Tax Working Group
Te Awheawhe Tāke

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Submission to the Tax Working Group

30 April 2018

The Association of Salaried Medical Specialists is the union and professional association of salaried senior doctors and dentists employed throughout New Zealand. We were formed in April 1989 to advocate and promote the common industrial and professional interests of our members and we now represent nearly 5,000 members, most of whom are employed by District Health Boards (DHBs) as medical and dental specialists, including physicians, surgeons, anaesthetists, psychiatrists, oncologists, radiologists, pathologists and paediatricians.

Over 90% of all DHB permanently employed senior doctors and dentists eligible to join the ASMS are in fact members. Although most of our members work in secondary and tertiary care (either as specialists or as non-vocationally registered doctors or dentists) in the public sector, a small but significant and growing number work in primary care and outside DHBs. These members, many of whom are general practitioners, are employed by the New Zealand Family Planning Association, ACC, hospices, community trusts, Iwi health authorities, union health centres and the New Zealand Blood Service.

The ASMS promotes improved health care for all New Zealanders and recognition of the professional skills and training of our members, and their important role in health care provision. We are committed to the establishment and maintenance of a high quality, professionally-led public health system throughout New Zealand.

The ASMS is an affiliate of the New Zealand Council of Trade Unions.

Introduction

The ASMS welcomes this opportunity to contribute to the debate on taxation with the aim of producing a fairer, progressive tax system that promotes the long-term sustainability and productivity of the economy and an adequate and sustainable revenue base to fund public services.

Our submission concentrates specifically on how taxation policy can be improved to benefit New Zealanders' health and wellbeing, including access to timely health care when it is needed, consistent with the Government's health policy. It is written in the context of government plans to look beyond the traditional monetary markers to measure economic success and introduce measures of wellbeing. We note and support in particular comments in Treasury's discussion papers that good public policy enhances the capacity of natural, social, human and financial and physical capital to improve wellbeing for New Zealanders and that this means the capital stocks: [1] [2] [3] [4]

- are sustained or enhanced, not eroded by current generations at the expense of future generations (sustainability)
- are shared equitably in a way that sustains or enhances the capitals (equity)
- allow for a cohesive society, where people and groups respect others' rights to live the kinds of lives they value (social cohesion)
- are resilient to major systemic risks (risk management), and
- generate material wellbeing (economic growth).

Taxation policy must support these principles for good public policy. With regards to how this may apply to improving New Zealanders' health and health care services, we focus here on two fundamental aims to which taxation policy can contribute:

- To mitigate the causes of ill health, including reducing poverty, improving the quality of housing, encouraging healthy diets and the effects of pollution.
- To improve the effectiveness and efficiency of the public health system so that good quality health care can be provided as it is needed.

Time and resource constraints have not allowed for a submission that deals with these issues to the extent they deserve. Nor have we been able to canvass the views of our members, other than the regional representatives on our National Executive. While our comments on the second point above are based on a well-established policy position, our comments about addressing the determinants of ill health are qualified as they are based on assumptions of what we reasonably believe our membership would support. Our members in dental and public health specialties, for example, have been strongly advocating a sugar tax. We are raising these issues for serious consideration by the Working Group rather than from a formal position of ASMS.

(Our members have much to contribute to policy debates such as this. The tight timeframe for submissions on such a critical subject is disappointing and a missed opportunity to gather more valuable insights to inform the policy decisions.)

We are aware that some of the points we raise are beyond the scope of the Tax Working Group's terms of reference (ToR), such as our comments on the Government's broader fiscal policy. We have included them because (a) the ToR are too narrow to properly consider some issues that are central to the stated purpose of the exercise, to "improve the structure, fairness and balance of the tax system"; and (b) they are too narrow to take into account the potential impact on the Government's stated intention of promoting a greater wellbeing-focused policy direction.

Taxation to improve the effectiveness and efficiency of the public health system

Our comments are based on the premise that poor health and wellbeing is a substantial but unacknowledged 'debt', socially and economically and, conversely, the compelling evidence that greater investment in the health system, when used wisely, will lead to a healthier economy as well as a healthier population.

