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The Chairperson
Tax Working Group 2018
Wellington

The submissions background paper contains the following statements:-

1. The primary objective of tax policy is to provide revenue for the government to fund the provision of public goods and services, and redistribution. Oliver Wendell Holmes put it more succinctly: "Taxes are what we pay for civilized society".

2. A good tax system is one where the tax due is actually collected. New Zealanders should not be able to avoid paying tax through evasion or avoidance arrangements.

3. Taxpayers' costs of complying with the tax system and the government's costs of administering the tax system should be kept to a minimum.

4. 'Nāu te rourou, Nāku te rourou, ka ora ai te iwi'
'With your contribution and mine, the people will prosper'.
.
5. GST is regressive in that lower-income households tend to pay a larger proportion of their income in GST.

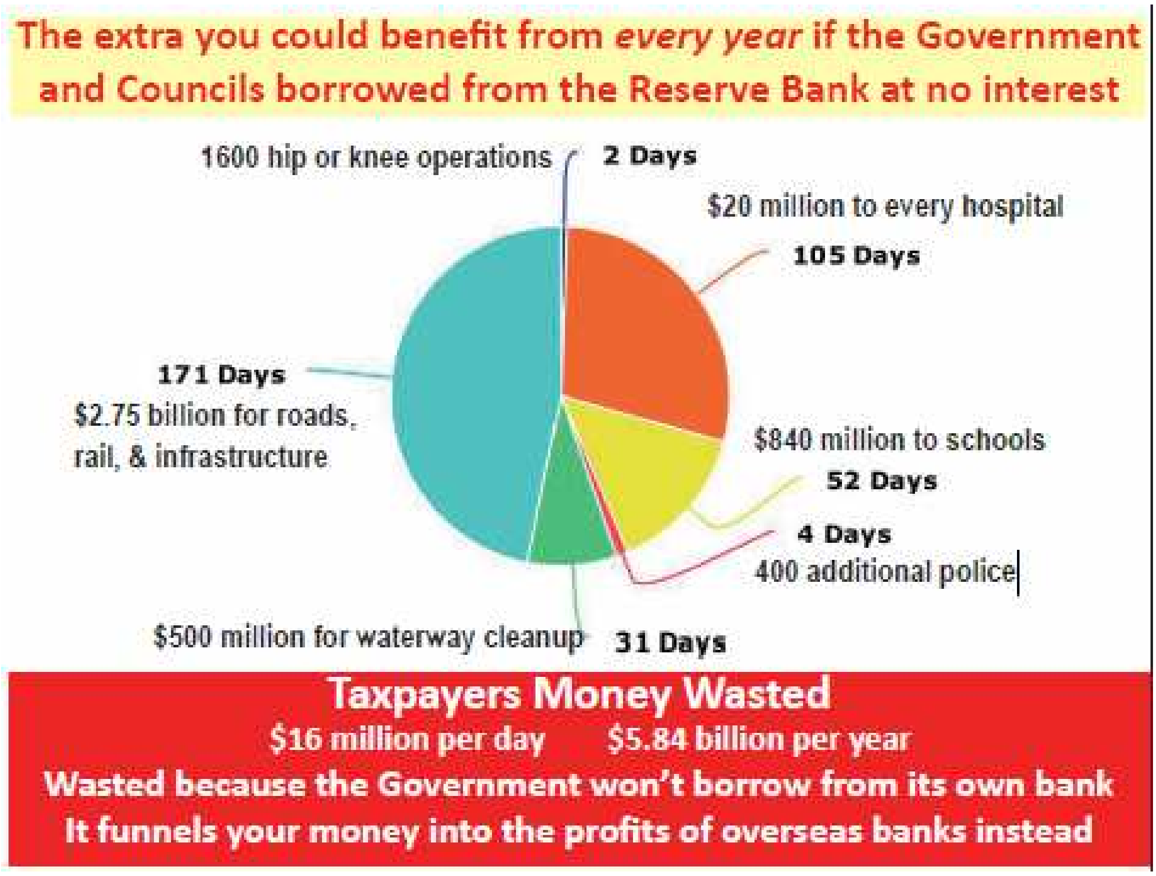
6. Changes in technology, particularly with digital communications, are changing business practices and the way people earn income.

