

Tax Working Group Public Submissions Information Release

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New Zealand Council Of
Christian Social Services

NZCCSS Comments to the Tax Working Group

on the Future of Tax

30th April 2018

About NZCCSS

NZCCSS works for a just and compassionate society in Aotearoa New Zealand. We see this as a continuation of the mission of Jesus Christ. In seeking to fulfil this mission, we are committed to: (a) giving priority to the poor and vulnerable members of our; society and (b) Te Tiriti O Waitangi.

The New Zealand Council of Christian Social Services (NZCCSS) has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.

Nationally the range and scope of our six member networks is extensive and comprises 213 separate provider sites, delivering a range of 37 types of services via 1024 specific programmes, located in 55 towns and cities throughout New Zealand. Further details on NZCCSS can be found on our website www.nzccss.org.nz

We would welcome the opportunity to discuss any of the issues raised in this submission with the Working Group. Contact person for these comments is: Paul Barber, Policy Advisor, [1]
[1]

Summary of Submission and Key Points

A fairer tax system is urgently needed: NZCCSS supports the vision of a fairer tax system and the vision of a tax system that promotes wellbeing for all. Tax is one way the people of this country relate to each other and recognise that the wellbeing of us all is bound up with the wellbeing of each person.

Tax has a vital role to reduce inequality: The people and communities our agencies work with are struggling with low incomes and the unfairness and inequality of the current system. The tax system must aim to do a better at sharing income more fairly.

Tax on wealth is needed: Well-designed forms of wealth tax should be considered that ensure the largest wealth holders make a fairer contribution to wellbeing of all. There are already examples of net wealth taxes operating in other countries that could also work well in this country.

Higher Tax rate on the highest income earners: It is unfair that high income earners (e.g. over \$150,000) pay the same top tax rate as middle income earners (\$70,000). Those high income earners are also likely among the high wealth holders who benefit from little or no tax on their wealth.

Better interaction between the tax and benefit systems: The tax and transfer systems play a vital role to improve the wellbeing of those facing disadvantage. Current abatement rates and thresholds impose very high effective marginal tax rates on low income earners. Rules for combining welfare benefits and earnings need to be simple and streamlined to respond to the rise of casualised work.

Child-focused tax policy: The tax system affects the wellbeing of children in a number of ways. Taxes focused on determinants of health like taxes on sugary drinks would benefit children proportionately more. The design of tax assistance like Working for Families needs to put children in the centre.

Gender impacts of tax: Tax policy should address the impacts on women who on average earn less, spend more time out of the paid workforce and accumulate less wealth.

Reduce GST: If the reduction in revenue is replaced by well-designed alternative taxes such as wealth taxes.

Government expenditure level that fosters wellbeing: The focus on tax policy should be meeting needs and fostering wellbeing rather than focusing on an arbitrary objective such as 30% of GDP.

A Fairer Tax System is Urgently Needed

A vision for a culture change in our approach to taxation, helping to foster a future of wellbeing for all – this is the foundation for these comments on the Tax Working Group (TWG) Background Paper (BP) and Summary for Submitters. These comments are informed by the experience of the community-based social services in our networks and the people and communities they work with.

Tax is one of the ways that we as citizens of this country relate to each other. We seek to bring more justice and fairness to our communities, because we are all connected and interdependent. The wellbeing of all of us is bound up with the wellbeing of each person. Distortions and imbalances of income and wealth damage our ability to live well together as a nation. The TWG review is an opportunity to re-set our tax relationships towards a future where all can live well. The TWG's clear focus on the four areas of wellbeing identified through the Treasury Living Standards approach is a welcome recognition by Government of the wider role taxation plays in enhancing wellbeing.

The TWP Terms of Reference identify the broad areas for the TWG to focus on as well as identifying several areas as outside the scope of the Working Group's review, including:

- Increasing any income tax rate or GST
- Inheritance tax or any other changes that would involve taxing the family home or the land under it
- The interaction between the tax and transfer system (e.g. Working for Families, Accommodation Supplement or other welfare benefits)

NZCCSS shares the view of many other groups we work who believe these out of scope issues to be central to future tax policy. We note that the Working Group has asked for thinking "outside the current system" and for consideration of the "main risks, challenges and opportunities" for the tax

system over the medium to long-term. In this spirit, we hope that all the ideas raised in this and other submissions will be addressed in the TWG work and analysis.

Our member agencies report on the communities they work with and the challenges people face dealing with the complexities and unfairness of our current tax system. Their stories also show the importance of income transfers through the tax and transfer system for lifting incomes for the very poorest in our communities. We have monitored for many years the way inequality and poverty has impacted the life of communities¹ and it is time for a re-set of our tax system to focus on delivering wellbeing for all.

