

## **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;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

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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.

## INTRODUCTION

### Methodism in New Zealand-Foundation

On 22 January 1822, the Rev. Samuel Leigh and his wife arrived in New Zealand to begin the Wesleyan Methodist Mission. They had been appointed to mission work in the colony by the Wesleyan Methodist Conference in England, and they thus represented missionary zeal that marked Methodism almost from its inception under John and Charles Wesley. By the late nineteenth century the Wesleyans, Primitive Methodists, Free Methodists, and Bible Christians (all to be joined in 1913 to form the Methodist Church of New Zealand) were meeting in almost 1,000 churches, halls, and houses, and there were over 100,000 people attending the services.

Based upon 2013 census data, 3% of those people who reported a religious affiliation indicated they were Methodist. This accounts for just under 103,000 people. The Methodist Church is the 5<sup>th</sup> largest Christian based Church within New Zealand.

The Methodist Church of New Zealand (the Church) was instrumental in gathering signatories for the Treaty of Waitangi, supporting Maori and developing a bi cultural Church to further meet obligations under the Treaty.

The Church has moved from the traditional view of “mission” within the new colony of New Zealand and has broadened its approach as the needs of New Zealanders and society have changed. The focus on social justice is strong within the modern Methodist Church of New Zealand.

### Vision Statement

Te Haahi Weteriana O Aotearoa – The Methodist Church of New Zealand is a Church:

- ❖ Passionate in its commitment to living out the love and grace of God known in Jesus Christ;
- ❖ Actively concerned with all life;
- ❖ Committed to the Treaty of Waitangi and to talking and walking justice.

Strategy: To achieve this vision the Church will:

- ❖ Creatively focus its people, finances and resources in the life and Mission of the Church.
- ❖ Empower the people to live out the Vision by establishing cost effective:
  - communication networks;
  - accessible education opportunities
- ❖ Constantly evaluate its work against the Vision Statement.

## SUBMISSION

The intention of this submission is not to be a detailed examination of the Background Paper released for public submission nor to answer all the questions posed in the Background Paper, but is to establish a relationship between the Church and the Tax Working Group. The Church would like to continue to engage with the Tax Working Group while the Tax Working Group further refines its views into a detailed working document ready for implementation. The Church is also a member of the InterChurch Bureau of New Zealand who are making a separate submission. We support that submission.

The Church supports the broad aims within the *“Future of Tax, Submissions Background Paper”* issued by the Tax Working Group.

It agrees that the overall tax “system” needs to be fair in the way it collects tax revenue from individuals and businesses to ensure that all individuals and groups within society are able to contribute to the wellbeing in New Zealand society.

The way that Parliament then priorities the use of the funds collected into government expenditure and capital payments is another matter and separate to the broad objectives of the Background Paper, but strongly linked.

The Church has a strong view on social equity and justice that allows all New Zealanders to actively participate with family, community and New Zealand’s social, cultural and environmental development into the future. This must be a primary focus. The development and implementation of a tax revenue gathering system that allows this to occur as a primary goal should be established. Without a broad based and fair system of taxation, that does not meet this primary goal then the long-term vision of the government cannot be realised.

The Church understands that the government (whichever colour that may be) has challenges, but it also has opportunities to deal with those challenges. Some governments choose to meet those challenges head on and engage with society about them while others cloud the issues with work arounds. The Church believes that most of New Zealand society is happy to engage and contribute to make New Zealand a better place which includes paying their fair share of taxation to support the primary objectives.

Firstly, we applaud the Government in setting up the Tax Working Group and hope that it continues to be open and transparent in its workings and reporting to all New Zealanders. The Church would encourage the Tax Working Group to further educate and reach out to the community in its work so that as many voices are heard as possible. We also hope and pray that Parliament (the collective voice of all New Zealand) will support this opportunity to plan for the future of the tax system.

While the current tax system has a revenue base centred on individual income tax, goods and services tax and company income tax, there is a perception that companies or businesses could do more to contribute. It is not only the taxation system that determines the total income stream of the Government. There are also “user pays” revenue generation aspects

that contribute to the total revenue embedded in many pieces of legislation that are seen as “tax” in a different disguise.

As the Tax Working Group note, international or offshore businesses make little or no contribution to the tax revenue and “export” their tax revenue to lower tax base countries. We believe that New Zealanders see this as unfair. Businesses who trade in New Zealand while based in other countries provide little in the way of a contribution to New Zealand society and could be seen as having a negative impact (lower employment). The Tax Working Group must deal with this imbalance even though international treaties may hinder this.

The Church agrees that while the Tax Working Group is looking at the tax system, it should take a more strategic view of what the objective of the New Zealand tax system should be, and what it is trying to achieve for all of New Zealand (not only for the next five to ten years, but in the longer term). Major reviews of the tax system do not happen often and the tax system is often “played with” at the margins; the Church would encourage the Tax Working Group to “kick the ball around”. At the end of the journey, we may not have much change; however, we can at least say we gave it our best shot.

The Government also needs to understand that while New Zealanders are fair and understanding, their pockets are not limitless. As the Background paper mentions, households in the top income decile (that is, the 10% of households with the highest income) pay around 35% of all income tax. At what point therefore would this group reach their limit and in a fair New Zealand tax system; what is fair for this group to contribute? At the other end of the scale, 50% of households are in the lowest five income deciles and pay less than 20% of all income tax. More needs to be done to lift this group’s income levels for the betterment of New Zealand society. This could mean lower tax rates for the lower decile family groups.

Much of the information within the Background Paper is not new. For example, the aging population profile has been well documented for over a quarter of a century. There has always been a predicted “bubble” of the New Zealand population retiring in a large group. Successive governments have acknowledged and grappled with the issue but not really addressed it head on. Incentives for people to save for their retirement are small or non-existent. For younger people they have the added burden of student loans, high rents and high house prices to deal with, and will be required to contribute, through tax revenue, to support this bubble of retiring New Zealanders.

In relation to charities and the work they undertake in New Zealand, it should be noted that charities have always received tax concessions of some type. Donations made by individuals and companies to charitable donee organisations may be claimed as a tax rebate. The Tax Working Group should note that it is the individual or company making the donation that receives the concession, not the Charity directly. This concession was recently adjusted to increase the amount able to be claimed. The Church understands that one reason for the increase was that Parliament understood the importance of charitable giving and it supported New Zealanders in this endeavour by providing them with the increase.

Another concession received relates to income tax. Without going into the details of this concession, the concession is subject to a number of factors, including that any business income derived is applied to charitable purposes within New Zealand, and no person with control over the business activities of the charity is able to direct or divert income derived from the business to their benefit or advantage. There has been debate in some circles that the business income of charities (whatever that would mean) should be subject to tax (at some rate to be determined). The Church would question the effect on New Zealand society if that were to occur, and what the net result to society would be. Further, would the marginal increase in the tax revenue be warranted with the increased costs to monitor and enforce and more importantly would the loss of that marginal “cash” being withdrawn from the charitable sector place additional costs on society?

Charities also receive concessions under fringe benefit tax rules. Parts of these concessions have been reviewed (eg. housing to Ministers) in recent years to clarify the position on fringe benefits in the charitable sector. The Church itself does pay some fringe benefit tax. While it understands that there is an exemption, it looks to make sure that it deals with the “intent” of the exemption and therefore if the benefit being supplied to a person does not meet the intended spirit of the exemption, it pays the tax.

While there is some relief from goods and services tax in the Goods and Services Tax Act for charities, those provisions were made in light of submissions made at the time the Goods and Services Act was introduced to ensure fairness and that charities were not being disadvantaged due to the introduction of that Act.

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