

Tax Working Group Public Submissions Information Release

Release Document

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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.

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Submission to the Tax Working Group: Future of Tax

Thank you for the opportunity to submit to the Tax Working Group: Future of Tax.

Background

We are ordinary New Zealanders. Growing up in rural New Zealand in the 1980's we experienced the effects of Rogernomics on rural communities. This taught us the importance of saving not spending, being resilient and providing for yourself. We worked from an early age, saved and made sacrifices in order to go to university.

At the time we attended university, students paid full fees and the interest rate on student loans was higher than mortgage rates. While other people were holidaying and spending up large on consumable items we saved to pay off the student loan and to get a deposit for our first home. It would have been nice to spend money on expensive cars, gadgets and holidays but it was important to us to build a secure financially sound plan. We delayed having children until we could afford them and still make choices on what we spend our time doing and money on in order to raise a family and provide for our future.

The media and government regularly pushed the importance of delayed gratification and saving for your retirement so we chose to invest in residential properties as a foundation for our retirement plan. We also felt we were contributing to society by providing homes for people who rent. We now have a relatively modest portfolio of residential properties, like many other New Zealand families who have made similar choices but the tone has changed and we now seem to be labelled as lucky and greedy and portrayed as not paying our fair share of tax. The Tax Working Group document is particularly disappointing with repeated comments on growing concerns about inequality, fairness and taxation on assets and wealth, with the comment of 'a renewed interest in wealth taxes internationally despite the falling use of them in practise', which implies that these will be focussed on in an attempt to appease lobby groups. These all look like an attempt at creating an environment to introduce Envy taxes with the sole intention of punishing people who have made sacrifices and choices to provide a strong financial future for themselves.

Submission

Chapter 2: The future environment

What do you see as the main risks, challenges, and opportunities for the tax system over the medium- to long-term? Which of these are most important? How should the tax system change in response to the risks, challenges, and opportunities you have identified? How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system?

1. It is important to encourage people to take responsibility for their own future, save, work hard and invest for the future. Some of the changes proposed are focusing on taxing wealth or land. It is important to highlight that taxing an asset's value does not mean that there is an associated income to pay the tax from. Envy taxes immediately springs to mind in relation to people owning a bach or crib that would not meet the 'family home' test and potentially subject to additional taxes. This could destroy a long and valued kiwi tradition of owning a special place to spend the holidays with family and friends. Many of these have been handed down over generations and have involved many compromises and sacrifices to keep these special places in the family and continue the valued tradition. Many of these proposals would take away the spirit and desire for what has been a cherished and important part of living in New Zealand. In this hectic and faced-paced world the importance on health and wellbeing and providing a sense of purpose to have a place to de-stress and spend time with family and friends should not be underestimated. Punishing the people who have worked hard to obtain these will have wide ranging negative aspects on both the local economies and wellbeing of the individuals. In most cases these little places are not located in areas people would want to live permanently and generally not suitable for permanent living anyway. Introducing changes that could force these to be sold would destroy the special memories of the families and friends and increase and leave these families with a huge sense of loss and resentment towards the government that forced this on them.

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?

Defining 'fairness'. How would you define 'fairness' in the context of the tax system? What would a fair tax system look like?

2. The current broad based system strikes a good balance to encourage people to save, work hard and invest for the future. Some of the changes proposed are focusing on taxing wealth or land. It is important to highlight that there is no revenue or income stream from an assets increase in value and there are also periods of times where assets decline in value. We do not agree with any tax that is based on the value of an asset as there may not be sufficient income or revenue received to be able to pay these taxes from and in our opinion are very unfair to people who hold those assets that are being targeted.

Chapter 4: The current New Zealand Tax System

Frameworks: New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?

3. The current broad based system is easy to understand and implement and has a good balance to encourage people to save, work hard and invest for the future. Some of the changes proposed are focusing on taxing wealth or land. It is important to highlight that there is no revenue or income stream from an assets increase in value and there are also periods of times where assets decline in value. We do not agree with any tax that is based on asset values as in there is no income or revenue received to be able to pay these taxes from and in our opinion are very unfair to people who hold those assets that are being targeted.

Taxes and Behaviour: *Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?*

4. The tax system should not be used to discourage people from investing in property. This sector contributes to society by providing housing because the government is unable to provide all of the housing required and not everyone wants to own their own house. Targeting this sector, through taxation, will reduce the available rental stock at a time when more is needed.

Retirement savings: *Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?*

5. No. People should be allowed the flexibility to be able to choose how they provide for their retirement based on their individual circumstances.

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

6. There has been much talk throughout the document about fairness, balance and inequality but there seems to be no distinction between property speculators and property investors. Property investors are buying for the long term. The bright line test does a good job of addressing this but some of these proposed taxes will affect the ability of investors to pay these extra taxes and also be able to reduce their mortgage to a level where the income will provide for their retirement. People who have made sacrifices and worked towards a long-term plan to provide for themselves will now be dependent on the government to provide for them in retirement.

Chapter 6: Thinking outside the current system

What are the main inconsistencies in the current tax system? Which of these inconsistencies are most important to address? Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?

7. No new wealth or envy taxes should be introduced for New Zealanders.

8. Ring fencing of losses should not be implemented. Rental property investment is a business. All businesses can offset their costs and losses against other income. Disallowing it for one sector is not promoting fairness in the tax system.

Chapter 7: Specific challenges

Housing affordability. *How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?*

9. Ring fencing losses for rental property owners does not promote a fair or balanced system as all other businesses are allowed to offset losses. Just because residential property has a higher emotional component than commercial or other investments does not mean this sector should be unfairly targeted with additional taxes.

Capital gains tax: *Should New Zealand introduce a capital gains tax (that excludes the family home)? If so, what features should it have?*

10. New Zealand should not introduce a Capital Gains Tax as this will discourage people from investing in assets. The current bright line test is sufficient.

Land Tax: *Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?*

11. New Zealand should not introduce a Land Tax just because it looks an easy option to implement and administer as this will unfairly penalise people who have invested in property for their retirement income and will see a huge reduction in the availability of rental properties.
12. A Land Tax would increase the costs to owners of providing rental properties and will lead to reduced supply of rental properties and increases to rental prices which is likely to result in overcrowding in available properties.
13. All goods and services will increase in price as a direct result of implementing a Land Tax as business costs would increase as a result of this.
14. Land Tax is an area where it needs to be highlighted that taxing an asset means many people will not have the income to pay the tax. The value of an asset is not income and introducing this will have a significant negative impact on people.

We do not wish to be heard in support of this submission.

Yours sincerely

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