Submission to Tax Working Group

Purpose of a Tax. Taxation is Revenue for the Crown and a tool in fiscal management.

As a rule, an essential part of taxation system is for the Crown to tax all gains in a nation as the entire community has benefited from the economic and social stability that stable Government has provided. All participants of that society should contribute to the financial cost of generating the desired social conditions. The principle should be “where wealth flows—the State should clip the ticket for a share of it”. The current New Zealand tax system is seriously unbalanced.

Of concern is living in a culture which believes in obtaining money – effortlessly– by rent-seeking, most of it non-taxable, which is a form of manipulation and distortion of the economic system. It is not something to be valued in an economy, and changing this culture is imperative.

Present taxation system favours a minority, i.e. more affluent who own assets. The less affluent live off taxed wages or income and don't have the ability to earn money effortlessly.

The present system favours a disincentive to innovate, to take risks, in favour of collecting effortlessly economic rent from an asset (both on revenue account and capital account, with the latter rarely taxed). Much of this “wealth” is inflation generated.

New Zealand – and Auckland in particular – has some of the most unaffordable housing in the world. Those who are lucky enough own such an asset are effortlessly rewarded, those who don't own homes find themselves without a roof over their heads.

We should use our tax system to incentivise or discourage certain behaviours. A tax system should promote health and wellbeing behaviours, encourage productive investment in the goods and services we need, and discourage speculative activities. It should also facilitate the competitive practise and work against oligopolies and monopoly’s.

A case can be argued for Charities to be tax exempt as they perform many of the social functions that would be performed by Government if those Charities did not exist.

Capital gains tax

All gains in asset values that are **realised in cash**, (or cash equivalent) excluding the family home and land thereon should be subject to a Capital gains tax. The rate should be high enough to discourage speculators and bring in Revenue for the Crown. It should be set at the top tax rate for individual tax payers i.e. 33%. We should explore the Australian Capital gains tax systems as to its suitability for the New Zealand environment.

Funds derived from a Capital gains tax should be used to reduce personal income tax, for lower and middle income New Zealanders.

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Imposing **a tax on an increase in asset value that <u>has not been realised</u>, in cash, is fickle, should <u>not</u> be implemented.** To do so may result in the assets, or a portion of it, needing to be sold to pay the tax. (you cannot sell half a valuable work of art such as a painting). Furthermore, assets go up and down in value over a period; e.g., share investments, thus making it difficult to determine when such a tax should be imposed.

There is already a strong resistance in the nation to the current system of rates of Local Authorities based on valuation of properties rather than a charge per household. Under the current rates charging system some retired and other low-income people have had to sell up their homes, leave their communities, as the rates charged have become exorbitant due to house inflation. Taxing on an increase in asset values will furtherer exacerbate the problem.

Sugar Tax.

The health problem of obesity in New Zealand is the result of the consumption of foods that have a high sugar content. We need to encourage a healthier life style in choice of food. A sugar tax should be imposed on sugary soft drinks such as was imposed in the UK from 2018. Consideration should be given to imposing it on all processed foods. To offset this, remove GST on fresh fruit and vegetables. We need to tackle the rising rates of obesity and type 2 diabetes.

Taxation on Banks and other large financial institutions.

Both the United Kingdom and Australia have an "excessive profits" tax on their large banking and financial institutions. (See Australian Federal Budget 2017, additional taxation on banks.). The Australian banks in New Zealand are essentially an oligopoly, that gouge the New Zealand economy under the disguise of them being “Strong Banks .” Exempt smaller NZ based banks i.e Kiwibank, TSB and credit unions by way of a universal size limitation based on liabilities or turnover (e.g. apply such a tax to institutions greater than $1.5b gross income). As the Australians found this incentivized competition in bank interest charges and fees, between the smaller and larger financial institutions.

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Land banking as a speculative investment of land zoned residential.

Given the current national housing crisis **Land banking** by speculators in residential zoned land, that do not have dwellings constructed thereon, needs to be discouraged. Such vacant residential zoned land areas should have a "Residential Vacant Land" valued add tax imposed (rate of 33%) as a disincentive to hold land that is required for housing. This is creating the incentivisation to build residential accommodation for rent or sale, to avoid paying the tax, thereby increasing the supply of residential properties.

Provisional Tax for small business: -

AIM method of provisional tax for small business is time consuming and does not address the cash flow problems of small business. Small business struggle to get their debts paid in a timely manner and end up having to use bank overdraft to pay provisional tax. Move away from accrual accounting for provisional tax calculations for all small business with an annual turnover of less than $5m. Implement **a cash basis** for paying provisional tax. It will be based on what the business "actually receives in **cash**, less what it pays **in cash**", for all taxable sources, at a prescribed rate; i.e. net cash over a defined time period. (Non-taxable cash flows are excluded.) The prescribed rate could be either:-

I. The ratio of residual income tax (RIT) to all taxable Gross Revenue for the previous year, or
II. On a prescribed rate that is specified by the tax payer. There needs to be a requirement that 80% of total tax payable for a year is paid as provisional tax to prevent gaming. Failure to meet this target results in use of money interest applying on all tax payable for the year less provisional tax paid.
III. Synchronise timing of provisional tax payments along with GST payments.

A spread sheet with an example of how this could work is attached to this email.

Taxation supporting monetary policy.

The Official Cash Rate(OCR) is not the lowest rate of interest charged on loans in the nation. Some mortgage brokers have access to large funds of off-shore money which through a variety of financial instruments have an interest rate less than the Official Cash Rate. (In the past Japan has been a source of such funds). Access to this source of finance has flowed into the housing market, and in doing so has undermined the economic purpose of the Official Cash Rate. It has been a contributor to housing inflation. Either restrict the source of such capital inflows into the nation or charge a differential tax on the difference between the OCR and that interest paid where the rate is less than the Official Cash Rate, to bring the effective loan rate up to the OCR.

Carbon Tax.

The reality of climate change needs to be faced. If we are to move away from fossil fuels, carbon pollution etc, to other sources of energy, then the issue of Carbon taxes, and the trade ability of Carbon rights needs to be revisited. The upside is it generates greater incentives for forest owners, and continued investment in trees, with a down side to dairy farmers (and other polluter industries) thereby threating their viability. Any such tax would need to be introduced at a very low rate and over a considerable period, but even then, it signals that we cannot continue with current behaviours.

From:-

John D O'Malley. C.A.
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