

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

### **Release Document**

**September 2018**

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## **Submission: On the Future of Tax**

*The Federation of Women's Health Councils Aotearoa – New Zealand (FWHC) is a national umbrella organisation of women's health councils, women's health groups, and individual women throughout New Zealand. The Federation has a commitment to providing a powerful voice for women consumers of health and disability services, and to act as a public good advocate in matters that affect their well-being interests and those of their family/whanau.*

### **General Remarks**

1. We support the Tax Working Group's review seeking to identify a fair tax system that positively impacts on the well-being of all New Zealanders.
2. We applaud the holistic approach taken to adopt The Living Standards Framework incorporating the four 'capital stocks' and associated flows as a basis for public policy direction. We agree this approach is a more appropriate fit with Tiriti o Waitangi obligations and commitment to respect the land and the people, now and into the future; to strive for more equitable and just participation opportunities and outcomes for all from engaging in social and economic activity; and to consider how taxes might more fairly support these wider social wellbeing measures.
3. We have been dismayed to note the appalling statistics around child poverty, family violence, high incarceration rates; poor educational outcomes that have a strong link with socio-economic deprivation; and marked income inequalities in Aotearoa. Structural arrangements that emphasise and promote individual gain/success are inconsistent with cultures that prioritise communitarian values and obligations. Promotion of need for a more 'caring society' is too often left to whanau and/or the NGO social services sector to manage and pick up the shortfall, often on a voluntary basis. Clearly the current arrangements around opportunities, earnings and taxation

do not meet the necessary balance to foster an egalitarian society that is so glibly boasted about as 'the great Kiwi way of life' despite the reality.

4. We support the view that regulatory mechanisms that are fair, universal, and drive public good outcomes are the most effective tool for increasing social and economic well-being throughout Aotearoa.
5. FWHC recognises the broader elements covered in this discussion document but will limit our comments to some specific examples of current concern that we consider to result in unfair and/or inequitable outcomes, and we suggest some changes that we wish to see implemented.

### **Low wage earners**

6. We strongly support a continued focus on opportunities to rebalance tax measures that will reduce inequities associated with low wage earnings.
7. This becomes a critical issue for Work & Income recipients where the gain from supplementary earnings is compromised by current abatement levels and secondary tax rates. In the main, this is a significant issue that predominantly affects women who are also the primary caregivers for children. The private costs of child care, purchase of clothing that is appropriate for the employment role, and transport costs and time associated with getting to/from work, often create barriers to participating in the workforce when the only work available is also low paid.
8. New Zealand currently has a low wage employment market, and many workers work less than full time and want/need more hours and cannot get them. The minimum wage (which is set on the basis that it is the lowest rate of earnings a person should have to live on, and is still lower than the living wage, which is accepted as the actual lowest rate of earnings that a person can live on) is still significantly higher than the benefit plus any abated earnings.
9. Rather than part time or extra work being a way for beneficiaries to supplement a minimal income and cover extra cost-of-living expenses, the abatement regime actually imposes a 'lid' of poverty that is very hard to manage within. For many, the opportunity to exit the benefit system is minimal, and they are stuck in a poverty trap, unable to earn enough to be independent, and unable to retain the income they earn.
10. **FWHC recommends:**
  - that the rate at which earnings of Work and Income clients are penalised above the \$150 gross threshold should be reduced from 70% to 20% in order to improve the incomes of people who are on a benefit and are working.

### **Targeted taxes**

11. FWHC notes the success of targeted taxes that act as a behaviour modifier, in particular, on both alcohol and tobacco, where these products cause considerable costs to wider society beyond that borne by the individual consumer. We urge the

government to continue this targeted approach to reduce uptake through raising excise taxes.

12. We are disturbed by the inconsistent and overall low level of tax take on alcohol sales that nowhere near meets the true related costs of alcohol-related harms that unfairly fall upon us all. While the contributions of the alcohol industry to the economy are emphasised by the industry we note the external costs are underplayed or silenced by those same players. We strongly believe this is unjust and that allowing this particular business sector to carry significantly more weight in determining economic priorities and private sector benefits without contributing proportionately to the economic costs associated with alcohol-related harm is neither democratic nor fair.

