

Tax Working Group Public Submissions Information Release

Release Document

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Online Tax Association of New Zealand
P. O. Box 924
Nelson 7040

Tax Working Group

submissions@taxworkinggroup.govt.nz

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Submission to the Tax Working Group on the Future of Tax in New Zealand:

OTANZ represents a large section ⁽¹⁾ of New Zealand taxpayers and have seen taxation influence behaviors. This submission has been formulated on the three key amendments that are required to the existing taxation model to improve behavior and fairness within the future taxation system.

This is to address our members client's experiences and is not intended to address the key 5 questions identified by the Tax Working Group nor the outcomes that are anticipated or expected from them e.g. Capital Gain Tax.

1. Making it easy to get people engaged in the workforce:

- 1.1 How income (even from salary and wages) is calculated and the tax thereon has a significant impact on an individual's ability to engage in the workforce. This also impacts their perception of how fair the taxation system is.
- 1.2 Our members have seen a large number of taxpayers disadvantaged and excluded from the workforce due to the inability to allow a deduction of the costs associated with them deriving income from employment.
- 1.3 These are real costs, whether it be protective clothing, transport to the place of employment or the cost of a uniform. An individual does not understand why these costs are not treated the same as interest costs on a rental property or the provision of a motor vehicle to an executive, both are cash consuming and are used to derive taxable income.
- 1.4 This to a hard working individual can be perceived as unfair. It can also lead to the individual disengaging from the workforce (*Case A and Case B*)
- 1.5 Costs which allow an individual time to work also influence decisions for them on entering the workforce. We would suggest that costs associated with the care of dependents should also be allowed for deduction.
- 1.6 These costs would include the care of a child, including but not limited to the use of a nanny, an au pair, preschool or crèche. This allows a parent to return to the workforce and have a deduction for the direct costs associated with deriving the

income. It would be anticipated that there would have to be either a cap or private use adjustment to ensure deductibility remains linked to the income it derives.

- 1.7 It is also assuming that this would apply both aged care and special needs care. Both of which are becoming a large issue for our clients as the population ages and government funded facilities are cut. This allows the direct costs to be offset against the income it derives (*Case C*).

- 1.8 The following cases are examples of this:

Case A: Minimum wage employee (hotel worker) living 60 kilometres from their place of employment receives no deduction for expenses associated with this trip in the face of increasing vehicle running costs. The decision to accept a benefit in the absence of a local job is becoming more realistic as both time to travel and costs increase. They are disengaging from the workforce and increase the governmental transfer costs due to the non-deductibility of expenditure that generates their taxable revenue.

Case B: School leaver required to purchase protective clothing to be able to accept a job on a building site. Based on the cost they do not accept the position but decide to attend the local tertiary institute as the first year's fees are free. The costs with entering the workforce negatively influence their decision that could have been reversed had costs been deductible from the income derived from the activity.

Case C: Factory worker unable to continue in paid employment as they care for the aged members of their family as per the family's cultural belief. This places added burden and pressure on the household financially that could be averted should the costs associated with the care of the dependants be deductible against the revenue derived.

2. Engaging people within their community:

- 2.1 A general concern trending throughout the country is the loss of community spirit and people within the community supporting it. The future of tax has the ability to influence these behaviours for the benefit of local communities which in turn impacts positively the whole country.

- 2.2 OTANZ believes that a small number of simple changes would improve outcomes significantly for communities.

2.3 Donated Goods

- 2.4 Currently there is no recognition within the taxation system of donated goods received by charity organisations. Donating physical items is a positive behaviour and allows the reuse and recycling of household items and clothing. This not only benefits the charity organisation but allows individuals essential items at affordable prices.

- 2.5 This also increases sustainability and reduced items entering landfill which has a positive environmental impact and is a secondary benefit.

- 2.6 Additional benefits to a community are well documented⁽²⁾ including supporting those families that need it most from both the revenue generated, receiving support from local people and the option to purchase at affordable prices.

- 2.7 This behaviour is encouraged in other OCED countries through taxation treatment yet not in New Zealand.
- 2.8 The United States of America allows the deduction of donated goods to goodwill and thrift shops. This is based on a specific set of rules and most tax preparation software have a generally accepted value for items donated ⁽³⁾.
- 2.9 This can also be supported through the taxation treatment for the recipient of the donations (both cash and goods) through a system like Gift Aid in the United Kingdom. This allows the recipient to claim the taxation benefit gross up for the taxation impact ⁽⁴⁾.
- 2.10 OTANZ believes that both of these methods should be considered with a maximum cap to ensure that excessive deductions are not taken.

