s 9(2)(a)

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Hi there
I have read your consultation paper.
I offer 2 comments:

1. The paper does not propose to examine the interaction of the tax and welfare systems. As a consequence the analysis of efficiency and productivity will be partial and incomplete.
   The interaction of the tax and welfare systems (mostly abatement rate impacts) creates very high effective marginal tax rates. In some instances well above 100% when the costs of work are considered. These high EMTR's are partly responsible for high rates of opting out of the workforce and welfare costs. Any consideration of personal income tax must consider the actual effective marginal tax rates that individuals face.
2. Company tax rate consideration does not take into account NZ's highly restrictive foreign direct investment regime or low levels of productivity. As a consequence the analysis will not effectively address the optimal tax base question.
   Low levels of foreign direct investment, poor international connectivity and a high rate of company taxation are very clearly a major contributor to New Zealand's poor productivity. Consideration of the company tax rate should take account of the difficulty of and return on investing in New Zealand.

I hope that your work considers land tax – it was recommended by the VUW Tax Working Group in 2010 as a means of funding tax rate reductions and improving overall efficiency of the tax system (p67; https://www.wgtn.ac.nz/cagtr/pdf/tax-report-website.pdf)
Regards
Andrew Body
s 9(2)(a)

s 9(2)(a)

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Hello policy.webmaster@ird.govt.nz

In the spirit of section 3 (Purpose) of the Plain Language Act 2022 and section 3 (Purpose) of the Data and Statistics Act 2022, please ensure that the next version of the 'Our tax system: Bases and regimes' long-term insights briefing document includes:

1. the words "registered charity" at least once, for completeness and consistency with the document dated 16 September 2024 that is published at https://www.taxtechnical.ird.govt.nz/-/media/project/ir/tt/pdfs/interpretation-statements/2024/is-24-08.pdf?modified=20240916010658&modified=20240916010658

2. a glossary, to reconcile terminology with defined terms in legislation and other relevant contextual information - **eg.** "registered charity" organisations are defined in section CW41(5)(a) of the Income Tax Act 2007 as follows:

Definition

(5)

Tax charity means,—(a)

a trustee, a society, or an institution, registered as a charitable entity under the Charities Act 2005:

3. at least one cross-reference to the February 2002 Report by the Working Party on Registration, Reporting and Monitoring of Charities that is published at https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2002/2002-other-wprrmc-report/2002-other-wprrmc-report.pdf?modified=20220405012818&modified=20220405012818 (**the February 2002 Report**)
- **eg.** the glossary that is suggested in point 2 above could include a cross-reference to the following recommendation on page 4 of the February 2002 Report:
"... We recommend that the Income Tax Act in particular, and other relevant legislation be amended to include reference to "registered charities"..."

4. the words "Charities Register" and a link to https://register.charities.govt.nz/CharitiesRegister/Search

5. initial information about the matters that the Inland Revenue Department may recommend for inclusion in the Parliamentary Counsel Office's next set of statute revision Bill programme recommendations to the Attorney General

6. alternative description(s) of the "general government" concept that is described in the following screenshot of paragraph 31 and footnotes 1 and 2 on page 8 of the document published at https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2024/2024-feedback-ltib/ltib.pdf?

modified=20240821011835&modified=20240821011835 because, as highlighted in my email below dated 16 September 2024, care should be applied in relation to communications about 'central government' and 'local government' organisations - **eg.** Section 6 (Meaning of council-controlled organisation and council organisation) of the Local Government Act 2002)

Page 8 - para 31.png

Please do not hesitate to contact me, if you would like to discuss any of the points raised in my LTIB submission above, and/or the submission below about Web Standards.

Thank you

Anna Muir

s 9(2)(a)

Mōrena web.standards@dia.govt.nz and policy.webmaster@ird.govt.nz

Please consider the following feedback about the Government Chief Digital Officer's proposed changes to Web Standards:

* The accessibility of publicly-facing information is diminished when inconsistent terminology is used by the mandated organisations (as defined in the new Web Accessibility Standard) so I am writing to recommend that experts review and update 'The Crown industry' section of https://www.ird.govt.nz/about-us/who-we-are/organisation-structure/significant-enterprises (***Last Updated: 28 Apr 2021***)

* From my perspective, 'The Crown industry' subheading that has been published by the IRD (the Responsible Organisation) is too broad and not an accurate umbrella description for some of the scenarios / organisations that are listed in the bullet points **eg.** by definition, 'CCOs Council Controlled Organisations' are not 'Crown' organisations (refer Section 6 (Meaning of council-controlled organisation and

council organisation) of the Local Government Act 2002)

@policy.webmaster@ird.govt.nz - To help to drive next steps, please contact web.standards@dia.govt.nz to confirm whether or not 'The Crown industry' subheading and content (accessible via the fourth link above) is necessary for 2024+.

Screenshot 2024-09-14 IRD WEBSITE.png

If you have any questions about my feedback, please do not hesitate to contact me.

Thank you

Anna Muir

s 9(2)(a)

IRD (2024) Our tax system: bases and regimes.

Personal Submission by Dr Andrew Coleman. October 4 2024.

1. This is a personal submission. I am currently employed by the Asia School of Business (Kuala Lumpur) as a visiting professor while on leave from the Reserve Bank of New Zealand for six months. The views expressed in this submission do not reflect the views of either of my employers.

   As an academic at the University of Otago I taught an advanced public finance course that focused on taxation and retirement income issues between 2017 and 2020. I have subsequently taught courses on taxation for the Government Economics Network. One focus of this material is the differences between New Zealand's tax system and the tax systems used in most other OECD countries. A second focus is the differences between income and consumption bases for taxation. A third focus is the relative merits of different ways of funding public and private retirement incomes.

   In recent years I have undertaken considerable research on the economic effects of the New Zealand tax and retirement income systems. Much of this research has been published in New Zealand and Australian journals including the 'Economic Record', 'Australian Economic Papers', and 'New Zealand Economic Papers'. Some of this research was commissioned by the IRD for the Victoria University of Wellington Tax Working Group (2010) and the Tax Working Group (2018). Other papers have been published as working papers by Motu Economics and Public Policy, the University of Otago, the New Zealand Treasury, and the Reserve Bank of New Zealand. Much of the research was informed by the results from a sequence of overlapping generations models incorporating housing, heterogeneous agents, and detailed descriptions of the tax system that was developed to examine the incidence of New Zealand's tax and retirement income policies. A list of some of these papers is appended to the end of this submission.

2. The IRD document is welcome. I am very much looking forward to the results of the proposed IRD work programme as it should throw considerable light onto several unresolved issues concerning the economic consequences of New Zealand's current tax system.

3. As the document indicates, New Zealand has one of the most unusual tax systems in the OECD. I agree with the characterization of New Zealand's system in paragraph 7, and have frequently made identical points in my own papers and lectures. In particular, I think it is accurate to characterize the NZ tax system as being unusual for the following reasons.
   - New Zealand does not use social security taxes to fund retirement incomes.
   - New Zealand has relatively low taxes on labour incomes, primarily because it does not have social security taxes.
   - New Zealand has relatively high taxes on companies and corporates.
   - Unlike most OECD countries, where capital income is taxed at lower rates than labour incomes, the relative size of taxes on capital and labour income is ambiguous in New Zealand, sometimes lower, sometimes the same, and sometimes higher. In principle, most capital and labour incomes are taxed at the same rates, in part due to the imputation system, but there are exceptions due to PIES and because the corporate tax rate is lower

than the top personal tax rate. Real interest incomes are also taxed at much higher rates than most other incomes when there is inflation. However, I think the document accurately describes the overall tax position in New Zealand, and it does note that is unusual not to attempt to tax capital income at lower rates than labour income.

4. In sections 9, 12, and 13 the document notes that it is likely that tax receipts will need to increase over time because of population ageing and long term demographic trends. This characterization seems accurate, and has been a focus of my own research for some time (Coleman 2014a, 2016, 2017). This observation, combined with the observation in paragraph 7 about the lack of social security taxes in New Zealand, suggests that a key focus of the IRD work programme should be the tax systems used in New Zealand to fund retirement incomes.

5. In the rest of this submission I would like to make comments some issues that the IRD may wish to consider more fully as it begins this work programme. Most of these issues concern

   - the ways that retirement incomes are funded and are taxed;
   - the links between consumption and income taxes;
   - the progressivity or otherwise of consumption taxes;
   - the taxation of real interest income.

Many of these comments are based on my earlier research, particularly Coleman (2017, 2019, 2024). The first of these papers was written at the New Zealand Treasury but subsequently published by Motu Economics and Public Policy; the second was written as the basis for a submission made to the Tax Working Group and which was published as Coleman 2019; and the third paper was presented to the New Zealand Treasury in March this year as part of a discussion about potential reform of the retirement and tax systems. This article is the basis for a series of 13 articles published by New Zealand's leading online business newspaper "Interest.co.nz" between July and September 2024.

6. The IRD document does not adequately cover indirect expenditure taxes of the type introduced by Fisher (1937) and discussed at length by Kaldor (1955) and many subsequent authors and tax inquiries including Meade (1978) and Mirrlees et al (2010).[1] Fisher pointed out that since an income tax taxes income when it is first earned, but a consumption tax taxes income when it is spent, a government implicitly taxes consumption if it taxes income net of savings. Since the 1960s a majority of OECD governments including all G-7 countries have utilized this insight and applied a standard progressive "income tax" to a base that is "income net of savings made in specialized retirement income accounts". By doing this they have partially converted a progressive income tax into a progressive consumption tax because the time when tax is paid on the portion of a person's income that is saved in these accounts is delayed in a manner similar to the delay that occurs when a country utilizes an indirect consumption tax such as a VAT. Most OECD countries apply this form of tax by taxing savings placed in specified retirement income accounts on an EET (Exempt-Exempt-Taxed) basis.

[1] The last two documents are the comprehensive United Kingdom tax reviews chaired by the two Nobel prize winning economists James Meade and James Mirrlees.

New Zealand taxed retirement savings placed in specified retirement income accounts on this basis prior to 1989. However, it changed its approach in 1989 when it began to tax all retirement savings on a TTE (Taxed, Taxed, Exempt) basis. By making this change, which no other countries have copied, New Zealand has rejected an approach which enables many countries to implement progressive consumption taxes. The IRD document explicitly discusses its interest in finding ways to make a VAT style expenditure tax progressive. Consequently, it is very strange that there is no discussion at all in the document of the usual "Fisherian" way that most OECD countries adopt progressive consumption taxes. This oversight should should be rectified. It is noteworthy that the 2010 Mirrlees Report discusses this issue at length and support the continued use of EET taxation in the United Kingdom because it.[2]

The choice of TTE rather than EET taxation has been discussed in many official documents including the 2018 Tax Working Group since the change was made in New Zealand in 1989. Yet these discussions are far from compelling, possibly because it appears neither the lead advising agencies (the IRD and the NZ Treasury) have models suitable for analysing the distributional consequences of the two alternative tax methods once the effects on housing markets are taken into account. Moreover, the analysis of the different consequences of TTE and EET taxation tend to ignore the different ways that inflation affects real effective tax rates on different classes of assets under the two systems. These omissions are unfortunate, because standard international analysis suggests that the EET taxation of retirement income savings (i) reduces the distortionary effects of inflation on the taxation of different assets, particularly debt and equity claims and (ii) reduces the distortionary effects of taxation on the incentive to own owner-occupied housing when it is taxed on a TEE basis.[3] Given the analysis of Kaldor 1955, and noting that residential housing is by far the largest asset class in New Zealand, it is quite likely that the relative merits of EET and TTE taxation principles applied to retirement savings are very different than has been postulated in New Zealand when inflation and housing are taken into account.

For these reasons, I recommend

i. The IRD extend its analysis concerning the possibility of introducing progressive consumption taxes to include the possibility of EET taxation of retirement income accounts, which is the standard way that progressive consumption taxes are adopted in most OECD countries.
ii. That it undertakes this analysis explicitly taking into account the way current taxation results in very different real effective tax rates on debt and equity instruments when there is inflation.
iii. That it undertakes its analysis of the relative merits of the TTE and EET taxation explicitly taking into account the likely effects on residential housing markets.

7. The IRD document makes little mention of inflation. It is first mentioned in paragraph 54, largely in the context of fiscal drag. As the IRD has previously observed, the New Zealand government

[2] For example see the chapter by Banks and Diamond in Mirrlees 2010.
[3] It is noteworthy that the primary advisory document supporting the change to TTE taxation in 1989 (New Zealand Government 1988) did not even analyse the relative effects of taxing retirement savings on a TTE rather than EET basis system on New Zealand's largest asset class, residential housing, even though this was one of the key aspects of Kaldor's 1955 analysis.

applies income taxes to nominal rather than real interest payments and by doing so it induces a large distortion into the taxation of capital earnings when inflation is non-zero. The document also notes that New Zealand has a very heavy reliance on income taxes because it does not have social security taxes, so these distortions may be worse in New Zealand than other countries. Since expenditure and income taxes behave very differently in an inflationary environment, the proposed work programme suggested in the IRD document should explicitly discuss how a change in the tax bases will affect the taxation of different capital income instruments, particularly debt and equity instruments.

8. The document has very little discussion of compulsory saving schemes as an alternative to social security taxes. In some countries such as Australia, a compulsory saving scheme is a direct substitute for a contributory retirement income scheme funded from social security taxes, and as such it probably should be considered as an alternative to social security taxes. In these countries, the compulsory saving scheme reduces taxes and the size of government expenditure, and the New Zealand Government may find it attractive for these reasons. An income tax scheme that is used to fund retirement incomes is more distortionary than either a compulsory saving scheme that is used to fund retirement incomes or a social security scheme that is used to fund retirement incomes because (i) it is applied to capital earnings as well as labour earnings and capital earnings are widely considered to be more susceptible to taxation distortions than labour incomes and (ii) the size of retirement income benefits is linked to compulsory saving contributions or social security taxes so these contributions or taxes have greater incentive compatibility than income taxes applied to labour incomes (Disney 2004; Börsch-Supan and Cole 2020).[4] Coleman 2024 discusses a particular form of a compulsory saving scheme that replicates many of the payment features of New Zealand superannuation, but which has many advantages including less distortionary taxation, reduced inequality (in part because social security balances are bequeathable) and higher returns in a dynamically efficient economy.

   It is noticeable that the graph in paragraph 70 showing income, consumption and social security taxes does not have an allowance for compulsory savings schemes. While it is true than a compulsory saving scheme is not a tax, to the extent they are used to directly reduce government expenditure they are close substitutes for a tax and pension system and there is a case for including them in a second graph to show their effect in the countries that use them such as Australia.

9. In chapter 3, the IRD document proposes discussing the progressivity of a VAT system in its future research. I think this is a very good idea, but I was surprised that there was no discussion of either the Hall-Rabushka flat tax proposal, or the Bradford X-tax proposal.[5] Both of these proposals outline how a VAT system can be made progressive. The Hall Rabushka proposal is nicely summarized in the book "Taxing Ourselves" by Joel Slemrod and Jon Bakija; in brief, they propose that firms pay GST on wages as well as other inputs, and deduct them from their GST

[4] In paragraph 74 it is stated the social security contributions and payroll taxes "have a similar effect to income taxes on wages and salaries, although they are generally linked to an entitlement to receive a future social benefit." I am curious about the literature on which this claim is based, and would be obliged if the IRD could document it as I have been unable to find many empirical studies on the topic.

[5] I was surprised because both topics are standard in the literature and included in many undergraduate tax courses.

receipts; the wage earners then pay tax at the same GST rate on their incomes, less a tax free allowance. This process converts the tax system to a progressive consumption tax. Bradford's scheme is similar. Bakija (2024) notes that not only is the big question facing tax authorities in most countries " whether we should move the tax system more in the direction of a consumption tax" (p56) but that " a consumption tax can be made as progressive as the current income tax (for example, by using the X-tax approach suggested by Bradford 1986), while removing the negative impact of the tax system on incentives to save and invest." (p56). In short these schemes for creating a progressive VAT exist and are widely discussed in the literature.

Modern technology means there are means available to make a VAT tax system progressive that have not previously been available. In 2021, I circulated a proposal written at the Reserve Bank of New Zealand designed to make a VAT system progress via the use of modern payments systems (Coleman 2021). In this proposal, commercial banks would collect the amount of GST paid on their customer's purchases as well as the purchase price. If this were done, it would be possible to refund part of the GST payment to a person if a government so desired. In this manner, technology would allow a VAT system to be progressive by the simple expedient of sending refunds to low income (or low consumption) people. The technology for this type of arrangement can be easily created (or so I am told by people working in advanced "Fin tech" payments systems). This proposal is related to the Hall- Rabushka flat tax plan, but could also be used to allow countercyclical tax collections as a supplement to monetary policy. Other designs are possible and I hope that the IRD work programme considers them.

10. Overall, I think the direction of the work programme suggested by the IRD document is very good. For a long time it has been apparent that New Zealand's tax system is very different from the tax systems used in most OECD countries, with low taxes on labour incomes and high taxes on corporate incomes. These choices, which date back to the adoption of National Superannuation in 1977 following the scrapping of the 1974 compulsory saving scheme, have largely been ignored for 30 years.[6] It is important that the implications of these choices are investigated, to see if the tax system adopted in the second half of the twentieth century is still fit for purpose in the twenty-first century.

[6] See Overbye 1997.

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s 9(2)(a) [redacted]

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Looks like a valuable and timely issue to look at. Three thoughts:

Consider a wider range of drivers of change

It should look at wider factors which will affect NZ's fiscal future in addition to pension and health costs. As a minimum this should include the direct and indirect impacts of climate change. Direct impacts include factors such as increasing costs to protect infrastructure and consideration of distribution of costs when an area is affected by an event or an individual looses assets through an event or adaptation (such as managed retreat from flooding). It should also consider the indirect effects - such as the possibility of mass immigration as increasing numbers of people are displaced internationally. It should also consider and the impact on the shape of NZ's future economy of climate change and other drivers of change such as AI.

Consider central and local government

The work also consider the balance between central and local government - in terms of responsibilities and ability to raise money

Use the 3 horizon model

The work should use the 3 horizons model - so it considers the short medium and long term implications of decisions.

Join up with the Treasury's LTIB to understand the implication of shocks on the tax system

Finally - you need to consider the implication of shocks on the tax system and as such to connect with the work of the Treasuries LTIB.

Ngā mihi

Andrew Jackson
s 9(2)(a) [redacted]

s 9(2)(a) [redacted]

External Email CAUTION: Please take CARE when opening any links or attachments.

Sir / Madame

1) I believe that overtime above 40 hours weekly should NOT be taxed.
The productivity gained for NZ and the resultant GST income from increased spending would counterbalance the loss of overtime taxation.

2) If it was possible to increase GST moderately and direct that percentage directly to a NZ superannuation fund would have the advantage of being a cross nation taxation.
I disagree that low income would suffer more because high spenders would pay more .

3) If a GST increase was unacceptable then;
A consumption tax from bank account transactions directly for Superannuation and medical intervention Health Insurance would be positive.

4) NZ has to remove wasteful , nonproductive spending and be merciless in this regard throughout ALL Government departments .
I believe eliminating all NZ Budget appropriations that are directed only to Maori & Pacific Islanders should be law and prepare the nation as equals .

Basil Walker
s 9(2)(a) [redacted]

s 9(2)(a)

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Hi there,
I think for your next LTIB you should look at an inheritance tax. NZ is one of the few OECD countries without any form of inheritance tax. On top of that, baby boomers are one of the wealthiest generations ever, and there will be a huge transfer of wealth over the next decades.
Cheers
Bianca

TAX JUSTICE AOTEAROA

Submission to the Inland Revenue Department (IR) on:

Our tax system: Bases and regimes.

Consultation on the scope of Inland Revenue's Long-Term Insights Briefing 2024-25

4 October 2024

Tax Justice Aotearoa

Submission on the scope of IR's Long-Term Insights Briefing 2024-25

Summary of recommendations

Recommendation	See paragraphs
a. IR's proposed approach to the LTIB of considering what broad structure of the tax system would be most suitable for the future, focusing on tax bases and income and consumption tax regimes, is a plausible one, with some caveats (see following recommendations), if it is taking into account major international and local trends which will put stress on the system.	3-5
b. The tax and transfer systems should be seen as one system. We strongly encourage IR to consider a joint review for a future LTIB and to work with MSD on the interactions between the two systems for the present LTIB.	6-7
c. Use of the term "burden" to refer to taxes is inappropriate, particularly for a government agency, as it takes a particular view of taxation as being unequivocally negative.	8-11
d. There are longer-term impacts of the tax system than on the individual taxpayers' incomes and short-term economic growth, such as the quality of our education system and public infrastructure. The analysis of the economic impacts of the tax system should incorporate such longer-term impacts and consider the level of revenue required as well as different types of tax. In addition, it should consider the impacts on economic and community resilience.	11-14
e. We are pleased that consideration of alternative tax bases including land, wealth (including capital gains) and inheritances will be in scope. We submit that corrective taxes should be included.	15-17
f. We recommend that there be a greater emphasis on the distributional impacts of the tax system in the LTIB.	18
g. We comment on the background information regarding the relationship between taxes on company and labour income, and on the level of tax revenue in New Zealand and propose different approaches to assessing these which we recommend IR incorporates in its analysis.	19-35

Introduction

1. We welcome the good practice that IR is consulting on the scope of its Long-Term Insights Briefing (LTIB), and we have benefited from speaking directly to some of those who are involved in its development. We are disappointed however that it appears that most of the decisions about scope appear to have been made, leaving only marginal aspects susceptible to change.

2. We would be happy to discuss any of the matters raised in the submission.

3. IR summarises its approach to the LTIB on p.48 of its consultation paper (Inland Revenue, 2024) as follows:

> 160. … Inland Revenue is proposing that the next LTIB focuses on considering what broad structure of the tax system would be most suitable for the future. We propose to look at the broad structure of the tax system by focusing on two elements: tax bases and income and consumption tax regimes.
>
> 161. Our aim is to enable open discussion on the challenges that our tax system faces and possible options to address these challenges.
>
> 162. We will approach this topic by undertaking four main pieces of work:
>
> • Developing an analytical framework, including an economic framework to understand the effects of taxes on income and expenditure.
>
> • Considering the pros and cons of alternative income tax regimes and enhancements to our current income tax regimes.
>
> • Considering the literature on the design of alternative consumption tax regimes and approaches to low-income offsets to consumption tax rate increases.
>
> • Considering the pros and cons of new tax bases.
>
> 163. These work areas will be used to assess options for New Zealand

4. **This is a plausible and useful approach to take, subject to some caveats below. We agree that New Zealand, and thus our tax system, must be ready to address some major international and local trends** including

    a. Demographic changes, including an aging population, a rapidly growing population, mainly due to high rates of net immigration, a Māori population which is growing in both size and confidence, and an increasingly diverse population. These will require increasing investment and operational expenditure on infrastructure, social services, workforce skills and capacity, and social support. They will demand sensitivity to equity, cultural, and partnership expectations.

    b. Rapidly changing technology, including but not limited to Artificial Intelligence (AI). This brings both opportunities, which may need government involvement and investment to realise, and disruption which is likely to require government support to assist people through change in order to ensure people do not feel they are losers from change and to protect social cohesion.

    c. Climate change, which will require outlays to reduce New Zealand's carbon emissions and to mitigate the effects of the impacts of climate change including storms, droughts and rising sea levels. It will require assisting people through change – a Just Transition.

    d. Geopolitical change, in the fields of both commercial and political/military relationships. Trade relationships are changing, and political relationships are increasingly difficult to navigate. Many impacts on New Zealand are and will be beyond our control. These will reinforce a growing emphasis on resilience rather than primarily efficiency, which has been noted internationally, and a need to diversify our production and our markets which on past experience will not happen without active, strategic government involvement.

e. Well documented weakness in productivity performance which must be addressed to provide for rising living standards and to stem the flow of young New Zealanders overseas. This too will require diversification and changes to the structure of the economy. Success will require coherent government strategies and investment, and stronger investment and business performance in the private sector.

f. Persistent high inequality (compared to other countries in the OECD) threatening social cohesion, including unacceptable rates of poverty and low rates of taxation of wealthy individuals compared to average effective tax rates. These require improved government programmes, income support and changes to the tax system. In the current context, it underlines the importance of the distributional function of the tax system.

5. While the consultation paper has traversed some of these, all have implications for revenue, and for the forms and structure of our tax system. They may require changes that range from tweaks, such as depreciation rates, to major changes, such as wealth taxes.

Some comments on the scope

The tax and transfer systems should be seen as one system

6. Poverty and the need to assist people through change raise an important structural issue: that the tax system and the transfer system (including benefits and tax credits) are interlinked and impact upon each other. Social support is carried out through either or both the social welfare system and the tax system. Progressivity of taxation and effective marginal tax rates are impacted by both systems, with implications for fairness, inequality and poverty (as analyses of disposable income inequality such as by the OECD[1] or Treasury (e.g. Wright & Nguyen, 2024) illustrate).

7. The many reviews New Zealand governments have carried out into the tax and the social welfare systems in the last 2-3 decades have in every case been siloed. The issues this raises include both fairness and effectiveness as described in the previous paragraph, and that administration by multiple departments adds complexity for both administration of the system and people needing assistance. A review that considers them as a whole is well overdue. We recognise that this would require at least IR and the Ministry of Social Development (MSD) to work together if a review took the form of an LTIB. It is unfortunate that there appear to be substantial difficulties in government departments working together on a LTIB. In addition, IR appears to have decided on the current topic. **We strongly encourage IR to consider a joint review for a future LTIB and to work with MSD on the interactions between the two systems for the present LTIB.**

Terminology

8. In more than a dozen places in the consultation paper, IR uses the term "tax burden". Paragraph 7, p.4 for example, states "Consequently, most OECD countries have a higher tax burden on employee labour income than New Zealand."

9. **We consider this inappropriate, particularly for a government agency, as it takes a particular view of taxation as being unequivocally negative.** In fact, as IR is well aware,

[1] E.g. https://www.oecd.org/en/data/indicators/income-inequality.html

taxation is the way a nation ensures it can provide the services and support a society needs to thrive and prosper. Higher taxation as a proportion of GDP is associated with higher income countries[2]. As living standards – and expectations of government – have risen, so has the rate of taxation. As countries have developed, societies have become more complex and challenges have increasingly required or benefited from national or international solutions. To refer to taxation as a "burden" buys into a viewpoint that it is solely a cost to those paying it, ignoring the benefits they receive – individually or as part of a community.

10. This of course does not mean we should not try to optimise the forms of taxation used and the tax system's composition, taking the incidence of the different forms into account.

11. As the consultation paper acknowledges in the section on "Tax and growth" starting on p.44, these factors do highlight that the tax system has wider impacts than on the individual taxpayer's income and short-term economic growth: the long run benefits of a good education system, health system, social support system, legal system, public housing, transport, utilities and other infrastructure may be difficult to measure precisely – particularly given their effects are often long term. But they are crucial to the development of a society. The fact that higher income countries tend to raise and spend higher tax revenues as a proportion of GDP strongly suggests that on average that spending has been beneficial.

Economic analysis

12. **We hope that the analysis of the economic impacts of the tax system promised for the LTIB will incorporate the longer term and wider impacts noted in the previous paragraph** (and at paragraph 142 of the consultation paper) rather than focusing solely on short term impacts on fiscal measures and economic growth.

13. Given that increased revenue will be needed, as the paper acknowledges, **an increased level of tax revenue is an important matter to consider** in the LTIB as well as the impacts of different types of tax.

14. We noted at 4.d that internationally there is a growing emphasis on **resilience** rather than primarily efficiency. We suggest that this should be one of the factors included in addition to those listed in paragraph 149 of the paper.

Types of taxes in scope

15. **We are pleased that consideration of alternative tax bases including land, wealth and inheritances will be in scope.** We consider that capital is undertaxed in New Zealand leading to growing wealth inequality (including intergenerational) with accompanying inequities in the exercise of political and economic power. The taxation of wealth (including capital gains) provides both a potential new revenue base and a corrective to growing inequality.

16. We are disappointed that the proposed scope does not include corrective taxes. While we understand that this would increase the effort required from IR, we consider that the use of such taxes will only increase, given increasing awareness and urgency of problems such as

[2] See for example *Our World in Data* at https://ourworldindata.org/grapher/tax-revenues-vs-gdp-per-capita?time=1986..2022 "Tax revenues as a share of GDP vs. GDP per capita, 1986 to 2022"; and Hall (2014).

climate change and other environmental impacts; obesity; alcohol, tobacco and other drug use; gambling; congestion; and excess profits resulting from lack of competition. In all cases, corrective taxes are either in use or have been proposed. Some, consistent with the proposed focus of the LTIB, are substantial revenue raisers, and as observed in the previous paragraph, some tax bases that IR is proposing to include also have a corrective aspect. While well designed corrective taxes may be useful in addressing their targets, they have side effects such as some being regressive. Their design and use will become increasingly important and, if poorly designed, increasingly contentious for the wrong reasons. In addition they may act as a substitute for other forms of revenue raising, allowing the other forms to be used to fund needed services rather than to mitigate problems which corrective taxes address. Similarly there are interactions with user-pays levies which apparently are also not in scope.

17. We urge IR to reconsider the omission of corrective taxes from the LTIB.

Distributional impacts

18. **We recommend that there be a greater emphasis on the distributional impacts of the tax system.** One of the purposes of a tax system (identified for example by the 2018 Tax Working Group) is redistribution, and we would expect that to be a significant aspect of the LTIB's analysis and recommendations. The discussion in the consultation paper is brief (mainly in paragraphs 55-64), but Figure 8 does identify an important feature and failing of the New Zealand tax system, that it is only very weakly progressive, the main work being done by the income support system and government expenditure on public services.

Comments on the background information

The relationship between taxes on company and labour income

19. The consultation paper suggests (e.g. paragraph 7, p.4, and p.27ff) that New Zealand's corporate income tax rates are high relative to other OECD countries, and our income tax rates on labour are relatively low.

20. Our headline corporate income tax rate of 28% is relatively high (though not the highest) due to other countries reducing their rates over the last 20-30 years. Growing international concerns at this race to the bottom were an important factor in the decision at the OECD to establish a minimum corporate tax rate. On the other hand, other countries have other taxes such as capital gains taxes that also tax capital. However our headline rate needs to be considered differently because as the paper points out, New Zealand is one of only a small number of countries operating a full imputation system for dividends. This means that for companies with New Zealand shareholders, company tax is effectively a withholding tax on the shareholders and its effective rate will depend on their marginal income tax rate. Arguably it is the owners, particularly of small companies, who make the decisions on matters which might be affected by the tax rate on company profits. Given that company owners tend to receive high incomes the company tax rate is usually lower than their marginal income tax rate – similar in effect to a dual tax regime. For low-income owners such as some small business owners or for high income owners who have arranged their affairs to receive a low taxable income the effective company income tax rate will be below 28% reflecting their low marginal tax rate.

21. The revenue recorded as being from company income tax is therefore not necessarily the additional revenue received by taxing company income, because, for New Zealand owned companies, company tax is simply a withholding tax on account of domestic individual shareholders through the imputation system. If the company tax rate were zero for New Zealand owned companies and all profits were paid out to be taxed as personal income in the hands of New Zealand shareholders (and we disregard for now the undoubted increase in use of companies as tax shelters that would occur), total tax revenue from such companies' incomes would be little different to the current situation but company tax revenue from the New Zealand owned companies would be recorded as zero. It would be useful to quantify how large that effect is, in contrast to foreign-controlled and government-owned companies, and PIE funds (given they are – confusingly – included in corporate taxation).

22. In addition, as the consultation paper briefly mentions, the difference between top personal tax rates and the company tax rate of 28% can be used and is used by high income individuals to reduce their effective marginal tax rates. Further, in other countries there is double taxation of company income, once at the company level and then again at the personal level (though some mitigate this in various ways such as a tax-free dividend allowance that benefits small investors in the UK).

23. Therefore the combined tax revenue arising from company income is what should be compared with the New Zealand system.

24. Consequently, the principal significance of the headline company tax rate is how it affects overseas investors in New Zealand companies.

25. The impact of imputation is not made clear in the international comparisons provided such as in Figures 17 and 18.

26. There is concern that a higher company tax rate may disincentivise investment in the company and therefore slow productivity growth. However, considerations of imputation aside, reducing the company tax rate will not necessarily flow into greater investment in productivity-improving assets. The large company income tax cuts under the Trump Administration were illustrative. They failed to spur investment for at least three possible reasons. Firstly, investment may not be as sensitive to tax rates as is asserted (especially if the investment is debt-financed) according to Nobel Memorial prize-winning economist Paul Krugman (2021). Secondly, to the degree that companies are receiving economic rents (or monopoly profits) – and Krugman thinks they are large in the US – it is efficient to tax them without reducing productivity-enhancing investment. Economic rents may be high in New Zealand too (Bertram & Rosenberg, 2023). Thirdly, tax cuts were used to buy back company shares or make higher payouts to shareholders rather than investment (Phillips, 2018).

27. While the New Zealand and US tax systems differ so that the exact way in which companies respond to a tax cut will also differ, the message is that a large proportion of tax reductions may well be paid out to shareholders and senior executives rather than invested. An analysis of the types of companies which are present in New Zealand, including their ultimate ownership and purpose, would improve our understanding of the impacts of a reduction in corporate tax rates.

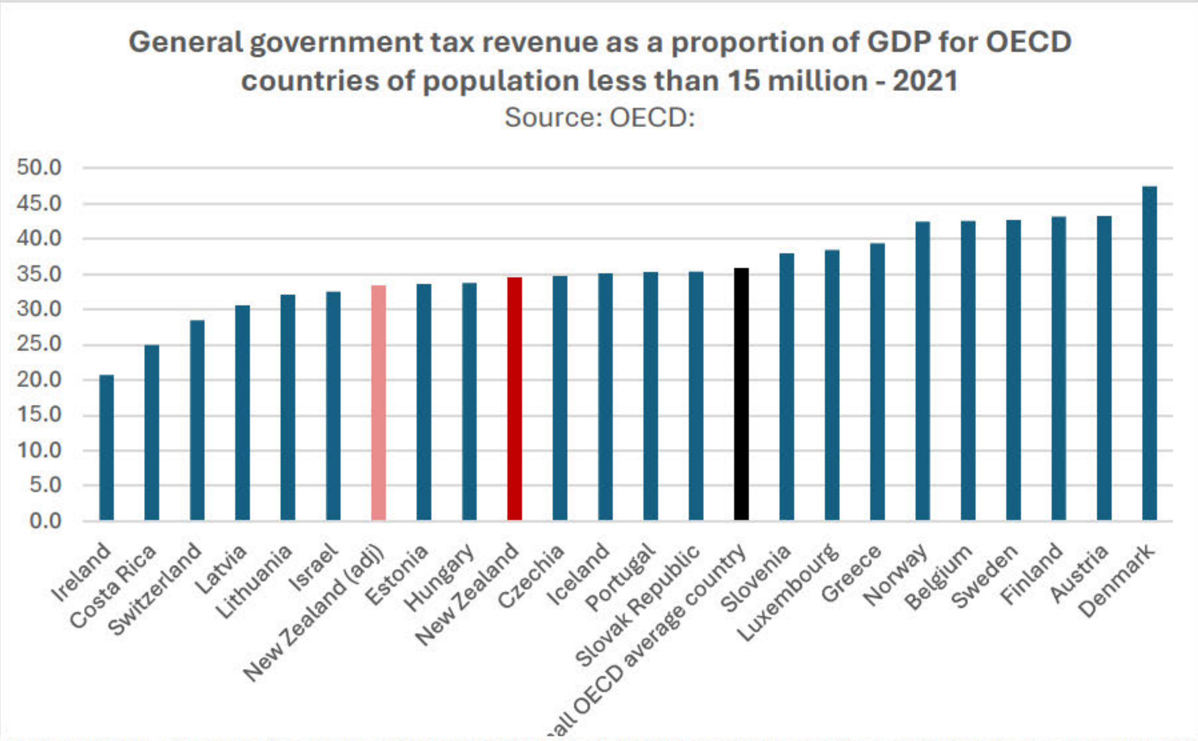
28. The reduction in the New Zealand company tax rate from 30% to 28% in 2010, which followed a cut from 33% in 2007, was not followed by a boom in company investment. The following decade was one of the poorest for productivity growth that New Zealand has seen. There were inevitably other factors at play, but it would be difficult to make a case that the tax cut was in fact productivity-boosting. Modelling for the 2018 Tax Working Group came to a similar conclusion: that a further 5 percentage point cut in the company tax rate would have very little economic benefit, especially when economic rents were taken into account, and risked further encouragement of behaviours undermining the integrity of the tax system.

29. If we wished to encourage investment to boost productivity, then more targeted measures than a simple cut in the company tax rate should be considered for the LTIB. New Zealand's research and development (R&D) tax incentive is an example; another example advocated by some is accelerated depreciation on certain types of assets.

30. On the labour income side, New Zealand's tax wedges look low because of the Working for Families tax credits. See our comment at paragraphs 6 and 7 regarding the need to consider taxes and transfers as a single system. Taxes on labour also look low because we have no payroll taxes (such as for social insurance) other than ACC levies which for technical reasons the OECD does not count as a payroll tax but which do in fact raise the effective tax rate on labour. It should also be remembered that the incidence of GST, which is regressive on income, is primarily on labour. Given the high proportion of revenue raised through GST it is a significant de facto tax on labour. We therefore welcome consideration of progressive consumption taxes for the LTIB (paragraph 18).

The level of tax revenue

31. The consultation paper states that "The level of tax revenue New Zealand raises, relative to the size of the economy, is close to the OECD average" (p.4). This overlooks the efficiencies



Source: OECD - Comparative tables of Revenue Statistics in OECD member countries; and Historical population data of scale in government. There are services that all governments which we compare ourselves to must provide – such as a democratic system of government, a legal system, tax system, policy advice, public safety, and some forms of infrastructure – which are only to a limited extent scalable to their population size. The costs of government and revenue requirements for smaller countries are likely to be higher per capita than for larger countries. We should compare ourselves to countries with a similar population. The above figure reproduces Figure 9 but only for OECD countries with a population under 15 million.

32. Particularly with the adjustment that the consultation paper applies to remove double-counting of taxation paid by the Crown, New Zealand raises tax revenue at a rate well below the small country average. Ireland's apparently low proportion can be put aside because its GDP is well known to be artificially swollen by the activities of multinationals using it as a tax shelter (e.g. Honohan, 2021), reducing its apparent rate of tax revenue[3]. All of the highest income small countries other than Switzerland have higher rates of tax revenue collection than New Zealand. Those with the highest rates are countries known for their high productivity, high wages and high quality of life such as Denmark, Austria, Finland, Sweden, Belgium and Norway.

33. New Zealand has other reasons for needing disproportionately high government revenue including the difficulties of isolation, a long narrow country stretching over two main islands which is amongst the largest geographic size of the small countries and relatively sparsely populated, and its susceptibility to natural disasters including earthquakes, tsunamis and volcanic eruptions[4].

34. This all points to New Zealand's tax revenue being inadequate to maintain living standards relative to similar countries. Our well recognised infrastructure deficit and high levels of child poverty, both of which require higher levels of government spending, are symptoms of this inadequacy.

Conclusion

35. Thank you for the opportunity to submit on the scope of the LTIB. We hope there is room for change in your proposal as we have indicated. We have pointed out some areas that need greater emphasis, and proposed some different ways of viewing and analysing the issues raised in the consultation paper. We look forward to further interaction with IR as this work progresses.

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[3] Though this may change because the European Commission has taken action against Ireland's tax regime.

[4] See for example https://tewaihanga.govt.nz/the-strategy/6-a-thriving-new-zealand-what-we-need-to-do/6-4-strengthening-resilience-to-shocks-and-stresses

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s 9(2)(a) [redacted]

External Email CAUTION: Please take **CARE** when opening any links or attachments.

The current suggestions in the NZ media from academ c quarters calling for a wealth tax are unfounded. I know wealthy people in the Un ted States who were prepared to immigrate, start businesses and invest large amounts of capital in New Zealand, but were put off because of the endless rants from the Green Party and the media on the need for a very low threshold wealth tax.

