Tax Working Group Public Submissions Information Release

Release Document

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Submission to the Tax Working Group Secretariat

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[1]

30th April 2018

I see the main risks to a fair tax system is the ability of those with resources to organise their (and/or their business) affairs to avoid paying anything like their fair share of tax. Not long ago in Australia, Kerry Packer famously spent thousands of dollars on tax lawyers to avoid paying tax that had been calculated as something less than $20. Such is the feeling of entitlement.

Global corporations and even local businesses can organise their books so that the NZ arm of the business makes minimal profit, due in part to bogus payments to tax-haven subsiduaries. This is well-known but it's simpler to remedy than commonly thought.

If we wish to make the best of an investigation of possible changes to the taxation system, it's important to speak to those who have lots of experience with the subject. But it's also important to get the perspective of those who don't have a professional financial interest in the final result.

Tax consultants, by virtue of their profession, are acutely aware of the complexity of tax law and will be aware of deficiencies in the rules they conform to. In many cases, they will be aware of details that the drafters of the laws are unaware of. So it makes good sense to ask for their input.

However, it must not be forgotten that tax consultants also have a vested interest in not making the system so simple that their clients are able to do their own tax structuring without the need for professional services. Tax consultants are not inclined to propose a system that greatly reduces the need for their services. So, it's no surprise they did not investigate a Financial Transactions Tax last time we had such an investigation.

Some of the benefits of a Financial Transaction Tax

1. Anyone buying on the internet will pay a transaction tax, and if it's structured correctly, it will be the same as that paid by those buying from NZ retailers. I envisage (after some years of transition) there being no need for GST or Income or Company tax. We would, indeed have a level playing field. The more money you spend, the more tax you pay.

2. It would be very difficult to avoid an FTT. It would be collected by the banks and could be avoided only by paying cash. That would not be a big issue since there is already a larger incentive to avoid GST. I've not heard it claimed that GST avoidance is a big issue.

3. Taxing financial transactions will put an end to the ability of those with large resources to make (as distinct from "earn") more money by virtue of the arbitrage margins in high-frequency trading in foreign exchange and futures markets. Those who currently make fortunes that way make absolutely no

contribution to the economy or provide any service or benefit to anyone – except, perhaps, providers of high-speed cabling. Yet they are able to consume large amounts of what is produced by those who make real contributions.

Financial Transaction Tax in summary:

General Basis

- Every transaction is taxed (at, say, 1%)
- Income tax and GST abolished
- Tax is collected at banks when deposits are made
  - tax automatically paid to Inland Revenue
  - no returns need be filed
- Excise taxes remain
  - possibility of new taxes on activity that leads to increase in government expenditure

Some downsides

- Needs to be on everything including essentials
  - will be less than present GST
- Encourages businesses to use cash
  - already a much greater incentive to avoid GST
- Simplicity of collection
  - less time spent dealing with complicated rules
    * less business for tax consultants

Some benefits

- Simplicity of collection
  - less time spent dealing with complicated rules
- Fairness
  - the more you spend, the more tax you pay
  - collects from large amounts of commercial activity that currently pays no tax