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

Summary of submissions on the draft of Inland Revenue’s long-term insights briefing

Inland Revenue
Te Tari Taake

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The document is available at
www.taxpolicy.ird.govt.nz/publications/2025/submissions-on-ltib

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BACKGROUND

1. Inland Revenue released a draft of its second long-term insights briefing (LTIB) in mid-2025, seeking feedback on how to design a durable tax system in the face of long-term fiscal challenges. The draft explored the balance between flexibility and stability in our tax system, and considered options including increasing rates on existing bases, broadening our tax bases, introducing additional bases, and adopting a different mix of taxes on capital and labour income.

2. Inland Revenue thanks submitters for the time and effort put into making submissions, which provide a valuable contribution to this debate.

Long-term insights briefings

3. LTIBs are future-focused think pieces that government departments produce every three years. They provide information on long-term trends, risks and opportunities that could affect New Zealand in the future, and policy options for responding to these matters. Their purpose is to help us collectively think about and plan for the future. They are developed independently of ministers and are not current government policy.

4. LTIBs go through two rounds of public consultation during their development. First on the proposed topic of the briefing and then on a full draft of the briefing.

SUMMARY OF SUBMISSIONS

Overview

5. We received 12 group submissions and 16 individual submissions. Submitters included tax professionals, academics, advocacy groups, and members of the public. These are listed in the Appendix. Submissions ranged from detailed technical critiques of the LTIB content to broader reflections on fairness and fiscal sustainability.

6. A wide range of views were expressed on the suitability of different policy options, how information should be analysed and presented and the appropriate depth of coverage of various topics in the document. Given this diversity of view, this summary focuses on high-level messages and responses to the questions posed. Submissions have been publicly released (anonymised when requested) to facilitate debate and discussion.

7. Submitters suggested a range of possible ways to extend the LTIB, including additional research projects. Officials will consider these as part of future stewardship work.

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

8. Many submitters emphasised the importance of a broad tax base with minimal exemptions to reduce distortions and ensure stable revenue.

9. A number of tax professionals advocated for simplicity, coherence and integrity in tax design, noting that stability should not mean rigidity but rather predictability and resilience. They also stressed the importance of a system that is easy to comply with and administer, particularly for small and medium sized enterprises (SMEs).

10. Several submitters highlighted that treating expenditure policy as out of scope for the LTIB constrained the analysis. Submissions highlighted that tax and expenditure must be considered together, especially in light of demographic pressures.

11. Some submissions stressed the need for intergenerational fairness and progressivity. Several references were made to the low effective tax rates for high-wealth individuals and the regressivity this implies.

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

12. Most submitters supported income and consumption taxes remaining at the core of our tax system.

13. Some submitters noted that the definition of these bases should be clarified, especially regarding capital gains and corrective taxes.

14. Several submissions raised concerns about the regressive nature of GST and its disproportionate impact on low-income households.

15. A wide range of submitters supported expanding the income tax base to include more capital gains and other undertaxed forms of income.

16. Andrew Coleman and Baucher Consulting argued that New Zealand's lack of social security contributions (SSCs) is a major structural difference from other OECD countries and should be given more consideration. Some other submitters suggested more use of hypothecated social security taxes, modelled on 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?

17. There were mixed views on whether new taxes bases were needed to address long-term fiscal challenges. Other tax bases were widely discussed. Some submitters noted that new tax bases could support other social objectives alongside revenue objectives.

18. Other submitters pointed out the limitations of raising rates on existing bases including impacts on work incentives and the ability to attract and retain skilled labour into New Zealand.

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

19. Submitters overwhelmingly supported the idea that the tax system should be flexible enough to accommodate different governments' distributional goals. However, some submitters warned that too much flexibility could undermine certainty and public trust.

20. Some tax professionals highlighted the importance of Inland Revenue's administrative capability in enabling policy flexibility. Relatedly, they pointed out that certain tax system design choices (such as only requiring a minority of people to file a tax return) constrain policy design choices.

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?

21. Many submitters thought rate flexibility was important, allowing governments to adjust rates across a set of stable tax bases.

22. Many submissions advocated expanding the income tax base to include more capital gains. For example, CAANZ argued that a capital gains tax (that may not be

comprehensive) 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.

23. Some submitters supported automatic indexation to inflation or wage growth. Although they also pointed out that this could reduce revenue.

24. Other submitters suggested temporary and targeted measures. Examples included emergency tax credits (eg, COVID-era schemes) and ring-fenced levies for health or retirement.

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

25. Submitters generally agreed that the gap between company and personal tax rates creates integrity risks and incentives for income sheltering, but many argued that the LTIB overstates the importance of this issue. For example, suggesting that retained earnings are often reinvested for good commercial reasons and should not be viewed as avoidance.