From this perspective, the essential outcomes of a new taxation policy must be to increase government revenue to enable greater investment in health care and, as discussed later, to contribute to cross-sector illness prevention and health promotion strategies, such as reducing poverty and encouraging healthy eating.

This approach also requires a shift from the common perception that containing cost equates to increasing efficiency. In many instances, this is not the case. In practice, arbitrary budget cuts can contain costs 'successfully' without having any bearing on cost–effectiveness. The lost opportunity of failing to properly implement proven cost-effective policies such as distributed clinical leadership in DHBs, largely owing to cost constraints, is an example of this. This approach also requires a policy mind-shift from perceiving the health system as a drain on the economy to recognising it as part and parcel of improving health and achieving better economic growth. [5]

In short, a taxation policy that enables greater investment in health care, provided through evidence-based polices, would make a positive contribution to GDP and help to reduce the country's social and economic debt that we leave to future generations.

Increasing revenue to invest in health

The Government is aware that to address the years of underfunding of health services, substantial incremental injections of funding are required in addition to funding to meet growing health needs. We are aware that other sectors are in a similar position to varying degrees. It is clear to us therefore that more tax revenue is needed. We do not believe the five principles for good public policy and national wellbeing listed above will have any chance of success without it.

We note that of the 10 (mostly northern European) countries rated most highly for converting economic growth into wellbeing, reported by the World Economic Forum, all bar one in 2016 had tax

revenues above 36% of GDP, with six countries topping 40% of GDP, (New Zealand's was 32%). There is a similar gap between these countries' level of government expenditure and that of New Zealand's. [6] [7]

The Government's fiscal policy priority of capping government spending at 30% of GDP in order to reduce government debt appears to seriously undermine the potential for the Government's vision of wellbeing.

Notwithstanding the above, the measure of GDP on its own fails to differentiate between economic activities that add to welfare or wellbeing from those which diminish it, for example, through negative health impacts. Initiatives to remedy this allow the value of mortality reductions to be introduced into national income accounting through 'full income' measures. These 'add' the 'full' value associated with the years of life expectancy gained to the standard measure of GDP growth, reflecting the overall impact of health on societal wellbeing. A study of high-income countries attributed some 30% of the growth in full income to declines in mortality. Another study estimated the monetary worth of recent increases in life expectancy in selected western European countries and showed that between 29% and 38% of notional GDP increases from 1970 to 2003 could be attributed to gains in life expectancy.[8]

Clearly these valuations are simplified, but they are nonetheless indicative of the impact of health on wealth, when the importance of non-monetary elements are acknowledged. If only a fraction of life expectancy gains is the result of health interventions, the benefits to the economy are substantial.

Further, contrary to the common belief that major health advances are mostly the result of social, environmental and economic progress, recent studies indicate that around half the gains in life expectancy in recent decades stem from improved health care. Further, studies in OECD countries show that up to the age of 75 around 20% of male mortality and over 40% of female mortality may be averted by health care interventions. New Zealand research shows that of 56 conditions or groups of conditions where death is considered avoidable through timely health intervention, 24 were avoidable largely through primary prevention, 16 mainly through secondary prevention, and a further 16 mainly through tertiary prevention.[9]

"Health expenditure through health systems and other sectors that impact on health can then be shown to achieve 'social productivity' many times greater than that associated with other forms of investment."[10] - World Health Organisation (Europe) report, 2008.

