Tax Working Group Public Submissions Information Release

Release Document

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Draft submission to Tax Working Group

April 2018

Venture Taranaki Trust (VTT) is the regional development agency for Taranaki. VTT is a Council Controlled Organisation of New Plymouth District Council and is responsible for delivering regional development activities and regional tourism promotion in New Plymouth District and the Taranaki Region.

VTT would like to commend the Government and the Tax Working Group on the open and engaging process they are undertaking to review our tax system and welcome the opportunity to be part of discussions on the future of tax in New Zealand.

Objectives for the tax system

VTT notes the Government's stated objectives for the New Zealand tax system as set out in the Tax Working Group's Terms of Reference. Given our role in promoting economic development VTT supports the following objectives:

- A tax system that is efficient, fair, simple and collected
- A system that promotes the long-term sustainability and productivity of the economy
- An overall system that operates in a simple and coherent manner.

VTT supports the existing tax system as being broadly fit for purpose, relatively simple and easy to administer.

Purposes and principles of a good tax system

VTT notes and supports the principles of a good tax system outlined in the Submissions Background Paper:

- Efficiency
- Equity and fairness
- Revenue integrity
- Fiscal adequacy
- Compliance and administration costs
- Coherence.

In addition, the Government has stated its desire to lift New Zealand's productivity. Improving the productivity of the New Zealand economy is vital to improving overall economic performance. VTT believes that the tax system may have the potential to incentivise increased productivity, and that this is an important consideration when examining any changes to the existing system.

Specific Challenges

VTT notes the specific challenges the Government has requested advice on, and makes the following comments.

Capital gains tax (CGT)

VTT notes that the recently extended 'Brightline test' means that New Zealand already essentially has a CGT focused on discouraging property speculation. We suggest its effectiveness should be evaluated prior to the introduction of any more comprehensive form of CGT.

The compliance and administration costs involved in a more comprehensive form of CGT relative to anticipated revenue should be carefully considered. If the intention of such a tax is to address issues of housing affordability then we encourage the Government to take an evidence-based approach and look at the impact of CGT in other similar jurisdictions where it has been introduced.

The potential disincentive to people saving and investing for their future should be taken into account, particularly in light of demographic projections and the need for New Zealanders to take greater personal responsibility in planning for their retirement.

Land tax

VTT notes that the existing local government rating system is based on the land and/or capital value of rateable properties, meaning that landowners already pay a form of land tax. The introduction of an additional land tax on the same asset, to generate revenue for central government, would be contrary to the principle of equity and fairness and would run counter to the objective of a tax system that is efficient and fair.

The introduction of a land tax has the potential to disproportionately and negatively impact on regions where a high proportion of land is held in high value properties. This includes regions with high value but non-productive residential properties, such as Auckland and Queenstown, and regions with high value and highly productive farming properties, such as Taranaki. If one of the goals is to promote the long-term sustainability and productivity of the economy then a further land tax is unlikely to achieve that.

Progressive company tax rate

A common outcome of increased productivity in a business is growth and the employment of more people. The introduction of a progressive company tax rate, with lower rates for smaller business, has the potential to discourage businesses from growing and contributing to a sustainable and productive economy.

VTT is in favour of measures that encourage start-up ventures and support small businesses. VTT suggests there may be other options that could be explored to meet this outcome, including a time-bound mechanism such as a tax-free threshold for businesses in their early years of operation, for example. This could be linked to the payment of provisional tax to ensure fledgling businesses understand and comply with their tax obligations.

Taxing for environmental outcomes

Tax is one of the tools that the Government can use to try and achieve a particular desired outcome (environmental, social or other). Whether tax is the best tool and what the appropriate mechanism might be is dependent on the particular policy outcome being sought and should always be considered in light of the principles of efficiency, equity and fairness, and coherence.

VTT encourages the Government to ensure that any specific proposal for using tax to achieve environmental outcomes is considered in a well-informed and consultative manner with affected stakeholders to achieve the objectives of an effective tax system referenced above.

GST

VTT notes that the current GST system of having very limited exemptions is simple, fair and easy to administer.

Other issues to consider

Given VTT's role as a regional development agency, we suggest the following issues should also be considered when looking at the future of our country's tax system.

Costs of tourism infrastructure

Recent years have seen a significant increase in the number of international tourists visiting New Zealand. Increased tourism brings a number of positive benefits including additional revenue for central government in the form of GST on tourist expenditure.

The increase in visitors has also resulted in increased demands on local infrastructure throughout the country, the costs of which is largely borne by local government and, ultimately, local ratepayers.

VTT encourages greater redistribution of the tax income that central government receives from visitors to New Zealand to local government, to help meet the costs of the increased demand on their local infrastructure.

Transitioning to a zero-carbon economy

In light of recent announcements related to off-shore oil and gas exploration and the Government's intention to become a zero-carbon economy by 2050, it is important that there is well planned and appropriate investment in R&D and infrastructure that supports the conversion to clean energy. But equally important is sustaining investment in existing energy-related infrastructure to continue to meet the energy demands of a growing economy over the next decades.

VTT suggests that one option for helping to ensure our country and our economy is progressing towards a clean energy future would be to hypothecate revenue the Government receives from oil and gas royalties into a fund dedicated to investing in clean energy related R&D and the infrastructure necessary for both the zero-carbon economy and sustaining existing energy related infrastructure during the transitional phase required to reach this goal.

R&D Tax Incentives

Since the Tax Working Group was formed the government has launched a separate process for submissions on an R&D Tax Incentive Proposal developed by MBIE, Inland Revenue and Callaghan innovation.

Venture Taranaki intends to make a submission on this issue via that specific process. This is due to be submitted by 1 June 2018.

Charitable status of regional development activities

In addition to these comments on the broader tax system, there is also one specific tax issue which affects Venture Taranaki's operations which we wish to bring to the Tax Working Group's attention.

VTT exists as a charitable trust under the Charitable Trusts Act 1957. Prior to the Charities Act 2005, VTT had charitable status from an income tax perspective (exempt from paying income tax on any annual operating surpluses).

When the Charities Act 2005 came into force, charities that wished to retain or obtain income tax-exempt status were required to register with the newly established Charities Commission.

VTT applied to the Charities Commission to maintain its tax-exempt status and was turned down, along with a number of other major regional development agencies including Christchurch and Auckland. Subsequent case law has upheld the Charities Commission decision not to award charitable status to regional development agencies. This decision was based on very historic legal precedent and therefore denied the contemporary principles of economics and tax in reaching that decision.

This decision has resulted in the major development agencies being required to pay tax, for example, on income that they receive from local and central government.

VTT notes that regional development agencies are primarily public good entities that receive the majority of their funding from central, regional and local government and philanthropic organisations.

There are several recognised regional development agencies identified as implementing regional growth strategies in partnership with central government. Providing these regional development agencies with charitable status would acknowledge their purpose in working for the benefit of the community and would ensure that any funding they receive can be rightfully and fully applied to the public good.