1st September 2025

Stable bases and flexible rates: New Zealand's tax system
C/- Deputy Commissioner, Policy
Inland Revenue Department
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Tēnā koutou

Long-term Insights Briefing: Stable bases and flexible rates: New Zealand's tax system (the LTIB)

Baucher Consulting Limited is a tax consulting firm founded in August 2004. It provides specialist tax advice to individuals, businesses in the SME sector and law and accounting firms needing advice on specific transactions. The firm also has a public policy focus and as part of this regularly makes submissions on new legislation and policy proposals.

This submission has two parts; Part A has some general comments on the LTIB and other issues and Part B with our responses to the Questions for submitters.

A. General comments

1. We strongly support the decision for this LTIB to focus on New Zealand's tax system and welcome the opportunity to provide some feedback.

2. The key motivation for this LTIB are the issues of future fiscal pressures around an ageing population and related rising superannuation and healthcare costs. Although we concur with the identification of these issues, we consider more immediate fiscal pressures are emerging from the impact of climate change.

3. We consider the future fiscal pressures of climate change are two-fold: firstly, the immediate cost of damage from weather related events such as the Auckland Anniversary Weekend floods and Cyclone Gabrielle in January and February 2023. Certain regions may also experience more droughts and wildfires.

4. Secondly, rising insurance premium costs combined with withdrawal of cover from flood-prone areas and coastal regions likely to be impacted by rising sea levels will put pressure on local and central governments to respond. In our view responding to these latter pressures will require a mix of climate-mitigation measures including relocation and potentially some form of Government climate-related levy. We do not consider the recent Independent Reference Group's proposed climate adaptation approach for New Zealand will be acceptable to potentially affected homeowners [1].

5. Accordingly, in our view pressure will build very quickly for some form of Government support in this area. We suggest a hypothecated levy would be the most appropriate response. In our view without such a levy pressure will build on general taxation to fund a response thereby exacerbating the pressures from rising superannuation and healthcare costs. We suggest the final briefing acknowledge this fiscal risk.

6. We consider it likely that some future government will introduce a capital gains tax (CGT) partly in response to the fiscal pressures the LTIB has identified but also on equity grounds. In our view the LTIB overstates the complexities involved with introducing a CGT. The complexities already exist. The broad principles of a CGT are more comprehensible to the average person than the present ad-hoc approach.

   The foreign investment fund regime is not well understood in our experience and the proposal just announced to introduce a revenue account method for certain taxpayers highlights this issue. Similarly, the treatment of land transactions is another area where a CGT would, in our view, simplify compliance. For example, it is not well understood that section CB 13 of the Income Tax Act 2007 applies regardless of how long the land has been owned.

7. We do agree with the LTIB that compliance costs for a CGT would be higher for assets that do not have readily available valuations such as unlisted equity. This is potentially a major issue for small businesses. We suggest an approach in this case might be to exclude gains below a certain threshold (perhaps $500,000) or provide relief through a mechanism similar to the Australian Small Business Retirement Exemption.

8. We suggest the effect on small businesses of any changes should be more prominently considered in the final briefing. Small businesses are likely to be significantly impacted by any change. At the same time, they are also

[1] https://environment.govt.nz/publications/adaptation-framework-a-proposed-approach-for-new-zealand/

very likely to lack the resources to easily process and implement any changes. We would suggest that as a matter of equity the small scale of most small businesses should mean minimising compliance costs is a high priority when introducing major changes. We see a Dual Income Tax as potentially imposing very significant compliance costs for small businesses.

9. As noted in the LTIB there are tensions arising from the 11-percentage point differential between the company income tax rate and the top personal income tax rate. The LTIB suggests that *"a major reason for taxing capital gains from shares is to reduce incentives to retain earnings in companies and therefore avoid higher personal tax rates."* We concur with this analysis.

   As the LTIB notes imputation "*is now a relatively uncommon system internationally."* We therefore suggest a major review of the imputation regime should be undertaken. The review should consider whether the imputation system encourages excessive distributions and may therefore be a factor in New Zealand's low productivity as distributions are preferred ahead of reinvestment.

B. Questions for submitters

1. *What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?*

   Flexibility of tax rates and a broad tax base underpinned by efficient and responsive administration.

2. *Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?*

   We do not consider this approach will be sustainable. We suggest in the long-term introducing some form of social security taxes will be required to provide a sustainable tax base.

3. *To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?*

   In our view both approaches will be required.

4. *Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?*

Ultimately, tax rates and the tax base are political decisions, so the tax system has to have the flexibility to adapt to changing distributional approaches.

5. *What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?*

   The ability to adjust tax rates and thresholds easily and swiftly.

6. *What mechanisms do you see as most effective in improving company–shareholder integration under the current system?*

   We agree with the suggestions in paragraph 4.4.30 of the LTIB. One incentive to pay out dividends more frequently might be to time-limit imputation credits, that is they expire if not distributed within a certain period (perhaps five years to give companies some flexibility to retain earnings if required). As noted in Part A above a major review of the imputation regime seems timely.

7. *What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?*

   A general broad-based income tax should be more universally comprehensible and administratively efficient than a dual income tax. As noted in Part A we consider a Dual Income Tax could impose very significant compliance costs for small businesses.

8. *What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?*

   As the LTIB notes there is growing interest in such GST/VAT systems around the world. The major disadvantages would be its potential administrative complexity and the risk that the scheme may exacerbate issues around high effective marginal tax rates (EMTRs) for many low-income earners[2]. We therefore suggest such a scheme would need to be part of a major review of the welfare system and its interaction with income tax. The main objective of such a review should be to ameliorate the impact of high EMTRs on low-income earners.

[2] See *The Cost of Working More: Understanding Effective Marginal Tax Rates in New Zealand's Tax and Transfer System.* AN 25/01 New Zealand Treasury 2025 https://www.treasury.govt.nz/publications/an/an-25-01

The major advantages would be addressing the general regressivity of GST and maintaining the current broad base of GST. Such a scheme should be a far more effective means of addressing GST regressivity and cost of living pressures than proposals such as zero-rating fresh fruit and vegetables.

9. *Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?*

   We consider alternative tax bases are both desirable and necessary at the current revenue needs. As noted in Part A above, we consider there is an immediate and growing fiscal pressure from the impacts of climate change. Against this background developing alternative tax bases now seems prudent although we acknowledge doing so is a political decision.

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Please contact the writer if you have any queries.

Yours sincerely
BAUCHER CONSULTING LIMITED

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Terry Baucher PTBA
Director

CONSULTATION/INLAND REVENUE DRAFT LONG-TERM INSIGHTS BRIEFING
Stable bases and flexible rates:
New Zealand’s tax system

I would like to comment on the wealth tax discussion in the document.

Since discussion of a wealth tax became prevalent at the last election, I have noticed business people who have been moving their assets to Australia in anticipation of an eventual wealth tax in New Zealand. This is an indication of the capital flight which would likely eventuate in the event such a tax were announced by the next Labour/Green government.

Also I know wealthy individuals in the United States who had planned to immigrate to New Zealand and invest substantial amounts of capital, but cancelled their plans when they noted the discussion of a wealth tax, especially from the Green Party which proposes a $2 million NZ dollar threshold (including the family home) for such a tax. At that level, investment and business activity in New Zealand would be hugely discouraged.

The document notes some of the problems with imposing wealth taxes, and the fact that most OECD countries that had them have abolished them.

The document gives a comprehensive view of options for New Zealand's tax system and it is well presented.

Thank you for the opportunity to give feedback.

Dan McGuire

Corporate Taxpayers Group

1 September 2025

Stable bases and flexible rates: New Zealand's tax system
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Dear David

Inland Revenue's Draft Long-Term Insights Briefing – Stable bases and flexible rates: New Zealand's tax system

The Corporate Taxpayers Group is pleased to provide the following feedback on Inland Revenue's draft long-term insights briefing (Draft LTIB). The Group supports the intent of the Draft LTIB to stimulate discussion, but believes the document would benefit from a clearer articulation of the risks, opportunities, and policy options it presents. We would welcome the opportunity to discuss our feedback further with officials.

A key concern for the Group is that the Draft LTIB underplays the importance of economic efficiency within the tax system. Our contention is that while fairness—particularly income redistribution—is a valid objective, it must be weighed against the economic costs of taxation, especially in a small, open economy like New Zealand's. The Group highlights that higher taxes on capital income can discourage investment and innovation, and that taxing so-called "economic rents" is more complex and potentially harmful than the LTIB suggests.

The Group also seeks greater clarity on whether the Draft LTIB is advocating for the adoption of a Dual Income Tax system. The current discussion of company-shareholder tax integration is difficult to follow, and it is unclear whether a Dual Income Tax is being proposed or instead just referred to as an anti-avoidance mechanism adopted by Nordic countries to combat the incentive to recharacterise labour income as capital income.

A section should also be introduced on the aspects of the New Zealand tax system that can make some of the tax settings adopted overseas problematic if applied in New Zealand (such as our internationally unusual approach to the taxation of retirement savings)

CTG's overarching recommendation is that the final LTIB should present a clearer and more coherent narrative that is accessible to a general audience. This narrative should focus on the trade-offs between efficiency and fairness in the tax system and highlight the potential challenges that may arise from misalignments in tax rates. Refining the Draft LTIB in this way would ensure the Final LTIB better supports informed, productive public discussion.

We have included as an **Appendix** a more detailed submission on the Draft LTIB. If you have any questions about the Group's submission, please let us know.

For your information, the members of the Corporate Taxpayers Group include:

1 AIA New Zealand Limited
2 Air New Zealand Limited
3 ANZ Bank New Zealand Limited
4 ASB Bank Limited
5 Auckland International Airport Limited
6 Bank of New Zealand
7 Beca Group Limited
8 Chorus Limited
9 Contact Energy Limited
10 Downer New Zealand Limited
11 Entain New Zealand Limited
12 First Gas Limited
13 Fisher Funds Management Limited
14 Fisher & Paykel Appliances Limited
15 Fisher & Paykel Healthcare Limited
16 Fletcher Building Limited
17 Fonterra Cooperative Group Limited
18 Genesis Energy Limited
19 Heartland Bank
20 IAG New Zealand Limited
21 Infratil Limited
22 Kiwibank Limited
23 Lion Pty Limited
24 Mercury NZ Limited
25 Meridian Energy Limited
26 Methanex New Zealand Limited
27 New Zealand Post Limited
28 New Zealand Steel Limited
29 New Zealand Superannuation Fund
30 Oji Fibre Solutions (NZ) Limited
31 OMV New Zealand Limited
32 One New Zealand Group Limited
33 Pacific Aluminium (New Zealand) Limited
34 Powerco Limited
35 Resolution Life Australasia Limited
36 SkyCity Entertainment Group Limited
37 Sky Network Television Limited
38 Spark New Zealand Limited
39 Summerset Group Holdings Limited
40 Suncorp New Zealand
41 T & G Global Limited
42 The Todd Corporation Limited
43 Westpac New Zealand Limited
44 WSP
45 Xero Limited
46 Z Energy Limited
47 ZESPRI International Limited

We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.

Yours sincerely

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John Payne
For the Corporate Taxpayers Group

Appendix – Detailed submission

Executive Summary

The purpose of Long-Term Insights Briefings (LTIBs) under the Public Service Act 2020 (schedule 6) is to provide information and impartial analysis about medium- and long-term trends, risks, and opportunities that affect or may affect New Zealand and New Zealand society. LTIBs are expected to include policy options for responding to the trends, risks and opportunities identified. They may set out views on the strengths and weaknesses of these policy options. However, LTIBs are not to indicate a preference for a particular policy option. We understand from this that the intent is that LTIBs form a platform for discussion on significant challenges facing New Zealand governments.

The risk/opportunities the Draft LTIB identifies is the risk that an ageing population could result in future New Zealand governments facing pressure to increase tax revenue to fund expenditure pressures and / or to changing existing expenditure settings. The Draft LTIB makes the point that some of the features of our existing tax system may present impediments to its flexibility in terms of the system being able to generate additional revenue efficiently. This is illustrated by the relationship in New Zealand's income tax system between the company tax rate and the top individual tax rate. An increase in revenue could be generated by an across-the-board increase in income tax rates. However, our company tax rate is already increasingly internationally uncompetitive. We agree that an increase in the company tax rate would likely have a material adverse impact on the economy. Addressing this by increasing individual rates without increasing the company rate may put more pressure in the overall coherence of the tax structure. Noting for completeness that in almost all jurisdictions there exists a differential in tax rate between the corporate tax rate and top individual tax rate. Jurisdictions including New Zealand have adapted to this and protected the integrity of their tax system.

Our feedback therefore focuses on how useful the Draft LTIB would be as platform for future discussion of this issue. Overall, we consider that for the Draft LTIB to be a good platform for ongoing discussion. However, it needs to be clearer in identifying and articulating the risks and opportunities and the options to address them. The Group submits that its "4C" principles (competitiveness, compliance costs, certainty, and contribution) are useful in assessing options. In particular, if there is a need to increase the level of tax "contribution", then it is essential that this be done in a manner that minimises economic costs in terms of competitiveness, compliance costs, and certainty.

In summary, our suggestions regarding the Draft LTIB emphasise the desirability of:

- A clearer articulation of how to consider trading off efficiency and fairness objectives. In particular how much poorer does New Zealand want to be, to achieve greater income equality through the tax system.
- A clearer connection between the economic costs of taxation to productivity, economic growth and international competitiveness and how this can assist New Zealand in managing the challenges of an ageing population i.e. we grow the "pie" to increase tax revenue rather than simply increasing tax rates on the existing base.
- More discussion of economic rents and risk return premium and how these impact on the efficiency of different tax settings.
- Greater incorporation in the fairness analysis of the economic incidence of tax into how tax settings can alter income distribution.
- A clearer analysis of what issues are seen with company-shareholder tax integration and more options and costs/benefits of dealing with this issue. The most confusing aspect of the Draft LTIB is that it is not clear whether it does or does not advance a Dual Income Tax (DIT) for serious consideration. If it does support a DIT for further consideration to address possible fiscal challenges, the key design elements of such a tax

should be articulated. The alternative interpretation is that the Draft LTIB is simply advancing an anti-avoidance mechanism adopted by Nordic countries to combat the incentive to recharacterise labour income as capital income. Clarity is needed on this point.

- Introducing a section on the specific and unique aspects of the New Zealand tax system that can make some of the tax settings adopted overseas problematic if applied in New Zealand (such as our internationally unusual approach to the taxation of retirement savings).
- More discussion on the problems with a cash-flow tax.

Overall, there would seem to be benefit in a clearer narrative on the issues and challenges facing current tax settings to assist productive discussion. If the final LTIB is to be a useful platform for discussing our future tax policy settings, it needs to address itself to a generalist audience with an interest in tax policy. The paper should be more succinct and reduce repetition, and ensure that concepts are explained in a manner that generalists (rather than economists) can easily understand. With this in mind, a suggested narrative is provided at the conclusion of this paper.

The key point that needs to be made is that if New Zealand, because of the fiscal costs of an ageing population, faces higher levels of taxation, it is critically important that the costs of the tax burden on the economy should be kept as low as possible.

Trading off efficiency of the tax system against fairness

The Draft LTIB states—how should we design a durable tax system in the face of long-term fiscal pressures—especially fiscal pressures arising from an ageing population?

The answer provided is that we need a tax system with a stable core structure that provides flexibility to adapt to changing revenue needs or different distributional objectives of different governments. That is—a stable core structure that allows for rates to be changed, in particular increased, given demographic change and resulting fiscal pressures.

The Draft LTIB proposes that a stable core, flexible structure should:

- Be able to raise different levels of revenue in a way that imposes as little cost on taxpayers as possible. In economic terms, be efficient by minimising deadweight cost/excess burden.
- Promote fairness. In the main, the Draft LTIB seems to view a fair tax system as a tax system that redistributes income from high income earners (wealthy) to low income earners (the less well off). In other words, it would be progressive in nature.

Fairness in this distributional sense is seen as being in conflict with economic efficiency—high marginal rates are required to allow the tax system to redistribute income but high marginal rates incur high efficiency costs.

In addressing the question posed by the Draft LTIB the key issue for government is making good trade-offs between conflicting fairness and efficiency objectives.

The Draft LTIB does not clearly articulate how to manage the trade-off between efficiency (lower output and thus lower tax revenue) and fairness (greater progressivity). We suggest the answer is to design tax settings minimising costs (producing the greatest output to society), then consider its distributional implications and the trade-off between lower overall wealth for New Zealand versus a more equal distribution of that wealth. That seems a sensible message to discuss and present to policymakers.

The economic costs of taxation

The discussion of the economic costs of taxation in the Draft LTIB is theoretical and not directly connected to practical issues facing New Zealand fiscal and economic management. There is no clear articulation as to how this connects and assists in managing challenges arising from demographic change.

There is a focus on deadweight cost/excess burden. It is appreciated that this is in accordance with public economics. In a practical sense, however, the issue is how are tax settings aligned with accepted economic output and growth. More investment leads to higher productivity and thus higher wages. Economic welfare is not the same as higher GDP, but there is a close correlation and it would be helpful for policy decision makers to see how tax settings impact on wider economic policy wherein relation to the challenge of future demographic change the key to managing this must be higher productivity and output. For example, nurses and doctors are globally mobile talent. New Zealand will struggle to compete for such skills in a low wage economy.

The Draft LTIB defines efficiency to include compliance, administrative costs and economic costs. It would seem appropriate to include what the Draft LTIB refers to as "Fairness of Process" and "Transitional Fairness" as part of efficiency. "Fairness of Process" is defined as even-handed rules and good process for managing disputes and policy formulation. "Transitional Fairness" is defined as legislating prospectively as much as possible and avoiding adverse impacts on those who have in good faith relied on past law.[1]

Risk is reduced with tax settings where:

- tax is not arbitrary,
- there is a good disputes process and policy process (GTPP),
- there is clear legislation, and
- rules are interpreted in a consistent manner with the appropriate application of care and management discretions

Risk is a cost. High risk discourages investment. In considering the efficiency of the tax system, the Draft LTIB underplays the importance of risk in the commercial world and the adverse impact tax can have on risk-taking which is the driver of investment, innovation and productivity.

The Draft LTIB does not clearly set out what tax settings are considered best at generating required revenue at lowest cost. Such ideal low-cost tax settings could then be traded off against fairness objectives in a way that decision makers could understand. Greater equality has a cost in terms of overall wealth.

The Draft LTIB concludes (based on past LTIBs) that taxing inbound foreign investment has a high economic cost. The rate should be low although not necessarily zero (because of tax credits and location specific economic rents).

It is not clear on its views on the least cost approach to taxing the capital income of residents. It challenges the orthodox economic view that this rate should be low or zero and cites studies stating that they have "overturned conventional wisdom that there should be no taxes on capital income" (page 56). However, those studies are optimal tax studies. They are based on theoretical models with a social welfare function built into the optimal tax. That social welfare function places weight on the ability of the tax system to redistribute income. Optimal distribution might be where income reflects the skills of individuals (i.e., their ability to earn). This is understandable in the context of such studies, but they are the outcome of trading off a low cost tax system with income distribution objectives. This is not a basis for determining the lowest cost tax system and then considering the costs of modifying that to achieve distribution objectives.

[1] The Draft LTIB should refer to and endorse here Inland Revenue's stated policy on retrospective legislation— that is tax laws should not adversely affect rational and legitimate expectations of taxpayers.

The Draft LTIB's discussion of economic costs, would, benefit from more discussion on the economic costs of higher taxes on domestic capital income as a means of meeting any future revenue pressures. The July 2025 Australian Productivity Commission report "Creating a more dynamic and resilient economy – Interim report"[2] refers to numerous studies suggesting high economic costs result from high taxes on domestic capital. It would be useful if the LTIB covered this in a comparable way.

Taxing normal returns, risk premia and economic rents associated with domestic capital

As noted above, risk-taking and innovation are drivers of investment, productivity, and growth. Tax can have a profound impact on the willingness of business to invest and innovate. The Draft LTIB refers extensively to taxes on domestic capital taxation of normal returns, risk premia and economic rents. The discussion is hard to follow.

The Draft LTIB concludes that the normal rate of return should be taxed, but at a rate lower than the rate of tax on labour income, and returns more than that should be taxed at the higher labour tax rate. The argument for taxing "excess returns" at a high rate seems to be that such returns are economic rents—that is returns over and above the return needed to justify the investment. Such economic rents are either inherent (the rent from highly productive land) or created (such as the rent from exploiting protected IP).

There is a long history of economic support for taxing pure economic rents at high rates on efficiency grounds. That is land and, internationally, location specific rents rather than firm specific rents. For the economic case for high taxes to hold, the rents must be long term and not simply a return on risk-taking. In the domestic context it would seem most of the excess returns would be a return on risk-taking even if they could be described as monopolistic rents. Take for example a firm researching and developing a new drug. If the drug is successful it expects to make a very high return (excess returns). However, there is a high probability of it not being successful in which case it loses all its investment. If the investor does not expect an excess return for success that offsets the loss risk, the expected return will not be sufficient to entice the investment to take place. Taxing so-called excess returns at high rates would stymie risk taking. That seems very important given that New Zealand needs economic growth to manage future ageing, and risk-taking is the engine of the innovation and investment that drives increased productivity.

The Draft LTIB argues that a cashflow expenditure tax is risk neutral and that the same applies to a pure well-designed tax on capital income. The reason is that the government pays (by way of expensing of the cashflow tax or by providing an input credit) the tax proportion of the investment generating the excess returns. The government becomes a compulsory partner of firms sharing in the costs and returns. The investor might prefer the government not to be there, but its expected rate of return is not affected by the tax. It gets a lower post-tax return but has an offsetting lower required investment. This is the Exempt, Exempt, Taxed (EET) model.

That is not the case with a tax on capital income. There is a sharing of returns but no sharing by the government in the cost of the investment. Peter Sorenson in his 2009 paper for the VUW conference "New Zealand Tax Reform – Where to next?"[3], demonstrates that a tax on capital income can be designed to be properly risk neutral. This is where the investor is taxed on all income and gains as realised. Losses are then fully cashed-out as realised and importantly the cost basis of the investment (and cashed-out losses) is increased by the normal rate of return. The tax rate must be constant over time (not progressive). While the government does not fund a proportion of the investment (as it would under a cash-flow tax), the government does share fully in the losses and compensates the investor for the time value of money on the investment amount by increasing the losses by the normal rate of return.

[2] https://www.pc.gov.au/inquiries/current/resilient-economy/interim
[3] https://www.wgtn.ac.nz/cagtr/pdf/sorensen.pdf

This is illustrated by the example of a person investing $100,000 in a venture. The investment generates no income and after a number of years folds so that all the $100,000 invested is lost. The person then gets a government refund of the tax proportion of $100,000 plus the time value of money (the normal return) for the investment period. While a cash-flow tax is risk neutral by being EET, this variant of an income tax is risk neutral by being Taxed, Exempt, Exempt (TEE) which can be viewed as, in present value terms, the same as EET. Taxing capital income is offset by the government reimbursing losses adjusted by the normal rate of return.

The Draft LTIB accepts, the above arguments for saying that a tax on capital income can be risk neutral requires some specific features:

- Adjusting the cost basis of the investment by the normal rate of return
- Fully cashing-out all losses on realisation
- Constant non-progressive tax rates.

It is emphasised that for this to be risk neutral, an investor must get a full adjusted refund of all capital losses on realisation. This also means taxing capital gains irrespective of one's views on the merits of a capital gains tax.

If the features outlined above are not fully part of the tax rules, a tax on capital income does discourage risk. Sorenson argues that a Nordic DIT could be designed with these features. In practice it is hard to see any government implementing them. One reason is the significant level of investment risk the government would assume. In a period of financial market downturn, the government could easily find its capital income tax results in a net revenue loss rather than contributing to the government fiscals. The LTIB should be clearer on these points.

The economic rent argument seems central to the case the Draft LTIB presents for a DIT along the lines adopted by Norway. However, as indicated above, the economic rent theory is complex in practice. In the modern economy the normal course is for a firm to take innovation risk. If successful that will be the basis for "excess returns" – rents. The period during which the business owner benefits from excess returns will usually be short-lived. In any case the high returns will be capitalised into share prices by new investors who receive only normal returns. It seems dangerous to base the design of an optimal tax system on the assumption that economic rents are prevalent in the economy and that taxing them highly will not have a high economic cost. Note that this is different to the standard argument in support of higher taxes on inbound investment generating location specific rents. There is no discussion on this concept in the Draft LTIB. Nor does the paper produce any evidence on the prevalence or nature of economic rents in the New Zealand economy.

Nevertheless, the Draft LTIB suggests a low cost tax system is one that:

- Taxes non-residents relatively lowly
- Taxes only "normal" capital returns of residents lowly
- Taxes other capital returns of residents at a higher rate equal to the rate on labour income.

The last of these assertions does not seem justified by the arguments presented in the paper. It would be problematic if readers of the LTIB took from it a message that future revenue could be increased without cost by taxing away "economic rents". The form any tax is likely to take is likely to stymie risk-taking, innovation and economic growth.

The LTIB would thus benefit from a clearer discussion of taxing the returns on risk and taxing economic rents. The Group is not convinced there is a good case for seeing the taxation of economic rents as a tool for developing a durable tax system in the face of long-term fiscal pressures. It would be useful to set out the issues in this area so that any public discussion is better informed of the potential hazards with what can appear to be an easy target for additional revenue raising.

Fairness

The focus of fairness in the Draft LTIB is on using the tax system to re-distribute income. That seems sensible in that it allows a coherent trading off of efficiency against equity—greater wealth against greater equality.

The Draft LTIB notes that income distribution can be considered over a long period of time (a lifetime) or a short period (a year) arriving at different conclusions according to the approach taken.

The logical approach is to test it over a lifetime. Treasury studies then suggest that the tax/spending of government, for most of the population, seems simply to smooth a person's income over their lifetime (subsidies when young and old being paid for in middle years). The only issue then is whether the efficient tax settings can do this. That is probably not a constraint.

However, the Draft LTIB takes a shorter-term approach. It is not clear why. This seems to provide more room for progressive tax rates to be used as a tool for redistribution of income.

In the fairness context the Draft LTIB emphasises early on the importance of the economic incidence of tax not the legal incidence.

It argues that the economic incidence of GST and PAYE (tax on labour income) is likely to be mainly on consumers/labour. That seems reasonable, but it would be useful if the paper would cite some studies supporting this. One area not mentioned by the Draft LTIB is globally mobile labour. The economic incidence of high taxes is not likely to fall on such labour (because they can locate to a lower tax country). This needs to be covered given the focus by the government on the need to retain and attract globally mobile talent. Note that for globally mobile talent, the relevant competitive tax rate is the average rate not the marginal. New Zealand tends to have high average rates relative to marginal rates.

The Draft LTIB says little on the incidence of tax on capital income. Overseas studies suggest the economic incidence of company tax is widely spread between shareholders, workers, managers, customers, suppliers and perhaps others. US studies seem to suggest at least 20% plus is borne by workers. The result is that we have little idea what the economic incidence of a capital income tax is, in many cases.

Despite the Draft LTIB's reference to the economic incidence of tax this gets little reference when discussing how tax could or should redistribute income. The incidence of taxing labour income is mainly on labour. On that basis a tax on labour income can be viewed as likely effective in redistributing income. That does not seem to be the case with a tax on capital income. It is unclear the extent to which redistribution can be achieved by taxing capital income at rates more than an efficient rate.

It is problematic to take optimal tax settings from an efficiency perspective and consider whether changes to those are justified to meet income distribution objectives without much discussion on how effective tax rates are in determining whether lower income earners bear more or less tax because of changing rates.

Desirability of considering features of our tax system specific or unique to New Zealand

Any tax system needs to operate within the context of its particular environment. The Draft LTIB would benefit from considering some of the tax features specific or unique to New Zealand and the impact that has on the efficient design of our tax settings that might not be so important in other countries.

One feature is the lack of any material tax incentives for retirement savings. Retirement savings are likely to make up most individual savings (apart from first home savings). Comparable countries mostly have expenditure tax treatment of such savings, meaning that for individuals most capital income is not taxed. Since New Zealand does tax such capital income the costs of high tax rates on capital income are likely to be higher in New Zealand than elsewhere.

A second feature is the importance to New Zealand of the agricultural sector including as a source of tax revenue. The impact of tax settings on farmers is substantial in New Zealand compared with other countries.

Thirdly, a feature of New Zealand is our open labour market and our market integration with Australia. This makes comparisons with Australian tax important to New Zealand.

More discussion of the implications of cash-flow taxes

The Draft LTIB discusses several tax base options New Zealand could adopt in addition to, or as an alternative to, income tax and GST. One of those is a cash-flow tax. This is not supported by the LTIB after a brief discussion. The Group agrees that a cash-flow type tax is problematic in practice. However, it would be useful to expand the discussion of these problems in the LTIB especially given the recent support for some aspects of such a tax raised by the Australian Productivity Commission.

Company and shareholder integration and the Dual Income Tax

The Draft LTIB suggests that integration of company and shareholder taxation is the main entity-personal regime issue affecting revenue adequacy and hence this is why the LTIB focuses on this issue.

The main concern here is the view that current tax settings allow labour income to be sheltered in companies (until distributed as a dividend) and benefit from the lower company tax rate of 28%. Global competitiveness issues seem to make alignment of the top individual and company tax rates for New Zealand and most other countries challenging This is seen as undermining the revenue base and restricting the ability of the government to raise non-company tax rates in response to fiscal pressures. The DIT seems to be a response.

The discussion on the DIT in the Draft LTIB is difficult to understand. Aspects (but not all aspects) of Norwegian tax settings are set out. These seem to depart from any pure form of dual income taxation because of practical and political constraints and the need to integrate any tax settings with relevant features of the country.

For discussion purposes it is preferable to set out a pure form of a DIT as described by Peter Sorenson in his 2009 VUW paper. Sorenson describes it as:

> "a tax which combines progressive taxation of labour and transfer income with a low flat tax on all capital income. In the pure version of the system the flat tax rate on capital income is aligned with the corporate income tax rate and with the marginal tax rate on labour income in the first bracket. In this case the DIT may be described as a system that combines a flat tax on total income with a progressive surtax on labour and transfer income."

In Europe pensions are generally treated as deferred remuneration so they are regarded as being subject to the high progressive labour income tax rates. However, that is not the case in New Zealand where pension income is viewed as capital income taxed on accrual but not distribution.

A DIT along these lines would, in New Zealand, have the income tax scale applied to capital income (including the corporate tax rate) being 10.5% to align with the bottom tax rate. That alignment is important because it ensures that no one with capital income is taxed at a higher rate than labour income. A plausible argument could be made that the effective bottom rate in New Zealand is 17.5%. In either case that low flat rate would apply to all capital income—company income, dividends, interest etc.

Such tax settings would clearly result in lower tax revenue. To compensate for that, tax rates on labour income would need to increase and that would also it seems increase the flat capital income tax rate. However, the Draft LTIB does not indicate what the rates might be.

There may be a case for why such a tax system should be considered optimal for New Zealand under an efficiency/fairness trade-off analysis. However, the Draft LTIB does not canvas this. Indeed, it is unclear whether a DIT is actually being advanced for consideration or not.

Instead, the focus of the Draft LTIB seems to be on an anti-avoidance rule (the 4% Risk Free Return shield) adopted by Nordic countries even though it is not adopted by Nordic countries because it has the attributes of an optimal tax. Nordic countries adopt the rule to make what they view as an optimal tax setting (the DIT) work in practice. The avoidance concern is that with a low flat tax rate on capital income with much higher rates on labour income (because of the progressive scale at higher income levels), there is under the DIT too great an incentive for taxpayers to recharacterise highly taxed labour income as lowly taxed capital income. It is noted that under the DIT described by Sorenson, all capital income would be taxed at the low rate and there would be no top-up tax to ensure high income shareholders are taxed on dividends at a higher rate than the company rate.

That seems a reasonable conclusion with closely held companies (controlled by a small number of shareholder-employees) that can easily recharacterise wages as capital income (dividends). However, diversion of employment income would not occur in a widely-held company because a shareholder-employee electing to work for reduced personal income would only be entitled to a share of any incremental profits arising from that shareholder-employee's lower remuneration. So this anti-avoidance rule is thus meeting a concern that arises only with the Small and Medium Enterprise (SME) sector which seems to be how the rule operates in Nordic countries. However, the Draft LTIB suggests it would apply to all companies if adopted in New Zealand.

It may be that inclusion of the DIT in the Draft LTIB is for completeness and there is no intention to advance it for further consideration. Instead, it may be intended to signal that our current tax settings (income tax and GST) should be appropriate to meet future fiscal challenges. However, the tax system should have the ability to increase income tax rates. The company rate cannot be increased for international competitive reasons so the burden of meeting fiscal pressures will have to be borne by individual tax rates. That will increase the gap between the company tax rate and the rate of tax on individuals. This increased rate gap would increase incentives to recharacterise labour income as company income but to a lesser extent than in Nordic countries (dividends and interest are then still taxable at the high individual rates not the low capital tax rate under a DIT). If that is the intent of the Draft LTIB, this needs to be made clear. If the thinking is that this anti-avoidance rule for SMEs would apply to all companies, an explanation of why is required.

A tax rule whereby shareholders in widely-held New Zealand companies are subject to full capital gains tax (when other investments are not) to counter avoidance opportunities in the SME sector does not seem justified. A rule that the SME sector would be subject to, in effect, tax at high individual rates and be subject to a special capital gains tax seems to lack appeal. The more so if it means the government is exposed to the fiscal risk of investment losses in that sector (such as cashing out losses of investors in firms bankrupted for not paying tax). The implications for IT systems, administration and compliance costs are significant.

There is a need to question whether the Risk Free Return Shield approach is an efficient way of addressing the issue of recharacterisation of labour income and capital income.

First, evidence that incomes are now bunching just below the top marginal rate threshold does not necessarily imply labour income diversion. More likely it mostly shows those with capital income investing through companies and PIEs. That is not so obviously a problem if the policy objective is to tax capital income at a lower rate under a DIT.

Secondly, even in the closely-held SME sector, most shareholder-employees or equivalent need cash to meet family and living expenses. The cash accessed should be taxable as dividends, interest or salaries at personal rates if a general DIT is not adopted.

To the extent to which there is a material concern to be addressed (which is not established by the Draft LTIB), the response would need to be more targeted than applying the complex problematic rules required of a Norwegian approach. A more targeted approach should consider better enforcement of the current rules - overdrawn current accounts, avoidance etc.

Assessment of Optimal Settings

On an efficiency basis it would seem tax rates should be:

- Low for inbound foreign investment
- Higher but still low for domestic capital income
- Highest for labour income but with the caveat on globally mobile talent

It is hard to see how the objective of income redistribution can alter this very much although it would probably reinforce the need for some tax on domestic capital income. The costs of income redistribution in terms of economic costs and coherence of the tax system seem high for capital income and the effectiveness of using taxes on capital income to achieve greater income equality seems unclear. There seems more support for progressive rates on labour income. Ultimately the level of taxes on capital and labour income is a judgement call rather than something that can definitively emerge from analysis.

