Tax Working Group Public Submissions Information Release

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Submission to the Tax Working Group from the Christchurch East Labour Electorate Committee

1.0 Introduction

1.1. This submission is on behalf of the Christchurch East Labour Electorate Committee (LEC).
1.2. We have read the report, the fact sheets with summaries of issues, and the data tables of the historic New Zealand data and comparative data from around the OECD.
1.3. Broadly, and as stated, these show a tax system with a high reliance on three primary sources of income, Company Tax, GST and Income Tax, all of which are, in turn, reliant on work being readily available to the majority of the population.
1.4. The uncertainty surrounding the future of work suggests other types of taxation are likely to be required to mitigate potential issues with the adequacy of revenue.
1.5. Aotearoa has issues with inequality and housing, and there are real opportunities to address these as part of a broader approach by government by making improvements to the tax system.
1.6. Several of our group are familiar with other material and consider Thomas Piketty's *"Capital in the Twenty-First Century*" to be a seminal work in the root economic causes of inequality and potential solutions which has informed our discussion and recommendations below.
1.7. A summary of our recommendations is at the bottom of the document.

2.0 Use of the taxation system to improve public outcomes via incentives and disincentives

2.1. Taxes are collected to fund health, education, social security, police, the courts etc. Effectively, governments use the revenue to improve outcomes for New Zealanders.
2.2. As noted in the information provided by the Tax Working Group (TWG), only tobacco and alcohol are taxed with the intentions of discouraging their consumption and offsetting associated health costs.
2.3. Minimising distortion and complexity are often given as reasons to discourage the use of taxation as an incentive or disincentive, but distortion and complexity are currently caused by the addition of levies, fees and user charges, often with the intent of decreasing general taxation required, adding some level of 'user-pays' to acknowledge individual benefit gained (e.g. student fees), or rationing publicly-funded goods and services to avoid overuse. Fees for doctors' visits and prescriptions are good examples of fees added for the purpose of rationing and decreasing the level of taxation required which also cause distortion and complexity elsewhere for the general public.
2.4. **Conclusion**: That some complexity and distortion are acceptable if they lead to improved outcomes. We believe that the balance should move toward more use of the tax system to provide targeted incentives and disincentives.

3.0 Tax incentives and disincentives for environmental objectives

3.1. Tobacco taxes have had a large impact on smoking in Aotearoa and provide something of a model for offsetting costs associated with, and discouraging use of, a product without necessarily banning it.

3.2. A carbon or other excise tax is an excellent tax disincentive for products and services that result in harm to the environment e.g. plastic packaging. Bans may still be appropriate for some products, but taxes are appropriate to otherwise discourage use and offset any associated costs e.g. cleaning up pollution. Rebates for recycling environmentally-friendly packaging is also a viable option to consider e.g. 10c to return glass bottles to a recycling depot is a model used overseas to encourage the use of glass over plastic bottles.

3.3. Use of funds raised by a carbon tax to subsidise climate-friendly products and services is our recommended option to provide for incentives to increase the uptake of environmentally friendly goods and services e.g. additional funding for public transport, insulation, electric vehicles, integrated solar power systems with powerwall batteries (to minimise the impact on the grid of these products and decrease the total generation required). Funding housing improvements such as insulation can also improve public health outcomes.

3.4. We note the current Emissions Trading Scheme is an attempt to promote similar environmental outcomes. Such a scheme is unlikely to achieve equivalent or better environmental outcomes than carbon tax.

3.5. **Conclusion:** That carbon tax or other taxes should be used to disincentivise or minimise use of environmentally harmful products and services and funds raised by such taxes used to offset costs and incentivise environmentally-friendly products and services.

4.0 Tax incentives and disincentives for public health objectives

4.1. Tobacco taxes are the epitome of the successful application of taxation to public health policy, but the opportunity is also there to use taxation to incentivise and promote healthy eating and other public health objectives. This is most simply done with GST reductions as is currently the case for exporters.