We would like to address each of these statements in turn and in the course of doing so, address some alternatives.

1. If, as Oliver Wendell Holmes put it: "Taxes are what we pay for civilized society", why is it that a significant portion of the taxes people pay are not directed to that goal. For example, approximately $4,500,000,000 every year (about what is spent on Police & Law and order) goes directly by way of interest payments into the profits of banks and financial institutions that the government borrows money from.

Government borrowing could instead be accessed direct from the Reserve Bank at no interest (and possibly without the need for repayment) as is increasingly being done in Japan. That $4.5 billion could then actually be used "to fund the provision of public goods and services" – supposedly the primary objective of tax policy.

An example of what might be is provided below.



We have a new coalition government, the major party in which used that very funding mechanism to build 40,000 houses in its first period in government under Prime Minister Michael Joseph Savage.

As *William Ball Sutch* (New Zealand economist, historian, writer, public servant, public intellectual) put it following the passing of the Reserve Bank amendment Act 1936: "***The Reserve Bank now has the power to underwrite Government loans, to extend long-term loans to the Government and to advance to the Government moneys on overdraft for the purchase and marketing of any New Zealand product.***
(From the Reserve Bank of New Zealand: Bulletin, Vol. 69, No. 3)

The 1949 Ministry of Works report "State Housing in New Zealand" went further***:-***
"The sums advanced by the Reserve Bank were not subscribed or underwritten by other financial institutions. This action showed the Governments intention to demonstrate that it was possible for the State to use the country's credit in creating new assets for the country".

The implementation of that method of funding government borrowing would allow for either a reduction in taxes (especially for the lower paid) or the provision of more public goods and services.

That approach is being recommended by an increasing number of international and local sources.

Power of Printing Money

By Bernard Hickey - NZ Herald - Sunday Feb 26, 2012

Bernard Hickey is Managing Editor of Newsroom, former editor of interest.co.nz , and a commentator on economics.

It's time the Reserve Bank of New Zealand started printing money and lending to our government to build houses and infrastructure, particularly in Christchurch.

Right now our major trading partners are doing exactly this. We should at least be talking about it.

Central banks throughout the Northern Hemisphere are doing similar things.

The United States Federal Reserve, the Bank of Japan, the Bank of England, the Peoples' Bank of China and the European Central Bank have printed a combined US$10 trillion ($12 trillion) in the past four years and spent it on all manner of bonds and cash injections into banking systems.

This process, known as "quantitative easing", is often a last resort after interest rates have been cut to almost zero.

Many argue it has been ineffective because the money went straight into the banking system and parked there, or was used to pump up the prices of various assets, including shares, gold and bonds.

Lending this new money directly to governments to spend immediately on infrastructure, goods and services would have been a much wiser idea. China did this most effectively.

Isn't it better for our Government to be borrowing from its own central bank than from foreign banks and pension funds? *Wouldn't it be better employing the unemployed to build new houses and repair Christchurch's infrastructure than to just sit back and let it happen? Wouldn't it be better to print the money to fund the deficit than choose to sell public assets to do it? It would devalue our currency, but is that such a bad thing when we need to boost our exports?*

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From an International Monetary Fund report released in August 2012 titled “The Chicago Plan Revisited”

“Allowing the Government to issue money directly at zero interest, rather than borrowing that same money from banks at interest, would lead to a reduction in the interest burden on government finances and to a dramatic reduction of (net) government debt, given that irredeemable government-issued money represents equity in the common wealth rather than debt.”

"What would cease to exist however is the proliferation of credit created, at the almost exclusive initiative of private institutions, for the sole purpose of creating an adequate money supply that can easily be created debt-free".

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From Monetary Reform - A Better Monetary System for Iceland – a comprehensive 134 page report, commissioned by the Prime Minister of Iceland 2015.