As Cristina Berechet and other European economists have discussed in extensive publications, wealth taxes in Europe have resulted in loss of professional people, businesses, and capital flight. https://urldefense.com/v3/__https:/www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https:**Ataxfoundat on.org*research*all*eu*wealth-tax-impact*&ved=2ahUKEwjmuqW0qb6IAxU37TgGHW5KJ6kQFnoECBYQAw&usg=AOvVaw22I7_iYoYp7Qwj-C9WU-8k__;Ly8vLy8vLw!!Asq5-8xVch3Reg!qLtTIduz08yEhMKd8hf7VfQc54NfhCyzYIo4YKUQMeo7GwDu5eVwtIhnJRuIpVqJfUf0nECoDIKMjgg0NwpazmujEkMTGY6aLJqGCe4$

It would be stupid for NZ to move in this direction. Look at the huge loses of those who paid the most in income tax from states like New York and California, such that those U.S. states cannot now support their welfare programmes.

A cap tal gains tax would be fair enough. But a wealth tax would discourage investment and productiv ty. It would be disastrous for our country.

Dan McGuire

s 9(2)(a) [redacted]

To: policy.webmaster@ird.govt.nz
Topic : LTIB Submission

By 4 October 2024

Submission to the IRD Long Term Insights Briefing on the future of the tax system.

Background

1. I am an interested neutral, non-expert in the horrifyingly difficult job of the collection and enforcement of tax law, but have a strong interest in good tax policy, particularly as it relates to the intersection of housing policy and consequent social outcomes.
2. First, to the advisors reviewing evidence, and developing this - You've done a great job. Summarising the history of New Zealand's taxation system is hard, and you'll have a limited scope of what is possible, and what can be said in publicly released documents. This is a good technical summary of the state of the NZ tax system.
3. My feedback generally agrees with the approach outlined as a focus, though I'm raising some items related to how and why we may seek to charge taxes to address social issues, noting that revenue is not the sole focus of tax systems and IRD should be in a position to consider a wider range of social impacts that are influenced by taxation. This doesn't mean abandoning the core focus, though it raises opportunities to work with other agencies and consider whether tax changes may be appropriate to help the purpose of those agencies, within the context of overall Government focus.
4. I have endeavoured to fit feedback broadly into the questions raised, for ease of work sorting at the IRD. For the feedback to be meaningful I've gone beyond Yes / No responses and fit this together, though this does mean that the feedback flows between questions.
5. Happy to be contacted to discuss any points raised, using the email I use to make the submission.

Does the environmental scan identify the key challenges facing our tax system over the long term?

6. The environment scan does a good job of covering the long-term make-up of the tax system and revenue sources, how these have varied over time based on public sentiment of the challenges that need to be faced beyond simply revenue, the ability to effectively collect revenue given the collection tools of the day.
7. Beyond the scope of the tax system (and thus this review), the revenue of collected through central government organisations through fees and levies and local government organisations through rates and fees are helpful for understanding the complete tax picture, including a full understanding of progressivity. That's a big job, and would need more information than is (or should be) publicly available.

8. As noted on page 19, New Zealand's frequent (roughly once a decade) long term reviews and media discussion have often pointed to the need for a more complete form of taxation on capital income, noting the fragmented nature of the current system for taxation of capital income, and likely need for a shift to cover the costs of the ageing population as we become more reliant on a smaller portion of the people in workforce.
9. Politically directed, government led reviews (For instance the TWG enacted by the previous Labour led Government), have often limited the scope of the reviews based on political expediency, such as the limit of the review into looking at taxing the family home[1] whether through capital gains taxation on sale or taxation of imputed rent, when asked to look at how to improve housing affordability.
10. Such directions limit the ability of a review to lead to optimal taxation, and when forgotten, give an illusion that the findings of reviews have found changes in a fully free and frank manner.
11. The comprehensiveness of the summary of sources of income, comparison to other OECD countries both in comprehensiveness, design and detailed nature of aspects of the taxation system are excellent. In terms of revenue collection tools in the detailed nature of the taxation system, options for adjusting collection methods and potential design challenges for revenue collection, this is an excellent summary of challenges.

How well positioned is our current tax system to respond to these challenges?

12. Tax has never been a simple issue of the collection of revenue. Throughout history, tax has been used as one of many tools to address social harm alongside other policy tools. While appreciating that this is one of many jobs for policy officials, our future challenges are not just limited to revenue alone, but new and existing social challenges. Briefly:
    a. How can tax address the cost of mitigating and responding to climate change, including the costs of managed retreat (i.e, buying out giant chunks of land on a semi regular basis at prices inflated by the nature of our tax system)?
    b. How can we address long term rates of child poverty, and does the nature of our taxation system contribute to the rate of childhood poverty? (i.e Does a tax system that relies heavily on labour income, which is the dominant income source for families with young children contribute to New Zealands high rates of childhood poverty)
    c. What is the conceptual model[2] of how domestic violence occurs that is held by the public sector (explicitly not the IRDs role to develop this), and how

[1] https://taxworkinggroup.govt.nz/resources/terms-reference-tax-working-group.html
[2] I have a model in my head, discussed briefly below in para 22a, similar to that in Stevenson and Wolfers' Bargaining in the Shadow of the Law, available here https://users.nber.org/~jwolfers/papers/bargaining_in_the_shadow_of_the_law.pdf .
The public service should be able to come up with something better that is tractable to tax modelling, given time.

could tax contribute to mitigating the levels of harm through influencing variables that contribute to the likelihood and severity of harm?

13. Some of those areas are raised in chapter 2, and the need for our taxation system to address the equity issues of historical poor outcomes for Maori and allow the taxation system to effectively work to meet the obligations that the crown has as a treaty partner.
14. In most cases the responsibility of understanding social issues such as the above at a causal level is not the role of the IRD. But public understanding and public opinion informed will influence the tax system, and being able to understand these considerations from other and social challenges and adapt to public and political pressure is a necessity for the tax system.
15. It is understandable that this is not the focus of the environmental scan. Everyone has their own issues that they think are the most important in the world, and as a tool, there are likely methods of using tax to address every social issue. Ensuring that New Zealand keeps its focus on good design with principles of taxation is a valid focus within the specific purpose of the IRD.
16. To help address future challenges, understanding both the weaknesses / issues with the tax system (such as through the frequent reviews), and how tax policy could influence these challenges (based on the work of other public sector agencies) is necessary. The IRD (alongside tax policy partners) will need to determine:
    a. How tax changes could help address an issue?
    b. Whether changes through the tax system would worsen the integrity of the taxation system (or, by happy coincidence, improve the integrity of the system),
    c. Whether a change is worthwhile.
17. Based on the depth of understanding of the principles of taxation of a broad base, low rate, and the depth of knowledge of the issues with our taxation system, IRD is in an excellent to help guide the tax system to respond to these challenges.
18. Addressing them will not be the role of IRD alone, and in some cases with potentially require decision making by Ministers alongside elected representatives in local bodies who collect alternative sources of revenue (ie rates).
19. The effectiveness of the broader public sector in aligning local and national policy decision making could always improve, and that may be a limiting factor in the ability of the tax system (considered broadly) to respond to challenges.

How well positioned is our current tax system to respond to these challenges?

20. New Zealand has a principled taxation system based on a broad base, low rate with few exemptions. As a general rule this means that the taxation system with not respond 1:1 to new challenges, and rely on fiscal decision making to address particular issues other than revenue. This is generally a good approach, though means that the taxation system is not flexible to respond to individual challenges, with targeted benefits often allowing focus on distributional aims.

21. Our tax system is well positioned for its role, as currently envisioned, in responding to these challenges. It's a sensible split, and this should probably broadly continue.

Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time?

22. Yes. Seems fairly general, and flexibility is a useful focus as the tax system will need to respond to the will of the elected Government that changes over time. In the New Zealand context, this may mean changing in ways that worsen the integrity of the tax system. The IRD should be in position to adjust the rates of taxation based on the will of the government of the day, and make it clear through its advice to Ministers (through BIMs, RIA, briefings etc) that changes are not in keeping with the principles of good tax design.

Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future?

23. It's a great place to start. Analysis of the pros and cons of different taxation methods should also consider New Zealand's place as a small, distant economy, mostly as it relates to how we capture revenue from non-residents, both through the incidence of consumption taxes on visitors, and how our corporate taxation covers the income of non-residents who own companies are not passed taxed on the personal income they gain from the ownership in assets.
24. While there are potentially good reasons for adapting the rate of the corporate taxation more in line with the remainder of the OECD[3], the incidence of tax needing to shift to residents should be a consideration.

Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix?

25. Yes, good process. I trust the officials to consider exactly how the base is added to over time to effectively capture a shift to more capital-intensive economy.
26. Effective design to address issues will mean taking on and developing a rigorous economic model for the types of social harm that could be addressed through the tax system. The proposed process (paragraph 162) includes a process for understanding taxation, revenue and expenditure impacts, alternative tax systems. This is a good basis for the work planned and a general understanding to work towards the flexible, adaptable tax system.
27. For 2025, this is a good process. For future work on the long-term design of the tax system, leveraging the Treasury's role as a wide ranging center of economic expertise for the entirety of New Zealand's economic and social policy, and working

[3] Personal preference, rate is 0 and we capture it all through pass through on the taxation of personal income and we agree on tax sharing internationally.

to turn the general, implicit models that exist in other agencies into explicit models that can inform tax policy.

a. For instance, policy consideration of domestic abuse will often discuss power, in various forms (physical, financial, etc) along with stress as an explanation. Turning this into a model that can explicitly interact with how the tax system works may allow for more public understanding of the reasons for tax policy changes and provide a reason for changes that maintain the integrity of the tax system.

Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels?

28. Yes. Higher revenue needs are likely to be needed as our population ages, and relying on the same income taxation share is likely to become difficult with our increased dependency ratio. Such factors have been regularly raised in public facing reports (I think the Treasury has included them in every single long term fiscal briefing since time began) and will impact both the revenue needs of particular spending (notably health, and retirement related income support).
29. While that is one direction, ruling parties have often aimed for a tax rate at about 30% of GDP, and keeping with the general pattern, may be the direction future Governments take. An option of continuing at the same level would necessitate some changes to the structure of fiscal decision making, snd should be considered alongside the Treasury as the counterfactual of a 30% tax rate to inform advice to Government. This would cover areas such as reduced health spending, targeted / means tested superannuation, lower rates of benefits for disabled groups, deferred maintenance on education buildings and a need for high rates of migration – essentially, what other options are needed for the country to continue with a continuing focus on a given tax rate.
30. While not an IRD decision alone, this should need advice from other agencies to deliver effective advice.

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Our ref 23582705_1.docx

4 October 2024

Dear Phil

Long-term Insights Briefing Topic - Our tax system: Bases and regimes

We welcome the opportunity to make a submission on Inland Revenue's consultation on the scope of its next long-term insights briefing ("LTIB") topic.

It is proposed that the next LTIB should explore what broad structure of the tax system would be suitable for the future. This would encompass the regimes through which New Zealand taxes income and consumption and the mix of tax bases.

We agree with the broad scope of the LTIB topic. However, we have the following questions and concerns.

The proposed principles for designing/evaluating a "suitable tax system for the future" are fiscal sustainability over the long term (revenue adequacy to meet future government expenditure needs), economic outcomes (efficiency and productivity) and distributional outcomes (equity).

While we agree that the above are key design principles, and should be part of any evaluation framework, consideration also needs to be given to ease of compliance and administration which, in our view, contributes to the overall integrity of the system. Our reading is that compliance costs will not be explicitly considered as part of efficiency and productivity considerations and the consultation paper makes no separate mention of compliance costs. The consultation suggests that tax administration is beyond the scope of the LTIB. These will be critical considerations in any future tax system discussion, particularly when evaluating potential trade-offs across the various design principles and should be included in the evaluation framework.

The interface between the tax system and other regimes also appears to be scoped out. An example is the interface between the welfare and tax systems, as some social assistance is provided through the tax system. The current design of *Working for families* tax credits, for example, can have significant impacts, through high effective marginal tax rates. Similarly, the proposed framework appears to ignore behavioural impacts of taxes – that is, how the tax system may influence, positively or negatively, certain economic activities or choices. Again, its omission may impact the evaluation of different options.

The environmental scan as part of the consultation notes the impact of long-term fiscal, economic and societal trends, such as ageing population, climate change, low labour productivity, changes in technology including artificial intelligence and nature/future of work, on the tax system. However, the consultation suggests the impact of some of these trends on a future tax system design will not be considered in any detail as part of the LTIB analysis. This is of concern, given that these trends could dramatically impact the evaluation of the different options. For example, changes in the nature and future of work, as well as the role of technology, may impact the sustainability of the current personal income tax base and raise questions about what an appropriate replacement tax base could or should be.

We agree that the LTIB needs to clearly articulate the pros and cons for the different/alternative tax regimes and tax bases that are considered, so that these can be properly evaluated and debated. This is likely to mean that the LTIB will need to be explicit on certain specific design parameters for the regimes and/or bases considered, as the pros and cons may well depend on the design assumptions made.

Finally, while supportive of the proposed LTIB topic, we note that ideally it should be part of a more holistic consideration of New Zealand's fiscal, economic and policy settings, given the inter-linkages, rather than looking at the tax system (and other regimes) in isolation.

Further information

If you have any questions about our submission, please do not hesitate to contact Darshana Elwela on [redacted]

Yours sincerely

s 9(2)(a)

Darshana Elwela
Partner

s 9(2)(a)

Rachel Piper
Partner

s 9(2)(a)

[UNCLASSIFIED]

Hi s 9(2)(a) could you include the email below in the LTIB submissions?

Thanks

Matt

s 9(2)(a)

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Dear Matt,

Unfortunately we haven't had capacity to put together a full submission on this year's proposed LTIB.

I am however very keen to see the results of the work on consumption tax regimes and progressive consumption taxes. The X-tax has always been fun, but seems such a fundamental redoing of the tax system that it's implausible that we could get there.

But Canada's GST rebate scheme isn't that far from what the Key government did as a tax shift in 2010/11 except with better optics. Hike GST while adjusting other bits so those on lower incomes aren't worse off. While they're not that different in effect, they are different in perception. Everyone getting the GST rebate every year knows that they are getting the GST rebate. I expect most people forgot that they had gotten changes that compensated them for the GST switch 30 seconds after the GST switch, then went back to hating having to pay a consumption tax. So on that basis the Canadian version has some merit. Hike GST, set a refundable tax credit so that a person on low income who spends 100% of that income is fully compensated for the change, and adjust other worse taxes downward to make the thing revenue neutral. Gives you a pro-efficiency tax switch that's more politically feasible.

In lieu of formal submission, I had a short column in our Insights newsletter.

https://www.nzinitiative.org.nz/reports-and-media/opinion/for-a-better-tax-conversation/

CGT-talk has become incredibly tedious. Whatever CGT might get implemented wouldn't be worth the effort (but also isn't worth the effort to argue much against), but just gets unbearable endless news cycles. Getting to talk about progressive consumption taxes instead would be refreshing!

Best,

Eric Crampton | **Chief Economist**
s 9(2)(a) [redacted]

LONG-TERM INSIGHTS BRIEFING – GIACOMO LIZZADRO FEEDBACK

Disclosure

The feedback provided to this LTIB topic context have the purpose to inform on the big picture, particularly the long-term part. Further details and analysis are not included, simply because not all information is available to the writer to make up or elaborate on further statements. I do share what I know and what I think could be the best course forward. Also, the contents of this document do take advantage proposals to improve New Zealand as a whole, and therefore this is not in any way, shape or form, feedback to influence a single group, party, person, household, individual investor. The collective is front and centre here. The feedback provided is moderate and personal, it does not lean to left or right. In fact, there's not left or right in an MMP environment, just plenty of coalitions that are compromising, contradicting and buying each other out. Finally, the text in this document has been written informally, colloquially.

Brief introduction

I think we all agree that the tax base, intake has to be sustainable moving forward and in the long term as a result of the growing population and all the current and future challenges (Artificial Intelligence, Climate Change, Ageing Population, Health system is very important etc.) that you have exhaustively described, supported by evidence, in the scope of the consultation. I won't dwell or spend too long on all these elements from the list. The economic growth won't be slowing down, be on a downward trajectory forever. It needs serious and competent Government management and allocation of spendings, savings, investments to previously unfunded public infrastructures, and the whole balancing of all of these. I have to say that we've got to a point really where things are even more unsustainable nowadays compared to our parents'/grandparents' generation.

I am going to divide this piece of feedback in two parts, so that the process of thoughts can be clearer, classified appropriately, more efficient and easily to read. The first part will look at the short term, the second part at the long-term. Both parts include the potential changes as suggested and, they're generally explained, with some of the references taken from trusted sources (i.e. from New Zealand independent journalism sources), and some other personal lived examples from personal experience.

Short preamble

There are a lot of thematics and issues to discuss and consider from the LTIB consultation report. But I would only focus on a couple of those, by bringing back some of the assertions from the LTIB together with my own personal view of the future. Taxes as in GST and PAYE will not be discussed in greater detail in this document. While the 'Employer Superannuation Contribution Tax Rates' thresholds will certainly need adjusting in my opinion, because the biggest chunk of the tax take in recent years, if not for many years, has come from PAYE personal tax from middle class employees, and this raises some questions in relation to whether the tax system is fair or else could be reviewed to fit not only integrity, equity democratic values, but ensure in practice that all tax alternatives and sources are explored with an open mind and acted upon. Anyway, this won't be the topic discussed in this document because there are other priorities that need looked at and addressed first.

1. **Short-term horizon: The need of new taxes to be introduced and the need of changing the rates on the company tax rate. Timeframe: Up and running from now through to the next 2-3 year period**

I am not 100% sure if that is explicitly expressed or meant in the report the passage that there is appetite to expand the tax base or not. It does appear that there is appetite at this point of history, and this is the right decision, course of action to take for IRD.

Capital Gains Tax: Yes, and long overdue. We do need a capital gains tax applied to certain areas of the economy, and I will be making a classic example for housing. We all know very well what this tax will do and where this tax will be collected from predominantly, and this will also help shifting that long-standing, cultural approach and mentality to "one-way investment concentration" (it's a term I use). By stating this, I am not saying that the public or investors should stop considering investment property to gain a passive income in New Zealand as their final destination to raise their capital. I personally like that idea too and we all take a direction and different decisions in our life of where we're going. Fair enough.

The message that I am trying to get across is let's not keep incentivise investments in the property market by not applying a fair level of tax in that space. Let's shift the narrative and be open to create incentives (and disincentives) for diversification of investments.

The other thing on investment property is that it needs to serve the purpose of housing people, adding up to the property stock market. Therefore, **empty houses** should be monitored. Prices of rent or buying a property are through the roof (even if they're fluctuating, they remain pretty high) and hard to find due to the shortage and competition that there is, and so the last thing we all want is to find them sitting empty on purpose. Unintended practices of such nature could be disincentivised with more taxes there as well, why not.

Less of Company Tax: Here I come to another piece of the puzzle in connection with what I have expressed in regard to diversification before. There are endless opportunities out there with new markets and new industries emerging particularly in tech and science, and many more which all have some important transferrable skills to use in other industries. Let's balance up the playing field for SME's businesses in New Zealand and alleviate the pressure on them, and so reduce the company tax rate (they represent the very most and best part of our economy). Nowadays businesses are doing it tough, business failure is at an all-time high. Last record of this magnitude was back in 2016. This has effect consequences on the ability of a business to invest and employ staff. In fact, the workforce is poorer and going backwards because they cannot control what's happening in the job market and with less options to choose from. One thing I have noticed much more frequently lately is that businesses are using salary thresholds caps to tighten their belt and save costs on labour / personnel. Previously salary was based on employee's experience, not threshold caps limitations. Small parenthesis: Even if interest rates get back down, households and businesses will still struggle. That won't be a one-off bullet proof to alleviate all of the pressure, hence way reviewing this tax will contribute to resilience and autonomy for both groups.

Land Tax: Absolutely. Without doubt. That's yet again another 'elephant in the room'. Why are we not, or haven't we overlooked this enough, to make the best use of unutilised land? Some is protected by the legislation I know because is defined to be 'productive' for whatever reasons. However, the land is not utilised, sits empty, and in the hands of a wealthy few landowners that are making the land banking out of it (because we all know how expensive land is and how much is valued at). But again, when this is not a source of productivity then this is not paying off for the public… then what is that is coming next there? If the answer is nothing, then we're all missing a big opportunity. The bottom line here is we either decide to apply a land tax or we should start building on it to 'harvest the fruits'. The land areas in some of the regions are wider than in where the big cities (i.e. Auckland) are. Let's open up space there to build more of the residential portfolio and commercial activities.

What we don't need is a wealth tax, because there are other levers that New Zealand can pull in the first instance like I've mentioned just earlier. Also, private investments are much needed, need to be incentivised and welcomed to our shores if that creates wealth, jobs and all sorts of revenues opportunities. This bit needs to blend together with Government in a form of Public-Private Partnership delivery deals always taking in mind, at the forefront the public interest.

It will take some time to collect all these new taxes over the coming years, before a decent sum of tax intake can add up to the Government's coffin and be re-invested in all the public projects that are long overdue and much needed to both catch up from the past and build for the future. Until then, debts keep accumulating with no way back to even think about repaying all these debts from the future generations. Hint: Make use of the robots to pay for future debt repayments.

I conclude here by making this section very clear. The restructure of those tax reforms that I have mentioned are wanting to shift the dial and trying to address the same repetitive practices of investments that have happened <u>**internally**</u> in New Zealand for many years. We need to build a culture in which that it's okay to invest and grow where taxes exist, or are projected to be existing. Hence why the more taxes are applied broadly and fairly, the more diversified and competitive the economy will turn out to be, potentially. Fairly contribute more to the system and diversify investments and create jobs elsewhere. This is what New Zealand can control and can be fixed, improved. What is **external** instead, are the big capital investments that will help us get through it and realise potential. We need this too. But they won't just come. We need to negotiate a deal with them by keeping the public interest at heart.

2. **Long-term horizon: Growing the population at equal pace. Timeframe: Ideally within the next 20 years (possibly less, but it would take more I think)**

The longest and most arduous challenge that every Government can have, has and will have in my own honest and humble opinion is to grow New Zealand as a whole, all regions. But doing it much more equally and sustainably. I am trying to be realistic and let's face it, it will be near impossible to compare an Invercargill to an Auckland growth population because of the complexities and delays in building new infrastructure and houses, and also, we cannot control where all of those private investments will be going. Why? Because it's not at the advantage of those who invest capital to go and live and splash their cash in little towns New Zealand. The risks of that returns on investments are too high and the all the resources required to build on that investment are not a given. But there is hope to try and catch up. It's about believed in it and push forward, invest resources in this plan, direction.

There is work that the Government can do to balance up this equation. It won't come from Inland Revenue only, there needs to be cooperation and an interdisciplinary approach with the other Government agencies. For example, for Kainga Ora to expand their housing portfolios in the regions, and for Immigration New Zealand to bring back a specific lever on their residency points system scheme – and I would add work visa schemes too – with the purpose to add points to their visa applications if they find employment in the regions, and so incentivise visa applicants to go and live there whether it be for work opportunities, experience a different lifestyle, or in fact because employers are crying out for workers in these areas and cannot find the employees that they need to run their businesses. Equally important for kiwis, residents and citizens to be able to move across the regions and find opportunities there, where they're closer to their families.

The bottom line is to grow all of New Zealand equally, so that IRD can collect GST, PAYE, and all other applicable deductions of sorts from a more robust and ‘high-in-GDP’ regions. Currently, and have been for some time, we have the biggest contributors being the same 2/3 big cities (Auckland, Wellington and Christchurch). Why? Because more people live there where infrastructure capacity is greater as a consequence of policy decisions, in part, that have brought both the public and private sectors to grow and invest there.

As the report rightly impart in p. 149, distributional outcomes (equity) are one of the targets from which to rebuild and design the tax system. So, I would like to see more equity done right in that way to have a growing New Zealand with more opportunities in the regions and provinces for both New Zealanders and the migrant skilled workforce of the future that New Zealand needs.

In addition, it’s an interesting point that one raised in p. 133 where the so-called gig economy, you know, will advance and make further giant steps forward. Inevitable, and it’s welcomed if it does improve efficiency, innovation and productivity. However, we will need to wait and see how this component will evolve, what impact will it have, and how diffuse will it be in New Zealand because if you want to tax more heavily on capital, as the machine it’s used as a business asset, you’re ending up taxing back to the business which is what I wanted to avoid when I talked about company tax previously. It’s definitely something to monitor because at the end of the day, we want to prioritise our people and lay down the conditions to support them, not the machines. Machines work for the people, not the other way around.

There is one more point to this long-term analysis that may make you realise the even much harder consequences of not having sustainability and growth in regional New Zealand and towns. There are some of the numbers that shocked me, honestly. That is New Zealand local Government as in Councils are ranked in the bottom three of the most indebted Councils, wait, in the world. The **average** debt-to-revenue ratio among these Councils is as high as 180%. Certain Councils fared even worse than that. In other words, they’re struggling and can’t move a finger, very limited in what they can do really. Why is that? Bad management and underspending? Probably. But also, not enough people living there to pay all the rates to create, support and maintain the infrastructure network that they use. Take Queenstown for instance, probably there is where you pay the highest rate bill in the country because the population is shrinking and the few residents who are left are paying all the bills. Bottom line is the less people living in an area, the more disproportionate effect will be on the living costs that they would have to bear. But if we grow the population in these regions, the more proportionate the rate bills and living costs will be, and they will be shared equally. Also, the more capital, resources and job opportunities will be there to prosper as a nation and getting ahead. Council rates are not GST or PAYE I understand that, not the same sources and they end up in different "accounts" – rates to Councils and GST, PAYE to Government. But it's important to grasp that one (rates) pull or push the other one (GST, PAYE) out. The level of excessive rates costings has a knock on effect on consumer spendings (GST) and potential employment opportunities (PAYE).

Key highlights are these:

- Find specific policies to bring New Zealanders back to New Zealand long-term to contribute to the tax system. They're leaving in droves, and not just for an Overseas Experience.
- Choose humans, not robots. I agree with your suggestion of lifting employment in paragraphs 137 and 143 pointing out to ways of efficiency, productivity and social security contributions (welfare) that will serve to potentially sustain people when they experience difficulties for whatever social and/or work-related reasons.
- Grow the regions to grow the tax take that is coming from there. It's the challenge of the century as I see it fit. Councils have major **structural** problems that leads to conflicting decisions internally which affect spendings and money management that need to be addressed for a start. If we take the 15 regions and improve each of them individually, they will improve New Zealand as a whole. The same analogy can apply to football management. If you improve each player, the team will ultimately achieve a higher score in order to win.

Other further comments - Addressing the ageing population at glance

That's a tough one to solve. I won't repeat some of the policy solutions that were covered (i.e. ways to incentivise men and women to have children). Plenty of very good options available from your list, so I think these options have validity. On the other hand of that, what I would say is that we need to give young people opportunities to participate more and be seen and make it easy for them to become a first-time employee from when they're younger, fresh after university, or make it easier to re-enter the workforce in their 30s. If we focus on finding solutions down this path, that inter-generational transition from replacing the "ageing grandfather with their dude grandchild" will contribute to addressing the issue. Also, we would need to remove some of those impediments that prevent younger people to work, such as the starting-out wage which does not in any way reflect the current reality and earnings that people can live on to support themselves and getting ahead sustainably. There're also other considerations to be made in regard to mentality and traditional thinking when it comes to employment hiring, such as some of the employers view that "a couple of years' experience" isn't enough and does not make younger people competitive in the market. Why? They can be taught and can pick up things. Believe in them and in what they can do and deliver. Do not look at their past based on experience as the only decision-making factor.

Other further comments - The GST-shared scheme already proposed in New Zealand

I think this is a good idea that could be considered, explored further to a point of implementation. You know, it can empower and equip Councils with more resources to deliver and will give them some extra tools to work with. But again, the problem is downstream. In other words, we could better first expand, increase the tax take to sustainable levels, then consider this option a tad later in the course (once the Councils have sorted their underlying structural issues).

Brief conclusion

Overall, this could only be the start of a new beginning, if ever taken into consideration. There's a lot of work to do in this space, lots of changes to make gradually. IRD will need to be willing to take new risks. There will be some hard and some unusual, unprecedented decisions to make starting from the near future. IRD needs to be more ambitious than just proceeding with opting with expanding and increasing the current tax base. The New Zealand Government and Councils need to work together more effectively and set even more ambitious goals and grow the population in the towns, provinces and regions. Additional money will come in part from the first step in the 'short-term horizon' (that you have proposed as a long-term plan instead), plus other investments that I understand Chris Luxon is working on by reconnecting with some of those countries that want to come and invest here, so that we can attempt to grow and pursue a more balanced long-term regional growth, hopefully.

Final remarks

What I am expecting is that in the next three years from now, when a new report of this nature will be released (presumably with similar contents as the challenges we have now won't simply disappear this quickly) and new feedback will be sought as part of the process – I do hope that by then some progresses would have been made towards achieving the short-term goals of this feedback and analysis reported in this document.

I may be available by the time we get to write the plan for the long-term settings. I could potentially assist, and be part of the IR team who manages and dedicates their time to this piece of work, who knows… do not hesitate to give me a call. Stated with humour obviously.

We live in a beautiful country with lots of potentials and without needing to worry about the levels of corruption and tax evasions that has been seen overseas. Let's make it better together as a team of 5+ million. It's about time that real change occurs in this country.

Go Ahead New Zealand.   Buon lavoro, and all the best.

Mr. Giacomo Lizzadro

New Zealand Resident

This day of 22 September 2024, at Auckland

Young IFA Network

4 October 2024

Public Consultation
Inland Revenue
Wellington

By email: policy.webmaster@ird.govt.nz

Inland Revenue's long-term insights briefing

Introduction

The Young International Fiscal Association Network ("Young IFA") welcomes the opportunity to provide feedback on the scope of Inland Revenue's next long-term insights briefing ("LTIB"). The submissions in this letter represent the views that the Young IFA Committee have received from Young IFA contributors, and do not necessarily represent the views of each Young IFA Committee member, the International Fiscal Association ("IFA") or of each Young IFA Committee member's employers. For the sake of completeness, we note that Young IFA includes individuals employed by Inland Revenue and The Treasury, however individuals from these organisations have not been involved in the preparation or discussion of this submission.

Background to Young IFA

- Young IFA is an offshoot of the New Zealand branch of the International Fiscal Association (IFA) (a global organisation that comprises tax partners/Heads of Tax/senior tax policy officials). The purpose of YIN is to bring together younger members of the tax profession and cultivate interest in IFA initiatives, tax policies/developments and connect those who will be building a career in tax.

Comments

- We agree with the proposal that Inland Revenue's next LTIB explores what broad structure of the tax system would be suitable for the future. The LTIB is an appropriate vehicle for having these broader discussions about New Zealand's tax system, to inform debate, allowing stakeholders to engage in a conversation about the various issues. However, we do caution that the LTIB in itself is unlikely to be able to look at all the issues required in enough depth to form the basis for new tax policy. It is important that if any issues are to be taken further from the LTIB, proper consultation is undertaken that engages with a broad range of New Zealand society, given that any broad changes to the tax system are likely to impact on all.

- We set our comments in regard to the specific questions posed in the consultation document below.

Does the environmental scan identify the key challenges facing our tax system over the long term?

- Paragraph 23 states that corrective taxes such as environmental taxes are specifically excluded from the environmental scan because "[c]orrective taxes raise a range of issues that are different to those raised by revenue raising taxes and are a large topic in themselves" and because "environmental taxes were recently considered in depth by the last Tax Working Group".

- Environmental challenges are a key concern for us because future generations will bear the burden of environmental degradation and the associated costs to address environmental restoration. While we acknowledge that the scope of the LTIB cannot be all encompassing, we suggest that consideration is given to the role that environmental taxes should play in New Zealand's tax system, especially given the focus on tax bases and mixes, and long-term trends.

- There is also no mention of horizontal equity or intergenerational fairness in the LTIB. This issue is also important to us. We note that New Zealand's tax system currently places an emphasis on the taxation of gains derived from the disposal of shares and cryptocurrency, which are increasingly favoured by younger investors who experience difficulty accessing real property investment, in comparison with a perceived lack of focus on taxation of gains derived from the disposal of real property.

How well positioned is our current tax system to respond to these challenges?

- We support a broad-base, low rate ("BBLR"') approach to taxation. However, New Zealand's tax system, especially in recent times, has appeared to diverge from this principle, with political expediency prevailing over sound tax policy. A number of tax reforms have been ad-hoc and have not been undertaken with a longer term view. As a result, New Zealand's current tax system results in significant distortions, and challenges identified will only exacerbate these distortions.

Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time?

- We agree with this focus, although it should be noted that tax reform is an ongoing process and while a stable core structure of the tax system is desirable, it should not be pursued to the detriment of other factors.

Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future?

- We agree in principle with this statement, however, a New Zealand lens should be applied to understand the pros and cons (for example, a Te ao Māori view). In other words, some hypothetical pros and cons may be less or more relevant in New Zealand context.

Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix?

- We agree, however, see our comments above regarding the environmental scan.

Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels?

- A number of factors (for example, an aging population) make it clear that changes to the future tax system to raise additional revenue, will need to be considered. Accordingly, we think that you should prioritise considering options for a future tax system that will have higher revenue needs, so that these options are able to be considered in detail now, instead of being introduced quickly and without proper consideration.

Further assistance

We trust Inland Revenue will find these comments useful in deciding the scope of the next LTIB. If you would like to discuss these comments, please contact one of the members of the committee.

Kind regards

Young IFA Committee
(*Dion Blummont, Nancy Chen, Harrison Cooper, Audrey Gregan, Mikaila Harris, Steven Liu, Aaron Mitchell, Brendan Ng, Charlotte Rudkin, Denver Saldanha, Harry Waddell)*

LTIB topic, c/ - Chief Economist, Policy | Taukaea
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10 October 2024

Submission on Inland Revenue's Long-Term Insights Briefing

Dear LTIB team

Thank you for the opportunity to comment on the proposed topic of Inland Revenue's next long-term insights briefing (**LTIB**).

As a general comment, we broadly support further consideration of the proposed topic. The revenue sufficiency of New Zealand's current tax settings is an important topic to consider in detail at this time, particularly in the light of the various challenges outlined in the consultation paper.

We have set out further comments in relation to the specific questions posed in the consultation paper. We would be happy to discuss our submission in further detail if that would be helpful.

Does the environmental scan identify the key challenges facing our tax system over the long term?

We broadly agree with the key challenges outlined in the environmental scan. In our view, the main thing that is currently missing is the consideration of the impact of technological change (both in terms of challenges and opportunities presented by these changes). We elaborate below.

New Zealand's "broad-base low rate" (**BBLR**) tax system has generally delivered well for New Zealand to date, and this has been confirmed by a number of tax reviews that have been conducted over the years, with the last one being the Tax Working Group (**TWG**) review which was completed in 2019. However, the 2019 review did highlight that the current system is reliant on a relatively narrow range of taxes (i.e. on labour income and consumption) and is not particularly progressive. The previous Government's High-Wealth Individuals (**HWI**) Research Project Report also suggested that the undertaxation of capital gives rise to unfairness and reduced progressivity in the tax system.

Key developments such as the changing demographics of New Zealand and technological change (e.g. the impact of generative artificial intelligence) will be important to consider given the current heavy reliance on tax on labour. While changing demographics is a story that has been many years in the making, the potential disruptive impact of technological change is less certain. Further, a recent IMF study considers that up to 40% of global employment is potentially exposed to artificial intelligence - for advanced economies, it is predicted that up to 60% of jobs could be exposed to artificial intelligence due to the prevalence of cognitive-task-oriented jobs.[1]

While the scale of the potential future disruption to the workforce is therefore uncertain, we consider

[1] Cazzaniga and others. 2024. "Gen-AI: Artificial Intelligence and the Future of Work." IMF Staff Discussion Note SDN2024/001, International Monetary Fund, Washington, DC.

that it is a safe assumption that the proportion of New Zealanders in the workforce will look different in the medium and long term future - and potentially be smaller. With a lower proportion of people working, the amount of tax collected could reduce, in the absence of a change in tax rates or broadening of tax bases. This may further exacerbate fiscal pressures taking into consideration issues such as the ageing population which will likely increase expenditure needs, for example health care, New Zealand superannuation, etc. assuming there are no significant policy changes.

For completeness, there will be a number of other factors that could impact on the amount of tax revenue generated by the tax system, for example general economic conditions or the competitiveness of the New Zealand economy and migration (which could in turn be impacted by the design of the tax system). However, in our view the impact of demographic and technological changes are more pressing in the medium term which may not have been considered in detail previously.

How well positioned is our current tax system to respond to these challenges?

In our view, our tax system has strong foundations which should provide current and future Governments with the ability to respond to challenges in the future. Relatively speaking, the New Zealand tax system maintains the following advantages:

- The tax system broadly follows a BBLR approach (notwithstanding the absence of a comprehensive capital gains tax; and notwithstanding recent changes to personal and trustee tax rates which have given rise to higher rates, and greater misalignment between tax rates for individuals, trusts, and companies). The BBLR approach helps give rise to a relatively simple tax system, with relatively few distortionary tax concessions. For example, while New Zealand's GST system has seen a number of policy changes over the past five years which has given rise to increased complexity, comparatively speaking the GST system is more simple and efficient than many overseas consumption tax regimes. The BBLR approach provides a framework that is consistent with the hallmarks of good tax policy design and raises revenue efficiently.
- The generic tax policy process (**GTPP**) is relatively unique globally, and can help develop policy changes at speed - for example, the development of the business continuity test during the COVID-19 pandemic. The small size of the tax community and relatively high level of trust between the private sector and officials are conducive towards greater collaboration and better overall policy outcomes when utilised well by both parties.
- New Zealand's constitutional arrangements lend itself to being able to enact major policy reform relatively quickly, as legislation is only required to be passed by one House of Parliament, which is controlled by the Government.

Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time?

We agree that a stable core structure with flexibility to adapt to different objectives over time is desirable. The overall coherence of a tax system is fundamental to ensuring that tax settings do not discourage investment, and supports productivity growth. This does not necessarily mean that tax rules remain static and do not change over time, but that there is a unifying framework which ties the system together, while providing a framework or lens through which future changes or additions to the system can be evaluated. To date, the BBLR approach has been helpful for providing a clear framework for evaluating tax changes.

However, we would note that certainty is important, therefore whilst there is a need for agility and flexibility, a stable and certain tax environment is important for businesses. As such, care should be given so that any changes are well signposted and enduring so that taxpayers can have confidence in a stable tax system.

We agree with the comments in the paper that it is not an absolute requirement to align different entity's tax rates, particularly in relation to the company tax rate and the personal tax rate. To the extent that the New Zealand tax system has made a deliberate policy decision to not have full integration, this should be respected. As noted in the paper, the misalignment of rates is cited as a barrier to changes to the company tax rate and/or personal rates as it departs from the goal of full integration. The LTIB should consider measures adopted in overseas jurisdiction to manage this gap between the company and personal rates, given this is not uncommon in other countries to have a divergence between these.

Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future? Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix?

In our view, the current tax settings are relatively efficient and comprehensive in how the current main two bases (labour and consumption) are taxed. While further improvements could always be made to the existing tax settings for these tax bases, in our view they would be more technical rather than structural.

