Tax Working Group Public Submissions Information Release

Release Document

September 2018

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Tax Working Group Secretariat
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This submission is from Gavin Logan, [1]
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Dear Sir Michael Cullen and members of the Tax Working Group,

My submission on the future of tax in New Zealand, is with reference to selected proposals and questions set out in the Tax Working Group's Background Paper. The ones that I have submitted on are issues that I have some knowledge off, particularly housing and rentals as I have considerable experience in this area.

My submission will cover these 5 important areas:

1) Can tax make housing more affordable?
2) Changing taxes on savings to encourage New Zealanders to save more.
3) Bracket creep and inflationary fiscal drag.
4) Behavioural taxes, Tobacco, Alcohol etc.
5) Revenue neutrality.

1) Can tax make housing more affordable?

The simple answer is no. More tax means higher prices and less affordability. But attempting to tax it more could have undesirable unintended consequences on other sectors of the economy.

Australia has a Capital Gains Tax. Look at the result!

Australia's housing affordability crisis is likely to continue for another 40 years unless there are major changes to the market, according to the latest report from the Committee for Economic Development of Australia.

In the 1970s and 80s many New Zealanders moved to Australia because houses were cheaper there. Then in the late 1980s a capital gains tax was introduced. Since then the situation has reversed and housing is now as expensive or more expensive than in New Zealand. New Zealanders no longer go to Australia with the expectation of getting a cheaper home. The only main change was this tax.

A Capital Gains Tax is a recipe for a never ending housing crisis!

Capital Gains Tax is one of the most complicated, messy and distortionary taxes ever invented. It also taxes small businesses and encourages inefficiency through assets being held by unproductive owners because they don't want to pay the tax if they sell.

Capital gains taxes differ from brightline tests (also a bad policy in my view) in that they usually have no sunset period and covers more classes of assets including shares and businesses.

Capital Gain Taxes tax inflation. If a property or asset is sold and equal one often can't be purchased because tax has taken part of the proceeds encouraging and often forcing business and people to keep assets that are no longer ideal for purpose rather the selling and purchasing an asset that better reflects the new needs of the business or enterprise. They also discourage the sale of businesses that would improve and be more productive if they had a new more progressive owner. The result can be less productivity and employment.

Capital gains taxes also, as is very evident in Australia, cause much capital and saving to be spent on often unnecessary home improvements or making houses bigger so the family home can be later sold for a tax free profit while investment property and share are invested in less as the gain is taxable.

Taxes on housing and assets discourage investment and savings.

I therefore submit that the Tax Working Group should recommend against a Capital Gains Tax on investments excluding the family home.

I note that Vancouver Canada has a 15% tax on foreigners buying houses and a host of other policies to discourage investment in property. The net result has been an average house price of $1.6 million and an 11% increase in prices in the last year. **Countries that don't use their tax systems to attempt to interfere with the housing market seem to have the least problems with shortages, affordability and high rents.**

I think that deprecation should be reintroduced for new build rental properties to increase supply and lower rents.

2) Changing taxes on savings to encourage New Zealanders to save more.

We should change the tax system to encourage saving. Savers, particularly ones with bank term deposit or similar things currently pay tax on interest that, in practice, partially just reflects the effects of inflation. I have money in bank term deposits at present that after tax and inflation have less than 1% real interest.

I submit that taxpayers should be given a deduction from taxable income earned via term deposit saving to cover inflation. This figure should be set by the Reserve Bank every year, thus avoiding politicians making that decision.

3) Bracket creep and inflationary fiscal drag

The effect of inflation pushing taxpayers into higher income tax brackets needs to be addressed.

I submit that the Tax Working Group recommend legislating annual income tax threshold adjustments indexed to changes inflation. I note that many government benefits and entitlements are indexed so doing this to income tax would not be a problem.

4) Behavioural taxes, Tobacco, Alcohol etc.

I don't know for sure how much of the Tax Working Group's brief covers these areas, but I would support increasing taxes on alcoholic drinks and further increases on tobacco products. I am not sure about the workability of taxes on excessively sugary drinks or fatty foods as defining what is in and what's out is difficult. However in principal I support them as if done carefully the encourage manufactures and importers to keep the levels in their products under the tax threshold. I would submit that looking at the viability of using tax to improve the nations eating, drinking and general health would be a worthwhile endeavour. Overseas there has been some limited success stories with this approach.

5) Revenue neutrality

Where new taxes and tax increases are recommended by the Tax Working Group, I submit that other areas where tax can be reduced should be identified to compensate for this.

Yours faithfully
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Gavin Logan