Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

February 2019

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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.

NZ Tax working group submission. 9 October 2018

Submitted by: Mark Hutchinson.

Relevant experience:

- Managing partner of Divergent & Co, an executive leadership consultancy (see www.divergentandco.com)
- Qualified to MSc level and as Clinical Psychologist.
- 18 years consulting to business at senior levels in the UK (e.g Sainsburys, Vodafone, RBS, Barclays) and NZ (e.g. Fonterra, Fletcher, TrustPower, ASB, AMP, Chorus, Panuku).
- Organisational Development Manager Barclays UK Retail bank 2007-2009 during GFC.
- Worked with several thousand senior leaders across a range of industries.
- Early career in the public sector (Child Mental health)

Key issues tax reform needs to address:

1) **SAVINGS RATE** (& Major banks owned off-shore)

   This leads to a small pool of capital for investment in NZ, weakness in the investment market, and the lion share of the benefits of any productivity flowing off-shore. Related to this, incentives to invest heavily in residential property instead of the productive sector need to be unwound.

2) **INEQUALITY** (especially the rise of the super-rich e.g. richest 1% own c28% of GDP).

   Extreme gaps from top to bottom do matter. Action needs to be taken to address this (e.g. death tax, capital gains, addressing off-shore tax havens).

3) **PENSIONS.** Related to 1) above. There is an urgent need to build a self-funding system. As the proportion of the retired population ages it is critical for the economy that older people have the money to support themselves and to participate in society (thus continuing to contribute to GDP through spending their pensions savings rather than becoming a fiscal burden)

4) **INVESTMENT IN PRODUCTIVITY & SUSTAINABLE INVESTMENT.** Also related to 1).

   Need for long-term funding models for necessary infrastructure and investment to boost productivity and drive the switch to sustainable economic development (health, education, R&D, de-carbonising, diversification away from commodities)

Principles that should underpin the tax system:

1) **Simpler** works best (eg one rate of sales tax, simple uniform tax bands)
2) **Progressive** to increase redistribution (low & middle income earners should benefit)
3) **Fair.** All income should be equivalent (whether capital, wage/salary, dividends, trust). This would require a tilt from taxing income towards taxing assets.
4) **Incentivise retirement** saving (and growth of the local banking and finance industry)
5) **Critical assets need to remain in NZ ownership.** The NZ economy will struggle if we continue to outsource investment as any productivity gains will flow off-shore (as with the Australian owned banks). This should include Ports, critical infrastructure, limits to residential housing ownership, rebalancing the financial services sector, agricultural land and other key assets.

Suggested interventions:

GST – suggest remains the same (with measures to compensate for its regressive nature such as a zero tax band)

INCOME TAX. Should be more progressive and distribute more towards the bottom to ensure that lower and middle-income earners benefit from the overall shift. Aim for overall reduction in income tax as asset / capital gains taxes come on stream.

- TOP BAND. Aim to keep at 33%. [Though raising the top rate to offset gains from introduction of a zero tax band should be left on the table]
- ZERO BAND. Aim to create as high a band as possible over time to take large numbers out of the tax system and effectively accelerate the move for the working poor towards an after-tax living wage.

CAPITAL GAINS / ASSET TAXES. Treat capital gains the same as income (same bands).
- Exceptions for capital gains in small businesses and e.g. farms where included as part of individual's pension savings limit (see below)
- Consider additional asset taxes especially for the super wealthy
- Consider windfall taxes where corporates make unreasonable returns (e.g. Australian banks).
- Consider Death Duties on large estates (e.g. over? $5m) (Allow generous inheritance amounts for e.g. children – perhaps same as the pension cap amount, and heavy duties over this. Would need to investigate e.g. off-shore avoidance schemes / possibly set up a unit in IRD to tackle this group. The levels should be set to only effect the top 1-5% in terms of asset wealth.

PENSION SAVINGS & RETIREMENT

- Set a nominal tax-free lifetime investment amount (as per UK). This means once invested in an approved pension vehicle income on savings would not be taxed until retirement. The cap should be set at enough to fund a comfortable retirement (e.g UK system allows c 1m GBP) [so income taxed, pension savings exempt, pension annuities taxed above the tax free band]
- This tax-free pension saving status should only apply to NZ owned investment funds with certain investment rules (e.g. 30% must be invested in NZ). This would specifically not be available to the big Australian owned banks and investment companies. These investment funds could choose to invest in critical assets (e.g. ports, infrastructure)
- The default fund should be administered by the Cullen fund.
- For those whose savings vehicle is a business or farm – they would place that asset in a pension wrapper and get the same level of tax-free status. (this would have to be the capital gain of the asset not an offset against business income).

SUSTAINABLE GROWTH / IMPROVED PRODUCTIVITY

- A range of taxes / incentives should be implemented to accelerate decarbonization of the economy (e.g. increased import tax on fuel-inefficient cars used to subsidise electric vehicles)
- Mineral taxes should be introduced to fund a sovereign wealth fund similar to Norway (this could involve expanding the Cullen fund)
- Environmental taxes should be introduced in a user / polluter pays fashion. (e.g. farm and industrial effluent)
- Carbon tax should be considered or giving the Carbon credit trading system more teeth. Go with the simplest option to implement and run.
- Industrial water levies commensurate with cleaning the waterways / net benefit gained by the water user should be charged (e.g. water bottling levy, commercial irrigation levies). It may be necessary to give those farmers who have invested heavily in waterway protection some form of offset so as not to disincentivise those who are doing the right thing.