Tax Working Group Public Submissions Information Release

Release Document

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

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

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Future of Tax: Submissions Background Paper

Meridian appreciates the opportunity to provide feedback on the Tax Working Group's submission background paper *Future of Tax*.

Purpose and principles of a good tax system

Meridian supports the Tax Working Groups adoption of Treasury's *Living Standards Framework*, which encourages consideration of how policy changes impact the four capitals that are crucial to intergenerational wellbeing:

- financial and physical capital, such as roads, factories, and financial assets;
- human capital, such as skills and knowledge;
- social capital, such as trust, cultural achievements and community connections; and
- natural capital, such as soil and water.

Meridian has adopted a similar methodology for reporting on our performance. We have adopted the International Integrated Reporting Council's Integrated Reporting Framework to broaden our reporting beyond strictly financial considerations. The framework is based on six capitals: financial, manufactured, intellectual, human, social and relationship, and natural.

Strengths of the current tax system

Meridian supports the long established principle that New Zealand should seek to maintain a broad-based, low-rate tax system that is:

- simple to understand and administer with less opportunity for tax avoidance; and
- that raises substantial revenue with relatively low rates of taxation.

In general, we consider there to be many strengths in New Zealand's tax system and that, while some adjustments might be worthy of consideration, the fundamentals of the system are sound and compare well to other OECD counties. As noted in the paper, New Zealand has the sixth lowest income tax rate in the OECD yet still manages to collect the fifth highest proportion of taxes on personal income as measured against GDP. New Zealand also has the sixth lowest GST rate across the OECD yet still manages to collect the highest revenue in the OECD from GST as a percentage of GDP. New Zealand's collects the most company tax in the OECD as measured as a proportion of GDP and New Zealand's company tax rates are above average internationally. The evidence indicates that our broad-based, low-rate tax system is a success and we are therefore open to tax policy suggestions that fit within this framework.

Unless it can be clearly shown that the benefits to society will outweigh the costs, Meridian suggests caution should be taken in the introduction of exceptions that would narrow the tax base or the introduction of complexity that would undermine the simplicity and administrative efficiency of taxes such as GST or corporate tax.

Improvements to the current tax system

The Tax Working Group should also take into account the work that is already underway to improve New Zealand's tax system. The Inland Revenue Department's tax policy work programme should in our view be retained and advanced. Interruption of policy developments would prevent the refinement of our current tax system to the detriment of New Zealand tax payers. To give a specific example, it is essential that the disincentive to invest in New Zealand created by the tax treatment of feasibility expenditure be addressed immediately. Good progress has been made by IRD officials in consultation with the Corporate Taxpayers Group, and it is vital that this work is brought to conclusion. The removal of such investment disincentives is consistent with Government policies to:

- work towards an increase in research and development spending to 2 per cent of GDP over the next ten years; and
- reintroduce research and development loss tax credits.

The current position (where feasibility expenditure risks being non-deductible should a project not go ahead) is contrary to the intention of the Government to support sustainable investment in New Zealand's physical capital.

Environmental taxes and behavioural taxes

Consideration of behavioural or environmental taxes needs to be specific to identified and agreed problems. The consultation document does not contain any particular environmental or behavioural tax proposal that is capable of evaluation. If environmental taxes are to be considered further then they would need to be able to be described and effective consultation would be necessary to understand the impacts.

The Working Group should recognise that taxes are one of many policy tools that could be used to address behavioural or environmental problems. Any specific problem should go through a rigorous policy process that assesses the costs and benefits of tax options (and any potential distortionary effects in the tax system) alongside other regulatory options to address that problem. Taxes might influence behaviour but cannot guarantee specific behavioural or environmental outcomes in the same way as rules, standards, or resource limits. Therefore, while Meridian would always consider the specifics of any proposal, we are more likely to support non-tax regulatory options to address any identified behavioural or environmental problems.

The Working Group also needs to be aware of the links to existing environmental regulation such as the emissions trading scheme and work by the Ministry for the Environment on fresh water and nutrient allocation. Any environmental taxes would interact with existing regulatory arrangements and there would be huge potential for unintended consequences. We therefore urge the Working Group to exercise caution in considering any environmental taxes.

Finally, we have read and support the submission of BusinessNZ.

Please contact me if you have any queries regarding this submission.

Yours sincerely

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