Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

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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.

FEDERATED FARMERS TAX SURVEY RESULTS

To help inform Federated Farmers' submission to the Tax Working Group we undertook a member survey. The survey (which was open from 5-14 March) attracted 1,393 responses, an impressive number given the survey's length (30 questions) and indicative of the interest farmers have in tax.

The responses were representative of the make-up of Federated Farmers' membership in terms its provinces and industry groups.

Many of the respondents also took the time to provide comments on each question.

1. TAX SYSTEM

Do you generally agree with the following statement? *"Tax revenue should recover enough to fund government spending of no more than 30% of GDP and the maintenance of operating surpluses. If there are structural surpluses we have preferred tax cuts and repayment of debt to more spending."*

Results		**Flavour of Comments**
Yes	80.45%	Most comments were strongly in favour of the statement. For example, • *"Like any good business you need to use any surplus wisely and repaying debt is wise. It is our money not the government's"; and* • *"Critically important. Government spending above that basic level is too often for political purposes, can be wasteful, and too frequently produces perverse outcomes"* Others were mostly in agreement. For example • *"Not sure about the 30% of GDP but certainly agree taxes should be enough and no more than is necessary for the running of prudent government expenditure and balancing the books including sensible repayment of debt"* However, a few respondents disagreed and felt more spending might be needed. For example • *"We need to pay back the debt but not at the expense of social obligations e.g. health, education, aged care etc. Need a balance. NZ infrastructure has been let down of years".*
No	5.23%	
Don't know	14.32%	

The Government doesn’t view the tax system as ‘fair’ and instead thinks ‘asset owners’ and ‘speculators’ are not paying their fair share of tax. Do you agree?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Yes</td><td>16.49%</td><td rowspan="3">Most comments wanted a differentiation between ‘asset owners’ and ‘speculators’. They consider most farmers to be ‘asset owners’ who are in it for the long-term. They felt such asset owners should not be put in the same box as ‘speculators’ who many felt perhaps should pay more tax. For example:
“That is a rather broad sweep to put asset owners and speculators in one question. Speculators can be considered risk takers. Asset owners are often conservative, save rather than spend over many decades”;
“Long term asset holders do pay fair share due to longer term investment in their assets to improve productivity and therefore pay in income and company tax. Speculators not so as shorter term with often little investment in asset development i.e. land or house banking”; and
“We've worked very hard i.e., no holidays, days off, etc. via the sharemilking system for over 14 years before we purchased our 450 cow farm. Why should people who work long and hard to achieve be penalised by taxes for this. Growth should be encouraged not discouraged”.
Some noted that the tax system already addresses speculation by ‘traders’. For example
“There is already a tax on people who just buy and then flick a farm for a quick buck”</td></tr>
<tr><td>No</td><td>75.89%</td></tr>
<tr><td>Don’t know</td><td>7.62%</td></tr>
</table>

2. TAXES ON ASSETS

2.1 Capital Gains Tax

New Zealand does not have a comprehensive capital gains tax. Would you support the introduction of a capital gains tax that, as has been proposed, excludes the family home?

Results		**Flavour of Comments**
Yes	11.50%	Most comments were strongly against a CGT. Many were totally against any CGT for the impact it would have on farming. For example: • *"No I would not, especially not in relation to inter-generational family farming operations. Grass roots farming is not an easy life, and many sacrifices are made by farming families that cannot be quantified for tax purposes."* • *"Where is the incentive to get ahead? We didn't inherit the family farm and worked our butts off living on next to nothing for many years to achieve farm ownership."* • *"It could reduce the value of our business. We started with nothing 25 years ago and have reached our goal of owning our own farm. Land prices have gone up considerably but our profit level has not changed much. Through hard work, we have put ourselves in a position where our assets have grown through factors outside our direct control (demand) so why should we be taxed on that?"* • *"The modest capital gain in many small businesses is the only way that the owners would reach the minimum wage let alone get a return on capital"* • *"Rural farming businesses are already marginal and a capital gains tax would see many farmers quit the industry. It just adds to our cost structure. We are price takers and are not able to put our price up. Upset the balance and there will be consequences that create other problems."* • *"Just makes work for accountants and lawyers. Helps make tax avoidance a national pastime (USA example)".* • *"Absolutely not. This could leave people that are asset rich, but cash poor to be locked into not selling because of the fear of a wealth depletion. What about succession between families, this could kill any transaction."* Others opposed a CGT excluding the family house. For example: • *"If they were to look at a capital gains tax, farming should be the last type of business that should be considered. Start with investment property owners who neglect tenants first and leave farmers alone"* • *"Needs to target the problematic areas i.e. housing."* • *"Excluding the family home would exacerbate the present dilemma where tax free status drives investment toward housing and real estate rather than business".* • *"I have no issue with a comprehensive CGT provided it is based around realised gains rather than an assessed value on unsold assets, but it should include the 'family home'. Australia brought in a CGT in 1985 that excluded the family home, so we saw investors sell their rental properties and sink the proceeds into a huge family mansion, to avoid the CGT. Exemptions always lead to distortions but we know that politics rule here as the government will seek to ruffle as few feathers as possible so any CGT will always exclude the family home."*
No	81.14%	
Don't know	7.36%	

<table>
<tr><td></td><td></td><td>Some supported a CGT if farms, especially family farms, were exempted. For example:
• *“Family farms should be excluded too, but corporate farms should be included.”*
• *“No, unless the family farm was excluded also if it was being sold to the next generation of the family.”*
• *“No way, unless it excludes family farm. The only time our family is going to make any real money is if we sell”*

A few were supportive even if farms were included. For example:
• *“It would take the speculators out of the industry, and farms would be for the farmers who can farm. Land prices may even come back closer to productive worth so young farmers can get a good start.”*</td></tr>
</table>

Are there any circumstances where you would support the introduction of a capital gains tax?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>If it were applied equally across all assets, including the family home, without any exemptions</td><td>14.74%</td><td rowspan="4">Again there were a lot of negative comments about any CGT, as mentioned in relation to the previous question. These won’t be restated here.

