Tax Working Group Public Submissions Information Release

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[1]

25 April 2018

SUBMISSION TO THE TAX WORKING GROUP ON REDUCING INEQUALITY

One of the goals of tax reform is, one assumes, to arrest and if possible reverse the increasing inequality in New Zealand between haves and have-nots. The obvious course would be to raise the top tax rate (now 33%, but in Australia 49% and in Britain 45%), introduce tax on accumulated wealth, and with the revenue gained reduce the burden of income and consumption taxes on the poor. But the terms the Government has laid down for the Tax Working Group specifically forbid it to entertain inheritance taxes, or taxing the family home or the land beneath the family home, or to recommend raising the top level of income tax. All of which leads one to suspect that the Government does not really want to reform tax at all.

It is therefore necessary for any meaningful submission to the Tax Working Group to repudiate and contemn its terms of reference.

Since the Second World War, the gradual elimination in New Zealand of land taxes, inheritance taxes, and gift taxes has increasingly quarantined real property, especially the family home, as a safe tax-free haven for the growth of family wealth.

After the Buckle Tax Working Group's recommendations in 2010 failed to lead to a capital gains tax or land tax (the John Key government instead reduced the top income-tax rate and increased GST), Gareth Morgan and Susan Guthrie published in 2011 The Big Kahuna. In it they argued for the broad imposition of a tax on the imputed, or implied, income from all wealth including the family home, and the introduction of an unconditional basic income to replace NZ Superannuation, Working for Families, and all other state transfers. The present Government has all the research it needs to reform New Zealand's tax system, and it is difficult not to suspect that the present Tax Working Group is an excuse to do nothing except talk, and stall for time in the hope of winning another election.

HOME OWNERSHIP "EQUIVALENCE" FOR OTHER FORMS OF INVESTMENT

Nevertheless, within the absurd constraints of the terms of reference, there are things that can be done. A wealth tax, or a tax on land, still seems to be possible, for instance. But the introduction of any form of wealth tax that excludes the family home or the land beneath it, and that also excludes inheritance tax (and presumably gift tax), is fundamentally unfair to all who are not yet home-owners, or who are home-owners in an area where housing has little value. It also seems likely to continue and increase the incentive to invest in the family home rather than other forms of investment. This will push prices higher, ever further beyond the reach of those who do not have the means to buy into the housing market.

I submit that a person who does not own, or part-own, and occupy a "family home", should be allowed a tax-free investment of an amount equivalent to the value of the average inner-city Auckland house; say $1 million. To be fair to the owner-occupier of a modestly priced house in

Raetihi or Mataura, let's say every taxpayer is entitled to tax-free savings or investment (in any vehicles in New Zealand or overseas) of $1 million minus the value of their owner-occupied-home investment. So the single person who owns no home would be able to grow his or her savings tax-free till it reached $1 million; the married half-owner of a $100,000 home would be able to invest $950,000 and pay wealth and tax only on the capital above that; the half-owner of the $3 million house in Remuera would incur wealth tax on every dollar invested elsewhere, as his or her $1.5 million share surpasses the tax-free investment allowance.

Such a tax-free allowance, by allowing investors elsewhere in New Zealand the tax advantage of the poorer half of Auckland home-owner-occupiers, would reduce the disparity between the capital-growth advantage of investing in the family home and the land beneath it (excluded from the tax reform group's consideration) and other forms of investment. This might encourage New Zealanders to look beyond the family home to more productive investments, which might help to reduce the rate of price increase in homes; and people who did not yet have enough money to buy a house, or who did not want to own a house, would enjoy tax advantages similar to many home-owner-occupiers. (If the investment limit for tax exemption were set at the valuation of the most expensive Auckland houses New Zealand would go bankrupt, which demonstrates how the Tax Working Group's terms of reference seem designed to protect the rich.)

Of course, this does little or nothing to help the poor who have no assets; it simply extends the undeserved tax exemption of the home-owner-occupier to others with different assets up to $1 million. That is the fault of the terms of reference the Government has imposed on the Tax Working Group. It remains, however, that this might dampen enthusiasm for investing in homes rather than anything else, and that this might gradually lead to homes becoming more affordable.

ABOLISH GOODS AND SERVICES TAX

A consumption tax is an iniquitous burden on the poor, as it increases by 15% the cost of the necessities of life: food, clothing, housing. If it cannot be abolished, it should be greatly reduced.

INTRODUCE AN UNCONDITIONAL BASIC INCOME

It would be obvious to recommend that New Zealand introduce a zero tax rate on the first $20,000 of income, as is the case in both Australia and Britain. However, that does nothing to help those who may most need it: the people who earn less than $20,000 a year. As Gareth Morgan and others have comprehensively argued, the fairer solution is to pay every permanent resident present in New Zealand an unconditional, tax-free income, which (together with a universal child benefit) would largely replace all other welfare disbursements by the state. This UBI could be recouped from those who don't need it by high tax rates on other income, whether actual or imputed. The Government has forbidden the Tax Working Group to recommend higher taxes, so any change in tax rates would need to be a mere book entry to recoup the disbursement of the UBI.

OTHER WAYS TO HELP THE POOR

Tax transfers in the form of truly free health care including dental care, truly free state education, including uniforms, all tools, and school meals, and universal free public transport, which would relieve the private-car burden on city roads.

ALTERNATIVE SOURCES OF TAX INCOME

Extending the undeserved home-owner-occupier tax exemption to other investments would create a rather large hole in the Government tax base, without even considering a UBI. Other ways of gathering revenue would need to be found.

Financial Transactions Tax: One answer, promoted by the late MP Jim Anderton, is a Tobin-style financial transactions tax. A tax of, say, 0.01 per cent ($1 in $10,000) on every transfer of money between any parties would be negligible in everyday life (even a $1 million house would be taxed only $100), but if all transactions around the world of New Zealand dollars could be captured, including the vast sums traded by international currency speculators, the revenue could be considerable. A financial transactions tax might require the abolition of cash and its replacement with a blockchain digital currency, so that every transfer of money would automatically and painlessly have its ticket clipped. Tight controls would be needed to stop transactions being transferred to foreign or crypto-currencies.

Abolition of charity tax exemption, and of tax rebate on donations: A rule of thumb for taxation is to tax lightly, with few exceptions. There are 27,829 registered charities in New Zealand as I write, according to a Government website. Why are they registered? To avoid tax. News media, when they discuss charities and tax, tend to focus on the colourful: favourite targets are Gloriavale, the Destiny Church, Exclusive Brethren. What really needs to be questioned is the very idea of allowing tax exemption of every one of these 27,829 so-called charities. Tax revenue must come from somewhere: schools and hospitals must be maintained, roads must be built, the police force must be staffed. Every dollar that any charity is excused is an extra dollar that must be got from those who do pay tax. This is an infringement of rights: I as a taxpayer am forced to subsidise organisations whose purpose I may not like. The tax-exempt status of so-called charities and not-for-profits should be abolished. So too should be the ability for taxpayers to claim rebates on donations or fees to charities, not-for-profits, churches, schools whether private, integrated, or state, or any other purpose. Donations and fees should come from after-tax income without any indulgence.