Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

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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.

From: Phil Harington [1]
Sent: Wednesday, 31 October 2018 3:07 PM
To: TWG Submissions
Subject: FW: submission to tax working group

To whom it may concern,

Submission to the Tax Working Group on its Interim Report

Thank you for the opportunity to make a submission on the Interim Report. I would like to commend the Group for its in-depth and accessible analysis of the tax issues and opportunities that face New Zealand in 2018.

I would like to express my support for the Group's work on the taxation of capital, and in particular its decision to create analytical models to support its consideration of any future changes to the way that capital is taxed in New Zealand.

The issue of capital gains tax is an issue of fairness (about taxing all wealth and substantive income equally) and of tax system integrity. If a taxpayer has the ability to arrange their affairs in a manner that generates tax-free capital in favour of taxable income, the tax system is flawed and open to abuse by those who have the means to restructure and obtain costly professional advice. The lack of an effective tax on capital means that wealth accumulates in the hands of the wealthy without being taxed, leaving the lower income earners (who primarily derive taxable income in the form of wages) a relatively higher tax bill than is proportionate to their cumulative share of the capital and income of New Zealanders. I am of the view that New Zealand should introduce a comprehensive capital gains tax. The reasons for this are as follows:

- The distinction between capital and income that has been the foundation of tax policy to-date favours those who are asset-rich and have the means (financial and otherwise) to adopt behaviours and tax-planning structures that ensure that they derive their income in the form of capital rather than income. This creates distortions as people pursue tax-favourable outcomes, rather than overall efficiency, logic, or public good, and violates the fundamental principle that tax should be an integral but background aspect of our society.

- Capital is concentrated in the hands of the wealthiest members of our society, and failing to tax that wealth means that the tax system fails to appropriately recognise what a taxpayer's actual "income" is and to redistribute wealth effectively. As the Group highlighted in its interim report, "capital gains are concentrated amongst those with high incomes and wealth" (see page 32, paragraph 17). Broadening the tax base ensures that all forms of economic wealth are taxed appropriately.

- Although a capital gains tax could never function as a "silver bullet" in the current housing market, it must be acknowledged that under the current tax rules most investors can buy and sell residential property (which has only been appreciating in recent years) without paying tax on any gain derived at the point of sale. I am of a generation where home ownership was not only normal but achievable for the average wage earner. Many of my contemporaries own multiple properties (family homes and investment properties) because they were able to buy homes cheaply in days gone by, and then leverage those homes in order to buy additional properties that appreciate and generate tax-free gains in the long run. While wealthy land-owners enjoy these benefits and increase their net-capital, my adult children have been shut out of the property market despite earning above-average salaries. This cycle of wealth capitalisation, reinvestment, and tax-free gain only serves to keep the rich rich.

Page 31 of the Group's report states that it will need to be satisfied that "the fairness, integrity, revenue, and efficiency benefits from reform outweigh the administrative complexity, compliance costs, and efficiency costs that arise from the proposed additional capital income taxation" before it can recommend the implementation of a capital gains tax.

I urge the Group to prioritise fairness, justice, and equity over concerns of administration and simplicity of tax system design. As the Group's Interim Report points out, capital gains taxation will increase compliance and administrative costs, but virtually every other OECD country has been able to manage and deal with these consequences. After all, if ease of administration were the foundation of taxation, we would do away with our tax system altogether. The basic premise of taxation is to collect revenue to fund public good and to redistribute wealth. This principle should, above all else, be at the forefront of the Group's consideration of the taxation of capital.

Finally, I note that I have read The New Zealand Council of Christian Social Services's submission on the Interim Report and I agree with the points it made.

Thank you again for the opportunity to make a submission.

Yours sincerely,

Phil Harington

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