Tax Working Group
Te Awheawhe Tāke

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TAX WORKING GROUP - SUBMISSION

Michael Rutland [1]

Thank you for giving me the opportunity to make a submission to the Tax Working Group (TWG). I propose to answer the specific questions posed at the end of the *Submissions Background Paper* about our taxation system and try to include some personal comments in the appropriate sections.

Chapter 2: The future environment

Comment => Before putting together my response to this section, I would like to comment on a couple of issues that are potential causes for confusion. The first is that the NZ integration of the welfare system with the tax system makes it difficult to be sure whether the aspects being considered are solely about tax/government income, or about the combined tax and government welfare payments. My comments are based on using the latter (Tax + welfare). One aspect of this issue is that if one assumes that the government welfare payments are part of the tax system, then the considerations below will include all of government income but only part of government expenditure – messy! Another is that several of the issues below have aspects that are outside the usual area of taxation, and one or two are very poorly related to taxation. But when the TWG asks for feedback about the impact of the tax system on a particular situation, the responses it gets are likely to be focussed solely on the taxation aspect of those issues. This risks asking for biased responses and getting them. Finally, the TWG seems to be asking solely about taxation by central government, but a considerable amount of tax is also levied by local governments. When local government used its money solely for the management of local resources and services that could be regarded as a reasonable exclusion, but there has been a recent trend for local governments to tax and spend in 'social' aspects of their communities, and as that overlaps with central government functions it would seem appropriate for the TWG to now include local government revenue raising in their inquiry.

What do you see as the main risks, challenges, and opportunities for the tax system over the medium-to long-term? **=> Firstly congratulations** for concentrating on the medium to long term. Looking back I am strongly of the opinion that the tax changes which have caused the most problems in the NZ economy were those that were hastily introduced as short term response to long-term problems, or taxes that should have been introduced but never were. **Secondly**, our current taxation system is almost entirely related to turnover (income, production and sales), and so in terms of risks and challenges these are the **same for taxation and the economy as a whole**. As a result, one of the risks to the economy/tax system is the tax system itself. If taxation damages the economy, then the long-term tax take will suffer.

Opportunities are very few. There have been lots of possible tax increases mentioned in the media and community, nearly all of which are aimed at stripping more money out of the existing contributors, and all of which are likely to cause long term damage to the economy and the tax-base. It is the nature of taxation to only be applied to the successful, but the more taxation is applied, the smaller the proportion of the population that are able to achieve success. New Zealand now has a relatively small proportion of the population contributing most of the tax, and we are now bordering on the point that further taxation of this group will be counterproductive. It is interesting to note that in the USA there are calls for a 'flat-tax' system, as the wealthy are regarded as failing to pay their share of the tax. In NZ there is opposition to the concept of flat rate taxes, or increases in taxes that have flat rates.

Risks and challenges to the tax base can be predicted from past performance. We now live in a global economy, and as a very small part (0.3%) of it we have very little influence and end up trying to adapt and exist within a framework that the major players set up, usually to their own advantage. The current concentration of wealth and income worldwide is occurring with the approval and compliance of the major economies. There is little point giving this process our verbal support or criticism, and even less in ignoring the situation or even heading off in a different direction and believing that we can persuade the rest of the world to come around to our way of thinking. So we need to adapt our actions (including our tax system) to operate within this environment. It is worthwhile recognising that Eastern Europe and China (which represent ?(19)% of world GDP) have changed from Communist/Command economies to Capitalist/Free-Market economies and that Western Europe, North America and India (approx. 50% of world GDP) have been operating capitalist economies for centuries.

Important Groups – I would like to suggest that in terms of taxation, there are essentially four groups that are relevant to the NZ tax system. ***(1) Dependents*** – individuals and households that are net beneficiaries of the taxation system, and who rely on the state for some or all of their costs of daily living. This group have a considerable number of advocates, usually lobbying for greater benefits, but I believe their most important need is for sustainability. They cannot afford the state to run short of money. ***(2) Workers*** – individuals and households that are in paid employment and who are mostly contributing to the government's tax income, but who do not have enough saved wealth for any investment income. This is the usual state for most of us in the first decade or two of our productive life, and even longer for those whose incomes remains low. This group make relatively minor contributions to the government's income but the ***work*** they do is vital to the current functioning of the economy, and it is from this group that new members of the third group will come. I believe that it is particularly important to our future that paths remain open for savers from this group to evolve into savers and investors, and one of the most positive actions of previous governments in this respect was the initiation of **Kiwisaver.** ***(3) The Taxable Rich*** – are a mixture of individuals and home-based companies that have more than enough for simple survival, and have saved/invested their surplus. They have or use investments that create wealth, jobs and production. The majority in NZ are people who have been long term savers and are now well on in their careers or even retired. This is the group that is making the major contribution to government tax income, and in a somewhat bizarre reversal of logic, it is the group that receives the most public criticism! This group is not only the major tax contributor, but relatively immobile and individually weak. By necessity they have to live and work within the financial and tax structures set up by the NZ government. However, as a group, the wealth that they own is the one aspect of the economy that prevents New Zealand assets falling into the hands of offshore interests and the group 4 entities. ***(4) The Super-rich and Multinational Corporations*** control huge amounts of the worldwide wealth and income, and are highly mobile. They are not a new phenomenon. The Medici family was enormously rich and powerful during the renaissance; The British East India Company was virtually a law unto itself; Cecil Rhodes controlled huge amounts of the southern African economy; Aristotle Onassis owned a significant proportion of the world's shipping at a time when sea trade was highly profitable. The financial strength and the mobility that these individuals and corporations possess gives them the tools they need to bend governments and the rules to their advantage or to move to more advantageous regions of the world. Although the *Submission Background Paper* indicates that Countries are now working together to get some tax out of these entities, the fact remains that they have gamed the tax system for decades whilst everyone else has had to pay tax, and whilst home-based businesses and entrepreneurs have had to compete against corporations with huge resources and a minimal tax bill.

