



Tax Working Group Public Submissions Information Release

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Submission to the Tax Working Group / Te Aweawhe Take

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[1]

30th April 2018

New Zealand has endured the Neoliberal experiment begun by the NZ Labour Party in the 1980's. It has bought about significant changes through the taxation regime. Through alternate governments we have felt keenly the gradual dismantling of the social welfare reforms of the Michael Savage government of the 1930's.

In order to help my own understanding of taxation and society I begin my submission with two quotes. One from Margaret Thatcher and the other from Thomas Piketty.

Thatcher is quoted as saying "There is no such thing as society. There is living tapestry of men and women and people and the beauty of that tapestry and the quality of our lives will depend upon how much each of us is prepared to take responsibility for ourselves and each of us prepared to turn round and help by our own efforts those who are unfortunate" (in an interview with Margaret Thatcher in Women's Own in 1987) which reflects the dynamic of neoliberal thinking that is still prevalent today.

With the introduction of "Rogernomics" (neoliberalism) to New Zealand, much has changed, and we are now finally recognising the effects of that change. There are a number of chickens coming home to roost.

Guy Standing in a paper entitled "Meet the precariat, the new global class fuelling the rise of populism" describes one of those "chickens", "the precariat lives in economic uncertainty, usually in chronic unsustainable debt, in which one shock, mistaken decision or illness could tip them over the edge into the under-class, cut adrift from society and probably condemned to social illness or an early death." We are seeing the massive rise in inequality between the haves and the have nots in society, the rise of homelessness and child poverty, the running down of health and education the list is constantly growing as we learn of underfunding in so many areas of our lives.

Those "unfortunates" we individuals of the "living tapestry" need to help?

Which brings me to Piketty "Taxation is not a technical matter. It is preeminently a political and philosophical issue, perhaps the most important of all political issues. Without taxes, society has no common destiny, and collective action is impossible." (Pg493, Piketty – Capital)

The contrast between individual responsibility and collective action is the point I wish to make with this submission. If we are to believe both Jacinda Ardern and Winston Peters re the failure of capitalism, (can I read neoliberal capitalism?) will this sentiment be reflected in the work of the 'Tax Working Group'?

In the "TAX REVIEW 2001 – FINAL PAPER", the introduction has this comment

"This Review was asked to consider whether the architecture of our tax system is adequate for today's needs. We conclude that radical restructuring is not required. The broad architecture of the tax system is sound. That contrasts with the conclusions of the last general review of our tax system – the 1982 McCaw Report. Reporting almost twenty years ago, McCaw concluded that the then tax system needed a major overhaul. We generally conclude that the subsequent reform programme has been a success and should not be reversed. The essential questions of tax policy design do not change. The main issues now are the same as they were for McCaw, namely:

- the level of tax ;
- the appropriate bases for tax;
- the detailed definition of those bases; and
- the rates of tax that should apply."

How does this review panel feel about those comments today? Has anything changed to reconsider those remarks? Wealth inequality, property speculation, house price increases, high levels of child poverty, homelessness, the rise of the precariat, underfunding of health, welfare and education ... that list has grown quite large since that report in 2001. Will these issues be addressed in your report this time?

On page 9 of the “TAX REVIEW 2001”:

“We do not support implementing a general wealth tax in New Zealand, nor reintroducing an estate duty. We conclude that neither of these taxes would fill a gap in the income tax base. We recommend that the Government not implement a cash-flow tax, given the severe transitional problems that would arise. In the Issues Paper, we indicated our support of the overall design of GST and did not propose any significant changes. In particular, we did not believe that a strong case could be made for either narrowing the GST base or for taxing some goods or services at lower rates. We have not altered our view of GST, and do not recommend any material reform.

We endorse our original recommendations that gift and cheque duties be repealed.

We do not support the introduction of a financial transaction tax, first, because of harmful cascading effects, and secondly, because we do not consider it a superior substitute for GST.

We do not support the introduction of a tax on short-term foreign exchange flows popularly known as a Tobin Tax, as we believe that the goal of reducing exchange rate volatility by means of a Tobin-type tax is misguided. We are also unconvinced that a Tobin tax imposed by a single country would be effective in furthering such a goal.”

The 2001 Tax Review appear to be very supportive of the reforms of the Douglas/Richardson era, and dismissive of areas of taxation such as wealth taxes and a financial transaction tax, that a “Tobin-type tax is misguided”. What is the position of this tax working group, do you come with preconceived notions of what is, or is not, possible?

When the Labour Party introduced the so called Rogernomic reforms (neoliberalism) in the 1980’s, this country underwent major changes, not least the tax reforms.

