

Tax Working Group Public Submissions Information Release

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Tax Working Group Secretariat
PO Box 3724
Wellington 6140
New Zealand.

Future of Tax: Submission

Name: Lew Rohloff
Organisation: Grey Power New Zealand Federation Incorporated
Address: [1]
Telephone:
Email:

1. Introduction:

- (a) This submission is made on behalf of Grey Power New Zealand Federation Incorporated.
- (b) The Federation is a non-sectarian and non-party political, advocacy organisation that aims to advance, promote and protect the welfare and well-being of older people.
- (c) The Federation is made up of some 72 individual Associations with an overall membership of approximately 62,000.
- (d) The terms ‘the Federation’ and ‘the Group,’ where used in this submission, refer to Grey Power New Zealand Federation and the Tax Working Group, respectively.

2. Summary:

In a general sense we understand the terms of reference directing the review and accept the broad relevance of the many considerations the Group has identified in the background paper(s).

- (a) In asking ourselves “which aspects of the taxation system concern us most?” we conclude that the generic interest of our present membership is encapsulated in the third ‘capital stock’ of Treasury’s ‘Living Standards Framework,’ being ‘Social Capital’ such as trust, cultural achievements and community connections.

However, it is also important that we convey a growing concern for the future wellbeing of our direct descendants and other succeeding generations of New Zealanders. These, more particularly, will depend on advancement of each of the other three ‘capital stocks’ of the “Living Standards Framework.’

- (b) Our one serious disappointment is the expressed exclusion of local government rates from this review. Rates on owner-occupied property have now reached such proportion that they are generally unaffordable for fixed income and other low-income households.

Local Government rates are substantially levied on an arbitrary basis, lacking any semblance of fairness, equity or affordability for low-income households. While my colleagues responsible for formulation of our Local Government policy might be looking elsewhere for solutions, I feel it's worthwhile, to suggest as a possible Grey Power policy extension, that the principles of 'progressive taxation' might be easier maintained if local authorities were funded from government revenues.

Further, as the Group intends to evaluate the utilisation of exemptions to gst, partial relief might be delivered to fixed and other low income households by the Group recommending "that rates on owner-occupied residential property ('family' homes) are exempted from gst."

- (c) We acknowledge the review is not intended to address the sufficiency of New Zealand Superannuation (NZS) but we must observe that NZS is the primary and often sole source of income for the majority of our members. Targeted tax credits or gst exemptions are possible avenues of assistance to pensioners.
- (d) The Federation will welcome subsequent enquiry(s) seeking clarification of any aspect of this submission or to explore other ways our organisation might assist further research required by the Group.

3. **Our Response(s) to the Background Papers:**

We congratulate the Group for its compilation of a comprehensive range of background papers. Over the longer term, this reference material might well assist us to develop a more sophisticated knowledge of the mechanics and other influences of the taxation system.

For the time being, existing Federation 'policy' influences our contribution to this consultation and our focus is limited to our general belief that it behoves all citizens to trust and maintain the nation's taxation system, based predominately, if not exclusively, on 'progressive' income tax principles. In other words, our representations on taxation (and local government taxation) are, we suspect, similar to those which predominantly concern a wage and salary earner.

- (a) With regard to the eight stated factors which will affect the tax system over the next decade and beyond we suggest that given a return by government to justifiable intervention in the future economy, the first identified challenge "changing demographics, particularly the aging population and the fiscal pressures that will bring" will, hopefully, prove to be a **temporary phenomenon**.

Development of a 'population' policy designed, primarily, through immigration to reduce the projected 'dependency ratio' might prove reasonably effective within the next ten years.

- (b)** Previous government's response to public concerns of rapidly worsening inequality has been to maintain that the unduly high income disparity through the 1980's to the mid 1990's while clearly persisting has not measurably increased. Thus, attention has been diverted away from the failure to actually reverse the income inequality, with the predictable consequence that by the sustained maintenance of high income disparity, the repositories of wealth have expanded, exponentially, year upon year.
- (c)** We have no criticism of the stated principles embodied in New Zealand's broad based 'income' and 'expenditure' tax system. However, the deteriorating outcomes related to the 'human' 'social' and 'natural' capitals of the Living Standards Framework suggest, perhaps, that system implementation and performance is manifestly inadequate.

For example, could it be that the comprehensive coverage of our gst (expenditure tax) which impacts regressively upon low to middle income households, seriously compromises the ability of our progressive income tax system to achieve the 'human,' 'social' and 'natural' capital stocks of the Living Standards Framework?

- (d)** In footnote 2 of the background Paper, the Group recognises the 'fairness' ethic as one of the justifications for exempting rent from gst. We agree with this rationale but as we have indicated earlier, we conclude that affordability considerations and 'consistency' should also see local government rates on 'family' homes, exempted from gst.

4. Conclusion:

Thank you for the opportunity to contribute our policy position and other thoughts on this matter.

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Lew Rohloff
Chair
Retirement Income and Taxation Advisory Group