Tax Working Group Public Submissions Information Release

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NZ Taxation Review

Submission by:

William S Macky
[1]

First, one needs to consider what tax is for. It is clearly not for raising money. The New Zealand dollar, being a fiat currency, can be freely issued by the Government whenever it likes. The reason for imposing a general tax is to remove liquidity in the economy. The Government has a few ways of removing liquidity and tax in one of them. The main others are borrowing and charging fees for goods and services it provides. Of these, borrowing is often the most attractive. Borrowing requires no compulsion so has no compliance costs, it raises interest rates which forces market participants to make better decisions, it can be instituted at any time and reversed. The other side is that interest must be paid, but because this is a fiat currency, that will never be an issue, only in as much as liquidity in the economy must still be controlled. Borrowing would build up if not covered by some other effect. That should be estate and gift duties. That effectively formalises the individual's lending as tax at the end of the person's life. This is no double tax; the tax requirement is lower because borrowing is being used to help control liquidity. Obviously, the person doesn't need the money if they are dead or giving it away. Trusts should be treated the same. Any disbursement should be subject to gift duty at the standard tax rate. The Government should provide a grace period to allow trusts to be wound up to avoid this. The effect of this is to convert lending into tax.

Currently there is a severe problem with over liquidity in the economy leading to extreme asset price inflation and many dangerous asset valuations. The solutions suggested remind one of the Muldoon years when all sorts of freezes were tried out. The solution eventually adopted was to raise interest rates until people valued money. We are in a parallel situation today were various mad solutions are offered when the require solution is to raise interest rates. In the eighties we had just come out of 15 years or so of price chaos, both consumer and asset. Consumer prices being the hottest button and easily measured, was selected for control. That was a mistake. We should have targeted asset prices and that remains the situation today. People will always buy an asset if it is rising in price but will not buy consumer goods if they are rising in price. And anyway, how was lowering interest rates in New Zealand expected to stop the Egyptians from widening the Suez Canal and bringing down prices. Discussion of a capital gains tax is a result of the failure to properly manage the economy. Alan Greenspan, on surveying the wrecked Japanese economy slowly recovering from the collapse of a huge asset price bubble, declared in 1996 the asset prices were not a worry. His management of the US Federal Reserve had been governed by that view for a little while. I don't know what he was on at the time.

Everyone in New Zealand is on a benefit, whether it be a free police force or superannuation. There is no need to single out any group of people for special treatment or harassment. Many people are struggling with the cost of living on a near minimum wage income and harassment will only make things worse. The provision of targeted benefits, intended to draw people into certain areas of antisocial activity, should be abandoned. The information provided shows that the highest marginal tax in New Zealand is about 33%. In fact, struggling families in the income range $40k to 90K as described in the living wage argument are paying on average about 52%. If they have a student load and many will, it is over 60%. The arrangements are extremely complicated, possibly simply to frustrate those involved. Some of these interventions are reduced by lump sum amounts at income steps so negating a small wage increase entirely if an extra dollar income takes you over a threshold. All interventions in someone's income is tax and should be called such. (If you don't like that, abolish tax altogether by calling it something else.) Realistically given that the purpose of tax is to reduce liquidity, it should be directed towards where excess liquidity is a problem. That is not low income families.

Once one enters the glorious 33% + ACC tax band, one is entitled to $9,080 per annum, no questions asked. Your net income is 67% - ACC of your gross plus $9,080. For simplicity's sake these payments should be separated. The employer knows it needs to deduct the 33% + ACC. The Government makes the $9,080 payment fortnightly. It doesn't matter how many employers one has, they all do the same: pay net 67% - ACC of gross. ACC is just tax. It doesn't need to be separated. The complication hasn't worked; New Zealand still has a high accident rate. This deal is far too generous to apply to the poor people. What sort of country is this? The over $70K earners are effectively on the UBI scheme. Put everyone on it as well.

The attached graphs show the chaos of the tax system. But one can see that in the area $40k to $100k the underlying trend is simple: just over 50% tax and a basic income of about $4,000. This difference between North and South Korea is said to be 10 times in 65 years. That is less than 4% pa. Half of that goes to having the worst of friends instead of the best of friends and half goes to having the worst of economic policies instead of the best of economic policies. So, what we are considering here is part of that the extreme range of 2%. Simplicity and fairness is the major thing we should be seeking. I haven't bothered to try to explain the graphs. They are just chaotically and completely unnecessarily complicated. Similarly, the economic fiddling that goes on, adjusting GST by 2.5% for example, is just a nuisance. It has no real consequence.

Taxes can nudge people to more sensible behaviour. The tax/benefit scheme can certainly nudge people into worse behaviour and we need to drop that.

Nobody knows whether people would use the roads if they had to pay for the cost of building them through fuel tax. Government studies in the early 1990s showed the cost of road use collateral damage was about the amount collected be fuel tax and road user charges. Roads were valued at $40 to 100 billion. Now they are probably worth twice that (but who knows with current asset price madness). A reasonable return on that investment the Government has made on behalf of the people would be 12% or about $4 per litre. That would solve congestion. Auckland would be one of few places where roads made economic sense. Underutilised roads elsewhere would still be loss makers. Nothing can be done now but when the autonomous vehicle revolution hits, we need to ready to make sure all that profit arising from getting rid of New Zealand workers is not spirited out of the country to Ireland or somewhere similar.

Alcohol taxation is far too low, tobacco too high. Currently illicit drugs escape all taxation but put significant costs on the community. These should be taxed.

Sugar is all pervasive and sugar substitutes are just as bad. Labelling should be used to make sure people understand what they are using. For example, tomato sauce is 85% sugar by dry weight. 85% of the label should explain just how bad this product is for the user, and 85% of any advertisements for the product should explain how bad it is. All these costs paid by the manufacturer.

People complain about product wrapping. The local supermarket offers credit for plastic bags at $10 per kg. The real problem is the rubbish inside the packages. $10,000 per tonne is too high but consumers need to pay a reasonable fee for the disposal of the rubbish they are buying, maybe $1,000 per tonne.

Company taxation should be the same as personal. It is not true that foreigners owning New Zealand companies cannot get dividend imputation. That is an issue for their government, not ours.