Tax Working Group Public Submissions Information Release

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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.

Introduction

I have been interested in the area of tax policy and welfare for some years, and particularly during the previous few election periods.

My background is previously as an actuarial analyst working for Tower Insurance, and AMP. More recently I have been a stay at home mother and land lord. I have been involved in volunteer work including budget advising, school committee fund raising, and science lab work help at the local school.

I am in my early 50s but managed to accumulate enough wealth to retire along with my husband in my early forties due to hard work and studying, saving and investing in a few rental properties. I am at the tail end of the despised baby boomer generation or maybe I am the first of the generation X?

I read the Tax working Group paper with interest and at first thought it would be a waste of time making a submission. But I find myself drawn into reading news reports on Stuff, and making comments on articles. I have a range of experiences with my finance/insurance and property background but also have seen the plight of budget clients and tenants.

My view is you can't separate tax issues and the welfare system as they are totally entwined. I think what is needed is to look at both together and come up with a "Theory of Everything".

However, the scope of this working group is to look at tax alone so I have chosen to comment on just a few areas of tax that particularly interest or affect me, however there is a bit of a cross over into welfare. I also have explained a few new ideas/concepts that I have that are a bit different from the usual list of taxes but haven't commented on every issue as I am sure there will hundreds of people all making the same points on some issues. I am happy to discuss these ideas further or put more time into developing them.

I believe the tax system should be:

- Simple to understand
- Not create silly behaviour trying to avoid it
- Not create unintended consequences
- Cheap and simple to administer
- Encourage work ethic, saving, self sufficiency
- Encourage people to be proud or happy to contribute to society
- Be perceived to be fair
- Be efficient; only given to those in need.

Questions we need to ask are:

- Do we need to collect more tax, or just redistribute it differently?
- Are there other ways of achieving the goals of society without changing tax structures given the limited ability to change much in the short term due to the government's election promises?
- Are there alternatives to taxing money?

Summary of Main points

Superannuation

- Changing demographics mean the number of elderly is increasing relative to the number of workers.... but is it as bad as it seems?
- Many retirees have relatively high income, assets or both so do not "need" superannuation from age 65 to live in comfort, but solutions such as a surcharge, decrease in superannuation amounts or raising of age of entitlement are all politically fraught. I suggest another alternative which is not a tax and will also help offset the rising health care costs of this group.

Property (from the point of view of a landlord)

- Any tax increase on rental properties will cause rental property shortages, rent rises and affect the most vulnerable tenants.
- Does the government want private landlords in the market?
- Has property really got a tax advantage?
- Ideas on property solutions without increasing/changing taxes

Thoughts on Public Awareness and Perception

- Can the media be used to alter behaviours without changes to the tax rules and rates?

Culture Tax exemption - An idea from Ireland

- Could this be used in parts of NZ, in particular for Maori culture?

Tax Base and Inequality

- Discussion on different types of wealth including land.
- Time is a type of wealth that we all have in equal amounts. Could time be taxed?

Other points on Welfare and inequality

- There is a tax inequality between single and childless people and solo parents. This distorts behaviours and is leading to poverty.

Thoughts on the future environment

Sometimes we get trapped into a certain way of thinking. People hear “facts” in the media and repeat them and then they become accepted as the truth. It can be helpful to say is that really right?

The aging population

Fact 1: The baby boomers are a huge bulge of people all coming though the system en mass - the image is a bit like large animal passing through a boa constrictor! In reality the actual number of people born over those years is roughly the same per year as the number born each year now. The birth rate has fallen, but that has been offset by a larger population leading to roughly the same number of births so there is no big bulge. Actually as the diagram shows below the pyramid is being replaced with a rectangle. [1]

[1]

[1]

Fact 2:
The huge numbers of elderly people entering retirement will put a strain on the system as there will not be enough younger people working to support them.

But another way to look at this is to look at it as a workforce/labour issue rather than just an age issue. Keeping all other factors equal (e.g. ignoring the effects of technology etc) the number of jobs requiring workers shouldn’t change hugely just because the work force is aging. Therefore as long as someone is being paid to do those jobs the amount of income tax coming in shouldn’t drop. Some areas of employment will increase as a % (age care) and others may decrease proportionally (education, child welfare).

