Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkingroup.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.

Submission to Tax Working Group – Oliver Sangster

What should New Zealand be taxing, but is currently not taxing?

Non-productive assets should have capital gains tax. Some items are taxable under section CB4 of the Income Tax Act[1], although this is difficult to enforce and I doubt it is applied in New Zealand as it should, and there is the brightline test for sales of houses within 2 years. It is arguable that so-called "investment property" (i.e. a property that I purchase for the purpose of selling for a profit in the future) could be captured under section CB4 in the same way that the IRD has considered gold bullion now is. However it would be very hard to enforce, and difficult to prove in any given case given it relies on determining the owner's motive (which they could just lie about) therefore a separate CGT is necessary to clear up the matter.

People who make money (generate income) off speculation on non-productive assets still get to have the social benefits that taxpayers have provided for them (roads, hospitals, schools etc) without having put in a cent towards them. It is fundamentally unfair for the system to make productive workers pay for things that are funded by the Government while enabling those who profit off speculation to enjoy their free ride.

The current system also incentivises people into speculative industries rather than productive industries (quit their job in the service industry for example) and start gambling through property speculation or currency trading. Who generate profit from simply buying and selling assets, without actually producing any value-add themselves, should have to pay tax on that profit (arguably more tax than those who are producing a good or service, as the Government should encourage people to spend their time doing productive work or investing in productive industries (e.g. start-up businesses), rather than speculating on non-productive assets where no real "good" is produced).

Capital Gains Tax should apply to all non-productive assets equally as part of a person's income tax. It should cover interest earned on savings (as in the status quo), but also profits gained from selling real estate, precious metals (e.g. gold or silver bullion), and currency (including traditional currencies and crypto-currencies).

On the "family home" exclusion, I understand that the Labour Party in its pre-election campaigning bowed to public pressure to limit the ToR of this Tax Working Group to exclude "the family home", so the report sadly cannot include that. For what it's worth, excluding "the family home" still provides an added (unnecessary) incentive for people to purchase their own home rather than continue renting. Continuing the income tax distortion of excluding one type of non-productive asset still disadvantages families who will never be in a position to purchase their own home. Excluding "the family home" is a <u>populist</u> move on the part of the Labour Party in an effort to not lose votes from homeowners, and it should be labelled as such.

[1] http://www.legislation.govt.nz/act/public/2007/0097/latest/DLM1512409.html

What is New Zealand not taxing and should continue not taxing?

Rent. As noted on page 6 of the *Future of Tax* document, "applying GST to rent would raise various practical and fairness issues". I agree. Taxing landlords' rental income would instantly result in rents being increased, i.e. the tax would be passed on to the tenants making it regressive. The perverse outcomes of such a tax is that it means it takes longer for tenants to save for a house deposit, exacerbating the growing inequality between landlords and tenants that already exists in New Zealand (at an unacceptable level in my opinion).

Sales of **second-hand goods** should stay GST excluded given the goods in theory should have already had GST paid on them when they were first sold in NZ (or if they were bought from overseas and were are subject to customs duty) / had spare parts added or other modifications made to them GST gets added then. Adding GST onto the sale of a second hand car, for example, therefore equates to double-taxing (which should be avoided in principle), is regressive (given people who purchase second hand goods are likely to be less "well off" than those who purchase new), and would be an administrative nightmare (e.g. every individual selling a second hand item on TradeMe would need to get GST registered). I am however open to the idea of adding *excise* tax onto the sale of certain second-hand items that we need to phase out (e.g. non-electric vehicles, as discussed later)

Chapter 2: The future environment

What do you see as the main risks, challenges, and opportunities for the tax system over the medium- to long-term?

Which of these are most important? How should the tax system change in response to the risks, challenges, and opportunities you have identified?

The two biggest risks I see to the New Zealand economy over the medium-long term are **climate change** (over the next few decades) and our **aging population** (as the Baby Boomer generation continues into retirement over the next 10 years).

