Tax Working Group Public Submissions Information Release

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

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

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

What does the future of Tax look like.

New Zealand has an admirably simple tax system compared to many other countries and our efforts should concentrate on making it more simple and efficient prior to considering increased taxes or changing the tax mix. Our lack of state governments keeps our administrative burden comparatively low and this flat governmental structure should be taken full advantage of.

The Discussion Paper talks of Vertical and Hortizontal equity. I would put forward that there needs to be a third pillar to this equation and that is Reciprocal equity and is the single most inequitable aspect of our tax system.

The most important economic unit in our society is the family. It is the basis of our social structure and failing families have widespread implications for society as a whole. The current tax and the welfare system are fundamentally out of step. When it comes to the Government levying taxes, they are based on individual income at their relevant marginal tax rate – but when it comes to the government handing out funds to the population it is based on the family income and the number of dependents one has.

The interaction of the two regimes and the Working for Families regime is incredibly complex and leads to situations in which those on low to medium incomes are effectively paying up to 65% in tax and reduced benefits for each additional dollar earned in income. (30% in income tax, 20% in reduced Working for families and 15% in GST on purchases). This is a significant disincentive for wage earners to aim to earn more and better their situation when the government is going to be taking the lion's share of any additional income they earn.

The tax system should be reformed so that the family unit forms the basis of marginal tax rates and aligned to the welfare system so that those on low to medium incomes are not subject to high effective tax rates, and to more equitably treat single income families who pay more tax on the same income than dual income families.

How would this work?

Income would be assessed based on each family, with both partner's earnings being consolidated and taxed at levels that are half of the rate of individuals. In addition, for each child in the union a tax free threshold should be introduced to recognise the contribution the children will be making to the community in the future, and the cost of raising them.

A tax free threshold should also be introduced similar to that used in Australia to limit the negative impact of high effective tax rates at low incomes which is not equitable, and frankly pointless if much of the tax is being refunded via working for families anyway.

For those on lower incomes welfare payments will still be required, but with this system the tax free threshold will ensure that the reduction in welfare for each additional dollar earned doesn't exceed the top marginal tax rate.

This system better recognises the contribution given to society of stay at home parents who forego earning a wage to invest in a more valuable and meaningful occupation – raising the next generation.

This system also negates the need for a myriad of tax minimisation strategies such as partnerships, trusts and companies that are used to better flatten the income out in family owned businesses. This will reduce the compliance requirements of these businesses whilst simultaneously giving salary and wage earners the ability to be taxed in a more equitable fashion.

GST

The current mix and rate of GST should not be altered.

The introduction of GST in Australia was a comparative minefield compared to New Zealand with the exclusion of basic food items. Although a noble aim, the administratively simpler resolution to the fact that those on lower incomes spend a much higher proportion of their income on food is to provide them with an increased welfare payment or lower tax rate (or higher tax free threshold).

Instead of taking this pragmatic approach Australia had to grapple with what was considered “basic” food. For example a bbq’d chicken was basic, but what if you cut it in quarters? Please refer to:

https://www.ato.gov.au/law/view/document?DocID=GII/GSTIIFL1/NAT/ATO/00001

GST is administratively simple in NZ – keep it this way. If there is a perceived inequality in how it impacts those on lower incomes – increase their benefits as compensation, do not make the GST regime more complex.

Housing Affordability

Housing affordability is impacted by many complicated factors so prior to making the situation more complex by attempting to implement new taxes to address the issue the government should address the current causes of housing unaffordability in the first instance.

1. Development Contributions – Are levied by local councils as a “user pays” cost to the development of new housing sections. The theory being that covering this cost via standard rates is inequitable to existing land owners.

