

Tax Working Group Public Submissions Information Release

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A. Overview

The three major areas of Government annual expenditure are Health, Education and Welfare (HEW). When addressing Government revenue in the 21st century, the two key considerations must be to set parameters and goals of what the Government's function can and should be in a rapidly changing world and how optimally to best fill that role, then to equitably source the required enabling revenue, while growing the economy at the same time to facilitate as little anguish as possible on the populace at large, to supply that revenue.

My submissions deliberately focus on the cost (HEW) aspect also because these are inextricably linked and while dealing with them individually is often done, I do recognise the task of modernising the intricacies of all components of these three Ministries and their functioning is a monumental challenge. I believe that to be an absolute necessity, along with addressing "a 21st century economy" if this country seriously intends to stay remotely close to climbing back into the leading top 10 of nations, calculated on median income per capita.

At the same time, with the simple observation below that continuing the same old practices will bring the same old results that simply bring ever increasing dissatisfaction with Government service delivery performance. This correctly suggests it is well past time for some major changes, which falls on Government shoulders fairly and squarely to deliver on. Of course overnight changes are not always possible, but then we have seen major changes like those in 1986, with the introduction of GST and the many consequential changes that went with that major broadening of the tax base. The success of that has since seen many other countries adopt similar legislation.

Apart from the specifics mentioned above there is the question of what functions Government really needs to be part of in tomorrow's world, which a separate matter for investigation, regardless of any ideologies or populist mind set.

B. Social issues

Open and free speech to express real opinion is absolutely essential in anything remotely resembling what can be called a democratic society and I welcome that. This also includes open Government. I can all see (although some people need to actually open their eyes and look), that the status quo is not good enough in so many aspects of New Zealand society. NZ is not a large country and we have a relatively direct form of government, which allows for a reasonable level of citizenry input into our "political machine." I suggest that measuring our so-called progress against other countries is NOT secondary to just getting on with making "our place" a much better one. So who is not delivering and what are they not delivering? We can (and need to), do better, but will we?? A plan is essential with action to follow, all based on what the Government and country can afford. It will take time to implement.

Consider the following:

1. Child poverty stands at 14% - NZ is bottom of the developed world.
2. Homelessness-between 2006 and 2013, this grew by 25% and is now the worst in the developed world.
3. NZ has a teenage suicide rate that is more than double any other developed country.
4. NZ has the highest rate of teenage births- 233 out of every 1000 births.
5. We have the second highest rate of bullying in the OECD.
6. We have the worst levels of family violence in the developed world.
7. 32% of kiwi children are obese or overweight
8. NZ has the 3rd highest overall obesity levels in the world and nothing is being done to change this, apart from more synthetic drugs, instead of changing lifestyles.
9. Kiwi 10 year olds have dropped below the median global reading level.
10. Suicide accounts for 41% of deaths in males aged 15-24.
11. Our skin cancer rates are the highest in the world (4 times more than Canada, the US and the UK).
12. Economic inequality has increased substantially over the last 30 years or so, and recently has been made even worse by the extraordinary rise in property prices. Feudalism is just around the corner, heading our way like a freight train. Today 42% of households live from payday to payday, a level that has risen markedly over the last generation when we also witnessed most households needing at least two incomes to manage their needs, rather than a single income. So many jobs are only part time, not full time. (Increasing inequality almost seems to match the increasing prison population over recent years).
13. We have a health system that has costs and demands rising some way above population increases as does with the education system. In both cases, the comments above clearly demonstrate that we have a lot of serious and smart work to do, if we are to move forward and continue the decline into an even worse mess.....
14. Much of the true level of environmental degradation in NZ has been (and continues to be) swept under the carpet.

So, is New Zealand really a good place to raise a family and plan for a long term life for yourselves and your family? Real employment opportunities, social skills, crime laws, health and education and inequality must all be seriously tackled head on, otherwise we may return to the standing comment from a few decades back –“will the last person to leave NZ please turn the lights off.” As an example, incomes in Australia (both per capita and median) in 2013 and 2017 continue to be 30% above their NZ equivalent.

