

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**September 2018**

**[taxworkinggroup.govt.nz/key-documents](http://taxworkinggroup.govt.nz/key-documents)**

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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.

## **Submission to the Tax Working Group from Jennifer Lawless**

Please note that this is a personal submission. I am happy to be contacted by the Working Group to discuss the submission if required.

### **Summary of recommendations**

#### *1) Process*

- The TOR of the Working Group need to be broadened to include the whole of the tax, benefits and transfers system and consider the context of overall public service funding.
- Brief public consultation like the Working Group's quiz should focus on desired rather than 'likely' outcomes and not present preferences as mutually exclusive by default.
- There should be a further consultation period with the ability to hold public discussions with officials in community settings.

#### *2) Overall taxation*

- Overall taxation should be increased in order to at least maintain if not improve public services and support.
- This is important for demographic equity and fairness, including gender, ethnicity and intergenerational equity.
- We should move away from our heavy reliance on taxing work and income and broaden our tax base to new taxes, including taxing 'bads' like speculative transactions and pollution.

#### *3) Specific taxes and credits*

- We must introduce a capital gains tax on property other than the family home.
- Consideration could be given to taxes on other capital gains by using a financial threshold but this is far less important for social and health outcomes than taxing property investment and speculation.
- Land taxes may be unfair on low income asset holders and are effectively already in existence with rates.
- Rates are an inadequate revenue source for some councils, and difficult to meet for some residents, central Government should put more money into important local infrastructure that has national benefits.

- Emissions taxes should be introduced. They need to be comprehensive, not just 'carbon', have regard to ability to pay, be targeted at commercial activity where possible and be offset by investment or subsidy in clean technology.
- Pollution taxes should only be 'offsetting' where this has a net environmental benefit and doesn't allow 'pollution privilege', in this circumstance they should be encouraged.
- New Zealand's income taxes, benefit and transfer system need to be reviewed together because of significant and complicated problems with abatement rates.
- Income taxes should be more progressive with an income free tax threshold up to a 'living wage' and then spread more broadly over a larger income spread, with an additional tax bracket for very high incomes.
- The definition of 'income' needs to be standardised for benefits, taxes, credits and subsidies and made fairer particularly for low to middle income families.
- Small goods and services provided as family or community support should not be considered 'income'.
- The gender impacts of Working For Families tax credits should also be explored.
- Given New Zealand's high and rapidly increased levels of wealth inequality, the IRD should be given more powers to track and report on wealth. This information could form the basis of a broader public debate about wealth taxes.
- Financial transaction and financial activities taxes should be considered as a means to raise revenue and reduce harmful speculative activity.
- G.S.T. should be reduced to promote progressivity but not complicated by exemptions.
- Progressive company taxation should be introduced at the same rate as personal income, and company tax fraud and avoidance should be better considered and prevented.
- There should be the option of easier and more frequent company tax returns to implement a progressive rate with less major adjustments needed.

#### 4) *Education and social sustainability*

- New Zealanders need better education about tax theory, obligations, practical systems, and greater transparency about our tax arrangements to protect our collective resilience.

## **Full submission**

### **1) Submissions on the process**

Please note that these are recommendations for improvement in isolation of what I believe is overall a positive exercise.

Firstly, I am concerned by the limited Terms of Reference of the Working Group, which will make any recommendations ineffective in isolation. The Tax system needs to be considered as a whole, rather than piecemeal, to avoid unintended consequences and preserve fairness and relativity. Tax does not exist in isolation or for the sake of it- it also needs to be considered in the context of the public services it provides and the benefits and transfers system which it complements.

Secondly, I am concerned that there are false exclusive choices being set up in the consultation process. For example, the 'quick polls' (<https://taxworkinggroup.govt.nz/have-your-say-future-tax/purpose-of-tax>) set up choices between the potential impacts of taxation which in the real world is not a choice- a single tax can achieve multiple aims, and we should not seek some kind of exclusivity of purpose, but rather, desired social outcomes. 'Encouraging New Zealanders to make better choices' and 'Encouraging investment in some types of business' could be seen as the same thing. Isolating 'core services' from 'supporting those in New Zealand who need help' makes public social services like MSD automatically seen as outside of the 'core' purpose of the tax system. I would hope that the results of this consultation are not presented as alternative comparable options to inform policy choices.

