation.
- Tax foreign-domiciled online businesses based on NZ revenue share rather than profits.
- Reintroduce inheritance taxes as a way to fund the health and pension systems from asset-rich elderly, with the attendant benefit of countering intergenerational inequality from inherited wealth.

### **How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system?**

No view.

## Chapter 3: Purposes and principles of a good tax system

### Principles for assessment

#### **What principles would you use to assess the performance of the tax system?**

- **Progressiveness** – those with most income and wealth should pay a proportionately higher share, in line with wealth share rather than just declared income. As well as increasing fairness, this will reduce much of the unproductive speculative investment – such as housing – which exploded after tax cuts drove big increases in after-tax income for high earners. These were justified on the now-discredited theory that it would drive productive investment and the benefits would “trickle-down”. The evidence suggests that this tax strategy drove neither the big boost in productive investment nor the trickle-down of its benefits.
- **Adequacy to fund high quality, universally available public infrastructure and services.** This will be higher than the recent government size of 30% of GDP. Our recent history shows this level has degraded physical and social infrastructure and deferred essential maintenance and replacement. There is no proven causal

connection between economic performance and size of government (comparing developed economies) while there is ample evidence of poorer social performance where the government share is artificially reduced.

- **Difficulty of avoiding tax.** This is achievable through what is taxed (eg fixed land vs mobile income), how tax is levied (eg on online sales to Kiwis, rather than profits of the foreign-domiciled owners of these websites).
- **Reducing negative behaviours.** For instance, a financial transaction tax such as a Tobin tax could (1) reduce speculative trading of the NZD which probably accounts for some of its over-valuation, and (2) potentially help fight an attack on the NZD, particularly if the legislation to introduce it also gave the Reserve Bank Governor or Finance Minister emergency powers to temporarily increase the Tobin tax rate.

## Defining 'fairness'

**How would you define 'fairness' in the context of the tax system? What would a fair tax system look like?**

- **Progressive income tax.** The higher taxes on high earners don't necessarily have to be just from high marginal income tax rates. High earners might, for instance, shoulder a bigger share of land, capital gains or financial transaction taxes.
- **Reduce regressive taxes on low income earners.** Reward hard work and enterprise by having much higher income thresholds at the lower end before income tax is levied or benefits/tax credits abated. Low income earners are paying a disproportionate share of GST, fuel taxes, excise taxes, etc so are still contributing to the tax system, but the regressive abatement regime means they are heavily disincentivized to get off benefits or increase part-time work hours.
- **Capture more tax on capital.** Rebalance the system to properly reflect the size, concentration and growth of wealth in the economy.
- **Few deductions for individual taxpayers or trusts.** A complex tax system penalises those who can't afford expensive advisors and favours those who can.
- **Share value gains from public actions.** Where gains result from public investments or law changes, such as land rezoning or public infrastructure investment, the windfall gains should be shared with the public, not 100% privatised. A value-capture land tax would be an example.

## Chapter 4: The current New Zealand tax system

### Frameworks

**New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?**

- Broaden this 'broad base' further to capture more from assets (especially property) and financial transactions, especially foreign currency trading.
- Increase the 'low rate' at the top end, either by income tax increases or by a higher share of new taxes such as land taxes being paid by the higher earners and wealthier.

## Taxes and behaviour

**Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?**

Yes, taxes should have a role in modifying behaviour, in particular:

- **Financial speculation, especially currency.** Introduce a Tobin tax or similar, possibly with different rates on the buy and sell side. Make it deductible for GST-registered NZ businesses. Give emergency powers to the Reserve Bank Governor or Finance Minister to hike rates temporarily if the NZD comes under attack. It could potentially be introduced in Labour's first term with an initial rate of 0%, allowing it initially to sit on the books as an emergency mechanism.
- **Public health.** A sugary drink tax could be levied but would have to be levied at a high rate with the purpose of changing behaviour, not raising revenue. A low rate won't change behaviour materially and will be used as ammunition to "prove" that such taxes don't work. The income from a tax like this should be hypothecated and spent with the same general public health goals in order to make it more popular and effective.
- **Property speculation.** Asset and capital gains taxes can moderate speculative behavior but they should be designed and levied primarily for their benefits to a fair, broadly-based tax collection system. The behavioural change should be a (highly desirable) byproduct, not the primary driver of their design.

## Retirement savings

**Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?**

Yes.

- **Reduce private indebtedness so that people can save.** Driving down house prices relative to incomes is the main opportunity for change. This will reduce mortgage debt (both interest and principal repayments) which drains cash available for saving. To achieve this, it will be essential to better manage the years of excessive bank credit creation directed almost entirely at the home mortgage market. This in turn will only be achievable if the government participates directly in new money creation that is currently the sole domain of private banks. Without this change, the destructive cycle we've been in for years will continue: a growing economy needs to increase the money supply, this comes almost exclusively from private banks who pump it into the

economy primarily via home mortgage lending and consumer credit. This leads to even higher levels of private debt, making saving harder, and creating a boom-bust economy as consumers periodically deleverage.