Currently if you lose your job after the age of 45-50 it can be difficult to find another. I think to some extent what will have to happen is that employers will begin to hire more older staff instead of only considering <45 year olds.

People are living longer and are more youthful and computer literate at age 65 than in previous generations. They are also not as happy to take a large drop in income and standard of living in retirement. Skilled workers will be sought after and manual jobs may be automated and less available. And with more flexible working arrangements and business opening 24/7 part time work is becoming more common.

I see the changing demographics to be a positive thing for mature workers' job security in skilled jobs that do not require physical labour. (http://www.ey.com/nz/en/services/people-advisory-services/ey-new-zealand-people-watch-february-2017-the-changing-demographics-of-our-workforce-opportunities-for-business)

Low skilled, and manual workers may not want to or be able to work past retirement so that may lead to a shortage of workers in this area but this will be offset somewhat by **the technological changes** reducing the numbers of these workers required. **(**Automation of jobs, skilled and unskilled will reduce the jobs available in these areas.)

Once retired from work income decreases, but consumption continues from savings and superannuation. Income tax decreases but GST continues so some tax is still received from this group.

Is the future as bad as it looks?
Although the ratio of elderly to younger age groups will increase in future I wonder if it isn't as bad as the above diagram portrays it to be. In 1901 there would have been many fewer women working so much of the right hand side of that pyramid would have also been supported by the workers as well as many more under 15 year olds.

In 2001 if the graph showed the workers supporting the dependents you might find that because the under 20 year old category is smaller and many more women work, the ratio of workers to non workers isn't very different. The workforce adjusted to carry out the jobs. The same will happen in future.

The larger problem is the high cost of superannuation payments and age care (health and accommodation). But the cost of under 20 year olds is not cheap either and the relative size of this group has decreased so that might offset the increased costs of the older group to some extent.

I see the main issues relating to the aging workforce to be

- Ensuring there are enough workers to fill vacated jobs or technologies to replace workers so the amount of income tax being paid does not decrease.
- Up skilling, retraining the older work force so those who wish to can carry on working either full time or part time.
- Ageism in the workforce.
- The growing cost of medical/age care
- The growing cost of superannuation payments

Figure 10 from the working paper suggests that of the amount spent on transfers, almost 6% was superannuation payments to **households** in the top income decile. If this is true 6% of the total $23,598b spent on **welfare** in 2015 is $1.4b.

An article from 2014 based on an official information request said 26,000 **individuals** with income $70,000 or more claimed superannuation, or around $0.57b out of the $10.2b (5.6%) spent on **superannuation** that year.

Whatever the exact figure is it seems to be a large amount of money paid to people who have already have more than enough to live on. They are likely also to have high net worth. At the age of 65 they have possibly just paid off their mortgage, no longer have dependent children, are allowed to access their Kiwisaver funds, then unless they retire from a paid job, they will start receiving an extra $300-$400 per week.

If you add to that the people in the 8th and 9th decile this amounts to several $billion pa going to people who could live comfortably without it, but how do you wrestle this money off the people in this group? It would be such an unpopular policy that no political party has been able to suggest it without losing voters, and is unlikely to be possible in future without the support of the opposition parties.

A superannuation surcharge (means testing) has been tried failed due to the apparent unfairness of penalising people with income testing for what has in the past at least has been seen as an entitlement rather than a benefit. Disadvantages of surcharges are

- They have the effect of influencing the decision on how much to save for retirement.
- If the surcharge only considers income it doesn't necessarily catch high net worth/low income individuals.
- Assets can be arranged to reduce income and increase capital gain.

The two other possibilities often raised are raising the retirement age or reducing the amount of the pension. These are also unpopular (although over 67 year olds may be happy to raise the age of entitlement).

