

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

### **Release Document**

**September 2018**

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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

### Summary of major points & recommendations:

- 1) Significantly broaden the tax base to urgently rebuild an equal opportunity society in New Zealand, especially in the area of housing affordability
- 2) The purpose of tax is to raise necessary government revenue & to restore & then maintain a fully productive egalitarian society, through the redistribution of both income & wealth
- 3) Regular increases in tobacco tax have reduced smoking rates. The same tax logic should be applied to liquor
- 4) Reinststate the Social Contract between the NZ Government & its citizens

### What does the future of tax look like to you?

- 1) The introduction of income tax cuts & the increase of GST in the 2010 budget, significantly reduced the government's net tax revenue. The table attached to that budget set out the resulting pluses & minuses in government revenue, showing an overall reduction in government income of c \$700m per annum. It's estimated that this annual shortfall in government revenue is now c \$1.5 B
- 2) Consequently, there's **an urgent need to broaden our tax base** & this can be achieved in the following ways:
  - a) Close the NZ tax loopholes currently enjoyed by firms such as: Apple, Google, Amazon, Face Book, MasterCard, Visa, & the Aged Care industry
  - b) Introduce a Financial Transactions Tax, (set at around .01%, or 1 cent per \$100) which taxes all banking transactions. This would raise millions of dollars per year but have little effect on the banks' domestic customers. In September 2017, the UK Labour Party pledged to introduce a FTT in its first budget after re-election
  - c) Introduce a graduated & comprehensive Capital Gains Tax to tax unearned income. As part of this, reintroduce, on a graduated scale, death & gift duties

- d) To prevent tax payers who derive income from salaries, companies & trusts, from shifting income to the entity with the lowest tax rate, tax rates for all taxable entities, (both individuals & incorporated organisations) should be on a uniform, graduated scale
- e) This graduated scale needs a top tax rate considerably higher than our present 33 % for salary & wage earners. Our 33% rate, (introduced in 2010) is one of the lowest in the OECD. Mexico's top rate, for example is 35%. Countries like ours, with third world tax rates, develop third world economies & societies, characterised by low wages & entrenched poverty. This has been NZ's path over the last 8 years, following the 2010 tax cuts. Our top tax rate should be aligned to Australia's top rate of 49%
- f) Sir Michael Cullen, in a recent interview with 'The Spinoff' stated, 'If you look at the Nordic countries, they tend to tax more heavily – more of their transfers are universal, but it nevertheless achieves greater equality.' Sir Michael's views are borne out by the OECD's 2017 survey, declaring Denmark as the happiest nation in the world. Denmark's maximum individual tax rate is 56%

### **What is the purpose of Tax?**

- 1) Tax is the price we pay to live in a civilised society. In most modern societies, the principle of tax is, 'from each according to his means, to each according to his needs.' This principle originated with the early Christian Church in the New Testament, Acts 4, verses 32 - 35
- 2) Likewise, the justification for graduated or progressive tax rates is based on Luke 12:48, 'For those to whom much is given, much is required.' Everybody in society, including the wealthy, benefit from government spending in health, education, roading, etc.
- 3) The purpose of tax is to raise government revenue & to redistribute both income & wealth in order to maintain a socially just, cohesive society
- 4) The need for redistribution is vital. Oxfam NZ's report of 22.1.18 stated that 28% of all wealth created in NZ went to the richest 1% of the population & 1% of that wealth went to the poorest 30%

- 5) Recent NZ indicators on economic inequality, child poverty, housing unaffordability, declining real wages & increasing imprisonment rates, point to breakdown in society. Unless urgent & significant financial redistribution occurs, we face social unrest on an increasing scale
- 6) What is required is a reintroduction of the **Social Contract**, (sometimes called the Social Dividend or Social Wage) which was successfully operated by both Labour & National Governments for the 50 years from the mid 1930's to the mid 1980's. The essence of the Social Contract is an agreement between the Government & its citizens, whereby, if the citizens pay tax, work productively, obey the law & raise the next generation to the best of their ability, the government will finance, through the tax system, a full employment economy paying living wages, free education up to tertiary level, affordable health care & housing, (whether to rent or buy) & financial security in times of old age or adversity. This use of the tax system during these 50 years, gave NZ one of the most productive economies in the world, through the elimination of entrenched poverty & the establishment of an equal opportunity society.

### **Are we taxing the right things?**

- 1) Tobacco taxes have increased significantly over recent years & are automatically increased annually. This has had the desirable effect of reducing tobacco consumption
- 2) Alcohol causes far more social & economic damage to NZ society than tobacco & a reduction in consumption would be very beneficial. Alcohol should carry the same rate of tax as tobacco, with automatic annual tax increases

### **Can tax make housing more affordable?**

- 1) Yes – The NZ Government needs more tax revenue to accelerate both the building of more State rental units & the 'KiwiBuild' affordable homes programme. These programmes should continue at maximum volumes until our housing needs are fully met & a housing surplus has reduced prices for both rentals & homes for purchase

- 2) When this happens, the \$2 B accommodation supplements being paid annually to landlords, can be used for something more socially useful

### **What tax issues matter most to you?**

- 1) Since the 2010 budget, the significant annual reduction in government revenue has had a cumulative effect & has led 8 years later, to a housing crisis, declining educational & health statistics, disintegrating infrastructure & gridlocked cities with inadequate public transport
- 2) If only piecemeal tax raising measures are contemplated & if the structural underpinnings of wealth polarisation are not recognised, our grand children's' future is bleak
- 3) Reinstating the Social Contract between the NZ Government & its citizens, would reinstate a tax system based on fairness, equity & social justice – we would all benefit

### **Biographical details for Dean Reynolds:**

30 years in a Queen St Chartered Accounting firm, with 20 of these years as the senior partner, then 10 years in various corporate positions, then 10 years as a landscape gardener & mowing contractor, culminating in retirement in November 2017.

I'm happy to be contacted by the TWG Secretariat to discuss the points raised, if required

Dean Reynolds

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30 April 2018

