# Tax Working Group Public Submissions Information Release

## Release Document

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**Submission to the Tax Working Group (TWG) – Final Version**
**FROM SOCIAL WELFARE TO SOCIAL INSURANCE**
**Peter Davis,** [1]

Proposal – From Social Welfare to Social Insurance

Pensions (superannuation) and health are two very large components of any developed country's budget. Historically, these were introduced in response to clear "market failures" in a pragmatic fashion alongside other budgetary items. Yet, these can be characterised as inter-generational transfers that have a strong insurable element about them. Thus, in a number of countries pensions and health are dealt with as predicable items of social insurance rather than subject to the vagaries of budgetary determinations. In New Zealand we have not done this. In consequence we have massive unfunded future liabilities associated with our state superannuation scheme and an annual wrangling exercise with the health sector (and its steady erosion in real terms under the previous administration). Yet, at the same time, we also have the rudiments of social insurance schemes for both sectors - KiwiSaver and ACC respectively - which we could be in a position to formalise and develop. And we also have the example over the Tasman, where the Australians have a levy-based superannuation scheme and a universal Medicare based on an income levy, together with the National Disability Insurance Scheme (NDIS). I propose that we progressively take superannuation and health out of the usual tax take, carry out actuarial estimates of their rates on a regular basis, set them up at some arm's length from short-term electoral politics (a bit like ACC, but better), and underpin them with regulations and structures that will ensure their efficiency and flexibility.

1. We should build on KiwiiSaver and ACC to establish twin social insurance schemes for future superannuation and health costs respectively. This would permit income and company tax rates to lower, but in part be replaced by actuarial levies on employees and employers.
2. KiwiSaver and the Superannuation fund should be considered together so that we can progressively transition our state pension scheme from a Defined Benefit to a contributory scheme with a guaranteed benefit (as it currently is). For example, when Sweden made a similar transition, individuals were given notional accounts in their equivalent to the Superannuation Fund as a token and promise. Individuals would be free to save more than required for the basic superannuation, but the role of KiwiSaver and the Superannuation fund would in the first instance be to ensure that no citizen of New Zealand with the requisite residential qualifications would fail to gain the current "National Superannuation" pay-out. This could be represented as an annuity, but guaranteed. KiwiSaver fees for the basic super would have to be controlled because high fees can add ten years onto the qualifying period for building a viable superannuation nest egg.
3. ACC should be extended to cover illness (as originally envisaged), but with the income support element taken out of and placed in an entity equivalent to the Australian NDIS. ACC rates vary by industry risk. This could be extended to other harm-inducing industries such as alcohol, tobacco and sugar, which could be levied in proportion to their estimated impact on the health budget. It would be important to reduce the transaction costs of service payments, with the use of salaries, capitation and bulk-billing (as in Medicare). This change would be carried out progressively, and individuals could still, as they do now, take out private insurance cover over and above their social insurance. However, in Australia this has been allowed to grow as an alternative tier that requires over $10 billion taxpayer subsidy a year. This has proved to be a costly, confusing and unnecessary exercise for Australia.

This proposal builds on two current New Zealand schemes- KiwiSaver and ACC - that provide the rudiments of social insurance but that have failed to fulfil that potential. These schemes would provide budgetary certainty for their respective sectors and communities, they would improve the national rate of saving, and they would allow income and company taxes to reduce accordingly.

Further Thoughts

1. **GST**. I am against any carve-outs (say, for low-income people). It is a bad precedent. The way to help low-income people is to give them adequate financial support. Instead, I think the TWG should look at the extension of GST to financial services, and dropping the rate back to a nice round 10%. It is anomalous that in an economy that is increasingly "financialised" and where the banks are so dominant that we do not have the wit to charge GST for financial services. And then there is a financial transactions tax. Again, it seems anomalous that we are among the most traded currencies, and yet gain no benefit from this.
2. **Added value**. One of New Zealand's major weaknesses is the apparent inability to build and capture added value for our primary sector exports. Is there any way in which adding value can be encouraged legitimately through the tax system?
3. **R&D tax write**-off. I favour anything that will encourage an increase in our R&D. Most other countries use some kind of tax write-off, and we seem likely to follow. The only problem I see is that in other countries much of the benefit is captured by a few very large industries/companies. Is there any way of ensuring the benefit gets spread around?
4. **Externalities**. I am in favour of businesses and other agencies "internalising their externalities". The obvious area is environmental externalities where the community picks up the tab for glass, plastic, polluted rivers etc. But consideration should also be given to health impacts. ACC does this for injury-causing industries. Why not other health impacts such as alcohol, tobacco and sugar for the health equivalent of ACC (see proposal)?
5. **Capital Gains Tax**. I think it is unhelpful to discriminate between different kinds of income. For any given individual, all sources of income should be aggregated and taxed accordingly, regardless of source. The Institute of Public Policy Research has suggested the UK government follow the German example of smoothing out tax levels and aggregating income sources to eliminate sharp shifts in marginal tax and between sources of income – using a formula-based approach. https://www.ippr.org/research/publications/tapering-over-the-tax
6. **Exempting the family home**. I am not aware of any jurisdiction where the family home is included in capital gains calculations, so, while theoretically possible, in practical terms it is not. However, some countries do place a limit on the value of a so-called family home that can be fully exempted. One can imagine that an exemption of the family home might lead to huge investment in this item, thus making purchase of a house even further out of reach for first home-buyers. There must be a practical formula linked to median house prices.
7. **Treatment of savings**. It has been said that the Lange-Douglas reforms instigated a form of "intergenerational theft" because it favoured current populations over future savers. I am in favour of savers getting a better deal – evening up the playing field for different forms of investment (particularly against the undue favouring of property). However, I am not in favour of tax incentives, unless carefully structured, because in almost every other jurisdiction where this is attempted the tax gains go disproportionately to the better off.
8. **Trusts**. These are used to shelter wealthy and not-so-wealthy people from tax. Apparently New Zealand has an abnormally high number of family trusts. This must be a function of tax treatment. It is important that this shelter be removed so that people pay their fair share.