The tax system will need to adjust to these realities sooner rather than later (e.g. taxes will be needed for greater Government spending to protect New Zealand's society and environment as it adapts to climate change – resilient infrastructure will be incredibly expensive and many councils are struggling to maintain their existing infrastructure let alone develop it in response to population growth and climate change adaptation needs). More health budget will be needed to account for added pressures on the health system as New Zealand's population continues to age. More taxes are needed to pay for this, unless we start borrowing more or increasing the Superannuation age (which I am in favour of but is out of scope of this Tax Working Group exercise).

Another big risk is that typical New Zealanders are incentivized to put their life savings into a single asset (the house), rather than spread their wealth around into a portfolio of assets (which spreads economic risk around). This is in part (but not fully[2]) influenced by the fact that people need to pay tax on the interest on savings/investments, but not on capital gains generated from buying and selling assets.

The upshot of this is that we are in a situation where New Zealand society is divided between landowners and non-landowners. Landowners will do all they can to protect their 'nest egg' (property value). This fear reared its head in the most nasty way during the recent debates on Auckland's Unitary Plan, where the *Generation Zero* advocacy group who supported residential intensification in areas across Auckland was verbally abused and shouted down by a group of landowners who wanted to preserve the status quo in their neighborhoods for fear that intensification would reduce their property values. Growing resentment between the 'haves' and the 'want to haves' is not the future I want to see for New Zealand – it is elitist rather than egalitarian. This could risk reducing social integrity and creating division in New Zealand. The tax system should play its part to prevent this, by introducing capital gains tax to level the playing field and encourage people to distribute their financial assets and risks across different investments.

Another big challenge is dealing with **globalization**, particularly global companies that operate in New Zealand but avoid paying tax (e.g. due to being set up in tax havens like Ireland and/or the British Virgin Islands). If these companies compete with local companies New Zealand who don't have that luxury, this creates an uneven playing field which has problems for the New Zealand economy (small businesses can't compete). I don't have any answers here I'm afraid, hopefully the IRD will work it out.

How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system?

I am not Maori, so not entirely sure.

But from my (possibly naïve) perspective, I think these principles would be well shared across the Government system as a whole (not just the tax system). At a principle level, I think taxation for the purpose of wealth distribution (welfare) and environmental protection is fully consistent with these tikanga principles, which as I understand relating to looking after family and others, and looking after the environment).

Iwi trusts, Maori health organizations that are not for profit but are acting for the good of their people should have tax exemptions, as do other types of charitable trusts.

Chapter 3: Purposes and principles of a good tax system

[2] There are also cultural factors which influence this – i.e. buying a house as the "kiwi dream", and weak residential tenancy laws that favour landlords over tenants which encourage people to get out of renting and buy a house as soon as they can

Principles for assessment

What principles would you use to assess the performance of the tax system?

The criteria on page 19 look good to me.

Defining 'fairness'

How would you define 'fairness' in the context of the tax system? What would a fair tax system look like?

As an advocate for egalitarianism, I would define fairness as a tax system which:

- Enables wealth generated to be taxed in order for redistribution to benefit those who are least well off, particularly to ensure their peoples fundamental human rights are met (articulated in the UN Declaration of Human Rights, of which New Zealand is a signatory),
- Applies the 'polluter pays' principle to ensure individuals responsible for environmental harm/damage are accountable for their actions.

A fair tax system would therefore need to include

- A **progressive income tax system** (i.e. not a system of 'flat' or 'regressive' taxes)
- **Taxation as a means to offset any residual damage** caused by polluting industries that are not addressed by regulation / control under the RMA

Separate **excise taxes** may be suitable to encourage good behavior (e.g. the current annual rebate available to individuals who donate to non-profit organizations which deliver social benefits) and discourage bad behavior (e.g. excise tax on cigarettes). Classical economics generally presumes people will always act in their own best interest. However behavioural economics demonstrates that people tend to make "irrational" decisions, and often don't act in their own best interest, and therefore need to be "nudged", and taxation is one way of doing that. I do think using taxes to nudge people's behavior is fair *provided* it is evidence based and coupled with public education. The introduction of taxes designed to change people's behavior should be evidence-based, carefully considered and open to feedback from the public.

