



Tax Working Group
Te Awheawhe Tāke

Tax Working Group Information Release

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This paper has been prepared by the independent advisor to the Tax Working Group for consideration by the whole Group.

The advice represents the views of the independent advisor and does not necessarily represent the views of the Group or the Government.

TWG vision where all 4 capitals are sustainably increased. What this would look like:

- The partnership with Māori expressed in te Tiriti o Waitangi is respected and embedded in our society and culture, and Māori economic and social disadvantage has ended. [All 4 capitals]
- Our society and economy is built on a relationship with our natural environment which ensures that our use of natural resources is sustainable over our own and future generations. [Natural and social capital]
- The economy is a high value, high wage one, with productivity similar to other high income countries and real rewards to labour are similarly comparable to those countries; productivity growth is strong and real wages and salaries grow proportionally to labour productivity. We have employment in jobs that provide dignity, respect and liveable incomes for all who are willing and able to work. [Social, human and financial capital]
- Productive, innovative firms have access to: the capital they need to grow and develop; the markets that desire their products; and the connections to service the markets from New Zealand. [Financial, Physical capital, social capital]
- We do not have extremes of income or wealth and no children are live in poverty. Inequality in the distribution of income and wealth for individuals and households is moderate relative to other OECD economies, regional inequality is reduced, and there is no income or wealth discrimination by gender or ethnicity. [Social capital]
- Democracy is thriving, shown in wide and effective participation in the decisions that affect our lives, and people have confidence in the decisions and actions of their government. [social capital]
- Long-term thinking is valued and encouraged through our institutions and culture. [social capita]
- The government has sufficient revenue to provide the public services that are supported by the electorate, are not commercially provided or are more effectively provided by government, and the transfers needed for redistribution of income. [social, human and possibly financial capital]
- People and whanau have the security in their lives that allows their children to thrive as they grow, gives them the confidence to invest in their homes, education and businesses, allows them to participate in society, helps them through personal misfortune in their lives without undue personal or economic harm, and to have a secure and adequate income in retirement. [social and human capital]

- In particular, we recognise that the transition to a better future may be difficult at times, and that change is continuous, so we have systems in place that support our people through change, ensuring that individuals and whanau do not disproportionately bear the cost of changes that will benefit society. [social capital]

Current issues facing New Zealand

- The Māori economy is valued at \$50 Billion and growing. Nevertheless 44% of those eligible for social housing are Māori. Maori are younger than average demographic but poorer than average educational/employment outcomes. [Human, financial and social capital]
- Our natural capital is severely run down. Parts of our environment are at or beyond their sustainable limits and some damage may take decades or more to recover, if it can recover at all.¹ [Natural and social capital]
- Relative to comparable countries we are a low wage, low productivity economy with long tail of low productivity firms who don't either expand or exit.² Open question as to whether the real exchange rate is consistent with a tradeable sector that facilitates high productivity and wages.³ However we have high rates of employment and labour participation. [Human, social and financial capital]
- We have insufficient domestic capital for innovative high productivity firms to grow and develop.⁴ [Financial, human and social capital]
- Land price inflation has brought housing to unaffordable levels in many places in New Zealand⁵ and creates both deep-seated social problems and systemic risks to our financial system through our high household debt levels. There may be similar risks with some farmland. However this may support a more comfortable retirement for some home owners than would otherwise be the case. [Human, social and financial capital]
- Within the OECD we have higher than average income inequality (measured by the gini coefficient) but lower than average redistribution through the tax and transfer system. 75% of non-housing wealth owned by 20% of the population. All leading to a community concern about a lessening of the egalitarian nature of New Zealand. [Social and human capital]

Commented [AB1]: Maori Authority rules plus ensuring that any decisions on extension to taxation of capital do not impose an undue impediment to development of the Māori economy.

Commented [AB2]: Work on environment and ecological taxation.

Commented [AB3]: To be discussed in future the impact of taxation of closely held businesses and how this may disincentise expansion.

Commented [AB4]: Being considered as part of retirement savings

Commented [AB5]: Unlikely changes to tax will have much effect unless there is a desire for a substantial land tax to bring prices down.