26. Some submitters argued that the current "mind the gap" approach has significant merit. Suggestions for marginal improvements included aligning portfolio investment entity rates with personal tax rates or using targeted anti-avoidance rules for closely held companies.

27. Submitters who commented on full integration thought it would be administratively complex.

28. One submission thought this merits a comprehensive review of the imputation system including options such as time-limited credits.

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

29. Many submitters considered that a dual income tax (DIT) would involve a larger structural change to the tax system than necessary.

30. Commonly cited pros of a DIT:

    - Economic efficiency: Taxing capital income at a flat rate may encourage investment and reduce distortions.
    - Better targeting of economic rents: Some submitters supported further exploration of DIT to address excess returns.

31. Commonly cited cons of a DIT:

    - Complexity: Some submitters warned of high compliance costs, especially for SMEs.
    - Risk of income shifting: A DIT may incentivise reclassification of labour income as capital income by manipulating your capital base.
    - Political feasibility: Many submitters considered a DIT too fundamental a change to be given serious consideration.

32. Alternative suggestions:

- Some submitters proposed integrating DIT-like features into the current system by investigating ways to target economic rents (for example, through taxes on residential property).

- Other submitters pointed out that a DIT is not feasible without first implementing a comprehensive capital gains tax.

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?

33. Many submitters considered increasing GST would be an effective way to increase revenue, if necessary. Concerns raised generally related to whether a low-income GST offset would effectively address equity concerns.

34. Commonly cited pros of a low-income GST offset:

    - Equity: Helps mitigate the regressive nature of GST, especially for low-income households.

    - Preserves GST integrity: Strong support for offset schemes over exemptions because exemptions reduce efficiency and complicate administration.

    - Targeted support: Can be tailored to household composition and income levels.

35. Commonly cited cons of a low-income GST offset:

    - Administrative complexity: Requires accurate income data and may be difficult to deliver to those outside the welfare system.

    - Political risk: Several submitters warned that offsets may be eroded over time or not implemented alongside GST increases.

    - Timeliness: Submitters highlighted that the timeliness of relief is integral to low-income households.

    - Eligibility thresholds: Could create high effective marginal tax rates for some people.

    - Limited reach: May not cover working poor or those just above the low-income threshold.

36. Some submitters supported further investigation into point-of-sale refund systems, though feasibility was questioned.

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

37. Many submitters discussed the merits of alternative tax bases.

38. Wealth tax: Supported by some submitters as a tool for equity. Other submitters warned of capital flight, economic costs, and complexity. High thresholds and potential exemptions were suggested as ways to mitigate risks.

39. Land tax: Supported by some submitters as efficient and hard to avoid. Submitters noted potential issues for asset-rich, cash-poor households and Māori land.

40. Inheritance tax: Supported by some submitters for equity reasons. However, there were concerns about avoidance and political acceptability.

41. Payroll/SSCs: Advocated by some submitters as a way to align New Zealand with OECD norms and fund retirement, thereby reducing pressure on superannuation expenditure. Other submitters noted the overlap with KiwiSaver.

42. Corrective and hypothecated taxes: Several submissions supported environmental levies, fuel excise, and ring-fenced taxes for health or retirement.

Other themes

Approach to the draft LTIB

43. Several submitters made comments on the approach taken to the LTIB. Some commented that the draft LTIB was too technical and inaccessible for a general audience. Others suggested that certain topics should be considered in more depth and that the drafting should be more analytically precise. We will consider these suggestions as we finalise the document.

Integration with broader fiscal and social policy

44. Many submitters emphasised that tax policy should be considered alongside other government settings, in particular expenditure settings. Since publication of the draft LTIB, Treasury has published its 2025 long-term fiscal statement that considers both expenditure and revenue options.

Economic growth and productivity as strategic focus

45. A number of submissions stressed that economic growth should be a central strategy for addressing long-term fiscal pressures.

46. These submitters considered that tax settings should support investment, innovation, and competitiveness. Some noted that over-taxing capital income could harm productivity.

APPENDIX

Submissions were received from the following groups:

- EY
- Deloitte
- PwC
- KPMG
- Chartered Accountants Australia New Zealand (CA ANZ)
- CPA Australia
- Corporate Taxpayers Group (CTG)
- OliverShaw
- Cantin Consulting
- Baucher Consulting
- Tax Justice Aotearoa (TJA)

- New Zealand Taxpayers' Union (TPU)

Submissions were received from the following academics/commentators:

- Andrew Coleman
- Max Rashbrooke
- John Cantin

Submissions were received from the following individuals:

- David Hopkins
- Individual 1
- Janet Gudmun
- James
- Justinus Avi Yudistira
- Giacomo
- Ken Whitney
- Dan McGuire
- Helen Moseley
- Kyle Sutherland
- Bill Gebbie
- Individual 2
- Stephen Rutherford