Tax Working Group Public Submissions Information Release

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Submission to the Tax Working Group
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A. Introduction and Background

I am a New Zealand Citizen by choice rather than birth and I arrived here at the age of 48, under the then applicable skilled migrant category.

I provide below a brief summary of my experience of the New Zealand job market to the reader, only for the purpose of facilitating an understanding that being not fully absorbed into the workplace at the quantum of working hours and level of responsibility, I had been accustomed to, allowed me to became a 'gig worker' (as referred to in the "Future of Tax Submissions Background Paper"). What I would label as underemployed.

Despite my entry to New Zealand as a skilled migrant I discovered that my knowledge, experience and natural capital represented unwanted baggage for a Kiwi employer. Being able to 'hit the ground running' is what matters. Businesses in New Zealand have the perception that they cannot afford the luxury of providing prospective employees with time to get up to speed with local methodology and cultural norms. There is no room for accelerated learning curves and no patience or willingness to embrace cultural diversity as a potential asset to the business.

My time as a 'gig worker' has given me access to and experience in:

- The IRD's large corporate office in Auckland;
- Business development within the New Zealand business community on behalf of a global accounting software company with a regional head office in Australia;
- Working for a firm of chartered accountants in a small regional town in the Waikato;
- Volunteering as a treasurer of two not for profit entities;
- Volunteering at the Citizens Advice Bureau;
- Volunteering for Business Mentors New Zealand and
- Providing business management advisory services to small Businesses in the Waikato.

This experience provided me the opportunity to view the New Zealand economy, political climate, business sector and tax policy from a distance.

Set out in the following pages are some points that I think are worth considering by the Tax Working Group. I would be happy to make myself available to answer any questions or provide the background data and information I used to prepare this submission.

1. The Regressive Nature of the New Zealand Tax System.
    a. At the risk of stating the obvious it is a known fact that a tax on discretionary income is a regressive tax that favours the rich over the poor. GST being the main example of a regressive tax in New Zealand. Arguing that the nominal GST rate is much lower than other OECD countries is a meaningless comparison. One needs to compare the level of discretionary income and buying power between countries not nominal rates.
    b. The impact from the initial introduction of a new discretionary tax (such as the recently proposed road tax or sugar tax) and any subsequent increases in the rates of these taxes have a devastating impact on low income earners. This impact also has an inflationary impact that proportionately impacts on the poor more than the rich.
    c. When discretionary income barely covers an individuals' basic survival needs like shelter, food, clothing and heating costs; any introduction of a new tax or increase in the rates of these taxes, such as sales tax, fuel tax, city/regional council rates, or excise duties all seriously erode the ability of low income earners to survive each month. Not to mention that for most low income earners GST is levied and paid on all their discretionary income (other than accommodation). This means that their average tax rate is relatively higher than a wealthy individual that saves a large part of their discretionary income. The regressive nature of GST coupled with inflationary pressures on food and housing can push more and more people into a poverty trap that forces them to rely on food subsidies, charity giving and results in crowding in shared accommodation or worse still living in their cars.
    d. The larger and more insidious social impact is that it strikes at individuals' sense of self-worth and this has a concomitant impact on the family unit and results in a sense of futility. It leads to the destruction of the social fabric that keeps people motivated and happy to contribute to the greater good of their families and society as a whole.
    e. The impact of these regressive taxes is exacerbated by inflationary pressures on food and housing costs such as the impact that climatic conditions has had, as in the recent shortage and resulting astronomical costs of freshly grown New Zealand vegetables, not to mention the housing crisis (whether due to shortages or exorbitant rents/values).
    f. There is no doubt that fresh food inflation is far higher than average wage/salary increases (this increases overall GST collections - refer IRD statistics, available on their website). I refer to such items as vegetables, fruit, dairy, eggs, meat and poultry, in other words the healthy items located in the outer perimeter of the supermarkets' aisles, the very items that would not be subject to a sugar tax; which ironically are mostly locally grown, cultivated and manufactured, but whose prices are based on an 'import parity pricing' model.(What is my empirical evidence - my own grocery bills as these statistics are not readily available from government sources).

  g. The announcement today (30th April 2018) that Auckland will implement a fuel tax is most distressing. It is another example of a regressive tax that will increase the poverty trap for many of Auckland's residents, for the reasons enumerated above, poorer people have less discretionary income, this tax is inflationary and has a multiplier effect - shrinking discretionary income, not to mention that wealthier residents generally have shorter commutes as they live closer to their areas of employment.

