Tax Working Group Public Submissions Information Release

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To: Tax Working Group

From: David Thorp

Submission

For a fair and comprehensive tax system

The New Zealand tax system needs more than a tweak and it is therefore unfortunate that some specific necessary changes are proscribed by the working group's terms of reference. My submission however assumes no constraints and posits a tax system that represents an ideal for which to aim.

A more comprehensively fair tax system would see the following changes:

- capital gains taxed as income;
- estate transfers taxed (on death or gift);
- the income tax scale made more progressive;
- the regressive goods and services tax reduced to 12.5%, without exemptions; and
- a wealth tax introduced, or at least a land tax.

An ideal tax system

An ideal tax system has three essential components: **income tax, estate tax and wealth tax**. These three taxes are all progressive and play distinct and complementary roles.

Tax on income (that includes capital gains)

I am proposing that the income tax be made more comprehensive by including all income flowing from the investment of capital assets, including capital gains. Recognising that capital gains are income and should be taxed accordingly reflects the reality and puts an end to the unjustifiable preference given to unearned income over earned income.

Realised capital gains would be treated as income, after adjustment for inflation, with losses allowed, ring-fenced and capped. If the "family home" is to be exempt from taxing capital gains, the exemption should however be capped, at say $1.5 million.

The income tax scale should be more progressive, with at least one higher rate added: say 50% on incomes over $150,000. A more steeply progressive income tax scale also has the effect of reducing the after-tax payments of New Zealand Superannuation to those on higher aggregate incomes.

Corporate profits are (progressively) taxed as income in the hands of individuals and **company tax** therefore need not be made progressive. New Zealand should not join a destructive competition for low tax rates.

Tax on inheritance

A progressive tax should be introduced on the transfer of estates, on death or gift. There is a significant concentration of wealth that on transfer represents "unearned income".

Tax on wealth

A wealth tax is required to stop the continuing and unlimited concentration of wealth and its potentially destabilising effects.

The working group's background paper shows a high concentration of wealth with the top quintile but pays no attention to redressing this. It states that: "Income inequality in New Zealand rose rapidly in the late 1980s to mid-1990s but has been broadly stable in New Zealand since then. Information about wealth is less comprehensive than for income, but the information we do have indicates that wealth is distributed much less equally than income." No case is made for a wealth tax, although a land tax would address an element of wealth concentration.

A wealth tax should at least be signalled for the future while interim measures should include a **land tax**, which it is noted can be easily implemented. While nearly every developed country taxes real estate, only local body rates are levied on real estate in New Zealand. Until a wealth tax can be introduced, New Zealand should at least implement a land tax and probably stamp duty on transactions to make best use of this finite resource and to help regulate real estate prices.

Thomas Piketty in *Capital in the 21st Century* insists that a wealth tax is an essential part of the ideal tax system and: "The primary purpose of a tax on capital is not to finance the social state but to regulate capitalism. The goal is first to stop the indefinite increase in the inequality of wealth and, second, to impose effective regulation on the financial and banking system to avoid crises."

Tax on wealth levied annually might be: 0% on aggregate capital assets up to $2 million in value; 1% on $2 to 10 million; and 2% above $10 to $20 million.

Tax on goods and services

The goods and services tax should be reduced to 12.5%. This would reduce the burden on those on lower incomes, reduce the case for exemptions from this tax, and reduce the revenue importance of this regressive tax.

Progressive tax scales

Progressive taxes were a major innovation of the 20th century and played a key role in the reduction in inequality, until the 1980s. Progressive taxes are a crucial component of the social state and represent an ideal compromise between social justice and individual freedom. Unfortunately, today, the progressive tax is seriously threatened by international tax competition. But New Zealand should not join the race to the bottom.

A more steeply progressive tax system is indispensable for making sure that everyone benefits from globalisation and to encourage support for the globalised economy.

The globalised economy

The globalised economy means that capital increasingly moves, and investments are made across national borders. Capital is held in tax havens to avoid tax and the transparency of capital movements is limited. Multinational corporations exploit tax havens and low-tax jurisdictions to channel their profits and they pay little or no tax.

New Zealand should continue aggressively to seek international transparency of capital flows and the full taxing of corporates in the countries where they do business.

David Thorp

29 April 2018