Tax Working Group Public Submissions Information Release

Release Document

September 2018

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Tax Working Group Submission

Areas to reform:

1.0 Capital Gains

A capital gains tax should exist in New Zealand. It should take into consideration losses as well as gains such that those who make loses on investments are able to have a discount on their tax bill from other income sources. Equally it should tax gains as any other income would be and encompass any asset that is held as a store of value. If held for a significant amount of time, inflation should be taken into account when calculating gains or losses. The paying of capital gains tax should only take place after the asset is sold, so for example those who buy a house and use it (for living or investment) do not have to pay anything until they sell it, or if they do not sell it and it is inherited, no tax is paid until their successor sell it. (Or their successor and so on. Do not introduce Death Duties)

1.1 Applicable Assets

Applicable assets should be anything that is held as a store of value, excluding consumer items. For example a phone that is bought and then sold on Trademe a year later is a consumer item, and should not be taken into consideration when calculating capital gains taxes. However a share that is bought on the share market and then sold there would be an applicable asset, and its buy price and sell price would be key factors in determining tax owed.

A list of applicable assets is (but not limited to): - Shares - Houses* - Cryptocurrency assets - Gold and Silver (Exclude commercial use: i.e gold for electrical contacts) - Foreign Currency

*I have heard suggestions that if the house is owner occupied it could be excluded. I am neutral on this matter and could not comment. Please consider other submissions regarding this suggestion. I neither endorse nor oppose.

1.2 Implementation

- A capital gains tax should only consider the initial buy price and final sell price of an asset in NZD. All other intermediary steps should be discarded.
- Capital gains tax should only be concerned only with

  $$\Delta V_{nzd}$$

  , *'Delta Value (in New Zealand dollars)'* which is calculated as

  $$\Delta V_{nzd} = SN - BN - x$$

  . Or alternatively *How much I got out of an asset minus how much I put into an asset*
  - S is the sell price of an asset
  - N is the number of assets sold
  - B is the initial buy price of the assets that were sold, inflation adjusted.
  - x is the costs associated with selling or buying the item. (See next)
  - Dollar cost averaging should be used if applicable
- Capital gains tax should only be payable when the asset is sold and any costs associated with selling the asset should be subtracted from the profit made by the sale. Additional, costs of buying the asset, or costs of improving the asset should be subtracted. For houses this would include real-estate agent charges, lawyer fees and renovation costs. For shares this would include broker fees and for Cryptocurrencies this would include exchange fees. I am unsure of how costs not valued in NZD should be included into this and will leave it for the working group to consider.
- Gains should be considered as any other source of income, and taxed at the same rates that any other source of income would.
- If a loss is incurred, i.e.

  $$\Delta V_{nzd} < 0$$

  , then

  $$\Delta V_{nzd}$$

  should be added to other income sources (while retaining a negative sign so by adding I mean its absolute value,

  $$|\Delta V_{nzd}|$$

  , is subtracted) and then the combined sources are taxed together.

For example if I buy 719.52USD for 1000NZD+1NZD exchange fee then buy Bitcoin with the 719.52USD then sell the Bitcoin for 1200USD and buy some shares for 1200USD which I then sell for 1500NZD+50NZD broker fee the initial buy price is \$1000 and the final sell price is \$1500. The difference is \$500 but I subtract \$51 for the costs incurred in my investment so

$$\Delta V_{nzd}$$

is \$449 and I pay tax on that \$449 at whatever income bracket that puts me into. So if I earn below \$14000p.a, I get taxed at 10.5% and pay \$47.14 of tax on that particular capital gain I made.

1.3 Rational

I know very few others in my age group with investments in anything other than a savings account, term deposit or kiwisaver. By ensuring that loses incurred by investors are able to claimed as a tax discounts against other income the risk with investing is minimised and more people in encouraged to save money and invest for their future. This should achieve the same kind of outcome as kiwisaver while being a more active option. (Kiwisaver being passive and boring.)