2. Narrow Tax Base:
   a. Although there may be few deductions provided to individuals in the computation of taxable income, the derivation of taxable income excludes all gains of a capital nature. This tax regime favours the affluent members of society and places a greater burden on those taxpayers who spend all their after tax income on basic human needs, being shelter, food clothing, transport, schooling, personal toiletries, dentistry, and whatever is left over for sports and recreation (all of which carries either a GST or excise cost). Hence these members of society have a low savings profile and a relatively high average tax rate.
   b. I would dare to suggest that taxing the very first dollar of income must be a contributing factor in the designation of New Zealand as a high wage economy given that a basic living wage in New Zealand has to be determined on an after tax basis. In other words if one, as an example, looks at the British tax system the first £11 850 of taxable income is exempt from tax.
   c. Historical tax allowances, allowing the offset of tax losses from residential housing and related deductions as for example with depreciation allowances, have had a significant impact on the distortions we witness today in the residential housing market. What this proves is that it is never a good idea to use tax policy to favour a particular area of the economy; it is a blunt instrument and often leads to unintended/unforeseen consequences. Moreover, the tax planning community behave like oxygen, they gravitate immediately to fill any vacuum created by targeted tax allowances, which leads to long-term economic and social distortions.
   d. Excluding all capital gains from inclusion in taxable income also has the effect of distorting the tax net in favour of more affluent taxpayers and yet the level of savings and capital investment in the New Zealand economy is not notably higher (in fact possibly the contrary) as compared to other economies in the OECD, who all have some form of capital gains tax.
   e. A capital gains tax is needed to prevent the relentless arbitrage between capital and revenue gains. There should definitely be an exclusion for the family home and the percentage of the capital gains that are taxed need not be one hundred percent. Furthermore, it should be levied only on realised gains (a cash basis only) and genuine capital losses should be allowed to be offset against capital gains and carried forward, where there are no capital gains to absorb these losses.

f. Other ways to broaden the tax base such as inheritance taxes (which can be levied on the physical realisation of the asset rather than at the time of change in ownership), stamp duties and land transfer costs should be considered.
g. It is remarkable that the level of gaming tax far exceeds excise duties and this begs the question of why alcoholic beverages (and in particular RTDs which have a high level of sugar) are not subject to higher punitive taxes at the same level as tobacco products, given that excess alcohol consumption has been proven to impact on New Zealanders' physical and mental wellbeing and leads to so many serious traffic infringements and other serious anti-social behaviour?
h. The above suggestions are not likely to result in large immediate increases in tax collections but they have the effect of broadening the tax base and add more fairness and neutrality to the tax system. They also provide more gears and levers to allow for changes in the future demographics (like an aging population) in New Zealand.

3. Structural Issues

a. The three year period between parliamentary elections may be a factor in preventing the full benefit of changes to tax policy and other structural reforms from filtering through the economic and social systems. Macro policy changes by their very nature require time to bed down before their full impact is felt and embedded into the machinery of government.

   Politicians are easily distracted by upcoming elections almost as soon as they have won an election. The party machinery is quickly set in motion to focus on the next election and this leads to a short-term policy horizon designed to appease perceived electorate demands with little regard for the long term structural needs of the economy and the country as a whole. Competing political ideologies that are at odds with each other are permanently oscillating 180 degrees between these opposing views.

   Managing a tax collection agency in the age of computerisation has become a nightmare because policy advisors and their political masters, assume that it is a simple exercise to adjust the data base for new types of taxes, record keeping and the filing of such information. Furthermore, it is often assumed that it is easy to extract data at the push of a button, little realising that the design of the database and the change in tax policies may not necessarily be a simple adjustment within the existing design of the database.

