

Tax Working Group Public Submissions Information Release

Release Document

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[1]

27 April 2018

Submission on Tax Working Group Questions

The future environment: What do you see as the main risks, challenges, and opportunities for the tax system over the medium- to long-term? Which of these are most important? How should the tax system change in response to the risks, challenges, and opportunities you have identified? How could tikanga Māori (in particular manaakitanga, whanaungatanga, and kaitiakitanga) help create a more future-focussed tax system?

How the Govt gets money or credit to trade or pay for governance costs needs to change - primarily the Govt needs to reduce the tax take. Taxes (including all the capital sourced via whatever terms are used such as levy, tax, duty, GST, Council fees and rates; and in some instances - fines) are disproportionately gathered from the lowest and middle-class groups in society relative to their income.

One of the biggest **risks** are special interest groups trying to co-opt the tax system to serve their ideological agenda, for example, public health academics, environmental lobbyists, and poverty lobbyists.

The Government needs to reduce their expenditure by reducing the amount of services and projects they are running and funding.

How to reduce cost:

1) reduce fraud, corruption and misspending within and by Government and Crown agencies. For example, Universities currently spend millions of dollars on legal fees and settlements in their fights against staff. This is just one example of an enormous misuse of taxpayer dollars in just one Crown sector.

2) prevent loss through tax avoidance. New technology could be required to be used to ensure that less and less transactions are cash based and that business transactions are 'processed'. There would be huge implications for New Zealand businesses and most likely widespread voluntary closure and failure of small cash businesses if they actually had to pay tax on their real income. Tax returns from cash businesses should be subject to heavier requirements for auditing to prevent personal (food, clothing and accommodation) expenses of the owners being run through the business. Along the same lines, Local Councils need to put more energy into monitoring unconsented building and ensuring consent and inspection fees are collected. Unconsented building work is contributing to the inflation in housing costs, as these 'flippers' are able to renovate below actual cost at a faster pace, resulting in a greater profit and advantaging them as buyers in the housing market. The Council fees would be able to be reduced across the board if home renovators/flippers and developers were all paying the fees. This would help reduce the cost of housing. I once put in an official information request to the Auckland City for an account of unconsented building works. I never got a written response. I got a phone call saying it was too hard to pull the figures together and that they were overwhelmed and under-funded – they couldn't follow up on all the complaints.

Don't increase taxes – this will hurt honest law-abiding tax-paying people and their businesses. Do more to **reduce tax avoidance and tax fraud**. The business environment and economic growth will be all the better for the removal of dishonest and corrupt dealers.

3) reduce the size of Parliament and the size and number of Government agencies.

New Zealand is a small highly advanced nation. The political system needs to be reviewed, partly because it enables representatives of the people to make spending and funding decisions about matters they have no knowledge or experience of. The analysis and recommendations of qualified independent bipartisan experts should hold more weight in the policy analysis process. Politicians treat taxpayers' money as if it is their personal pocket money to spend on travelling around the world, funding their pet causes and charities. The NZ Government should be reduced to governing essentials.

The Government currently wastes millions of dollars funding services that underperform or are just wholly ineffective. A perfect example, is The Quit Group – established as a charitable trust. When it lost its Ministry of Health contract for services, it had about \$3 million 'saved' - \$3 million held back from delivering on their contracts! The Ministry of Health did not take the money back even though the group was redundant! The four Board members were paying themselves collectively over \$100,000 a year. The money should have been paid back to the Ministry of Health.

An essential pillar of work conducted by Government funded public health workers is advocating and lobbying for an ever increasing allocation of funding. This is despite State Services laws that say that Government funded public servants are not to use taxpayers' money to conduct "advocacy" – another 'waste' of tax that could be rerouted to cover essentials. Several taxes, implemented at the demand of public health, deserve to be reviewed due to the poor quality of the 'evidence' that was fed to politicians supporting these taxes and levy's. Sugar tax is the latest example, but the perverse effects of excise tax on tobacco is now at high and unethical levels.

Purposes and principles of a good tax system: Principles for assessment: What principles would you use to assess the performance of the tax system? Defining 'fairness': How would you define 'fairness' in the context of the tax system? What would a fair tax system look like?

The first principle of a good tax system should be Te Tiriti o Waitangi. How is every tax, regardless of what it's called, honouring the articles of Te Tiriti o Waitangi, or in breach of Te Tiriti o Waitangi? Fairness needs to be defined with Maori. A tax that disproportionately drains Maori individuals, families, landowners and business owners is breaching the Treaty of Waitangi. Programmes funded with taxpayers' money that disproportionately deliver benefits and services to NZ European are breaching the Treaty of Waitangi. For example, as Marama Fox said, Maori do not benefit equitably from the current superannuation programme. There are many many similar examples across the health and welfare system. Tobacco tax is paid at a disproportionately higher rate by Maori than non-Maori. A 'sugar tax' would similarly disproportionately be taken from Maori.

