Tax Working Group Public Submissions Information Release

Release Document

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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 TAX WORKING GROUP

Background

I am a retired District Court Judge who held a Family Court warrant and heard many care and protection cases under The Children Young Persons and their Families Act and applications for protection orders under The Domestic Violence Act. Since retirement I have done my best to advocate, as a national goal, a positive start for every child. Although there will be short term costs in achieving this, I consider it will have significant financial and other societal benefits in the longer term. I have addressed these issues in a number of presentations I have given. Excerpts follow:

On position of children

> Let me give you one example of how our present system disadvantages one particular minority - the children of the poor. The least we can give them should be a positive start in life. Not necessarily an equal start. That is impossible; but a positive start. They do not choose to whom they are born or the circumstances of their birth family. But they are our future adults: children of the community, as well as of their birth parents. Way too many are starting life in deprived circumstances, to the ultimate financial and societal cost of us all. According to the annual New Zealand Child Poverty Monitor report in 2016 (a partnership project between the Office of the Children's Commissioner, the J. R. McKenzie Trust and Otago University) 295,000 New Zealand children were living in income poverty, using the latest statistics then available. That is 28% of our children. This particular measure has regard to the overall wealth of our society as a whole. In other words, our wealth gap. 295,000 is six full stadiums at Eden Park - full just of children. 85,000 children were living in seriously deprived circumstances. That is still nearly two full stadiums.
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> One of the reasons of course is that these children have no vote. The haves are mostly concerned about the effect of policy on their own immediate financial position, so we just forget these children and their struggling parents and cast them aside on a trash heap. In the parents' case it is generally perceived as their own fault, regardless of their own upbringing or other circumstances; and regardless of any wish they may have to provide for their children as well as they possibly can. This continuing disregard for the welfare of the poor, and in particular that of disadvantaged children, already underlies a whole range of immensely costly outcomes, reflected in a series of adverse comparative statistics, internationally. And the actual cost takes no account of wasted potential and lost productivity. All this neglect in an economy that is supposedly doing well. This is not only short-sighted. It is just plain crazy.

On financial aspects

> The costs of a poor start in life include poor health outcomes, learning difficulties at school requiring extra resources and assistance, disruption in class, ultimately the development of

poor peer relationships, early use of alcohol and other drugs, prostitution, minor offending, then serious criminal offending. Some of our worst criminals had appallingly abused and neglected childhoods which we simply didn't know or care about. They still had choices but their respective childhoods never equipped them with anything in the nature of empathy or any other facility to make good considered choices. The health, educational and justice cost outcomes of a poor start in life are all individually huge. This is without the social and emotional costs to others and without bringing into account lost and wasted potential.

There have been several attempts to estimate the overall cost of allowing a large number of children to have a poor start in life. The problem is that such costs are difficult to compute with precision, depending on how much you attribute to lost and wasted potential and lower productivity - in addition to the more obvious health, educational and criminal justice costs. One study, prepared by Infometrics in 2011, "1,000 days to Get it Right for Every Child" endeavoured to do so. It put the annual cost to the New Zealand economy of poor child outcomes at 3% of GDP annually (approximately $6 billion). Another study bringing into account wages, crime, health and welfare costs put the total at 4.5% of GDP (John Pearce, "Estimate of the Costs of Child Poverty in New Zealand", paper prepared for *Analytica,* 10 August 2011). As business journalist Rod Oram has noted this negates the economic gains from 6 million cows in the dairy industry! So it is a huge negative cost factor. And however dismissive one might be about such assessments I don't believe anyone can rightly deny that both these studies constituted sincere and genuine attempts to assess the overall costs to our economy of a poor start in life for way too many of our children. To my knowledge Treasury itself has not made any attempt to make its own assessment of these negative cost factors.

Halve or even quarter the above cost estimates and the figures are still such that we simply cannot allow the situation to continue substantially unaddressed. In November 2011 the *Analytica* group advised: "The economic cost of child poverty is large. *When considered in relation to its social consequences, it may be more important to New Zealand's future than global warming".* In December 2012 the Report of the Expert Advisory Group on Solutions to Child Poverty, convened by the Children's Commissioner, simply observed, in its conclusion: "Unless a concerted effort is made now to reduce child poverty, the costs that it imposes today, both social and economic, are likely to be magnified in generations to come". That warning is now more than two years old. In the meantime the increasing wealth gap, even more than any income gap, is leading to a distinctly unhealthy sense of divisiveness. With hindsight one has to query how prudent it was to cut most child-related benefits by about 21% in the 1991 budget, resulting in a doubling of childhood poverty. The comparative worth of child benefits, particularly for those not qualifying for Family Support has since continued to decline in relative terms. Child-related benefits have also become totally inequitable as between children. The original child safety net has gone. It is now extremely difficult to provide for, let alone give children any extra developmental opportunities they may need, on either the current minimum wage or a domestic purposes benefit.

While the 2015 budget acknowledged childhood poverty issues and adjusted some benefits, albeit without effect until 1 April 2016, these long overdue adjustments are not the total answer. We cannot say: "Problem solved and fixed". A total review of all child related benefits is required to achieve both an overall simplification and equity between children - for the ultimate benefit of us all.