Most of the remaining comments related to the bright-line test option:
• *“The 'bright line' test is the best way to weed out the speculators”.*
• *“The bright line test sounds good in theory to stop so much speculating, but there can be times when it could end up very unfair. We bought a farm nearly 3 years ago but then my husband died suddenly about 18 months ago. We have managed to stay on at this stage but it is a battle. A 5-year bright line test would not be kind if we needed to sell.”*
• *“If there had to be at capital gains tax, reluctantly the bright-line option, that is a property is solid within say 2 to 5 years. In our situation we are in it for the long term. What if we were to sell part of or subdivide a couple of sections off our farm to enable a viable purchase?”*
• *“I am happy with the bright-line test for housing speculation but not a full CGT that may encompass other assets. A CGT increases the complexity when buying & selling businesses and intergenerational asset movement.”*

Examples of comments about exemptions included:
• *“All assets would need inclusion to avoid anomalies and not dis-incentivise investment in producing assets. Overall tax take should remain neutral - we already suffer ever unconstrained increasing local body taxes - farmers receive no service for these.”*
• *“Only if as above it exempted the family home or family farm where only one is owned. It should only target multiple ownership”*</td></tr>
<tr><td>If other tax rates were cut so it was ‘fiscally neutral’</td><td>13.24%</td></tr>
<tr><td>If it were applied as a ‘bright-line test’, that is would only take effect if the asset is sold within a period (say 5 years) of its purchase</td><td>46.63%</td></tr>
<tr><td>No, I would never support a capital gains tax</td><td>44.71%</td></tr>
</table>

<table>
<tr><td></td><td></td><td>“There has to be more tax for speculators and not touch farmers who buy land and may possibly sell to buy another block or older farmers selling their farms to their families”.
Examples of other comments relating to the operation of a CGT included:

“Any capital gains tax should tax only real, rather than inflationary, gains so gains should be indexed for inflation, as in Australia.”
“Who sets the initial value if the asset has not been sold for thirty plus years?”
“But only if taxed when profit realised. Not a tax on un-realised capital gain.”
“How would it be calculated? Would capital losses be credited? Would it take account of capital expenditure which is not eligible for tax deductions?”
</td></tr>
</table>

What period of time would you prefer for a bright-line test?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>2 years</td><td>14.54%</td><td rowspan="5">Again there were negative comments with many saying ‘never’ or restating previous reasons for opposing a CGT.

Some of those who supported a bright-line test raised the need for exemptions (e.g., sales due to death or illness or sales to family members or sales to move up to better farms). For example:

Should a family farm be purchased and then a medical event/death/marital/financial situation occur which necessitates a sale then a capital gains tax could be severely damaging to the owner. Corporate farms could be taxed after a 10 years but difficult to determine some owner structures.
Apply on when farm was sold outside the family Liability should be passed on to the next generations.
Should allow for improvements or development to increase value.
I have found farming clients working to improve properties and sell, so that they can improve their farm size. Sometime these transactions are less than 5 years, but I think a 5 year limited would then keep those genuinely farming out of the tax net.

Interestingly, some respondents suggested even longer periods for the test, 20 years and upwards.</td></tr>
<tr><td>5 years</td><td>40.17%</td></tr>
<tr><td>10 years</td><td>22.52%</td></tr>
<tr><td>Don’t know</td><td>11.34%</td></tr>
<tr><td>Other</td><td>11.45%</td></tr>
</table>

2.2. Land Tax

New Zealand currently has a land tax through local government rates. A land tax would be an additional tax for central government. It would be a flat percentage per annum (e.g., 1%) of the property's unimproved land value. It would exclude the value of the land under the family home. Would you support such a land tax?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Yes</td><td>2.07%</td><td rowspan="3">A lot of strong opposition in the comments, with many noting they already pay more than enough 'land tax' to their councils in the form of property value based rates that don't reflect ability to pay and would be unaffordable. For example:
• "Tax on asset value has nothing to do with your ability to pay, you would always be paying even in bad years such as drought or commodity price slumps"
• "Local government already taxes/rates farmers well above the costs that farmers incur to district councils. The rural rate payers are subsidising their urban counterparts. Also rates are increasing well ahead of the rate of inflation. Local government has its own consumer price index which again is totally ahead of the nationally accepted Rate of Inflation."
• "This would have the effect of driving many small family farmers off their land as they would struggle to be able to pay this. This would result in more corporate farming taking up land as they could manage the tax implications better. This would seriously change the face of farming in New Zealand, with likely environmental impacts as farmers not owning land would no longer have an incentive to do the right thing for future generations."
• "A land tax would effectively render many farms uneconomical, the value of a farm is often entirely unrelated to its productive value especially for large scale sheep farms where amenity value vastly over-inflates land values and returns on capital value are as low as 1-2%".
• "We have land which cannot be developed due to biodiversity, RMA constraints, very unfair to tax us on unimproved value".