A novel Superannuation Solution

One solution to this would be a hybrid of means testing and carrying on with the current system as follows:

- Superannuation payments would continue unchanged **except** where income (either by household or individual) is in the top deciles. In this case the superannuation payments would be paid into a personal fund/account similar to KiwiSaver. Call it KiwiRetire for now.
- This personal KiwiRetire account could not be accessed for day to day spending, but would be used for paying for medical insurance premiums (unless the person opts out of that benefit), then eventually to pay for rest home fees or home care services once required i.e. only the necessary costs of old age.
- The threshold could be either set for individual or jointly by household
- As well as the income threshold there would also preferably be a wealth threshold to catch high wealth, low income individuals e.g. rental property owners (see below).
- If income from other sources and wealth drops back below a certain level the pension payment to the individual would resume. For people with very high net worth this is unlikely to occur.
- On death the individual's balance would be paid into the NZ Superannuation Fund. If jointly owned it would be paid to their spouse/partner's KiwiRetire account, then to the NZ Superannuation Fund on their death.
- A lump sum Funeral grant could be paid out of it.
- A lump sum for hard ship may be paid from it by application

Overall there would be no less paid out in superannuation payments initially, but it would only ultimately be spent on services that would already be partially paid for out of the health and welfare budgets if the individual runs out of assets and income. Over time thresholds could be slowly adjusted if necessary to include people in deciles 8 then 7 (or not adjusted for inflation) to include larger numbers of households.

Once the current Kiwi Saver product reaches equilibrium (as people saving since entering the workforce in their 20s retire) more people may be over the wealth and income thresholds when they reach age 65 so more superannuation payments will be diverted into later age retirement savings via KiwiRetire.

The KiwiSaver platform could be used for this new product but with different rules around it, such as the rules on withdrawals. The range of funds could be limited to balanced-conservative as the majority of the money would be required within 5-15 years

Advantages to the individual compared with a surcharge or raising of entitlement age:

- The money isn't "lost" to them if they have saved too much so it doesn't have the disincentive to save that a surcharge would.
- Full medical cover under private insurance, dental . Pre-existing conditions might be covered if government can get a bulk deal.
- Rest home care payments and home care services (e.g. cleaner, meals on wheels etc) use this money before eating into personal wealth.
- Elderly person might be more inclined to take advantage of health services and home help if they don't have to pay for it out of their own wealth so they may remain healthier.
- Builds up funeral grant
- Nest egg for hardship if required.
- The individual is less likely to feel they are being penalised for being successful than if a surcharge similar to the one in the 1980s is applied. If this is seen as a type of surcharge it is at least seen to be used to pay for their own expenses.
- The individual feels as though they have some control over the money if they want to e.g. which level of medical insurance they want, which KiwiSaver provider, which funds to invest in.
- However those already over 67 may prefer raising the age of entitlement instead.

Advantage to taxpayer

- Superannuation payments would only be used for essentials, not as "pocket money" for the wealthy. This could help alleviate some of the perceived intergenerational unfairness of the current system.
- Private medical insurance would reduce public health costs as it takes some elderly people out of the public health system who may not normally have private health insurance.
- Some money recouped from superannuation payments that might otherwise be spent or given away by super annuitants will be diverted to prefund the future ballooning rest home care. (If elderly people anticipate having to move to rest home currently there is an incentive to spend up large or to give away money if the government will get it anyway because of the assets threshold).
- On death the remaining balance goes to the NZ Superannuation fund.

- As this is not a “tax” (just a compulsory savings scheme) it could be brought in immediately without breaking election promises (except perhaps for the payment of the balance to the NZ Superannuation Scheme on death which might be considered a death duty).
- This isn’t a wealth tax or a capital gains tax but it does have the advantage of clawing back around $300-400pw from the same people who might otherwise be subject to a capital gains tax or wealth tax. It would postpone the spending until when they reached say 80-90 years old and then only be used if required, so it would pre- fund some future age care expenses.
- The NZ Superannuation fund would have some money diverted to it without NZ having to borrow to fund it. It would also not need to build up as much for the future if people had their own personal KiwiRetire funds.

Extension for wealth testing:

If a wealth test was included as well as an income test it would catch low income, high net worth people (e.g. rental property investors). Also, as future KiwiSaver balances become larger, it will discourage people from trying to find low income, high capital gain investments for their lump sum at retirement to keep their income below the thresholds.

