

Tax Working Group Public Submissions Information Release

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Submission on Tax to the Tax Working Group

By

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[1]

The Question of the Function of Taxation

The first thing to consider when thinking about tax is “What is the function of taxation?” My thinking on this follows modern monetary theory and Richard Murphy in “The Joy of Tax” especially this quote;

It's important that we get away from this idea that tax is “taking my money”. Tax is what allows us to make a living in the first place, it's our contribution to a complex society. Without tax most of the things in modern society that we rely on would not be present. We do need to learn to love tax. Tax has been framed as a burden but really without our society would be a lot worse and a lot more unequal.

The most important lesson we learn from Modern Monetary Theory (MMT) is that a government with a sovereign currency and without an overwhelming foreign debt has to ability to create whatever money supply is required by fiscal spending and control the heat in the economy with taxation. This means that the formation of money supply, fiscal spending and tax are closely linked in any democracy with a sovereign currency and should be considered together.

This implies that a government is not required to allow commercial banks to create money by debt creation, as we do now, with the Reserve Bank attempting to control the amount of money with interest rates, or open market actions, and control commercial banking with “light handed regulation. Light handed regulation is no regulation. And control of money supply by Reserve Bank activities such as the interest rates of Overnight Cash Flow is not in the best interest of New Zealand.

It also implies that it is the function of taxation in controlling money supply that should be given greater consideration in setting taxes than revenue collection. It also means tax is not restrained by the idea given by the Laffer Curve. We need to recognise that funding government spending is not the function of taxation. And so balancing the Government Budget and neoliberal austerity (or fiscal responsibility as some call it) should not be the only consideration when setting tax regimes. This also implies that there is no need for the Cullen fund or semi government bodies such as ACC fully forward funding.

Functions of Taxation

I consider taxation to have the following functions and I list some implications of each function

Supporting the value of money.

It only by the Government only accepting money in payment of tax and the settling legal claims that money is given any credibility. Rather than legal tender laws it is the use of a sovereign currency to meet taxation requirements that creates the legitimacy of money.

Encouraging change in the organization of the economy

By charging those economic activities that are "bad" and spending on those that are "good" a government may be able to guide the organisation of the economy and economic activities. High royalties on scarce resources and charges for socially damaging activities of firms can nudge firm's behaviour into more socially responsible directions. Care should be taken to retain other sanctions against antisocial or environmentally damaging activities as simple charges can have the unforeseen consequence of having firms seeing those charges as giving permission to act, the "we have paid for the right to act irresponsibly so we will" effect.

The Working Group should consider;

- A carbon tax (charge at source or border) with the dual aim of reducing global warming pressures and supporting those economic activities that mitigate against environmental damage and social disruption.
- Pollution charges on Councils releasing sewerage, industrial, agriculture and forestry. Each and all these entities could be nudged towards a more responsible approach with costs that reflect the long term damage and inter-generational justice needs.
- Increasing road user charges to fully reflect the costs of road building and maintenance. Such a tax (charge) would encourage firms moving goods to reconsider the mode of transport they use, and at the same time encourage the concept of local production for local consumption that is so necessary if the government is serious about addressing climate change.
- The usual range of vice taxes.

Redistributing income and wealth, to ensure equality and social cohesion.

This is an obvious function of taxation and implies the use of

- Capital taxes.
- Capital gains taxes.
- Estate duties.
- High corporate taxes
- Taxing of non-charitable trusts at the same levels as individual income tax rates.
- And, most importantly, a highly progressive system of income taxes with a non-taxed income of at least equivalent to the aged pension with many brackets above it and a high rate for top brackets. Bracket creep is a wonderful thing, both an automatic stabiliser and a drive towards greater equality

Repricing goods and services in a similar way to the above to nudge consumers.

This could mean such actions like reducing or removing GST on local produced fresh food and keeping it high or increasing it on socially or damaging things like tobacco, petrol or alcohol

Increasing and supporting the commitment people have to democracy.

Evidence from the UK is that when local government started using PPPs to deliver public services, interest in local democracy dropped. Taxing brings to people's attention the need for representation, and makes them feel they have skin in the game.

Recycling money the government has spent into the economy for re-use and to control the money supply.

To repeat using bracket creep as an automatic stabiliser rather than interest rates being set by a supposedly independent central bank is a far better way to control money supply and to avoid runaway inflation as a result of government spending to create money. This would require a tax free income up to a reasonable amount, say the amount of the old age pension and then a high progress scale above that with many more brackets than presently used.

Utilising this concept of money supply takes the control of the economy away from foreign banks and puts it into the hand of a government which is subject to democratic scrutiny

It is time to replace the misleading concept of an "independent" Central Bank controlling the money supply in an objective way and realise that such bankers are rarely independent of the commercial banking sector but are independent of the democratically elected parliament. Recent failure of monetary policy in the face of the Global Financial Crisis shows that it is time to move on from Friedmanite monetary policy and accept tax and fiscal spending as the main economic levers that a nation has.