

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

### **Release Document**

**September 2018**

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

## **Do you have any thoughts on how the tax system needs to change?**

It needs to use tax reform:

- To address tax inequalities that have helped make New Zealand an increasingly unequal country to live in.
- To help address environmental and climate disruption issues.
- To help address housing issues.
- To encourage sustainable, clean, future-focused business enterprises.

## **What is the purpose of tax?**

- To help make New Zealand a more equal country.
- To provide a range of public good services across the country.
- To help those who need support.
- To encourage New Zealanders to make better choices.
- To encourage investment in some businesses and enterprises.

## **Are we taxing the right things?**

No, not always.

- Income is taxed unevenly and therefore unfairly, advantaging the wealthier and penalising the lower income workers.
- Income tax rates need changing and all sources of income should be included.
- Capital gains on investment properties and shares should be taxed and the taxes be paid annually, not deferred.
- Trusts, except for charitable trusts that don't run businesses, need to pay tax at the same rate as income tax.
- Polluters need to pay.

## **Can tax make housing more affordable?**

It can help to.

As noted above, we support a capital gains tax on investment properties, to be paid annually, not deferred. The tax could be equated to the Government bond rate.

There may be a case for adjusting the tax for inflation.

## **What tax issues matter most to you?**

### **Summary – more detail below**

- Using tax to help address inequality – through income tax reform
- Aligning trust tax (except for charitable trusts not running businesses) with personal income tax.
- Taxing capital gains from investment properties and shares.
- Introducing a flat tax rate on financial transactions.
- Combating foreign multi-nationals tax avoidance.
- Introducing an entry tax on visitors to New Zealand.
- Introducing a carbon tax.

- Introducing a resource use levy for all water used industrially or commercially.
- Through tax incentives, encouraging sustainable, clean, future-focused business enterprises.
- Introducing a tax on sugar.

The highest priority for us is to reform the tax system to help reduce inequality.

The growing inequality in New Zealand has flow on effects across our society. We do better when we are more equal. The Spirit Level – Why more equal societies almost always do better by Richard Wilkinson and Kate Pickett clearly demonstrated this. The authors showed that greater levels of inequality are positively correlated with higher rates of ill-health, lack of community life, violence, drug problems, obesity, mental health problems, long working hours, educational outcomes and big prison populations.

We need to use tax reform to help address this major problem for our country.

- We support higher top income tax rates for higher earners.

Our top tax rate is very low when compared with the United Kingdom and Australia – both have a 45% top rate.

Economists such as Thomas Piketty, Emmanuel Saez and Stefanie Stantcheva have done modelling that shows that developed countries could increase top rates to as high as 80% before losses from avoidance and reduced effort would outweigh the revenue gains.

Rates we support for current income tax bands:

0 - \$14 000	— 0%
\$14,000 - \$48,000	— 17.5%
\$48,000 - \$70,000	— 30%
\$70,000 - \$150,000	— 33%
\$150,000 - \$1million	— 39%
\$1million plus	— 49%

- Remove tax on invalid and sickness beneficiaries.

**Trusts**

- A corresponding adjustment of trust tax rates will need to be introduced to deal with tax avoidance of income earned. Rates we support for trust trustee income — as above with the same bands.
- Tax on beneficiary income related to trusts to remain the same as current.
- There is a need to investigate and address charitable trusts loopholes that allow charitable trusts to operate as businesses, e.g. Sanitarium Health and Wellbeing Company, Ngai Tahu Holdings Corporation Ltd. It seems inherently unfair that charities are able to run businesses and not pay income tax. There is no level playing field when a company paying no income tax is competing with a similar business that has to.

**Tax other sources of income**

- It is inconsistent and unfair to tax only some sources of income.

- As stated above, tax capital gains on investment properties and also shares, to be paid annually, not deferred. There may be a case for adjusting the tax for inflation. The tax could be equated to the Government bond rate.

### **Properties**

- As said above, we support a capital gains on investment properties to be paid annually, not deferred.
- Introduce a tax on residential properties unoccupied for longer than 4 months annually. This could be tracked through an annual property status declaration to be required of all property owners (as in Vancouver). Tax empty houses at 1% of the property's assessed taxable value.
- In tandem with this, legislation should be brought in that prevents foreign buyers from countries that do not allow New Zealanders to buy property in their country from buying property in New Zealand. These foreigners would be able to lease only, not purchase New Zealand property.

### **A flat tax rate on financial transactions**

- Introduce @ 0.01% tax on all financial transactions over \$1000, including cryptocurrency transactions. This would be easy to collect.

### **Combating foreign multi-nationals' tax avoidance**

- Introduce a revenue tax on foreign multi-nationals earning in New Zealand.

For example, Australia is implementing a tax that will apply to foreign businesses that sell more than A\$75,000 (NZ\$80,000) of goods to Australians each year. They are also imposing tax on foreign businesses on all goods they sell to Australians that are worth less than A\$1000.

Another approach to goods bought online from foreign companies is to extend GST to include items NZ consumers buy from international websites.

Other ways to tackle foreign multi-nationals' tax avoidance:

- Introduce a NZ company tax on their revenue earned in New Zealand.
- Introduce a 6% revenue tax on digital multi-national companies with a turnover of more than \$1.3 billion that depend on digital advertising and online marketing e.g. Facebook, Uber, Airbnb, Amazon, Google, Twitter.

### **Taxing for the environment and climate**

- Introduce an entry tax on visitors to New Zealand to provide funding for the Dept of Conservation to help conserve our natural heritage and manage the unsustainably high visitor numbers in many places.

We need a clear and simple system requiring those who pollute to pay. A carbon charge is a simple and transparent tax on pollution.

- Introduce a carbon tax and phase out the Emissions Trading Scheme to steer people away from climate-hazardous activity in favour of cleaner enterprises.
- Charge industrial polluters \$25 per tonne on carbon emissions and charge dairy farms at \$12.50 per tonne.

- In tandem with the carbon tax, revenue raised from the tax could go back to households in the form of a tax cut and to businesses in the form of a company tax cut.
- Introduce a resource use levy for all water used industrially or commercially, charged on the basis of volume used. Charging should be administered by a publicly-elected body such as a regional council and any profits should be used to better manage water and encourage sustainable practices.
- Introduce tax credits for green enterprises, i.e. long term sustainable, clean, future-focused business enterprises.

#### **Taxing to improve health**

- Introduce a tax on sugar - at the very least some commonly used forms of sugar like sugar-filled drinks.