Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

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

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

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

Chris Boxall
[1]

Tax Working Group Secretariat
Via email

2 April 2018

Re: Submission on the Future of Tax – Background Paper

Dear Tax Working Group,

This submission makes four key recommendations, as summarised below (and discussed thereafter):

- Diagonal Equity must be factored into the personal income tax system to make it fairer.
- Hypothecated taxes should be introduced, at least for primary health.
- GST should be applied in a more targeted way to incentivise healthier choices.
- The government should be advised that the terms of reference perpetuate intergenerational inequality.

1. Diagonal Equity must be factored into the personal income tax system to make it fairer

For families, the personal income tax regime is unfair. It is also prejudiced against women and children. This is against the principles of fairness and equity which is at the heart of the review.

The issue arises when two parents earn different incomes to fund the costs of the family, yet each is taxed individually without regard for household dynamics. E.g. the average household income is approximately $100k gross.[1] The difference in take home pay between this being earned by one earner (with the other a stay-at-home parent), and this being earned by two earners equally is approximately $8k.[2] The tax system therefore undermines the role of the stay-at-home parent, who, about 85% of the time, is the mother.[3] There are three main problems with this:

a. It increases the vulnerability of children by dis-incentivising one parent to stay at home and look after the children. This has various negative impacts.[4]

b. It goes against the current feminist movement by giving households where women do unpaid work in the home less cash-in-hand to fund family costs. This is preposterous. If the government is serious about pay equity and feminism, then this needs addressing.

c. A new economic theory is required because the problem is not apparent if one approaches this from the perspective of horizontal or vertical equity.

---

[1] https://www.stuff.co.nz/business/98016625/auckland-tops-income-table-as-households-earn-more
[2] https://www.paye.net.nz/calculator.html
[3] https://www.stuff.co.nz/life-style/parenting/family-life/66982714/Stay-at-home-dads-Men-about-the-house
[4] E.g. it erodes opportunities for precious bonding, increases the strain on grandparents, potentially limits sporting, cultural and social opportunities for children, and, anecdotally, increases screen time.

Let's define *Diagonal Equity* as being "the principle that households with legal dependent children should receive the same amount of take-home-pay regardless of how many parents earn income for that household".

The solution is simple for qualifying households. E.g. for a two-parent household, at the end of the tax year, gross up the household income, divide it by two, calculate personal income tax as if both parents earned the household income equally, then apply a tax credit to the relevant person to achieve diagonal equity.

Some changes to the definition of diagonal equity would be required so as not to penalise children or women in sole parent situations, but this could be worked through. The definition could also be changed to refer to legal dependents (i.e. any dependent, not just children), which would create fairer and more equitable outcomes for, for example, parents caring for disabled adult children or aged parents who need full time care. Such changes would have a material positive impact on quality of life for all involved.

Diagonal equity is a great solution that does not change the income tax rate bands. It will, however, result in less tax take by the government that will need compensating for somehow – but there will always be allocative changes when fairness and equity are improved.

New Zealand could, and should, lead the world in adapting its tax system to minimise the vulnerability of children and to be equal to each sex.

2. Hypothecated taxes should be introduced, at least for primary health

The ability for a hypothecated tax to achieve qualitative benefits in New Zealand is proven by the ACC model which helps to influence our culture – i.e. people don't really sue.

On the premise that hypothecated taxes work, this should be explored further in relation to two core government costs – superannuation and healthcare. Table 1 suggests that New Zealand will not be able to afford both in the future at current service levels without finding a way to pay for it. The solutions might be:

- For superannuation, perhaps make Kiwisaver compulsory, and complement this with other non-tax items[5] that should be brought into the scope of the review to enable a holistic solution to be explored.

- For health, the outcome we should be looking for as a country is a seismic shift into primary health care (which should minimise reliance on secondary and tertiary care in the long run). To achieve this, NZ could tax earners maybe an extra 2% pa on income tax (like for the ACC levy), which could be capped at a certain amount, and provide everyone (including adult non-earners) with a base refund (of, say, 90% of contributions, subject to a minimum amount) at the end of the tax year if a doctor and a dentist certify that they have performed an annual medical and examination respectively. That refund could reduce by 30% for each pre-set primary health care risk factor (like being obese, being a smoker, or having drugs in their system (the factors can be amended to reflect changing health priorities)) that a doctor certifies the person as having at the time of their check-up. No medical or examination, no refund. The additional tax raised would fund the minimum rebate amounts.

---

[5] Such as, in time, reassessing the eligibility age or legislating for the government to keep funding superannuation on a linear trajectory to meet the relevant long-term target.

A hypothecated health tax[6] is an awesome way for the government to incentivise primary health by making part of people's incomes or benefits subject to them taking ownership of their own health. The model should result in potentially huge savings in secondary and tertiary healthcare spending in the long-term.

There may be a short-term increase in demand for secondary and tertiary healthcare due to increased referrals from primary health care. However, the earlier interventions should lower the life-cycle cost of the underlying health issue and obviate some health issues completely.

3. GST should be applied in a more targeted way to incentives healthier choices

If GST is applied in a more targeted way, it could act like a hypothecated tax without increasing the overall tax take. For example, GST should be excluded on all unprocessed foods or healthy staples like bread and pasta, and be increased (even with targeted increases) for processed foods.

4. The government should be advised that the terms of reference perpetuate intergenerational inequality

The paper cites an intergenerational equality problem a number of times, yet fails to materially discuss this or suggest solutions to the problem in Table 1. The tax system should address intergenerational inequality and fairness on the back of changing demographics, all of which are central to the points in the paper's executive summary.

The solution may be a model whereby in addition to a progressive income tax, an additional income tax rate is applied to people's income if their age falls within range where that range has been identified[7] as being disproportionately large compared to the average. E.g. a baby boomer could pay the relevant band of income tax + 2%. The extra tax could be ring-fenced, invested, and applied to services for those people when they really need those services (i.e. without, at that time, taxing a proportionately smaller group of workers).

Regardless, it appears that intergenerational equality cannot be solved without bringing into the scope of the review items that have specifically been excluded such as raising income tax rates, inheritance tax and the adequacy of the personal tax system. This point should be made to the government, and a request should be made to limit the items beyond the scope of the review to just the family home or the land under it or items that the IRD's review is addressing.

Conclusion

We should tweak our tax structure to minimise the impact on the vulnerable, to fit with the feminist movement, and to specifically incentivise primary healthcare and healthy lifestyle outcomes.

I am happy for the Working Group and the secretariat to contact me to discuss the points raised. If possible please redact my address prior to publication of my submission.

Yours sincerely

[1]

Chris Boxall

---

[6] That also has horizontal and vertical equity

[7] Maybe by Treasury