

Tax Working Group Public Submissions Information Release

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Submission to the Tax Working Group

Barry Coates – independent researcher

Introduction

I make this submission as an independent citizen. The views are mine alone.

By way of introduction, I have an undergraduate degree in Economics and a Masters in Management from Yale. I have worked in government, private sector, academia and NGOs, including as Executive Director of Oxfam New Zealand 2003-14. I was a Green Party list MP 2016-17. I have read the background paper and appreciate the work and thought that has gone into this Inquiry.

I apologise for the brief submission but would be pleased to add rationale or answer any questions.

Purposes of a good tax system

The Background paper cites the central purpose of taxation to “to provide sufficient revenue to the Government to fund the provision of public goods, services, and transfers.” However, the role of the State in building the four capitals and adding value to the economy is under-stated in this definition. Research has shown the important role played by the State in innovation and developing new technologies¹. The central role of the State should also include ‘building capital and resilience for the future’.

Design of the Tax System

The current tax system should be reformed to play an explicit role in correcting failures of the financial system in the following ways:

1. To **internalise externalities**, such as environmental costs externalised onto others, in accordance with the Polluter Pays Principles. New measures should include:
 - A carbon tax that is predictable, stable and increases over time (a carbon tax is preferred to the ETS because of the lack of predictability for investors, and the lack of public credibility in the ETS)
 - Pollution taxes levied on older model cars and other vehicles (recognising the health costs from emissions as well as greenhouse gas emissions)
 - Congestion charges for heavily used roads, on the condition that transport alternatives (such as public transport) is available and affordable
 - Taxes on the pollution of freshwater (such as a tax on over-use of nitrogenous fertilisers) and the marine environment (such as a price for plastic bags and refundable charge on drink containers)

¹ Mazzucato, Mariana. The Entrepreneurial State. 2013. Anthem Press

- Taxes on the use of scarce resources (such as high quality groundwater)
- Tourism levies and charges on heavily use tourism attractions

The OECD has commented on the low incidence of environmental taxes, and recommended their more extensive use in New Zealand².

2. To **modify behaviour** that creates costs for society, such as taxation on:
 - soft drinks and other products that contribute to obesity and high public health costs
 - excessive use of packaging by manufacturers and retailers
 - gambling that creates social problems (eg. pokie machines)
 - use of alcohol and legal drugs
 - environmental externalities, such as those in 1 above
3. To provide **the right signals** that encourage productive investment and to discourage speculation and unproductive activity:
 - a comprehensive capital gains tax to provide a level playing field with income from other sources
 - a capital gains tax on the family home should be included, with a sliding scale that reduces to zero after 10 years of ownership (I realise this is not in the scope of the Working Group)
 - a small Financial Transactions Tax on capital movements (in lieu of the lack of GST levied on financial transactions)
 - taxes on land-banking and other forms of speculation
4. To **improve equality** through the introduction of wealth taxes and the introduction of a higher tax rate:
 - A tax-free threshold should be applied to wealth taxes, set at a level sufficient to exclude savings for the average retirement
 - The family home should be included (I realise this is not in the scope of the Working Group)
 - A higher tax rate should be introduced at a higher income tax band (eg. >\$150,000), with regulation to prevent the transfer of income to trusts in order to reduce tax incidence
5. To **support dignity and human rights** through greater universality of support for citizens on low incomes:
 - Build on universal superannuation through the greater use of entitlements to provide support for others in need, including children, rather than the current onerous and intrusive systems of compliance
 - Introduce a tax free threshold above the living income to avoid the current situation of taxation being levied on citizens receiving benefits
 - Move towards a guaranteed level of income for all citizens through integrated tax and welfare approaches

International Tax

International action for tax cooperation that extends beyond BEPS to include consistent and fair systems of tax internationally, and to avoid a race to the bottom:

² OECD. Environmental Performance in New Zealand. 2017

- An end to tax havens and the ability of wealthy individuals and corporations to evade fair tax
- Stronger provisions on multinationals evading tax through transfer pricing
- Stronger provisions on multinationals in defining the taxable value added in each country
- New regulations on the digital economy to ensure fair tax is paid (including GST on all online imports of goods from abroad)
- Full tax credit for NZ investors in Australia (for franking credits)

Taxation of charities

Charities play a crucial role in New Zealand society and the current exemption from tax is appropriate in most cases. In some cases, charities are supported through enterprises that compete in a commercial environment. Essentially, the tax treatment is similar whether the income is tax free to the charity, or when a profit-making enterprise donates all their profits to charity. So the current rules are appropriate.

Those who may have concern over the current treatment of income by organisations such as Sanitarium should direct their concerns at whether the enterprise should be defined as a charity.