Tax Working Group Public Submissions Information Release

Release Document

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

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Submission to Tax Work Group 2018, by Rod McIntyre

I favour taxation that is focused on needs, simplicity and efficiency. I dislike policies in the name of "fairness" as that is subjective, or "changing behaviours" which can be misguided and insulting. My perspectives are from a 45 year working life in blue-collar private businesses (construction and industrial). I am a capitalist-socialist believing in hard work, rewards, fair appropriate redistribution (based on needs not so-called "fairness"), and limiting welfare to dire needs rather than dependency and an alternative to hard work.

Tax on international company business in NZ
Profit transfer tax loop holes must be closed.

Company tax rate
The present rate is competitive enough, with no fiscal scope for meaningful reduction.

Income tax
Generally ok as is.

Upper income tax rates
I would have no objection to increases in marginal tax rates at much higher income levels, starting with above $200,000 at 3-4%, then above $400,000 at another 3-4%, and finally above $600,000 at another 3-4%. This is based on need, not so-called "fairness." It is certainly arguable that it is unfair that higher earners, often working very long hours under considerable stress and personal sacrifices following extensive education and training, should pay "more than their fair share" and pay "other people's share", as indeed they presently do. But the reality is that earnings above $200,000 cannot be considered to be a need and the wealthy do exceedingly well and still would with increased marginal rates. They benefit from a stable and prosperous society in a way that those earning average wages and below never can, and are far less vulnerable.

Sufficient incentive to advance to such income levels has to be preserved mindful of the fact that, for example doctors and surgeons can earn vastly more after tax overseas. Likewise, professionals, advanced technical specialists, business people and senior managers where the highest calibre people are essential to NZ for it to prosper and improve. Such people must not be lost overseas and need to be attracted from overseas.

Higher marginal rates would encourage greater retained-profit earnings being left in businesses, available for investment in productivity and R&D.

Trusts
The 33% flat tax rate is arguably "unfair" visa via the present top personal income tax rate and company tax rate, but probably ok as is.

Capital gains tax
Any CGT would be a wildly fluctuating and therefore an extremely unreliable source of tax revenue. During recessions and flat periods which run for 4-5 years in most decades virtually no CGT revenue would be received by government at the very time that other income and taxes fall and government needs to support the economy and welfare more. CGT risks incentivising politicians of whatever ilk to allow policies which support asset inflation, aggravating debt and crisis fall-out. During booms CGT would tend to give politicians a false and dangerous sense of fiscal availability.

CGT is also hugely complicated. During the routine recessions capital losses over the course of 3-4 years are normal for property, whether realised (including by mortgagee sales due to bank calls on debts), or retained. Will such losses be useable to offset past or future CGT as they logically must? It would be

farcical, never mind "unfair", to pay CGT then in following years for substantial market value retracement to occur after earlier market values were shown to be temporary. How would loss carry forwards be dealt with administratively?
How to assess CGT when someone has improved a property, to whatever degree? Should personal labour and project management be chargeable as an improvement expense deductible with other costs from a subsequent market value of the asset? Is not property improvement to be encouraged to lengthen its usable life?
What rate of inflation should be factored in to assess a real rather than nominal capital gain?
How should the improved asset value be "~~fairly~~" realistically assessed in consideration of the effect that improvement often has on market value; i.e. should a credit be based on costs, or "marked to market" factoring in the added appeal of an improved property at sale? Alternatively, what if costs are greater than market sale price?

CGT fails the simplicity and efficiency tests. Also, evidence overseas is universal that it has not prevented run away house prices, with around a million dollars being common in most OECD cities.

Realistically, property prices may finally be close to their ultimate ceiling, constrained by incomes which are inelastic, bank lending limits, and no more room for lower interest rates. It would instead be better policy, compulsory for all governments, and councils, to proactively track and ensure housing supply apace with population increase (or better, slash the latter to save billions on infrastructure and services which never keep up).

Use of tax revenues
The counterpart always must be disciplined controls of spending by all government related and local body organisations. "Nice to haves", excesses and waste must be avoided. Private enterprise and prudent household like financial and operational disciplines are imperative across all activities.

GST
Ok as is. Must not complicate with exemptions like food, fruit and vegetables, or anything else.

Inheritance duties
Thrift among families should be encouraged morally and to improve wealth building which increases capital pools available for productive investment whether in housing stock, finance lending, children's' higher education, business investment, or equities. "Blowing it" in response to the threat of inheritance tax would be bad for the economy and underpin NZ's weak savings and investment capital.

Wealth or asset taxes
Built up wealth has already been taxed as income. Moreover, it would be repugnant to tax the face value of assets (except land banking as described below). Tax must otherwise be limited to income, i.e. payable from net inward cash flows. The objective of working bloody hard and being prudent over a working life time is to accumulate assets including lifestyle and investments for retirement, from which income only should be taxed at personal, Trust or company rates, to the exclusion of non-cash producing assets including family home and bach (touch the latter will be like the plan to slash the recreational snapper catch with riots in the streets; plenty of quite ordinary folk including tradesmen with families enjoy their bachs as a sanctuary from hard work).

Land tax –land banking
These are challenging and problematic to regulate and administer, however there is a serious need to discourage land banking where speculator-investors withhold the availability of land within urban boundaries from development for many years. Regarding "fairness", the greater good prevails (no thanks to over population). Loss of agricultural land for urban expansion, and urban boundaries, to be considered.

Negative gearing tax relief on rental housing
Very dangerous for rental housing stock to remove this particularly now that house prices are sky high hence a barrier to investment and limiting potential for capital gain, plus with increased government impositions and costs on rental ownership and p.i.t.b. of dealing with tenants and maintenance. Negative gearing tax relief surely exists to encourage rental stock (rentals house about 70% more people per house than privately occupied homes).

Thanks!

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