E.g. superannuation payments would be diverted to KiwiRetire if:

- Net wealth greater than say $400k (single)/$600k (couple) excluding the family home. This could give an extra $20k/$30k income @ 5% return on top of the pension before the pension is diverted to Kiwi retire. (Although that might encourage people to stay in a home that is too large for them) or
- Net wealth greater than say $800k (single)/$1m (couple) including the family home. (This would be preferred to encourage downsizing to free up larger houses and extra income/cash)
- If you assume their capital was to be used up as well over 20 years the limits would be smaller, say $265k (single), $400k (couple) excluding family home or say $665k (single), $800k (couple) including family home
- Limits might differ by city e.g. Auckland might allow more for the family home.
- Limits should be set to allow a higher standard of retirement than on the pension so it is not seen to penalise people who have saved and built up wealth

Private health insurance:

- One example is Southern Cross Standard wellbeing one, with Keeping Well added benefit costs approximately $65 increasing to $82 per week from age 65 to 85 –
- Government may be able to get bulk deal cheaper, particularly if everyone in this group is included
- Pre-existing conditions may be allowed with no underwriting if it was compulsory and it covered a large group

Other points:

- The very wealthy who live well into their 80s and 90s already pay for their own age care because they have enough wealth that they do not reach the current threshold. This won’t affect them at all apart from delaying the availability of their superannuation until they need it for old age care. This is not a tax to take more money off the wealthy, it just ensures that more people pay their own old age costs if they are able to instead of overspending on luxuries in their early retirement and relying on the taxpayer to fund their expensive later age care.

- Some wealth owned by the elderly will be held in trusts. Income they receive will be caught by this but wealth won't be necessarily. If the family home or the value of the home they live in if it is in trust is included in the wealth test this should still pick up these people unless they move to cheaper accommodation.

Thoughts on Property and Housing affordability

The reason I invest in property is because I want an investment where income and capital are inflation linked. I remember the stock market crash in the 80s so have never really trusted shares although I do have some of those too.

When buying a rental property I look at the Net Present Value of the future expected cash flow from the property, including the sale price, and that determines the maximum price I am prepared to pay for it. If the costs of owning the property are increased including compliance costs and taxes I would raise rents over time to cover the extra costs. If over time I am consistently unable to increase rents to give me a reasonable rate of return including expected capital gain I would probably sell my properties. I think this is what any rational owner would do.

So my view on any tax changes are as a landlord:

Capital gains tax:

- Decreases return so reduces the amount I am prepared to pay for a rental, and I will increase rents on my current rentals as the market allows.
- CGT gives owner occupiers a tax advantage over landlords so they will be prepared to pay more for the same property (they often do anyway as owner occupiers tend to form emotional attachment to a property rather than analysing the numbers).
- Less property investors will lead to less rentals so there may be a rental shortage and rents will rise.
- In effect landlords subsidise rental accommodation in NZ in anticipation of the capital gain they will receive. Any capital gains tax will mean this rent subsidy will decrease and tenants will have to pay more of the costs of owning the property.
- To be fair to renters any capital gains tax should be applied to all property including owner occupied houses. Then to raise the same amount of tax the rate could be lower and it would not introduce a tax advantage to owner occupiers over renters.

Land tax:

- Has all the same side effects as capital gains tax with the added disadvantage that it will increase annual expenses for landlords unless it can be accrued and paid when property is sold.
- Elderly landlords often keep rents below market rates as their expenses are low and they don't want the hassle of a rent review but if expenses increase and they are cash flow poor they will have to increase rents or sell up.
- To be fair to renters any land tax should be applied to all property including owner occupied houses. Then to raise the same amount of tax the rate could be lower and it would not introduce a tax advantage to owner occupiers over renters.

Ring fencing:

- This won't affect me as I don't offset rental losses against other income.

- For landlords that do offset rental losses against other income this will have the same short term effect as an increase in their income tax rate. Unless they have spare cash flow from their personal income they will have to put up rents immediately or sell up.
- Maintenance and improvements will possibly be deferred.
- In the long run rents will rise, mortgages will be paid off and past expenses will be able to be claimed against profits so although tax paid will be greater initially it will be offset against tax rebated later so it is only a timing issue unless property is sold before it is making a positive return.
- Even if some investors do have enough cash flow from their personal income to subsidise rental properties, some won't so overall it will lead to less property investors and less rentals so there may be a rental shortage and rents may rise.
- In effect ring fencing allows landlords to subsidise the rents on their rental property. If this is removed the tenant will lose this subsidy.

