Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkingroup.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.

Submission to the Tax Working Group

Submitter:

[1]

The Tax Working Group is welcome to contact me should they wish to discuss any matter raised in my submission.

Submission on the future of tax

I consider that we need to:

1. Tax wealth or assets

This tax needs to have the broadest coverage possible in order to minimise distortions in the allocation of investment and in how wealth is held, and to discourage the holding of assets that are yielding a very low return.

To avoid unnecessarily complicating the regime and to avoid 'bothering' those who have few assets or little wealth there should be a tax-exempt threshold, say $500,000 per person. It should be an annual tax and coverage should include the family home.

In the design of such a tax, one objective should be to treat all forms of retirement savings (including investment in property) in the same way as far as taxation is concerned. This may mean re-assessing how retirement funds such as KiwiSaver, National Provident Fund, etc. are currently taxed.

I believe that such a tax would:
- encourage more productive use of assets that are giving a low return;
- re-balance investment away from investment in housing property thereby moderating housing price increases;
- increase the inter-sectoral fairness of the tax system by taxing capital gains on property which is largely exempt at present;
- increase the inter-generational fairness of the tax system by raising more tax revenue from the Baby Boomer and older generations and having it spent on the generations that have followed the Baby Boomers (who, I believe, on average are having a harder time building their asset base than their parents did).

2. Make greater use of taxes, permit sales and charges to modify behaviour

In my view we should be making greater use of these instruments where there is evidence that they are (at least reasonably) effective in modifying behavior in a significant way.

I support their use in both cases noted by the Tax Working Group, i.e. where the activities have significant social costs and where the activities are harmful to the individual and for some reason the individual is not able or willing to act in their best interest. I note, however, that the distinction between the two cases is often not clear-cut because invariably instances of the latter case also have significant social (often health care) costs associated with them.

I consider that in this area the Tax Working Group should look beyond just taxes and also consider sale of permits by government (e.g. emission permits under the Emissions Trading Scheme, or potentially water abstraction or discharge permits) and charges by government (e.g. time of day charges for road users).

Besides modifying behavior, such taxes, sales of permits and charges could be sources of revenue for government. However, on the other hand it may be desirable that they are designed to be fiscally neutral with all the revenue raised being returned to households (e.g. feebate schemes for motor vehicles, or the now-repealed Australian federal government's Carbon Pollution Reduction Scheme).

In relation to using taxes to modify behavior, for the reasons set out in Section 3 below I do not support taking GST off healthier food items, low emission vehicles, etc.

3. Retain the current coverage of GST

The simplicity of the current coverage - basically no exemptions - is a huge administrative benefit. GST is regressive but in my view it is better to address its impact on low income households' ability to afford the essentials of life (food, shelter, energy) through payments or subsidies targeted at low income households rather than fiddling with GST coverage and complicating it.

4. Introduce a separate, highly progressive tax on NZ Superannuation

Many recipients of NZ Superannuation (myself included) do not need it and there are many areas of government expenditure where this money could be put to much better use. This problem is only going to increase over time as the population ages; in my view the current entitlement to, and taxation of, NZ Superannuation is very unfair to the generations who are younger than the Baby Boomers.

I consider that raising the age of entitlement to NZ Superannuation in the short to medium term is undesirable as it would create the need to have a different benefit for those who really do need financial support at age 65. That leaves means testing, and in my view the simplest, least costly and least intrusive way to means test NZ Superannuation is to tax it in a highly progressive manner: for example, no change for recipients whose annual taxable income (including NZ Superannuation) is below say $25,000, but above that threshold, the special tax on NZ Superannuation would kick in and reach say 90% by the time recipients' annual taxable income (including NZ Superannuation) was say $50,000.

30 April 2018