



Tax Working Group call for submissions

Snapshot

On 14 March the Tax Working Group (“TWG”) released a [submissions background paper](#) and [summary for submitters](#) to encourage public feedback on the “future of tax”. Submissions are requested by **30 April 2018**.

Our December [taxmail](#) outlined the establishment of the TWG and its terms of reference following the election of the Labour-led Government. The TWG’s background paper covers the future environment, the principles of a good tax system, the current tax system and its results, and specific challenges the TWG has been asked to consider. The documents are useful guides for your thinking.

The TWG is taking a more holistic view of the role of the tax system than previous tax reviews. The papers refer to the Treasury’s [Living Standards Framework](#) (and its four pillars – natural, human, social and financial/physical capital) as a potential framework for thinking about taxes and wellbeing. Submitters should take note.

The TWG has called for submissions by end of April to report by September

Although further public comment can be made after the TWG’s September interim report, this is a good opportunity to have your voice heard

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Your feedback welcome

KPMG will be participating in the future of tax debate. We would love to hear your views on the future of the tax system. You can send these to TWG@kpmg.co.nz.

What's in the background document?

Future revenue needs

The current tax system funds Government spending of approximately 30% of NZ's GDP. A key requirement is that the future tax system continues to be able to deliver this level of revenue.

Broad Base, Low Rate

New Zealand's tax system is described as "broad based and low rate" (or BBLR). That is, our income tax and GST raise more than 90% of all tax revenue with relatively low tax rates. NZ's top personal and GST rates are lower than most other developed countries. There are very few exemptions and most sources of income (or spending) are treated in the same way. New Zealand's GST is one of the simplest and most comprehensive in the world.

One of the TWG's questions is whether the BBLR framework will remain fit-for-purpose in future. This may well depend on your views on the impact of...

Future challenges, risks and opportunities

The background document outlines eight coming challenges, risks and opportunities for the NZ tax system:

1. Changing demographics. Tax revenue growth is expected to slow with less working age population, while spending on health and superannuation will increase with an ageing population.
2. The role of the Maori economy in lifting New Zealand's overall living standards.
3. The changing nature of work, with the rise of the "gig" (self-employment) economy and globalisation of labour. This will impact both how NZ collects tax from individuals and whether we can tax them in the first place.
4. The impact of technological change on current business models. Similar to the gig economy, the rise of the "sharing" economy (e.g. Uber, Airbnb) will change how business pays tax, while technological advancements (e.g. electric cars) may reduce traditional revenue sources (e.g. fuel excise).
5. Falling company tax rates globally. At 28%, New Zealand's rate is now higher than the OECD average but the document cautions that NZ needs to consider its own circumstances and constraints.
6. Environmental challenges, including responses to climate change and biodiversity risks. Tax may play a role in addressing these challenges.
7. Public concerns about inequality. This has multiple dimensions: the progressivity of taxes, the overall level of taxation, and the mix of taxes. The document notes that as progressivity and the level of taxation increase, inequality should fall.
8. The impacts of globalisation. This is framed as both an opportunity (opening up NZ to the rest of the world) and risk (moving economic activity away from NZ). The OECD and EU's work on the digital economy are referenced as possible future steps to increase the fairness of the global tax system.

Frameworks for analysing the tax system

The document repeats, as still useful, the established criteria for analysing a tax system. These are:

- *Efficiency* – the tax system should be neutral between different investments or activities.

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- *Equity* – the tax system should be fair in the taxation of those in similar circumstances and those with differing abilities to pay.
- *Integrity* – the tax system should minimise opportunities to avoid paying tax.
- *Fiscal adequacy* – the tax system should be capable of raising the revenue Government needs to fund its spending.
- *Compliance costs* – the tax system should minimise the cost of compliance to taxpayers and the cost of raising revenue for Government.
- *Coherence* – any changes should make sense in the context of the tax system as a whole rather than in isolation.

However, in addition, the document notes that the ultimate purpose of public policy (including tax policy) is to improve the wellbeing and living standards of New Zealanders. The New Zealand Treasury's **Living Standards Framework** is included as a tool to assist the design of the tax system. The framework identifies four important capital stocks:

- *Financial and physical capital* – the financial and physical assets (including infrastructure) of NZ that directly support New Zealanders' incomes and living conditions.
- *Human capital* – people's skills, knowledge and their physical and mental health. This is important to support people's participation in work, study, recreation and society generally.
- *Social capital* – the norms and values that underpin NZ society, such as trust, the rule of law, cultural identity and the connections between people and communities.
- *Natural capital* – the natural environment to support life and human activity (including water, the soil, NZ's flora and fauna, animal life and mineral and energy resources).

The Framework is intended to go beyond narrow financial dimensions and help identify dynamics and trade-offs across economic, social and natural domains.

Given the specific emphasis on fairness of the tax system, the framework will be as important as the standard criteria for evaluating what changes (if any) should be made.

Specific challenges and limitations

The TWG has been specifically asked to consider:

- Housing affordability and whether this can be improved through a capital gains tax or land tax (other than on the family home).
- Current capital income taxation – in particular, the different taxation of different types of savings.
- A progressive company tax rate for small business.
- The role of the tax system in driving positive environmental outcomes.
- Whether GST should be removed from certain goods and services.

The limitations placed by Government on the TWG's review include:

- Increasing income tax and GST rates (although reducing tax rates is within scope).

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- Taxing the family home and/or the land below it.
- Social assistance through the tax system (such as *Working for Families* tax credits), which is the subject of a different review.
- The ongoing international tax reforms to address Base Erosion and Profit Shifting concerns and Inland Revenue's Business Transformation programme.

While these topics are outside the TWG's terms of reference, submitters are not prevented on giving their views on them.

How should you respond?

The aim of this taxmail is not to tell you what to think, but rather to help you with your thinking by summarising the key themes of the background document. There is a lot of content to absorb. We are not able to do all of it justice in a four page taxmail.

Your response should be guided by what you consider is important in the design of the New Zealand tax system. Some questions to help:

- Do you value fairness, above all else? What does fairness mean to you?
- How important is it that the tax system operates efficiently?
- Are you worried about the cost of compliance and some people not complying?
- Does your analysis change if you apply a tool like the Living Standards Framework?
- Will your preferred choices change your or others behaviour? And if so, how does that impact the revenue that will be raised?
- How important is it for the tax system to be consistent with global norms or should New Zealand take a different approach? What is the cost of that?
- Do your choices take into account the changing nature of work or future business models due to technology?

The evaluation criteria chosen and their weighting will be subjective, and different for different people.

What is clear is that, unlike the previous tax reviews, the TWG has been asked to take a holistic view of the tax system and its role in New Zealand's public policy. Using a different lens will raise different perspectives. We have taken note as we consider KPMG's submission.

There is much to work through. We would love to hear your views at TWG@kpmg.co.nz as this will help with our own thinking.

If you would like assistance in preparing your submission to the TWG, please contact us or your usual KPMG advisor.

For further information

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