If more revenue is required, then the suggested increase in GST with credits for lower income earners seems most likely to meet a cost/benefit analysis. From a practical perspective, it would seem sensible to ensure any tax credit is "marketed" on an on-going basis as being compensation for increased GST to mitigate future complaints when the makeup of any tax credit / social assistance is long forgotten[4].

The highlighted concern of company-shareholder tax integration seems to be an issue of:

- Targeted rules if seen as necessary to manage labour income diversion.
- Managing different effective tax rates on capital income derived by different entities— companies, PIEs, trusts, individuals.

Options on the second of these could usefully be explored and include:

- Living with differences in the tax rates levied on different forms of capital income. That is not very coherent and creates distortions in how funds are saved. It might nevertheless be the best solution and seems more or less to be the approach adopted from 2000 to 2011. It would mean not attempting to apply 39% on capital income— as was recently enacted for trusts. Nor should the 39% rate apply to other savings vehicles taxed at less than 39% such as PIEs.

[4] Budget 2010 permanently increased benefits to compensate for the increase in GST from 12.5% to 15% but this is seldom considered when considering whether GST is a regressive tax. https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/news/2010/2010-05-20-budget-2010-tax-announcements/2010-05-20-budget2010-gst-compensation-fact-sheet-pdf.pdf?sc_lang=en&modified=20200910055514&hash=0244F6F909D3D5145F2D5B5A9E2849A4

- Consider lowering effective, as opposed to statutory, rates through measures such as more lenient thin capitalisation rules (for inbound investment) and more generous depreciation (for all investment). Increased deductions of this type cannot be used to reduce tax on disguised labour income
- Raising GST and using the funds to reduce income tax rates generally. Reduced rates would reduce the pressure on the difference between personal and company rates.
- The Risk Free Return Shield approach is not justified given the nature of the issue and the problems in adopting it.

A clearer narrative

The Group's main feedback on the Draft LTIB is that to be a basis for productive discussion of the future New Zealand tax system, the LTIB needs a clearer narrative. Something along the following lines is suggested.

In determining tax settings, it is necessary to trade-off what is the least cost tax system (efficiency) against using tax as a tool to redistribute income (fairness). That is because tax settings that minimise barriers to making society better off overall tend to conflict with tax settings that redistribute income. High marginal tax rates at upper incomes are needed to redistribute income but such high marginal taxes come at a high economic cost.

In making this trade-off between efficiency and fairness, economic literature suggests that taxing foreign inbound capital income comes at a high cost and such taxes do not redistribute income from richer to poorer New Zealanders. Taxes on domestic capital income have the next highest cost and an uncertain impact on income redistribution. Taxes on labour income generally have the lowest economic cost and seem the most effective at redistributing income. The exception is high taxes on globally mobile talent.

This suggests:

- Lowest taxes on foreign inbound investment
- Moderate taxes on domestic investment
- Highest taxes on labour income

New Zealand currently follows this general approach with a mix of broad-based taxes on income (capital and labour income) and GST (which does not tax capital income).

The company tax (28%) is a final (generally maximum) tax on foreign inbound equity investment. Foreign inbound debt investment is lowly taxed. Company tax is applied to domestic investment but this is an interim tax with the generally higher individual income tax rates (up to 39%) applied to dividend distributions. The progressive individual income tax scale is the main tool to meet income distribution objectives.

These settings rely on the company tax rate being internationally competitive so as not to overly tax foreign inbound equity investment. Our company tax rate is now high by international standards and there is ongoing pressure to lower it. This generates tension between the company tax rate and the higher individual rates creating issues with the coherence and integrity of the overall tax system. This tax rate gap creates incentives for the SME sector to recharacterise highly taxed labour income as more lowly taxed capital income. That tension would only increase if the government needs to increase the level of tax to meet the needs of an ageing population.

Moreover, only capital income derived through companies benefits from the lower company tax rate and, for New Zealand shareholders, the high individual rates are eventually imposed, albeit with a deferral. PIEs, on the other hand, benefit from the low company tax rate permanently.

The LTIB thus considers alternative tax settings that might reduce this tension in current rules.

A DIT arguably produces a more coherent tax system. This taxes all capital income (not just capital income derived through a company) at a low flat rate and that rate is final. However, the DIT has challenging attributes:

- Higher taxes on labour income are required to offset the loss of revenue from taxing all capital income at a lower rate. That is especially problematic when New Zealand wants to retain and attract globally mobile talent.
- A DIT creates even greater incentives than exist now to recharacterise labour income as capital income. Complex rules might have to be developed to manage this.
- In practice a DIT is not going to have the cashing out of losses etc, to ensure high taxes on "excess returns" do not discourage risk taking.

Other options to our current tax settings are considered but all seem problematic.

The result is that our current income tax and GST mix is likely to form the basis of our tax system in the future (albeit the mix between the two may change). Much of the burden of funding any additional revenue arising from the ageing of the population is likely to be best borne by the GST base. That is especially the case since any such higher tax burden would come with a high economic cost putting a premium on selecting a means of keeping the costs of the overall tax system as low as possible.

The weakness in this approach is the likely increasing pressure to reduce the company tax rate to be internationally competitive in attracting global capital. That will put increased pressure on the gap between the low company and the higher individual income tax rates. Options to manage this may need to be considered. One option is to consider lowering effective as opposed to statutory rates through measures such as more lenient thin capitalisation rules (for inbound investment) and more generous depreciation (for all investment). Increased deductions of this type cannot be used to reduce tax on disguised labour income.

To whom it may concern

I would like to make a very simple submission to the IRD regarding future taxation.

Rather than increasing taxation rates or broadening the tax base, the New Zealand government first and foremost need to focus on cutting the phenomenal amounts of wasted money.

As an example, roading in this country is just a bottomless pit. As someone who previously drove thousands of Km's every week on New Zealand roads, I saw road repairs being carried out that were downright shoddy and it was frustrating to know that a few weeks down the track they would be back to 'repair the repair' and cost me as very hardworking a taxpayer more money. The thousands of unnecessary road cones was also frustrating.

Kiwirail is another bottomless bit. Bluebridge do the same job (better) with half the staff and a tenth of the bureaucracy. The lack of organisation is unbelievable.

These are only two of the thousands of examples of waste. Perhaps we need a DOGE (Department of Government Efficiency) in New Zealand. Cut the waste and there would be plenty of money to fund Government.

Helen Moseley

Stable bases and flexible rates: New Zealand's tax system
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1 September 2025

Submission on Inland Revenue's Long-Term Insights Briefing

Dear David and team,

Thank you for the opportunity to comment on the Inland Revenue's draft long-term insights briefing (**LTIB**).

We want to express our broad agreement with the identification of the economic and fiscal pressures, as well as the desire for the tax system to have features which would be effective in response to these growing pressures. We also appreciate the depth of explanation provided regarding the economic concepts relating to the various tax features described in the LTIB.

In our submission below, we have structured our comments in response to the specific questions set out on page 9 of the LTIB. We would be happy to discuss our submission in further detail if that would be helpful.

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

We broadly agree with the conclusion in the LTIB that the tax system should be designed around the traditional framework i.e. "raising the amount of revenue required in a way that imposes as little cost on taxpayers as possible while also promoting fairness".

Competition and the relative attractiveness of New Zealand as a location for migrants and investors are key attributes which should be considered in relation to the tax system. As noted in the previous LTIB, although New Zealand's geographic remoteness reduces the importance of competition for tax base this is still a relevant concern in relation to Australia.[1] Given Australia's tax rate for larger companies sits at 30%, if New Zealand's rate were set above this it would likely drive a decrease in foreign direct investment into New Zealand as options for investment into Australia become relatively more attractive. Also, it is important to note that capital is highly mobile, therefore New Zealand needs to consider its corporate tax rate in the context of other similar economies, beyond just Australia.

Similarly, increases in individuals' personal tax rates approaching or exceeding those in Australia may lead to increased emigration into Australia, including the labour force which the LTIB identifies as shrinking relative to retirement-aged individuals.

[1] As discussed in the 2022 Tax, foreign investment and productivity LTIB at 6.32.

Both of these factors represent significant constraints on the effectiveness of flexible rates to raise revenue, and are not directly addressed in the LTIB.

Finally, we note that it is important that tax policy settings should consider how tax policy (and economic settings more generally) could help to contribute to raising more revenue from existing tax settings by "growing the pie". For example, consideration should be given as to whether there is a case for tweaking the tax settings to make New Zealand more attractive, which may be slightly at odds with the conclusion noted above. Inland Revenue's previous LTIB considered several such potential changes. This should continue to be a focus for tax policy as a thriving economy has the potential to raise revenue without the need for rate increases or expansions to the tax base.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

We agree with the LTIB's conclusion that an income and consumption tax are appropriate bases for New Zealand's tax system.

We note that as expressed in the LTIB, New Zealand's tax system is a relative outlier in the absence of a payroll tax or social security contribution, however this would have some crossover in both base and purpose with KiwiSaver and ACC levies.

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

We agree with the LTIB's stance that adding new bases involves significant trade-offs and for this reason priority should be given to strengthening and scaling existing bases (i.e. income and consumption tax) over adding new bases. In particular, raising GST while ensuring low-income earners are shielded from this impact is an efficient way of raising revenue. We agree with comments in the LTIB that increasing the corporate tax rate is also constrained by ensuring New Zealand is internationally competitive as a destination for inbound investment.

The LTIB identifies that New Zealand's ageing population will place additional pressure on the tax base as a whole. Increasing rates on income and consumption tax means additional pressure on the labour base, compounded by a shrinking labour force relative to the whole-of-population and potential for technology to disrupt the workforce.

Raising income tax/GST rates is likely to be seen as increasingly unfair/inequitable by workers who are taxed on their labour income when other bases (i.e. capital) are not subject to comprehensive taxation.

There is also the issue of the misalignment of tax rates which should be considered which puts further pressure on the ability to increase tax rates. However, there is a need for balance when considering the alignment of tax rates, in particular, in the context of economic growth. For example, it is not necessarily tax considerations which drive companies to retain earnings, a lot of the time the funds will be reinvested in the business. It would be overly simplistic to consider and potentially detrimental to the economy if we took the view that the shareholder's marginal tax rate should apply to any corporate income.

As the LTIB also notes, the higher the rate, the greater the potential distortionary impact of the tax. This sense of fairness as well as the need to keep New Zealand competitive may inhibit the flexibility of future Governments to raise income tax and/or GST rates in response to increasing revenue requirements. In addition as recognised in the LTIB, the higher the income tax and/or GST rates are, the more distortionary the tax and less effective it will be at raising revenue.

To the extent that additional bases are considered, careful consideration needs to be given including the potential unintentional impacts. We provide comments on the various alternative bases that are outlined in the LTIB under question 9 below. In our view, if there is a need to expand New Zealand's tax base, it would be more prudent to consider one that is more common and well-tested. For example, a capital gains tax (**CGT**) is a well understood, tested component of a number of tax systems around the world and the pros and cons of this should be weighted against the less common tax types such as wealth taxes. To that end we suggest that when considering new tax types/bases, these should be assessed against a balanced scorecard that measures these against the core principles of our tax system. We note the LTIB's comments on a CGT included the relative volatility of such a tax in other jurisdictions and the estimated revenue per the Tax Working Group's report, however this is not weighed against alternative tax bases. A comparison of additional bases to base-broadening options along lines of the key tax principles identified in Chapter 1 is necessary to evaluate different revenue raising options most appropriately.

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

We generally agree with the basis that the tax system should be designed with flexibility to adapt to different Government's distributional concerns. To that end, flexibility favours existing tax bases over new tax types unless these new tax types have broad public support and are likely to withstand changes in Government.

We also consider that stability remains a key consideration in designing an effective tax system and must be weighed against flexibility. From a tax policy basis and in the interest of minimising uncertainty, flexibility must be constrained to ensure that tax payers can rely on a degree of certainty of how they will be taxed year-to-year.

It is our view that truly flexible measures should be agnostic as to whether they are utilised to raise or lower revenue. To that end, the tax system must be designed with flexibility to ensure that tax rates and thresholds can be increased or decreased to suit the requirements of different Government's spending priorities. It is important that flexibility is considered from a "whole system" perspective, in particular, when considering the distributional goals - for example the ability to adjust different levers such as raising taxes in one area (e.g. GST), in order to fund tax decreases in other areas (e.g. income tax). Consideration should also be given to how the tax system interacts with the transfer system, this is particularly important for New Zealand as part of the transfer system operates within the tax system.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

Broadening the comprehensiveness of the tax base is one mechanism that warrants further consideration. In our view, the preference would be to consider expanding the tax base under the current tax system as opposed to more significant structural changes (for example, moving to a nordic tax system). Further, an extension of the current income tax regime would be easier to implement than adding new regimes, for example a wealth tax or stamp duties.

Consideration should also be given to the potential of technological change to increase the efficiency of the tax system and minimise opportunities for evasion. As we noted in our submission on the proposed topic for the LTIB, opportunities may be presented by technological change. For example, technological changes could allow for real-time reporting and collection of consumption taxes at the point of sale - this may increase collection of tax from existing tax bases, without wider structural policy change.

Q6. What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

Each of the mechanisms discussed in the LTIB represent their own limitations. Our view is that broadly, further considerations should be given to the policy aim of integration, including understanding the potential trade-offs with the pursuance of integration - e.g. economic impacts on businesses, perception of fairness between residents and non-residents, etc.

For completeness, we agree that full integration presents difficulties in application as identified by the LTIB. Further, as noted already, full integration may have unintended consequences whereby it could impact the ability for New Zealand businesses to grow or make them less competitive on the world stage. There are legitimate reasons for companies to have retained earnings including funding business growth. As with all tax policy decisions, there are trade-offs. In the instance of company-shareholder integration, the risk is the timing difference between the application of the tax rates vs. impeding business growth or placing New Zealand businesses at a competitive disadvantage. We note that the timing difference may become permanent in some instances, but that issue could be dealt with in other ways (for example extending the taxation of capital income). We consider there is still merit in the current 'mind the gap' approach rather than a full integration approach.

Regarding the incentivisation of distributing dividends by way of an accumulated earnings tax, we agree with the criticisms noted in the LTIB that such a tax would be complex, arbitrary and an incomplete proxy for the deferral of dividend payments. In addition we submit that it unnecessarily impedes the accumulation of profits for valid commercial reasons.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

While we recognise the DIT model as set out in the LTIB has sound tax policy support, we submit that the relative complexity of the model and the extent of the change would make it challenging for taxpayers to adjust to from a technical perspective, and difficult to convince to gain acceptance from the wider public.

Further, we would expect that consideration will also need to be given to the services that the Government delivers to New Zealanders should we move to a DIT model, on the basis that Nordic countries have a different model and what those taxpayers can expect in return for their taxes. That is, the consideration of moving to a DIT would in our view require much broader consideration beyond raising tax revenue.

Given the scale of change that adopting this model would require, we are doubtful whether the requisite level of public buy-in can be achieved.

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

The low-income GST offset scheme is a good alternative to targeted GST exemptions which would chip away at the broad base of New Zealand's GST regime and also allow for a more targeted approach. This may be a solution to the equity concerns around increasing the rate of GST. However, each potential model entails its own unique pros and cons to consider.

We agree with 'Analytical note 2' that an income based credit may be the most realistic of these options due to limitations in the spending information of tax payers and expectations around tracking this. An approach that favours simplicity over accuracy has its merits (i.e. close enough is good enough). Card or voucher schemes that refund a portion of the GST spent by low-income earners are likely to be complex to implement. Lessons should be applied from previous direct transfer schemes such as the cost of living payment to ensure such income transfers are appropriately targeted.

We note that pairing an increase to GST to an adjustment to income taxation presents an additional mechanism to reduce the impact of the GST increase on lower wage earners, and can be tweaked closer to progressivity if the rates of the lower tax bands were decreased while the rates of higher tax bands were increased. This would however be a broad, imprecise mechanism and would have its own issues to consider.

Questions should be raised about whether these GST offset regimes are a temporary feature intended to last for a defined period or become a permanent feature, further increasing complexity in the tax and transfer system. Introducing a new income based credit further adds to the complexities of navigating the tax and transfers systems for persons receiving working for families, benefits or other Government entitlements.

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

We consider that the alternative tax bases outlined in the LTIB are generally not desirable to add to New Zealand's tax mix. Of the options proposed each have negative impacts and limitations which outweigh the potential revenue increased, particularly in light of options to broaden the existing bases (i.e. increasing the income tax base further).

Payroll taxes

As previously mentioned, we agree that it would be ineffective to introduce a payroll tax or social security contributions due to crossover with KiwiSaver and ACC levies, and unnecessary given there are already flexible measures to tax labour income (income tax and GST) .

Wealth taxes

Wealth taxes would address key concerns on under taxing wealthy individuals whose wealth is held in assets not currently captured under our tax bases. However, in our view a wealth tax would create a high risk of capital flight as high wealth taxpayers may choose to emigrate to countries with a lower tax burden, especially as New Zealand shares a mobile population with Australia who does not impose a wealth tax. Potential revenue gains must also be weighed against the impact and cost of addressing avoidance strategies to reduce individual wealth such as asset undervaluation and the exploitation of trusts and inheritance loopholes would diminish the integrity of the tax system. A wealth tax would also introduce deadweight costs by disincentivising productive capacity, as taxpayers may reduce investment or alter behaviour to minimise their tax liability. This could discourage investment into New Zealand and reduce the amount of domestic capital employed productively in the economy.

Inheritance taxes

Although an inheritance tax has significant potential to generate substantial additional revenue, it would require strategic design to effectively manage and minimise avoidance opportunities to reduce additional administrative burden, diminishing its flexibility.

In addition, an inheritance tax would face significant public resistance and may be portrayed as punitive. We submit that balancing concerns of compliance, clarity, and public sentiment would make inheritance taxes prohibitively challenging tax to implement.

Land taxes

We recognise that a land tax is considered one of the most efficient options for expanding New Zealand's tax base, given its revenue stability, land's immobility and potential to minimise economic distortions compared to taxes on income or consumption. In addition to improving resource allocation and reducing speculative holding, a land tax has strong potential to generate reliable and significant additional revenue as well as flexibility as compared to the distortive alternatives above. Land taxes have a relatively low compliance burden given there is an existing mechanism within which to tax land (i.e. collection via local Government rates) and the tax is difficult to avoid.

As noted in the LTIB, consideration would need to be given the status of Māori land under Te Tiriti o Waitangi and Te Ture Whenua Māori Act 1993, and to enable deferral of a land tax for asset-rich, but cash-poor landowners. Despite these complications, this may be the preferred option of those listed in Chapter 6 of the LTIB as these have the potential to raise revenue with minimal distortion.

Stamp duties

We agree on the general stance that stamp duties have well-documented drawbacks which make them an undesirable tax addition as opposed to a land tax. Their revenue volatility and negative impacts on market liquidity, due to 'lock-in' effects and suppressed mobility, do not present a flexible or sustainable revenue source for the New Zealand government.

Yours sincerely,

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1 September 2025

Dear Sir/Madam,

Draft of Inland Revenue's long-term insights briefing 2025

CPA Australia welcomes the opportunity to comment on the consultation **Draft of Inland Revenue's long-term insights briefing 2025** (briefing paper).

CPA Australia represents the diverse interests of more than 175,000 members, including over 3,300 members in New Zealand, working in over 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

This briefing paper on New Zealand's (NZ) tax system explores the implications of rising fiscal pressures for New Zealand's tax system and what changes could be made to our tax system to enhance fiscal resilience. This submission addresses the key questions outlined in the paper. A summary of our responses are as follows:

Summary of key responses

CPA Australia's 2024 **submission** (CPA) and Inland Revenue (IR) share significant common ground in our analyses of New Zealand's tax system, particularly in addressing long-term fiscal pressures. Both documents emphasise the need for a resilient tax framework capable of adapting to future challenges while maintaining core stability.

Key areas of alignment include:

Recognition of demographic shifts and fiscal pressures: Both bodies identify an ageing population as a primary long-term challenge, leading to increased expenditure on pensions (such as New Zealand Superannuation) and healthcare, alongside downward pressure on income tax revenue due to a shrinking working-age population.

CPA highlights this in our environmental scan response, noting the consequences for economic growth and expenditure, while IR's LTIB (e.g., Executive Summary and Chapter 1) frames it as a core motivation for enhancing tax system flexibility.

Stable core structure with flexibility: CPA agrees with IR's focus on balancing stability (to foster economic confidence, business certainty, and compliance) with flexibility to adapt to changing revenue and distributional objectives. This is evident in CPA's response to the question on maintaining a stable core, where we stress the risks of excessive flexibility (e.g., complexity from frequent changes) but advocate for adaptability to economic shocks. IR echoes this throughout the LTIB, proposing a "durable tax system" with stable bases (income and consumption taxes) and flexible rates to meet varying government needs over time (e.g., Chapters 1 and 7).

Evaluation of income and consumption taxes: We both agree that understanding the pros and cons of different approaches to income and consumption taxes is crucial for future system design. CPA discusses the trade-offs, such as income taxes promoting equity but potentially disincentivising work, and consumption taxes (like GST) being less distortionary but regressive.

We advocate exploring options like inflation adjustments for capital gains tax (CGT) and targeted offsets for GST. IR's LTIB delves into similar analyses (Chapters 3–5), comparing tax bases on equity and efficiency grounds, and concludes that income and consumption taxes form a desirable mix, with flexibility to adjust rates.

Broadening tax base and considering alternatives: There is consensus on evaluating the comprehensiveness of current bases (income and GST) and assessing whether to add alternatives. CPA critiques the lack of a comprehensive CGT, noting it pressures income and GST rates, and suggests exploring land taxes, tax on assets, and inheritance taxes based on international experiences.

IR aligns with CPA by discussing CGT's pros (neutrality) and cons (lock-in effects, compliance costs) in Chapter 4, and evaluates alternatives like payroll, wealth, inheritance, and land/property taxes in Chapter 6, concluding they overlap with existing bases and may not be essential additions.

Integration of tax and broader fiscal policies: Both emphasise reviewing government expenditures and retirement income policies alongside tax reforms. CPA calls for comprehensive expenditure reviews to optimise spending before tax adjustments and suggests reforms like compulsory KiwiSaver or means-testing superannuation. IR supports this in Chapter 7, noting that flexibility in main bases aids fiscal resilience, and briefly touches on social security contributions (Chapter 6) as expenditure-linked options.

Equity and efficiency trade-offs: CPA and IR both highlight the need for the tax system to balance efficiency (e.g., minimising distortions) with fairness (e.g., progressivity). CPA notes GST's regressivity and suggests targeted transfers, while IR models a low-income GST offset in Chapter 5 to mitigate distributional impacts of rate increases.

Overall, these alignments reflect a shared view that New Zealand's tax system should remain broad-based and low-rate where possible, with mechanisms to address fiscal imbalances without undue complexity.

Areas where IR's position differs from CPA Australia

While CPA's submission focuses on practical challenges, stakeholder engagement, and targeted responses to IR's consultation questions, IR's draft LTIB adopts a more theoretical and comprehensive framework, leading to several key differences in emphasis and approach.

Theoretical frameworks for tax bases: IR places greater emphasis on conceptual overlaps between tax bases (e.g., labour income, capital income, and wealth) and idealised models like dual income taxes versus general income taxes, dedicating Chapters 2 and 3 to comparative analyses of their effects on economic factors (e.g., taxing the normal return to capital) and reviewing economic literature on labour versus capital taxation. In contrast, CPA prioritises practical critiques of capital income pressures without delving into these nuanced debates, such as whether capital's normal return should be taxed at lower rates than labour income.

Detailed analysis of company-shareholder integration: IR explores specific mechanisms for improving integration, such as imputation systems or dual income tax approaches, in Chapter 4, addressing sheltering opportunities arising from rate gaps. CPA, while critiquing the corporate tax rate's competitiveness (28%) and avoidance risks, does not propose or evaluate such detailed reforms, instead focusing on broader harmonisation to attract investment.

Modelling and practical design options for consumption taxes: IR includes quantitative modelling in Chapter 5, such as a targeted, income-tested GST offset to insulate low-income households from rate increases, emphasising its fiscal efficiency over exemptions. CPA advocates for similar offsets to address GST regressivity but stops short of providing or endorsing such modelling, leaning towards qualitative discussions of trade-offs.

Comprehensive pros and cons of alternative bases: IR applies a systematic equity-efficiency framework in Chapter 6 to evaluate alternatives (e.g., payroll taxes' overlap with income tax, inheritance taxes' progressivity but administrative burdens), including stamp duties and corrective taxes. CPA references these bases briefly, focusing on international pitfalls (e.g., capital flight from tax on assets), but IR extends this with a consistent analytical lens and conclusions that they may not warrant addition at current or higher revenue levels.

International tax settings and inbound investment: IR notes in Chapter 3 the economic costs of over-taxing non-resident capital (e.g., borne by domestic workers via lower wages), tying this to New Zealand's capital importer status. CPA touches on related productivity challenges but does not emphasise these inbound investment implications as strongly, instead highlighting general capital shortages.

These differences arise partly because IR's LTIB is a standalone, forward-looking briefing, whereas CPA's submission is a direct response to IR's earlier consultation, allowing IR to expand on and diverge from CPA's points in the draft.

Suggested improvements to the IR Document

IR's draft LTIB is a thorough, principles-based document that promotes debate on tax durability. However, incorporating insights from CPA's submission could enhance its relevance, breadth, and practicality.

Suggested improvements include:

Expand the environmental scan to include broader challenges: IR's focus on ageing demographics is strong, but it could integrate other pressures highlighted by CPA, such as lagging productivity, inflation/cost-of-living crises, housing affordability, escalating debt servicing, and technological disruption (e.g., AI's impact on labour markets and permanent establishments). Chapter 1 or the Executive Summary could incorporate these for a more holistic view, acknowledging their interplay with tax policy (e.g., how low productivity strains revenue without tax incentives for innovation).

Deeper integration of expenditure and retirement policy reviews: While IR notes expenditure choices in the Executive Summary, it could more explicitly link tax reforms to CPA's suggestions, such as regular expenditure reviews or KiwiSaver reforms (e.g., compulsory contributions or EET taxation). Chapter 7 could model scenarios combining tax flexibility with spending optimisations, reducing over-reliance on revenue-raising.

Enhance discussion on housing and property taxes: CPA emphasises housing affordability's role in tax debates (e.g., CGT's secondary impacts on supply and rentals). IR covers land/property taxes in Chapter 6 but could add evidence-based modelling of their effects on affordability, including regulatory factors like land supply constraints, to align more closely with CPA's call for better evidence.

Strengthen stakeholder engagement and international comparisons: IR could build on CPA's advocacy for ongoing dialogue by including case studies from countries like Australia (e.g., pre/post-CGT grandfathering) in Chapters 4 and 6. This would address CPA's concerns about learning from international merits/pitfalls, particularly for wealth/inheritance taxes.

Address technological disruption beyond administration: IR briefly mentions tech issues in tax administration (e.g., paragraphs 132–135 in the consultation version, per CPA), but could add a subsection in Chapter 3 or 6 to explore broader implications for digital economies, remote work, and global developments, as urged by CPA.

Improve accessibility and modelling transparency: The LTIB is dense; adding summaries of key trade-offs in tables (e.g., pros/cons of bases) and clarifying modelling assumptions in Chapter 5 would aid readability. Explicitly referencing submissions like CPA's in the final version would demonstrate responsiveness.

These enhancements would make the LTIB more comprehensive, responsive to consultations, and better equipped to inform public debate on New Zealand's tax future.

Please refer to the Appendix for our detailed responses to the questions. If you have any queries, contact Jenny Wong, jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor, bill.leung@cpaaustralia.com.au.

Yours sincerely,

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- Mr Angus Ogilvie FCPA (Aust.), Chair of Tax Committee – New Zealand
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- Mr Jeffrey Owens FCPA (Aust.), Tax Committee – New Zealand
- Mr Darshana Elwela – Tax Committee – New Zealand
- Mr Richard Ashby CPA (Aust.), Tax Committee – New Zealand

Appendix

Responses to questions

Specific Questions

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

Based on CPA Australia's **submission**, a durable and stable tax system should foster economic confidence, provide taxpayer certainty, enhance compliance, and enable long-term business planning and investment decisions. It must balance stability with flexibility to respond to evolving challenges, societal needs, and economic shocks, while avoiding excessive complexity or frequent changes that could undermine public trust. Additionally, it should incorporate a genuinely broad-based, low-rate structure to alleviate pressure on income and GST rates, and be complemented by comprehensive expenditure reviews to optimise public spending and address fiscal imbalances without over-reliance on tax adjustments.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

Yes, CPA Australia considers that New Zealand should continue with the two main bases of income tax and consumption tax (GST), as they provide a stable revenue stream to fund public expenditures like healthcare and pensions. However, the current system lacks a genuinely broad-based structure due to exclusions such as a comprehensive capital gains tax (CGT), which pressures existing rates. We advocate evaluating recalibration of the tax mix to lower rates while maintaining revenue, and assessing alternative revenue sources based on international experiences to enhance effectiveness in addressing future challenges.

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

CPA Australia suggests a balanced approach, with reliance on increasing rates on main bases (income and GST) tempered by broadening the bases to create opportunities for lower rates and stable revenue. They critique the current lack of comprehensiveness (e.g., no CGT) and recommend evaluating additions like land taxes, tax on assets, inheritance taxes, or estate taxes, drawing on international merits and pitfalls. However, they emphasise that adding new bases should be assessed for policy objectives, equity, and efficiency, while prioritising expenditure reviews as an alternative to raising revenue through taxes.

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

Yes, CPA Australia agrees that the tax system should be designed with flexibility to adapt to different governments' distributional concerns, as this allows responses to changing revenue needs, societal shifts, and economic shocks. However, we caution that flexibility must not undermine the stable core structure, as excessive changes can increase complexity, create uncertainty for investments, and erode public trust. We highlight the recent 39% individual tax bracket as an example of short-term flexibility leading to complexity and income sheltering, advocating for careful management alongside expenditure reviews.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

CPA Australia identifies several mechanisms: recalibrating the tax mix to broaden the base (e.g., introducing a comprehensive CGT with features like inflation adjustments, exemptions for personal assets, private home or small businesses, and roll-over relief for reinvested gains); harmonising tax rates across personal, corporate, and investment vehicles (e.g., PIEs) to reduce avoidance and inefficiencies; indexing marginal tax rates to inflation to prevent bracket creep and promote equity; and addressing international tax settings to attract capital as a capital importer. CPA also suggests reforms to retirement income policies, such as compulsory KiwiSaver or means-testing superannuation, to complement income tax flexibility.

Q6. What do you see as the most effective mechanisms in improving company–shareholder integration under the current system?

CPA Australia does not explicitly detail specific mechanisms for company–shareholder integration but implies effectiveness through aligning tax rates to reduce discrepancies between personal, corporate (currently 28%), and entity rates, which create avoidance opportunities and undermine trust. We note that the corporate rate acts as a de facto withholding tax, with shareholders often facing additional marginal rate taxation, and recommend harmonisation to enhance attractiveness for domestic and foreign investors, boost economic growth, and minimise inefficiencies.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

CPA Australia's submission does not directly compare a general income tax versus a dual income tax, as our focus is on the current progressive income tax system's pros (promoting equity) and cons (disincentivising higher earnings, affecting variable income earners, and lacking comprehensiveness without CGT). We advocate exploring CGT options but do not specify a preference for a dual system (taxing capital at lower rates). Implicitly, we see pros in a general approach for neutrality but cons in complexity; a dual system might align with a call for lower capital taxation to encourage investment, though we emphasise learning from past CGT proposals' fairness and behavioural concerns.

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

CPA Australia views a low-income GST offset scheme positively as a pro for addressing regressivity, allowing the tax and transfer system to compensate low-income households through targeted offsets, ensuring fairness while encouraging economic growth. Pros include mitigating inequality from higher GST rates, which broaden the revenue base and simplify the system. Cons are not explicitly detailed but implied in broader GST concerns, such as disproportionate impacts on lower-income groups if not properly targeted, and the need for adjustments to ensure offsets are effective without adding administrative burdens.

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

As noted in our earlier **submission**, the consideration of alternative revenue sources, including inheritance, estate and wealth taxes, must take into account the lessons learned from international experiences. For instance, while some European countries, have implemented wealth taxes, the overall success and sustainability of these measures remain contentious. The OECD's report on wealth taxation outlines both the advantages and disadvantages of such taxes, suggesting that they may not be the panacea for fiscal challenges faced by governments. The effectiveness of wealth taxes can be undermined by tax avoidance strategies employed by high net wealth individuals, who can shift their assets to lower-tax jurisdictions. These issues were also highlighted in a recent OECD report on Taxation and Inequality reporting on the declining reliance on revenues from inheritance and wealth taxes in OECD countries.

Submission.

Inland Revenue draft Long-term insights briefing:

Stable bases and flexible rates: New Zealand's tax system

Andrew Coleman

1 September 2025.

Disclaimer.

This submission is written in a private capacity. The author is currently employed by the Reserve Bank of New Zealand (Wellington, New Zealand) and the Asia School of Business (Kuala Lumpur, Malaysia.) The views expressed in this submission are my own, and do not represent (i) the views of the Reserve Bank of New Zealand, its Chair, Board, Acting Governor, or employees; or (ii) the views of the Asia School of Business, its Board or its employees. The submission was written while the author was on unpaid leave from the Reserve Bank of New Zealand.

Bibliographical details.

I am an economist who has worked in academia and New Zealand government departments including the New Zealand Treasury and the Reserve Bank of New Zealand since 1996. I have a Ph.D. in economics from Princeton University. My academic experience includes permanent academic positions at the University of Michigan (5 years) and the University of Otago (10 years) as well as visiting positions at the Asian University for Women (Chittagong) and the Asia School of Business (Kuala Lumpur). I have taught public finance at the University of Otago, the University of Michigan, and the Asia University for Women. In 2010 I served as a member of the Savings Working Group.

Since 2008 I have been active contributor to New Zealand tax debates, and have written papers concerning the New Zealand tax system and the New Zealand retirement income policy that have been published in a variety of regional journals including *New Zealand Economic Papers*, *Australian Economic Papers*, the *Economic Record*, and *Environment Economics and Policy Studies.* Many of these papers have used a sophisticated overlapping generation model to investigate the effects of New Zealand's tax system and retirement policies on the housing market; others have investigated the effects of environmental taxes. Three papers were commissioned by the Inland revenue to investigate the potential effects of capital gains taxes and land taxes on housing markets as input into the 2010 Victoria University of Wellington Tax Working Group and the 2018 Tax Working Group. I have also written other papers looking specifically at the taxation of capital income in New Zealand and its likely effects on housing markets that have been published by Motu Economics and Public Policy, the University of Otago, and the Reserve Bank of New Zealand. Appendix 2 lists some of these papers.

1. Scope of this submission

On page 9 of "Stable bases and flexible rates" (SBFR), there is a list of questions that the IRD would like addressed. The following comments at primarily aimed at questions 2, 3,4,5,7, 8 and 9.

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

Q6. What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

NOTE: Throughout this note, I shall refer to the IRD paper as the SBFR report.