Such review needs to have as its starting point the basic costs of housing, feeding, providing health and dental care, access to pre-school education and support services for a child, with an allowance for the transport costs of doing so. Any resultant increases in the level of child support will have the supplementary effect of stimulating local businesses.

I should add that from a purely economic perspective - and most things these days seem to be viewed from this perspective - we spend much more on the last three years of life, for little if any productive gain, and comparatively little on the first three years, from which there can be a hugely productive outcome. I am not, however, suggesting we spend less on *needed* care of the elderly; rather that there is much to be gained from investing more in our children, particularly - but far from exclusively - in their early most formative years.

On the wealth gap

Jesus has been described in many ways to reflect his life and teaching - prophet, priest, king, shepherd, Son of Man, Son of God. I recently heard him described anew as a 'peaceful anarchist'; and it is this description of his life and work that I would like to leave with you this morning. He challenged the authorities, condemned the injustices of his day, denounced hypocrisy wherever he perceived it, together with the hidebound rules that stood in the way of a compassionate response. His life and teaching were infused with a deep caring concern for all, but particularly for the poor, the outcast and the marginalised.

The poor and the marginalised are still very much with us. We still have a huge and increasingly divisive gap, in my view an obscene gap, between the excessively rich and powerful and the impoverished and powerless, world-wide.

On a capital tax

For those aghast at any suggestion of either a capital tax or a capital gains tax, spare a thought for future generations, including your own children and grandchildren, if blessed with those. "The Spirit Level" (Richard Wilkinson and Kate Pickett, Allen Lane, Penguin Group, 2009) clearly indicates that more equal societies almost always do better in most respects and Colin James in "Unquiet Times" (Fraser Books, 2017) refers at p. 89 to an OECD finding that too great income inequality has a negative and statistically significant impact on subsequent growth. He also observes that on a single day in September 2016 the president of the European Central Bank, the president of the European Council and the head of the International Monetary Fund all warned of a back-lash that could undermine market-capitalism. Additionally he notes that an International Monetary Fund report in 2014 found that "the combined direct and indirect effects of redistribution [of wealth] are on average pro-growth". James wryly observes: "Neither the OECD nor the IMF are wistful socialists of a bygone age. They have been one of the strongest advocates for a market economy."

> But how do you get findings such as these accepted by a sufficient number of the voting public? I frankly don't know; but when recent data released by Oxfam NZ, in association with its 2018 report "Reward Work, Not Wealth" reports that 1 per cent of the population has received 28 per cent of the country's wealth in a single year while 1.4 million people (30 percent of the population) got barely 1 per cent of all the wealth created in 2017, then it is surely more than time for something to be done.
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> As reported by The New Zealand Herald, 22 January 2018, "The research also showed a mere 10 per cent of New Zealanders own more than half the nation's wealth and the inequality gap has widened significantly in the past year."
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> Wealth is linked to power; and power preserves and multiplies wealth. The balance needs to be redressed.

Overall considerations

I appreciate that there are many other areas than childhood poverty (not only income poverty, but poverty of opportunity and poverty of spirit) for which funding is required: health, education, infrastructure, justice issues and climate change issues to name a few. Quite simply we need more tax revenue to accomplish these things; and we need to reduce the wealth gap for a fairer and better future for all our tamariki and mokopuna, our children and grandchildren. I consider this can be best achieved by a relatively low level capital tax of 1 or 2%. If somebody with significant assets cannot cover a return on their capital of at least 1or 2% then they are probably not using their assets well: yet maybe land-banking for future capital gain. A capital tax could encourage better use of assets. Depending on calculations of likely yield it might possibly also enable some reduction in GST.

Concluding Submissions

For all the reasons traversed above, more particularly in the excerpts, I consider the Working Group should give consideration to a low level capital tax on net assets. While it is probably not within the Group's purview I consider the family home exemption for each taxpayer should be the average value of a home in that region for the previous year. Simple. No valuation of house needed. We should not encourage the building of mansions.

Alternatively there could be an exemption for net assets of less than say one or two million dollars to obviate the need for returns below a specified net asset worth.

I do not consider any exemption should apply to trusts. They usually represent surplus assets, or assets people wish to protect from creditors.

Companies would not be liable for the tax but the value of each taxpayer's shareholdings in companies would need to be included. For those with net assets falling into the taxable category the value of their shareholdings would need to be certified as a correct valuation estimate by either a chartered accountant or registered sharebroker. This would be the only onerous requirement, less in subsequent years than the first. There is not much else onerous in the proposal. There can be little harm in everybody calculating and knowing their net asset worth. Simple, compared with a capital gains tax.

Another advantage of a capital tax is a relatively quick revenue return. It will produce additional revenue, for the perceived needs outlined above, within a year or so of its introduction.

Issues that would need to be considered by the working group are whether or not net assets are net New Zealand assets or, for New Zealand citizens, net total assets. Ramifications of people possibly removing assets overseas or renouncing New Zealand citizenship are well beyond my competency to address.

<u>Submitter's details</u>

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Date: 30 April 2018.

I would like to appear before the Tax Working Group in support of my submission.