

Tax Working Group Public Submissions Information Release

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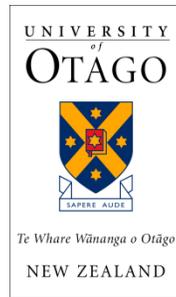
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29 October 2018

Tax Working Group Secretariat
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Re: Submission on The Future of Tax

Please find attached a submission from the following members of the Department of Public Health, University of Otago, Wellington.

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Judith Ball	Anja Mizdrak
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Ruth Cunningham	Diana Sarfati
Louise Delany	Louise Signal
Richard Edwards	Andrea Teng
Geoff Fougere	George Thompson
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This submission has been coordinated by Louise Delany, who welcomes discussion if required. Please contact her on ^[1]

Yours sincerely

Professor Diana Sarfati
Head of Department

Submission on the *Interim Report* of the Tax working group

30 October 2018

Introduction

The Department of Public Health, University of Otago, Wellington, is pleased to provide this follow-up submission to its earlier one on the TWG Consultation documents.

We applaud the fantastic amount of work that has gone into the Interim report and believe that the Interim Report (IR) provides invaluable material and ideas on taxation and its relationship with societal goals.

We have two main concerns and related sets of comments/recommendations.

Inequalities: we are unclear on the extent to which adoption of likely recommendations will succeed in ensuring that New Zealand becomes an optimally equal society, or substantially more equal than at present.

“Correctional” taxes: we are disappointed with the depth, framing, and wording of this chapter.

Our focus is the need for a tax system that is fair; efficient; transparent; enables inequalities to be reduced to the greatest extent possible; produces enough revenue (in conjunction with an effective transfer system) to ensure world-class provision of public services (i.e. health, education, housing transport, etc); uses health-promoting taxes effectively to maximise health and wellbeing; ensures the health of the environment for the present and the future; and interfaces with the international tax system in a way that reduces tax evasion, tax avoidance, and global inequalities.

Major Points

1. The IR does not consider taxation in conjunction with welfare/benefit/transfer issues. We recognise that this lack of an integrated approach derives from the terms of reference. Unfortunately this limitation is a major impediment to sensible and meaningful recommendations, a difficulty which is implied at several points in the IR, for example:
 - a. The IR recommends ‘additional Government support for childcare costs, but ... this support is best provided outside the tax system’ (13.7).
 - b. On p 94, para 10-11, it is stated that that reductions to lower tax rates would assist low and middle income earners through the tax system; whereas incomes for very low income households would be best achieved through welfare transfers. The choice between these options is left in a no-person’s land between the tax working group and the expert advisory group on welfare, and hence no clarity of direction. The outcome is that income inequality issues are not adequately addressed.
2. Given the importance of this review, and our strong belief that the tax and welfare system should act coherently to reduce disparities and maximise well-being, we strongly urge that the final report acknowledges the constraints of the current TOR and includes a section outlining ideas and options for future consideration. Reference to such ideas and options would go beyond the terms of reference, even while acknowledging that they are not able to

be reflected in recommendations in the Final report. These ideas, options and materials could form the basis for future consideration by government (and groups with an interest in these issues).

Recommendations

1. General

We propose that:

1. Four principles are *added* to the conventional principles of tax design (efficiency, equity, predictability, certainty etc): (this would involve amending p 13 of the final report):
 - a. *Consistency with the Treaty of Waitangi* and recognition that taxation should contribute to giving effect to the Treaty;
 - b. *Reducing inequalities*: An explicit purpose of the tax system should include taxation as a means of reducing inequalities and minimising poverty. The purpose of tax in reducing inequalities would be consistent with Te Ao Maori perspectives, a perspective which otherwise in the TWG IR is not given much weight. (This purpose may be seen by some as inherent in the notion of equity/fairness, but we believe this broad principle is insufficiently explicit about the aim of reducing disparities and poverty).
 - c. *Transparency, and the need for comprehensive disclosure and public access*. This principle is consistent with the growing international consensus about the importance of transparency and the increasing implementation of transparency-promoting measures within tax system reforms.
 - d. *Adequacy* in terms of achieving government social, health and environmental goals.
2. We recommend that the text (if not recommendations) recognise that the aims of reducing inequalities, provision of good quality public services, and reduced poverty, require:
 - a. *increased* tax revenue; that is, a great proportion of GDP than 30 percent; rather than maintaining this proportion at the current level
 - b. a more *progressive* system of income tax than appears to be recommended in the Interim Report; and
 - c. a greater proportion of the tax revenue from wealth/assets (rather than income or consumption).

