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.

Kia ora,

This is a big opportunity to both correct some very serious anomalies in our tax system and to create a tax system for the challenges of the 21st century. NZ was quite an innovator back in the '80s, both in monetary and fiscal policy. Some of that was good, some not. I truly hope that you folks are courageous and seize this opportunity and offer truly innovative (even radical) proposals.

Executive summary

I feel that NZ's tax system is too weighted towards taxing labour and not enough to taxing wealth and 'bads' such as sugar and pollution. It also seems that some of the richest individuals and corporations (particularly multinationals) are able to avoid paying a legitimate tax rate here. I'm proposing a lot of changes, but I think the level of tax is about right (but it could also be a little higher since the previous Government neglected so many things)—so I would aim for tax-neutrality overall. Increase the tax take by adding new taxes, but reduce the income tax, particularly on those with lower incomes, and lower GST taxes.

-First, I would like to suggest an Automatic Payment Tax (APT) and a reduction in the GST.

-To reduce Wealth Inequality, I would suggest a Wealth Tax and an Empty Homes Tax.

-To bring down the high cost of land in NZ, I would propose a Land Tax, a high stamp duty on land purchased by foreigners (as other jurisdictions have done) and limits on the tax deductibility of interest payments which has led to over-gearing both in business and property investment.

-To capture more of the revenue earned in NZ but shifted to low-tax jurisdictions, I would like to see a Revenue Tax on Digital Multinational Corporations and a punitive tax on all multinationals that divert profits to lower-tax jurisdictions.

-I would like to see sugar taxes or a 'junk food' tax and a zero GST on healthy/low-processed foods.

-I would like to see much more use of pollution/environmental taxes to encourage the efficient use of resources and reduce the production of waste and pollution.

-I would also like to propose that the revenue from some of these taxes go to local government instead of the national government. Local government needs more revenues sources than they have at present and our national government is disproportionately powerful by international standards. As a Cantabrian, I feel that my tax money goes to Wellington and then gets handed on to Auckland and as Auckland grows in population and therefore political power, this will only increase. Auckland certainly needs more revenue sources for their infrastructure problems, but the rest of the country shouldn't be forced to subsidise Auckland. Specifically, I prefer the revenue from the Empty Home Tax and the Land Tax (or Stamp Duty) to go to the city council or regional council where the land is located. The Wealth Tax revenue could be directed to the local government where the individual lives.

Just to give some background on myself. I pay about $4000 a year in rates and about $60,000 a year in income taxes, so my income is well above the national average and I would be subject to a wealth tax with a $1million threshold, lest you think that I want someone else to be taxed for what I'm proposing. I am happy to pay taxes; it is how we pay for a good society. There are many things that private business and free markets will not produce because there isn't a sufficient return on capital and so government must provide these things or our society suffers. I do, however, expect efficient government and effective use of <u>all</u> our tax dollars.

More Detailed Discussion

Automatic Payment Tax (APT):
I would like to see something like the APT. This is more broad than the Financial Transaction Tax as an APT would apply to all transfers, not just financial ones. It is not about curbing speculation (though it would probably have some effect) but more about a very small tax applied to the broadest base possible. This would raise a lot of revenue allowing a reduction in the GST or raising the current income tax brackets, (or perhaps a zero tax bracket for the first few thousand earned) or both.

Wealth Tax (vs Capital Gains Tax):
I'm not a big fan of a CGT as it is really a transaction tax. If there is no transaction, there is no tax due. Assets can grow and grow in value and remain tax free if there is no sale. Also, the middle class is quite right to be concerned about this tax as they are more likely to be forced to liquidate an investment due to a change of circumstances. The rich typically can borrow against equity or just have the cash flow to meet unexpected bills.

Also because the CGT is infrequent, (sometimes delayed for years or decades), when the tax falls due it is for a large amount (sometimes millions). So, the taxpayer is very motivated to put in place tax avoidance systems. The same is true for an estate tax.

So I prefer a Wealth Tax with a generous threshold that exempts roughly 80% of Kiwis, then an annual small charge, probably 1%. (it could be progressive, increasing the % at higher levels of wealth). This would exempt those with a small or moderate amount of assets and is more likely to actually be collected from the rich. NZ already has something similar in the FIF, with a $50,000 threshold is likely to only be paid by wealthy individuals and if you're in the 33% bracket, that works out to a 1.6% tax rate (33% x 5% implied dividend rate). So arguably NZ already has a wealth tax, it only applies to one type of asset.

Gareth Morgan's proposed CCIT operates similarly to the FIF, applying an implied income rate to all assets coupled with a reduction of taxes on earned income to achieve a tax reduction for about 80% of people and a 20% increase on the wealthy. I like his proposal, but most people don't seem interested or are frightened of the family home being included in the calculation.

Finally, I know the TWG are required to exempt the family home from a CGT, but I don't agree with that. The richer you are and the more lavish your home, the bigger the tax benefit. This exclusion applies equally to John Key's $20million Parnell home and a $200,000 home in Invercargill. The US CGT allows you to defer the tax if you buy a home of equal or greater value within 2 years of sale and then when you finally down-size to a smaller home (typically at retirement), each person has a very generous, once-in-a-lifetime exclusion from the tax; a couple has two. So most Americans don't pay CGT on their home. This system would completely shelter most Kiwis from paying the CGT on their home, but would offer little protection to John and Bronie Key.

We also need to close the loopholes in the income tax system that allow income shifting (for example the high proportion of the rich list that aren't in the top bracket).

