

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**February 2019**

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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.

30 November 2018

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Who's  
putting local  
issues on  
the national  
agenda?

**We are.  
LGNZ.**  
Te Kāhui Kaunihera o Aotearoa.

Dear Mr Cullen

## **Response to the Interim Report**

LGNZ appreciates the opportunity to provide feedback on the Tax Working Group's Interim report. The Report takes a comprehensive look at the system of taxation from the perspective of central government and its revenue needs, although there are a number of topics where the interface with local government is mentioned and it is these that our comments are generally concerned with.

### **Section 9: Environmental and ecological outcomes**

#### Water pollution

LGNZ agrees with the statement that tax instruments are not well suited to addressing all water pollution issues – there are also important roles for regulation, education and support. We also agree with the following:

- Locally variable pricing tools are supported. If the aim is to improve water quality, imposing allocation limits, backed by the ability to trade, is likely to have as good if not a better outcome.
- Sensitivity of water pollutant tax rates to local catchment conditions are also supported. Unless government provides a nationally consistent framework and toolkit for local application.

#### Solid waste

Given local government's responsibilities in relation to the management of the waste stream, levies should be set at a level that meets the direct and indirect cost of managing the waste stream, but not to the degree that extensive non-compliance results. As the Report notes any significant increase in the waste levy creates a behavioural risk that individuals may resort to illegal dumping to avoid paying the increased charges.

The suggestion is made in paragraph 88 that the current approach to hypothecation should be revisited, not only to ensure funds are allocated in the best way to promote a more "circular economy", but also because additional funding may be required to address externalities, particularly if levy increases may be required to encourage non-compliance. LGNZ supports this view.

### Road transport

Issues of equity related to road pricing are briefly discussed in paragraph 92. This is particularly prescient in New Zealand's high growth councils with poorer families more likely to be living further from city centres and thus likely to be most affected by any road user charges, as well as having less access to frequent public transport services. Conversely, wealthier citizens are likely to live more centrally and more likely to benefit from investment in public transport. Timing may be an important consideration when road user charges are being considered.

### Revenue recycling

Paragraph 112 discusses the merits or otherwise of recycling income from environmental taxes, presumably through some form of hypothecation. While LGNZ believes hypothecated taxes play an important role in our system of public finance, (for example the Land Transport Fund), we suspect that too many hypothecated taxes could make the system complex and inflexible.

Should the government explore this idea then an equalisation fund is needed to ensure low population/income councils are not further disadvantaged.

### Tobacco

The discussion on tobacco excise contains an excellent discussion on the regressive nature of further excise increases and other potential negative externalities, such as increases in crime. Amongst the social costs created by tobacco use are costs incurred by councils when removing litter and performing regulatory roles, such as enforcing compliance in relation to smoke free areas. These activities are funded through property taxes but there is a good case that some contribution should be made from the excise.

### **Section 12: GST**

LGNZ supports the Tax Working Group's conclusions that GST exceptions are a poorly-targeted mechanism to achieve distributional goals. We agree that GST exceptions are also "complex and generate large compliance and administration costs. Other measures, such as welfare transfers, are likely to have greater benefits for the same fiscal cost".

### **Section 14: Taxation of business**

#### Seismic strengthening

Local government has a direct interest in the way in which the tax system can help or hinder the actions of building owners towards investment in seismic strengthening. It is a concern that current tax settings, as noted in the report, allow for tax deductions to be claimed should a building collapse in an earthquake, but not for expenditure that will prevent the building from collapsing.

Owners of older buildings throughout New Zealand are facing significant costs in order to meet earthquake standards, and it is important that the taxation system helps rather than hinders appropriate investment.

### **Conclusion**

Our initial correspondence to the Tax Working Group (24 April 2018) highlighted the importance of taking an holistic and integrated look at tax in New Zealand and focused in particular on the inter-relationship between local and national taxes. While the Productivity Commission is looking specifically at the revenue needs of local government, high level thinking is also needed about the way in which the tax system provides for both national and local public goods.

Councils are frequently confronted with demands for expenditure on matters that involve the achievement of national goals, objectives and policies for which existing revenue and taxing sources are poorly suited. Two recent matters involve the provision of local amenities for visitors and meeting drinking water standards in small and isolated communities. In both cases the demand for investment is driven nationally rather than locally and existing revenue options, namely rates and charges, are poorly suited. Both cases highlight a problem created by the allocation of tax bases between local and central government and the need for councils to have a more diverse tax base.

LGNZ is more than willing to discuss these issues with the Tax Working Group.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Dave Cull', written in a cursive style.

Dave Cull  
President  
Local Government New Zealand