“New Zealand went through a major program of tax reform in the 1980’s. The top marginal rate of income tax was reduced from 66% to 33% (changed to 39% in April 2000, 38% in April 2009 and 33% on 1 October 2010) and corporate income tax rate from 48% to 33% (changed to 30% in 2008 and to 28% on 1 October 2010). Goods and services tax was introduced, initially at a rate of 10% (then 12.5% and now 15%, as of 1 October 2010). Land taxes were abolished in 1992.[Taxation in New Zealand, from Wikipedia, the free encyclopedia]

This effectively shifted the levels of taxation from a progressive tax system into a broad based tax system.

Goods & Services Tax (GST)

The ‘broad base’ of the Goods and Services tax was applied universally thus making it simple to implement and hard to avoid. But also one which had greater impact on the less well off than those with greater wealth. This tax now set at 15% irrespective of the product or service, from womens sanitary products, all food and local government rates. These items are expensive enough without the added tax. If you are in the growing lowest socioeconomic sector this makes the cost of living 15% more expensive. It has hurt that sector disproportionately than those in the upper socioeconomic sectors.

It is long overdue for review and I expect the Tax Working Group to closely examine the damaging effects of this universal tax and provide suggestions for alternatives to this iniquitous tax.

It is my recommendation that GST be phased out of the tax revenue system.

Financial Transaction Tax (FTT)

A light weight comment for a heavy weight team ... ?

“We do not support the introduction of a financial transaction tax, first, because of harmful cascading effects, and secondly, because we do not consider it a superior substitute for GST.”
[TAX REVIEW 2001]

I would like to ask the Tax Working Group what this actually means, apart from no way! What harmful cascading effects? The terrifying concept of the financial sector paying a tax on its operations?

There appears to be many arguments for and against an FTT, and that in the end it might be difficult to implement and would not necessarily collect high levels of taxation. That it would need international cooperation adds to the difficulty of application of a FTT.

I support Brian Eastons hope that “in the depths of the bureaucracy, a small team is pondering such a tax for New Zealand. They have probably already concluded it won’t generate a lot of revenue – perhaps \$100 million after the clumsy stamp duties are abolished – although any extra revenue would be welcome. More importantly, it would reduce some of the dangers that high-spinning financial transactions expose

the economy to. And it would do so without wrecking the constructive contribution to prosperity that specialisation provides.” [Macroeconomics & Money, Regulation & Taxation, Brian Easton, March 2012.]

Oxfam has called for “The Robin Hood tax (also known as the Financial Transactions Tax) is a tax levied at a very low level, say 0.05 per cent (5c for every \$100), on all financial transactions such as stocks, bonds, commodity trading and currency transactions. At such a low level, the tax would have no impact on our everyday shopping or even buying foreign currency for a holiday. But it would raise significant amounts of money when levied on big financial institutions and speculators that move hundreds of millions of dollars around daily in casino-style trading. The funds raised from the tax could be used to make a real difference to people living in poverty and facing the devastating impacts of climate change.”

What I call for is a comprehensive and unbiased review of a Financial Transaction Tax as it be applied to the New Zealand taxation system. Could it be possible for a Financial Transaction Tax to be introduced as GST is removed? The settings for the rates could be set at levels that the majority of working people would not be unduly affected by. Some suggest this tax could be set at 0.01%-0.05% on financial transactions.

I would like to see a comprehensive discussion by the Tax Working Group on the pros and cons of a FTT, not a glib statement of dismissal.

Wealth taxes

A staggering 28 per cent of all wealth created in New Zealand in 2017 went to the richest 1 per cent of Kiwis. While the 1.4 million people who make up the poorest 30 per cent of the population got barely 1 per cent, according to new research released by Oxfam today. [Richest 1% of Kiwis bagged 28% of all wealth created last year Oxfam 2018]

This report goes on to say:

“Let’s have a national conversation about tax. Labour’s Tax Working Group and the opportunity it provides New Zealand to examine the structure, fairness and balance of the New Zealand tax system, is a huge opportunity to ensure our economy reflects the fairness that is innately Kiwi. It also offers an opportunity for New Zealand to provide an example to many developing countries in using a fairer tax system to reduce the extreme gap between the very rich and the very poor. Oxfam’s report includes a strong list of recommendations, backed up by experts, for both governments and multi-nationals that can help us achieve this.”

I am fully supportive of this call, and look to the Tax Working Group to put forward taxation measure that will redress the balance of wealth in New Zealand.

Capital Gains taxes to taxes on wealth, have various forms and implications, and it is my hope that the Tax Working Group can provide a range of options for New Zealanders to consider.