2. Summary of this submission.

The SBFR report states it has two key motivations:

(i) the fiscal pressures created by population ageing (p10);
(ii) the suitability of the core tax structure for the future, given New Zealand currently relies on consumption and income taxes for 88% of revenue and "*is unusual in not having a significant tax base that only applies to labour income, such as a social security contribution tax (SSC)*" (p13).

The paper also acknowledges that the lack of a social security tax is the single largest difference between New Zealand's tax system and the tax system of almost all other OECD countries (p69).

1. Given these objectives, it is strange that the paper only discusses social security taxes on two of its pages. Moreover, most of this discussion is peripheral, ignoring most of the major literatures on the economics of social security taxes and compulsory savings schemes. This flaw is then compounded by ignoring the way that social security taxes in most OECD countries implicitly transform their general income taxes into dual income taxes, since social security taxes are applied to labour but not capital incomes.

   To be blunt, the omission of a more comprehensive discussion of social security taxes or a compulsory saving scheme to fund retirement means this paper must be considered a failure by its very own aims. It is not clear why the authors chose to do this. Unless this structure is changed, the SBFR will join a long line of tax enquiries (the 2001 McLeod Review; the 2010 Victoria University Tax review, and the 2018 Tax Working Group) that have paid almost no attention to social security taxes, the single biggest difference between New Zealand's tax structure and the tax structures used in almost all other OECD countries. It simply makes no sense to do this when the paper says that its primary objectives is to discuss tax structure related to the fiscal pressures associated with population ageing.

2. Possibly the second biggest differences between the New Zealand tax system and the tax system of a majority of other OECD countries is the taxation of dedicated retirement income savings plans. Most countries have adopted an EET (Exempt-Exempt-Tax) system for retirement income plans; New Zealand abolished its EET tax regime in 1989 and replaced it with an TTE (Tax-Tax-Exempt) regime. An EET tax scheme is an example of a direct consumption tax. Surprisingly, the relative merits of these schemes are scarcely discussed in this document, despite an otherwise lengthy discussion of different varieties of consumption taxes and a specific discussion of direct consumption taxes 96-97. Indeed, the paper relegates discussion of this topic to two sentences:
   " A DET could also be partially implemented by allowing a deduction for certain forms of savings such as retirement savings. This would, however, result in non-neutralities across different forms of savings." (5.3.14: p96) followed by a conclusion

   "Inland revenue therefore considers a VAT has many advantages over a cashflow consumption tax." (5.3.20)

   This coverage is completely inadequate: it is a statement of the IRD's beliefs, not an argument. This discussion is clearly inadequate given (i) the taxation of private retirement savings is directly relevant to the primary objective of the paper, which is to discuss the fiscal pressures created by population ageing; (ii) EET-taxed retirement income schemes are the primary means of implementing direct consumption taxes in the OECD countries that implement direct consumption taxes; and (iii) other ways of taxing capital income and savings products have non-neutralities, so a rejection of an EET saving tax because of its non-neutralities makes sense only of these non-neutralities are worse than other tax systems.

A comparative approach is essential. It is a standard theoretical result that an EET tax system reduces the difference tax treatment between owner-occupied housing and other assets when owner-occupied housing is taxed on a TEE basis (Kaldor 1955). This is important in the New Zealand context as New Zealand not only taxes owner-occupied housing on a TEE basis, but owner-occupied housing is the single biggest asset class in New Zealand. It is also a standard economic argument that EET regimes reduce the distortions induced by income taxes when there is inflation. Consequently, there are good reasons to believe that an EET regime could reduce the amount of non-neutrality across different forms of saving: hence a comparative institution approach is needed. Given that these schemes are used in a majority of OECD countries, a blanket two-line dismissal seems inadequate and significantly undermines the structure of the whole report.

3. The SBRF report is largely silent on the appropriate structure of taxes when owner-occupied housing is taxed on a TEE basis. This omission is serious, as many theoretical results about the relative merits of different types of taxes (e.g. the relative merits of income taxes and consumption taxes, or the relative merit of general income taxes and dual income tax systems) are substantially modified when housing assets are included rather than excluded. For example, on p56 the paper quotes the results of a "single asset class" model by Conesa et al (2009) in support of the idea that capital might be taxed more heavily than labour; yet it does not report the finding that when a separate class of housing assets is included in the model, the reverse finding holds (capital income should be taxed at much lower rates than labour income: Nakajima 2020). There are now a large number of models, supported by some very clear empirical evidence, that the taxation of owner-occupied housing relative to the taxation of other forms of capital income has significant effects on individual and national asset portfolio choices; these models (and the empirical evidence) suggest that when owner-occupied housing is taxed less than other asset classes, people build larger houses and pay more for property than otherwise. It is unclear why the SBFR report sees fit to discuss this topic so little when it seems to have first order implications for the appropriate structure of taxes adopted in an economy.

   The way housing is analysed (or in some cases ignored) in the report raises a second major issue: the incidence of different types of taxes. In the introduction of the paper there is considerable discussion about the incidence of taxes (p23-25). Unfortunately, this discussion has relatively little to say about the way the incidence of a tax is affected by the way it changes the prices of other goods in an economy. To extend the example used in the report, a tax on t-shirts may lead to an increase in the price of long-sleeved shirts, even though these are not taxed, affecting income the income distribution of the owners of firms producing long-sleeved shirts and the living standards of the people purchasing these shirts. Ordinarily economists try to use general equilibrium models to examine the welfare effects of tax policies, taking into account the effects of prices in all markets. In many cases they use general equilibrium models that have an over-lapping generations structure to estimate the incidence on people born in different years. (This ought to be an important consideration in a report analysing the long-term fiscal implications of population ageing.) Many models that look at the effect of population ageing try and incorporate these general equilibrium effects, and where this is done the effects appear large. (McGrattan and Prescott (2017) is a relatively recent international example; Coleman 2014 is an example in the New Zealand context). It is a pity that, having pointed out the importance of calculating the incidence of taxes in general, the SBRF report often seems to ignore general equilibrium effects that are relevant to calculating the incidence of different taxes in specific examples.

4. The SBRF report has a large section discussing the differences between income and consumption taxes. This is welcome. However, in one important aspect the analysis lacks clarity and its choice of language has the potential to make the conclusions quite misleading. As the report makes clear, the key difference between consumption taxes and income taxes concerns the timing of when taxes are paid: income taxes are paid when income is earned, and consumption taxes are paid when income is spent. For some reason, the report uses language that suggests the normal return to savings are not taxed when there is a consumption tax. This is clearly false. The tax is paid when income is spent. Obviously there is a difference in the present values of taxes when taxes are paid when income is spent rather than earned, but this does not mean taxes are not paid. The distinction is important when considering the difference between labour income taxes and consumption taxes. Labour and consumption taxes only have the same present value if the discount rate used to calculate present value is equal to the return to savings. This is not normally the case. When the discount rate used to calculate present value is lower than the return to savings, the present value of consumption taxes is higher than the present value of a labour tax. This case is empirically important in the many OECD countries that tax retirement savings using a direct consumption (EET) tax. Relative to the New Zealand situation, these countries have an implicit tax-asset equal to the present value of the future tax obligation on EET-taxed retirement funds, which can be very large both because (i) the funds are large and (ii) the return to these funds is much higher than the government interest rate. In these countries it is plausible that a direct consumption tax lowers the average tax rates needed to meet long term fiscal obligations relative to an income tax system. This possibility is not discussed in the SBRF report, despite the aim of the report to consider long term fiscal issues. Perhaps if section 2 of the paper were better worded the discussion of this issue could be more informative.

   Indeed, the report could pay more attention to the framing of chapter 2. Currently it is framed as if income taxes are the default, and consumption taxes create a tax concession relative to this default. It could be equally framed from the perspective that consumption taxes are the appropriate default, and income taxes cause an additional distortion to saving decisions by reducing the after-tax return relative to the pre-tax return. While the mathematics is the same, the framing is not neutral and the language the IRD uses seems to suggest the additional distortionary effects that occur under an income tax system are welcome.

5. The SBRF report attempts to cover a lot of material. Unfortunately, however, many of its conclusions are simply stated rather than derived. In many ways the report resembles a defense of the current and historic form of New Zealand's tax system, rather than an investigation into different possible tax systems going forward. In the report the belief that there is no need for social security taxes is stated rather than rather than argued, even though these taxes are the major difference between the tax systems of OECD countries and New Zealand. The report states its opposition to direct consumption taxes on retirement savings, but does not argue the case and does not investigate the reasons why most OECD countries have come to an alternative view. The report simply states its belief that a general income tax plus a consumption tax are best (p50) but the reasons for this conclusion are not apparent. The report sometimes focuses on cherry- picked issues of dubious relevance that clearly fascinate its authors (such as its argument that tax-rate on capital income should be non-zero: as far as I know, no one in New Zealand has ever argued that the tax on capital income should be zero,

and no countries have ever adopted a policy of taxing capital at a zero rate) while offering almost no analysis of how its conclusion may be altered in an economy where the implicit income from owner-occupied housing is taxed very differently than the income from other assets. The report provides scant analysis of the relative performance of different types of taxes in different inflation environments, even though it acknowledges this could be an issue. Very few arguments are given justifying its conclusions that New Zealand should adopt a different tax structure than most OECD economies: is this because the rest of the world is wrong?; is there something unusual about the New Zealand economy that mean the tax structures adopted elsewhere would not work in New Zealand?; or do New Zealanders (or their policy makers) simply have difference preferences over outcomes that necessitate a different tax system? The readers of this report will obtain no insight into this question.

It is also notable that the report makes very limited references to the international tax literature, particularly as it concerns long term fiscal issues. There is very little reference to the growing international and New Zealand literatures that use formal over-lapping generations general equilibrium models to better understand the implications of tax systems and retirement income systems on the wider economy, even though understanding long term fiscal issues is ostensibly one of its two major aims. Indeed, there is almost no reference to New Zealand literature unless it has been written by IRD or occasionally Treasury staff. There is not a single reference to any papers written in the New Zealand Economic Papers or the New Zealand Journal of Taxation Law and Policy.

These limitations are serious. Unfortunately, the SBFR report does not appear to be a serious attempt to come to terms with at least one of its major aims – the fiscal pressures caused by population ageing. It provides almost no guidance as to why its authors believe New Zealand should continue to have a tax structure that in many ways is fundamentally different to the adopted in other OECD countries – particularly the lack of a social security tax or a compulsory saving scheme. It appears to be following in the footsteps of the 2001 McLeod Review, the 2010 Victoria University Tax Working Group and the 2018 Tax Working Group in that it ignores the role of social security taxes or compulsory saving systems in most modern economies, even though there appears to be no limitation on its remit to do so. For this reason, I would recommend that it is substantially redrafted to given a greater focus on the types of taxes that may be best suited to deal with population ageing, and to provide more sustained arguments in favour of its preferred policy positions rather than baldly stated preferences about its likes and dislikes.

3. Detailed Comments

Chapter 1.

1.3.15

This paragraph about transitional fairness makes no reference to whether the initial tax conditions were well designed or not. As it is written, it suggests that people should not suffer if they have acted in good faith based on tax rules in place in the past. People may act in good faith to terribly designed tax rules, and suffer when these rules are changed; surely, however, this is not a reason not to change these rules.

This argument is important because New Zealand has adopted at least three tax structures that are different to those used in most OECD countries: New Zealand makes little use of social security taxes; it taxes retirement savings on a TTE rather than EET basis; and it does not tax capital gains. As a result, New Zealand has relatively low taxes on labour incomes and relatively high taxes on capital incomes. In each case there are strong theoretical reasons why the efficiency of the economy would be improved if we moved in the direction of standard OECD practice. Does this paragraph mean New Zealand should not make this attempt because some people will have made investments to take advantage of the current tax system, even though it may be inducing people to behave in ways that are individually rational but nationally inefficient? I would hope not. This issue could be explored further, or else it can be used to justify lock in to poor policies.

1.3.16- 1.3.21 plus box 1.

This section discusses the incidence of the tax. It is useful, but would be better with three additions.

(i) A discussion of the way that prices of other goods and services or factor inputs may change in response to a tax on one particular good (e.g. the price of long-sleeved shirts when t-shirts are taxed). This can have considerable bearing on the overall welfare consequences of a tax on different people, which is directly tied to the incidence of the tax.

(ii) A discussion of the way that general equilibrium models are used in most jurisdictions to attempt to calculate the incidence of taxes, taking price changes into account, and how this often can have major effects on the results of studies looking at incidence.

(iii) A discussion of the way that many authors use an overlapping generations structure within a general equilibrium model to study the incidence of different taxes when population ageing is a major concern. In addition, it is increasingly common to incorporate housing, and a detailed financial structure to model the extent agents can borrow, as this affects incidence as well. It is generally agreed that all three components – housing, overlapping generations, and general equilibrium – are important factors when calculating incidence, because the results tend to change significantly when one component is omitted. A classic reference on this point is Barrell and Weale (2010); a more recent paper is Nakajima 2020. Coleman 2014 explicitly considers the incidence of different tax structures in an overlapping generations model with general equilibrium effects when life expectancy increases. This model is calibrated to the New Zealand economy and by taking into account the effects of different tax arrangements on housing markets it shows housing is a major consideration.

While it is useful to explain the meaning of incidence in this section of the report, the rest of the report often omits discussions of the incidence of different tax interventions. This is a pity, because incidence is obviously a first order issue and the wider literature examining the financing of population ageing makes a lot of effort trying to address it. Personally, I think this is a very serious issue – it is precisely the reason why I developed a sequence of over-lapping generations model of the New Zealand economy incorporating housing markets and a model of taxes and the pension scheme fifteen years ago. It is also the reason why so many international papers develop complex models to study the economic consequences of different tax systems when the population ages. I understand that the IRD has not yet had the time or inclination to develop these models in-house – they have only been used internationally for 30 years, after all - but it does not mean they need to ignore the international literature on this point.

1.3.33

It may be worth noting that since most OECD economies use an EET system for retirement savings, and therefore partially convert their income tax systems into direct consumption tax systems, most OECD countries actually have a progressive consumption tax. This is an important distinction that is missed in this discussion. When you have a progressive consumption tax, you avoid the situation that two people with the same lifetime income but different income patterns will pay different amount of taxes even if they would otherwise have identical consumption streams. In other words, it is possible to improve horizontal equity based on consumption (not income) while still maintaining a progressive tax structure.

The report starts to address this point in Box 2 (p29), but it could actually link it to the practical ways that many other countries implement progressive consumption taxes. Many people (including the inestimable J.S. Mills) have thought on philosophical grounds that consumption is a better basis for taxation than income – for most people consumption is the ultimate goal – and it may be worth mentioning that it is possible to design tax systems that improve horizontal equity on this basis. Incidentally, one of the primary purposes of pension schemes in almost all OECD countries is to help people smooth lifetime consumption by providing them with income when they are older – so designing a tax system that improves horizontal equity measured in terms of consumption rather than income is consistent with most country's welfare objectives. Indeed, consumption smoothing over a life-cycle is one of the reasons why most OECD countries use EET taxation for retirement savings and have social security taxes.

1.3.38

The ratio of tax paid / total income ignores incidence! This is particularly important when considering capital-gains-taxes since asset prices are endogenous to the tax regime. It is notable that the IRD "High-wealth individuals research project" (2023) completely ignored the potential endogeneity of asset prices to tax regimes, and thus ignored how the incidence of taxes on high-income people may be much, much higher than the numbers that were calculated in that report. Perhaps incidence could be mentioned in this paragraph.

1.4.12

Perhaps this paragraph could use the words "real income" when arguing " a

"A comprehensive general income tax levied on both capital and labour income would, in principle, be neutral between the taxation of different forms of income but it would lead to a higher present value of taxes on consumption that is delayed leading to nonneutrality regarding the timing of consumption."

The type of general income taxes NZ uses are not neutral in an inflationary environment, as the paper points out on p55 and 59. It is not good pretending a general income tax is more neutral than it actually is, particularly when consumption taxes are much more neutral when it comes to inflation.

1.4.14

I suspect the literature on Norway provides the best evidence on this point. See Kleven (2014).

Chapter 2 – Overlapping tax bases.

This chapter needs to be much clearer in its use of language. In my view the authors should attempt to point out as frequently as possible that:

(i) the key difference between a consumption tax and an income tax is the timing of tax payments: a consumption tax is generally levied when income is spent and not earned, and this is usually but not always later than an income tax;
(ii) the timing difference affects the present value of the taxes that are collected;
(iii) in some circumstances the present value of different types of taxes are the same, depending on when the tax is paid and the discount rate that is used to calculate the present value.

This chapter does not do this very well. It keeps defaulting to language that suggests tax is not paid on capital income under a particular tax regime 'A' when it actually means that the present value of the taxes that are paid under regime 'A' are the equivalent of the present value of taxes paid under a regime 'B'. These are completely different things. The paper may as well attempt to be accurate in its use of language, because at the moment it is rife with statements that are not true.

Consider the statement in the overview to the chapter (p35)

"Normal return: A labour income tax and a general income tax with an RRA would not tax normal returns. The same is true of a consumption tax, if levied at a constant rate through time. By contrast a general income tax would tax normal returns."

In table 2 (p40) the paper gives an example where this is not true. It shows that tax is paid on normal returns under a consumption tax. It is just they are paid a period later. I suspect what the paper means is that the present value of the consumption tax is the same as a labour tax. This is a completely different idea. The paper really should be clear on this point.

There is no point having a chapter littered with misleading statements. It makes it difficult to understand. Perhaps the authors could add a row calculating the present value of taxes to tables 2 and 3. This might be helpful to an average reader.

2.2.3

" A "normal" or risk-free return is the amount that people require in compensation for putting off consumption without any additional returns to compensate for risk bearing. This can be thought of as the return from a safe interest-bearing asset." (p37)

This simply is not a correct definition of 'risk-free'. A risk free rate is simply a rate that has no risk – preferably defined in real terms. It is not the same as the rate that makes people delay consumption. For a start, different people have different discount rates, whereas the risk-free rate of return at a point in time is a single number. Secondly, this definition requires people to have the opportunity to borrow and lend at the same rates, which is not ordinarily true, and most people cannot borrow at a government interest rate. Many people will save (especially for retirement) even if the real return is zero or negative, given they have low future income-earning possibilities. Thirdly, there is typically a range or schedule of risk-adjusted equilibrium interest rates. This schedule is determined by matching the supply and demand for lending across different risk categories. Since this matching is simultaneously determined by the demand for funds as well as the supply of funds, a "normal" return has no obvious relationship to the compensation necessary for putting off consumption except under specific model conditions that no one believes apply in reality.

Perhaps the report could use a different definition? One that acknowledges inflation might be useful as well.

2.3.4

This definition, which is based on Haig-Simon, is well known to be problematic when wealth changes due to changes in interest rates. Fisher pointed this out in 1907 in his book, "The theory of interest". He considered a hypothetical example where there is a group of people with an asset that generates a constant real dividend (say 1000 apples from an apple tree) over a finite horizon (say 20 years). Consumption by construction is limited to 1000 apples each year. The present value of the asset is the discounted value of the future income stream. Fisher noted that if everyone became more patient, interest rates would fall to the point that they had to be induced to eat the 1000 apples each year – and the fall in interest rates would raise the present value of the asset even though future income streams are unchanged. In this case the income is still 1000 apples a year, and unrelated to "the amount that could be consumed while leaving wealth unchanged." This is clearly a simple example, but the general point is clear: Haig-Simon definitions of taxable income make little sense when changes in the current value of wealth (rather than the future value of income) are due to changes in interest rates that are unrelated to future production.

At a deeper level the issue concerns whether a change in wealth is related to an increase in future income flows (the numerator of a standard present value equation) or changes in the discount rate (the denominator of a standard present value equation), and whether changes in discount rates are related to consumption levels. Sefton and Weale (2008) is a much more modern treatment exploring this issue: and they conclude that the definition is unsatisfactory except under particular conditions.

I have some sympathy to not wanting to complicate this report. But, as indicated above, the report already makes strong assumptions in its use of language, equating whether or not tax is paid on income from savings to whether or not the present value of different taxes is the same (irrespective of whether tax is actually paid or not.) In other words, this whole chapter is predicated on a particular understanding of present value relationships. Since many capital gains reflect changes in present value calculations (denominator issues) rather than the changes in the future value of production, it is incumbent for the authors to be as clear as possible.

2.3.8

Please note that the implicit income from owner-occupied housing is not included in this table. This is consistent with the line on page 38 "*The analysis in this chapter assumes all income is taxed under a GIT"*. Nonetheless, it is well known that the results of the four different tax schemes are different when housing is included, and that this is important because (i) housing is the largest asset class in the economy and (ii) the distortionary effects of different taxes and the relative merits of different taxes vary substantially depending on whether or not housing income is included.

2.42.

Clearer language please. Consumption taxes do tax the normal return to capital. You show this in Table 2 (p40). It is the present value of taxes that is the same, when present value is calculated at the same discount rate as the rate of return. These are very different concepts.

2.4.3.

"It may also be obvious that the GIT would tax the normal return while the LIT and the GITR would not. It is perhaps less obvious that a CT (such as New Zealand's GST) does something equivalent to taxing labour income but exempting normal returns. A CT results in the same after-tax consumption opportunities as other taxes that tax labour income but exempt normal returns. For this reason, we will describe the tax as taxing labour income but exempting the normal return."

This language is better, but the similarity of the tax systems is that while a CT taxes normal returns when they are spent, the present value of these taxes is the same as the present value of labour taxes because the discount rate is equal to the normal return.

It is profoundly misleading to say normal returns are not taxed when they clearly are: the report needs to be specific about when they are taxed.

2.4.8

Perhaps the "the normal return is being taxed *because income is taxed at the time it is first earned, not when it is consumed*".

2.4.10

This language is much better. It describes what is happening.

2.4.11

"….there is no tax on the normal return"

Yes there is. 2.4.11 makes it clear tax is paid in year 1. You mean the present value of these taxes is the same as under a LIT.

2.4.13.

This would be a nice paragraph if it were true. But, as you yourselves point out, a CT does tax the normal return to capital, and it taxes non-normal returns as well. This is not a labour income. It simply has the same present value when the discount rate used to calculate present value is the "normal (risk free) return.

2.4.14

People also get high returns because they get lucky. Two people can make the investments with the same ex-ante risk, but one gets lucky and gets high returns and the other does not. This happens every time Lotto is drawn. The general principle applies to all investments.

2.4.19.

Table 3 is rather misleading and needs redoing. There are two problems. First, the CT column does not have the same real savings as the other columns. This makes the comparison very difficult. Put differently, to have savings of 10,000 under a LIT, GIT, or GITR you need very different income or consumption in period zero than is necessary to have savings of 10,000 under a CT. This makes a comparison of the different tax systems hard to do as they involve different amounts of income and consumption.

Secondly, the present value of taxes is not calculated. When this is calculated it will show that even though a CT has the same consumption as a LIT, the present value of the taxes it raises is higher. This is really important – it shows the so called equivalence of a LIT and a CT only occurs because the present value calculation is made at the "normal" rate of return. At realistic rate of returns, the present value of tax revenues raised is higher under a CT than a LT – which means you can have lower and less distortionary tax rates.

The easiest way to change the table is to

(i) Add an 'income', 'consumption', and 'tax paid' row for year zero at the top of the table.
(ii) Give everyone an income of 12500 in year zero, and zero consumption. Since the three income tax regimes pay 2500 in year zero they have savings of 10000, as in the current table. However the CT person saves 12500 and pays no tax.
(iii) Calculate the present value of taxes at the end of year 1 when there is a 4% rate of return
(iv) Calculate the present value of taxes at the end of year 1 when there is a 10% return.

When these changes are made, if returns are 4%: under a CT the person consumes 10400 in period 1, pays 2600 tax in period 1 and the PV of taxes is 2500, the same as for LIT and GITR.

However, when the return is 10%: under a CT the person consumes 11000 in period 1, pays 2750 taxes in period 1, and these taxes have a PV of 2644.23 > 2500.

In other words, a consumption tax allows the person to consume the same amount as they can under a LIT but the present value of taxes is higher. The present value of taxes is only the same as collected from a LIT if the discount rate is 10%. To get this return, the government would need to invest the money raised from a LIT in a fund that earned the market rate of return. This is possible when a government has a sovereign wealth fund. Nonetheless, to make it happen under a LIT regime the government would have to invest the funds it collects early. The calculations have the implication that a LIT and CT are the same only if the government invests the funds raised at different times in an investment fund. This result is worthy of comment in a report that is about long term fiscal issues. It means a CT can raise address long term fiscal issues better than a LIT unless the proceeds of a LIT are invested in a high yielding fund.

Note that the PV of taxes under GITR under this scenario is 2615: i.e. relative to a CT a GITR has lower present value of tax receipts and lower consumption

Note that under a GIT, the PV of tax revenues is 2692, which is greater than the PV of the tax revenues raised by a CT. However, consumption is 200 less. In other words, a GIT raises $48 revenue at the cost of a loss of $200 consumption. This is a very ugly trade-off. Moreover, it is possible for GIT to earn less than a CT, depending on the tax rates, the term of the investment, and the relative size of the return to capital and the discount rate, so it is possible for the discounted value of taxes paid under a GIT to be less than those under a CT even though there is less consumption as well.

It is apparent from this suggestion that redoing Table 3 opens up the scope for a much more interesting and relevant discussion about fiscal policies than is managed in the report. I recommend this be changed.

2.5.6

This whole section would be better if it included a discussion of social security taxes. Social security taxes are only applied to labour incomes, often up to a certain limit. This means that for people under this limit that marginal tax rates on labour and capital earnings are different. For people above the limit, the average tax rates on labour and capital earnings are different. This is the way that most countries have a dual income tax in practice. It seems very strange this connection is not made at this point in the paper as (i) it is the dominant way dual income taxes are implemented in OECD countries and (ii) it is directly relevant to the overall aim of the paper i.e. a discussion of fiscal issues when then is population ageing.

I will further note again that there is scarcely any discussion of social security taxes in the document, which is truly bizarre given they are the largest single difference in the tax systems in New Zealand and the rest of the OECD. It seems incongruous to ignore them in a discussion of dual income taxes.

Chapter 3

This chapter is quite strange. It appears that the IRD is obsessed with the literature on whether or not the tax rate on capital income should be zero or not. I know there has been a lengthy academic literature on this topic, but no-one in NZ is advocating taxing capital income at a zero rate as far as I can tell, and I don't think it is taxed at a zero rate in any countries. Therefore, this issue is not a practical concern, and may even be a straw man. The real issue is whether capital incomes should be taxed at the same rate as labour incomes. This review really doesn't tackle this properly. The international literature has also identified that a key issue in determining the optimal tax rates on labour and capital incomes is the extent that agents can make investments that are taxed at different rates, for if there are possibilities to invest in lightly taxed assets many agents will do so. There is a considerable literature on optimal tax structure when owner-occupied housing is taxed lightly, but there is no discussion of this literature in the report even though owner-occupied housing is the major assert class in New Zealand, and it is lightly taxed.

Earlier this year I wrote a short (4 page) review of the literature on the determinants of the optimal capital/labour tax structure. I cannot claim the review to be comprehensive – I recommend Spataro and Crescioli 2024 – but I include it at the end of this document both for its references and because it provides a different perspective than that offered in this chapter – one that I believe is much more focused on the key economic issues.

I have a second concern with chapter 3.

On page 50 it is written

"Inland Revenue considers that an income tax (general or dual) and a consumption tax provide an appropriate paradigm for main bases for New Zealand going forward. This combination results in a system where labour income and economic rents are taxed at the same rate. Having both an income tax and a consumption tax allows normal returns to be taxed at a lower rate than would be the case if there was only an income tax (for the same revenue level)."

I cannot see how the report derives this conclusion. It appears a matter of assertion. The paper scarcely considers social security taxes or a compulsory saving scheme, yet it somehow concludes that the dominant form of taxing used in most OECD countries to deal with population ageing is inadequate. Statements of beliefs are not arguments. There is no real evidence offered to support these conclusions. At a very least this report should have arguments why the dominant tax structures used in most countries are not appropriate in New Zealand. Why is New Zealand so special? Do we have abnormally insightful tax analysts at the IRD who see issues so much more clearly than those in every other country and can see the folly of the taxes used in these other countries? Then let these geniuses explain their reasoning so that the whole world will benefit. Is it because the New Zealand economy is different in important ways that means the taxes used elsewhere would not work here? Then tell us why. Is it because New Zealand people – or New Zealand governments – have different preferences than people overseas? Then show us the evidence. No matter what is changed in a redraft, make sure that readers can tell that the views expressed in this report are not simply the preferences and biases of a few public sector employees working for the IRD. The report should provide reasons for its conclusions so the readers can follow and analyse the logic.

The report notes that the single biggest difference between the tax systems of New Zealand and other OECD countries is social security taxes (and it should add “either social security taxes or a compulsory saving scheme.”). It then proceeds to ignore this fact. This really isn’t good enough.

3.2.2

There may have been academic debates about taxing capital income at a zero rate, but no-one does this in practice.

3.2.4

There is a literature on age-specific taxes. These provide an alternative route to taxing people who on average have higher capital incomes than higher generalized income taxes. This could be as simple as an age-specific social security tax surcharge on people aged over 50, as is the case in Switzerland. Given that population ageing is ostensibly a major concern to this paper, the idea possibly should be raised.

3.4.10

Many of these results are dependent on very specific assumptions. In particular many of the models assume there is a single type of capital and even if different people have different tax rates all capital income is taxed at a similar rate. Models with more than one type of capital (especially housing) show the results of these models can be quite sensitive to these assumptions. See the papers reviewed in the Appendix. In addition, there is evidence from careful empirical studies that high income people can often find investments that avoid high capital income taxes, suggesting these concerns are likely to be important in practice.

3.4.11

It is useful to clarify what the report means by “some taxation of normal returns”. As noted above, consumption taxes do tax normal returns – but only when the income is consumed. I assume this is not what the report means. But their lack of clarity in section 2 means it is unclear what they mean here.

By the way, Coleman 2019 (in a response to the Tax Working Group) made the argument that capital income could be taxed at lower rates than labour income, and specifically suggested the use of social security taxes to do this. It is nice to see that the IRD is coming around to support the intrnational literature.

3.4.15

Perhaps in the interests of full disclosure you should note that Gerritsen et al have two different models. In the first model, they show the optimal tax for capital income is non-zero but lower than the optimal tax for capital income for all people. In the second model they show that the optimal tax on capital income for low income people is non-zero, higher than the tax on labour incomes, but also much higher than the optimal tax on capital incomes for high income people. Do the authors of this report really advocate that the KiwiSaver earnings of low-income people should be taxed at much higher rates than the KiwiSaver earnings of high-income people? Do you really expect that to be politically acceptable? This is the problem with focusing on the question of whether zero is the right tax rate for capital income. It avoids talking about the more practical and interesting issues.

3.5.7

Some direct CT regimes also tax capital gains automatically when income is spent. This is one of the obvious benefits of an EET regime for retirement income savings: all investments held within a specified retirement saving account are taxed in the same fashion, so capital gains are taxed at the same rate as other forms of capital income (and these taxes are levied when money is withdrawn from the fund).

3.5.12

Inflation is an important issue for tax design, particularly when the implicit rent from owner-occupied housing is not taxed but capital income is taxed on an income tax basis. In these circumstances there is a major incentive to over-invest in owner-occupied housing.

It would be useful for the report to note that inflation is largely a concern for people who invest in interest-earning assets – the type of investment favoured by less sophisticated and more risk averse investors, and often older people. For some reason New Zealand has chosen a tax regime that is extremely unfavourable to these investors, who are likely to be a growing fraction of investors as population ageing occurs. It would be interesting if the report included an explanation of why the IRD has traditionally considered it desirable to tax older, less-sophisticated, and risk averse investors at higher rates than other classes of investors. Is this an attempt to implement the findings of Gerritsen et al discussed in 3.4.15??

3.6.4

"For example, targeted exemptions for retirement savings conflict with the fundamental decision to maintain income taxation and create new distortions while retaining others."

This paragraph is extraordinary. A large majority of OECD countries offer "targeted exemptions for retirement savings" by taxing dedicated retirement savings on an EET basis. This paragraph manages to ignore the experiences of these countries – and it avoids discussing the economic issues as to why an EET tax regime may reduce rather increase distortions when (i) there is inflation and (ii) owner-occupied housing is taxed on a TEE basis. This is simply is not good enough. There may be good reasons why an EET regime for retirement savings accounts are not a good idea. The authors of this report should explain them in detail, given the wealth of experience from other countries. They do not explain them at all. It is as if the world outside New Zealand does not exist.

At the very least, the authors should avoid the circular argument that they have made that amounts to saying since we have already made "the fundamental decision to maintain income taxation" we shall not discuss any other possibilities. As an exercise in logic, this is simply nonsense. It is an exercise in simply stating an existing set of preferences – or biases – without any argument whatsoever.

At the beginning of the report, it is said that a major focus of the report is the fiscal pressures associated with an ageing population. Given this, one might have expected a more elaborate discussion of EET retirement saving taxation than a flippant one-line dismissal. An EET tax system delays the payment of taxes on retirement savings until people are actually older, and thus it induces a closer match of taxation receipts with pension payments. The authors of this report seem to think that this is of such little consequence that they do not even deign to discuss it. Moreover, when the rate of return to investments is sufficiently higher than the government discount rate, the present value of taxes raised under a consumption tax can be higher than the present value of taxes raised under an income tax, even though the time that the tax payments are made is delayed. So it is at least possible that using TTE income taxes to tax retirement savings raises less money in the long run than using an EET scheme. I would have thought working out the conditions when this is possible would warrant more than zero lines in a report allegedly interested in the long-term fiscal pressures associated with population ageing.

The size of these amounts is non trivial. Isaksen et al (2014) make some calculations about the size of the implicit tax asset "owned" by that countries that use EET taxation for dedicated retirement savings accounts. It can be very large, well over 50% of GDP. It is one of the reasons why New Zealand has less government debt than many other countries: since it changed from an EET to a TTE tax system in 1989, it has collected taxes on retirement saving contributions earlier than they are collected in other countries, and thus has less debt – but it also does not have an implicit tax asset equal to the tax owed on EET retirement savings accounts either.

3.6.5

This is a statement of beliefs, not a proper comparative discussion of different tax approaches. There is no discussion of social security taxes, or acknowledgement that they are a means of introducing a dual tax system.

3.7.2

It is not necessarily the case that *" Removing taxes on normal returns would remove a source of revenue when New Zealand has rising pressure on revenue and would benefit those with wealth."*

If the country replaced some of its income taxes with a higher indirect or direct consumption tax, (and this was considered "removing taxes on normal returns") it is possible the present value of tax revenues could be increased. It would be useful if the paper could work out whether these conditions apply, particularly as this seems to be the strategy of a majority of OECD countries.

Chapter 4.