Thirdly, the framing of some questions to ask about likely outcomes rather than desired outcomes is problematic in a society where members of the public should not be expected to be tax or economic experts, especially when this is not a standard educational subject. For example, asking whether tax can 'make housing more affordable' is not a question that the vast majority of respondents will be able to answer based on experience or evidence. It would be better to present a variety of likely outcomes and ask which one is 'fair' or 'better for New Zealand' and then have those in the public service tasked with implementing democratic outcomes and designing policy options most likely to achieve them.

Finally, I note that the consultation period has been quite short, and it is difficult to engage the public outside of those notified by interest groups in such a tight turnaround. It would be better to have a longer process or a second round that allows public discussions in q and a sessions with officials in community settings to get a more balanced view.

## 2) Overall taxation

Given that there is a choice between retaining current overall levels of taxation and decreasing public services and support or raising overall taxation to at least maintain current services and support, I strongly submit that New Zealand's quality of life, democratic stability, climate change adaptation process and intergenerational equality demands the latter.

Taxation and public services are not gender, age or ethnicity neutral either- more progressive taxation and greater public service provision protect the lives of women, the very young and old, and tangata whenua, and the Working Group should actively seek the representatives of and advocates for these groups in the consultation process.

Because the nature of work is changing to more casualised and less secure work, more global employment arrangements, and with an aging population, New Zealand risks being overly reliant on taxing personal income. GST tax is also vulnerable to economic downturns, as is company tax.

It would be preferable to develop new forms of taxation to increase the stability of New Zealand's revenue base, while also moving away from taxing productive and socially beneficial activity, like work, to using taxation to reduce or help pay for negative activities like financial speculation and pollution.

### 3) Specific taxes

#### *Capital gains*

The lack of a capital gains tax alongside almost no purchasing restrictions has contributed to New Zealand's housing no longer being a home for our people but becoming a speculative commodity for global markets, as well as over-leveraged domestic investors. This negatively impacts on our health, our social cohesion, educational impacts for children and our extremely high levels of personal debt. It encourages poor rental housing stock quality (and I've lived in some not fit for pets, the reality of this problem is heart-breaking) because the primary investment is the capital gain rather than the rent. It contributes to New Zealand having one of the highest rates of transience in the developed world, and longer periods of vacancy despite a housing shortage, particularly in Auckland.

There is no good or fair reason for treating income earned on the sale of investment property differently to other income and leaving it tax free and there are a myriad of social, health and equity reasons for taxing it, as well as this providing another revenue stream for social services. The only reasons for not doing so are political. I support a capital gains tax on property other than the family home for the sake of simplicity. Other capital gains taxation on larger investments could have a financial threshold, but investment property is the most urgent change needed.

#### *Land tax*

Rates are already effectively a land tax, and with the addition of capital gains which is on the realisation of an asset, this seems like it would unnecessarily burden those who hold unrealised assets on low incomes. Given the aging population with limited retirement savings after high mortgages and unstable work through the 1980's- late 90s, a land tax may have unintended unfair consequences.

As a related note, local and regional councils experience large inequities in raising revenue and meeting infrastructure needs which results in some poor local outcomes with populations unable to meet rate rises, and councils unable to make good tendering or maintenance decisions. The downstream costs of this often have national impacts – see for example the issues with faecal and agriculture contamination of drinking water through lack of enforcement and maintenance resource. This has an impact on the health system and on productivity. It would make sense for the central Government to increase its investment in local infrastructure to build resilient communities and to balance the revenue and funding inequities experienced by local governments.

#### *Pollution and emissions taxes*

Using a tax to 'offset' polluting behaviour can be an unhelpful way of framing this option, especially when looking at climate changing emissions- there is no 'offset' cost that we know of for global mass extinction based on emissions projections. This can simply encourage continued polluting behaviour for those that can 'afford' it.

However, in a long-term phase in to a net zero emissions economy an emissions tax will be a useful price signal to switch behaviour of consumers and firms and make sustainable options relatively more affordable, especially if rising overall tax take allows greater investment in and subsidy of clean energy technology.