Tax on tax is unfair and should stop in New Zealand. There is no moral justification to charge a person tax simply for the fact that they've had to pay tax. While excise duties in themselves may be justified (to nudge behavior and/or pay for particular public goods that the tax relates to e.g. roads), having to then pay GST on top of those excise duties is not justified and in fact a devious method of generating revenue by the Government.

An example of current tax on tax in New Zealand is the way GST is added to the price of petrol. Firstly, the price of petrol is calculated to include all excise taxes required. *Then* GST is added on top of the total price including the excise taxes. The AA calculated the GST on the excise portion of the price of petrol as amounting to a *'10 cents per litre "tax on taxes"'*[3]. I have not seen any information about how this applies to other goods that are subject to excise duties (e.g. alcohol and cigarettes) however I would presume the same method of calculation applies. The 'Future of Tax' report seems to make no mention of this.

GST should not be charged on excise taxes as those taxes are neither a "good" nor a "service" – they are a tax. GST should only be charged on the actual cost of the product (incorporating the both the "good" and "service" elements), not on the excise tax added to the cost of that product.

Chapter 4: The current New Zealand tax system Frameworks New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?

Generally a broad-based, low rate is preferable to minimize deadweight loss and administrative costs of a more complex system.

I see an argument for allowing community service card holders to pay a lower rate of GST for all goods and services (say 10%, or even 0%), given those at the 'bottom end' of the income inequality spectrum will need to spend a higher proportion of their income on the basic necessities of life than those at the top. For those who do not have a CSC, they would pay a higher rate to offset the lost revenue (say 18% - not sure if this is the right number, but just for example). This is slightly more complex than the current broad-based, low rate approach, but could be argued to be more progressive as those at the bottom do not have to pay the tax. In saying that, low income earners have a lower income tax rate already, so this disparity may already be taken into account by New Zealand's progressive income tax system.

I still support whatever minimizes deadweight loss, provided the broader system goes back into distribution of services to benefit those who are least well off. I am neutral as to whether that is GST exemptions for certain types of people, or income redistribution (leaning towards the latter due to the deadweight loss problem)

As stated above, the method of calculating GST should change so that GST is not charged on the excise taxes that apply to particular products (e.g. petrol, alcohol, tobacco) as "tax on tax" is not justified.

Taxes and behaviour

Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?

Yes. If bad behavior carries social and/or environmental costs, then taxes to discourage that bad behavior and encourage good behavior should absolutely be considered alongside other policy options. In some cases, taxes will be more appropriate than an outright ban, because taxation has some more 'respect' for human freedom and reduces unintended consequences (e.g. there would be uproar if New

[3] www.aa.co.nz/cars/owning-a-car/fuel-prices-and-types/petrol/

Zealand banned cigarettes completely, and tobacco would just go into the black market because people are addicted).

Taxes to encourage behavior change should be used carefully, as like all policy options they might not work on their own and/or might carry perverse incentives. For example, if the tobacco tax rate is set too high, that could make tobacco unaffordable and push tobacco into the black market or people might choose to steal it (a perverse outcome). Similarly if tax was the only tool used to encourage people to quit smoking (e.g. no public education took place), this is unlikely to achieve the goal of reducing smoking as smoking is addictive, so the tax should be used alongside other interventions e.g. public education campaigns, images on cigarette packets etc.

For example, electric vehicles in New Zealand currently do not have to pay road user charges, unlike diesel vehicles. This is essentially a tax exemption for electric vehicles (as petrol cars have these charges incorporated into the price of petrol, while diesel cars must purchase 'miles'). This is part of a suite of policy interventions to encourage more people to purchase electric vehicles, change peoples' behavior away from the habit of buying petrol or diesel cars.

In my personal opinion, progress in response to **climate change** is not occurring quickly enough, and more of these types of behavior change taxes should be put in place to promote a quicker transition to a low carbon economy for New Zealand. E.g.

