

Tax Working Group Public Submissions Information Release

Release Document

February 2019

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

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



Equality Network response to the Interim Report of the Tax Working Group 30th October 2018

About the Equality Network

The Equality Network is a non-partisan network of organisations working to improve the well-being of all New Zealanders by reducing income inequality. The aim of the Network is to enhance and support member organisations as they work for a fairer New Zealand. The Network aims to act as a “hub” for information sharing and communication for groups aiming to reduce inequality in New Zealand. There are currently 39 groups participating in the network. See our website www.equalitynetwork.org.nz for more details. Contact person for these comments is Equality Network Coordinator, Rae Julian info@equalitynetwork.org.nz

Summary

The Equality Network welcomes the Tax Working Group’s (TWG) Interim Report and acknowledges the depth of analysis undertaken to this point. The report shows that the TWG have done much work to review the many thousands of comments and submissions received.

These comments by the Equality Network draw on the key messages called for in our 2017 Election Statement¹. The immediate changes the Equality Network is calling for are for the rebalancing of income and wealth to promote a decent life for everyone:

- Income for all that provides the necessities of life, including fairer income support.
- A tax on very high levels of wealth and higher top tax rates on the highest incomes to ensure everyone contributes their fair share and enable our families and whanau to thrive.

Inequality and Tax: The Equality Network welcomes the strong emphasis in the Interim Report on reducing inequality and imbalances in the system. The report acknowledges that tax plays a critical role in reducing inequality. However, while there are worthy measures in the report, more needs to be done to create a coherent system to reduce inequality.

The Equality Network recommends that the TWG set out more clearly in its final report how the changes being proposed to the tax system will help reduce inequality. New Zealand currently rates lowly for the redistributive effect of the tax system. The final report should include proposals for goals to reduce inequality, such as New Zealand being among the most equal countries in the OECD.

Reducing Tax on Lower Incomes: The Equality Network is pleased that the TWG is considering reducing income tax rates for lower and middle income earners. This will help reduce income inequality. But further measures should include a steeper progressive tax scale, with more tax on very high incomes (e.g. over \$150,000). While an increase in higher income taxes is not included in

¹ Equality Network 2017 Election Statement <http://www.equalitynetwork.org.nz/wp-content/uploads/2017/07/Equality-Network-final-statement-backgrounder-Jul2017.pdf>

the TWG Terms of Reference, an analysis of options for tax on higher incomes should be included in an Appendix covering options for future consideration.

Tax on Capital Income: The Equality Network would also like to see all income, regardless of source, taxed. This would be a real step forwards towards a truly fair tax system. It is good that the TWG is considering a more comprehensive tax on capital income. It is not clear from the analysis provided in the Interim Report how far such an approach would reach in taxing the currently un-taxed wealth gains enjoyed by a relatively small group of the wealthiest in our country. The Equality Network recommends that the final report of TWG include a detailed analysis assessing the proportion of current wealth holdings would be reached by the proposed tax compared to the reach of existing tax settings.

Wealth Tax and Financial Transaction Tax: It is disappointing that the Interim Report already rules out further consideration of a net wealth tax and a financial transactions tax. This misses a vital opportunity to explore ways to reduce inequality, widen the tax base and strengthen the sustainability of tax revenue in the future by taxing areas not currently taxed and that are likely to continue to grow and become more important in the future.

The Equality Network recommends that the TWG in its final report includes a recommendation to further explore the introduction of a net wealth tax in this country. The TWG has not followed the recommendation from the OECD that countries such as New Zealand that do not have other forms of wealth tax such as estate and gift duties should consider a net wealth tax.

The TWG in its interim report has also ruled out further work on a financial transactions tax for New Zealand, despite acknowledging that such taxes generate reasonable revenue in other countries and would contribute to a more progressive tax system. The Equality Network urges the TWG to change this and recommend that an active work programme be established to design a workable financial transactions tax for further consultation.

GST on Financial Services: The Interim Report does not recommend extending GST to include financial services, despite acknowledging an “in principle case” for doing this and that it would help make the tax system more progressive. The initial conclusion that there is no feasible means for doing this seems at odds with the options considered such as a financial activities tax (FAT) that do seem feasible or at the very least need further investigation. The Equality Network urges the final report to include a recommendation to explore and consult on a process for including GST on financial services.

Tax and Benefit System Interface: The Equality Network would like to see a deeper consideration of the links between the tax system and welfare, including secondary employment taxes and the abatement of benefits once a certain income level is reached. The Interim Report has specifically excluded further discussion of a number of issues on the basis that they will be covered by the work of the Welfare Advisory Group (WEAG).

Child support, abatement rates for benefits, thresholds for access to Working For Families tax credits and other assistance are all issues that impact low and middle income earners and the TWG needs to commit to shared work with the WEAG to ensure that the final reports of both working groups adequately address this vitally important area. The Equality Network urges the TWG to include specific ideas and initial analysis in the appendix to the final report and/or clear information about the analysis being provided to the WEAG to help it address these issues in its final report next year.