In our view, the LTIB should take the opportunity to consider:

- The impact of broadening the current tax bases on future revenue adequacy and economic efficiency, in the light of future changes to New Zealand's workforce, technological changes (e.g. the impact of generative artificial intelligence on labour), and expected future revenue needs.
- New Zealand's wider economic strategy and the role of tax policy within that strategy. In our view, there are three tax-related levers available to future Governments to address some of the challenges outlined in the consultation paper:
    - **Increase rates of tax on existing tax bases**. This would need to consider potential rate misalignment issues for different legal entities, the competitiveness of New Zealand's corporate tax rate, and the overall mix of revenue from labour, consumption, and capital. To the extent that an increase in GST rates is considered, we support the suggestion in the paper to explore offsetting measures to reduce the regressive impact of such an increase.
    - **New tax bases**. We can appreciate the need to consider alternative tax bases given the inflexibility of our company and personal tax rates in raising revenue. One option is to broaden the tax base further, in effect taxing things that currently sit outside the existing tax system. A number of options have been the topic of discussion over the last few years, in particular leading up to the 2023 general election, and include the introduction of a comprehensive capital gains tax or a wealth tax. It is also noted that New Zealand currently has relatively few corrective taxes (such as environmental taxes).
    - **Growing existing tax bases**. Consideration should also be given towards whether tax policy settings (and economic policy more generally) could help contribute to raising more revenue from existing tax settings by "growing the pie". For example, Ireland has a lower tax-to-GDP ratio than New Zealand but in dollar terms collects a higher amount of revenue (while maintaining a lower level of government debt). Inland Revenue's previous LTIB considered several such potential tax changes - we consider that this LTIB should build on this previous work.
- Opportunities presented by technological change, and the extent to which this could change how the tax system could operate in the future. For example, technological changes could allow for real-time reporting and collection of consumption taxes at the point of sale - this may increase collection of tax from existing tax bases, without wider structural policy change. Alternatively, policy changes could be made in the future to consumption tax - including how technology could be used to mitigate against the regressivity of consumption taxes (i.e. make it possible to administer more complex but economically sound policy/tax system design).

Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels?

In our view, the LTIB presents an opportunity for more "blue sky" thinking regarding the structure of New Zealand's tax system. Further, other non-tax levers could be available to future Governments in relation to meeting its future revenue needs or managing its expenditure. As such, while the LTIB should be cognisant of the challenges facing the tax system and the wider fiscal position, in our view the review should not be overly focussed on meeting specific revenue needs. Rather, it should be a holistic review of what an optimal tax system looks like (taking into account revenue adequacy, economic efficiency, fairness, compliance costs, and overall coherence), in the light of the various challenges outlined in the consultation paper and our letter. The LTIB should focus on what is the right mix of tax bases for New Zealand going forward which adapts to changes in the wider environment and enables flexibility to raise more revenue if required.

Yours sincerely

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Sandy Lau
Partner
s 9(2)(a)

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LTIB topic
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9 October 2024

Dear Sir/Madam,

Long-term insights briefing: Our tax system: Bases and regimes

CPA Australia welcomes the opportunity to comment on the consultation **Long-term insights briefing: Our tax system: Bases and regimes** (briefing paper).

CPA Australia represents the diverse interests of more than 173,000 members, including over 3,000 members in New Zealand, working in over 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

The briefing paper on New Zealand's tax system presents an opportunity to assess the challenges and opportunities that will potentially shape the tax framework for decades to come. This submission addresses the key questions outlined in the paper. A summary of our responses are as follows:

Summary of key responses

- The environmental scan identifies key long-term challenges for the New Zealand tax system, in particular, the demographic shifts due to an ageing population. Other challenges that should be considered include lagging productivity growth, inflation and cost-of-living pressures, housing affordability, health care, debt levels, and the impacts of technological disruption.

- The current New Zealand tax system does not provide a genuinely broad-based and low-rate structure. Exclusions, such as a comprehensive capital gains tax (CGT) regime, continue to apply pressure on income and GST rates. Evaluating the recalibration of the tax mix could create opportunities to lower rates while maintaining a stable revenue stream, thereby better positioning New Zealand to address demographic shifts related to an ageing population and the rising costs of healthcare and pensions.

- Balancing a stable core structure in New Zealand's tax system with the necessary flexibility to adapt to changing revenue and distributional objectives is important, as it fosters economic confidence, business certainty and therefore compliance, yet requires careful management to avoid complexity and uncertainty. Consideration should be given also to comprehensive expenditure reviews as an alternative approach to address fiscal imbalances.

- Understanding the pros and cons of various income and consumption tax approaches is vital for designing a future tax system that balances economic growth, equity, and efficiency, as each structure presents unique benefits and challenges that must be carefully evaluated.

- The current income and consumption tax bases in New Zealand should be evaluated and incorporating alternative revenue sources should be assessed based on international experience and its merits and pitfalls in achieving its policy objectives in creating a more effective tax system to address the identified future challenges.

- Options for a future tax system should be explored and modelled that addresses both higher revenue needs and current levels, while also reviewing government expenditures and retirement income policies in parallel to adapt to demographic changes and fiscal pressures.

We also refer to CPA Australia's recent research paper, Towards Better Tax Policy and Tax Reform for consideration in your review.

On a final note, the briefing paper is a thoughtfully written document that manages to cover a wide range of important issues in a clear and accessible way, while remaining concise. We appreciate the opportunity to make a submission.

Please refer to the Appendix for our detailed responses to the questions. If you have any queries or would like to discuss further, please contact Jenny Wong, [redacted]

Yours sincerely,

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Ram Subramanian
Interim Head of Policy and Advocacy

Rick Jones
Regional Head

Responses to questions

Does the environmental scan identify the key challenges facing our tax system over the long term?

The environmental scan identifies several key challenges that the New Zealand tax system will face over the long term. In particular, the paper highlights challenges include demographic shifts, particularly an ageing population, which is expected to exert downward pressure on income tax revenue as a larger share of the population transitions into retirement. The consequence of this is the slowing down of New Zealand's economic growth and expenditure pressures from pension and health care costs.

There are also other challenges that New Zealand faces that should be taken into account in the context of this review:

- **Productivity:** New Zealand's productivity growth has lagged behind other developed economies, and this remains a significant concern. Without a significant improvement in productivity growth, New Zealand's tax system will continue to come under pressure. Productivity is important for sustaining long-term economic growth, and without improvements, the country's tax system will face increasing strain. Low productivity growth limits wage increases, stifles business profitability, and curtails government revenue.
- **Controlling inflation and cost of living:** Persistent inflation has resulted in a cost-of-living crisis. Rising prices for essential goods, housing, and services are putting increasing pressure on households
- **Housing affordability:** Housing affordability has emerged as one of the most significant social and economic challenges in New Zealand. The rapid increase in property prices over the past decade has put homeownership out of reach for many, especially younger generations.
- **Healthcare**: New Zealand faces significant fiscal challenges, particularly in manageing healthcare expenditure. New Zealand's healthcare system is facing critical issues of equity, accessibility and financial sustainability. Healthcare expenditure is set to rise as the population ages, placing increasing pressure on government resources.
- **Debt levels**: The cost of debt servicing is becoming a growing concern, particularly as interest rates rise and government borrowing increases. Treasury has flagged that structural deficits are expected for the foreseeable future, with some interpreting this as an indication that these deficits may become a permanent feature of the fiscal landscape.
- **Technological disruption:** Advancements in artificial intelligence (AI), is reshaping the future of work and labour productivity, posing significant challenges and opportunities for New Zealand tax system. As AI automates manual labour and the population ages, reliance on traditional tax bases like Pay As You Earn (PAYE) may decline, requiring a re-evaluation of how taxes are generated. The briefing paper briefly acknowledges the issues in paragraphs 132-135 stating the issues are mainly in relation to tax administration. The issues concerning technological disruption is beyond just tax administration. Shifts in the balance between labour and capital will need to be addressed to ensure the tax system remains fit for purpose. The rise of digital technologies also calls for a review of the rules around "permanent establishments," as remote work enables more employees to work offshore for New Zealand-based employers as well as the rise of AI driven businesses. We agree there is a need for a more in-depth examination of how technological disruption impacts the tax system including both the tax base and tax administration, which should be conducted in parrallel to deveopments at a global level.

This raises questions about the long-term sustainability of New Zealand's fiscal policy and its capacity to fund essential services without exacerbating public debt levels. It will be important to ensure New Zealand's tax system can support these looming deficits and the country's growing expenditure needs.

While we are not necessarily suggesting that the tax system should directly address these challenges, we believe it is essential to acknowledge their potential impacts. Solutions may lie within the tax system, outside it, or in a combination of both.

How well positioned is our current tax system to respond to these challenges?

The current New Zealand tax system has strengths and weaknesses in its ability to respond to the identified challenges.

On one hand, the system's reliance on income and consumption taxes provides a stable revenue stream. However, New Zealand's current tax system does not provide a genuinely broad-based and low-rate structure, which will continue to exert upward pressure on income tax rates. In addition, the flat rate structure to the GST may hinder its responsiveness to changing economic conditions and demographic trends.

Ageing population and retirement income policy

New Zealand's tax system relies heavily on taxes like the income tax and GST. This provides a stable revenue stream to fund public expenditures, including healthcare and public pensions (New Zealand Superannuation). As the population ages, healthcare and pension costs are projected to rise substantially. The current system, which relies on income tax and GST, may struggle to generate sufficient revenue to fund public pensions. New Zealand's tax system does not provide a genuinely broad-based and low-rate structure, as exclusions, such as a comprehensive CGT regime, continue to apply pressure on income tax rates.

The working-age population is shrinking relative to the growing retired population, which creates a tax revenue gap. Fewer working-age individuals will be paying income taxes while a larger number of retirees draw on pension benefits and healthcare services. There is merit in evaluating the recalibration of the tax mix to create opportunities to lower rates while maintaining a stable revenue stream. This could better position New Zealand to address demographic shifts related to an ageing population and the rising costs of healthcare and pensions.

Unlike many international countries (not limited to the OECD) that rely heavily on payroll taxes or social security contributions, New Zealand's tax system funds public pensions (New Zealand Superannuation) through general taxation. To some degree this simplifies the system. However, there is also a need to consider reforms in New Zealand's retirement income policy in parallel to any review of New Zealand's tax system to ensure it is fit for purpose to meet the economic and social challenges that lie ahead. For example, considerations can include making KiwiSaver compulsory; examining how superannuation contributions to funds should be taxed eg considering the Exempt-Exempt-Taxed or EET principle; increasing contributions progressively and introduce a new means tested New Zealand superannuation regime.

Productivity

In the face of an ageing population and increasing costs of superannuation and healthcare, the briefing paper identifies that productivity growth will be an important source of economic growth. New Zealand has a low level of labour productivity compared to the average OECD country.

As the population ages, the downward pressure on income tax revenue must be addressed to ensure the tax system does not act as a disincentive to encourageing higher participation rates among older workers and women.

In addition, a tax system that is compatible with investment in innovation, technology, and skills development, and measures to support entrepreneurship will be important for boosting productivity.

New Zealand's corporate tax rate, currently set at 28%, has become less competitive compared to those in other OECD countries, raising concerns about the potential negative impact on investment and economic growth. A widening gap between personal, corporate, and investment vehicles like portfolio investment entities (PIEs) creates opportunities for tax avoidance and inefficiencies within the tax system, undermining public trust and compliance.

It is important to recognise that the corporate tax rate effectively serves as little more than a withholding tax. Many shareholders ultimately face additional taxation at their marginal rates, which diminishes the impact of any corporate tax reductions. Consideration should be given to a more aligned tax structure that reduces discrepancies among these rates. By more closely harmonising the tax rates, New Zealand can enhance its attractiveness to both domestic and foreign investors, fostering a more conducive environment for economic growth.

International tax settings warrant increased attention in the context of New Zealand's tax reform, particularly given the country's ongoing challenges as a capital importer facing productivity issues and a shortage of capital. Attracting capital has been a persistent struggle for New Zealand, yet this critical issue receives only short mentions in the briefing paper. A more robust focus on international tax policies could enhance New Zealand's ability to compete for foreign investment.

Controlling inflation and cost of living

Tax adjustments (such as income tax bracket indexation or using the transfer system in a targeted way to reduce the net cost on essential goods and services for lower income households) can be ways to provide relief to households under pressure from inflation and rising costs.

We support the principle of indexing marginal tax rates to inflation and by not adopting this approach it places New Zealand among a minority of OECD countries. Indexation not only preserves the integrity of the tax system by preventing bracket creep but also better meets the principle of equity.

While concerns have been raised about potential inflationary impacts, we believe that significant increases in government expenditure are far more likely to provoke inflation than adjusting tax thresholds to account for rising costs of living.

Housing affordability & property

Whether housing affordability can be addressed through tax policy has been contentious in countries like Australia and there is a need for better evidence and modelling of the subsequent secondary impacts of any changes to the tax policy settings for housing. For example, considerations should include how the changes in the tax policy setting for housing impact investment in property, supply and rental prices.

Land supply and regulatory constraints are also factors at play that contribute to escalating housing costs. Reforming land use regulations, planning restrictions and providng better incentives to infrastructure financing to enhance the availability of land for development are also factors to consider in tackling the fundamental supply issues that drive housing unaffordability.

Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time?

In considering whether New Zealand should focus on maintaining a stable core structure of its tax system while allowing for flexibility to adapt to varying revenue and distributional objectives, it is essential to weigh the pros and cons of such an approach, as well as explore alternative solutions, for example instead of looking to opportunities to raise revenue, comprehensive expenditure review should be undertaken.

A stable core structure of the tax system is important for fostering economic confidence and ensuring predictable revenue streams. Stability in tax structures can provide taxpayer certainty and enhance compliance. A stable tax framework enables businesses to plan for the long term and make informed investment decisions. However, a stable tax system can also pose challenges particularly in responding to evolving challenges New Zealand faces and the shift in societal needs, and economic shocks. For instance, during economic downturns, a flexible tax system can allow for adjustments that provide necessary relief to taxpayers and stimulate economic activity. Different tax bases can yield varying impacts on economic growth and equity, and thus a comprehensive analysis is necessary to inform policy decisions.

On the other hand, the flexibility of the tax system can lead to complications such as increased complexity. Frequent changes to tax policies can create uncertainty for investment decisions, making it difficult for taxpayers to model future costs, returns, and overall financial outcomes. Thus, while flexibility can be beneficial, it must be balanced with the need for a stable core structure to avoid undermining public trust in the tax system.

While flexibility in the tax system is essential for adapting to changing revenue and distributional objectives, it is important that this does not undermine the stability and integrity of the core tax structure. The introduction of the 39% individual tax bracket demonstrates the risks of prioritising short-term flexibility without considering broader impacts on the tax system. The recent increase in individual tax rates contradicts the broad-base, low-rate principle and incentivises income sheltering behavior. To address this, integrity measures, such as adjusting the trustee income tax rate, were introduced. However, these changes created further complexity by introducing two rates for the same tax base, increasing administrative and compliance burdens, while generating relatively modest revenue..

Alternative solutions, such as conducting a comprehensive expenditure review should also be considered. Expenditure reviews can help identify inefficiencies and areas where public spending can be optimised. By focusing on the spending side of the equation, the government can avoid over-reliance on making frequent adjustments to the tax system to address fiscal imbalances. A comprehensive expenditure review that is undertaken regularly helps ensure that public funds are used effectively before resorting to adjustments to the tax system to raise revenue.

Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future?

Understanding the pros and cons of different approaches to income and consumption tax is essential for shaping a suitable future tax system. Different tax structures can have varying impacts on economic growth, equity, and efficiency. For instance, while income taxes may promote equity, heavy reliance on income taxes can also disincentivise work and investment, whereas consumption taxes, while less progressive, can encourage savings and investment.

Revisiting a proposal to introduce a CGT in New Zealand requires careful consideration of the lessons from the Tax Working Group (TWG) proposals in 2019[1], which were ultimately rejected due to concerns over fairness, complexity, and potential impacts on investment behaviour. The TWG's recommendations, particularly the proposed 33% marginal tax rate without inflation adjustments, were seen by many as overly punitive. The pros and cons of alternative approaches should be explored as part of this review, such as grandfathering rules so that the new rules apply to asset purchased after a specific date (such as Australia’s pre and post CGT concept), incorporating inflation adjustments to tax only real gains, introducing exemptions or concessions for personal use assets or small businesses, and implementing roll-over relief for reinvested gains. Given the sensitivity surrounding this issue, ongoing dialogue with key stakeholders will be essential to fostering a constructive discussion on what a workable CGT could look like for New Zealand.

Evaluating the potential of land taxes and increasing the GST rate offers both opportunities and challenges. Pros include the efficiency of land taxes, as land is immobile and less likely to be affected by market distortions. Increasing GST could simplify the tax system and broaden the revenue base, especially as consumption patterns evolve. It could also mitigate some of the tension highlighted in the paper from the altering the interaction between the personal tax system and the taxation of entities. However, cons include concerns about equity—higher GST rates can disproportionately affect lower-income households, worsening inequality if not addressed properly.

The tax and transfer system could be adjusted to compensate low-income taxpayers through targeted offsets, ensuring that the tax system remains fair while encourageing economic growth. A comprehensive analysis of these trade-offs will be important, particularly in light of ongoing debates about tax reform and the potential introduction of new tax bases to address current and future challenges.

Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix?

The income tax system in New Zealand has been critiqued for its progressive nature, which, while aimed at equity, may inadvertently discourage higher earnings due to the disincentives created by higher marginal tax rates. The reliance on income taxes can disproportionately affect those with variable income streams, such as self-employed individuals or those in precarious employment situations, thereby raising concerns about fairness and stability.

Conversely, the consumption tax, primarily implemented through the GST, provides a more stable revenue source that is less sensitive to economic fluctuations. Consumption taxes tend to be less distortionary than income taxes, as they do not penalise savings and investment. However, they can be regressive, disproportionately impacting lower-income households who spend a larger share of their income on consumption. There has been recent

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[1] New Zealand Government, Tax Working Group. *Future of Tax: Final Report*. Vol. I: Recommendations and Vol. II: Design Details of the Proposed Extension of Capital Gains Taxation, 21 Feb. 2019.

literature[2] on adjustments that can be made to ensure the GST is less regressive. While the IMF's suggestion of a progressive VAT is noted, we believe that the current system of transfer payments through the welfare system already plays an important role in addressing the regressive impacts of consumption taxes.

In New Zealand, the consideration of alternative revenue sources, including inheritance, estate and wealth taxes, must take into account the lessons learned from international experiences. For instance, while some European countries, have implemented wealth taxes, the overall success and sustainability of these measures remain contentious. The OECD's report on wealth taxation[3] outlines both the advantages and disadvantages of such taxes, suggesting that they may not be the panacea for fiscal challenges faced by governments. The effectiveness of wealth taxes can be undermined by tax avoidance strategies employed by high net wealth individuals, who can shift their assets to lower-tax jurisdictions. These issues were also highlighted in a recent OECD report on *Taxation and Inequality*[4] reporting on the declining reliance on revenues from inheritance and wealth taxes in OECD countries.

In addition, an American economist[5] recently noted that one of the biggest and often overlooked issues with a wealth tax is how it benefits foreigners at the expense of domestic investors. While local taxpayers would face higher taxes on unrealised capital gains, non-resident foreigners would remain largely exempt from these taxes. As a result, local investors would have a financial incentive to sell their assets to foreigners, lowering domestic ownership of productive capital. Over time, this would erode the wealth of local investors while increasing foreign ownership of key local assets. The risk of significant outmigration, particularly to Australia, is real and could be exacerbated if a wealth tax were introduced in New Zealand. It is also worth noting that economists (including French economist, Thomas Picketty)[6] acknowledge that wealth and inheritance taxes are only effective if systematic and consistent, both at a domestic and global level, requiring more intensive international coordination.

As noted above, expenditure reviews could assist in identifying inefficiencies in public spending and ensuring that tax revenues are utilised effectively. By focusing on how public funds are allocated, New Zealand could enhance the overall efficiency of its fiscal policy, potentially reducing the need for frequent tax adjustments and allowing for a more stable tax environment.

Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels?

The consideration of options for a future tax system that accommodates both higher revenue needs and current revenue levels is necessary but there also needs to be a review of government expenditures. As New Zealand faces increasing fiscal pressures, particularly from an ageing population and rising public expenditure demands, it is worthwhile modelling both incremental reform options to the existing tax structure and more radical changes that could fundamentally alter the tax landscape. By evaluating these options, the New Zealand IR can provide a roadmap for sustainable fiscal policy that meets the needs of future generations.

In addition, the adequacy of New Zealand's retirement income policy should be reviewed to ensure it addresses the challenges posed by an ageing population and ensuring that all citizens can enjoy a dignified retirement. Together with a review of the tax system, retirement income policy should be subject to regular reviews to adapt to changing demographics, economic conditions, and societal needs. This allows policymakers to identify emerging challenges and opportunities, ensuring that the retirement income framework remains relevant and effective.

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[2] Swistak, A., & de la Feria, R. (2024). Designing a Progressive VAT (IMF Working Paper). International Monetary Fund, April 5, 2024
[3] OECD 2018, The Role and Design of Net Wealth Taxes in the OECD. *OECD Tax Policy Studies, No.26.*
[4] OECD 2024, Taxation and Inequality: OECD Report to the G20 Finance Ministers and Central Bank Governors, OECD Publishing, Paris
[5] Cowen, Tyler. Harris' Wealth Tax Would Mostly Benefit Foreigners. Bloomberg Editorial, September 6, 2024
[6] Piketty, T., Saez, E., & Zucman, G. (2023). Rethinking capital and wealth taxation. Oxford Review of Economic Policy, 39(3), 575–591

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30th September 2024
Updated 3/10/24 Appendix 1

IRD
LTIB taxation policy Review,
c/ - Chief Economist, Policy
Inland Revenue
PO Box 2198
Wellington 6140
policy.webmaster@ird.govt.nz with "LTIB topic" in header

Dear Chief Economist, and Policy Review Group

RE: Consultation response to long-term insights briefing [second LTIB] August 2024

Thank you for the opportunity to respond on this policy document.
With reference to https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2024/2024-feedback-ltib/ltib.pdf?

Specific responses to LTIB 2024 Taxation Policy report items :-

Item 23. **Questions** –
We are seeking your feedback on the scope of the proposed topic of our next LTIB as outlined in this document. We provide the following questions to guide responses:

• **Does the environmental scan identify the key challenges facing our tax system over the long term**?
Answer : Some of the statistics are quite deficient and omit key factors like the real effect of inflation. The study cannot separate the tax system from the productive income producing efforts, and social policy they are intertwined and inter-dependent. The most important key factors as I see them in order of importance are –

1. New Zealand's work force has a lack of productivity and is severely hampered by leftist government policy, this is not working – for example changing land use away from farming, cutting off the most productive sector of the economy at the knees. Improper application of climate change polices killing productive land use. Distortion of energy use in to far more expensive and less efficient modes that also are not working effectively. NZ already has its largest hydro – electric sources working just fine. If only maintenance and capital upgrades could be met. Also oil, gas and coal are in plenty, and sufficient to tide the country over the next 10 plus years transition at least. The work ethic of the current generation is different from those of the boomer generation now retiring. This is neither a positive or negative statement, the two generations have different ethos's and outcomes for you to study.
2. NZ clearly has an aging demographic - referred later in this response.
3. Government policy with its short term [three year] attention span is inconsistent, unreliable and full of bad decisions. While it is not the purpose of this report to criticise the government some headway could be made if the Government and IRD could map the

people relationship of policy – productivity – prosperity. Without this equation being solved the taxation policy review will fail.

• **How well positioned is our current tax system to respond to these challenges?**
Answer: As they currently stand the range of tax rates except those for Trusts and Maori businesses are equitable and what the population have become accustomed to.
Trust taxation rate at 39% is clearly punitive and unfounded for reasons discussed later in this submission. Similarly the Maori rate is selectively racially biased and discriminates against all other multi-cultural ethnic groups [25%] that collectively outnumber Maori. Again please note the reasons outlined later in the document.

• **Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time?**
Answer : in principle yes, but in order for this to succeed the study has to recognise and future proof the changing nature of the earning workforce. Namely the creation of new types of employment / businesses that will increase 50 % over the next five years, the development of new skills not yet being taught or existing.
The problem with New Zealand's tax system is that in addition to being the funding source for core government services – Education, medical system, Law and order etc. its main downfall is that it is a socialist wealth re-distribution vehicle. This can only survive in the short term. If you look to the systems elsewhere world wide this system has ultimately broken down. New Zealand has also entered this entropy phase. For some perspective please see the quotes at the end of this document.

• **Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future?**
Answer: yes, definitly but the problem is that the few percents of rich are getting richer and
The so called huge middle is getting squeezed and becoming much, much poorer this is where the taxation fiscal dilemma lies at the moment. It is anticipated that this will get steadily worse as the earning workforce shrinks. Increasing immigration will only work if the right skilled and qualified people are introduced. Fruit pickers for example while necessary for short seasonal work are not going to solve the 'brain drain' skills shortage that NZ has always suffered from.

• **Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix?**
Answer: Income tax and Consumption taxes are the two most reliable, tried and true methods. A Capital gains tax does exist in NZ but not on the family home – to do so would be election suicide for any incoming government. They are not entirely successful overseas.
Wealth taxes, again not successful overseas.
Inheritance taxes are entirely unfair and unjust in the sense that the state has no right to interfere with a deceased's right to devolve their tax paid savings or their tax paid home as they see fit - that is their right.
This form of taxation has caused major problems in the UK where it has been in place for many years. Stamp duty and Gift Duty also were quite inequitable as IRD know full well.

• **Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels?**
Answer: The higher revenue needs are fuelled primarily by inflation and loss of buying power.

So until inflation i.e the unofficial actual real income and asset inflation is brought under control – or close to zero, then IRD will always have to have higher revenue needs. If there is a major economic downturn then those earning or experiencing business losses will detract from the revenue tax base. You cannot stop this. Nineteen years ago the submitter discontinued a Wedding and Conference function business because -

1. Local body council compliance costs and overheads were too high
2. We could not afford to be IRD's book keeper in terms of student loans, employment law requirements, and administrative overhead.
3. Earnings were insufficient to generate profits [and tax]
4. The market simply did not want to pay what the cost of doing business was, so we got out.

Item 25. Yes, you may contact the presenter to discuss the points raised in this submission

Item 26. Only providing my name and personal details are redacted and not leaked to any social media, mainstream media or any other government agencies, for obvious privacy reasons.

Item 28. **"We collect around a third of gross domestic product (GDP) in tax**" indicates specifically that overall 33.3% of all revenue is income tax 'officially' - that is the collective averaged rate. If the effect of consumption tax GST is added the average collective tax base increases to 38% [33.3 x 1.15. **without** including the effect of the 'erosion' tax of inflation reducing earning and buying power, which has not been factored in. Please note the earning aspect is only the first stage in the monetary cycle, consumption taxes [GST] is a 'tax on a tax' for an income that has been previously taxed to have the money free to spend on food and fuel which in New Zealand's case is effectively double taxed. The submitter trusts that the policy group can understand the true logic here, not the simplistic academic misrepresentation that looks good on a report paper?

Item 29. **"New Zealand has for many years followed a broad-based low-rate approach to taxation "**
The claim of a "low rate" is unfounded for the reason cited in item 28 above. Take the effect of the overall tax and duties on Fuel – Petrol and Diesel are close to 50% of the tax on these items. It is a tax on a duty, and then double taxed by GST added to the tax on the tax. The lucrative taxes on cigarettes and alcohol and other luxury items are also taxed far in excess of the "average", because they provide lucrative 'easy revenue' to the government far in excess in of what they cost in medical downstream terms.

A collective tax approaching 38% is not a low rate. This 38% is also underpinned by the fact that Government 'officially' spends approximately 40 cents in the dollar of ALL New Zealand GDP.
The net government expenditure [2022] of $143 Bn here https://www.stats.govt.nz/information-releases/government-finance-statistics-general-government-year-ended-june-2022
are unadjusted for the inflationary devaluation of buying power [money printing with no offset counter of productivity] using the matched 2022 Expenditure $143 Bn over the 2024 GDP of $415 Bn ex https://www.macrotrends.net/global-metrics/countries/NZL/new-zealand/gdp-gross-domestic-product yields a ratio of government spending of 34% - not the "official" 38% but no doubt exacerbated by the excessive borrowing and money printing to fund the Covid 19 response. A costly tax on all of New Zealand with no productivity returns to justify or finance its implementation.

It is expected that the 2024 figures will be worse and the submitter requests that the ITIB team assess this update for relativity and add this addendum to the report.

Item 31. **"Local government levies "rates" based on property values** "
While technically not a tax, Local body rating levies are a levy recovery for the local body community services – Three waters, Roading and Community services etc, but actually have the effect of being a

“tax” on household expenditure; while it may be 5% of Government collection it represents far more than that figure on a per household basis taking the averaged collective tax rate upwards of 41 % [38 +3]. Anecdotally Rating levy increases for 2024 have been around the high teens per cents. [Wellington 20% , Kapiti 17.13+ without taking into effect property revaluation creep]

Item 32 As reported 28.4% is incorrect both in absolute and statistical terms and does not reconcile with the Department of Stats figures or objective assessment.

Item 36 – is misleading in the sense that it does not show the analysis of the breakdown of constituent tax components.
It is a valid OIA request under the 1982 Act to request to see the breakdown of each party contribution - e.g. individuals 52%, Companies 17% etc.
That funds the reported percentages of tax on page 10.
For example the ‘other indirects’ does not reconcile with the statement in item 36 that local government rates are 5.5% of GDP when total Other Indirect is stated as 6% - presumably to include duties, levies , on alcohol, luxury items etc which will be far in excess of 0.5%.

Item 36. “**At the general government level, local government rates are around 5.5% of general government tax revenue, or 1.9% of GDP.”**
And
84. “Every OECD country levies some form of recurrent tax on immoveable property. New Zealand does so in the form of local government rates**, which raised 1.9% of GDP in 2021**. Across the OECD, revenue from these taxes ranged from 0.1% (in Luxembourg) to 3.0% (in Canada) of GDP in 2021, with an average of 1%”

From the statistics supplied New Zealand has one of the highest Local Body rating levy levels in the OECD at 1.9% of GDP compared to the average of 1.0%

Item 43. **GST “25.0% in 2023 (on a consolidated basis).”** The problem with this is that the graph does not show **who** is paying the 25 % GST – only then can it be useful to gauge who is bearing that tax burden – probably weighted to the Companies side but is unclear as represented in the report .

Item 52. **“The rules for taxing Māori authorities use similar principles, with tax being applied to Māori authority taxable income at the rate of 17.5% “**
This rate is clearly discriminative affording a preferential racially biased advantage to an ethnic minority that contravenes the equality of all races under the NZ Human Rights and Bill of Right Acts.
This issue that the current tax regime does not address in addition to the discriminative 17% tax rate is that a very large number of Maori businesses are afforded even further privilege by the extant fact that they are registered under the registered Charities Act 2005 and actually pay NO tax at all on their business earnings and profits on an equitable basis that all other New Zealand Businesses have to comply with.
The treaty of Waitangi specified that all New Zealanders were equal under the law and did not specify preferential treatment for one class of New Zealanders in the taxation system.

Item 54**. “ The fourth income tax regime is trusts. Trustee income (that is, income taxable to the trust) is taxed at a flat rate. This is 39% …”**

This is clearly punitive and quite inequitable compared to the preferential and biased Maori business and Company tax rates.

The purpose of Trusts is to protect assets from inappropriate claims, and in a major sense the intention of a Trust is to re-distribute and devolve wealth and assets to Families or within arms length parties that in a Familial and Whanau sense is a private re-distribution of wealth, a 'tax' – actually doing the IRD's work for them. Similar in a sense to bequests made under a Will and last Testament.

Wealth or Death Taxes would not be necessary if authoritarian governments simply allowed individuals, families, trusts and companies to attend to their own business of passing on and channelling tax paid or earned savings to those deemed necessary to benefit from them.

It is not for the Government or IRD to decide or intercede what right is personally best for the entity who has earned or saved to pass on those private tax paid earnings or savings.

Government interference in this arena has and will continue to receive strong pushback from the right to free will and initiate the design and use of other vehicles to achieve private goals.

Item 56. **" Inflation can change the level of progressivity of the tax and transfer system"**
Fiscal drag is real, what the report does not address is the loss in buying power of the inflated [devalued] earning and real asset buying power. Tax bracket creep ensures that the government progressively takes more and more from the tax take. The government working hand in hand with the RBNZ New Zealanders have suffered incredible buying power loss –
An example:- in 1980 the submitter and partner purchased an old two flat property - a 1901 villa in Mt Cook central Wellington for $29,500 on joint salaries of $13,500 + $15,000. Forty odd years later in September 2021 it marketed for $1.5 M in 2024 it fell back to slightly over $1.0M this clearly demonstrates the extent of fiscal and monetary policy interference that the Government and its RBNZ subjects its taxpayers to.
Incidentally the submitter's Wife did not like living in central Wellington and within six months we had bought a run down 1900's property in Berhampore from a property trader for $25,000 with a $3,500 credit card deposit.

Item 57. Simply demonstrates that the government cannot live within its means and needs to take more and more from its citizens at a rate exceeding inflationary and fictitious 'growth'.

Item 60. **"Average transfers are larger for lower income deciles,"**
The problem IRD face is that the middle income earners are being squeezed by inflation, loss of buying power due to money printing, and general lack of productivity compared to OECD comparative country performance . The bulk of the tax base is becoming poorer and will increasingly become unable to support or fund the transfer payments to the lower income deciles under this current socialist policy. Transfers of wealth are only possible providing:

- The lower poorer deciles are not expanding – which they are
- The middle income earners class are growing – which they are not
- The wealthy top 5% continue to pay a fair share of the tax burden – which they are not

Item 66.
"Therefore, we have adjusted the OECD's figures for New Zealand to exclude GST on public services, to the extent it is likely to result in an artificially high ratio for New Zealand, "
This is a clear word distortion by IRD – it is not an "artificially high ratio" – it is an **actua**l high tax ratio

Item 67.

The tax as a proportion of the economy is closer to 38% - 40 % based on actual government expenditure and the compounding effect of consumption tax increased by inflation. It is not a simplistic calculation.

Item 68.
The level of tax revenue as a proportion of the economy from 1965 to 2023 being "24.5% to 34.6%" will likely reach 50 % by 2050 based on the factors of aging demographic, inflation, and fall in productivity – again this is not a simplistic calculation the ITiB report does not disclose the true calculation for NZ.

Item 81
The statement "New Zealand is unusual among OECD countries in not having a general tax on income from capital gains" is a blatant misrepresentation.
New Zealand does a have capital gains tax on property with the bright line test, and with capital gains on share investments etc.

Item 92. "
"New Zealand's company income tax rate is currently higher than the OECD average"
This should clearly be reduced back to 17 % to put it back in line with the preferential bias for Maori businesses – or alternatively for the sake of equity Maori businesses should be increased to 28 %
Similarly Trust taxation should be brought back to 28% for the sake of equity. The intentional and punitive distortion by Government is not acceptable and should be discontinued.
Currently the 28,000 Charities in NZ receive $16 Billion of tax breaks from the government -
The Charities Register should be investigated for companies who are actually using that vehicle to hide or ring fence their commercial profits – essentially defrauding the IRD, and cheating the rest of New Zealand from paying their 'fair share'.

Item 95.
"the OECD calculated that New Zealand's EMTR was higher than all but three other countries"
For the record "real interest rate of 3% and an inflation rate of 1%" is complete nonsense over the specified time period.
Where realistic and truthful input factors are not represented correctly the resulting EMTR assumptions will be false.

Item 99
"New Zealand's [GST] ratio was the highest in the OECD and significantly higher than the second highest ratio."
Clearly shows how inequitable and unfair New Zealand's GST tax base is when compared to **all** other countries.

This requires correction.

Item 100
"New Zealand raises a higher level of revenue from GST, relative to GDP, than the OECD average"
Mirroring the inequitable high tax level and base in Item 99.

This requires correction.

Items 106-112 “Demographics”
All OECD countries are experiencing demographic transformation, including the well known examples of China and Japan.
Couples cannot afford to have children - mostly thanks to the rising of cost of living , engineered reserve bank inflationary interference and direct anti – family conditioning by the universities touting leftist feminist polices promoting that it is best to have a career [and earn money] than it is to have a family. Sorry Ladies, but you cannot have your cake and eat it too, as many have found out.
And, sorry IRD you to cannot have your cake and eat it too.
If the families do not produce children then there are fewer lambs to become sheeple to fuel the machine.
It is just that simple, read up Darwin and Orwell.
Importing low skilled labour by immigration can tend to make the matters worse by burdening infrastructure and resources. In this area often earned income is channelled to the countries of origin and the workers cannot be blamed for that.

Items 113-117 “Labour Force”
For decades New Zealand has suffered from a ‘brain drain’, mostly across the Tasman but many to farer and fairer fields.
If New Zealand cannot pay its skilled staff to thrive in a cost of living crisis then this will continue to happen as it has for the submitter’s experienced past. In 1992 for example he was forced to go and work in Australia in the IT field because there was no work in NZ, nothing has changed.

Sure the demographic of the workforce is aging, we are losing our skill base as they retire.
Take the example of Russia, the average age of electrical and calibration engineers is over 65 and they have to import engineers for example from Bulgaria to commission and bring new manufacturing installations on-line.

New Zealand is no different , except that the mainstream media no longer report on it as it is not ‘sensational’ enough. New Zealand has been on a slippery skill slope for decades and until this is rectified our skill shortage will not regulate.

The replacement rate in New Zealand has fallen below the required 2.1 live births to 1.56 per birthing woman, this has been by choice, career choice, because of cost pressures, and the effects of unforeseen medical interventions.
From the statistics it is not clear that immigration will fill this gap.

Items 118 – 119 “slowing Economic Growth”
New Zealand is hamstrung by its economic structural deficit – DEBT!
Not just government debt but private debt . An increasing tax policy will not resolve this.
We do not produce enough to pay our way in the world – molly coddled [hoodwinked] by a ‘nanny state’ that now cannot balance the books means that we are ‘stuffed’ to put it bluntly.
On the one hand you have minority leftist greenwashing lobby groups brainwashed by the woke universities telling the children, students and earning population that we must cut out our meat and dairy producing farms, destroy our industries that rely on fossil fuels – pretty much all of them, convert to dangerous EV inflammable technology , hammer the rich with ‘envy ‘ taxes and the IRD and the government are dealing with an nihilistic leftist woke cancel culture intent on destroying any attempt or effort at producing an honest or profitable living.

Until the Government and IRD resolve this brick wall to economic growth no amount of theorising reports around the coffee machine is going to make a scrap of difference.

Please wake up to the real world, not the ideologies you have been spoon feed by your nanny state labour party comrades.
Item 120 - **"Labour Productivity"**
"New Zealand's level of labour productivity was only 62% of the median of a group of 19 OECD countries."
This is the most telling statistic affecting Taxation policy – if the working population is not allowed the freedom to be productive whether that be by employment or entrepreneurship then taxation creep and inequitable tax policy will be a further dis-incentive to work productively if the worker or business is deprived of the right to access their own wealth by hard work penalised by ever increasing taxes.

Furthermore government policy needs to look hard at the reasons why their over –arching leftist socialist policies are not working.

Fiscal Pressure items 122 - 144

Item 123
Actuarial sequestering of individual citizen's taxation paid savings contribution to fund future Superannuation liability –
i.e. Taxed at source and held in that person's name actuarially.
The submitter personally addressed this issue with the late Michael Cullen back in 2004. In order to safeguard the individual's right to universal superannuation, it would need subsidisation for the lower paid deciles but this option promotes self responsibility much like the later Kiwisaver programme, its not about the "government will provide for me" – it is about the individual providing for themselves.

Self Responsibility.

"He who governs least governs best" ~ old chinese proverb

Item 124
The tax contributions to NZSF by the entire workforce should be increased to fund the shortfall. The drawdowns should only reflect what is necessary to fund the superannuitants. If the suggestion under item 123 had been implemented twenty years ago the situation would not be the problem it is now.

This correction to tax policy is a 'no-brainer' and should be seriously considered by the working group.

Item 125
In terms of the Health system the elephant in the room here is the refusal of the previous Labour government in acknowledging the damaging effect on future health of New Zealanders by the forced medical intervention of an untested GMO contaminated injection that via CRISPR based DNA intentional interference is actually causing serious cardiac, respiratory , and neurological damage on an ongoing basis in the working population.

Refusal to acknowledge the truth is no safeguard to the future failing health of all [injected] New Zealanders and its inescapable effect on the tax base.

Item 128
This situation will only intensify. The Taxation authority as represented by IRD has to find ways to tax the online activity – there are numerous ways to do this but it may not be politically or socially acceptable.

Item 129-130
Taxing climate change is not going to change the climate effects.
At best it is a covert money maker to virtue signal the population into succumbing to yet another tax for the 'good of the world' - but really only for the good of the IRD and treasury coffers.
Climate taxes will not stop earthquakes, fires, floods, or so called rising sea levels.

