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Submission to the New Zealand Tax Working Group

Rapid Advances in Robotics and Digital Technologies Changing the Nature of Work: The New Zealand tax system needs to adapt

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[1]

Summary:

- Rapid advances in digital technologies including artificial intelligence (AI) threaten to widen wealth and income inequalities, and may lead to an increase in levels of transient or ongoing unemployment.
- In the face of these risks New Zealand needs a tax system that will remain fair and provide a reliable revenue stream for government.
- We favour pursuing the following three broad changes to the tax system:

1. Changes to ensure that successful companies in the digital economy return a portion of revenue to the society that has facilitated their success (revenue integrity):

- **Progressive company taxation so that thriving and larger companies contribute proportionally**
- **Tighter rules to ensure companies pay their fair share of tax**
- **Company tax deductions for training and job creation to draw people into emerging careers**

2. Changes to mitigate losses for people made worse off by technological change (vertical equity):

- **A tax free threshold for income tax**
- **Removing GST from essential goods and services (with revenue being replaced by higher pollution taxes (especially on carbon) and higher excise taxes on hazardous products such as tobacco, alcohol, junk food and soft drinks)**

3. A new tax initiative to ensure those without work have genuine opportunities to contribute (mitigating wealth inequality)

- **A transaction tax** (ideally with a cashless society)
- **A universal basic income or negative taxation to unconditionally supplement low or no income**

We explain our reasoning below.

Background

The authors have published a recent review article on [AI in the New Zealand context](#) (Boyd & Wilson 2017) and have an interest in socio-economic inequalities in our society (Wilson et al, 2018a, 2018b).

Digital technologies and the use of AI are likely to disrupt the nature of work, eliminate jobs, lead to widening inequality, and threaten tax revenue. We canvas these and other issues in our recent review of AI (Boyd & Wilson 2017). Importantly, new jobs created may not be jobs that New Zealand's labour market is equipped to capitalise upon, given this nation's relatively low productivity and weakness in key domains such as mathematics (OECD, 2017).

Any widening in inequality would be a major policy concern given the relationship between socio-economic conditions and health (Marmot and Allen, 2014) and inequality may threaten societal and democratic functioning. New Zealand has a long history of health inequalities by income. Low socio-economic position has been reported in a large study to be the third most important risk factor for premature death (Stringhini et al. 2017).

The New Zealand tax system needs to reflect this uncertainty about technology, so that those who gain in this unpredictable environment contribute more tax revenue and those who lose are protected from harmful effects. Importantly, because of the unpredictability of technological advance, individuals cannot be blamed for missing out while others succeed.

Our proposals and supportive arguments

Proposal	Supportive arguments
Introducing a progressive company tax rate	It is larger companies that are likely to benefit the most from sophisticated automation and intelligent digital systems. Some of these tools will disrupt industries in ways we can't predict. So consideration should be given to having a differential company tax rate by company size, since size is a crude proxy of capacity to make use of robots or AI. Companies aiming to maximize profit will not necessarily promote the public good such as a fully employed workforce. A progressive company tax would support small businesses with a very low tax rate, thereby encouraging innovation and new kinds of work and careers.
Do more to stop large multinational corporations avoiding their tax obligations	Large multi-national companies (including tech companies such as Google) have the capacity to avoid tax. As such the New Zealand Government needs to consider laws that ensure that these companies pay the appropriate tax level. This may require new international treaties – and if so New Zealand (with its ranking as the least corrupt nation in the world) is well placed to play a leadership role.
Company tax deductions for training and new job creation	There is a risk of jobs disappearing with technological advance. Other new kinds of jobs may or may not be created. We need a stimulus to encourage the development of new kinds of work, and subsidised training so those who lose jobs can readily retrain.
Removing GST from essential goods and services	To prevent any increase in inequality, essential goods such as healthy food, a certain level of electricity for home heating etc, and services such as essential care (childcare) and internet access should be exempt from GST. This will lessen the burden on anyone who becomes unemployed due to technology. An increase in taxes on pollutants (eg, carbon, waste) and taxes on other hazardous products (eg, junk food, soft drinks, tobacco and alcohol) is probably justifiable and could help ensure total government tax revenue remains steady. (See also the transaction tax detailed below).
A tax free threshold applied to income tax	The burden of displacement falls disproportionately on those with low incomes (and low wealth). The tax system should provide respite for those on low incomes by lowering income tax for people on low-incomes (and removing it from welfare payments) while ensuring welfare support is adequate to eliminate poverty (see next three items).
A transaction tax on all financial and retail transactions	To ensure that financial sectors (currently exempt from GST) pay a service tax, and prevent online transactions avoiding tax burden here in New Zealand. A transaction tax (at a fraction of one per cent) could be used to help support a negative taxation system (see final item below).
Investigate moving to a fully electronic money system	A cashless money system has potential advantages of helping to minimise tax avoidance and evasion, and may reduce some types of crime. Mobile phone transaction applications could ensure that events such as local farmers markets can still thrive in a cashless society. Indeed, there is already a strong trend to cashless societies in some high-income countries (eg, under 15% of transactions involve cash in Sweden) – so this issue is rapidly become more relevant.
Investigate having a fair and reasonable unconditional basic income (UBI)	Given the relationship between low socio-economic status and poor health, and also the threat of unemployment or widening inequalities due to emerging technology, those who are on the lowest incomes, or no incomes, need assistance. Some unconditional income support is warranted. This could be an unconditional income to the unemployed only, or a negative taxation system for all, as a resilience measure against unexpected labour force disruptions. Many productive industries are currently unpaid, and a UBI or negative taxation support would create opportunities in areas such as child and elder care, artistic endeavour, amateur sport, or environmental clean up to name a few. We recommend that the NZ Government fund real world experiments along these lines with a selected group of people earning less than half the median income (as in some other jurisdictions eg, Finland (Henley 2018)). These measures coupled with low company tax on small business may stimulate growth.

We recognise the ideas in the table above are not all strongly supported by an evidence base and some are relatively hypothetical. Hence there might be a role for further research and pilot programmes (eg, for the UBI) to determine more precisely the benefits and costs before final adoption at a national level.

Conclusions

The New Zealand tax system should be upgraded so that unpredictable technological change and the use of AI does not disrupt the ability of all New Zealanders to flourish. The system must provide resilience against income loss, and prevent substantive inequality emerging. This is not only a matter of justice, but the sustained functioning of modern democracies may depend on reducing overall inequalities in incomes, wealth, education and health in society. New Zealand has an opportunity to model progressive and fair risk mitigation strategies to the world through its tax reform.

The authors of this submission have substantial experience with doing high quality and concise presentations and welcome any invitation to speak about the suggestions in this submission.

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