The economic costs of not investing in health, on the other hand, are considerable, as demonstrated in numerous cost-of-illness studies. One British study estimated the economic burden of coronary heart disease in Britain in 1999 was over seven billion pounds (almost 1% of Britain's GDP in that year). Only a quarter of that cost was for public health services, the rest – the less visible costs – were for informal care and lost productivity.[11]

Boosting 'tax morale'

We recognise that increasing tax revenue has its political challenges, being open to criticism from some quarters that 'tax and spend' is bad. However, studies suggest that if the tax system is seen as fair, when the wealthy bear a proportionately higher share of taxes, then 'tax morale' is high. That is, people are more inclined to accept a moral obligation to pay taxes as their contribution to society. An international study shows progressive taxation is positively associated with the subjective wellbeing of nations. Respondents living in a nation with more progressive taxation evaluated their lives as closer to the best possible life and reported having more positive and less negative daily experiences than did respondents living in a nation with less progressive taxation. Further, the association between more progressive taxation and higher levels of subjective wellbeing was reinforced by citizens' satisfaction with public goods.[12] [13]

A critical issue integral to any debate on taxation is regularly providing the information to taxpayers that shows clearly what they are getting for their money. In the health sector – and we suspect the same in other sectors – the information is either not there, or is there but not used. This may be a result of the deck-chair-shifting policy of shifting resources from the 'back room to the front line' (which also shifted the backroom work to the front line). In the health sector, for example, no consistent data exist to enable a longitudinal measure of hospital activity. Aside from the fact that this seriously inhibits any sensible assessment of how much to allocate to the Health budget each year, it also means the public cannot see the value of their tax dollars in a large and critical area of spending.

Hypothecated tax

Dedicating specific tax revenues for particular spending purposes ('hypothecation') is worth considering for some potential targeted health-related taxes, where the tax revenue is used for specific health activities or services. For example, revenue from a tax on sugar could be dedicated to supporting dental and/or diabetes services, or healthy eating programmes. Dedicated health taxes could be useful with regards to the above discussion concerning tax system transparency, especially when considering that past surveys on taxation and government spending have shown most New Zealanders (nearly 90%) are willing to pay more tax in order for the Government to increase spending on health and education.[14]

The potential downside to hypothecation – that the revenue raised may fall short or may exceed need for the area to which it is dedicated in any particular year – could be overcome in special cases by building in flexibility for topping up or diverting revenue to other areas, as required. Critically, such decisions would need to be fully justified to taxpayers.

On more specific aspects of tax related to health and wellbeing and included in the Tax Working Group's review of the tax system:

Integrating targeted health taxes

The research indicates combinations of tax measures, supported by complementary policies, are necessary to achieve the best health gain, rather than introducing targeted taxes on their own. For example, a sugar tax on its own risks possible adverse cross-price elasticity effects on consumption of other foods (eg, foods high in saturated fat and salt).

Goods and services tax (GST)

The evidence from countries where health foods are exempt from GST or its equivalent points to significant health benefits from such exemptions.

When certain interests in Australia began advocating for the removal of the GST exemption for foods such as fresh fruit and vegetables in 2013, researchers from the University of Queensland estimated that applying the 10% GST to fresh food would reduce fruit and vegetable consumption by about 5%, and would produce an additional 90,000 cases of heart disease, stroke and cancer in the Australian adult population, with the corresponding savings for the health sector.[15] [16]

A study in the United Kingdom (UK) suggests lost revenue from GST exemption on healthy foods could be balanced by taxing 'less-healthy foods' and is a combination that produces better health benefits, particularly for prevention of cardiovascular disease and some cancers. Going further and using tax on unhealthy foods to subsidise healthy foods would produce substantially more benefits. [17] [18]

Lost revenue from exempting healthy foods from GST could also be balanced by extending GST to financial services of taxing value added in this sector.

While we appreciate the downsides to these suggestions are that they can be administratively complex, we believe the potential health benefits outweigh the disadvantages.

