

Taxes and Society

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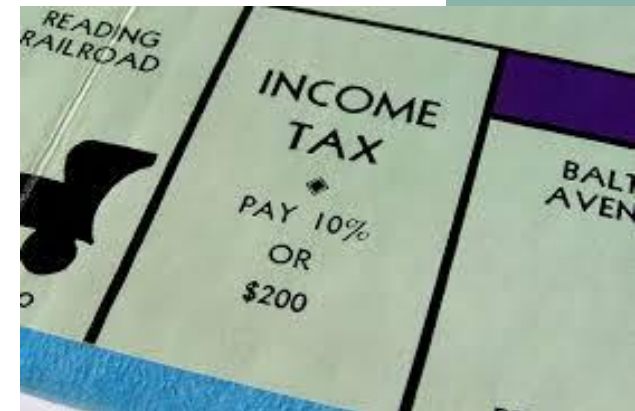
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Income Tax – current rates in NZ:

\$0-\$14,000	10.5%
\$14,001-\$48,000	17.5%
\$48,001-\$70,000	30%
\$70,001+	33%

Company tax – flat rate 28%



What other countries do:

Australia (A\$) – 2019/2020

Income up to \$18,200	NIL
\$18,201 - \$37,000	19%
\$37,001 - \$80,000	32.5%
\$80,001 - \$180,000	37%
\$180,000+	45%

Plus Medicare levy

GST = 10%

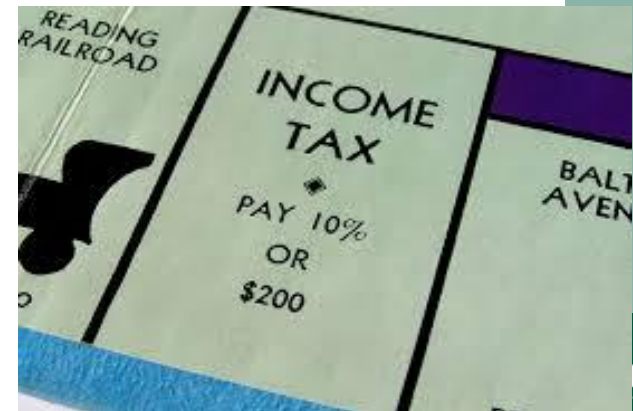
Company tax = 30% (27.5% for a small business – A\$50M turnover)

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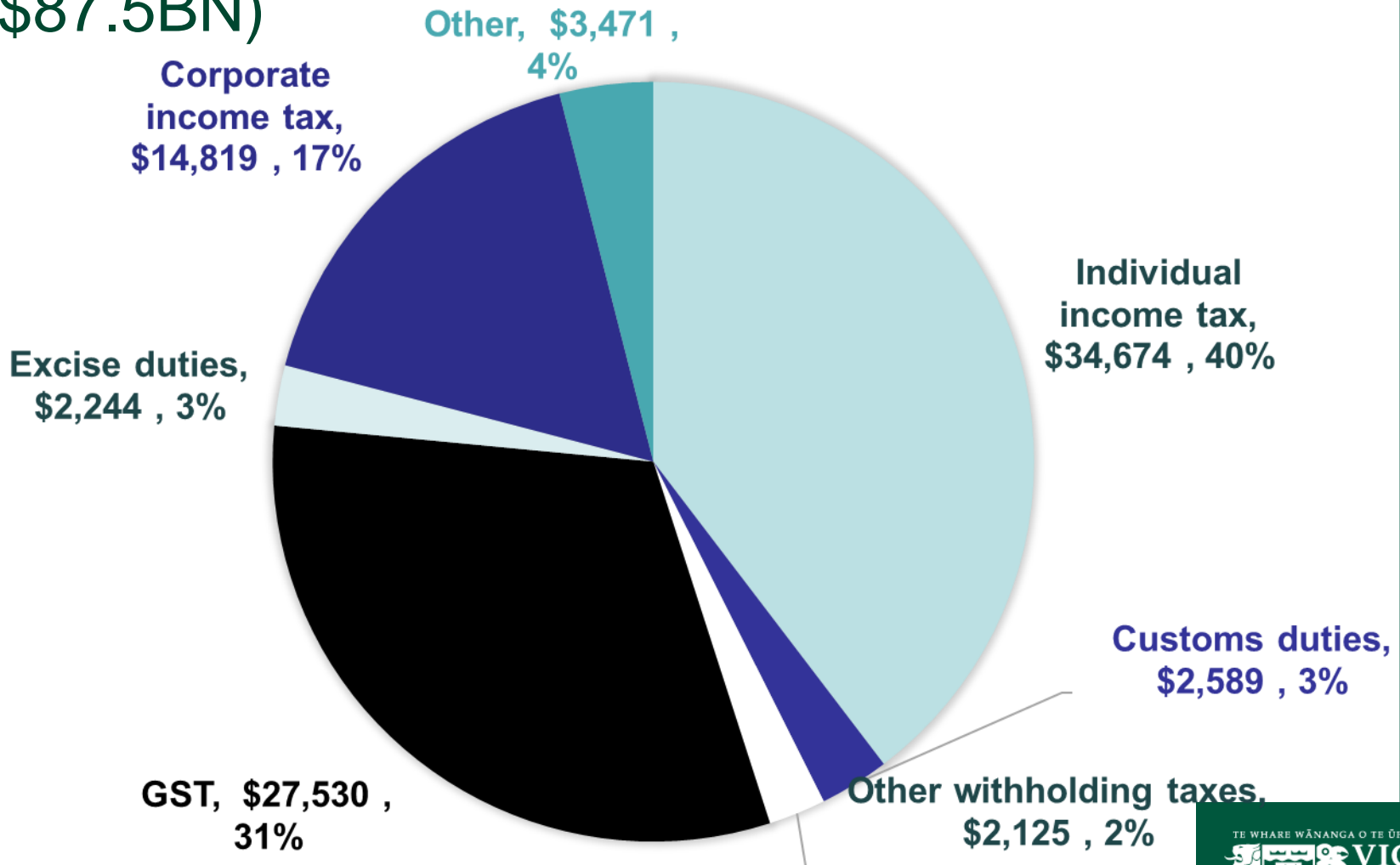
Company tax – flat rate 28%

