Tax Working Group Public Submissions Information Release

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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.

The future environment

Changing demographics

Yes, the baby boomer bulge is moving towards retirement age. However our population is now 4.75 million versus 2.5 million as at 1960, the end of the baby boomer generation. Therefore the proportion of baby boomers is steadily reducing as a proportion of the population as the country grows.

Further, I think the statistics you use are misleading. The baby boomer generation is those born between 1954 and 1964. The population of NZ in 1954 was around 2.1 million. In 1964 it was around 2.5 million. Therefore 400,000 is the maximum number of people that could be called baby boomers. Today's population is at around 4.75 million. As a proportion of the population that is only 8.4%

Yes I know that the population includes those under 18, however not all baby boomers will be in retirement at the same time. Many are still working now, and when the last reach age 65 the forward part of the bulge will be dead.

Your risk isn't baby boomers retiring, your risk is too few working age people working, and "family resettlement" being used to add nearly-retired parents to the population.

Therefore another risk is the entrenchment of low achievers in the welfare system. This country is crying out for many different types of skills, yet there is a persistent level of unemployed that have never been employed, and seem forever to be able to avoid employment.

I see these proposals for more tax to be an aggressive attack on those that demonstrate a persistent attitude on saving, investment and self improvement. It is time to be more aggressive on persistent failure to contribute to society.

Te ao Māori and the future

I do not understand why Māori economic development is being separated from the rest of NZ economic development.

Now that the consequences of the English failing to abide by their agreements is drawing to a close by way of Treaty settlements, and Māori economic entities are becoming large, powerful and wealthy, there is no economic or social reason why Māori economic interests should be treated any differently. Every time you make an exception for a Māori interest, whether it be a property free from rates, or an entity free from tax, you undermine the tax base.

For example Ngāi Tahu Holdings does not pay tax because it's sole shareholder is Ngāi Tahu Charitable Trust. This is a wholly artificial construct, and should be undone. The same applies to Sanitarium and any similar construct as well unless 100% of earnings is attributed to the charity and applied to charitable purposes that can be audited.

Technological change and its impact on tax bases

You seem to have a rather myopic view on the effect of technological change. There have been huge technological changes over time. The invention of the motor car put farriers and blacksmiths out of work. But they found other work. Largely I think the same will happen now. We cannot protect jobs that become redundant as the world moves on.

There are two areas where the government should put more attention:

1. Promoting an environment where it is not acceptable to remain on welfare
2. Being more proactive on international companies applying artificial transfers or costs in order to reduce gross profit on the NZ books

Welfare: It is not acceptable for an unemployed person to sit in Tokoroa or Murapara and say “there aren’t any jobs” and then expect welfare to be continuously forthcoming. Most successful people moved to where the work is available. I moved from Rotorua to Hamilton for study, and then to Wellington because that’s where the work was offered. From a tax perspective, that person refusing to move when there is a clear shortage of workers in other areas is not acceptable. The overall system of taxes and transfers needs to be adjusted so that this situation can no longer continue.

International companies: I know this is being looked at, but really how long does it take? Royalties in the millions? A charge for Intellectual Property? Anyone can see this is nonsense. Simply exclude those clearly abused items as pre-tax deductible expenses.

Company Tax pressures

You speak of the disparity in company tax and personal/trust tax encouraging tax sheltering. It is (or should be) fairly easy to spot tax sheltering.

This happens a lot where an individual creates a company entity where there are a very limited number of employees - often only one - who is paid a salary that is artificial and not in line with the business of the company. These can easily be undone.

LAQC’s were undone into LTC’s where the LAQC is “looked through” to see the underlying financial position of the shareholder. Mr Cullen you should be well versed with this. A very similar approach could be used for single-employee companies.

You don’t even need to solve all the problems. As soon as you start taking action on the low hanging fruit, you will find a lot of people change their circumstances to avoid being targeted.

Environmental challenges

Climate change is real. But it is not largely human induced. None of the models and predictions have been accurate. NZ’s contribution to greenhouse gas emissions is miniscule.

To address environmental concerns what we should be doing is:

1. Ditch the ETS. It’s stupid and ineffective.
2. Concentrate on fresh water quality. Hint: It’s not all about farmers
3. Invest in science for real problems, not Chicken Little predictions.

Concern about inequality

Inequality of outcome (that is, household income) isn't the problem that needs solving. Inequality of opportunity is the appropriate problem to address.

If by way of redistribution you level out everyone's household income, what incentive is there to work hard and make a success of yourself? In every country where a model of income equality has been attempted, it has been an abject failure, and lives have been lost as a result.

Stalin's Russia. Pol Pot's Cambodia. Chavez's Venezuela. All failures. Vietnam and China are reasonable successes because they adopted a commercial model.

Scandinavia has been able to have a generous social agenda because they funded it through oil.

If you want to have enough money to fund equality outcomes, become an oil exporter. They royalties could be significant. However it is almost too late to take advantage of the opportunity oil presents.

Update. I have recently heard the announcement of the coalition government to stop all oil and gas exploration.
This is an incredibly moronic decision. It does nothing to change the consumption model, and when the gas runs out, what is going to provide the reliable base load? We export what oil we do extract because it is such high quality. What are we going to do now? Become more dependant on foreign oil? That is monumentally stupid.

Purpose and Principles of a good tax system

I will make a couple of comments on the ideas put forward in this section.