So what of specific threats and opportunities to the tax system and economy? A few suggestions follow below:-

Job Losses – Paid employment in the OECD is under pressure from two main sources, namely competition from low-paid workers in developing economies, and automation. Job losses will reduce the government's income from income tax, and if the jobs move offshore, then there will be an additional loss of company tax. Artificial Intelligence (AI) is likely to be the next step in this process. This process is likely to continue into the foreseeable future, but it can be mitigated. If NZ investors still own a share of the companies that are producing goods (both here and overseas), then at least the profits will remain in or come back to NZ, and tax will be generated from those profits. One of the effects of job losses is that production has never been less dependent on labour and more dependent on capital. If we lose both jobs and capital we are all going to end up poor. In this situation, large scale immigration will be a threat to the future economy. Expanding the population when there is likely to be a shortage of available jobs in the future will do little for government finances.

The Concentration of Wealth - Capital and Capitalism are on the rise around the world, and virtually all of the new wealth is in the hands of a small number of individuals and/or companies, many of which have only been operating for a relatively short time. The individuals are rich enough to avoid personal taxes by not being tax-residents of any Countries, or by hiding their wealth. I note that for all the criticism of tax shelters in the Caribbean and central America, Britain still maintains the 'confidential' status of capital based nominally in the Channel Islands. The mega-corporations are still able to negotiate tax credits for investing in many areas of the world. I understand that when the Tesla Corporation was negotiating with various US states as to where it would build its new battery factory, tax credits worth Billions of US dollars were being offered. There are two main problems when these entities pay less tax than everyone else. The first is that a greater tax burden falls on those individuals that do pay tax and the second is that competition becomes weighted in favour of those corporations and individuals who pay least tax. The rise of capital around the world is not a process that NZ can alter, and so we are in the position of working within a system that others control. If the NZ tax base is to be protected, then NZ investors need to encouraged, and not eliminated.

Good or bad? If we put aside the capacity for concentrated wealth to avoid or minimise taxation, the question remains as to whether such concentrations are good for the economy, bad or irrelevant. There is certainly a great deal of criticism by the public, the media, economists and governments. I believe that, these groups are so determined to criticise concentrated wealth that its positive features have been deliberately ignored. Concentrated wealth has been at the forefront of development and progress for the past 50 years. Equally important is that it keeps a significant part of the global wealth and power out of the hands of governments. Governments have a uniformly bad record of managing wealth. Virtually all democratic governments are in debt, with much of their spending being for consumption. So it is reasonable to believe that concentrated wealth is the main driver for progress, and our taxation choices may well determine whether New Zealanders are part of the process or simply consumers of other peoples' developments.

The Changing Nature of Capital – We are all used to thinking of capital in terms of items that undergo little or no change, like land and buildings, most of which are relatively immobile. However, the growth of capital has recently been about more transient items like machinery and more mobile items like intellectual property. These items degrade over relatively short periods of time, and may require increasing amounts of money to maintain or replace their value. Recent economic reports on National capital indicates that in developed Countries the amount of money spent simply maintaining capital (at a constant fraction of GDP) is 3-5% of GDP for government assets (like roads and structures), and 18% of GDP for privately owned capital items. Why is this relevant? It is because it demonstrates a need to keep injecting more capital just to stay in the same position and implies that any actions that degrade confidence in the value of 'new capital' places the future economy at risk.