The climate 'science' being touted by local councils has extrapolated the most extreme scenarios that even the IPCC do not support. But it is a billion dollar money maker for the consultant's Jacob's etc.
Unfortunately the downside is that the fearmongering is forcing down the values of coastal properties, creating uninsurable assets and in generally a hand break on economic development and housing in the affected areas – i.e. a lot of New Zealand.

So in actuality all that climate change is going to do for IRD and the government is to reduce the productive tax take.

Item 131
"An ecosystem collapse would cost about 2.3% of global GDP annually by 2030"
The ecosystem collapse is being engineered intentionally by the UN polices, and as evidenced by the leftist ideologies and implementation of the Labour government 2017 -2023 now deeply affecting the New Zealand primary industry economy.

Item 132-133
The report is entering into the world of conjecture here; artificial intelligence has been over sold and over exaggerated as to its effect. True AI is in its infant stages of development. Employment/ career skill types will always change and evolve that has been happening since the Stone Age, Iron Age, Industrial revolution, digital age etc.   but is not going to happen as fast as some actors are purporting.

All of these 'revolutions' have been disruptive to the preceding or reigning civilisation machines.

What is happening now world wide is no different.

Item 137
The government cannot 'lift' employment if the working work force is shrinking – with NZ's lack of productivity there appears to be considerable lethargy to work hard. Perhaps if the Education system were improved people could learn to work 'smarter' , not necessarily harder.

The bottom line is that if we cannot afford something we should not take taxes for it.

If there is just one takeaway for the policy group from this representation it is this statement:

If we cannot afford something we should not take taxes for it.

In conclusion some realism aka humour:-

“What exactly is your 'fair share' of what 'someone else' has worked for?” ~ Thomas Sowell

“One of the biggest taxes is one that is not even called a tax — Inflation. When the government spends money that it creates, it is transferring part of the value of your money to themselves.” ~ Thomas Sowell

"It is a way to take people's wealth from them without having to openly raise taxes. Inflation is the most universal tax of all." ~ Thomas Sowell

“No society ever thrived because it had a large and growing class of parasites living off those who produce” ~ Thomas Sowell

“"The problem with socialism is that you eventually run out of other peoples' money." ~ Margaret Thatcher

“The government has no money of its own. It's all your money” ~ Margaret Thatcher

“Let us never forget this fundamental truth: the State has no source of money other than money which people earn themselves. If the State wishes to spend more it can do so only by borrowing your savings or by taxing you more. It is no good thinking that someone else will pay - that 'someone else' is you. There is no such thing as public money; there is only taxpayers' money.” ~ Margaret Thatcher

"Liberals love to say things like, "We're just asking everyone to pay their fair share." But government is not about asking. It is about telling. The difference is fundamental. It is the difference between making love and being raped, between working for a living and being a slave. The Internal Revenue service is not asking anybody to do anything. It confiscates your assets and puts you behind bars if you don't pay." ~ Thomas Sowell

"What the welfare system and other kinds of governmental programs are doing is paying people to fail. In so far as they fail, they receive the money; in so far as they succeed, even to a moderate extent, the money is taken away." ~ Thomas Sowell

"The welfare state is the oldest con game in the world. First you take people's money away quietly, and then you give some of it back to them flamboyantly." ~ Thomas Sowell

"You can only confiscate the wealth that exists at a given moment. You cannot confiscate future wealth - and that future wealth is less likely to be produced when people see that it is going to be confiscated." ~ Thomas Sowell

Yours faithfully

s 9(2)(a)

[redacted]

Appendix 1 Update 3/10/24

This article is included for the Policy group to review as it is a comprehensive discussion in the public domain regarding some pertinent issues within the scope of the ITIB Policy report .
It discusses the ‘fors and againsts’ for a CGT and FER [Fair Economic return] taxes as historical propositions.
The article published 2/10/24 after this submissions as submitted has the added advantage of a considerable number of public feedback comments from observers and commentators on the subject.

Please see:-
https://www.interest.co.nz/public-policy/129998/susan-st-john-outlines-why-she-advocating-what-she-describes-fair-economic?

by elmoboy12 | 2nd Oct 24, 12:12pm
Max Rashbrooke, as an academic from the far Left, has been pushing for a wealth tax for some years, totally oblivious to the consequences if this were enacted. He needs to read up on why so many countries that had a wealth tax eliminated them. But of course, there may be a desire to make NZ a third-world country. by increasing the size of the government and eliminating private investment.

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18

by K.W. | 2nd Oct 24, 2:18pm
I think that is absolutely the plan of the Left. If you drive all the wealthy and aspiring-to-be-wealthy people to Australia or Singapore, then all you are left with is the low income, beneficiary-dependent, and too-thick-to-know-better voters, and voila, "inequality" is solved overnight. And the bonus - you have guaranteed yourself political power for ever.
The medical system would collapse. Recent analysis of the Australian negative gearing tax claimants shows that 42% of surgeons own investment properties, half of which are negatively geared. Might go someway to already explaining why we cant get surgeons to want to immigrate to NZ. Govt policies have consequences - not all of them obvious at first sight.
Read less

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6

by Te Kooti | 2nd Oct 24, 3:05pm
I'm a centre right property investor and even I can see our tax system is broken and not fit for purpose. We charge GST on food essentials yet allow property investors tax free capital gains on residential real estate. It's wrong, it's unfair, inequitable and a stain on our social fabric. I find it disgusting to be honest, so argue all you want against a wealth or capital gains tax. You're wrong.

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31

by GV 27 | 2nd Oct 24, 3:09pm
There's a massive leap from a CGT on realised sold investment properties to a wealth tax, if you're going to make sweeping statements and pontificate about what is and isn't wrong.

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8

by Te Kooti | 2nd Oct 24, 3:45pm
Wealth taxes come in many forms, speaking of sweeping statements.
Wealthy Kiwi's leaving may even be a good thing because, let's be honest, us property investors are unimaginative and entrepreneurially stunted. In Australia there is stamp duty, annual land tax and CGT - of which we have none. Even tucked into SMSF, there are costs and restrictions.

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15

by Hamish | 2nd Oct 24, 4:47pm
Which has been my take on the caliber of MPs we have these days from both sides of the house. If they all see property investment as the smart way to make money, then how on earth would they be capable of leading the country to some sort of prosperity?

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12

by GoWokeGobroke | 2nd Oct 24, 9:21pm
Well the secret to both a countries and an individuals prosperity, particularly financial prosperity is certainly not taxing oneself to prosperity. That's like telling on yourself & expecting some kind of reward as a result. Counterproductive. The secret to prosperity would involve incentivizing, not penalizing. You don't get a donkey through a corn field by whipping it. Both sides are so concerned with penalizing one for the sake of the other, that they miss the point entirely. We've had decades of penalizing. Time for a new approach. If the current lot of mps on both sides can't or won't do it, then they need to be told to step aside & let a new generation of leaders give it a go.
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by GoWokeGobroke | 2nd Oct 24, 4:12pm
Can't be a very up to date property investor. NZ already has a capital gains tax called The Brightline tax. It's been around since 2015. Keep up. Taxing something neither makes it more abundant nor cheaper. Cannot tax ones self to wealth. That's more of a left wing socialist labour approach, than right wing basic economics.
One would also be much less vocal & in favour of A CGT if it were to be backdated for all historic rentals as well. The only right wing investors in favour of taxing the he'll out of property are those who've invested for decades & simply do not wish the next up & coming investor generation to catch up & compete. Advocating for a 39% self tax of ones assets is essentially cutting off ones nose to spite the face. This doesn't sound like a right wing approach at all, but more a left wing envy tax advocate.
Read less

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3

by Te Kooti | 2nd Oct 24, 6:06pm
Where did I say I advocated for 39% CGT? For all intents and purposes the Brightline test is gone, which leaves us the only Western economy without a CGT on residential property investment. It's not right v left, it's getting a fair tax system in place so that struggling families aren't paying tax on food basics while property investors get a free ride.

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11

by GoWokeGobroke | 2nd Oct 24, 6:51pm
39% CGT would be the taxed rate should it be implemented.
The Brightline still target speculators & flippers with its two year period, exactly as it should. Most flippers understand this & factor it in the costing. The purpose of holding properties longer are for eventual cash flow through rental income or to sell for retirement funds.
A fair & non biased tax system as you say, taxes either all forms of profit, or no forms at all. Because unlike opinions, both profit & taxes are not biased as to who makes profit & how.
So to implement a true fair & non biased tax system, all primary family homes would be heavily taxed upon sale, preventing many households from upgrading in future, all kiwisavers heavily taxed, preventing plenty of would be FHBs from being able to buy, & eventually being able to retire & live off the KS funds, all generational farms heavily taxed when past down from generation to generation, preventing future generations from being able to build on & improve the efforts of the previous generation, all inheritance heavily taxed, preventing many from using this often large fund towards a hone deposit or to pay off a mortgage.

Nobody wants a true fair & non biased tax system. The very tax system you advocate is again one of envy tax, by where the idea is to tax those who have, & hopefully it will trickle down to positively effect those who have not. The trickle down theory does not work. One cannot Rob Peter to pay Paul, & expect that it creates equal outcomes & fairness. That's leftist labour gibberish. Again, one cannot tax onesself to financial prosperity. The last 6 years under Labour attempting to do just that should be evident enough of this.
In the end, nobody gets a free ride, most particularly those at the bottom just starting out. Labourdecieved many into believing handouts & envy taxes were the way forward, yet has put us backwards. Tenants must learn to pay their way just like everyone else. That means paying adequate rent. It is not the job nor the responsibility of a private landlord to financially educate a tenant, nor is it their responsibility to heavily discount their services out of charity so that tenants may have an easier time to buy a property. That responsibility lands on each individual. In most cases, private landlords first started out as tenants, then becoming home owners. They did all this without handouts & envy taxes. If they can do it, so can other tenants. Blame, denial, deflection & deception causes tenants to remain stagnant. Always someone else's fault why they can't get ahead. Their greedy boses fault for not paying them enough, their greedy landlords fault for charging too much rent. The success starts when the complaining stops & the personal individual accountability starts. One things for certain, a true fair & non biased 39% tax system would put tenants even further back than they are now, likely for life. Shifting both blame & taxes off one entity to another is not the solution.

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1

by ChrisOfNoFame | 2nd Oct 24, 7:56pm

Where did 39% come from?
Oh. You made it up? Not based on any fact? Nor from what anyone has suggested? Just alarmist nonsense?
So you don't want to be taken seriously then?
It appears not.

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6

by averagejoe | 2nd Oct 24, 8:02pm

CGT is paid at your marginal rate right now, if you are in that tax bracket and you get caught by the bright line tax. The CGT being proposed by Labour and the TWG was at marginal rates. So that is where that comes from. CGT will not be implemented (most likely not at all) but never at marginal rates. So, as long as the left keeps talking like that. Notthing will ever happen.

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0

by GoWokeGobroke | 2nd Oct 24, 9:27pm

39% is based on the highest tax take, which is generally exactly what the CGT advocates advocate for, the harshest tax penalty for the entities they deem to be making too much profit.
Currently the Brightline tax take stands at 33% for an individual & 28% tax for a business entity.
What did you understand the advocating CGT % rate to be at? Could I help you to understand this better? Or is advocating for a CGT for just property investment only your alarmist nonsense? Could you explain how taxing something makes it cheaper & brings tenants closer to home ownership?

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by Macawsley | 3rd Oct 24, 6:39am

The Church of Ashley needs to find an alternative business model.
NZ is tapped out supporting the redundant farce.

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by K.W. | 2nd Oct 24, 4:41pm

It might be inequitable but it may also be necessary. NZ is a poor cousin to other countries (particularly Australia), our standard of living is much lower. We need to incentivise successful people not just to come to NZ, but to want to stay here. Otherwise our standard of living falls even faster as we make do without surgeons, CEOs, entrepreneurs, and other talented people who are monetarily rewarded for their endeavours. It seems you would be happy for the country to be poorer, so long as its fairer? Everyone wallowing in equal poverty? I on the other hand would prefer the country to be richer, and those who made it so, to be compensated for doing it.

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2

by Nzdan | 2nd Oct 24, 4:30pm

Are you saying we'll have an influx of surgeons from Australia now that National are restoring landlord's dignity?

Maybe we should allow Surgeons to buy shares in hospital equipment too, wonder what the rent would be to a 6 year old on a dialysis machine? All to keep them in the country am I right?

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3

by K.W. | 2nd Oct 24, 4:51pm

Maybe. All I know is that half of Australia's medical workforce are internationally born (56% of GPs, 47% of Specialists)

Australia has no problem attracting skilled surgeons to their hospitals, despite a 45% tax rate on their million dollar salaries (which explains why so many surgeons negatively gear). While NZ can't. It was probably also the threat of the Labour Govts wealth tax (and the invasive IRD investigation into wealthy people's asset holdings) that have put off people like surgeons from moving here, as evidenced by the collapse in people seeking an investment visa. My point is that many things go into the consideration of where to move to when looking to relocate - and the short sightedness of the Left to just "tax everything" will have outcomes that they are currently not foreseeing.

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2

by Nzdan | 2nd Oct 24, 5:03pm

There's many things Australia has no problem with. Their surgeons cannot claim Government Super if they reach retirement age and still employed. How much stamp duty did their surgeons pay for each house they buy? You're right on the tax too, 45% versus our "abhorrent" 39% top rate.

So what you're saying, is rather than live in NZ and own rental property in Australia, Surgeons are moving their whole lives to Australia because of....*checks notes*...mortgage interest deductibility changes?

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7

by Mystery | 2nd Oct 24, 9:01pm

Surgeons (or anyone) that own investment real estate probably don't get much or ANY pension from the Aus government, regardless of whether they work or not in retirement. The reason is because anyone who has assets in Aus get a reduced pension on the basis of an 'asset test', or no pension at all if the value of assets (or the income they produce) are way above the threshold. Anyone, including surgeons, will find that NZ is actually a better place to retire (from the financial point of view), just because the pension here is not means tested.

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1

by Hamish | 2nd Oct 24, 4:58pm

This might have helped to hang onto a few.

https://www.rnz.co.nz/news/national/473245/pressures-profits-and-patien…

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by Nzdan | 2nd Oct 24, 5:05pm
I guess when people's skills become a scarce resource, humility goes out the window. Screw everyone else, and if you've got a problem with it, I'll just leave.
- LOG IN OR REGISTER TO POST COMMENTS

1

by GoWokeGobroke | 2nd Oct 24, 7:00pm
What's the failing health system that National inherited off Labours last 6 years of governing got any relevance or connection to the rightful restoring & reversing of Labours implemented taxing, palenalzing housing policies which saw the greatest increase of both rents & property prices by the fastest rate in our country's history?
Every generation has a "brain drain" to other countries, this is no exception. It's conveniant timing this time that plenty are leaving right at the end of the mess Labour has created & now National have to figure out how to indo before they redo. If Labour had have done such a great job as their decieved voterbase claim, far less would be leaving.
Read less
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1

by JohnTrz | 2nd Oct 24, 6:32pm
How bizarre that comments on Susan St John's proposal for a Fair Economic Return tax descend into a discussion on how unfair New Zealand's property taxes are to surgeons compared with Australia's. Try to focus, guys.
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10

by Gummy Bear Hero | 2nd Oct 24, 9:59pm
.... let the children play ... they're having fun ... Fair Econonic Return , was it ? ... hmmm ... sounds as deadly dull as dish water...
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by 21Trillion | 2nd Oct 24, 10:12pm
We 100% need property or CGT tax on property though, and need it properly done. Brightline was a joke, like a chain smoker dropping down from 3 packs a week to 2.

We apparently don't have CGT but we tax the capital gains on many assets, but not property. It's very corrupt.
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2

by GoWokeGobroke | 3rd Oct 24, 10:46am
Then we advocate to tax all property gains, including the primary family home. To leave this out would be just as selective and biased of a tax system as the one we currently have. How one can think that financial prosperity will be found in further taxing ones self is quite likely why a majority never make it to financial prosperity, as they simply dont understand it, nor do they understand what they ask for.
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by elmoboy12 | 2nd Oct 24, 12:16pm
Max Rashbrooke is an academic from the far Left who has always advocated a wealth tax. He is oblivious to the consequences of wealth taxes, which numerous countries have eliminated after having

them for a number of years. https://urldefense.com/v3/__https:/www.google.com/url?sa=t&source=web&r…$

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6

by LBD | 2nd Oct 24, 12:20pm
One problem with a CGT is that a govt then has less incentive to control inflation, the higher the inflation the higher the capital gains on an asset, the higher the tax take....

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6

by Ollies1 | 2nd Oct 24, 12:34pm
Governments have a big incentive to control inflation - it's called 'the next election". Also don't forget the RBNZ has a job to do there as well

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13

by MacroView | 2nd Oct 24, 1:31pm
There was considerable asset price inflation during the 2000s and 2010s, which didn't trickle down into the CPI. This was caused directly by state actions - QE, low rates, etc.
Hence there is something of a moral hazard attached to a capital gains tax..
And, taxing asset price increases caused by monetary easing is a tax on capital not capital gains.

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4

by meh | 2nd Oct 24, 3:38pm
Could also be that land being removed from the CPI in 99 was the main cause - when economics became financial investment rather than producing goods and services.
Monetary policy and QE etc is all about keeping the debt system going, keeping the wealth extraction into Wall Street etc. The inflation/deflation argument is simply to keep the masses inline.
When central banks can manipulate aggregate demand, there is no free market.
That we're still arguing income/capital gains 30 something years later highlights how clueless and ignorant - or is just entitled - we really are.
In the meantime let's keep choosing to repeat the same thinking that keeps getting us into these financial dilemmas.
All the asset inflation and wealth creation of the last 30 years, and where exactly has it got us?
Monetary policy is literally an experiment, hence the first ever engineered recession.
Read less

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7

by malamah | 2nd Oct 24, 1:25pm

> *the higher the inflation the higher the capital gains on an asset, the higher the tax take....*

That's the point

6. Banning short term rentals except in bach/holiday locations.

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  23

  by buyandhodl | 2nd Oct 24, 1:04pm
  ....That's certainly an interesting set of policy prescriptions.
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  1

  by starrider | 2nd Oct 24, 1:15pm
  It is. But at the end of the day homes need to be removed as the main investment vehicle for NZ. Homes should be for people to live in, otherwise all young people will continue to leave for overseas. Unaffordable housing has massive negative implications to society as a whole. Case in point; emergency housing.
  To accompany this transition, to an affordable and sustainable housing market, tax should not be applied to kiwisaver assets, dividends or gains. And employee contributions should be made tax free, to incentivise everyone to save for their retirement, at minimal/no cost to the govt. Employers need to fund retirements again so follow Australia's lead and force employers to contribute a minimum of 5% into KiwiSaver.
  KiwiSaver hardship withdrawals prior to 60 should be taxed as income.
  Kiwisaver first home withdrawals should be capped at 5% of the purchase price.
  Read less
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  24

  by Leverageup | 2nd Oct 24, 1:59pm
  Those policies are all just playing distraction. Fix the underlying reasons for why housing is such a headwind to our nation.
  -Free up land supply, and planning laws. Up and out. We have heaps of land.. its criminal how much a section costs on the outskirts of Auckland. Work is being done on this but its not fast enough.
  -Reduce build costs through whatever means necessary
  -Drastically reduce immigration targets/quotas (the economy is doing that for us at the moment but it will swing back)
  More houses, built cheaper, for less ppl. Over decades this will change investment behaviour massively.. it will no longer the no brainer investment that it currently is. Also.. if you are going to tax capital gains.. tax it all. The family home needs to be included as its too big an exemption. And only if total tax take doesnt change (ie lower income/corporate taxes at the same time)
  Read less
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  8

  by Mark L | 2nd Oct 24, 2:18pm
  Your first sentence gets to the guts of the problem. That is, the lack of attractive, but not speculative, investment vehicles for NZers.

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  2

  by K.W. | 2nd Oct 24, 2:23pm
  Directing property investors to new builds is exactly what drove up rents under Labour. New builds cost a lot more money than existing properties to buy, therefore landlords need to get a much higher rent for them, so low income tenants are rapidly driven into social housing due to increasing rents and scarcity of older rental properties. And when new builds stop getting built at all (like now) then where do all the new tenants live then? Labour oversaw a 500% increase in the number of families on the public housing waitlist - do we really want a repeat of that until all but the richest of tenants are living in homes funded by the taxpayer?
  Read less

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  3

  by Murray Falconer | 2nd Oct 24, 10:04pm

  > *Directing property investors to new builds is exactly what drove up rents under Labour.*

  Not really, rents fell significantly with the boarders being closed. They started rising when they opened again.
  Supply and demand (demand in the form of new renters can arrive a lot faster off a plane than supply can). The older properties are made scarce by population growth.
  I do agree rents for new houses are normally higher than an equivalent older house, but population growth is the key driver.
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  2

  by GoWokeGobroke | 3rd Oct 24, 10:57am

  Population growth and poor government policy. There's a reason why rents rose over two and a half times faster under the last Labour governments 6 years than under 9 years of the last National government. There's a reason why rent rose to an all time 17year high of 60% increase in rents and over 548% increase in the government's emergancy social housing wait list during Labours 6 years tampering, restricting & penalizing the housing market. You don't get drastic increases like that in such a short space of time with just immigration alone. C'mon, hold our governments accountable.
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  0

  by GoWokeGobroke | 2nd Oct 24, 2:56pm

  1. Why exclude the family home? Tax & profit unlike opinions is not envious or biased as to who makes it & how. What you advocate for is no more biased than the current tax system we currently have. Now a fair tax system would either tax all forms of profit, or none at all, regardless of how it's made. This means a hefty tax on primary family.homes, kiwisaver, generational farms, inheritance, stocks & bonds & cryptocurrency. This would be a fair tax system, but of course since the have nots only want the haves to be taxed until they have as little as them, this fair & non biased tax system would hardly be welcomed & which ever government voted it in would quickly be removed come next election. Hence even labour was too timid to try implement.
  We also already have a hefty CGT on non primary homes, called the brightline tax, which has been in place since 2015. Keep up.

  2. Expecting private landlords to supply further housing is not thier job. That is the government's job, something labour failed to do be historic margins, & national know not to re attempt to suffer the same fate. If private landlords are only welcome to invest in new builds, & new builds are.horrendously expensive, then of course the rent will need to actively reflect this as well. Private landlords don't rent homes to those who can't buy out of charity, it is a business, so there needs to be profitability out of private landlording, from either capital gain, or cashflow. One cannot take both away & still expect that a rental market will still exist out of charitable nature. Considering 80% of the rental market is held by private landlords, not government, the government requires private landlords to continue to house nearly half the country that they themselves cannot house in emmergancy social housing.

  3. How else are Kiwis suppost to save for their retirement if they are not able to put their equity to good use? NZ Stats shows the average 50yo NZr has just $2,300 saved towards retirement & at age 65yo 90% cannot get.their hands on more than $10,000. Stocks, bonds, crypto much too volatile & risky for most. One cannot save ones self to wealthy or rely heavily on gov assistance come retirement, as pensions alone are not nearly enough to survive on let alone thrive come retirement as a thanks for working 45yrs of one's life away. The ability to use one's equity at very least on the primary residence only is now the primary reason keeping most retirees out of a state of poverty. I'm in full support of this method continuing for the greater good of our country.

  4. FHBs already have significant leverage lending abilities and advantages over investors when they only require 10% deposits. Investors still require 30% deposits, thats 3x less money FHBs require. All

debt is considered before being approved & investors will have far more debt than a would be FHB. The significant leverage and lending favourbility is tipped about as far as it can go towards the favour of a FHB.
Also, when one is just starting out, one can't expect that one has the same advantages & opportunities available to them as someone who has already a proven track record. That's like expecting that a janitor should get paid as much as the CEO of the company, to "retirement the balance", otherwise it's unfair. Who said life was fair? Cannot expect to have it all when first starting out. That's entitlement, not fairness.

5. Banning? Have we not learnt over the last 6 years under Labour what happens when we villyfy those who have, for the sake of those who have not. It always ends up worse off for the have nots. Instead, try.incentivize, not penalize.

6. Short term rentals are nor nearly the problem here.
Read less

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2

by powerupkiwi | 2nd Oct 24, 2:57pm
We don't need any of that if we just abolish zoning, and let people build what/where they want

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3

by Justa comment | 2nd Oct 24, 4:10pm
Its income. Tax it. This wont go away.

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4

by averagejoe | 2nd Oct 24, 4:29pm
It already did. To most people this conversation doesn't exist, and never will. It only seems to exist in forums like this and the occasional article on stuff. Otherwise people don't discuss it and don't care. If this does become an issue in public again (such as Labour or the Greens promoting the theft of peoples assets), then whatever party that does that, is unelectable. Simple. Sure, some people would like the rich to be taxed more....but when those people also find that you want to tax them if they sell their family home, then the support goes poof, and the issue is buried. You may as well be discussing the imminent arrival of aliens.
Read less

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2

by Justa comment | 2nd Oct 24, 7:16pm
average Joe, it also exists in IMF and rating agencies reports. It is very real. One day NZ will have to decide on things like super and public health when more income is needed by the government.

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3

by averagejoe | 2nd Oct 24, 8:04pm
The IMF have no idea. Never have. The monetary equivalent of the UN. A joke. They rated Grant Robertson very well. That says a lot about them.

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3

by LBD | 2nd Oct 24, 8:13pm
Is not income, its inflation and CGT is generally a tax on inflation.

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0

by bw | 2nd Oct 24, 12:32pm

Maybe, just maybe, this is why the PM has so decisively reiterated that "There will be no Capital Gains Tax in New Zealand!" - becasue he will consider the sense of the Fair Economic Return Model ("That's' not CGT!" he will be able to claim) and that will get implemented in due course, to address the crux of the problem, "Untaxed accumulated capital gains in real estate" ? Let's hope so.

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4

by OldSkoolEconomics | 2nd Oct 24, 12:50pm
It's coming now. It will be a decisive election topic where labour will claim the fatcat landlords are paying no tax whilst the poor and middle class have to make up the difference.
7houseluxon just became 5 house luxon and soon to be 1 house luxon. If he was so sure of the property market surely he would be trying to be 10 house luxon...
No brainer. Labour back in da house on the back of CGT.

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15

by Gummy Bear Hero | 2nd Oct 24, 12:55pm
The Gnats , Winnie & Davey Boy will be praying Chris Napkins runs an election campaign with a CGT in it ... that's an ironclad guarantee he'll lose once again ... it's a no brainer , CGT is the ring of death around Labour's red necks ...

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10

by Colin Cameron | 2nd Oct 24, 1:27pm
Gummy Bear Hero bang on

- LOG IN OR REGISTER TO POST COMMENTS

2

by Jamin | 2nd Oct 24, 2:18pm
But he’s likely correct. If labour runs on a cgt or a wealth tax they will lose.

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5

by OldSkoolEconomics | 2nd Oct 24, 3:56pm
Historically that was the case. public opinion on CGT has changed - along wil affordable housing its now acceptable and may even be a priority for swing voters.
Kiwis are leaving, tax takes are too low.... grey power, middle class and the ext gen of voters have vastly different priorities now

for luxon cgt is a worry - for labour its a opportunity

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5

by GoWokeGobroke | 2nd Oct 24, 7:56pm
Labour already tried their luck to tamper with the existing Brightline Tax extension out to 10years to capture almost all property owners, as well as constant housing restrictions that saw 94% price increases on property in half the time of the previous National government, & rents that were rising over 2.5x faster than the previous National government up over 60% under their 6 years. This is exactly what caused then the election. Labour couldn't deliver what they promised, to fix the housing crisis with a series of cheesy "Let's do this" slogans, and the majority finally woke up & held them accountable.
Labours best chance of getting back in would be to not announce any further extreme & unrealistic policies they can't deliver on, and to just play it safe. If they really are better at governing than National, then National will eventually undo themselves, much like Labour did last election. National was practically handed the election with the amount of damage Labour caused. That & the fact that labour got power hungary & started coming after people's personal freedoms. A big no no. Labours best strategy is to play it safe. If they come in with their typical let's Tax everybody to financial

prosperity, they will almost certainly lose again. Labours fall from grace last election was spectacular. The media & their decieved boterbase still can't believe it.
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1

by Murray Falconer | 2nd Oct 24, 10:18pm

> *public opinion on CGT has changed*

I fear this is true with the likes of banks now advocating for it. The least effective solution is being offered up to quell the rightful discontent surrounding the cost of shelter so that an effective solution such as a land tax/FER/RFRM is not implemented. Imagine being a bank with a shrinking loan book...anything is better than that - CGT it is!
My preference remains a land tax due to it discouraging debt and simplicity. FER and RFRM encourage leverage as they apply on equity only.

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1

by GV 27 | 2nd Oct 24, 2:33pm

E: This isn't correct, sorry.

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2

by GoWokeGobroke | 2nd Oct 24, 7:30pm

Spoken like a true Labour supporter. Unfortunately far from reality. Labour spent most of their 6years villyfying, taxing, badgering, private landlords, despite 80% owning just 1 rental property. This again created the largest increase in both property prices, rents, homeless & devide in this countries history. They said no CGT before being elected then extended Brightline Tax out to 10years. The Brightline was introduced by National to capture short term ownership via way of flipping & speculating, not extended out to those private landlords that provide over 80% of the countries rentals to those who cannot buy.
How many homes the PM has or how expensive it is is irrelevant. Plenty of Labour mps have multiple houses & multi million dollar mc mansions too, but labour supporters ignore that. No one would vote for a 50yo tenant to run a country, as it speaks volumes of just how they deal & manage their own personal finances. We don't want the country run full of the entitled waiting for their handouts. We had 6 years of that under Labour already.
Ardern sealed her own fate when she went too far & attacked individuals freedom, speaking like a true dictator that freedom of speech was an act of terrsism. Exactly why over 75% of last voted did not vote for Labour. Lanour have a long long way to go to improve before they would be voted in again. Expect National for at least the next 2 terms, minimum.
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3

by Murray Falconer | 2nd Oct 24, 10:24pm

> *This again created the largest increase in both property prices, rents, homeless & devide in this countries history.*

Correlation is not causation. Look at interest rates for price rises and population change (immigration) for rent changes. The rule changes for landlords were not the primary driver.

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2

by meh | 3rd Oct 24, 12:32am

Did Luxon have his "let them eat cake" moment with his "I'm wealthy, I'm sorted" remark?
Is that a holier than thou Christian?

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0

by GoWokeGobroke | 3rd Oct 24, 11:14am

It actually says nothing at all in the Bible about wealthy being a bad thing. It's just that poor people would like to think that it is so. Bible also never mentions a CGT but does mention analogies of investing & sowing seeds for later. You don't have to be poor to be a Christian. In fact the great thing about Christianity is that your financial position has nothing to do with it at all.

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0

by Gummy Bear Hero | 2nd Oct 24, 12:33pm
Firstly , we ought to strip away some unnecessary and costly government expenditures : WFF , winter energy payments , accommodation supplements , interest free student loans , etc ...
.... secondly , remove the charities tax free status ... a nation of 5 million people ought not have 28000 registered charities , who annually receive $ 16 billion tax free ...
Finally : introduce both a LVT & a stamp duty on property transactions .... sorted ! Off to the boozer for a pie & a pint ...

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16

by TheGhost | 2nd Oct 24, 12:45pm
The biggest bang for buck change would be the reintroduction of superannuation surcharges.

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8

by Gummy Bear Hero | 2nd Oct 24, 12:49pm
... another big bang for our buck would be to redesign our healthcare system from a British styled NHS system (7 million on waiting lists for operarions there) to something similar to Singapore or France ... open it up to competition & innovation ...

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4

by E46 | 2nd Oct 24, 1:49pm
I'm still not convinced that the Singapore system would scale geographically. From what I've read, it seems like a good system for them, but how would it work in less densely populated areas, such as rural regions and smaller towns. Situations that basically don't exist in Singapore.
And Singapore has a significant number of workers commuting from Malaysia for low-wage jobs. How does their medical care compare? It's likely many of those commuting every day from Malaysia will be using medical services in Malaysia rather than Singapore which would take a massive load of Singapore's health system, it looks like they are taking some small steps to change this but it doesn't remove that "advantage" Singapore has that allows a health system like theirs to work so effectively for their citizens.
Our healthcare would likely be more affordable if we had an entire class of workers who we took very little responsibility for, but that's hardly replicable here in New Zealand.
Read less

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2

by Gummy Bear Hero | 2nd Oct 24, 1:58pm
I'd prefer that we took some steps towards adding competition and innovation into our health system , rather than just shifting the deckchairs as the current government is , or totally centralising all control into a Wellington mega bureaucracy as the previous government attempted ...

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1

by the Joneses | 2nd Oct 24, 5:23pm
More like USA healthcare you mean?

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3

by Gummy Bear Hero | 2nd Oct 24, 9:55pm

No , I don't mean that at all , anything but ...

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0

by Hamish | 2nd Oct 24, 10:35pm
Competition? I was at the DHB when the head of MoH wanted to bring in a tranche of funding that would go to DHBs that were hitting some targets. I'm not sure how that fits when local taxpayers send their tax dollars off to Wellington then some other DHB gets them due to winning some KPIs.
And locally we had 2 after hour medical centers and now have just 1. We'll that and the groaning ED.
Shouldn't a public service be more about collaboration and sharing the process of success than cutting each other's throats?

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0

by GoWokeGobroke | 2nd Oct 24, 8:11pm
So your solution is to remove the financial subsidies that allow these businesses to function? Basic economics shows an increases cost & risk to operate increases the cost of the service & product.
So could you explain how removing interest free student loans somehow incentivizes more people to study? We have a health crisis already, an average student loan for a nurse is 60k, the average for a Dr is 150k. If people are suddenly told they are now to pay interest on that, please explain how you feel more people will be incentivized to study well needed professions?
I agree on cutting back on government expenditures though.
Could you also explain how removing Winter Energy Payments would somehow put more money into the pockets of already struggling families?
Could you also explain how removing the accomodation supplement for some tenants who require this to pay rent would somehow improve our housing crisis & get tenants closer towards home ownership? Currently home ownership is at its lowest in over 70 years.
Remove the accom supp & see the emergancy social housing waiting list rise even further than the 548% in 6yrs under labour? Without this tenants that require this in to pay rent will have no other option. Removing the accom supp condemns many tenants to homelessness. This is a tenant subsidy, not a landlord one. Plenty of tenants do not require this supplememt to pay rent, the ones that do would only be able to turn to the gov to house them, with the private sector then be known to only rent to elite tenants, who can pay rent without any gov financial assistance. To take away the accomodation supplement is to create further homelessness, further tenants from home ownership, yet you advocate for this?
Labour had 6years to remove this, they didnt, as they also recognize this is needed for tenants to pay rent so further records dont become homeless.
Again the claim that removing the accomodation supplement will somehow improve our situation comes only out of envy. Those who advocate for it cannot justify why increasing the cost to operate & why further increases to rent would somehow improve a tenants financial position to gain them any closer to home ownership.
We've tried 6 years of penalizing those who have for those who haven't, & life got much tougher for all. Tenants are now further away from ownership than they've ever been in our countries history. Time for a much needed different approach.
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1

by Murray Falconer | 2nd Oct 24, 10:44pm
In general terms, the argument to remove the various subsidies is they act like a price floor which everyone must pay (regardless of if received) and just flow to landlords anyway.
I always thought I was paying twice the rent I should have in Auckland at $600pw when the accommodation supplement was running at over $300pw. If removed, the same houses exist and the same people exist, so the rents would fall to meet what the market could now afford once subsidies removed.
That would mean lower prices for houses since the rental yield would be lower (the price fall would be from the land value). Removal need not result in more homelessness although there would be some

teething pain for sure. Homelessness will increase with fast population growth which we seem determined to have for reasons I cannot fathom.

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2

by lonewolfnz | 2nd Oct 24, 12:45pm
So basically FIF tax but for property?
Time to sell my rental and buy a very nice mini-mansion main home then

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3

by Colin Cameron | 2nd Oct 24, 1:29pm
Yep just like they do in California multi million dollar pads while heaps of homeless at the traffic lights begging and I mean heaps not one or two

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4

by VancouverKiwi | 2nd Oct 24, 1:25pm
We keep hearing these taxes will solve our wealth inequality, while ignoring the fact that other countries that implemented similar schemes still see the same (or worse) levels of inequality. It would appear they struggle for public buy-in, because they are pitching a solution without showing how it will fixes the problem they seek to address.
If we do what others else has done, we will end up with more of the same. We need some unique ideas (which will need to come from people much smarter than I as unfortunately I don't have an answer either).

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4

by Colin Cameron | 2nd Oct 24, 1:31pm
VK yep because it's the capital between the ears that is the most important. Notice no matter what govt do or how bad things are there is always people in any situation making money and people who are dirt poor always has been always will be. That 6 inches between the ears is the most important un taxed investment you have

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2

by ChrisOfNoFame | 2nd Oct 24, 1:40pm
So choose your parents wisely, ay?

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9

by ChrisOfNoFame | 2nd Oct 24, 1:39pm
Yet another example of the *Post hoc ergo propter hoc* fallacy. Pub-economics at it's finest.

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6

by In Vino Veritas | 3rd Oct 24, 10:03am
lol Chris. And the expectation that the implementation of CGT will bring more “equality” to the tax system is not the same fallacy?

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1

by M0ralHazard | 2nd Oct 24, 1:42pm
If you want a tax that will actually reduce inequality, then we need a well designed Gift/Inheritance Tax

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3

by GV 27 | 2nd Oct 24, 2:37pm

If you want a tax that will increase the size of the state*

This seems to be about the only thing we can accomplish with extra tax revenue. The Crown collected tens of billions more tax in the last five years than it was previously and could still only muster margin-of-error movements in poverty stats.

The only thing an iheritance tax does to close the gap is drag the top towards the bottom. If that's all you're aiming to do then job done. Actually improving life for those at the bottom appears to be too hard.

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5

by M0ralHazard | 2nd Oct 24, 4:54pm

The amount we tax is a different discussion. So is how we spend that tax.

If we introduce new taxes, they need to be offset with reductions to income tax or something like that

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2

by GV 27 | 2nd Oct 24, 5:25pm

Then you need to consider the implications of how much asset prices need to constantly inflate to raise enough money to offset income taxes with constant, arguably even increasing CGT revenue.

We've been down this road with housing and seen the laws unintended of consequences in action when it came to our ridiculously low top tax rate threshold (39c over $60K in the Cullen era).

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1

by M0ralHazard | 2nd Oct 24, 5:32pm

I was talking about Gift/Inheritance taxes, not CGT

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1

by Nzdan | 2nd Oct 24, 6:29pm

Not if you have a land tax (on top of rates) and reduce PAYE by the same amount. Crude example (I'm not suggesting we replace PAYE with LT), take the NZ urban area of roughly 5000 km2. In 2022, the Govt collected $38b in income taxes.

If you wanted to recover that just from the 5000 km2 of urban, then you'd charge $7.60 per m2. My household with a 1080m2 section would pay $8.2k p.a. in land taxes, instead of about $70k in PAYE. Works even better if you're in an apartment. Land tax divided by number of apartments. Sucks for renters though, because while their landlords would start paying tax, they'd have to jack up the rent.

Read less

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2

by Murray Falconer | 2nd Oct 24, 10:51pm

> *Sucks for renters though, because while their landlords would start paying tax, they'd have to jack up the rent.*

Rents are set at what the market can bear, not the landlords costs. They may jack up rents if they can, but the price of the apartments would be less (land taxes reduce property prices despite the opposite being stated by some commenters - possibly the only tax that lowers the cost of the item?). So more affordable to buy for renters and less incentive to accumulate for investors (likely lower yields as rents already tapped out).

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2

by Nzdan | 3rd Oct 24, 9:28am

While true, it's much easier for landlords to jack rents up as high as they can if there's a universal pricing signal to the market. Also in the scenario I used with a complete swap from Income Tax to Land Tax, the tenants will effectively pay zero income tax and the rent should go up between $80 - $120 per week depending on land size.

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0

by kiwikidsnz | 2nd Oct 24, 6:30pm
Margaret Thatcher — 'The problem with socialism is that you eventually run out of other people's money.'

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3

by M0ralHazard | 2nd Oct 24, 6:45pm
But doesn't that apply to all taxes?

