Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

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23/4/2018

Submission to Tax Working Group

I would like to see some research & modeling put into an Automated Payment Transaction Tax (APTT) as the main source of taxation along with a comprehensive Land Value Tax (LVT)

- The current tax system is very complicated and open to manipulation by those with high net worth who can afford the right accountants and lawyers
- There are differences in how tax is captured and avoided by local businesses and foreign owned businesses. GST and Company Tax does not result in a level playing field for online trading or revenue shifting by corporates to low taxation jurisdictions
- Property has significant taxation advantages over other forms of income that has seriously distorted the investment profile of New Zealanders.
- An APTT is essentially a turnover tax levied in real time, through the computerised banking system, on every transaction in and out of a given account. It does not apply to transfers between an individual's, company's or trust's accounts within New Zealand but does apply to transfers offshore eg Apple NZ - Apple Ireland and from one related entity to another eg company - trust – individual or company - subsidiary
- A Land Value Tax (LVT) would be an annual levy on the underlying value of land of a significant enough percentage to make short term speculation in property unviable and long term land banking not without financial or opportunity cost. There is the opportunity to do away with local body rates, residential & commercial and instead fund local government with a share of the LVT
- An LVT would become difficult for retired people on low incomes. If they were so assessed, they could pay a smaller percentage with the rest commuted at zero interest to be paid from their estate or until the next sale of the property
- These two taxes would not preclude other smaller taxes to change societal behaviour in a desired fashion ie excise taxes on alcohol, tobacco, fuel & possible dietary incentives like a sugar tax. There is also plenty of room for environmental/pollution taxes to incentivise changes in individual and company behaviour in line with global warming & biodiversity targets
- An APTT & LVT would be virtually unavoidable and would tax the transactions and proceeds of the considerable black market and "cash under the table" transactions. Foreign & domestic companies would be on a level playing field with backyard operators
- There would be significant reductions in time and money for businesses and individuals to manage their tax affairs

Tax policy in New Zealand seems to be a perpetual game of fiddle and tweak by the two major parties, with one unintended consequence after another as various forms of income are taxed at different rates (or not at all). As Gareth Morgan and Susan Guthrie pointed out in the *Big Kahuna*, many of the nation's wealthiest people minimise their income tax and pay little to no tax on their financial assets, especially property. They are free to move their wealth from asset class to asset class as tax policy changes, aided and abetted by a cadre of lawyers and accountants. Meanwhile the middle class salary and wage earner is bound by PAYE that is difficult to avoid, hence the popularity of negative gearing on property and offsetting income against mortgages on properties subject to tax free capital growth. The 20th century was a story of increasing income and consumption taxes and decreasing property, inheritance and import taxes. This has been accompanied by a range of tax breaks, exemptions and deductions that change on a regular basis and often require an accountant to administer. Who gets these breaks is often determined by political influence and lobbying and creates further distortions.

The Automated Payment Transaction Tax (APTT) offers the possibility of a broad based, nearly unavoidable form of revenue raising, with a low rate. It is progressive in as much as it affects the wealthy more than the poor despite its flat rate**. In effect it is a turnover tax, levied against every credit and debit from a given bank account, collected by the computerised payments system of the banks in real time.** All existing deductions, breaks and current personal income, corporate and consumption taxes would be dispensed with. No one need file a tax return again. No company would require an accountant for tax, only business planning. Other taxes to encourage or discourage particular behaviour like drinking, smoking, fuel consumption etc could still be levied but they would not be deductible expenses. A business either makes a profit, which its shareholders keep; or it makes a loss. No paper losses carried from one year to the next offsetting future profits. It would perform the role of stamp duty, capital gains tax, payroll tax, Financial Transaction Tax, inheritance tax, sales tax, import and export duty, Resident Withholding Tax…..The wealthy who move their money around a bewildering array of personal, company and trust accounts would have their money clipped at each step. Move it offshore – it gets clipped. Move it back – it gets clipped. Buy or sell shares – it gets clipped. Buy or sell property – it gets clipped. Inherit your parents estate – it gets clipped. Give your children some money – it gets clipped.

Its biggest threat is cash and barter.

Barter can be discounted as inefficient and unpopular. Not to say it wouldn't happen, just that it is unlikely to be significant.

Cash would be more of an issue as it could circulate without being picked up electronically. However it does not do this indefinitely. It was estimated in the US that cash was used for payment 2.5 times before returning to a bank. A higher rate of tax could be applied to cash withdrawls and deposits to compensate and discourage the cash economy. Alternatively, New Zealand is particularly well placed to become a cashless society with its very high adoption of EFT-POS and online banking services. This would make an APTT completely unavoidable and capture the black market economy, which is significant, raising more revenue and reducing criminal laundering opportunities. It also gives backyard operators, who currently do not pay company tax or GST, no advantage over legitimate businesses.

Another possible threat would be alternative electronic currencies like Bit Coin or unofficial local currencies. Local currencies have the same inflexibility and acceptance issues of barter. Non official electronic currencies could be banned as they have been in several countries already.