Tax on unhealthy foods

The literature on taxing unhealthy foods tends to look mostly at combinations of taxes on sugar, salt and saturated fats rather than on a single target. The evidence for significant health benefits from these taxes is strong. The main argument against taxing unhealthy foods containing high amounts of sugar, salt or saturated fats is that they disproportionately impact on the poorest families. On the other hand, some argue that this is a major strength of the policy. Those on lower incomes spend a proportionately higher amount on unhealthy foods so the financial disincentive is most potent for poorer families. Because they are more sensitive to changes in price, they respond better and experience larger health gains than the more affluent. [19]

An OECD review of obesity prevention interventions concluded that taxes and other fiscal measures are the only interventions that consistently produce larger gains for the poor. This assertion was challenged by some researchers but real-life evidence from Mexico's sugary drinks tax showed the greatest gains for the poor. Not only did consumption of drinks with high-sugar content decline, mostly among those in the lower socioeconomic groups, but the results also showed an increase in purchases of untaxed beverages, mainly driven by an increase in purchased bottled plain water. While much of the debate on a sugar tax in New Zealand has focused on obesity, the benefits of reduced sugar consumption also apply to conditions such as diabetes and tooth decay. There is also growing evidence suggesting links between sugar consumption and some cancers. [20] [21]

While taxing unhealthy foods has the greatest potential impact on those with the greatest burden of disease, the literature indicates the success of such taxes depends on the finer detail of how they are implemented, in what combination and with what other complementing policies. The impact of an increased financial burden on lower-income groups would be a critical factor to address. This could be through altering the rates of other taxes and benefits like income tax thresholds, for example. Some countries use the revenue generated by unhealthy food taxes to fund health services targeted at low-income families.

Taxing for healthier drinking

"There are violent assaults, motor vehicle accidents, some of the trauma that occurs – you see some pretty horrible stuff – and mental illness and overdoses. Some people do some pretty reckless things. They put themselves at risk of serious harm by drinking too much." – Dr John Bonning, Clinical Director of Waikato Hospital's Emergency Department.[22]

Dr Bonning's comments were reported after a survey by the Australasian College of Emergency Medicine revealed that one in four patients presented to emergency departments as a result of irresponsible alcohol use. Aside from the drinkers themselves, many others, including partners, families, friends, workmates and random strangers, are reported as being harmed by someone else's drinking.[23]

In hospitals, they also divert time and resources away from other patients.

The cost of alcohol abuse (estimated at around $5billion in 2005/06) greatly outweigh the annual tax revenue generated from alcohol excise taxes ($985 million in 2016).[24]

The call by Alcohol Healthwatch for a substantial increase in the rate of excise tax on alcohol products is well justified; as is call for the affordability of alcohol to addressed via further increases above the rate of inflation in following years, as with tobacco excise increases. These regular increases are required to address any low-cost alcohol products developed by alcohol producers to

mitigate the effects of price increases. We note that tobacco tax was raised by 10% on 1 January 2017 and was the first of four similar increases to come into force on I January each year until 2020.

Taxing to reduce poverty

We support the Government's aim to reduce poverty – a major determinant of poor health – and tax policy must support this direction. Progressive taxes are but one way to reduce inequality, and should be promoted together with other policies that could reduce the inequality of pre-tax income and policies that remove the cost barriers to health care for poorer families.

As the Council of Trade Unions' submission points out, taxes impact on benefits and tax credits, and vice-versa. The highest effective marginal tax rates are currently on middle income families receiving Working for Families tax credits. We support the CTU's call for the Tax Working Group to investigate improvements to the welfare system that can be achieved through the tax system, including at least partially replacing Working for Families with a tax-free threshold on personal income, as in Australia.

Taxing for housing affordability

Housing can have a considerable impact on a family's health and wellbeing, whether it is poor physical conditions (due in part to inadequate regulation) or high prices that lead to overcrowding and homelessness. We recognise that there are multiple factors causing housing unaffordability. The contribution that a tax regime can make to addressing the issue must in our view give priority to supporting the poorest families to access health housing.

Tax on pollution

The potential health impact of pollution and the effects of global warming stemming from pollution are well documented. Polluters should face taxes on their emissions, including greenhouse gas emissions, to pay the costs of all significant effects of pollution. We recognise, however, such taxes can create a disproportionate burden for lower income people. In those cases, counteracting measures are needed, such as reduced taxes of other kinds and/or increased income support.

As with most if not all of the taxes discussed here, it is important that pollution taxes are treated as part of a package of complementary policies.

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