Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

TAX REVIEW SUBMISSION APRIL 2018 – PRUE HYMAN

INTRODUCTION - This submission comes from Prue Hyman, formerly Associate Professor of Economics and Gender and Women's Studies at Victoria University of Wellington and is informed by my academic background and my own perspectives. I do not claim to be an expert in taxation but I am more informed than if I did not have this background.

I consider that the terms of reference for this review are disappointingly narrow, excluding some elements of great importance for tax policy. Even more important, taxation cannot be seen apart from the government expenditure it helps make possible. For individuals and households, it is the impact of tax and transfer systems together which affect their outcome in terms of standards of living. The calculations done by the Living Wage movement to assess the necessary gross hourly wage to allow a minimum decent standard of living recognises this.

In addition, other elements of government economic and social policy which affect income distribution before taxes are paid and transfers received are the context within which taxation policy should be seen. I will mention these briefly as they are crucial, even though they are beyond the control of the current exercise.

Levels of income inequality have increased alarmingly in NZ over the last 40 years (particularly during the mid 1980s to 1990s) and levels of relative poverty are depressingly large. Tax policy can modify these to some extent through progressive taxation but many other policy areas have contributed to this – for example industrial relations policies which have deregulated the labour market, and resulted in lower levels of unionisation and collective bargaining. The resulting wider earnings differentials which contribute to overall income inequality are one result of this. In my view policies are necessary to reverse all this – but if this does not occur, what is required is far more steeply progressive income taxes, together with one or more of wealth/capital gains/gift/ inheritance taxes. In addition the ability to evade income tax and particularly company tax needs to be investigated and as far as possible eliminated. The corporate sector's ability to evade taxation with local and international arrangements and sleight of hand has been exposed by many researchers and commentators and needs to be tackled with much more tenacity than yet applied in New Zealand.

Lower income individuals, households, families and groups are insufficiently protected in the current economic and social climate. Women and Maori and other minority ethnic groups are overrepresented in lower income households and analysis concentrating on outcomes for these groups is essential. I note that gender issues are nowhere mentioned in the Background Paper for this exercise, while Maori issues are discussed only superficially. The ways in which the tax system, as well as other elements of the economic and social framework, is insufficiently geared to reducing inequalities and protecting those on lower incomes, has major adverse impacts on women overall, as they are heavily overrepresented in such low income groups.

While the Tax Working Group cannot solve, or even consider in detail, all these linked issues, I consider it should in its report draw attention to these wider concerns. Without more examination of them, tax policies can only tinker at the edges of the issues.

ADDRESSING SOME OF THE WORKING GROUP'S FIVE KEY QUESTIONS - WHAT

IS THE PURPOSE OF TAX?/ ARE WE TAXING THE RIGHT THINGS?□□- There is nothing wrong with the Working Group’s own criteria for taxation systems: efficiency; equity and fairness, through ‘horizontal equity’ and ‘vertical equity’; revenue integrity; fiscal adequacy; minimizing compliance and administration costs; coherence. The problems arise when attempting to operationalize these and reconcile different views on them.

There is also a problem with the context, particularly in terms of fiscal adequacy. The Working Group appears to accept as a given “the Government’s fiscal objective for the tax system is to support a sustainable revenue base to fund government operating expenditure around its historical level of 30 percent of *gross domestic product* (GDP).” Further it goes on to accept the over-tight Budget Responsibility Rules by saying: “If the Government is to continue providing healthcare and superannuation at current levels, then the level of taxation will need to increase, or spending on other transfers or publicly provided goods and services will need to fall” (p 10). At least that seems to envisage an increase beyond 30% of GDP for tax and government expenditure with which I would certainly agree. I argue that given the very urgent needs of the education and health system including increasing wages and salaries of the large largely female lower earning workforce at the bottom of both systems, such an increase is essential. While I could nominate some areas where government expenditure could decrease, that would certainly not include transfers. A balanced budget is also not essential, especially given the run down nature of many areas of government spending under recent governments. Given critical infrastructure needs as well as vital social spending, even a prudent government (which should not for political reasons put the prudential nature of policy too high) can afford to run relatively small deficits and borrow to meet them.

As argued above, vertical equity requires a far more steeply progressive income tax system than applies at present. With GST being a regressive tax, it is essential that income tax restores the balance towards equity. This is given weight by the inequality statistics in MSD’s Household Incomes reports – quoted in the WG Background Paper as follows: “The inequality-reducing power of the tax and transfer system on market income inequality has steadily declined for New Zealand from 27% to 17% over the last three decades (using the Gini)… The inequality-reducing power of New Zealand’s tax-benefit system is currently relatively low compared with that for other OECD countries, including those who (like New Zealand) have lower unemployment rates (for example, Germany, Norway, the UK and Australia). It is below the OECD average.”