**But...little by way of
wealth taxes**



Where does government revenue come from?

Total Tax Revenue Forecast 2019/20 (\$87.5BN)



What is Capital?

Income	Capital
Dividends	Shares
Rents	Rental / Investment Property
Interest	Financial investments



u19955590 www.fotosearch.com



Currently in New Zealand

- We comprehensively tax income and consumption
- No comprehensive capital gains tax in NZ...but certain sections of the *Income Tax Act 2007* do catch capital gains
- For example, some of the land sales sections, including the new ‘bright-line test’ for land and some personal property sales

Wealth Inequality

- Wealthiest 10th own 60%
- Poorest half less than 5%



- Not unusual, but higher than average

11 July 2011

- *Any capital gains tax would have to apply to all houses, including the family home if it was to work properly, said Prime Minister John Key* NZ Herald, 11 July 2011.

What could a capital gains tax look like?

- What is included/excluded?



Capital Gains and Capital Losses

Example: We buy an asset for \$15,000

CAPITAL GAIN		CAPITAL LOSS	
Proceeds from sale	\$50,000	Proceeds from sale	\$10,000
Less cost	(\$15,000)	Less cost	(\$15,000)
Capital Gain	\$35,000	Capital loss	(\$5,000)

What could a capital gains tax look like?

- Rate of tax?
- Annual exclusion?
- Realisation or accrual?




To be considered...

- Lock-in effect
- The mansion effect
- Other issues relating to the primary family home
- Sale of small business on retirement
- Valuation date
- Compliance costs



What do other countries do?

 South Africa: annual allowance (\$4,300); rate of 40%; family home included but only gains above \$210,000 are subject to the tax

 Ireland: annual allowance (\$2,100); rate of 33%; family home excluded; rate of 10% for sale of a business up to €1 million

 • United Kingdom: annual allowance (\$20,000); rate of 28%; family home excluded (if you are resident)

 • Australia: rate is same as income tax rate (max 45%); 50% discount for assets held for more than 12 months

- How much revenue will it raise?
 - Depends on policy settings
 - United Kingdom: 1% of total tax revenue (but also have inheritance tax and stamp duty – another 3%) – only paid by 200,000 people
 - Australia: around A\$16 billion (net) – after taking into account capital losses, prior year capital losses and CGT discount (and other concessions)

Are there other options?

