Tax Working Group Public Submissions Information Release

Release Document

February 2019

taxworkingroup.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;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

From:	Paul Barber [1]
Sent:	Wednesday, 31 October 2018 12:21 PM
To:	TWG Submissions
Subject:	NZCCSS comment on the Interim Report of the TWG
Attachments:	Tax Working Group NZCCSS response Interim Report Oct 2018 final.docx

Ka ora Tax Working Group members,

Thank you for the opportunity to comment on the Interim Report of the Tax Working Group.
The report shows how much work has already been done as well as pointing to further work required to produce the final report.
Please find attached further comments from us at NZCCSS based on the issues raised in our submission in April 2018.
We wish the TWG team well in finalising the report and would welcome opportunity to discuss specific recommendations further should this be possible.

Nāku noa, nā
Paul Barber

Paul Barber
Policy Advisor
New Zealand Council of Christian Social Services
[1]
PO Box 12-090, Thorndon, Wellington 6144
www.nzccss.org.nz

NZCCSS response to the

Interim Report of the Tax Working Group

31st October 2018

New Zealand Council Of Christian Social Services

Introduction

These comments in response to the Interim Report of the Tax Working Group (TWG) released on 20th September are submitted by the NZ Council of Christian Social Services (NZCCSS) which is the national umbrella organisation for the social services of the Anglican, Baptist, Catholic, Methodist, Presbyterian churches and The Salvation Army. More information about NZCCS and contact person for these comments is contained in Appendix One.

The Interim Report and associated background papers and resources represent a large and impressive amount of work attempting to address the wide range of tax issues covered by the TWG. The publication of this information and analysis will assist the wider public and technical experts to better understand and assess the choices and options available.

NZCCSS provided comments to the TWG in our submission on 30th April 2018. Our response to the Interim Report is based on those comments and other issues raised in research and discussion over the past six months.

A fairer tax system is urgently needed

The Interim Report identifies problems with the fairness and balance of the system and the need to reduce inequality and improve progressivity of the system. The actual proposals included in the Interim Report do not however seem to go far enough to actually significantly reduce inequality or increase progressivity. More analysis will be needed in the final report to show the expected impact of proposals made.

NZCCSS agrees with the TWG finding that the “tax system relies on a relatively narrow range of taxes and is not particularly progressive” (p.5). The TWG has identified inconsistent tax on capital income and treatment of natural capital as key issues. *NZCCSS recommends adding the lack of taxation of financial transactions and overall wealth as further reasons for the narrowness of the tax base and its lack of progressiveness.*

Government expenditure level that fosters wellbeing

The wellbeing approach to analysis is not particularly developed in this Interim Report. *NZCCSS recommends that the final report pay more detailed attention to assessing the tax system and impacts of proposed changes through specific wellbeing frameworks.*

The Interim Report does not contain any analysis of how its interim findings would translate into meeting the Government’s objective of maintaining expenditure at around an “historical level of 30% of GDP” (Appendix B, p.140). *NZCCSS recommends that an analysis will be included in the final* *report of expected increases and reductions in tax revenue through the changes proposed in the final report, preferably linked to the assessment of wellbeing impacts.*

Tax has a vital role to reduce inequality

The interim report very clearly recognises and acknowledges the inequalities and imbalances of the current tax system. It names wealth inequality as one of the key issues raised by submitters (p.7).

The role of tax in reducing income inequality by redistributing income is discussed (p.13) and the fact that the inequality-reducing role of the tax system has diminished considerably in recent decades (p.18) with NZ now ranked in the lowest group of OECD countries for redistribution efficiency of the system.

The Interim Report does not sufficiently respond to these concerns or set out a clear analysis of how the proposed set of recommendations will be effective to reduce inequality.

Specific proposals relating to reducing tax rates and changing thresholds for low income earners (13.3 p.132) could have some effect to reduce income inequality. The proposals to extend taxation of capital income should have some impact to reduce wealth inequalities, depending on which options are chosen and the detail of their design. Beyond these proposals, the other specific recommendations included in the interim report cannot be seen as making a direct impact on income or wealth inequality through the tax system.

NZCCSS recommends that the TWG include a comprehensive analysis of the redistributive effects of proposed changes in its final report as well as a target to reduce inequality and increase the redistributive effectiveness of the tax system.

Tax on wealth is needed

NZCCSS welcomes the proposals to extend the taxation of capital income. The options put forward represent progress towards fairer treatment of wealth in the tax system. From the analysis presented, using a deemed rate of return on equity (Risk-Free Return Method) would appear to be the better option to fairly tax wealth and generate a meaningful revenue stream as well as encouraging more productive use of capital.

It is disappointing that the TWG has already discounted further work on a net wealth tax (p.32). A net wealth tax is discussed in the literature considered by the TWG (e.g. OECD 2018) as a complimentary tax to other forms of wealth taxation and would provide another way to extend the tax base to underpin future tax revenue flows.