If we keep doing the same old things how can we expect the results to change? Enough said!!

C. HEW issues

While many would say that growing the size of the pie is the key which brings improved economic outcomes across the community, that dictum has proven to be largely a fallacy if the last 30 years or so can be used as a measure. Inequality has grown significantly over that time, telling me that more needed to be done to have reduced or prevented the deterioration in social outcomes mentioned above. Adjustment must be made, as it rather obvious that the lower income groups are totally unable to contribute any further to assist the corrections required, the upper income taxpayers must be prepared to do so.

Measurement and reporting of incomes, living costs (HEW costs related included), all asset classes, inflation, and so on must be also reviewed to clearly show the real impact, across society of living standards, trends, all to demonstrate with full transparency, just how society is progressing or declining with living standards.

D. Health

While the health of the population has been one of taking personal responsibility, this has failed in the sense that today we see some major, but largely preventable sicknesses and diseases, causing major costs to families, Government and society overall. At the same time, there is a very noticeable absence of leadership when it comes to preventative steps, at almost all levels, including Government. Now is the time for Government to step up and introduce steps to change this for the better. Healthy living and lifestyle are practices which many people know very little about, and there can and should be a philosophical decision made to tell people, by advertising, by all health professionals, what they can do to improve/maintain good health for a much more extended part of their lives. For example, why should the Government NOT commit \$50 million of the annual Health vote to advertise healthy food options and regularly show on TV/in magazines/newspapers the available quality information that will start to save the overall health costs for New Zealand.

At the same time, why do doctors NOT STUDY NUTRITION at medical school? This must be addressed too! In the education system, at all levels, why is nothing included as a serious consideration, even if in many homes that could mean more of the children telling their parent/s what is better? What about a Government website (regularly updated and added to) to go along with all of this? Surely, this would increasingly save the country billions of dollars. The health professionals must be taken along on this journey, not left behind, as they will be more responsible, not less, if they take the initiative and get recognised for that leadership role in improving the health of the nation. How can a fat doctor, who knows little about nutrition and a healthy diet, give meaningful advice to his patients, other than prescribing medication that usually addresses symptoms and not causes?

I acknowledge that there are players in the health industry who may consider themselves to be adversely impacted by such propositions, but we do live in changing times and change for the better of the large majority of society cannot be withdrawn, denied or withheld in a truly democratic society. As such proposals will take time to be implemented, vested interests will have time to adjust

to new realities, which we all often face in our personal lives. Several aspects of alternative health treatments really do deliver good results. I am personally an example of that.

E. Education

Some mention was made in the comments on health above, but there are other measures that the education system should address for the 21st century. These include teacher training, curriculum detail, a refocus on tomorrow's societal realities. Are there subject matters that school do or do not have to teach in the first half of the 21st century? I am not trying to focus on saving on education, rather to ensure the maximum value is obtained for the money invested in what is the most important social spend Government has got to deliver on.

Technological progress is rapid and not slowing down and how this can be utilised to not be too expensive for widespread application in schools must be considered urgently. Many preschool children know how to use many high tech appliances before they start school, suggesting they are up and running for tomorrows living, in many cases even surprising their parents, and almost alarming their grandparents. This is all future gazing, but indicates the direction society is headed and if New Zealand is to do anything to give us even a reasonable chance of making this country into any sort of success within a generation, then education has got to refocus and do so quickly. One aspect that really interests me is that with the massive explosion in information and learning that has taken place since the internet, is not that I know (and retain) so much, rather, it is how do I find out about any question I might have on virtually any subject? So how should education reflect this best, as we do not have the time to learn "so much," but instead we need to know where to find the answers?

As there are households which perhaps may not have the internet that provide good study/printing, scanning options, the school system must address that? Not necessarily, as some bulk teaching options will develop. There are some online options from some universities. Can this be extended to schools at all? Yes there are issues, such as some moving subjects, but many are not, they simply remain as they are and/or get built on? Neither should social skills development be neglected in the school operating manual of the future.

