Tax Working Group Public Submissions Information Release

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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.

Michael Szabo,
[1]

Tax Working Group Secretariat
PO Box 3724
Wellington 6140
Email: submissions@taxworkinggroup.govt.nz

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Re: Submission to Tax Working Group

Introduction

Taxation is central to democracy and the social contract that binds the people of New Zealand together.

It is how we pay for the services of our welfare state and the infrastructure that continues to make modern life possible, from primary production to the cultural industries.

It is also a democratic mechanism for redistributing wealth through poverty alleviation policies, affordable housing and healthcare in all parts of the country, effective action on climate change, and the conservation of New Zealand's unique endemic species, habitats and ecosystems which our tourism sector relies on.

I welcome the chance to make a submission to the Tax Working Group as a timely opportunity to recommend improvements in the way taxation and fiscal policies work, especially in relation to the environment.

Climate Change

The serious power line damage and subsequent power outages in Auckland that reportedly affected 190,000 households and businesses in April 2018 were costly, both to those directly affected and the wider economy.

This is one of the many ways that the costs of climate change are not adequately factored into our economy and therefore distort it. This can be addressed effectively through carbon pricing, which in turn needs to be addressed in a review of the Emissions Trading System (ETS) that the previous Labour-led Government first set up ten years ago.

I favour setting a carbon price through the ETS that genuinely reflects the on-going costs of climate change. I would also urge that the Tax Working Group recommends government (through an ETS review) move to immediately extend the ETS to include agriculture, immediately introduce a cap on emissions, immediately remove the cap on carbon pricing and immediately increase the price of emissions units (and rapidly speed-up the phase-out of free units).

There are other aspects of taxation and related fiscal policies that can be used to further address climate change.

I urge that the Tax Working Group recommends government increase the home insulation grant from 50% of the cost of insulation to 75% of the cost for households that meet the eligibility criteria, to be paid for out of general taxation. This will have beneficial effects on carbon emissions and heating costs, as well as public health – especially children.

I also urge that the Tax Working Group recommends government establish a solar credits scheme paid for out of general taxation that is designed to encourage the installation of solar panels on homes, community use buildings, and play centres, schools and tertiary education institutions as an incentive to increase the uptake of solar power in New Zealand. These credits could be linked to the amount of electricity produced by each installation. The bigger the installation, the greater the credit paid towards the installation from a government-administered fund.

Fossil fuel subsidies

Although the previous National-led Government publicly called for a global phase-out of fossil fuel subsidies, independent research shows that such subsidies rose in New Zealand over the past nine years.

Trade Minister David Parker recently co-hosted an event at a World Trade Organisation meeting in Buenos Aires, at which he also called for a global phase-out of fossil fuel subsidies.

Researcher Terrence Loomis of the Fossil Fuels Aotearoa Research Network (FFARN) states that the value of taxpayer-funded subsidies in New Zealand to the oil and gas industry between 2009 and 2016 more than doubled from $41 million to $88 million.

According to Loomis, subsidies ranged from tax exemptions for drilling rigs and seismic ships, tax deductions for petroleum mining costs, and reduced petrol prices for sectors such as agriculture, forestry and fishing.

Also contributing to his total were the costs of geotechnical research provided to the petroleum industry for free, and sponsorship and attendance at conferences.

"Most energy experts and government policy advisers now accept the OECD and [International Energy Agency] definitions of subsidies as any government action that lowers the cost of energy exploration and production, raises the price received by energy producers, or lowers the price paid by energy consumers," Loomis' report states.

Loomis says that the New Zealand Government stopped measuring the estimated lost revenue from subsidies in 2013, so calculations for the 2016-17 financial year were based on estimates or OECD data.

"You can't get it from Statistics NZ, you can't get it from the Treasury, so we've had to go for estimates."

Listed in the research was $3.5m in subsidised funding for petroleum industry-related research and development during 2016-17.

Clearly, when Government provides things of value for free, it is a subsidy.

Source: https://www.stuff.co.nz/environment/climate-news/100005999/government-calls-for-end-of-fossil-fuel-subsidies-globally-but-what-are-the-plans-to-end-them-here

For too long now, the New Zealand Government has poured public money into subsidies for the oil and gas industry, while at the same time it has ignored clean energy investment.