NZCCSS recommends that the final report propose that further study and design work be undertaken to assess options for the future for such a tax.

It is also disappointing that the TWG has not included proposals for further work on a financial transactions tax (FTT) in this country. The Interim Report notes that such taxes raise reasonable amounts of revenue in other countries and that the overall impact of an FTT would be progressive because groups that regularly trade financial assets will pay a high share of the tax.

NZCCSS recommends that the final report include proposals for further work to investigate the feasibility of an FTT for NZ.

Higher Tax rate on the highest income earners

Tax increases are specifically excluded from the TWG terms of reference. The lack of progressivity in the New Zealand tax system is a repeated finding of the Interim Report across most parts of the tax system. The proposals to change lower income tax rates and thresholds are a clear endorsement of the need to address the progressiveness of the tax scale and this cannot be achieved without looking at higher income tax rates as well.

NZCCSS recommends that the TWG include in the final report an analysis of the redistributive effect of taxes on higher income earners (e.g. higher tax rate on incomes over $150,000) as an appendix on issues for further consideration, even if it cannot be included in the formal recommendations of the TWG.

Better interaction between the tax and benefit systems

It is extremely disappointing that the TWG Interim Report does not go further to address the issues raised by the interaction between the tax and welfare systems. This is despite the fact that a number of key areas are identified as needing attention: abatement rates and thresholds for Working For Families and accommodation support, and support for childcare costs.

The effect of secondary tax comes up consistently in any discussion on tax with people working on low-incomes, especially those with variable working hours and irregular employment, yet this is not mentioned at all in the Interim Report.

The Interim Report notes that low and middle income earners would be helped by changes to lower tax rates, but income increases for the very low income households would be best achieved through welfare transfers (p.94). The Interim does not frame this as a recommendation under 13.1 (p.132). The risk in not making clear recommendations relating to the welfare system is that this very important area in tax and welfare policy is left in limbo, outside of the TWG and not properly part of the Welfare Expert Advisory Group (WEAG) work. The risk is that neither the TWG nor the WEAG will adequately focus on this area.

NZCCSS recommends that the final report include a clear set of recommendations on areas in the tax/welfare interface that need to be addressed by the Welfare Expert Advisory Group and ensure that the WEAG receives adequate analytical support to conduct a proper analysis of these issues.

Child-focused tax policy

The Interim Report includes no specific analysis of the impact of proposed changes on child wellbeing. There is no attempt to address the specific issue of how to the tax system changes proposed will work to improve child wellbeing.

The Interim Report includes no recommendations on taxes to promote health goals that affect children (e.g. taxing sugary drinks), saying only that “more clarity” is needed around the government’s goals in this area.

The Interim Report does not support making childcare costs deductible, recommending instead that support be provided outside the tax system (13.7 p.135).

NZCCSS recommends that the final report contain a full analysis of the impact on child wellbeing of the tax changes that are recommended.

Gender impacts of tax

The TWG background paper on Taxation and Gender gives an analysis of gender issues and these are addressed to some extent in the Interim Report. The Interim Report briefly addresses gender issues (p.20) and identifies disproportionate impacts on women of tax policies around childcare (p.99) and retirement savings (p.51). The recommendation for incentives for retirement saving for low income people is identified as likely to benefit women proportionately more. Such analysis needs to be further developed in the final report.

NZCCSS recommends that the final report include stronger analysis of how the changes proposed by the TWG will improve gender equity and outcomes for women generally.

Reduce GST

The TWG has clearly stated in Interim Report that they do not think that targeted reductions in GST on specific items such as healthy food, nor a general reduction in the GST rate are effective tax measures that will deliver benefit to low-income households.

The key arguments identified in the Interim Report are “windfall gains” for wealth-holders from a one-off decrease in GST, and secondly, the redistributive effect of an overall GST decrease is less than could be achieved for the same cost through targeted cash transfers to those households through the welfare transfer system.

Reducing GST is not recommended on the basis that a stronger redistributive effect could be achieved through direct transfers through the welfare system. The Interim Report does not however make the recommendation to do this, because it is outside of the TWG terms of reference. This is a lost opportunity considering a similar recommendation is proposed in the discussion on support for childcare costs (see above and recommendation 13.7, p135).

NZCCSS recommends that the TWG propose increased income transfers through the welfare system instead of a decrease in GST. A secondary recommendation should be, that if no changes are made to the income transfer system, then a decrease in GST is the preferred tax option to reduce inequality.

The Interim Report does not propose to pursue further work on charging GST on financial services, despite recognising an “in principle” case. There are undoubtedly complexities and risks associated with applying GST in this area, but complexities apply in other areas of tax also. It is vital that more work be done to explore this area to help increase the tax base across a growing area of financial and economic activity.

NZCCSS recommends the final report include proposals to do further work on the feasibility of charging GST on financial services.

APPENDIX ONE

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, PO Box 12-090, Thorndon, Wellington, [1]