- introducing new excise taxes on companies for the generation of electricity using **non-renewable** resources (e.g. coal, gas or diesel) to encourage electricity generators to convert to renewable sources – e.g. a company pays a tax for each unit of electricity it generates through non-renewable sources. This could be in addition to, or instead of, or adaption of, participation in the current ETS which in my view is inadequate
- increase road user charges on **diesel trucks** used for freight in the effort to encourage freight companies to use more rail
- increase petrol and diesel excise tax to reflect the true cost of CO_2 emissions generated, and use that tax to offset CO_2 emissions (e.g. by funding the Government's billion trees planting programme). Although the transport sector has been part of the New Zealand Emissions Trading Scheme since its establishment, climate emissions generated from the energy sector have continued to increase. A reason for this could be that because the amount people pay into the ETS is so minimal that it is unnoticeable (within the typical margin of a change in petrol price)[4], that it is insufficient to effect any positive behavior change. I discuss CO_2 taxation further in a later section on environment taxes.

I do not think excluding GST from fresh fruit and vegetables will be effective given seasonal differences in price happen anyway, so the tax is unlikely to affect consumer behavior. Taxing sugary drinks may be more justified, given the price of those products is less subject to fluctuation. The purpose of that tax

[4] The Automobile Association calculates the ETS component of fuel prices at just under 5 cents per litre for petrol, and 5.5 cents per litre for diesel. https://www.aa.co.nz/cars/motoring-blog/january-2018-petrol-and-diesel-prices/

would be to encourage greater health, and reduce costs on the healthcare system (particularly dental health and diabetes). The tax would need to be at a high enough level to make people notice, and this would need to be coupled with a public education campaign about the tax itself, its purpose, and healthy alternatives. Again, the pros, cons and alternatives should always be considered before introducing a tax designed to change peoples' behavior, and there needs to be a strong evidence base.

However, sometimes a ban would be more appropriate than taxation if the damage caused by that activity is too great to justify its continuation (e.g. in my personal opinion, plastic shopping bags should be completely banned rather than taxed, because the environmental damage they cause is unlikely to be offset by taxation.

Retirement savings

Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?

Yes. In today's New Zealand culture, people need to be nudged in order to save for their retirement. There is plenty of research in behavioral economics demonstrating that people are more inclined to make decisions in favour of short term pleasure (spending money on stuff I want now) to the detriment of saving towards retirement. This is a market failure of sorts as I don't know what's best for my future. There is a strong case for government to intervene to encourage people to save for their retirement. Most people don't think that hard about retirement savings until its far too late (usually when their body starts to creak when they get out of bed). As a 29 year old, I rarely, if ever think about my retirement. Its just depressing to think of myself getting old, and there are far more "important" things like travel to think about (that was sarcasm, but this attitude is definitely common among millennial-age New Zealanders).

Kiwisaver is great. The Government should jump in and do whatever will make more money for Kiwisaver investors over the long run.

The report talks about most OECD countries having an *E-E-T* system, while NZ has a T-T-E system. If evidence suggests that more people will be encouraged to save more for retirement if we switch to an E-E-T system, or something else, we should do that.

What about: E-E-E? A bold move, and would require increases in taxes elsewhere to offset lost revenue, but if the Government really wants people to put away as much as possible for retirement, why tax Kiwisaver savings/investment interest at all?

As a side note, I also think the Government needs to start making some bold policy moves to face the reality of our aging population problem and begin raising the age of entitlement for Superannuation to where we can afford it, and/or introduce means testing so that only the people who truly need Superannuation are eligible for it. I realize this is outside of the scope of the Tax Working Group TOR, but it needs to be raised with the Government as much as possible. If we do not start transitioning now, we are going to be in for a really big shock in the next 10 years. The increase in healthcare and palliative care costs is going to be enormous. The current ‘head in the sand’ approach might be politically safe (for now) but very soon this is going to hit us, and the next generation, like a freight train and whoever’s in Government will have nowhere to hide.

Chapter 5: The results of the current tax system Fairness and balance Does the tax system strike the right balance between supporting the productive economy and the speculative economy? If it does not, what would need to change to achieve a better balance?

No. The balance is too far weighted towards the speculative economy.

A broad capital gains tax on profits generated from the sale of non-productive assets. The revenue generated from the new capital gains tax can be offset by cutting tax rates for PAYE earners across the spectrum and small businesses.