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3

by kiwikidsnz | 2nd Oct 24, 6:58pm
...sooner with socialists...who wilfully choose to ignore that someone has to create the pie before they can argue about dividing it (unless an MMT acolyte who really thinks money grows on trees)

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4

by WellingtonInvestor | 3rd Oct 24, 1:18am
So people who could never afford to buy a house, but may be able to inherit in the future, will never be able to get a house. Why should the government get their hands on family wealth? A lot of families are multi generational and work together to gain that wealth, including many family businesses.

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1

by GoWokeGobroke | 2nd Oct 24, 8:26pm
Hit the nail on the head VancouverKiwi.
The ones that advocate for all these taxes cannot justify or explain how taxing people more makes them wealthier somehow, that taxing further businesses and services somehow makes them cheaper to use and buy. They can't explain it coherently because it's a falsehood mantra they throw out buzz words out of envy. "Tax further the wealthy Landlord" they say, yet ignore that the average landlord in NZ makes just 14k per year off their property, that over 80% of landlords in NZ own just 1 rental property, & over 60% of those still have mortgages on them. If that's wealthy, then the bar has been set very low, far too low.
They cannot justify that further taxes brings tenants closer to ownership, which is the ultimate goal, because this fabrication does not work, but the envious at least feel better about themselves by saying it, but they know not what they say nor why they it.
Read less

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1

by ChrisOfNoFame | 2nd Oct 24, 1:44pm
My advice ...
- 95 cents of every dollar collected **must be used to offset another tax**, e.g. GST on food, the first $20k of income, etc.
- rates are set very low to start with
- use nominal amounts (i.e. no adjustments for inflation, indexation, etc.)
- no allowances, e.g. the first $100k is never exempt
- no exceptions (i.e. the family home is included)
- taxes are paid at any type of full or partial ownership transferal (i.e. death, gifting, partial sales, etc.)
- taxes due can be paid by installment over a maximum of 10 years with the RF interest rate applied
- a percentage of ... **Read more**

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  4

  by kiwimm | 2nd Oct 24, 4:56pm
  I like it - no exceptions and progressive rates e.g. 0% on first $100k, 10% on next 100k then 20% on the rest
- LOG IN OR REGISTER TO POST COMMENTS

  2

  by ChrisOfNoFame | 2nd Oct 24, 8:06pm
  It discourages asset hoarding.
  The most obvious one being land-banking, e.g. by supermarkets buying land blocks to stop competition, or by residential property 'investors' sitting on prime development sites - but there are many others, e.g. licenses, quotas, etc.
- LOG IN OR REGISTER TO POST COMMENTS

  1

  by ChrisOfNoFame | 2nd Oct 24, 8:11pm
  And starts working immediately ... which means *other taxes can be cut immediately.*
- LOG IN OR REGISTER TO POST COMMENTS

  0

  by GV 27 | 2nd Oct 24, 5:30pm
  Well this is certainly on-brand, I'll give you that.
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  1

  by Gummy Bear Hero | 2nd Oct 24, 2:03pm
  The only winners from a CGT are accountants & tax planners ...
  .... the government doesn't garner much money from it
  And masses of people will find it onerously complex , and many will devote vast quantities of their time trying to avoid it ...
- LOG IN OR REGISTER TO POST COMMENTS

  9

  by Averageman | 2nd Oct 24, 2:29pm
  Agreed. Which is why a land tax makes so much sense.
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  9

  by ChrisOfNoFame | 2nd Oct 24, 8:15pm
  Land is only one small part of the *capital* in the system. I.e. a land tax on its own castes a tiny net.
  It also worth pointing out that all countries and states that have land tax actually raise very little from them because rates are extremely low for political reasons.
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  0

  by Murray Falconer | 2nd Oct 24, 11:05pm
  Not sure land is a small part of our capital. It is a critical part of our housing affordability issues though which I'd rate about number one on the list of things we do poorly in NZ.
  How much is collected is obviously related to the rate of tax set and any exclusions that apply. Political reasons may change if renters decide to down tools and do nothing until they're given a pathway to ownership...seems some way off alright and a CGT will be a nice distraction when the time nears.
- LOG IN OR REGISTER TO POST COMMENTS

  1

  by meh | 2nd Oct 24, 4:12pm

The accountants and tax planners are already the winners because of the absence of CGT. They've already devoted vast quantities to avoiding income tax, hence partly the reason we're in this predicament now.
An Income Tax law that imposes tax more on productive labour than unproductive investment.
We wouldn't be having this problem if we just said all income is taxed. Then it's simply at what rate. If the unearned, unproductive, socially harmful gains were taxed 100%, maybe the accountants and tax planners could apply their skills to more productive endeavours, rather than complex tax/trust/corporate structures.
Now we have a history of these perceived capital entitlements that is hindering us from making any real changes. Everyone's become a Gollum, "my precious gains".
Fact is the horse has truly bolted never to be seen again, and we still have a wide open barn, the doors barely hanging on their hinges.
Read less

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6

by GoWokeGobroke | 2nd Oct 24, 8:59pm
I do agree in part with you Meh that all Income & profitable gains should be taxed, or none at all. That would be the most fair & non biased tax system we could implement. Problem is this would also include the primary family homes capital gains, inheritance, kiwisaver, stocks, bonds, crypto, generational farms as well. Because it is after all profitable gains.
Now the ones heavily advocating for a CGT advocate it towards landlords only, making it exactly the same tax system we currently have now, biased & envious. Tax those people over there who have more, as long as you don't tax me anymore. This is not a fair & non biased tax system at all, & most people would not want a true fair & non biased tax system to be implemented at all, because in the end it means that almost everyone will end up paying much more tax in different forms. Taxing something does not make it cheaper.
Read less

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1

by K.W. | 2nd Oct 24, 2:34pm
At the end of the day NZ is competing with Australia for capital and talent. Any Australian wanting to invest in property or shares or a business is able to utilise the Self Managed Superannuation Fund set up. Where income tax is a max of 15% and capital gains tax is a max of 10% for assets held longer than a year. And the kicker - the tax rate becomes zero on income or CGT once you turn 60.
What will NZ do to stop people running off to Australia and investing over there instead of NZ? SMSF are not complicated, ... **Read more**

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2

by ChrisOfNoFame | 2nd Oct 24, 8:17pm
"*Any Australian wanting to invest in property or shares or a business is able to utilise the Self Managed Superannuation Fund set up.*"
You keep saying this like NZ doesn't have a similar system. I'm pretty sure we do.

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1

by Palmtree08 | 2nd Oct 24, 3:53pm
"Basic housing is scarce and unaffordable. The outcome is socially divisive and economically corrosive with a two-tiered society of increasing poverty and misery at one end and obscene luxury at the other."
Oh the wonders of massive population growth and previous GDP growth. I thought this promised a low tax, high income utopia? It didn't? Never mind, the next round of mass immigration and GDP growth will fix all issues caused by the previous round of the same.

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11

by unaha-closp | 2nd Oct 24, 5:20pm

Economic inequality is not all that fashionable among our government agencies. Current trends are to instead tackle structural inequalities of gender, race, religion, sexuality, climate and so on. This is done by providing resource to leaders and allies who will act in the interest of their community. The recipients of this funding are politically well connected and wealthy.
This poses a big problem for the whole FER concept in that it is designed to tackle economic inequality by producing revenue for redistribution and/or social investment by our government. Then our government redistributes it to wealthy people to tackle structural inequality instead.

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4

by kiwi_overseas | 3rd Oct 24, 12:16am
Comprehensive CGT + gift tax + inheritance tax is the only way to go and is the only way to capture the vast majority of "income flows" so as to avoid leakage and most distortions and to level the playing field across assets.
Almost all OECD countries have CGT so I don't agree with the argument that it imposes too much dead weight cost as a reason not to pursue it.
CGT would have to be on a realised basis to keep it simple. I don't care that it won't raise much tax in the short term, nor do I care that ... **Read more**

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1

by WellingtonInvestor | 3rd Oct 24, 1:15am
But NZ doesn't even have a CGT, and we have been giving tax cuts, which suggests they have been collecting too much tax.

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by kiwi_overseas | 3rd Oct 24, 10:35am
With CGT+ in place it may be possible to reduce income tax.

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by WellingtonInvestor | 3rd Oct 24, 1:14am
I hate how Capital Gains Tax and a Wealth tax are being lumped together . The PM did the same thing when questioned about not paying tax on his property capital gains . They are totally different taxes. Most countries have a CGT.... most do not have a wealth tax. It is almost like they want to sneak in a wealth tax with a CGT. If they did you can bet that it won't be inflation adjusted to match income tax.

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by WellingtonInvestor | 3rd Oct 24, 1:20am
They could start by taxing these massive overseas companies that operate in NZ, but hardly end up paying any tax at all. Until they do this, I don't believe in any new taxes, apart from a CGT, and a higher rate for very high income earners. Plus perhaps stamp duty.

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by The_Golem | 3rd Oct 24, 9:23am
What is disconcerting that the discussion of tax has *no* accompanying discussion of building national prosperity by improving productivity, adding value, creating employment, making it easier to get things done rather than harder, and all that other active, nation-building stuff that's been ignored for far too long, while kludgeocratic expediency reigns.
It's apparently too hard: is what we've got, and the narrow policy niches being discussed, seriously the best policy we can create?
It looks like the discussion is stuck in an adversarial, ideological rut that the state is to be the agency to use tax to redistribute wealth, rather than creating ... **Read more**

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3

by linklater01 | 3rd Oct 24, 8:58am
Forget CGT and simply apply a sliding scale stamp duty to all property sales with an exemption for sales below a certain figure, say $500,000. This would be simple to operate and hard, if not impossible, to avoid.
Other countries do this, why not us?

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by In Vino Veritas | 3rd Oct 24, 9:58am
Oh, proposing to double tax people again then? There has never been a University lecturer that advocates reducing Government expenditure and decreasing taxes.

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by Redcastle | 3rd Oct 24, 10:30am
When Susan St John aligns herself with Max Rashbrooke, she reveals herself to be yet another extreme left-wing idealogue. Reading further I see this:
"Thus the latest one, the 2019 **Tax Working Group Report**, illustrates the pattern. The detailed design of their proposed **CGT** included land, including improvements to land (other than the family home), shares (but not portfolio investment entities (PIEs) including KiwiSaver), intangible property, and business assets. The voluminous report and background papers illustrate **the vast complexities of such a tax.**"
For her to call this 'comprehensive' show she doesn't know the meaning of the word.
The reason 'the voices supporting a CGT grow louder' is because they are being enabled by left-wing idealogues who believe utopia can be achieved by stoking envy to gain support for increasing and collecting more tax for redistribution instead of growing wealth.
Parker's underhand, even devious, work last year to introduce a (wealth) tax on unrealised gains is impractical but is also revealing of where they want to take us, even though it doesnt work.
Read less

CANTIN CONSULTING

Cantin Consulting
[redacted]

LTIB Topic
c/-Chief Economist, Policy Taukea
Inland Revenue Te Tari Taake
PO Box 2198
Wellington 6140
Email: policy.webmaster@ird.govt.nz

6 October 2024

Dear Sir

I am pleased to have the opportunity to respond to Inland Revenue's consultation on the scope of its next long-term insights briefing ("LTIB" for short, despite the current document not itself being the LTIB.)

The proposed scope of the LTIB raises issues which I have been contemplating in response to Terry Baucher's podcast episode – Titians of Tax[1]. This is useful background to my

[1] https://www.interest.co.nz/public-policy/127473/new-zealand-tax-podcast-special-episode-three-gurus-new-zealand-tax-sir-rob urs sincerely

response. However, I take responsibility for the interpretation of what the participants said. The way I have characterized their comments may not in fact be their views.

My submission is in five parts. I place the tax system in context, make some observations which suggest the characterisation in chapter 1 is not entirely accurate, draw out some issues with the economist’s approach to the effects of taxation, consider some matters of principle for a future tax system and outline a future regime as a basis of comparison.

Of particular importance are:

- Economic concepts of burden etc are marginal concepts and ignore the reality of government spending. The design of the tax system needs to be tested against no government spending or these concepts limited in their use to their designed function.
- The sources and nature of capital for New Zealand should be determined. Inland Revenue should have information to establish this. This helps with considering the effects of possible future taxes. For example, how realistic are concerns regarding capital flight?
- Capital needs to be made concrete. The sources of capital for New Zealand include many New Zealanders (through KiwiSaver, their own home and businesses), higher wealth households, foreign investors and Government.
    - The effect of capital taxation for individuals needs to be considered at the personal level rather than the impersonal – desired return – level to inform consideration of a future tax system.
    - The effect of taxation on Government as a source of capital is an under researched and considered area. The contribution of government to New Zealand’s economy means this should be corrected; questions such as the impact for consumers answered.
    - Not addressed in any detail in my response but the contribution of charities and not-for-profits are also important sectors of the economy which should be considered.

  (implicit is that the system needs to be designed to accommodate these potential different sources of capital and that new taxes will have different consequences. Trade offs will be required as they are now.)

- Why capital is of benefit to New Zealand should be clearly stated and tested. In particular:
    - Whether the personal, company, employment and GST taxes are an appropriate measure of the benefit provided from an investor’s capital investment, should be tested.
    - The public benefit of personal interests such as saving, providing an inheritance etc should be stated and considered to establish how and whether they support capital being preferred through the tax system.
- The Budget 2023 tax proposals should not be used as a model for designing future capital taxes. A broader perspective of the scope of a tax may help with raising revenue and mitigation of capital flight concerns.

- Concerns regarding the implementation of wealth and other taxes may be overstated (given there is some support for RFRM) and proxy valuation methods may help with reducing compliance costs.
- The GST base could be expanded to exempt services and to limit zero-rated supplies.
- The interaction of tax and social policy and transfers, especially with regard to effective marginal rates, should be considered (and arguably is a greater problem than the 39% rate.. Use of revenue to address this problem as well as redesign of these systems shoud be considered.

These factors lead me to suggest a future tax system which has a comprehensive realised capital gains tax (with listed equities taxed under FDR), a wealth or inheritance tax set with a high threshold but aligned with a global regime, and expanded GST base with revenue used for social policy objectives.

It follows that I am in general agreement with the proposed scope of the LTIB. However, I consider that the effect of the ssues that are and should be considered mean that other government agencies, especially the Treasury, MBIE and MSD, should be consulted.

My response has not had any element of peer or other review. (Various conversations over many years have contributed but none have focused on the particular elements of my response.). Although the response is drafted as a submission, it is best considered as raising a series of propositions that should be tested. I have labelled it as a “draft for discussion” accordingly.

I would be happy to discuss any aspect of this response or to provide further references to materials which may support my response. I can be contacted on [redacted]

Yours sincerely

s 9(2)(a)

John Cantin
Cantin Consulting

Our tax system: Bases and regimes

Consultation on the scope of Inland Revenue’s long-term insights briefing 2024-25

Submission of Cantin Consulting
Prepared by John Cantin
A “draft for discussion”

Part I. Context

The tax system does not stand alone. In a recent Musings, I described the State as:

> The modern Aotearoa New Zealand State is how collective action is given effect. The what, why and the detailed how are determined through our democracy and its institutions. To the extent we have a universal franchise, the State is us. It reflects our own contradictions. We all have an interest in the State operating successfully.[2]

The tax system is, in large part, how our collective action is funded. That is its primary purpose.

The tax system – scope of LTIB

The funding system for Government can be characterised as:

- what you are obliged to pay (the various taxes)?

- what you “choose” to pay?

- Corrective taxes are a subset as generally they do not apply to activities which you are forced to do.
- Explicit user pays, for example, road user charges, fuel excise taxes are also a subset.
- A wider view of user pays includes services provided by Government owned SOEs. Mixed Ownership Model companies are a further subset.
- However, the “choice/compulsion” boundary is not a hard one. For example, how real is the choice to use electricity in modern society?

- what you qualify for (the various transfers)?

- The various social policy transfers are an integral part of the tax system as they are included in determinations of progressivity. (Further comments on this are below.)

These three aspects of funding and spending by government have an impact on behaviour and Government revenue. The LTIB proposes that corrective taxes are excluded and, it appears, transfers.

[2] Demysttifying the State – Musings on Dr Burton’s Report (https://www.linkedin.com/posts/johnfcantin_demystifying-the-state-musings-on-dr-burtons-activity-7243481745243676673-k_eQ?utm_source=share&utm_medium=member_desktop)

For corrective and user pays taxes, if they are out of scope, this should also mean that Government expenditure on those items should be excluded from consideration. In effect this would mean the assumption is that corrective taxes and user pays fund the expenditure (so the right base and level is determined by reference to the expected expenditure on those items.

Submission 1: transfers and user pays/corrective taxes should be in scope. If this makes the LTIB too large a project, then the project should make explicit that existing transfers and user pays/corrective taxes are assumed to continue but also consider the impact on the projections of Government expenditure.

Part II Current regime

It is important that the current regime is properly characterised and analysed. Chapter 1 does not correctly reflect the current regime. Some observations follow.

Fiscal drag[3]

Paragraph 56 refes to inflation changing progressivity in ways not intended by the government. This is a “generous” assessment of fiscal drag. Fiscal drag is a known effect of inflation. To the extent that New Zealand parliament confirms tax rates annually, the effect of fiscal drag is a known, and therefore, intended effect.

Figure 6 shows the effect of fiscal drag on personal income tax rates. However, paragraph 58 notes that the measure of fiscal incidence takes into account market income, transfers, diret income tax and indirect taxes. This is illustrated in figure 7 for the 2017-18 year.

There is no corresponding figure for the effect of fiscal drag on disposable income. Figure 6 therefore excludes the effect of inflation, and counter-measures such as increases in transfers, from the effect of fiscal drag.

Two examples may illustrate.

GST was increased to 15%. That has contributed to increased government revenue as the economy has grown. However, this increase is nominal as inflation also increses the GST revenue.

Working for familes, among other credits, have been adjusted over the same period. To that extent, governments have chosen to counter fiscal drag through credits rather than personal tax rate change.

The focus on personal tax rate fiscal drag ignores the effects of inflation on counter-measures such as these.

Submission 2: The comprehensive net effect (on GST and social policy credits and transfers) of fiscal drag should be considered in assessing what responses should be made.

[3] Further commentary may be found at https://www.linkedin.com/posts/johnfcantin_musings-inflation-activity-6939778479575953408-4TWG?utm_source=share&utm_medium=member_desktop

Progressivity

Paragraph 49 refers to the personal tax system as the main way progressivity is measured. As the LTIB suggests, progressivity is more often measured on a broader basis.

Submission 3 : The LTIB should make clear what is its focus when considering progressivity of the tax base and systems.

Government tax

The tax that government pays is often overlooked. This is considered further in the next part.

Captial taxation and characterisation of New Zealand’s tax regime

Paragraph 70 seems to imply that company tax is a tax on capital but also notes that in New Zealand, compmany tax is also a labour tax for SMEs.

Paragraph 89 reports on an OECD study which classifies New Zealand’s sytem as a comprehensive system. I have not reread the OECD report. The characterisation may be correct based on its definition. However, it does not, in my view, correctly characterise New Zealand’s tax system.

It is true that capital income which is taxed is generally taxed at the same rate as labour income. (The footnote clarifies that the PIE rate is not the same as the personal tax rate.) However, much capital income is not taxed at all. It has a 0% economically effective tax rate.

In some cases, it has a better than 0% economically effective tax rate. With the removal of the prohibition on interest deductibility for residential rental, the current system allows deductions for dual purpose expenditure thereby providing a further benefit for capital income.

Submission 4: The New Zealand tax system should be correctly characterised so that its current effects are properly stated and the effect of changes can be assessed.

Part III Matters of principle to consider for the LTIB

Converting economic concepts into everyday language and peer review

The language of economists has technical meanings. It is used in the context of an economist’s framework and based on (simplified) models of how the world is expected to work. However, that language is also “loaded” in its common understanding. Concepts such as “burden”, “wedge”, “deadweight loss” when used in a tax context will have a different implication for an ordinary reader.

The work of the LTIB is necessarily economic. However, care needs to be taken that the rreal world effects are explained in appropriate language. That language should be neutral.

(One might speculate that the language used by econmists is deliberate – a “political” statement on the effects of taxation. I have not of course done the research to confirm the political views of the relevant economists with their theories. However, a paper of potential interest is Wolfgang Schoen’s Working Paper[4] for the Max Planck Institute on the role of political views in international taxation.)

For the last LTIB, Inland Revenue engaged expert economist reviewers. That was understandable given the cost of capital topic. The peer review for this LTIB should be broader than economic specialists. The breadth of the topic and its political as well as fiscal impact means other views are important.

Submission 5: The LTIB should use neutral language and should have a wider (beyond economists) peer review.

The taxation effects for labour and capital

The economically orthodox view is that taxing capital highly is counter to productivity. What economists don’t make clear is what is the capital that is affected.

A picture of NZ sources of capital follows.

[4] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4933649 Working Paper 2024-06 International Tax Scholarship and International Tax Activism

	Individuals[5]			**Foreign investors**			**Government**	
Type	*Employees*	*SME Owners*	*Higher Wealth*	*Direct* *Investment*	*Portfolio*	*Debt*	*SOEs*	*Mixed-ownershi p*
Investment	KiwiSaver	Business (company and trust)	Business (company and trust)	Company (but part debt funded)	Direct	Government, bank, and corporate bonds	Company	Company
	Real property (including own home)	Real property (including own home)	Real property (including own home)	Real property	Foreign and NZ funds			
		KiwiSaver	Portfolio investment – NZ and foreign equity					
Income tax	Personal and PIE tax	Personal, PIE, trust and company tax	Personal, PIE, company and trust taxation	Company tax	Company tax	Approved issuer levy	Company tax and company revenue	Company tax and company revenue
GST	GST on personal consumption	GST on personal consumption, collects GST	GST on personal consumpti on, collects GST	Collects GST	Collects GST		Collects GST	Collects GST
Driver for investment	To live on and for retirement	To live on and for retirement	To live on (?) May not need capital income to live(?), for retirement, for family to pass on as inheritance	For the return Different home country tax position may affect preferences and returns. For example, a sovereign wealth fund with no home country tax will be in a different position from an MNE or a collective investment vehicle.			Historically, SOEs were used for “efficiency” and to separate operation from political “interference”. Mixed ownership was a political compromise because of resistance to state asset sales. What is the driver now?	

[5] Note that the boundaries are undefined but the categories are intended to be broadly illustrative.

What is the tax effect on capital?

Each of these sources of capital has different reasons for investment. There is unlikely to be a one size fits all tax response. Changes to capital taxation need to consider the different drivers and effects – a single economic model is unlikely to provide the answer. There are and have been trade offs, for example, company tax as a withholding for resident individuals but a final tax for non-resident FDI..

Inland Revenue should have information on how the break down of between these categories. It has information on company ownership where a company pays dividends and also the percentage of foreign ownership. It has information on the personal income position of individuals. It will have information on AIL, if not the actual detail of the foreign investor it could do a cross check of FATCA/CRS reporting for financial institution AIL payers..

Submission 6: The LTIB should provide existing information to provide a view of the sources and use of capital (as found in the NZ tax system). This would provide a good starting point to test options for future tax bases and systems and the potential impact of changes on the availablilty of capital.

Who/what is capital?

The economic theories do not define who is the capital investor – they generally say that "capital" will respond in a certain way to tax. The diagram above is an attempt to provide some definition.

One capital investor is an individual. (This is potentially true for all entities, some of the exceptions are discussed below.). This means that capital taxation is personal taxation. The individual columns divides those into three. Some have only KiwiSaver and their own home, others their own business, others a broader set of capital investments. When the LTIB considers concerns regarding the behaviour of capital in response to tax, it should consider the personal responses of individuals.

For an individual investor, apart from KiwiSaver, capital is provided by those who do not need the income from the capital to live on. This means they can defer taxation (through using a company for their investment activity, for example).

This can be seen in the comments made regarding a wealth tax in Terry Baucher's Titans of Tax Podcast [6] The very strong reaction of the participants to a wealth tax was that capital would move. This is in effect a personal move – the individuals with the capital will move with their capital. (See further observations below regarding wealth and other taxes.)

For FDI, a similar personal analysis can be made – it is foreign individuals who are the economic investors. However, the deicisons are made by managers who have home country tax and personal incentives when making those decisions. It could be argued that the BEPS project is a response to the personal drivers of the US tax system. With a classical tax system, company tax affects the share price (because it is a multiple of earnings, actual or expected). Lower company tax means a higher share price (all things being equal). A higher share price affects manager remuneration as well as shareholder returns. Investment with low foreign (and no US) taxation benefits both managers and investors. How the BEPS project and New Zealand's tax system interacts with drivers such as this needs to be considered by the LTIB.

My diagram responds to the analysis in chapter 1 of the LTIB and includes government entity taxation. Government entity taxation has not been the subject of focus or review. In one sense, company tax should have no impact on a government decision to invest capital – it benefits from either an increase or a decrease in company tax (- a decrease through increased dividends or lower capital calls). (The position is

[6] https://www.interest.co.nz/public-policy/127473/new-zealand-tax-podcast-special-episode-three-gurus-new-zealand-tax-sir-rob

more complex for mixed ownership companies where other investors need to be considered).. However, that does not seem to have been the practice for the government or government investors, such as the NZ Super Fund or ACC, investments appear to be assessed on an after-tax basis. Notwithstanding, the questions that arise are:

- What is the effect of government as a capital provider on the economy?
- Does government as a source of capital have a different response to taxation? Should it do so?
- Who bears the tax? (considered further in the next section)

Submission 7: The LTIB should consider who the capital investor is, including the NZ Government, and whether the response to tax is different for different capital investors. Its assessment should inform its consideration of options for a future tax regime.

Who bears the tax?

For Government companies, the standard model would suggest that, as a capital investor desires a specific return, the tax is actually borne by either customers or labour (employees and suppliers) rather than shareholders. For Government companies, the following questions arise:

- Does taxing them increase the cost of living for consumers (because the amount charged by the company has to cover the company tax to provide the desired return to the Government) ?
- If so, are there reasons to retain company tax (for example, to maintain competitive markets) or remove it?

(As an aside, if the theory is correct, imputation is not required because sharehodlers do not bear the tax – employees and customers do. However, that is not how markets have responded to the availablilty of imputation credits.)

More broadly, who bears the tax is a difficult question to answer. For example, studies on the removal of VAT on certain products tend to show that the supplier benefits from the reduction. (By contrast, imposing VAT has the reverse effect.). However, clarity on this is important to the design of the tax system.

Firstty, when the progressivity and fairness of the system is raised, a response from higher wealth investors tends to be along the lines of “I pay company tax, GST and PAYE” with the implication that this is the right measure of the tax they bear. Theory would suggest otherwise.

Further, the correctness of this statement relies on a nil hypothesis – consumers would spend nothing, employees would have no other employment, no other businesses would operate. These assumptions are not consistent with our economy. Consumers do spend on goods and services and they would likely find others to substitute. Employees do find work. Businesses are established daily. At best the contribution is “marginal” - the additional value their business brings to the economy (including consumers and employees) and the tax on that additional value. This is less than 100% of their activity but is hard to determine. (Inland Revenue may be able to do some analysis by comparing employee salary to an industry average for example?)

Secondly, when considering tax exemptions and credits, it is important to ask who benefits. For example, local government has asked for GST on rates to be provided as funding to them. This would mean that consumers are subsidising land owners (ratepayers, but noting the question of whether tenants pay for the rates is a contested question). (Whether the effect is lower rates or rates not as high rates as they would otherwise be, ratepayers benefit from this funding.). To the extent that capital (real property) is taxed differently by government, this affects the relative taxation of consumers and capital.

A possible argument is that Working for Families is of benfefit is to the employee rather than a subsidy to the employer. In short:

- Employers pay the market value of the work (contestable of course but the employer is unable to discriminate based on gender or family situation);
- The market rate is insufficient for the employee to support a family;
- Working for families provides credits to support the household;
- Working for families is a subsidy for the employee.

Submission 8: Examples such as these mean the LTIB needs to be as clear as possible as to who will bear the tax being considered for the future.

Submission 9 : This work is important for perceptions of fairness. The information gained from following submissions 6 and 7, should also help with assessing the reality of the effect on capital investment and therefore of capital flight.

Submission 10: The LTIB should consider the reasons for and against the continued income taxation of government entities.

Marginal and Average rates and no tax and comparative tax revenue to GDP

In the Titans of Tax podcast, some commentators were especially concerned with the impact of the 39% marginal tax rate. Theories of wage burden and deadweight loss focus on the marginal effect of taxation. The economic conclusions tend, in popular and political usage, to be generalised to apply to all tax. Deadweight loss is applied to taxation as a whole and not, as intended, applied to considerations of extensions to tax.

What the popular use ignores (and economists do not appear to do a good job of considering) is the effect of existing taxation.

In other words, popular usage does not take into account what existing tax funds. If there were no taxation, the collective action funded by those taxes would likely still be required. Those services would not be costless. In feudal societies, serfs paid for protection provided by nobles through their produce (and to the church for protection of their souls by way of tithes). Equivalent payments would be required in the absence of no tax at all.

There is of course room for debate over what government should provide (and therefore be funded to provide) but no taxation is not a viable alternative.

Submission 11: The LTIB should examine wage burden, deadweight loss etc more closely and testing their effects with an assumption that a base level of taxation is required (i.e. what is the wage burden of substitute costs if no tax is paid.). Alternatively, those concepts should only be used to rank taxes.

Government revenue to GDP does provide information on the size of government. It reinforces the importance I place on the difference between marginal effects of new taxes and the effect of the existing “acerage” tax rates.

The LTIB compares government tax revenue to GDP for 2021 at Figure 9. The OECD has recently released its 2024 analysis of tax policy reform[7]. Its media release refers to tax reform increasing tax revenues. This comparative measure does tell us something about our system. However, the OECD report means that the comparisons will change.

Submission 11A: The comparative tax revenue to GDP data should be updated for the effect of tax policy reforms since 2021.

Distribution

Some argue that the tax system should not have a redistribution objective. There are two separate points.

As a matter of fact, tax redistributes. I was fortunate to have sometime in Europe this year which included some of the usual tourist spots. A lot of what is displayed is acquisitions by monarchs, nobles and churches, funded in part at least by “tax”. So tax was redistributed from various payers upwards (in a class sense). This can be seen in modern New Zealand, tax redistributes to providers of services. An example is government funding of early childhood which provides some $20m per annum to one family which “controls” a charitable provider of such services.

However, the usual objection to redistribution is that the tax system should not be used to deal with inequality. That is a valid question – is the tax system the best way to address inequality?

However, while decrying redistribution as an objective, the fact that transfers (redistribution) are used to measure the progressivity of the system (see the Treasury household report) is ignored. Studies (including the OliverShaw Sapere report[8]), use these measures of progressivity to justify the current system as appropriately progressive – no change is needed.

A consistent position would need to defend the progressivity of the current tax system without reference to its redistribution aspects.

Submission 12: The LTIB should state with clarity and reality the impact of distribution on the design of the system.

Is the current system fair?

Fairness is just one measure of a tax system but it is an important one for political sustainability.

If an ideal system taxes all economic income equally, departures from that need to be justified. Sometimes that is more easily done – an owner occupier’s income, from rental saved in essence, is difficult to measure and also difficult to justify. An unrealised CGT may have valuation and funding problems (but see wealth taxes and RFRM below) . The lack of a comprehensive CGT is less easy to defend on fairness grounds. There must be other good reasons for this to remain a feature.

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[7] https://www.oecd.org/en/publications/tax-policy-reforms-2024_c3686f5e-en.html

[8] See Musings on the Sapere report here https://www.linkedin.com/posts/johnfcantin_is-the-tax-system-fair-activity-7054332944089321472-emcD?utm_source=share&utm_medium=member_desktop

As implied above, the economic and political reasons for supporting the current system are likely to be found in the benefit to the provider of that view – there is a personal interest in the current position.

Further, if the reason for preferring capital is because of its benefits for NZ Inc, those benefits should be made clear. For example, labour income’s benefit is to be able to live (but not exclusively at higher incomes). The reasons for personal capital investment may include:

- To live in (for a personal residence);
- To save for:
  - a holiday;
  - Retirement;
- To support family;
- To provide an inheritance;
- To support causes that the person supports.

Do these essentially private benefits provide public benefits which justify a different tax treatment?

Submission 13: The LTIIB should bear in mind that opposition to broadening the base means that the current system is being supported. That case needs to be well made and, potentially, some discounting, because of self-interest, of support for the current system is appropriate.

Submission 14: The LTIB should clearly state why capital income should be tax preferred sand those reasons should be tested.

Part IV Future regime – issues to consider

Some of the submissions and work suggested by my responses in the first three parts will provide a better picture than currently of the options that are available. I make some initial observations and submissions pending that work.

The taxpayer and the income tax and social policy bases

For Budget 2023, officials considered an alternative minimum tax and a wealth tax. The design of these taxes was limited by budget secrecy and political decisions on a capital gains tax. Officials were wary of supporting either because they did not have information to be able to assess the economic impact of such a change.

Taxpayers are individuals or vehicles treated as separate persons (companies and trusts, for example). For income tax, residency determines whether NZ sourced or world-wide income is included in their taxable income.

However, for social policy, it is more often household income (and more broadly defined than for income tax purposes) which is relevant.

Submission 15: The LTIB should consider options for redefining the taxpayer including:

- Citizenship [9] discussed in a Musings but which may also be relevant to mitigating “capital flight” concerns (discussed below);
- Households;
- Economic units (including companies and trusts).

Submission 16 : The LTIB should address the question, if it is appropriate for social policy to have a broader definition of “income” why is that not the case for income tax?

The GST base

For GST, the assumed taxpayer is a consumer who uses the goods and services in New Zealand. This means that NZ resident and non-residents pay GST on their spending in NZ. NZ residents consumption outside NZ is not subject to GST.

NZ’s GST is comprehensive excluding financial services and residential letting as the two major exemptions. Expanding the GST base to these two items may raise revenue. However, applying GST to residential rental may make increase the regressiveness of GST.

To the extent that higher income New Zealanders are able to consume goods and services outside New Zealand, their consumption does not contribute to the progressivity of the tax system. It is difficult on a unilateral and principled basis to change the GST base to address this.

Submission 17: The LTIB should consider:

- the impact of extending GST to exempt supplies – is there a net revenue benefit? Are they practical to implement?;

[9] https://www.linkedin.com/posts/johnfcantin_tintax-musings-citizenship-activity-6915392328413171712-CYg-?utm_source=share&utm_medium=member_desktop

- the treatment of overseas travel [10] where there may be a princpled basis to amend the zero-rating rules but it is likely that a mulit-lateral consensus is required;
- the treatment of duty-free shopping by NZ residents who reimport goods without GST applying.

The taxation of capital

Although a well-trodden path, the LTIB proposes a broader consideration of options for taxing capital.

Submisison 18 : The LTIB is to consider a wide range of taxes than those considered for Budget 2023. That is appropriate. The design features of the Budget 2023 taxes should not constrain the consideration of these taxes.

Capital flight

A significant issue will be the prospect of capital flight, i.e., those subject to such taxes will leave New Zealand with their capital.

Careful consideration of the capital flight risk is required. In my view, this is where capital and capital taxation is personal and not an abstract concept. The assessment of capital flight risk should take the personal into account.

Submisison 19:

The factors that should be taken into account are:

- what effect and benefits do current capital investment provide? The work to determine who are the providers of capital (submissions 6 and 7) should also help with an assessment of where the capital is actually employed (i.e. in what assets and in New Zealand or elsewhere) and the benefit to New Zealand);
- whether there is a basis of taxation (for example, citizenship or making ability to vote contingent on being a tax resident) that can be used to mitigate this risk?;
- where would the providers of capital go and what, if anything would they take with them?
    - Australia is a likely place to emigrate as New Zealanders have automatic rights to reside there. Although Australia has a CGT (and many other taxes), foreign sourced income is not taxable for certain NZ residents. (In brief, if they do not become Australian citizens. If they do not become Australian citizens my understanding is they are unable to vote in Australia.) It is therefore possible for an NZ citizen to move to Australia and be taxed there on Australian surced income and on NZ income as a non-resident. This could be addressed by:
        - Using citizenship as a basis for taxation;
        - Explictlly denying Australian DTA benefits. This could be achieved through the existing DTA as such NZ citizens are not taxed on world-wide income and therefore are not, arguably, Australian resident. Alternatively, an equivalent to the “transitional NZ resident” rule (such persons are able to be treated as not NZ resident by Australia) could be agreed.

[10] https://www.linkedin.com/posts/johnfcantin_gst-on-international-air-travel-activity-6988336034140884992-7V5y?utm_source=share&utm_medium=member_desktop

  - Using the analysis on sources of capital for personal capital to answer questions such as:
    - How much real property would be disposed of? Is that good or bad?
    - How much NZ portfolio (debt and equity) investment would be disposed of? Is that good or bad?
    - How much offshore investment would be disposed of? (or more likely retained but no longer in the economic base?). What is the public benefit of those investments to NZ Inc?
  - These questions suggest that disposals of NZ property would likely be acquired by NZ residents (but see FDI). Do immigration settings need to change to assist with currently offshore providers of such capital settling in NZ?
- Whether a multi-lateral consensus on a specific tax can help? The capital flight risk is predicated on the person and the capital moving away from New Zealand. (This assumes immigration settings elsewhere are friendly for the person). This implies that an equivalent tax is not applied in the other country. If all countries had an equivalent tax, then the ability to migrate so the New Zealand tax did not apply would be reduced. Any emigration would be for other reasons. Brazil and others, through the UN, are advocating for a global wealth tax. As the Pillar 2 project shows, achieving a consensus on a single set of rules will be difficult but aligning the design of a potential tax regime for New Zealand with a possible global regime may mitigate against capital flight.

FDI

For FDI there are two issues, withdrawal of capital and not investing in the first place. Inland Revenue should have information on taxable income of FDI and how that has changed when tax settings have changed.

(Taxable income is a first proxy, it can not be an exact response to these changes. A second proxy could be the change in dividends. As I argued for the first Inland Revenue LTIB, the most significant source of FDI is likely to be reinvestment of profits rather than new capital. The change in divdiends may also provide some indication of the change in FDI investment. Note that Inland Revenue’s 2022 trust disclosure report compared trutee income to distributions, equivalent comparisons could be made of company taxable income and dividends?)

Submisison 20: Inland Revenue shoud use the information it has to assist with its assessment of the impact on FDI.

Transition and why are tax settings “special”?

My experience is that the transition to a new set of rules create most of the opposition to tax changes. This was seen particularly with the last Tax Working Group’s CGT recommendation. The effect on existing investments was of significant concern (despite the rebasing of the cost on implementation date). Grandparenting is one way of addressing such concerns (to be traded off with a lock in effect).

The reality of perceptions of any possible change is that it will be seen as disadvantageous to existing investments.

The agument for preferring capital is that it takes the risk. It must must manage changes in the economy and society, to consumer preferences, to employement preferences. None of these are a given when an investment is made. Business must adapt to the changes. The reason why business considers it should not have to adapt to tax changes should be made explcit and considered.

Submission 21; The LTIB needs to carefully consider the transition to any new regime and why tax settings in particular should not change.

Practical objections to wealth tax and the example of RFRM

One reaction to the possibility of a wealth tax was that it was difficult to value assets. The same objectors can be proponents of RFRM as a method of determining income and the FDR method applies to foreign equities.

FDR is in effect a wealth tax set at the personal marginal tax rate. It will vary from 0% to 2% (taking into account income tax only) of the value at the begiing of the year. RFRM would apply a similar wealth tax.

Submission 22: Given support for either of these two methods of tsxing capital, concerns reagarding valuation should be given less weight.

Effective marginal tax rates and social policies

The highest personal income tax rate is 39%. This is also now the trustee rate. However, as the Budget 2024 papers illustrate, these are not the highest marginal rates. The effect of the combined personal tax rates and social policy abatements means that the 39% is by a significant magnitude not the highest marginal rate.

It is usual for those considering tax policy to focus on income tax. The problem of transfers’ effective marginal rates is not usually of direct concern.

If we are concerned with a 39% rate, which is not a comparatively high rate, because of its perceived detrimentsl effect on propensity to work and invest, we shoud be more concerned with higher rates.