Human Nature - Envy – Many years ago Margaret Thatcher spoke about the 'Politics of Envy' and its negative impact on society when individuals expend their time and energy pulling others down rather than building themselves up. One of the main mechanisms through which envy operates in developed economies is through the tax system. In the past, left wing governments were voted in with an agenda of taxing wealth off those who hold it. This occurred in post-war Britain, and although it was successful in taxing wealth off many with historical holdings, the money was spent on government consumption and it delivered no long term benefits to the economy as a whole. The British economy was already dominated by industrial production and heading in the direction of increasing intellectual property. Chucking a few nobles off their historical holdings was almost irrelevant in terms of money, but it is interesting to note where the assets ended up. A few ended up with the National Trust and became public assets, albeit ones that often required public donations or government subsidies for their maintenance. The government itself spent the money, and the majority of the assets taxed off the historical holders ended up owned by the 'New Rich', some of whom were foreign nationals or offshore companies.

The current groundswell in New Zealand of antagonism against those perceived to be wealthy ignores several important features of their contributions to the economy and the government coffers. Firstly, the *Submissions Background Document* itself shows that the top 10% of earners pay 35% of the income tax. If this group have their wealth taxed off them, then everyone else will need to pay considerably more tax or accept much lower government services. I note that comments about GST always refer to the proportion of their income on which the lower paid are levied GST, as this is the one figure that creates sympathy for the poor. Several other features about GST are conveniently ignored as they create less such sympathy:- (1) Every increase in GST in NZ was associated with a compensatory increase in welfare payments. (2) The total amount of GST paid by higher wage earners is still much larger than the total amount paid by the poor. (3) The rich pay a great deal more income tax. It is common to point out that when the rich invest/save some of their earnings, that reduces their GST contribution, whilst conveniently ignoring the fact that when their income is taxed at 33%, there is only 67% for spending and contributing to GST. Unless they save more than half of their post-tax income, income tax causes an even greater reduction in the GST paid by the rich than their savings.

Company Tax is probably where the rich make their largest relative contribution to both the economy and the government tax-take. Once again there is a great deal of publicity about the concentration of wealth in the top 20% of earners/owners, but near silence about the fact that the shares held by these individuals account for most of the company tax paid to the NZ government and underpin most of the productive jobs in the country. Neither the lower paid, nor the government itself have shown any ability in saving money/capital, and so the only way to keep capital and ownership of industry in this country is to leave it in the hands of the 20% of savers. The one bright exception to the previous comment is the development of Kiwisaver which is providing a much-needed pathway for all New Zealanders to start saving.

Competition & Protectionism – These two features go hand-in hand. 35 years ago when the NZ economy was opened up to international competition, the motivation was partly a belief in the economic value of open trade, and partly pressure from other countries that were justifying their protectionism against NZ exports on the basis that the NZ government had been subsidising the rural aspects of the economy. The fact that most of the nations placing (or threatening to place) high tariffs on imports from NZ were themselves subsidising their own food production, often to a greater degree, is an important indication that we were (and still are) living in an unfair world. When I started writing this submission there was a great deal of talk about protectionism, and by the time I was half-way through, America and China were actively involved in the opening clashes of a trade war. NZ is already involved, and even though it is working its concerns (about China dumping steel) through the agreed channels, we may yet see retaliation against those items we export to China. There is an additional aspect to competition, namely that many of our businesses are competing against offshore companies that pay low wages and have low safety and compliance costs.

Food Manufacture – A great deal of New Zealand's economy and export income is related to farming, and producing food at the expensive end of the food market. There is now a new process of food production, namely the production of carbohydrates, fats and proteins by yeasts (often genetically modified yeasts) and by cell cultures; and the subsequent conversion of those basic foodstuffs into forms that are nutritious, tasty and ***cheap***. These 'manufactured' foods have two important advantages, the first being cost and the second is their endorsement by a growing vegetarian and vegan movement. It is likely that the NZ Agricultural Industry will be facing increasing competition from manufactured foods. Of course, this process might also offer ***opportunities***, if there are New Zealanders who are willing and able to invest in these new food production processes

Fresh Water – The quantity and quality of water worldwide is a matter of considerable concern, and the world is already seeing Countries preparing to enforce their claims to rivers that flow through several Countries. New Zealand has had the luxury of plentiful high-quality water supplies, but some would argue that those supplies are now under threat by a failure to protect them. In an odd way, the failure to tax fresh water resources sends a message that they have no value, which encourages poor management. It is all very well to regard water access as a 'right' for all citizens, but we should also remember that the usual fate of a common resource is to be exploited to destruction.

Resources/Recycling/Waste disposal – This is an aspect of the economy that contains both threats and opportunities. We have recently been using and disposing of materials wastefully. In many ways this requires a change in the way we think and value the environment, but changing the way people think is often more successful when poor practices cost money and good practices are rewarded. The taxation system probably has a role to play in persuading the nation to use materials less wastefully and recycle whenever practical.

