

Tax Working Group Public Submissions Information Release

Release Document

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30th of April 2018

Re: Submission on tax system

Dear Tax Working Group,

In this submission I outline my views on what a good tax system looks like. Firstly, the system should be built with a few basic principles in mind:

- It should collect enough to cover desired services.
- It should not be easily gamed.
- It should ensure that all income is taxed equally.
- It should not disadvantage New Zealand products/services.
- It should be simple.
- Tax discourages behaviours, tax-breaks incentivise behaviour.
- It should be broad and adaptive to changes.
- It is secular.

Tax types and suggested changes:

1. GST should be reduced or possibly removed. At the moment NZ sellers are disadvantaged by online shopping that allows goods to be imported from overseas that are not taxed by GST. This will only increase and it is not realistic to tax all items couriered to New Zealand. Another option would be to only charge GST on high value items; however, this may encourage the trading of many small goods that when pieced together exceed the threshold for GST.
 - Capital gains tax. I do not support a capital gains tax because it will discourage the sale of homes, preventing first home buyers from entering the market. Furthermore, if the market drops then it is only fair the government pays the home owner the 'negative tax' – this is a bill we cannot and should not be prepared to pay.
2. Land tax. I strongly support exploring a land tax. Land is a finite resource and should be used efficiently. Conservation land must be exempt from a land tax. A land tax is paid each year, similar to rates, therefore there is no issue if land value drops as so does the tax. A land tax may drive owners to use land more intensively to cover the extra costs. In a city this may be a good thing as owners will seek to fill land with medium and high density housing rather than low density housing. In the rural environment, however, this may drive farmers to more intensive land uses (such as shifting from sheep farming to intensive dairy farming) which will negatively impact our environment. It may be worthwhile only applying a land tax to urban areas as this would prevent urban sprawl and prevent the rural environment from being intensively farmed. Ideally a land tax would be set at the same rate across the country (i.e., a certain % of land value).
3. Imputing a minimum rate of return on capital. I strongly support implementing this as soon as possible. At the moment, we pay tax on the monetary income earned from capital, but not all the benefits from capital are taxed. I may own homes that are not bringing in rent or have

capital that is not earning an income, though they may hold substantial value and could be of better use spent elsewhere, but they are kept because they hold some benefit to me. With a minimum rate of return, for any capital I have (above a defined value) it should be assumed that the benefits I'm getting from that capital are greater than if I had that money earning interest in the bank. The minimum rate of return should be set at a similar rate to a bank deposit interest.

4. As technology displaces and replaces jobs, the tax system will be critical in ensuring all citizens receive a healthy income. Given the stigma and unfairness issues associated with targeted welfare, I propose that New Zealand gradually introduce 'Negative Income Tax' that functions as a Universal Basic Income. A UBI provides certainty in increasingly uncertain times and gives power back to employees to demand fair work conditions by feeling comfortable to leave when they wish, rather than living at the mercy of their employer.
5. 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?

Yes, particularly where ones activities have a significant on another. Taxes may be:

- a. Road tolls for motorways.
- b. Fuel taxes for general roading.
- c. A nitrogen tax to reduce fertilizer and imported feed use to help compensate for the consequential loss of ecosystem services. The money could back to regional councils and reduce rates; back into a fund for habitat restoration; or simply back into the general tax pool.
- d. A water abstraction charge to also help compensate for the consequential loss of ecosystem services.
- e. A sugar tax to help reduce obesity and help pay for increasing health care costs.
6. 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?
 - a. No. The tax system already encourages retirement saving by subsidising Kiwisaver. Encouraging retirement saving could have the unintended effect of preventing money flowing elsewhere. E.g., retirement savings tend to be in conservative investment funds, encouraging more of this could deplete high risk start up investment.
7. 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?
 - f. The current tax system does not fully account for the benefits of owning capital that is not earning a monetised income. As stated above, I do not support a capital gains tax but do support imputing a minimum rate of return on capital above a certain threshold.
8. Does the tax system do enough to minimise costs on business? Should the company tax rate change?
 - a. I do not know enough about tax rates and business, but I do think that the company tax rates should be aligned with personal tax rates, so that no aspect of the tax system incentivises tax dodging.
9. Does the tax system do enough to maintain natural capital?
 - a. No! The current tax currently gives tax breaks to those who pollute and use natural resources. As stated above, the following taxes should be investigated:

- i. A charge on nitrogen fertilizers and imported-feed. This will help reduce intensive farming, help compensate for loss of ecosystem services, reduce our dependency on fossil fuels and improve water quality. It would also be easy to administer. Finally, approximately 80% of nitrogen in our dietary protein currently comes from fossil fuels, this is not sustainable and a charge on nitrogen would help change that.
 - ii. A charge on all consumptive water takes. This would need to be high enough to change wasteful behaviour and compensate for loss of ecosystem services.
 - iii. Potentially a land-tax on all urban land. Reasons stated above.
- 10. Income tax. Whilst a stepped income tax system has the benefits of helping low income earners, it also provides an avenue for super rich to dramatically reduce tax paid by only paying themselves a very small income and keeping company money elsewhere. I support exploring a flat rate income tax and using a negative income tax (or UBI) to assist low income earners.
- 11. On exempting the family home. I do not support excluding the family home from tax; however, I understand it is within your terms of reference. If any tax is to help with housing affordability then I suggest that the definition of 'family home' be water-tight and include a maximum value (say up to \$500,000), any value above becomes taxed. It is important to include a maximum value for a family home, otherwise it will become a tax haven and a place to pour excess capital. I could own an apartment building and call it my family home with many flatmates.

Thank you for considering my submission.

I wish to speak to my submission and discuss each point further.

Dr Adam Douglas Canning

30/04/2018