Submission 23: The LTIB should consider methods to reduce high effective marginal tax rates.

Part V – My Future Tax Regime

My comments and questions can be seen as theoretical or abstaract. I have asked many questions which will hopefully be addressed in the LTIB. However, a concrete consideration of the questions may be assisted by a focus on exact proposals. I set out a future regime accordingly.

Comprehensive GST, wealth or inheritance tax, extensions to GST and address social policy entitlements and marginal rates or a lower GST rate

The key features of my future regime are:

- A comprehensive realised CGT but:
  - Apply FDR to all listed portfolio equities with a CV option available with imputation being retained for New Zealand equities. (Note this discounts the tax on gains which are made in excess of the FDR rate but aligns direct and PIE investment taxable income treatment and does not allow all losses.)
  - Realised losses are allowable which may impact on the fiscal consequences. In principle, though this is required to “sell” a CGT.
  - For transition, see valuation proxies below.
- A wealth or inheritance tax for wealth above a very high threshold subject to a global consensus if there is a material undesirable/unmanageable capital flight risk. This needs to be part of the system because at a certain level assets do not need to be realised so a CGT never applies;. The tax unit would be citizenship and NZ property.
- Extending GST to residential rental and financial services (with the residential rental extension likely to require special input tax rules for assets committed to the residential activity);
- Using the revenue to address marginal tax rates arising from social policy measures and removing bureaucracy from the benefits system or a lower GST rate.

Valuation

A concern with introducing new taxes is the what to do with existing assets. A way to address this is to grandparent assets but this has a potential for a lock in effect. An alternative is to have valuation proxies which can be used. So:

- Real property has its rating value. Taxpayers who consider their asset is worth more would have the option of having their alternative value used for both tax and rating purposes.
- Unlisted shares could be valued at an earnings multiple – either established arbitrarily (say 10%) or by reference to some index (eg NZSX for NZ equiies or some industry average).

Submisison 24:

The important questions are what do:

- the NZ government finances;
- the NZ economy; and
- NZ society

look like as a result?

3 October 2024

LTIB topic
c/- Chief Economist
Policy / Taukaea
Inland Revenue / Te Tari Taake
PO Box 2198
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By email: policy.webmaster@ird.govt.nz

Dear Sir / Madam

Consultation on the scope of Inland Revenue's long-term insights briefing

Thank you for allowing us to comment on the document "Our tax system: Bases and regimes – Consultation on the scope of Inland Revenue's long-term insights briefing".

In summary, our comments are as follows:

- We support consideration of the chosen topic.
- It will be important to consider the options in light of future international trends and New Zealand's specific circumstances.
- The work should generate a series of options for base expansion, with clear design parameters.
- Each option must be evaluated objectively using a pre-determined, formal framework.

Background

Since 2020 government departments have been required to undertake specific stewardship activities as part of their oversight roles in the respective regulatory regimes, including issuing Long-Term Insights Briefings (LTIBs). Inland Revenue issued its first LTIB in in 2022. It is now considering the topic for its second LTIB. All government departments are required to consult on the topic selection. This consultation concerns the proposed topic for the second Inland Revenue LTIB, to be published in 2025.

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Separately, in 2023, evidence emerged that officials had been asked by Government to consider additional tax bases prior to the general election. The documents that were released showed that government and officials had considered both an alternative minimum tax and a wealth tax.

We expressed concerns about this process. It remains our view that an entirely new tax base should not be developed in haste and in secret. To implement a new tax base will require detailed policy thinking and widespread consultation to ensure appropriate policy settings and a practical implementation plan.

We recommended that all participants in the tax system be involved in advance thinking about how the bases be expanded, and additional revenue raised, in a politically neutral setting in advance of a Ministerial request.

Proposed topic

You have proposed that the next LTIB considers the topic "Our tax system: Bases and regimes". We support this. It aligns with suggestions we and others have made for examination of the tax system in a politically neutral environment and with wider input from other participants in the tax system.

You have also provided us with additional detail regarding the potential analysis and we provide comment on the information provided so far and the future direction of the work.

Our comments

Scope of analysis

We agree with the decision to consider only taxes that are aimed at raising revenue and not those that are aimed at other objectives such as changing behaviour. The role of the tax system is to raise the money needed by the Government to fulfil its policy objectives. If the funds raised are not sufficient for the Government to carry out its mandated policy plan then, in the absence of reforming that policy plan to reduce expenditure, changes must be made to raise additional funds. Growing the economy is of course key to this, alongside tax reform. The tax system itself should not be political but should, as far as possible, remain efficient, fair, equitable and transparent with low compliance costs.

As you are aware the proposed LTIB topic has been covered in previous Tax Working Groups. The most recent Tax Working Group work in 2017 gave detailed consideration to base expansion. While that work will provide useful background information, the world has changed. Any analysis must be updated to reflect:

- current trends in work;
- international trends in corporate tax rates;
- OECD thinking and future work;
- The desirability of rate alignment;
- New Zealand's need for capital and FDI to support our infrastructure needs; and
- advances in technology (and corresponding shifts to source taxation).

We discuss each of these briefly below.

No-one can predict the future. Nevertheless there are broad trends in the domestic and global economy that should be specifically taken into account in this analysis. These factors are not discrete and most will overlap.

Current trends in work

As you are aware there is continued movement towards a gig economy, enabled by technology and a new generation of workers. This will affect how people earn money and pay tax.

International trends in corporate tax rates

The document notes that New Zealand is often at the higher end of OECD graphs of corporate tax rates. This can affect political decisions regarding rates and base. However, the LTIB must look forward to consider trends in rates in future and how this may affect Government decision making. For example, if the Government decides to cut corporate rates to remain internationally competitive, it may need to investigate expanding the base. There is overlap between this factor and the OECD work (see below).

OECD activity

The OECD is continuing its work on global tax and information sharing regimes. The latest work is widely known as BEPS Pillar One and Pillar Two. Hypothetical decisions at that level can have real life impacts for New Zealand taxpayers. For example, Pillar Two takes into account certain revenue items and tax paid on the revenue amounts. New Zealand tax paid may show as lower in periods when the taxpayer derives revenue from the sale of a capital asset because there is no corresponding capital gains tax.

Compliance

Within the tax system there is a certain amount of non-compliance, including as part of the "hidden economy". It has been acknowledged that this gap is difficult to quantify. Willing non-compliance is addressed through benchmarking and formal audit; however, these are not a total solution. It may be that if compliance can be lifted then the additional revenue will limit the need to expand the bases in future. This point interlinks with the point about technology (below) and international trends such as the move to source taxation (above).

The desirability of rate alignment

Para 166 of the consultation document notes as follows:

> "… there are trade-offs between revenue integrity, efficiency and utility in the design of the income tax regimes. Given potential future revenue needs, we should not assume that the tax system of the future will align entity and top personal rates."

We agree. The LTIB analysis should also consider the desirability (or otherwise) of rate alignment in future as this is likely to affect several factors in the evaluation framework (discussed below).

New Zealand's need for capital and infrastructure

As discussed in the previous LTIB, New Zealand is a net capital importer. We have an "infrastructure deficit". Any change to the tax bases should not discourage foreign direct investment or domestic infrastructure investment.

Advances in technology

We are all aware of the continuing impact of advances in technology, particularly digital technology, in changing the world where we live. Paragraph 135 of the document states as follows:

> "We consider issues arising from disruptive technology and the changing nature of work are either most relevant to tax administration (which we do not intend to focus on in the next LTIB) or have highly uncertain impacts. So, we propose not to consider the impact of these factors further in the LTIB."

We disagree. The future cannot be known; however, trends over time are evident and should be taken into account in any future focused study. The LTIB should not assume that New Zealand will remain as it is now. In addition, as we have discussed above, tax administration must be a factor in determining whether and how the bases should be expanded in future. Effects of technological change cannot be disregarded.

Paragraph 44 of the document states:

> "Given these considerations, we propose that the LTIB focus on understanding the desirability of different tax mixes (that is, the sensible set of tax bases and their relative economic cost), rather than the overall level of taxation."

We agree. The LTIB should be used to develop a range of options and inform public debate, should those options be put forward as future proposals for reform. Officials should draw on the research of prior working groups but this will need to be updated with current thought leadership and analysis. It is important that consideration also extend to the practical application and implementation of potential reform options drawing on overseas experience.

Framework for analysis

The work to be undertaken is explained succinctly at paragraph 159:

> "To understand this question, we propose to first consider areas of overlap and difference between our two main tax bases and the pros and cons of changes in the tax mix between these bases. We then propose to consider what bases, if any, it might make sense to add to New Zealand's current tax mix. Different legal bases for taxation may, from an economic perspective, tax the same factor. Therefore, it is important to understand what the differences and overlaps are between various potential bases to understand what bases it might be sensible to add."

We agree.

We would add that it is crucially important that the document develop a framework for evaluating the different possibilities. Some items to consider include:

- efficiency (including compliance costs);
- fairness or equity;
- effectiveness;
- likely amount of revenue raised;
- timing of revenue; and
- trigger of other behaviours including on capital.

Design decisions are important. Sometimes it is the detail that can make things unworkable. The framework should consider the relative merits of expanded bases with different design parameters – such as, a capital gains tax with a "valuation day" approach vs applying only to assets acquired following the date of introduction. Equally the scope of assets included in a capital gains tax may affect efficiency but also revenue raised.

A wealth tax may be efficient at raising revenue but may also encourage capital flight and avoidance behaviour. A broad scope wealth tax may create the need for a high de minimis threshold or significant exceptions. We acknowledge that the role of the LTIB is not to develop a detailed design for an entirely new tax, butt believe some consideration should be given to how different design parameters may affect the evaluation criteria.

The timing of the revenue raised is also important. The wealth tax that was developed prior to the 2023 election suggested cutting some tax rates at the same time as the tax is introduced. This is inadvisable. Governments should only spend additional revenue from base expansion after it has been earned. In addition it would be unwise to modify the tax base mix, reducing existing tax impost ahead of new tax base revenue being received.

These design factors are key to a successful base expansion, will inform public debate and therefore should be considered as part of the evaluation framework.

It is important that the LTIB analysis is specifically applicable to New Zealand. OECD data can provide useful benchmarks; however, New Zealand as a country faces a unique combination of challenges and the analysis must take these specific circumstances into consideration.

We would be happy to discuss further with you.

Yours faithfully

s 9(2)(a)

s 9(2)(a)

John Cuthbertson FCA

NZ Tax & Financial Services Leader

Jolayne Trim CA

Senior Tax Advocate

s 9(2)(a) [redacted]

External Email CAUTION: Please take CARE when opening any links or attachments.

1) Capital gains on ALL INCOME with exclusion of the family home. This makes it politically palatable and makes fair the current unfair situation where money in your pocket is taxed if you sweated, but not if you've done nothing at all to earn it and not supported the countries economy in a productive manner. Not hard to do. Look around the World.

2) EET instead of TTE for KiwiSaver retirement funds. That way both the Government and the taxpayer benefit from the phenomenal benefit of longterm equity investments. The tax is just delayed until the person makes withdrawals. This is what virtual every comparable country in the World does. It's not hard. I'm from one of those foolish other countries that do EET. I saved $300,000 over ten years. It's now worth $900,000, so the Government gets to tax $900,000 instead of $300,000. All it takes is the anathema of NZ politics - long term thinking.

Laird Madison

s 9(2)(a) [redacted]

ICNZB IRD WORKING GROUP

13TH September 2024

Consultation on the scope of Inland Revenues long-term insights briefing (LTIB)

Dear IRD team,

Thank you for taking the time to explain the process around the consultation. Matt your presentation summarising the information was very useful.

Some feedback:

1. Was there an initial discussion regarding topic options which we have missed, or was this the topic the IRD wanted to focus on?
2. As the focus is **informing the public** could IRD prepare a 3-4 min overview of the topic and their goals like what Matt just covered. And secondly, could this be translated into possibly Te Reo/Sign Language and a Chinese dialect which could be shared out to the wider public via various channels.
3. In the summarised version of the document its very wordy and not aimed at the mid/low educated NZ'er. Could this not be revamped by a marketing/social writer to use language that connects with this part of the community for them to easily understand it and include the visuals like the 3 graphs Matt used.

Consulting Proposal (ird.govt.nz)

Scope of Inland Revenue's long-term insights briefing (ird.govt.nz)

ltib.pdf (ird.govt.nz)

Other notes:

We understand that IRD considered what to include the environmental review stage however we believe there are several factors that will impact this. A few:

- Regional poverty/wealth
- Refugees impact
- GST breakdown by type of cost i.e. food/luxury items
- The likely trend for fulltime roles to be reduced by AI/robotic etc and the workforce either less hours or needing 2-3 jobs to meet their household income needs.
- The digital divide i.e. areas of the population still without wifi at home etc
- Ethnicity breakdown now and in 20 years which will link into education, numbers moving into business etc.

We support the LTIB topic and think that this covers the IRD's requirement to provide public information services on long-term issues. We welcome the opportunity to provide feedback at the next stage.

ICNZB IRD Working Group Committee:

Louise Holmes, Ann Schofield, Megan Johns

s 9(2)(a)

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1. Does the environmental scan identify the key challenges facing our tax system over the long term?

Yes, the environmental scan does identify key challenges, particularly in the context of the taxation of global equities within PIEs and the broader implications of the Fair Dividend Rate (FDR). The current FDR system, which effectively operates as a quasi-wealth tax, poses a long-term challenge by creating an inequitable investing environment, especially as economic conditions evolve and risk-free rates continue to fall. The challenge lies in ensuring that the tax system adapts to these changes while remaining fair and supportive of long-term wealth accumulation for Kiwis.

2. How well positioned is our current tax system to respond to these challenges?

The current tax system is not well positioned to respond to these challenges. The FDR regime, established in 2007, has not been adjusted to reflect significant changes in economic conditions, such as the decline in risk-free rates. This has resulted in an outdated and punitive system that overtaxes global investments, particularly in poor-performing years or when currency fluctuations occur. The rigidity of the FDR rate and the limited flexibility in taxation methods (e.g., the selective use of the Comparative Value method) indicate that the system lacks the necessary adaptability to respond effectively to these long-term challenges.

3. Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time?

Yes, it is crucial to maintain a stable core structure of the tax system, but this stability should not come at the expense of fairness and adaptability. The FDR system's inflexibility in adjusting to changing economic conditions illustrates the risk of prioritizing stability over necessary reforms. The tax system should be able to evolve, allowing for adjustments like a reduced FDR rate when appropriate, to ensure it remains equitable and does not disproportionately burden specific groups, such as average investors in global equities.

4. Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future?

Understanding the pros and cons of various tax approaches is essential for designing a future-proof tax system. The current issues with the FDR system highlight the need for a comprehensive review of how different tax methods impact both income and consumption. An informed analysis could help in identifying more balanced approaches that ensure fairness, especially in the context of global equity investments, and avoid the punitive aspects of the current system. **5. Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix?** Yes, a review of what is taxed under the current main two bases (income and consumption) is necessary. The current focus on taxing unrealized gains in global equities through the FDR is a clear example of where the tax base might be overly broad or misaligned with economic realities. It would be prudent to explore other potential tax bases that might provide a more equitable and effective way to generate revenue, without distorting investment decisions or disproportionately impacting long-term savings and retirement outcomes.

6. Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels?

Yes, it is essential to consider both scenarios. A future tax system must be versatile enough to meet varying revenue needs while maintaining fairness and promoting economic growth. The current FDR system, which overtaxes certain investments, underscores the importance of having options that can be adjusted based on revenue requirements. A flexible approach would allow for adjustments in tax rates or bases as economic conditions and revenue needs change, ensuring the tax system remains both sustainable and fair.

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To whom this may concern,

This is a brief submission in support of IR's intention to make the subject of its next long-term insights briefing (LTIB) the broad structure of the tax regime, taking into account projected fiscal trade-offs and tensions.

First, the broad scope proposed seems in line with the intention underlying the introduction of LTIBs, which was to spur the public sector to take a longer-term view of the big issues facing agencies.

Second, the issue seems highly pertinent to some of the major choices we will face in coming years as regards the design of the tax system. As someone whose work focusses substantially on inequality, I would note, for instance, the intergenerational tension in our current tax arrangements.

As IR notes, older age groups are likely to put increasing pressure on spending, via increased superannuation and health costs. While this is not a bad thing per se (caring for those groups is important), it does seem to sit in tension with the fact that (crudely speaking) the system generally taxes the things young people have (wages and salaries) and not the things older people make or have (capital gains and assets).

Such issues could usefully be considered by the kind of research IR is proposing. Accordingly, I support IR's proposed approach to its LTIB.

Regards,

Max Rashbrooke

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Max Rashbrooke
Contributor to the Guardian, Prospect, the Post and others
TED.com talk: 'Three Ways to Upgrade Democracy for the 21st Century'
Senior research fellow, School of Government, Victoria University of Wellington

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The Chief Economist
Inland Revenue Department

I should like to make some comments on what I believe the future New Zealand revenue framework could look like, and the types of additional revenue streams, IRD could consider.

Most New Zealander's are aware that future governments need to look at ways to spread the tax burden. Currently governments are very dependent on revenue from personal income, corporate taxes, and GST. Naturally, other "taxes" also contribute to the overall revenue streams, but miniscule amounts, as highlighted in your discussion document.

With Treasury predicting structural deficits from 2030, something needs to be done to increase the governments revenue stream.

It is time to be a little more creative and to look at taxing wealth and capital.

I believe the following should be considered:

Capital Gains Tax - largely as proposed by the *2019 Tax Working Group*. The only changes I would make is in addition to exempting the family home, I would also exempt individuals KiwiSaver accounts, (which I would make compulsory - see below), and set a flat rate of **15%**. This would help reduce administration costs and complexity and may make it more salable to political parties, and the electorate.

Death Duty / Inheritance Tax - look at introducing a flat **15%** tax on a deceased persons estate, payable by beneficiaries. The only people to be excluded from paying the duty would be the spouse/legal partner of the deceased.

Stamp Duty - a flat **2%** levied on the sale of all land and property, but paid by the seller (not as traditionally designed, the purchaser). The suggested process would be: Upon receipt of the deposit and the agreement going unconditional, real estate agents fees (3-6%) are deducted and Stamp Duty of **2%** is also deducted and placed into a lawyers trust account. Within 10 days of settlement the **2%** Stamp Duty is to be paid to IRD.

Ideally, once estimates of potential additional revenue is calculated, and so long as revenue will increase, you should also look at a rearrangement of personal income taxes to closer resemble Australian personal tax rates. For example:

$0 to $15,000 0%
$15,001 to. $60,000 15%
$60,001 to $80,000 30%
$80,001 to $120,000 35%
$120,001 to $200,000 40%
$200,001 and over 45%

Lastly, I have a suggestion with regards to **KiwiSaver**, which I recognise is outside the framework you are looking at, but I believe is important to help reduce New Zealander's reliance on National Superannuation, and to help increase individuals' retirement funds.

Firstly, KiwiSaver should be compulsory (all employees should contribute a minimum of 3%).

Secondly, employer contributions should be increased to encourage more New Zealanders to increase their KiwiSaver contributions. The table below illustrates how employees could be incentivised to contribute 6% to their KiwiSaver.

Employee	Employer	Before Tax Total
3%	3%	6%
4%	4%	8%
6%	6%	12%
8%	6%	14%
10%	6%	16%

By requiring employer's to pay up to 6%, I believe this would act as a strong incentive for New Zealander's to increase their savings from 3% to 6%. By adjusting tax thresholds, as proposed above, and directing some savings to KiwiSaver, we would be doing all New Zealand's a major service.

At present, according to the Retirement Commissioners Policy Briefing Paper 2024, KiwiSaver employee contributions are:

Contribution %	Employees
3%	63%
4%	19%
6%	6%
8%	7%
10%	5%

Imagine if 60% of employees saved 6%, rather than the current 6%.

I would be interested in hearing your thoughts on these proposals.

Regards,
Mike Hern

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Dear Sir/Madam

The exploration of the broad tax structure for New Zealand is an entirely inappropriate Long Term Insights Briefing (LTIB) topic.

The proposed LTIB as suggested extends beyond the scope of the IRD and has significant duplication with the remit of Treasury (and that of the Tax Working Groups' Final Report in 2019). To focus on such areas as proposed seems, on face value, to be an inefficient application of the required LTIB.

As has been shown recently with the High Worth Entity research, having two Government departments with different methodologies addressing the same subject matter and reaching very different conclusions only creates confusion and little scope for academic discussion on potential policy in the future (without talking at cross purposes).

Should the LTIB continue in its current form any conclusions will result in tacit acceptance (at best) by Treasury and will require Treasury to undertake its own analysis of the same topics or require the establishment of another TWG to investigate said topics.

Furthermore the discussion and analysis of long term fiscal pressures is beyond the remit of the IRD.
There is little benefit from understanding how to grow the tax pie, an inherently political decision, to close any fiscal gap when successive governments continue to ignore the existing fiscal shortfalls and choose to, the the words of Bruce Plested (CEO Mainfreight), squander the tax revenue received. This suggests that the proposed LTIB becomes an academic exercise with little future benefit.

Any attempt at postulating long term fiscal pressures will be, at best, speculative and, at worst, bordering on reckless scaremongering. The ability of any department to forecast beyond a short term time frame is near zero. In fact the focus on just one long term fiscal pressure in the early 2000's by Treasury with respect to superannuation (NZSF) predicted that the cost of superannuation as a proportion of GDP would be, by now, in excess of 10%. Current evidence has shown that prediction to be wildly inaccurate.

It would seem more appropriate for the scope of the LTIB to be inward looking rather than outward looking. Rather than focus on esoteric research, the IRD should be focusing its LTIB on Compliance, Monitoring and Enforcement. Instead it should be seeking feedback on areas of focus for operating efficiently and effectively given the current tax settings.

Such scope could include:

- greater use of data monitoring for recurring transactions and commonality of parties as indicators of intent to or for the purpose of evasion of tax or money laundering
- greater collaboration under current law with other enforcement agencies (NZ Police, MoJ, DIA, FMA) to detect activities of criminal enterprise or behavior and/or organized crime and the use of both the Income Tax Act and Proceeds of Crime Act to seek court enforcement for winding up or for the forfeiture of assets
- feedback on whether purchase of non-income generating assets (or assets whose income is below the risk free rate (or RFR + margin)) constitutes purchase for intent for capital gains and whether a High Court ruling with respect to items of art, antiquities, commodities or block chain financial assets could set precedent for capital gains tax under current tax law. This could be extended to investment property assets where income earned (or losses generated) never exceeds the RFR/RFR+margin.
- greater monitoring of increasing tax arrears (PAYE, GST, provisional tax) at entity and individual levels for early intervention to prevent subsequent court action to recover arrears.
- workforce and IT planning to increase the efficiency and effectiveness of Monitoring, Compliance and Enforcement functions of the department.

In the event that the IRD chooses to pursue the LTIB topic it has outlined then it should ensure consistency with respect to topics already considered by the Tax Working Group in 2019. The LTIB specifically states that it will not analyze environmental taxes as the subject has been covered in the TWG Final Report and yet the LTIB will consider capital gains tax.
For consistency the scope should either:

- include and analyze environmental taxes in addition to all other taxes in the scope
- or exclude CGT given it has been covered extensively in the TWG Final Report

Given the cost and man-hours required for an LTIB it is my recommendation that the proposed LTIB be abandoned and efforts made to focus on a topic that can add value to the long-term strategic direction of the IRD.

Yours sincerely
Michael Locke
s 9(2)(a)

s 9(2)(a)

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Hi
Initially, I have one concern and one observation for your consideration:

1. I am concerned you cannot arrive at anything new or practical from this topic scope having put the greatest challenges to existing settings on the sidelines as follows:

   > "Other trends identified include New Zealand's low levels of productivity compared to OECD countries, as well as changes in technology, the impacts of artificial intelligence and changes in the nature of work. However, we do not plan to consider the latter trends in depth because the impacts on the tax system are uncertain or they are more directly relevant to tax administration, which we do not plan to consider in the LTIB."

2. It has been argued in some quarters that aging should be approached as a disease. The importance of modern monetary theory and practice (as made mainstream during COVID) in deciding the quality of life in respect of global issues, such as disease, aging and global warming are critical considerations missing from the paper and scope. That is, tax is not the only modern means of stabilising progress and development and the analysis appears incomplete without this wider context expressed.

The following youtube item presented by an economics nobel prize winner is I think useful food for thought here.
https://www.youtube.com/watch?v=CeKWVKMUIEQ
Best
Kind regards,

Mike Brunner
Partner - Tax Advisory
s 9(2)(a)

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<u>Thoughts on FUTURE TAXATION</u>

Thank you for the opportunity to respond to a consultation process on the future of taxation. I shall start with answers to the particular questions mentioned in the discussion document, and then follow with some personal thoughts.

23.1 Does the environmental scan identify the key challenges facing our tax system over the long term? **NO**, I was pleasantly impressed by the quantity and quality of the comparative information, but the information itself did not indicate the future challenges to our economy. In fact I found the NZ IRD discussion document a more useful source of information about the future challenges.

23.2 How well positioned is our current tax system to respond to these challenges? **Moderately well.** We have a tax system that is currently working well and reasonably easy to understand. It also avoids some of the problems of other systems, like thresholds, exclusions and *special cases,* that complicate tax systems elsewhere. The discussion document seems to place a lot of weight on GST/VAT having a larger relative impact on low-income families, but that can be dealt with by simply increasing welfare support, as was done when NZ introduced GST. Creating multiple GST rates and exclusions would cause more problems than would be worthwhile.

23.3 Do you agree with the focus on how to maintain a stable core structure of the tax system while ensuring the system has flexibility to adapt to different revenue and distributional objectives over time? **Partially**. I certainly support a stable tax structure, with as few surprises as possible. Flexibility sounds fine on paper, but tax changes often end up distorting the economy as individuals and entities adjust their activities to minimize their tax liability, and there is a risk that flexibility could cause more problems than it is worth. We also need to be aware that ***flexibiliy*** is all too often used politically to justify treating some groups or individuals differently from the rest.

23.4 Do you agree that understanding the pros and cons of different approaches to income and consumption tax is important for understanding what tax system would be suitable for the future? **YES**, understanding is always useful in any situation. **BUT** tax is not simply an economic process, it also has huge a political impact, and we need to also understand how to manage the politics of taxation in addition to the economics.

23.5 Do you agree that we should consider what is taxed under our current main two bases, and if there are any bases it makes sense to add to our tax mix? **YES, BUT** whilst such consideration is needed, the process should best start with tax principles, and then the specifics should become clear. I believe that this process does generally occur in NZ. There are some aspects of the economy that should be excluded from taxation, and the most important is wealth -- I shall expand on that theme further down this document.

23.6 Do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels? **MORE even** than those two options, we should also consider lower revenue scenarios. One of the problems of democracies is the ability of the majority to create a taxation system that disadvantages a minority of members of society (often those who are wealthy) and also the ***next generation***. Many OECD Countries have already loaded the next generation with debt, and a few are still considering wealth taxes, which will reduce the tax base of the next generation. That process has been made politically attractive by encouraging many of our population to tax wealth off the rich. Such a process will end up delivering less tax (on Capital earnings) to future generations.

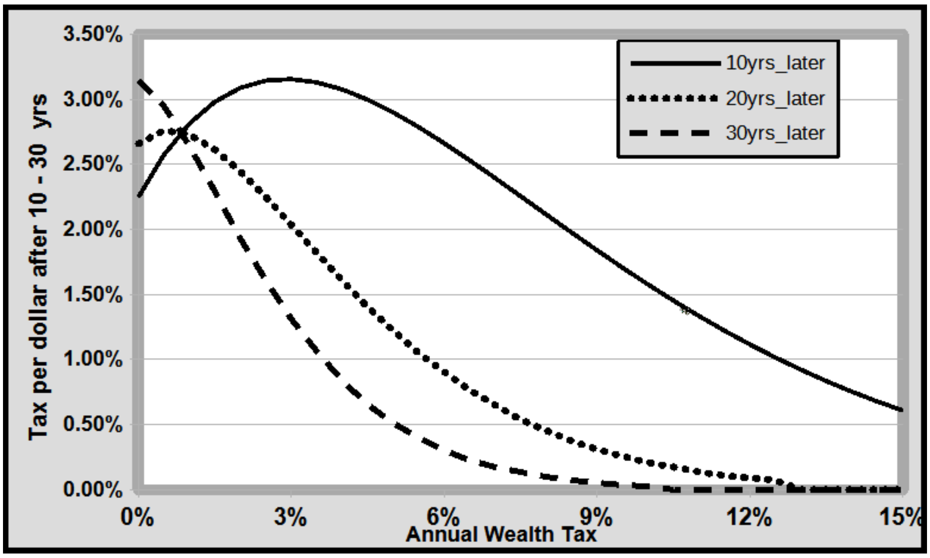
PERSONAL THOUGHTS on TAXATION in the future

Capital Gains are a most complicated situation as so many aspects may contribute to an increase in value of an item. Doing up an old dwelling gets labeled as a capital gain, but in truth that is a manufacturing process and profits are properly taxed as income. Some offshore shares gain value when minimally taxed company earnings are retained, and these also end up taxed in NZ with the same good reason. More controversial is items increasing their cash price due to ***inflation,*** when inflation is primarily caused by governments printing money. It seems irrational to reward governments for damaging the economy with additional tax. A practical problem with CGT is the management of of ***Capital Losses****,* as most governments insulate themselves from the immediate impact of such losses by refusing refunds and only offering to offset future gains against past losses. In doing so they distort the justification for the tax.

Some items gain value simply because demand increases. It seems unusual to tax good luck, unless the tax were applied in a similar way to gambling taxes. I would like to suggest that once we have identified gains due to work being input, any other gains should not be taxed, and offer the table below as a summary:-

Cause of ▲Price	**Tax**	**Justification**
Work put in	As earned income	◄
Ūn-taxed Earnings	As Income	◄
Inflation	NO	Price increase due to money being worth less is no real gain.
Luck	Unwise	Possibly tax as gambling, but problems dealing with losses.
Wise Choices	Counter-productive	The economy benefits when people make wise investments, and when they fund risky ventures, some of which work out.

Wealth taxes have been a regular subject of calls for additional taxation, and I believe that wealth itself should most definitely ***not be taxed***. The *earnings* from invested wealth are currently taxed, and deliver a significant part of the government's tax take, and on an ongoing basis. If the wealth were taxed away (or persuaded to leave), then the tax on wealth earnings would disappear. The graph on the right has some Laffer-like features and demonstrates the loss of future tax on the earnings from wealth when the wealth itself is taxed. Using a model with tax rates similar to those currently in NZ, and assuming that the wealth delivers a 5% earnings return, which is taxed at 33%, 33% is spent and the remaining 34% is re-invested.



With NO wealth tax the tax would be 33% of 5% plus 15% of 33% of 5%, ie 2.4% of the wealth *every year*. Looking into the future, the wealth (and associated taxes) would have grown by 18% at 10 years, 41% at 20 years and 66% at 30 years. Leaving wealth to grow would deliver to the next generation Capital for our industries and more tax for our future governments.

WITH a Wealth Tax The graphs show that when wealth taxes are applied, there is a short period when the tax take increases, followed by a permanent reduction in the future tax takes. This generation will benefit at the expense of future generations. At very low levels of wealth tax, the tax simply reduces the rate at which the Tax (earnings + GST + Wealth) increase the future tax take. The point at which the wealth (& associated taxes) decline into the future is when the wealth tax exceeds the re-investment rate, which is 1.7% in this model.

I believe that the UK has inheritance tax at around 40%, which would be the equivalent of 1.6%/year for inheritances being passed on every generation (25 years), and they are still talking about additional annual wealth taxes, which would undoubtedly result in a net decline in national wealth, plus the associated future taxes.

Another aspect of this process is that in a future with less workers and employment, wealth and savings will become a progressively more important contribution to personal spending, and consumption taxes We are already encouraging some growth in wealth with Kiwisaver, so there is no economic logic in trying to eliminate other forms of wealth.

Local Government in NZ is clearly out of kilter with much of the rest of the OECD, and I believe it was a mistake for central government to give local government the authority to levy taxes, but without adequate limits or constraints. We are now in a most difficult situation, with high levels of debt, high expectations for services, and local government taxes at levels that are almost intolerable. We clearly need a plan to resolve this situation. It is the responsibility of central government to restrain taxation and spending by it's proxy – Local Government. However, in doing so, central government must stop passing work (& additional costs) onto local Councils.

The **Land Tax** is a significant part of the problem, and there is a certain irony in the fact that whilst the IRD discussion documents talks about flexibility, land taxes are very inflexible. Many taxes can be mitigated if they become too onerous, often by moving oneself or one's business to a more friendly location, or reducing production. Not so with land taxes, as the owner will have to pay the tax, whether the land/property is generating profits or not. So, there is no incentive for Local Authorities to be reasonable or to consider whether their tax is discouraging production.

Working Life was mentioned several times in the discussion document, with most attention applied to increasing the retirement age. That is certainly important, and needs to be addressed as soon as possible. Minimal attention has been applied to extending the working life by starting work earlier. In a process that looks very much like *provider capture*, we have added several years of formal education (and the associated debt) to many young lives by pushing their skill-based educational needs out of apprenticeships and into theory-orientated Universities. A partial solution to perceived workforce shortages would be to get many of our young people out of Universities and debt, and back into apprenticeships and earning several years earlier.

Offshore Influences cannot be ignored, as they provide competition for our workers, Capital and production. They also represent a risk to our home industries and tax base. We need to start with proper taxation of goods and services from abroad or offshore companies. We have not done well so far, allowing offshore providers a low-tax advantage that damages our tax base and the ability of our home industries to compete. I am amazed that successive governments should allow such advantages to offshore entities to persist for so long. Ensuring fair taxation of goods and services from offshore is probably the most fruitful aspect to explore for new taxes.
We should also remain aware that the opportunities to cheat our tax system are much greater for offshore owners and providers than for NZ residents.

Tax Production or Consumption? … The data in the discussion document shows that we do indeed tax both, but that consumption taxes are significantly smaller. That is probably because consumption taxes are politically less acceptable than production taxes. However, high taxes on production tend to deliver a competitive advantage to offshore production, especially if offshore company taxes and post-tax wages are lower. If additional taxes were desired, then increasing consumption tax (GST) would be improve the lot of our productive companies and workers.

Stealth taxes did not get a mention in the IRD discussion document, possibly because they remain invisible to the IRD, and apparently to the news media as well. These are financial processes in which companies or individuals are required to pay for a social outcome that the government desires, but the money does not go through the government accounts as tax and expenditure. One example would be minimum wage legislation which reduces the cost of welfare to the government, whilst allowing the government to claim that NZ taxes are low. Unfortunately, this invisible tax also makes it difficult for our producers to compete offshore, and keeps prices high onshore.

Environmental Scan!! -- whilst I recognise the trend to use new and modern sounding words, would it not have been simple (especially or old fogeys like myself) to call the process an ***International Comparison***, or even a ***Benchmark***? Regardless of the name, one of the difficulties of the process is the missing information, specifically how well the Countries used for comparison are doing economically. We really don't want to copy taxation amounts or processes that are associated with poor economic performance, and poor performance seems to be all too common in the OECD these days. California is already showing us that high taxation plays a significant part in persuading Capital, companies and rich taxpayers to move away.

s 9(2)(a)

1 April 2017

Tax Working Group Secretariat
PO Box 3724
Wellington

Dear Sir/Madam

This submission to the Tax Working Group draws on a range of experience involving tax, business, and investment matters including –

- 1960-61 Inland Revenue Department - Assessment Officer
- 1963-64 Richardson McKissock Cartwright (Tax Consultants) – Tax Accountant
- 1975-79 New Zealand Dairy Board – Chief Financial Officer
- 1979-83 New Zealand Dairy Board (London) – Regional Director Europe
- 1985-92 New Zealand Dairy Board – Chief Executive
- 1992-2015 Professional Director/Chairman (public and private companies, including AMP NZ Ltd and investment company Rangatira Ltd)
- 1992-2018 Management of personal retirement investment fund

I am happy to be available to discuss the points raised.

Yours faithfully

s 9(2)(a)

R M (Murray) Gough OBE

SUBMISSION TO THE TAX WORKING GROUP

from Murray Gough

10 April 2018

Introduction

The fundamental aim of this submission is to highlight the practical difficulties of designing and implementing a Capital Gains Tax that could be accepted as fair by most New Zealanders.

As the Working Group has identified, New Zealand enjoys a tax system that is broad-based and widely supported - as well as being coherent and efficient. It is, in fact, remarkable how few issues of real concern are identified in the Background Paper.

Maintaining the existing level of acceptance is important. Any changes to the current tax system should be for clear reasons, and implemented in a manner that has wide public endorsement. This submission considers what such reasons might be, and comments on options for addressing them.

Reasons for Change

The Background Paper, explicitly or implicitly, indicates the following main reasons for significant change –

1. Additional tax revenue may be needed
2. Fairness requires a Capital Gains Tax
3. Wealth inequality is too great, and can be reduced by a suitable tax.

Comments

1. Additional tax revenue may be needed –

   The broad numbers (Table 1, Page 10) suggest that over coming decades New Zealand will need to either reduce Government Expenditure as a proportion of GDP, or increase taxes. The changes required are not particularly substantial and do not appear to be urgent.

   Both alternatives can be reasonably easily accommodated –

   a) Reduce Government Expenditure - obviously there are many ways to reduce expenditure, but the least disruptive way to make a significant difference is a progressive extension of the qualifying age for National Superannuation. Life expectancy is increasing by 3 months or so every year, and rather than an increased period of old age and ill health this is resulting in an extended healthy life. There is accordingly an increasing ability (and indeed, for many people, desire) to work longer. Pushing out the qualifying age for National Superannuation will almost certainly become increasingly acceptable.

b) Increase Taxes – if future governments find it impossible to curtail expenditure, the best way to increase revenue will be to increase expenditure-linked taxes, particularly GST. GST is widely regarded by New Zealanders as unobjectionable, and the VAT table (Figure 9, Page 30) shows that our rate is well below that of most other developed countries. The main concern with GST is regressivity, but that can be largely addressed by transfer payments. Expenditure-linked taxes also have the desirable outcome of causing tourists to contribute to tax revenue.

Any proposal to introduce new taxes, or increase income tax rates, should have merits that are clearly greater than these relatively straightforward alternatives.

2. Fairness requires a Capital Gains Tax –

The Background Paper makes the point that "What is fair to one person might not seem fair to another". It may accordingly be seen to be just as fair to tax Capital Gains as to tax income and expenditure. To gain widespread acceptance, however, a Capital Gains Tax (CGT) would need to be seen as unquestionably fair. The experiences of other countries, and previous reviews of our own tax system, highlight just how difficult – if not impossible - that is to achieve.

To be fair, a Capital Gains Tax would have to include the following provisions -

1) inflation would need to be allowed for when measuring gains and losses – otherwise CGT would be applied to partially fictitious value movements;

2) a carry-forward CGT credit would be needed for losses (asset values go down as well as up, and it would be unfair to apply CGT only to gains);

3) CGT would need to apply to *all* sales and transfers of assets - including gifts to family members and trusts, and assets transferred or sold from a deceased estate;

4) both realised and unrealised gains would need to be taxed because –

   a. it would be unfair that a taxpayer was subject to CGT because he had to (or decided to) sell, while his neighbour avoided CGT by continuing to hold;

   b. taxing only realised gains would result in substantial economic inefficiency by discouraging sales that would otherwise be made – such as a farmer selling to move to a larger property, or a particular share being replaced with a better investment in an investment portfolio; allowing a non-taxable rollover for reinvestment in similar assets may appear a simple solution, but would greatly reduce the CGT tax base (and unless gifts and transfer on death were treated as sales - or Gift and Estate Duties reintroduced - rollover would result in increasingly valuable portfolios being passed on with no CGT being paid);

however, taxing unrealised gains raises complex and difficult issues, such as how to value assets without a public market (shares in unlisted companies, small businesses, professional and other partnerships) and how to manage the cash impact on taxpayers with substantial assets but restricted cashflow.