School capital costs are not cheap and the example of Singapore brings to mind that large urban centres could investigate better use of school properties, such as a two "shifts" each day?

The simple reason I have included these notes on education is the possibilities that may emerge from a "21st century" approach to education and how that can positively impact on both Government costs and therefore tax revenues.

F. Welfare

Not because the elderly in our population are growing as percentage of the population, but because they, as much as everybody else need to make a contribution to society, at least, in some proportion to their ability to do so. This is why income testing at a level well above the average income can and should be considered seriously. It will not impact many people, but is part of addressing inequality and not all people affected will deny the societal benefits, especially if the extra tax take from that is committed to good use, which needs to be demonstrated as well.

G. Other Government Expenditure

Infrastructure expenditure is the other cost centre that consumes large Government dollars. A strong future focus may require some borrowing in addition to tax changes, but payback considerations will no doubt direct where priorities should be. While there is always likely to be

objectors to many proposals, overall national interests are paramount and not local ones and along with long term planning must be the focus of selling infrastructure development to the public.

H. Business in the future

Incentives may be something to be planned for to help transform some parts of our economy into future success. There are examples both here and overseas where this is being done and NZ needs to address this, at the same time possibly removing some existing incentives that no longer suit the future economy. This should be aimed at really assisting the transforming of the economy to the 21st century.

I am not very fully informed of the arrangements with the Bluff aluminium smelter and the overall cost/ benefit to this country, except that the smelter consumes significant (and cheap) electricity. If the smelter was closed and the power was made available for other purposes, the long term benefits would/could be major. Population growth (higher tax take) and conversion of most land transport to electricity (major reduction in hydro carbon import costs), are both examples of major benefit areas to Government and the national economy, and the capital cost of additional electricity generation would, for some time, be postponed at the very least. Obviously there will be short term costs, so timing, financial and social impacts must be factored in.

The recent decision to no longer issue permits for offshore exploration of oil and gas will see Government revenue decline from royalties, and various forms of tax and associated revenue, along with Taranaki in particular gradually suffering job losses, a downturn in several servicing businesses and social adversities. Overall losses of Government revenue could reach \$1 billion annually?

Over the longer term, the overall effect on tax revenue would be positive, but planning needs to be considered at this time, to secure and encourage replacement (and greater) economic activity which is capable of more than replacing the revenue losses here. What resources do we have or will need for this in the way of natural, people and financial to build that future, with a surging population increase, in a way that is both socially acceptable and provides reasonable incomes and tax revenue for government?

I. Revenue

Australia's Labour introduced a **capital gains tax** (CGT) in 1985 and has been part of their tax system since. No Liberal Government sought to really reverse that, but did modify the cost to individuals. Surely we can learn the best and worst experiences there and introduce an appropriate CGT here. This would go some way toward reducing economic inequality and over time broaden the tax base in a responsible and widely accepted manner.

GST has a lot less impact on high income earners due to the simple fact they must spend much less of their income on day to day living. Low income earners and beneficiaries (apart mostly from rent and mortgage interest) pay GST on basically everything. If this was intended to raise the effective tax rate on lower income earners, it worked, but in my view, very unfairly, based on ability to pay. An adjunct to that and to the health discussion above, removing GST on healthy food (not fast food of processed food) would alleviate many lower household budget woes.

The whole area of **company tax** requires a serious review, although I would expect that the introduction of the new "smart" IRD computer may assist, there are still doubts in my mind about the effectiveness and policing of **Fringe Benefit Tax**. The level of deductible expenditure in the area subject to FBT appears to be very low, if the level of FBT being paid is any indication of the "real" level of costs that may be subject to FBT.

The overall company income tax rate has been to some extent driven by the downward movement in overseas countries and our wish to attract more international business here, but as we have lowered the rates, have we, at the same time, also considered the whole range of deductibles and Fringe Benefits. If overseas lowering of corporate tax rates continue and to be competitive, NZ felt it necessary to follow suit, then some offsetting factors should be considered at that time.