An APTT also neatly gets around the issue governments and local retailers have with online sales. Unlike GST, the tax would be payable on all online transactions creating a level playing field for foreign and local retailers. Credit card transactions would be taxed along with all other forms of payment. Indeed given the local retailer is no longer subject to income or company tax, they may well have a cost advantage over their foreign competitor, which they can pass on to their customer, use to improve profitability or reinvest.

There would also be a significant reduction in time and money spent on tax compliance and collection, at an individual, business and bureaucratic level. Remember no tax returns.

The financial sector would hate an APTT and predict Armageddon, as they are wont to do when their money making ability is threatened. Without a doubt many short term currency and share transactions would be unprofitable and liquidity, the number of transactions, would decrease, also reducing the APTT's potential take (the APTT rate would reflect this). Perhaps it would increase price volatility as the trader's claim. So what? Maybe the NZD would adjust to something more akin to its fundamental value based on trade and long term investment rather than its speculative value based on sentiment and momentum. Anyone who has seen the NZD crash because of a global panic can hardly say liquidity provides stability, especially when it's most needed. In fact the opposite is true as all the hot money runs for the exit at once.

Banks and foreign investors would have to look for long term opportunities to build value rather than short term speculation. Remember they would have no corporate tax to worry about, a big plus to long term investors. The APTT would clip their money coming in and leaving, regardless of whether they made a profit or loss and there would be no deductions to claim. This would create a level playing field between industries as well as within them.

Multinational companies that arrange their operations so that they pay little local tax would have their money flows taxed as they left the country, whether they made a paper profit or loss. Ditto foreign property owners. It is hard to say how an APTT would affect the attractiveness of New Zealand to Foreign Direct Investment. Investors would have to make long term judgements weighing up the new unavoidable APTT, payable win or lose, against the prospect of no personal or company taxes but with no tax deductions to be claimed. Speculators would probably look elsewhere for places to inject their hot money. Good.

As US economics professor Edgar Feige put it;

The APTT tax reform would create winners and losers – but along lines that most people would find desirable. The greatest beneficiaries will be those whose current level of taxes are considerably reduced, primarily wage and salary earners with modest assets. Those most likely to perceive themselves as losers are individuals and financial institutions that make markets for assets, along with those who sell advice on how to minimize taxes under the current opaque system.

A LVT is an old concept advocated by Adam Smith and David Riccardo but most famously by American economist Henry George in the nineteenth century. Its central tenet is that landowners unfairly reap the capital gains of improvements made from the public purse. Winston Churchill succinctly said in a speech to parliament in 1909;

"Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains - and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived."

While in some respects capital gains from property has since been spread into the middle class and created a vociferous group of property owners who will be deeply concerned about potential flow on effects and reductions in their property value, the stick of LVT has to be weighed against the carrot of removing other taxes and replacing with a low APPT. The distortions to the economy that over investment/speculation in property has are widely acknowledged as exacerbating inequality and holding back investment in productive businesses. Making financial speculation in land more difficult and reducing property prices over time will be resisted but supported by just as many. As a former SME owner who derived a high income from my business but gained less from its sale after 8 years of very long hours and employing dozens of people than my central Auckland home made in capital gains with no improvements, it discourages me that the current system provides little incentive for risky business ventures over seemingly guaranteed property investment/speculation.

Just as significant as unearned gains from public improvements and rezoning, is the inflationary effect of bank credit creation for mortgages. A LVT by putting downward pressure on property values would make banks less cavalier with their lending. You cannot reduce the inequality stemming from home ownership or its unaffordability for many and regard house price increases (inflation) as “good”. They are incompatible.

On a broader level there needs to be greater recognition of Modern Monetary Theory. Even the Background Paper of this working group refers to tax as funding spending when this is logically not the case. Governments are able to spend without debt or a pool of tax receipts. MMT clearly holds that taxation is there to control inflation and mitigate the effects of income inequality, not to enable subsequent spending. It is spend then tax, not tax and spend.

New Zealand with a free floating sovereign currency, the Government being its only issuer, is not like a household or business, and can never run out of money. The RBNZ as the government’s bank can create reserves at will. Government Bonds traded in Open Market Operations are there to help meet interest rate targets, not to fund spending. As long as they are denominated or hedged in NZD the government can never be forced to default.

Once these things are acknowledged, taxation & spending decisions become political issues rather than fiscal ones. Likewise the narrative around deficits being “bad” and surpluses being “good” is ill founded. If the government runs a surplus, for the economy not to retract, the private sector must increase debt from the financial sector and/or the country run a trade/current account surplus.

If government debt is not really debt but instead a swap of reserves for interest paying bonds; and taxation is to mitigate inflation and redistribute wealth not a source of income; the entire orthodox conversation around tax and government spending priorities, the RBNZ’s inflation targeting with interest rates & NAIRU, is intellectually and morally dishonest. The mainstream narrative enables people to claim there is not “enough money” for health, education, housing, true full employment etc when this is demonstrably not the case. Excessive government spending via the RBNZ creating reserves can certainly create inflation if there are not enough resources to meet demand or if taxation policies leave too much money in the wrong sectors of the economy but that is different to claiming tax receipts are a prerequisite to fund spending on social priorities. Make an argument for lower government spending on ideological grounds by all means but don’t use fiscal constraint as an excuse

Stephen Keys

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