- Historically, gift duties, estate duties and land taxes have all been implemented – and repealed
- Tax Working Group *‘more coherent taxation of the gains on capital or possibly a land tax’*
- \$2.3 billion at 0.5%

Gift Duties

- Gifts made after 1 October 2011 no longer attract gift duty

Estate Duties

- Repealed in 1992
- No subsequent attempt to reinstate

Land Taxes

- No land taxes since 1991

Some thoughts

Wealth taxes *'have impeccable equity credentials and raise few plausible counter-grounds'*

- New Zealand's approach privileges the wealthy: it is possible to make significant gains (e.g. through real property) and pay no tax
- Such gains pass through generations untaxed
- Meanwhile gaps between the top and the bottom continue to increase
- Considerable scope to tax land / introduce capital gains taxes



Bridge
House,
Ambleside,
UK



What do you want the tax system to do?

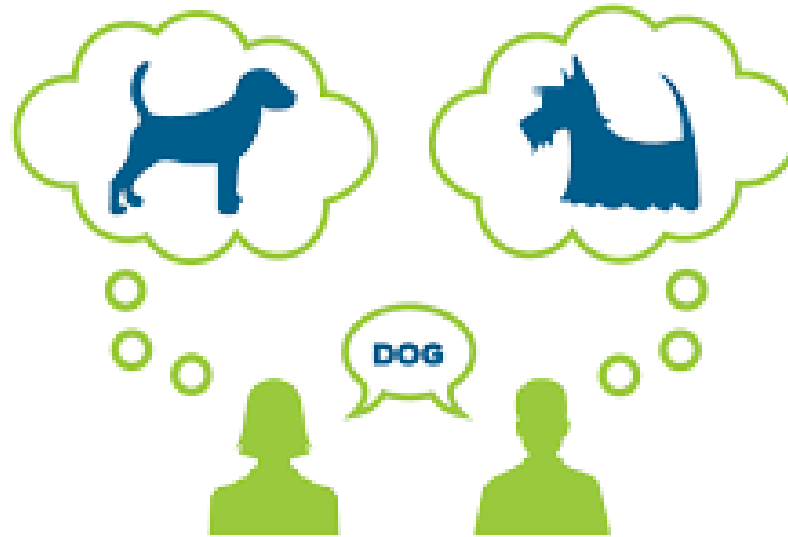
What do you want the tax system to do?

- Collect the highest amount of revenue at the lowest possible cost (i.e. be efficient)
- Be fair



What about fairness?

The same or different?



Who pays income tax ...and how much?

Budget 2019, NZ Treasury

Taxable Income	People (000)	People (%)	Tax Paid (\$M)	Tax Paid (%)
Zero	218	6	0	0
1-10,000	374	10	160	0
10,001-20,000	644	17	1,170	3
20,001-30,000	588	15	1,930	5
30,001-40,000	342	9	1,760	5
40,001-50,000	337	9	2,340	6
50,001-60,000	311	8	2,950	8
60,001-70,000	246	6	3,050	8
70,001-80,000	190	5	2,970	8
80,001-90,000	154	4	2,900	8
90,001-100,000	105	3	2,330	6
100,001-125,000	145	4	3,980	11
125,001-150,000	74	2	2,640	7
150,001+	122	3	8,670	24

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40,001-50,000	337	9	2,340	6
50,001-60,000	311	8	2,950	8
60,001-70,000	246	6	3,050	8
70,001-80,000	190	5	2,970	8
80,001-90,000	154	4	2,900	8
90,001-100,000	105	3	2,330	6
100,001-125,000	145	4	3,980	11
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70,001-80,000	190	5	2,970	8
80,001-90,000	154	4	2,900	8
90,001-100,000	105	3	2,330	6
100,001-125,000	145	4	3,980	11
125,001-150,000	74	9%	2,640	42%
150,001+	122	3	8,670	24

Goods and Services Tax

- 15% on virtually everything in NZ
- Everyone pays the same – regardless of their capacity to pay



What don't you want the tax system to do?



The Window Tax



Which of these is a cake (for tax purposes)?



The Jaffa Cake



Gingerbread Man

In UK

20% VAT if decorated
with chocolate

No VAT if chocolate is
limited to two dots (for
eyes)



Some thoughts for teaching

- But you do sometimes want the tax system to change behaviour
 - Environmental taxes (e.g. bonus-malus scheme for vehicles)

Environmental taxes

- Ireland: initial vehicle registration tax (up to 36% for high emission vehicles) and annual motor tax (up to \$4,500)
- Norway: financial and non-financial incentives for electric vehicles – exemptions from vehicle fees including purchase taxes, no charges for public parking, tolls or ferries, use bus lanes

Other thoughts for teaching

- Sugar taxes
- Retirement savings and tax incentives
(<https://www.populationpyramid.net/world/2019/>)

Thank you

Questions / Comments?

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