

Let's talk about tax



As the election approaches we need to talk about tax.

Economic trends are getting more complex and it seems that the moving parts in our economy are whirring around in a less harmonised way than in the past. It would be good to consider how tax has been working since 2009 when the system was last reviewed by the Tax Working Group.

It would be good to talk about tax because the recent Budget incorporated some threshold changes but not others while failing to address the need for inflation indexation, further reducing some balance from the tax system.

We need to talk about tax because many new voters including millennials are entering the world of work, needing to come to grips with why and how we are all taxed.

The 2009 review reminded us of some of the merits of our tax system.

We have a fairly broad-based, low-rate system, promoting relative equality of opportunity among taxpayers.

We have a good GST regime that is also broad-based with its lack of exemptions and variable rates, again promoting relative equality among taxpayers and helping to keep income taxes lower than otherwise.

These are bedrock features of our current tax system that it would be desirable to keep.

Other features of the system are less benign.

Housing investment squeezing out other forms of economic activity has a tax aspect. Rather than simply calling for a capital gains tax, we could look at the tax treatment of other forms of activity to see how this imbalance might be addressed.

Our savings profile also has a tax aspect. A major change over the last decade has been the wide uptake of KiwiSaver, with contributions taxed on income (before-tax

pay) rather than on withdrawals and expenditure. We could be looking at how to reduce this high level of taxation on savings, to reduce other imbalances.

The company tax rate definitely needs to drop to ensure we remain competitive given offshore movements in rates. It would be good to discuss views on what would be a strategically optimal rate.



New Zealanders need to broaden their investment outlook, says the Financial Markets Authority, pointing to a recent poll showing that New Zealanders' confidence in financial markets has increased. It would be helpful to have a look at how the tax system treats different forms of investment with a view to getting a level playing field for all.

Our tax transfer system needs a good hard look. It may be too hard politically for the Government or other parties to discuss the flaws in *Working for Families*, but that shouldn't stop the rest of us from debating it. This system's abatement settings mean there is practically no incentive for many to produce and earn more.

Every tax system brings incentives of one kind or another. We should try for a system that has good incentives – to work, produce, save and invest. Where deductions are allowed, they should be aimed at supporting those kinds of incentives. For example the suggestion of making apprenticeships partly tax deductible could help address skill shortages and help more young people into productive work.

Many in the business community would like to see the system shifted away from taxing income and more towards taxing expenditure, suggesting that our over-investment in housing stems directly from too-high income tax.

It would be good to hear more discussion and argument about suggestions like these over the next three or four months

Tax and tax change would make a very good election issue.

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