Tax Working Group Public Submissions Information Release

Release Document

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

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

Rob Howey [TSY]

From: Ernest Duval [1]
Sent: Friday, 27 April 2018 12:43 PM
To: TWG Submissions
Subject: Submission to Tax Working Group
Attachments: Settlement Summary.xlsx

Dated 27th April 2018

The Tax Working Group.

<u>Taxing Charities on Retained Earnings</u>

Dear sir/Madam,

The focus of my submission is on what I describe as 'Corporate Charities' Those charities that function as quasi corporate entities and enjoy tax free status to enable them to grow and expand due to not having to pay 28% corporate tax on profits. That is $280,000 of tax revenue on each $1m of profit made.. Our research is not complete but will continue to include non Iwi based Corporate Charities to ascertain the current asset values , the rates of growth and the revenue loss through non contribution of tax.

The tax free status of iwi has been granted in perpetuity and based on our initial research on growth rates , the asset base is expanding at faster than the economy is growing. Iwi have an advantage over other commercial operators because of this benefit. This extends to establishing a business because they can undercut and still be profitable. In the longer term this is undesirable for the NZ economy especially as growth rates are considerably higher than other business who are restrained by tax.

Iwi and other corporate Charities use infrastructure for free that has ben paid for over the years by wage and salary earners and corporates who continue to do. Our first world infrastructure is a result of all New Zealanders paying their fair share over the years. When corporate Iwi expand or take over previously tax paying businesses they diminish the tax base by converting them from taxpayers to tax takers . For example Ngai Tahu's purchase of a large share in Hilton Haulage Ltd which was previously contributing tax to the economy but is no longer. This loss of revenue must be made up by others. This is unfair on New Zealanders. The perpetual tax free status will become a burden to our economy by eroding greater amounts of revenue from areas where it is needed most such as health, education, welfare, defence, infrastructure, investment etc.

As a small country competing for its place in the world we face profound challenges , not the least of which will be major threats to traditional economic models of primary production and manufacturing. As the world transitions to a greener, more cyclical economy with high levels of technology and automation replacing millions of jobs, we will need everyone and every entity to be contributing to the national coffers. Our research to date has not investigated the revenue loss from multi nationals underpaying tax within New Zealand . Nor have we considered the implications of a tax free status on future law changes. For example, if a capital gains tax is introduced does this mean Iwi and other charities are exempt? Are they exempt from all taxes, Road user charges, GST, capital gains, income tax, sales tax, rates customs duty etc. All of these taxes fuel the economy so why should such a large group not pay its share yet enjoy the benefits?

I fully accept the need for redress with treaty settlements to put to rest historic injustices but we must move on as one nation and one system. I also accept that Iwi provide an important role in providing assistance and charitable objects for iwi members. I am not suggesting that tax be paid by Iwi on income that is distributed for charitable objects **<u>bu</u>**t that tax is paid in some form on retained earnings .

The difficulty posed by a retrospective revision of the deeds of settlement will be the removal of an eternal tax free benefit to be replaced by something which is perceived as less desirable by Iwi. The problem will only grow if not addressed because Iwi assets are growing at a faster rate . Our future research will focus on current revenue loss , current asset base values and future projected asset values and future revenue loss to New Zealand. The current settlement amount is over NZ$4Billion and growing, this is not the current asset value but the amount paid out by tax payers . The income off this is yet to be researched as will be the distributed and retained earnings. We will also focus on non Iwi based Charities, who in many cases are functioning as corporates behind the 'tax free' veil. For example Sanitarium health Foods and numerous others.

We live in a changing world and as New Zealanders we must look after ourselves and support future generations, all must contribute regardless of being an individual , an Iwi or a multi national. It's the fair thing to do and that's the New Zealand way.

Thank you.

Ernest Duval.
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