However it is completely unfair that this income source is untaxed currently, therefore there needs to be both the mitigation against loss to encourage investment, with capital gains tax for when gains are realised.

1.4 Other possibilities and considerations

- Divide
  $$\Delta V_{nzd}$$
  by the number of years the asset was owned to get the p.a income and tax the yearly gains. This will spread large sums out over many years so that the tax rate is not suddenly pushed into the largest tax bracket.
- Some may make poor investment choices in order get a tax discount. (Although this makes very little sense, as they do not get the money back, only a tax discount, which will be only a small percentage of the amount they lost.) However, it may be better to limit the discount to 10% or some other sensible value for the working group to decide.
- Where the IRD has access to records of sales (for example property sales records or a shares register) they should calculate the capital gains tax owed and send that as a bill to the tax payer, rather then making them calculate it themselves. This way the tax payer needs only check the calculation and pay, then get own with their lives without wasting time.
- When a large sale is made, send the capital gains tax bill immediately afterwards rather then waiting until the end of the tax year. This ensures that the tax payer still has the money, rather then having spent it by the time the tax year ends and having to organise a payment plan.

2.0 GST

The main purpose of goods and services tax is to capture tax from the untaxed. Those that work for cash *under the table* must then pay GST on what they buy with that untaxed income. This is a valid reason for such a tax, however punishes those who do pay their taxes. Also since GST is a flat rate, those who should be in a lower tax bracket must pay more in GST than in income tax, which is seemingly unfair. For this reason I would support lowing GST to 12.5% or 10% if it is feasible within the government budget.

2.1 Items to exclude

Fruit and vegetables should be excluded from GST altogether. This would promote healthy eating amongst the population.

2.2 Rational

There an many health benefits to eating fresh fruit and vegetables. I will leave checking peer reviewed studies of these as a trivial but somewhat time consuming exercise to the reader. Based on these result, central government should encourage the population to eat healthier foods, and one way to do that is by making them cheaper. (You already do it in the opposite direction with ethanol and cigarettes)

3.0 Charities

Charities should continue to receive tax exemption. However organisations that should not be considered charities, but are due to outdated laws and definitions should not receive tax exemption.

People who donate to charities should only receive a donation rebate at the largest rate they are taxed at, not at a blanket rate of 33%. For example someone taxed at 10.5% should receive a rebate of 10.5% of the total amount they donated, rather than the 33% of the amount donated they currently receive.

3.1 Non-Charities that pretend to be

Many churches and religious groups are listed as charities but are not. They should not have tax exemption. This should be reformed as part of the charities act rather then in tax law, however should be a priority for this working group as they make up a large income stream which is currently untaxed. Not taxing these groups is immoral as it steals from tax payers and society.

Furthermore, any organsation which exists to push any kind of agenda (other then pure altruism) is not a charity, and should be paying taxes. Churches are just the most common example of where this happens, but many others should also lose charity status.

3.2 Rational

Charities are organisations who exist solely to display altruism. That is they exist not for profit to themselves, their leader, CEO, Owner, shareholder, pastor or *god*, but to help others in the way that they need it. Churches and other religious groups are not altruistic, they are egoistic. They exist to convert others to their own philosophy for the benefit of their pastor or god or gods. The person being converted does not receive any tangible increase to their quality of life, however is indoctrinated into thinking that they have. Members of a church may sometimes act in a way which looks like altruism but is only out of loyalty to their god or gods and their holy books which say that they must, therefore being entirely unfounded and meaningless. Furthermore this may cause harm, for example recommending that a sick person comes to church to be prayed for rather then getting the help they need at a hospital. These organisations do not deserve to be considered charities and should not be tax exempt.

This should apply to any organisation which pushes an agenda, including atheistic groups, free software groups, socialist groups, conservative groups and any other group pushing any other philosophical, moral or economic agenda.

4.0 Other Thoughts

I do not think there is any reason to change the existing tax brackets, although I have not looked into this matter and have not seen any evidence for either side. The working group should base their decision about tax brackets on other submissions and other evidence.