"…the Central Bank 0f Iceland [Reserve Bank] can create the money that is needed by the economy. When the CBI creates sovereign money the government can spend ***or invest it into circulation****."*

"By using a state created money supply, instead of effectively 'renting' the money supply from private banks, the ***overall level of debt*** *in the economy* ***will be reduced****."*

A significant reduction in tax could be achieved if the government progressively increased Reserve Bank funding, thereby leaving more money in people's pockets to allow for greater investment in productive industry and greater economic activity.

2. "A good tax system is one where the tax due is actually collected". "New Zealanders should not be able to avoid paying tax through evasion or avoidance arrangements".

The current tax system does not come anywhere near to achieving those objectives. Larger companies and wealthier individuals can afford to employ specialists to minimise, through a host of methods including trusts and overseas jurisdictions, the tax they pay. Those at the other end of the scale cannot.

This applies also to GST where, as the background paper points out "there are concerns that New Zealand's GST is regressive in that lower-income households tend to pay a larger proportion of their income in GST".

GST is also causing significant problems for small and medium sized businesses who are finding it increasingly difficult to compete with internet shopping from overseas even with the recent imposition of GST on such purchases.

The tax system needs to be simplified by removing GST, and a host of other taxes and the introduction of a transactions tax on the movement of all money out of bank accounts.

Both objectives would then be met as the withdrawal of money from a bank account would automatically trigger the deduction of the tax amount and remit it to the Inland Revenue department via bank software.

3. "Taxpayers' costs of complying with the tax system and the government's costs of administering the tax system should be kept to a minimum".

The introduction of a transactions tax on the movement of all money out of bank accounts would achieve both these objectives. The necessity of filing GST returns and Fringe Benefit Tax returns would disappear, reducing the significant costs that currently accrue to businesses.

The government's costs of administering the tax system would also significantly reduce, with the need to check and reconcile returns, carry out audits, and install costly, complicated software being negated.

4. 'Nāu te rourou, Nāku te rourou, ka ora ai te iwi'
'With your contribution and mine, the people will prosper'.

Under the current system not all the people prosper, and a select group do not even make a contribution. Speculators in financial assets are exempt from GST. Their activities contribute little to the strength of industry and in fact remove much needed funds from investment in productive industry, technology, innovation and development of new ideas.

Financial speculation should be brought into the tax net by way of the transaction tax detailed above. This would broaden the tax base and would potentially lead to lead to greater investment in the productive economy.

The issue of some multinational corporations paying little or no tax anywhere in the world by way of exploiting inconsistencies and mismatches in countries' domestic tax rules (known as BEPS) would be remedied, at least in New Zealand, by the introduction of a transactions tax which would force them to pay their share here.

5. GST is regressive in that lower-income households tend to pay a larger proportion of their income in GST.

That is a statement of truth and needs little explanation. As noted above GST needs to be removed entirely and replaced with a transactions tax. A rate of approximately half a percent on financial transactions would bring in the equivalent of the current GST tax take. The effect on people on lower incomes would be significant as prices would come down, and they would be left with more disposable income. This would reduce the need for income top-ups through schemes like Working for Families and benefit payment increases.

6. Changes in technology, particularly with digital communications and artificial intelligence are changing business practices and the way people earn income.

This means the current level of 40% of tax revenue that comes from income tax is likely to significantly reduce due to lower labour force participation.
An aging population will generate increased expenses, largely due to higher spending on healthcare and New Zealand Superannuation.

The introduction of a transactions tax would allow tax on business profits to balance the reduction in income taxes. The increased costs could be funded from the source described in point one.

Conclusion

In a modern economic system (we currently have an outmoded one) the aim should be to reduce tax as much as possible to leave greater spending power in the hands of individuals.

With that aim in mind the Tax Working Group should recommend:-

- Progressive removal of as many taxes as possible, especially GST.
- Introduction of a transactions tax on all bank account withdrawals.
- Funding of increasing amounts of government expenditure through the Reserve Bank.
- Reduction in the amount of credit creation undertaken by the private banks.

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