

Tax Working Group Public Submissions Information Release

Release Document

September 2018

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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.

To the Tax Working Group,

I am writing to outline my perspective on the current tax system along with my recommendations for change.

Background

It is my opinion that the biggest challenges facing New Zealand are income and wealth inequality. Since the 1980s, the incomes of the highest 1% of the population have doubled, while the lowest 10% have barely experienced any wage growth over the same period [1]. Over the same period, personal and company income tax rates have been reduced [2], which in part has fuelled the rising inequality that we see today. Ongoing developments in digitisation and automation pose a threat where wages are further suppressed [3], and a very small group of individuals derive enormous wealth by harnessing new technologies [4]. Rising inequality threatens the wellbeing of New Zealanders. Thus, it is imperative that the current level of inequality is reduced.

Another important challenge is the distortion induced by the failure of markets to account for negative externalities. Noteworthy examples include the consumption of fossil fuels, unhealthy food, and gambling. Each of these items has a significant level of associated harm, yet consumers and vendors are not always liable for payment of these costs. An excellent example of including negative externalities is the tax on tobacco [5, 6], where the revenue derived may cover the costs incurred by those afflicted by tobacco smoking. More work needs to be done to account for negative externalities in other areas.

Finally, I believe our tax system is unfairly geared towards religious organisations. A registered charity must meet the definition of “charitable purpose”, which includes “the advancement of religion” [7]. This definition is inappropriate considering that some religious groups are responsible for social harms, such as the marginalisation of minority groups, and using tithes to fund the lavish lifestyles of church leaders. The tax system’s favouritism towards religious groups is incompatible with the egalitarian values of an increasingly secular New Zealand.

Given these challenges, how can the tax system be changed to prepare New Zealand for the future?

My recommendations are as follow:

1). **Introduction of additional income brackets with higher marginal rates.** This policy will curb the rapid rise in inequality that New Zealand has experienced during the past 35 years. It serves to counteract the increasingly absurd occurrences of CEOs receiving exorbitant salaries and unjustifiable bonuses. I believe that there is also scope to reduce the marginal rates on lower income brackets to increase the take-home pay of low income New Zealanders.

2). **Introduction of a 100% inheritance tax on all inheritances above \$500,000.** Intergenerational wealth transfer is deeply unmeritocratic and only serves to entrench inequality. An Inheritance tax enhances social mobility and improves outcomes for New Zealanders on low incomes. A distinction should be made between middle income inheritors and heirs to multimillion dollar fortunes, hence the provision of the \$500,000 threshold.

Regrettably, the Tax Working Group has defined income tax rises and inheritance taxes as beyond its scope. However, I see my recommendations as instrumental in returning inequality to a tolerable, pre-1980s level.

3). **A carbon tax on the sale of all non-renewable fuels.** Fossil fuels currently enjoy an unfair cost advantage relative to clean energy technology since the negative environmental impacts are not

included in the retail price. The government is well-placed to impose these costs on consumers and by doing so will accelerate the transition away from fossil fuels to clean technology. Advancing clean technology is vital for humanity to avoid the worst effects of climate change.

4). **Remove “the advancement of religion” from the definition of charitable purpose by amending the Charities Act (2005).** Advancing religion is not compatible with the more widely understood definition of charity (i.e. good deeds). Removing this definition would also remove a loophole by which corporations may avoid paying tax on their profits, and by doing so gain an undue advantage over their competitors [8].

I would like to extend my thanks to the Tax Working Group for inviting New Zealanders to offer contributions towards reforming the tax system. The successful operation of our tax system is vital if we are to resolve the mounting challenges that the world faces.

References

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