Globalisation – Globalisation represents a combination of opportunities and threats, however, recent history indicates that in developed Countries, globalisation has been a particular threat to tax systems. Globalisation has increased the number of opportunities for individuals and companies to evade taxation in some Countries, and either avoid taxation or transfer their tax liabilities to low-tax Countries. These opportunities for both tax avoidance and tax evasion are primarily available to companies and individuals with contacts in more than one Country. If our own producers are to compete on an equal footing, then we need a tax system that minimises the opportunities for tax avoidance and evasion of this nature. As was finishing this article, I noticed that there was a bid in place for a large Phillipines Corporation to take over Tegel Chicken. That would create the ideal circumstances to transfer the profits to another country and legitimately avoid paying any company tax in New Zealand.

Which of these are most important? **=> Difficult.** Do we place greater or lesser emphasis on medium term or long term issues? Looking back at past performance, it is clear that governments are not very good at 'picking winners'. So, logically, the government and tax system should encourage lots of new ideas and processes, and let those that are most valuable prove themselves. As regards threats and opportunities, the top of my list would be globalisation and the ability to transfer income to other locations.

How should the tax system change in response to the risks, challenges, and opportunities you have identified? **=> Stability** is what we need the tax system to deliver, as we don't know which of the predicted problems and opportunities will come to fruition; when that will happen and how large an impact there will be on the economy. However, it is clear that we are living at a time of rapid and significant changes to the national and world economies, and that the world population has reached a point at which environmental degradation and access to resources are becoming major issues. The front line of our response to these situations is our business community and the associated investors. Stability of taxation is important to the entrepreneurs trying to develop and respond to new opportunities. They are already taking several risks and the last thing they need is an additional risk of unknown or variable taxation.

As regards current forms of taxation, there is not a great deal of opportunity for change. ***GST*** is already somewhat high by OECD standards, and increases would be politically unpopular. However it does have positive features, in that whatever happens to the economy, there will always be consumers, and visitors pay the tax as well as residents. Consumption taxes will always deliver. The main problem with consumption taxes is their interaction with welfare payments. The GST from welfare payments is of no net benefit to the government so it is important to avoid either welfare or consumption taxes becoming too high a proportion of government activity. ***Company Tax*** is well up by OECD standards and we are in a world where 'race to the bottom' is becoming more of a reality than a slogan; ***Income tax*** take is now so concentrated in the upper two income deciles that further increases could well be counter-productive, with individuals diverting investments away from productive enterprises and into situations with lesser tax liabilities (as mentioned in the information document and as occurred when the Muldoon administration raised the top personal tax rate to 66%). The one positive feature of the NZ tax system is that the total tax take is not particularly high. So it seems likely that one of the best taxation responses to future changes will be doing nothing and trusting the citizens to respond to the challenges and opportunities.

How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system? **=> It can't**. Whilst it is pleasant to note the successes in the Maori economy, the reality is that it is still a small component of our small economy, and as such it is far more likely to be a follower than a leader. Specifically, the future tax system needs to fulfill the requirements of the major components of the economy. A cynical person could well look at the data in the background information document and conclude that future Maori involvement will be similar to current Maori involvement which is heavily weighted towards the 'government transfers' aspect of the tax system. One of the problems of the enterprise elements of the Maori economy is the lack of transparency. There are occasional articles in the press suggesting that Maori enterprises are treated differently by the government from the main economy, and it is difficult to assess the veracity of those articles because of a lack of reliable data.

Chapter 3: Purposes and principles of a good tax system.

Principles for assessment What principles would you use to assess the performance of the tax system? => Sustainability; Economic growth; Fairness? **=> Sustainability** is the most important. As we now have almost half the households in the country as net beneficiaries of the tax system, the single most important feature is to avoid anything that will have a negative impact on government income. ***Growth*** is also a necessity because the world economy is changing and growing, and we need to do the same just to maintain our current position. Fairness is far less important. There is no value in having the entire population equally poor. The most likely outcome of policies that tax the wealth off the rich is a permanent reduction in government income.

Defining 'fairness' How would you define 'fairness' in the context of the tax system? **=> Fairness means treating people the same**. The only truly fair tax systems are poll taxes and proportional taxes. In the context of a taxation system this implies ***flat rates, no thresholds and no exclusions***. I find the phrasing of the question troubling, particularly after reading the *Submissions Background Paper*. There is an implication that fairness in taxation is somehow different from fairness in the rest of life (and this smacks of 'newspeak'). When the *Submissions Background Paper* indicates that taxation should be related to peoples' ability to pay, I wonder how many other aspects of the law only expect compliance from those people who are able to obey the law? So it is important to recognise that there is an inherent unfairness in the taxation system that is biased against those with higher incomes. All that remains is to minimise the severity of that unfairness.

The concept of fairness/unfairness also needs to be considered in a wider context, namely inter-generationally and internationally. A tax system that fails to keep up with government spending will deliver a progressively increasing debt to future generations and is manifestly unfair to them. We are now in an increasingly global economic environment and our wealth generators (agriculture, industry and investors) are effectively in competition with other Countries, many of whom have shown their willingness and ability to distort their own taxation systems in ways that favour their citizens and disadvantage outsiders (ie us). A tax regime that fails to recognise advantages available to offshore competitors might have the *appearances* of fairness, but actually deliver unfair outcomes. Globalisation has provided opportunities for those individuals and companies with a presence in several Countries to choose where their profits will be taxed. The world is slowly dealing with illegal ways in which those opportunities are being exploited, but there are still plenty of legal opportunities for tax avoidance that are only available to multinational corporations and the mega-rich.

