

SUBMISSION of the Justice & Peace Commission of the Catholic Diocese of Auckland to the Tax Working Group April 2018

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COMMISSION STATEMENT

The Justice and Peace Commission of the Catholic Diocese of Auckland is established to promote justice, peace, integral human development and the care of creation. It is committed to following in the steps of Jesus who stood with the poor and marginalised in society and spoke and acted in truth and courage.

1. What does the future of tax look like?

The core role of any representative Government is to foster the **common good** of a 'fair go' society rather than encourage exploitative personal gain. To this end it has a particular responsibility to protect and support the poorest and most vulnerable in society by ensuring every family has a warm home, good health care, education opportunity and an adequate family income.

It is important therefore that Government accepts its responsibility to focus on building a decent society where everyone has enough to participate fully and not just building a more productive and competitive economy to the possible detriment of the wider community.

Governments obtain their resources to foster the common good and build a genuine participative society by taxing its citizens proportionate to their means and providing support according to their needs so as to bring fairness and a decent standard of living to all members of our society.

Unfortunately this basic principle has been eroded over the past 30 years by changes made by various governments such as reducing tax rates for the highest income earners and reducing income support for people not in paid work.

At the same time constraints have been placed on wage-earners to collectively negotiate fair wage increases and conditions of employment resulting in an increasing gap between what people earn and rising costs particularly for families. 'Working for Families' has helped mitigate the worst effects of this gap but has to some extent disguised the need to establish **fair wage levels** that would enable a family to support themselves and live in dignity.

The result of both of these influences has contributed significantly to a **rising inequality** in New Zealand society for which it no longer rates well in comparison to other OECD countries. The recent Oxfam study ranked New Zealand 30 out of 35 OECD countries and 115 out of 152 countries when looking at the tax structure, impact of tax on inequality and potential tax revenue available (Oxfam, 2018).

A major reason for New Zealand's decline in this area and the failure of those earning the highest incomes to contribute more to funding essential public services like schools and hospitals, is the lack of progression in our tax system. The cumulative effects over many decades of those on the highest incomes (e.g. over \$150,000) paying the same top tax rate as middle income earners (over \$70,000) is there for all to see in terms of the large number of our families living in poverty with the resulting social costs that erode away the fabric of our society. The situation is exacerbated by the fact that high income earners are also most likely to be among the larger wealth holders that benefit from little or no tax on their wealth.

The recognition by the Tax Working Group of the four areas of wellbeing identified through the Treasury Living Standards approach is a welcome step in the direction of redressing this imbalance.

2. What is the purpose of tax?

We see tax as having two main purposes:

- (a) Raising revenue for the Government from its citizens according to their means and using this to provide the resources to cater for the education, health, welfare and protection of all its citizens according to their needs. This involves ensuring every family has a warm home, good health care, education opportunity and an adequate family income.
- (b) Supporting a structure that enables people to live their lives protected from
 - the unhealthy consequences of social hazards such as smoking, alcohol abuse and obesity,
 - the exploitation inherent in unaffordable house prices and rentals and
 - the suffocating consequences of the degradation of the environment.

While it is important not to over-emphasise the role of tax in changing unhelpful behaviour, it is also important to make good use of its ability alongside good legislation and regulation, to make a significant difference to developing a healthy, well-functioning society.

Too often taxes that could provide positive nurturing support for people in society are dismissed because 'they wouldn't bring in much revenue'. This is a one-eyed view of the powerful influence that carefully designed and progressively introduced taxation regimes can make to enable all New Zealanders to live happy, healthy and fulfilled lives.

3. Are we taxing the right things?

Though Income, business and goods and services taxes continue to make up much of Government revenue, a progressively introduced excise **tax on tobacco** supported by advertising bans and ‘no smoking’ legislation has in a relatively short time made a dramatic reduction in the prevalence of smoking and its harmful consequences for individuals as well as mitigating significantly its immense cost to the health system.

This suggests that applying this in a more coordinated way to **alcohol** and introducing a **sugary drinks** tax regime supported by advertising bans could have similar effects on the personal and socially corrosive effects of alcohol abuse and obesity.

Similarly positive consequences for the **protection of the environment** could also be effected by the judicious introduction of a ‘polluter pays’ taxation and regulation regime. Providing tax breaks for moving to electric vehicles, and encouraging the private sector to invest in renewables such as photo voltaic panels would be a useful start.

Unfortunately many **multinational companies** continue to pay little tax placing an additional burden on local companies and individual taxpayers. It is important that Government provides a suitable legislative structure and sufficient resources to IRD to effectively reverse the situation.

One way of dealing with this recently introduced in Australia and the UK is a **Diverted Profit Tax** (DPT). If introduced in NZ it would help prevent large multinationals artificially diverting profits earned in NZ out of the country so as to avoid paying taxes due here.

The Australian Government passed their Diverted Profits Tax Act on 4 April 2017. They also granted the Australian Tax Office (ATO) additional funding for compliance and enforcement and set up a special new ATO Tax Avoidance Taskforce to undertake this work.

