Tax Working Group
Te Awheawhe Tāke

Tax Working Group Information Release

Release Document

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taxworkinggroup.govt.nz/key-documents

This paper has been prepared by the Secretariat to the Tax Working Group for consideration by the Tax Working Group.

The advice represents the preliminary views of the Secretariat and does not necessarily represent the views of the whole Group or the Government.

Some papers contain draft suggested text for the Final Report. This text does not constitute the considered views of the Group. Please see the Final Report for the agreed position of the Group.

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Tax Working Group

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FUTURE OF TAX.

What is the Tax Working Group?

The Government established the Tax Working Group (TWG) to find ways of improving the structure, fairness and balance of the tax system

The TWG has provided the Government with its interim report.

This presentation provides the key findings and recommendations in our interim report

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What is the Tax Working Group?

Terms of reference

The Tax Working Group should report to the Government on:

- Whether the tax system operates fairly in relation to taxpayers, income, assets and wealth
- Whether the tax system promotes the right balance between supporting the productive economy and the speculative economy
- Whether there are changes to the tax system which would make it more fair, balanced and efficient, and
- Whether there are other changes which would support the integrity of the income tax system, having regard to the interaction of the systems for taxing companies, trusts, and individuals.

Timeline

1 March to 30 April 2018

'Future of Tax' public consultation

September 2018

Tax Working Group issue interim report

February 2019

Tax Working Group issue final recommendations to Government

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Scope of the report

- Frameworks for tax policy
- Environmental and ecological outcomes
- Retirement savings
- Housing affordability
- The integrity of the tax system
- The taxation of business
- Māori authorities
- Capital income and wealth
- Tax administration
- Corrective taxes
- International income taxes
- Personal income and future of work
- Charities
- GST and financial transaction taxes

Key issue 1: Capital income
What is the problem?

- Some types of capital income (some capital gains) are untaxed in New Zealand
- This impacts fairness and long-term sustainability of the tax system
- It also has economic impacts
- However, there are advantages and disadvantages of extending the taxation of capital income
- Extending taxation will increase revenue, improve fairness and integrity of the tax system, and level the playing field between different types of investment
- However, it will increase also administration and compliance costs and could lead to some reduction in the overall level of saving and investment in the economy

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Key issue 1: Capital income
TWG is considering two options

	Option 1: Taxing more capital gains	**Option 2: Risk-free return method (RFRM)**
How it works	When an asset is sold or disposed a taxpayer would be taxed on the gain in value of the asset	Taxpayers are deemed to have received certain amount of income based on equity held (asset value minus debt)
Advantages	Avoids cash-flow problems for taxpayers Extension of current approach to taxing some types of capital income	No 'lock-in' Provides more certain cash flows to Government
Disadvantages	"Lock-in" – asset owners discouraged from selling asset Tax revenues are uncertain and can fluctuate	Potential for cash-flow problems for taxpayers Need to establish asset values

Key issue 1: Capital income
Next steps

TWG will report back on which method (or combination) is preferable, and whether it represents an improvement on status quo in final report (February)

"Will the fairness, integrity, revenue, and efficiency benefits from reform outweigh the administrative complexity, compliance costs, and efficiency costs that arise from the proposed additional capital income taxation?"

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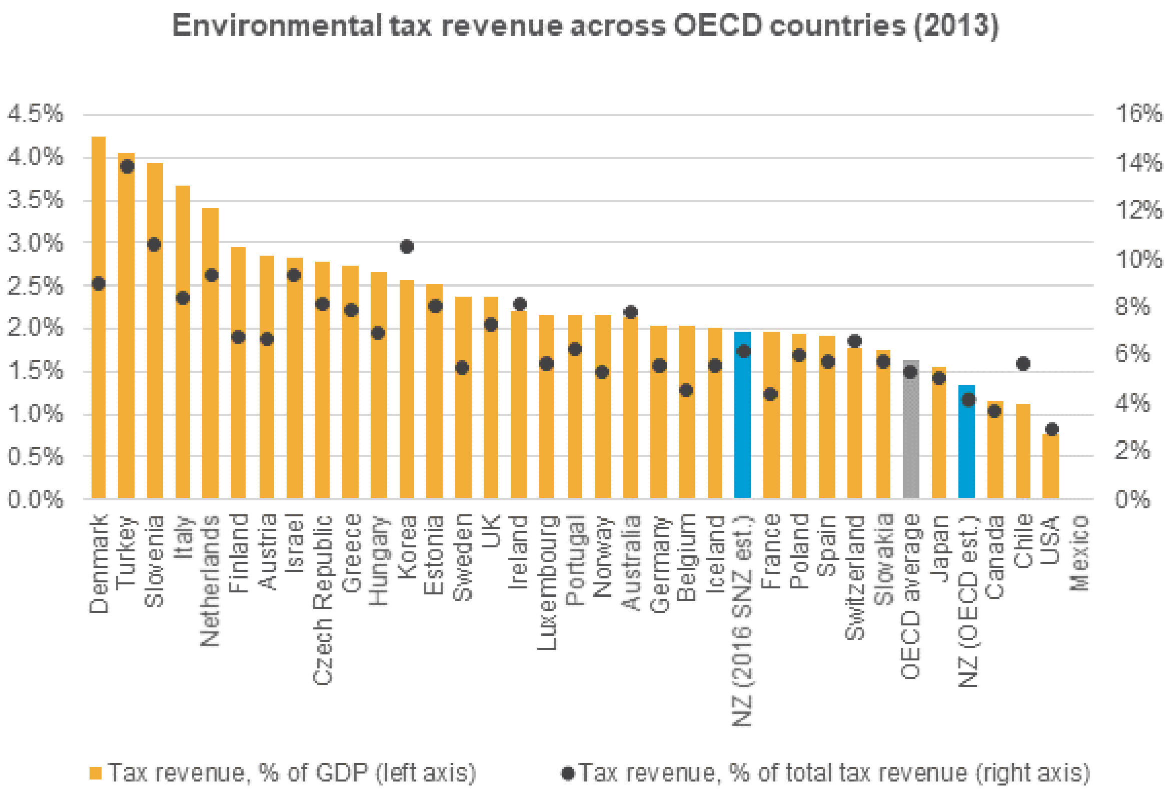
Key issue 2: Environmental taxes
What is the problem?

