

Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Dear Sir Michael and members of the Tax Working Group,

This submission is based on that of the NZ Taxpayers Union. I have added comments (*see italics*) from my perspective as an investor and residential and commercial landlord.

This is a submission on the future of tax in New Zealand, with particular reference to the proposals and questions set out in the Working Group's Background Paper.

Sir Michael has said that the Tax Working Group is not about how to raise more revenue for the Government. I submit that this promise should be upheld.

Revenue neutrality

Where new taxes and tax hikes are recommended by the Working Group, I submit that the Working Group should identify other areas where the burden can be reduced to compensate taxpayers.

Bracket creep / fiscal drag

The effect of inflation pushing taxpayers into higher income tax brackets is a dishonest policy that allows politicians to tax New Zealanders harder, without ever having campaigned on it.

I submit that the Working Group recommend legislating annual income tax threshold adjustments indexed to changes in average earnings, or, at minimum, inflation. I note that many government benefits and entitlements are indexed — income tax thresholds should be no different.

Company taxation

New Zealand has one of the highest company tax rates in the OECD. The result is a low-investment, low-productivity economy.

I submit that if the Government is interested in encouraging greater investment and growth in our productive sector, it should cut the headline business rate. This is preferable to the Background Paper's proposal of just cutting rates just for smaller businesses, creating a two-tier business tax regime with the associated complexities and incentives for business to stay small.

Overseas based companies, especially those gaining revenue from Internet sales and advertisements in NZ, should pay tax here, rather than shift the profit to low or no tax jurisdictions.

Expensing of capital

The Government must be committed to increasing New Zealand's productivity and allowing for greater growth in incomes.

I submit that the Working Group recommend allowing businesses full capital expensing within the first year of capital purchase. This would increase incentives for business to invest in capital (accelerating productivity growth) and increase wages (productivity growth is the most relevant factor in determining income growth).

Depreciation should also be allowed for Housing, or at least some components. Real estate (buildings) does indeed depreciate. For instance, compensation was considered for a property I had due to a proposed Transmission Line (High Voltage with a 40m high pole) going across it. The dwelling was valued below cost by the Valuers who stated that it (a relocatable house) was depreciated to below its cost, due to its age. Clearly building (especially tenanted ones) do depreciate.

Allow full deduction on "improvements" to properties. Such examples include the mandatory requirement to upgrade insulation, ventilation and heating.

Maori Authorities and charities

New Zealand's company tax system should not include loopholes that give certain groups competitive advantages.

I submit that the 17.5% income tax rate for Maori Authorities should be abolished – so that Maori Authorities are not provided with a cash flow advantage over non-Maori competitors.

I submit that companies owned by charities should only be allowed to have the charitable tax deduction for profits actually distributed back to the parent charity, or specifically applied to the charitable purpose of the parent.

Capital gains tax

A tax on capital gains would discourage investment, stifling wage growth and distorting the economy. It would also cause a 'lock-in' effect, meaning investors would be discouraged from shifting capital out of unproductive investments.

I submit that the Government should not implement such a tax.

However, If CGT was to be introduced on residential housing, it should be for both investment and owner-occupied housing. If not on the latter, then there will be incentives for investors to upgrade their own properties but not those of their tenants.

Taxes on savings

We should not allow the tax system to discourage saving. Savers (namely those with retirement funds and investment schemes) currently pay tax on 'interest' that, in practice, partially just reflects the effects of inflation.

I submit that we should allow taxpayers to deduct inflation from taxable income earned via long term saving.

Children's saving accounts should be exempt from tax. This would encourage them to save from an early age. To balance any distortions that could occur, the money should only be able to be used for "legitimate" purposes, such as transfer to their Kiwisaver Accounts (currently there is no incentive for those under 18 to contribute) or for educational or health purposes. A limit can be put on this, such as the first \$200 (inflation adjusted back to the time when that was the limit) being tax free.

Environmental taxes

I submit that any proposed environmental taxes should come with recommendations which make them revenue neutral.

I submit that any taxes on water should operate in a similar way to water rights pricing and be sector neutral – politicians should avoid targeting specific industries or uses of water.

As an alternative to recommending specific environmental taxes, I submit that the Working Group develop an objective framework for future proposed environmental taxes to be measured against.

Beyond the points made above, I endorse the [broader submission](#) made by the *New Zealand Taxpayers' Union*.

Yours sincerely,

John Paynter MSc, BCom, JP

[1]