Given New Zealand's high per capita contribution to climate change which is largely due to agricultural and transport emissions, it is important that any emissions tax:

- Not simply be a 'carbon' tax but be an emissions tax to capture the disproportionate impact of methane on climate change and
- Be balanced by the ability to pay and relative impact on the lives of the least well off, particularly when those in isolated rural communities are reliant on petrol-based transport for work, health and community, yet these communities often receive little in the way of public transport services or subsidies.
- Be seen to be contributing towards affordable and sustainable public services and energy options.
- Be targeted at commercial activity where possible over consumption (bearing in mind pass-on).

I generally support taxing other polluting activities if it can be shown that this does change behaviour to sustainable outcomes over time – but don't support it if it simply allows the wealthiest to continue or take over polluting behaviour and industries at similar levels.

#### *Income tax brackets and abatements*

Despite the country-based comparisons in the background paper, New Zealand ranks poorly (115 out of 152 countries) for how well our tax system reduces inequality.<sup>1</sup> The personal income tax cuts implemented by the last National Government have reduced our Government revenue by approximately \$1 billion or more per year, every year since the 2008/9 financial year and have not been reversed, contributing to the unsustainability of our public services and social support.

Although this issue is outside the TOR of the working group, the progressivity of income taxes is the largest contributor the tax system can make to fairness and equality in a country, as well as to robust social outcomes (see, The Spirit Level, Piketty etc.), and I note that these factors are ones that the working group is considering.

New Zealand's very high cost of housing and living relative to incomes, and the abatement rates of other benefits, subsidies and transfers (Working for Families, childcare subsidies, student allowances, community services cards and the accommodation supplement, for example) means

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Oxfam's 'Commitment to Reducing Inequality' Index.  
<https://www.oxfam.org.nz/reports/commitment-reducing-inequality-index-new-global-ranking-governments-based-what-they-are>

that many young adults in particular with children are living in relative material poverty despite 'good' incomes, with the inability to build personal wealth. Our income tax system starts early with no tax-free threshold and rises over a relatively narrow band, up to \$70,00 which is a decent, but not exceptionally high income and one that many Gen X and below families would struggle to service a mortgage or obtain a healthy rental on.

Personally, I have been in a work situation returning from parental leave with another colleague who was forced to leave the position because the abatement of the above allowances plus the cost of childcare and transport to work meant she was losing income to stay in the workforce. Her paid career was put on hold, and society lost her income taxes generated from her salary. I have myself been in a position where I was similarly economically disincentivised to increase my income because of the interaction of abatement rates and the income tax thresholds.

There needs to be a full investigation of the interaction between the benefit and transfer system and income taxes that takes the cost of living, especially housing in to account, with greater intergenerational equity as a specific goal in mind.

The greatest amount of income tax is generated from those on the highest incomes, but it is of course less of their discretionary income. The low rate of top income tax and widening inequality, which most New Zealanders are concerned about, suggests that there is potential to raise additional revenue while increasing equity by adding a further tax bracket on very high personal incomes. This would need to be accompanied by greater capacity for the IRD to prevent, detect and rectify tax avoidance, particularly by high net worth individuals. There is no convincing evidence that this would deter the production of wealth and income in New Zealand- particularly when most high net worth individual's attraction to New Zealand is not the tax arrangements but New Zealand's lifestyle opportunities.

Similarly, I support a tax-free threshold up to a 'living wage', and then a more graduated introduction of tax brackets over a wider range of personal incomes.

The way that personal 'income' is treated regarding personal tax and benefits also needs to be investigated and corrected for fairness. For instance, a family member helping out by paying for a car registration or buying a load of groceries for someone in need with a new baby, or a grandparent paying for childcare is counted as 'income' towards working for family payments, but not for tax purposes. This is counterintuitive and I would submit, not even realised by most WFF recipients. It is open to subjective interpretation by IRD officials and highly contestable at the margins.

Apart from the absolute difficulty of determining, submitting and enforcing this, there is an inequity in that there is a tax credit abatement of a benefit for the provision of such services although the purchaser has already paid income tax on the money used to purchase the goods- and if, for example, the grandmother were not in paid work but were living close by and providing her time for exactly the same childcare, this would not be counted as 'income'. The irony is that those forced to live further away from their social support networks often do so because they are in economically precarious situations or work, and in this case, the family is penalised for providing support to their loved ones most in need. s

The above situation is not hypothetical but is again something I have personally experienced. On the other hand, it pained me that when my family was able to help gift me a not insubstantial sum for the deposit against a first home (and a roof over one's head must surely be considered an 'essential expense') this was completely tax free and not counted as income. It goes without saying that income definitions in the above examples privilege the rich.