Tax and Inequality

In 2017 NZCCSS along with the more than 30 other groups of the Equality Network, released an Election Statement that called for ***“a tax on very high levels of wealth and higher top tax rates on the highest incomes to ensure that everyone contributes their fair share and enable our families and whānau to thrive”***

The Election Statement also called for ***“fairer income support”*** and it is a fact that the interaction between the tax and welfare/income support systems has a large impact on poverty and inequality in this country.

NZCCSS comments are based on those Election Statement messages:

- Tax on wealth
- Higher tax rate on the highest incomes
- Fairer interaction between the tax and welfare systems

The most recent public opinion poll released by Roy Morgan in February 2018² shows that poverty and the gap between rich and poor is still named most often as the biggest problem facing New Zealand.

The tax system plays an important role in reducing inequality by redistributing income from those who earn more to support those on lower incomes. Income inequality is much higher now than 30 years ago and one important reason for this is changes made by various governments such as reducing tax rates for the highest income earners and reducing income support for people not in paid work. The New Zealand tax system does not reduce inequality as much it used to and it also does not rate well in comparison to other OECD countries in redistributing income (TWG BP p.33-34).

Tax on wealth

Current tax settings do not fairly or adequately tax high levels of wealth and options for introducing wealth taxes need to be carefully explored. The absence of capital gains tax or other wealth taxes is the most obvious gap that undermines the overall fairness and consistency of our tax

¹ NZCCSS Vulnerability Report series <http://nzccss.org.nz/publications/vulnerability-report/>

² Roy Morgan, Finding no. 7534, 18 March 2018 <http://www.roymorgan.com/findings/7534-roy-morgan-problems-facing%20new-zealand-february-2018-201803152343>

system³. There is a range of taxes on wealth, including Capital Gains Tax, inheritance taxes, gift and stamp duties that are used in other countries and have been used in this country in the past.

While it is not easy to tax wealth effectively, it is important to try to ensure that high wealth holders contribute to the wellbeing of all through the tax system. Wealth is much more unequally distributed than income and there are few policy measures in place that would change this. In 2017, the wealthiest 1% of our population gained 28% of all wealth created in this country while the poorest third barely gained at all (1% increase)⁴. The aim of taxing wealth is to collect revenue, redistribute wealth more fairly, treat income earned through rises in capital value consistently across different types of assets (e.g. housing or investments) and to design a system that is not easily avoided.

The TWG asks about forms of such taxes that would specifically exclude taxing the family home or the land under it. The OECD has just released a study on wealth taxes in the OECD including recommendations for designing such taxes⁵. Those recommendations advise that the fewer exemptions the better for a tax to be effective. The OECD concludes that countries like New Zealand that do not have significant taxes on personal capital income or inheritance taxes could benefit from a form of net wealth tax, which is an annual tax on individual wealth stocks net of debt.

One approach that has been debated in various forms is a tax on the “deemed rate of return” on assets, that would encourage assets to be used for productive purposes instead of seeking passive returns by simply holding assets for capital gain⁶.

A small annual percentage tax paid on high wealth could generate significant revenue but its annual cost to individual asset holders would not necessarily be great enough to encourage tax minimisation strategies. There are around 34,000 wealth owners who make up the 1% of our population that own 20% of all wealth in this country, with an average wealth of \$4.4million (based on 2010 data⁷). If they were to pay an annual tax of just 1% of that wealth (or \$44,000 per year), it could generate tax revenue of \$1.5 billion per year.

Ten European countries have been working to design and introduce a Financial Transactions Tax⁸ that could generate significant revenue. While they have not yet been able to reach final agreement on how to implement it, our Government should investigate how to implement such a tax here.

Higher tax rate on the highest income earners

It is not fair that those on the very highest incomes (e.g. over around \$150,000) pay the same top tax rate as middle income earners (over \$70,000). The tax system is much less progressive than it has

³ Lisa Marriott, “History of Tax Policy in New Zealand”, in *Progressive Thinking: ten perspectives on tax* (PSA, 2017)

⁴ *Reward Work, Not Wealth* (Oxfam 2018) <https://www.oxfam.org.nz/news/richest-1-kiwis-bagged-28-all-wealth-created-last-year>

⁵ *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, OECD 2018) <http://www.oecd.org/tax/the-role-and-design-of-net-wealth-taxes-in-the-oecd-9789264290303-en.htm>

⁶ Bill Rosenberg, “Taxing Wealth”, in *Progressive Thinking: ten perspectives on tax* (PSA, 2017)

⁷ Max Rashbrooke, *Wealth and New Zealand*, (BWB Texts, 2015)

⁸ <https://www.oxfam.org/en/pressroom/pressreleases/2017-07-05/top-financiers-call-europe-agree-robin-hood-tax>.

been in the past, which has benefited the highest income earners the most. Other countries like the UK have higher top tax rates such as 45% for income above £150,000 (~\$290,000 NZD). A recent study has rated New Zealand poorly on the progressivity of our tax system, with New Zealand ranked 30 out of 35 OECD countries and 115 out of 152 countries when looking at the tax structure, impact of tax in inequality and potential tax revenue available⁹.