A fair Capital Gains Tax system would also need to have found satisfactory solutions to the following issues -

1) while a New Zealand-domiciled investment fund would (presumably) be subject to CGT when any of the fund's investments were sold, overseas-domiciled funds in non-CGT jurisdictions would not (including ones investing in New Zealand shares and property); owning units or shares in such overseas funds would need to be prohibited as taxpayers would otherwise simply move their investments into them (avoiding CGT, and reducing New Zealand's CGT tax base);

2) funds that support final-salary-related pensions would be underfunded if CGT applied to sales of their investments, yet it would be inequitable for such funds not to be subject to CGT while defined-contribution plans (and private investment accumulations) were; it would also be inequitable if superannuitants whose payments were not drawn from an identified fund retained existing benefits while the funds supporting others became subject to CGT;

3) there would be a strong temptation to fail to report the existence of (and gains on) offshore assets, particularly non-income-producing assets;

4) significant valuation difficulties would arise (for gifts and estate transfers) for assets without a public market such as small businesses, professional and other partnerships, and shares in unlisted companies;

5) severe cash flow difficulties would arise for taxpayers selling one investment to reinvest in another (unless a rollover is permitted for reinvestment of funds into a replacement asset).

In summary, designing a fair Capital Gains Tax is a hugely daunting task. And if family homes are largely or wholly exempt, offset is allowed for capital losses, allowance is made for inflation, and reinvestment rollover is permitted, net tax raised is unlikely to be substantial.

3. Wealth inequality is too great, and can be reduced by a suitable tax –

   There is only limited data on wealth inequality in the Background Paper and it is difficult to know to what degree this is a problem – and importantly, how rapidly wealth inequality has been/still is growing. If the political judgement is that wealth inequality needs to be addressed, it is unlikely (given the concerns set out above) that a Capital Gains Tax will have much effect. While a Wealth Tax may be considered, the experiences of countries that have experimented with this are not encouraging. The valuation and cash flow issues with a Capital Gains Tax, as well as many of the other difficulties, also apply to a Wealth Tax.

   If it is considered that wealth inequality needs to be addressed, the simplest and most effective way to do so is likely to be reintroduction of Estate and Gift Duties.

Response to Appendix 2 Questions on CGT Design Issues

- *Should CGT be a separate tax?*
  Yes. Otherwise the huge swings that can occur in asset values (such as the 1987 and 2008 share market falls) would result in a substantial drop in income tax receipts as CGT losses offset taxable income.

- *Accrual or realised basis?*
  Accrual – for the reasons outlined in the submission above.

- *Matrimonial settlements and disposal of assets on death?*
  There is no obvious reason why these should be treated any differently from when an asset is sold. The question does not arise if the accrual option is used.

- *What assets should be covered?*
  Assets of an enduring investment nature should be covered; for administrative simplicity defined assets that have a limited life and declining value (such as ordinary cars and household goods) should be excluded.

- *Should assets held by Kiwisaver and other savings schemes be taxed?*
  Yes. To do otherwise will distort investment decisions.

- *Should assets held offshore be subject to tax?*
  Yes. Excluding such assets will distort investment decisions (please also note the comments in the submission above).

- *How would CGT integrate with current tax laws?*
  CGT paid by a company should be able to be passed down to its shareholders as a CGT imputation credit, able to be used by each shareholder to offset any CGT the shareholder becomes liable for. Otherwise a capital gain is likely to be taxed twice.

- *When should non-residents be subject to tax?*
  All property owned by non-residents but physically located in New Zealand should be subject to CGT. To do otherwise would give residents in non-CGT jurisdictions a greater financial return than that available to local residents – with obvious implications for foreign ownership of houses and farms.

- *Should capital losses be ring fenced?*
  Yes (per comments against the first question above).

- *Should there be a rollover relief?*
  Yes. This isn't an issue if CGT is applied on an accrual basis – which, for the reasons in the submission above, is the fairest basis for such a tax.

- *How should death, emigration, and immigration be handled?*

There is no reason why death should be treated any differently from when an asset is sold. Emigration and immigration are essentially questions of when a person becomes (or ceases to be) a New Zealand resident – assets should be valued as at the relevant dates, with CGT payable for emigrants based on asset values at the date the person ceases to be a resident. The question does not arise if the accrual option is used.

- *How should gifts and gambling winnings be taxed?*
  Gifts and gambling winnings (and prizes) should be treated as having been purchased by the recipient at market value, and disposed of by the giver at the same value.

- *Rate of CGT?*
  There is no strong pointer to any particular rate.

- *Should there be an allowance for inflation?*
  Yes. Gains and losses can only be measured fairly after making an allowance for inflation.

- *Should there be a de minimis rule?*
  Yes.

- *What administrative implications?*
  Some of the more difficult implications are how to ensure all gains are properly reported (particularly overseas assets); and how to value assets without a public market (shares in unlisted companies, small businesses, professional and other partnerships).

- *Transition rules?*
  Opening values for assets should be their value at the date of formal commitment to CGT introduction. It would be extremely unfair to retrospectively tax past gains - taxpayers may well have made different acquisition or sale decisions if they had known that CGT would be payable. It would also be unfair if existing assets were never subject to CGT. The accrual approach makes this issue irrelevant – assets would simply be valued at a CGT commencement date with CGT applicable to annually updated values from then on.

- *Family trusts?*
  Assets held in family trusts should be subject to CGT on exactly the same basis as assets owned by individuals and companies. Gifts to (and from) a trust should be valued at market value at the date of gift.

Our Tax System

Bases and Regimes

Tirohanga Whānui | Overview

The New Zealand Council of Christian Social Services (NZCCSS) welcomes the opportunity to provide feedback on IR's LTIB for 2024. We support the kaupapa to explore a range of responses to the question around the mix of tax bases and regimes in our tax system. With infrastructure challenges, low relative national debt and a low tax economy, this review is timely.

Taunakitanga | Recommendations

Our main points are:

Tax Education Required

As the discussion around tax gains traction, there needs to be more attention given to wider public understanding of tax. Both how taxes operate, but also, what they exist for.

Wealth Tax / Tax Switch

We support the development of a tax on our highest earners, as proposed by the previous Labour Party government.

Line by Line / Review of Practices

We believe that a review of income allocation across related party entities would indicate a range of areas of the income tax that could be tightened up / are being to reduce marginal tax rates to inequitable levels. We believe a line-by-line review of the Income Tax Act for equity, fairness and transparency is overdue, but that a review that has been informed by common business practices would identify a range of ways to increase the tax take under existing rules.

Associated Party Register and RIT Statement

With the utilisation of income spreading across entities, we would like to see a register of associated parties, and reporting of group real income tax rates. This would support IR to identify the equity or not of the current system of taxation and identify areas of focus.

Ko wai tātou | Who we are

NZCCSS has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.

Through this membership, NZCCSS represents over 230 organisations providing a range of social support services across Aotearoa. We believe in working to achieve a just and compassionate society for all, through our commitment to our faith and Te Tiriti o Waitangi. Further details on NZCCSS can be found on our website www.nzccss.org.nz.

Ingoa whakapā | Contact Name

Nikki Hurst

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4 October 2024

Submission on the Scope of the Long-Term Insights Briefing "Our Tax System: Bases and Regimes"

About the Submitter

1. Founded by David Farrar and Jordan Williams in 2013, the *Taxpayers' Union*'s mission is Lower Taxes, Less Waste, More Accountability.

2. We enjoy the support of some 200,000 registered members and supporters, making us the most popular campaign group championing fiscal conservatism and transparency. We are funded by our thousands of donors and approximately two percent of our income is from membership dues and donations from private industry.

3. We are a lobby group not a think tank. Our grassroots advocacy model is based on international taxpayer-group counterparts, particularly in the United Kingdom and Canada, and similar to campaign organisations on the left, such as Australia's *Get Up*, New Zealand's *ActionStation,* and *Greenpeace*.

4. The Union is a member of the *World Taxpayers Associations* – a coalition of taxpayer advocacy groups representing millions of taxpayers across more than 60 countries.

5. Nothing in this submission is confidential.

Executive Summary

6. The *Taxpayers' Union* welcomes ongoing debate about the pros and cons of various tax structures, and we thank you for the opportunity to comment on the scoping report. The emphasis of the report appears overwhelmingly focused on methods to statically allocate the tax burden. Whilst such considerations are important, the *Taxpayers' Union* considers that dynamic considerations are more important and the long-term insights briefing (LTIB) should focus on tax structures that minimise disincentives to invest capital and labour.

7. New Zealand is capital constrained which hampers productivity growth. IRD's previous LTIB on Tax, Foreign Investment and Productivity has identified that the tax system provides disincentives for foreign direct investment. It must be a priority to remove these to encourage much needed foreign

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capital into the country. Unfortunately, the IRD's proposed approach appears to ignore the importance of these factors and looks to be focused on how to slice up the economic pie and not how to grow it.

8. New Zealand will not increase its prosperity if there are significant disincentives to invest capital. Capital investment drives productivity growth which drives economic growth and increases in per capita incomes. As the IRD notes, GDP per capita is a better measure of living standards than GDP growth alone. However, New Zealand's GDP per capita has declined markedly over the last several quarters and this looks likely to continue in the short-term. The prosperity of New Zealanders is declining and may not be arrested and reversed without much needed capital investment. The tax system has an important role to play in minimising disincentives to invest capital.

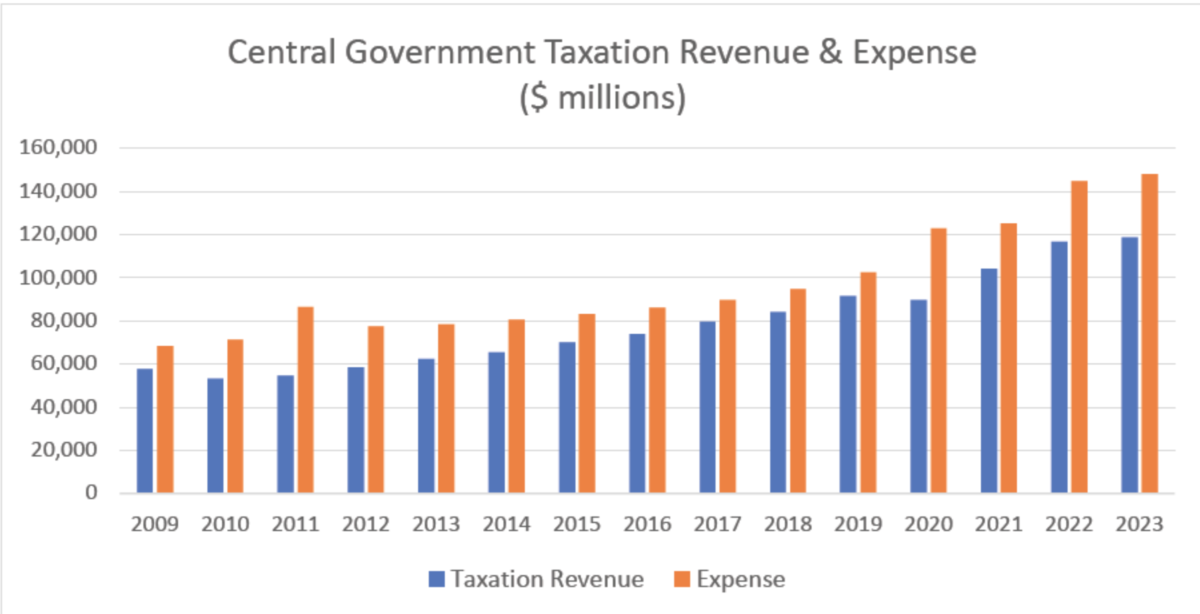
9. The IRD should also consider the structure of the tax system if tax revenues decline as a proportion of GDP. Reducing the proportion of the economy that is taken in taxes should be a goal of all governments.

10. We note that equity considerations are to be looked at in relation to low-income offsets for alternative consumption tax regimes. This should be extended to alternative income tax regimes and the corresponding transfer payment systems. The briefing paper must also address the inequity of failing to adjust income tax brackets for inflation.

Revenue Requirements

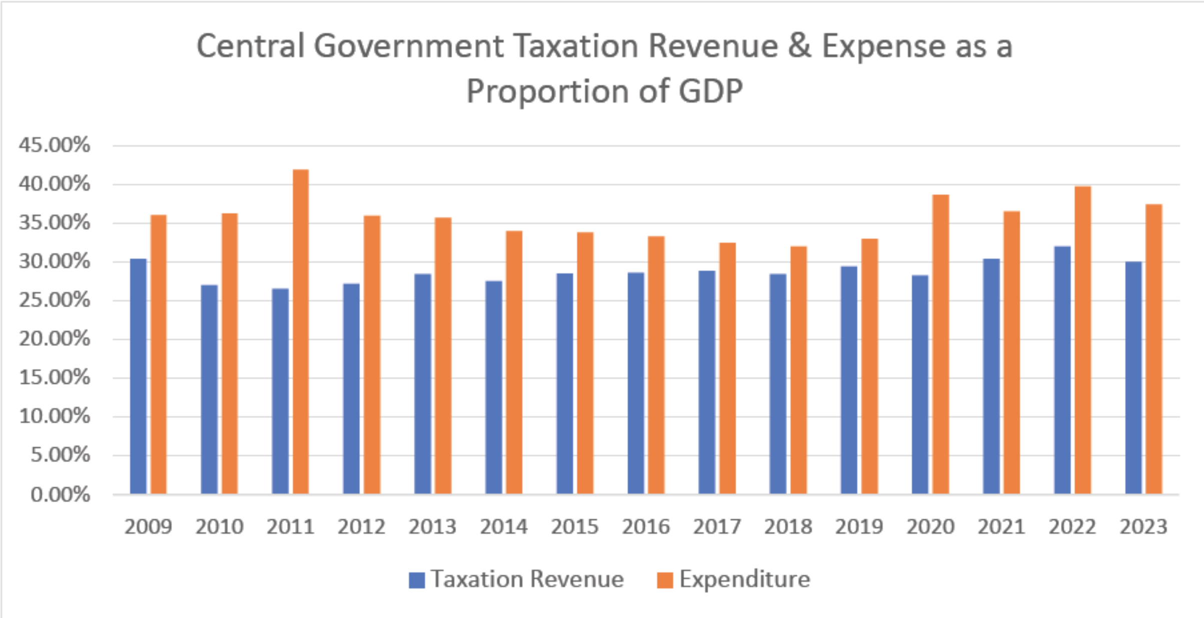
11. The scoping paper asks whether or not the briefing paper should consider both options for a future tax system that may have higher revenue needs and options at current revenue needs. It is not clear whether this refers to absolute dollar revenues or revenue as a percentage of GDP which is the focus of much of the subsequent discussion.

12. Looking at central government taxation revenue and expenditure data[1] it is clear that nominal taxation revenue may have plateaued in the year to 30 June 2023, but that nominal expenditure has continued to grow and greatly exceeded tax revenue from 2020.



[1] Sourced from Statistics New Zealand Infoshare tables.

13. As a percentage of GDP, nominal taxation revenue may have peaked in 2022, although the decline in 2023 has been caused by the Reserve Bank induced recession. Expenditure per capita greatly exceeds tax revenue per capita.



14. These graphs clearly illustrate that the Government does not have a revenue problem. The problem is very obviously excessive expenditure. Once the Government corrects this, through strong fiscal consolidation as was practised after the global financial crisis, there is no reason to believe that taxation revenue should remain around the current level of 30% of GDP. Therefore, the IRD's briefing paper should also consider options for a tax system where tax revenue declines as a proportion of GDP.

15. Whilst IRD may believe this to be a highly unlikely scenario, governments must have a focus on reducing the burden that the state places on the productive sectors of the economy. Governments must also focus on growing the economy and in particular implementing policies that increase labour and capital productivity. It is not inconceivable that with a focus on growth and fiscal consolidation that revenue needs as a percentage of GDP fall. This should be every governments' focus and IRD needs to examine this as part of this exercise.

Equity

16. One of the four main pieces of work that IRD is intending to carry out concerns the design of alternative consumption tax regimes and approaches to low-income offsets to consumption tax rate increases. The *Taxpayers' Union* is uncertain that this is a useful endeavour. Traditionally, compensating low-income earners for increases in consumption and income taxes was done, relatively simply, through the transfer payments system. Why is the IRD considering alternatives to this?

17. The IRD's briefing paper should be examining the entire transfer payments system. It is difficult to fully assess equity issues around personal income tax settings without considering the impact of the transfer payments system as well. Failing to do this renders the analysis incomplete and any conclusions of dubious value.

18. A final equity issue the IRD briefing paper must consider is the inequity of not adjusting the income tax brackets for inflation. The failure of previous governments to do this has led to bracket creep and the effective imposition of a "stealth tax" whereby tax revenues increase through workers receiving pay

increases that push more of their income into higher tax brackets. The government receives the windfall without ever having to make a case for increasing taxes. The IRD briefing paper must address the inequity of this issue.

Improving Productivity

19. The scoping paper notes that New Zealand has a low level of labour productivity compared to the OECD average. Statistics New Zealand data[2] reveal similar low levels of capital productivity growth. Given how important productivity growth is to improving our financial resilience and wellbeing, it is vital that the taxation system has a focus on minimising distortions and disincentives to labour and capital investment.

20. New Zealand is a capital constrained economy and has difficulty attracting the foreign direct investment that is clearly necessary to improve productivity and the growth rate of the economy. The IRD found in its previous LTIB on Tax, Foreign Investment and Productivity that compared to other countries, New Zealand appears to have relatively high taxes on inbound investment. These taxes are likely to mean higher costs of capital for investment into New Zealand than for investment into most other OECD countries. Clearly, this is one reason for the comparatively low levels of foreign direct investment that New Zealand so desperately needs.

21. This is a critical area for IRD's proposed research to address. How do we design a tax system that does not disincentivise capital formation and encourages foreign direct investment as well as domestically generated investment into the productive sectors of the economy? This is the key issue for the design of the tax system – it must minimise its impost on labour and capital investment if we are to improve our productivity, per capita economic growth and prosperity.

22. The IRD's proposed approach appears lacking in these critical areas. With a focus on understanding the effects of taxes on income and expenditure the proposed approach ignores the important dynamic effects of the impact of taxes on investment and particularly capital investment.

Principles of Sound Tax Policy

23. The scoping paper does not address this but merely notes that there are important trade-offs to be made between revenue integrity, efficiency and equity objectives. The *Taxpayers' Union* considers that sound principles are an important aspect of the design of the analytical framework that is yet to be performed.

28. To assist the IRD we propose the following broad principles developed by the United States Tax Foundation[3]. They cover simplicity, transparency, neutrality and stability. The *Taxpayers' Union* supports these principles and they are explained in more detail below.

Simplicity

29. Tax codes should be easy for taxpayers to comply with and for governments to administer and enforce.

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[2] Productivity Statistics: 1978 – 2023: https://www.stats.govt.nz/information-releases/productivity-statistics-1978-2023/#:~:text=In%20the%20year%20ended%20March,capital%20productivity%20fell%203.8%20percent.

[3] The Tax Foundation https://taxfoundation.org/principles

Transparency

30. Tax policies should clearly and plainly define what taxpayers must pay and when they must pay it. Hiding tax burdens in complex structures should be avoided. Additionally, any changes to the tax code should be made with careful consideration, input, and open hearings.

Neutrality

31. Taxes should neither encourage nor discourage personal or business decisions. The purpose of taxes is to raise needed revenue, not to favour or punish specific industries, activities, and products. Minimising tax preferences broadens the tax base, so that the government can raise sufficient revenue with lower rates.

Stability

32. Taxpayers deserve consistency and predictability in the tax code. Governments should avoid enacting temporary tax laws, including tax holidays, amnesties, and retroactive changes, and strive to establish stable revenue sources.

Concluding Comments

24. The *Taxpayers' Union* considers that the tax system must focus on minimising disincentives for foreign and domestic capital investment. New Zealand is capital constrained and IRD's previous work has established that there are clear tax disincentives for foreign capital investment in New Zealand. It must be a priority to remove these disincentives.

25. The IRD's proposed approach to the LTIB lacks a focus on these important aspects of taxation system design. The focus is clearly on how to slice up the economic pie, rather than how to grow it.

26. The only way New Zealand's prosperity will improve is through improving our productivity and that requires investment in capital and labour. The tax system must be structured to minimise its impost on productive investment and capital formation.

27. New Zealand cannot tax its way to prosperity but a smartly designed tax system can provide us with a competitive advantage for capital investment and productivity growth.

Yours sincerely
New Zealand Taxpayers' Union Inc.

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Ray Deacon
Economist
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4 October 2024

Felicity Barker
Policy and Regulatory Stewardship
Inland Revenue

via email policy.webmaster@ird.govt.nz

Dear Felicity

Consultation on the Scope of Inland Revenue's long-term insights briefing

Deloitte appreciates the opportunity to submit on the Scope of Inland Revenue's long-term insights briefing (LTIB). As a general comment, we found the scoping document interesting and informative, providing valuable context on the challenges New Zealand faces in raising sufficient revenue for the future.

Deloitte's principal concern, and sole submission point, is the broad scope of the proposed LTIB topic. While the bases and regimes of New Zealand's tax system is a commendable topic and undeniably important, its extensive scale may prevent the final LTIB from analysing each issue in sufficient depth. Superficial or cursory discussions could lead to inaccuracies and limit the usefulness of the analysis.

For example, the proposed section on income as a tax base proposes to discuss the taxation of capital income. Deloitte submits that an abstract analysis of the pros and cons might lean in one direction based on theoretical underpinning but would unlikely be able to sufficiently grapple with the volume and nature of the regulations necessary for implementing a capital gains tax. Consequently, the LTIB's discussions may be disconnected from the practical realities and trade-offs of any tax change. Deloitte believes this capital income example highlights a broader issue.

Therefore, Deloitte recommends that the LTIB's scope be narrowed and focused. In our view, an LTIB is not the appropriate forum for a comprehensive review of the entire tax system, such as those conducted by the Cullen and McLeod tax working groups.

Given the scale of this undertaking, Deloitte also questions whether the proposed topic is the best use of Inland Revenue's resources. Previous comprehensive tax system reviews, like those by the Cullen and McLeod groups, required significant input from many officials. There is a risk of a 'worst of both worlds' scenario: expending too much Inland Revenue resource on the LTIB could detract from other important projects, yet not committing enough resources could result in findings that are not comprehensive and, therefore, of little value.

Thank you for the opportunity to comment on this item and for considering our submission. If you would like to discuss our submission further, please do not hesitate to contact me via phone or email (details below).

Yours sincerely

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Robyn Walker
Partner
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for Deloitte Limited (as trustee for the Deloitte Trading Trust)

4 October 2024

Felicity Barker
Policy and Regulatory Stewardship
Inland Revenue
WELLINGTON

BY EMAIL: policy.webmaster@ird.govt.nz

Dear Felicity

Consultation on the scope of Inland Revenue's long-term insights briefing

The Group thanks you for the opportunity to comment on the scope of Inland Revenue's long-term insights briefing (LTIB scoping paper). The Group believes that the long-term insights briefing process is a valuable one. The Group strongly supports the consultation and discussion that occurs as a result of this process, and it is in that context that the Group's comments are provided.

It is the Group's view that the recently released consultative paper on the scope of Inland Revenue's long-term insights briefing (LTIB scoping paper) could be viewed as suggesting this next LTIB process would be a review of the "broad structure" of the New Zealand tax system and its future suitability. That seems to require a general review of all aspects of the tax system along the lines of the 2019 (Cullen) Tax Working Group Report and the prior general tax reviews. For example, the LTIB scoping paper seems to propose a review of:

- The objectives of a good tax system.
- The comprehensiveness and appropriateness of the income tax and GST bases.
- The appropriate rate of tax for and mix of these bases.
- Additional tax bases – payroll taxes (including social security taxes), land and real property taxes, wealth taxes, inheritance or estate taxes, turnover taxes, and transaction taxes (presumably stamp duties and similar).

It also suggests that consideration be given to the design of "progressive consumption taxes". This may or may not be intended to cover direct expenditure taxes. While this seems to exclude Pigouvian and behavioural taxes, the proposed scope remains comprehensive. That would mean a wide-ranging review without the explicit government support, resources and public input associated with past general tax reviews.

Moreover, past general tax reviews have, out of necessity, considered political trade-offs involved in tax design. As a result, such reviews have been used to lead debate on tax policy – they have made specific proposals for tax reform. An official exercise, on the other hand, should, it seems, inform and not lead public debate. We thus consider it important that the LTIB be focused on what would be most useful in terms of informing public debate on tax policy matters while not itself setting out or advocating for any specific policy reform.

Based on the environmental scan provided by the LTIB scoping paper, we suggest a more focused approach than attempting another general tax review. The environmental scan seems to suggest that officials' concern with the existing tax system is its possible inflexibility. This seems to be in terms of:

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- potential future fiscal pressures (**future revenue flexibility**) - although it is noted that governments have a variety of ways of managing pressures (such as the ageing of the population), and it should <u>not</u> be assumed that there will necessarily need to be an increase in the tax burden.
- Different governments wanting to use the tax system more (or less) to meet redistribution objectives (**distributional flexibility)**.

An issue referred to in the LTIB scoping paper is the company tax rate. Increasing the company tax rate would incur high economic costs. But under current tax policy settings, it seems to be argued that not increasing the company rate would limit the ability to raise additional revenue by way of an increase in the marginal tax rates on upper income earners.

The issue presented then seems to be how to trade-off raising tax revenue at lowest cost with different distributional objectives that future governments may have. However, economic costs are subject to objective measurement (at least if full information is available). Any distributional objective is inherently subjective. There is no clear method to trade these off. Instead, this is managed through political processes.

Officials have an important role to play in such political processes. They should provide the best possible advice on objective matters. What are the best estimated economic costs of different tax bases? How would any proposal to meet distribution objectives increase these costs? The political process can then trade off measures to meet distributional objectives with the economic costs this would incur.

Applying this to an LTIB that is considering future tax bases and mixes, the Group suggests the LTIB sets out what is known from New Zealand and overseas studies of the deadweight costs of tax revenue generally and of particular tax bases.

The Group has as its four core tax principles:

- **Contribution:** does the reform make a positive contribution to the tax system?
- **Competitiveness:** how does the reform improve the competitiveness of New Zealand's tax system internationally, and how does the reform lead to increased productivity or innovation?
- **Compliance costs:** does the reform reduce compliance costs, or does the tax in question warrant the compliance costs imposed?
- **Certainty:** are the rules clearly drafted and easy to understand and comply with?

We consider these to be a useful basis for an LTIB.

The contribution principle can, in economic terms, be viewed as raising the revenue required by the government.

The competitiveness, compliance costs and certainty principles encapsulate the objective of raising that revenue at the lowest possible economic costs. This is expressed by the Group in practical business terms reflecting the environment members operate in.

Based on our understanding of economic studies on deadweight costs of taxation (including IR's prior LTIB), we believe different tax bases can be ranked in terms of the economic costs they generate as follows (from most costly to least costly):

- The costliest taxes are those applying no principled rational base – ad hoc denial of actual business costs for short-term revenue gain. We have seen this with the denial of depreciation for buildings and the denial of interest deductions for residential rental investors.
- Transaction taxes such as stamp duties.
- Taxes on inbound investment.

- Taxes on domestic savings and investment and foreign investment by New Zealanders.
- Taxes on the labour income of highly mobile skilled people.
- Taxes on labour income and consumption.
- Taxes economic literature views as having low economic costs – taxes limited to the unimproved value of land, location-specific economic rents, and taxes offset by foreign tax credits.

The above accords with the Group's experience. New Zealand needs to be internationally competitive and attract highly skilled staff. To do so it needs to be able to provide high wages. That requires an economy that is highly productive. That, in turn, requires a high level of investment. This reinforces economic studies showing high taxes on capital income lead to lower investment, productivity and wages.

An LTIB that sets out the above with an indication of the relative size of the economic costs of different tax bases would lead to a better-informed debate on tax policy reform options.

In particular, such an LTIB would better inform politicians and the public of the high economic costs of pursuing distributional objectives through the tax system (as opposed to targeted transfer payments and the provision of health care and education). That is because to achieve highly distributional objectives, high taxes are required on capital income, which is a "high cost" tax base.

Describing a mix of tax bases that would minimise economic costs would seem a useful focus for an LTIB. How a tax on a particular base is designed and operated in practice can significantly impact the economic costs a tax generates. Exemptions etc seen as necessary to make a tax workable or politically palatable can add distortions and costs. It would be appropriate for the LTIB to recognise this. However, a high-level discussion of available tax bases and mix, the economic costs they are likely to generate, and the extent to which such bases can meet distributional objectives would seem to be a good focus to best inform public discussion of the future of tax policy in New Zealand.

Applying the above to the flexibility concerns raised in the LTIB scoping paper:

- **Future revenue flexibility** aims to allow the tax system to meet the fiscal challenges of an ageing population. This is best met through a more productive and high-wage economy, making it imperative that future tax revenue be raised at the lowest possible economic cost. GST seems best placed to meet this on objective economic criteria. GST also has the advantage of shifting the tax burden from the younger to the older population – from those who are working to those out of the workforce but still spending.
- **Distribution flexibility.** GST does not provide distributional flexibility. The degree to which New Zealand should have a less prosperous future in order to meet distributional objectives by forgoing low-cost tax options for high-cost tax options is useful to highlight. Meeting distributional objectives through other means could be explored, as the LTIB scoping paper seems to suggest.

Studies referred to in the LTIB scoping paper suggest that the ageing of the population will make it necessary for New Zealand to make some difficult decisions on government expenditure and/or revenue. On the revenue side, some logical options (such as raising the rate of GST) would likely meet significant public resistance. Even if such options are not adopted, it would be useful to have an LTIB setting out the additional costs of adopting other options with much higher economic costs. This would inform public debate. That is important because ultimately a higher wage, more productive economy fuelled by higher quality investment <u>is the best means of meeting New Zealand's future challenges</u>. It should be made clear that the option of funding more government expenditure from excessive taxation on any small section of society will not achieve a desirable outcome even if it might be viewed by some as desirable on distributional grounds.

For your information, the members of the Corporate Taxpayers Group include:

1 AIA New Zealand Limited
2 Air New Zealand Limited
3 Airways Corporation of New Zealand
4 ANZ Bank New Zealand Limited
5 ASB Bank Limited
6 Auckland International Airport Limited
7 Bank of New Zealand
8 Chorus Limited
9 Contact Energy Limited
10 Downer New Zealand Limited
11 Entain New Zealand Limited
12 First Gas Limited
13 Fisher Funds Limited
14 Fisher & Paykel Appliances Limited
15 Fisher & Paykel Healthcare Limited
16 Fletcher Building Limited
17 FNZ Limited
18 Fonterra Cooperative Group Limited
19 Genesis Energy Limited
20 Heartland Bank
21 IAG New Zealand Limited
22 Infratil Limited
23 Kiwibank Limited
24 Lion Pty Limited
25 Mercury NZ Limited
26 Meridian Energy Limited
27 Methanex New Zealand Limited
28 New Zealand Post Limited
29 New Zealand Superannuation Fund
30 Oji Fibre Solutions (NZ) Limited
31 OMV New Zealand Limited
32 One New Zealand Group Limited
33 Pacific Aluminium (New Zealand) Limited
34 Powerco Limited
35 Resolution Life Australasia Limited
36 SkyCity Entertainment Group Limited
37 Sky Network Television Limited
38 Spark New Zealand Limited
39 Summerset Group Holdings Limited
40 Suncorp New Zealand
41 T & G Global Limited
42 The Todd Corporation Limited
43 Westpac New Zealand Limited
44 WSP
45 Xero Limited
46 Z Energy Limited
47 ZESPRI International Limited

We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.

Yours sincerely

[redacted]

John Payne
For the Corporate Taxpayers Group

HON SIR ROGER DOUGLAS- A SUBMISSION ON LONG TERM TAX AND OTHER POLICIES.

A Submission to the Inland Revenue Department on what sort of structure the tax system might need to take on to be suitable for the future, given,

"The long-term fiscal pressures and current tensions in our system".

BACKGROUND NOTES

SETTING OBJECTIVES FOR A WINNING MEDIUM-TERM STRATEGY FOR N Z.

- We can turn New Zealand's current problems into opportunities, if we define what we need to deliver by say 2035, and how we intend to do it.

- A single, measurable, overriding policy objective is suggested as the criterion which integrates a total 5-15+ year program.

- My paper emphasizes,

- the fundamental linkages, between the key issues and areas, which are key to solving the problems we face in New Zealand today.

- In order to ensure policy credibility and success, my paper is based on a framework that exploits those basic linkages.

- My paper is a broad description of an approach to policy which would work successfully in practice and ensure delivery, if implemented in an appropriate way.

The second part of my paper, spells out detailed objectives for 2035, and beyond, and the key policies needed to achieve them.

-What then are the key issues facing New Zealand at present time, they include-health, education, retirement super and health, welfare, tax, debt, housing, race, unemployment, productivity and the economy.

-New Zealand cannot win, on any of these issues by seeking short-term answers to our problems over the next 12 months, or even the next 24 months.

- None of these issues can be resolved, unless we place them in a medium-term context, of 4-6years, with retirement policy needing an even longer time period.

-Because the issues set-out above are fundamentally linked, and the people of New Zealand know it. We cannot win either if we look at each area in isolation, as New Zealand's politicians have been doing for the past 30 years. Unfortunately, the Inland Revenue Department in their paper, appears to be taking the same, one issue at a time approach to their project as well.

-Poor parenting, lack of motivation, inadequate skills, alienation, unemployment, and delinquency reinforce each other.

-Low income, inadequate housing, poor health, lack of opportunity, debt and lack of economic growth are all part of the same syndrome.

WHAT THEN IS THE TASK THAT FACES NEW ZEALAND OVER THE NEXT 5-10 YEARS.

-First and foremost, we need to encourage New Zealanders to think about where they want to get to over the next 5-10years.

-To achieve this objective, we will need to have a program, about goals, objectives, and dreams—and practical common-sense delivery.

We will also need to understand that New Zealand cannot win by trying to defend the past 50-60 years. New Zealand's performance in total over that time is now seen as confused and totally unsatisfactory for today's requirements.

-New Zealand can only win if it establishes a great policy agenda, one that is seen by the people of New Zealand as having the ingredients in it, that are needed to be successful. (While IRD's paper has some interesting facts and raises some interesting questions, better than treasuries recent efforts, it falls somewhat short of what is required, in part because the authors seem to believe important issues are outside the scope of their mandate)

Given New Zealand's current economic and social situation, what it needs is an active medium-term strategy, which aims to unite as many New Zealanders as possible behind it.

A STRATEGY TO APPEAL TO ALL NEW ZEALANDERS.

-New Zealanders as a whole are desperate to see a real recover, not the phony ones, they have been subjected to by some politicians (Key -New Zealand is a rock star economy)

-The simple fact is, that the social costs of very low growth, over a period of several decades has damaged the security and well-being of people at every level of New Zealand society.

-While the costs, have hit the disadvantaged harder than anyone else, their reaction too it has had an impact on everyone.

-Deep down the public know growth is the only way to avoid an ongoing erosion of living standards and wellbeing, and look to the government to provide the policy leadership needed.

-Growth of necessity involves a reduction of waste, privilege (tax privileges for example), inefficiency and avoidable burdens placed on those who create and contribute to growth.

-In these circumstances, Government's need to be seen to be tackling the fundamental problems of our society. That is, tackling the root causes of dissatisfaction at every level of our society, rather than dealing piecemeal or short-term with the symptoms, as New Zealand has been doing for most of the past 60 years.

In order to solve our problems, New Zealand governments, will in the future need to focus, without shame, guilt or confusion on what they want to deliver to voters across the whole social and political spectrum. The government who-ever it is will need to tell voters the truth, the whole truth, about their country's current economic and social situation. They will need to stop polling, in order to be able to tell voters, what voters want to hear as Clark, Key, Ardern and others have been doing for the past 25 years.

WHAT KEY ISSUE COULD UNITE NEW ZEALANDERS AND APPEAL TO A MAJORITY OF VOTERS

-The issues defined on page 1 of this paper, are central to New Zealand's recovery, as a nation, because they react negatively on rich and poor alike.

-Those issues focus around the plight of the disadvantaged and the adverse impact their situation has on the rest of the public.

-The only way, both sides of the equation can be satisfied is if we set ourselves one single overriding objective, which is central to achieving our economic and social objectives, and solving New Zealand's growth issues at the same time.

My suggestion-

"REAL SUSTAINABLE GAINS IN LIVING STANDARDS AND OPPORTITY FOR ALL NEW ZEALANDERS, WITH PARTICULARLY EMPHASIS ON THE DISADVANTAGE ".

-Within that framework, we could integrate all our thinking. On growth, investment, jobs, tax, security, and social policy, in areas like education, retirement, health, housing and social harmony.

-If all our programs, once developed were referred back to that objective, New Zealand governments could if they chose to do so, act with purpose, conviction and commitment in the interests of all of us.

The Audit or some other specialist office, should be charged with the job, of telling the public when the government's policies were likely to fail to help us reach our central objective.

(See Appendix one- On how New Zealand got into the mess we are in today)

POLICY STEPS –- REQUIRED TO FIX THE FINANCIAL MESS NEW ZEALAND IS IN.

Treasury predicts on a same trend basis, an operating deficit of 13.3% off GDP by 2061, with net government debt of 197%. That is, New Zealand will be bankrupt by 2061, or before.

These numbers are driven, by the 8.1% of GDP (120 billion dollars), increase in government expenditure, for superannuation, healthcare and education over the 40 years from 2021. It is this increase in government expenditure, from 2021, that is pushing New Zealand into the massive, yearly fiscal deficit position predicted by Treasury. These deficits will also, result in large increases in the interest costs of government each year, adding further to New Zealand's deficit position. (See Appendix one, for details about how NZ got into the mess it has.)

Unfortunately, Treasury's ideas to get out of the mess we are in, are old hat, (increase taxes and cut benefits) policies which would merely kick the can down the road, for a while.

Inland Revenue's paper is not much better, it lacks the imagination needed, it asks for example "do you think we should consider both options for a future tax system that may have higher revenue needs and options at current revenue levels" My answer, is a simple No, I believe Inland Revenue should also consider other options, including my options, which would reduce the governments revenue needs by around 50%,over the next 40-50 years, and move us into a fiscal surplus within 20 years.

POLICIES TO REDUCE GOVERNMENT EXPENDITURE BY 50%, AND INCREASE PRODUCTIVITY.

STEP 1 – Involves making the decision to move away from our existing pay- as- you- go system, to an individual saving-based retirement system.

STEP 2-- Involves making the decision, about how much a person needs to save each year during their working years 18-65, (possibly 68 by 2060) in order to have enough capital, to cover their income and healthcare needs in retirement, at today's levels at least.

Using Treasury's 40year forecasts, to tell me, what the average cost of superannuation and healthcare beyond 2072, was likely to be, I calculated how much New Zealanders would need to save in order to have enough capital to meet their welfare needs in retirement. My answer was they would need around $2.5 million each, for their super income and their healthcare needs in retirement. The $2.5 million was based on the assumption, that on average, New Zealanders will live for 20-21 years in retirement and earn 6%-6.5% on their capital.

Given that few New Zealanders will work every year for the full 50 years (18-68) of their working lives, I decided to have a higher saving level per year than theoretically needed at $6,000 per year, adjusted for wage and health inflation at 3.5%, with fund earnings at 6.5% a year. (See table 1below)

The $6,000, to be saved each year by New Zealanders between the age of 18 and their retirement age, would be made available to them by way of personal income tax reductions.

To do this the first $62,000, of any income earned, would be tax free, reducing New Zealanders personal income tax by $10,820 a year. $6,000 of which would go into an approved retirement savings account of their choice, with $4,500 of what remains going into their personal healthcare account. (See tax & health policy details below)

TABLE-1 (Does not take into account any savings before the age of 18.) Note, an account will be opened at birth, in a child's name by the government with a deposit of $100)

SAVINGS FOR RETIREMENT-

No years.	Deposits	Income earned at 6.5%	Total Savings	Estimated Super at retirement
5 years	$38,000	$ 8,000	$46,000	98.5%
10 years	$76,000	$32,000	$108,000	97.5%
15 years	$122.000	$80,000	$202,000	95 %
20 years	$176,000	$167,000	$343,000	90%
25 years.	$240,000	$308,000.	$548,000	84%
30 years	$316,000	$530,000	$846,000	70%
35 years	$406,000	$868,000	$1,274,000	60%
40 years	$514,000	$1,370,000	$1,884,000	42%
45 years	$641,000	$2,109,000	$2,750,000	15%
50 years	$800,000	$3,200,000	$4,000,000	------

NOTES TO TABLE.

