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.

TAX ADVISER & ACCOUNTING SERVICES

26th April 2018

Attention: [1]
Tax Working Group (2018)

Thank you for attending the ATAINZ Auckland Regional Meeting 10th April last.
You inspired me to do a submission.

I trust the Tax Working Group has a brief to look at all possibilities and will consider the very radical system I explain below.

I wish to make the following submission to the tax working group;

With the rapid uptake of digital transactions and a growing number direct to overseas suppliers, there needs to be a much wider system of collection.

1. To create a "Transaction Tax" to be levied on every transaction going out of a bank account. (Transfers between accounts in the same name should be exempted as to not penalize a person setting money aside for savings) I.E. only captures money going out of a bank account to a third party and therefore being "spent".

Scope: Given the Government's total Tax Revenue of $70.4 billion, (12 months to June 2016 is the figure I have used from Inland Revenue source data). Compare this with the total value of transactions through SBI (year to October 2016) was $1.1 trillion. - (source NZ payments Stats from the Statistics Dept.) So, I will use these overall numbers to illustrate.

If you were to Scrap most other taxes (GST. PAYE & Income Tax plus Company Income Tax, these three, which account for approx. 87.9% of total revenue. and apply a **6.0%** "transaction tax" to every transaction, this would produce the same ball park revenue. - possibly a little more – about 0.3 of a percent, however I shall use the round 6.0% just to illustrate.

However, the 6.0% seems a rather high percentage for every transaction, and you may want to consider keeping some of the existing taxes. For example, FBT (was never designed to collect revenue, approx. $14 million last time I looked, but was designed to alter behavior.
Similarly – The current taxes on Tobacco and Cigarettes may want to be retained.
Depending on the total of the existing taxes retained, then the % could be reduced accordingly.

Mechanics of application;
1. At midnight (I.E. strictly daily calculated) The transaction tax is deducted from the account and the whole dollars be paid to Inland Revenue the next day. The fractions left should be carried forward to the next day. Collectively these small amounts at a bank would be compensation for the banks expenses of running the system. We have 4 major banks that between them have most of the bank accounts held by new Zealanders. Example say approx. 1,000,000 accounts each multiplied by 25c average, conservative truncated amount – then held overnight is about $250,000 – not a number to be despised.
This would mean an end to the governments cash flow problems as the money would arrive daily!
Note, the transfer to Inland Revenue from a bank would also need to be exempted.

The above system would mean that Inland Revenue could do away with most of their staff, save for say 200 IT experts to carry out audits of the banking institutions. The staff made redundant, could then be gainfully employed in the productive economy.

It will be apparent that this system automatically captures the increasing amounts being paid to Apple, Facebook, Google, Uber etc. for their services used by New Zealanders. It is also Inflation proof as it follows prices paid by consumers.

2. There may be a case for a cut over point depending upon the size of the transaction.
   If we say that any transaction over $10,000 can have the "Transaction Tax" added (just as GST is added now), then it would ensure that the issuer of a "Transaction Tax" Invoice would receive the Price they were asking, but the payer would pay the higher inclusive of tax figure. The bank would deduct the "transaction tax" and transfer it to the Inland Revenue Clearing account for that day's accumulation of "transaction tax" amounts.

Note that it even captures money gained from Illegal activities as the receiving person has to spend the money (Cars, Boats and Property etc.)

Examples; Just to put some real-life examples into perspective;
1. A person on near the average wage of $48,000 (No PAYE deducted) so he/she gets the whole amount except for any arranged employer deductions Eg. Kiwi Saver – assume he/she has the 3% Kiwi saver deducted and that he then spends 85% of it, so in a year he would have paid $2.375 in Transaction tax.
2. A person on $100,000 pa, assuming he/she has Kiwi saver 3% deducted at source, then spends 80% of it, would have paid $4,656 Transaction Tax.
3. A person on $900,000 pa, again assuming 3% Kiwi saver deducted, and a spend of say 70% implies an amount of Transaction tax paid of $36,666 pa.
4. A person buying a new motor vehicle, advertised at $50,000 plus "Transaction Tax," would actually pay $53,000 for it.
5. Similarly, A person buying a Property advertised for $900,000 would actually pay $954,000 for it to happen.

   There is of course a multiplier effect inherent in this system as it is a tax on **Money Circulation**. All the amounts a person pays out (Food Fuel, Rent, etc.) go to firms who in turn pay their expenses, the 6.4% gets collected again. My understanding is that the multiplier is something like 8 or 9 times for a single dollar.

You could of course, tinker with the system around its extremes. An example would be to say apply a capped total amount on large transactions, say over $2,000,000.
However, this then introduces complexity. I have always believed that Tax should be simple and understandable by anyone and clear and concise so there is no doubt about the calculation and the amounts.

There is one negative aspect in that it may encourage more people to try to use cash for transactions. However, I believe that the value of cash circulating is now quite small compared with electronic transactions. – So maybe not a material problem seeing we seem to be heading towards a "cashless" society.

I trust this can be given consideration.

Yours Sincerely

[1]

Greville J Wills
Member ATAINZ