Due to time limitations I do not have many comments on chapter 4. My major comment is that the chapter makes scarcely any reference to the incidence of capital gains taxes. It is strange because economic theory suggests that the tax regime affects asset prices. This was one of the major reasons why Samuelson advocated capital gains taxes in his 1964 paper: that if you have an income tax without a capital gains tax, the prices of assets are affected. Most modern models examining the effect of taxes on housing markets make some attempt to endogenise housing prices (and the amount of housing construction, and land prices) as a function of the tax regime and tax rates. My own work (commissioned by the IRD in 2010 and 2018) does this and suggests that the response of house prices to tax regimes significantly affects the incidence of tax. I can understand why the IRD may not like this work – it is a model, so has simplifications – but most international models generate qualitatively similar results (In any case the IRD has never bothered to calculate develop alternative general equilibrium models of the interaction of housing markets and the tax system, so it is unclear what their reference point is.)

The endogeneity of asset prices to tax regimes does not just affect house prices: it may affect all asset prices. The report clearly thinks tax incidence is an important issue in some places (see section 1.3.16) so it is strange it is ignored at the point where it is possibly most important.

4.3.17

This point entirely ignores how the incidence of taxes affect these calculations. The paper on high net worth individuals (Inland Revenue 2023) is incredibly misleading since it ignores tax incidence: standard theory suggest that the capital gains people may have earned from asset price increases are endogenous to the tax regime, and it is conceivable that people will have earned higher capital gains (and paid tax on these gains) if New Zealand had a capital gains tax. The incidence of our current tax structure may fall on the owners of capital even if they do not pay a capital gains tax, because they receive less when they sell their assets as the future tax obligations on these assets are higher.

4.3.18

Without a discussion of incidence, these comparisons are pretty meaningless. It is fairly obvious that wealth is highly unequally distributed. However, without calculating the incidence of taxes nothing serious can be concluded.

4.3.28

It would be useful to examine the variability of effective tax rates further. It would be especially useful to examine how this variability might be altered under different tax regimes, particularly those used commonly overseas: ie tax regimes where social security taxes raise a large amount of tax; regimes where compulsory savings schemes are used to fund retirement incomes; tax regimes where there is a capital gains tax; and tax regimes where retirement savings are taxed on an EET basis. There is much less point just doing the exercise for the current tax system. Any study should attempt to take the incidence of different tax regimes into account. General equilibrium over-lapping generations models are the standard tools used to do this.

Chapter 5

Direct Expenditure taxes.

5.3.14

"A DET could also be partially implemented by allowing a deduction for certain forms of savings such as retirement savings. This would, however, result in non-neutralities across different forms of savings."

It is staggering that the authors of the report think that this one line is sufficient to avoid a discussion of the most common way that retirement savings accounts are taxed in most OECD countries. Are they the fortunate recipients of information that explains why most OECD countries have made a catastrophic mistake? Have they developed extensive models incorporating owner-occupied housing and retirement savings that show the non-neutralities of an EET system for taxing retirement savings create worse non-neutralities than the current system? Have they worked out the range of inflation rates under which the neutralities of the current system may be worse than an EET system? Have they published a rebuttal of the Kaldor's 1955 book "The expenditure tax"? Have they corrected the mistakes in the 1988 report " The tax treatment of Superannuation" in light of the experience of the last 30 years? I have not heard they have done any of these things, let alone all of them. Consequently, I cannot imagine how they think this is an adequate treatment of EET tax regimes for retirement savings which are, as I have stated several times already, the most common regime for retirement savings in the OECD. Of course "common" does not make it right. But if we are rejecting a very commonly used tax method, indeed they primary way that direct expenditure taxes are implemented around the world, the authors should probably attempt more than the one-line dismissal presented here without any evidence whatsoever.

Box 7 (p97) The authors may wish to note that the present value of taxes under different methods will depend on the relative size of the return to capital and the discount rate, as well as the tax rates and the maturity horizon. The case that they are equal is not general.

5.3.21-5.23

It is pleasing that the IRD is now discussing the Hall-Rabushka flat tax and the Bradford X-tax. It is strange that greater consideration is not given to the Hall-Rabushka tax, which appears to have none of the implementation difficulties that the X-tax is alleged to have. Perhaps the "bravest of revenue authorities" are really very timid. As Josiah Stamp famously observed, most tax departments consider all tax changes "impractical" until they are actually introduced and shown how to work. [1] Hall and Rabushka may have vested interests in promoting their own scheme, but their book addresses many if not most of these "impractical" issues and suggests they are not.

This is important, because it might be possible to make a Hall-Rabushka flat tax scheme the primary tax base, supplemented by an incentive-compatible social security tax or compulsory saving scheme, and perhaps a small income tax surcharge on very high incomes. This would be progressive, much less distortionary than our current tax system, ostensibly easy to administer, but, apparently also of such complexity it would intimidate the "bravest of revenue authorities". Has the IRD actually done any work estimating these difficulties, or is this another occasion where their beliefs and biases are a substitute for reasoned argument?

5.3.24
Once again, this report seems to think it is sufficient to state beliefs and considerations rather than defend them. The problem is that many OECD countries have come to a different conclusion, by the way they use an EET approach to implement Fisher direct consumption taxes. The report should argue why it believes a system that has been in use for decades in most OECD countries is not suitable for New Zealand. There could be reasons; but they are not given.

Unfortunately, it is all to easy to believe that the main reason why this report does not discuss this issue at greater length is the possibility that the "bravest of revenue authorities" might have to admit they made a mistake in 1989 when they adopted a TTE approach to retirement saving. It would be a pity if future generations of New Zealanders suffered under an inefficient tax system, simply because a small number of officials did not want to properly discuss a tax regime commonly used around the world because they rejected it in haste three decades ago.

5.4
I think this section provides a particularly valuable contribution to the report. Please accept a bouquet.

Chapter 6.

6.1.3

"However, as noted in the Overview, Inland Revenue considers that the best strategy to meet changing revenue needs over time is to have a stable core structure of main tax bases that comprehensively taxes the factors sought to be taxed, and to meet changing revenue needs by adjusting tax rates on those bases rather than by adding new bases."

This is a statement of belief, not an argument. No justification is given for these beliefs. In particular, no justification is given for why we do not have social security taxes or a compulsory saving scheme, unlike almost all other OECD countries. This is simply not good enough. The report identifies it as the single biggest difference between our tax system and the tax systems of the rest of the world, yet makes almost no attempt to explain why the IRD believes we should maintain this difference.

[1] Friedman also famously told the story of how with-holding income taxes were introduced upon his recommendation during World War 2 over the nearly-dead bodies of US tax officials, as they said it wouldn't be possible. Hah!

6.3.9 and Box 8.

This is simply inadequate coverage of social security taxes and compulsory savings scheme. The report argues one of its two key objectives is to look at the long-term consequences of population ageing, it acknowledges that the single largest difference between the tax systems of New Zealand and the rest of the world is the absence of social security taxes or compulsory savings schemes to fund retirement incomes and then……has almost no discussion about why we are different.

Where are the discussions about the reasons why social security taxes or compulsory savings are incentive compatible, as they tie future benefits to current taxes, and thus reduce distortions (Disney 2004;McGratten and Prescott 2017; Börsch-Supan and Cole 2020)?

Where are the discussions about the ways income tax systems can raise long term wealth inequality by altering the distribution of bequeathable incomes (Gokhale et al 2002)?

Where are the discussions about the way social security taxes can change the incentives to supply labour? For example, Gustafsson (2023) provides an extensive discussion of the way the adoption of social security taxes and a pension system that offers pensions that are increasing in lifetime income can simultaneously increase aggregate labour supply and reduce life-cycle inequality?

Where are the discussions of the way a social security tax drives a wedge between the tax rates on labour incomes and capital incomes in a manner that reduces the incentive to reclassify income from labour to capital, thus implicitly introducing an incentive compatible dual income tax system?

There is a vast literature on the economics of social security systems, and this paper ignores almost all of it. Given that one of the two key aims of the report is to discuss the fiscal pressures from population ageing, this fundamentally weakens the structure of the whole paper.

6.6.7

There is some nice evidence on the capitalisation of land taxes into property prices from Denmark and Texas that cuts through many of the econometric difficulties. See

Palmon, O., & Smith, B. A. (1998). New evidence on property tax capitalization. Journal of Political Economy, 106(5), 1099-1111.

Høj, A. K., Jørgensen, M. R., & Schou, P. (2018). Land Tax Changes and Full Capitalization. *Fiscal Studies*

Land taxes applied to urban land have two other advantages. First, the value of land in an area typically depends on the amenities and investment decisions made in the surrounding neighbourhood, and is little affected by the improvements made by the owner of a plot of land. This is less true for rural land, where the land value often does reflect the value of an owner's improvements. Thus land taxes on urban land tend to be incentive compatible, whereas those in rural areas (i.e. farms) are less so.

Secondly, the value of land is often related the value of local leisure-consumption amenities (e.g. a nice view or a walk along a close beach). Since consumption and income taxes both favour leisure over goods consumption, land taxes can reduce the distortionary effects of taxes on leisure-labour decisions by taxing a complement to leisure.

6.6.13

The horizontal equity issue would be more pronounced if the value of implicit rent from owner-occupied housing were directly taxed. It is not taxed in most (but not all) countries, including New Zealand; in these circumstances a land tax improves rather than diminishes horizontal equity.

Chapter 7

No further comments.

Appendix 1: The optimal taxation of capital income

The appropriate ways to tax capital and labour income has been extensively debated ever since the foundational work of Mirrlees (1971) and Diamond and Mirrlees (1971a, 1971b). For historical reasons, much of the literature has been framed around three perspectives: (i) whether the appropriate tax rate on capital income is zero or positive; (ii) the relative importance of efficiency and redistribution motives in determining the types and the rates of taxes used to tax capital and labour incomes; and (iii) the relative merits of taxing capital income when it is earned rather than when it is spent. These debates have been particularly active in the last two decades, partly in response to a significant increase in income and wealth inequality in many countries.

In the 1970s and 1980s several academic papers derived conditions where the appropriate tax rate for capital incomes was zero. These conditions were always somewhat restrictive, and in recent years academic economists have increasingly rejected the contention that capital income should not be taxed (see Piketty, Saez and Zucman (2023) or Spataro and Crescioli (2024) for recent reviews). In practice, almost no countries have exempted capital incomes from tax, although most countries tax capital incomes at lower rates than labour incomes. There are both efficiency and redistributive reasons for taxing capital incomes at positive rates. From an efficiency perspective, taxes on labour income have the potential to reduce the number of hours people work, or change the types of work they do, and thus reduce taxable income (Feldstein 1995, 1999). Since taxes on capital incomes raise tax revenue, positive capital income taxes allow reductions in labour income taxes and the distortions they induce. Consequently, the decision to tax capital incomes at a different rate than labour incomes involves a tradeoff between the distortions that taxes on capital incomes cause, the distortions that taxes on labour incomes cause, and any distortions caused by taxing labour and capital incomes at different rates.

There are several potential reasons why capital incomes should be taxed at non-zero rates for efficiency reasons. The first is that many people have a strong desire to save for retirement and, so long as all capital income is taxed at a similar rate, high taxes on capital income will have relatively little effect on the amount of saving but will allow labour taxes to be reduced to encourage higher labour force participation (Cosena, Kitao, and Krueger 2009). This is particularly true for higher income people who wish to maintain high levels of consumption after they stop working, for they will be willing to accumulate assets while working and hoard assets during the early stages of retirement despite high tax rates. Secondly, people have widely different returns to saving and these returns are positively and systematically related to the amount of labour income people earn: in essence, some people possess talents that make them high income earners and good investors (Gerritsen et al 2025) To the extent that a person's ability to choose high returning investments is unrelated to the tax system, taxes on capital incomes will not distort investment returns. These taxes are often called dynamic Mirrlees taxes as they are designed to tax unobserved features of a person's character that are highly correlated with income but not affected by tax rates (Mirrlees 1971). Thirdly, it can be easy for some agents, particularly the self-employed, to reclassify income as capital income if the tax rate on capital income is substantially lower than the tax rate on labour income (Piketty, Saez and Zucman 2023), although this problem can be addressed using suitable monitoring systems (Kleven 2014). For all of these reasons, and others, taxes on capital incomes can be efficient as they allow reductions on labour income taxes.

Various models have been used to quantify the size of tax rates on capital and labour in different conditions, but there is little consensus about the relative size of these taxes as the results often depend on particular modelling assumptions. In their overlapping generations model where all types of capital are the same and people have a high demand for retirement savings, for instance, Contesa Kitao, and Krueger (2009) calculate that optimal tax rates on capital incomes should be constant, in excess of 30 percent, and significantly higher than those on labour incomes. Conversely, in a model where investment returns are perfectly correlated with labour incomes, Gerritsen et al (2025) calculated that optimal taxes on capital incomes should be several percent lower than optimal taxes on labour incomes, and increase with income. They also calculated in a model where the return to capital is increasing in the size of the investment that the tax rate on capital incomes should be lower than the tax rate on labour incomes for high-income people, but the tax rate on capital incomes should be lower than the tax rate on labour incomes for low-income people. In these models the results depend on the assumptions about how quickly people and firms can substitute from one activity to another as their prices change, which depends on the factors that are included and excluded from the models.

A crucial assumption in many of these models is that all capital income is taxed at the same rate. There are very different results when some forms of capital incomes are taxed at different rates than other forms of capital incomes, for then people have an artificial incentive to switch from one asset class to another. A major concern occurs when the implicit income from owner-occupied housing is taxed at very low rates, which is the case in New Zealand and most other OECD countries. In this case the taxes on capital incomes distort the type of investment people choose to make, even if it has relatively little effect on total savings amounts. Using a similar model to Conesa, Kitao, and Krueger (2009) Nakajima (2020) showed the optimal tax on capital income dropped from over 30% when housing was ignored to under 5% when it was included in the model. Results of this type suggest the optimal tax rate on capital incomes is very sensitive to the opportunities that people have to invest in lightly taxed investment classes, and may be quite low if important asset classes such as owner-occupied housing are taxed at low rates.

Even when it is efficient to tax capital incomes at lower (but non-zero) rates than labour incomes, governments that want to redistribute resources from high income to low income households may wish to tax capital incomes at similar or higher rates than labour incomes because capital incomes are particularly unequally distributed (Piketty, Saez and Zucman 2023). Saez and Stancheva (2018) derive formula quantifying the optimal tax rates on capital and labour incomes in a simple theoretical setting. They show that when the government wishes to redistribute income from high income to low income households and capital incomes are more unequally distributed than labour incomes, the optimal tax on capital incomes is higher than the optimal tax on labour incomes if (i) the elasticity of taxable income with respect to capital and labour taxes rates are equal and (ii) all capital income is taxed at the same rate. Neither of these assumptions is likely to apply in New Zealand or most OECD countries, however. First, the New Zealand government (like the governments in most OECD countries) tax the implicit income from owner-occupied housing differently than other capital income, which can substantially reduce the optimal tax on other capital income, as Nakajima (2020) showed. Secondly, while it is notoriously difficult to estimate the long run elasticities of taxable income to labour and capital income tax rates (Saez, Slemrod and Giertz 2012), the best evidence from very careful studies in countries such as Denmark and Spain suggests that the elasticities of taxable income with respect to capital income tax rates are higher than elasticities with respect to labour income tax rates. (Kleven and Schultz 2014; Almunia and Lopez-Rodriguez 2019). Moreover, the elasticities of taxable income to capital income taxes appear to be substantially higher for high income people than for others, presumably because they find it much easier to select investments that have lower tax rates (see, for example, the evidence concerning Denmark in Jakobsen et al 2020). For both of these reasons, it is plausible that governments whose citizens have many opportunities to invest in lightly taxed asset classes may may also want to tax the income from other asset classes at low rates, even if they have strongly redistributive principles. This is exactly that approach adopted by Scandinavian countries (Kleven 2014).

In practice, whether or not capital incomes should be taxed at a zero-tax rate is a question that has caused few governments to lose sleep. In most countries some capital incomes are taxed, although often at lower rates than labour incomes. A more pertinent question would appear to be the best way to tax “easily-taxed” capital incomes when it is easy for households or firms to substitute towards lightly-taxed forms of capital. Over the last fifty years many governments have switched towards various forms of consumption taxes, as (i) consumption taxes distort investment and saving decisions less than income taxes, as they do not drive a wedge between the pre-tax and after-tax rate of returns; (ii) consumption taxes can be difficult to avoid irrespective of the type of investments people make and (iii) they apply evenly to all forms of capital incomes. Most OECD countries have adopted

"Exempt-Exempt-Taxed" (EET) taxation of retirement income savings as well as indirect value added taxes, in part because this reduces the difference in the effective taxes on housing and other forms of capital incomes, and in part because it is a means of making consumption taxes more progressive. This is very similar to the reasoning used by Kaldor (1955) to argue that pensions savings should be taxed on an EET rather than TTE ('Taxed-Taxed-Exempt') basis, to put them on a more equal footing with the way that owner-occupied housing is taxed.

While the literature emphasizes that the mix of taxes on capital and labour incomes depends on the long run elasticities of taxable income to labour and capital income taxes, it also emphasizes that these elasticities depend on the whole structure of a country's tax, retirement income, and welfare systems (Slemrod 1995; Saez, Slemrod and Giertz 2012; Kleven 2014; Gustafsson 2023). When it is difficult to shift income from a heavily taxed form to a lightly taxed form, either because income reporting is tightly monitored or because similar types of income are taxed at similar rates, taxable income elasticities are likely to be low. When similar classes of income are taxed at different rates, taxable elasticities are likely to be high. Empirical evidence from Denmark, for instance, shows very clearly that when the tax advantages of owner-occupied property relative to other forms of capital income are reduced, high income people purchase smaller houses and spend less on housing (Gruber, Jensen and Kleven 2021). Various models suggest that social security schemes that link pension entitlements to labour income tax payments reduce the extent that labour taxes reduce labour supply (McGrattan and Prescott 2017; Gustafsson 2023).

Many of the more theoretical results in the literature have suggested optimal tax structures and optimal tax rates that look nothing like that structures that countries adopt in practice (See Diamond and Saez (2011) or Piketty and Saez (2013) for general discussions of this point.). For example, dynamic Mirrlees models suggest it is optimal to tax easily identified "tags" such as personal height that are positively correlated with income, even though very few of these taxes exist in the real world. This raises questions whether models that argue capital incomes should be heavily taxed because they help identify innate ability are likely to be optimal in practice, given the reluctance of populations to support "tagging" taxes. Similarly, theoretical models emphasizing redistribution often suggest optimal tax rates on capital and labour incomes that are far in excess of the taxes adopted in practice. The differences between the taxes most countries adopt in practice and the taxes advocated by theoretical models are often used to argue (i) analysts should avoid considering "optimal" tax structures that are known to have little likelihood of being politically sustainable and (ii) analysts should take seriously the possibility they may have omitted important factors from their analytic frameworks if they generate "optimal" taxes rates that are very different from those routinely adopted in most jurisdictions. Given its modern history of taxing capital incomes very differently from the ways they are taxed in most OECD countries (for example: limited use of capital gains taxes; very limited use of social security taxes on labour incomes to raise funds, combined with an absence of mandatory contributions to retirement savings schemes from earnings; and the use of TTE rather than EET taxes for retirement income savings accounts), it is possible to wonder whether this advice has been ignored in the debates about the appropriate form of taxes on capital incomes in New Zealand.

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Appendix 2: Tax and retirement income papers written by Coleman

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Kia ora,

Thanks for the opportunity to comment.

I broadly support the intention and the direction of this policy consultation.

Q1. I believe what is called sometimes social licence is a key attribute. People need to understand and broadly support tax system.

Q2. Since we bought our house, it has tripled in value. None of that is taxable. In that time what we have earned in income is much less and is, rightly, taxable. I believe aspects of the tax system are contributing to very major distortion in house prices relative to earnings. Therefore I advocate IRD keep developing modest proposals to tax capital gains, especially from housing and non economically productive assets. Aim low to create future base for further tax increase if needed.

3. Existing taxes should continue at similar levels with targeted measures for food for people in need. I believe excise taxes on fuel and drugs should slowly rise, subject to how much distortion is happening. New taxes like capital gains, wealth and land tax should be brought in at very low levels to gain understanding and acceptance.

It's possible that New Zealand's needs will greatly increase in the future. For example climate related disasters, earthquakes or overseas military needs.

It would be beneficial to increase taxation gradually from now so as to be in much better position to address future needs.

I'm not sure if this next suggestion is in scope. It would beneficial to keep increasing required retirement savings and to gradually introduce a high means test on Superannuation starting say at an income of $200,000.

All the best with this work!

David Hopkins

Submission on the Inland Revenue long-term insights briefing
1 September 2025
Max Rashbrooke, senior research fellow (adjunct), Victoria University of Wellington

This brief submission directly answers the Inland Revenue's key questions (p.9) then makes a few extra observations. Overall the LTIB is a useful and thoughtful piece of work that adds to our conception of the options for the future of the tax system, even if I think in key places it could be improved. As ever, my submission focusses on the latter, but that should be read in the context of an overall appreciation of the work carried out here.

KEY QUESTIONS

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

New Zealand's long-running average of taxation at 30% of GDP means it is underfunding public services considerably compared to OECD countries that levy tax at 35% or 40% of GDP. Increases in the overall amount of taxation are sorely needed right now, even without taking into account the greater needs anticipated in future. However, low-income New Zealanders already struggle to maintain a decent standard of life, so the increases in tax will need to come from middle- and, in particular, higher-earners.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

It depends how narrowly 'income' is defined. There is an urgent need to include capital gains and inheritances as part of the 'income' that is taxed in the New Zealand system. Conversely, there is already excessive reliance on GST, given its regressive nature.

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

See above. In addition, the advantages of wealth taxes are probably stronger than the briefing indicates. Such taxes should be potential candidates for inclusion in our tax system.

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

It would surely be difficult to argue that the system should be designed *without* the flexibility to adapt; the point of this question is not entirely clear.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

See above.

Q6. What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

No strong views.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

No strong views.

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

I discuss this in detail below but, briefly, I am sceptical that such an offset would be easy to implement effectively or politically durable. I also think that the whole idea of increasing GST is misconceived.

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

See above.

ADDITIONAL POINTS

Introduction

pp.11-12 – The briefing correctly notes that New Zealand's tax take, when appropriately adjusted, is already below the OECD average. If possible, it would be useful and interesting to show where the current government's stated ambition of reducing the tax take to around 30% of GDP would place us on Figure 2 (assuming that number is comparable to the other data in the graph).

13 – The briefing repeats the widely held belief that New Zealand has a broad-based, low-rate tax system. Yet the absence of comprehensive taxation on income in the form of capital gains or inheritances, combined with the absence of a net wealth tax, suggests that the base is not in fact broad, compared to that used in other countries. (Meanwhile the 39% top tax rate is arguably not 'low' either.) It would be worth at least a footnote pointing out that the above widely held belief is incorrect.

14 – The overall strategy outlined by the Revenue here – comprehensively taxing the factors sought to be taxed, with the flexibility to alter the rates – seems sound. The same cannot be said of the phrase, "If a new base is considered desirable … it likely makes sense to add that base to the current structure and reduce revenue from other bases." This presupposes that new taxes/bases should be offset with cuts to taxes/bases elsewhere. But there is no inherent reason why this should be so: plausibly, New Zealand needs more tax from all sources if it is to solve

public problems and maintain public services. The Inland Revenue should not be embedding a (relatively) low-tax ideology in its work.

Chapter 1

30 – While the distortionary costs of taxation may be real, this discussion – as with most such discussions – seems unbalanced. Taxpayers may incur a (potentially quite minor) wellbeing loss if taxation leads them to buy fewer t-shirts, but what about the (potentially quite major) wellbeing gain from that taxpayer being able to access life-saving, taxation-funded health services? The discussion seems premised on the idea that private consumer choices are inherently superior to state-based ones, such that any deviation from the former represents a 'loss' – but this is an ideological view rather than an empirical one.

32 – The briefing notes Feldstein's belief that "a small increase in income tax rates can reduce the income tax base because people decide to work less", but not, for instance, the later research by Stantcheva et al. that suggests that revenue-maximising top income tax rates are in the realm of 50-80% in developed countries. The disincentive effects of (top) income taxes, in other words, may generally be overstated.

Chapter 3

53 – The briefing notes: "Labour income comprises the largest part of New Zealand's direct income tax base and is economically taxed under GST as well." This suggests that labour income is, to use a common term, 'double-taxed'. Since this situation does not apparently cause any concern, presumably arguments that a net wealth tax of CGT would represent 'double taxation' should similarly be cast aside.

The briefing also argues: "Successive New Zealand Governments have used personal income tax as the primary instrument to achieve progressivity objectives." Yet clearly this has not worked very well, given the Revenue's 2023 finding that the wealthiest New Zealanders pay half the effective tax rate of averagely wealthy ones.

60-1 – The briefing is right to be sceptical about arguments for reducing or eliminating taxation on normal returns. In particular, it would likely be highly regressive, as the briefing correctly notes.

Chapter 4

74 – Regarding the discussion of 'double taxation' via a CGT, I refer to my note above on p.53.

75 – The briefing argues: "From an efficiency point of view, the case for CGT therefore largely depends on the relative distortion from the misallocation of labour and capital from certain activities being tax preferred versus the misallocation of capital that arises from the lock-in effect and asymmetries in the tax treatment of gains and losses." But it has not provided any evidence that the latter issues are at all significant.

77 – The briefing argues: “If a CGT were applied to the future gains of existing investments, then government is effectively changing the after-tax return on an existing investment.” This does not seem an especially compelling concern. Every new tax, surely, effectively changes the after-tax return on existing investments in some shape or form. A higher top income tax rate, for instance, changes the after-tax returns on people’s human capital, as represented by the salary they earn from their capabilities. If the above concern were significant, it would be extremely difficult to introduce any taxation at all.

91-2 – The briefing is correct to conclude that more comprehensive taxation of capital gains could provide a meaningful increase in revenue to meet long-term fiscal pressures. It is on less solid ground, however, when concluding: “There are, however, difficult trade-offs with a CGT and the appropriate scope of capital gains taxation depends on balancing several factors. While a CGT would reduce opportunities for income sheltering and reduce distortions in the allocation of savings, capital gains taxes create costs through lock-in and provide a penalty on risk-taking. Capital gains taxes can also have relatively high compliance costs.” While this is not absolutely wrong, it appears to overstate the downsides of a CGT. The experience of virtually every other OECD country suggests that the trade-offs of introducing a CGT are not especially “difficult”. Even if a CGT does create lock-in costs and penalties for risk-taking, the briefing has not produced any evidence that those issues are significant in any way. It is hard to see, therefore, how it can claim the trade-offs are “difficult”. Surely much stronger evidence would have to be adduced in support of that claim. Conversely, the benefits of a CGT – notably, increased revenue and much greater fairness between salary-earners and capital-gains-receivers – are immense.

Separately, the briefing is right to conclude that alignment of the company tax rate and top personal tax rates is not necessary. Other countries, after all, have much greater disparities between those rates, yet manage to levy greater tax revenue (overall) than New Zealand does. This suggests that the mechanisms needed to police the disparities are not overly burdensome nor complex.

Chapter 5

104 – The discussion of the potential to increase GST, in conjunction with an income-tested offset, is an interesting and thoughtful one. It is too sanguine, however, about the government’s ability to target such an offset adequately and effectively. First, as is partially noted on page 103, ‘low-income’ families are, like all families, heterogenous. Although most will, almost by definition, be spending all or virtually all of their income, some may be spending significantly more than others. This means they may not be adequately supported by an offset. Second, income by itself is an important but inadequate measure of ability to pay. As Bryan Perry’s annual Household Incomes Report for MSD demonstrates, many ‘low-income’ families are not in material hardship, i.e. lacking basic things; conversely, many of those in material hardship are not in low income. This raises significant questions about whether an offset targeted only on an income basis would reach the households it needs to reach. Third, as my own research into wealth inequality has shown, ‘low-income’ families can vary significantly by their levels of wealth; some may be able to absorb an increase in GST far better than others, by smoothing their consumption, borrowing against their wealth, or other means. Fourth, just targeting an offset at benefit recipients (including superannuitants) would have all the problems noted in the briefing, as well as ignoring the substantial issues for the working poor. Fifth, the briefing

proposes (as I understand it) a sharp cut-off in ineligibility for the offset, taking effect the moment a family earns over 60% of equivalised median household income. But this would surely produce bizarre and untenable 'cliff face' effects, as a family a few dollars over the threshold would lose entitlement to a $650 offset paid to essentially identical households just below the threshold. To be workable, the offset would have to abate gradually, in the manner of Working for Families – but with all the attendant complexity.

There are other problems with the offset proposal. For one, the briefing is concerned throughout with efficiency, yet there is surely something inefficient about taking money away from one set of people through increased GST and giving it straight back to the same set of people through an offset.

In addition, the very obvious political risk is that the increase in GST occurs but the offset does not – or, relatedly, it does arrive but its value is not preserved over time. A parallel is readily drawn with free trade: ardent proponents of the latter have always sought to defuse any concerns about equity – the fact that some parts of a country may benefit from free trade while others are damaged economically – by arguing that the winners can compensate the losers. While this is theoretically the case, in practice the compensation virtually never arrives. The Revenue does not, of course, want to get deeply into the politics of tax (something fundamentally reserved for politicians), but it hardly seems tenable to float the idea of an offset without at least gesturing to some of the likely real-world problems. Any Revenue proposal, after all, will inevitably be affected by the shifting political seas into which it is launched.

Finally, the proposed GST increase/offset should be more explicitly compared with other options, including introducing a CGT. Even with an offset, a GST increase will not satisfy vertical equity as well as a CGT would. This makes the proposed increase even less attractive.

Chapter 6

112 – The briefing states: "New Zealand has never had a wealth tax." While this is not hugely important, my recollection of taxation history is that New Zealand did briefly have one in the 19th century. It was called a 'property' tax but (if memory serves) applied to what we would now call assets or wealth. It was introduced in place of a land tax that was thought to bear too heavily on farmers (for whom land constituted a very large proportion of their wealth) and required city-dwelling holders of other types of assets to contribute more.

In addition, the previous paragraph correctly notes that relatively few OECD countries now have net wealth taxes, but it might also note that some non-OECD countries (Argentina and Colombia, for instance) have, or recently have had, such taxes.

The briefing's statement that "wealth taxes are equivalent to a tax on capital income" could be challenged. After all, wealth taxes, as I understand them, do not typically allow taxpayers to deduct tax already paid on capital income from their liability under the wealth tax. To put it differently, the tax is just seen as a way to ensure the taxpayer is paying out part of their wealth, regardless of what capital income tax they may or may not have paid separately. While, in short, there may be conceptual similarities, wealth taxes in practice do not necessarily work equivalently to taxes on capital income.

The briefing fails to note (at this point) a key fact about net wealth taxes, which is that they typically apply (or have applied) only to a small fraction of wealth-holders at the very top of the distribution. This relates to a relatively significant omission from the briefing concerning economic disparities. The briefing fails to register one of the key arguments for a net wealth tax, which is that wealth is distributed much more unequally than income. Whereas the top 10% of income earners typically earn 30-40% of all income, the top 10% of wealth holders hold around 70% of all net wealth (once Rich List and related data are incorporated). Net wealth taxes, therefore, arguably address (some forms of) inequality in a more powerful manner than do income taxes.

Finally, the briefing probably overstates the difficulties of implementing wealth taxes. Most assets have readily available values, especially residential property, and automatic reporting of assets held by banks and other financial institutions would further reduce administrative costs. Issues with valuing infrequently traded assets, most obviously closely held businesses, have been overcome in other countries.

113 – Another way to deal with cashflow issues would be to allow people to defer payment of the tax and have it build up as a debt with the Revenue. Similar measures are already in place with some local body rates.

In addition, the briefing states: "For wealth taxes to be progressive, they may need to be levied at progressive rates or include a tax-free threshold, rather than being levied at flat rates." This is incorrect, because wealth taxes, by virtue of only being levied on the holders of the greatest amounts of wealth, are already progressive. (Again, the briefing's failure to note this fact upfront is a drawback.) Progressive rates would make wealth taxes *more* progressive, but are not needed for those taxes to be progressive.

Finally, the briefing does note later down that there is "interest" in applying wealth taxes only at the upper end, but is wrong to imply that this is some kind of derogation from normal wealth-tax practice.

115 – The treatment of the vertical equity effects of inheritance taxes seems misleading. Inheritances may make up a greater share of the total wealth of poorer recipients compared to richer recipients. But one cannot draw very strong conclusions from this. Suppose someone with only $1,000 cash in the bank receives an inheritance of $10,000, multiplying their existing wealth by 10 times. Then suppose that someone with $500,000 of net equity in their house receives an inheritance of $4 million. The latter has 'only' multiplied their wealth by eight times – but there is surely something ridiculous about claiming that this situation is an 'equalising' one. At the very least, to make that statement requires an ideological belief that relative effects are more important than absolute ones. Such a sweepingly held view is not tenable, so the statement that "inheritances have an equalising effect on the distribution of wealth" is indefensible (at least in the bald terms in which it is stated here).

The other serious flaw in this paragraph is the statement that inheritance taxes increase differences in relative wealth. Even if that were (debatably) true in theory, it ignores the profound reality that inheritance taxes in practice often focus on the largest inheritances.

Ireland's lifetime capital acquisitions tax, for instance, only cuts in at a relatively generous threshold. To ignore this reality is to give a misleading account of the actual, practical effects of inheritance taxes – which are strongly pro-equity. As the briefing does finally acknowledge, inheritance taxes "improve equality of opportunity by reducing the advantages some people receive from being born into a wealthy family".

Chapter 7

124 – The briefing is correct to note: "The absence of a general approach to taxing capital gains can provide an incentive for individuals to reduce their tax liability by undertaking activities that are not taxed rather than those that are taxed. This can reduce government's ability to raise more revenue in a way that is progressive." The absence of a comprehensive tax on capital gains is arguably the single biggest – or at least the most obvious – flaw in the New Zealand tax system as it currently stands.

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1 September 2025

Stable bases and flexible rates: New Zealand's tax system
c/- Deputy Commissioner, Policy
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Dear Sir

I have read but not studied the draft LTIB. I have added comments and observations on the document attached. These imply questions that arise and that I consider should be answered.

I have a few more general responses and sketch a possible approach to the fiscal pressure from retirement.

Economic analysis

I still find the language "skewed". I understand that economics will use models and simplifications and results will be generated from those models. However, to use "distortions" and "excess burden" as terms does not speak to the limitations of those models and results. Specifically, much of the results focus on an additional dollar which means the effect of the existing government revenue and spend is at best obscured. For example, an investment decision relies on government spend on the justice and other systems. The LTIB, in its drafting, encourages thinking that government spending provides distortions and burdens. The limitations of the models and results need to be made explicit, and the language used should be less "skewed".

The draft LTIB has a better focus on capital and labour effects of taxation. It now acknowledges that, at least in closely held situations, the two are intertwined. This has an impact on company and personal tax rate alignment. The dual income tax system seems to me to be worth exploring further for the potential to assist with the capital/income overlap and the personal tax rate alignment. This is particularly the case if imputation is integrated into a dual income tax system. I note however that the political sustainability of taxing labour and income (explicitly) at different rates need careful consideration. (Arguably that is no different from the current situation where capital gains are exempt, i.e. carry a 0% tax rate, but this is less visible than completing a return with different types of income, taxed at different rates.)