Some noted problems with relying on property valuations. For example:
• "Who will judge the unimproved value? We were the leaseholders of a 'West Coast Lease' block. It was not very developed when purchased. As the other blocks around also developed, there was no longer a bench mark for swampy, gorse and blackberry infested areas for comparison and the unimproved value increased dramatically".
• "Determination of values is subjective. There are problems with valuations. I have a 10.42 ha QE11 covenant area it has recently been assigned a Land Value of $25,000 and a Capital Value of $25,000. There has been no value attributed to Improvements. Yet the QU11 is dependent on having a fence surrounding it?"

Others observed that the burden of a land tax (especially one that exempted land under the family home) would be unfair. For example:
• "Not Fair. Many people make a lot of money with little land e.g., share brokers and financial advisers"</td></tr>
<tr><td>No</td><td>90.99%</td></tr>
<tr><td>Don't know</td><td>6.94%</td></tr>
</table>

		• *"That means that mostly only farmers would be paying this tax!"* • *"Totally unfair as rural get nothing for their current local body rates but rural provides income tax, GST and foreign exchange whilst urban gains access to all urban facilities with residential properties providing minimal of the above."* • *"Why should businesses that own land be taxed more than other businesses that don't?"*

Are there any circumstances where you would support the introduction of a land tax?

Results		**Flavour of Comments**
If it were applied equally across all land, including land under the family home, without any exemptions	9.24%	Almost all the comments were strongly opposed to a land tax regardless of the options. They were very similar to the comments for the previous question so won't be restated here.
If there was a lower rate set for farmland compared to rates for businesses or residential land	9.66%	
If other tax rates were cut so it was 'fiscally neutral'	13.10%	
No, I would never support a land tax	79.85%	

2.3 Stamp Duty

Another possible new tax on property would be stamp duty. Stamp duty is a 'one-off' tax paid by the purchaser at the time of purchase, usually a flat percentage of the purchase price. Would you support a stamp duty?

Results		**Flavour of Comments**
Yes	5.45%	Comments were overwhelmingly negative. Many observed that stamp duty had been abolished some years ago and that reintroducing it would be a backward step. For example: • *"There was stamp duty tax in the past, and it didn't raise a great amount of income but it made transferring land titles between family members and amalgamation of property titles expensive and difficult to do."* • *"We have had a stamp duty in the past. It was abolished mainly because of its compliance and administrative costs were high relative to the revenue it raised."* • *"Stamp Duty discourages efficient land use., people hold on to land rather than pay the stamp duty when it could be sold and put to better use."* A few comments supported stamp duty, especially for sales to foreigners. For example:
No	82.33%	
Don't know	12.22%	

<table>
<tr><td></td><td></td><td>“Stamp duty would be a more appropriate form of taxation on land because out would only bite when the property was sold and would not therefore impose additional cash costs on the land owner during the period of ownership.”
“For overseas purchasers of NZ land”.</td></tr>
</table>

Are there any circumstances where you would support the re-introduction of stamp duty?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>If it were applied equally across all property, including the family home, without any exemptions</td><td>8.91%</td><td rowspan="5">Again, most comments were strongly negative (as mentioned in relation to the previous question). These won’t be restated here.

Some though supported the idea of foreigners being taxed through a stamp duty. For example:
“I think it would be fair if foreign investors were asked to contribute”
“Don't mind foreign investors if they live in NZ and pay tax in NZ. Would really like to see foreign investors taxed higher.”</td></tr>
<tr><td>If there was a lower rate set for farmland compared to rates for businesses or residential property</td><td>6.70%</td></tr>
<tr><td>If other tax rates were cut so it was ‘fiscally neutral’</td><td>7.63%</td></tr>
<tr><td>If it only applied to foreign investors</td><td>30.79%</td></tr>
<tr><td>No, I would never support stamp duty</td><td>58.86%</td></tr>
</table>

2.4 Capital Tax

A capital tax, as proposed last year by Gareth Morgan’s Opportunities Party, would apply a person’s or company’s tax rate to a deemed rate of return on all productive assets, regardless of a person’s income or a company’s profit. Would you support such a capital tax?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Yes</td><td>2.90%</td><td rowspan="3">A lot of comments were critical of the high cost this would impose on farmers, whose incomes and profitability fluctuate wildly thanks to world commodity prices, exchange rates, and weather. For example:
“For businesses that have a very high value of "productive assets" but actually have a very low rate of return, like a lot of farms, that would unfair to tax them on that value when it already does not generate much of a return.”
“I do not know much about it but it would hit the productive sector and leave the city companies laughing I would think.”
“Which God is going to allocate such deemed rate?”
There was also concern about high administration and compliance costs.
Administratively cumbersome and complex. Can't see how this type of tax is fair or logical when it is not related to actual income or profit (ability to pay).</td></tr>
<tr><td>No</td><td>82.71%</td></tr>
<tr><td>Don’t know</td><td>14.40%</td></tr>
</table>

		• *"Will just end up with an " avoidance industry".* There were also a lot of comments that they did not understand how the tax would work. There were some lone voices of support though. For example: • *"An imputed (deemed) rate of return is more likely to discourage farming for capital gains or if profitable to farm for capital gains make the farm owner pay a fair share of tax."*

Are there any circumstances where you would support the introduction of a capital tax?