Tax and business

Does the tax system do enough to minimise costs on business?

Not sure – I think small businesses with PAYE staff could use a tax break, particularly as the minimum wage is increasing. A progressive tax rate for businesses would be useful here. It might even help small businesses compete with the tax-avoiding global corporates who are effectively stealing our money.

Does the tax system do enough to maintain natural capital?

I presume natural capital here is in reference to the instrumental value of natural resources.

I don’t think the tax system currently does anything to maintain natural capital.

I do think that the only way we can convince people to spend money on saving ecosystems is to show them how much it will hurt them (their business) and us (the NZ economy) in quantifiable dollar terms if we lose these natural resources. Most people have no idea how reliant our agricultural economy is on ecosystem services from creatures like bees for example. If we ruin their habitat we are shooting ourselves in the foot economically.

Often the costs of environmentally damaging behavior are not adequately accounted for in RMA decisions. RMA struggles to deal with “cumulative effects” well (e.g. synergistic additional impacts of multiple activities operating in the same area).

The only resources that are taxed in New Zealand currently are petroleum and minerals under the Crown Minerals Act, and Sand/Shingle under the RMA. There is a royalty regime for taking geothermal water (heat) under the RMA, but I understand the royalty is not collected and application of this has been put on hold pending the ongoing Waitangi Tribunal WAI262 claim.

There is scope to tax use of other public resources used for private gain, with the aim of maintaining and enhancing natural capital. The RMA deliberately excludes minerals (including petroleum) as it recognizes that as non-renewable resources they cannot be “maintained”, only exploited if they are to be used.

As noted further below, I consider that taxes for the purpose of maintaining natural capital should only be applied if the impacts on the environment cannot be adequately managed under the RMA. There is scope for taxes to apply to things like freshwater pollution, soil loss through erosion, biodiversity loss. This would be extremely hard to set I am guessing, but warrants consideration.

Are there types of businesses benefiting from low effective tax rates because of excessive deductions, timing of deductions or non-taxation of certain types of income?

Unsure. But it wouldn't surprise me. There are plenty of smart people working in the various accounting firms around town. I saw a recent news article suggesting self employed individuals are underreporting their income tax and not paying their fair share. The IRD needs to sort this out.

Chapter 6: Thinking outside the current system

What are the main inconsistencies in the current tax system? Which of these inconsistencies are most important to address? Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?

As noted earlier, I think it is inconsistent and immoral that people working in productive industries should be taxed (e.g. through PAYE), while people speculating in non-productive assets are not (other than houses that fall within the bright line test, and taxing sale of investments that are purchased with the intent of disposal under the Income Tax Act (which is likely a difficult test to determine)). This is contributing to New Zealand's growing levels of income inequality as savvy investors tend to be more wealthy already, while PAYE earners are less so. The Government must introduce a broad Capital Gains Tax to end this distortion.

As noted above, tax rates for PAYE earners and small businesses could be reduced accordingly to offset revenue gains from CGT (tax cuts for PAYE earners has the added benefit of making it easier for people to save towards buying a house for example).

Chapter 7: Specific challenges Housing affordability How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?

Many factors have contributed to the growing levels of housing unaffordability in New Zealand, and the lack of a capital gains tax is a significant one as it incentivizes speculation in housing rather than shares in businesses for example.

Introduce capital gains tax on property to work towards reducing speculative investment that has seen dramatic increase in the average cost of a house in New Zealand, and back towards investment in productive industries where we can actually generate real wealth for the country. Housing affordability is getting worse, and the 'goalpost' of the house deposit needed for a person to get on the ladder grows at a faster rate than people are able to save to catch up to it. It's a complete mess, and if current trends continue there will be an ever increasing proportion of New Zealander who will never be able to afford to buy a house.

Capital gains tax

Should New Zealand introduce a capital gains tax (that excludes the family home)? If so, what features should it have?

Absolutely, for the reasons outlined above. A broad based capital gains tax on the sales of all non-productive assets (including land, housing, gold, bitcoin, you name it).