- **Increase public spending.** There is a clear relationship between government surpluses pushing up household indebtedness. This is logical when a government's surplus takes money out of the economy and (under the present system) this must be put back via more private borrowing to avoid a recession. This needs to stop — by less fretting about government debt, and having the government participate directly in new money creation so that not all new money increases indebtedness. With strict rules and transparent oversight, this can be conducted in a manner that is more responsible than the private bank credit creation system which has produced a massive debt bubble, a housing crisis, inequality and political crises that we are seeing today. Government money creation in a mature, well-governed democracy such as New Zealand can reduce private debt, increase private savings, reduce the amount of tax needed, and strengthen the public sphere.
- **Make long-term/lifetime renting feasible and desirable through security of tenure.** When renting is as good as ownership from a family security point of view, more people will choose to invest in non-property assets such as financial assets, boosting the savings rate. (The German example shows massive financial wealth in a country with 40% home ownership and strong tenancy protections that underpin the social stability.)

## Chapter 5: The results of the current tax system

### Fairness and balance

**Does the tax system strike the right balance between supporting the productive economy and the speculative economy? If it does not, what would need to change to achieve a better balance?**

No.

- The primary distortion is housing price inflation which drains resources from the productive sector as well as undermining social stability. This is driven partly by preferential tax treatment but primarily by excessive bank credit creation at a time that coincided with tax reductions at the top end and the rise of two-income households. Taxes should be levied on capital gains generated from business income such as residential property investment.
- Another distortion has arisen from reducing the share of after tax income in the hands of the low to middle income earners and increasing the share in the higher earners, eg as a result of the halving of the top tax rate. This has reduced the economic benefit that flows from a boost to lower income households who primarily spend that extra income on goods and services that boost the economy rather than the speculative and debt-driven economy.

## Tax and business

### **Does the tax system do enough to minimise costs on business?**

Anything that reduces compliance costs without increasing avoidance/evasion would be welcome.

### **Does the tax system do enough to maintain natural capital?**

No. Significant environmental costs are either socialised or ignored and, combined with decades of general public underinvestment from the “small government” era, has led to depletion and degradation of natural capital.

### **Are there types of businesses benefiting from low effective tax rates because of excessive deductions, timing of deductions or non-taxation of certain types of income?**

- Property investment which fails to tax capital income adequately.
- Tax regimes that favour debt-fueled company takeovers and highly leveraged balance sheets. These undermine the long-term health of companies, and undermine the efforts of prudent company owners and managers to have strong balance sheets and cash flow by making them takeover targets.

## Chapter 6: Thinking outside the current system

### **What are the main inconsistencies in the current tax system? Which of these inconsistencies are most important to address?**

The inconsistencies between:

- Tax paid by NZ companies and tax paid by foreign multinationals
- Tax paid by NZ individuals vs non-domiciled individuals and foreign entities using NZ vehicles to avoid/minimise tax in NZ or in their own countries.

### **Is there a case to consider the introduction of any new taxes that are not currently levied?**

Yes.

- **Financial transaction tax**, especially on NZD currency trading.
- **Inheritance tax** which will help to finance end-of-life health and pension costs without causing cash flow problems to the asset-rich, low-income elderly. In addition, it will play a role in tackling intergenerational concentrations of wealth.
- **Land tax** levied on developed and undeveloped land.
- **Land value capture tax**.
- **Capital gains tax** with teeth on residential property investment.

### **Should any taxes be reduced if new taxes are introduced?**

- The overall tax take should increase. There should be no requirement to offset all new taxes with tax reductions elsewhere.
- The primary area to reduce taxes (and abatements which operate like taxes from a behavioural point of view) is at the low income end where beneficiaries and part-time workers are heavily disincentivized from improving their circumstances by the 50-80% EMTRs.

## **Chapter 7: Specific challenges**

### **Housing affordability**

**How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?**

Yes, there is a case to change the tax regime on housing, particularly by increasing tax on capital profits though it's likely their impact on price will be modest. However, as already noted, there is a strong case for capital taxes on housing, independent of its impact on affordability. The primary driver of housing price inflation is excessive bank lending into the housing sector and this has to be addressed by constraining bank credit as discussed above.

### **Capital gains tax**

**Should New Zealand introduce a capital gains tax (that excludes the family home)? If so, what features should it have?**

Yes. It should primarily be introduced in order to broaden the tax base and make it fairer by capturing capital profits on similar terms to income. As a secondary benefit, it might slow house price inflation a little but this would be a happy side-effect rather than the primary goal in introducing it.

### **Land tax**

**Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?**

Yes. It should be levied on both developed and undeveloped land, and farmland, with a higher rate payable on undeveloped urban land. A land value capture tax should be available to share windfall gains that result from public investment or legislative change.

## Environmental taxation

### **What are the main opportunities for effective environmental taxation?**

**A carbon tax.** We should tax carbon directly rather than have an ETS. A carbon tax will produce taxation income for NZ, unlike tradable emissions credits which send a lot of money offshore with limited direct investment in fixing the environment here. The ETS is also open to abuse as has been seen already, and financial speculation divorced from the real world environmental issues.

## Progressive company tax

### **Should the tax system do more to support small businesses? In particular, is there a case for a progressive company tax?**

Yes.

Capping the company tax rate to the tax rate of shareholder employees could encourage leaving more profits in the business to fund investment and growth.

## GST exemptions for particular goods

### **Should the tax system exclude some goods and services from GST? If so, what should be excluded? What else should be taxed to make up for the lost revenue?**

No. But there is room for hypothecation of GST collected on some classes of goods such as fresh fruit and vegetables which can be spent directly on the public health goals that their existence hinders. This can be done, for instance, by an electronic 'food stamp' programme that directs the money collected from GST to the purchase of fresh fruit and vegetables for children in low income households.