

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

### **Release Document**

**September 2018**

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## Tax Working Group Secretariat

By email: [submissions@taxworkinggroup.govt.nz](mailto:submissions@taxworkinggroup.govt.nz)

Dear tax working group members

Thank you for the opportunity to make a written submission on the design and makeup of the New Zealand tax system.

Having reviewed the briefing documents and discussed the questions raised at the senior levels of Temperzone I am pleased to submit our views below.

### **1. What does the future of tax look like?**

There are many good things about the New Zealand tax system that should be maintained and built upon.

The focus on a few but high return tax categories is the correct approach. The lack of exception, exclusion and thereby loopholes to avoid tax leads to a clean and easy to comply with regime.

This “keeping it simple” approach to tax compliance is one of the few advantages New Zealand business have over international competitors who generally have the upper hand.

Previous generations have been permitted to live beyond their means and have not adequately provided for their retirements. This should not continue. Tax incentives should be introduced to encourage retirement savings.

The ongoing development and growth of retirement funds will also promote depth and liquidity in New Zealand financial markets. Properly managed funds will steer financial resources into long term and higher return assets. This would hopefully aid the transfer of retirement savings away from residential property and assist with the affordability of housing.

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

The purpose of tax is to allow the government to provide the country with core services and ensure a minimum standard of living for all New Zealanders. These standards are measured by quality of life not just income levels.

The tax system needs to incentivise all levels of society to contribute to the national economy. It should not place a ceiling on individuals and organisations earning potential or create diminishing returns with success.

It should not create the situation where welfare is a better option than working for a living.

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

### **Company Income Tax**

Company tax is appropriate, but we need to consider the international trend to lower company tax rates and whether ignoring this trend will ultimately see productive businesses move offshore.

A progressive company tax rate would seem to be an unnecessary and complicating addition to company tax. This would create opportunity for company structures to avoid tax.

### **Goods and Services Tax**

As it stands the GST regime works well and is easy to administer. The introduction of further exemptions is unnecessary and complicating. Keep it simple.

### **Personal Income Tax**

Again, the tax system in this area is relatively straight forward particularly for those who are taxed at source.

This could be improved with the introduction of a tax-free threshold eliminating the need to tax and pay low income earners.

Consideration should be given to the introduction of income splitting to assist single income families. This is particularly relevant where a caregiver is staying at home to care for family members.

## **Fringe Benefit Tax**

FBT hits the key items at the right level. The government should avoid the temptation of taxing insignificant items such as parking and phones. This is unnecessary and would over complicate the regime.

## **Land Tax**

May be an option to prevent land banking and or speculation in the property markets.

## **Capital Gains Tax**

If the current tax rules are enforced adequately a capital gains tax should be unnecessary. Capital gains for those in the business of buying and selling for gain are already subject to tax.

Taxing capital gains will be a very complicated exercise. What types of assets will be taxed. Property, shares, art, KiwiSaver funds? What if it's jointly owned and one person dies? What if it's left to you in a will? What if it's in a family trust?

When will it be payable? On realised or unrealised gains. Establishing market values for assets that are not publicly traded will be expensive and unreliable. When is a gain realised. When it's sold?, inherited?, gifted?

Tax simplicity is one of New Zealand's few competitive advantages. Such a tax will require complex rules for compliance and administration, will raise little tax and have little to no effect on the housing market.

## **Estate and Gift Tax**

These forms of taxes should not be reintroduced. It is not equitable to put a tax on assets which have most likely already been taxed multiple times in their generation. The worldwide trend away from such taxes supports the fact that they are ineffective, generate little revenue, have options to be avoided and will likely tempt affluent New Zealanders to retire offshore, taking their fortunes with them.

## **Targeted Tax**

Environmental tax is appropriate but can disadvantage local business by creating challenges that can't be fixed domestically. Government needs to consider parallel measures that ensure issues are actually addressed and not simply shipped offshore to countries that don't set the same standards.

Fuel, alcohol and tobacco excise are appropriate, but taxes need to be spent on addressing issues within the area they target.

### **Other Taxes**

Payroll tax, sales tax, cheque duty etc... should not be introduced.

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

The housing issue comes down to supply and demand. The rapid population growth primarily through immigration has increased demand.

Supply has been constrained by a slow and costly consent process, lack of trades people, lack of funding with new immigrants needing immediate access to infrastructure without having contributed to its development. Developers, bankers and home buyers must now be seeing high risk in entering a market at what could be the peak.

In a Catch 22; housing in the most effected regions is now unaffordable to the very trades people needed to address the issue.

Central and local government need to address these supply issues.

Christchurch achieved a burst of new housing supply that has flattened prices, but only because the usual rules around consenting were relaxed and the central Government poured cash into build infrastructure.

While these fundamental issues are being addressed taxation can assist in minimising the problem by removing the opportunity to gain from the imbalance through speculation.

The government could impose land tax or targeted rates on the land approved for new developments, so councils have some extra funding for supporting infrastructure (roads, railways, parks and pipelines). It would encourage land bankers to develop new homes sooner.

A stamp duty on foreign buyers would also address offshore funds focused on speculation.

As with Christchurch the establishment of short-term worker accommodation would aid supply of trades to key regions like Auckland. Tax incentives for apprentices training would also be of value.

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

As a company we are often faced with competitors based in countries with lower standards of environmental care, ethical practices, employee health, respect for intellectual property rights and taxation advantages. Their advantage is more about their ability to exploit the environment, people, payless tax and utilise non-trade barriers, than a true competitive advantage.

Changes in the tax system should not compound this issue but should attempt to level the playing field.

At 28% the company tax is above the average for the OECD. This is compounded further by international earnings being double taxed in the hands of New Zealand shareholders. For example, profits from Australian subsidiaries are taxed in Australia at 30%. Due to the lack of recognition of Australian franking credits in New Zealand these profits are taxed again at 33% upon distribution to New Zealand shareholders. The result is an effective tax rate of 53%. In our view the company tax rate needs to reduce, and credit be given for foreign tax payments. This will encourage reinvestment in productive and income generating assets.

In contrast, our normally much larger competitors tend to avoid paying tax in New Zealand and other markets through structures designed to achieve this outcome and repatriate the profits to a tax-free\low jurisdiction like Ireland and pay little tax. Hopefully the BEPS laws will start to address this.

Speculation and manipulation of the New Zealand dollar has resulted in an artificially high exchange rate and impacted the export sectors competitiveness,

earnings and tax payments. Taxation of these activities may see them reduce. The government may need to introduce rules requiring settlement on genuine transactions only. Preventing the use of financial instruments designed to allow traders to take positions on the New Zealand currency and or commodities.

Representatives of Temperzone would be happy to discuss the matters raised above in more detail should the working group see value in doing so.

Kind regards

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Temperzone