2. Corrective taxes

The chapter on 'corrective taxes' covers taxes such as those relating to tobacco. These aim to prevent disease and improve public health. This chapter is seriously flawed and contrasts with the more in-depth and conceptually-based chapter on "environmental and ecological taxes". The concept of 'corrective' taxes has highly negative connotations (associated with 'correctional facilities' and generally an old-fashioned somewhat negative 'schoolmasterly' approach). This framing of 'corrective taxes' is particularly regrettable as these taxes, unlike most others (e.g. income tax and GST), have the potential to directly enhance individual and population wellbeing, e.g. through reducing smoking prevalence or improving diets, as well as raising tax revenue to support the provision of expenditure to promote social goods.

We therefore strongly believe that a more positive term should be used for such taxes e.g. 'health-promoting taxes' or 'health and well-being taxes'; and that the chapter should acknowledge that such taxes are an important component of comprehensive strategies for societal wellbeing.

We also disagree with the characterisation of the appropriate rate for these taxes in the report as being tied to their associated negative externalities. Firstly, it is very difficult to determine the exact extent of such externalities. They are often underestimated unless large indirect impacts such as productivity loss and valuation of loss of life and health are included as well as direct health care costs. Secondly, the main aim of these taxes is to reduce adverse health-related behaviours and hence improve health, so the assessment of appropriate level of these taxes should relate to their impact on these indicators.

The following paragraphs have comments on specific health taxes:

- a. **Tobacco:** Tobacco taxation is the most well proven intervention to reduce smoking prevalence by discouraging young people from starting to smoke and encouraging smokers to quit. Tobacco taxes are strongly supported by organisations such as the World Bank, WHO and International Agency for Research on Cancer. Taxation on tobacco has quite simply saved tens of millions of lives around the world. This chapter unfortunately frames health taxes in a highly negative way, as seen in its focus on regressivity, reducing efficacy, and possible associated crime – without providing any evidence for any of these assertions.

Tobacco taxes can be regressive in economic terms but are usually highly progressive in health terms (i.e. they reduce smoking most in poorer populations). The impacts on disparities therefore need to be assessed using a range of metrics and perspectives. In addition, any regressive economic impacts could be mitigated in several ways, e.g. through: (i) hypothecation of revenue to interventions encouraging and supporting the most disadvantaged smokers to quit; (ii) making available credible alternatives to smoking such as nicotine-containing e-cigarettes which are not subject to the same excise increases; (iii) addressing economic impacts on disadvantaged smokers through increases in benefits or targeted reductions in tax that preferentially impact disadvantaged groups.

The statement that the effectiveness of tobacco excise tax increases appears to be increasing is not supported by evidence e.g. there are continuing declines seen in smoking prevalence in the annual NZ Health Survey and of adolescent smoking prevalence in the ASH Year 10 survey. The relation between tobacco tax levels and retail crime has not been rigorously evaluated as to (i) whether such crimes are increasing, and if they are, (ii) whether tobacco tax increases are an important cause.

We endorse the IR's conclusion that a range of other tobacco control measures are required, but it is critical that these accompany and complement tobacco tax increases, not replace them. We endorse the ASPIRE submission on the original TWG documents with its proposals for a framework of continuing tobacco excise tax increases, mitigation measures such as hypothecation of revenue to support poorer smokers to quit, supporting fiscal measures such as the removal of duty free tobacco product allowances and implementing a minimum

tobacco product price (to avoid tobacco industry tactics to reduce the impact of tobacco tax increases), and through rigorous monitoring and evaluation of impacts.