On 20 March 2016, Green MP Gareth Hughes said, "The latest oil and gas subsidy follows the $237,000 National spent wining and dining industry executives, $850,000 spent on an industry conference, $94 million of tax breaks from 2008-2013, and an overall almost 600 percent increase in government spending to assist oil and gas exploration under National."

“Oil and gas is obviously a failed strategy when globally we saw USD$100 billion more invested in clean energy than in fossil fuels last year, according to Bloomberg. We are going in the wrong direction. New Zealand made a commitment to reduce climate pollution last year at Paris, but the Government is doing the opposite by encouraging more fossil fuel exploration.”

The previous National-led Government was heavily engaged in subsidising fossil fuel industries, effectively undoing much of the spending that it committed to Pacific Islands facing sea level rise and more extreme cyclones and storms.

Much of the subsidisation has been in the form of tax relief – ie, the “motor spirits excise duty refund” and tax deductions for petroleum mining.

The New Zealand Government also lends support in the form of research and development, and acquisition of exploration data, which amounted to over $6 million in subsidies in 2012–13.

It is unclear whether that subsidisation is in addition to the money funnelled into New Zealand’s Energy and Mineral Research Fund. In 2015, the Ministry of Business, Innovation and Employment (MBIE) announced $12 million in funding over four years for the following projects:

GNS Science – Understanding petroleum source rocks, fluids, and plumbing systems in New Zealand basins: a critical basis for future oil and gas ‘discoveries’. $9.6 million

University of Waikato – Cretaceous tectonic transition from convergence to extension in New Zealand: Implications for basin development and hydrocarbon plays. $2.4 million

The only reason such research funding exists is because the government wants to promote oil and gas exploration in New Zealand and is willing to subsidise the R&D costs of the industry developing its business here.

In recent weeks, a controversial proposed waste ‘incineration’ scheme has been the subject of media scrutiny. A $350,000 grant from the Provincial Growth Fund was awarded to a feasibility study of a proposed ‘waste-to-energy incinerator’ scheme on the West Coast at Buller which proposes to use coal as a baseline fuel for the incinerator, according to a

2016 study issued by MBIE: "The rationale for establishing the [waste incineration] facility in Buller is to have ready access to waste coal, which will help to ensure minimum energy levels are generated."

Source: http://www.mbie.govt.nz/info-services/sectors-industries/regions-cities/regional-economic-development/pdf-image-library/tai-poutini-west-coast-growth-opportunities-report.pdf

The payment of this grant has been suspended until the results are known of an investigation into the promoters of the scheme. If the grant were to be awarded, it would represent a sizeable subsidy to a 'Think Big'-type scheme that involves the burning of more coal and more carbon emissions at a time when the Labour-led Government is publicly committed to reducing carbon emissions and a transition to a zero-carbon economy.

Removing the distorting tax breaks that fossil fuels currently receive now has mainstream support. The NZ Herald published its editorial on the matter, "Tax breaks for oil companies not good look", on 4/12/15: http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11555502

The editorial stated:
"Some people think New Zealand was unwise to strip itself of industry protection before asking this of others in free trade negotiations. Some of the same people are criticising the Government for calling on others at the Paris climate conference to abandon fossil fuel subsidies when we still provide tax breaks for oil and gas exploration here. They were wrong before; they are right this time. Industries that need protection or tax concessions are unlikely to make the economy stronger. We should do away with these distortions, regardless of whether other countries do."

I urge that the Tax Working Group recommends government end all public subsidies for fossil fuels, including R&D projects and waste incineration schemes, and instead direct funds into promoting and supporting energy efficiency and *bona fide* renewable energy sources (ie, wind, solar, geothermal, wave, biomass and micro hydro, but not coal-fired or gas-fired energy sources or waste incineration).

Wastes and contaminated sites

As the incineration example highlights, carbon emissions and waste are two sides of the same coin.

Burning household waste is inefficient and polluting and would increase carbon emissions. It takes more energy to replace the resources that go up in smoke, and it would save more energy and more emissions to compost, reuse and/or recycle those resources contained in the waste stream in the first place.