   It is suggested that overall tax policy and any changes thereto should be agreed to on a non-partisan basis so that, the level of tinkering with the taxing statutes is limited to correcting any unintended loopholes or drafting errors.

b. Whilst a healthy democracy should support and thrive in an environment of competing ideologies and opinions, it is disquieting to witness a growing divide within New Zealand, between those who sway towards the American form of Libertarianism and Laissez-faire capitalism as espoused by the likes of Ayn Rand and more recently Paul Ryan (Speaker of the American House of Representatives) and those who favour socialism. These schisms cannot be ignored and need to be ventilated so as to prevent a head on collision between the two disparate ideologies. Ignoring this issue could cause irreparable damage to the very fabric of New Zealand society. It is there every day in full view in the newspapers, radio and TV talk shows across New Zealand.

   You may ask what this has to do with tax policy BUT it has everything to do with tax policy and this was made abundantly apparent, when it was first suggested by the Labour Party that a Capital gains Tax should be considered.

c. It is noted that New Zealand often compares itself to the likes of the Nordic countries, however New Zealand's geographic location and relative age as a nation state, should not be underestimated when it comes to making comparisons:
   a) as a remote island economy there are certain constraints that make direct comparisons misleading:
      i. our distance to market;
      ii. Having one of the most expensive shipping routes;
      iii. Our dependence on foreign banks for funding and global corporations who fund and supply large capital infrastructural needs, such as plant and machinery;
      iv. Not being a member of the EEC, with such benefits as cross pollination with physically close neighbouring states as well as an element of cross subsidisation between these nation states;
   b) We define New Zealand as a developed economy but we ignore that it is only in the last +/-40 years that New Zealand's economy has evolved away from being a purely pastoral economy;
   c) We seem to brush aside the fact that we have a diverse population at different levels of educational, social and economic development. Ignoring this reality prevents us from implementing policies designed to address these divides. Successive governments have dealt with this by on the one hand increasing targeted welfare payments to certain groups but simultaneously doing nothing to address such social issues as the growing number of persons living under incarceration, whilst simultaneously actively reducing the stock of state housing, to mention just two such examples.

4. The Danger of Adopting an Insular Vision

   The recent attacks by local business leaders and the press on Foreign Corporations doing business in New Zealand by accusing them of tax evasion and of taking advantage of New Zealand serve no purpose. This attitude reflects either ignorance of, or a deliberate case of Myopia with respect to:

   a. tax law and the impact of double tax treaties;
   b. the ability of the Revenue authorities to police transfer pricing due to such factors as inadequate resourcing and the inordinate power wielded by the large local legal and accounting practices, whose interests are served by assisting in tax avoidance measures and in some instances money laundering practices, as illustrated by the release of the Panama Papers;
   c. the very business leaders who whinge about foreign operations having unfair tax advantages, are themselves complicit in similar tax structuring arrangements as in the use of offshore tax havens and financial arrangements to finance large infrastructural projects, machinery and equipment.

5. Recommendations
   a. Re-design the individual tax tables so that more of the income tax burden is levied on the more affluent members of society;
   b. Consider introducing GST exemptions on locally grown/farmed fresh (non-processed) fruit, vegetables, milk, butter and meat and poultry. Many countries that are less developed than New Zealand have successfully managed a dual GST system and there is no reason why New Zealand cannot do so too.
   c. Widen the tax base so that the tax burden is shared in a fairer way.
   d. Try and build consensus among the different political groups so that economic policy becomes a shared vision rather than a football to be tossed around at the expense of the overall economic welfare of all New Zealanders.
   e. Encourage a shift back to a more egalitarian approach to sharing the wealth of the country amongst all residents rather than an elite select few.
   f. Encourage New Zealanders to embrace and appreciate cultural diversity, knowledge and experience, by actively demonstrating that their fears are based on stereotypes which bear very little or no resemblance to reality.