

Tax Working Group Public Submissions Information Release

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SENT BY EMAIL: 30 April 2018

Dear Sir Michael

Thank you for inviting me to make a submission to the Tax Working Group.

You say, encouragingly, that I don't need to be a tax specialist to give my thoughts and that "some of the most powerful ideas come from the experiences and stories of people and organisations that are directly affected by the current tax system." That is kind of you, but my experience of tax policy is that it *is* complex and that lay anecdotes are frequently disconnected from the tensions that tax policy specialists are asked to balance.

I have no spare resource at this time to generate a considered submission on what is an enormous topic even if confined only to narrowly environmental taxes. I would prefer to defer any commentary until you have developed proposals for the Government. Maybe, with the Minister's permission, you could share any provisional conclusions with us? That, at least, would mean we could focus our scarce resources on the specific proposals you are making rather than embark on what could otherwise be a very extensive review of the possibilities.

I would, however, like to offer two observations as you commence your considerations. In the first place, your letter seemed to assume that my interest would be largely confined to the classic environmental or Pigouvian taxes. Naturally these are of interest, and as your background material notes, New Zealand has made less use of these than most OECD countries. I would suggest that you ask the Ministry for the Environment to conduct a survey of all known taxes and other pricing instruments currently being deployed in respect of environmentally harmful resource use or consumption and identify the main externalities amenable to pricing that are not presently covered. A baseline survey of this nature would be extremely valuable and should, in any case, be core business for the Ministry.

However, such taxes are very much 'end-of-pipe' attempts to influence behaviour - which brings me to my second point. Of equal, if not greater interest, are the environmental incentives or disincentives that flow from all other taxes. Given their far greater prevalence, it is to their environmental consequences that your attention should be particularly devoted. For example, depreciation rates (or expensing allowances) will affect decisions that bear on the material consumption of our economy. In a world in which the 'circular economy' has become increasingly attractive, it will be important that any tax regime you propose should be assessed with a view to its wider impact on consumption and resource conservation. The same applies to resource rentals where resources are in the Crown's ownership or stewardship.

Your documentation understandably takes an interest in the taxation of capital in its various forms. This is an area well beyond my immediate expertise but, again, you should be prepared to assess any proposals for their (un)intended environmental consequences. Take, for example, a land tax. Land taxes are appealing in terms of their resilience of the tax base and their efficiency. Furthermore, I am aware that in an urban setting, land taxes can be a useful incentive to densify use with commensurate environmental benefits. Arthur Grimes provided extensive commentary along these lines in parallel with the last major taxation review.

However, depending on the valuation used as the basis for taxation, the imposition of a land tax could incentivize a landowner to use land more intensively to defray the additional cost of the tax. As with considerations concerning Maori land and the (non-economic) reasons for which it is held, there are issues to be considered with respect to land that is being used at a fraction of its productive potential because of a regard for sustainability values that may not be the subject of regulation. Care would need to be taken to ensure that conservation-related practices and uses were not discouraged.

In short, I would encourage you to make environmental sustainability one of the tests you use for assessing the potential efficacy of different taxing options. As I say, I would be happy to provide some commentary once the shape of your advice has narrowed the field.

It may be, of course, that within the ambitious timeframe you are working to, environmental taxes will not be able to be considered in as much detail as might be desirable. In that case, it would still be valuable for you to draw on what you have managed to survey and perhaps recommend the outline of a more dedicated enquiry into the environmental consequences and opportunities of different taxing instruments. Such a review has been mooted as something my office could undertake. I have made no decision to do so and am very much aware of the specialised expertise required and the claims such a review would make on the office. However, it might just be that with the vast resources of the Treasury and Inland Revenue at your disposal, you will be able to cover sufficient ground to provide a broad sense of the policy landscape that either this office or the Environment Ministry could then explore.

I wish you well in undertaking this important task and look forward to being able to assist when your thinking is further advanced.

With kind regards

Simon Upton

[1]

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