Fairness and Equity are not the same. I would recommend an article in the *New Scientist* (31 March 2018) that explores this disparity. It could well be important, as I suspect that many people use the two ideas as if they are the same, which has the potential to cause confusion. As an example, equity would imply paying workers the same, regardless of the number of hours worked, whilst fairness would pay the same hourly rate, delivering more to those that worked longer. Most of us prefer fairness to equity, and accept that as we are all individuals, fairness will naturally end up with inequity. When the state reduces inequity by making some individuals pay high tax rates whilst giving others money back with a negative tax rate, the mechanism is essentially an unfair one.

Equity is treated unfairly by the press, the government and the public. The past few years have seen a huge number of articles about inequity of income and wealth, and the arguments are concentrated on two aspects. Firstly they are all about ***inequity of income/receipts***. The *Submissions Background Paper* provides evidence of income inequality and uses the Gini Index as a numerical measure of that inequality. It demonstrates that Income Inequality has a Gini Index of 46 for pre-tax/welfare income, and this falls to 35 (less inequality) after tax/welfare payments. This reduction in inequality is described as being beneficial. What is totally ignored is inequality of contribution. I have used the data from the *Background Paper* to calculate a Gini Index for contributions to the income tax/welfare system. Before tax/welfare the inequality of contribution produces a Gini Index of 49; after tax/welfare the Gini Index for contributions inequity rises to 155. The reduction in the income Gini Factor is associated with a much greater increase in the contribution Gini Factor. If one were to consider both income and contribution, one might suspect that the total inequality has risen.

The second aspect concerns ***inequality of wealth***. This is treated as if it is bad for society. However, the majority of the productive jobs in the economy and nearly all of the company tax are related to private wealth investment, which is concentrated in the top 20% of NZ wealth owners and in offshore hands. There seems to be an assumption that redistributing this wealth would be beneficial to society, but a more likely prediction is that redistributing the wealth held by the top 20% of NZ wealth holders to the government and the remainder of the population would result in it being spent for consumption, and ending up owned wholly offshore. We already have a situation in which there is four times more offshore money invested in NZ than NZ money invested offshore, and should assume that profits are moving in the opposite direction and contributing to the balance of payments difficulties. The inequality of wealth distribution may be politically unpopular, but the wealth held by resident New Zealanders is one of the few factors preventing offshore domination of the NZ economy.

What would a fair tax system look like? **=> Flat Rates - No thresholds – no exclusions** (as per my comments earlier) and that should include a system that prevents offshore interests having advantages. Not long ago, the phrase 'Taxation should be applied where the profits are earned' appeared, and it is a good description for company tax.

Chapter 4: The current New Zealand tax system framework. New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. **=> Comment** The claim to be 'broad-based' certainly applies to GST which applies at the same rate to a wide range of items Company tax is a little more complicated. It is certainly applied more or less evenly to companies, but most of those companies are owned by the top 20% of earners. When one considers who is the effective taxpayer, then the somewhat small number of shareholders (as a proportion of the population) makes the claim to be 'broad-based' somewhat shaky. However, the claim to be broad-based falls down completely for the largest component of the tax system, namely income tax, in which a relatively narrow band of citizens (the top-earning 20%) pay most of the tax.

Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it? **=>** To quote a former Prime Minister "If it ain't broke, then don't fix it". The tone of the *Submissions Background Paper* seems to imply that NZ has a tax system that is working well and has less problems than taxation in many other counties, so why the section asking for changes? I would suggest firstly, that having extolled the virtues of a 'broad-based' taxation system, the country should work towards creating a system that is actually broad-based. This would entail reducing inequality in the income tax contributions, ie flat or flatter rates. In the short term, rather than changing the basis of the tax system, I believe the government should concentrate on ensuring that it is applied fairly. In particular, ensuring that offshore vendors and owners pay the appropriate amount of tax. To some extent, our current company tax regime does well in that respect, and I would urge the government to avoid joining the 'race to the bottom', which is currently led by Ireland and several small island nations off the French and American coasts. In the longer term, we should be prepared for worldwide changes. One thing that will remain constant is that there will always be consumers in NZ, and so consumption taxes (eg GST) will be reliable sources of government income and may need to increase if other taxation sources decline. Employment is becoming less secure, and so we need a system that is flexible. The current 'stand-down' period for welfare discourages the unemployed from seeking short-term employment, which needs to be addressed, as changes to employment legislation are currently driving employers towards fixed term contracts and favoring contractors over regular employees.