A question that is not explicitly answered is the impact of the classical system on economists' views on the taxation of capital and labour. As the draft LTIB notes, New Zealand is one of the few countries with an imputation system. The economists who focus on tax generally do not have that background. I assume that their conclusions are independent of their background, but it would be useful for IR to consider that explicitly.

I still find the analysis of the effects of different tax bases very dense. I note that the draft LTIB does accept that capital income is taxed by a consumption tax when that income is spent. This is intuitively so but highlights, if capital income is not spent, then no tax arises. This will apply for non-residents and for those who have sufficient wealth generating untaxed capital income which is never spent. (I note the draft LTIB's argument for not overtaxing non-residents.) I consider this is reason for IR to consider whether a wealth or inheritance tax can be a proxy for taxing capital income if there is no comprehensive CGT and/or if there is a realised basis of CGT.

Social security taxes

The draft LTIB does not consider Social Security taxes in any detail. For retirement because that affects savings. The reason for employment insurance taxes not being considered is unstated.

Retirement income

The focus of the draft LTIB is sustainably funding the government's fiscal pressures. This assumes current settings for retirement (age 65) and housing and health (accommodation supplements, residential care subsidies etc.). The current system is described as a PAYG. The government also has a SAYG, NZ Super Fund, colloquially the Cullen Fund. Government funding of contributions varies with current fiscal pressures and priorities (and "ideology").

A dedicated Government SAYG approach, funded by a taxable income levy, could be considered. In outline:

NZ Super Fund levy, say 1%.	Set at a rate which funds annual contributions to the NZ Super Fund which are dependent on GDP and not on government of the day decisions. Explicitly funded by taxpayers.

	Fiscal effects are brought forward rather than delayed for future generations. Fund drawdowns amended to account for the timeframe.
Applies to all taxable income and all taxpayers	Individuals directly benefit from the retirement settings, but business indirectly benefits (for example, "gold card Tuesdays") and/or they operate in an environment which has social and economic benefits. All taxpayers means distortions are limited.
NZ Super Fund	Potential to be a Sovereign Wealth Fund?
KiwiSaver impact	As the Fund is not individualised, it does not directly impact individual savings. It may have the effect of reducing savings because NZ Super is seen as sustainable? The tax settings would however need to be considered.

This sketch outline is insufficient to make policy recommendations or decisions, but it illustrates a possible approach. This might be usefully considered in tandem with the Retirement Commission.

Unemployment insurance

When faced with the potential for 13% unemployment, the government of the day implemented a wage subsidy scheme. That scheme meant many did not need Jobseeker benefits but highlighted the difference between Jobseeker and many taxpayers' income. Work commenced on an unemployment scheme. This remains a potential tax base equivalent to other countries' social security schemes. IR should consider it.

Concluding comments

I noted I read rather than studied the draft LTIB. The answers to my questions may already be in the analysis. However, I trust that these short comments are helpful in providing some insight on how the draft LTIB can be viewed.

I am happy to discuss my submission.

Yours sincerely

s 9(2)(a)

John Cantin
Cantin Consulting

To whom it may concern,

As a middle-income New Zealander, I am writing to express my deep frustration and concern about the direction and assumptions underpinning your Long-term Insights Briefing (LTIB) *“Stable Bases and Flexible Rates.”*

The entire tone of this document suggests the only viable response to long-term fiscal pressures is to **increase taxation**, rather than genuinely evaluating **how the government spends the revenue it already receives**.

Let me be crystal clear: **I already pay more than enough tax**.

Between income tax, GST, fuel tax, road user charges, rates, parking tickets, and fines, **my life feels like one endless stream of payments to the state**. And for what in return? Crumbling infrastructure, long health waitlists, and underwhelming public services.

Meanwhile, I see **a welfare system being abused in my own neighborhood—**generations of non-working families living comfortably off the system. I support genuine, need-based assistance. But the current model is **too soft, too broad, and too easily exploited**.

Instead of constantly turning to **middle-income earners as the ATM**, government should:

- **Cut unnecessary spending** and audit wasteful programmes.
- **Reform welfare** to target real need, not entitlement culture.
- **Invest in productive areas** like education, skills training, and small business growth.
- **Stop virtue-signalling with taxpayer money** on global causes that have no direct benefit to New Zealanders.

Yes, the population is ageing. Yes, we need long-term planning. But the assumption that more revenue (read: more tax) is the only answer is both offensive and economically short-sighted. **If I can tighten my household budget, so can the government.**

The idea of a “flexible” tax system sounds like a **euphemism for 'we want the ability to raise taxes more easily in the future.'** That is not reform — it’s laziness in policy thinking.

I urge you to **focus first on smarter spending and system accountability** before even whispering about higher taxes. You do not have a revenue problem. **You have a spending discipline problem.**

Sincerely,
A hard-working, over-taxed citizen of New Zealand

Thank you for the opportunity to comment on your draft Insights paper. I found it immensely useful, clear and comprehensive. I have just a few comments.

GST - I do not favour an increase in GST because of the impact of such a consumption tax on lower income households.

A Wealth Tax- set at a high tax threshhold - say $5m - this would introduce the concept of a true tax on capital, and prepare New Zealanders for a fuller discussion on capital gains tax. It could serve as a precursor to a comprehensive capital gains tax. The wealth tax would be, in a sense, about articulating a matter of principle, signalling the need to remove distortions on savings and investment, about fairness and addressing growing social inequality.

Broadening the tax base is crucial to the funding of our social services, reducing inequality, creating a more fair system based on ability to pay, removing distortions in investment, and addressing fiscal pressures.

Means Testing National Superannuation - possibly this topic was outside your scope but I support means testing of National Superannuation. Over 65s with significant income additional to National Superannuation - like myself - should face a tax, for reasons of equity. National Superannuation is a benefit and should be treated as such for tax purposes

Inheritance Tax - I support the re-introduction of an inheritance tax. Inheritances are unearned income, cement existing social inequality, and reduce incentives for innovation and risk-taking. A generous threshhold would ensure the fairness of such a tax

Corrective Taxes - I support the proposal for a more in- depth analysis of the scope for more - and perhaps in some cases fewer - corrective taxes to influence behaviour where there shown to be significant social and fiscal benefits such as health and welfare costs.

Thank you again for the opportunity to comment

s 9(2)(a)

Long-term Insights Briefing 2025

Stable bases and flexible rates: New Zealand's tax system

28 August 2025

Difference Makers.

28 August 2025

Felicity Barker
Stable bases and flexible rates: New Zealand's tax system
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By email: Policy.webmaster@ird.govt.nz

Dear Felicity

Long-term Insights Briefing

Thank you for the opportunity to comment on the Long-term Insights Briefing (LTIB), *Stable bases, flexible rates: New Zealand's tax system*. We acknowledge the work undertaken by Inland Revenue in preparing this briefing. It provides a valuable foundation for shaping the future of tax reform in New Zealand, offering a timely and thoughtful platform to consider how our tax system can evolve to meet emerging challenges and opportunities.

The LTIB is designed to look beyond immediate policy decisions and instead explore long-term trends and pressures that may shape New Zealand's fiscal landscape. Its core objective is to assess whether the current tax system is sufficiently flexible and resilient to respond to changing revenue needs, particularly those arising from an ageing population and increasing demand for public services. By examining the principles of fairness, efficiency, and adaptability, the LTIB encourages a forward-looking conversation about how best to maintain a durable and equitable tax base.

While Inland Revenue's LTIB provides a valuable lens on the adaptability of the tax system, we believe it is essential that revenue policy is not considered in isolation. Tax policy decisions are deeply interconnected with broader government settings such as the age of eligibility for superannuation and the structure of healthcare subsidies. A truly resilient fiscal framework requires a whole-of-government approach, one that integrates tax policy with long-term planning around public expenditure, investment, demographic change, and migration. As the population ages and demand for health and retirement services grows, the sustainability of government finances will depend not only on how revenue is raised, but also on how resources are allocated and how the labour force evolves. Coordinated planning across agencies is therefore critical to ensure that tax reform supports New Zealand's long-term economic and social objectives.

A key challenge facing New Zealand is the persistent shortfall in capital investment, particularly in productive sectors of the economy. The current tax system should be structured to encourage, or at least not deter, reinvestment in businesses and the growth of productive assets.

While concerns about tax avoidance through the gap between personal and company tax rates are often raised, allowing reinvestment at the company rate supports economic growth and capital formation.

Additionally, any changes to the tax system should be designed with political and public acceptability in mind, ensuring that reforms are fair, practical, and support the long-term objective of increasing New Zealand's productivity and economic resilience.

Capital gains tax

A capital gains tax (CGT) could be considered as a means to broaden New Zealand's tax base, address structural imbalances in investment, and improve the overall fairness of the tax system. The persistent overinvestment in residential property, relative to productive assets, suggests that the current tax settings may be distorting capital allocation. A well-designed CGT could help redirect investment towards more productive sectors, supporting long-term economic growth and resilience. Such a CGT might not necessarily be a comprehensive regime as that would be a tax on all investment, including productive assets, or it might be comprehensive but taxed at a lower rate.

If the CGT was not comprehensive, so consistent with the minority view in the last tax working group, there could be a case for imposing a CGT on residential rental accommodation.

If the lower rate option was preferable, but extended to a broader base, then implementation of a CGT should be accompanied by a review of the capital gains that are currently taxed as income to try and ensure greater coherency.

The introduction of a CGT should be framed as a pragmatic response to local challenges, rather than an attempt to replicate overseas systems. It is important to recognise that a CGT in and of itself will not resolve all the challenges facing New Zealand's fiscal framework. Rather, it should be seen as one component within a broader suite of policy measures to be considered. The design should prioritise simplicity, fairness, and political sustainability, ensuring that the tax system supports both economic growth and public confidence.

Integration of entity and personal taxation

The integration of entity and personal taxation is a complex area that requires careful consideration to balance efficiency, fairness, and simplicity. Concerns have been raised about the gap between company and personal tax rates, which may create opportunities for tax planning or avoidance, particularly where income is retained within companies and taxed at the lower corporate rate rather than being distributed and taxed at higher personal rates. However, international experience and domestic evidence suggest that reinvestment of profits within businesses is generally positive for economic growth and does not necessarily indicate widespread avoidance.

Policy focus should therefore prioritise measures that incentivise capital investment, such as maintaining or enhancing the ability for businesses to reinvest profits.

Dual income tax

A dual income tax (DIT) model, as exemplified by the Nordic model, involves taxing labour income at higher progressive rates and applying a lower, flat rate to capital income to broaden the tax base and encourage investment. While this approach offers theoretical advantages, it presents significant practical and compliance challenges that limit its suitability for New Zealand. Implementing a DIT would require detailed tracking of risk-free returns on all share investments from acquisition to disposal, resulting in substantial compliance costs for taxpayers and administrative complexity for authorities. This is particularly problematic for small and medium enterprises and private companies with low nominal capital bases, where the benefit of the "normal" return shelter is minimal.

While Norway introduced the DIT to counteract high tax rates, New Zealand's current system, with imputation and a broad tax base, makes adopting a full dual income tax less compelling.

The complexity and investment distortions further challenge its implementation. The simplest ways for New Zealand to raise additional tax revenue in the short term would be to raise the rate of GST. In the medium term it may be possible to raise additional revenue from a CGT. However, the amount raised and the time frame would depend on the settings adopted.

From an economic perspective the perceived advantage of a DIT is that it taxes only economic rents and not the normal return, or taxes economic rents at a higher rate than the normal return. Australia has not adopted a DIT, but it has specific tax regimes that target economic rents such as their taxation regime for the mining industry. There is no obvious equivalent candidate in New Zealand; however, in our view one way to achieve this would be by implementing the minority view from the 2018 Tax Working Group. They sought to tax realised gains on residential rental properties, which may be a New Zealand example of an inelastic good.

GST

A comprehensive GST system offers an efficient and reliable way to raise government revenue, given its broad coverage and straightforward administration. Increasing the GST rate is a practical option to address future fiscal pressures, especially as demands on public spending grow.

However, GST is regressive and can disproportionately affect low-income households. To ensure fairness, any GST increase should be accompanied by targeted support measures, such as enhanced tax credits, direct cash transfers, or increased social benefits. It is important that these measures are well-targeted, easy to access, and responsive to changing needs, so that assistance reaches those most affected. From a policy perspective it is most critical that the tax base remains progressive overall.

This approach supports both fiscal sustainability and social equity, helping to secure long-term funding without undermining economic efficiency.

Payroll taxes

Payroll taxes are not currently part of New Zealand’s tax system, and previous proposals for social insurance schemes have not advanced.   While payroll taxes have been dismissed as being equivalent to GST, this view overlooks important differences in their economic impact and incidence. A more thorough analysis is warranted to assess their potential role in broadening the tax base and addressing fiscal challenges.

Conclusion

In conclusion, addressing New Zealand's long-term fiscal challenges will require a balanced and pragmatic approach to tax policy. It is essential to consider a range of options, including potential adjustments to existing tax bases and the introduction of new mechanisms, while ensuring that any changes are fair, economically sound, and politically sustainable. Ongoing analysis and open dialogue will be critical to developing solutions that support economic growth, maintain public confidence, and secure the country's fiscal future.

We welcome further discussion on these issues. Please contact Jolayne Trim or Teri Welham.

Sincerely

s 9(2)(a)

s 9(2)(a)

John Cuthbertson FCA

NZ Tax & Financial Services Leader

Craig Elliffe FCA

Chair, Tax Advisory Group

Stable bases and flexible rates New Zealand's tax system

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Question 1

What are the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

A durable and stable tax system must be designed to withstand economic, demographic, and political shifts while continuing to deliver sufficient, equitable, and predictable revenue. The following attributes are essential:

1. Breadth and Simplicity of the Tax Base

A broad tax base, covering income, consumption, and capital, reduces reliance on any single source and minimises distortions. Simplicity in design and administration enhances compliance and reduces enforcement costs.

2. Equity Across Income Levels and Generations

The system must be perceived as fair, with progressive elements that reflect ability to pay. Intergenerational equity is critical, ensuring younger and future taxpayers are not disproportionately burdened. Fair treatment across asset classes (e.g., housing, shares, crypto) helps maintain trust and legitimacy. This is particularly important given that the New Zealand tax system is based on voluntary compliance.

3. Flexibility and Responsiveness

The system should be adaptable to emerging economic trends, such as digital assets, platform work, and demographic aging. It must allow for timely policy adjustments without requiring wholesale reform.

4. Integration with Fiscal Policy

Tax policy should be aligned with long-term expenditure planning, particularly in areas like healthcare, superannuation, and infrastructure. Cross-agency coordination is essential to avoid siloed decision-making and ensure fiscal sustainability.

5. Behavioural Awareness

Tax design must anticipate and mitigate behavioural responses, such as income shifting or avoidance. Incentives should be structured to support productive investment and workforce participation.

6. Administrative Efficiency and Transparency

A stable system is one that is easy to understand, comply with, and administer. Transparency in how taxes are collected and spent reinforces public confidence and voluntary compliance.

7. Political and Public Acceptability

Enduring systems are built on public trust and political consensus. Clear communication, inclusive consultation and gradual implementation help build support for reform.

Conclusion

A tax system that is broad, fair, flexible, and well-integrated with fiscal policy is best positioned to meet long-term challenges. Stability does not mean rigidity. It requires thoughtful design, ongoing review, and responsiveness to changing societal needs.

Question 2

Should New Zealand continue with the two bases of an income tax and a consumption tax going forward?

Yes, New Zealand should continue with its dual tax base, comprising income tax and consumption tax (GST), as the foundation of its tax system. This structure has proven to be durable, efficient, and equitable, and is well-suited to meet the country's long-term fiscal needs.

Maintaining both an income tax and a consumption tax provides balance and adaptability. The co-existence of these tax bases offers the government flexibility to adjust rates or thresholds as economic circumstances evolve, without relying too heavily on a single stream of revenue. This dual approach also helps smooth fiscal outcomes across the business cycle, reducing the impact of volatility in any one source.

The GST's broad coverage and efficient design ensure steady revenues with minimal distortions, while income tax provides a mechanism for fairness and social support. Together, they form a tax system that is resilient, efficient, and responsive to New Zealand's current and future needs.

Key Reasons for Continuing with the Dual Base

1. Breadth and Resilience

New Zealand's GST is internationally recognised for its broad base and simplicity, which contributes to stable revenue collection. Income tax remains a progressive tool for equity and redistribution, especially when paired with targeted transfers.

2. Administrative Efficiency

Both bases are well-established, with robust systems for collection and compliance. Maintaining these bases avoids the complexity and cost of introducing new tax types.

3. Equity and Flexibility

The income tax base allows for progressive taxation, addressing ability to pay. GST, while regressive in isolation, can be offset through income tax credits or transfers, preserving fairness.

4. Political and Public Acceptability

The dual base is familiar and generally accepted by the public. Proposals to expand or adjust these bases (e.g., increasing GST with income tax offsets) are more feasible than introducing entirely new taxes.

5. Adaptability to Emerging Challenges

The current system can be adapted to include new forms of income, such as crypto or platform work. It also allows for targeted reforms, such as capital gains tax integration or payroll taxes for healthcare, without overhauling the entire structure.

Considerations for Enhancement

- Expand the capital income base within the income tax system to improve fairness and reduce arbitrage.
- Maintain the integrity of GST by resisting exemptions that complicate administration and reduce revenue.
- Integrate fiscal planning across Government departments to align revenue and expenditure strategies.

Conclusion

New Zealand's dual tax base provides a stable, efficient, and equitable foundation for meeting long-term fiscal needs. Rather than replacing it, the focus should be on enhancing its design, ensuring it remains responsive to demographic, economic, and technological changes.

Question 3

To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

New Zealand should primarily focus on enhancing and optimising its existing tax bases, income tax and GST, before introducing entirely new tax bases. However, selective and well-designed new tax bases may be warranted to address structural imbalances, equity concerns, and long-term fiscal sustainability.

1. Strengthening Existing Tax Bases

Income Tax

The income tax system remains the cornerstone of progressivity and redistribution. There is scope to broaden the base, including by extending the treatment of capital income to reduce arbitrage and enhance fairness.

Adjustments to thresholds or marginal rates could be considered. Any change should be balanced against potential disincentives to work and invest.

GST

New Zealand's GST is internationally regarded for its broad base and simplicity. Increasing the GST rate could be an efficient way to raise revenue, provided regressive impacts are offset through targeted transfers or income tax adjustments.

Maintaining the integrity of the GST base, by avoiding exemptions, is critical to its effectiveness.

2. Role for New Tax Bases

While the existing tax bases are robust, new tax bases may be necessary to:

- Continue to deliver on current social contracts, in particular guaranteed retirement income.
- Capture under-taxed economic activity, such as digital services or economic rents.
- Support targeted social objectives, such as healthcare funding through a ring-fenced payroll tax.

However, new taxes must be:

- Well-designed and administratively feasible.
- Politically acceptable and clearly communicated.
- Integrated into the broader fiscal framework to avoid fragmentation
- Limit economic distortions (including negatively impacting new investment)
- Be internationally conventional (ensuring that capital and tax residency does not migrate away from New Zealand).

Wealth taxes have been considered in New Zealand as part of minor political parties' election manifestos. However, our concern is that they do not provide a flexible system to adapt to changing revenue needs over time. A wealth tax on an unrealised basis is likely to result in emigration of high wealth individuals. In addition, wealth taxes are uncommon internationally so are likely to deter foreign investment. This could have a detrimental impact on highly valuable start-ups and on our FDI requirements for domestic infrastructure.

3. Balancing Revenue and Expenditure

A durable fiscal strategy must also consider the expenditure side. Revenue measures should be aligned with long-term spending priorities, particularly in health, superannuation, and infrastructure. This requires cross-agency coordination and long-term planning.

Conclusion

New Zealand should continue to rely on its main tax bases as the foundation of its fiscal strategy, focusing on base broadening and rate adjustments where appropriate. New tax bases should be introduced selectively, where they fill clear gaps, promote fairness, or support specific policy goals. A balanced, integrated and coherent approach will be key to ensuring long-term fiscal resilience.

Question 4

Should the tax system be designed with the flexibility to adapt to different governments' distribution concerns over time?

Yes, a well-designed tax system should incorporate flexibility to accommodate the evolving distributional priorities of successive governments. This adaptability is essential for maintaining both political legitimacy and fiscal sustainability over the long term.

Key Reasons for Flexibility in Tax Design

1. Democratic Responsiveness

Governments are elected with differing mandates and philosophies regarding redistribution, equity, and social investment. A flexible tax system allows for policy responsiveness without requiring structural overhauls, preserving institutional stability. As acknowledged in the draft LTIB, the ideal would be a design that is flexible in response to political considerations (often short term) whilst retaining stability over the long term.

2. Equity and Social Cohesion

Distributional concerns, such as addressing income inequality, intergenerational fairness, or regional disparities, may shift over time. Flexibility enables the system to adjust rates, thresholds, and credits to reflect changing societal values and needs.

3. Economic and Demographic Change

As the economy evolves (e.g., rise of digital assets, gig work) and demographics shift (e.g., aging population), governments may need to recalibrate tax burdens. A rigid system risks becoming misaligned with economic realities, undermining fairness and efficiency.

4. Policy Innovation

Flexibility supports the introduction of targeted measures, such as social insurance levies, environmental taxes, or capital gains reforms, without destabilising the core tax structure. It allows governments to experiment with new tools while maintaining a stable and coherent revenue base.

5. Administrative and Legal Design

Flexibility should be embedded in the legal and administrative framework. The Generic Tax Policy Process is critical to ensure that any design changes are cohesive and practical.

Conclusion

A durable tax system must balance stability with adaptability. Embedding flexibility ensures that the system remains relevant, equitable, and responsive to the distributional priorities of future governments, while maintaining public trust and fiscal integrity.

Question 5

What are the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

To ensure the income tax system can respond effectively to evolving fiscal pressures, various mechanisms can be built into its design and administration. These mechanisms should allow for adjustments in revenue collection while maintaining fairness, efficiency, and public confidence:

1. Adjustable Rate Structures

Marginal rate flexibility allows governments to respond to fiscal needs by adjusting rates at different income levels. Previous changes to the rate of GST were accompanied by changes to the marginal income tax rates and the transfer system. These accompanying changes were important because they provided compensation for GST's regressive nature.

2. Threshold and Bracket Indexation

Automatic indexation of income tax thresholds to inflation or wage growth can maintain equity and prevent bracket creep. However, it does not generate additional revenue but primarily enhances perceived fairness. Automatic adjustments may disproportionately benefit high-income earners in minor ways that collectively increase costs, and could inadvertently encourage income splitting. If the goal is to support low-income earners, targeted measures are preferable to across-the-board threshold changes.

3. Base Broadening Measures

Expanding the definition of taxable income, especially capital income can increase revenue without raising rates. However, as the LTIB notes the method for doing so is likely to be challenging.

4. Temporary or Targeted Measures

The system can include provisions for temporary tax measures during economic shocks or fiscal emergencies. For example, the recently released emergency measures framework.

Targeted credits or deductions can be scaled up or down to manage distributional impacts while adjusting overall revenue. For example, the small business cashflow loan scheme that was in place during the COVID pandemic.

5. Ring-Fenced Revenue Tools

Introducing dedicated levies within the income tax system (e.g., for healthcare or income protection) allows for flexible funding aligned with specific policy goals. These can be designed to phase in or out depending on fiscal needs and public priorities. ACC may be a good example of this in New Zealand currently. Other things that could be considered are a payroll tax that is ringfenced for health spending or to provide future retirement benefits.

6. Administrative and Legislative Agility

Embedding review cycles and adjustment mechanisms into tax legislation enables timely responses to fiscal developments. Streamlined legislative processes for income tax changes can improve responsiveness without compromising transparency or accountability.

Conclusion

Increasing the flexibility of the income tax system requires a combination of technical design features, policy tools, and administrative capacity. These mechanisms should allow for dynamic responses to revenue needs while preserving the system's integrity, equity, and public support.

Question 6

What mechanisms are most effective in improving company–shareholder integration under the current system?

New Zealand currently has a gap between the company and top personal income tax rates. This has led to concerns that it presents an arbitrage opportunity.

However, accumulation of wealth within businesses is essential for economic growth. The New Zealand economy remains reliant on small business activity. Reinvestment is crucial for upgrading and growing capital structures and implementing efficiencies in production and supply.

Company shareholder integration remains a significant consideration. However, we do not view the accumulation of business wealth as undesirable, nor should it be regarded as an indicator of tax avoidance. The current New Zealand tax regime has robust dividend rules designed to appropriately address distributions or benefits provided to shareholders. We believe these measures are effective. Retained profits can support further investment, which is desirable for economic growth.

Conclusion

Accumulation of wealth in companies is essential for economic growth. The current rules, including transparency in reporting, help ensure that income is taxed fairly and efficiently across the corporate and individual levels.

Question 7

What are the pros and cons of a general income tax versus a dual income tax for New Zealand?

The general income tax system and the dual income tax model represent fundamentally different approaches to taxing income. In New Zealand, the general income tax system has long been the foundation of personal taxation, applying a progressive rate structure to all income types.

The dual income tax model, which separates labour and capital income for tax purposes, has been considered but has not gained broad support due to concerns around complexity, equity, and administrative feasibility.

General Income Tax System

A general income tax system applies a unified progressive rate structure to all forms of income, whether from wages, dividends, interest, or capital gains.

Pros

- Simplicity and clarity: A single rate structure avoids the need to distinguish between labour and capital income, reducing compliance and administrative burdens.
- Equity: Treats all income consistently, reinforcing the principle of ability to pay and supporting vertical equity.
- Minimises avoidance: Reduces opportunities for income shifting or reclassification, particularly in closely held businesses.

Cons

- Potential disincentives for investment: Higher marginal rates on capital income may discourage savings or investment, especially if not aligned with corporate tax rates.
- Limited responsiveness: May lack flexibility to tailor tax treatment to different types of income or economic conditions.

Dual Income Tax System

A dual income tax system separates labour and capital income:

- Labour income is taxed progressively.
- Capital income is taxed at a flat, typically lower rate.

This model has been implemented in several Nordic countries and is often cited for its economic efficiency.

Pros

- Economic efficiency: A flat rate on capital income may encourage investment and reduce distortions in capital allocation. In addition, a DIT taxes economic rents, which are largely not taxed at present and any that are taxed are subject to normal rates. International competitiveness: Lower capital income tax rates can attract foreign investment and reduce capital flight.
- Administrative ease for capital income: Flat rate taxation on capital income simplifies compliance. Easier to separate and define income types for tax purposes.

Cons

- Complexity in classification: Requires clear and enforceable rules to distinguish between labour and capital income, which can be administratively burdensome and legally contentious
- Equity concerns: Flat taxation of capital income may disproportionately benefit higher-income or higher-wealth individuals, undermining progressivity.
- Income shifting risks: Creates incentives to reclassify labour income as capital income, particularly in owner-managed businesses.
- Limited support in New Zealand: Previous discussions have highlighted significant reservations about adopting a dual income tax model, particularly due to its complexity.

From an economic perspective, the principal advantage of a DIT is that it taxes economic rents, which at present are largely untaxed, in part because our tax system does not differentiate between normal and other returns and this would be difficult to define. Implementing a DIT in New Zealand would be a significant change to the entire tax system and is not workable in the short term. In our view, we would be best to consider whether there are aspects of a DIT that could be integrated into our current system.

There are two possibilities:

1. **Comprehensive CGT**

Introduce a comprehensive CGT. To ensure political and public acceptability, the CGT would need to include clear exemptions for owner-occupied family homes, or provide an exemption amount or threshold. Another option would be for the exemption amount or threshold to exist across all assets and not only the family home.

This approach would address the primary concerns of most New Zealanders while ensuring that the tax targets those with significant investment properties or land holdings.

A possible additional exemption could be given for intergenerational holiday homes that meet specific use and ownership criteria. Consideration should also be given to fairness for younger generations and renters, potentially through a lifetime dollar-value exemption for gains on non-property investments such as share portfolios.

We note that options to introduce exemption thresholds, while more equitable, would require significant public education to ensure understanding and acceptance.

Any CGT should be levied at a lower rate and apply to net gains after allowing for the deduction of disposal costs. This would ensure the tax is both fair and administratively straightforward. Rollover relief provisions should be included for family transfers and other non-commercial disposals to prevent unintended hardship. Implementation of a CGT should be accompanied by a review and potential simplification of existing rules around land transactions, foreign investment funds and financial arrangements, to reduce complexity and close gaps between the taxation of labour and capital.

While a CGT may not generate significant revenue in the short term, it could represent a step towards a more balanced and sustainable tax system. The introduction of a CGT should be framed as a pragmatic response to local challenges, rather than an attempt to replicate overseas systems. The design should prioritise simplicity, fairness, and political sustainability, ensuring that the tax system supports both economic growth and public confidence.

One possible model is of course the model proposed by the 2018 Tax Working Group. However, we acknowledge that there are many issues with a CGT such as scope (including KiwiSaver, family trusts), valuation, inflation indexation and rollover relief. Some of these are dealt with in the Tax Working Group report, but more work would be needed to address all the issues raised; and these may result in additional complexity rather than simplification.

2. Target economic rents

Introduce a new tax specifically targeting economic rents (such as the Australian tax regime for the mining industry). Economic rents are notoriously difficult to define. However, one such example would be to implement the minority view of the 2018 Tax Working Group which recommended taxing gains on residential rental property. This may be the best example New Zealand has of easily captured economic rents. In addition, this may promote economic growth by diverting investment from residential property to other investment classes.

The minority discussed a brightline extension or a tax based on a Risk Free Rate of Return. Of those two, a brightline extension has the advantage of being payable on realisation. Requiring taxpayers to pay annually on the net value of their portfolio may not be politically acceptable because the outcome will be that a large percentage of the rental income will go straight to paying the tax.

A bright line change will deliver an increase in tax revenue for overall less disruption compared to a properly implemented dual income tax system. In addition, this would be a lot simpler than the comprehensive lower rate CGT discussed above.

Conclusion

While the dual income tax model may offer theoretical advantages in efficiency and international alignment, its practical challenges, especially around classification, equity, and compliance, make it less suitable for New Zealand’s current tax framework. The general income tax system remains the preferred approach, offering simplicity, fairness, and administrative coherence. Future reforms should focus on strengthening the existing system, particularly in the treatment of capital income, rather than adopting a dual structure.

Question 8

What are the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

A low-income GST offset scheme, typically delivered through targeted transfers or tax credits, is a common policy tool to mitigate the regressive effects of increasing GST. While conceptually appealing, its effectiveness depends on design, delivery, and public trust.

Pros

1. Improves Equity

Offsets the regressive nature of GST by compensating low-income households, who spend a higher proportion of their income on consumption. Helps maintain public support for GST increases by addressing fairness concerns.

2. Preserves GST Integrity

Allows the GST base to remain broad and uniform, avoiding exemptions that complicate administration and reduce efficiency. Maintains revenue stability and simplicity, which are key strengths of New Zealand’s GST system.

3. Targeted and Transparent

Can be precisely targeted to those most affected, using existing income data or benefit systems. Offers a clear and direct mechanism for redistribution, which can be adjusted over time. Specific targeting should also make the scheme more cost effective overall.

Cons

1. Administrative Complexity

Requires accurate and up-to-date income data to ensure timely and appropriate payments. May be difficult to deliver to those not already in the welfare or tax system, such as students, part-time workers, or informal earners.

2. Risk of Under-Compensation

If not well-calibrated, the offset may fail to fully compensate for the increased GST burden, especially for households with fluctuating incomes or high essential spending. One-off or annual payments may not align with real-time cost pressures.

3. Political and Fiscal Risks

May be perceived as a temporary fix rather than a structural solution. Adds to fiscal costs, especially if the offset must be regularly adjusted to keep pace with inflation or further GST changes.

Conclusion

A low-income GST offset scheme can be an effective tool to preserve the efficiency of the GST system while addressing distributional concerns, provided it is well-designed, adequately funded, and integrated with broader social policy. In New Zealand, this could be done via the current transfer system and a new system would not be needed. However, it should not be seen as a substitute for broader tax and transfer system reforms that address underlying income inequality and cost-of-living pressures.

Question 9

Are alternative tax bases desirable to add to New Zealand’s tax mix at current or higher revenue needs?

Yes, alternative tax bases may be desirable to complement New Zealand’s existing income and consumption tax framework, particularly in response to long-term fiscal pressures.

New Zealand currently has few examples of payroll taxes. If payroll taxes were to be considered, careful attention should be paid to their design, including whether they are earmarked for specific purposes such as retirement savings or healthcare, or simply contribute to general revenue. International models, such as compulsory superannuation schemes, demonstrate that payroll taxes can boost national savings and productivity, but implementing such systems would require significant changes to New Zealand’s social contract and careful consideration of fairness, economic impact, and political acceptability.

Any consideration of payroll taxes should be accompanied by a comprehensive review of their effects on wage growth, business costs, and the overall fiscal position, ensuring that they complement existing tax and transfer systems and contribute to long-term economic sustainability. If a payroll tax results only in wage growth, then it will not of itself solve New Zealand’s long term fiscal issues because an increase in wages will result in an increase in superannuation cost.

Any additions should be selective, practical, and aligned with New Zealand’s economic structure and public values.

Reasons to Consider Alternative Tax Bases

1. Diversification and Resilience

Adding new tax bases can reduce reliance on income and GST, helping to stabilise revenue across economic cycles and demographic shifts. A more diversified tax mix can mitigate risks associated with overdependence on a narrow set of revenue sources.

2. Addressing Gaps in the Current System

Certain forms of income and economic activity, such as capital gains, and digital services, are not comprehensively taxed under the current framework. Carefully designed measures to include these areas could improve fairness and neutrality without overhauling the system.

3. Supporting Targeted Policy Goals

Alternative bases such as payroll-based social insurance levies or environmental taxes could be used to fund specific public services or address externalities. These tools can be ring-fenced to ensure transparency and public accountability.

Challenges and Limitations

1. Administrative Complexity

New tax bases often require new infrastructure, valuation systems, and compliance mechanisms, which can be costly and difficult to implement. Complexity may reduce public understanding and increase compliance burdens.

2. Political Feasibility

Some alternative taxes, particularly those affecting housing or small businesses, may face strong public resistance. Success depends on clear communication, gradual implementation, and visible benefits.

3. Economic Impact

Poorly designed taxes can distort behaviour, reduce investment, or disproportionately affect certain groups. Any new base must be assessed for its efficiency, equity, and economic neutrality.

Conclusion

While New Zealand’s current tax system is broadly effective, selective additions to the tax mix such as CGT reform, targeting economic rents, digital services taxation, or targeted levies, could enhance resilience and fairness. The priority should be on practical, well-integrated reforms that complement existing structures and respond to emerging fiscal and economic challenges.

Appendix A

About us

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 140,000 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

General Position

In formulating its submissions, CA ANZ takes a best practice, public policy perspective. That is, we endeavour to provide comment on a “what is best for New Zealand” basis.

We recognise Government’s legitimate right to set tax policy direction. We comment on those policies, and also make comment on their practical implementation. Our public policy perspective means we endeavour to provide comment free from self-interest or sectorial bias.