For example, plastic bottles and aluminium cans are suitable for reuse and recycling. The most effective way to ensure that this happens would be through the establishment of a nationwide Deposit-Return Scheme (DRS).

I urge that the Tax Working Group recommends government legislate the establishment of a plastic bottle and aluminium can Deposit-Return Scheme based on the successful schemes operated in 40 countries, including five Australian and Canadian states (New South Wales, South Australia, Northern Territory, British Columbia, Nova Scotia). A DRS would help avoid plastic bottle and aluminium can pollution/litter and create a fiscal incentive for individuals, councils, private waste operators and companies to collect and recycle them. Any revenues raised by central government through a DRS could be used to help fund the establishment of new *bona fide* recycling facilities (or improvements to existing ones) by councils. England and Scotland are also in the process of establishing a plastic bottle and aluminium can DRS:

https://www.theguardian.com/environment/2018/mar/27/bottle-and-can-deposit-return-scheme-gets-green-light-in-england

Another mechanism to save energy, reduce waste and reduce carbon emissions is the Waste Disposal Levy, which is currently set at $10 per tonne (excluding GST) on all waste sent to landfill. The $10 levy was introduced ten years ago under the Waste Minimisation Act 2008, but over the past ten years the relative value of the levy has declined. I urge that the Tax Working Group recommends the levy be increased immediately by 10% to restore its relative value and the amount raised.

A report released in April 2018 by the Ministry for the Environment, “Our Land 2018”, shows that the overall extent of land contamination is unknown, but that 19,568 sites have been confirmed as contaminated: https://www.radionz.co.nz/news/national/355689/report-unable-to-assess-overall-extent-of-land-contamination

The report acknowledges that this is not the total number of contaminated sites, so the list is incomplete, which means more public resources will be required to identify the rest.

Only 10 contaminated sites have been prioritised to receive remediation funding from the Contaminated Sites Remediation Fund (CSRF) administered by the Ministry for the Environment.

I urge that the Tax Working Group recommends an immediate significant increase in the amount available through the Contaminated Sites Remediation Fund so that more contaminated sites can be cleaned-up.

I also urge that the Tax Working Group recommends the establishment of a hazardous substances levy to be paid by businesses with activities that appear on the Ministry for the Environment Hazardous Activities and Industries List (HAIL):
http://www.mfe.govt.nz/land/hazardous-activities-and-industries-list-hail

The revenues from this levy could then be used to establish a nationwide hazardous substances tracking system to be administered by the Ministry for the Environment. This would allow the manufacture, import, use and disposal of hazardous substances to be tracked, and improve the identification of potentially contaminated sites.

If such a system had been established in the mid-1990s when the Minister for the Environment was advised to do so by members of the ministry's Hazardous Waste Advisory Group, there would already be an accurate database of hazardous substance use and disposal, a comprehensive database of potentially contaminated sites, and significantly more funds would have been made available for the clean-up of 'orphaned' contaminated sites.

Over the intervening decades, government agencies, the community and the environment have borne the costs of contamination and a large part of the clean-up costs. The businesses that profit from the use of hazardous substances should pay towards the cost of regulation and contaminated site clean-up.

A related matter is the way that revenues raised from such levies are spent. They were designed to raise revenue and to phase-out pollution/contamination problems. It is vital that the revenues raised from such levies be used to fund the transition to clean alternatives and the retraining of people that work in the affected sectors, such as the fossil fuels sector (to clean energy), agricultural chemicals sector (to the pharmaceuticals sector) and the pulp and paper industry (to totally chlorine-free and totally effluent-free clean production).

It is important not to use the revenues from hazardous substance/waste/pollution levies as part of the general tax-take pool. They should be targeted to solve the issues that they are intended to address.

It would be a mistake to view revenues from such levies simply as a narrowly utilitarian mechanism to reduce income tax. If that were to happen, then as revenue falls as the economy and society shifts to a zero-carbon and zero-waste footing, total tax revenues are likely to shrink commensurately.

Fisheries and tourism

I also favour immediately increasing by 10% the Fisheries and Conservation Services Levy on the commercial fishing industry to pay for more research into the effects of commercial fishing on fish stocks, non-target marine species, and marine ecosystems.

