



The Opportunities Party tax reform

Description

Overall, our package will be tax neutral – every additional dollar of tax collected will be given back via income tax cuts. And we would intend those tax cuts to favour those on below-average incomes to reduce inequality.

Around 80% of adults will be either unaffected or pay less tax as a result of this taxation reform. 20% of adults will pay more tax – but don't fret, we can afford it. I will pay considerably more tax, so will the residents of Paritai Drive.

THE PROBLEM

Ever noticed how the Rich List is dominated by Property 'Gurus'?

Noticed how house prices are rising, and home ownership rates are dropping, how young people are locked out of the market, particularly in Auckland?

Have you noticed how New Zealanders have more of their savings invested in housing than most other developed nations, and we keep just bidding up the price of houses?

Some countries like Germany have had flat real house prices for decades.

Have you noticed how little New Zealanders invest in businesses, and wondered why we struggle to build businesses that add value to the products we sell to the world?

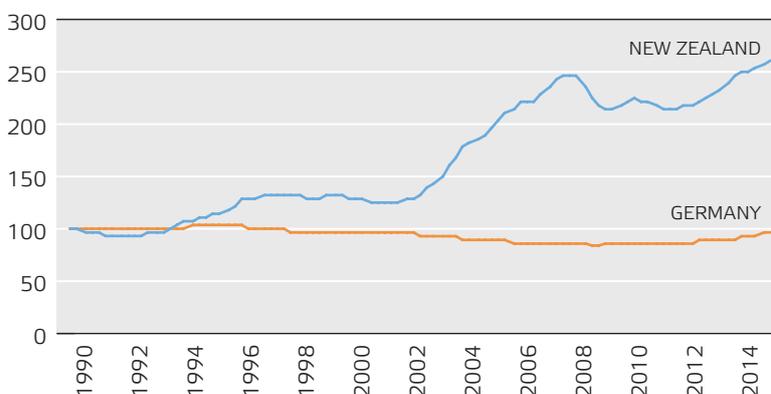
Have you noticed that New Zealand is saddled with high levels of overseas debt, and the vulnerability that poses to our economy?

All these issues have the same root cause; loopholes in our tax system.

There's a big pool of untaxed income represented by:

- the benefits derived from the equity people have in their house(s) and other wealth that they have accumulated yet that wealth produces none or very little taxable income; and
- the assets businesses own that continually produce a taxable return below that which investors could gain from simply owning no-risk government bonds; and
- the effective income that foreign businesses operating in New Zealand earn but do not pay tax upon, either here or elsewhere.

REAL HOUSE PRICES: NZ VS GERMANY



Sally has some money to invest

*She could put it
in a bank*



In the bank, she gets interest, pays tax on the interest, and uses it to pay rent. Her landlord also pays tax on her rent.

OR



What would you do?

*She could buy
a house*



Owning the house, she is her own landlord. Because she pays rent to herself, she doesn't have to pay tax.

As a result of these loopholes in our income tax regime ordinary taxpayers such as PAYE earners and New Zealand companies are bearing an unfair and unsustainable tax load. If we make our tax system fair, those taxpayers will get relief, while business investment, employment and growth will increase. Overall prosperity will rise, as it always does when people are treated fairly.

New Zealand is unusual in that it taxes all the income of wage earners but does not tax all the income that owners of assets enjoy. Overseas there are many different and imperfect ways that countries endeavour to make tax a level playing field. Wealth taxes, land taxes, estate duties, inheritance taxes, stamp duties, capital gains taxes and asset transfer levies are all examples of countries protecting fairness in their tax regimes. New Zealand does none of this, since Rogernomics we have believed the tax burden on capital and owners of capital should be minimised.

For example the USA has an estate duty of 40% on amounts over \$5.4m. New Zealand has zero. It is not an exaggeration to say New Zealand is a tax haven

for owners of wealth, and for businesses that repeatedly proffer low taxable earnings. Such a distortion is a major reason why trickle-down – the political promise from the economic reforms of 1984-1990, has not occurred.

Central to our philosophy in The Opportunities Party (TOP) is a fairer New Zealand. You cannot maximise prosperity in a society that discriminates against some citizens in favour of others as our income tax regime does. It discriminates against wage earners in favour of owners of assets and businesses that declare low or zero taxable income each year.

One result from this tax favouritism has been that low-income families too often find themselves doing multiple jobs just to afford their rent let alone have any chance of owning a home. Their tax burden is way too high. Not just a little high – it's way too high.

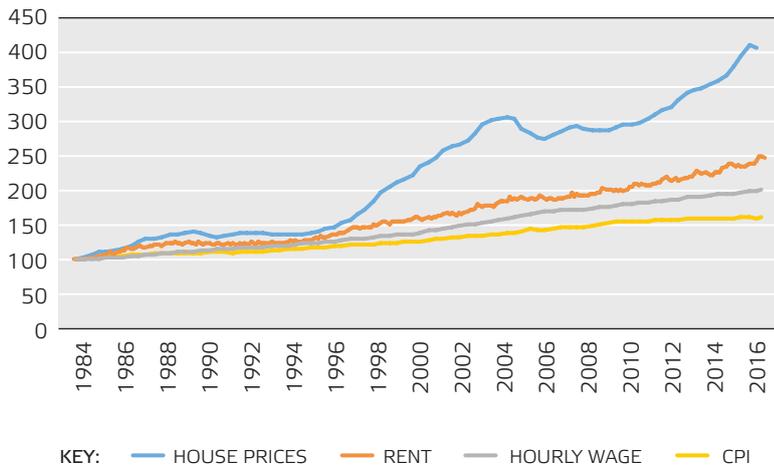
Another result is that the people with money tend to invest it in housing. And why wouldn't we? It's the most easily accessible tax avoidance regime we have.

