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.

TAX WORKING GROUP – SUMBISSION

Graeme Lance Turner Wiggs (Lance Wiggs)
[1]

A: About the submitter Lance Wiggs

1: This is a personal submission, and not on behalf of any of the entities with which I am associated.
2: I have a number of roles, including Manager of Punakaiki Fund, which has made over 65 investments in 20 New Zealand based companies (growth stage – post revenue), all of which have performed or are performing design, research, development and market development activities. As part of this role I am a director of 11 companies and an advisor to most of them. These include several Software as a Service (SaaS) companies, a high tech hardware company and a digital medical company.
3: I am a director and investor in a number of other companies, including Define Instruments (IoT for industry), Authentic (digital platform for tours) and more.

4: I am a member of two Return on Science Committees, ICT and Physical Science, and am the former chair of the ICT Committee. These committees assist researchers and teams from research institutions across NZ commercialise their inventions.

5: I have performed well over 100 individual company workshops through NZTE's Better by Capital and Investments programs with mostly growth stage companies that are seeking to raise capital. I was also an NZTE Better by Design practitioner, assessing through reports and helping companies through workshops using design thinking to create products and services that would be more easily sold and command higher margins.

6: I have a history of advising, as well as founding, high growth companies in NZ since my return from offshore in 2003. Before returning I spent time at McKinsey in the USA, obtained an Masters of Public and Private Management (MBA) from Yale University and I have worked in a wide variety of sectors and countries. My original degree is in product development – as one of the first three graduates of Massey's BTech (Product Development) degree.

7: I was unable to allocate much time to this submission. I am willing to present to and answer questions from the group to express some of the opinions with more nuance.

Chapter 2 Questions

In order of priority
Carbon Cost Capture: At some stage the global economy will react to the need to sharply reduce carbon emissions, either by mandating a carbon tax or quotas on carbon use. The risk to New Zealand is that if we do not put ion place a carbon tax then we will send the wrong signals to businesses and society. We have a fantastic opportunity, on the other hand, to accelerate our own transition towards a carbon neutral economy, which will create structural advantages for our businesses and society.

Real Estate Bias: We are spending too much on housing, and yet not enough on housing, with multiple factors causing the cost of new and existing homes and land to be unreasonably high.)ne of those factors is the beneficial tax treatment that investing in housing does versus investing in other products. This is especially galling for me as the manager of a fund that invests in New Zealand based high growth companies. We are at risk of this asset class plummeting in real value, and of a generation of people lose their livelihood.
→ Reduce the bias towards real estate

Investor Behaviour Signalling: The correct behaviour for investors seeking strong risk adjusted returns is to own, over a very long term, a basket of different assets (including stocks, bonds, real estate and alternative assets) from across the globe, sectors and stages. The current tax system penalises investors who look for international diversification, and is reminder that our tax system is promoting poor investor behaviour. Maori investors with inter-generational perspectives understand the core principle of holding for the long term.
→ Treat all investment classes the same, and tax only when assets change hands to encourage long term investing.

Blurring between companies, trusts, not for profits, charities and personal affairs makes life rewarding for the beneficiaries and their advisors, and comes at a cost of simplicity, tax structuring for avoidance and opacity. This has a flow on effect of increasing complexity for other participants in the financial system. A fair tax system would provide no incentive to structure affairs in a certain way.

Chapter 3 Questions

I agree with much of what is written. I would add a sense-check to the definition of fairness. It's not fair, for example, for companies that have arranged their affairs in a certain way to avoid tax. Consider an Alternative Minimum Tax for all entities, perhaps even, for example, based on revenue for companies structuring their affairs to operated from offshore.

Chapter 4 Questions

I agree with the continued approach of a broad based tax system. I note that some of the taxes that raise less money are still required to prevent losses from the system as people restructure to avoid the main taxes. I also note the success of the 'no exemptions' approach for GST, and encourage the same mantra for all tax types.

I am very happy to pay tax as part of a decent society. We are only as good as how we treat those who cannot help themselves.

I agree that there should be consideration for taxes that modify behaviour, albeit with a high threshold for the benefit versus costs. Aside from saving (below), the one core behaviour to modify is to lower carbon emissions. The ideal tax would use the characteristics of GST to cascade emission costs to the end consumers, so that consumers in turn can modify their behaviour. Given the already substantial taxes on petrol and diesel there is scope for replacing them with a carbon tax to minimise the transition pain.

I also agree, as a student of investing, that our tax system should be biased towards encouraging long term investment, especially in non-real estate assets. Note that I see that "long term" is far longer than the bright line test imposed on real estate investing – perhaps 10 or 20 years.

A sugar tax would need to be many times the value of the sugar in order to have an impact. I am not necessarily against it, but we do need to be aware that the costs of the high-sugar goods need to increase to levels where, as with cigarettes, society cannot afford to purchase them. A great deal of care would be needed to avoid taxing naturally high in sugar fruit.

Chapter 5 Questions

The vast amount (in real and percentage terms) of money spent on real estate in New Zealand is the systemic risk that needs to be addressed. The risk is twofold – of depreciation of those levered assets (and 1987 all over again) and the under-investment in other assets.

As a fund manager we find it hard to compete with Australia and US systems that reward equity investment in high growth companies. While that's distortionary, it does help soften the tax system bias towards real estate.

Costs on businesses have improved, but there is still considerable scope to reduce complexity and burden. We (NZ) do seem to be making progress, but it is a long term war. One issue, for example, is where timing of GST invoices and payment is split across the end of a GST period. Another (more challenging one) is the artificial burden of a year-end – why not a rolling year end?

Effective tax rates should be similar for all investments.

However please do not charge tax until investments are realised – tying up cash for long period of time makes for better investor returns, and forcing ongoing tax payments lowers returns for all.

All entities, including charities, should be taxed at the same rate – this applies the core principle of simplicity and fairness.

<u>Chapter 6 Questions</u>
Please see comments above.

In addition:
Tax cryptocurrencies as any other tradable asset – it's all about the intent of the purchaser. The IRD seems to understand this.

On the one hand I would like to see all capital gains taxed (for fairness), on the other hand as an investor and fund manager it is wonderful to offer that as a benefit. It's not enough though when the system is set up to benefit housing investment even more. Perhaps the system could have some sort of regard for the purpose of an investment – is it risk capital that seeks to support companies that are creating local jobs and exports (and paying tax themselves)? Or is it simply part of a diversified portfolio of investments?

Consider simply copying the initiatives that the EU puts on place for BEPS. Overall I am very disappointed that NZ has not exercised our sovereignty more powerfully – the companies that structure their affairs to deliberately and obviously avoid tax should be punished.

<u>Chapter 7 Questions</u>

Housing: Please see comments above. We need to eliminate the bias towards investment in housing.

Capital Gains: For me personally - yes, provided it is low (e.g 15%) and/or is only payable when assets are transferred and there is liquidity (cash) to pay the tax.
As a fund manager – no. We find it hard enough to raise capital as it is, and are heavily disadvantaged versus other places that investors can deposit funds.

Land Tax: I live on a leasehold property and the landlords increase the lease price each 7 years, mooting increases of over 100%. So as someone who already pays a land tax I welcome it. A proper land tax would apply it to all land – including on and off street car-parks and streets, and society can then allocate the costs and reassign the benefits accordingly.

Environmental taxation: A Carbon tax using the GST structure with steadily increasing (and signalled) costs per tonne of CO_2e emissions.

A progressive company tax may work in the long term but the reality is that companies have good and bad years, and over-penalising the good years should be rewarded with cash-back in the bad years to make things neutral.

GST: no exemptions please.