All aspects of the international tax system must be tightened in conjunction with not only our key trading partners, but done so in a way that we are not the tail trying to wag the dog. Take a leadership role here in an endeavour to get a deal that is fair and in no way is against our best interests.

Treasury did some homework in 2013 on not only would legalising cannabis bring in worthwhile tax revenue, but they also reported savings through such drug reform, by easing pressure on the justice system and fewer convictions for youth and Maori. They noted also that alcohol and tobacco have consistently been more health damaging than some illegal drugs such as cannabis. There are many rules and regulations covering many aspects of our lives, so surely cannabis is no different and could be regulated to protect the vulnerable, especially individuals who have not reached adulthood (like alcohol).

The misunderstood commercial hemp possibilities are massive and varied, with the potential to make a substantial contribution to diversifying the economy, providing jobs, a huge variety of locally produced products, save imports and bring some export income also. It is nothing like cannabis and this needs to be recognised, to allow that industry to grow, thrive and make the worthwhile benefits to the country that it will be quite capable of doing, given the removal of obstacles.

- J. **Trusts** have long been a vehicle to protect family assets, but should not be available as a tool to avoid tax which otherwise be incurred. Has this been fully addressed and even more so now with such a large number of trusts that seem to have been used or in use?

K. Government charges

A clear policy needs to be made transparent to the public, stating that such charges cover costs, or are part of revenue gathering. Does Government plan to review various operating functions and ministries to determine if cost savings can be made, or charges need to be increased or decreased, as an aside to funding of various services? I make this comment because a future focus could bring out issues aligned to these points, possibly impacting the tax system.

L. Housing

I am not sure that any information has been compiled to support my contention that the residential rental investment market has been responsible for a larger portion of high house prices than is thought. Recent changes by the last National Government may helped alleviate this, but I suspect not and I see a further review of this may help. My reasoning is that multiple residential property ownership reduces the housing supply for sale and while increasing the rental supply, does so at a time when we have seen high immigration, adding to the rental demands as well. Therefore overall, has this made the situation worse, or is it just a house shortage? Who owns all the unoccupied houses around the country? Can they be factored into solving the supposed housing shortage?

M. Charities

I am not alone when it comes to my belief that there is significant concern that this is one area that is long overdue for an in-depth review and re-appraisal of defining the whole matter of what actually constitutes a charity (either in part or totally) for tax purposes, . Examples include churches and

sports clubs, but there are others as well. Commercial activities conducted by the likes of the Sanitarium “company” has long brought grumbles in the public arena.

N. International

As a **trading nation** very dependent on export income and International tourism we must continually search for ways and means to “stay up with the game” at the very least. We are very vulnerable because we still rely on a narrow base of major export primary products. As price takers, we are exposed, so all initiatives to diversify our overseas earnings must be explored, such as in the technology fields. At the same time, reducing import costs also require continual searching, like the hydrocarbons we import, so import substitution becomes vital wherever possible. The impact of these issues must be factored into short to medium term tax planning by Government and meaningful thought being regularly and at all times to be at the forefront of meeting the future head on with the best plan possible. Our primary industries have served us well, but with changing geopolitical moods and developments, trade differences, sanctions, technologies and so on, the Government must always ensure NZ is not over exposed to debt, in both the Government and private sector. This always needs to be included in all tax considerations by Government. Encouragement now to diversify the economy and tax take are both absolutely vital for government to take a leadership role in, to avoid a slide in our living standards over the next generation, greater than we seen over the last generation.

O. Commitment to benefit all

So do we have the fortitude and determination to really achieve something here? I doubt that we will, because as a society, too many of expect someone else to do the yards, pay the costs, so they themselves can still retain their cruisy lifestyles. As that great character Billy T James said, his problem was that he was half Scotch and half Maori – one half wanted to get drunk, but the other half did not want to pay for it. Regardless, we cannot fail to try and tackle the problems and issues preventing the country from making the progress necessary to achieve what we can and must do, if we genuinely desire to be a first world country in the foreseeable future. Tinkering with the current state of affairs will not achieve what this country is capable of, so some bold decisions and actions are much more likely to.

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29 April 2018