

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

### **Release Document**

**September 2018**

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



## Submission on the Future of Tax

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## INTRODUCTION

Te Pūtahitanga o Te Waipounamu welcomes the opportunity to comment on the **Future of Tax in New Zealand**.

Whānau Ora is based on the belief that a healthy whānau is not reliant on indicators of deprivation but is instead driven by a belief in their own inherent wealth. Whānau wellbeing is intimately tied to the concepts of caring – the application of manaakitanga, wairuatanga, and ukaipotanga.

Whānau Ora recognises the collective strength and capability of whānau to achieve better outcomes in areas such as health, education, housing, environment, employment and income levels. Our relationships encourage inter-dependence; we know that our strength comes through all of us taking up our roles and responsibilities to one another.

Whānau Ora Navigators support whānau to be self-determining and navigate whānau to champion their aspirations. Our Whānau Ora Navigators work with whānau to:

- support them through crisis and link them to the appropriate services
- collaborate, broker services and advocate; ensuring their needs are addressed in a holistic way.
- Help develop a step-by step plan to achieve their goals and aspirations.
- Identify and strengthen support networks.
- Reduce any risk of harm to whānau.
- Uplift mana and create opportunities for cultural connectedness.

The Whānau Ora approach is unique because it:

- recognises a collective entity,
- endorses a group capacity for self-determination,
- has an inter-generational dynamic,
- is built on a Māori cultural foundation,
- asserts a positive role for whānau within society and,
- can be applied across a wide range of social and economic sectors.

Te Pūtahitanga o Te Waipounamu is the Whānau Ora Commissioning Agency for the South Island. We work to respond to whānau innovation, to foster and grow inspirational ideas that are whānau-centred, intergenerational, locally driven, and provide direct impact for whānau to enable independent transformational change.

We represent a legal partnership of Ngā Iwi o Te Waipounamu, the nine iwi of the South Island: Ngāi Tahu; Ngāti Rarua; Ngāti Tama; Ngāti Kuia; Ngāti Koata, Rangitane o Wairau, Ngāti Apa ki te Rā To; Ngāti Toa Rangatira, Te Atiawa. This unique initiative is the first time, ever,

that the iwi has come together for a common cause to trailblaze a new model that reflects the aspirations of ngā iwi as they relate to whānau.

As our name suggests, we reflect the convergence of the rivers of Te Waipounamu, bringing sustenance to the people and reflecting the partnership's founding principle of whanaungatanga.

## **GENERAL COMMENTS**

Te Pūtahitanga o Te Waipounamu supports the purpose of the Tax Working Group, which has been established to examine improvements in the structure, fairness and balance of the tax system.

We acknowledge that the purpose of tax is to ensure we can pay for the things that we need to function as a society – health, education, an efficient and effective public transport system, a justice system, and providing for a minimum standard of living for everyone are some examples of the things provided through taxes. However, we also recognise that the wellbeing of a country is not just about finances but also about how we live together and protect our natural resources for future generations.

Te Pūtahitanga o Te Waipounamu contends that it is also about ensuring that people have enough to live strong and vibrant lives. The urgency of survival issues for whānau is ongoing with rising concerns of food and fuel poverty; self-harm and suicide ideation; homelessness; and harm caused by alcohol and drug abuse. These are issues which urgently require a meaningful cross-sectoral approach and while it is not the role of the Tax Working Group to address these issues directly, any decision about a new fair and balanced tax system must be cognisant of the need to support the short and long-term health, social, economic and cultural outcomes for whānau.

While the Tax Working Group does not promise a radical change to our system of taxation, it does raise some important questions for Māori to engage with. Central to this discussion is the intergenerational fairness of the tax system and how the changing dynamics of the Māori economy, and te ao Māori over the next thirty years will influence, and be influenced by, the tax system.

## **SPECIFIC COMMENTS**

We note that the Tax Working Group has five key questions

- **What does the future of tax look like to you?**
- **What is the purpose of tax?**
- **Are we taxing the right things?**
- **Can tax make housing more affordable?**

- **What tax issues matter most to you?**

We also note that the Tax Working group has two main questions for Māori to consider. The first question is:

- **Are there parts of the current tax system that warrant review from the view of te ao Māori?**

Te Pūtahitanga o Te Waipounamu notes that the growth of the Māori economy is characterised by a strong focus on intergenerational sustainability, diversification and tikanga Māori. Values such as kaitiakitanga (guardianship, sustainability and care of the land), manaakitanga (the care of people and each other), and whanaungatanga (wider kinship ties), drive business, investment and distribution decisions.

