

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

### **Release Document**

**September 2018**

**[taxworkinggroup.govt.nz/key-documents](http://taxworkinggroup.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.

---

**From:** Iain Middleton [1]  
**Sent:** Monday, 30 April 2018 11:08 PM  
**To:** TWG Submissions  
**Subject:** Submission to Tax Working Group  
**Attachments:** IBM 180426F - Basic Income - A Means To Combat The Marginalisation Of Vulnerable Workers In Precarious Employment.pdf

Tax Working Group Secretariat  
PO Box 3724  
Wellington 6140  
New Zealand

Submission to Tax Working Group

Responses to the five key questions:

1. **What does the future of tax look like to you?**
  - a. **The Changing Nature of Work and the 'gig' economy.** A Basic Income provides an answer to this. See the attached paper titled: *Basic Income - a means to combat the marginalisation of vulnerable workers in precarious employment*. This paper presented at the sixth International Conference on Precarious Work and Vulnerable Workers at Auckland University of Technology on 30th January 2018 this year shows how a Basic Income and appropriate changes to the tax system provide some answers to the problem.
  - b. **Environmental Challenges.** Tax may be used in an appropriate manner to mitigate environmental challenges. Any such taxes need to be applied with care to avoid undesirable impacts on the economy and on the wellbeing of New Zealand citizens.
  - c. **Technology.** A Basic Income and appropriate tax system provides some answers to increasing technology and the automation of work previously performed by people, and to a consequent loss of income tax revenue from those formerly employed. However, automation tends to promote a shift in employment to new industries with no loss of tax revenues. Attention needs to be given to ensure that new technologies do not lead to significant reductions in tax revenue and avoidance and evasion by companies using the new technologies.
  - d. **Improving productivity.** Improved productivity is desirable and should be encouraged as it leads to higher living standards and the tax system should encourage this.
  - e. **Globalisation.** Increase globalisation and international companies operating and trading in New Zealand while avoiding paying tax in New Zealand is of concern. Appropriate measures must be taken to compensate for the loss of tax income.
2. **What is the purpose of tax**
  - a. The purpose of tax is to allow governments to ensure the wellbeing of citizens of the country by financing essential and fundamental services such as health, education, defence, and so on, while ensuring an equitable distribution of wealth and support for those in need.
3. **Are we taxing the right things**
  - a. **Long term property investment.** Consider taxing at moderate rates the capital gains made on investment property sales that exceed the normal rate of inflation.
  - b. **Sale of a business.** Consider taxing business sales at moderate rates on any capital gains that exceed the rate of inflation.
  - c. **Charities:** Businesses owned by charities should always be taxed. Allowing charities to compete tax free with other businesses give charities an unfair advantage, sometimes putting their competition out of business. In some cases, charity owned businesses provide little in profits to the owning charity for redistribution in the public good or the charity itself provides no public good or restricts the distribution of funds to a select few. Others provide little in the way of benefit to the general public while giving significant

benefits to a restricted number of individuals such as the company managers and senior employees that may be well above industry norms.

**Religious charities** are of particular concern as they receive automatic charity status. They may tithe the church members so that there is a net flow of money from the church members to the church. The church uses the money to buy businesses and income from the businesses may be used to pay managers at high or above market rates or profits that are returned to the church may be used to buy more business with little or nothing returned as welfare (charity) to the church members or to the public generally. The church becomes increasingly wealthy while it continues to ask its members for funds.

- d. **Owning stuff.** In general, there is no need to tax stuff. However, consideration could be given to large scale property ownership. A tax on excessive holdings of land or shares might be considered or an equal but low tax applied to all land on a tax per land value basis.
- e. **Businesses with no New Zealand base.** These should definitely be taxed. In some cases, companies have been known to employ staff to sell products in New Zealand using eftpos terminals with the payments going straight to foreign bank accounts with the employees working in New Zealand also paid directly into foreign bank accounts avoiding both GST and income tax payments. GST also needs to be applied to significant purchases from overseas.
- f. **GST** should be applied to all sales as it is now. Giving exemptions for some items, such as fruit and vegetables, while superficially attractive, will increase compliance costs and require increases in other taxes to compensate. To meet the extra compliance costs, the net result may be the lowering of net disposable incomes for those on lower incomes resulting in a reduction in well-being.
- g. **Transaction tax.** Consideration could be given to a low value transaction tax as an alternative means of raising tax revenue. While raising revenue this might also act to discourage large scale and speculative movements of funds that can destabilise economies.

#### 4. **Can tax make housing more affordable.**

- a. **Short answer no.** The underlying problem is a lack of supply – a housing shortage.
- b. **A capital gains tax** will have no impact and will do nothing to increase the supply of houses or encourage the building of new houses, and may encourage some people to hold on to their empty houses for longer to get even greater capital gains. A capital gains tax may even discourage investment in housing increasing the lack of supply and price increases.
- c. **A regular taxes on empty houses** purchased purely as investment properties to stand empty while making capital gains may however have a marginal impact encouraging people to either occupy the house, rent it out, or sell it, and thus increase the percentage of occupied houses. Family homes and perhaps holiday homes should be exempt.
- d. **The affordability of houses** might be controlled to some extent by controlling the availability of credit. Low interest rates and easy credit allow people to bid up house prices to the point where they become unaffordable. But when credit is limited they still need a home so they compete for rental properties and rents will rise. The answer is to improve the supply either by building more homes or limiting population increases in areas where housing is short – either by limiting urban drift or population movements into the larger centres or immigrants arriving from other countries.

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

- a. **Effective Marginal Tax Rates.** There is a major problem with high Effective Marginal Tax Rates EMTRs for those on low and very low incomes. Those in the unreliable incomes, in the 'gig' economy, and earning low incomes are often on Jobseeker Support, and face high abatements of their support payments that can give EMTRs exceeding 100% for every dollar they earn. High EMTRs create poverty traps. This is because they face abatement of their support payments at 70%, tax at 10.5% or 14.5% and abatement of their housing allowance and other payments all of which can add to over 100%. This encourages a cash economy, and tax avoidance and evasion. The attached paper, *Basic Income – a means to combat the marginalisation of vulnerable workers in precarious employment*, discusses this problem and how a Basic Income with an appropriate tax system might be used to overcome this problem.
- b. **Health.** There is an argument for increased taxes on products that are harmful to health, such as alcohol, cigarettes, and sugar in processed foods, soft drinks, and so on but not in natural products such as fruit.
- c. **Environment.** Taxes might be applied to limit CO<sub>2</sub> and other greenhouse gas emissions but a great deal of care should be taken regarding taxes on agriculture and in other areas that might have negative impacts on the economy.

- d. **Capital gains tax.** Any capital gains taxes should be limited to those areas where there are likely to be proven positive outcomes rather than just seen as a way of increasing the tax revenue. As mentioned above, it is better to tax empty houses to encourage occupancy than it is to apply a capital gains tax that will not encourage occupancy or increase the supply of housing. If applied, capital gains tax should only be on increases in real value allowing for inflation, and not on absolute increases in value.

I B Middleton

[1]