Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

To the Tax Working Group.

Here are some considered thoughts re questions in response to the call for consultation by the Tax Working Group. I apologise for not sticking to your key questions, but much of this is interrelated and of course complex. I want to concentrate on structural questions.

<u>Should the tax system be different?</u>
A progressive tax where people in higher income brackets pay more than people in lower income brackets over our history has been positive for the community. However New Zealand has become a very unequal country with the distribution of wealth concentrated in fewer and fewer hands. Out tax system rewards this. The value to the individual of income at the middle and lowest levels is greater than to those on higher incomes because they have less money to live their lives. Consequently taking tax off middle and low income people has greater impact on the things people have good reason to value in their lives. A good test is to ask would the most wealthy person in New Zealand agree this tax system is fair, if at an instant they went onto the lowest income and had to pay 30% of their income in tax?

Higher incomes in New Zealand are driven more by returns on investments than by incomes from wages and salaries. That is to say higher incomes are derived by returns from ownerships of companies, land, houses, farms, factories, shares, cash investments and intellectual property. Of course some capital investments are more profitable and generate more income than others.

People who have the advantage of capital such as finance, property, education or positions of wealth and influence by inheritance, often fit into higher income brackets. Somehow this remains true for the higher earning professions such as law and medicine as well. Most have done nothing more than wage and salary earners other than possess the good luck to be born into wealth, comfortable lives of privilege in society. Such is the levels of inequality we have developed in New Zealand by income generation being greater from capital than from wages and salaries.

However this can almost all be balanced off if we introduce an asset tax. Every person or company in New Zealand would submit a balance sheet outlining their ownership wealth on tax day. Inland revenue would assess the rate of return on the balance sheet and set the payable tax. High value assets pay high tax. Low value of assets pay low tax.

If we do not tax wages but tax that which people own (including a family home) people who own companies, farms, factories, shares, rental properties, income generating IT companies, international business interests, planes, cars, boats, holiday homes, family trusts will pay tax on the value of the capital they own not pay tax on what they can produce off this capital. This is a far more equitable way of taxing from the people who have little or no capital wealth to the people who have excessively high levels of wealth. The incentive would switch from being taxed on what we earn to incentivising productivity of the assets we own.

For example:

- A person buys 3 properties and build a 10 bedroom palace at a capital value of $20m then under an asset tax system that person is going to pay more tax than if he/she had built a modest home.
- Two farmers who own the same land and stock will pay the same tax. One might work harder and smarter and earn more income than the other. So be it. Respecting the ecology of the farm mitigates against short term gains because to continue to generate income (which the farmer keeps) the farm needs to be protected against environmental damage.
- The investor who owns multiple houses and apartments would pay tax on the value of the properties. The higher the income from the rents the higher the value of the properties the higher the tax. The incentive to balance off excessive tax liabilities would be to limit rent rises to levels which generate a good income but do not drive up the capital value. This would advantage renters.
- A person or company owning a share portfolio would pay tax on the value of the investment on tax day. The income from the shares is theirs to spend. The incentive to invest in a company will be more driven by what can this company earn in income rather than what non-earning assets can this company acquire and later sell.

This is also a liberating idea for people on low incomes because their tax liability will be assessed on what they own which might not be much. They would be free to spend all their income if they wished or invest in assets as they could afford them.

The other advantage of this system is that inflation increases the tax liability. Inflation gives every wage and salary earner an effective pay cut. The drivers of inflation, increased prices on goods and services, increased land values, would be problematic to owners of capital because inflation would increase their taxes. Inflation increases the value of assets simply through continued ownership of the assets. This is particularly true of land. Speculators who land bank or buy up non-productive companies for their assets hoping the value would increase would pay a tax on the value as the value and on increases in value. This would be a disincentive ON land and housing speculators. Producers of good and services would need to ensure their incomes increased through productivity but not the value of their assets if they wanted to control their tax liability. A balance of energy would be needed to improve being productive balanced off against tax liabilities.

The setting of the levels of tax would be the biggest fear of people who own significant levels of capital. Government collection of tax through assets would be an internationally innovative way of funding government programmes and contemporaneously drive down income and social inequality.

<u>Should GST be removed from healthy foods?</u>
No. The great thing about GST is its universality. It is easy to calculate and easy to collect. Breaking this up opens the door for wroughts and confusions to occur. Should cooked bananas be more taxed than raw bananas? Should Subway sandwiches cost more in a Subway shop than a Subway sandwich in a supermarket?

Other Benefits of a Asset Tax

Under a total asset tax system a higher proportion of working people would pay no tax; or very little perhaps on the value of their home, if they own one. The majority of tax would be paid by people who own capital in its many forms. The amount of income they can derive from this capital is not taxed and they would be free to make as much money as the market could stand for their good and services. The incentive for people who own capital assets is to employ people and make the assets work for them by increased productivity.

The other advantage of this system is that those people who currently work the tax system to their own advantage or operate outside the current tax system (mates rates) will be taxed on what they own. This would include overseas companies, tax-avoidance and tax-dodging mechanism and black market operators. This asset tax system is much wider and much fairer.

Concluding Comments on Asset Tax

The current income tax system is unfair and significantly drives inequality and social pathologies. An unfair tax burden rests on the middle and low income earners and advantages people who make capital gains through investments and inheritance. These factors have created social inequality in New Zealand, an underclass of survivors, working poor and divisions within society.

We have an opportunity to look at something vastly different than what we have now, which is why I am advocating the abolition of income tax to be replaced by an asset tax.

Should sugar be taxed?

Sugar is very similar in chemical composition to alcohol. The theory for taxing alcohol is that we tax alcohol to provide a source of revenue in an attempt to limit the harm caused by abuse of alcohol. Sugar, similarly has an addictive effect and acts as an activation of the neurological reward system in our brains. The more sugar the more reward and so the addictive effect advances. Sugar also impairs memory and learning skills damaging synaptic activity in the brain. Growing children suffer most from excessive sugar in their diets.

The public health messages of telling people to stop smoking had almost no effect on cigarette sales. However the continued increases in price (tax) over the last 10 years has had extremely positive effects of bringing smoking rates down for large sections of the population. Also banning smoking in public spaces has contributed. Conversely we also see poor families using more of their income on cigarettes and young men sometimes engaged in robbery of dairies to steal cigarettes because they cannot afford to buy them and feel it is ok to rob dairies to obtain them.

A tax on sugar making high sugar foods more expensive would have both positive and negative consequences. The positive consequences are that like alcohol sales, sugar tax will raise revenue making revenue available to spend on health care to treat the sequelae of sugar addictions e.g. obesity, diabetes and cardiovascular disease. This would presuppose that the public health system has the ability to do this without simply absorbing increased revenues into itself (I greatly doubt that this would happen). Secondly, raw sugar products, sugar laden drinks, cakes/buns/biscuits and high sugar confectionary would be more expensive and less affordable with discretionary income.

However the negative policy consequences of a tax on sugar will mean that possibly people will decide to pay more for sugar laden foods and drinks because they will not or cannot do without them and have less money to spend on healthier food and drink choices. Overall the sugar tax would have the negative effect of making their diet worse.

On balance, I think a sugar tax would be a positive thing for the community and I would recommend bringing it in slowly. If the sugar tax is to go into the health system, measures of the performance of the health system to managed sugar related disease would also be helpful.

Greg Coyle
[1]

29 April 2018