

Tax Working Group Public Submissions Information Release

Release Document

February 2019

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**Submission
by**

R W M Dowler

On the

Future of Tax

Interim Report

To the

Tax Working Group

September 2018

Introduction

Thank you for the opportunity provided to complete submission on the Interim Report.

First, it is good to note that common sense has generally overridden ideology in preparation of the report, but this is also no less than I would expect from such a group.

This appropriate outcome can be reflected in the conclusions reached, for example, on GST, as well as the Tax Working Group dismissing other possibilities such as wealth and financial transaction taxes.

Referencing my earlier submission, there remain two matters that I wish to provide additional comment upon under the following headings.

- Capital Income Taxation
- Kiwisaver and Taxation of Savings

The submission content follows.

Capital Income Taxation

I am pleased to see that the interim report recognizes, among other things, the points raised in my first submission that a capital income tax fails to meet the generally acknowledged theoretical requirements supporting such a tax because:

- There must be exemptions to gain political acceptance (e.g. the family residence, which will simply continue to exacerbate over-investment in housing)
- The tax can only be applied on asset realisation, as an accruals basis is simply not practical on large value assets without forcing sale to meet the accrual tax
- Roll over relief may be required for some assets
- Taxation is generally (and inappropriately) applied to gains unadjusted for inflation
- Assets may have to be periodically valued, increasing costs
- Tax returns become more complicated, reducing the benefits of simplification already achieved in New Zealand

I reiterate that, surely, this is the fundamental reason why New Zealand has not previously introduced such a tax and, I am sure, remains the fundamental reason why New Zealand should continue not to do so.

While appreciating the equity or fairness questions posed around such a tax, emphasized in some recent public presentations, I request that the Tax Working Group not lose sight of the simplicity (compliance and administration costs and certainty) and efficiency standards that also need to be considered.

If this Tax Working Group, in contrast to previous such groups, does decide to recommend such a tax, my expectation is that the Tax Working Group will include appropriate analysis as to the simplicity and efficiency effects alongside analysis relating to fairness.

Finally, you can note the second bullet point above outlining that such a tax can only realistically be applied on asset realisation to ensure cash flow is available to pay the tax. On this basis, the second RFRM option being considered by the Tax Working Group can be dismissed. I am therefore also surprised to see that the Tax Working Group is considering recommending retention of the FDR regime for foreign share investments. If a Capital Income Tax is introduced, I oppose retention of the FDR regime in that circumstance.

KiwiSaver and Taxation of Savings

I refer to the inequity and other negative issues around KiwiSaver identified by the Tax Working Group and the Chairman. I trust that you will recall the suggestion in my first submission that one solution to address this would be to scrap KiwiSaver.

However, assuming that KiwiSaver remains, I am pleased to see that the Tax Working Group is proposing direct help to the lower income groups through, for example, suggesting removal of the tax impost on employer contributions for such groups. This is directly in line with my earlier submission comment that Government may need to provide some form of direct support to certain groups to assist in removing or reducing the inequity that the Chairman, in particular, has publicly expressed concern about.

On the question of differential taxation of savings more broadly, I acknowledge the complexity and I look forward to the Tax Working Group continuing to focus on how to reduce such differentials, even while maintaining or enhancing, simplicity, fairness and efficiency.