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.

Submission to the Tax Working Group 2018.

Preamble.

The Tax Working Group's background paper is comprehensive and clear.

Over the last sixty years we have seen a big increase in the number of citizens with disproportionate wealth. In the past, a smaller wealthy group gained assets for a variety of reasons, many of which were contributory to societal improvements. With recent expansion of the population and pressure on land the potential for wealth accumulation from property speculation and property development has increased. With larger businesses and globalisation, managerial and administrative groups have had significant increases in remuneration. There may have been increased pressure for businesses to maximise profit for shareholders. In industries where professional groups have international mobility, remuneration has been increased to retain qualified staff. All these changes have contributed to a redistribution of wealth.

New Zealand has a proud record of producing individuals who have striven for excellence, coped with challenges and difficulties and have contributed positively to our own society and those overseas. This outcome was fostered by a well organised, comprehensive education system which at least for some years brought children from different backgrounds together. With the growth of our larger cities, suburbs have become more uneven in their economic status. This has led to some rupture in the cohesiveness of our society. If we wish to return towards a more egalitarian and cohesive society then changes that help the less privileged to improve their economic status are needed.

Ch. 2 Future Environment

Risks.

Evasion of tax by multi-national companies could continue.

Internet companies could continue to sit outside the taxation regime.

Technological progress could lead to damaging unemployment.

Increased unemployment could lead to downward pressure on wages.

Imposition of a fair tax liability could lead some enterprises to exit New Zealand.

Higher costs for business in New Zealand could reduce competitiveness overseas leading to lower sales, profits and tax-take.

The ageing population will lead to greater pressure on those who are productive.

Challenges.

To change the perception of tax as an impost to recognition of its social benefit.

To develop a taxation regime which contributes to fair distribution of wealth.

To broaden the taxation base so that change in the age structure of the population will not lead to an excessive burden on the work-force.

To minimise the possibility of personal profit from community investments in infrastructure.

Opportunities.

To reduce the proportion of taxation derived from work and production and increase taxation of consumption and income from the use of community assets.

To foster re-education programmes for work as needs and opportunities arise.

To encourage investment in production, research and development.

To develop mechanisms for the payment of fair contributions by multinational and internet companies.

To support climate change initiatives.

Ch. 3

Fairness has largely been discussed on the imposition or input side in the background document. Whilst these ethical aspects must be considered, more emphasis on outcomes or outputs might be helpful. For example:

Changes which lead to a more egalitarian outcome would be fair.

Changes that reduce the possibility of personal profit from community assets would be fair.

Changes that reduce avoidance by multinational and internet companies would be fair.

Ch. 4

A broad-based low rate system has support.

Re-introduction of a land tax would be helpful:

It would increase the broad base of taxation

It should have few exceptions (like gst)

The difficulties for some could be managed:

Those on low income - lowest quintile - perhaps no income tax

2nd lowest quintile – reduced income tax

Elderly (high capital, low income) - low cost reverse mortgages.

Ch. 5

A land tax would reduce the unearned profit by individuals from either speculation in land or increases in land value due to infrastructure improvements or increase in population.

CH. 6

The main inconsistencies are:

1. The ability to aggregate wealth through investment and speculation in land.
   A land tax would minimise this.
2. The ability of internet and multinational companies to avoid tax.
   This will require a targeted approach.

Ch. 7

Land Tax

Introduction of Land Tax on the unimproved value of land would add a further broad-based element. Individual owners would then contribute to the State in proportion to their occupation of its finite land resource. It would be relatively simple to introduce, administrative costs would be low, and it would be an influence to curb excessive inflation of land values. Its collection would not have the delay associated with capital gains tax and this would have an equilibrating effect. It could not be avoided or evaded, and this includes non-resident owners or multi-national businesses. It may have a greater impact on the less affluent, like gst, and the lowest quintiles of income may need income tax reduction. Some individuals may need social welfare support at first, but lower income groups would benefit in the long term.

In line with the analysis of Popper in relation to new legislation, it should be introduced gradually. The tax should be introduced at a low rate. The effects of this should be analysed for benefits and unforeseen consequences. The tax could then either be reduced or increased. With this approach there is likely to be better community buy-in and less likelihood of reversal by future governments.

The issue of landowners being faced with a one-off fall in the value of their property would be mitigated by commencement at a low rate with the possibility of later increases. Allowance of this tax as a business deduction would weaken the broad base and lead to attempted reclassification of some properties.

The Terms of Reference for the Working Group have excluded consideration of the family home. As a possible outcome of tax reform is reduction in the wealth gap, universal application of land tax would help as its impact would be progressive. Although the lower quintiles may initially consider land tax on their home a threat, the possibility of other tax relief could more than compensate. It would be helpful if the Working Group was able to make a comparative analysis of the effects of a land tax on all properties compared to one excluding family homes.

Housing.

In relation to housing, the inhibiting effect of high capital value would be decreased by a land tax. There could be an increase in rental charges, but theoretically this might be offset in the long-term by the other tax implications for lower income groups.

Capital Gains Tax.

This might be deferred until the effects of a land tax have been assessed. The 2009 analysis by Inland Revenue suggested a capital gains tax was likely to reduce rather than increase economic efficiency and increase administration and compliance costs.

G.S.T. exemptions.

GST arrangements should remain unchanged. Reduction in income tax for the lower quintiles, and appropriate benefits for the needy are probably more effective ways of targeting individuals and families for whom increased indirect taxation leads to difficulty.

Environmental taxes.

There is currently an incentive for the uptake of electric cars. Since diesel exhausts are the more troublesome automotive source of pollution it could be useful if a tax on their use in cities was applied.

The use of finite resources is an issue. There appears to have been an over-commitment of water to dairy farming on marginal land. This has often entailed heavy use of electricity for irrigation. The cost of increased generation and line capacities to meet this may well have increased the cost of electricity for everyone. This may be an issue for consideration.