With respect to kaitiakitanga and how the tax system can uphold this by assisting entities to meet legislative obligations, Te Pūtahitanga o Te Waipounamu supports initiatives which engage with whānau. Many of the owners of these initiatives will be unaware of their tax entitlements and obligations prior to entering into an arrangement with the Commissioning Agency, and may find they have hefty sums to repay from overdue tax and penalties accrued. Kaitiakitanga is about meeting our responsibilities but the tax system should also uphold the value of manaakitanga and assist entities to know what is relevant and important for their enterprise.

Te Pūtahitanga o Te Waipounamu has been contacted by whānau who advise that anyone who is a partner in a business and has a student loan, is expected to pay large amounts in repayment regardless of their situation. The repayment of the student loan does not consider actual living costs and an individual can be forced into a hardship situation. This may also impact on the whānau entities that Te Pūtahitanga o Te Waipounamu supports. As many of these entities are start-ups or the owners are new to business, this is not ideal and a potential solution to this dilemma would be helpful.

Te Pūtahitanga o Te Waipounamu has been pleased to have contacted the Kaitakawaenga Māori for IRD located in Nelson, Greymouth, Christchurch, Dunedin and Invercargill. We hope that further communication between our entities and the kaitakawaenga Māori will enable greater uptake on legal compliance obligations. As an example, many of our Whānau Ora recipients may not be aware of a potential tax issue but perhaps information given at the time of applying for funding would assist in helping to address it. Any money received by recipients but not spent by 31 March may result in an income tax bill for the current year. Some of these recipients may be able to reduce the potential impacts by applying for a change of balance date, however, there is a process for doing this.

We also note that many tradesmen are expected to work on contract putting all tax obligations on themselves rather than the employer and this is an area that needs be

examined more closely especially when financial literacy is an issue for Māori, or they are a small business.

Te Pūtahitanga o Te Waipounamu would also consider a progressive company tax for small companies compared to large companies. Aotearoa has a lot of small companies with many of them being Māori-owned and we consider it important to support them as they grow. However, we do note the challenges for some big companies that may not make very much profit, while some small companies make a lot of profit. Consideration for such an outcome may need to be examined further.

- **What are your ideas on how tikanga Māori might be able to help create a fairer, more future-focused tax system?**

While the questions posed specifically for Māori are excellent questions and a Māori perspective about tax has long been absent from tax policy discussions, Te Pūtahitanga o Te Waipounamu contends that one of the biggest challenges whānau are facing when they think about tax right now is how any new tax system will impact on their ability to feed, clothe and house their whānau. The removal of GST on items that are deemed to be healthy and necessary like fresh fruit and vegetables, meat and milk products would go some way to supporting whānau immediately. It does not matter what level the sugar and fat content of fruit or vegetables are at but rather that the full range of fruit and vegetables are available to whānau. We note that the family home is not included in this review and would support the continued exemption of the family home and the land upon which it stands.

While there are parts of the current tax system that warrant a review from the view of te ao Māori such as whether there should be a capital gains tax or whether a land value tax should be implemented in New Zealand, (which will be addressed later in this submission), perhaps the question should not be how can tikanga Māori help create a fairer, more future-focused tax system; but rather **how can the tax system be designed to create a more equitable outcome for Māori?**

If the notion of a tax system designed to create a more equitable outcome for Māori was the focus, then any answer to the five key questions and the two main questions for Māori would not only be aimed at a more equitable outcome for Māori but it would be cognisant of an arresting impact that is likely to be experienced by the next several generations of Māori who the newly improved tax system has been created to support.

The Tax Working Group has highlighted that there are several future challenges including changing demographics, particularly the aging population and the fiscal pressures that these changes will bring. Te Pūtahitanga o Te Waipounamu see a role for the Māori economy in lifting New Zealand's overall standard of living but we are also concerned about the inter-generational fairness of the tax system and how equitable this tax system is when it asks Māori to provide more and more general taxation to support retirement incomes for an aging population when Māori life expectancy is seven years less than the New Zealand average?

As Pākēha New Zealand grows older and enters retirement, the more youthful Māori population comes into age and enters the workforce. While the Tax Working Group have acknowledged this shift in changing dynamics and in its call to action for Māori that *“we will have an increasingly older Pākēha population that will be dependent on a larger and younger portion of working age Māori,”* Te Pūtahitanga o Te Waipounamu contends that we will need a tax system that works to provide equitable opportunities for Māori in order to be able to support this older, retired Pākēha population.