Results		**Flavour of Comments**
If there was a lower deemed rate pf return for farmland compared to other assets	6.06%	Most comments were strongly negative (as mentioned in relation to the previous question). They won't be restated here.
If other tax rates were cut so it was 'fiscally neutral'	12.20%	
No, I would never support a capital tax	84.68%	

2.5 Inheritance Tax

New Zealand has no inheritance taxes like death duties, estate duties and gift duties. Would you support the reintroduction of inheritance taxes?

Results		**Flavour of Comments**
Yes	0.94%	Virtually all comments were strongly negative, w3ith particularly strong concern about affordability, double taxation, compliance costs, and succession. For example: • *"How on earth can family farms ever be handed to the next generation if estate duties had to be paid. There isn't the cash to pay it."* • *"Definitely not. It caused so much stress to farming families as they often had no alternative but to sell their farm to find payment of this unfair tax. Their asset is the farm and taxes such as these, hinders the next generation to continue the business. After all, tax has already been paid on the principal capital when the previous family descendant paid it off. This is a double whammy tax. Payed twice."* • *"Have had it in the past - disaster. Good for the lawyers and valuers only."* • *"This is a double taxation. Taxing people once to earn the money, then again when they die."* • *"Again very costly to administer compared to tax paid and has devastating effect on a high capital business like farming. A sheep and beef farm would not be viable post-inheritance tax."*
No	97.02%	
Don't know	2.04%	

		• *"Estate duties crippled my family financially when my father died effectively putting a mother with 5 children into poverty. I would not wish that on anyone".* There were a handful of more supportive comments though. For example: • *"Provided there is a reasonable tax-free level for each person inheriting - say $1,000,000".*

3 TAXES ON INCOME

3.1 Personal Income Tax

The top rate of personal income tax is 33%. Is this rate:

Results		**Flavour of Comments**
Too high	34.53%	Most comments were that 33% is too high or about right, with a number noting that higher rates incentivise avoidance. • *"The higher the rate, the more incentives for tax avoidance."* • *"Going higher than this creates profit shifting motives that will be used by those targeted by the high rates, who can afford to develop the schemes required.* • *"Plenty of studies have shown that the higher the personal tax rate the higher the rate of tax avoidance and tax evasion, and the greater the time spent in tax planning rather than income generation and business investment and growth. A lower rate often results in more tax being collected as the desire for avoidance reduces and people are incentivised to work."* Some suggested the 33% rate could be cut or the $70,000 threshold increased with a few suggesting it be done in combination with an increase in GST. For example: • *"If you raise anything, raise GST. A higher income person who spends rather than invests is then paying more".* • *"I prefer upping GST lowering personal tax rates and increasing the base level before tax paid. Everyone pays GST and very difficult for the rich to avoid."* Some thought the top personal income tax rate should be aligned to the company or trusts tax rates. For example: • *"Should be the same as company and trust rates".* • *"I believe in a simple tax system. A single flat rate for personal, trust, and company. Therefore, less opportunity to avoid tax by juggling things in different entities"* Some commented that a new higher rate could be introduced at a significantly higher income threshold. For example: • *"There should be higher rates for the top earners or the threshold should be raised so that middle income earners are not paying the same amount of tax as the highest income earners."* • *"Threshold for top rate kicks in too low. Extremely high earners i.e., those earning over $250,000 should have higher rate say 40%".*
About right	58.97%	
Too low	3.16%	
Don't know	3.33%	

The top rate of personal income tax applies to income over $70,000. Is this threshold:

Results		Flavour of Comments
Too high	6.52%	Most comments were that the threshold is too low, with some mentioning that it is getting close to the average income. For example: • *"I feel that the $70,000 threshold is far too low for a 33% tax rate."* • *"$70,000 is not a large income these days - it's what is needed to survive for most families."* A number made suggestions for where it should be, with $100,000 a popular choice. A number also suggested thresholds should be inflation-adjusted. For example: • *"Take this out of politicians' hands - tax thresholds should be automatically adjusted with incomes so that the average rate that taxpayers pay stays the same."*
About right	39.54%	
Too low	50.86%	
Don't know	3.09%	

Personal income tax thresholds have been unchanged since 2010. Should income tax thresholds be adjusted annually for inflation?

Results		Flavour of Comments
Yes	55.08%	A number of comments said regular changes would be disruptive and would impose administration and compliance costs. For example: • *"Too confusing to change them all the time"* • *"Don't change annually - every chance requires updates to computer systems / people's thinking. This extra work creates inefficiencies."* Even amongst those who supported the idea, a number suggested less frequent adjustments, mostly every three to five years. For example: • *"Perhaps not annually but regularly (3 to 5 years)".*
No	29.43%	
Don't know	15.49%	

Would you support a new higher top rate of personal income tax applying at a higher income threshold? (say a 39% rate applying at income over $150,000)

Results		Flavour of Comments
Yes	36.90%	Most comments were negative, with some saying they pay more than enough tax already. For example: • *"The current top rate of 33% is high enough."* • *"No way - already pay more than our fair share. Why tax those who are working hard for the country and economy more?"* Others commented it would discourage effort and would encourage more people to avoid tax, especially if a large gap opened up with the company and trust rates. For example:
No	53.42%	

<table>
<tr><td>Don’t know</td><td>9.67%</td><td>

“This dis-incentivises people to work hard and achieve”
“Higher rates dis-incentivise productivity. Higher earnings grow the tax base”.
“Those with this level of income are going to have the means to use other ownership options to reduce tax exposure”.