Empty Homes Tax:
This tax is both aimed at reducing wealth inequality and improving home affordability. A 1% tax on residential properties, *in cities,* is due on homes unoccupied longer than 4 months. In Vancouver, owners must submit an annual property status declaration. We'll need stiff penalties for dishonesty

and even stiffer penalties for faking the appearance of occupancy (lights or water on timers) and rewards for reporting law-breakers.

Land Tax, Stamp Duty on foreign land purchasers, Limits on Interest Deduction:
I know this is an issue for farmers as they feel they will effectively be taxed twice, but my concern is that the price of land (urban-particularly Auckland) and agricultural has become so distorted and over-valued that the next generation has no possibility of owning their own home or farm. This has happened due to the current tax anomalies, namely tax-free capital gains, tax incentives to over-gear, corporate ownership tax benefits, tax-free land-banking and unfettered foreign purchase.

I would prefer a total ban on foreigners buying land in NZ (leasing would be permitted), but that may prove difficult to implement. Apparently a hefty stamp duty can have a similar effect. Many other countries have similar rules. Currently, Kiwis must compete against the wealthy of the world and it's just not fair. We must takes steps to correct these distortions so the next generation can afford the opportunities that are their birthright. This should also include stiff penalties (I like confiscation of the property) for law-breakers and stiff penalties for real estate agent, lawyers and Kiwi front-men who enable the evasion.

Lord Adair Turner (in *Between Debt and the Devil)* describes excessive debt as a form of pollution that creates systemic financial risk. Debt as part of capital structure is being overdone due to the tax incentives. Gearing already enhances the returns to equity; tax deductibility just throws petrol on the fire. This encourages over-gearing to avoid tax on earned income in favour of chasing capital gains and puts business and households at risk in an economic downturn. He proposes reforms to reduce the bias toward leveraged real estate investment in personal tax regimes and limits on the tax deductibility if corporate leverage exceeds certain limits. He also proposes more favourable treatment of dividends, however as NZ has integration, that is probably enough. We need to limit corporate interest deductibility to a reasonable amount and ring-fence deductions vis-a-vis earned income.

Multinational Tax Avoidance
Multinationals are competing against domestic business and yet often paying little or no tax here. Tax revenue is lost and it is not a level-playing field. Apparently India has recently adopted a 6% tax on turnover. That sounds like a good idea. We need taxes based on turnover and revenue rather than net profit as they are gaming the current system. We also need something like the Diverted Profits Tax in Australia and the UK that assesses a penalty rate if companies under-report income vis-a-vis revenue.

Taxing 'Bads'
First, I think the taxes on tobacco need to be reduced. I have never smoked so I don't pay this tax, but it is obvious that the tax is leading to violent dairy robberies and a black market trade. Those who still smoke are not deterred by the tax and need other treatments or incentives. Or they may just be hard-core addicts who cannot stop and the tax simply diverts more of their income to smokes, rather than other uses. The increasing rate of tax is ineffective at deterring smoking and has become counter-productive.

Sugar, salt and low-grade fats are cheap ingredients for processed food manufacturers. It is good for their profits and bad for our health and is driving up the costs of NZ's health system. As we've seen from Mexico and now the UK, these taxes are effective at driving manufacturers to re-formulate their products and reduce general consumption of damaging, empty calories. Denmark had a tax on saturated fat (which they repealed due to corporate pressure). It raised *a lot* of revenue and blood tests from the health system were starting to show a reduction in blood cholesterol levels.

There is the perennial debate about removing GST from healthy foods. Supposedly this is too difficult or will spoil the elegant simplicity of the GST tax. I don't buy that. We've got bar codes and computers that can easily keep track of differential tax rates. Then there's the claim that there will be endless debates about what should qualify for the exemption. This is a more valid argument, but there are whole aisles in the supermarket that are unquestionably junk. There will be areas of debate (real fruit juice springs to mind-it has a terrible GI, but lots of people think it's healthy). I would suggest using the UK's traffic light system, green is exempt from GST, yellow has the regular rate, red foods are double. I don't see why that would be so difficult to implement.

Alcohol is currently taxed adequately in my opinion. The problem is the alco-pops and RTDs, not a $20 bottle of wine or a bottle of cognac. We should tax the sugar (and packaging), rather than increasing the tax on the alcohol.

Environmental Taxes...we need a whole rafts of these. A Climate Change Levy such as the UK has and/or a Carbon Tax (which I prefer to an ETS) with tax credits for investments that reduce greenhouse gas emission. A levy on nitrate fertiliser ($2/kg) again with rebates for off-setting behaviour. A levy on *all* single-use plastics (not just shopping bags), glass bottles and aluminium cans. Most of these things have a barcode on them so the charge is applied at purchase (levied on the manufacturer to encourage package redesign) and refunded when returned to a recycling program, much like Germany has had for quite a while. We also need an up-front 'end of use/disposal' levy on things like tyres and electronics.

A 1cent/1000L levy on commercial water use (including agriculture) is for fair use of a national asset, owned in common by all the people of Aotearoa. It should not be given away for free. That was acceptable in the past, but the resources is now at risk and the rules need to change. There is the issue of iwi rights, but I think a reasonable division of the revenue should be possible. That becomes another source of money for them and for the Crown. To continue to do nothing, is frankly stupid. The idea that such a levy will significantly raise the cost of food or drinks is absurd. It doesn't take 1000L of water to grow a lettuce or a bottle of wine. If such a miniscule levy has any perceptible effect, it's because there's something seriously wrong with your systems or you're using a ridiculous amount of water for whatever you're producing.

Finally, we need a Tourist Eco tax to help pay for the damage tourism is causing and to provide the infrastructure needed to support this part of our economy. The burden shouldn't fall on local rate-payers. Campervans rentals should have an additional levy to discourage freedom camping (which is totally out of hand