Broad range of environmental challenges

- Greenhouse gases – High per capita emissions compared to other countries
- Biodiversity – Indigenous biodiversity threatened. New Zealand now one of the highest proportion of native species at risk
- Water resources – Challenges of both extraction and discharges (significant regional variation). 72% of native freshwater fish species are now threatened or at risk of extinction
- Solid waste – Volumes of solid waste to landfill continuing to increase
- Transport – Significant environmental and economic costs from congestion

Key issue 2: Environmental taxes
Tax is one possible solution



Key issue 2: Environmental taxes
Framework

Criteria for using tax to address negative externalities

Pre-conditions	**1. Measurability**	The damaging activity, or a reasonable proxy of it, is able to be measured
	2. Risk tolerance	There is sufficient time for the tax instrument to be developed and refined (i.e., instead of simply banning)
	3. Sufficient scale	The environmental problem is sufficiently large-scale and persistent to justify administration and compliance costs
	4. Behavioural response	Demand for the damaging activity is sufficiently price elastic (i.e., behaviours will change in response to a feasible price signal)
Favourable conditions	**5. Diversity of responses**	There is a range of low cost abatement responses, such that regulating a particular response could impose high costs
	6. Revenue raising potential	The revenues that could be raised from the tax are large, allowing for the reduction of more distortionary taxes / spending on other priorities

Key issue 2: Environmental taxes
Framework

Guiding principles when designing tax instruments

A. Māori interests	Māori rights and interests must be acknowledged and addressed
B. Distributional impacts	Distributional impacts should be assessed and mitigated
C. Pricing	The price of the tax should reflect the cost of externality
D. Localisation	The price of the tax should vary locally where there is local variation in impacts
E. International linkages	Impacts on industry, through international linkages, should be considered

Other findings (1/2)

GST	▪ Do not recommend changes to the GST system
Taxation of businesses	▪ Recommends against the introduction of a progressive company tax ▪ Recommends against a reduction in company rate or moving away from the imputation system ▪ Recommends against changes to the 17.5% tax rate for Māori authorities (although the rate should be extended to the subsidiaries of Māori authorities)
Corrective taxes	▪ The Government should prioritise other measures to help people stop smoking before considering further large increases in tobacco excise ▪ The Government should review the rate structure of alcohol excise with the intention of rationalising and simplifying it
Integrity of the tax system	▪ Supports various additional measures to reduce the extent of the hidden economy (i.e. undeclared and cash-in-hand transactions)

Other findings (2/2)

Retirement savings

- The removal of employer superannuation contribution tax for employees earning up to $48 000 per annum (for minimum required employer contribution)
- A 5%-point reduction for each of the lower KiwiSaver PIE rates

Administration of the tax system

- There is a need for greater public access to data and information about the tax system (so long as it does not reveal data about specific individuals or corporates)
- Recommend the establishment of a taxpayer advocate service to assist taxpayers in disputes with Inland Revenue

Charities

- Considers the tax treatment of business income for charities, and whether the tax exemption for charitable business income confers an unfair advantage on the trading operations of charities. The Group's view is that the underlying issue is more about the distribution of funds for charitable purposes

Personal income

- Group has not yet finalised its views on the rates and thresholds for income tax, but notes that reductions to the lower rates and/or thresholds would be the most progressive means of assisting low- and middle-income earners through the tax system

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By 1 November 2018