Tax Working Group Public Submissions Information Release

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TAX180429SubmissionWG

Submission to Tax Working Group from David Close

1.0 Personal background

1.1 I am not an economist but I have been a lifelong observer of the economic scene and an active participant in politics. I have Master's Degrees in Latin and Political Science. I was a secondary school teacher for 28 years, but, of more relevance, I spent 30 years in public life, including 24 years as a Christchurch City Councillor, and time as a Director of Christchurch City Holdings, Director of Transpower, Member of the Electricity Commission and Deputy-Chair of the Canterbury Community Trust. Whilst at Essex University in 1971-72 I did research into housing in Britain. I have read the National Business Review for about 20 years.

1.2 I recall as a child the austerity of the war years and post-war years; as a teenager, the boom of the fifties, and as a young man the prosperity and consensus politics of the sixties. Whilst the economic conditions of the sixties cannot be replicated, policies for taxation and redistribution supported by both major parties in those years deserve attention today with a view to their re-adoption.

2.0 Relevance of Thomas Picketty's "Capital in the Twenty-First Century"

2.1 I read the book in its entirety shortly after it was published. Its general conclusions are highly relevant to the work of the Tax Working Group, especially such lines as:

- "*Today…………inequalities of wealth that had supposedly disappeared are close to regaining or even surpassing their historical highs.*" (page 471)
- " *…..good economic and social policy requires more than just a high marginal tax rate on extremely high incomes. By its very nature such a tax brings in almost nothing. A progressive tax on capital is a more suitable instrument for responding to the challenges of the twenty-first century than a progressive income tax, which was designed for the twentieth century (although the two tools can play complementary roles in the future.*" (page 473)
- "*……..new instruments are needed to gain control over a financial system that has run amok.*" (page 474)
- "*the tax and transfer systems that are the heart of the modern social state are in constant need of reform and modernisation.*" (page 474)
- "*In contrast to what many people in Britain and the United States believe, the true figures on growth……show that Britain and the United States have not grown any more rapidly since 1980 than Germany, France, Japan, Denmark or Sweden. In other words the*

reduction of top marginal income tax rates do not seem to have stimulated productivity." (page 510)

3.0 <u>Government objective: A system that treats all income and assets in a fair, balanced and efficient manner, having special regard to housing affordability</u>.

3.1 The information in the Background Paper shows the concentration of wealth in the top quintile (Figure 17) and the Government's reliance on taxes on income and consumption (Figure 4). There is clearly lack of balance here between the treatment of income and assets. The paper points out that the top decile pays 35% of income tax, but also that GST, which is regressive in nature, contributes 31.4% of the total tax take.

3.2 With a view to dealing with the lack of balance as between tax on income and assets, the Working Group asks for views on a land tax and on a capital gains tax. I think it likely that a land tax would strike some problems in dealing with farm land. Local authorities manage the challenge by striking a differential rate, but that could be problematic on a national scale. It would also be inequitable to tax investment in land and not investment in other assets. A capital gains tax also raises problems, which the Paper refers to; dealing with gains and losses is complex.

3.3 On the other hand, a wealth tax, which embraced investments of all sorts, (land, buildings, shares, fixed interest investments, personal possessions) would be equitable as between one type of asset and another. A threshold could be set at, say, $1.2m. so that the family home would not be affected. A person owning an average family home and a modest rental property would likewise not be affected. Owners of multiple rental properties would be subject to the wealth tax.

3.4 The argument by property investors that any tax on rental property would be a disincentive to investment by landlords should be welcomed. It is demand by investors in rental property that has driven up the cost of lower-value homes and made purchases by first-home buyers much more difficult.

4.0 <u>Government objective: A progressive tax and transfer system for individuals and families</u>

4.1 The Paper makes reference to the fact taxes and transfer payments may have unintended consequences or benefit, or penalise, unintended parties. One such transfer payment is the Accommodation Supplement, which is paid to tenants to assist them to pay rent to (mainly) private landlords. The Supplement is an immediate help to tenants but it has the effect of increasing the rental value of the property, and pushing up the price of all properties that could be suitable for rent. It is similar in its effect to the notorious stock-retention scheme, under which farm land rose in value whenever the rate paid to farmers was increased. I understand that Treasury wrote a paper pointing out the perverse effect of the Accommodation Supplement but that it was ignored by the Government of the day.

4.2 The cost of the Accommodation Supplement is in the region of $1.5b p.a., but the Government's direct spending housing is much less, according to Figure 6. In an earlier age, to which I referred above, Governments used tax revenue in a more economically literate manner to:

(i) make transfer payments to first home owners by way of capitalising the family benefit to provide a home deposit, and by providing a concessional interest rate on loans from the Housing Corporation

(ii) invest directly in building rental properties, thus increasing publicly owned housing assets.

5.0 Financial transactions tax

5.1 One of the striking features of the last few decades has been the development of speculative currency trading on a vast scale. A few years ago I read articles about the Tobin tax in The Guardian weekly; it seemed that its time might have come after the Global Financial Crisis, but nothing has happened, as far as I know. I assume that a number of countries would need to co-operate to advance it. I urge the Tax Working group to give it consideration.

6.0 The tax take

6.1 The demand for government services is increasing especially in health, with the advance of medical science and the increasing age of the population. It is foolish to imagine that reasonable expectations can be met for the health system without an increase in taxation. During the last election campaign, the electorate showed an unexpected acceptance of this fact, opting, by a narrow margin, for parties that proposed to cancel tax cuts in order to provide more spending in health and education. A modest increase in the proportion of GDP devoted to tax should be acceptable.

7.0 Summary of Submission

That the Tax Working Group:

(i) develop a proposal for a broad-based wealth tax to provide balance between the treatment of assets, income and consumption for tax purposes

(ii) research proposals by which transfer payments currently made to tenants for housing might be phased out to avoid current adverse effects on the housing market and uneconomic use of taxpayer funds, and restructured to provide enduring benefit to tenants and first home buyers

(iii) research the Tobin financial transactions tax and make recommendations as to how it might be implemented in cooperation with other countries.

(iv) make the case to the Government for an increase in the total tax take in line with public expectations for Government spending on health, housing and education.

David Close

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30th April 2018