

Tax Working Group Public Submissions Information Release

Release Document

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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.

[1]

23 April 2018

Tax Working Group Secretariat
P O Box 3724
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Dear Sir/Madam,

Submission to the Tax working Group

1. What does the future of tax look like to you?

I agree taxes are required to fund vital public services that underpin our living standards. However I am concerned at the inequality of our present system.

The main taxes we have being Personal income tax, Company income tax and Goods and Services Tax (GST) are necessary in order to obtain monies for Government purposes. I feel there is no need to dispose of any of these taxes but merely create some fairness within these taxes.

There is no need for a land tax (creates cash flow problems for those asset rich and cash poor) or varying company tax rates (creates income shifting or formation of more companies). I also feel there is no need to limit property rental losses against other income.

The only new tax I would support is a Stamp Duty, and a proper tax on so called capital gains or a separate Capital Gains Tax.

2. What is the purpose of tax?

As mentioned, taxes are required to fund vital public services. The system we have at present is relatively simple but this is a poor excuse to avoid rearranging criteria within income tax and GST.

For instance, GST on food items is not necessary. Australia cope with not taxing food items and the reasons given by so called experts that administratively it would be too hard to implement in NZ is ridiculous. GST on Government and Council charges also creates a tax on a tax scenario and should not incur another 15%.

I do not believe in using tax to discourage certain behaviours such as Excise duty on tobacco and liquor. What has developed is a severe social issue with dairies and liquor stores being targeted for burglaries. I am of the opinion that the least wealthy people will still buy cigarettes and liquor ahead of food for their families. A sugar tax wouldn't necessarily create any less obesity. Poker machines may provide various funds for the community but many customers are addicted thus creating a wave of child poverty at home.

3. Are we taxing the right things?

Tax is presently collected on income from \$1 upwards. This income would include all benefits. I feel a benefit is a benefit-there is no need to tax these lower incomes. Benefits needn't be in the tax system and should be managed by Work and Income.

There should be a tax free level for income tax on \$20,000 or less. This would eliminate collection of income tax on benefits including superannuation. It would also allow interest to be being tax free up to \$20,000 allowing growth in retirement savings.

Property speculation has been rife in NZ for decades. A weak tax law on "what is income" has allowed profit made on property to be tax free. Anyone can make up a reason "why they did not purchase with the purpose or intention of selling" or when selling why something "forced" them to sell.

In my mind income is income whether it is by way of a profit on sale of property, a sale of a business, or any hobby interest that involves buying and selling. The seller of Trade me to Fairfax interests admitted he was embarrassed that no tax be paid on his multi-million dollar profit. I therefore support a tax on these capital gains as part of income tax.

GST needs to be collected on imported goods purchased on the internet. The retail sector is being savaged by items being purchased on the internet. Goods purchased this way should be charged GST to create fairness to retailers in NZ. Australia will require offshore suppliers to charge GST for on line sales below \$1000 from 1/7/18. A similar law should be instigated here.

The status of Charities should be reviewed. Some breakfast cereal manufacturers, health insurance providers, religious groups etc. should not have a tax free status.

The tax brackets should be increased with inflation. i.e. the 30% rate which starts on income \$48,001 to \$70,000 should be rearranged to be \$50,001 to \$72,000 or thereabouts. The 33% rate which starts on income over \$70,001 should be lifted to \$72,001 or thereabouts.

Company tax should be lowered over time to 25% in the \$1. There is no need to have any special rate for smaller companies otherwise tax advisors will just form more companies to spread the income.

Imputation credits (franking credits) on dividends from Australian shares should be allowed in NZ. The Australian share market provides more diversity and spread than the NZ market. It is unfair imputation (franking) is not allowed as a credit on Australian dividends for NZ taxpayers.

Tax rebates are allowed on donations. Health insurance should qualify for a similar rebate as this would help relieve the public health system for those who wish to insure themselves and not overload the public health system. Some consideration should be made to allow mortgage interest as a rebate for home owners.

