

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

### **Release Document**

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# Submission on Taxation – GST exemptions for rates, electricity, public transport and single-ingredient foods

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This brief submission advocates removal of GST on some necessities of life, encourages use of public and electric transport, and encourages purchase of foods associated with healthier diets.

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## Brief principles

Taxation should be the collective investment of part of a population's wealth for public good. There are few principles I believe should apply to taxation:

1. Taxation should benefit a society as a collective, while avoiding unfairness or unduly limiting personal freedoms.
2. As far as practicable, taxation on the basic necessities of life should be avoided. No-one should be required to contribute to the collective until their basic needs have been met. You shouldn't be asked to pay for motorways if you can't feed your children.
3. A tax should not be subject to tax.
4. Taxation should not discourage a public good.
5. Taxation should not incur undue cost due to complexity, allowing that no taxation system will be perfect.

## Fiscal needs and tax revenue

New Zealand currently has serious damage to many government funded systems including health, education (especially early and special education) and social welfare systems, requiring substantially increased government expenditure. Reduction in overall tax take would be a problem. Loss of revenue due to GST exemptions could have a small offset from capital gains tax, but I would support an increase in upper bracket income tax to balance GST relief for essential costs of living.

## Rates

Rates are the locally administered component of the taxation system, and should not be subject to tax. They are a compulsory component of housing costs, by way of direct payment or via rent, and are therefore an essential cost of living. Rates include compulsory provision of necessities such as water and sanitation.

## Electricity

Electricity provides for the costly necessity of heating, as well as cooking, refrigeration and lighting. It is also a favourable alternative to fossil fuels for transport, and should be encouraged. Gas is used for heating and cooking, but it is a fossil fuel, and electricity is almost universally available as an alternative.

## Land-based or water-based public transport

There is no need to explain the societal benefits of public transport over private transport, and New Zealand has seen a change in local infrastructures for shopping and services that makes transport a basic need. Reducing public transport fares by 15% provides an incentive to use public transport, which in turn supports the viability and efficiency of public transport systems.

## Removal of GST on single ingredient foods (excluding alcoholic drinks)

Food is a necessity of life, but can also be a luxury. No simple tax discrimination applied to food will be perfect, but I see removal of GST on single ingredient foods to be simple enough to be workable and beneficial. It removes GST on all fresh produce including fruit, vegetables, fish, meat, eggs, milk, nuts, grains, flours, and many frozen items such as frozen vegetables or meat. It does not remove GST on sugary drinks and snacks or a great range of other non-essential food items. For clarification all food cooked to order (takeaway or restaurants) would still attract GST.

The system would need to exempt permitted additives or residuals, such as free flow agents, a percentage by weight of salt, antioxidants or trace residuals from processing, in the same way that permitted additives are handled in law currently. It might also exempt combinations of a small number of specific product blends such as blended flours, nuts, juices or vegetable mixes, to minimise unintended tax discrepancies.

It is likely that the system would be subject to objections from retailers citing complexity, but it is easy to understand, and once a retailer had adapted their systems, ongoing administration costs would be negligible against other retail costs such as advertising. Most food is sold through supermarkets, and supermarkets have the purchasing power to require their suppliers to identify their product's GST status and give a guarantee of compliance. Bar coding and software can easily split out GST exempt sales for accounting purposes. The system wouldn't be able to perfectly divide necessities from luxuries, and there would still be slight distortions in the cost of some foods, but that is the compromise of simplicity. It would certainly favour essential foods over non-essential foods. There would be no requirement to identify the GST status of a product at retail point of sale,

but it could be used on packaging to promote the food. The system would also provide for and encourage local GST-free businesses that supply only those food products that are exempt, such as fresh produce.

The overall effect would be to encourage healthier diets and reduce basic food costs.