Summary
Any tax increase on rental properties will cause rental property shortages, rent rises and affect the most vulnerable tenants who will never be in a position to own their home. Some better off renters may be able to buy their first home more cheaply as prices may decrease if many investors sell at once but generally the owner occupiers are the ones who set the market price as they are emotional buyers and don't buy based on investment yields so prices may not drop. The increase of properties on the market will be offset somewhat by the ex-tenants who want to buy as they can't find a rental.

Does property have a tax advantage over other investments?

Figure 21 from tax working party report suggests that property has a tax advantage. This is based on various assumptions and adding all the various taxes together to get an overall rate. I think that Figure 21 is disingenuous. It makes no sense to add the various types of taxes together and make broad assumptions. The only reason you would do that is to influence public opinion on capital gains tax or land tax by suggesting that property is under taxed compared with other asset classes. The various tax rates would be better represented as follows:

Cash	Shares	Property
Interest = nominal + inflation Tax rate = income tax rate	Dividends = nominal + Inflation Tax rate = income tax rate	Rent = nominal + inflation Tax rate = income tax rate
Capital gain (CG) = none Tax rate = N/A	CG = nominal + Inflation Tax rate = income tax rate (Based on intention)	CG = nominal + Inflation Tax rate = income tax rate (Bright line test for rentals only else nil)
Wealth tax = 0%	Wealth tax = 0%	Wealth tax = 0.35% (rates on rentals and owner occupied homes)

If you compare tax on the assets in this way it appears property is taxed more highly.

Questions that need to be asked:

- Does the government really want to provide all rental accommodation in NZ?
- If so what is the cost and how do we the tax payers pay for it?
- If not, what is behind the constant beating up of private landlords by the current government and media?
- Older land lords will exit the market eventually as they need the cash and younger people may be discouraged from becoming landlords because of constant negative media reports. Who will provide private rental accommodation for people who don't meet the requirements for state housing?

Some ideas I have on housing are listed in Appendix1 with brief details. I would be interested in working on solutions in this area and sent some of these suggestions to Nick Smith a few years ago. These are not tax issues but as I said earlier I think tax and benefits systems, income and expenses need to be looked at together. Given the difficulty in increasing taxes politically in the next few years without breaking election promises I think some of these ideas could help solve some issues without increasing or changing taxes.

Thoughts on Public awareness and Perception

These days with social media and alternative facts, perception and communications are in some ways more important than reality. Two "facts" I have already mentioned above that aren't really true or at least could be argued a different way are that there is a huge bulge of baby boomers coming through the system, and that property investors are unfairly advantaged in the tax system.

It dawned on me how important perception is in affecting reality when watching a cricket match a few years after the Christchurch earthquake. The cameras panned over the crowds then past the trees then as they pointed at the destroyed city, images of the planned new city were swapped in so to the audience in other parts of NZ and the world it appeared the city had been rebuilt. When we have visitors they still say "We thought Christchurch had been rebuilt". CERA did a great job of altering public perception.

I think there are also ways the media can be used to change public perception to make people make changes in behaviour without enforcing rules or increasing taxes.

The most obvious is again the group of super annuitants who currently work and have a reasonable income, or who have a lot of assets so don't really need to enrol for their super. To be honest many may already feel a little uncomfortable about signing up for super. Over time subtle marketing could reposition super as more of an unemployment benefit in people's minds rather than a right. This may take a few years to have any effect and would need to be done in increments but eventually the message should be "I am happy to be supporting myself on my own income and assets and I won't be signing up for the super even though I am entitled to as I'm not ready to retire and I would much rather the money went to paying for upgrading hospitals and paying nurses and teachers a fair wage."

Another group of people who are being paid money unnecessarily are people who have businesses and wealth but their income is low. Some kind of wealth test needs to be imposed here as well as the message that it is not ok to claim WFF payments if you don't need it.

Another way media could influence behaviour is by using it to highlight where/who tax comes from.

In Norway the tax department releases the amount of tax paid by individuals so you can see what people pay. But if you look up someone they will receive an email to let them know so your neighbour will know if you are enquiring after them. Some think the poor may be made unhappy seeing how much the rich earn but they will also see how much tax they pay and in most cases they will discover they pay none themselves while the rich pay plenty. This should reduce the perception that somehow the rich aren't paying their share of taxes.