There is no contesting the benefits that taxation provides. However, when Māori are at the negative end of almost every social indicator there is, it is difficult to argue that the benefits of taxation have flowed equitably towards Māori. Māori are more likely to be unemployed, more likely to be imprisoned, more likely to be suffering poor health, more likely to die earlier, more likely to live in cold, damp rental housing, more likely to be renters on their own land, and more likely to be the recipients of some form of benefit or support from the government. The benefits of taxation need to be explored alongside models of how better outcomes for Māori can be achieved. While the promise of a Māori economy continues to grow, disparities also continue to persist between Māori and other New Zealanders and this will need to be considered in any decision on a new tax system.

We note that the Tax Working Group is seeking solutions and have provided some thus far. Other such responses to specific questions include:

- **What does the Tax Working Group need to keep in mind when exploring what impact new taxes might have on Māori and Māori assets (e.g. Capital Gains Tax, wealth tax and land tax)? How should we deal with taonga assets?**

With respect to Capital Gains Tax, Te Pūtahitanga o Te Waipounamu supports a continued exemption of the family home and the land upon which it stands. We would also support the exemption of one rental property as this is often the investment property for a whānau retirement fund.

We would also hope that any changes in the new tax system would not be onerous where Māori land ownership and the income in a whānau trust are also not subjected to an onerous tax regime and that tax exemptions would continue for those entities that have a charitable status.

With respect to a Land Value Tax, Te Pūtahitanga would not support the application of such a tax particularly for Māori land which has collective ownership and often little return to its owners because the land is often underutilised due to the lack of working capital. Whenua Māori is a taonga and the likelihood of it being sold is very small. However, capital gains tax assessed on an annual basis or a land value tax has the potential to destroy Māori wealth.

History details that a contributing factor to the loss of so much Māori land in the late 19<sup>th</sup> and early 20<sup>th</sup> century was the loading of rates onto Māori land, and the subsequent debt that kept accruing because these rates were unable to be paid but for which very little services

were received. To do so again with a capital gains tax or land value tax would potentially open a new round of Māori land losses. Rates are currently charged on all land and any new land tax will need to have a consideration for this.

A workable model would be if Māori land was exempt entirely from tax. In order to ensure that these past thirty years of Treaty Settlements, (which saw a return of a fraction of the assets stolen from Māori either through confiscation, or land alienation), is not an exception in the general history of New Zealand, we need a tax system that does not revert to the theft of Māori land again for the benefit of Pākēha, and a system of government that works to provide equitable opportunities for Māori.

- **Housing Affordability**

To the question of whether tax can make a home more affordable, Te Pūtahitanga o Te Waipounamu notes that housing affordability is a huge problem particularly for many Māori and Pasifika who are more likely to be in social housing or rental properties. Owning a home does not seem like a reality for many whānau and Te Pūtahitanga o Te Waipounamu would reiterate its support of the whānau home for those who are fortunate enough to own one, continue to be exempt from any property tax.

- **The Environment**

Kaitiakitanga is about fostering and protecting the sustainability of the business and of the environment it operates within. Kaitiakitanga is how we seek to restore our ecosystems and to replenish natural resources. It is about protection, preservation and guardianship. Some might call this your 'ecological footprint' or footprint analysis –the mark we are making on the world. On current estimates humanity is exceeding its ecological limits by 39%; a fact which alerts us all to the urgent need to 'do something' to invest in the wellbeing of future generations; and the sustainability of the planet. Kaitiakitanga expresses itself in the sustainable maintenance of resources for future generations.

Te Pūtahitanga o Te Waipounamu recognises the importance of a healthy environment and the seventh Pou<sup>1</sup> posits that whānau living in Te Waipounamu are responsible stewards of their living and natural environment. Climate change continues to impact upon all New Zealanders and using the tax system to ensure producers and consumers face the real costs of emissions and other environmental harm could be one way to meet our international obligations and especially our responsibilities to our future generations.

We note that the productivity of the New Zealand economy is well below other OECD countries but we also note that many producers receive an environmental service such as the use of water at a fraction of the cost to themselves but the accompanying environmental cost – substances released into the air, water or land, the resulting pollution and the associated cost of that pollution is met by the rest of society. These environmental costs must be

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<sup>1</sup> Whānau Ora Outcomes Framework, endorsed by the Whānau Ora Partnership Group on 26 August 2015

reflected in the actual costs of the products being generated and this cost must be met by the producers in the first instance and by the consumers who buy the product.

Te Pūtahitanga o Te Waipounamu would support a tourism tax particularly if Aotearoa is to cope with the large number of tourists which increases every year. This tax could be aimed at discouraging unwanted behaviours as well as supporting New Zealand's unique species and ecosystems and could also be used to address cleaning up the large number of polluted rivers that we currently have.

Te Pūtahitanga o Te Waipounamu welcomes the opportunity to meet with the Tax Working Group to discuss any aspect of this submission.

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