Similarly again, and this may appear a minor point but is an illustration on why the system is so difficult to navigate, when such small support for groceries or childcare is provided to the family it is counted as family 'income'. However, if it is not declared then a Working For Families debt is lodged against the individual 'recipient' only, despite WFF also being usually used (and legally treated) as the family's (untaxed) income. In the situation of a separation this leaves just one partner, usually the mother with an IRD debt for support potentially provided to the family by in-laws and tax credits assessed against the personal income of both parents.

Given that Working For Families tax credits are so widely received, and effectively are a subsidy for low wages in New Zealand versus the high cost of living, particularly for women in the paid workforce, it is worth considering whether there is a gendered impact on wages or other gendered impacts of this tax credit.

#### *Wealth tax*

New Zealand's wealth inequality is much greater than income inequality and has increased rapidly over time. It is resulting in poor social and democratic outcomes where there is no equality of opportunity and contributing to a concentration of economic and political power that makes reversing income inequality and absolute material poverty even more difficult. New Zealand does not do well at tracking and reporting on accumulation of wealth. The IRD should be given greater powers to monitor wealth and report, in aggregate or anonymised fashion, on the wealth of individuals and companies.

This would be the first step in considering the implementation of a wealth tax/taxes, and public discussion and input into whether this is desirable is an important debate, and one that must be well informed. The ability to decide whether resource allocation is 'fair' is a central tenant of genuine democracy, but first we need to know what New Zealand's true resource allocation now is.

#### *Financial transaction or financial activities tax*

I support the exploration of the above to increase overall revenue and protect against non-productive or predatory speculative activity.

#### *G.S.T*

G.S.T is an inherently regressive tax in that the poor are less able to divert money to savings or investments but must spend it on goods and services. I support a blanket reduction in G.S.T and a replacement with more progressive taxation options or taxing of 'bads' rather than ordinary consumption. I don't support exemptions for products like fresh fruit and vegetables because the problem of the price of healthy food is less about tax and more about restricted competition

in domestic supply, price mark-ups and exposure to global markets.<sup>2</sup> There is also the problem of administration and definition, and a simple regime works best. Where there are worthy objections to the tax on, for example, sanitary items, other solutions have more merit for the argument than G.S.T removal, like PHARMAC provision of essential products.

### *Company tax*

To promote innovation and local business, company tax rates should be made progressive to the same rate as (revised) personal income taxes. The lower company rate relative to personal income tax rates is an incentive for tax avoidance and should be corrected. Company tax arrangements generally should be looked at to avoid potential loopholes that allow tax avoidance or fraud. More regular 'mini' tax returns throughout the year that are voluntary, simple and also available online would allow businesses to adjust their tax rates more quickly if income fluctuated unexpectedly.

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[https://www.parliament.nz/en/pb/hansard-debates/rhr/document/49HansD\\_20100908\\_00001000/goods-and-services-tax-exemption-of-healthy-food-amendment](https://www.parliament.nz/en/pb/hansard-debates/rhr/document/49HansD_20100908_00001000/goods-and-services-tax-exemption-of-healthy-food-amendment) See Russel Norman's speech quoting research by Sue Kedgley.

#### 4) Tax literacy and democracy

New Zealand does not provide universal education about our personal tax obligations, about how to navigate the IRD systems or about how tax works and what it funds. This opens us up to an undervaluing and undermining of the tax system because the benefits of tax take are not 'visible', whereas the benefits of tax cuts to individuals are more tangible- even if not more valuable.

It is commendable that the Tax Working Group has started a public engagement process around tax. However, we currently lack the facts on tax (for example, transparency around multinational profits and tax, the tax arrangements of high net worth individuals and effective marginal tax on different income groups and family structures, and the untaxed income of charities and trusts) to have an informed democratic process to review our tax arrangements.

Government should invest more in tax compliance, transparency and education to preserve the functioning of government and the quality of New Zealand lives when we are facing a future of global instability, climate change and increased risk of social breakdown and violence due to resource hoarding and shortages. It's important that we understand that tax is a mechanism for sharing, for protecting society and for increasing our collective resilience in the face of fear and uncertainty.