Some of those who supported the idea qualified their support by suggesting a higher threshold, with $200,000 a popular choice. For example:

Yes, but income should be at least $200,000 not $150,000

</td></tr>
</table>

3.2 Company Tax

The company tax rate is a flat 28% of a company’s taxable profits. Is this rate:

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Too high</td><td>18.32%</td><td rowspan="4">Comments were very mixed. Some want it cut in order to be internationally competitive, and noted that many countries (including Australia) are considering further cuts in their rates. 25% was a popular choice. For example:

“Must be competitive with or to our trading partners/competitors.”
“Needs to align with Australia at 25%”
“Other OCED countries are considering lowering their company tax rates.”
“NZ is now one of the higher taxed countries in this area. This affects our competitive advantage and closes us off to some overseas industries which might otherwise consider doing business here.”

Not everyone agreed though. For example:

“Reducing the rate would provide too much benefit for NZ companies owned by overseas residents.”

Others noted that in most cases, company tax is a withholding tax with the personal income tax being the final tax. For example:

The effective tax rate on company income is 33% for most NZ tax residents as this is what you end up paying when the profits are paid out as dividends. The 28% rate is largely a timing difference.

Some advocated for the company tax rate to be aligned with the trusts rate and/or the top rate of personal income tax. For example:

“Should be the same as Trusts. Reduce Trusts to 28%.”
“Prefer to align top personal tax rate with company tax rate.”

Some were keen on a lower rate for small businesses. For example:

“It should be scaled, as small companies are very different enterprises to large companies.”

</td></tr>
<tr><td>About right</td><td>65.92%</td></tr>
<tr><td>Too low</td><td>8.22%</td></tr>
<tr><td>Don’t know</td><td>7.53%</td></tr>
</table>

The Tax Working Group has been asked to consider whether New Zealand should have a ‘progressive company tax rate’, a lower company tax rate for small businesses. It’s unclear how ‘small’ will be defined, but it could be based on net profit, employee numbers, or turnover. Would you support this idea?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Yes</td><td>11.82%</td><td rowspan="4">Most comments were critical of the idea, with many pleas to ‘keep it simple’. For example:
“Why penalise the guy that’s out pushing things along and growing his business and creating opportunities and jobs for New Zealanders!!”
“Any definition of 'small' would be likely to end up in a tax accountant and lawyers feast.”
“Too easy to split things up to make "small" fit if there is a significant tax advantage - also kiss principle - keep it simple the more complicated the more money wasted on lawyers and accountants and general nonsense”.
“A simple system that people understand would be best”.
“KISS principle.”
“An unnecessary complication in the system - good tax systems are simple systems. Is a disincentive to grow the business. Do we want to foster small mindedness?”
Others noted it would do nothing for them as they are not structured as companies (being sole traders, partnerships, or trusts).
“Would a family farm partnership which was not a company benefit from a lower company tax rate? I think not!”
Some noted that we already have progressive tax for company owners. For example:
“The current imputation regime enables companies to pass through tax credits for income tax paid by a company to its shareholders, effectively reducing the tax rate on company income to the rate paid by its shareholders. Because of this, a progressive rate is unnecessary except for changing the time at which tax would be paid.”
But some were supportive of the idea. For example:
“Small businesses have a disproportionate amount of compliance requirement and are responsible for collecting family support, student loans etc. for the government. This takes time and this time is not remunerated.”
“OK but should follow personal tax scale as many small companies pay out profits as shareholder remuneration.”
There was also uncertainty on how it would work. For example:
“More information would be needed to fully understand what this proposal means.”
“Question is too speculative for me to know what I think. Depends entirely on detail and tradeoffs.”</td></tr>
<tr><td>Maybe but depends on definition of ‘small’</td><td>55.42%</td></tr>
<tr><td>No</td><td>26.19%</td></tr>
<tr><td>Don’t know</td><td>6.57%</td></tr>
</table>

What would be the best way to define 'small', a threshold of

Results		Flavour of Comments
Below a specified level of net profit before tax	30.30%	Most comments expressed concern about how some or all of these options would work in practice, what thresholds would be 'small', and the associated administration and compliance costs. For example: • *"There will always be ways of manipulating a figure so it's hard to know what would be the best definition."* • *"Net profit and turnover can be too variable and therefore you won't know what level of tax you have to pay until the end of year. People will be creative to get around this. Number of employees could stop companies taking on more employees."* • *"This is ridiculous - if you go on profit then you will work at adjusting levels of profit - good for accountants I guess, same with the others - turnover is irrelevant to profit so can't tax someone because high turnover as they may be making no money! Has to remain equal for all companies"* Some thought it would have to be a combination of two or more of the options. For example: • *"It would have to be a combination - a business could be really big but not have a particularly high net profit, especially if it was expanding. It could still own significant assets and be continually adding to them. This business would under current law stand to gain a lot on sale of the business and if it had been taxed at a lower rate, would not necessarily be paying very much tax over the years. Business turnover likewise could be very high but profit low in a business with very little asset so taxing higher on turnover would be unfair."*
Below a specified level of business turnover (e.g., annual GST revenue)	22.73%	
Below a specified number of employees	14.48%	
None of these options would work	16.75%	
Don't know	15.74%	