Capital Gains Tax should only apply when people sell a house for profit. If the "family home" is excluded from CGT, I do not think that investors should be eligible for tax deductions if the house loses value (they took a risk in making the investment, without intending to use the property for its main purpose which is to be lived in). If the Government changes its mind and includes "the family home" in a CGT system, then a tax deduction for a capital loss on sales if the price goes down would be appropriate for that type of asset.

Re housing, measures would need to be in place to ensure renters are not "footing the bill" for the property owner's capital gains tax. It would be unethical for a landlord to pass on that cost to renters (i.e. by increasing the rent to offset their perceived "loss" of a capital gains tax), given the CTG has to do with the value gain of the property over time, and has nothing to do with the tenants, but rather external market forces. Rent control should be brought in to ensure landlords do not increase rents on the basis of new Capital Gains Tax.

Land tax Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?

Yes, as above. Should be treated the same as all other non-productive assets to ensure a level playing field.

Environmental taxation

What are the main opportunities for effective environmental taxation?

Environmental taxes should ascribe to the "polluter pays" principle. If the polluter has already "paid" through other means (e.g. worked with a council to account for the environmental impacts of their activities under the RMA), then additional environmental taxes should not be applied to that person. Revenues generated from taxes on environmentally harmful activities should be put back towards positive environmental activities, ideally as close to the area where the tax came from as possible.

There are many options for how "environmental" taxes might be applied in New Zealand, such as:

- Enable local councils to **taxes all visitors using 'bed tax'** so that councils with a low ratepayer base but a high tourist volumes can pay for the infrastructure needed to support the growing tourism industry. Bed taxes are used in many cities around the world for this very purpose. New Zealand's environment is one of the main tourism drawcards for New Zealand, so those coming to use it for their enjoyment (tourists) should pay something towards its protection. Central government can set out the parameters but local authorities should be allowed to set their own tax (the actual tax rate could vary from council to council). Bed tax will need to cover all forms of paid accommodation (including non-traditional hospitality sector such as "Bookabach" and "AirBnB", as well as the more traditional hotels, campgrounds etc) to be comprehensive and avoid perverse outcomes for the hospitality industry. The bed tax should apply equally to international and domestic tourists as it makes no difference from an infrastructure management point of view where the tourists have come from.
- Enable district and city councils to put in place **traffic congestion charging in areas of their district–**apply to the use of private motor vehicles in built up urban areas (e.g. especially Auckland CBD where congestion is horrendous), as per other cities such as London and Sydney. Purpose of the tax (charge) is to reduce congestion, encourage people to take alternative transport modes e.g. public transport, cycling, walking. Revenue generated from the tax should be ring fenced to go towards funding improvements to public transport infrastructure/cycleways/pedestrian infrastructure in the area (district or city) where the congestion charge exists, to give those affected by the tax a more attractive alternative (i.e. more regular buses, light rail etc).
- Enable DOC to charge **fees to enter national parks** to add to government financing on DOC's activities (e.g. pest control/track maintenance etc). This is also done in most countries around the world – New Zealand is unusual in this sense. Not so much a tax as a fee, but this is still in line with the polluter pays principle. There might be some backlash from local New Zealanders who believe it is their entitlement to access the National Parks for free – this should be consulted on (i.e. should the fee apply to all users or just people who cannot produce an official NZ ID (passport, driver license etc) as per fees to enter the Treaty Grounds at Waitangi?).
- **Waste management** – taxes can be used to encourage recycling, e.g. landfill levy under the Waste Minimization Act could be increased significantly (currently $10/tonne which is a lot lower than other countries such as the UK). Revenues generated from an increased levy could go towards more local recycling schemes.
- **CO_2 emissions**. The current ETS is not a sufficient to be considered a "polluter pays" system. The big problem with the current ETS is that the price of a NZ Unit is based on the price of carbon which is subject to global price fluctuations, rather than the actual cost of offsetting emissions. A true polluter pays carbon tax should reflect the actual cost of offsetting the emissions generated, not be based on the price of carbon which is arbitrary and is not effective enough in reducing emissions. I.e. how much does it cost to plant the number of trees required to offset the emission you have produced = level of the tax. Otherwise the tax does not pay for the damage caused, and CO_2 emitters are still free-riding and creating costs to be borne by future generations.

