

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.

Dear Sir Michael and members of the Tax Working Group,

This is a submission on the future of tax in New Zealand, with particular reference to the proposals and questions set out in the Working Group's Background Paper.

Sir Michael you have said that the Tax Working Group is not about how to raise more revenue for the Government. I submit that this promise should be kept.

Revenue neutrality

Where new taxes and tax hikes are recommended by the Working Group, I submit that the Working Group should identify other areas where the burden can be reduced to compensate taxpayers.

This is not only about compensation of taxpayers notwithstanding its importance. It's also about limiting the size of government. "We are from the government and we are here to help". Ronald Reagan got it right – governments are a dead hand on the economy. The only money they have they must take from their people and in any taxation 'reform' this must be the guiding principle.

Bracket creep / fiscal drag

The effect of inflation pushing taxpayers into higher income tax brackets is a dishonest policy that allows politicians to tax New Zealanders harder, without ever having campaigned on it.

I submit that the Working Group recommend legislating annual income tax threshold adjustments indexed to changes in average earnings, or, at minimum, inflation. I note that many government benefits and entitlements are indexed — income tax thresholds should be no different.

Company taxation

New Zealand has one of the highest company tax rates in the OECD. The result is a low-investment, low-productivity economy.

I submit that if the Government is interested in encouraging greater investment and growth in our productive sector, it should cut the headline business rate. This is preferable to the Background Paper's proposal of just cutting rates just for smaller businesses, creating a two-tier business tax regime with the associated complexities and incentives for business to stay small.

Cutting rates for small business makes no sense. A small business which survives the first 7 years (which few do) certainly contributes to growth and employment but so do large businesses. A two tier system with internal brackets would be a nightmare. The amount of legislation about tax is already swamping the business.

Maori Authorities and charities

New Zealand's company tax system should not include loopholes that give certain groups competitive advantages.

I submit that the 17.5% income tax rate for Maori Authorities should be abolished – so that Maori Authorities are not provided with a cash flow advantage over non-Maori competitors.

I submit that companies owned by charities should only be allowed to have the charitable tax deduction for profits actually distributed back to the parent charity, or specifically applied to the charitable purpose of the parent. Where such charities are Maori authorities then the proposed charitable rules should apply to the extent of their charitable activities.

Capital gains tax

A tax on capital gains may discourage investment, stifle wage growth and distort the economy. The point is that no one knows what the consequences would be – intended or otherwise. It would also cause a 'lock-in' effect, meaning investors would be discouraged from shifting capital out of unproductive investments. You would be amazed at how often investors won't sell an investment dog because of the loss against purchase price.

However, there is no capital gain on bonds or cash, so any CGT would target equity. The expected return on real estate/houses/buildings is about midway between bonds and shares so in the extreme shares must be the target. On average and over time the expected return on a portfolio of world shares is about 7% (after inflation of 2%). Within this 9% the dividend yield will be about 2%. So, the inflation adjusted expected gain on world shares is about 7% pa.. However, the volatility of the world index is about 14%. This means that over time and on average the expected return will move between -7% and +21%.

With a potential return range this wide a government would have a very unreliable income stream and investors would be subject to unreasonable reporting costs. The implementation of such a system makes my head ache.

I submit that the Government should not implement such a tax.

Taxes on savings

We should not allow the tax system to discourage saving. Savers (namely those with retirement funds and investment schemes) currently pay tax on 'interest' that, in practice, partially just reflects the effects of inflation.

I submit that we should allow taxpayers to deduct inflation from taxable income earned via saving.

Environmental taxes

I submit that any proposed environmental taxes should come with recommendations which make them revenue neutral.

I am inclined to think that tradable rights for water would establish both a market price and direct water to its most/profitable/beneficial use. We will never know the demand for a water fountain until citizens are required to pay for it. Sheep farmers in Marlborough will never change their land use until the real cost of their farming is known. Certainly ‘mother knows best’ politicians should avoid targeting specific industries or uses of water.

This matter is too complex and its widespread interests are too varied. The Working Group should recommend a special study bringing together the various interest groups to propose the ways forward. At this stage the Working Group might confine itself to proposing an objective framework for future water uses/rights so that these and environmental objectives can be measured and analyzed.

Lifestyle taxes

A feature of a democratic society is that individuals are encouraged to take responsibility for themselves. For the less able there needs to be assistance and society seems to accept this. However, there is a point at which the state crosses the boundary in seeking to take away from individuals their right to determine their own future. “We are from the government and we are here to help.’ Ronald Reagan was spot on. Governments are a drag on society. Basically, the message to government is “Get out of the way and I will feed Paris !!”(Bastiat).

On another note ever since its introduction special interest groups have clamored for adjustments to GST – to make fruit more affordable, to make fuel more affordable, for various sanitary products. The NZ GST system is the envy of the world because it is comprehensive. Any compromise here is likely to increase the economic cost to all NZers without achieving the sought-after benefits. (Do we remember increasing the accommodation allowance only to landlords increase rents?). Change GST from its present and watch for the unintended consequences and the failure to achieve whatever was intended.

Beyond the points made above, I endorse the [broader submission](#) made by the *New Zealand Taxpayers’ Union*.

Yours sincerely,

Jeremy Laurenson