

Tax Working Group Public Submissions Information Release

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Future of Tax

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Preamble

We have purposely started our submission by answering the second question “What is the purpose of tax?” because we believe this is at the essence of all tax policy. Once the purpose is established all other decisions will flow from there.

We question the underlying assumption of the working party that continued economic growth is a given. We strongly believe that the growth model is fatally flawed.

“Anyone who thinks we can have infinite growth on a finite planet is either a madman or an economist,” David Attenborough

Infinite growth militates against the measures needed to combat climate change and inequality. The future relies on us collectively reducing consumption and sharing the wealth we already possess much more equitably.

In addition we question the assumption that low taxes on profits, especially in the corporate sector, promotes economic growth. Given the explosion of very high executive salaries it is reasonable to deduce that low taxes on profits simply creates very wealthy executives and shareholders and actually lowers the incentive to plough (pre-tax) profits back into the business via innovation or improving staff wages and working conditions.

What Is the Purpose Of Tax

One of the purposes of taxation is to give revenue to the government to redistribute for the good of all. (There are other ways well worth exploring to supplement taxation, outside the scope of this review)

But this is not the only purpose. Tax policies, regardless of the income they provide to the government, give a very clear indication of how we want society to function. A progressive taxation structure gives the message that excessively high incomes are undesirable, that we seek a more equal society. A high tax on excessive profits gives businesses the same

message i.e. that consumers, workers and the environment should not be exploited for the sake of profit.

Long time Alliance spokesperson on taxation, Professor Jim Flynn often said “even if I didn't need the money, I would still want a high top tax rate because it's the right thing to do”

A carbon tax gives the message that emissions must be reduced. A capital gains tax gives tells everyone that property is to be used for a productive or social purpose not a way to get rich quickly. Houses are meant to be homes to live in.

We are committed to progressive taxation as a means to help deliver a more equitable society and ensure that everyone's basic human rights are respected – a warm dry home, a liveable income, free education and healthcare and a healthy safe environment.

What does the future of tax look like?

The future of tax is progressive. The future of tax is in helping to make sure that wealth and resources are shared equitably.

Ideally the future of tax should see a return to the rates pre -1970s when top tax rates of 67% were seen as acceptable for those on high incomes. The defining factor is not the amount of tax paid per say, but the amount of income left over for personal spending once tax is paid. Someone with an income of, for example, \$1 million dollars will still have in excess of \$300,000 to spend per year even if they pay a marginal tax rate of 67% tax rate. What they have left over is at least five times the average wage.

The future of tax should see the end of GST – a regressive tax that hits those on lowest incomes hardest. GST could be replaced by a very small financial transactions tax – as low as 2 cents per \$100 – on withdrawals only.

This would capture all transactions including financial services, online purchases made from overseas companies and informal small scale online trading by individuals e.g. trade me. Online trading in many different shapes and forms will become much prevalent in the future and will be very difficult, if not impossible, to apply GST to.

A financial transactions tax would also capture some revenue from cash trading since it would be applied to cash withdrawals from bank accounts .

Removing GST would also simplify paying taxes for small businesses. Paying GST is time consuming and often nerve wracking for small businesses.

The future of tax will hopefully see progressive taxation on profits for businesses and trusts that parallels tax rates on income. This would send a clear message that excessive profiteering is undesirable.

There is no reason why overseas companies who do business here should not pay taxes here on their profits. In an ideal world there would be cooperation between countries around multinational company's tax but the reality is that tax havens are probably going to

be around for some time yet. So New Zealand must take a stand to protect local industries and ensure that overseas companies do not take advantage of our infrastructure without helping to pay for its upkeep.

Taxing corporate profits is particularly important with increasing mechanization of the means of production and the proliferation of high tech companies that generate huge amounts of income/ profit for their owners but employ relatively few workers such as facebook, google, etc. As income taxes from workers shrink, corporate taxes must rise.

The future of tax should see a carbon tax on polluting companies instead of a carbon trading scheme which will almost certainly turn into another money -making scheme for speculative investors, rather than do anything to reduce emissions. Let's not make the same mistakes as have been made with housing.

To combat the effects of increased prices resulting from a carbon tax, one suggestion worth considering is to give the revenue from this tax back to all New Zealanders, sharing it equally in the form of a universal dividend.

The future of tax will see a capital gains tax on all but the family home, an inheritance tax on amounts over a preestablished limit e.g. \$1,000,000 and a land tax tailored to discourage land banking and the accumulation of land for speculative rather than productive purposes.

Are we taxing the right things?

In the main yes but not progressively enough.

The exception being GST which could be replaced by an all -encompassing but very small financial transactions tax on all withdrawals of funds from banks/ financial institutions.

Taxes should also be introduced to discourage land banking and speculation, and to encourage producers to reduce carbon emissions.

Can tax make houses more affordable?

On its own tax cannot make houses more affordable. Tax can make speculation on housing undesirable. A land tax can play a part in stopping the inflation of land prices which is the main factor behind the rise in house prices. However, policies are also needed on who can buy houses that they don't intend to live in and how many they can buy. And the state and local government need to maintain a substantial stock of housing for rent at affordable prices to drive demand for private rentals, and thus rents, down.

House prices are too high and will need to drop to be affordable unless wages go up substantially. The government will need to anticipate this and ensure that people on low and middle incomes who are heavily mortgaged do not lose out when this happens.

What tax issues matter the most?

The message matters the most.

Tax should give the message that we are all in this together. We are interdependent. We alone do not generate our own wealth. The present and the future are predicated on the efforts of many, many generations past. And the generosity of the planet in providing resources. We agree to share our wealth and resources for the common good.

“Tax is love” Shamubeel Eaquad

As such, tax revenue is to be respected. It is not to be squandered in frivolous spending. Tax should be given willingly by each according to their ability. And spent wisely for the benefit of all.