Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.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.

Submission to the Tax Working Group on The Future of Tax in New Zealand

Submission made by:
Alan and Christine Willoughby
[1]

Sirs

Before addressing the questions asked individually, we consider that it is important for you to remember the quote attributed to Winston Churchill:

"For a nation to try to tax itself into prosperity is like a man standing on a bucket and trying to lift himself up by the handle."

Chapter 2: The future environment:

We see two places in which tax revenue may be increased by taxes on those who most benefit from the New Zealand economy but who at present do not (to our knowledge) pay taxes in New Zealand:

a. Many overseas companies, e.g. the Australian-owned banks, may make obscene profits from their operations In New Zealand but many or all are permitted by law to repatriate their profits and pay taxes in their country of origin, which may or may not be tax havens. We believe that all income derived by businesses in New Zealand should pay tax on that income in New Zealand at the same or a higher rate than New Zealand owned companies.

b. New Zealand has a reputation as an amazingly natural country with huge opportunities for nature and adventure tourism. In the tourist industry, the slogan 'south is safe' is used to encourage tourism in the southern hemisphere due to the apparent safety of these countries compared with northern hemisphere countries. The government department, Department of Conservation, is underfunded to the extent that they rely to a large extent on volunteers to extend their funding to preserve often endangered native fauna and flora, and to maintain the infrastructure of tracks (including Great Walks through internationally recognised World Heritage areas), information centres, and huts in the New Zealand great outdoors. While many of the huts have user-pay charges, many facilities do not. In our view, as these are supported by taxpayers, they should remain free to New Zealand citizens. However, overseas visitors frequently visit these areas free of charge and, worse, some organised groups are taken to those places by unscrupulous Asian tourist operators who charge extra for their clients to visit, then pocket the money themselves. We consider that a tax on non-resident visitors to New Zealand should be made and the entire taxation revenue should be used to fund Department of Conservation to maintain and protect New Zealand's unique natural environment. The amount of this tax, we suggest, should be approximately $25 per person, payable a maximum of annually on their first entry into New Zealand in any calendar year. Such a tax could be collected by an addition to either air fares of overseas visitors, or an addition to cruise ship fares on ships destined for New Zealand ports. This tax would be little different from the taxes charged in Australia for visiting national parks, with the exception that the Australian system is administered on a state basis, so on a recent trip through three states we had to pay a tax on three occasions; at least in New Zealand it would be a single payment.

Chapter 3: Fairness in taxation:

There are two aspects to a 'fair' taxation system:

a. To be seen as fair, taxpayers must see that those who are most capable of paying higher tax, actually do pay a higher tax. "To each according to his means." Even returning to the 'old' taxation system in which 'Family Benefit' was paid to young families for the purpose of enabling parents to adequately provide for their families would appear to be a very positive move. The advantage of that system was the ability of responsible parents to capitalise their family benefit to contribute to their deposit for the family home. We are aware of the changes in society since such a system was operating, but we also notice the increasing negative comments made regarding people who are recipients of the current welfare system and who regard it as a cash cow, allowing them to seemingly obtain unlimited funding for lifestyles which could be seen as toxic. That is blatantly seen as unfair. It is unfair to those who cannot take a pay rise that is offered because that would mean they would no longer qualify for benefits which they relied upon for daycare of their children (we know two close relatives who have suffered from this situation). A fair tax system, associated with a fair benefit system, would never allow a person to be better off on a lower wage or on a benefit instead of a wage. Such a system is blatantly and obviously unfair.
b. To be seen as fair, a tax system must not be seen to penalise those who have worked hard over a long period of time by charging an 'inflation' tax, aka capital gains tax, on the monetary value of assets which have not gained in value except due to the depreciation of the value of the dollar. So an asset purchased 20 years ago may have doubled in the monetary amount that it would now sell for, but that is due to the decrease in the buying power of the dollar, not to the increase in value of the asset. Such an increase must never be taxed. Remove the incentive to succeed and you will decrease the pool of people who choose to remain in New Zealand and succeed; you will end up with a nation of beneficiaries.
c. To be seen as fair, a tax system must only tax actual income, not assumed income as has recently been mooted on the increase in asset value despite there having been no income due to that asset value increase, which could result in the owners of these assets being possibly unable to pay the tax due to lack of income. Punishing the successful is never a good idea as it discourages success and encourages those who would seek success to seek it elsewhere.

Chapter 4: The current NZ tax system:

1. Frameworks:

   In New Zealand (as in many 'developed' nations) there is currently a health crisis due largely to the overconsumption of unhealthy, prepared food at the expense of fresh, organic fruit and vegetables. In Australia, fresh foods are exempt GST; here GST is charged on all foods. While there are arguments for the NZ system, mainly due to its universality and ease of application, the Australian system encourages, and is seen to encourage, the use of fresh vegetables in place of prepared, over-sweetened, preservatised and chemically 'enhanced' 'food' that an increasing number of especially low socioeconomic families regard as their main diet. In addition to this, a 'health tax' could be imposed on 'foods' containing empty calories, e.g. over-sweetened fizzy drinks, oversalted potato crisps and sweetened, low nutrient breakfast cereals. This tax should be directly available to the health system as they will require the revenue to treat those who consume those products.

2. Taxes and behaviour:

The government has recently made comments about the possibility of a capital gains tax, a land tax, bright line tests, LVR restrictions and far more stringent requirements for landlords of residential rental homes. The headlines on a recent property investors' journal read "Investors consider mass exodus". At a time when the increase in demand for rental properties has never been higher and the government has divested itself of large numbers of state owned houses, it seems strange that the government seemingly cannot realise its growing dependence on private landlords to provide accommodation for the increasing percentage of families who are choosing to rent rather than tie up their capital by investing in a house. This trend shows no sign of stopping and is likely to increase in the future. The argument that a house owned by a family houses the same number of people as a rented house appears to be invalid; statistics show that there is an average of around 1.5 times the number of people living in the average rental as there are in an owner-occupied home. Thus the number of 'homeless' and the demand for rental houses will increase in future as more people find it impossible or too great a commitment to purchase their own home. It would appear, therefore, that serious thought should be given before punitive taxation measures are taken against those who provide the major part of the rental home resource. Landlords are usually property investors and run their operation as a business like any other. To tax them in a way that is seen as punitive when compared with taxation of other business ventures would be a potentially disastrous move with far-reaching negative consequence well into the future as residential landlords move out of that market and into the more lucrative, lower maintenance commercial property market.

3. Retirement savings:

Kiwisaver is an excellent savings system and, in our opinion, should be made compulsory. It is unfortunate that the government has removed the incentive to enrol for Kiwisaver as that was a major incentive for enrolling in the scheme.

In the future, an increasing number of people will be self-sufficient in retirement due to their Kiwisaver savings. The government should forecast this change and discuss publicly the probablilty of decreasing the retirement benefit once the Kiwisaver savings reduce the dependence on pension benefits. This would also provide greater incentive for those who have not joined Kiwisaver to do so to avoid poverty in their retirement.

Comments we would make regarding the remaining chapters and subjects within those are covered in what we have written above.

Thank you for the opportunity to contribute our views. We trust that these will be carefully considered.

Alan and Christine Willoughby