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Future of Tax: Interim Report

Meridian appreciates the opportunity to provide feedback on the Tax Working Group's *Interim Report*.

This submission focuses on Chapter 9 of the *Interim Report*, which discusses what role the taxation system can play in delivering positive environmental and ecological outcomes. Broadly and with some qualifications we agree with a number of the report's findings as set out on pages 131 to 132 of the *Interim Report*. In particular, Meridian considers:

- *Tax instruments may deliver positive environmental and ecological outcomes but are not well suited to many environmental problems. Regulation will often be a better approach. Environmental taxation and regulation should be considered together for the most positive outcomes.*

- *There could be benefits from strengthening the ETS.*

- *Over the medium to long term, we agree there could in theory be benefits from greater use of tax instruments to address challenges in both water pollution and water abstraction. This issue must however be considered carefully. It may be that there are much better means of addressing these challenges. We also agree that addressing Māori rights and interests in fresh water must be central to any changes.*

The main qualifications or points of additional emphasis that Meridian would stress are that:

1. In relation to the environment, the merits of taxes and other revenue-raising policy tools must be considered alongside the merits of other tools and approaches – we anticipate that in many cases regulation, and in particular the strengthening of existing regulation, will be a better approach than the introduction of new taxes;

2. The Group's draft framework, criteria and design principles (Boxes 9.1 and 9.2 on pages 63 and 64 of the *Interim Report*) for assessing whether environmental taxes will be effective or more suitable than other policy instruments such as regulation or spending or education, need to be considered alongside the broader tax policy design principles mentioned on page 13 of the report, including the established principles of tax policy design:

    i. efficiency,
    ii. equity and fairness,
    iii. revenue integrity,
    iv. fiscal adequacy,
    v. compliance and administration costs,
    vi. coherence, and
    vii. predictability and certainty.

    Consistency with both sets of principles should be a pre-requisite to the introduction of any new environmental taxes.

3. Key to the successful introduction of any environmental tax will be adequate identification of the objective that is sought to be achieved or the problem the tax will address. There should then be an assessment of whether a tax is the best policy option for achieving the objective or addressing the problem. It's not clear to us from the *Interim Report* that any such objective or problem has been clearly identified for any of the environmental taxes discussed. Further, at times, the discussion of environmental taxes seems to proceed on the assumption that taxation (rather than, for example, regulation or education) is by definition the best policy instrument for advancing the unspoken objectives implicit in this section of the report.

4. Hypothecation of tax revenue is not best practice. Yet it seems to be assumed in much of the discussion relating to environmental taxes. We suggest this needs to be revisited. Consideration of the objective or problem being addressed (see point 3 above) would probably assist.

5. The discussion of environmental taxes does not consider the distributional impacts of environmental taxes. We believe this is a significant omission that should be covered off in any more detailed consideration of the pros and cons of introducing such taxes. For example, some forms of water charge may be reflected in the costs to domestic consumers of water and in the prices of food and electricity.

6. Currently the externalities imposed by water use are managed under the Resource Management Act. If an environmental tax was proposed that was intended to reflect the full cost of externalities relating to such use then this would be a significant change to the current approach to environmental and resource management in New Zealand. The extent of overlap and interaction with the Resource Management Act would need to be carefully considered for any new environmental tax proposed. For example, issues that might arise include:

    a. Are resource consents for the relevant activities or uses still required if the full costs of externalities are now reflected in taxes imposed on the use?
    b. Would existing consent holders be relieved of existing mitigation obligations and obligations to act in accordance with conditions in resource consents?
    c. If a distinction is drawn between existing consent holders and new applicants for consent does this have the potential to drive unintended consequences?

Meridian's more general comments on the New Zealand tax system are set out in our earlier submission on the Tax Working Group's *Submissions Background Paper*.

Please contact me if you have any queries regarding this submission.

Yours sincerely

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