

WHAT IS THE PURPOSE OF TAX?

Health, education, a justice system, providing a minimum standard of living for its citizens and maintaining national parks are just some of the things a government provides through taxes.

TAX

In New Zealand we try to keep our tax system simple, while ensuring it is still there to pay for the things we need to function as a society. We consider that a good tax system should collect taxes with minimum disruption to people and businesses and ensure that those in similar circumstances pay the same amount.

Should our tax system just be as simple as possible or should it do more to incentivise certain behaviours we want to see? The wellbeing of a country is not just about the finances but also about how we live together and protect our natural resources for our children.

We don't generally use our tax system to incentivise or discourage certain behaviours. The two exceptions are tobacco and alcohol.

OTHER COUNTRIES TRY TO INCENTIVISE BEHAVIOUR BASED ON ONE OF TWO IDEAS:

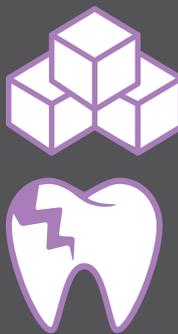


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The first is when an activity has a social cost like the pollution of public rivers. Most economists agree that those whose activity create a social cost should be made to bear those costs. It's not always easy to do but NZ doesn't have many taxes like this.

2



The second is when the activity is harmful to the individual, and for some reason the individual is not able or willing to act in their best interest. The recent debate on a sugar tax is an example of this.

Taking GST off healthier options is another way of doing it. Again, it's not always easy to know that implementing such a tax would have the desired effect. But NZ does very little of this compared to other countries.

If we do want to use tax to incentivise behaviour, then we need to consider two things. First, how much will it increase the complexity of tax for businesses and people? And second, if it reduces the tax revenue, how will that be made up?



SO, SHOULD NEW ZEALAND USE THE TAX SYSTEM TO ENCOURAGE BETTER CHOICES AND DISCOURAGE HARMFUL ONES?