# Tax Working Group Public Submissions Information Release

## Release Document

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**taxworkingroup.govt.nz/key-documents**

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# Ian Anderson's Submission to Tax Working Group

Using the list of headings in your discussion document

## 1 Aging Population

Aging population is one of the factors that mean that the workforce will become a smaller percentage of the population in the future. This means that income tax becomes less viable as the main source of tax. We need to broaden the tax base.

## 2 Maori economy and values

Maori participate in many of the same economic sectors as non-Maori so any tax changes to support those sectors have board application to Maori and non-Maori. Many Maori values are also values shared by many non-Maori just using different slogans. So any changes in the tax system to assist in achieving those values will be seen a positive move by many Maori and non-Maori -- assuming they are implemented in a way that is accessible to both Maori and non-Maori. In particular care for each other, care for the land and sustainability.

## 3 Changing Nature of Work

As jobs become casual and as jobs disappear due to both globalisation and automation the total income earned from wages, salaries and contract labour will decrease. This will impact our tax system that depends so much on income tax. We need to broaden the tax base.

Job casualisation will also impact both the tax system and benefit system as both are predicated on most people having permanent jobs most of the time. Correct and fair calculation of PAYE rates, secondary income tax rates become more difficult. Stand down periods before getting benefits become problematical. A universal basic income and a flat tax may be a more practical and fairer solution than trying to adjust the current system which is based on assumptions about permanent jobs that no longer applies to an increasing sector of the working age population.

## 4 Environmental challenges

Some economic activity is done at a cost to the environment. That cost can be by extraction, by using things unsustainably and by pollution (including greenhouse gases). Our current accounting systems rarely take this into account. Even though sometime a company is legally liable for doing things like restoring land to a reasonable standard this can be unenforceable when the company gets wound up or goes bankrupt. It seems fairer if environmental costs are accounted for and paid for up front. This will get rid of any natural advantage environmentally unsustainable activity has over sustainable activity. Taxation will probably have to be used to make sure costs are paid for. Such taxes should be used to fund environmental recovery.

Currently there are royalties paid by the mining industry and petrochemical industry but otherwise not much else of this sort.

Extractive industries should be taxed, polluting industries should be taxed, preferably at source. Activity that degrades land, water and biodiversity (including fish stocks and the seabed in our EEZ) should be taxed with the taxes going to a fund government and NGO activity that restores and improves our environment (and the associated scientific activity). Such a tax system needs to take into account importing and exporting so that we aren't merely transferring our environmental impact overseas.

## 5 Technology

As noted above automation will destroy existing jobs. Internet commerce adds to the transfer of jobs out of NZ. Other disruptive technology (like Uber) casualises work. All of these require a broader tax base to compensate..

International internet commerce can undermine the GST system because it is difficult to enforce overseas. An alternative approach to GST is probably an easier alternative to trying to enforce GST abroad or trying to turn NZ Post and courier companies into tax collectors. Currently most international internet commerce is carried out via a tiny number of routes (PayPal, VISA and Master Card). It is probably easier to get these agencies to charge and collect the GST upfront and try to collect it after the fact. These companies will probably have enough information about each transaction to understand the difference between a domestic transaction, a transaction while travelling and international internet commerce. Other methods of payments may start to compete with these 3 but if we anticipate change the tax system can adapt faster. Ultimately it may turn out to be easier to replace GST with a universal transaction tax.

IRD has gradually introduced online technology to assist in tax collection, especially for GST (Income Tax and Provisional Tax have lagged behind). This effort should continue and possibly accelerate.

# 6 Improving Productivity

Because NZ doesn't tax wealth, investing in assets (particularly land and houses) makes more sense than investing in businesses. Taxing wealth (in particular land and houses) should move more investment into business and increase productivity.

Culturally NZ businesses don't value training staff. It may be worth allowing business to claim more than 100% of staff training costs for a few years to try and change NZ business culture.

# 7 Inequality

Only apologists for the current economic management would claim that inequality isn't increasing in NZ, especially with respect to wealth and the rise in executive level salaries compared with minimum wage or middle class salaries.

The rise in wealth inequality might be slowed a little by introducing taxes on wealth.

# 8 Globalisation

As noted above globalisation contributes to the loss of jobs in NZ. International online commerce usually avoid GST (and possibly duty as well).

Multinational corporations organise themselves to avoid or evade paying tax in NZ (and some manage to avoid almost all tax anywhere in the world). Transaction taxes including between subsidiaries and parent companies or between sister companies can go a small way to addressing such issues (while collecting data on them). NZ should not be seen as a follower when it comes to making changes in this area.

Trusts and shelf companies can be used to hide assets and income streams from tax agencies. The use of NZ trusts has declined since recent changes to trust law, but the use of NZ shelf companies to achieve a similar purpose hasn't. IRD should take a more active role in trying to stamp out the practise, including suggesting law changes. If NZ IRD is seen as a good partner by other tax agencies it might be possible to leverage some quid pro quo the other way.

As you say, the world and NZ are changing and the tax system needs to change to cope. Many of the assumptions the NZ tax system is based on are changing and some assumptions (like wealth shouldn't be taxed) weren't true in the first place. Companies and people are always changing their habits to avoid paying tax. Tax systems need to change to cope with this natural change in behaviour, otherwise the tax base will get eroded. Tax can be used to change behaviour (Tobacco Tax, Alcohol Tax, Congestion Tax, Sugar Tax, Carbon Tax etc). Though these could be seen as a way to use IRD to implement health and environmental policy.

The gap between personal and company tax rates is an obvious flaw in the system.

# Broadening the Tax Base

Broadening the tax base is a solution to many of the problems outlined above.

## Wealth Tax

Not taxing wealth and assets is the biggest hole in the NZ tax base and one that has distorted the NZ economy for generations. In particular the taxation of land and housing is the most significant part of this hole in our tax system. While taxing the family home has been removed from the scope of the tax working group, it should be possible to suggest wealth taxes structured in a way that can easily be extended to include the family home once there is a political appetite for it.

A capital gains tax is often the first wealth based tax people think of but it is difficult to come up with a workable and fair capital gains tax that doesn't have its own distortions (such as encouraging people to just hold onto assets for a very long time to avoid tax meanwhile leveraging those assets for untaxed economic value). A wealth tax where assets are taxed as if they were interest-earning term deposits with a value equal to the insurable value of the asset, means that wealth incurs tax every year, not just when it is sold.

## Transaction Tax

GST is a good and straightforward tax. A transaction tax is another simple tax. NZ has a small financial system where most transactions go through one of 4 main banks or a similar number of smaller banks. The two main credit cards are mostly operated via the banks and most of the electronic payment systems are also linked to those banks. NZ has no land borders, it is at least 2 hours by plane to any other country.  Implementation of a transaction tax for all but cash transactions would be much simpler in NZ than most other developed countries. Cash usage is on the decline with many people under 30  years of age rarely carrying cash.

A transaction tax can be used for international online transactions more easily than GST.  It can also gather tax from multinational companies transfering money out of NZ.

A transaction tax could be seen as an addition to GST or as a replacement for it. If a transaction tax replaces GST then it could happen at one date or gradually (with GST decreasing from 15% to 10% to 0% while the transaction tax is increased to whatever rate is necessary to take the same amount of tax)

## Resource Taxes

Resource taxes are more a way to implement environmental policy by put a realist cost on environmental degradation than raising revenue. The money raised should probably all be used to restore the environment.