

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**September 2018**

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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.

## **Submission to the tax Working Group**

In 1988 the Rt.Hon. David Langey suggested that the 4th Labour Government should take a pause from the hectic economic reforms of the time. 30 years is a long time to nurse that "cup of tea". Now it's time to put New Zealand back at the forefront of economic reform, by simplifying the tax system, and reducing the sources of tax.

### **What do we Tax?**

We tax salt and iron pots, like they did in Babylon and ancient China, on the basis that everybody uses them, so everybody will pay their share of tax. Of course nowadays we tax many more things, but the thinking is still the same, extract revenue for the State from some market activity or product. But the complexity of the modern system allows devious individuals to manipulate their business dealings to avoid paying tax.

There is one item that is universally used, that cannot yet be avoided, that is money: the New Zealand dollar. Technology has improved since Mr. Langey's time such that almost all payments and receipts pass through some electronic ledger system, and can be tracked in almost real time. This makes it easy to tax the use of money.

### **Transaction Tax:**

Payable whenever money changes hands;

Universal rate fixed from time to time by Government;

Applicable to all transactions between all entities;

No exemptions, no floor or ceiling value for transactions.

This would capture financial services which are currently exempt from GST, it would apply to charities, and family trusts. It would capture capital gains from the sale of property, shares and other items. It would apply to all transactions made in New Zealand with offshore entities, including so-called internet shopping. Because of its wide reach it would replace and eliminate Personal Income Tax, Company Tax, GST, and sundry other taxes. Because of its wide reach and universality the rate should be low enough to discourage attempts at evasion, and low enough to not seriously impinge on charitable and trust activities. It should also produce the side effect of deflating the shell company structures and nested trusts used to disguise the source

and origin of some funds transfers.

If the rate is low enough it could attract funds to New Zealand as a "tax haven". This is not a bad thing, so long as all transactions pay the lawful tax at the time.

Excise Duty is an anachronism which provoked Cornish fishermen to smuggle French brandy into England, and should be abolished. Alcoholic beverages, fermented or distilled, should be subject to a tax rate which is a logarithmic function of the alcohol content, since higher alcohol content causes multiply higher health harms. All taxes on Alcohol and Tobacco must be paid directly into Vote: Health.

Petrol (gasoline) engines run on "distilled motor spirits" and are today also subject to Excise Duty. Diesel fuel is also distilled, but for whatever reason attracts no Excise Duty. Road User Charges might also be applied to electric vehicles, at what rate?. Eliminate this confusion by abolishing all these taxes and charges. Introduce a Tax on Tyres: all road users would pay their fair share, from bicycles to juggernauts, assuming tyre wear approximates road wear. This Tyre Tax must be paid directly to fund roading.

These last two can be seen as "user pays" taxes. So too is a Transaction Tax, a tax on the use of money. I urge you to find space in your Terms of Reference to apply these simplifications to the New Zealand Tax system.

Peter Kerr

29 April 2018