Tax Working Group Public Submissions Information Release

Release Document

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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.

[1]

30 April 2018

Tax Working Group Secretariat
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NEW ZEALAND

To whom it may concern,

Submission to the Tax Working Group – Ravensdown Limited

Please find our submission to the Tax Working Group (TWG) below. In our submission, we have made a few general comments around how we believe a tax system should operate and provided our view on the one aspect of the following specific question canvassed:

> "Should our tax system just be as simple as possible or should it do more to incentivise certain behaviours we want to see? The wellbeing of a country is not just about the finances but also about how we live together and protect our natural resources for our children."

In the TWG paper, you have indicated there are two occasions where other countries have used tax to incentivise behaviours we want to see.

> *"The first is when an activity has a social cost like the pollution of public rivers. Most economists agree that those whose activity create a social cost should be made to bear those costs. It's not always easy to do but NZ doesn't have many taxes like this."*

We wish to address this first question after our general comments.

General comments

For whatever new tax regime/system or changes may be introduced as a result of the TWG, we believe a country's tax system should be three things:

1. It should be administratively simple.
   To do otherwise would risk the compliance and administration costs being greater than the tax revenue generated by the changes.

2. It should be fair and equitable.
   The focus of the tax system should not be on how it can be used to redistribute wealth, but rather it should be focused on establishing the most fair and efficient ways of collecting tax and providing funding for core Government services.

3. It should not be used as a blunt behaviour change mechanism to follow a particular political or ideological view.
   Creating taxes to penalise certain activities may not be as effective as other approaches, such as education, information sharing and targeted regulation to change the desired behaviours. In many instances these other approaches are likely to produce a more successful outcome than the imposition of a blanket tax across and activity or industry.

Uses of taxes to influence behaviour

New Zealand has stated that one of its obligations under the United Nations Paris Agreement is to reduce greenhouse gas emissions by 30% below 2005 levels by 2030.

However, another element to the Paris Agreement is the importance of maintaining food security given a rapidly increasing world population. We deal with these two separate elements below:

<u>Greenhouse Gases</u>

Given there is an increasing world population and the consequential requirement for food production it would seem globally pragmatic to encourage those food producers that have the lowest amount of carbon emitted per unit of food produced. New Zealand features internationally well in this respect given its temperate climate and expertise with grazed pasture systems. A dominant focus on absolute emissions risks overlooking this important point.

Ruminant livestock is a key component in satisfying the future food supply needs, especially protein, of the growing world population. However, the release of methane gas from ruminant livestock is the largest single contributor to New Zealand's greenhouse gas emissions.

Significant portions of New Zealand's grazed pastures are hill and high country. That land, by way of its topography, is unable to be cultivated and therefore unable to produce food directly for human consumption. However, it provides a useful role to grow pastures, grasses and clovers which of themselves are not suitable food for humans directly, but rather they are available as food to be digested by grazing ruminants, which in turn provide protein to feed New Zealand and other parts of the world.

Therefore, we believe New Zealand's current agricultural system in this aspect supports the obligations under the Paris Agreement.

<u>Food security</u>

The overall contextual idea here is that the world's population is increasing, meaning more food is needed to feed this growing population. Nitrogen fertiliser is a critical input to grow more food to meet this need, so you cannot just get rid of it. Without any mineral fertiliser use globally, global food production would likely to be halved which would be untenable. Therefore, the focus should be on how the fertiliser is used and the relevant on farm processes to ensure these processes are developed to improve the on farm system management of nitrate leaching to be as effective as possible. The results of improvements to farming systems are already proving to be effective in reducing nitrate leaching and damage to our land and water sources.

In the context of the TWG's brief, we propose that the focus should be on finding ways to decrease the nitrogen losses including those from fertiliser rather than blanket taxing the farming sector or the fertiliser industry as a potential means to decrease consumption. Further to this point, history indicates that generally nitrogen fertiliser has a relatively inelastic demand pattern. This means that a tax on nitrogen fertiliser, either the production or use level is unlikely to influence the behaviour of farmers. I.e. it is unlikely to decrease demand.

The better mechanism would be to assist in finding ways to decrease the losses of nitrogen. We consider that the recently announced research and development tax credit system which the Government has recently announces is a far more proactive way to encourage the development of products and systems to reduce nitrogen loss.

Currently the largest losses of nitrogen in New Zealand from farming are because of the grazing behaviour of ruminants where they forage from a large area and deposit dung and urine in a small concentrated area resulting in system losses, rather than the application of fertiliser per sae.

At present, a number of regional councils have operative plans in place with the predominant focus of these plans being modelling, measuring and placing a limit on nitrogen losses through farming systems.

If for example if a nitrogen leaching tax was to be introduced, it runs the risk of penalising further the farmer who is already undertaken appropriate mitigations to reduce nitrogen loss, as well as those who have not undertaken any activity to reduce their nitrogen loss. This is likely to be de-motivating for the farmers who have already invested time and money in changing farm systems for the betterment of New Zealand's environment if they are to be hit by a nitrogen leaching tax.

Summary

We believe that encouragement for the development of smart technology to both limit Nitrate leaching and greenhouse gas emissions will have a much better chance of success around making improvements to our environment, than that the addition of any broad base environmental taxes to the agricultural sector.

Yours sincerely

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Sean Connolly
Chief Financial Officer