Taxes and behaviour. Should there be a greater role in the tax system for taxes that intentionally modify behaviour? **=> YES ...but** We need to be clear and transparent about whether the purpose of such taxation is to eliminate certain behaviors or to modify them.

If so, which behaviours and/or what type of taxes? **=> (1) Spending/Saving.** New Zealand needs savers. Taxation can either encourage savers or discourage spenders. I recommend **increasing GST** and **avoiding taxes on capital/savings** as a way of tilting the balance towards savers. I do not recommend reduced taxes for savings as it may well distort investment decisions. I strongly recommend increasing the contribution limits to **'Kiwisaver'**. Kiwisaver has proven its value. Particularly its ability to include those of us who are not natural savers. The long term benefits to the NZ economy will far outweigh the short term costs. **(2) Tobacco Consumption** is a major health problem for individuals and for society, and the current intention to tax it into extinction should be continued. **(3) Alcohol** also causes damage, but unlike tobacco it can be used positively by most of the population. I recommend increasing taxes on alcohol, but with the intention of reducing excessive or harmful use whilst leaving access to alcohol open to those in the community who can use it safely. This is a solution that will provide a tax income for the government on a sustainable basis. **(4) Fossil fuels** – I have no faith in the current carbon trading scheme which offers far too many advantages to those who are dishonest, and delivers relatively little to the government. It would be far preferable to have a carbon tax which would deliver income to the government and encourage the development of low-carbon energy sources. **(5) Sugar** consumption appears to be a health hazard that is almost as important as tobacco consumption (albeit without any secondary exposure). Logically, we should therefore consider taxation as a way to reduce sugar consumption. **(6) Plastics** are becoming recognised as a growing environmental hazard, almost like the solid equivalent of Carbon Dioxide. I am not sure whether the best management approach is regulatory or taxation, but the latter may well have a role to play. **(7) Waste Disposal** is intertwined with environmental protection. This is currently managed mainly by regulation, but a combination of regulation and taxation offer the possible combination of a 'carrot and a stick' approach.

Retirement savings Should the tax system encourage saving for retirement as a goal in its own right?

=> NO. The government should certainly encourage retirement savings, possibly even make it compulsory. BUT the tax system is not the best way as it risks distorting the investment aspect of the economy..

If so, what changes would you suggest to achieve this goal?

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? **=> Interesting, basically YES**, the current balance is satisfactory. There is a need to be clear on the meaning of 'speculative economy', especially as it is a term that evokes a great deal of public antagonism. Speculation in terms of the economy can range from investing in an item in the hope that its price will rise, to investing time, money and effort into a new process in the expectation that it will lead to new or improved production. The latter type of speculation has two important features, namely that it is the process that has led to nearly all the improvements in industry that we enjoy today, and secondly that whilst we enjoy the fruits of those ideas that were successful, we need to remember that there were also a large number of failures, probably 80% or more. If we wish this type of speculation to continue in NZ, then we need to allow the losses on failed speculations to be offset against other taxes. Furthermore, I would suggest that those losses be counted against any other taxes, as that would allow small players to participate.

If it does not, what would need to change to achieve a better balance? =>

Does the tax system do enough to minimise costs on business? **=>** Many of the problems businesses face are not about taxation, but are caused by other regulations. It is increasingly difficult to lay off workers who fail to contribute or even cause damage to a company's production or reputation. It is increasingly difficult for businesses to expand without objectors making the process uneconomic. I suspect that most businesses are more concerned about such difficulties that stop them making profits, than paying tax on those profits. There is one aspect in which taxation is important, namely offshore competition.

Does the tax system do enough to maintain natural capital? **=> YES,** but by doing almost nothing in this field. To a considerable extent, there is concern that future changes will have a negative impact on natural capital. If capital (cash/resources) taxes were introduced, then there would be pressure for owners of 'natural capital' to generate some or more income from their property in order to cover the taxes. Capital taxes encourage owners to aim for greater production from all their capital, including the 'natural capital'.

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? **=> YES** and most of them are overseas.

Chapter 6: Thinking outside the current system

What are the main inconsistencies in the current tax system? **=> Failure** to tax all imports; Failure to control local taxes.

Which of these inconsistencies are most important to address? **=> Untaxed Imports.**

Is there a case to consider the introduction of any new taxes that are not currently levied? **=> NO** Before introducing new taxes, we need to ensure that the existing ones are being properly applied (see above).

Should any taxes be reduced if new taxes are introduced? **=> YES**. The TWG is required to look at the distribution of taxation, but not the total tax take which is intended to remain at 30% of GDP for this government. I believe that there should be limits on the proportion of the economy/GDP that the government controls, and so if additional taxes are raised them some other taxes should be lowered (and vice versa). In general, I believe that consumption taxes (GST) should be raised and production taxes (Income and company) should be lowered.