3.3 Trusts Tax

The tax rate for trusts is 33%, the same as the top rate of personal income tax. Is this rate:

Results		Flavour of Comments
Too high	39.20%	A number of comments were that the trusts rate should be aligned to the company tax rate or the top rate of personal income tax (or both). • *"The trust tax rate needs to be the same as the top personal rate to stop people setting up trusts to avoid paying the top personal rate."* • *"If aligned with company tax maybe stop a lot of shuffling around of incomes."* Some suggested that the trusts rate should be progressive with the same thresholds as for personal income tax. • *"Trusts should have a progressive tax rate like personal tax does".*
About right	47.18%	
Too low	0.66%	
Don't know	12.96%	

<table>
<tr><td></td><td></td><td>Some acknowledged that trusts have been used inappropriately, although not necessarily in farming (e.g., charitable trusts and family trusts crated to avoid paying for rest-home care).
"It should be applied across the board. I would very much like the "charitable trust" option to be taxed. Too many trusts do not pay taxes and only minimum money is distributed to recipients. It is our biggest tax dodge in NZ"
"Many trusts are set up to avoid taxes and avoid rest home cost".</td></tr>
</table>

Should the trusts tax rate continue to be aligned to the top rate of personal income tax?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Yes, the two rates should always be aligned</td><td>47.99%</td><td rowspan="4">Most comments preferred alignment with the company tax rate as well as or instead of the top rate of personal income tax. For example:
"Probably trusts and companies and personal tax should all be the same so people then choose the most suitable rather than how to pay the least amount of tax".
"Should be aligned with Company Tax rate."
Others suggested the trusts rate should be progressive. For example:
"Trust tax rates should reflect its income".</td></tr>
<tr><td>No, the trusts tax rate should be higher than the top rate of personal income tax</td><td>1.68%</td></tr>
<tr><td>No, the trusts tax rate should be lower than the top rate of personal income tax</td><td>28.73%</td></tr>
<tr><td>Don't know</td><td>21.61%</td></tr>
</table>

4. GOODS & SERVICES TAX

The GST rate is 15%. Is this rate:

Results		Flavour of Comments
Too high	19.79%	Most comments were that it is about right. For example: • *"We're used to it now. If it was lowered would result in too great a reduction in tax take. Would have to be gathered from somewhere else. Raising it would have people scrambling to try and get certain goods exempt, and would lead to unnecessary complications".* • *"GST is a very efficient tax and very hard to avoid. It is simple with few exemptions. It has been increased twice already and at 15% it is high enough."* Some were concerned about the current 15% rate's impact on low income people and suggested it should be reduced. For example: • *"12.5% was fairer especially for lower income groups. Lower the rate as opposed to making exemptions."* On the other hand, some thought the rate should be increased, noting it is a good tax because it is hard to avoid and it taxes consumption rather than income. For example: • *"If it was higher, say 20%, people on higher incomes cannot minimize their tax as much as they do now and lower income earners could be compensated making a much fairer system".* • *"But if we need to increase tax revenue, increase GST and lower the bottom tax rates rather than increase top tax rate. Get the money when we spend it, not when we earn it."*
About right	74.72%	
Too low	2.14%	
Don't know	3.34%	

New Zealand's GST has very few exceptions and is among the simplest and most efficient in the world. There have been calls to exempt certain 'basic' items from GST, such as food. Would you support making basic items, such as food, exempt from GST?

Results		Flavour of Comments
Yes	29.21%	Some comments were supportive of the idea of exempting 'healthy food' and/or to help lower income people. For example: • *"Yes to Healthy food such as fruit and veg not processed food e.g., chips chocolate"* • *"On whole foods that are not processed e.g., fruit, vegetables or meat."* • *"Food is an essential part of life. The cost of living is high as it is."* Even among those that did support the idea a number acknowledged it would be difficult to administer and comply with. For example: • *"If it helped improve quality of life for New Zealander's, especially the vulnerable and was easy to administer, but I suspect it would be a nightmare to manage and determine what was exempt and what wasn't."*
No	66.25%	
Don't know	4.54%	

		• *"I like the idea, if it made good food options more affordable to people who are struggling financially, but it would be difficult to implement and I am sure there would be debate on which items should be GST exempt etc."* Most comments though were strongly opposed, agreeing that GST is simple and efficient and that it is important to keep it simple and have it apply broadly. They opposed adding what they consider would be too much complexity to the tax system. For example: • *"Keep it simple. exemptions will cause great confusion and reduce tax take"* • *"It would take a lot more government employees to police this at a huge cost. Court cases of whether a particular food should be exempt or not by its presentation. Keep it simple."* • *"Where do you draw the line, what is basic necessary items?"* • *"Let's keep the tax system simple and efficient. More exemption the more ways of people got to avoid GST. Also more costs for places like supermarkets working out what has GST on and what not. The amount of GST on food is small and not likely to change people's behaviour. There would be many grey areas. GST exempted on apples but not on apple pies"* • *"It's a simple system, leave it alone"* • *"GST is so successful because there are no exemptions. Golden rule of taxation: keep it simple stupid. No exemptions".* • *"You've said it, 'simplest and most efficient'. Don't go there."* A number suggested that other government policy should address the problems. For example: • *"A far better way is to adjust benefits to the needy."* • *"The cost saving would outweigh the systems needed to be put in place to support this system. For people on low incomes/benefits there should be money available to support them".* • *"Makes system to complicated with exemptions. Target relief though working for families."*

5. ENVIRONMENTAL TAXATION

Farmers operate a biological system in the environment. Taxes can be used as both a 'carrot' and a 'stick' to encourage certain environmental practices and outcomes. In terms of the 'carrot' would you support tax incentives such as making capital expenditure on environmental improvements immediately deductible from taxable income?