This would also have the added benefit of making people who work for "cashies" obvious to their friends and neighbours so they may be shamed into paying more .i.e. if you don't pay much tax you probably shouldn't be driving a flash car and living in an expensive suburb.

Another possibility (which may or may not be feasible in practice) would be to allow people to specify on their tax returns where some of their tax money goes to make them feel more engaged in the system. Some will need to go to boring things of course that no one would choose but over and above this base amount they might want to choose the $X goes to local (regional) health, or education, roads , reducing poverty etc. Some people won't be interested of course, but for other people it would make them feel like they were contributing in a worthwhile way. This would really be a perception thing as money couldn't physically be diverted according to these wishes (at least at first) but at least the government would get a good idea what people want tax to be spent on.

Another option is for people to be able to pay a discretionary amount over and above their required tax bill and specify where that is spent. There are many wealthy socialists out there who vote in the hope that inequality will be reduced. Give them ways of putting their money into areas that are of interest to them and stop trying to make them feel guilty about being successful.

For example a person's tax bill might be $40,000 over the year, and they might choose to allocate their $1,000 refund to increasing the health budget for their local hospital or pay for carbon credits as a one off "budget bonus". Perhaps the amount of the extra discretionary tax paid by an individual and the budget it was increasing could be made public initially, (a philanthropy list) then some time in the future the full amount of tax people are paying could be published once people got used to the idea.

Another way media could also be useful is in changing the perception of the value of older workers. In future people may choose to work well past 65 and employers will have to hire more older workers as the ratio of older vs. younger people increases. Julie Anne Genter's recent outbursts about old white males are concerning because in the future we will need to rely on all the experienced, reliable workers available to provide the work force to pay the income tax that is needed. Any ageism needs to be stomped out as quickly as racism and sexism as it is just as offensive, destructive and counter-productive.

Idea from Ireland

An interesting tax idea from Ireland is the Culture tax exemption.

The first 40000 Euro (NZ$68,500) in Ireland is exempt tax for creative and original work.

http://www.citizensinformation.ie/en/money_and_tax/tax/income_tax/artists_exemption_from_income_tax.html

I think this is an interesting idea that could be explored, in particular Maori art and culture but also other artists, musicians, dancers, etc if they are of national significance (possibly sport for emerging fields, not for rugby, football, netball etc).

The Maori art and culture exemptions could help build small businesses in regions such as Northland, and other tourist regions giving people a chance to establish themselves in a business. If it was only available in several regions it might encourage like minded people to move out of the big cities into small towns, or perhaps a new satellite village purpose built on leasehold or Maori land could be built where like minded people could move to. As they will create their own job and perhaps eventually jobs for others it could reduce unemployment in the regions. Microloans and business mentoring for start ups would be useful here. This could be trialled as a pilot scheme initially and expanded if successful.

Tax Base and Inequality

It is fashionable at the moment to complain about the rich getting richer, inequality, poverty and the greedy baby boomers etc. Much of this hysteria has been stirred up by a small group of economists and people with interests in their own equity based businesses. They have the public believing that if the wealthy were to pay more tax poor people would be much better off but is this true? And do the wealthy really not pay their share?

In reality the top decile by income pay 35% of all income tax and the top half pay of income earners pay more than 80%. The bottom 40% after cash transfers receive more than they pay in tax and even after GST most of these would pay no tax at all. Clearly the top income earners are paying at least their share, at least of those that declare all their income.

Another fake facts that people seem to believe is that wealth is a fixed pie that some people have more than their fair share of. Of course wealth is not fixed. For example Facebook, Apple, Trademe have all created billions of dollars for their owners, but if these companies hadn't been invented that wealth would not exist. Much of these people's wealth is tied up in shares of their own companies. Some wealth like land (not houses), minerals, time etc are different as they are finite resources.

If this "created wealth" is used to buy a finite resource that does affect other people. E.g. if Mark Zuckerberg used all his wealth to buy as much land as he could that might affect land prices for home owners. Or if he used it to buy other companies' products or services that would be a good thing for the economy.

Otherwise the wealth could double or halve and no one else would be affected at all as much of it is on paper. For example look at how a Zuckerberg managed to lose billions of dollars in a few days because of the Facebook scandal. That has shrunk the wealth pie so has presumably made the inequality gap smaller but in real life that makes no difference to poverty.