Commented [AB6]: Work on expansion of taxation of capital income will impact top deciles.

¹ <http://www.mfe.govt.nz/sites/default/files/media/Environmental%20reporting/Our-land-2018.pdf>

² <https://www.productivity.govt.nz/news/productivity-improvements-needed-for-higher-wages>
<https://treasury.govt.nz/sites/default/files/2016-11/tfs-16-htm.pdf> Chapter 2

³ <https://treasury.govt.nz/sites/default/files/2018-02/holg14.pdf> page 28

⁴

https://www.productivity.govt.nz/sites/default/files/Achieving%20NZ%27s%20productivity%20potential%20November%202016_0.pdf

⁵ [Advice from Treasury Housing team that ¾ of the country are Type 3 meaning supply constrained.](#)

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- Compared to other comparable countries, lack of competition in some sectors leading to low incentives to innovate.⁶[Financial and social capital]

Commented [AB7]: Currently struggling to find a tax angle.

Developing risks facing New Zealand

- Demographic – more elderly population and lower percentage in the workforce likely to put pressure on fiscal position. [Financial, human and social capital]
- Long term build-ups in funding needs which are unlikely to be dissipated in the time horizon of this inquiry, including New Zealand Superannuation, health, the impacts of poverty and inequality including gender pay gaps, the need to provide support through significant economic and environmental change, and the direct impacts of environmental degradation and climate change.
- Changing nature of work – likely to make work less structured and could result in growing income disparities. [Human and social capital]
- Increasing community concern that the wealthy and the foreign owned companies are not paying enough tax aka 'their fair share'. [Social capital]
- Increasing globalisation of the economy – creates possibility that New Zealand becomes a branch economy with low level output and poor opportunities for New Zealanders. There seems to be a pattern of successful New Zealand start-ups being sold to overseas buyers before they reach their potential with jobs and IP then being taken out of the country. The result is a loss of IP, jobs and skills. [Financial, human and social capital]
- IT revolution is going to have large as yet unpredictable effects. Seeing it in growth of MNEs that generate significant income from New Zealand but with little physical presence – Google, Facebook etc. Also results in less structured workplace but could also result in undermining of other structures such as corporate form. [Financial, human and social capital]

Commented [AB8]: Expansion of taxation of capital income may make the fiscal position more sustainable.

Commented [B9]: You don't need to accept this precise wording but I do think we need to express the pressures on funding (and so revenue) needs. It is partly expressed in the quote from the Long Term statement which the discussion paper quoted, but it would be worth expressing it more fully.

Commented [AB10]: Need to ensure there is a sustainable tax system that collects revenue with low economic cost.

Commented [AB11]: Revisiting the scope of labour taxation to include employees and dependent contractors. Otherwise expansion of withholding taxes and reporting.

Commented [AB12]: There may ultimately prove to be limits to this given international agreements. Work of OECD for some digital services has merit.

Commented [AB13]: Expansion of taxation of capital income plus work to come on whether international tax settings affect prices non-residents are prepared to pay for NZ assets.

Commented [AB14]: At its extreme this may involve a reconsideration of the types of tax bases NZ uses.

While all the above have risks, they also represent opportunities.

- The growth of the Maori economy provides some exciting opportunities for the next generation. [All four capitals]
- Environmental challenges provide opportunities for new ways of living and new industries. [Natural and social capital]
- Demographic change provides more opportunities for the elderly to participate more in the economy and alongside this historically a lower percentage of the population in the workforce has been associated with higher wages. [Human and social capital]

⁶ <http://www.mbie.govt.nz/publications-research/publications/economic-development/2016-occasional-papers/competition-in-new-zealand-industries.pdf>

- The changing nature of work can provide more flexibility for people in managing life/work balance. [Human and social capital]
- Globalisation and IT revolution should provide greater new opportunities. It makes it more possible to have a global MNE run from New Zealand and while globalisation may increase risks for the more vulnerable in society it can make life more exciting for many. [Financial, human and social capital]

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24 May 2018