Tax Working Group Public Submissions Information Release

Release Document

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Tax Working Group Submission

Equity

Income Splitting

- The Government treats the family or couple as the relevant unit for assessing eligibility for transfer payments such as National Superannuation, unemployment and other benefits.
- For personal income tax, the relevant basis of assessment is the individual. This means that two families/couples with the same income can face significantly different tax bills.
- I earn $140,000 and my wife earns $30,000. We pay significantly more tax than a family/couple where each partner earns $85,000.
- In our case we made a conscious choice that my wife should not work and later only work part-time so that one of us could be more involved in our children's development. We chose to get involved in Playcentre, a parent co-operative early child education body where parents train in early childhood education and run the programmes – the funding discrimination compared to kindergartens or ECE centres that pay their staff is a different issue.
- There is significant research that supports the assessment that parental involvement in child development has significant benefits and enhances achievement and therefore the child's contribution to society.
- I believe the family/couple was the basis in the past and that this should be restored as the current situation is contrary to the principle of equity in taxation and transfer policy. The family/couple should be the basis for assessment for both.

Transparency

"Bracket Creep"

- Tax brackets should be indexed, probably to wage indices not CPI, so the Government is not able to increase the average tax rate people pay by stealth.
- This would remove the need for periodic, much-debated "tax cuts" which only serve to return the situation to what it was before people moved up the marginal tax rates due to wage inflation.

Savings

Real Returns

- With low interest rates (relative to 1980s-2008) expected to continue for some time the effect of the top personal tax rate on a return of say 3.5% is very significant.
- A component of any interest rate is compensation for inflation on the capital amount, separate for the return for allowing the other party use of the funds for a period. Only the real return should be taxed.

Superannuation

- The current TTE regime on superannuation reduces the benefits of compounding on long-term savings.
- Moving to an EET regime would improve returns to savings. This would help improve the attractiveness of investing in things other than residential housing which would have benefits for our capital markets even if National

Superannuation is not means tested and increased savings do not reduce the cost of this.
- Any taxation of withdrawals from superannuation should differentiate between capital and earnings as it is not fair to tax people on their own money (assuming that capital contributed is from income which is taxed rather than being tax deductible).

Residential Investment Property

- There is wide agreement that New Zealand has too much invested in residential investment property and there are a number of reasons for this.
- The main reason is the ability to gear an investment significantly – up to 80% until the LVR restrictions. Regardless of the favourable tax treatments this meant that the returns on a 20% equity investment were much higher than investment in managed funds or direct equities which cannot be geared (at least not for the average tax payer).
- Adding in interest deductibility not available on owner-occupied housing, ability to offset tax losses against other personal income and the fiction that people do not invest in residential investment property for the tax free capital gain (whether they own it for 2 years or 20 years) – yeah right!!! – and it is no wonder we are over-invested in residential property, our banking sector is completely dependent on this asset class, and our foreign debt is overwhelmingly funding this.
- The tax system won't end the benefits of leverage but it can address the fiction that people invest in residential property for the income during the life of the investment, rather than the tax benefits and tax-free capital gain.
- New look through structures for residential investment property should be ended with existing entities grandfathered in recognition that many MP's have significant residential property investment and are not going to vote their own benefits away, although fear of a resulting reduction in house prices might influence their voting decisions.

Capital Gains Tax

- It is clear to me that historically farming and property investment have been largely for tax free capital gains rather than an acceptable return during the time the asset is held.
- Rather than a capital gains tax to address this The Opportunity Party proposed a tax assessed on all assets on the basis of a minimum deemed income, with the tax on this minimum income being offset against the actual income so that those achieving a higher return will pay no more than at present but those earning no or low returns (because they are investing for the tax free capital gain on sale) will pay more.
- This asset tax would improve resource allocation away from non-productive assets such as land banks into productive uses.
- This is in effect a wealth tax and there is growing concern about both income and wealth inequality, with the latter more of an issue.
- The potential changes in work (technology, gigs, etc.) on top of the significant shift in the balance of power (and therefore share of GDP) between labour and capital poses a major threat to the current tax base which is over dependent on personal, consumption and company tax. In a worst case scenario of mass job destruction and unemployment the average tax payer will have lower or no income so won't be spending (so not paying GST) and many of our companies could go out of business.
- The TOP policy included owner-occupied housing in this tax but this may not be possible given the Government instruction that owner occupied housing is not within the scope. This just means that the tax rate on other assets would have to be higher or the reduction in other taxes lower.

- The TOP policy also included a Universal Basic Income which I understand is outside the scope of the Working Group.
- I am sure the members of the Working Group have all read Gareth Morgan's "The Big Kahuna" which goes back to first principles and looks at the philosophical basis for redistribution of income and wealth and the ad hoc evolution of the New Zealand tax system, as well as his proposed solutions to the problems he identifies in the current system. I commend it to those of you who haven't read it.

Tax Base – broad based, low rate

- The description of the current tax base as "broad based" is only partly accurate in that there are few exemptions or deductions.
- The current system is not broad based in that it excludes wealth which is the major source of inequality over time – income, education, housing, and therefore ability to contribute to society and the current tax base.
- The focus on personal income, consumption and company tax is a soft option in that these are all relatively easy to measure and collect with PAYE, transaction data and company accounts.
- Taxing wealth will be more challenging but doing so will be vital for social cohesion and prosperity in future.
- GST should continue to be charged on the current basis with no exemptions or lower rates for fresh food, etc. The other changes I support should lower average tax for lower income earners which would be a better way of countering the regressive effect of GST.
- I recall GST was increased to 15% in the wake of either or both the GFC and the Christchurch earthquake and the effect on Government finances but like most tax increases in response to a short-term issue this was never reversed once the problem had been addressed.

Currency Transaction Tax

- The submissions background paper refers to the New Zealand dollar being one of the most traded currencies in the world, out of proportion to our GDP and trade flows.
- Most of this trading is speculative by parties with no underlying need for NZD, most of them offshore.
- A tax on currency transactions would raise revenue but also presumably change the economics of this trading and so reduce the volumes traded and the effect of this trade which is not related to the real economy on that real economy and financial conditions (as taken into account in setting monetary and fiscal policy).

Taxing "Bads"

- Taxes to influence environmental outcomes should be introduced:
  - Pollution taxes
  - Agriculture included in Emissions Trading Scheme
  - Royalties on water (urban households pay water rates)

Summary

New Zealand and the world are at an inflexion point where we cannot continue with tinkering around the edges and the Working Group has the opportunity to be a key part of raising awareness of the issues facing us all, many of them outlined in the Submission Background Paper, and also in Colin James' 2017 book "Unquiet Times".

The last time we faced such an inflexion point was 1984 when the socio-economic model that had prevailed since WWII broke down and was replaced by the Friedmanite neo-liberal, monetarist orthodoxy, in New Zealand with "Rogernomics" and "Ruthanasia".

The gross mishandling of this transition, the failure to deliver on the promise of "a rising tide lifting all boats" or "trickle down", and the failure to take society through this change has resulted in the legacy of inequality and reduced social cohesion.

The challenges we face are much bigger than many people realise, and bigger than the previous Government was willing to admit.

You have an opportunity to grasp these challenges and propose bold solutions, and to build understanding and consensus.

I encourage you to have the courage to be bold, to think big and broadly, and to not shy away from the challenge. Tinkering around the edges will not get us through.