Research confirms that in practice the best tax system is one with a broad tax base and low tax rates. Such an approach restricts the conditions that make tax avoidance attractive.

Our guiding principles in formulating this submission are that New Zealand’s tax system must not impede New Zealand’s international competitiveness; growth of the New Zealand economy; and innovation and entrepreneurship.

Recognising there are judgments and trade-offs, taxes should, as far as possible:

- be simple and certain in their application;
- be perceived as broadly fair;
- minimise the costs of compliance and administration; and
- minimise the distortions to the economic behaviour of individuals and businesses.

We believe one of the pillars of an effective and efficient tax system is taxpayer certainty. This will increase voluntary compliance, decrease administration costs, and deliver positive economic benefits. Tax legislation must be as clear in its policy intent and application. Further, any identified errors post-enactment should be corrected without delay.

In CA ANZ's view tax legislation should not be retrospective unless it corrects an anomaly to ensure taxpayers pay no more tax than Parliament intended. Retrospective application dates undermine the principle of taxpayer certainty and the Generic Tax Policy Process.

Artwork acknowledgement: Rhys Paddick, a Yamatji/Noongar digital artist from Boorloo (Perth, WA)

Acknowledgement of Traditional Owners

Chartered Accountants ANZ acknowledges the land throughout Australia as Traditional Lands of the Aboriginal and Torres Strait Islander peoples and we respect their spiritual relationship with their Country and to their Elders past and present.

We also acknowledge them as the custodians of the Land and Waters, and that their cultural and heritage beliefs are important to Aboriginal and Torres Strait Islander peoples today.

Te Tūtohu i te Tangata Whenua

Nō roto mai i te kauanuanu, e tūtohu ana a Chartered Accountants ANZ ko ngā iwi Māori te tangata whenua o Aotearoa.

Acknowledging Tangata Whenua

Chartered Accountants ANZ acknowledges and respects ngā iwi Māori as tangata whenua of Aotearoa New Zealand.

He aha te mea nui o te ao?
He tāngata! He tāngata! He tāngata!

What is the most important thing in the world?
It is people! It is people! It is people!

I'd like to submit the following feedback on the draft LTIB, which is an individual response from myself s 9(2)(a)

Whilst I am happy for the content of this submission to be made public if required by law (i.e. via OIA) I request that in this case my identity be withheld in order to avoid perceived conflict with my current employment at another government department. If such anonymity is not possible then I would prefer the submission be discarded.

The following are personal views formed outside of the course of my employment.

I'd like to acknowledge the mahi of all involved in such a mammoth undertaking as the LTIB. It is unfortunate that I do not have time to detail the large portions of the draft which I do agree with. This remainder of the submission will focus on some specific and serious concerns I have.

- I'm disappointed with the adoption of the advice of the Mirrlees report that economic rent be taxed in line with labour income. Notwithstanding the practical difficulty of separating economic rent from labour income, this objective seems very conservative given that taxing economic rent is better for both efficiency and equity than taxing labour income (not to mention the compelling ethical arguments for higher taxation of economic rent). I'd argue that the Mirrlees viewpoint actually lies outside of mainstream general public views on taxation: part of the reason why so many New Zealanders believe in progressive income tax rates is that they correctly intuit that higher incomes are much more likely that lower incomes to contain unearned economic rent, and see it as just and efficient to tax this.

- I find the definitions of equity and efficiency used throughout the paper to be overly narrow. Equity is viewed in a purely mathematical sense (people of similar means pay similarly, people of greater means pay more). This approach does not distinguish between productive (earned) income which reflects genuine creation of value, and unproductive income (rent) which reflects the confiscation of value created elsewhere – despite the tax system being one of the few tools we have for incentivising the former over the latter. Meanwhile efficiency is also largely considered in a very limited and direct sense, i.e. with regard to the immediate effect on the activity being taxed. There is little consideration of the long-term negative effects on efficiency of growing concentration of assets and resources, despite the tax system again being the only major tool we have to address those concentrations.

- On Land Tax specifically, the LTIB states "a land tax would be expected to cause the value of land to fall by a lump sum equal to the net present value of expected future land tax liabilities. As a result, land taxes are a lump sum tax on those who own land when the tax is introduced". Whilst this seems to be a valid (albeit unusual) interpretation, I find it inconsistent with the treatment of other tax options in the LTIB. For example, by the same logic an increase in GST is a lump sum tax on people with savings held for future consumption, and a rise in income tax is a lump sum tax on people holding investments in physical or human capital (a degree, for example). In neither case is this interpretation given the same prominence.

- In many cases the lump sum loss from the introduction of a Land Tax would not be realised, and there are also options for mitigating lump sum losses during the introduction of Land Tax(e.g. applying Land Tax only to increases from current land value).

- The briefing does not give any meaningful consideration to the likely long-term effects of a Land Tax in stimulating development of land, reducing housing costs and reducing inequality. In line with the rest of the briefing, concepts of equity and efficiency are limited only to direct effects, ignoring the vast indirect impacts of taxation.

- As a general comment, I'm disappointed that the briefing does not energetically confront the very high levels of public discontent with the current tax system, especially amongst younger generations. It seems to me that a growing percentage of New Zealanders want to see that tax system used to reduce wealth inequality, often via taxation of assets rather than income. Given the possibility of these views gaining political ascendancy, it would be desirable for IR to give more serious consideration to alternative taxation approaches, in order to be able to provide effective advice to future governments who may be acting on a mandate for radical change of the tax system.

Kia ora,

I would like to make a submission on the IRD Longterm Insights Briefing.

I refer to the Question list on Page 9 of the Consultation document PDF.

Regarding Questions 2 & 3 -

- *Should NZ continue with the two main bases of an income tax and a consumption tax* (GST) *going forward?* and
- *To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?*

I believe that instead of increasing rates on the two main tax bases of income tax and consumption tax, or GST - both derived from earned income through labour - that a form of tax revenue needs to be devised that will taxt the untaxed capital gains from property speculation - and or also a form of wealth tax for redistribution to reduce wealth inequality.

Referring to your graph on page 7 of the Analytical Note 3: Property Data - the largest proportion of property ownership wealth (by land value) is held by the richest 30% of New Zealanders, especially the top 10% or Income Decile 10.

Currently, when New Zealand has not implemented a capital gains tax (or at least an effective tax beyond the bright line test) - this has turned housing in New Zealand - the need to live in a house, as a human right - into a speculative property investment market, with untaxed earnings that are far greater than what can be earned through labour efforts, even with education investment, or even business entrepreneurship activity.

How on earth can this be economically productive or grow the economy? - as a house doesn't create new products, and Rentier capitalism just siphons off the meagre wealth of the lower classes and those trapped in an unaffordable housing market.

When there are no rent controls, nor Government building programmes that adequately keep up with or match actual housing need - for example, housing densification rules for the private market haven't created affordable housing or increased the supply of 1-bedroom rental properties to match the population needs (projected to approx. 28%?) The consequences of not taxing property speculation has increased poverty and wealth inequality - and so should be taxed. If not for a revenue stream, then at least to redirect investment towards business and other actually productive economic activity. Not 'passive income' for the already very, very wealthy.

A further inequity in the tax system is the for low income people, including single adult households, older women, beneficiaries, disabled, and other people who have fallen foul of class and demographics - the basic costs of living are 1) Housing, 2) Food costs, 3) Electricity - and then maybe phone and internet, transport, health costs. Currently your two main tax bases strongly impact those costs.

Regarding question 8 -

- *What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?*

I find it absolutely, entirely obscene that increasing GSt is even being considered!!

When we have 15% GST on food - increased already from the initial 12.5% - and with Politicians who insist that it's too difficiult to take GST off food, oh the administration! When this has been effected in Australia. That you would consider a complicated off-set scheme for low-income people as an ethical policy?

I remember when GST was put on food initially in the 1990s - and that caused a huge increase in wealth inequality and poverty that New Zealand has not yet recovered from. It would be far preferable to remove GST from food to address inequality and poverty, rather than to consider increasing it.

Wehn New Zealand's wealthiest have greatly increased their wealth over the last two decades - in part through property speculation - the only fair and ethical form of taxation is to develop a form of taxation for these new wealth bases.

--

Ngā mihi / Kind regards,

Janet Gudmun.

Questions for submitters

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

A stable tax base with a broad base low rate.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

Yes, supplemented by a capital gains tax (CGT) on realised capital gains. With taper relief for assets below $5m or exemptions for the primary family home, Māori land and charities.

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

It depends on what the increased tax revenue is to be used for or is to replace. If there is a need for additional taxes to meet fiscal challenges of an aging, longer living populus, a CGT may fill that gap.

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

Long term bi-partisan agreement on certain fiscal direction is needed. This may not be politically achievable but should be an aspect of the tax system that needs further examination.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

The use of additional levies, like the Australian bush fire levies, to meet immediate shortfalls. For example, a Christchurch earthquake levy, or extreme weather event levy. However, any levy needs to short-term and cancelled once the target is meet – with funds going to that target. It must be narrowly defined to prevent frequent use or misuse of additional levies.

Q6. What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

- Close companies taxed once at the shareholders marginal tax rate (profit apportionment based on shareholding).
- No need for a dividend regime for these companies.
- Fixed rate deductions for associated costs such as home office, motor vehicle use apportioned.
- GST aligned to apportionments.
- Cash basis accounting (income tax and GST) for these companies.
- Presumptive taxation for small/micro businesses.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

Pros

- Theorical fairer treatment between the taxation of capital and income

Cons

- Further complexity added to an already complex tax system
- Tax rate setting between capital and income

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

Pros

- Perception of a fairer treatment for low-income earners

Cons

- Addition of complexity to GST system.
- Potential for fraud and perception of unfairness
- How would such impact on WfF low-income tax credits and for beneficiaries
- Need for means testing – income – problem with high asset base low-income person (elderly)

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

Capital gains tax (CGT) on realised capital gains.

Levies on tax rates for special purposes (limited to major events/disasters)

Taxes on foreign non-resident investors holding NZ non-productive assets

Submission on the Long-Term Insights Briefing – The Future of New Zealand's Tax System

I appreciate the opportunity to make a submission on the Long-Term Insights Briefing regarding the future of New Zealand's tax system. I support the broad objective of creating a fairer, more resilient, and future-proof tax framework, and offer the following views on how to achieve that.

Firstly, I strongly oppose any increase to the rate of GST beyond its current 15%. GST is a regressive tax that disproportionately affects lower-income households, as they spend a higher share of their income on basic goods and services. Increasing GST would worsen inequality and place additional pressure on families already struggling with rising living costs.

Instead, I urge the IRD to recommend the Government introduce a robust and comprehensive capital gains tax (CGT)—applying to all property and investments except the family home. New Zealand is an outlier among OECD countries in not taxing capital gains broadly. This gap allows the wealthiest to accumulate substantial untaxed income, exacerbating inequality and undermining the fairness and integrity of the overall tax system. Taxing capital gains would broaden the base, reduce distortions between income types, and ensure that those who profit significantly from asset appreciation contribute their fair share.

In addition to a CGT, I support the introduction of a net wealth tax on individuals with significant assets above a reasonable threshold. This would reduce the overreliance on taxing income from labour—wages and salaries—which is currently shouldering too much of the tax burden. A wealth tax would not only improve vertical equity (those with greater means contributing more), but also generate sustainable revenue to fund public services and respond to long-term fiscal pressures such as population aging and climate adaptation.

These recommendations are reinforced by Inland Revenue's own recent analysis, which found that the wealthiest New Zealanders pay tax at less than half the rate of ordinary working people. The IRD's High-Wealth Individuals Research Project found that 311 wealthy New Zealanders—each with an average wealth of $276 million—paid a median effective tax rate of just 9.4%. In contrast, a typical middle-wealth New Zealander pays an effective tax rate of 20.2%, including GST and excluding income-tested transfers. This is a damning indictment of the current tax structure, which fails to treat income and wealth equitably.

As now retired Minister David Parker rightly noted, "tradies, nurses, school teachers, hospitality workers, hairdressers, cleaners, engineers and small business owners all pay much higher effective tax rates than their wealthier fellow Kiwis." The key reason for this is that capital gains—the primary source of wealth accumulation for the richest New Zealanders—are largely untaxed.

This is neither fair nor sustainable. A fair tax system should not allow the richest to pay significantly lower effective tax rates than working people. Reform is essential.

Inland Revenue should also recommend that the Government introduce means-testing for New Zealand Superannuation, alongside reforms to improve retirement savings fairness. At present, NZ Super is a universal payment regardless of wealth or income, costing taxpayers over $19 billion annually and projected by Treasury to reach 7.6% of GDP by 2061. This is fiscally unsustainable and inequitable. Wealthy retirees—some with millions in assets and significant passive income—continue to receive the full pension, while younger workers face mounting tax burdens and challenges saving for retirement. In contrast, Australia means-tests its Age Pension, ensuring that government support is targeted to those who truly need it, while wealthier retirees fund their own retirement through superannuation savings. New Zealand should adopt a similar approach by introducing an income and/or asset test for NZ Super, beginning at high thresholds to protect middle-income retirees.

At the same time, KiwiSaver should be made more attractive and equitable by reducing taxes on contributions and investment returns, particularly for low- and middle-income earners. Currently, KiwiSaver is taxed at a member's marginal tax rate on investment returns—unlike many OECD countries that offer greater tax concessions on retirement savings. This penalises workers saving from wages, while untaxed capital gains continue to flow disproportionately to the wealthiest. Reforming the tax treatment of KiwiSaver—such as by aligning it more closely with a taxed-exempt-exempt (TEE) or exempt-exempt-taxed (EET) model used overseas—would encourage saving, improve retirement adequacy, and create a more balanced retirement income framework in conjunction with a modernised, means-tested NZ Superannuation system.

In conclusion, I recommend:

- **Retaining GST at 15%** and rejecting any increases.
- **Introducing a comprehensive capital gains tax**, excluding only the family home.
- **Implementing a net wealth tax** on high-net-worth individuals to help rebalance the tax mix and reduce inequality.
- **Reducing the reliance on taxing income from labour** by broadening the base to include wealth and capital.
- **Means-test New Zealand Superannuation** - a comprehensive design could potentially cut NZ Super costs by **20%–25%**, freeing up **several billion dollars annually** to invest in healthcare, climate resilience, or lowering the tax burden on working and middle-class New Zealanders

These reforms will improve equity, enhance public trust in the tax system, and help ensure New Zealand can meet future fiscal and social challenges in a fair and sustainable way.

Warm regards,

Kyle Sutherland

To Whom it may concern, please find my feedback on the submission request.

- **What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures? Long term flexibility to ensure equitable government revenue from NZ tax residents. i.e. fair appointment of tax based on income (from all sources)**
- **Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward? Keep, but with the next question, expand the base, which could allow the 2 income and consumption taxes to be changed. Look at having the income tax and company tax rates at eh same level and reduce GST for essential goods**
- **To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges? Increase the tax base through addition of capital and inheritance taxes**
- **Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time? Yes**
- **What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs? As mentioned above, expand the base of taxes and reduce the existing rates of personal and GST tax rates**
- **What mechanisms do you see as most effective in improving company–shareholder integration under the current system? n/a**
- **What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand? n/a**
- **What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased? Would depend on implementation, having a lower GST (or nil) for essential goods would be beneficial as households would see immediate reduced expenditure, having an offset scheme implies a timing delay between expenditure outlay and offset revenue, would also suggest this would be harder to monitor for offset payments rather than setting rules per goods**
- **Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs? Yes, as mentioned a minimal inheritance (as low as 1-2%) and capital tax (on realised gains) would be beneficial**
-
- **Thanks**
- **James**

Submission to Inland Revenue – LTIB Consultation

Submitted by: Justinus Avi Yudistira

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

A durable and stable tax system must balance equity, adaptability and low compliance costs.

It must be equitable in the sense that people of the same income ***(whether from wages or capital)*** should be taxed the same (vertical equity), and people of higher incomes should have a proportionally higher percentage of tax than those of lower incomes (horizontal equity).

It must be adaptable to changes in government policy. As the population ages, the only way to manage spending is to either cut benefits or increase taxes. The tax system needs to adjust (or we can create a self-adjusting mechanism) to increase revenue as time goes by without the need to pass a new tax or new legislation every year.

It must have a low compliance cost, as a lot of taxpayer monies are lost in managing compliance, while we could tax different items that are easier to monitor.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

No. New Zealand should also tax **capital as the third base**. Taxing income and consumption could only go so far. I would even argue that income and consumption are from the same base which is wage or value from work (because wages are taxed as income tax, and then when the wage earner spends, they are charged a consumption tax). Taxing capital means that we could also tax gains derived from the increase in value of an item

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

New Zealand have limited room to increase rates on its main tax base, as increasing consumption tax will hurt people on lower incomes, since they will spend proportionally higher income to consumption than higher income individuals. The income tax rate, for both individuals and corporations, could not be increased by a lot as well, since it would render New Zealand uncompetitive from other countries.

New Zealand should consider adding another tax, such as a comprehensive Capital Gains Tax (CGT), land value tax, stamp duty, luxury items tax, and potentially an inheritance tax, to share the fiscal burden more equitably.

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

Yes to some extent, as government changes, we must expect different governments to usher in different policies and a different kind of tax. However, it would be helpful to gain bipartisan support on a tax such as a comprehensive Capital Gains Tax that would be entrenched by Parliament. This would enable the CGT that were put in place by a government are not immediately repealed by the next government before seeing the fiscal impact this tax could bring.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

The government could use automatic stabilisers, such as automatically indexing brackets and thresholds, so we could avoid bracket creep, and maintaining the same target population that we are trying to tax. We could also add new tax types, such as CGT, so we could simply adjust the rates of other tax bases such as income or consumption.

Q6. What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

To ensure all taxpayers are treated the same, we should implement a comprehensive Capital Gains Tax to complement the current imputation regime. Currently, only some taxpayers are taxed on their capital gains, in particular, traders. We could implement a system where everybody would receive the same treatment under a comprehensive CGT.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

A general income tax that taxes individuals on their marginal rate will be simple to implement, and therefore have a lower compliance cost. However, it could potentially disincentivise taxpayers to keep their assets in New Zealand, or incentivise the creation of income sheltering schemes.

A dual income tax does assist in integrating shareholder and individual taxation, and it does incentivise taxpayers to keep their assets in New Zealand, as capital would be taxed less than income. However, this does raise equity issues, and would be more complex to administer.

Considering these two systems, it is best to apply the general income tax rule on a future CGT system, as this system will increase the most revenue with low compliance costs.

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

I would advise the Government to not raise GST to levels that might require this GST offset scheme to be implemented. GST as a flat rate tax is not addressing inequalities in our community, but the opposite. I believe that GST should be kept on the same rate. However, if the Government chooses to increase GST (or, even keeping it at 15%), there should be a GST offset scheme to counter the impact to the lowest in society.

The benefits of this scheme is targeting those who are impacted the most by an increase in GST, such as low income households. However, it does increase compliance costs by the need of a robust administration and regular updating, else some sections of our community might miss out on the offset scheme.

I find the model used in Canada particularly interesting, by creating an automatic payment to families to offset some of the GST they pay. With data already available to IRD, this could easily be done. However, as this payment on a massive scale could also increase inflation, we could split the payment to multiple forms, such as half being direct cash transfer and the other half as KiwiSaver top-up.

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

Yes, alternative taxation such as a comprehensive Capital Gains Tax are needed to reduce inequities and address the superannuation issue we will face in the next century. Besides a comprehensive CGT, the government should explore other kinds of taxes, or maximising revenue from taxes already in place.

Some of the taxes that could be implemented in New Zealand include land taxes, inheritance taxes, stamp duty, Pigouvian taxes such as a carbon tax to replace the ETS, a payroll tax or a compulsory superannuation guarantee such as the one implemented in Australia, and a luxury items tax.

We could also maximise the revenue earned from existing taxes, such as by removing the maximum income thresholds on ACC levies, freezing the highest income tax bracket to increase future revenue (bracket creep), increasing minimum KiwiSaver contributions and make it compulsory for everybody working in New Zealand to increase ESCT, and eliminating GST exemptions such as the one for financial services.

LTIB – August 2025

1. Introduction commentary on long-term insights briefing 2025

I have already submitted feedback about this topic last September 2024, when it was asked to do so. With this LTIB ongoing plan/proposal taking place every three years as I understand, I would have thought to re-engage in this conversation in 2027. But here we go again.

This feedback has put it candidly and has no filters. It engages with the reader in an informal and direct way. This text is more about focusing on ‘open the eyes’, key explanations, messages, and rationales on decisions makings. And obviously being in favour of seeing eventuated certain measures, new ways of thinking and approaches, pursuing a different pathway really, and persisting there.

I will try and keep the argument on the tax topic we have asked to provide feedback on. But inevitably the tax system has direct correlation and link to all other activities, facets of the wider society we live in, and the economy, including politics. Simply because the principle tells us that tax comes from somewhere, it is not magicked up, nor is a direct investment from the same small groups or from the monarchy. So, it is not that. We all in this together as a team of 5+ million, contribute our bit, to the public services we use and are part of.

Before I arrive to recommendations, I will make some objective statements and give my opinions on what I read there from the insights briefing. I would like to start by first acknowledging that New Zealand is a great country. I really mean that. It certainly punches above its weight when it comes to being an isolated country with a small population in a small market. To add to that in my view, the resilience, obedience, and uphold civil and human rights underpin the values of a well-respected democratic island nation that it is. I think If New Zealand was based in Europe geographically in terms of presence and contributions, I would classify New Zealand high in the ranking, in the top five. Obviously considering the entrance as an independent nation, because it is well understood that each European country has its own rules, laws, policies, lifestyles etc. despite they are legally unified under the European Union. Anyways… having seen Auckland, our largest city growing, developing, evolving at pace and levels never seen before - this has been a hell of a ride and some big achievements along the way so far. These ongoing short-term wins – whether happens in Auckland or in other parts of the country – should be acknowledged, praised, and celebrated. And we do. There are two problems here as I see it: 1. Auckland has long outstripped growth compared to other parts of New Zealand and New Zealand cities; 2. Embracing change in Wellington is a tough ask, it appears a mission impossible mission. It takes ages to pass and do things, and they get in the way. I will highlight, explain these two aspects later with some key comments.

It is hard to dispute the problem, right. Even from other independent analysis, we can ascertain that an increase in an ageing population is coming. To use a metaphor and cite a recent earthquake event, it is like a series of tsunami waves that are moving from within the middle of the ocean somewhere. You do not initially perceive the danger, but you know they are coming, just still away a bit. At the moment we have a ratio of population replacement of 'four workers per one retiree' while in 2040 this is prospected to shrink to 'two workers per one retiree'. This is a worldwide problem. We all get that. But then we should think, come the argument and discussions of what solutions we apply to the problem. Here I come to the point. You see, it is very palpable and apparent to me that you want to go for the <u>reactive</u>, not proactive solution. How can we come to the straight conclusion of hiking the current tax bases so fast, without going for all other options. I mean first of all, the year 2040 or later is relatively far down the line. We have change of Governments every three years and so in reality everything can chop and change quickly, in this fast paced world we live in. But also, given we do have this time now to work on this issue, I would expect that that is the direction of travel. For example, finding ways and incentives for parents to make more children, or reforming the immigration system to get more migrants in, not only for long-term jobs shortages as it stands, but to expand, open more entries for all sorts of other jobs where is needed, required by businesses. This to say that these examples are the proactive thinking against the problem, not a reactive, hopeless one.

The rhetoric of selling New Zealand as a 'broad-base tax system at a low rate' does not really stack up. It is certainly not broad because income and GST taxes make the majority of Government tax intakes, and it is not low rate either (it only is when irrelevantly compared to other countries), having for example a disproportionally higher company tax relevant (not relevant) to the topography and sizes of the businesses operating in this country, in which the largest majority are small-medium entities. The point is we need to diversify and expand the tax bases by adding up, not increasing the existing take.

I bet whoever looks at the pie chart you have shown, would clearly pinpoint where the issue is (identifying the problem for a start), and frankly be astounded by it. There is an abyss divide between individual income tax and company tax differences. While on average, companies are contributing more cash in dollar amounts compared to individuals, there is no doubt that their fair share of taxes go missing, untracked, unpaid to the Government. So that is one assertion.

I think we need to adopt an old fashioned, but still workable nowadays, and resolutive business-oriented approach to this issue. Put simply in a statement, focusing on improving our in-house weaknesses that is. Company tax intakes would require a larger collection uptick. This though, in the short-term, not in the long-term. Because if company taxes come down, there will be one less reason to chase up debts.

There are obvious reasons to the causes of lower company tax intakes in recent times:

- The troubled economy both nationally and internationally how is faring, right. External factors and so on. This has contributed to businesses liquidations reaching its worst time ever because of the rise of costs etc. There will be no taxes applied on losses, and that's where we all lose (businesses, consumers, Government etc.);

- Tax evasion is to be pointed the fingers at, for sure. I understand that IRD has done work in this space going after those bad actors and trying recouping money for our public aged receivables accounts to increase. Yes, there will be SMEs businesses evading in the mix. But I am referring primarily to multinational companies. You will know from the ongoing investigations at IRD, that when it comes to several millions of unpaid taxes from these corporate players, this becomes a serious, important, damaging issue for the fabric of our society. One that requires a taskforce, a new project, spending on resources etc., to go and combat tax frauds, reinforce regulations, and recuperate those large sums of financials for the public good.

Somewhere in the report I read between the lines that company taxes should be treated carefully so as to maintain competitiveness. Here is not about maintaining that. We have got the priorities wrong. In the first instance we need to act on ensuring business competition is fairer and is happening across all of New Zealand. It has been years if not decades, that we hear of monopolies, duopolies, oligopolies structural broken systems in this country. The message is simple we need a much more extensive competition of products and services across all industries.

At the same time, we should work towards reducing the company tax rate, is too high. We can talk about finding ways, best strategies to luring businesses here to invest and create jobs forever. They are not going to come here if you make them pay too much in company-related taxes. I hear some would say that in other parts of the world (i.e. Europe) the tax rates are higher than in New Zealand. Well thanks for bringing that up. But hold on, New Zealand is a small isolated island nation with a far lower GDP power to pay for it, so applying a blanket 28% is a burden and unattractive. Look around the world and you'll see investments to establish new companies and headquarters in certain **locations/States** where the applicable company-related taxation is relatively lower. It is the case of the gigafactory of Tesla in Texas, the Airbnb headquarter in Delaware, also Ireland has experienced growth in the number of corporates adding to their tax register as well. The bottom line is the Government cannot control where investors decide to puy their money to work, but it can adjust the settings and conditions to remain competitive and attract capital.

Can we actually realise the paradox here? We tax a relatively high tax rate for businesses in New Zealand. But we do not have a proper Capital Gains Tax in place. Non-existent. We cannot expect the consequence of this modus operandi being of a growth prospect for this country. And so, without growth, we cannot expect to form a competitive market as a result.

I said before, Auckland has grown exponentially over the years. That is great. But we can always improve the legislation in the sense of consenting for new projects quicker and faster, AND to have this projected growth all over New Zealand, not just in the Auckland region or usual other two/three cities.

The current tax system is broken, unfair, and certainly detached from the reality of the 21st century world. In my modest view, you have proposed the easiest, most status-quo solution of all, to make the general public pay more in the long-term for working, buying goods and services by wanting to increasing the existing tax bases. I cannot disagree more with this. Those critical long-standing issues do not have a quick fix. At least this is what I was taught back in business school. In part, they were right. But apart from what the education system tells us, it is very clear and practically sensible, that this approach isn't going to solve anything. To incrementally raising individual income and GST taxes at the expense of the few working classes of people remaining in New Zealand today, in order to pay off the pensions of tomorrow – it is a futile, unworkable, time-wasting goal set. This attempt will be unfair to whom contributes in a low, medium (certainly not high) wage economy trying to get ahead and save for retirement, holidays, house etc. The funds you intend to raise will be a drop in the ocean, solving no real problems. A 'going backwards' recipe, leaving the population worse off.

Obviously, you cannot even control all of these issues IRD, as the issue is of systemic, legislative, cultural nature. In reality there is little hope we will see real change. If we keep seeing political parties as football teams (where we show our sense of belongings, brand tags, no matter what their plan is, how they perform, win or lose) by playing the 'blame game' all the time, there is no chance we can move anywhere forward and make progresses on objective societal real issues.

2. Some of the considerations and recommendations include:

2.1 Capital gains and land taxes

This is the most talked about in the public discourse. It always pops up and targeted as a legitimate question. The real point I want to pass here is that by leveraging and adopting these added taxations, this in my view, will enable a shift in <u>cultural and systemic trends</u> that we are long seen for decades in this country. And we have seen they mutated from trends to become issues, because IRD is now crying out for extra money they could have started collecting from a while ago. On Capital Gains tax, we need to come out of this thinking that if applied people flee out of New Zealand. How and where can they flee New Zealand when the large majority of OECD countries have one in place already. One of the questions remains for the public. Will this move stop property investors to stay and trade in the property market, including Mom and Dad investors? The answer is no. But this is not the question. This is not what we are fighting for. The key point here is that we do not want to prevent purchase and sale agreements of houses. We want to change the way we look at it, this traditional thinking and behaviours that got us here. You will see that over time, habits and behaviours can shift in other parts of the economy with this move as a result. <u>There is also another important reason or disincentive here: it is known and it is evidence-based that business opportunities arise within contexts that are tax exempted</u>. In other words, applying taxes to the sales of residential property and unutilised land areas in this case, do work to disincentivise those who take advantage from how the system is set up. The assertion to make for land, is that we either make it productive where is not, with new residential and commercial activities needed for prosperity and in the public interest – or this capital should be put to better use elsewhere. Stop the land banking practices. Finally, with CGT we need to come out of this thinking that people flee

2.2 GST / Income tax vs Wealth tax

I'll say this. When we talk about raising income and GST taxes, the direct possible impact to that is the risk of the working classes or low-average incomes earners leaving NZ. When we talk about implementing a wealth tax instead, the risk goes the other way round right? It's the rich people with capitals who could say goodbye to NZ. We will keep worrying about both of these scenarios either way. So, it is about where we stand. To be real and put this in perspective, there will be more working class of New Zealanders leaving than wealthy New Zealanders leaving the country, in terms of the numbers. Politics comes from a Greek word 'Polis' means city. It is the collective our force, so doing the best we can in the public interest, not in the interest of the wealthy few. But also, how is it possible that we might end up with the wealthy few who are left to contribute for the health and education systems of tomorrow? This is unreal, is not going to happen. This comment further reinforces the disastrous idea of hiking income and GST taxes to New Zealanders. Do we want to keep shrinking as a country and seeing more people leaving NZ? No, we don't want that. We should actually establish a campaign to get them back to our shores. Finally Artificial Intelligence is not going to help us pay our bills either. While this is an evolving technology doing good and helping us tackling certain long-standing issues (i.e. cancer or virus treatments etc.), is manipulated at the top by the wealthy few, capital funds and wealthy corporates businesses who, like I said earlier, want to evade the tax system and its obligations in the first place.

2.3 Contributions and returns on investments funds

The message here is simple. As the heading above goes, <u>remove</u> taxes on contributions and returns on personal investments. Most relevant example can be KiwiSaver here, but it could be applied to all sorts of other investment funds. There is no downside to the companies working, providing this service in this field. It's about taxes to be removed, so that people can keep more of what their returns come to be. I guess what still struck me here, is that the system is still set up in a way that incentivise people on higher wages and salaries and think they're more likely to use and invest, because this is set up in a more advantageous way, if you're part of the fund scheme is financially more viable, more convenient, because PIR rate is capped at 28%, less than their income tax rate. This is what was moving this group to be the predominant main user of those funds originally. But nowadays things have changed, many more low-middle income earners use fund investments. We need to create the conditions for making it accessible and visible for everyone. No tax on "tips."

2.4 The market uncertainty is here to stay and requires a rethink on social security

It is hard to predict what the economy of tomorrow will look like. Or better we can predict this, but first it does change fast, and in reality, we need to consider uncertainties, volatilities, contingencies, political will, and mandate and so forth – all these sorts of things that could come up. That is a lot going on in the world. As a nation, yes, we trade with ourselves, to an extent. But we also trade with the world by doing heaps of exports and also a lot of the goods, products that come out from our stores and manufacturers are imported to New Zealand in the first place. The ageing population described in the briefing prospected for 2060 is one thing. The AI and robotics revolution will be with us sooner than that. In fact, this has already started as we can all see. This is one more challenge that adds up and reminds us the threats to jobs and employments for our society, for the world in general. So, one of the levers that can be pulled, in fact you've touched on this in the briefing, is the idea of establishing a long-term 'social security fund' that will assist subsidising, giving concrete financial help to the unemployed in cases of crucial needs, instead of using taxpayer money to do so. We need to become more familiar and knowledgeable on how we grow our finances. The Government has a role to play, and has the power and connections to put our public money to work with leveraging investments planning to grow our financial capital and resources, by pouring large sums of financials into diversified investments fund portfolios, and so raise new forms of capitals for many purposes really. This purpose can be for the purpose of aiding and responding to the next forecasted unemployment crisis shocks, or ramping up capitals within our superannuation funds.

2.5 KiwiSaver taxes and the Prescribed Investor rates

The issue here is the same, goes hand-in-hand with the company tax. Because of the systemic issues persisting for decades, and how the decision tree is structured in your website is set up to assessing the appropriate rate that applies in each case, this is just too high of a tax rate to bear and does not make sense at all. It is counterproductive for a tool that was purposefully created and should get us to save for retirement. We seem to like the number 28 for some unknown reasons. In my view, this rate should come down from the most applicable, used 28% rate, down to 0%. The threshold for assessing the 'PIR' requires an adjustment of taxable income selection up, so that this reflects the **current** (year 2025/2026 etc.) median real wages or salaries (and current level of inflation). To make it fair and to incentives this sorts of investments, the Portfolio Investment Entity income for individuals should be in line with what each individual pays in PAYE tax. In other words, the prescribed investor rate and income taxes should be taxed at an equivalent rate. Why is that someone pays 17.5% rate in income tax and 28% rate in investment funds taxes? In my view, there is an unfair, too wide gap there in their tax contributions. This is a general example to make a strong point on the outdated system.

2.6 Public-Private partnerships

This is already happening in part, which is good news. So, there is been an effective rethink on how we use (or do not use actually) taxpayer money. But we can do more. The simple statement here is to keep making deals with the private sector for building and maintaining public services with property, infrastructure projects, including hospitals, and so on. We cannot always control the price tags of the things we purchase, want to build, or grow right? So again, where public funded money is not enough, we have got to pass the ball and trust the process, and let their capital to make it happen from vision to execution to reality. They help us in shaping the New Zealand we want to see. There will be many examples in general. Say in the property space, Kainga Ora selling state houses to developers for redevelopments, rezoning, etc., diversifying the housing portfolio with building apartments, rather than standalone houses. It is about time; we move with the tidal times. The bottom line here is you do not need to ramp up people's taxes to put it towards building and maintenance of public services. There are other ways.

