Tax Working Group Public Submissions Information Release

Release Document

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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.

Tax Working Group Submission

Mike Smith
[1]

I do not wish to be heard in support of this submission.

Taxes are what we pay for a civilised society

Too many cracks have been papered over for too long in our society. In order for New Zealand to construct a properly civilised society, we will have to contribute by paying more tax. It is that simple.

The Government will need much more revenue in the coming years to address New Zealand's social deficits, such as inequality, insufficient pay for essential service providers, environmental degradation, and public services.

The New Zealand public sector is in the midst of an underfunding crisis. The nation's infrastructure has been severely run down. High inequality in wages, salaries and income from ownership of capital adds to the pressure.

Underfunding of basic services such as health and education, and holding benefit levels below the levels required to support an acceptable standard of living, means that holding Government expenditure to the "historical level of 30% of GDP" is undesirable and arguably irresponsible. The Tax Working Group should be constrained by an arbitrary cap on tax revenue. There is a strong case for a higher level of tax revenue and borrowing to assist in funding capital investments and the non-Core component of expenditure.

The 2017 Labour Manifesto stated that "the tax system should be progressive, with those who are more able to pay tax contributing a greater share, and it should be fair and balanced across income, consumption and wealth to pay for the needs of our society." Those should be the guiding principles for the Tax Working Group, as the New Zealand tax system has gone in the opposite direction since 1999.

Within the Tax Working Group's Terms of Reference I support the reasoning and the recommendations of the NZCTU for:

- A reduced rate of GST;
- A Capital Gains Tax exempting the family home, but treating all other capital gains as taxable income, both for fairness and to dampen speculation in assets including housing, while encouraging investment in productive assets;
- Consideration of a tax on wealth, including property but exempting the family home (one possible method would be a tax on a deemed "risk free rate of return" on assets);
- Investigating other ways of removing the tax advantages that investment or speculation in property enjoys relative to productive investment;
- Taxation of international companies like Facebook and Google which avoid tax in various ways including shifting profits overseas, not having a local presence, and other tactics not being actioned under the Base Erosion and Profit Shifting agenda;
- Taxes on excess profits resulting from windfalls or market dominance;
- A Financial Activities Tax (FAT) on financial institutions as proposed by the IMF;
- Taxes on cross-border financial transactions, both as a revenue source and to stabilise international financial flows and the exchange rate of the New Zealand dollar;
- A review of the company tax structure and its interaction with dividend imputation to

ensure investment income is taxed sufficiently;
• Consideration of ending tax deductibility of interest on related party borrowing;
• A review of the taxation of closely held companies to make it difficult to use them for tax avoidance, and to provide tax relief for local owners of small firms;
• Ensuring that Trusts other than Charitable Trusts cannot be used for tax avoidance;
• Broadening of the tax base by recognising wealth transfers such as gifts and inheritances as forms of income;
• Pollution taxes to force polluters to bear the costs of all significant externalities they cause;
• Ensuring New Zealand's resource use taxes and royalties provide a fair return to New Zealanders and incentivise efficient use of those resources;
• Ensuring IRD has enough resources to track down tax evasion and abusive tax practices;

Specifically also the Tax Working Group should

- Set aside the arbitrary 30%-of-GDP ceiling on tax revenue;
- Recommend further reviews to consider restoration of progressivity to income tax rates by means of for a tax-free income band up to $35,000, a 38% rate on income between two and three times the average wage, and a 45% rate on income above that (paragraphs 5.6– 5.8);
- Look at full or partial replacement of Working for Families with a tax-free threshold on personal income (paragraph 6.3);
- Recommend that the GST rate should be reduced immediately to 12.5 percent and GST should be progressively replaced with other forms of taxation (paragraph 7.1);
- Address directly the issues raised by tax avoidance on the part of multinational companies not being actioned under the Base Erosion and Profit Shifting agenda;
- provide clear advice on addressing these and future challenges to the tax system in international double taxation agreements and trade and investment agreements (section 8).
- Recommend introduction of a Financial Activities Tax on the financial services sector (paragraph 9.13);
- Give consideration to a Financial Transactions Tax on cross-border financial flows (paragraph 10.2);
- Define income to bring capital gains, gifts, and inheritance within the ambit of the income tax system
- Urge development of a wealth-holdings register (paragraph 12.8);
- Review options for a wealth tax targeted at the top of the distribution (paragraph 12.9);

- Recommend adoption of a broad-based land tax with exemption for land under the family home, and a value-per-hectare lower threshold (paragraph 13.4);

- Recommend returning the company tax rate to 30%

- Investigate an excess profits tax

- Strongly recommend an increase in resources available to IRD to track down tax evasion and abusive tax practices, to ensure that everyone in the community pays their fair share of tax

- Review the level of existing resource levies, taxes and royalties

- Recommend major improvements in the quality and accessibility of tax statistics