2.11 Schools Donations and Fees

- 2.12 School fees remain a significant area where taxation treatment is not achieving the outcomes that are best for the community as a whole.
- 2.13 The portion of school fees that can be claimed are not being claimed and this is a significant number.
- 2.14 OTANZ believes that this is because of the complexity of claiming the rebate and that people are unaware of what they can claim.
- 2.15 This has resulted in schools only receiving a small portion of donations. This places additional funding constraints on the schools. This is negative behaviour which can easily be resolved through changes in taxation.
- 2.16 All school fees should be deductible. This provides clarity for both the school and the parent about what is deductible. This would have an annual cap to ensure private school fees were not deductible above that paid in the public sector. The Ministry of Education could set this level based on the average school fees / donation charged.
- 2.17 Many parents still face financial constraints. To facilitate these families to support their local school donated hours would also be able to be deducted. The living wage would be a good benchmark to apply to the donation.
- 2.18 It has been proven that educational outcomes are improved when parents are engaged within the educational institution. This would be a secondary outcome for those families involved.
- 2.19 Schools will always welcome this as there are endless tasks requiring parental help from grounds upkeep, physical education assistance (e.g. sports day, cross country), community gardens and art projects to name a few. This will have a positive community outcome supported from changes in taxation.
- 2.20 Donations can also be supported through taxation treatment so the recipient of the donations (both cash and time) through a system like Gift Aid in the United Kingdom. This allows the school to claim the taxation benefit rather than the parent.
- 2.21 A secondary benefit of this is that the school's annual donation charge would reduce as there is certainty of the taxation benefit and this in turn will lead to a higher collection rate.

2.22 Definition of a charitable organization

- 2.23 OTANZ would also like to see a wider definition of a charitable organization. This would allow community-based activities i.e. refurbishment of a local playground to achieve this status and allow a high level of community support.
- 2.24 It is envisaged that this would be by application through IR and allow communities to have short term status to achieve goals without the set up or maintaining costs associated with managing a charity.
- 2.25 Simple reporting and oversight from IR would generate positive community activities and outcomes improving wellness for those living in those communities.

3. Simplification / Fairness

- 3.1 Business transformation will see a simplified interface with IR for individual as more information is made available electronically to IR.
 - 3.2 These changes would facilitate the combination of the existing Personal Tax Summary or IR3 for income tax obligations and the IR526 for claiming rebates into one single form. This would allow simplification of an individual's obligations.
 - 3.3 There remains a number of areas where non-cash benefits are not taxed in the hands of the recipient which questions whether the existing system is fair to all taxpayers.
 - 3.4 Examples of this would be 'bonus' trips for insurance agents writing policies, builders achieving spend targets at suppliers or advertisers spending targets with media channel providers.
 - 3.5 This allows a tax-free benefit to the recipient and the deduction of the expense to the organization incurring the costs. This is not available to all taxpayers and creates the perception of the system not being fair as the benefits are generally enjoyed by business owners.
 - 3.6 This would have to have a minimum cap to ensure flybuys or other incentive programs are excluded from the calculation.
- ### **3.7 Education of taxpayers**
- 3.8 A concerning trend within our member's client's is the lack of understanding either about tax or an individual's obligations. This can be easily measured with the lack of engagement from taxpayers in their taxation obligations.
 - 3.9 This can be corrected with increased education of taxpayers at a high school level as to what taxes are, how they are used and what an individual's obligations are.

OTANZ is happy to discuss this further should the need arise.

Yours faithfully

Philip Rance
OTANZ Representative

(1) About OTANZ:

- 1.1 OTANZ is an incorporated society established in 2009.
- 1.2 We represent members who primarily provide Personal Tax Summaries and IR3 Income Tax Returns to the Inland Revenue Department on behalf of their individual clients. We aim to encourage higher standards in the Personal Tax Summary (“PTS”) industry in New Zealand,
- 1.3 We currently have four members, all of whom operate exclusively online:
 - MyTax.co.nz Limited;
 - MyTax Limited t/as mytaxrefund.co.nz;
 - WooHoo NZ Tax Refunds Limited; and
 - TaxRefunds.co.nz Limited.
- 1.4 Our members service almost a million clients per year and obtain more than \$200 million in tax refunds for them.
- 1.5 We also liaise with Inland Revenue on tax-related policies for the benefit of our members’ clients. That relationship has been formalised by way of a Memorandum of Understanding with Inland Revenue, brokered by former Minister of Revenue, Hon Peter Dunne.

- (2) <https://www.researchgate.net/publication/311561996> Examining the Demographic Profiles of Thrift Store Donors and Thrift Store Shoppers
- (3) <https://www.bankrate.com/finance/taxes/valuation-guide-for-donated-goods.aspx>
- (4) <http://united-purpose.org/giftaid-faqs/>