The current New Zealand tax system Frameworks: New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?

Govt needs to be more honest about the tax system, whatever it is. Currently, language and rhetoric is used to mislead and misdirect the public so that the majority *think* they understand what's being taken from them and why, but the majority **absolutely do not** comprehend how much they pay in tax and why they should pay so much, nor why the rate is not equitably paid by different people across society. Every dollar amount taken by the Government or any Crown agency or organisation (educational facilities, Councils, hospitals) from an individual or business or other entity – should be clearly identified as a "tax". For example, when buying tobacco, the receipt should show the portion

of the total that is excise tax, and the portion that is GST. Same with alcohol, petrol, healthcare bills, speeding fines etc.

The current tax system is not “low” – compared to what? What is meant by “broad-based” – all documentation communicating about tax and purporting to be providing fair and accessible information to enable citizen opinion to be gathered, should be presented in lay language.

Income tax, supposedly uses a threshold system. This isn’t applied consistently. For instance, I opened a bank account for my child to teach her about saving money. Many parents are encouraged to do this. Withholding tax on interest earned is automatically deducted by the bank and paid to inland revenue. There is no longer a system whereby I could put in a tax return for my child to get this tax back, despite that her ‘income’ fell well below the bottom threshold of earnings to attract tax. This is wrong! Adults can sell goods they create from a craft or hobby up to a certain amount each year without having to declare the income or pay tax on the goods. Yet a child is taxed on interest earned if put into a bank account!!

Taxes and behaviour: Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?

NO! The use of taxes to modify behaviour needs to be reviewed. It was based on Anglo-European social science theories that have since been found to be fundamentally flawed or simply unjust and unethical.

Public health have gone way beyond their mandate to protect public health and there are several demands for taxes and programmes that have no robust scientific evidence that reduced harm to health will result. Sugar tax is one example. Tobacco tax is another.

Matauranga Maori, that is, Maori knowledge has not been listened to or even invited to advise on this topic. The use of taxes to modify behaviour is at high risk of being used to further punish and marginalise stigmatised groups, and they are used to further ethnocide – for example, trying to stop Maori practising traditional protocols.

Retirement savings: Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?

Improving financial literacy across the whole population would be a better option. This needs to start with the Government being honest about money and the way in which the economy currently runs. As above, call a tax, a tax! New Zealand citizens deserve to know how the Government and all its agencies (including Universities) is spending, and misspending, its hard-earned money.

Stop taking so much money off people and maybe they’d be able to invest for their retirement. The current tax system creates and maintains a majority of citizens in a dependent state. Teach people how money works. Help people understand that borrowing more money than they have and more than they might ever earn is not necessarily smart.

Help people hang on to more of their earnings by reducing theft and fraud and scams that rob people.

Shut down Lotto. This is a Government run gambling service. This is not a legitimate and fair way to get money from people. Instead, teach people how to invest their savings safely and for best return, so that they accumulate more of it and potentially have more by the time they retire. I occasionally slip and buy a basic lotto package, which costs \$16. If I did that weekly, that’s \$832 a year! Without

adjustment for interest earned, or withholding taxes taken from it while it sits in the bank – an adult 18yrs buying a lotto ticket every week until they retire would have spent \$39,104!

Support people to give to charities. Increase the rebate on donations. This would help alleviate the pressure and demand on Government to fund non-essentials.

Don't tax benefits! It's dishonest. Benefits are paid with taxpayers' money. Giving a benefit paid from tax and then taxing it is the same as giving money over to help someone and then immediately taking some of it back. This feeds the dishonesty and confusion being perpetrated on the public.

The results of the current tax system Fairness and balance: Does the tax system strike the right balance between supporting the productive economy and the speculative economy? If it does not, what would need to change to achieve a better balance?

No. See above.

Tax and business

Does the tax system do enough to minimise costs on business? Does the tax system do enough to maintain natural capital? Are there types of businesses benefiting from low effective tax rates because of excessive deductions, timing of deductions or non-taxation of certain types of income?

Thinking outside the current system What are the main inconsistencies in the current tax system?

The main inconsistencies are in how "cash businesses" are able to avoid declaring income and thus avoid paying tax. This is so widespread it is part of the New Zealand culture. I once was looking to buy a lunch bar. I went through an agent to identify a lunch bar to buy. Of the several that were on offer for sale, only one had an honest set of books to look at. I was told this was because of her religion. The other businesses apparently had no books they could show, or I was openly told, they had 2 sets of books. Part of the sale pitch was that these were "cash" businesses so the books don't represent the true income.