PERSONAL COMMENTS => A feature of the tax/welfare system that has frequently come up for discussion in recent years is a ***Universal Basic Income*** (UBI) with the usual model being one in which the government pays all citizens a basic income, and income tax is applied with no threshold and at a uniform rate. The advantages are said to be economic, in the form of simple administration and removing the current welfare penalties for those who work intermittently. The current concerns are more 'social' in nature, with most of the public happy to pay for welfare to citizens who are unable to work due to age or illness, but not keen to pay for a life of idleness for those individuals that could work but choose not to contribute to society. It may well be that if jobs become scarcer in the future then public attitudes will change, but whilst NZ is importing laborers for jobs citizens are unwilling to do, support for a UBI is likely to remain low.

Having said that, the current NZ tax and welfare system comes quite close to a UBI in performance, with the main difference being the long 'stand-down' period that penalises the unemployed from taking up short term employment. In many ways, the NZ integration of income tax and welfare payments is actually closer to a UBI than many overseas trials that were based on a uniform guaranteed payment but only to unemployed individuals, and without including the general population and taxation changes. I note that Finland has recently trialled a scheme that is somewhat like UBI in part of that Country, and has decided not to expand their UBI until the results have been analysed (2019). It would seem prudent for NZ to wait for that (and any other) analysis. One of the difficulties of a UBI is that it changes the *appearances of the economy*, but not the reality. If the government hands out significant amounts of money to every citizen and then taxes much of it back again, it is mostly a paper exercise, and there has been no real change in production or consumption.

Chapter 7: Specific challenges Housing affordability

How, and to what extent, does the tax system affect housing affordability for owners and renters? **=> Taxation is not the primary problem**. The main problems with housing affordability are related to demand (and immigration), supply, and cheap credit (from quantitative easing). The only role taxation might have played in modifying affordability would have been to tax the inflow of cheap credit, but it is now too late and implementation would have been difficult. However, it may be worthwhile having a plan in place in case a further episode occurs. As regards the taxation differences between owners and renters, I believe that the current taxation regime is adequate. Owner-occupiers get minimal assistance in acquiring a capital asset and pay no taxes (to central government) for owning and occupying their house. The rental situation is different. It is a providing a service, and (like other services), taxes are levied on the profits. If housing were treated differently to other assets and businesses, the result would create distortions to the tax system that are undesirable, and which would almost certainly be exploited where possible. However, there is great potential for unfairness if capital taxes or CGT were applied to one type of house (rentals) and not to owner-occupied houses. I realise that taxing owner-occupied houses is unpopular politically, but introducing unfair taxes for political advantage is a bad way to go.

Local Taxes (Council Rates) are the one aspect of taxation that have a direct impact on housing costs, but seem to be ignored by the TWG, and indeed by the central government as a whole. So whilst the TWG is required to work within the limitations of no net increases in taxation, most councils have no such restrictions, and have been raising the local taxes much faster than inflation.

Stealth taxes also feature in housing costs. Government actions have recently transferred the costs of paying for the public service aspects of the fire services (formerly paid from taxation) onto the insurance premiums. This is not only a matter of hiding the tax contribution but it has a threshold that creates differential rates for owner-occupier homes and commercial property owners. If the government is calling for fairness in taxation, then the community should pay its share of the costs of emergency services.

Tax Credits are an aspect of taxation in which rental properties are treated differently from other industries. In most industries, all equipment is regarded as a business expense and profits are calculated after allowing for equipment replacement. In rental housing the IRD defines almost all equipment as 'capital' so that replacement has to be from post-tax income. This is an unfair definition and has a direct impact on rent costs.

Is there a case to change the tax system to promote greater housing affordability? **=> NO**, tax changes to manipulate housing affordability are more likely to distort the housing market in ways that increase complexity and inequity. They would also risk inducing compliance problems. Owner-occupier houses currently produce little tax, and as they are considered to be a 'social good', there is little to gain by changing their tax-status, other than to include them if any asset taxes were introduced. Rental accommodation is part of the productive economy and we are better off treating it in a similar way to the rest of the productive economy. Having said that, I note that the welfare system does regard accommodation as a special case, with specific welfare payments related to housing, and that the state also acts as a 'renter of last resort' at considerable cost to the taxpayer as it seems to end up with many tenants whose behavior has made them unacceptable to the commercial rental market.

If so, what changes would you recommend? **=> NONE.**

Capital gains tax Should New Zealand introduce a capital gains tax (that excludes the family home)?

=> NO. Firstly by excluding the family home, such a tax would not be broad-based, and excluding the family home would legitimise the process of taxing elements of capital gains differently. All our other major taxes (GST, income and company) have few or no exclusions, so excluding the family home would remove a huge proportion of the County's capital from the tax and indicate that this was an 'anti-rich' tax, rather than a tax that everyone pays. Secondly it sends a signal that the government disapproves of people being wealthy. Thirdly, for commercial properties (including residential rental properties) the buildings themselves represent the means of production. I believe we should be taxing production and consumption, but not the means of production.

