Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkingroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[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.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

<u>Stuart Gowers</u>

[1]

<u>Summary</u>

Income inequality – can't be considered by Working Group as not in remit. Pity.

Housing Prices – no tax relieve on mortgage payments for non-resident owners

Capital Gains Tax – Yes, definitely.

Land tax - No

GST Exemptions – Fruit and vegetables exempt.

Health/Behaviour - Sugar Tax - Yes

Retirement savings - OK with Kiwisaver.

Company Tax - Progressive tax OK

Share dividends - remove imputation so holders taxed at their normal tax rate.

Charities - Manufacturing companies should be taxed

Environment - presumably we are going to get a carbon tax.

<u>General</u>

Congratulations to the authors on a well written and comprehensive background paper.

In general, I would think a person's net income for the year should be taxed - which would mean no ring fencing. However, I am not opposed to ring fencing capital gains/losses.

Also as a general principle, I think that income that has been worked for should be taxed less than income that has not been worked for. And that within both earned and unearned income there should be different rates depending on circumstances and purposes.

I don't see why mere possession of an asset should be taxed, but any profit made from that asset should be. So no Land Tax as such, but income from land rent should be taxed and CGT paid on sale.

<u>Income inequality</u>

Personal tax and rates are outwith the terms of reference, so the rest of this section is irrelevant to the Working Group.

It should not be that some people can be better off not working than by working – in particular, the ones who can least afford to have children being better off by having more children, if that does actually happen. A minimum wage is one aspect, but lower tax rates is another – so lower (or no tax) rates at low incomes, with lower rates going up to higher levels of income.

To compensate to some extent, at the other end of the spectrum, income above $250k should be taxed at a higher rate - perhaps 40% above $250k and at 50% above $500k. (I'm sure I remember when Jimmy Saville first got a £1,000,000 contract with the BBC, the rate of Super Tax in UK was up to 95% - but that seems a bit on the high side!). This might do something to offset the ludicrous amounts paid to some CEOs – and, even worse, their incredible bonuses and 'golden handshakes'; in some cases, this applies to their immediate underlings as well.

<u>Housing prices</u>

A way of using tax to keep down the cost of housing would be good - but how?

It seems unjust if rental property owners have tax relief on mortgages when home owners do not (and the same applies to local council rates). One way to correct this would be to give home owners tax relieve on mortgage payments. However, that might make housing more affordable to more people and push house prices even higher.

The alternative would be not to allow tax relieve on mortgage payments for non-resident owners. This seems extremely reasonable to me, as the means by which such owners finance the property is unrelated to the upkeep and running of the property. However, it does affect the amount of money they make from the property, so it may just increase rents rather than keep the cost of housing down.

<u>Capital gains tax.</u>

It seems iniquitous to me that money that has been worked for is taxed, but money that has not been worked for is not; or, more accurately, some types of unearned income are not.

With a mechanism for taxing land sales already, could it be expanded so that most physical asset sales were included within such a system? CGT on shares could perhaps be filled in on a standard tax form, along with Term Deposits etc?.

CGT should only be on a realisation basis, as the real worth of an asset is only known when it is sold; and this should save paper work by not having to estimate the value every year.

I think all assets should be included, although KiwiSaver and other pension schemes could be excluded if they came under CGT in any way.

Offshore assets should not be double taxed; if offshore tax rates are lower, then they should be topped up to NZ levels.

Non-residents' capital gains should be taxed in NZ, because that is where the money has been gained.

Roll-over relief seems necessary on upsizing, but on downsizing any net gain after the transactions are finalised should have CGT applied.

No gift tax or inheritances tax - if income has been taxed, you should be able to give it/bequeath it without it being further taxed. Hence the need for CGT so that all income is taxed at some point. In the case of gifting/willing assets, CGT should be applied when the assets are sold.

Gambling winnings should be taxed, but it only seems fair that these should be offset by any gambling losses; this might be difficult in practice.

The cost of inflation should be taken into account when assessing CGT.

On that basis, the transition to CGT should be immediate and retrospective. But, especially after gifting/inheriting assets, there may be no sure way of determining the initial value. Applying it to the valuation at the time of introduction is a also a can of worms and an enormous effort, but otherwise any increase in capital gains on presently owned assets would not get taxed, and I don't see why it shouldn't be.

With computerisation, hopefully admin costs should be minimal once the system is set up, and there would be no need for de minimis rules. Yeah, right- so all sales on TradeMe have to pay CGT? Hmm… but there again a 1% tax on all such on-line transactions would bring in a few dollars.

Integration of family trusts? Apart from problems with valuation as above, sales of assets should incur CGT, whoever or whatever owns them.

<u>GST</u>

GST exemption on food might seem reasonable, but the definition thereof might be a bit woozy. And even if caviar is food, such luxury items should be taxed.

In order to try to modify behaviour and improve healthy eating, just fruit (solid, not juice) and vegetables should be exempt from GST.

<u>Sugar tax.</u>

Again in an effort to improve health, a sugar tax should be imposed. Certainly it should be on drinks, but if it could be applied to food as well that would be good (as in breakfast foods, particularly those aimed at children). Fruit juice is a problem because, although previously regarded as healthy, with the current outlook on sugar it is not so.

<u>Progressive company tax</u>

Lower rates of tax for smaller companies seems reasonable, if only because tax accounting is presumably a proportionally larger item for them than it is for larger companies.

<u>Charities</u>

Taxing charities would bring in millions, but our Southern Cross contributions are already about $13/day. However, I do think manufacturing companies run by charities (Sanitarium to name the main one, presumably) should be taxed the same as other companies - otherwise they have an unfair advantage and can undercut non-charitable ones.

<u>Other</u>

Self-employed not declaring income (presumably mainly cash payment), and therefore not paying tax on that income, is a problem – but how to police this is the problem.

BEPS Tax avoidance by overseas companies making profits in NZ is a major factor that hopefully will be dealt with on an international basis, but otherwise it should be dealt with by NZ government..