I believe that rather than taxing that "created wealth" more it would be much more productive to facilitate wealth building and growing the wealth pie through small business and micro enterprises to expand the tax base. Some areas could be planting trees, tourism, art and culture.

I include houses in "created wealth" as they are in practice relatively unlimited. Anyone can build as many as they like for themselves if they have the money. Land however is in limited supply so I can see in some ways taxing it could be justified if you think of it belonging to the country and being leased to the "owner" - a bit like a licence to occupy or like the Maori concept of rangatiratanga. Land is not "used up" by its owner like limited resources are. But any land tax would need to be at a very low rate and for all land including family homes otherwise it would create cash flow problems and distortions between owners and renters as mentioned above. It may be difficult for farmers or cash poor elderly to pay but that could be resolved by being accrued as a debt against the value of the farm or home to be paid when it was sold.

Time is another limited resource which unlike anything else, everyone has the same amount of in a year! This is not taxed at all. Wouldn't it be interesting to look at taxing people's time on a notional rate of income like some other assets such as foreign funds! This is a completely opposite concept to a universal benefit's premise that the world owes everyone a living.

What if everyone owed the community a certain amount of time per month or year just for the privilege of living in New Zealand (a bit like jury service)? I think this could raise community spirit and get labour intensive jobs done. For example tree planting, sorting recycled rubbish, volunteering on a marae or for a community based group like a church or Plunket, weeding reserves, cleaning up waterways, helping clean up after natural disasters, care giving, meals on wheels....... I am sure there are plenty of possibilities. Charities and other organisations could apply annually to have a certain number of volunteer hours allocated to them.

Lawyers who provide legal aid do this kind of thing in a way, and other professions could provide free hours of whatever their skills are to low income people (doctor, dentist, accountant) if they preferred that to volunteering for a more manual job. People who do not wish to contribute time could buy back their own time at their own hourly rate. Unemployed people would also be given a compulsory task to "volunteer" for as a prerequisite to receiving their benefit. Having to show up and contribute could have a positive affect if they meet other people in the community, learn new skills, possibly find paid job opportunities as they work alongside working volunteers. Anyone who was medically unfit would be exempt.

Large organisations like government, local body and banks, insurers etc could volunteer to be involved in setting up and facilitating working parties with their own staff. If it became a compulsory requirement for people to contribute their time (a time tax) they would not need to pay the staff more or do the activity in work time (although they could if they chose to), just coordinate the efforts.

If 2 million people gave 2 hours per month that could be around a billion dollars of productivity gained in a year. In Australia some corporates do this already. In fact there are many positive effects associated with volunteering:

http://www.volunteering.com.au/wp-content/uploads/2016/01/The-Business-Case-for-Corporate-Volunteering.pdf

In past generations and civilisations many beautiful buildings like cathedrals and churches, art works etc were built using practically slave wages and volunteers. Older houses often have beautiful time consuming detail. These days with minimum wages these sorts of things have been lost as nobody can afford to pay a proper wage for this sort of "unnecessary" work as it isn't financially viable. Perhaps introducing compulsory volunteerism some community projects could be achieved that would not otherwise be sensible financially but would add value, culture or beauty to the community.

In future with the advent of changing technologies (robots, AI, globalisation) the number of people in employment paying income tax may decline unless replaced by other jobs. The Universal Benefit solution proposed by TOP has tried to address this by taxing the wealthy more. Taxing everybody equally based on their time taking into account their skills and talents seems to be a fairer way to supplement any lost income tax rather than taxing the wealthy more. In fact this is probably the fairest tax system of all!

Other points on Welfare and Inequality

The current tax system is unfair on single working people on low incomes, and biased towards parents with children. This creates a dangerous incentive to have more children than you can care for yourself. The latest $60pw baby payment will not reduce poverty. It will lead to more children being **born** into homes that are in poverty, therefore it will lead to more children **living** in poverty in several years time. Once a child turns 2 there will be an incentive to have another to keep the extra money coming.

There needs to be some balance that incentivises young women to get educated, get money behind them, and build a stable relationship before having children. This is a better way of reducing poverty than giving out more money.