In one sense, NZ already has a capital gains tax for those situations in which work and money is put into a project with the intention of increasing its value prior to sale or re-sale. But the current concept of a capital gains tax (CGT) implies taxing any increase in the value of an asset. Nearly all of these gains are related to external events and are not under the control of the owner(s). **Inflation** is one of the most important drivers for increasing capital values, and nearly all inflation is due to government overspending. For this component of CGT the tax would end up rewarding the government for a poor economic performance. The greater the government deficit, the higher the inflation rate and the more CGT it gets. In the worst case examples (like Zimbabwe), the combination of CGT and hyperinflation would effectively end up with the government having taxed all private property off its owners. **Cheap Credit** has fuelled the recent rapid rise in house prices, and is a result of QE in the northern hemisphere. Once again, unrelated to the actions of property owners in NZ, but if there were a broad-based CGT in NZ then the actions of those northern hemisphere governments would have ended up increasing the tax burden on NZ property owners. **Economic destabilisation** is a likely consequence of both CGT and capital taxes. We already have a large amount of money tied up in housing and a somewhat smaller amount in productive enterprises. Capital and capital gains taxes will suppress the value of many capital items, causing financial difficulties to those who currently have very low equity levels. This is a process that would be made worse by excluding owner-occupied homes and only applying such taxes to productive enterprises like farms, shares and rental accommodation. Capital taxes and CGT are **anti-green**. When such taxes are applied, it becomes necessary to gain the maximum production possible from the capital items. For farming that means more intensive methods. For accommodation that means higher rents and/or smaller dwellings. For factories that means more pressure on the workers and/or less workers. We would end up with the IRD branch of the government creating taxation pressures on the environment, savers and workers whilst other branches of government are busy creating more regulations to try and protect the workers and environment. **Capital Losses** will create one of two significant problems. If capital losses can be claimed as a tax refund or credit, then the government itself is exposed to a significant risk to its income. In addition, it is likely that there would be growth in the 'capital loss industry', similar to the deer schemes of the 1980s. If capital losses are not allowed, then not only is the system itself inequitable, but its application will be inequitable, with small owners liable for the full tax whilst large companies can still gain tax relief by lumping their capital positive and negative projects together. Alternatively, if capital losses do not create tax credits, then the government is effectively taxing risk. Risk is necessary for growth. If the costs of risk are high then investment is weighted towards conservative projects and growth slows. The world economy is currently in a stage of rapid growth and being too conservative at this point in time would be a mistake.

If so, what features should it have? **=> ABSENCE** should be its primary feature.

Land tax Should New Zealand introduce a land tax (that excludes the land under the family home)? **=>**

NO. Capital taxes send a message that the government does not want people to be rich. Not only is that a very poor attitude, but as the NZ economy currently has relatively few home-based savers, it makes the economy dependent on overseas investors and creates a drain on the economy when the profits from offshore investors head back offshore. In addition, a land tax implies that this form of capital will be taxed, whilst other forms of capital will escape taxation. Finally, any capital tax is verging on double-taxation, as many assets are purchased with post-tax income, so levying a ‘possessions tax’ is very close to taxing the same item twice.

If so, what features should it have? **=> ABSENCE**, once again.

Environmental taxation What are the main opportunities for effective environmental taxation? **=> In general terms** those that are easiest, cheapest and impact on the most important environmental problems. It may also be worthwhile exploring the possibility of refunds/credits/negative taxes for processes like recycling that reduce the environmental impact of the items mentioned below.

Greenhouse Gasses should be top of the list. The current carbon credit scheme is a waste of time and effort, and almost universally abused. It should be abandoned and replaced with a tax on greenhouse gas emissions. It should also be applied to imports so that home-produced goods compete on an equal footing with imported goods.

Plastics especially those that currently have a single short-term use like bags, wrappings cups and packaging.

Waste water is a matter in which taxation is one aspect of governance. The starting point should be regulations about standards and maximum levels of contaminants. After that, taxation may be useful in motivating people and enterprises to modify the quantity, quality and form of disposal in ways that minimise harm to the environment.

Progressive company tax Should the tax system do more to support small businesses? **=> NO**, but eliminating unfair competition from less-taxed competitors would help all businesses. Small and start-up businesses are better encouraged with grants, rather than tax changes.

In particular, is there a case for a progressive company tax? **=> NO.**

GST exemptions for particular goods Should the tax system exclude some goods and services from GST? **=> NO**. One of the positive aspects of the NZ GST system is the uniform application.

If so, what should be excluded? **=> AS LITTLE AS POSSIBLE.**

What else should be taxed to make up for the lost revenue? **=> NOTHING**. But GST is one of the ‘fairest’ taxes that there is and if anything the GST rate should be increased to compensate for reduced tax income from other sources and as a general move to discourage spending and encourage saving.