Regarding a 'tourism' levy or tax, I do not believe that one should be levied on New Zealand citizens/residents because we already pay for tourism infrastructure though income tax. Instead, I would favour a modest flat-rate tourism levy or tax being levied on visitors from overseas, valid for one year from the date it is paid for.

New Zealand as a 'tax haven'

Regarding New Zealand as a 'tax haven', I strongly support an end to allowing offshore Foreign Trust 'tax haven' entities to operate in New Zealand. The previous National-led Government failed to take effective action on this issue when they appointed John Shewen to review the relevant rules. He was not a suitable person for the role because of his close involvement with previous high-profile tax cases. He had previously reportedly advised the Bahamas Government to zero-rate financial services to "protect the so-called offshore industry". In effect, he "advised a tax haven on how to protect its offshore financial services industry and maintain its tax haven status."

New Zealand should not be used as a tax haven by Foreign Trusts in any way and I would also support stopping large multinational corporations gaming the tax system here and overseas in order to avoid paying their fair share of taxes in New Zealand.

As Matt Nippert noted in the NZ Herald (20 June 2017):

“A major Herald investigation has found the 20 multinational companies most aggressive in shifting profits out of New Zealand overall paid virtually no income tax, despite recording nearly $10 billion in annual sales to Kiwi consumers.”

“The analysis of financial information of more than 100 multinational corporations and their New Zealand subsidiaries showed that, had the New Zealand branches of these 20 firms reported profits at the same healthy rate as their parents, their combined income tax bill would have been nearly $490 million.”

Source:
http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11607336

On 19 April 2018, RNZ broadcast the results of an investigation into an Auckland company that, “may be caught up in an international money laundering controversy after it was identified helping to manage a network of New Zealand-registered companies and trusts for its secret clients.”

According to the broadcast, sources claimed that this network led back to the Azerbaijan Government, which has been accused of corruption and money laundering:

Source: https://www.radionz.co.nz/news/world/355443/the-daphne-project-new-zealand-still-a-haven-for-some

These examples highlight the need for more effective regulation in this area.

I urge that the Tax Working Group recommends government take prompt action to more effectively regulate these activities in order to stop New Zealand being used as an offshore tax haven by Foreign Trusts and to ensure that multinational corporations and their subsidiaries operating in New Zealand are no longer able to game the tax system in order to avoid paying their fair share of taxes in New Zealand.

The future of tax

I support investing a greater proportion of total tax revenues in the transition to a zero-carbon economy, climate change research and mitigation, fisheries and marine ecosystem research, public transport, clean energy generation, environmental research and protection (especially New Zealand's unique endemic species), conservation, and conservation-related research.

I urge that the Tax Working Group recommends the immediate removal of income tax on the lowest earners, earning less than $20,000 per year, in order to both help alleviate poverty and to save the State from having to expend resources collecting and monitoring the relatively small proportion of overall tax revenues that this group pays.

I also urge that the Tax Working Group recommends the rate of income tax be increased on the highest band of income earners and the highest earning companies in future, in order to increase public funding of social welfare, poverty alleviation, the public health and public education systems, public transport, conservation, environmental protection, and action on climate change. I also support removing the tax cuts that were made in 2009 and incrementally increasing the top tax rate by 3% per annum for the subsequent three years.

I also urge that the Tax Working Group recommends the immediate introduction of a financial transaction tax or Robin Hood tax, with the revenues raised also to be used to increase those same areas of spending listed above.

A Robin Hood Tax is a tiny tax of 0.05% levied on the financial sector annually on transactions like stocks, bonds, foreign currency and derivatives. This is small change for the financial institutions but would make a big difference. Financial transaction taxes are well-tested, cheap to implement, and hard to avoid.

There are already lots of different Robin Hood taxes implemented by many countries, including in the UK. There should be more of them, particularly in areas not yet taxed, such as transactions of bonds and derivatives.

Importantly, transaction taxes are also good because they reduce the number of the riskiest trades, the sort of stock market gambling which helped to trigger the 2008 global financial crisis.

Thank you for considering this submission.

Yours Sincerely,

Michael Szabo

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