

Tax Working Group Public Submissions Information Release

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Summary

A reduction of the business tax rate is not supported.

- Businesses benefit from a range of under-acknowledged (and poorly quantified) current and future publicly funded financial subsidies as a consequence of the operation of a low wage and gig economy.
- Some business sectors receive indirect subsidies and benefits over and above those referred to above due to the nature of their activities.
- Market failure creates unfunded costs which are carried by the government and the public.
- All businesses that carry out activities in New Zealand should pay (and collect) New Zealand taxes, especially if they have a physical presence in New Zealand.
- Insufficient taxation of the business sector can be seen as a dimension of the problem of private profit and public loss.
- Until these subsidies and benefits, and the effects of low wages, gig employment, and harmful activities, are eliminated there remains a very strong argument against any reduction in the current corporate tax rate.

Low wage economy

The employee component of how businesses are run provides an important example of the direct and indirect benefits provided to the business sector.

Wages and salaries, but especially wages, are low in New Zealand. Often family or household income is discussed in an abstract way using means and medians without recognition of the underlying fallacies. Despite increasing income disparities there is no public quantification or analysis of the distribution of incomes or where the mode occurs. Consequently it is easy to portray New Zealand as not being low income when the situation is otherwise.

There is no evidence of a serious intent within the business world to raise wages. What is important is that, because wages are low, the Government has become obliged to provide income support via direct and indirect policies. This support is a subsidy to the entire business sector.

For many families their income is insufficient and they receive direct help through working for families. Less direct, but no less a subsidy, is the assistance provided via child care, school, and health subsidies, food banks, plus emergency living expenses

support from MSD. Low income families also experience housing, health, and education disadvantages with immediate costs and long term consequences. These are costs the Government (and therefore society) picks up because in large part employers pay low wages.

There are two major future benefits received by businesses. Low wages mean little or no capacity to save for retirement. Even KiwiSaver provides little of a future outlook for workers on low incomes. The situation deteriorates further for those with a reduced or flexible hours working week. Women not receiving equal pay are additionally disadvantaged. A lack of sufficient retirement provision now will mean greater need for Government support when retirement comes.

The gig economy will become the worst of all options for workers. Owners of the gigs have great flexibility to minimise their costs. Workers will have no long term employment future, no prospect of reliable income, and may need welfare support between gigs.

Projecting these issues into the future it is clear, even with the corporate tax rate remaining the same, an increasing number of workers will find themselves and their families needing a continuum of Government support from when they commence work through to life's end because of the low wage economy. Private profit, public loss.

Reducing the business tax rate would exacerbate this situation.

Sector subsidies

A number of sectors are currently subsidised by the state.

Two large revenue earning sectors receive significant direct and indirect, current and future, benefits: farming and tourism.

Dairy farming consumes, and often degrades, the environment in which it operates. The consequences of currently degraded water quality falls on local and central government to fix. Continuing degradation can be expected and there is increasing risk for those areas where water extraction is high. Cities and towns reliant on safe ground water for reticulation may be required to introduce expensive water schemes. The costs for dealing with the problems are not paid by those who cause them.

Tourism in particular receives major subsidies through the provision of infrastructure and facilities, and having no liability for the environmental harm associated with their industry. Much of this a cost to central and local government. Tourists (external and internal, but especially the former) do not pay the full cost of the provision of the facilities they use. In addition, the cost of their use of local and natural resources is covered by communities and future generations and in no way reimbursed by the tourism industry.

A similar argument can be made regarding those industries that produce goods containing high levels of sugar. The Government provides, unfunded, their after-sales support via dental care for the young and health care for all ages. As with smoking, each dollar of health care funding consumed through sugar-related problems (diabetes, the consequences of obesity) is a cost that could have been avoided.

It may be that sector specific taxes would be a more equitable approach. The point to be made is that businesses do not carry the full cost of their products or activities and it is inappropriate to reduce their taxation contribution until they bear the costs they incur.

Market adjustment or failure

Every time there is a market adjustment or failure the consequences include redundant workers, unmet tax liabilities, and creditors unpaid. Be they big or small businesses the government i.e. the public, pick up the immediate and long term financial and social costs. Businesses in general must contribute to this as they are the risk society as a whole is underwriting.

All businesses must pay

All businesses that carry out activities in New Zealand should pay (and collect) New Zealand taxes. While the case of multinationals presents both difficulties and possibly threats they still need to make their contribution to the New Zealand taxation system based upon the amount of business they do.

The situation of Charitable companies needs to be revisited to ensure that the exception to the rule they represent remains valid.

Conclusion

The possibility of reducing business tax rates needs to be weighed against the cost and future debts business incur, and will continue to incur, with the current low wage economy.

Until it is demonstrably clear that businesses are more than meeting the current and future costs of their activities there are no grounds for reducing business taxation.