

# **Tax Justice Aotearoa New Zealand**

## **Submission to the Tax working Group on Future of Tax: the Interim Report**

### **Introduction**

Tax Justice Aotearoa New Zealand (TJANZ) was formed recently (August 2018) to provide information, analysis and advocacy on national and international tax policy and law. Many of our constituent members made submissions on earlier TWG consultation documents. TJANZ is a partner of the international Tax Justice Network.

We acknowledge the extremely hard work that has gone into the IR, its conscientious consideration of submissions, and the wealth of material and research that sits behind it. We are also impressed with the sustained engagement of the TWG with a wide range of stakeholder groups.

Many of the concerns that underlie the Report are also central to those of the TJANZ. Our focus is the need for a tax system that is:

- fair; efficient; transparent;
- enables inequalities to be reduced to the greatest extent possible;
- produces enough revenue (in conjunction with an effective transfer system) to ensure world-class provision of public services (i.e. health, education, housing transport, etc);
- ensures the health of the environment for the present and the future; and
- interfaces with the international tax system in a way that reduces tax evasion, tax avoidance, and global inequalities.

### **Support**

*Capital gains tax*

We strongly endorse an extended capital gains tax (also termed extension of taxation of capital income) on the grounds of increased progressivity, improved equity, improved efficiency, and increased revenue. While we do not have any comments on design principles such as the issue of ‘when to tax’, we consider that taxation of capital income should apply to as wide a group of assets as possible. We have however reservations about excluding the family home, and propose that design principles (a) ensure that the purpose of extended taxation of capital income is not defeated by ‘hiding’ assets in trusts; and (b) ensure that criteria for the concept of ‘family home’ includes a monetary limit. That is, the exclusion would not apply to very expensive houses valued from \$2 million upwards.

#### *Transparency principle*

We **endorse** the TWG statement on p 9 that ‘there is a need for greater public access to data and information about the tax system...’; but further strategies are required to ensuring such greater access. We suggest two illustrative examples:

1. Public access is needed to information on beneficial ownership of all entities (this is particularly relevant to chapter 4). We realise that MBIE is undertaking work in this area, but at present MBIE has confined their proposals to beneficial ownership of companies. Public access is just as relevant and needed for beneficial ownership of **trusts**.
2. Chapter eleven notes that international tax reforms are outside the terms of reference, although this chapter does discuss cross border revenues from digital services – presumably because this affects the New Zealand system. Similarly we consider that the principle of transparency should apply to all cross-border activities where they may have impact in New Zealand. Currently there is a move towards ‘country-by-country reporting’ where multinational companies are obliged to report on their activities within all countries where they operate.

Information gained from country-by-country reporting should be publicly accessible.

We also note the need to amend the sentence after the phrase ‘about the tax system’ (4<sup>th</sup> line in the second para, p 9.) It makes little sense to affirm the need for greater public access to data about information that is already publicly available.

## **Limitations**

1. The work of the TWG (and the IR) is significantly restricted by its terms of reference. Consequently, the IR does not consider (given the terms of reference) taxation in conjunction with welfare/benefit/transfer issues. This is a major impediment to sensible and meaningful recommendations, a difficulty which is implied at several points in the IR, for example:
  - a. The IR recommends ‘additional Government support for childcare costs, but ... this support is best provided outside the tax system’ (13.7).
  - b. On p 94, para 10-11, it is stated that reductions to lower tax rates would assist low and middle income earners through the tax system; whereas incomes for very low income households would be best achieved through welfare transfers. The choice between these options is left nowhere between the tax working group and the expert advisory group on welfare, with neither in a position to recommend a decision either way.
2. Given the immense resources that have already been devoted to the project, we strongly urge that the Final Report includes ideas, options and quantitative data that go beyond the terms of reference, even while acknowledging that they can’t be reflected in recommendations. These would form the basis for future consideration and research by government and groups with an interest in these issues. We suggest that the Final Report includes a section or appendix “ideas for future consideration”; or ‘ideas for the long-term’.

## **Recommendations**

Our recommendations fall into four categories: general, specific, the need for modelling of the impact of recommendation ‘packages’ in relation to inequalities; and the need for further work.

### **1 General**

We propose that:

1. Four principles are *added* to the conventional principles of tax design (efficiency, equity, predictability, certainty etc): (this would involve amending p 13 of the final report):
  - a. *Reducing inequalities*: this should be recognised as an explicit purpose of taxation systems. The purpose of tax in reducing inequalities would be consistent with Te Ao Maori, a worldview which has meaning and context in Aotearoa New Zealand but which otherwise in the TWG is not given any substantive meaning. Reducing inequalities may be seen by some as inherent in the notion of equity/fairness, but this broad meaning is far from explicit or accepted.
  - b. *Transparency* (which in many instances means public access to information). The need for transparency is consistent with international moves in this direction. Further strategies than those referred to in the IR are needed to ensure such greater access, including public access to information on beneficial ownership of trusts, and public access to information on multinational country-by-country reporting.
  - c. *Adequacy* in terms of producing enough revenue to enable government to achieve societal goals.
  - d. *Role of taxation in promoting financial and economic stability*. The Interim Report makes no mention of the role of taxation in this area.
2. It is recognised in the text (if not recommendations) that reducing inequalities and poverty, and providing good quality public services, requires:

- a. *increased tax revenue; that is, a greater proportion of GDP than the current level of 30 percent; a more progressive system of income tax than appears to be recommended in the Interim Report; and*
- b. *a greater proportion of the tax revenue from wealth/assets (rather than income or consumption).*