To add to the complexity of taxing 'cash businesses', a different sort from the above, are the fake cash businesses that are set-up to provide losses the owners can apply against other income. Auckland is flush with these fake businesses, like cafes or food shops, retail shops etc that do hardly any trade. The shops and cafes appear empty, or never seem to have customers, and they do not welcome customers. One café I went in to, appeared to be open, in that the lights were on, the doors were open and a worker was inside. I had previously been there once before and had been served so I thought they were for real. This time when I went in she claimed they were not open. Others barely turn their lights on. There should be an easy way for the public to assist inland revenue to identify these fake businesses, but I get the impression inland revenue doesn't have the capacity or instruction to investigate these tax avoidance businesses. It is as if they are a Government sanctioned tax avoidance strategy.

Which of these inconsistencies are most important to address? Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?

The most important inconsistency to address is **tax avoidance** via the use of fake businesses set up to deliberately run at a loss. And secondly, to require greater use of technology to reduce cash transactions, and or, ensure all business transactions are 'processed'.

As above – **don't introduce more tax**. Reduce the amount of money taken from each person and the range of taxes, reduce tax avoidance and fraud, reduce the size and expenditure of Government – cut away non-essential services and encourage the public-private sector to fulfil more of the non-essential public's needs.

Housing affordability

How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?

As above. Plus, the costs of building and renovating, for honest people, is extraordinary because of enormous Government charges and taxes. To build a new house in Auckland, unless you are a huge property development business that negotiates Government discounts on fees (the taxes), can involve at least a \$25,000 new dwelling fee (tax), Watercare charge \$5000-\$13,000 for a new account (another tax), the local Council charge separate fees (taxes) for a resource development application, building consent application, inspections and then the Code of Compliance certificate. There are further taxes taken at each step of progressing a new subdivision. What's more other legislation makes sure this process is lengthy and neighbours are now withholding consent for developments until 'paid' (a bribe).

Housing affordability is a complex problem that is not going to be solved by simplistic and flawed proposals, such as, "tax it"!

My recommendations are as above: reduce fraud and tax avoidance. Reduce inequitable tax discounts that favour large developers.

Reduce the size and expenditure of local Government. Cut local Government back to essential services. Local Government should not be duplicating health promotion that is currently funded through Vote Health.

Place a moratorium on property rates rises.

Rates (a tax), water charges and building insurance (usually because of the increased earthquake levy or other tax component) go up annually and these increases are passed on to tenants through rent rises. If the Government truly wanted to address rising rents – they would stop raising these taxes that cause rents to be increased. Perhaps, provide a rates rebate for homes rented to low income households?

The Government should buy back control over electricity and water prices, and then reduce the profit margin. The cost of power and water is the same regardless of people's ability to pay. Low income families have no option but to limit their power and water consumption, which increases risks to health.

Capital gains tax & Land tax

Should New Zealand introduce a capital gains tax (that excludes the family home)? If so, what features should it have?

Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?

No! Any taxes applied to land and property has huge implications for Maori and must be discussed and resolved with Maori as promised in the Treaty of Waitangi. Too much land has been stolen from Maori already and a capital gains tax or a land tax has very high risk for being misused to continue the shift of resources from Maori to NZ European.

There are so many ways that dishonest people can get around a false provision like excluding the family home. Honest people will be disadvantaged and any law or policy as proposed would encourage more illegal and fraudulent behaviour.

Environmental taxation

What are the main opportunities for effective environmental taxation? Progressive company tax.

Should the tax system do more to support small businesses? In particular, is there a case for a progressive company tax? GST exemptions for particular goods.

Tax rebates and discounts should be offered for businesses and products, such as, solar energy products. At the moment it is uneconomic to retrofit residential housing with solar power technology, or with grey water tanks. It is also impossible to go off-grid in Auckland. For instance, we looked in to putting in a rain water tank instead of hooking up to Watercare (to avoid the huge new account tax). They said it is unavoidable – everyone has to have an account even if they collect their own water, if wastewater is going to run to the street.

Do not add more taxes! Use differential taxes, to encourage a shift to proven environmentally better products and services, for instance via removing GST on some products; providing tax rebates for businesses that can show they are not just carbon neutral, but regenerative. Property developers, small and large, should be assisted via advantageous pricing to build residential and commercial homes and buildings that co-generate energy, e.g. via collecting power and feeding excess to the grid; by collecting rain water and reducing waste water. Work with industry to work on and build these solutions. Industry and social entrepreneurs are way ahead of academics and Government policy analysts in this area.

Should the tax system exclude some goods and services from GST? If so, what should be excluded? What else should be taxed to make up for the lost revenue.

Some life essentials should be exempt from GST:

- fresh (raw, unprocessed) fruit and vegetables
- unflavoured milk
- residential electricity
- residential water and wastewater
- residential property rates
- sanitary pads and tampons
- water tank refills in areas without local Government supplied potable drinking water (yes there are 3 areas in New Zealand without town supplied safe water!)

There is no need to increase tax on anything else to make up for this. People will spend the 'saved' money on other items so it won't be lost. Collecting the tax lost through tax avoidance as detailed above will well and truly cover the removal of these unfair taxes and should enable eventually removal of GST altogether because it is disproportionately paid relative to income.