In Australia the tax applies to SGEs (Significant Global Entities) who have a global income of \$1A billion and an Australian income of \$A 25 million dollars. It taxes those entities who make payments to related overseas corporations or trusts in any income year 40% of the sum remitted.¹

In fact Andrew Little announced on 18 July 2017 that introducing a Diverted Profits Tax was part of Labour Party policy to introduce if it was elected.² New Zealand risks persisting with an inequitable tax system and missing out on increasingly valuable tax revenue if it doesn’t learn from the work done in the UK and Australia to ensure large companies pay an appropriate tax in New Zealand for revenue earned here.

4. Can the tax system make housing more affordable?

The desperate situations of many vulnerable families living in overcrowded houses, garages and cars, especially in Auckland is a crisis that needs urgent action on many fronts. As the Church Leaders said in May 2017: ‘Ensuring that everyone has access to affordable housing is perhaps the most important means to lifting New Zealanders out of poverty and boosting the nation’s collective health and prosperity.’

¹ kmo.ministers.treasury.gov.au/media-release/055-2017/

² RNZ 18 July 2017

Many factors have contributed to this situation. While the absence of a specific capital gains tax or other wealth taxes continue to undermine the overall fairness and consistency of our tax system, the pre-occupation of the IRD with the lowest lying fruit for revenue-gathering may have led to a lack of investment by the IRD in the enforcement of present provisions in the tax system to see housing as a place to live rather than as any easy way to make a quick profit.

This has contributed not only in the cost of housing rising to unaffordable levels for most families but also to an unhelpful diversion of investment funds into buying houses rather more productive areas of the economy.

As pointed out above, the IRD has a duty not only to collect revenue but also to actively support and enforce a tax structure that enables people to live their lives protected from such things as the exploitation inherent in unaffordable house prices and rentals.

Reviewing the tax deductibility of interest on rental properties for example could help create a more level playing field so first home buyers have more opportunity to purchase their own home.

5. What tax issues matter most to you?

The measure of any decent society is the way it protects and supports the poorest and most vulnerable in its midst. Equitable taxes are one of the means of achieving this.

For the good of society as a whole it is important that ways are found to ensure that high wealth holders contribute to the wellbeing of all through the tax system. Though wealth is much more unequally distributed than income, there are few policy measures in place in New Zealand that would change this.

As Oxfam recently reported, the wealthiest 1% of New Zealand's population in 2017 gained 28% of all wealth created in this country while the poorest third barely gained a mere 1%. This increasing inequality has a slowly corrosive influence on the overall quality of life in New Zealand that can to some extent be arrested by a judicious tax system that fosters the common good rather than encourages exploitative personal gain.

The OECD's recently released study on wealth taxes in the OECD concludes that countries like New Zealand that do not have significant taxes on personal capital income or inheritance taxes could benefit from a form of net wealth tax, an annual tax on individual wealth stocks net of debt.³

One approach that has been suggested in various forms is a tax on the "deemed rate of return" on assets, that would encourage assets to be used for productive purposes instead of seeking passive returns by simply holding assets for capital gain.⁴ The Tax Working Group could also look into the viability for New Zealand of introducing a Financial Transactions Tax that eleven European countries have been working to design and introduce.⁵

³ <http://www.oecd.org/tax/the-role-and-design-of-net-wealth-taxes-in-the-oecd-9789264290303-en.htm>.

⁴ Bill Rosenberg, PSA 2017 <https://www.psa.org.nz/media/news/progressive-thinking-ten-perspectives-on-tax/>).

⁵ <https://www.oxfam.org/en/pressroom/pressreleases/2017-07-05/top-financiers-call-europe-agree-robin-hood-tax>

It is important that tax is not seen in isolation from other measures that build a decent society where everyone has the means to participate fully. The tax and transfer system for example plays a vital in ensuring the wellbeing of those facing disadvantage and vulnerability including those living on low wage incomes. Child wellbeing is particularly affected by the level of tax-funded assistance that is provided. The rules of eligibility for these need to be simple and easily implemented particularly in response to the rise of casualised work so that those who combine irregular work with needing to access welfare benefits do not miss out on much needed support.

The Government's focus on eliminating child poverty would be greatly helped by developing a more child-centred approach to tax policy by introducing measures such as a tax on sugary drinks to help reduce childhood obesity.

To this end it is important that the Tax Working Group is not solely focussed on maintaining government expenditure at around 30% of GDP when other countries are able to sustain higher proportions of government spending (up to 40%) that also enable them to deliver much more effective public services and greater wellbeing for their citizens.

In many areas we are in catch-up mode that requires additional expenditure to meet goals to reduce child poverty, increase the supply and quality of affordable housing, and respond to neglected needs in the health and education systems.

Our tax system can help meet these needs if it is well-designed to tax people according to their means and cater for the education, health, welfare and protection of all its citizens according to their needs.

At the same time it is important that IRD is given the resources to fulfil its responsibility to create a structure that enables people to live their lives protected from the unhealthy consequences of social hazards such as smoking, alcohol abuse and obesity, the exploitation inherent in unaffordable house prices and rentals and the suffocating consequences of the degradation of the environment.

Thank you for the opportunity to make this submission.