4.2. Fruit and vegetables, sanitary products, toothpaste and sunscreen are all products which fit the description of being desirous in terms of public health policy and objectives, but there are no doubt others.

4.3. The information provided uses the term ‘exempt’, but we prefer to set GST on relevant goods and services at 0 (often referred to as being zero-rated), similar to export income, so that businesses are still able to claim GST on purchases as otherwise the benefits are small. This currently promotes and incentivises exporting and would presumably do the same for sales of fruit and vegetables and other examples. Naturally, exports are not sold here, so are not required to charge GST on sales, but being permitted to claim GST on purchases results in regular GST refunds which, in turn, provides a clear incentive.

4.4. There is some complexity and cost involved in differing GST rates with corner cases, updating software and cash registers all being issues, but we consider that the benefits outweigh those costs. Transitional arrangements or subsidies may have to be considered for small retailers or announcing any changes well in advance of the effective date. Having any changes take effect on 1 April would also assist as changing GST rates partway through a financial year creates additional difficulties.

4.5. Excise taxes on other products to discourage their use or consumption fits with this model – sugar-laden carbonated drinks and processed foods with high sugar and/or high fat would be one clear place to start as they are known to be a major cause and factor in the significant public health costs of type 2 diabetes, with very limited benefits.

4.6. **Conclusion:** That not charging GST on appropriate products and extending excise taxes to sugar-laden carbonated drinks and high fat and high sugar processed foods would promote public health objectives, help offset known public health costs and incentivise healthful food choices further.

5.0 Reduction of inequality and improving housing affordability using wealth tax

5.1. We support using the taxation system as part of a broader plan to address New Zealand's current inequality and housing affordability issues. These issues are illustrated well in the information provided by our placement in the OECD inequality rankings and very high ratios of median incomes to median house prices in our cities particularly.

5.2. We believe that a wealth tax (including land but excluding the family home) is the best option to achieve both goals.

5.3. There is currently minimal tax on accumulated wealth as tax is only levied on any taxable income earned by the assets, not the assets themselves.

5.4. This does not incentivise productive use of assets such as houses and land or incentivise investing in more productive assets such as shares.

5.5. Inland Revenue figures show a surprisingly small number of high wealth individuals pay individual income tax at the highest rate which suggests they are not paying an amount of tax commensurate with their total wealth. While this will occasionally be caused by a bad year, it is more likely to be caused by structuring affairs to avoid the highest tax rates. Wealth tax would help eliminate any advantage gained by such structuring. We acknowledge that any wealth taxation will need to be carefully structured to maximise the broad base of the tax and minimise avoidance.

5.6. Wealth tax should be levied at a low rate on total investments in financial, property and personal assets, with the family home being exempt in line with the terms of reference. We would also exempt some assets as is currently the case for income support e.g. family vehicles, household effects. Another administratively simpler option would be to levy a wealth tax on all assets above a set figure e.g. $1 million.

5.7. One potential collection method is through insurance companies as most wealthy individuals and families insure their assets, but recent money laundering and real estate taxation laws have also shown that a government has options to enforce the disclosure and reporting of relevant information where deemed necessary. Requiring insurance companies to obtain IRD numbers of all house, contents and vehicle policy holders and disclose the value of assets insured to Inland Revenue would be another option to ensure compliance and collection.

5.8. Wealth tax should slowly reduce housing prices (or cause smaller price increases) as properties beyond the family home are taxed which reduces their value to investors while providing another form of revenue.

5.9. French Economist Thomas Piketty has shown conclusively in his excellent work *"Capital in the Twenty-First Century"* that where the rate of return on capital is higher than the growth rate of the economy, wealth accumulates and inequality worsens. Using the revenue generated by a wealth tax to reduce the GST rate, either generally or for specific proposals as outlined in section 4 above, or reduce the lowest income tax rate further, would be some options to reduce inequality without increasing transfers or increasing tax revenue above 30% of GDP.

