Tax Working Group Public Submissions Information Release

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30/04/18

Saxon Bruce
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Tax Working Group Submission

Summary of recommendations:

- Introduce capital gains tax at the same rate as income tax with no exemptions for the family home
- A carbon tax (or increase in price of carbon units in current emissions trading scheme) on goods and services produced in New Zealand or imported. The tax should be so high as to radically harm the economy in the short term and force industry to adapt in the long term. All revenue from the tax should be redistributed via a universal basic income to partially shelter citizens from the harmful effects on the market.
- Increase in company tax where profits are paid to non residents and removal of company tax where profits are paid to New Zealand residents. Profits paid to non-residents should be charged at the same rate as the highest New Zealand income tax bracket.
- Increase in top tax rate by the amount of now removed company tax (to a total of 61%, assuming top tax rate remains the same).
- Introduce an inheritance and gift tax on cash and capital received over some large threshold.
- Introduce a financial transaction tax.
- Ensure that the tax system remains simple with few exemptions

"If you want to knock Bolshevistic notions and revolutionary socialistic notions out of men, you give them a stake in the country - something to lose, something to take a pride in" - Bill Massey

Fairness

Tax should have two purposes. The first is to pay for the necessary functions of government. The second is to redistribute income from richer to poorer. The second purpose is necessary due to the way capital accumulates. As an individual's profits increase, so too can their investments, resulting in capital accumulating in fewer and fewer hands, as evidenced by the growing wealth inequality in New Zealand. Profits created by workers are kept by owners and rent seekers, who add little value to what is produced and risk only the wealth that was collected in a similarly unfair way.

This is not a call to a planned economy. The free market provides freedoms that are sorely missed when taken away (but are also enjoyed most by the well off). The ability for any person to start a new business can be liberating and allows innovation to thrive. Profit seeking individuals are a integral mechanism of the invisible hand that makes resource allocation and distribution so efficient (when all externalities are priced in). Freedom of economic activity is a freedom like any other.

The reason I bring up these points is because tax should be the main mechanism which tames the free market, allowing freedom and innovation whilst ensuring fairness. As an individual's wealth increases, so too does the illegitimacy of their right to it. The Tax Working Group has been asked to keep the level of tax revenue as a proportion of GDP consistent, but I don't think that should be the case. As an individual's level of profits increase, the government should tax that income at higher and higher rates. If the government runs out of things to spend the revenue on, the income should be transferred directly to citizens equally. The younger generation in New Zealand is becoming more and more despondent about their ability to 'get ahead'. Houses which were an affordable investment for the older generation are now out of reach of most. Resentment is increasing and New Zealand will soon have to resolve the unfairness of the free market via increased tax revenues.

Climate Change

Climate change is by the far the most important issue in the world. It is a major threat to world economy and the human species as a whole. Extreme weather conditions can lead to famine which correlates strongly with armed conflict. Large amounts of valuable land is under threat of going underwater which will lead to millions of migrants worldwide. New Zealand, although a small greenhouse gas emitter by world standards, emits a large amount for our population. We should take the initiative to be a world leader like we have in the past to mobilise our economy towards this challenge like we did in the two world wars.

The current emissions trading scheme has been criticised for being ineffective. The omission of agriculture in the scheme has no sound reasoning and is the result of political cowardice. The scheme could be salvaged by radically increasing the cost of a carbon unit. This still leaves the problem of businesses buying dodgy credits from overseas. A simpler option would be to replace the ETS with a simple carbon tax levied on producers and importers. Whatever option is chosen, the price of carbon should increase so heavily that consumers notice the effects when buying consumer goods. Well meaning people (of which there are many) have no way of telling what goods have a high carbon cost associated with them. I have seen people at the supermarket comparing similar food packets to see how far the food has travelled as a measure of carbon emissions. This is a tragic state of affairs considering that due to differences in food production, it is sometimes the less carbon intensive method to ship goods internationally than produce them locally. The consumer shouldn’t need to think about things on such a level. Market mechanisms can be utilised to ensure that high carbon goods are prohibitively expensive. This also gives people the freedom to decide that some high carbon goods are worth paying for. If the price of carbon is high enough, the efficiency of profit seeking businesses will create new technologies and innovations that will far exceed the goodwill of a supermarket shopper. Businesses and consumers both need to feel the pain of a carbon price in order to make decisions in the market which lead to a low carbon economy.

