Tax Working Group Public Submissions Information Release

Release Document

February 2019

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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.

September 23, 2018

RE: Future of Tax Interim Report, 20 September 2018

Thank you for the opportunity to make a submission regarding the Tax Working Group's Interim Report.

I am a doctor from Wellington, currently practicing in Melbourne, Australia, although am in the process of building a home in Taranaki with the intent of repatriating with my family in the next two years.

I have personally benefited from New Zealand's high-quality public education and health systems and student loan scheme during my training, and hope to repay this investment with a long career in New Zealand.

I have had the chance to experience first-hand both the New Zealand and Australian approaches to taxation and health care. I have seen the value of public healthcare in reducing inequality, and conversely the extreme inequality in both countries despite well-developed health and social welfare services.

The Australian taxation scheme is heavily biased in favour of the wealthy. Although top marginal tax rates in Australia are much higher than those in New Zealand, and a number of social services are means tested, in practice there are a number of mechanisms promoting tax avoidance by the wealthy at the expense of lower income groups. These include income tax deductions for salaried employees, tax credits for superannuation, capital gains tax discounts on investment property and equities held for more than 12 months, and the widespread use of negative gearing on residential property investment.

In addition, a number of tax incentives to invest in residential property and the availability of cheap credit as a result of stimulus following the 2008 financial crisis have proved inflationary and further shifted land into the hands of wealthy investors and speculators, who have land banked in and around the Australian capital cities, limiting access to the CBD for workers.

This has created a housing bubble with significant risk to the Australian economy in the event of a credit withdrawal or external economic crisis. This has been recently demonstrated. Major banks have significantly tightened credit availability in response to the ongoing Financial Services Royal Commission with significant reversal of recent property price gains in Melbourne and Sydney in the first few months of this year. The highest risk is to over-leveraged low income earners who would have limited ability to cope with a mortgage interest rate increase on high LVR loans.

The majority of jobs created in Australia in the last 5 years are within the capital cities, limiting the ability of lower income groups to seek cheaper housing in regional Australia. Real wage growth has stagnated while house prices and to a lesser extent rents have increased, reducing housing security for a generation of young workers.

Overall the Australian system has benefited wealthy landowners, property developers and speculators, at the expense of the middle and lower classes, who have experienced wage stagnation and a decline in property affordability and housing security.

As described by the Interim Report, a capital gains tax is progressive but has significant disadvantages. The most important is the disincentive to sell or dispose of property holdings due to the costs incurred on selling. Australian states also levy a stamp duty on property buyers, which further disincentivises the sale of property.

I strongly oppose a capital gains tax for New Zealand, as I expect that overall this would have a similar inflationary effect and limit land supply as it has in Australia. The other significant drawback to the Crown in introducing a capital gains tax currently is that the current New Zealand property market cycle appears to have peaked, limiting revenue from this tax for several years. I do however support the planned "ring-fencing" of deductions for rental property losses against other income in New Zealand.

The proposed risk-free return tax is more equitable and will not prevent a barrier to land transfer. However, it shares the flaw of targeting both unimproved land and improvements and will not provide a disincentive to land-bank high-value land in proximity to cities or productive farmland.

I strongly support a land value tax. Taxation on the value of unimproved land as the most equitable and efficient tax on the means of production has been well-described.[1] The concept was most eloquently proposed nearly 140 years ago by Henry George.[2] He suggested that any other form of taxation would tend only to ever-increasing inequality as land and capital was concentrated by the wealthy.

A land tax does not rely on constant increases in the value of land for revenue so is not inflationary. In fact, it is likely to be deflationary to land prices as the profit in land-banking will be reduced which will provide an incentive to reduce holdings. This could be considered a drawback, although this will increase the supply of land and decrease inequality which is a benefit. It is also likely to increase productivity and wages through greater utilisation of land, which should offset this effect on the broader economy.

There should be little or no exemption for primary residences, as it is likely that these owners would benefit from reduced land cost and therefore lower mortgages, and the reductions in other taxes made possible by a land tax. The only large group who may require exemption or assistance would be retirees, however I would expect that superannuation (or even a universal income which may be possible given the increase in revenue) would account for this shortfall.

It is also worth considering the impact on Māori land ownership more fully. A universally-applied land tax is a concrete implementation of the principle of stewardship of land rather than outright ownership. This is highly compatible with Māori concepts of communal ownership[3] and would provide some redress for the social inequality suffered by Māori as a direct consequence of land confiscation during and after the Treaty of Waitangi was signed. More recent return of lands to Māori provides an opportunity for productive use to fund a tax on these lands.

Thank you for your work towards a more equitable taxation system, for the benefit of all New Zealanders.

Regards,

Dr. Ryan Walklin

References:

1. On Firmer Ground: The time may be right for land-value taxes. (2018). *The Economist*. [online] Available at: https://www.economist.com/briefing/2018/08/09/the-time-may-be-right-for-land-value-taxes [Accessed 22 September 2018].
2. George H. Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth; The Remedy. 1879. (*Abridged Drake. 2006*) [online] Available at: http://www.henrygeorge.org/pcontents.htm. [Accessed 22 September 2018].
3. Jim McAloon, 'Land ownership - Māori and land ownership.' *Te Ara - the Encyclopedia of New Zealand*. [online] Available at: http://www.teara.govt.nz/en/land-ownership/page-1 [accessed 23 September 2018].