-- Note the miracle of compound interest, that takes place over the 50year period the table covers, and the details, of how it compounds and grows year on year.

--Note also, how the magic of compound interest, comprises 80% of a person's savings by year 50, leaving an individual's contributions providing only 20%. How compound interest in the future pays for 80%, of a New Zealanders welfare needs in retirement, with individuals paying only 20%, not the 100% they pay today, under the current pay-as-you-go system.

-- Note also the slow decline, in the percentage of the existing pension paid out under the new system, during the early years of the new saving system.

-- Note for example, that after 25 years of contributions to the new system, a retiree would be getting around 84% of the existing super pension, plus having a large lump sum of $548,000 to go with it.

--Note that most New Zealand workers in addition to their welfare super savings (around $2.50 to 4 million dollars by 2074) will also have a Kiwi Saver style account in their own name and/or an alternative saving approach, which could easily equal their welfare super savings if they wanted it to.
Lower income earners will be incentivised to save in a kiwi saver style account if they can.

--Why is it, that despite the above information, Treasury, along with all of New Zealand's existing political parties, favour, cuts to the existing superannuation pay outs and higher taxes across the board, rather than a saving based option, which would maintain their retirement benefits, at least at current levels as outlined above.? A lot of New Zealanders believe, holding onto their powers is the main reason politicians take the stance they do.

--In the case of Treasury, their approach comes straight out of their standard play book, when faced with the kind of financial mess New Zealand is in today, they go straight to it, answer, cuts to benefits, and higher taxes as well.

--In the case of New Zealand's political parties, they are driven by mixed motives and incentives, as we will see.
ON THE LEFT,
it gives them the opportunity to appear to be caring, keep super benefits in place, and tax the rich to pay for it, tax capital gains, and increase taxes on those earning $100,000+.

ON THE RIGHT,
There is a total lack of imagination, about what can be done, National have already adopted Treasuries approach, of cuts to super and will hope that this will somehow be enough.
Act while agreeing with the policy to cut superannuation, would also adjust personal income tax rates in a way that would penalise hard working lower income earners, while rewarding high income earners.

Why is it, that none of New Zealand's political parties, favour an individual saving-based approach to retirement, for health and income, despite the following facts-

-Savings held by individual New Zealanders, for their future health and income needs in retirement, would exceed 9 trillion dollars by 2074, under my policies. Compared to unfunded liabilities of 5-6 trillion dollars, if we stay with the current pay-as-you-go- based welfare system, favoured by Treasury and all of New Zealand's current political parties.

-- While by year 2073, 220 billion dollars + or around $2,000 a week would be available for tax reductions (much of it already in place by that time) as a result of the reduction in government spending on superannuation and healthcare. (See table two below)

THE COST OF RETIREMENT SUPER AND HEALTHCARE IN TERMS OF LOST REVENUE YEAR ONE

Cost year one -- 17Billion Dollars (2,833,333 workers X $6,000) by way of lower personal income taxes. See table 2, below for details on how this cost to government is paid for.

TABLE TWO--

YEAR	ONE	FIVE	TEN	FIFTEEN	TWENTY	THIRTY.	FORTY.	FIFTY
SAVINGS FOR YEAR.	17	20	24	30	36.	80.	150.	280

HOW WILL THE REQUIRED SAVINGS BE FINANCED BY GOVERNMENT.

Retirees contribution	0,3.	2	6	12.	21	55	145.	310
Tax on Savings Income earned	0.1	0.5	1	4	6.	15.	25.	40
Income Super fund	4.0	5.	4.	5.	4.	5.	4.	5
Super Fund	Capital not likely to be required							
Asset Sales.	Asset sales not likely to be required							
Reduction in Size of govt	5.	5.	5.	4.	4	4	4.	4
Reduction in Middle class Capture.	4.	4.	4.	4.	4.	4	4.	4
Reduction in Corporate Welfare.	4.	4.	4	4.	4.	4.	4.	4
High income earners.	2.	2.	2					
Total.	19.4.	22.5	26.	33	43.	87.	186.	367
SURPLUS	2.4.	2,5	2	3.	7.	7.	36.	8

NOTE- FULL DETAILS AVAILABLE, AT READERS REQUEST, FOR EACH OF THE ABOVE ITEMS OF EXPENDITURE-

A BRIEF OUTLINE OF THE SAVINGS IN GOVERNMENT EXPENDITURE SET OUT ABOVE--

-Reductions in the size of govt bureaucracy, staff numbers (For Example, education & health Depts), a reduction in the use of private consultants, govt grants to special interest groups.

- Putting an end to middle class capture, interest free loans, working for families for the higher income earners, energy payments, kiwi saver subsidies, free fees tertiary education, best start, kiwi build.

-Putting an end to corporate welfare, handouts, and tax breaks, provincial growth fund, film industry, forestry industry, grants and subsidies, Callagahan innovation fund etc.

-A high income earners contribution, if needed, why? Because they have the most to gain by way of tax reductions in the future.

TAX POLICY TO GO WITH NEW RETIREMENT SAVING AND OTHER POLICIES-

Tax Reductions, to Fund Individual Savings for Super and Healthcare in Retirement,
for Workers, Aged18-65 (With a possible move to 68 over 30 years, starting 2040)
PERSONAL INCOME TAXES

ZERO- Personal Income Tax on First $62,000 of Income- A TAX SAVINGS $10,820 per year.
-$6,000 of the $10,820 in personal income tax reductions, to go into an individuals approved retirement saving account for income and healthcare in retirement.
(See table 1, with estimated retirement savings each year for the next 50 years, along with the % of government superannuation retirees could expect to still receive, on top of savings)

$4,500 of the remaining $4,820, in tax reductions, would go into an individual's healthcare fund, to help pay for any health costs incurred, during their working life, including a yearly catastrophic healthcare policy.

Any money in an individual's health account at their retirement date, to remain with that person, and be available to meet any healthcare costs they might have in retirement.

Thresholds to go up each year by the rate of inflation in each specified area, for example (wages, healthcare costs for retirement, and healthcare costs for those aged 18-65)

OTHER PERSONAL INCOME TAX RATES GHANGES--

-A Flat 28%- Personal income tax rate, on any income earned above $62,000.

-A WELFARE TAX SURCHARGE- (For as long as it is needed) ON INCOME-- Between $80,001 and $180,000-of 5%, (a combined tax rate 33%- 28%+5%) and 11% in the dollar, on income over $180,000. (A combined tax rate of 39%- 28%+11%)

Any money raised by this welfare levy in the early years of the new system, would help pay for the education and other welfare costs, that New Zealand currently has.

OTHER TAX ISSUES-

Cost of Tax Reduction Policy to the government—

Superannuation- $6,000 X 2,833,333 individuals= 17 billion dollars

Healthcare- $4,500 x 2,833,333 individuals = 12.7 billion dollars

How Paid For—

Superannuation-By a reduction in government expenditure of 17 billion dollars. (See Table 2 above)

Healthcare—By using 12,7 billion dollars of the existing health vote for that purpose. (Individual control not government)

OTHER TAX POLICIES--- CAPITAL TAXES-

While I do not support a capital gains tax as such, I would support, consideration being given to the idea of a wealth tax, provided it is linked to getting rid of company tax and other business taxes. (I advocated this approach to capital taxes 45 years ago, outcome I was removed from the Labour Party front bench)

The change in incentives, from a policy of this nature, could if done well, result in a massive increase in productivity. The policy would reward people who use their assets well, while penalising those who do not do so, the exact opposite to what we do today.
Example, 2 farmers, both own a property, valued at 100 million dollars.

Farmer A is very productive and makes a profit of 15 million dollars after wages. Farmer A, pays company tax of $4.2 million dollars, and tax on his wages of $200,000.

Farmer B is far less productive and fails to make a profit, and as a result pays no tax.
Both have had the same opportunity, A is successful so we tax him hard, B is not successful so we give him a holiday, that is the situation, under the current tax system we have in place.
Under a wealth tax, both would pay the same amount in tax, let us say 1%, that is $1 million each. A would be $3.2 million better off, while B would be $1 million worse off.

A is rewarded for his productivity and skills, while B has to get better or sell his farm to someone who is in fact better than he is.

(My 1980 Paper available if required)

RISK COVER (Accident, Sickness, Unemployment)

Existing risk cover by government in the areas of accident, sickness and unemployment, will all be closed off from a specified date. A specialist organisation would be set up, with the sole purpose of winding down these three existing areas of risk cover. No new entrants.

Cover from the specified date, for the three areas of risk highlighted above, will be for income only, with healthcare being covered separately. (See healthcare policy for details)

RISK POLICY-
-Individuals will contribute, what they do today for ACC in year one, while employers will at least match the contribution made.
Individuals will be covered, for an amount equal to the existing sickness benefit for them. Individuals wanting a higher level of cover, will need to take it out for themselves in the private market.

-The employer and employee, will determine where and with whom any risk insurance policy is taken out, this could include self-cover if that has been approved.

A government underwrite (if funds available are insufficient to cover any part of the first 13weeks of being out of work,) will be put in place during the early years of the new scheme)

An insurance policy to cover the next 139 weeks, will need to be put in place by the individual/employer.

A government underwrite beyond three years (i.e., 156 weeks) would be put in place.

WORKING FOR FAMILIES

Existing payment rates will be maintained.

POLICY-

An Individuals Working for Families Weekly Payments Entitlement, for the next year, will be calculated by the Inland Revenue Department, each year, between April and June, based on an individual’s income for the past financial year, April to March.

-A tax credit will be issued for each individual taxpayer, with copies going to both the individual and their employer (s).

-The employer will pay their employee, the taxpayer, the working for Family's tax credit, due to them, each pay day for a twelvemonth period, July to June.

-No adjustment, to a working for family's tax credit, apart from that relating to the birth of an extra child, will be made during the year, to the amount of working for families paid.

-Nor will there be any end of year adjustment made, even if, for example, if an individual's wages went up by a significant amount during the year.

-New Zealanders hate getting a bill at the end of the year for any under payments that have come about because they earned more than was anticipated during the year.

-Note, an adjustment, will automatically come about anyway, when IRD calculates next year's working for family's tax credit.

HEALTHCARE-

The key relationship, in the new healthcare arrangements, will be that of the individual and his local doctor.

GOVERNMENT INVOVEMENT IN HEALTHCARE-

The New Zealand Government's central planning of healthcare, over the past 80 years has done little if anything that can be regarded as really good. It has simply, substituted politics for the market place. In the process the system has wasted resources, and in the process has held back economic and social progress.
Under my proposed new healthcare regime, government activity in the healthcare industry would be limited to providing those goods the market is unable to provide.
The reduction in the health vote for administration would as a result be significant.

POLICY-

--The $4,500 healthcare tax credit mentioned above, would for most New Zealanders fund the cost of their catastrophic healthcare policy, that is, to cover any major healthcare event and leave something over. Any money left over plus any interest earned on it, would go towards meeting any other healthcare costs, they might have at some time in the future.

-Individuals and families would be responsible for their healthcare costs up to 5% of their income, most of which would be covered by tax reductions for lower income earners.

-Further tax reductions for families and the balance of any tax credit mentioned above, will cover a major part of yearly healthcare costs.

- The chronically ill, would on the advice of their professional medical advisor, be enrolled with a new health status authority, which would, along with an individual's own doctor, take responsibility for meeting their healthcare costs and needs beyond what is normal for the average New Zealander.

EDUCATION-

The New Zealand education department would be abolished, it has out lived any usefulness it ever had a long time ago. Under the existing education department, education has been neglected and replaced with some form of weird indoctrination.

POLICY

The education department will be replaced by a small number of specialist operating units.

1.An education monitoring and approval unit. –Whose function will be to approve the continuation of existing schools at the start of the new system, including their must have prospectus, and any new schools that wish to enter the education market place.

They will also be responsible for monitoring schools and reporting yearly on their performance against their prospectus.

They will also be available, to advise the board of a school on the appointment of a new principal for the school.

2.An education property company—Whose main function will be to provide a school, that meets the needs of any approved school that wants one.

Maintain the school in good condition and charge an appropriate rent for doing so. A rent that reflects its use as a school.

After 5-6 years of the new education system being in operation, a review of school property and how it operates will be undertaken, to see if the model of school ownership and provision is suitable.

3.An education voucher will be issued to the parents of all children between the age of 2 and 18, by IRD>

4. Money not spent in any year, will be carried forward, and could for example be used at some time in the future to pay for university or other training,

5. Two billion dollars a year would be set aside to meet the needs of children with special educational needs.

(In areas such as reading, maths etc because they have fallen behind, or the child with exceptional skills in various areas)

SUMMARY- GOVERNMENT PROVISION OF RETIREMENT WELFARE-

CURRENT SYSTEM COMPARED TO PROPOSED NEW SYSTEM—COST THEREOF.

-CURRENT PAY AS YOU GO WELFARE SYSTEM.		- NEW WELFARE SYSTEM
Cost of retirement welfare (Super & Healthcare).		Cost of retirement welfare to government
Year one	26 billion dollars	25.5 billion dollars --saving $0.5 billion
Year ten	46 billion dollars	37.8 billion dollars—saving $8.2 billion
Year twenty-five	100 billion dollars.	58.0 billion dollars—saving $42.0billion
Year forty	201 billion dollars	42.0 billion dollars---saving $159 billion
Year fifty	274 billion dollars	-36 billion dollars -- saving $310 billion

Note-- Savings in government spending, will be available for tax reductions, from year 10 on at least.
What does the new system mean in the areas of personal and corporate taxes-

Personal and corporate taxes, along with GST, could be reduced each year, after10 years of the new system, relative to what they will need to be under New Zealand's existing pay as you go welfare system, if that system is kept in place.

The reason why taxes can be reduced each year after 10 years, compared to our current pay as you go system is the contribution each retiree will be making to their own retirement. The contribution each retiree will make at their retirement date will grow each year until the new system is fully mature in 45-50years time. For example,

-In year ten, 6 billion dollars would be available for tax reductions (63,000 retirees make a contribution of $90,000 each or $3,500 per qualifying taxpayer for the year)

-In year twenty, 20 billion dollars in tax reductions would be available, (66,000 retirees make a contribution of $300,000 each or $29,000 per taxpayer for the year.)

-In year 30, 50 billion dollars in tax reductions would be available (69,000 retirees make a contribution of $700,000 each or $29,000 per taxpayer for the year.)

-In year 40, 160 billion dollars or $1,500 + a week in tax reductions would be available.

While in year 50, 300 billion dollars would be available for tax reductions, or 50% plus, of government income including personal, corporate, GST and other indirect taxes, under the current pay-as-you-go system

OTHER ADVANTAGES OF THE NEW WELFARE SYSTEM.

--Savings held by individual New Zealanders for their future healthcare and income retirement needs, will exceed 8 trillion dollars by 2073, compared,

- to the unfunded government welfare liabilities of around 4-5 trillion dollars we will have, if we stay with the current pay as you go welfare system. A system where we will have no individual retirement savings set aside to meet our health and super needs.

--Tax paid on the income generated by the 8Trillion dollars of savings in 2073, would amount to around, 60 billion dollars a year, at a tax rate of 12.5%. This 60billion dollars in tax revenue will help contribute to much lower personal and other taxes.

--Individual savings of most retirees beyond 2073 are likely to exceed 4 million dollars at their retirement date, couple double the amount. (Assumption- A welfare fund of around 3 million dollars, plus a Kiwi Saver account or other personal saving around two million dollars.)

Government spending on retiree's healthcare and superannuation payments after 2073 would be limited to those who retired before 2070, with government payments, made for these items around 230Billion dollars lower than they will be if we stay with the current pay as you go welfare system. Virtually no government spending on healthcare and super for the retired will be necessary after 2090.

Personal and corporate income tax rates by 2073 should be no more than 12.5% under the above scenario, that is, unless politicians are allowed to spend our money by the New Zealand voter. The question is, will we let them, or have we learnt our lesson.?

IN THE END THE CHOICE IS ONE FOR TAXPAYERS AND THEIR ADVISORS—

-They can elect to stay with the pay as you go welfare system we have today and see their personal income taxes, at least double, over the next 30-40 years, and see their government retirement benefits fall by at least 25%, over those 30-40 years. (Treasury policy)

OR

Support a Saving Based Welfare System similar to the one outlined in this paper and see your personal income rate and GST fall on taxable income or the money you spend to between 10% & 12.5% in the dollar, over the next 30-50 years

INSTITUTIONAL MESS WE ARE IN TODAY-

Government welfare institutions are failing miserably,

EDUCATION- Limited choice, falling standards, poor disciple, outcome, 40 of all students leave school with insufficient skills to succeed in life.

RETIREMENT- 50%+ of all retirees do so, with little or no investment capital or savings. The number of workers to retirees is about to fall over the next 3—40 years.

HEALTH- Limited choice, long waiting lists in some areas, wide spread staffing problems, bureaucratic, inefficiency in many areas, rapid rising cost structures.

WELFARE- Dependency, hurts the poor the most, results include, inadequate housing, bad parenting, monopoly supply of various services, and low self-esteem.

CAPTURE- Institutional capture where the money often goes to the benefit of the institutions or providers not the pupils or patients for whom the money was intended to benefit.

RESOURCE DISTRIBUTION- Within the social services resource distribution is often of a ridiculous nature. It is often based on political preferences, not user need or demand.

INSTITUTIONAL REFORM—OF THE MANAGEMENT OF GOVERNMENT WELFARE--

BY WAY OF COMPETITION AND CHOICE-

Fundamental to the reform of the New Zealand government's social service institutions is the introduction of competition to all areas of welfare, such as education, healthcare, housing and general welfare (out of work).

Competition is just as important in government as it is in private sector markets. The lack of competition, over the past 70 years, in government-owned social service institutions, is why they are in such a mess today, when compared to say Singapore's welfare institutions.

Competition between government owned schools, and between government owned hospitals, and private organisations in those sectors, would help promote efficiency, and as a result economic prosperity, and New Zealanders' wealth.

In the private sector competition is a disciplinary force that requires businesses to compete for the loyalty of their customers. Government-owned social service institutions need to be subject to the same disciplinary forces, before they will get any better.

Competition provides consumers with protection against poor service, high prices, and poor products. The need for competition is generally not recognised in New Zealand's public sector areas such as education and healthcare. In fact, the opposition to competition within the public sector, is already very strong. You can see that in the teacher unions' reaction to charter schools- a minor incursion, into their near monopoly position.

The reality is that performance would be enhanced if private firms were permitted to compete with government enterprises on a level playing field, in the welfare area.

Competition would improve performance, it would reduce costs, and it would introduce many innovations, if it was allowed to take place.

Competition is the force that encourages providers to,

- operate efficiently and cater for their customers' needs,

-improve the products they produce on a continuous basis,

-use the assets they have more efficiently,

-put an end to monopoly provision

HOW THEN IT WOULD WORK IN PRACTICE-- ONE EXAMPLE- HEALTHCARE

HEALTHCARE POLICY-

Would see New Zealand's healthcare, move closer to Singapore's model of individual healthcare saving accounts, catastrophic insurance cover, individual choice and decision making. Why?

Because it works, the Singapore system was recently ranked sixth in the world in terms of overall quality, despite the fact, that in terms of cost, it was only half that of New Zealand's or Australia.

STRUCTURE OF NEW HEALTHCARE SYSTEM.

A healthcare SOE Committee- (Similar to the 1980's SOE Committees),

Would be established, to make recommendations on how the government should go about putting these policy measures in place and getting competition and choice throughout the healthcare industry.

A changed Health Department-

The new health department role, would be largely limited to the provision of public goods in the healthcare sector.
Public goods being those goods, which the private sector find it impossible to produce and market. (covid)
Contribute to the regulatory issues process making. Result the new health department will be much smaller than the current one is.

Government owned hospitals-

Will be turned into separate operating units, with their own local directors (3-8), depending on their size, directors would be appointed by the Government, on the recommendation of a special committee set up for that purpose.
Each hospital will publish a prospectus outlining the services it will offer, and the initial price it will charge for each service.
A monitoring group will be set up, to consider and report on how well each hospital has meet its obligations and promises.

Health Status Authority-

A new health status authority, with around 12 billion dollars of income in their first year of operation will be set up. The main responsibility of this new body will be to look after the needs of the existing chronically ill and disabled New Zealanders.
New Zealanders who at some time in the future become chronically ill will if they wish call on the health status authority.

Individual New Zealanders and their GP.

(Will be at the centre of the new healthcare system)

An individual's local doctor will become not only a person's GP, but their general health advisor as well. When their client needs help from a specialist or any other health matter.

Individuals will make their own decisions in the healthcare market, with advice from their doctor and the new health status authority as, when and if required.

APPENDIX ONE

HOW DID NEW ZEALAND GET INTO THE FINANCIAL & SOCIAL MESS IT FINDS ITSELF IN-

Short Answer-Politicians - Politicians, who over the years, have lied to the public, about NZ's financial position. They have for example, refused to include, large items of expenditure, they have incurred each year, in the government's accounts. For example, the $40 Billion dollars of accrued retirement liabilities incurred this year. If a private sector company, failed to record an item of this nature in their books of account, their directors would end up in prison. Why not apply the same set of rules to politicians.?

Long term answer- We started down the wrong path a long time ago, at least 50years ago.

It started in 1976- when the National government repealed Labour's 1974 NZ Superannuation Act, and replaced it with a Pay-as-you-go (PAYGO) system, we currently operate under. A Pyramid Scheme- see definition of PAYGO below). In 1976, as a country we shifted the cost of retirement onto future generations, in other words, our children.

It is these liabilities, created by the (unfunded) PAYGO system we have, that is placing today's unsustainable burden on to all of us. Hence the numbers in Treasury long run projections paper, and what will no doubt be in the Inland Revenue final paper as well.

This problem was reinforced in 1994- When Bolger as Prime Minister, and leader of the National party and Moore as Labour party leader, entered into an accord on superannuation. This agreement made the economic crisis that is happening today inevitable, rather than probable. Why?

Because we failed to set aside, the money required each year to pay for the liabilities we were incurring each year. A smart 10 year, given the basic facts facing New Zealand in 1994, could have worked out what was going to happen. On the other hand, the politicians of 1994, and since, have decided to simply ignore the problem, and pretend it did does not exist.

PAYGO- A definition--As the system matures, it reaches the point where in relative terms to where it was when it started, the number of beneficiaries grows compared to the number of workers paying taxes. This inevitably leads to a growing gap between government expenditure and government revenue.

As Thomas Sowell said and I quote him "There are few things more dishonourable than misleading the young". New Zealand politicians, have been doing that in spads, deliberately so, for at least the past 35 year's .

New Zealand politicians, despite what has been happening over the last 30 years, have for their own selfish political reasons, continued to ignore the need to fund the contract they had entered into with the New Zealand taxpayer in 1994.Treasury, dominated by libertarians have done the same.

As Act's leader in 1994 I was almost alone in pointing out to the public and the politicians of the day the crazy path they had set us out on. (Extract below.)

EXREACT—From what I said, at Act's launch of its social and economic policy in 1994.

" The question of money is particularly important at the moment. In the immediate future we are being threatened with the largest debt in our history= a debt that hasn't reached the public's consciousness in any serious way. It is a debt the state owes us, its citizens, for all our retirement pensions and healthcare in retirement.
Essentially the deal is this. We're paying taxes into the system to fulfil our half of the social contract between us and the government. We pay taxes and when we are sick the contract says the government will look after us. When we are old the state will look after us.

We who pay tax have kept our part of the deal. But when we are sick, does the state pay.? There are 77,000 people on hospital waiting lists who would say "not really No".

When it comes to our retirement, are we going to get the care, the services, the support, that our parents knew in the post war days.?
And the reason they say that is this. The amount owing to workers in New Zealand is so large- and there is so little backing for the debt- that no government, no matter how well the economy does on its present rate of growth can possibly pay for it.
The figure including net public debt as of today is nearly 300 billion dollars.
The largest single financial number in the country's economy. Three times our gross national product. This is a number so large that no current political thinking can accommodate it.

In Act we believe we can. We believe we have found a way to reorganise our superannuation and health arrangements painlessly so that a more generous pension can be paid to all New Zealanders now and into the future.
But we need a circuit breaker to get us out of the dangerous spiral we're in. And in doing this a number of wholly beneficial results would happen for all New Zealanders.

- An education system that responds to the individual needs of students rather than have a one size fits all approach.
- The elimination of waiting lists for another.

- A solution to the issue of poverty in New Zealand.

- A way of getting on top of New Zealand's monumental debt.

- The lowest rate of personal tax in the developed world.

It's a new way of thinking, a new way of looking at the relationship between the state and individuals, the state and families.
It's a way that will make all New Zealanders of whatever income bracket, racial origin or educational background—all of us better off.
These ideas are essentially common sense. They will suit New Zealand very well.

Of cause, we can't do it by ourselves, we can only do it together. And we believe that is something we all want to do, because suddenly we have a chance to return New Zealand to the sense of wealth we knew in our glory days, when we had the third highest standard of living in the world".(end quote)

Act for its part walked away from its 1994 welfare policies in 2000, it decided to join all the other NZ political parties in their support of the pay as you go pyramid welfare system.

For me, this was a major disappointment, I had spent the whole of my political life of 20 years, trying to achieve the goal of having a super scheme for every working New Zealander. Had Act stuck to its guns and not listened to the libertarians among them, and rolled over so easily as a result, New Zealand may well have been, in a better financial position today than it is.

OTHER EXAMPLES, OF HOW POLITICIANS WHO PUT THEMSELVES AHEAD OF THE COUNTRY, HAVE MADE THINGS WORSE IN THEIR SEARCH FOR VOTES-

Politicians from both the left and right fall into this category,

From the left,

The most basic fact about the political left, is that their ideas rarely if ever work, (look for yourself on a world-wide basis). Despite this, if you don't agree with what the left is saying, you are immediately accused of being someone who does not care about the general public, who the left claim to represent, but never do it very well in practice.

Although the big word of the NEW ZEALAND'S left- (Labour, Greens. NZ Maori, Parties), is the word compassion, their big agenda, however, is to make as many voters as possible dependent upon them, WHY? so that they will have to vote for them at the next election.

A prime example of this, was the left's refusal, to implement the reductions in personal income tax, due to come into effect in the 2017-2018 financial year. They preferred to keep the tax money in their hands, (billions of dollars of it) to spend in a way that made as many New Zealanders, as possible dependent on them. The left believed this approach, would, in the end win them the most votes at the next election. A lot more votes than simply letting the planned tax reductions go ahead.

Another example of this, was the decision of Clark and Cullen to have a centralised superannuation fund, which they could control, rather than individual saving accounts for New Zealanders. How do I know this, because that is what Cullen told the Act caucus when he went there to explain his super fund policy. In answer to a question of mine, as to why he was going to have a centralised fund rather than individual accounts he said that was the policy they liked and intended to implement. He said they did not favour the individual saving approach I had advocated for 30 years. Why? labour wanted to control the money, they simply did not trust the people they claimed to represent to do so. My understanding, having asked labour caucus members of that time about it, they told me it was Peters who got Clark and Cullen to introduce individual accounts as part of his negotiations with them.

Another example of the left's approach, has been the deliberate introduction, of the biggest and nasties tax of all, on the poor. These nasty taxes, (often 100% of any increase in income) come about when lower income earners, lose some of their welfare benefits (For example housing, or working for families) when their income goes up. The left, love these policies they sound great and caring, they win votes while locking people into dependency on them.

In these circumstances, it is little wonder, that the left's main area of support in New Zealand, tends to come from people who work for institutions whose ideas do not have to work in order for them to survive. (Government, Universities, Schools)

From the right,

Libertarians (some) have exercised a lot of policy influence (most of it good) amongst the NZ centre right over the past 35years. They also have a lot to answer for in one or two areas, as well. For example, they have played a major part in the creation, of the financial mess New Zealand has ended up in today. For example, the unfunded welfare liabilities we have in New Zealand today, of at least 1.2 trillion dollars. (1,200 billion dollars) is in large part a result of their influence.
A bright lot, but also a group, who have their own form of religion, if I can call it that. At times, it seems to me that they never stop and think, beyond what their religion is telling them, (Libertarianism) They never seem to consider what long-term damage they might be doing. They believe they know what is right, that is they know what fits in with their libertarian policy approach. Any adverse impact it might have on ordinary New Zealanders, does not seem to have any relevance for them what so ever.

Why, they have opposed individual New Zealanders having their own saving accounts so strongly has always worried me. They have never explained why they prefer compulsory taxes to compulsory savings. (Because that is what they did in the 1990's and it is what, they still do today). Why, they prefer, governments, to control retirement income and health provision, rather than have individual control and private provision, is beyond me.

I still do not understand why they think the way they do. Another example of why dogma/ religion in politics, can be so dangerous, in some policy areas.

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15 October 2024

Sent via email to policy.webmaster@ird.govt.nz

Dear Phil

Submissions on Long Term Insights Briefing Topic

We refer to “Our tax system: Bases and regimes” consultation on the scope of Inland Revenue’s long-term insights briefing document, referred to as the LTIB. Thank you for the opportunity to comment on the scoping document. We broadly support the selected topic for the LTIB. Long-term fiscal sustainability is an important issue that needs due consideration.

We wish to make a few brief suggestions for the LTIB’s scope and these are set out below:

1. Broader purpose of the LTIB needs to be front of mind

1.1. In our view, one of the benefits to the LTIB process is to encourage an informed public discourse on matters which have a long-term focus and may therefore not be on the agenda of the government of the day. If the LTIB is to achieve this purpose, we believe it will not be enough for the document to merely summarise academic literature on the various reform options canvassed. If that is all the LTIB aims to do, we believe it will miss the mark.

1.2. New Zealanders need to be empowered to have a meaningful discussion beyond the relative merits and drawbacks of the individual proposals; the LTIB needs to capture the trade-offs inherent in choosing one option over another, or implications of using a mix of solutions. Likely behavioural impacts also need to be addressed.

1.3. While we appreciate that the scope of the LTIB does not necessarily allow for a full canvassing of the design features of each proposal, we encourage Officials to nevertheless provide meaningful commentary on the likely design options available to government. The reader should be broadly informed about the potential implications from a government adopting any one of, or a mix of, the available solutions. Similarly, it would be helpful for the reader to become aware of the relevant frameworks used for analysis.

2. Discussion on taxation of capital income will likely attract the public’s eye

2.1. We note that there has been considerable media coverage of the need for tax base expansion to tax more extensively capital income sources, in recent times. This includes comments from prominent business leaders. As such we expect that Officials’ analysis in the LTIB may be picked up by the media following the release of the draft LTIB next year. We would encourage Officials therefore to ensure that the discussion around potential expansion to the taxation of capital income, whether through the introduction of capital gains taxes (CGT), wealth taxes or inheritance levies, or otherwise is well set out.

2.2. It would in our view, be insufficient for the LTIB to merely state the agreed academic views on the relative merits/drawbacks of a CGT or wealth or inheritance taxes, without discussing the implications of choosing one setting over another. We appreciate that Officials may not be in a position to detail out all of their preferences for a theoretical new tax regime, but we think the LTIB needs to at least point readers to the impact of particular design decisions and how different features may work in unison.

2.3. To illustrate the point, we note that much of the media coverage/public debate around CGT for example, has focussed on the concern over the under-taxation of residential investment property versus other forms of fully taxed income. That is a very narrow focus, and many CGT regimes do much more than tax realised gains on real property sales. The Australian model of CGT for example can have tax liabilities triggered upon the creation of a legal right, such as the creation of an option to buy property. Indeed, Division 104 of the *Income Tax Assessment Act 1997*, lists around 60 actions that can trigger a CGT event, only one of which is the disposal of a CGT asset. The scope therefore is far broader, capturing transactions and embodying complexity far beyond just simple asset sales. The public may not be contemplating this when discussing the relative merits of CGT.

2.4. Equally how many readers are likely to appreciate the impact of rollover relief or exclusion of the family home, and the impact on sales of small businesses on the revenue efficiency of these capital income taxes. The point is that there are trade-offs inherent in all of these design choices, which will make significant differences to the effectiveness of any expansion to the capital income tax regime. This is particularly the case if the primary aim of inclusion of a CGT or wealth tax for example, is to raise revenue.

2.5. Overall given the fact that this issue does already hold a degree of public awareness, there needs to be a careful balancing of the extent of granularity in the discussion. In our view the degree to which the general public can understand the trade-offs that lie behind decisions to, for example, extend roll-over relief, exclude the family home, require valuation etc. should be a key focus for this LTIB.

2.6. We reiterate we are not looking for detailed decisions. Rather we consider that for the LTIB to be a successful public debate document it needs to take the public along – a sensibly well informed audience should be able to draw conclusions about the relative merits of making one policy choice over another within the relevant framework for analysis.

3. Public appreciation for frameworks that underpin New Zealand tax settings

3.1. Another benefit that the LTIB can bring to the broader public debate around tax settings is the opportunity to reaffirm the frameworks which underpin New Zealand's tax settings. The decision to adhere to or depart from the frameworks which underpin current settings will ultimately shape future policy decisions and possibly take some options off the table.

3.2. For example, the imputation regime which is intended to ensure that, as far as possible, income earned through a company is taxed at the marginal tax rates of the shareholders of the company and can be contrasted with regimes which exempt dividends. This approach requires a degree of tolerance for the potential "deferral" of the marginal tax rate applying to income earned through a company, (i.e., on income that is not immediately distributed). That "deferral" is a consequence of the imputation approach and should not be seen as an “avoidance” risk, absent other concerning or uncommercial features.

3.3. Another example is the desire to keep as many individual taxpayers as possible as ‘non-filing’. Continued adherence to this approach means that appropriate data collection and withholding of taxes needs to be reflected in the design of compliance rules in the context of future base expansions.

3.4. In our view, the LTIB needs to endeavour to educate the public/its readers on the existence of such frameworks; and more broadly on the consequences that these overarching policy settings have on the available options for future policy reform.

4. LTIB should refer to broader policy options to address fiscal sustainability concerns

4.1. The scoping document suggests Inland Revenue does not intend to consider options that would reduce the gap between projected future revenues and future fiscal demands, through reductions in spending. For example, reform of NZ Superannuation.

4.2. It is in our view, important for the LTIB to acknowledge that future governments may also choose to address fiscal sustainability concerns through spending reductions. While policy reforms that reduce government expenditure necessarily go beyond Inland Revenue’s domain, we think it is important for readers to be informed about such potential options.

4.3. The LTIB could for example reference related materials produced by the Treasury, such as the Long-Term Fiscal Statement. That approach would ensure that Inland Revenue’s work in the LTIB is not viewed in isolation of the work being done around potential spending reform. Reducing the risk that the public/readers conclude that only revenue raising options exist.

5. General comments in response to specific questions raised in call for submissions

5.1. We set out some general comments in relation to the specific questions raised at page 7 of the document below:

- **Local-government financing for infrastructure could add to the fiscal pressure -** we believe this is another important aspect that needs to be considered in the environmental scan of upcoming potential issues. Specifically, New Zealand’s infrastructure deficit and the rating system for local government funding are such that it seems likely that future governments could be increasingly called upon to fund (in whole or in part) local infrastructure assets from centrally collected revenue. This could add pressure on ratepayers, in particular in remote areas with smaller populations, unless the rating system is itself reconsidered.

- **Current system responds well in times of economic growth and is insulated from economic downturns** – the LTIB should test tax policy settings in the context of economic downturn as well as economic expansion. The current system settings tend to collect additional revenues when the economy is growing, as more GST and income tax is collected as money is spent/earned. At the same time the inability to cash out tax losses for example, insulates the revenue base against economic downturns. Consideration should be given to

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how any new taxes will impact the stability of the tax take in recession times. For example, asking if taxpayers should be able to claim capital losses if a CGT is introduced.

- **System flexibility is a good focus for the LTIB** – we agree that improvements to system flexibility should be the focus for this LTIB. In particular working through options for system integrity in the context of tax rate increases is, in our view, important. For example, considering options to support system coherence and integrity given the rate misalignment as between companies and other taxpayers.

- **Systems improvements should also be considered when designing integrity support measures** – we believe that questions of system integrity can be answered both through legislative/policy settings as well as through systems improvements that reduce the risk of non-compliance or improve disclosure/monitoring. It is important in our view that such systems or compliance improvement initiatives are also considered in addition to, or in place of, anti-avoidance measures to support the integrity of the system or address concerns raised by continued rate misalignment, for example.

We appreciate the opportunity to make submissions. If you would like to discuss any of the points raised, please contact Sladja Lines [redacted]

Yours faithfully

s 9(2)(a)

Paul Dunne
Partner & New Zealand Tax Policy Leader
Ernst & Young Limited
s 9(2)(a)

s 9(2)(a)

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Dear Chief Economist, Policy, IRD NZ
The scope of the LTIB does seem to scope the key challenges but is too narrow in critique of the options as to how we might respond to these challenges.
It is agreed revenue and distribution objectives, income and consumption tax, tax mix and current revenue needs are key elements, however the way we fund public services in the future needs to change if this country is to maintain high living standards and avoid bankruptcy. Consider the Singapore Central Provident Fund approach.
If the IRD is serious about investigating countries that are successfully dealing with the dual problem of funding the escalating costs of retirement income and healthcare for an aging population, they need to look beyond the OECD to Singapore. Through their Central Provident Fund - which is now worth over $500 billion - Singapore provides amongst the world's highest quality living standards for the elderly. Through a mandatory personal retirement savings scheme, funded by employees and employers, a generous pension annuity is paid on retirement as well universal health insurance cover is provided for life.

Instead of funding a personal savings scheme from wages and employer contributions, a better system is for individuals to direct a portion of the tax they would normally pay to the Government into a personal retirement savings account that would take advantage of the compounding of interest to provide universal health insurance cover and a generous annuity in retirement – along with a range of other services including income protection, education funding, and home ownership assistance.

It is feasible that with such a personal super savings scheme, not only could an 18-year-old retire at age 65 with $3 million dollars in their account, but New Zealand's tax rates could be reduced to 12.5 percent - amongst the lowest in the world.

The way we fund public services in the future needs to change if this country is to allow and maintain high living standards. A paper showing this can be seen HERE - with innovative thinking New Zealand's future funding crisis can be averted in a way that not only enables people to have more control over their lives but will lead to a far more prosperous and successful society.

I am willing to discuss this if it needs further clarification.
Sincerely for a better NZ and grateful to be a citizen.
Stan Thompson

s 9(2)(a) [redacted]

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Dear Mr Brown and Inland Revenue

I am a small-time developer and property owner in Wellington. I notice the IRD has the long-term insights briefing process going on.

It is clear that our country's tax system is not keeping pace with what is required.

Politicians are too scared to introduce capital gains tax and our infrastructure locally and nationally is not keeping pace with our ambitions.

Following a trip to Australia where I was looking to buy a house with my daughter and son in law, all states in Australia have "stamp duty".

https://stampduty.calculatorsaustralia.com.au/

It is clear to me that we should bring in stamp duty in New Zealand for local councils to help with costs. Rates in Australia are relatively low but councils are receiving millions in stamp duties.

By implementing this the "rich" would pay more, who arguably could afford it, while first homeowners pay less.

I would propose the following scales as an initial tax for anyone purchasing a home. (Nothing on selling)

- 0 to $1,000,000 – 2 % Stamp duty on purchase price, but first homeowners are 1%
- $1,000,000 to $3,000,000 2% of purchase price
- $3 million and above a flat 3%
- If over $10 million could have 5%. Just to make the real rich pay more, and give the argument there is no capital gains tax! (Would keep a lot of the "not so rich" happier as well)

This removes the capital gains "discussion", and provides a good income stream for councils, where the "rich" pay more.

These numbers are a lot less than Australia in the first instance and could grow over time.

As an example, in Queensland stamp duty on a $2 million house is $88,000 on $3 million is $145,000

Based on the current stamp duties in Australia, no wonder their cities look much nicer than ours, they must have millions pouring in!

Stuart Haselden

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