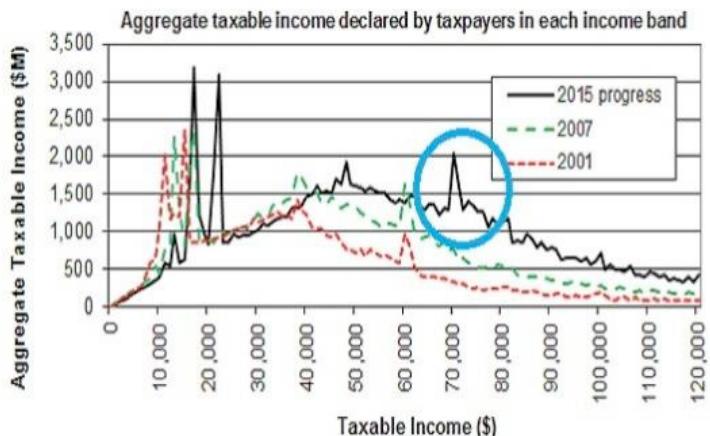
Progressive taxation

Thomas Piketty in his book ‘Capital’ says “a progressive tax is a crucial component of the social state: it played a central role in its development and in the transformation of the structure of inequality in the twentieth century, and remains important for ensuring the viability of the social state in the future.” (pg 497 Piketty – Capital)

Can the Tax Working Group explain why the Lange / Douglas government made those moves towards a flat tax option? Can this working group explain those decisions in the light of the major societal changes that I have tried to highlight in this submission?

I ask the Tax Working Group to investigate progressive taxation for income and company taxes. That thresholds above \$70,000 be considered and higher percentage rates be set for those levels.

I would also like to ask the Tax Working Group why there is a tax spike at \$70,000. Is there an issue here that needs to be addressed with regard to more wealthy people finding ways to reduce their levels of taxation? Can such “loopholes” be repaired for the common good?



Tax avoidance

I support Oxfam's call for New Zealand to support a UN Tax Body to tackle tax avoidance

Points for consideration:

- The Tax Working Group should extend the remit of its recommendations to Cabinet to examine New Zealand's role and responsibility to fix the global tax system.
- The Paradise and Panama Papers demonstrated that the lack of tax transparency is a global problem that needs a global solution.
- Developing countries are missing out on \$150 billion each year due to multinational tax avoidance
- Tax avoidance deprives governments around the world (including NZ) the money they need to tackle poverty and inequality.
- Governments must act together to force this system to end. Countries must work collaboratively to remedy the system.
- New Zealand must stand in solidarity with developing countries and call for a new generation of global tax reforms. This will be most easily done through a new UN-based global tax body.
- A UN Tax body will ensure all countries participate on an equal footing and ensure multinationals pay their fair share of tax.

Council of Trade Unions economist Bill Rosenberg said tax avoidance was a worldwide issue which had led to the loss of more than \$3.1 trillion in annual tax revenue. "If governments internationally, including New Zealand, could do more to track down dodged taxes we might not be facing the degree of financial austerity and government cuts that we are seeing around the world." (Stuff Aug 26 2012)

Universal Basic Income (UBI)

My final request for the Tax Working Group is to review the taxation issues around a UBI. The paper written by Max Harris and Sebastiaan Bierema for "The Future of Work" - A Universal Basic Income for New Zealand is an encouraging sign of hope for a less precariat future for New Zealand.

"A UBI could create a more efficient tax and welfare system. There are currently 53 different – overlapping or complementary – benefit packages available to people in different situations, not including student loans or the vast array of tax exemptions available. A UBI would replace most or all existing benefits. This single payment would, commentators say, be easier to implement. Further evidence is needed to back up this claim, but the argument is intuitively appealing."

Indeed it is, and clearly needs to be given closer investigations regarding the taxation aspect of a UBI. I am not a particular supporter of Gareth Morgan, with his suggestion that a UBI of \$11,000 be funded through a flat tax of 30%. I would hope the Tax Working Group might research many other options available to deliver the costs of maintaining such a UBI of around that figure of \$10-\$11,000.

Can the Tax Working Group provide a paper discussing a UBI and look at the options of that using a progressive tax base as opposed to a flat rate of tax?

Conclusion

It is very encouraging that this coalition government is addressing issues that have languished under the previous regime. Their ability to provide tax relief for the most wealthy and underfund the most necessary functions of government for the rest, is not actual government, but an abuse of power for the redistribution of wealth to the select few. I am with Thomas Picketty "Without taxes, society has no common destiny, and collective action is impossible".

Since the 1980's, the "broadening" of taxation has hit wage and salary earners hard. It is time to declare the neoliberal experiment a failure to deliver to middle and low income sectors, to the increasing benefit of the top 10% and above particularly. A reversal of this economic programme is needed urgently to redress the balance to establish that elusive "decent society".

The Tax Working Group can show that collective responsibility towards society is possible through a taxation system that is to the benefit of all New Zealanders, and sharing that fairly across our community.

I would like to thank the Tax Working Group for this opportunity to have my say on the future of tax in New Zealand.

Paul Wernham.