There should be a higher penalty for tax evasion and fraud. Too many "home detention" sentences are given to white collar criminals. Directors and shareholders of companies are dealt with lightly, and

companies simply wind up and seem to be able to start up again under another name. Business owners and “tradies doing cash jobs” who don’t declare income are ripping off the GST and income tax systems with each dollar kept. A report from Inland Revenue reported in the NZ Herald 21/4/18 estimated they are missing out on \$800 million a year as a result of self employed underreporting income of 20%. Welfare fraud on the other hand usually involves a prison sentence and repayment over several years creating a situation of one rule for the rich and one for the poor.

4. Can tax make housing more affordable?

A capital gains tax is only fair. This will stop the speculation and avoid legal tax cases involving issues over what are income, what the “purpose and intention” was on purchasing, and the reasons for selling.

A bright line test of 2 years or 5 years is still not sufficient. Any profit made on a property other than the family home should be taxed as normal income at normal income tax rates. If that is not acceptable, a capital gains tax needs to be introduced like it should have been 30 years ago. Furthermore, relying on the seller to declare income within 2 years or 5 years is not sufficient. There needs to be a system that such a sale (and resultant profit) is reported to Inland Revenue during the legal property transfer process. This will then ensure the seller does declare any profits within the 2 year, 5 year or other period.

This will allow proper investment in rental housing and steady the property market, by slowing the increase in property prices and rents.

Unfortunately a tax on what has been regarded as capital gains can also create a problem on a downturn such as happened following the share market crash in 1987. A raft of claims for tax losses arose shortly after a clampdown on share market transactions prior to 1987. Therefore there should be a limit on claiming capital tax losses-i.e. ring fenced to be claimed only against income from capital gains. No rollover relief should be applied.

A capital gain realised should be taxed but only for assets purchased from the date of introduction of any capital gains tax. This to include all types of assets including those held offshore, in family trusts, in Kiwi saver, or any other savings schemes-also gifts and gambling/lotto winnings. Death, emigration and immigration situations should be liable for the tax on any capital gain on assets purchased after introduction. Only the family home for those owners who have lived in that home for a minimum of two years should be exempt. Builders should not qualify for the exemption.

There is no need to limit normal rental losses (legitimate expenses exceeding rental income) against other income.

Stamp Duty should be applied to buyers of NZ property. As in Australia stamp duty should be applied to all property purchases. A higher stamp duty should apply to foreign (non-resident) buyers.

Foreign buyers (non-residents) should not be able to buy existing established homes- New houses or apartments only.

5. What tax issues matter to you most?

GST on “cold” food is not necessary. Prices for food items are 15% more than what they are in Australia for the same items sold by the Australian supermarkets in Australia and New Zealand. Milk subsidies may need to be introduced as Fonterra are profiteering out of milk, cheese and butter sold on the domestic market. Milk is \$1 litre in Australia yet \$3 litre in NZ-which doesn't fare well for so called efficient NZ farmers.

GST on government and council charges is not necessary.

GST needs to be collected on imported goods via the internet. This will help the retail sector in NZ.

Income should include any profit made on property (other than the family home) and sale of businesses. Whether the second property is sold within 2 years or 5 years or 20 years makes no difference. We need the income (less an adjustment for inflation) to be taxed either as additional income or a special capital gains tax.

Higher penalties should apply to tax evasion and tax fraud. Multinational companies need to pay their fair share of tax made on income earned in NZ (or have certain inter group expenses disallowed).

Income tax rates should include a tax free income limit of \$20,000 per individual, and an adjustment to the tax rate of 30c and 33c for the income brackets of \$48,000 and \$70,000 to make allowance for inflation.

Tax rebates should be allowed for health insurance, and some consideration be given to homeowners who pay mortgage interest during the tax year .

Imputation (franking) credits from Australian shares should be allowed against Australian dividends received by NZ residents.

Stamp duty to be introduced on all property purchases with a higher rate for foreign buyers (non-residents). No foreign buyer to be allowed to purchase an existing established residential home.

Yours faithfully,

Trevor R Forward

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