   This concept is fundamentally flawed for a number of reasons:

   a) Those that are charged the development contribution may not be the ones increasing resources. Take for example an elderly couple downsizing to a smaller newly constructed home in the same town they have always lived in. They will be charged a development contribution whilst the existing house they sell could be sold to a new family or entrant into the region who are the ones that are creating the increased impact on council resources.
   b) The development contribution pushes up the cost of all housing in the area. If costs of construction are increased by government charges, existing homes will now be by default become more valuable
   c) No other “user pays’ system operates like this. For example when signing onto your electricity service or mobile phone service you are not charged a disproportionate charge (eg 14 times your yearly bill) to connecting to the service

d) Development Contributions are levied against new home owners who have to pay for them, whilst the change in policy has caused existing home owners homes to be worth more for no consideration. It has shifted wealth from new home owners to existing home owners.
e) Development contributions are disproportionately more expensive on smaller constructions on a per metre basis.
f) All houses, both existing and newly built all have the potential to be used by new entrants into the area. As such it is inequitable to levy development charges on only new construction
g) As each new residential unit is built it is able to take advantage of the economies of scale of pre-existing infrastructure, as such there is not a linear increase in the cost to council.

Local councils should revert to the previous system whereby development costs were financed via annual rates. This would reduce the cost of new building whilst more accurately reflect the long term cost of services provided to the real estate asset class.

2. Local Planning Laws – Long term district planning provides land development companies specific information upon the development corridors of towns. This enables them to purchase and land bank land safe in the knowledge that these areas will increase in value as they are mandated by the local authorities as the next development areas. Once purchased they can be trickle fed onto the market to give the illusion of lack of supply.

   A way in which to mitigate this issue is that when companies apply for resource consent to subdivide new areas they must be mandated to release them to the market within a short period of time so that the real supply of land is factored into the market price. Also if resource consent is granted and the development is delayed there should be a time limit of ten years or something similar that precludes the company from applying for consent again on that same piece of land

3. Contruction costs – Labour costs in NZ are less than they are in Australia, yet building costs are over two times larger. This is due to the cost of building materials and the lack of competition in the NZ building supplies industry.

   NZ is a small country, with a relatively small population. We have a body called BRANZ that determines what building materials can and cannot be used and if they comply with the NZ building regulations. It defies belief that a country so small does not adopt existing building standards existing in other first world countries that have similar environmental extremes (UK, Germany, Australia, Canada and the USA). Some regions of these countries also have high earthquake risks – such as California which has a population nearly ten times of that of NZ.

   Due to the high barriers of entry to the NZ market as a result of NZ's specific building regulations and requirement to validate all building materials many of the low cost options available from other countries are not available in NZ.

   NZ should synchronise our building regulations to those of larger markets so that we are able to source our building materials from a variety of sources at a fraction of the cost that is available in NZ. The current regime is a non-tariff barrier that rewards inefficient and uncompetitive business owners from international competition and the average kiwi is the one that is consistently footing the bill.

Taxation as a tool for reducing Inequality.

This is a misguided ideological driven aim that is quite dangerous in its implications and the basis from which it is derived.

Taxation should definitely be used to ensure that all New Zealanders have access to adequate housing, food, health and education – but it should not be used as a hammer to drive down perceived inequality.

Living in a free country, its citizens have the freedom to make sound, or unsound decisions, both personal and financial. The ability for women to also engage fully in business and employment over the last few decades has also enabled many households to generate wealth at a greater speed and magnitude that was previously not possible with single income families prior to the 1970's.

Increased natural result of increased freedoms results in increased inequality as some households take advantage of their freedoms in full in pursuing wealth, whilst other households may prioritise their lives that result in outcomes that are not as focused on their personal balance sheet

We should at all times work to assist those less fortunate and to use the taxation system to facilitate in providing for these services, but the use of the taxation system to reduce inequality from an ideological perspective in an attempt to the right the perceived "wrongs" of our free market system is counterproductive.

Inequality is the natural result of New Zealand's level of freedom. Freedom to prioritise growing your wealth, or freedom to pursue other less financially lucrative yet just as personally rewarding options.

The most equal places in New Zealand society can be found in our correctional institutions – this is the most pronounced example of how the two concepts are so closely interlinked.

Any attempt made the current government to fight the new boogieman of inequality over and above providing for the less fortunate brings all of New Zealand's citizens that much closer to the equality and freedom granted to those currently incarcerated.

If you have any questions in relation to the above, please do not hesitate to contact me.

I would like to present in person the above for discussion within any working group or hearings to be held.

Warmest regards

Darryll Rogers CPA
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