- b. **Alcohol:** We consider that the IR is negligent in not recognising the vast amount of work that has been done on the importance of price as one strategy for reducing alcohol harm, in conjunction with other strategies. The submissions on alcohol from health groups have a consistent approach in recommending a 50% excise raise to ensure at least a 10% increase in price. This is not an area where 'further work is required': the work has been done and its messages are coherent, strong, and fully evidence based.
 - c. **Sugar sweetened beverages:** There is good theoretical and emerging empirical evidence that SSB taxes reduce consumption of sugary beverages and this tax has the potential for important health gains in New Zealand. The evidence base for SSB taxes has rapidly expanded in the last two years and it has been introduced in over thirty countries around the world, including at least eight Pacific countries. An SSB tax in New Zealand is needed as part of a broad range of obesity prevention measures to address New Zealand's very high OECD obesity rankings. We suggest the tax working group support future SSB tax.
 - d. **Gambling:** We are disappointed that this chapter includes no reference to the role of taxation in relation to gambling. Gambling produces a wide range of harms at the population and individual levels, and taxation is one appropriate strategy in conjunction with others in addressing such harms.
1. **International income tax.** We recommend, in relation to chapter 11 on 'international income tax' that the final report recommends that further work be done on issues that go beyond the terms of reference and the material in this chapter. In particular further work should analyse the implications of the interface between New Zealand's domestic taxation system with international cross-border flows with respect to the extent to which New Zealand's system continues to facilitate tax evasion/avoidance; and the need for further transparency in particular the need for public country by country reporting. The present lack of transparency has implications both for maintaining inequalities and poverty.
 2. **Transparency:** We recommend that the sentence on p 9, second column, be amended to finish after the phrase 'about the tax system' (4th line in the second paragraph) It makes little sense to affirm the need for greater public access to data about information that is already publically available.
 3. **Environmental taxes:** we support the proposal of a framework for helping decide whether and when environmental taxes are appropriate. We do not however agree that all of the proposed criteria in Box 9.1 be regarded as *essential* prerequisites. Instead the criteria should be applied in nuanced way, recognising that there are degrees of (for example) responsiveness and risk tolerance, to be balanced against a range of other criteria such as the significance of the issue and the degree of efficacy of the proposed tax. We also consider that an important criterion has been missed and should be included: the degree to which a possible tax would assist in ensuring that New Zealand is able to fulfil its international commitments (including both legal and policy

commitments). On the specific topic of carbon taxes, we recommend that the final report be fairly neutral on the *choice* of instrument, i.e. trading scheme or direct tax, (given other work in progress on this issue); but that there be a strong emphasis on the need for the price of carbon to be increased.

3. Recommendations on modelling required to assess the impact of proposed changes

We recommend that the final report include modelling and analysis of the impact of the TWG recommendations, if accepted and implemented. Such modelling should include impacts on income and wealth distribution, and poverty reduction; but also the impacts on the environment, population health and well-being and other social goods. We understand that the government has indicated its commitment to a package that would reduce inequalities in this country. We need to see how implementation of the current recommendations as broadly framed would affect, one way or another, the extent of inequalities in New Zealand. If implementation does little to improve the status quo it is not clear what purpose is being served.

We believe that New Zealand should aim at being one of the top five most equal societies in the world, nothing less. Hence, at the very least, information in the TWG final report should include projections demonstrating whether adoption of its recommendations would in fact reduce inequalities, and to what extent.

We recommend, as noted above, that a legitimate use of the final report would be inclusion of ideas and options that go beyond the terms of reference even if they cannot be included in TWG recommendations. These ideas, options and materials would form the basis for future consideration by government (and groups with an interest in these issues). The report could include a section or appendix 'ideas for future consideration'; or 'ideas for the long-term'.

We further recommend, as an example of the above approach, that whether as an appendix or working paper, the report include modelling of the impact of other possible packages of measures on inequalities with the ultimate question being: *what package of measures would be necessary to ensure that NZ is the most equal of OECD societies* (or the least unequal). What would it take for New Zealand to be as equal as the five OECD countries which are the least unequal? Setting out the implications of a range of such measures would enable informed discussion in the future.

We recommend that the Final report includes, again perhaps as an appendix, a much comprehensive analysis of the potential of wealth taxes (conceptualised broadly as including capital) for reducing inequalities. The paragraphs on p 43 are skimpy to say the least, and are broadly devoted to listing disadvantages such as difficulty of application and likelihood of evasion/avoidance. The possible advantages of wealth taxes in reducing inequalities are not mentioned.

4. Recommendations on other work required

We recommend that the TWG include, as a recommendation for further work, the need for research on the interface between the tax and welfare/transfer system. By February the Welfare Group should also have reported. The Government should be urged to ensure that further work is carried out that would integrate ideas and options from both the existing group in a way that allows real choices to be made on policies that would reduce inequalities and poverty. This further work should outline the interface issues between the taxation and welfare/transfer systems, with examples of how they impact on each other. This section could include details on the interface is managed in other countries – for example the effects on poorer people of continued (relatively) high income taxes can be offset by greater and more universal provision of public services (health, education, child care, housing), with consequent implications for inequality reduction.