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Yes</td><td>84.03%</td><td rowspan="3">Comments were mostly supportive of using a ‘carrot’ approach, especially if environmental investment and behaviour change is being pushed on farmers by the public and politicians including through regulations.
“Anything to encourage investment into the environment is a no brainer!”
“Land owners need to be recognized for setting property aside for the common good, including environmental. this comes at considerable cost and often loss of future opportunity. Even a mandatory rates deduction as recognition would be of some benefit.”
“I think we need to start finding ways to finance the environmental outcomes society wants, without just keeping on expecting farmers to pick up the tab.”
“I far prefer carrots than sticks as a way to get people positively engaged in environmental initiatives.”
“Areas set aside for riparian planting should get permanent rates relief. It's a gift in effect to the wider local and NZ community from private land owners for the betterment of "community" owned water ways. Farmers should be recognized fiscally for the contribution. Very easy with modern satellite and GPS technology.”
“As the call for environment improvements is getting stronger everyone should contribute i.e. planting waterways and improved effluent systems helps waterways for everyone.”
“A lot of farmers do a lot for the environment out of their own pocket for no financial gain but because they care. A lot of us would do more if we could afford it or were helped out in some way.”
There was acknowledgement that some on-farm environmental spending is already able to be deducted, including riparian planting, fencing-off waterways, pest and weed control, etc., but there was some support for it being made more generous.
“It largely is deductible now. I think incentives to grow amenity trees need to be much more than just tax deductible. The city also gains from amenity plantings both in lessening their carbon footprint and in improving their own vistas.”
“I'm sure farmers are getting tax breaks from this expenditure anyway. If farmers are profitable and in the black then farmers will by their very nature make good choices for the environment and be green.”
However, a few did not believe environmental spending should be treated any differently from other spending.
“Tax incentives should not be necessary to promote activities that are required by regulation in any case.”
“Environmental improvements should be no different to other capital improvements.”
And some were concerned about the possible consequences. For example:</td></tr>
<tr><td>No</td><td>9.07%</td></tr>
<tr><td>Don’t know</td><td>6.91%</td></tr>
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<tr><td></td><td></td><td>“Not if it is a rob Peter to pay Paul situation. Can't imagine that there would be an introduction of a tax incentive without the introduction of a new tax. Lots of paper shuffling and jobs for administrators and no further ahead.”
“How much are we going to pay compliance people to check out if the capex was for environmental improvement and what criteria would you use to define something that was for environmental improvement?”
“Grey area. Open to manipulation and farmers have enough bad press now. Most environmental works we do with fencing and planting is covered.”</td></tr>
</table>

In terms of the 'stick' would you support any of the following environmental taxes? (pick as many as you wish)

<table>
<tr><th colspan="2">Results</th><th>Flavour of Comments</th></tr>
<tr><td>Tax on water extracted for commercial use, including irrigation</td><td>9.11%</td><td rowspan="6">Most comments were strongly opposed to environmental taxes, the ‘stick’.

Many were concerned about additional costs for farming which will put them under financial pressure and could even make it unaffordable to invest in environmental improvements or to make behaviour change. For example:
“Costs are already exorbitant for the farming industry, so adding another tax will do no good for the environment.”
“All of these activities or expenditures are more or less necessary to carry on farming, so a tax on them would add to the cost of farming while having little impact on farming activity or the environment.”
“It’s hard to spend money on environmental improvements if the government takes it off you in taxes!”
“I can’t pass on any costs including taxes.”
“We honestly can't afford to pay anything else! They need to sit down and examine some farm annual accounts. I'm an ex rural manager for ANZ Bank and I know that this is not a feasible option for the majority of farmers!”
Others noted that the additional costs would make New Zealand agriculture less internationally competitive. For example:
“Tax on production is unwise. NZ needs to be internationally competitive.”
“The difficulty is if NZ brings in these environmental taxes but other farming countries do not, so we end up transferring production to less efficient (and more environmentally damaging) other countries, such as Brazil.
Some regarded the tax options as blunt instruments that would not have the desired effect. This would especially be the case if set nationally. For example:</td></tr>
<tr><td>Tax on fertiliser purchased</td><td>2.62%</td></tr>
<tr><td>Tax on agricultural chemicals purchased</td><td>3.54%</td></tr>
<tr><td>Tax on energy consumption, such as electricity and fuel</td><td>3.12%</td></tr>
<tr><td>Tax on ‘modelled’ environmental outputs, such as a tax on nitrogen leaching based on OVERSEER estimate</td><td>7.43%</td></tr>
<tr><td>None of the above</td><td>82.36%</td></tr>
</table>