### **Alcohol pricing**

13. FWHC believes the current approach to alcohol excise tax in New Zealand is not fair for the majority of New Zealanders. People who don't drink alcohol (20% of adult New Zealanders) and low risk drinkers are unfairly burdened with the wider costs to society of alcohol-related harm. The government receives excise tax from alcohol (\$1 billion in 2017) but this does not come close to the annual cost of alcohol-related harm to individuals and society (around \$5 billion in 2005/06).
14. Further, New Zealanders are missing out on millions of dollars of alcohol excise tax revenue each year because wine is taxed at a level equivalent to 10% alcohol, yet levels of alcohol in a bottle of wine are typically much higher than this (e.g. 12-14%). This anomalous situation needs to be addressed. It is the alcohol content that causes the harm.
15. FWHC supports the introduction of the World Health Organisation's policy directives on ending the availability of cheap alcohol as a mechanism to reduce alcohol-related harm. As with tobacco, and all products, price has a direct impact on demand. The Alcohol in Our Lives document<sup>1</sup> notes that alcohol consumption, alcohol-related offences and anti-social behaviour have all increased as alcohol has become more affordable relative to our income.
16. We believe that rates of alcohol excise tax should more closely reflect the cost of alcohol-related harm to society. Alcohol causes more harm than any other drug available in society, e.g. tobacco, cannabis, heroin, methamphetamine. Of particular concern is the increasing number of hazardous drinkers in New Zealand.
17. Specific measures to target heavy drinkers would significantly reduce inequalities in alcohol-related harms between income groups. Further, low income heavy drinkers would benefit the most when the price of alcohol is increased.

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<sup>1</sup> Alcohol in Our Lives Issues Paper 15 (2009) <http://www.lawcom.govt.nz/sites/default/files/projectAvailableFormats/NZLC%20IP15.p>

18. All alcohol products (beer, wine, cider, spirits, etc.) should be taxed by the exact amount of alcohol they contain. This is fair across all beverages. Currently, some products are taxed by volume whereas others are taxed by alcohol content. AWC believes a Minimum Unit Pricing policy would achieve this aim.

19. **FWHC strongly recommends implementation of the following alcohol tax measures:**

- That alcohol excise rates are increased by at least 50% across all alcohol products to raise the price of alcohol by at least 10%;
- That excise tax on alcohol products under 2.5% by volume be removed to promote consumption of low alcohol products;
- That the excise rates on alcohol are adjusted annually to take into account changes in income (and to offset any strategies used by retailers to not pass on increased rates to consumers);
- That all wine should be taxed by alcohol content, not volume of beverage. If a producer is unable to determine the exact alcohol content in their product, then the level of excise tax should be raised from being based on 10% alcohol strength to 14%;
- That a minimum price per standard unit of alcohol be introduced.

### **Sugary drinks**

20. We suggest government gives active consideration to extending the targeted tax model by introducing a tax on sugary drinks and other high sugar content products to act as a behaviour modifier and to address the alarming rise of pre-diabetes and current diabetes incidence and associated management costs. We understand these costs will escalate even further if we take no action now as a society to forestall these avoidable impacts on wellbeing, employment capability, and life years lost.

Thank you for the opportunity to make comment on these particular aspects of concern to the Federation of Women's Health Councils.

We do not seek to speak in further support of our submission.

## **Chapter 2: The future environment**

What do you see as the main risks, challenges, and opportunities for the tax system over the medium- to long-term? Which of these are most important?

How should the tax system change in response to the risks, challenges, and opportunities you have identified?

How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system?

## **Chapter 3: Purposes and**

# principles of a good tax system

## Principles for assessment

What principles would you use to assess the performance of the tax system?

## Defining 'fairness'

How would you define 'fairness' in the context of the tax system? What would a fair tax system look like?

# Chapter 4: The current New Zealand tax system

## Frameworks

New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?

## Taxes and behaviour

Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?

## Retirement savings

Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?

# Chapter 5: The results of the current tax system

## Fairness and balance

Does the tax system strike the right balance between supporting the productive economy and the speculative economy? If it does not, what would need to change to achieve a better balance?

# Chapter 6: Thinking outside the current system

What are the main inconsistencies in the current tax system? Which of these inconsistencies are most important to address?

Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?

# Chapter 7: Specific challenges

## Housing affordability

How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?