It is only fair that those earning the highest incomes contribute more to funding essential public services like schools and hospitals. While it is true that high income earners already contribute the largest share of the total income tax collected, those high income earners are also most likely among the larger wealth holders that benefit from little or no tax on their wealth.

Fairer Income support through better interaction between the tax and welfare systems

The tax and transfer systems play a vital in ensuring the wellbeing of those facing disadvantage and vulnerability and/or living on low incomes. Child wellbeing is particularly affected by the level of tax-funded assistance that is provided. The TWG Background Paper acknowledges this: *“Therefore, when thinking about the distribution of taxes, equity and fairness, it is best to think of the tax and transfer system overall, rather than individual taxes in isolation”* (Background Paper, p.20).

The amount that can be earned before welfare assistance is reduced and the rate at which welfare benefits are reduced when people manage to find additional paid employment mean that people on very low incomes often see very little net gain. This is also a problem for people in employment if their increasing their incomes that take them above thresholds for income support payments such as Working for Families and the Accommodation Supplement. Some calculations suggest effective marginal tax rates (EMTR) of up to 80% or more for low to middle income households¹⁰.

Rules for combining welfare benefits and earnings need to be simple and streamlined to respond to the rise of casualised work. The complexities for people who combine irregular work with needing to access welfare benefits mean they can miss out on much needed support.

Secondary tax does not seem to work well for many people on low incomes. The combination of several low-paid jobs, often with irregular hours, effectively penalises people who are already earning very little in total. Having to wait for end of year tax returns or organising a special tax rate disadvantages people who are often already struggling.

Child-focused tax policy

Developing a more child-centred approach to tax policy will help make a better future for our tax system. Examples of the way the tax system can be more child-focused include specific taxes that are aimed to address social determinants of health, such as tax on sugary drinks to help reduce childhood obesity. The tax system also raises funds for government to use to provide more public services such as health and education that benefit children more than others. Tax revenue is the

⁹ Commitment to Reducing Inequality Index, (Oxfam, 2017)

<https://www.radionz.co.nz/news/national/335299/nz-shamefully-poor-on-tax-policies-oxfam>

¹⁰ “Taking a child-focused lens to tax”, (CPAG 2018)

http://www.cpag.org.nz/assets/180425%20CPAG%20TWG%20Submission%20FINAL_2.pdf

best and most effective way to fund income transfers to families with children to reduce child poverty.

Women disadvantaged by tax system

The gender impacts of our current tax system need also to be recognised. Women in general spend a longer time out of the paid workforce. In paid employment, women also tend to be paid less for the same levels of productivity and contribution to economic growth. As a recent report¹¹ recommends “Governments should maximise space for women’s economic empowerment through progressive and gender sensitive tax policies”.

Reduce GST

GST is a highly regressive tax that means lower income earners pay higher a proportion of their income as GST. While there are various proposals to reduce GST on some basic food items, an overall decrease in the GST rate (e.g. to 10%) would be simpler to implement and would benefit lower income earners proportionately more. Because the current tax system relies so heavily on GST for revenue, a reduction in GST would have to be combined with introducing other taxes such as a well-designed wealth tax sufficient to compensate for lost revenue from reducing GST.

Government Expenditure level that meets needs and fosters wellbeing

The Government’s objective of maintaining government expenditure at around 30% of GDP as set out in the Terms of Reference, appears to be an arbitrary number that assumes “historical” levels of government spending will be sufficient to maintain essential health, education, and social services that will be needed in the future. Other wealthy countries are able to sustain higher proportions of government spending (up to 40%) that also enable them to deliver much more effective public services and greater wellbeing for their citizens. As our population demographics change, it is likely that government will have to play a greater role in fostering wellbeing for all.

Significant additional expenditure will be needed in the future to meet goals to reduce child poverty, reduce the imbalance in incomes and wealth, increase the supply of affordable housing, respond to growing needs in the health and education systems. A fairer tax system can meet these needs if it is well-designed and draws revenue from currently untaxed areas through wealth taxes and a more progressive income tax system.

¹¹ *An Economy that Works for Women*, (Oxfam, March 2017)