# Tax Working Group Public Submissions Information Release

## Release Document

## February 2019

**taxworkingroup.govt.nz/key-documents**

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[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.

**From:** Claremont Estate [1]
**Sent:** Friday, 26 October 2018 5:34 PM
**To:** TWG Submissions
**Subject:** Increasing Taxes

Has the Tax Working Group contemplated lowering and not raising taxes? It would appear right to suggest that we may be approaching a tipping-point, where raising taxes has become or could become counter productive.

Evidence suggests that there is an inverse relationship between the tax rate and the amount of revenue collected. The higher the tax rate the lower the Government's revenue.

In making the case for lower taxes, we need only look to the Russian Federation, following the demise of the Soviet Union in 1991. In order to invigorate a sclerotic economy, the introduction of a flat tax resulted in a 25% rise in revenue from personal income tax, followed by
a similar increase in the second year and 15% in year three.

The Laffer curve predicts such an outcome, attributing the primary reason for increased revenues to higher levels of economic growth, stemming from the introduction of the flat tax. If the NZ Government were to adopt this model it would also benefit the exchequer by increasing declared income and reducing bureaucracy by simplifying the way tax is calculated and collected.

**Richard Goord**

[1]

**From:** Claremont Estate [1]
**Sent:** Friday, 26 October 2018 5:23 PM
**To:** TWG Submissions
**Subject:** NZ tax review

Dear Sirs,

I wish to make a submission to the Tax Working Group in relation to the recommendation that NZ should introduce a Capital Gains Tax.

I am opposed to the concept of a CGT on the following grounds:

1) If the purpose of the Tax Working Group is to ensure fairness within the tax system then any tax that effectively taxes inflation is manifestly unfair.

Unless there is indexation of the GCT threshold, (assuming that there is a CGT threshold) then it is not a tax on "real capital gains" but rather is a tax upon the inflated value of assets caused by underlying inflation. <u>Accordingly, if introduced, a CGT must only tax real gains after an allowance for inflation.</u>

2) CGT is a tax that effectively punishes those who chose to save and invest. Capital Assets have usually been acquired out of tax paid income.

A CGT is therefore a disincentive for savers. Many New Zealander have historically invested in second homes, rental properties farms, business or other assets as a form of savings and a hedge against inflation. It has been one of the few ways that hard working Kiwis have been able to enhance their wealth and living standards.

3) To be fair any CGT computation needs to take into account the cost of capital improvements that have contributed to the enhanced value. Over time Capital assets acquired, as outlined above, are often improved.

The enhanced assets are not infrequently sold at or around retirement age. Those willing and able to look after themselves financially in this manner alleviate a burden from the state. <u>In the UK there is a low rate of CGT for retirees who have owned a business for more than 10-years. It would be expedient to contemplate similar concessions in NZ.</u>

4) There is already, in effect, a CGT on homes by virtue of the Brightline test. The introduction of CGT on second homes is unlikely to make houses more affordable. This has certainly not been the case in the UK were there is a CGT on second homes.

5) For the above reasons it is evident that a CGT will be contentious and it will inevitably be complex. Therefore it will complicated and probably expensive to collect and administer. Only the accounting profession is likely to benefit from the introduction of a CGT. This is contrary to the ethos of the current NZ Tax system which is designed to be simple and straightforward.

CGT will be deeply unpopular. I believe that there are other more effective ways to raise Government revenue. If Labour wants to be re-elected then I think the Government would be wise to look at other alternatives.

I hope that the group will consider these concerns.

**Richard Goord**

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