- **Water tax** – water is becoming scarcer in particular areas of New Zealand, and will continue to as the impacts of climate change get more prevelant over the next few decades. A water tax could be used to applied to ensure water is being used for the most efficient purpose. This is a public good that is currently free for consent holders to use, but consent holders have exclusive right to use the water (which currently locks in permits for up to 35 years on a first-in-first-served basis, which can lead to inefficient resource use outcomes). Taxing water provides consent holders and additional incentive to conserve water that they don't need to use, even if they have consent from the regional council to use it. Water tax should <u>not</u> apply to use of water for purposes that are clearly in the *public good* (e.g. public drinking water supplies, use in wastewater treatment plants, firefighting etc). The water tax should only apply to for-profit industrial users of water (e.g. private water bottling plants, breweries, farms for irrigation, factories for industrial processing etc) as these private companies are currently using a "free" public resource for private economic gain, tax free. Electricity generation is a tough one given the 'mixed-ownership model' in New Zealand implies a mix of public and private benefit, however on balance I would not apply a water tax to the use of water for electricity generation given the public 'need' for electricity in a modern society, the need to promote renewable electricity (including hydro) rather than non-renewable, and the fact that the water itself doesn't get "sold" for a profit (only "released" through the dams to generate power and sent downstream)
- Biodiversity loss – I do not think a tax is the right mechanism to 'pay' for damage caused by loss of habitat from particular industries. Rather, I believe that the RMA process of requiring project proponents to do the work themselves to offset their biodiversity destruction, and/or pay a bond to the local council to ensure the work gets done, to offset the environmental damage, is the correct way to deal with this. If the applicant can't show that it internalize the externalities it causes by avoiding, remedying or mitigating (or offsetting) the damage it cases to biodiversity, it shouldn't be allowed to undertake the activity (i.e. consent should be declined under the RMA)

Progressive company tax Should the tax system do more to support small businesses? In particular, is there a case for a progressive company tax?

Yes, tax rates should be lower for small businesses to encourage entrepreneurs (new start ups) and associated job growth. Large established companies can afford to pay higher levels of tax given they would tend to have higher revenues and less ongoing risk.

An alternative to progressive company tax could be the Government providing financial grants to assist new small businesses to get up and running.

GST exemptions for particular goods Should the tax system exclude some goods and services from GST? If so, what should be excluded? What else should be taxed to make up for the lost revenue?

One good that I would support removing GST on is **electric vehicles**, given new electric vehicles are more expensive upfront for an individual buyer than petrol or diesel vehicles of equivalent sizes, but there are wider social and environmental benefits in promoting a fast transition to electric vehicles. The upfront cost difference is currently one of the barriers to uptake. An *excise tax* could be placed on the sales of non-electric vehicles to offset the lost revenue from GST on electric vehicles, and reduce the upfront cost difference between electric and non-electric vehicles even further. The excise tax on non-electric vehicles should be applied after GST has been added (to avoid the current 'tax-on-tax' situation that applies to petrol for example)

A second item is **feminine hygiene products** (pads, tampons etc), which are necessary goods for women but not for men. Given men do not need those items, they are excluded from paying a particular tax (GST on those items) solely because of the arbitrary fact that they are male. Given I do not get to choose my gender, taxing these items which are only necessary for half the population is unfair and regressive against women, so the Government should remove GST on those products to make them more accessible (on human rights grounds). I cannot think of an equivalent item to tax to make up for the lost revenue, but I think the Government taking a (relatively small) financial hit is ethical due to the arbitrary nature of the need between women and men.

I do *not* think that GST exemptions should apply to the cost of fresh fruit and vegetables, because the seasonal fluctuations in prices across individual types of fruit and vegetables often provide a larger variation than the GST rate throughout the year (15%), and the price of fruit and vegetables can vary from store to store on any given day at a higher rate than 15%, so I do not think such an exemption would be noticeable or likely to lead to any change consumer behavior, and is not justified due to the deadweight loss such an exemption would generate.