A high carbon price will not be popular politically. If the cost of goods increases significantly (as it should) then the brunt of the hardship will be paid for by the poor who already cannot afford it. As such, all of the revenues collected from a carbon tax should be redistributed to people evenly. The carbon tax then would then provide for a universal basic income, which has its own benefits. Consumers will still not be as well off as they were before, due to the great deadweight loss a high carbon price would cause. This will need to be sold to the public as the price of becoming a carbon neutral nation, and as important a cause as mobilising for war.

Capital gains tax

Capital gains are the main source of many people's wealth. If income from wages is taxed, it is fair that the profits made from capital gains are also taxed. Capital gains are even more important to tax, as they are a major source of the growing income equality between generations and classes in New Zealand. Capital gains should be taxed on disposal of the asset, as a component of the individual's income tax. There should be no exemption for the family home. A family home is an investment like anything else, and should be taxed accordingly. This becomes even more true as the proportion of long term renters in New Zealand increases.

Inheritance and gift tax

In an ideal world, economic benefits would be allocated by merit and not by luck. That is not the case when one person can be born with an inheritance to some amount of wealth and one person will not. Having this advantage can pay dividends later in life and is one reason why Pakeha have a much higher rate of home ownership than other ethnic groups. An inheritance and gift tax would partially fix this injustice. Those who did nothing to earn wealth except be born to the right family do not deserve it. Inheritance or large gifts should be treated similarly. If someone inherits a non-liquid asset such as a house or a farm, then inheritance tax should only be paid when the asset is sold (which could be many years later).

Many people want the opportunity to provide for their children when they die. This is a completely reasonable wish, and can be respected by setting the threshold before inheritance tax applies to a large value. The purpose of the tax should be to stop capital from being passed from generation to generation, where only the original generation actually did anything to acquire the capital. Because people who inherit huge amounts of wealth have done literally nothing to deserve it, it should be taxed at a rate as high as possible before tax evasion or capital flight results in diminishing returns. I leave calculating what that rate should be as a cost benefit analysis exercise for the poor government bureaucrat reading this.

Company tax

Company tax should be abolished for profits which go to New Zealand residents and stay the same or increase when profits go overseas.

When a company is wholly owned by New Zealand residents, it makes little difference whether the company is taxed 28% or the profit which the residents receive as income is taxed at 28% + their regular tax rate. One case where it does make a difference is when the owner of the business has very little income. This could be relevant to a low income person with some Kiwisaver investments. By abolishing company tax and instead increasing the top income tax bracket by the same amount, small investors on low incomes can get a leg up.

Where profits are sent overseas, they should be taxed as high as we can get away with without causing a large amount of capital flight. Some capital flight would probably be acceptable to many Kiwis, who resent foreigners buying property in New Zealand. This is another example where fairness gives way to cost benefit analysis

Financial transactions tax

A small tax on financial transactions will stop resources being wasted on trying to predict minute movements of markets. This sort of trading has little economic value to anyone and should not have a foothold in New Zealand

Tax exemptions

A fair tax system should be easy to understand and the current tax system does that pretty well. It is sometimes argued that fruits and vegetables should be exempted from GST. If people are too poor to afford fruits and vegetables then that is a problem itself that should be addressed. It is better to give a direct cash transfer to those who need it and let them decide what to spend it on than to make many exemptions and loopholes in the tax system.

It is common for small business owners to put assets into family trusts to give the appearance of low income and make their children eligible for things like the student allowance. This is a loophole which should be fixed.

Tax to affect behaviour

The government is in the unique position in that they can change the price of certain goods to affect people’s behaviour. Tobacco tax revenue is much higher than the cost to the health system in order to dissuade people from smoking. Tax incentives / disincentives should be created when the government has the mandate to do so, as they are the only ones with the power to do so, but they should be very careful that they don’t overstep their boundaries. They should only disincentive behaviour when the public overwhelmingly supports it. The current levels of tobacco tax are testing that limit. When there is only a simple majority and not an overwhelming majority of people in support of the government intervening to affect behaviour, then the government should refrain from doing so in order to respect people’s freedom to live life the way they want.