

Tax Working Group Public Submissions Information Release

Release Document

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Submission – Future of Tax

To: Tax Working Group – Te Awheawhe Take
From: NKMoA (Ngā Kaitatau Māori o Aotearoa) Māori CFO Fourm
Date: 30 April 2018

Mihi

E ngā mana

E ngā reo

E ngā hau e wha

Tēnei mātou Ngā Kaitatau Māori o Aotearoa e mihi ana ki te kaupapa o te wā

Opening Observations and Thoughts

Firstly, we thank the Tax Working Group, in particular Hinerangi Raumati-Tu'ua for the opportunity to engage in korero on the 23rd March 2018 in Wellington, regarding this kaupapa

Our submission reflects the discussion we had at that hui along with further ideas post that hui

In summary our forum agrees with the tikanga of creating a tax system which encourages and ensures fairness and equality over the long term. We also agree with the tikanga of encouraging and recognising the effort and mahi businesses, organisations and individuals undertake to improve the long-term sustainability of Aotearoa which considers multiple outcomes, including environmental, social, cultural and not just economic. We believe that the balance of incentivisation 'to do the right thing' long term must be carefully balanced with the consequences (possible taxation) as a result of focusing on the short term economic outcomes which continue to create harm to people and place (he tangata, he whenua).

Maori are collective, long term, intergenerational investors which hold assets that in some cases will never be sold (value realised), and based on this view we will over time, become a constant and significant contributor to the Aotearoa tax base. However, what we know now is that our contribution does not reflect our percentage of population and therefore we would encourage any changes to the tax system to support the growth of the Maori economy so that gap can be closed vs creating another barrier for us to achieve exponential growth and the ability to achieve and support positive outcomes for our people. For us to live Tino Rangatiratanga long term, we must have the ability to re-establish our economic base and therefore a tax system that understands and supports our asset base, the people we serve, our collective structures and long-term outcomes is essential. We must achieve parity and be on a level playing field to be successful long term.

Specific Reflections

Tikanga Perspectives

- Māori economic growth is less mature than wider economic growth in NZ (e.g. 5% of the economy, 15% of the population). How will Māori economic growth (in particular the pace of growth) be impacted by changes in the tax system? We need to achieve growth at an exponential rate as our people cannot afford continued poverty for another 1, 2 or 3 generations.
- Due to the composition of the Māori asset base (environment and land), Māori are automatically impacted and disadvantaged by a land tax or capital gains tax. In turn, this will impact our ability to address and support the needs of our people (social, cultural, environmental and economic).
- Will the TWG consider how not to penalise longer-term investors (e.g. Māori and iwi groups) when it considers a land tax or other changes? If groups are investing with a 500 year horizon, how can the TWG ensure that they're not penalised in the short-term? These groups will always be tax payers, unlike international companies that can leave at any time.
- Could there be a tikanga rebate for certain behaviours (e.g. doing the right thing for the whenua, or for providing education and other services the government is not providing to Māori communities). *See section 'fairness and equality' for more information.*
- Could regional variation in income tax rates help people move to and stay in the provinces? Low incomes and other factors mean it can be hard to deliver core services in the regions. We know that iwi, Maori organisations are investing in the regions, we are predominately located in the regions, but attracting capacity and capability is challenging for our businesses as they become more complex and diverse.

Whenua

- Need to recognise important choice for Māori around buying or trading land to release capital for growth and diversification, therefore supporting long term sustainability and risk management.
- But ultimately, why should Māori be taxed on our whenua? When in a number of cases, it has only just been returned to our active management.
- In a collective ownership situation, it can be hard enough to identify owners, and then harder again to get the owners to pay. Unless the systems can be updated, Māori land and land owned by Māori authorities should not be taxed.

Māori authority tax regime

- Should we do away with the Māori authority regime and make them all charities (because commercial arms are providing for and giving back to their community vs individual wealth creation), and entities under this umbrella are, in many ways, acting as pseudo Government entities (i.e. delivering core social, cultural, environmental services).
- Also the Māori authority tax regime assumes that commercial arms will make a profit, when in fact some commercial arms are highly invested in low cash return investments (especially those within the forestry sector); noting that land revaluation movements are only 'book entries' because they will never be realised. Therefore, you have a commercial arm struggling to pay a dividend to the charitable iwi entity; with losses building up in the

charitable iwi entity whereby these losses remain stagnant and unable to be offset against any dividend distribution.

- Charities regime does not make it simple to choose to invest in whānau commercial balance sheets.
- At an operational level, Inland Revenue doesn't always have the right capability and skills to deal with Post Settlement Entities or the Māori Authority regime. This can mean these groups have to jump through unnecessary hoops when they just need information.

Fairness and Equality

- Māori entities have a significant role to play in the fairness and inequality debate in Aotearoa.
- Māori businesses and entities have as their purpose collective benefit, by providing opportunities to disadvantaged members of our community. Would giving credit for certain actions these groups/entities do encourage further investment in these areas? Introducing a credit could encourage even more support for disadvantaged whanau.
- Māori entities pay tax, but it's not always obvious that that revenue is flowing to the Māori communities that need it. Would people pay more tax if they could see it being more directly reinvested in their people?
- If you take the longer-term view, Māori will pay more tax over time – an argument for spending more on Māori economic and social development in the short-term.
- The balance of the Government's efforts on tax collection should move to the global businesses who pay no or minimal taxes – important if the TWG and the Government are serious about fairness.

Specific taxes

- Can the work of TWG address the divide between rich and poor in Aotearoa? Could the tax system provide some relief for lower income families (e.g. GST reductions for lower income people, zero-rating of GST on healthy food).
- Introducing a CGT would address some of the injustices around wealth accumulation in Aotearoa, however careful consideration to those new in business (should CGT apply to the sale of a business) should be applied.

Environment

- Can the tax system incentivise/reward positive behaviour? How can tax be part of longer-term behavioural change, and how can it encourage doing the right thing
- What can the TWG recommend around ways to be more clean and green? NZ has high per capita car usage. It is however important to note that those with lower incomes may not necessarily have the ability to make a choice compared to those on higher incomes
- When the TWG considers environmental taxes, will it also consider a tourism levy, and shorter-term options to change behaviours around plastic bags and straws?
- Those producing environmentally harmful products are taxed at a higher rate or an "environmental levy" be applied
- What are the mechanisms to drive greater R&D in new sustainable products and services. What needs to occur to both develop these ideas but also achieve end user (consumer) acceptance both here and abroad?

- Overall, we must do what is right and in the best interests of the future generations, may this be to tax the bad behaviours and reward the good behaviours. Being sustainable in our view is just 'good business' and therefore we must adopt a systemic change programme to design, develop, inform and utilise sustainable products and services into the future. We know Maori will do this, because it is part of our business ethos, but it may come at a cost or impact our growth due to the nature of our collective asset bases

Other Reflections

- Aotearoa's tax system is simple, and that's one of the best things about it. Maintaining that simplicity is appealing. However, as an alternative example, a simpler method could be to introduce a flat tax rate, irrespective of your income. This may influence higher income earners, who typically structure their affairs to mitigate tax. There is a perception that higher income earners pay minimal tax. The tax system must be structured so that these loop holes are avoided.
- The TWG will need to take care not to scare businesses with any recommended changes. We must be an attractive country to invest in, and this can be manipulated by the company tax rate and GST.
- TWG should explore the relationship between GST and losses.