

Tax Working Group Public Submissions Information Release

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17 April 2018

Tax Working Group

Via Email: submissions@taxworkinggroup.govt.nz

Re: Future of Tax: Submissions Background Paper

The Whanganui District Council (Council) appreciates the Tax Working Group providing an opportunity for Council to comment on the future of tax policy within New Zealand. The Council supports a first principles approach to the review of New Zealand's tax however is disappointed that local authority property rates has been excluded from the tax review. Local authority property rates are used to fund critical community infrastructure that has a direct impact on fiscal adequacy for local government; the effective tax rates of individuals and businesses; the disposable income for households (particularly low income households); housing affordability; and the coherence of the wider tax system.

Purposes and principles of a good tax system

Council supports the use of efficiency, equity and fairness, revenue integrity, fiscal adequacy, compliance administration costs and coherence as the core principles for assessing the performance of the New Zealand's tax system. However, the exclusion of local authority rates from consideration within the wider tax system has significant implications for both equity and fairness, fiscal adequacy and the wider coherence of the tax system.

Land tax

Local authority property rates are a land tax rather than fee for service in that there is not a direct linkage between the level of rates and benefits accrued to the owner. In 1996 the Court of Appeal considered that the then rating system was "primarily a taxation system and not a system inherently based on a principle of user-pays"¹. The Local Government (Rating) Act 2002 largely maintained the existing principles of rating found in earlier legislation.

Local authority land taxes fund a significant proportion (58%, \$5.5 billion) of local communities' critical infrastructure and services. While central government is not currently directly funded by land taxes², local authority land taxes equate to approximately 6% of the combined taxation at both national and local government level. Council considers that the exclusion of local authority land taxes from the Tax Working Group's wider consideration of tax significantly undermines the consideration of the coherence and equity and fairness of the wider New Zealand tax system and the effective implementation of central government's social policies.

¹ pg 12, Woolworths New Zealand Ltd (No 2) [1996] 2 NZLR 537 (CA)

² Councils are required to charge GST on property rates which is a goods and services tax on a land tax.

In 2010, the Victoria University Tax Working Group³ considered the use of land taxes at a central government level. While a land tax has benefits around ease of administration and compliance, a land tax disproportionately affects some groups of people, including retirees, Māori authorities and farmers who have a disproportionate asset to income ratio. An example of where excluding local authority land taxes distorts the coherence, equity and fairness of the wider tax system are the tax obligations for property owners on low and fixed incomes such as those on the New Zealand superannuation scheme. The superannuation scheme is predicated on a universal income based on the minimum wage and minus mortgage repayments as it generally assumes that superannuitants are freehold property owners⁴. This income is then taxed by central government on the basis that it constitutes an income. While central government income taxes equate to approximately 13% for single income households and 12% for dual income households – when considering local authority land taxes, the effective tax rate for those superannuitants owning a home rises to approximately 21% and 17% respectively (see Table 1).

Table 1 – Effective Rate of Tax for Superannuitants for Central Government Income and Local Government Property Taxes

	Superannuation – 2017/18			
	Single (Living alone)		Couple	
	Amount	Effective Tax Rate (Gross income)	Amount	Effective Tax Rate (Gross income)
Income (Gross)	\$23,405.20		\$35,443.20	
Central Government - Income Tax	\$3,115.91	13.31%	\$4,227.60	11.93%
Local Government - Land Tax (Property Rates ⁵)	\$2,514	10.74%	\$2,514	7.09%
Rates Rebate Scheme ⁶	\$620	-2.65%	\$620	-1.75%
Total Income and Property Tax	\$5,009.91	21.41%	\$6,121.60	17.27%

In considering ways to mitigate the adverse impact of land taxes on land owners, the Victoria University Tax Working Group identified three options: the deferment of taxes until the sale of the property or death; reducing the burden of a land tax on extensive land intensive activities; and the ability to offset land taxes against other taxes⁷. Local authorities have already implemented the first two options in various ways, however, the third option requires central government action.

³ Victoria University of Wellington Tax Working Group. (2010) A tax system for New Zealand's Future. Retrieved from <https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/pdf/tax-report-website.pdf>

⁴ Based on 2013 census, superannuitants have a higher proportion of home ownership (76%) compared to the wider population (50%).

⁵ Based on 'average' property rates for Whanganui District contained within the 2017/18 Annual Plan and excludes regional property rates.

⁶ Rates rebate applies to total local body rates which includes territorial and regional council property rates.

⁷ pg 45, Victoria University of Wellington Tax Working Group. (2010) A tax system for New Zealand's Future. Retrieved from <https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/pdf/tax-report-website.pdf>

Council recommends that the tax working group consider the implementation of the Victoria University Tax Working Group to allow local authority land taxes to be off-set against other forms of tax liabilities.

These could initially be trialled to target low income households and replace the existing rates rebate scheme. This would effectively maintain the total level of taxation for both central and local government at the level set by central government.

Fiscal adequacy for Local Government

Council considers that the inclusion of the funding of local government through property tax in the Tax Working Group's work programme would allow further discussion around alternative or supplementary funding of local government activities through a portion of central government income tax, GST, or bespoke levies such as a regional fuel tax or visitor tax.

A discussion on land tax would have allowed a discussion on the non-rateable land contained in Schedule 1 Part 1 of the Act and land partially exempt from rates contained in Part 2. Council considers that the exemption from rates for Crown land should be discussed, as while the principle of a subsidiary body not being able to tax a higher body is long-standing and accepted, this can and does create anomalies for territorial authorities with a significant percentage of Crown land holdings within their boundaries. Council suggests this could be addressed by employing a "PILOT" scheme (Payment In Lieu of Taxes) which operates in Canada and the United States. Under these PILOT schemes the federal government makes payments in lieu of taxes to local governmental entities where the federal government owns land or buildings and this reflects the overlying federal-state-municipal stratifications of government. It is Council's understanding that within New Zealand a version of a PILOT scheme operated until as late as the 1960s.

Other matters

As part of the wider consideration of local government taxes, and the adequacy of funding for local authorities, the Tax Working Group should also consider:

- A higher hypothecated tax for logging trucks and other vehicles which have a disproportionate impact on local council roads over short periods of time;
- The inclusion of volumetric charging for wastewater as a local authority rate in the same way that volumetric charging for potable water is provided for to ensure greater consistency of the application of local taxation; and
- Changes to the rates rebate scheme to increase the maximum quantum of rate rebate available to low income property owners and to align the annual increase of the rates rebate to the rise in local authority costs⁸.
- The imposition of GST on property rates which is a good and services tax on a land tax.
- Allowing the cost of strengthening heritage buildings be to be treated as an expense in the year in which it occurred but with the deduction being ring fenced against rental income.

⁸ Average increases in Council's Index of Costs of the last 10 years has been 2.32% (Berl) which is higher than the general rate of CPI increases of 1.87% (Stats NZ).

Conclusion

Overall Council supports the work of the Tax Working Group and the wider taxation principles. However, Council considers that an opportunity has been missed not to include local government land tax to achieve a comprehensive examination of New Zealand's tax system and recommends that local authority property rates be considered as part of the discussion on land taxes.

Council appreciates the opportunity to provide feedback and would welcome appearing before the tax working group and being part of any ongoing discussion.

Yours sincerely,

[1]

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