One other element of taxation which is important and can be seen as falling under efficiency – avoiding distortion in the use of resources – is discouraging activity with negative externalities and other bad impacts on individuals and society. This is one of the most important justifications of excise taxes on alcohol and tobacco. How high these should be raised is open to much debate – both in terms of the revenue raised (which will be affected by the elasticities of demand for the products) and what is reasonable. Environmental taxes are also critical in terms of allocation of resources with much economic activity contributing to negative climate change. Governments should not be afraid of imposing new taxes which are well justified in this category. A case can be made for less taxation on positive activities, work and the income from it, and more on income and assets which do not result from or constitute current positive activity – including interest, land, and polluting activities. Another activity which could well be taxed is that of financial transactions. The making of money simply by exchange of financial instruments with no real productive or worthwhile activity is widespread, at national and international levels. It is high time that a Tobin tax (or financial transactions tax was introduced). Even at a very low level, it could both deter some of these unproductive activities and raise useful revenue from those that continue.

In particular NZ is one of very few developed countries which has no comprehensive capital gains tax, nor a wealth, gift or inheritance tax. The Working Groups needs to grasp the nettle in this area, despite its political difficulty. There may well, for example, be strong views in favour of parents being able to pass on their assets to their children. However, wealthy households will already have had the ability to enhance the educational and other opportunities of their children to a greater extent than others. Perhaps it is time to question the lack of an inheritance tax. There is considerable evidence internationally (Piketty and others have written extensively on this) that wealth distribution has widened greatly in the last fifty years. Increasing inequality in income and wealth has undesirable social effects which are also costly in economic terms. It is time to tackle and reverse this. One possible option which the Working Group should consider is that from the Opportunities Party - their proposal is in essence to deem a minimum rate of return on all productive assets, including housing and land. Those that already declare at least that level of income will be unaffected. Those that do not do so would have income imputed and pay an increased level of tax.

As long as lower income groups are protected by not increasing the total impact of all taxation on these groups, business and those on higher incomes and with considerable wealth should be able to make a larger contribution.

GENDER ISSUES - I noted above that gender issues are nowhere mentioned in the WG's Background Paper, which is unfortunate given the fact that women have lower earnings and incomes on average than men and therefore need consideration of the tax/transfer systems to assess gender impacts of any suggested changes. The tax system is rightly based on the individual unit in most respects, unlike the transfer system, which is largely couple and family/household based. There have been proposals for many decades for individualising the transfer system (from the Royal Commission on Social Policy onwards) – from starting by making some benefits, such as the injury benefit, not dependent on couple income through to universal basic income proposals. This is beyond the current exercise. However, it is important for the Working Group to recognise the greater amount of household, caring and voluntary work done by women compared to men and the lesser amount and lower average pay of paid work which makes women's economic independence less on average than that of men.

Because of this, transfer payments (such as sole parent benefits) and some elements of government expenditure are of even more importance to women on average than to men. Hence the balanced budget, 30% maximum proportion of government activity to GDP can disadvantage women. There is a double issue from minimizing the total tax take: if taxes are cut, women's lower average incomes mean that they receive smaller tax reductions, while they are affected more if public services deteriorate as the result of insufficient revenue and hence expenditure.

Gender analysis of policy proposals was taken relatively seriously in New Zealand from the 1980s with encouragement from the Ministry of Women's Affairs, but recently has had less impact. From 2002 to 2008, there was a requirement for such analysis to be applied to papers submitted to government's Social Equity Cabinet Committee. Key questions to guide methodology for gender analysis were included in the Cabinet Office Circular. They were derived from the Ministry for Women's Affairs publication 'The Full Picture - Guidelines for Gender Analysis' (1996). However, the analysis was rarely done well. It is time for a revival of this practice and for it to be done better.

In this connection it is good to see that the Treasury is now taking seriously feminist and other critiques of GDP as a measure of welfare and is developing its Living Standards Framework which will attempt to measure four types of capital - natural, social, human, and financial/physical capital. However, there has been little mention in this exercise of distribution of income and resources, gender issues or the problems with market valuation. The more market approach of the last decades has contributed to the widening inequality and poverty crises. Gender budgeting, which relates closely to gender analysis, has been undertaken in a number of countries and has recently been put on the agenda in New Zealand. A recent Treasury paper, 'Gender Budgeting: A Useful Approach for Aotearoa New Zealand', Suzy Morrissey, New Zealand Treasury Working Paper 18/02, April 2018, is a modest start towards a revival of gender analysis.

Earnings inequalities particularly affect women who are overrepresented in low paid work. This is relevant to taxation structures and policies in a number of ways. In particular the squeeze on health and education spending means that allocations to Health Boards and schools are insufficient to pay adequate wages and salaries, particularly to lower status employees. Hence pay levels for nurses and care workers, teacher aides and other support workers, all predominantly female workforces, are lower than their productivity and skills justify. Equal pay for work of equal value policies to remedy the undervaluation of such female dominated work have been implemented at only a glacial pace. The Bartlett v Terranova case under the Equal Pay Act led eventually to a settlement for aged care workers, but it is essential that budgetary provision is made for settlements in a number of other areas under negotiation.

CONCLUSION – The proposals and analyses suggested above would go a considerable way to improving equity in the NZ tax system. It is beyond my time and expertise to make more detailed proposals but I have been privileged to read a draft of the CTU submissions to the Working Group, and these seem to me to be well researched and to overlap considerably with my views expressed here. I comment that submission to you.