2.7 Government debts

I will need to go against the tide on this one. Look let us face it and be realistic. The practice of 'borrowing' will keep being part of the process, will be of necessary use in case of emergencies right. We have recently experienced this during the Covid pandemic. We know this story. Now we are not that better off, actually on the personal debts front, we are behind on payments/repayments etc. the estimate is currently under 500K people at the moment. However, that is to do with each individual's personal situation, so I am not getting there. I want to highlight, instead, the point of accumulating Government debts. This is what I think: we are already at a point of non-return when it comes to repaying all the public debts there is. In virtue of that, I do not believe that we should be even attempt to create more regulations or invest the counted, tight resources we have, in paying off the debts. You would know from what the statistics are telling us, that in some particular cases you have got government agencies' interests repayments on debts are far greater than the original unpaid amounts. You know all with different causes and reasons attached, lots of changes (i.e. project delays of completion etc.). So again, in virtue of this, I do not think we should be worried or waste time in walking backwards (we will not see the end of this tunnel to express this with some humour). We should be fighting for and working towards challenges that are achievable, this is not one of them. The oligopoly of banks does not need more of our money (certainly not with urgency), and the international rating agencies should not be of a 'make or break' judgement to New Zealand. To be fair, the future generations both cannot and should not be placed on the extra burden of paying off debts. So, the message here is to keep using 'good debts' for both Central and Local Governments policies, as a form of investments and scenarios of emergencies towards the public good and the services we need.

2.8 GST/Income tax management and the broader local Government's illusion

Bit of a broad comment here. Simply put, we need a rethink, right, on how to manage one of the tax levers that we have. GST has a fair share in the tax system. We do not need to increase it. We need to make a transformative, different use of it - by shifting these collected receivables amounts to different hands, instead of the most part of GSTs flowing to Wellington, in one place. This can start in a form of GST-sharing fundings between Councils and Government, why not. The elephant in the room issue here, is the public exercise the right to elect council representatives to get on with a job. This is a long-standing structural, systemic problem. We do get to elect council representatives at local levels, right. We should take this opportunity to hold them accountable and ensure that local authorities and Councils are working, empowered to do so as intended. Yup on paper, we can clearly see we have Councils in this country (quite many). But in practice they do not seem to have the devolving responsibilities and final say of decisions-makings, which is what matters most. The councils contributions to local communities feel absent. That is probably why the turnaround to vote at local levels is even lower than at a general election. In some ways because they lack of funding and need to ask help from Wellington to top it up. We need to give more power, trust, visibility, importance, and fundings to Councils. They are there for a reason, and they get paid to do just that. We can also talk about making Councils more efficient and effective. In fact, there are so many district boards and so on, around New Zealand. I would say some of them could merge together, to actually try and make a dent and count more in terms of presence and ramping up their capabilities, credibility as well, and certainly saving ratepayer money where they can. Wellington has a culture of controlling and I certainly do not agree with that. Finally, no GST on food should become the norm effective immediately, in my view.

2.9 The 'masterpiece' or 'signature piece' (even beyond 2060)

Where did the Provincial Growth Fund go? I think this was a great initiative to keep pursuing. This is a long-term game, that should come under bipartisan agreements. There is one thing NZ should be taking very seriously and start committing to serious work, that is raising opportunities and life expectancies in the forgotten regions, provinces of this country. Offering a reason to live there, building, and growing those small towns will allow for a more equally fair spread and sustainable New Zealand tax grabs for the future. At the moment we have ended up in a situation where the too few residents in those areas are seeing their rates skyrocketing to historical levels. Increasing the population in those places will alleviate the burden of carrying two third of the costs or the majority of costs, and share it equally with newcomers or planned new birth rates of tomorrow. But again, in order to ramp up income and GST taxes here with newcomers or new birth rates, there needs to be a change of settings to encourage people – whether it is new migrants from overseas or people from bigger cities within New Zealand – to move, relocate, ultimately contribute, and stay. Now we know the economic cycles are cyclical, right? For example, we have got the primary sector doing better than the third sector. Although I would personally like to see this growth happening the other way round. But given this example of raising economic growth and job opportunities in the regions, and given that we have been on the path of overcrowding the usual 2-3 cities over a long period of time – well it's time to shift the dial then, don't we think? <u>The key concept and rationale here is not to increasing the tax bases from the same areas/regions of this country like you are proposing basically. It is, rather, (and this is key to what political elected representatives should endeavour to do) to grow and expand, so that you can collect the existing tax bases from more places up and down this country</u>. This is how, in my view, the long-term should look like. Of course, you will not be able to collect this money straight away. But we should make a start and persist with this vision, project, every year. If the question most of you would ask is: "Where do we find the money to spend to invest for growth"? Well, we will need to find an answer to that. The answer comes from different measures we can adopt. In fact, the answers can be by achieving all other recommendations combined, that I have explained in all other sections of this feedback report.

3. Final thoughts, wrap up

Of course, every action plans, implementations of all of the above, are to be reviewed and monitored just like you do with this long-term briefing report published every couple of years. Knowing where we are headed into 2060 with all those projections and research that may or may not eventuate like you have pictured it. But this does not mean that ALL the solutions we discuss today will have a concrete effect in the long-term period that follows either, in this rapidly changing world. Who is in power and make the big calls will definitely matter, that is for sure. However, again, there is no need to create this sort of alarmism now. In my view, we need to face this problem proactively, not reacting at it and acting defensively no. I am hearing talking about these issues for many years and the tax system hasn't really changed its structure, nor laid out a path for expanding the tax base, has it? All it was done in the last 15 years since the last changes, was lifting income tax brackets slightly in response to inflation. That is just another reactive approach lacking long-term meaningful changes. That is why there are crippling, amounting problems nowadays worth discussing in a much bigger conversation that connects us all.

Another thing that is much needed I think, is a greater cooperation between Government agencies at national levels to implement all those ideas, new policies that turn into projects and reforms that we want to see happening. It feels Government agencies do not talk to each enough or work together to resolve all those social issues I have talked about in this report. It kind of feels from the outside that while they talk to each other for sharing information about individuals/ companies for security reasons etc. – that this is actually lacking jointed efforts in facing the bigger picture, so a shared-vision and all Government agencies working together in the same direction is desperately more of what we need to actions these recommendations. Because we know, is not one agency that does it, has all the responsibilities, or can do it all alone. It will never work that way. Tax is not only an issue and responsibility to do with IRD.

I mentioned before, another thing is certain: the current tax system of the 20th century (last century) is not going to serve us well in tackling future challenges. We need to get modern and sustainable with our approach of how we apply taxes going forward. We have inherited a tax system that it was already struggling to deliver better public services when the cost of being was lower, acceptable in a way. So inevitably as we move on, it will only get worse if nothing is done.

You do not increase the current tax bases. I am totally against this move. There will be other types of new targeted taxes potentially, such as congestion charges, value capture, road tolls, that are boiling up in the pot, ready to be unleashed. If you look at Government policies there will be a range of policies or ideas of potential taxes that are being studied in some shapes or forms. As an agency in charge of this subject, I hope you'll play a key part in analysing all those options and make up the revenues you need for the public interest. But a decision that does not go and collect taxes from the same groups. A decision that goes and collects taxes from the pockets of those who have had a free ride from the system for too long - shifting the <u>culture</u> and the <u>system</u>, to send a clear signal that w have turned the corner.

By the way things like starting out wages and the first tax bracket at 10.5% should be abolished, written off immediately in my view. It just shows how precarious, archaic some parts of the systems are.

Look in the end is very clear to me what the consequences of the status quo will bring if things remain unchanged or if you raise GST and income taxes. The few working classes population who stays at these terms, will ultimately have to foot a larger bill to keep the whole country and system afloat. It will shrink from say a 5:10 ratio to a 1:10 ratio over time, probably sooner than later, if the direction of travel remain as is. That not only is unfair to these people, but they will sink with it as it becomes more and more unsustainable living in New Zealand. That is a major wakeup call ladies and gents. If you do not shake up the system in favour of the common good, there will be no turning backs: bill prices will continue to rise; debts will rise because it will become unrealistic, if not impossible to pay it back and; the gap between the wealthy few and the rest of society will widen dramatically looming to an unprecedented absolute poverty and human extinction catastrophe.

I am sorry I cannot take you seriously with this plan. New Zealand requires and is asking for a radical change once and for all, at a breakthrough moment in time. We have got to expand the tax bases with new targeted taxes and make a new smart start. This plan is got to be more 1. ambitious and 2. bold and courageous. Even if it does not happen all at once, we need to know that we are working towards it, step by step like all other things in life. There are other options, you just need to pursue it, without slowing things down or pleasing certain minority groups.

Go ahead New Zealand.

Submission on Stable Bases and Flexible Rates: New Zealand's Tax System

My name is Ken Whitney and I wish to make this submission in response to Questions 3 and 5 of the above Policy Paper, particularly in regard to the sustainable funding of superannuation to provide a reasonable minimum retirement income for New Zealanders in future decades.

I applaud the Department's approach of taking a long-term view of New Zealand's government funding needs which enables careful planning for the inevitable demographic changes and demands in the decades ahead.

My main area of concern is the dramatic increase in the need to fund superannuation for the retirees now in or about to enter retirement as this is the most immediate pressure point for government expenditure, along with this cohort's inevitably growing health needs. My focus is on taking some of the pressure off the need to fund retirement solely from taxation and therefore does not fit neatly into the underlying premise of the questions asked in the policy paper. It does touch on aspects of questions 3, 4, 5 and 9.

In my submission the baked-in expansion in the funding of future retirement demands is only alarming if one is locked into the erroneous assumption that each dollar paid out has to be funded by a tax dollar coming in. Australia, most successfully, has shown this is not the case with their compulsorily funded contributory superannuation scheme. We are fortunate to have the building blocks for a similar scheme in Kiwisaver, although we have left it late in the day to fund it properly.

My suggestion is that Kiwisaver be made compulsory for all employees and self-employed persons and the contribution rates for employers and employees set at a more realistic level determined by actuaries to provide for a reasonable level of retirement income for most people. A concessional tax rate in the accumulation phase (as in Australia) would also encourage participation and accelerate returns leading to a faster system change.

This would reduce the government's role to funding retirement income only for those who, for whatever reason, had not been able to save through Kiwisaver, or whose savings were insufficient to fund a guaranteed minimum pension. Effectively this transfers the cost of providing superannuation mostly from the taxpayer to the individual, except for those unable to provide for themselves.

This is a far more sustainable funding mechanism than the current "pay as you go" scheme which changing demographics have rendered no longer viable. It harnesses the magic of compounding returns over time so that the actual cash contributions are far less than the accumulated total value on retirement, unlike the present system where the full cash payment out has to be funded by taxes of an equivalent amount.

As a general principle I would also suggest that means testing be adopted so that social benefits are only paid to those who need them. For example, it is morally dubious for the state to be paying me a pension when I am still working and able to look after myself. The corollary of this is that a struggling working family is having to pay more tax than they should just to pay people like me a benefit we don't need. That seems neither fair nor logical and results in taxation levels being higher than they need to be were the system more efficient.

In my submission, if we changed the funding model for superannuation to a savings-based one, the pressure on the tax system would be considerably eased, pensions would be more sustainable, efficient and affordable.

There would also be the benefit of a large pool of Kiwisaver investment funds to help with funding national infrastructure, taking further pressure off the taxpayer. In short, a more imaginative approach than constantly increasing tax burdens would provide fairer and more efficient outcomes without damaging incentives to work and ambition. New Zealand historically suffers from a loss of skilled talent through emigration and it is essential that our tax rates compare favourably with other advanced countries to retain and encourage the enterprising but mobile drivers of our future prosperity.

To summarise, the main points of my submission are as follows:

1. Make Kiwisaver compulsory for all employees immediately;

2. Set and phase in contribution rates for employers and employees at an actuarially determined rate;

3. Use the NZ Super Fund as it was originally intended to help fund the transition to a largely self-funded superannuation system over 20 years or so;

4. Means test all benefits, including superannuation, so that only those actually needing them receive them;

5. Prevent early access to Kiwisaver funds for financial hardship or at least make access more restrictive;

6. Consider raising the retirement age in line with improvements in life expectancy over time;

7. Taxpayer funded pensions should only be provided to those unable to save for themselves through Kiwisaver or whose contributions were too low;

Thank you for the opportunity to contribute to this discussion.

Deloitte.

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1 September 2025

Stable bases and flexible rates: New Zealand's tax system
c/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
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By email: policy.webmaster@ird.govt.nz

Dear David

Inland Revenue's Draft Long-Term Insights Briefing – *Stable bases and flexible rates: New Zealand's tax system*

Deloitte appreciates the opportunity to provide feedback on Inland Revenue's Draft Long-Term Insights Briefing – *Stable bases and flexible rates: New Zealand's tax system* (draft LTIB). This submission does not seek to provide a comprehensive analysis or address every aspect of the draft LTIB. Rather, we have adopted a thematic approach, highlighting areas we believe should be considered for inclusion or amendment in the final version.

Given the broader nature of our feedback, we have not responded to the specific questions outlined in the draft LTIB. Should you wish to discuss the draft LTIB or this submission in more detail, please do not hesitate to contact us.

Limitations

The draft LTIB is a substantial document providing detailed explanation of its central argument that the tax system needs to be flexible to meet increasing revenue demands. It also outlines the challenges such flexibility can present, for example, the misalignment between the top personal and company tax rates.

Deloitte is concerned that, despite its length, the document does not address some significant issues relating to New Zealand's long-term fiscal challenges. There is little consideration of the economic impacts of taxation, its effects on productivity, behavioural responses to tax and the recognition that tax forms only part of the response to long-term fiscal pressures—the other part being government spending. While we acknowledge that advising on government spending is outside Inland Revenue's remit, omitting these factors means the draft LTIB considers New Zealand's revenue needs in isolation, which diminishes its practical value.

Focus

A key challenge associated with increasing tax rates is the potential misalignment between the top personal and corporate tax rates. While misalignment may give rise to tax avoidance concerns, we consider the significance of this is overstated in the draft LTIB. We are concerned that there seems be a view emerging from Inland Revenue that businesses retaining earnings is problematic (and driven by tax settings). In practice, what we see is that businesses retain cash to reinvest and grow, which is of course a positive to be encouraged (and should be acknowledged as such). To deal with this boundary issue, we recommend that Inland Revenue provides further guidance on what is / is not acceptable behaviour and undertakes enforcement activity to more effectively address this matter, which in our view exists only at the margins. We do not believe that policy solutions are required (noting also that this is primarily an issue in the SME space). Furthermore, Deloitte suggests taking into account the feedback from the 2022 consultation on dividend integrity and personal services income attribution. A more targeted approach to enforcement stemming from that process may provide a practical solution.

The draft LTIB's strong emphasis on tax avoidance risks has, in our view, overshadowed a more immediate and important issue: ensuring New Zealand's tax system remains attractive for investment, particularly if higher rates are introduced.[1] Deloitte strongly believes the final LTIB would be benefit from greater emphasis on how the tax system can do more to support a productive and competitive economy, even if higher rates become necessary. A key part of the solution from a fiscal point of view could be growing the economy at a faster rate than currently forecast. We believe that Inland Revenue and Treasury both continue to underestimate how some of our existing tax settings are a barrier to economic growth, particularly growth that would be driven by further FDI. Given the previous LTIB focused on settings to further attract foreign capital, it would be a sensible step to link that piece of work with economic growth and resulting increased revenue. We would be happy to elaborate if required.

Alternative Tax Bases

Deloitte believes the final LTIB could be enhanced by broadening its discussion of alternative tax bases. LTIBs are intended to encourage public discussion and debate, not just among tax professionals, but also within the wider community. Given the growing public and political interest in alternative tax bases such as a wealth tax, it is a opportunity to provide a more comprehensive analysis of the pros and cons of these alternatives.

While we recognise that LTIBs are not intended to advocate for or against politically contentious issues, they do have a role to play in presenting accurate and balanced information to support informed public debate. In this context, Deloitte believes there is clear potential to expand the discussion in this section. For example, given at least two political parties have tax policies featuring wealth taxes, a more fulsome overview of the pro's and con's of this type of tax (including the economic implications, which IRD highlighted as problematic in its previous work on this topic) will allow the public to be informed in an objective way.

Accessibility, Readability and Public Engagement

A key objective of LTIBs is promoting public discussion and debate. However, the current draft LTIB is heavily focused on economic academic analysis, which may limit its accessibility and relevance to a wider audience. In particular, the early chapters on principles and systems are complex and, in our view, are likely to be difficult for most non-economists to engage with.

The document places too much emphasis on evaluating the Nordic tax system, which does not come across as a realistic solution to any problems. The sections that are most likely to capture public interest, such as the discussion of alternative tax bases, are limited to a brief mention towards the end of the document. Similarly, the GST offset scheme, which has generated significant public interest, is covered only briefly.[2]

Deloitte encourages Inland Revenue to do all it can to enhance the accessibility of the final document, we appreciate that this is not solely a matter of presentation but also of the relative emphasis put on each tax type.

Thank you for considering our submission. We look forward to your response and are happy to be contacted by Officials to discuss this submission further.

Yours sincerely

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Robyn Walker
Partner

for Deloitte Limited (as trustee for the Deloitte Trading Trust)

[1] This point was recently acknowledged in the Australian Productivity Commission's *Interim Report: Creating a More Dynamic and Resilient Economy*, which notes that reducing the company tax rate would boost investment by attracting greater foreign capital. Deloitte suggests that, if this is true, the inverse must also be true: increasing the company tax rate is likely to deter foreign investment.
[2] We note the subsequent release of Analytical note 2 includes more discussion of the scheme, though Deloitte is uncertain how widely read this has been given its delayed release.

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1 September 2025

Submission on stable bases and flexible rates: New Zealand's tax system

About the Submitter

1. Founded by David Farrar and Jordan Williams in 2013, the *Taxpayers' Union*'s mission is Lower Taxes, Less Waste, More Accountability.

2. We enjoy the support of some 200,000 registered members and supporters, making us the most popular campaign group championing fiscal conservatism and transparency. We are funded by our thousands of donors and approximately two percent of our income is from membership dues and donations from private industry.

3. We are a lobby group not a think tank. Our grassroots advocacy model is based on international taxpayer-group counterparts, particularly in the United Kingdom and Canada, and similar to campaign organisations on the left, such as Australia's *Get Up*, New Zealand's *ActionStation,* and *Greenpeace*.

4. The Union is a member of the *World Taxpayers Associations* – a coalition of taxpayer advocacy groups representing millions of taxpayers across more than 60 countries.

5. Nothing in this submission is confidential and we would welcome the opportunity to discuss this submission with you further.

Executive Summary

6. The *Taxpayers' Union* considers the draft LTIB requires further work before finalisation.

7. The principles section needs a richer discussion and we do not support using frameworks developed by the 2001 McLeod Review or the 2018 Tax Working Group. The reason is that both of these reviews were constrained by their terms of reference specifying that only progressive tax systems were to be considered. That means that the possibilities of a flat tax were not discussed.

8. With the focus of the LTIB being on raising greater revenue, the option of a flat tax should be part of the discussion, but it has been completely ignored. This omission is not appropriate.

9. The capital income definitions need refining, as do the tax bases. The use of a general income tax combined with a rate of return allowance (RRA) for the normal return (GITR) as a tax base is unnecessary and leads to a more complicated and confusing analysis than is needed. This GITR is not an irreducible tax base as it is a composite of personal income tax, corporate income tax and tax on the return to invested capital. The subsequent analysis would proceed more rationally if these three bases, plus the consumption tax, were used.

10. Our major concern lies with the complete absence of any discussion about the elasticity of tax revenues with tax rates. Increasing tax rates does not necessarily result in an increase in tax revenues and can, perhaps counterintuitively, result in substantial falls as the UK Government has recently discovered. The draft LTIB is predicated on raising tax revenue through new taxes and/or raising existing tax rates. There is no discussion of the impact of these on tax revenues, other than the implicit assumption that tax revenues will rise with new taxes or an increase in existing rates.

11. The draft LTIB is seriously deficient in not at least discussing this issue and the possible impacts if elasticities are not well understood. More work is required to address this prior to completion of the LTIB.

Principles

Principles of Sound Tax Policy

12. The United States Tax Foundation[1] has articulated four broad principles of sound tax policy, covering simplicity, transparency, neutrality and stability. The *Taxpayers' Union* supports these principles and they are explained in more detail below.

Simplicity

13. Tax codes should be easy for taxpayers to comply with and for governments to administer and enforce.

Transparency

14. Tax policies should clearly and plainly define what taxpayers must pay and when they must pay it. Hiding tax burdens in complex structures should be avoided. Additionally, any changes to the tax code should be made with careful consideration, input, and open hearings.

Neutrality

15. Taxes should neither encourage nor discourage personal or business decisions. The purpose of taxes is to raise needed revenue, not to favour or punish specific industries, activities, and products. Minimising tax preferences broadens the tax base, so that the government can raise sufficient revenue with lower rates.

[1] The Tax Foundation https://taxfoundation.org/principles

Stability

16. Taxpayers deserve consistency and predictability in the tax code. Governments should avoid enacting temporary tax laws, including tax holidays, amnesties, and retroactive changes, and strive to establish stable revenue sources.

17. The draft LTIB touches on neutrality and simplicity, but in the context of fairness and efficiency. It does not discuss any other broad principles and this should be corrected in the final briefing.

Objectives and Framework

18. The draft LTIB refers to the framework articulated by the 2001 McLeod Review as being sufficient in most cases to identify the trade-offs inherent in tax policy design. We strongly disagree with this assertion because this review was severely constrained by the requirement in the terms of reference to only consider *progressive* tax systems. They could not consider a flat tax system with offsetting transfer payments.

19. By adopting the Review's framework, the draft LTIB inappropriately constrains its analysis. This devalues the contribution the briefing could make to the debate.

Fairness

20. The fairness discussion starts with considerations of horizontal and vertical equity. The discussion on horizontal equity is too light. Whilst horizontal equity would demand that people in the same economic circumstances be taxed the same, this does not happen in practise. The discussion would benefit from a more fulsome explanation of the pros and cons of horizontal equity and in particular the incentive effects on desirable behaviours (e.g. savings and investment) and undesirable (e.g. avoiding child-rearing in the absence of transfer payments).

21. Similarly, the discussion on vertical equity assumes that a progressive tax system is the system of choice. This need not necessarily be the case. A flat personal income tax means that people with higher taxable incomes will pay a higher quantum of tax. There is no reason why a flat tax applied across all income levels, with an appropriately structured system of transfer payments, cannot achieve the goals that a progressive tax system is aiming for. In fact, Inland Revenue expressly acknowledges this in their advice to the Tax Working Group[2]. Estonia's tax system currently includes a flat personal tax rate of 20% and has been described as the most competitive in the OECD[3].

22. The draft briefing should have included a discussion on:

- the pros and cons of a flat personal income tax structure and including the transfer payment system that would be required to compensate low-income households;
- the efficiency gains that might be made by narrowing or eliminating the gap between the personal income tax rate and the corporate income tax rate; and
- whether or not this might promote more investment, and in particular foreign investment, and thus help grow the economic pie and obviating the asserted need to create new tax bases or raise existing tax rates.

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[2] Paragraph 12, *Tax and Fairness*, Background Paper for Session 2 of the Tax Working Group, February 2018.
[3] https://taxfoundation.org/estonia-tax-system-competitiveness-reform/ But it should be noted that income up to a specified level is exempt from taxation, and thus some progressivity is a feature.

Overlapping Tax Bases

23. The discussion in this chapter, that follows through to the rest of the draft LTIB, is confusing and needs reworking.

Capital Income Definitions

24. The draft defines a 'normal' return as a "risk-free return that people require in compensation for putting off consumption without any additional returns to compensate for risk bearing. This can be thought of as the return from a safe interest-bearing asset." Such a definition is incorrect. All interest-bearing assets, no matter how safe, bear premia to cover default risk, liquidity risk, currency risk and other risks. The yields on ten-year New Zealand government bonds are almost the highest amongst advanced economies precisely because of these risks and yet they are generally regarded as a 'risk-free' asset.

25. If you are truly seeking the component that provides equal consumption in differing periods then you would only consider the inflation component. Therefore, your 'normal' return would be the element that compensates for inflation only.

26. That means the return to risk is the premium above the inflation component that exactly compensates for the riskiness of investing in that asset and no more.

27. Following on from this are the economic rents which are the returns in excess of those required to compensate for the risk of investing in the asset.

28. The definitions need amending so that they are internally consistent and convey precisely what is intended. At the moment they do not and this confuses the subsequent analysis.

Tax Bases

29. The *Taxpayers' Union* considers that the choice of bases needs more work. We think that a more logical sequence would be:

- Tax on labour income only (LIT)
- Tax on corporate income only (CIT)
- Tax on consumption (CT)
- Tax on the returns to invested capital (RICT)

30. The draft LTIB introduces a "general income tax combined with a rate of return allowance (RRA) for the normal return (GITR)." The general income tax (GIT) is earlier defined as a tax on both labour and capital income. The motivation for this appears to be from a suggestion by the 2010 Mirlees Review in the United Kingdom. It is not clear that this is a tax base as we understand it – it's a composite of LIT, CIT and RICT as we have defined them. These are tax bases in their most irreducible form, but the GITR is not and should not be used.

31. The use of GITR in subsequent discussions unnecessarily complicates the analysis and makes it difficult to follow.

How Much Will Tax Revenue Increase?

32. This is the missing element in the draft LTIB. You cannot assume that imposing new taxes or increasing existing tax rates will generate more tax revenue, because you have to analyse the incentive effects this provides. Take labour income taxes for example. Taxes on labour income affect the incentives to provide labour. Reducing these taxes may induce greater provision of labour to the extent that tax revenues from labour income increase. The same logic underpins corporate income tax, consumption tax and tax on the returns to invested capital (if the possibility of lower-taxed investments exist or capital can be moved to lower-taxed jurisdictions).

33. As the Adam Smith Institute notes[4]:

There are historical and empirical examples which back this up. In the 1920s the US cut high marginal tax rates from 73% to 25%, and federal revenues increased.

In the 1980s there were the Reagan tax cuts. The Reagan administration cut top marginal tax rates from 70% to 28%. While revenues fell in the short term, proponents point out that economic growth was spurred and eventually led to higher revenues than otherwise expected.

Also in the 1980s in the UK under Chancellors Geoffrey Howe and Nige Lawson, top tax rates were cut from 83% (or 98% including the investment income surcharge of 15%) to a top rate of 40% and a basic rate of 25%. The economy surged and not only boosted Treasury revenues, but saw the richest pay a much larger share of the total.

In post-Soviet economies, countries in the Baltic states adopted flat taxes at relatively low rates and saw large increases in tax compliance and revenue. In Sweden in the 1990s, they significantly reduced marginal tax rates and saw rising revenues as compliance and economic activity increased.

34. More recently the Financial Times reports[5] that the UK Government's attempt to plug the budget deficit through reducing tax-free allowances and raising rates for capital gains taxes have spectacularly backfired. The CGT take fell eighteen percent in the 2023-24 fiscal year when compared to the previous year even though the annual tax-free allowance was halved. Provisional figures for 2024-25 show a further ten percent fall in CGT receipts in light of a further halving of the tax-free allowance and a hike in the main CGT rates. The article also reports a wave of wealthy emigration after the Labour government made their worldwide assets liable for the inheritance tax.

35. The key point is that adding new taxes or changing tax rates in order to generate more tax revenue must not be undertaken until the elasticity of tax revenue to tax rate is well understood. Clearly, the current UK Government has no idea about the elasticity of tax revenues to CGT rates and is suffering a fall in tax revenue after raising CGT rates and massively reducing tax-free CGT allowances.

36. Has the IRD performed any such analysis? The documents relating to the draft LTIB make no reference to elasticities or the Laffer curve, which is essentially the aggregate of individual elasticities. If not, how can the IRD be sure that any of its modelling is robust? In our view, this is a major omission from the draft and the final briefing must discuss tax revenue elasticities, else the IRD lead the discussion down the same path the current UK Government has found itself on.

[4] https://www.adamsmith.org/blog/the-laffer-curve-is-a-fact-not-a-theory
[5] https://www.ft.com/content/8d8e1848-5a24-49a1-a695-2800345ff425

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The Laffer Curve

37. Professor Arthur Laffer is credited with describing what came to be known as the Laffer curve – an inverted u-shaped curve showing tax revenues as a function of tax rates. He described the basic intuition behind the impact of changes in tax rates on tax revenues in this way:[6]

The basic idea behind the relationship between tax rates and tax revenues is that changes in tax rates have two effects on revenues: the arithmetic effect and the economic effect. The arithmetic effect is simply that if tax rates are lowered, tax revenues (per dollar of tax base) will be lowered by the amount of the decrease in the rate. The reverse is true for an increase in tax rates. The economic effect, however, recognizes the positive impact that lower tax rates have on work, output, and employment--and thereby the tax base--by providing incentives to increase these activities. Raising tax rates has the opposite economic effect by penalizing participation in the taxed activities. The arithmetic effect always works in the opposite direction from the economic effect. Therefore, when the economic and the arithmetic effects of tax-rate changes are combined, the consequences of the change in tax rates on total tax revenues are no longer quite so obvious.

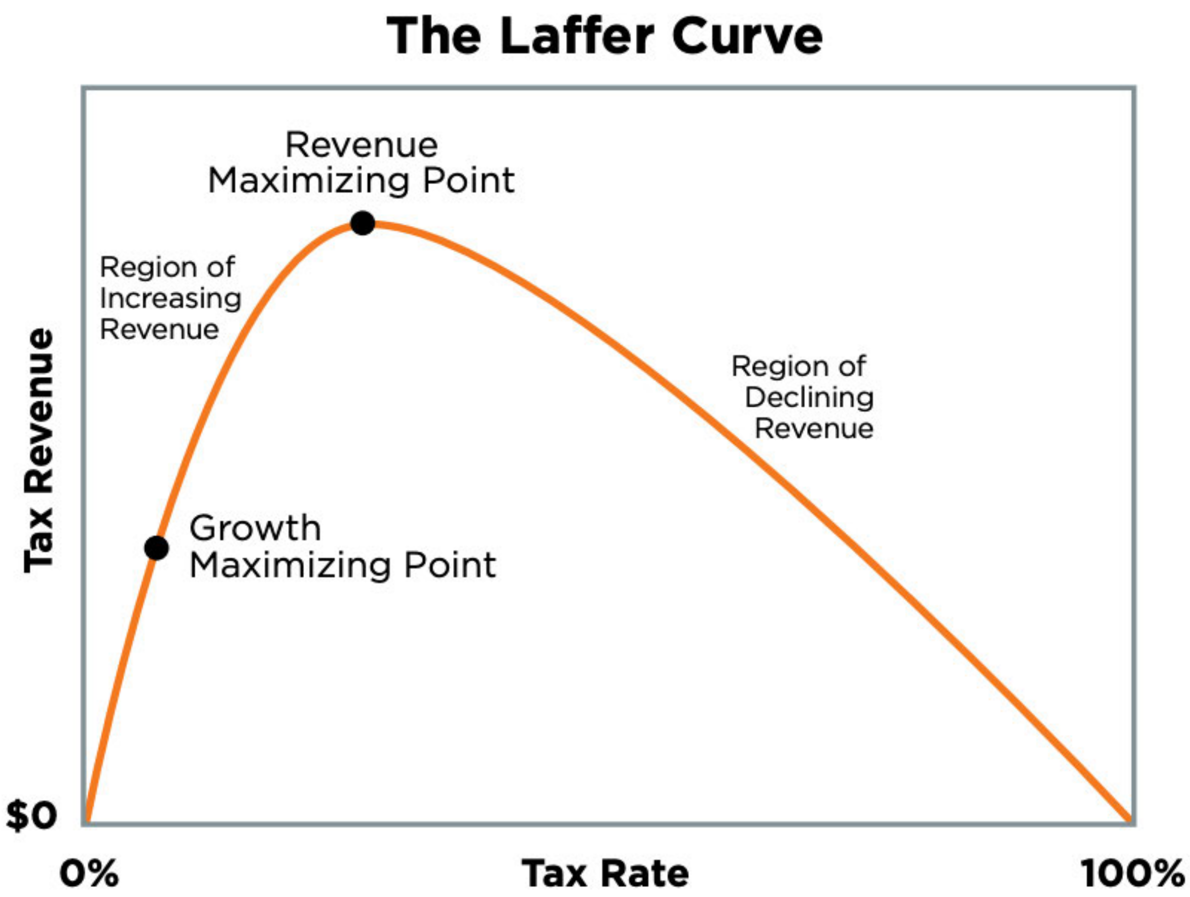

Figure taken from https://www.americanexperiment.org/magazine/article/understanding-incentives/

38. Without an understanding of these elements the IRD cannot be sure, when increasing tax rates, that the arithmetic effect dominates the economic effect (or visa-versa) and therefore whether tax revenues increase or fall.

[6] https://web.archive.org/web/20170207000153/http://www.heritage.org/taxes/report/the-laffer-curve-past-present-and-future

Concluding Comments

39. The draft LTIB is insufficient for a discussion about policy choices with such far reaching consequences. The implicit assumption is that imposing new taxes or raising existing tax rates will increase tax revenues. This is not necessarily true as we have demonstrated. Reducing existing tax rates may increase tax revenues.

40. To understand the true revenue impact of changing tax rates requires an understanding of the elasticity of tax revenues with tax rates. The recent UK experience shows how fiscally damaging a lack of such understanding can be. IRD has not demonstrated, to our knowledge, that it has the requisite understanding. If it does not possess this knowledge it cannot credibly advise any government on the revenue implications of any particular tax bases or their rate of taxation.

41. The *Taxpayers' Union* recommends that the LTIB not be finalised until at least a section discussing elasticities and the Laffer Curve is completed. The document would be incomplete without this.

Yours sincerely
New Zealand Taxpayers' Union Inc.

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3 September 2025

Stable bases and flexible rates: New Zealand's tax system
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Dear David

Inland Revenue's Draft Long-Term Insights Briefing – Stable bases and flexible rates: New Zealand's tax system

Olivershaw is pleased to provide this short feedback on Inland Revenue's draft long-term insights briefing (LTIB). Our feedback is on two points both related to the extensive references in the LTIB to the Nordic Dual Income Tax. We would welcome the opportunity to discuss.

1 Taxation of income retained in the SME sector

The LTIB suggests that New Zealand has a material problem with labour income being diverted into companies to benefit from the company tax rate of 28% that is generally lower than the individual rates of company proprietors. Current tax policy settings do encourage capital income to be derived through companies (and a fortiori PIEs). This is a natural consequence of having a lower corporate tax rate compared with the individual tax rate. While there is some diversion of what would be labour income to companies, we consider current rules to counter this do work and the extent of such diversion happening seems exaggerated in comments in the LTIB.

First, we note that NZ has comprehensive dividend/FBT rules that ensure that where profits are retained in the corporates those funds are not being used to fund private expenditure. We have seen over the years officials raise concerns with the quantum of profits retained within the SME sector, including examples where there were large build-up of imputation credits that officials thought were reflected in over drawn current accounts. This example, however, seemed to be based on an error of what factually was occurring. From the comments in the LTIB, officials still seem concerned with this even though a true understanding of the facts showed the concern to be unjustified.