Distribution and equity

You said: "*Some people have more than one option for structuring their business affairs, whereas others do not. For example, an employee will always have tax deducted at source by their employer through the PAYE system. A contractor doing broadly equivalent work may be able to conduct their business as either a sole-trader, a partner in partnership, through a company or through a trust. Such decisions can allow tax rate benefits as well as the ability to access work-related deductions.*"

I refer you back to my comments in the Company tax pressures section. It should be fairly simple to identify some structures that are artificial and apply pressure on them. Others should then fall more broadly into line.

Others like me, have used some company and trust structures not to "hide money", but to protect it from marauders. I am in my 50's now, and I have spent my entire - PAYE earning I might add - life trying to ensure I have sufficient savings in retirement. Those savings include property, but also diversified international shares via KiwiSaver and private savings, as well as local shares, and forestry. To hear now that this government thinks I have been dishonest, unfair, and denied the state income for my own greed is insulting.

The results of the current tax system

As I was reading this section, one thing was abundantly clear. This working group has already decided that a capital gains tax is desirable, and that the target is property.

This is disappointing.

First, you need to go back and look at all your graphs. The tax contribution from the wealthiest demographic is already very high. We all accept that we pay more tax than those with lower income or fewer assets. However a situation whereby transfers mean that a family can earn an income of some $55,000 before paying a single cent in net tax is already skewed.

Your data suggests that very little can be done in the second decile since that is largely made up of retirees who did not undertake any savings whatsoever and rely entirely on the state for everything.

The tenth decile shows that very little is received from the state by way of transfers, and that is mostly superannuation as well. One could argue that the super wealthy do not require superannuation, but if you decided to means test superannuation, at what level would the means testing apply? History shows that it is likely to apply at very modest levels which can put some people materially at a disadvantage, especially the older people for whom their only asset is their house, albeit a valuable one. If it were to apply to assets over, say $2 million, then you're not going to save very much, I suspect.

Which brings us back to the capital gains option. Targeting property for this would be very distortionary. Would this aply only to residential housing? Why? What about the commercial lock-up. What about the parking spaces rented out? What about the marina berths rented out? What about the dairy owner that has their shop and home in the one property?

Already it government has repeatedly said that the "family home" will be exempt. I would be shocked if you did not realise that most speculators - and by this I do **not** mean landlords - buy a property, call it their family home while they do it up, and then flip it. I know several people who do do this with one or maybe two houses a year. I say again, landlords are not the speculators, flippers are.

Landlords report to the IRD, we pay tax on our rental income. I pay in the order of $10,000 tax a year, principally because I have driven down the debt levels. That $10,000 is in addition to my PAYE, in addition to KiwiSaver, and in addition to my managed share portfolio.

The biggest positive effect you can make on taxing capital gain is to remove the family home exemption to the bright line test.

Summary

I personally think that the tax system is progressive enough. Higher income earners already pay a disproportionate amount of income tax. Higher income earners typically spend more and provide higher GST receipts.

My main objection is that I have been paying tax, and as far as I'm concerned plenty of it. I don't see how I have contributed to inequality because I have held these assets for decades and am transparent with the income flows.

The focus on housing also seems to be a desire to tax "expensiveness". More on that below.

Recomendations:
Remove the family home exemption. You will capture the flippers as most will not want to keep houses for two years let alone 5. Yes you might capture some people who are mobile, but the vast majority of families stay put. If necessary adjust the bright line somewhere between 2 and 5 years.

Instruct IRD to investigate small closely held structures. These are mostly held by high income people - IT contractors, surgeons, builders and other trades - as a means to pay themselves an artificially low salary while the contracted entity both attracts large income streams and seems to buy or lease plenty of luxuries for the benefit of very few directors or shareholders. They are often also GST registered and plenty of personal expenditure is made GST exempt using this method.

Your problem here is that this is a legal structure. However these entities should only really be used for genuine employment activities of people unrelated to the ownership structure. Taking steps to investigate and unwind some of these structures will have a cascading effect as others rush to protect themselves.

Do not impose a capital gains tax. Income is already taxed. That tax-paid income is used to buy assets the income of which is already taxed. To impose a further tax on capital gains is manifestly unfair, especially if it is targeted at housing. There are plenty of other real estate categories that would escape this tax as it is being articulated. it becomes murky with home-and-business situations, and you could then argue that any product sold at a profit should be subject to tax on the income as well as the sale. An example might be a restored classic car that is bought for $100, restored, rented for weddings and then eventually sold for $100,000.

Capital Gains Tax has been shown to not have the desired outcome on housing affordability. Australia has a CGT but their housing market is also very expensive.

Alternatively have a bright line after which capital gains does not apply. You can capture flippers by including the family home for 2-5 years, and apply capital gains up until an asset is held for, say, ten or fifteen years, after which capital gains no longer apply.

Tackle **housing affordability** at source. Housing is expensive because there is a shortage. Materials are expensive making houses more expensive. Labour is expensive. I have quotes of $1000 to install a simple gas heater. This makes houses more expensive. Land supply is difficult. Consultation and consents are time consuming, and expensive. Regulation is expensive. The forest manager of my forestry has demanded an additional $750,000 from all the partnerships in order to comply with FMA requirements. How is that conducive to investment? All these things make housing expensive, and despite all of this, a council can still sign off houses that are later deemed to be uninhabitable.

In summary, it appears that the wealthy already pay a very large share of the government income. The middle class and poorer sections of the country pay no net tax. Recent government announcements are actually closing off sources of tax revenue by stopping natural resource extraction (which is how Scandanavian countries have developed such impressive Sovereign Wealth Funds).

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