		• *"We farm in the Taupo catchment so have effectively had our production levels capped due to the Nitrogen cap through Variation 5 - to add a tax on N discharge on top of that would be incredibly unfair and a huge issue for continued farming in the catchment."* • *"Every farm is so different. A stick approach will penalise those who operate in more challenging places."* Many chose to make critical comments on the individual options. A number noted that science is still developing and in particular that OVERSEER is not currently an appropriate tool for regulation (or taxation). For example: • *"Overseer is only an estimate and cannot be relied upon to base a tax on."* • *"Overseer is an incredibly poorly designed programme and a ridiculous way of measuring nitrogen leeching. It would be disastrous to use this a tax tool as well! It is so open to manipulation.* • *"Overseer should not be used in a regulatory way. It has a very large variable and put this with someone's interpretation leads to gross under or over reporting."* • *"Overseer is a flawed model with an acknowledged variability of +/-30%."* Some noted that they already pay tax on their farm inputs – GST and (in the case of fuel) excise tax. Electricity and fuels already attract additional cost through the ETS. For example: • *"Electricity and fuel are in the ETS."* • *We are already taxed on all of our inputs through GST. Water is paid for through farmers' use of water infrastructure. If agriculture is introduced into ETS this will effectively be a tax against outputs, I'm not sure farms could sustain much more.* Some also felt it unfair to pick on farmers when there are major environmental problems in urban areas. For example: • *"An environmental tax should be applied to all people urban and rural equally."* • *"Tax on urban pollution would be needed to make such a suggestion fair."* However, there were a few supportive comments. For example: • *"This moves NZ forward in environmental planning and I believe making these responsible changes in the future of farming increases the quality and reputation of our products."* • *"I would support a tax on environmental outputs such as nitrogen leaching once the science around it becomes a lot more robust. I would support a tax on water taken for irrigation in new systems."*

Would you support these types of environmental taxes if the revenue were allocated to fund (either through grants schemes or tax incentives): (pick as many as you wish)

Results	
Activities to improve water quality, such as planting trees for riparian strips or erosion control, fencing off waterways, stock crossings, stock water reticulation, etc.	30.98%
Activities to improve indigenous biodiversity, such as weed and pest control, planting and fencing off native bush and wetlands, retiring land from production, etc.	26.30%
Activities to improve the protection of natural landscapes that are regarded or designated as 'outstanding'	16.60%
Activities to improve on-farm energy efficiency	19.83%
Payments which offset (either wholly or more likely in part) the costs farmers face in foregoing the right to undertake some land-use or development on-farm	21.11%
No, I would never support environmental taxes	51.15%
Don't know	11.23%

Flavour of Comments

Most comments were negative and along the lines of those made to the previous question.

There some strong comments against subsidised farming. For example:

- *We don't need to follow the northern hemisphere system of farm subsidies disguised as environmental schemes.*
- *"This is a slippery slope. I think that once you become subsidized you are allowing politics and bureaucracy to dictate how we will farm, e.g., UK."*
- *"This type of activities has a heading towards an EU/UK system, and they are very inefficient."*

There were some conditionally supportive comments about the need for money raised being used to fund on-farm initiatives but some expressed opposition to 'robbing Peter to pay Paul' or that the wider public should pay for wider public benefit.

- *"These taxes are for robbing Peter to pay Paul, farmers both."*
- *"Society as a whole should be contributing, not just the land owner by way of this principle. Suburbia contributes more environmental degradation than the rural counterpart".*
- *"If the nation wants to support retiring land for environmental reasons then the whole nation should pay, not one sector. Farmers are already doing many of these things and it takes time and a lot of revenue, by adding a tax will slow that down and we know that government run schemes are very costly to administer, therefore wasting a lot of valuable resources that could be utilized to progress all of the above."*

Others noted the likely compliance and administration costs, thinking it would be more efficient and effective to leave the money in the hands of farmers.

- *"Why not just leave the money with the businesses which are already undertaking and continuing to undertake sustainable environmental practices so that they are able to pay for them. Save on a collection and distribution fee."*
- *"It wouldn't work. Most of the money would be sucked up in compliance costs, government consultants, etc."*
- *"Having to apply to a government department for the return of our own tax to spend on environmental improvements is inefficient and a waste of time."*
- *"Taxing and then allocating funds would not be ideal as this would be wasteful, investment should come from farmers with tax deductibility, rather than having to capitalize and depreciate."*
- *"After the bureaucrats got their hands on it be lucky to get 10 cents in the dollar back."*

		There was concern about how these payments would be determined. For example: • *"Governments are terrible at 'picking winners'".* • *"Politicians and bureaucrats are well meaning but bloody ignorant of the unintended consequences of feel good, sound nice policies. Look at some of the ridiculous examples of "significant natural landscapes/areas' that cover the country now. Look at Molesworth station history where weeds have taken over every time it has had less commercial focus and not had the state lift it's weed funding."* • *"The problem with all of this is the people making decisions as to the 'why and how' are driven by ideology rather than reality, and generally without regard to the economic outcomes from their policy."* There was some (conditional) support for these options: • *"Yes if the money went to the area it was generated from, for example Mid Canterbury farmer tax goes to helping farmers make their farms more environmentally friendly not to fixing Christchurch water ways. Plenty of farmers have been doing a fantastic job on their own accord to become more environmentally friendly planting trees and changing irrigation systems to be more effective and productive, newer equipment and better management."*