Tax Working Group Public Submissions Information Release

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Submission to the Tax Working Group

Background Paper: Future of Tax

Jim Newfield

27 April 2018

This submission does not attempt to answer the questions raised in the background paper, but takes another approach to providing the feedback that the Tax Working Group seeks.

First this submission highlights some of the themes presented in the background paper and from those comments presents an idea that I believe is not only open to the Tax Working Group to consider but is vitally important to its work. The Tax Working Group's report is less likely, in the foreseeable future, to be side-lined by evolving societal developments if it appreciates the point of this submission.

I applaud the high quality and the thoroughness of the background paper. It is an informative description of the present tax system and some of its history and of the immediate talking points. My approach in giving my feedback is surely built on the range of information in the background paper and, while not responding directly to its questions, this feedback does not imply that the background paper does not serve its intended purpose.

The particular items in the background paper that underlie this submission are:

- The changing nature of work;
- Technology;
- Inequality; and
- Globalisation.

While the background paper deals with these items individually, I believe that their interaction is more important, not least because they are to some extent mutually enhancing. This interaction is inevitable and long-term. The one-decade focus of the review is no excuse for the Tax Working Group not to report on the trends nor to suggest that we do not need to start preparing for them.

The background paper rightly draws attention to the global-market aspect of globalisation. However, another fundamental driver of markets becoming more global is relevant. Undeveloped economies, characterised as having "cheap labour", have been determined to better utilise that resource by making low-cost merchandise that is wanted by the consumers in more developed economies. At the same time, technology is allowing those more developed economies to move towards higher-skilled activities that are much less labour-intensive and some are inconsistent with the traditional nature of work.

The result, particularly in the more developed economies, is more people who lack enough up-market employable skills and become "left behind". This gives us inequality, and it reaches levels that are socially unacceptable. I see no reason to believe that it will spontaneously go away. Fundamentally, relying on wages, with a little help from welfare and the tax system, to distribute prosperity will soon no longer be good enough.

No simple answer is apparent. But I believe that your consideration of the Future of Tax and the following review of Working for Families must begin the conversations on these interactions and their consequences.

In response to the emerging trends, a few commentators have already proposed major changes to the transfer systems, involving increasing taxes and paying every resident citizen a basic income. One of the manifestations of inequality is "child poverty", and one of the high-cost periods of having a child can be the period before the birth of that child. So I see the basic income, or any similar solution to the issues, starting at conception and continuing through life, in due course incorporating New Zealand Superannuation.

But whatever the mechanism, I believe that the implications are too far-reaching for the mechanism to be part of the welfare system. Welfare's role is to address individual hardship, likely to be short-term. Welfare cannot be expected to be the answer to a societal rather than an individual problem. The trends coming at us require a solution that is universal and relatively simple to administer. New Zealand Superannuation appears to be good model, if the practical solution to the new problem is found to be compatible with that model.

Regardless of the mechanism for this future distribution, the impacts on the tax system are substantial. I believe that they cannot be ignored in the present review. The terms of reference indicate that the tax take should continue to support traditional levels of government spending, at about 30% of GDP. The purpose of this constraint must be to focus the Tax Working Group on the mechanisms of taxation, rather than on any changes to the effects on the economy of the taxation system. The economic effects of taxation must be dominated by taxation's predominant feature: taking discretionary spending away from individuals and entities in society, and passing that spending to the state. Transfers are not part of the taxation revenue that is passed to the state; transfers instead move spending ability between individuals and societal entities.

I suggest that the Tax Working Group will be more helpful if, in appropriate circumstances, it interprets that element of its terms of reference as providing for government spending, other than basic transfers, remaining at its present percentage of GDP.

The increase in taxation required to solve the issue I am addressing would certainly be significant, though, having its own economic impacts. This indicates two challenges. The first is to find a process that works and is an acceptable solution to the issues that are trending-in. The second challenge is to devise a workable transition over some years, because such large changes cannot be made quickly without risking social disruption.

I do not know the answers. But I believe that the working group and its support structure has the astuteness, the skills and the knowledge to suggest useful next steps to the government. I also realise that the working group is likely to be dealing mostly with deeply-felt public concerns about the present taxation arrangements, but I urge that this not be at the expense of the future effectiveness of the taxation system as part of delivering solutions. By dealing properly with expected future issues that have already introduced themselves, I believe the Tax Working Group will be elevating its work to the conceptual level, rather than just meddling in the current detail.

Jim Newfield

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