## **2. Specific recommendations**

1. As noted above, we recommend implementation of an extended capital gains tax on the grounds of increased progressivity, improved equity, improved efficiency, and increased revenue; and urge that mechanisms are put in place to ensure that trusts are not used to evade such taxes, and that the concept of 'family home', if retained, has a meaningful financial cut-off.
2. *Financial services and financial transactions:* We recommend that recommendation 17.1 (p. 124, 132) be rewritten in relation to financial services and financial transactions. The Interim Report rejects the application of GST to financial services through a financial activities tax (FAT) or other means and also rejects a Financial Transactions Tax. In so doing the TWG is missing a golden opportunity to widen the tax base and strengthen the future sustainability of the tax system. The current trend towards financialisation of the economic system cries out for tax methods that directly address the enormous flows of cash, services and profits that are created in this area. The TWG is making no substantive recommendations in this crucial area. We consider that this is not good enough. Hence we recommend:
  - a. **GST on Financial Services** The TWG recognised the "in-principle" case for including financial services in GST but does not recommend doing this because it sees no feasible options for doing so. But the discussion in the Report suggests otherwise, with several options presented that appear to be quite feasible. One of the options is a FAT, which taxes

financial institutions on the sum of their cash flow profit and wages, as a proxy for GST (p.90)

- b. **Financial Transactions Tax:** The TWG should review its decision not to recommend more work be done on options for introducing a financial transactions tax (FTT) in New Zealand. Such taxes raise reasonable amounts of revenue in other countries, and the TWG itself notes that the overall impact of an FTT would be progressive because groups that regularly trade financial assets will pay a high share of the tax. Hence we recommend further investigation of the feasibility of an FTT for NZ.

3. **Corrective taxes:** The chapter on ‘corrective taxes’ is lightweight and superficial in contrast to the more in-depth and conceptually-based chapter on “environmental and ecological taxes”.

We see the concept of ‘corrective’ taxes as having negative connotations (associated with ‘correctional facilities’ and an old-fashioned somewhat negative ‘schoolmasterly’ approach). Taxation relevant to tobacco, for instance, has quite simply saved millions of lives which can only be seen as positive from a common good perspective. Taxes termed as ‘correctional’ should be recognised for what they are: “health-promoting taxes” or “health and wellbeing taxes”. Generally, this chapter frames health taxes in a less than positive way, with a focus on regressivity, reduced efficacy, and associated crime. We therefore endorse the ASPIRE submission with its proposals for a framework for health taxes, and suggested rewording.

4. **International income tax.** We recommend, in relation to chapter 11 on ‘international income tax’ that the Final Report recommends that further work be done on issues that go beyond the terms of reference and the material in this chapter. In particular, further work should analyse the

implications of the interface between Aotearoa New Zealand's domestic taxation system and international cross-border flows with respect to:

- the extent to which the tax system enables or facilitates tax evasion/avoidance; and
- the need for further transparency, in particular the need for public country by country reporting.

**5. Environmental taxes:** We support the proposal for a framework for helping decide whether and when environmental taxes are appropriate. We do not agree that all of the proposed criteria in Box 9.1 be regarded as *essential* prerequisites. Instead the criteria should be applied in nuanced way, recognising that there are degrees of, for example, responsiveness and risk tolerance, to be balanced against a range of other criteria such as the significance of the issue and the degree of efficacy of the proposed tax. We also consider that an important criterion has been missed and should be included: the degree to which a possible tax would assist in ensuring that New Zealand is able to fulfil its international commitments (including both legal and policy commitments).

### **3. Recommendations on modelling required to assess the impact of proposed changes**

We recommend that the final report include modelling and analysis of the impact of the TWG recommendations, if accepted and implemented. We understand that the government has indicated its commitment to a package that would reduce inequalities in this country. We need to see how implementation of the current recommendations as broadly framed would affect, one way or another, the extent of inequalities in New Zealand. If implementation does little to improve the status quo it is not clear what purpose is being served. We understand that such modelling is a difficult

process, but some estimates are appropriate and should be provided.

We believe that New Zealand should aim at being one of the top five most equal societies in the world, nothing less. Hence, at the very least, information in the TWG final report should include projections demonstrating whether adoption of its recommendations would in fact reduce inequalities, and to what extent.

We recommend, as noted above, that a legitimate use of the Final Report would be inclusion of ideas and options that go beyond the terms of reference even if they cannot be included in TWG recommendations. These ideas, options and materials would form the basis for future consideration by government (and groups with an interest in these issues). The report could include a section or appendix “ideas for future consideration”; or ‘ideas for the long-term’.

We further recommend, as an example of the above approach, that whether as an appendix or working paper, the report include modelling of the impact of other possible packages of measures on inequalities with the ultimate question being: *what package of measures would be necessary to ensure that NZ is the most equal of OECD societies* (or the least unequal). What would it take for New Zealand to be as equal as the top five OECD countries? Setting out the implications of a range of such measures would enable informed discussion in the future.

We recommend that the Final Report includes, again perhaps as an appendix, a more comprehensive analysis of the potential of wealth taxes (conceptualised broadly as including capital) for reducing inequalities. The paragraphs on p 43 are skimpy to say the least, and are broadly devoted to listing disadvantages such as difficulty of application and likelihood of evasion/avoidance. The possible advantages of wealth taxes in reducing inequalities are not mentioned.

## **4 Recommendations on other work required**

We recommend that the TWG include, as a recommendation for further work, the need for research on the interface between the tax and welfare/transfer system. By February the Welfare Group should also have reported. The Government should be urged to ensure that further work is carried out that would integrate ideas and options from both the existing group in a way that allows real choices to be made on policies that would reduce inequalities and poverty. This further work should outline the interface issues between the taxation and welfare/transfer systems, with examples of how they impact on each other. This section could include details on the interface is managed in other countries – for example, the effects on poorer people of continued (relatively) high income taxes can be offset by greater and more universal provision of public services (health, education, child care, housing), with consequent implications for inequality reduction.