A tax rebates or in work credit for low income single and childless people so as not to disadvantage them over those with children would do a lot to reduce this inequality.

The extra cost of this would likely be offset in a savings in Working for Families payments and "baby bonuses" in future years if it meant women weren't incentivised to have babies they really can't care for properly.

These babies are often the ones who end up mistreated, and end up as teenagers committing crimes, failing in the education system and unable to find employment. This segment of society has a much higher birth rate than middle to upper income NZ. Some papers I have seen suggest we will need to rely on this group to provide a larger percent of younger people to fill the gaps in the work force left by the baby boomers retiring. They still fit the same pyramid distribution of ages as in the previous diagram above for the early 1900s, while the middle and upper income families' pyramid is now inverted. I fear that instead of helping to solve the aging workforce problems they may add to the problem by requiring long term welfare themselves.

Volunteering as a budget adviser I have seen many low income and unemployed single people struggling to make ends meet and when I look at their budgets there is nothing that can be done. They don't have enough to live on.

One time I met a single woman with 5 young dependent children (3 of them belonged to her sister who has 12 children). She had more than enough income if she didn't waste money. I have seen her dish out $50 at a time to the young teenagers, and these children wander the streets and buy alcohol, junk food and cigarettes with it, wag school and generally cause trouble. This must not seem "fair" to a single person who can't make ends meet, and it is wasteful of resources.

If these are the children we will rely on to make up the young work force we have a problem which needs to be urgently addressed. I trust this will be "solved" when the welfare working group is formed.

Thanks for reading through my ideas. I am happy to be involved in discussing these or other ideas/ issues relating to tax and welfare.

Appendix 1 – Some Housing Solutions in brief notes

1. Leasehold. Small house container village (like Christchurch container mall) can be quite quickly put up on land which is retained by housing NZ, Maori land, or other large site e.g. closed schools or hospital. (Princess Margaret). First home buyer can buy small house (20-30m2) for < $100k, lease the land at say 3% rent pa so total outgoing might be as little as $250 per week allowing further savings (and energy savings). Buyer can pay off quickly and on sell to get deposit for next home. Increase annual land rent in line with land price so no nasty rises like old leasehold land homes. Mixed private and state ownership model. Council can buy them as they come up for sale or sell them off as desired. Can down the track relocate them to build permanent buildings on land.

2. Fund land purchase for idea 1 above by issuing inflation linked government bonds, interest linked to rent, capital linked to land value. Market to e.g. baby boomers. There is a shortage of investments that are inflation linked for capital and income which is why people buy rental properties. Some people may sell their rentals if another inflation linked option was available. Alternatively buy land and hold in a Social Property unitised fund as part of a financial provider's KiwiSaver's options. Again this would give inflation linked income and capital returns for investors wanting to move out of active property management.

3. Or the Government itself could start to buy land to lease to potential home buyers to build on and hold it as an asset in the NZ Superannuation scheme. It could then receive the indexed linked income and enjoy the capital gain. They would then have the ability to slow down the cost of house price increases that are linked to land price increases. I would look very long term and start to buy up bulk land for future satellite cities near Auckland and Wellington that could be rezoned for housing in the future.

4. Down-sizing – better use of existing housing capacity. While there is a shortage of homes there is probably not a shortage of capacity in terms of bedrooms. Many people are stuck in their large houses after their spouse has died but it is too difficult to move. If elderly, or single people in larger homes than they need are incentivised to down size into a smaller home (e.g. help with moving and sale of property both physically and financially either as a loan or grant) this would free up larger homes. This would create a need for more smaller homes than are available now but these need less land and are quicker to build than family houses.

5. Reduce council rules for multiple dwellings for tiny houses for 1-2 people (20-30m2). In Christchurch development contributions are high so it is not viable to build a small house as it is more profitable to build 2-3 bedroom apartments. Parking, access, minimum size rules are also unhelpful. It is very on-trend at the moment to build small energy efficient houses. They could be fitted behind existing houses in leafy suburbs to maintain a pleasant streetscape. Access can be walk on, with storage for bikes/scooter. Probably more palatable for NIMBYs than fully blown development. Container house can be brought in on truck and easily removed later if required. Or prefabs could be built in the regions and shipped in - jobs for small towns.