5.10. Land tax is a less complex option which we would also support, also to be levied at a low rate. Land tax could be easily collected by territorial authorities with rates, although this is complicated by family homes being exempt.

5.11. We considered capital gains tax, but consider that a wealth or land tax would be more in keeping with current design goals as they would be broader in application and less complex to implement than capital gains tax as well as having a higher impact on inequality and house prices. The immediate impact and therefore revenue also allows more rapid implementation of other potential tax decreases elsewhere.

5.12. **Conclusion:** Wealth tax (or land tax) can be used to potentially reduce housing prices and income tax or GST, all of which decrease inequality and improve housing affordability. There will be some challenges in capturing wealth correctly and minimising avoidance, but these are not insurmountable challenges. We considered capital gains tax, but believe wealth or land tax are less complex, broader in application and more immediate in their impact and therefore ability to lower other taxes.

6.0 Other matters

6.1. We believe tax revenue as a percentage of GDP is too low when compared to OECD averages, particularly given our small size and generous superannuation scheme, as that suggests we are underspending elsewhere to make up for it. This is borne out in part by the use of other fees and levies being charged as the total spending has arguably not changed, just the method of revenue collection.

6.2. We also believe there is room to add an additional bracket with a higher rate e.g. 45% above $120,000 as part of reducing inequality, but acknowledge that these are outside the terms of reference.

6.3. While not stated by TWG as something to examine, we consider that fixed charges and fees for essential government services are regressive in nature, and reducing or eliminating these using funding from taxation should be part of any plan to reduce inequality. Increasing funding for public transport to decrease fares and prescription subsidies to decrease fees are two highly relevant examples.

6.4. A lower company tax rate for small companies seems unlikely to have much impact as they are mostly owned by New Zealanders who pay tax at their marginal income tax rate as shareholder salaries, rather than through the Company Tax regime.

7.0 Summary of recommendations

7.1. We support directly using the taxation system, through incentives and disincentives, to improve outcomes for Aotearoa and New Zealanders, particularly environmental and public health objectives.

7.2. We support tax incentives for increasing the uptake of climate-friendly products and services, and tax disincentives for products and services that result in environment harm e.g. a carbon tax.

7.3. We support eliminating GST on categories of goods for the purposes of improving public health e.g. fruit and vegetables, sanitary items, sunscreen and toothpaste. We prefer zero-rating over exemption as exemption does not provide a large enough benefit and would be in line with current treatment of exporters for public benefit.

7.4. We support using the taxation system as part of a broader plan to address New Zealand's current inequality and housing affordability issues. We recommend a wealth tax in recognition of the fact that there is currently minimal tax on accumulated wealth as tax is only levied on any taxable income earned by the assets, not the assets themselves, which does not incentivise productive use of assets such as houses and land. Such a tax should be levied at a low rate on total investments in financial, property and personal assets. Land tax is a less complex option which we would also support, also to be levied at a low rate. We prefer wealth or land tax to a capital gains tax.

7.5. While it is acknowledged that these are outside the terms of reference, for the sake of completeness, we advocate for the position that the taxation overhaul not be revenue-neutral: we support a modest increase in the total tax take, in view of the evidence that Aotearoa has a lower tax revenue than the OECD average (34 vs 32, including local government). We also prefer a more progressive income tax structure with an additional top rate for very high earners.

8.0 Conclusions

8.1. There is room to address matters of public policy using taxation e.g. health, environment, inequality and housing. A lower GST rate, either generally or targeted to specific products or categories of products, potentially supports all of these goals. Decreasing the lowest income tax rate is an additional option to improve inequality. Funding these and other worthwhile environmentally-friendly options with carbon and wealth taxes is a way of diversifying the tax base in view of upcoming challenges to Aotearoa and our current worker-reliant base.

Craig Hall

On behalf of the Christchurch East LEC

Contact regarding this submission is welcomed by email in the first instance to [1] .