Secondly. we have not seen any issue with the dividend/FBT rules which raises policy concerns. The private boundary is robust and the dividend/FBT rules are working as intended. If there is a concern, officials should identify what this is. We are aware that Inland Revenue has concerns as to the effectiveness of current dividend stripping rules. In our experience they are sufficient.

The LTIB notes a high level of profit retention in the SME sector. We see this as the product of the SME sector reinvesting into their companies to repay debt or make further investment. This enhances long term, growth and, in the long term, increases economic wealth and therefore tax revenue. This is not of itself evidence of labour income diversion. It is probably true that many start-ups pay shareholder employee salaries at less than market rates. "Sweat equity" has long been a feature of successful start up enterprises. This is a matter of commercial necessity for cash-poor firms. It should not be viewed as tax avoidance.

We also note that under a Nordic style Dual Income Tax, the incentives to re-characterise labour income as more lowly taxed capital income are very high. Corporate earnings distributed as interest or dividends are, in the absence of anti-avoidance rules, treated as lowly taxed capital income. Norway has responded with the Risk Free Rate of Return Shield.

Adopting this in New Zealand without reducing the tax rate on capital income generally would increase the tax on retained profits. That would reduce investment, reduce wealth and reduce what would otherwise be future tax revenues. To direct any such tax increase just to NZ owned entities (i.e. leaving foreign owned entities with lower taxes) would not be efficient and would seem an unsustainable tax on New Zealand companies. Such an outcome would likely result in many entrepreneurial starts-ups being encouraged to start offshore.

Depending on the design of a DIT, the effect could be as stated above, all New Zealand entities face higher taxes, hence commencing outside New Zealand.

Lastly in this regard we were somewhat surprised with the comments that all PIEs would continue with their existing tax settings. There are already tax advantages by investing in PIEs over direct investment. We do not see it as sustainable that PIE investments remain with the current settings, but direct investment will be heavily taxed on returns above risk free rate. Under a DIT, this outcome would have a material detrimental effect on investment, especially for third party investment in New Zealand companies where PIEs do not current invest (farms, forestry, commercial buildings, start-ups etc).

2 Taxation of excess returns

The other concerning feature of the LTIB is the taxation of returns in excess of the risk free rate. Under officials view of a DIT, it appears that only the risk free return should be taxed at the lower corporate rate and all excess returns are effectively badged as "economic rents" and should be taxed at the higher rates. We disagree. In most cases we see this is a return based on a risk premium for undertaking higher risk investments. That is, many investments are above normal risk returns which are undertaken on the basis on the hope of higher returns. These are not economic rents. The literature refers to these as "quasi rents".

For example, a taxpayer invests in a earthquake prone building and given the uncertainties of how the remediation will need to be undertaken plus the costs of taking such work, the returns are risk adjusted.

If the investment were successful, taxing the returns at a higher rate creates an additional barrier for such investments to be undertaken. That is, if all returns above the risk free rate of return are taxed at the highest individual tax rate, we suspect these investments will be considerably harder to fund. This will have a detrimental impact on all risky investment which will reduce economic output and there reduce government revenues.

We would welcome the opportunity to meet to discuss.

Yours faithfully
Olivershaw Limited

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Submission to the Inland Revenue Department (IR) on:

Stable bases and flexible rates: New Zealand’s tax system.

Consultation on the draft Inland Revenue Long-Term Insights Briefing 2024-25

1 September 2025

Introduction

1. Thank you for the opportunity to comment on the draft IRD Long-term Insights Briefing (LTIB).

2. As we commented in our submission on the scoping document for this LTIB, we are disappointed at some limitations to the scope, but the topics covered are useful.

3. In this submission, we principally respond to the questions asked in the LTIB but make a few preliminary comments.

4. It is correct to recognise that there will be future funding pressures as a result of an aging population, which the LTIB describes as its "first motivation" (p.10) but as it then goes on to acknowledge there are other substantial pressures including environmental factors including climate change and biodiversity loss. We would add there is an increasing need to address poverty and income inequality more broadly, and in assisting New Zealand through the changes brought about by technology and impacts of the global situation which is increasingly unstable and unpredictable. In addition, many current public services show clear signs of under-resourcing. There is therefore an imperative for more revenue, though different political parties may disagree as to how much.

5. We do not find the highly theoretical analysis of the impacts and incidence of the different tax types particularly convincing as applied to the accumulation of wealth. While we strongly agree that the taxation of economic rents is important, a simple two-period analysis of the impact of taxes where income is saved in the first period and fully consumed in the second (including capital income) bears little relation to the accumulation of wealth, among the very wealthy.

6. Wealth may steadily accumulate and at some point the income from it is so high that consuming (spending) it becomes problematic, even in old age, and it is much more likely to be saved or reinvested, escaping valued-added taxation (GST). Spending, if it occurs, is more likely, relative to those with lower income or wealth, to be on items that are not liable for GST such as financial services, consumption overseas on travel, accommodation, goods and other services, or disguised as a business expense. That heirs may consume their inheritance rather than save it is only true to an extent and does little to change the reality of low taxation in practice. It is unrealistic to suggest that GST taxes all income from capital.

7. Income taxes may apply only at a lower rate (typically the company tax rate, which may have already been passed on to employees) or not at all in New Zealand's regime where the income from capital gains is largely untaxed. Given that any tax on the income from capital gains is almost certain to be on realisation of the gain, and that the wealthy relatively rarely realise their gains, even a capital gains tax will be only partially effective in taxing the income of the wealth.

8. These effects can be for a lifetime and beyond, particularly in the absence of an inheritance or estate tax.

9. From IRD's own 2023 research on high-wealth individuals, we know that the current tax mix has led to low effective rates of taxation on the economic income of the very wealthy – about half that of the general population. While a tax on the income from capital gains would help close the gap, it is unlikely to be enough. Even much more progressive income tax rates, with high marginal rates for high incomes – which seem politically unlikely – may be ineffective given the ability of the wealthy to pay for the advice needed to avoid higher taxation rates.

10. In practice we have a highly regressive tax system – especially when considering the very high effective marginal tax rates on many people with low or moderate incomes resulting from means testing and abatements of Working for Families tax credits, other benefits and supplements[1].

11. Therefore additional taxation measures are required to address the inequity of the low effective tax rate of the very wealthy, which corrodes confidence in the fairness of New Zealand's tax system, and the increasingly apparent social and economic problems of concentration of wealth in a few hands. Few New Zealanders would welcome the extremes of wealth that are seen in the US and the increasingly obvious and increasingly exercised economic and political power that goes with it. New Zealand's current mix of income and consumption taxation are inadequate for this purpose, even if they have other advantages.

12. As a rough calculation, the 311 wealthy families studied by IRD had approximately $75 billion in net wealth (averaged over the 6 years of the study). They had approximately $5 billion in annual economic income, taxed at an effective rate of just under 10 percent – around $500 million per year. To bring their effective tax rate up to the average rate for other New Zealanders, that sum would need to more than double – at least an additional $500 million revenue per year – and to make the tax system progressive, it would have to increase even further. A wealth tax at 0.7 percent would raise $520 million per year – about enough to bring their taxation up to the average level. A 1 percent wealth tax would raise $750 million, making some contribution to a progressive tax structure. This is for the top 311 families alone, and there are many other considerations, but this shows that a wealth tax at a realistic rate could make an appreciable contribution to a more equitable tax system. Whether it would tax excess profits is difficult to decide if it sits alongside the current tax mix.

Answers to LTIB questions

Q1 What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

Q2 Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

Q3 To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

[1] See for example "Meet more of Taylor & Alex's whānau", by Ganesh Ahiroa, 30 July 2025, at https://ganeshnana.substack.com/p/meet-more-of-taylor-and-alexs-whanau

Q4 Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

Q5 What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

13. We agree that the tax system should be readily able to be adjusted to meet revenue needs without great difficulty. We note that IRD capability – skills, staffing levels and technology – is also an important part of this.

14. We also agree that distributional concerns are a critical aspect of tax system design and different governments will have different views on the appropriate setting. However the need for a progressive tax system could be reinforced by embedding the principle in law and/or regular reporting on it as the now-repealed Taxation Principles Reporting Act 2023 required.

15. While we agree that taxation of individual and company income will continue to be an important part of the taxation system, we do not support increasing reliance on GST and would prefer to reduce it in favour of other forms of taxation, unless a robust, effective and politically durable method to make it progressive is found. As will be seen in our answer to Q8, we doubt the feasibility of this.

16. While, as the LTIB states, it is possible for one part of a tax system to be progressive and another regressive but with a net progressive effect, when the regressive part is as large a part of revenue as GST and when the main progressive part, personal income tax, is only weakly progressive in comparison with other countries, we end up with a system which is at best weakly redistributive, as work for the 2017-19 Tax Working Group showed. Only when transfers are included does the net effect become strongly progressive. Yet this is at the expense, in the New Zealand system, of very high effective marginal tax rates for many low and middle-income earners: much higher than for high income taxpayers.

17. Whether or not GST is part of the mix, we do not consider that these two forms of taxation, even with the addition of capital gains to the scope of income tax, would be sufficient to cover revenue needs in a fair and progressive way, as the example in the Introduction illustrated.

18. Social, economic and environmental needs change, and are currently changing rapidly. The needs require not only quantitative change but different ways of approaching revenue gathering and preserving the integrity and equity of the system. The tax system must therefore stand ready to adapt with different types of tax on different tax bases.

19. As well as considering wealth, land and inheritance taxes, hypothecated social security contributions – such as to extend the ACC scheme into other areas – are worth consideration. More generally, hypothecation could be considered in other areas. Hypothecated taxes already raise significant sums for transport infrastructure and could be considered for other purposes, while recognising the balance that must be struck between popular acceptance in a world of reducing social cohesion on the one hand and the loss in flexibility to move funds between different public purposes on the other. A hypothecated tax may also serve a purpose as a corrective tax, as fuel taxes do (though weakly); and some corrective taxes are substantial revenue raisers such as tobacco excise duties.

20. Special consideration should also be taken of trusts, which are unusually common in New Zealand and can be used, deliberately or not, to avoid tax, especially by the wealthy. A more comprehensive trust-specific regime is needed.

Q6 What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

Q7 What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

21. We think it is time to revisit the imputation of dividends. Their introduction created a significant increase in income inequality in New Zealand, and we have seen no evidence that they have led to improvements in investment or productivity. The appearance is to the contrary – or at best that imputation has had little effect – and they are an incentive to companies not to reinvest. The low company tax rate compared to the higher personal income tax rate makes companies an attractive tax minimisation mechanism for the already wealthy and imputation assists that. The resistance to double taxation of dividends is not a concern shared by many other countries and is not respected in other parts of New Zealand's tax system, notably the imposition of GST on already taxed incomes. Discarding that as a principle would allow other options to be considered for company and dividend taxation.

22. The dual income tax system, which taxes company income up to a risk-free rate of return at a low tax rate (22% in Norway) and company income above that at approximately the relevant personal income tax rate using double taxation, has many attractions, and we submit that it would be useful to investigate it further. Higher taxation of above-normal profits (rents) is an important issue for New Zealand because there is evidence of high economic rents being received by companies (Bertram & Rosenberg, 2025). As the LTIB notes, the dual income tax system would resolve some of the current problems of companies being used as a tax shelter, and works better with a tax on the income from capital gains. There are also disadvantages but it is worth serious consideration.

23. In the absence of a move to a dual income tax system, more assertive action is needed to protect the tax system against the use of closely held companies as tax minimisation mechanisms. Along with the absence of a tax on capital gains, they are an important contributor to the low effective tax rates paid by the very wealthy.

Q8 What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

24. IRD investigates three options to compensate low income families for an increase in GST. It is good to see this investigation and the analysis it provides. The investigation classifies as 'low income' those families receiving less than 60% of the median family income, in equivalised terms.

25. The first compensation option would require point-of-sale tracking of GST paid, and full compensation for the GST increase on a purchase would be by a refund. This could be done by using an electronic card and has been done in Thailand. IRD considers this impractical in

the New Zealand context, reports that the scheme has its own problems, and does not consider it further.

26. The second option is again full compensation but instead aims to reimburse the families for the full cost to them of the GST increase through a periodic payment. The payment is estimated and set according to family composition (number of adults and number and age of children). On average this provides all low income families with full compensation, although in practice there could be significant under or over compensation for individual families. It is assumed that benefits are not increased for the part of CPI affected by the GST increase, and this full compensation payment replaces it.

27. The third option compensates for the increase in prices resulting from the GST increase. This is assumed to occur through the normal mechanism where benefits which rise by at least the CPI increase. It is more expensive than the second option and less well targeted – not only low income families receive some benefit; and some low income families receive less compensation than needed.

28. Our preference would be for further investigation of the first option. If can be made to work – such as through the community services card and the gold card – the relief could be immediate and assured with no under or over compensation. However the technical difficulties, and ensuring it is accessible to all who were entitled to it, are more than minor.

29. The problem with the other two options is that they are more readily susceptible to political interference. Benefit payments may not be fully adjusted, beneficiaries may lose out due to sanctions placed on them, and in the case of the second option, the relationship between the GST reimbursement and the CPI (or average wage) adjustment of benefits is complex and again susceptible to change which in effect or deliberately pays less than full compensation. Families who are not well off but above the low income threshold and reliant on benefits or tax credits would not receive any compensation for the GST increase, creating another jump in effective marginal tax rates.

30. Our second preference, other than not increasing the rate of GST, would be the second option with statutory protection and public visibility of the way it is calculated and paid out, to ensure that as far as possible it maintains its value tied to the GST rate, and acts as full compensation for increases. The choice of the low income threshold would have to be made with care and abatement rather than a cutoff considered.

31. All of this leaves silent the existing regressivity of GST. The proposals do not address this.

32. Our preference remains to reduce the tax system’s reliance on GST. This is a straightforward and assured response to its regressivity.

Q9 Do you see alternative tax bases as desirable to add to New Zealand’s tax mix at current or higher revenue needs?

33. See our response to Q1-Q5 above.

References

Bertram, G., & Rosenberg, B. (2025). *The recent rise of corporate economic rents in New Zealand: Historical and methodological perspectives* [Conference paper]. New Zealand Association of Economists. https://www.nzaeconference.co.nz/_files/ugd/623971_bdaabbca39ac4f21b0e6a1ce4f014ba8.pdf

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Dear Phil

Submissions on Draft Long-Term Insights Briefing

We refer to "Stable bases and flexible rates: New Zealand's tax system" Inland Revenue's draft long-term insights briefing document ("LTIB"). Thank you for the opportunity to comment on the draft LTIB.

Overall comments

The objective of this LTIB is laudable. Producing considerations with a longer-term focus to lift the gaze beyond the horizon is important. The LTIB should ideally bring to the broader public's attention the need (if any) to consider systemic tax reforms. The kinds of broad reforms that may be necessary but may otherwise prove difficult for any government of the day to drive in the absence of clear public understanding of the problems.

We are overall concerned that this LTIB draft falls short of that mark. While the draft sets the scene well, explaining the issues in fiscal sustainability in accessible ways, it is overall too long and complex for most of its intended audience. It dedicates inadequate focus to issues which need consideration (such as the design of capital gains regimes) and too much focus to solutions which in our view are not tenable in the New Zealand context (such as the Nordic system). The draft also makes many tacit assumptions which it does not explain very well. For example, it is assumed that a large gap between company and individual taxation is in and of itself problematic. Even though many countries have gaps larger than New Zealand, and yet they do not suffer complete base erosion.

There is little discussion around the consequences of certain design choices and how these fit into the broader framework of our tax system. For example, the decision to exclude the family home from capital gains taxation and the significant narrowing of the tax base that results.

A debate around tax settings is the opportunity to reaffirm the frameworks which underpin New Zealand's tax settings. The decision to adhere to or depart from such frameworks will ultimately shape future policy decisions and possibly take some options off the table.

For example, a tax administrative preference to keep as many individual taxpayers as possible as 'non-filing'. Continued adherence to this approach means that appropriate data collection and withholding of taxes needs to be reflected in the design of compliance rules in the context of future base expansions.

In our view, the LTIB needs to endeavour to educate the public/its readers on the existence of such frameworks; and more broadly on the consequences that these overarching policy settings have on the available options for future policy reform.

Finally, the LTIB should acknowledge to a greater extent the implications of large-scale tax system reform. Transitional costs and issues can be expected and can often fall on certain taxpayers disproportionately. Providing meaningful solutions to these issues, can add complexity and undermine efficiency.

The perception of tax system stability and predictability is in our view just as important as actual stability. Investment decisions are made with a long-term focus, therefore change even when it is overall positively viewed can have destabilising effects. This can be a hidden cost to any proposed large-scale reform. To that end solutions that are likely to have longevity should be preferred.

We set out below some further specific comments on the draft for your consideration:

1. Discussion on taxation of capital income is lacking

1.1. The LTIB discussion touches too lightly on the potential design options available for a capital gains tax ("CGT"). Given, as noted in our earlier submissions on this LTIB, the increased public and media interest in a CGT, it is important for Officials to use this opportunity to set out their views as to potential design considerations.

1.2. It is especially inadequate that the LTIB is largely silent on potential CGT designs, given the LTIB's focus on the Nordic system which itself relies on the presence of a CGT. If we were to progress with adopting a Nordic system, we would need to also implement a CGT – how we might best do so, is not immediately apparent to the readers of the draft LTIB.

1.3. We acknowledge that the LTIB does reference the various working groups who have previously canvassed potential CGT design considerations. However, we do not think these references are a substitute for a fulsome discussion. These working groups may not necessarily represent Inland Revenue's current views, nor were they asked to contextualise the trade-offs inherent in choosing one CGT design option over another when considering the overall tax system demands of the future.

1.4. New Zealanders need to be empowered to have a meaningful discussion if future base broadening to include capital gains taxation is on the cards. In our view the degree to which the general public can understand the trade-offs that lie behind decisions to, for example, extend roll-over relief, exclude the family home, require valuation etc. should be a key part of this discussion.

1.5. We appreciate the need to manage the scope of this LTIB, nonetheless we would encourage Officials to provide meaningful commentary on the likely design options available to government. We reiterate we are not looking for detailed decisions. Rather we consider that for the LTIB to be a successful public debate document it needs to take the public along – a sensibly well-informed audience should be able to draw conclusions about the relative merits of making one policy choice over another within the relevant framework for analysis.

2. The Nordic system is interesting, but is it feasible

2.1. The LTIB dedicates considerable focus to the discussion of the Nordic dual income tax system. It is intriguing to us that Officials have focussed so extensively on this system in contrast to other reforms, which we view as less complex and more realistic.

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2.2. The Nordic system has its appeal, we can certainly appreciate the benefits of a setting that allows for higher taxation of economic rents over normal returns. But we also consider the Nordic system to have considerable drawbacks, not least of which it's relative novelty to a New Zealand audience. It is a complex system that is not necessarily intuitive for taxpayers to follow.

2.3. In our view, while academically interesting the LTIB's discussion here does not sufficiently address the political realities of how a future government may begin to adopt such a material change to our settings. Adopting the Nordic system would require significant reform which would take time and would impose significant costs on Inland Revenue to drive adoption, not to mention the public sector to adopt (and adapt to) the change. We would expect transitional issues and costs to be plentiful, addressing these in turn adds further complexity.

2.4. In addition, it is not clear from the LTIB what the broader behavioural implications of adopting such a system are. For instance, what is the impact on entrepreneurs and risk taking of setting a "normal" return? It is difficult in practice when looking from the outside (as a tax authority must do) to distinguish between economic rents and compensation for risk when determining an appropriate normal return.

2.5. If we understand Officials underlying concerns correctly, the Nordic system addresses two key concerns:

- first the impact of New Zealand's high corporate tax rate on foreign investment (with the Nordic system allowing a company tax rate cut) and
- second company-shareholder integration concerns which would support base integrity and avoid "bad profit accumulation" (more on that point below).

2.6. If this understanding is correct then we would encourage Officials to consider alternative (more familiar, and therefore realistic) reform options to address these issues.

2.7. An example may be to consider removing imputation and reverting to a classical tax system. That would allow for lower dividend tax rates to be applied, which we would expect to support foreign investment. It could also address the deferral inherent in the current imputation system. Another option is to reconsider the thin capitalisation settings, in a bid to encourage greater foreign investment which often requires debt financing.

2.8. As to the accumulation point, we note that we do not share Officials' concerns as to earnings accumulation. Accumulation has been regularly highlighted as a negative feature in various policy discussions of late, including recently on the taxation of charities. We are not entirely sure what the concern with accumulation is.

2.9. In practice we find that businesses retain earnings for many reasons, including to finance future capital investment. In the charities context in particular, where earnings are less reliable (i.e., depend on willingness to donate, which can reduce in times of economic downturn or crisis) accumulation is prudent. Particularly for large employers. The same can be said for cyclical or seasonal businesses, which must retain earnings to continue to fund obligations throughout the year.

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2.10. Finally, earnings accumulation is not equivalent to cash reserves. Often these are measures of accounting value only. These accumulated funds are not simply a cash pool that can be distributed at will. Instead, they often represent a better risk/reward scenario when reinvested in the business rather than being widely distributed.

2.11. In any event tax settings which encourage companies (or charities for that matter) to regularly push cash out of the business can have negative consequences for the economy. If accumulation is a broad concern for reasons we do not appreciate, we would encourage Officials to explore these issues in a standalone discussion document to better engage with the tax community on this issue and potential workable solutions to address those concerns.

3. Issues not discussed in LTIB that need further consideration

3.1. In addition to the CGT as described above, there are in our view several key features of the New Zealand tax settings which are not canvassed in the LTIB but which will require further work to ensure future system sustainability.

3.2. These include the:

- **Need to consider impact of tax settings on decisions to distribute or invest funds**– Businesses need time and space to operate, reinvest and grow without being hindered by forced tax leakage. As noted above we do not see fund accumulation in and of itself as a concern. Consideration needs to be given to what extent deferral of distribution of funds which have tax consequences, such as dividends, or tax-preferred input funds, like those from charitable trusts, can be tolerated. Additionally, the role of rollover exemptions in CGT systems, for example, needs further consideration.

- **Need for standardised valuation approaches** – Many of the system features described in the LTIB are contingent on reliable valuation. The same is true for many recent policy discussions for example, CGT discussions, taxation of employee share schemes in start-ups, foreign investment fund taxation for illiquid shares held. It appears to us that consideration should be given to a standardised approach to valuation for taxation purposes. Inland Revenue may want to consider now what it can do to support taxpayers to undertake valuation exercises, should future regimes require this.

- **Need to encourage savings** – It appears obvious to us that the future fiscal demands will be such that New Zealanders will be increasingly required to self-fund services which may have previously been taxpayer funded. To that end the LTIB should explore options that can encourage taxpayers to save more. The LTIB dismisses rather quickly the use of social security taxes and payroll taxes, but in our view these may have merit as part of a suite of solutions. For example, compulsory KiwiSaver can behave like a payroll tax. The impact of compulsory savings on the poorest New Zealanders can be dealt with by other means, including government subsidy. Greater savings and investment is not only a powerful lever for the economy, it is a matter of national welfare. Savings can also be used to support longer term intergenerational equity considerations.

- **Interface between taxation and the welfare system** – in particular the impact of very high abatement rates on the incentive to work. Reform that is fiscally manageable needs to be considered in the long run, in particular in the Working for Families tax credit settings, which

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have a broader reach than the unemployment and disability benefits for example. At present, depending on their personal circumstances, some taxpayers can face effective marginal tax rates in excess of 80%. That impacts their willingness to earn more.

- **Need to capably measure the family unit** – if Inland Revenue is likely to continue to have to administer additional social policies (e.g., the FamilyBoost or COVID cost of living payments) it is important to work through ways in which the Department can more capably understand and measure the family unit (e.g., knowing which children belong to which taxpayers and family income levels). The Working for Families settings for example highlight the complexity in getting to grips with family income. Similar issues can arise in the context of family trusts or indeed small closely held businesses where family considerations ought to be brought into account when considering appropriate tax settings.

4. Suggestions to improve readability

4.1. As noted above, we are concerned that the LTIB draft is overall too long and complex for most of its intended audience. As such it is unlikely that it will achieve the stated objective, that being to enable a deeper public awareness and debate on the sustainability of our tax settings.

4.2. The LTIB draft endeavours to explain complex economic concepts but does not capture those with simple narratives that ordinary New Zealanders can easily follow. While a summary document is provided it is not useful to a layperson. It focusses too heavily on explaining the economic analysis and concepts. In our view the summary document would be more accessible to the public if it instead endeavoured to tell the story of the issues identified and the conclusions reached, leaving the LTIB to explain the why and how.

4.3. Finally to improve the reach of the LTIB discussions we suggest that the economic analysis in Part 1 be moved into an appendix, allowing the second half of the document to be the main focus. Given the length of the draft, we consider the objectives would be better achieved if the summary at Chapter 7 was brought forward into a concise executive summary of conclusions at the beginning of the LTIB.

We appreciate the opportunity to make submissions. If you would like to discuss any of the points raised, please contact Sladja Lines (sladjana.lines@nz.ey.com).

Yours faithfully

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11 September 2025

Dear David

Inland Revenue's Long-Term Insights Briefing

We are pleased to submit on Inland Revenue's 2025 Long-Term Insights Briefing ("LTIB"), *Stable bases and flexible rates: New Zealand's tax system.* Thank you for the additional time to make this submission.

We respond to the specific questions asked in the LTIB below.

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

We consider that the traditional framework for evaluating tax policy design – i.e. efficiency, fairness, and administration and compliance costs is a good starting point for answering this question at a system level. That is, we would expect a durable and stable tax system to have the design features at its core.

We would add coherence, integrity and sustainability as other desirable tax policy design principles. In our view, these additional principles are equally important foundational pillars.

In our experience, taxpayers value certainty that key parameters of the tax system will not be subject to random change, or adjustment, as this will impact economic decision making. These additional principles are necessary to evaluate whether new policies will be incoherent and/or may be subject to volatility, due to political circumstances, which could result in higher uncertainty. This is not to say that such tax policies should not proceed, but it is both necessary and useful to understand these aspects, so the trade-offs can be identified and more fully considered.

The design of the tax system needs to keep these principles at its core. While some trade-offs between different principles, for political or practical/operational reasons, will be inevitable we believe the framework is a useful analytical tool.

One observation we would make is that consideration of the tax system in isolation of other related systems and frameworks, most notably the social welfare system, including the various "in-work" benefits that are delivered via the tax system for ease of administration, can provide a misleading picture. For example, when evaluating the progressivity of a tax system, the interface with/overlay of the social welfare system, may present a different set of conclusions than looking at the tax system alone. So, in our view, it is worth considering to what extent distributional objectives can be, or are actually, achieved outside of the tax system.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

Both the income tax and consumption tax are, and we expect will remain, critical foundations of the tax system. Ultimately, what is counted as part of the income tax base and consumption tax base is a definitional issue.

For example, capital gains may be viewed as income under an economic definition of income. Therefore, consideration of a general capital gains tax, in that context, may be viewed as an extension of the existing income tax base (i.e. a more comprehensive definition of that tax base), rather than a new tax base.

Similarly, we are increasingly seeing the use of trade-protection measures, such as tariffs or Carbon Border Adjustment Mechanisms, which can arguably economically be viewed as a form of consumption tax, as the primary economic incidence of these measures will be on the end consumer. Therefore, to what extent is the consideration of such measures viewed as an extension to/expansion of the consumption tax base, rather than a new base(s), or just a trade protection measure.

The point here is to be clear on how the existing income tax and consumption tax bases are intended to be defined to ensure that there is no confusion over whether a new policy is taxing a new base, or not.

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

We consider that there will be significant issues with increasing tax rates as the primary tax system response to meeting New Zealand long-term fiscal challenges.

New Zealand's company tax rate is already in the upper quartile of the OECD and significantly out of step with comparably sized market economies that we tend to compare ourselves with (such as Ireland and Singapore). The previous LTIB topic in 2022 – _Tax, foreign investment and productivity_, concluded that New Zealand's effective tax rate on inbound investment is already high compared to most other OECD countries (even accounting for the differences in tax systems). As a net capital importer this is problematic. The company tax rate is effectively a final tax on non-resident investors, which suggests to us that the current 28% rate is likely to be a high "ceiling".

Similarly, we expect that there will be pressure on further increasing personal tax rates, due to the high degree of labour mobility, particularly if New Zealand is trying to attract highly skilled new migrants and expatriate New Zealanders to return. There is also a risk, in our view, if New Zealand's personal tax rates and tax thresholds become significantly out of step with Australia.

Increasing misalignment between personal tax rates and the company tax rate will also create greater integrity issues and complexity to manage. In relation to the latter, we note Inland

Revenue's concerns around potential structuring, to avoid the higher rate, when the highest personal tax rate was raised to 39% (and also around structuring to avoid the application of the 39% trustee tax rate) has created considerable uncertainty for taxpayers. This has an associated economic cost.

On consumption tax, the LTIB notes that New Zealand raises slightly above the OECD average from GST (and other indirect taxes) relative to GDP. This is unsurprising given the relatively broad coverage of New Zealand's GST system. So, notwithstanding New Zealand's GST rate at 15 percent is lower than several other jurisdictions, we consider there are likely to be limits to how far the rate can be increased, particularly given the distributional impacts (although these can be addressed through direct transfers). For avoidance of doubt, we are not suggesting that the GST base should be narrowed, to exclude/exempt certain goods and services, to address any distributional concerns.

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

There needs to be a degree of flexibility in the tax system to allow future Government's to make tax policy decisions based on their objectives, be they distributional or other. Or put another way, key design features of the current system should not limit a future Government's policy choices.

This also brings into focus the importance of the tax administration system. While not specifically considered as part of the LTIB, this is critical infrastructure, as a tax administration system that cannot support changes to existing tax policy settings (either changes to bases or rates) or, importantly, the addition of new tax types or bases will be a clear constraint on flexibility. We note that Inland Revenue's Business Transformation and its new START system were designed to provide more administration system flexibility to increase the policy choices available to the current and future Governments. This needs to be a part of the wider discussion around flexibility.

As a general comment, we consider that the "broad base, low rate" framework is a good foundation, albeit that there will be some debate around whether current settings mean that this is actually the starting point.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

We have noted above the potential challenges with increasing income tax and consumption tax rates.

We agree that there are questions around the current make-up of the income tax base. That is, whether the current income tax base is as comprehensive as it could, or should, be. The answer will be a matter for debate.

The broad inference is that certain activities, and taxpayers that predominantly participate in, or benefit from, those activities (and who have the economic means to do so), may currently be tax-favoured. This in turn creates both integrity and distributional concerns.

The policy response to date has been to treat certain gains as taxable income (and not capital gains), in response to perceived or actual integrity issues, or other drivers. This has been on an ad hoc basis, leading in our view to a lack of coherence. It has also resulted in a proliferation of solutions for tackling these issues over time. To illustrate:

- There is a general rule that taxes "personal property" (such as NZ shares) that is acquired with the dominant purpose or intention of disposal, or where a person is a trader in such property.
- There are different, and more comprehensive, rules which tax a wide range of land transactions (not just in a developer or land dealer context). This includes the bright-line test for residential rental properties, which was originally intended to tax speculation, but key settings such as the bright-line period have been ramped up and down depending on the policy objectives of the Government of the day.
- The financial arrangement rules, which apply to debt instruments, can tax changes in the value of these instruments (including due to foreign exchange movements) on both a realised and unrealised basis. It is in substance an unrealised capital gains tax.
- The foreign investment fund rules, contain a range of income calculation methods, for taxing foreign shares, including taxing a deemed 5 percent return on their market value.

A more comprehensive solution may present the opportunity to simplify the tax system, by replacing these disparate regimes.

Q6. What mechanisms do you see as most effective in improving company–shareholder integration under the current system?

The LTIB notes that the lack of full integration between the personal and entity tax regimes is a potential constraint that may reduce flexibility.

We consider that misalignment between the top personal tax rate and the company tax rate is likely to be an ongoing feature of the tax system given global trends (and Inland Revenue's previous LTIB analysis on the effect of high tax rates on inbound investment).

In the domestic context, the question is to what extent this is seen as a timing difference (i.e. company taxation is viewed as effectively a withholding tax on behalf of the ultimate shareholder, with top-up tax payable on distribution of retained earnings) versus a permanent tax deferral (there is no "top-up" to the shareholder's tax rate, if the retained income can be realised tax-free by selling the shares in the company). We believe the answer is likely to be somewhere in between. Our concern is the proliferation of rules to prevent tax-free gains, which comes at the cost of considerable complexity in the tax system.

We also note that, at present, there is not full integration between the company and personal tax regimes, as there are constraints in relation to returning paid-up capital (available subscribed capital) and capital gains (i.e. distributable on liquidation of the company). Under a full integration model, these restrictions would and should not apply. The Portfolio Investment Entity ("PIE") regime, is instructive in that respect.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

While we acknowledge the theoretical advantages of a dual income tax model, which is designed to tax the "normal" return to capital at lower rates than economic rents and income from labour, our concern is the practicability of such a proposal.

We note that real world examples of dual income taxes are few and these appear to us to have significant complexities. These include: how the normal rate of return would be set (this appears to be a risk-free return rate concept, which will be subject to debate); defining the capital asset base on which the normal return is calculated; and the treatment of losses. It is also not clear how the dual income tax would work with the existing imputation model. For example, would different types of credits for tax paid on normal returns and excess returns need to be tracked?

We consider that there are features of the general income tax the current or a future Government could consider further, for example, if looking to distinguish between the taxation of capital income and labour income. This includes rates of depreciation/expensing allowed for capital assets. We note that the Investment Boost deduction in this year's Budget should have the effect of lowering the effective tax rate on capital-intensive businesses (as they replace/upgrade their capital assets).

We note that the Australian Productivity Commission's recent tax reform proposal – to cut the Australian company tax rate to 20 percent and introduce a 5 percent net cash-flow tax for companies with turnover less than A$1 billion – is also designed to stimulate business investment and enhance productivity. If that proposal proceeds in Australia, New Zealand will need to consider its response.

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

Our strong preference is for a low-income offset scheme to address distributional concerns, rather than differential GST rates or exemptions for certain goods and services. In our view, a highly desirable feature of the current GST system is its relatively comprehensive coverage.

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

We consider there is merit in considering the pros and costs of alternative tax bases. However, like the dual income tax model, this needs to be in the context of real-world experience, rather than theoretical constructs. We suggest caution with adoption of largely untested regimes, like wealth taxes, given the concerns around practical/implementation challenges, the distortionary impact, and potential for capital flight.

Social security contributions can be viewed differently to the other alternative tax bases discussed in the LTIB, as they are hypothecated to fund specific expenditures, rather than contributing to the general pool of tax revenue that can be spent as the Government of the day sees fit. The LTIB notes that social security contributions have similarities to KiwiSaver, however, this is a largely superficial comparison as we note KiwiSaver is a defined contribution savings product. That is, you get back what you put in, your employer's contribution and any earnings (plus or minus) on contributions. That compares with most state funded social security regimes (i.e. pensions), where the benefit is typically independent of the contribution rate.

Further information

Please do not hesitate to contact Darshana Elwela, on 09 367 5940, if you have any questions about the submission.

Yours sincerely

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