All productive assets – and that includes the house that provides you with your accommodation each year – produce income each and every year, not cash necessarily but income nevertheless.

All forms of income should be taxed the same if we're interested in a fair tax system.

So consider 3 scenarios. You have \$300,000, you put it in the bank and pay tax on the interest income you receive each year. At the end of the term you get your \$300,000 back. Alternatively you buy a house and rent it out. You pay tax on the rent received, and at the end you sell your house and get your \$300,000 back again. So far very similar scenarios. Now thirdly you buy a house and you live in it. At the end of the term you sell the house and get your \$300,000 back again.

30 YEARS OF RISES IN PRICES, RENT, WAGES AND HOUSE PRICES



Whether it's discouraging tax dodging or encouraging capital to move to the highest earning areas possible, it's all good – fairness leads to economic efficiency. They are soulmates.

Our proposal is to deem a minimum rate of return on all productive assets, including housing and land. Those that already declare at least that level of income will be unaffected. Those that don't will pay more.

Our tax policy will:

- a. Make the tax system fairer;
- b. Make housing more affordable over time;
- c. Lead to more sensible investment of capital (everyone's savings);
- d. Make capital more readily available for productive businesses that create jobs and pay wages;
- e. Encourage a lot more "trickle down" from those who have stockpiled wealth courtesy of this loophole; and
- f. Reduce New Zealand's reliance on foreign investment and debt to finance our growth.

Rents have been rising faster than wages and prices have outstripped everything.

The difference with the third scenario is you have received a benefit from living in the house for all those years, but no tax has been paid on that annual benefit of 'free' accommodation. There's the anomaly, it's called imputed rent and if we're interested in our tax regime being fair and not influencing how people invest their money, then we need to charge tax on imputed rent each year.

There's the discrimination, and the reason everyone wants to buy a house, and then a bigger house, and then a second house, a third and so on. Only mugs rent – charming.

Home ownership has become less and less to do with our need for accommodation. It is all about the tax break – this is the best way to store your savings there is. But let's get real – just as a bank deposit attracts tax on the benefit it provides you each year, so should your house.

Similarly businesses all have capital on their balance sheets. They deploy that capital to generate taxable income.

Now if the income they generate never matches the return one could make by investing that capital in government bonds say, where the risk is near zero, something is amiss. It's not really a business is it? The business is either a disguised lifestyle, or an irrationally poor performing business. By deeming any business as being liable for at least the income tax equivalent government bonds would incur, capital efficiency in the business sector would rise and the tax base would expand – meaning tax rates can be cut.

OUR SOLUTION

Closing the tax loophole that owners of capital are allowed to exploit will go a long way to making New Zealand a fairer society and our deployment of scarce productive capital far more economically successful. It is not a capital gains tax; it is much more efficient and fair than that.

Only by shutting down these loopholes will that money move to areas of most productive endeavour rather to areas of minimum tax.

House prices have been growing faster than incomes for decades. We have to shut the gap if we're to give more New Zealanders more opportunities. **We're not looking for a 40% fall in house prices.** But for sure, by closing this loophole we expect there to emerge better investment opportunities than property, opportunities where jobs are created and incomes boosted.

So how do we do it? We need incomes to rise faster than house prices – not the other way around.

So to do that we suggest we close the loophole immediately but subject to:

- a. stepping the required minimum taxable earnings rate up over a few years so asset owners have time to adjust;
- b. allow home owners over 65 to pay the tax via a mortgage to the IRD, payable on change of ownership, hence avoiding any cashflow issues;
- c. allow those businesses facing a temporary or cyclical earnings downturn to defer their minimum income tax for a period of up to 3 years (use of money interest to be charged); and
- d. follow the lead of Britain and Australia and unilaterally deal to the tax avoidance by foreign corporations immediately; we'll provide more detail on this aspect of the policy in the lead up to Christmas.

WHAT WILL HAPPEN IF WE DON'T ACT?

Because the taxable income from owning property is minimal, the way to get rich is to accumulate it *ad infinitum*. Now you could argue the loophole is open to everyone, but of course the longer it's been allowed to go on, the higher asset prices have risen as everyone has clambered aboard the gravy train. Building more houses will never solve the problem – without action to counter the demand from those of us buying property solely as the most tax-efficient repository of our savings, we will continue to see prices rise and home ownership rates fall.

The result is that it is property prices that are behind a major widening of inequality between rich and the middle, middle and poor, old and young. There is nothing wrong with inequality providing it is earned and people have equal opportunities in life (as much as we're able). But when it comes about because of this kind of entrenched protection of certain sectors of society then that is unfair, it is a drag on overall prosperity, and at worst locks people into an intergenerational cycle of poverty. We are seeing that now.

We can fix this, but it requires New Zealanders to think beyond their own personal self-interest, beyond even the interests of their friends and associates.

It requires us to consider all New Zealanders and ask whether the disparity we see is acceptable. Then we need to look into the future and ask whether we want our children and grandchildren competing in a world where the deck is stacked against them.

It is, of course, your choice.

What we're offering from The Opportunities Party is the opportunity to address this most severe bastion of privilege we have and do that now.

In case you missed it, I repeat – under this policy NOT ONE ADDITIONAL DOLLAR OF TAX WILL BE COLLECTED. What will happen is that some of us will pay more (in mine and the residents of Paritai Drive's case, a lot more) and for the great majority of people they will either be unaffected or pay significantly less.

Read the other documents on the TOP Tax Policy here: