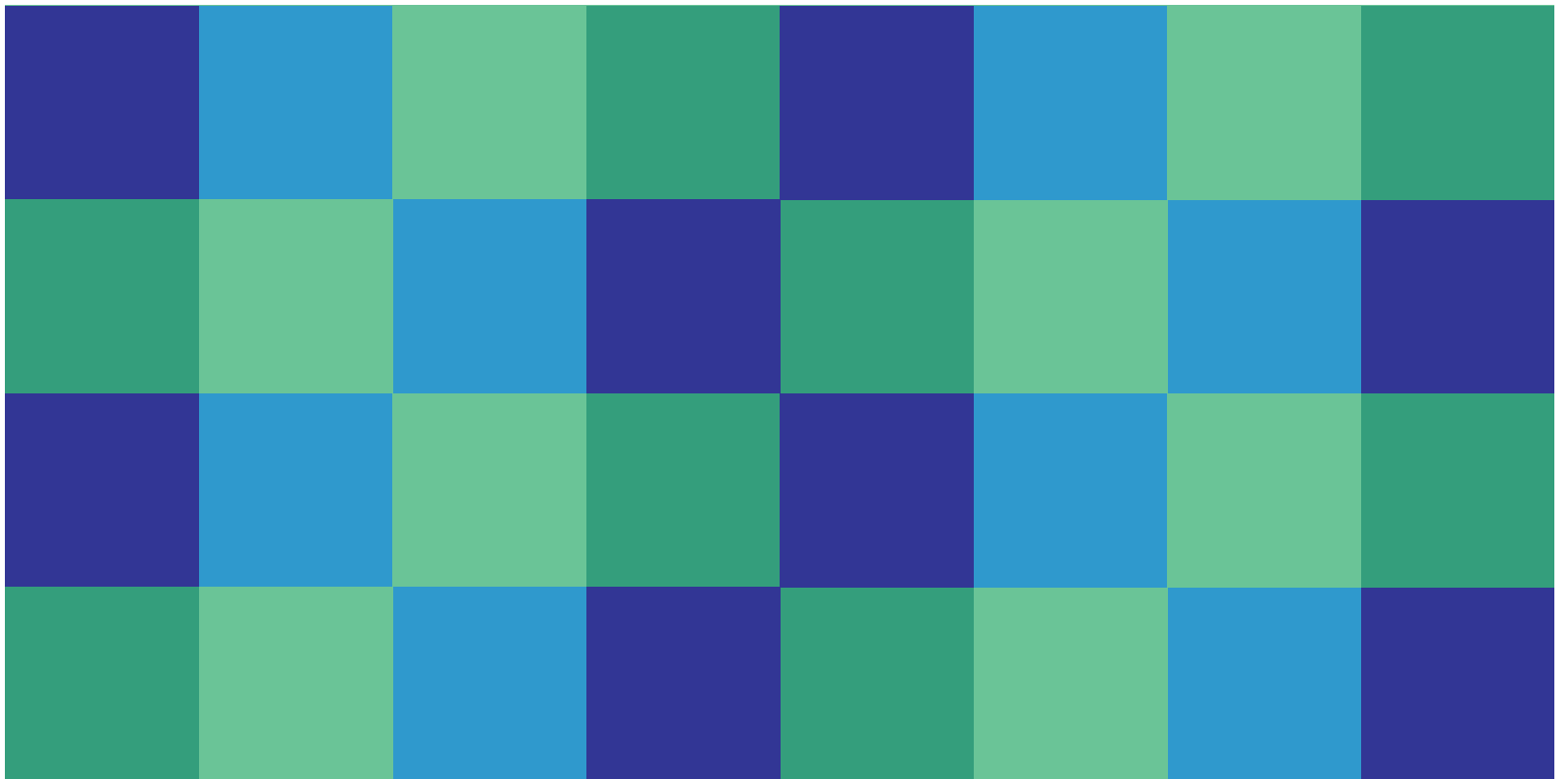




TAX
JUSTICE
AOTEAROA



6
**PRINCIPLED
TAXATION:
PERSPECTIVES**

INTRODUCTION

Principled Taxation summarises and sets out the transcripts from presentations given in a series organised by Tax Justice Aotearoa (TJA), from November 2022 to May 2023: ‘Tax on Tuesdays’. The series aimed to identify and discuss principles that should underpin tax policy in this country.

Tax Justice Aotearoa is a nongovernment organisation, founded in 2018, working towards fair and progressive tax policies. The TJA’s two major and related concerns are that of continued and intergenerational inequalities in Aotearoa New Zealand, and the lack of adequate revenue to work effectively towards identified social and environmental goals.

The series was topical for two reasons: first, 2023 was an election year during which tax was a hot topic. The aftermath of Covid, cost-of-living, and environmental events were important to many New Zealanders. The timeliness of such discussion was reinforced by environmental events in early 2023.

Second, in May 2023, Minister Parker emphasised the importance of tax principles when he introduced a Tax Principles Bill. This Bill became law, although is now repealed.

We decided it would be useful to make the proceedings of the talks publicly available. These proceedings are in two versions: short and full. Both versions have summaries of all the talks, presenter bios, and taxation principles formulated by Tax Justice Aotearoa (TJA) in its submission on the Taxation Principles Reporting Bill.

This is the shorter version. The full version, in addition to the material in the short version (summaries of the talks, presenter bios, and

taxation principles) also has the full transcripts (lightly edited). It includes the presenter’s slides at the end of the relevant transcript. Both short and full versions are available on the TJA website www.tjanz.org, and that of PSA www.psa.org.nz/our-voice/tax-justice

The ideas and proposals in the presentations do not necessarily constitute Tax Justice Aotearoa policy, but have been drawn on in shaping our own ideas on tax principles, which no doubt will evolve further.

The ‘Tax on Tuesdays’ series did not focus on the traditional well-known principles such as efficiency. Instead we decided it was useful to examine the relevance of other concepts. The seminars included a

discussion on *equality*, with Max Rashbrooke, the implications of *Te Tiriti* with Matthew Scobie, *human rights* with Lisa Woods of Amnesty International, *wellbeing* with Arthur Grimes, *demographical* considerations with Len Cook and *climate change* with James Renwick and Ilan Noy.

Tax Justice Aotearoa very much appreciates the help in arranging this series given by the Institute for Governance and Policy Studies, School of Government at Victoria University, particularly Michael Fletcher and Simon Chapple. We are also extremely grateful to all our wonderful presenters whose ideas were thoughtful and constructive, based on sound evidence, often novel and challenging, always stimulating. Together they present essential perspectives on principled taxation for 2023 and beyond.

A short summary of each presenter’s talk is provided here. Biographies of the presenters are at the end of the summaries.



Tax and equality - or inequality?

Max Rashbrooke, 6 December 2022

Underlying a fair taxation system is the sense of reciprocity and solidarity; our reliance on the collective from which we derive support and to which we have a duty to replenish. We care about others and therefore need to address inequalities.

Tax has an important role in addressing significant inequalities within New Zealand. The tax system is one of the most important ways we have of acknowledging that disparities exist, that many are unjustified, and that we can seek to reduce them. Tax achieves this by taking from those who have been more fortunate in life and are more able to contribute to the collective. These contributions enable funds to be paid out for public services, such as health, education and welfare services.

Our significant economic inequalities increased in the early 1980s along with state withdrawal from many of its welfare state functions, such as housing. This has resulted in increased poverty levels, with New Zealand now having the seventh highest rates of child poverty in core OECD countries. According to the OECD, 60% of New Zealanders are economically vulnerable: they do not have sufficient liquid assets to sustain them at the poverty line for three months. As well as the inequalities of income and high levels of income poverty, there are also inequalities of wealth.

Historically, our tax system did better in pushing against inequality in earlier times than now. We had higher top income tax rates and estate/inheritance taxes, now abolished. Now also we have a reasonably high flat rate GST which applies to nearly all goods.

If we want to design a tax system which requires less to be paid by the poorest New

Zealanders we can learn from options and models in other countries. We also need to address the overall insufficiency of revenue derived from our tax system.

Our tax system doesn't push back against inequality very successfully. It asks a lot of the poorest New Zealanders disproportionate to their income when compared to the best-off New Zealanders and it is also overall insufficient.

The comparative lack of capacity for public services has implications for our stretched health system, schools, inadequate benefits – and other issues such as early childhood education and paid parental leave. We simply don't generate the tax revenue that we would need to fund the high-quality services found in Western European countries.

Concluding points

Our present tax system does not effectively address inequality in our society and disadvantages the poorest people among us by over-emphasising tax on income and consumption (GST). The lack of focus on tax on capital gains and wealth is a major gap. Our tax system should be designed to provide greater revenue and distribute the tax take more fairly.

The most fundamental value that should underlie the design of a fair tax system is reciprocity. There are multiple forms of reciprocity: one owed to people living now and also that which we owe to people of the future. Tax is about building a better world for our descendants. From Edmund Burke:

The government is a partnership not only between those who are living, but between those who are dead, and those who are yet to be born.

Tax Principles and Te Tiriti o Waitangi

Matthew Scobie, 13 December 2022

This presentation proposes tax principles that would honour Te Tiriti o Waitangi. It begins with some background on the role of taxation in the dispossession of Māori land. In the colony's early period, the formation of the settler government was predominantly funded by Māori resources. This was done through Crown pre-emption of Māori land (arguably a form of capital gains tax), and customs duties.

Forcible acquisitions and dispossession continued after the early period, for example through confiscations, zoning and rating requirements. The system as a whole challenges both Articles 2 and 3 of Te Tiriti, then and now. Ideas on what 'anti-racist tax design' could look like: policy that produces or sustains racial equity. In any tax system we have choices on what to tax. In particular, we can tax asset-ownership, or tax income.

Māori have fewer assets than Pākehā. A tax system that prioritises income/wages and sales/GST tax, versus wealth taxes such as ownership or inheritance taxes, can sustain

inequity along racial lines. Wealth inequalities between various groups are stark. The final Tax Working Group in its 2019 report said that Māori rights and interests must be acknowledged and addressed.

Concluding points

A Te Tiriti compliant tax system should include incorporation of the articles of Te Tiriti in its principles. Not necessarily just 'principles of the Treaty', or Māori values that may be subject to tokenism or watering down, but, for example: 'Tax policy is required to consider obligations under Article 2 and Article 3':

- **Rangatiratanga:** Does this tax policy meet obligations under Article 2 of Te Tiriti o Waitangi, specifically rangatiratanga over whenua, kāinga and taonga?
- **Equity:** Does this tax policy meet obligations under Article 3 of Te Tiriti o Waitangi, specifically the spirit of equity under citizenship?



Tax principles: a human rights perspective

Lisa Woods (Amnesty International), 7 February 2023

Amnesty International's interest in taxation stems from the critical role of taxation in realising human rights. Amnesty International is developing policy to identify and guide what a rights-compliance tax system might look like. This has resulted in a draft human rights framework consisting of seven high level principles as well as specific proposals. In Aotearoa, the starting point for applying these principles is Te Tiriti o Waitangi.

The seven proposed principles are:

Principle 1: *States must ensure domestic taxation policies and measures are designed to deliver sufficient resources in order to invest in the progressive realisation of human rights.* This includes a prohibition on deliberate retrogression. That is, any measure which reinstates a previous less progressive measure amounts to violation of human rights.

Principle 2: *States must ensure that the fundamental principles of participation and transparency are adhered to throughout the taxation process.* This asks us to look around the table in policy development: who's around the table? And who is not?

Principle 3: *All states' decisions and measures on taxation must be subject to effective means of accountability.* This principle has three main themes, scrutiny, transparency and accountability.

Principle 4: *States must ensure taxation is collected in a way that respects and advances equality and non-discrimination.* For example, this might mean a progressive tax system that does not unfairly impact the income of poorer households.

Principle 5: *States must respect their international cooperation and assistance, and extraterritorial obligations to promote tax cooperation.* This includes avoiding conduct that could foreseeably risk impairing the enjoyment of human rights in other states.

Principle 6: *Corporate actors should ensure that they respect their human rights responsibilities, with respect to all of their business practices concerning taxation.* The UN Guiding Principles on Business and Human Rights require businesses to comply with human rights obligations and conduct due diligence in their dealings.

Principle 7: *States must ensure that their taxation policies and measures contribute to addressing the climate crisis in a human rights consistent manner.* Climate issues must be part of an analysis of taxation given climate change is one of our most significant global issues.

Concluding points

The seven draft principles developed by Amnesty International contribute to an understanding of how countries could develop a rights-compliant tax system. In Aotearoa the proposed principles ask us to review our policies, including tax design, and assess what they mean for human rights. Our society is very unequal and our tax system is highly reliant on income and consumption (GST). This suggests, among other things, that we should consider a greater focus on wealth in tax design in Aotearoa

Tax Policy: Wellbeing Considerations

Arthur Grimes, 14 February 2023

‘Wellbeing’ is broadly defined in this presentation as synonymous with welfare. Wellbeing can be measured with a fairly objective approach by evaluating people’s opportunities to live the lives they value. A more subjective approach asks people how they themselves evaluate their longer-term life. When economists think about what constitutes an optimal tax policy, they consider the trade-off between efficiency with equity. They often divide taxes into two different forms: ‘non-distortionary taxes’ – eg things like GST - and ‘distortionary taxes’ ie things like income tax, company tax, etc. The standard view is that the more distortionary taxes you have, the greater their effect on lowering the growth rate and the size of the overall ‘pie’ of the country. Arthur and his colleagues, in researching the changes in so-called non distortionary taxes such as GST on people’s subjective wellbeing, found however that the higher the level of non-distortionary taxes, the lower the level of subjective wellbeing.

Land taxes is a prime non-distortionary tax. Can forms of non-distortionary tax be used to improve efficiency and equity, instead of GST? Land taxes are a partial wealth tax, with many advantages. They have no disincentive effects

and cannot be evaded (given that if the tax is not paid, the land can be taken by government in lieu). It does not have the kinds of problems that a capital gains tax has, because it consists of small payments on the value of land each year. A land tax is also vertically equitable in that people who are wealthier tend to pay more tax with a land tax than they do with other forms of taxes. This can be seen in the case of local rates.

Concluding points

1. The literature that suggests that distortionary taxes should be replaced by non-distortionary taxes misses out their effects on subjective wellbeing, especially the subjective wellbeing of people lower in the income scales.
2. We should be wary about increasing so-called non-distortionary taxes such as GST because of their deleterious effect on people’s overall wellbeing.
3. Land taxes should be part of an optimal tax policy. We can design a tax system that’s fairer using a land tax that would partially replace other elements of the tax system.



Tax policy and Population Dynamics: the Unavoidable Connections

Len Cook, 21 March 2023

We need to understand the significance of populations, population structure, and key demographic history, in designing tax policy. Trends differ by generation, sex, ethnicity and place. Social and demographic patterns influence the long-term viability of taxation parameters. The tax system should not be considered in isolation but in conjunction with benefits funded by tax revenue: these are interconnected and shape equity and fairness, from both life course and intergenerational perspectives. Demographic trends at the local level often differ from those at the national level.

In brief, New Zealand's population is aging, and the age-mix structure of our population is changing, with the age of older people as a proportion of the workforce growing in relation to younger groups. Fertility rates are declining, with women giving birth to fewer children and at older ages. Once there were four cycles of generations each 100 years, now there are only three. Trends in aging and fertility rates vary significantly between ethnic groups, in particular between Māori and non-Māori.

All these factors influence people's taxable capacity and hence the government's tax base. Such trends should also influence policies in relevant areas, including education, housing, health and retirement, to take advantage of and/or reduce the risks of changing different demographic patterns. For instance, potential economic gains from fertility declines in the 1990s were wasted and high unemployment rates were the result.

Several demographic and policy trends do not augur well for our tax base. Labour income is in decline and, while most assets are owned

by the more well-off, we have a gap in our tax system in that we do not focus on wealth. A great many people rent their homes, rather than owning them. This reduces the ability of lower-income people to pay higher rates of tax.

Measures put in effect over the last 30 years have made it more difficult for lower-income people than for higher-income people. These trends may, for example make it more difficult to sustain those elements of retirement provision that are underpinned politically by a sense of an intergenerational compact. We may need to change the age of eligibility for a public retirement pension, or how its entitlement is assessed. And we need to take account of the extent of funding for addressing climate change and other environmental issues. Implications of population changes mean that maintaining the welfare state will be a challenge, more acute given climate change.

Concluding points

We need to understand population dynamics, including age, ethnicity, and gender, and their implications for design of tax systems and relevant policies, including those relating to health, education, housing, family care and retirement. Tax and welfare policies interconnect.

Climate Change, Climate Policy, Climate Action

James Renwick, 9 May 2023

The talk focused on the science of climate change; the latest report from the Intergovernmental Panel on Climate Change (IPCC); and climate policy. We have a big spike in carbon dioxide in the atmosphere; about 50% above the pre-industrial level. Our global average temperatures are rising, at present about 1.1 degrees above pre-industrial. If we take no action at all, we'll be at levels of warming, well before the end of the century, that would be catastrophic for global society.

We just don't want to go there.

Policies in every country are needed for effective action on climate change, involving big sectors such as transport and industry. These policies must also ensure a just transition.

Some sectors of the economy and jobs may no longer be needed. Support is required, with guidance from Mātauranga Māori on how best to operate.

We've agreed to a Nationally Determined Contribution (NDC) under the Paris agreement. That is, we must achieve a 50% reduction of net emissions below the gross 2005 level by 2030.

The domestic targets set out in the NZ Climate Change Response Act 2020, as amended in 2019 by the NZ Climate Change Response (Zero Carbon) Amendment Act 2019, require us to get to zero carbon dioxide by 2050. Targets will also apply to other long-lived gases.

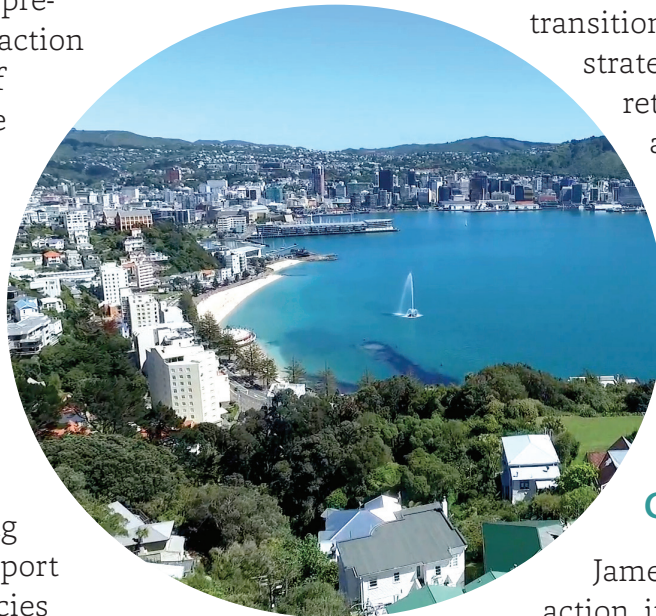
Measures to achieve these targets include an emissions trading scheme (ETS) – a market mechanism.

The Climate Change Commission is working on adaptation and climate change risk assessment, with a National Adaptation Plan out. To ensure a just and effective transition, issues relating to strategies such as managed retreat need to be faced, and the role of local government clarified.

James also talked about new resource management legislation, with three new statutes in the pipeline.

Concluding points

James emphasised urgent action, including the option of tax and economic levers. Policy development should take account of the distribution of resources and incomes across society, and reassessment of our current economic paradigm.



Taxes: Mitigation, Adaptation, and Loss and Damage

Ilan Noy, 9 May 2023

Ilan focused on taxes in relation to climate change and suggested a broad framework to take our thinking forward. Taxes do three things, they:

- fund what we need revenue for, eg roads and schools
- redistribute resources
- provide incentives and disincentives: the standard 'carrots and stick' metaphor.

Each tax does a combination of these three things. When assessing which taxes we want, we need to clarify - for what purpose would any tax fulfil?

When talking about climate tax, do we wish to mitigate (prevent), that is, reduce greenhouse gases? We also might need to adapt to climate change, given climate change is already happening. We also need to account for the losses that are being experienced, such as compensation for those losses that that we haven't been able to mitigate/prevent or adapt to.

In terms of mitigation/prevention, the standard discussion is between subsidies versus taxes. For example, subsidisation of solar power

generation, with the other option being tax, eg the ETS. Unfortunately, our ETS is not currently functioning effectively. The question, though, is the principle: whether to tax or subsidise. There's not a very strong argument either way, much depending on the particular case. Perhaps the big difference between taxes and subsidies is not the economic rationale. It's the politics. It's much easier to subsidise than to tax, politically.

In terms of adaptation, something needs to be done given that damage from natural hazards is increasing rapidly. Treasury has done work on losses in New Zealand. From a global perspective, Ilan has done research with Rebecca Newman. Estimates of costs to compensate for losses, and measures such as managed retreat, outweigh present funding commitments. Should funding be provided centrally, locally, or does individual responsibility play a part? What's the right combination of these possibilities?

Concluding points

This matrix framework is a way to help clarify which if any tax and economic levers might be useful in identifying what is needed to address climate change, with some examples.

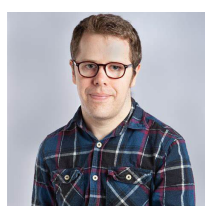
	Expenditures	Redistribution	Externalities	Incentives
Mitigation	Public transportation infrastructure	Countering transition impacts	The ETS	Incentivising active commuting
Adaptation	Flood protection	Countering physical impacts		Managed retreat funding
Loss & Damage	International L&D Fund	National L&D Fund		

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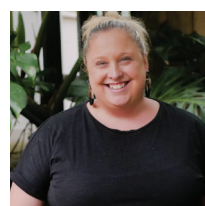
Max Rashbrooke is a senior research fellow in the School of Government, Victoria University, Wellington, and has written extensively on inequality, taxation and

related issues. Recent publications include the book *Too Much Money*, on wealth disparities, published 2021, and *Money for Something*, a report on big-money donations to political parties, published 2022.



Matthew Scobie is Ngāi Tahu and Pākehā, working at the University of Canterbury in the Department of Management, Marketing and Tourism. Currently Matthew

is pursuing research in Indigenous political economy, thinking specifically about Te Tiriti and taxation, taonga economies, temporality and just transition.



Lisa Woods has been with Amnesty International since 2020 as Campaigns Director. Lisa has worked in a number of different roles across the public and private sectors,

with most of her experience focused on working with community and not-for-profit organisations, with a particular focus on advocacy, campaigning and communication.



Arthur Grimes is Professor of Wellbeing and Public Policy at Victoria University of Wellington's School of Government and is a Senior Fellow at Motu Research.

He was Reserve Bank of New Zealand Board Chair (2003–2013) and previously served as the Bank's Chief Economist. Arthur was a member of the 2009 Tax Working Group, and has written several papers on tax matters, including papers relating to land taxes and to the wellbeing effects of taxes. He has a PhD in Economics from the London School

of Economics and a BSocSc(Hons) from University of Waikato.



Len Cook has been a longstanding writer and commentator on population and public policy in a variety of areas, particularly retirement provision and

justice. Len was a member of the secretariat of the Task Force on Tax Reform (1981/82), for which Statistics New Zealand developed New Zealand's first survey based tax model, and a member of the Royal Commission on Social Policy. He was Government Statistician (1992-2000), and UK National Statistician (2000-2005).



James Arthur Renwick **CRSNZ** is a New Zealand weather and climate

researcher. He is professor of physical geography at Victoria University of Wellington,

specialising in large-scale climate variations. He was awarded the 2018 New Zealand Prime Minister's Science Prize for Communication by Jacinda Ardern. James' book *Under The Weather: A future forecast for New Zealand* was published in June 2023



Professor Ilan Noy is Te Āwhionukurangi Chair in the Economics of Disasters and Climate Change, established in 2013 with sponsorship from Victoria University of

Wellington, the Earthquake Commission (EQC) and the Ministry for Primary Industries (MPI). The focus of the Chair is on the research and application of economics to the management of natural hazards, disasters, and climate change.

TAX PRINCIPLES

Tax Justice Aotearoa recommended the following tax principles in its submission on the Taxation Principles Reporting Bill introduced May 2023 and enacted 30 August 2023, then repealed 23 December 2023. Slightly amended as appropriate to this different context, they are:

Honouring Te Tiriti o Waitangi: Compliance with this principle would include consideration of the impacts of past and present taxation rules on Māori.

Transparency: The taxation system must ensure that accurate and comprehensive information on the tax system and its operations are available to the general public and relevant government and international agencies, nongovernmental organisations and researchers. Transparency includes data and information relating to formal and informal rules, plans, processes and actions. All such information must be easily accessed, understood and able to be used by members of the public, and without cost.

Environmental Stewardship: The taxation system should enable stewardship of environmental resources and a balance between the needs of current and future generations. This would take account of the ways in which the taxation settings impact on different generations, including consideration of horizontal equity, vertical equity and revenue adequacy.

Horizontal Equity: People with similar levels of income should pay similar amounts of tax. The time value of money matters when considering horizontal equity. The tax system should recognise the economic implications of all income sources and acknowledge that there are important areas where exemptions to taxing economic income are justified in the pursuit of wider societal outcomes (eg not taxing the imputed rent or gains on an owner-occupied home). The nature and number of any such exemptions justified in the pursuit of wider social outcomes must be made explicit in the Commissioners triennial report.

Efficiency: Tax revenue should be raised in ways that minimise undesirable distortions to the economy, and adverse effects on communities and the environment.

Vertical equity: The tax system should be progressive. Tax is progressive if people with higher levels of economic income pay a higher proportion of that income in tax. A progressive tax system does not mean that every tax should aim to be progressive (eg GST is regressive), but the overall system ought to be. In practice, wealthy people should at the very least pay no lower a rate of tax on their economic income than middle-income New Zealanders already do. The overall system ought to reduce inequalities in New Zealand.

Revenue Integrity: The revenue system should be sustainable over time and minimise opportunities for tax avoidance and tax evasion; and generate sufficient revenue for New Zealand's needs.

Flexibility and adaptability: The tax system should keep pace with changes in society, in particular: technological and commercial developments, changes in inequality, climate change and the environment, demographic changes, and the need for the taxation system to strike a balance between the needs of current and future generations. This would take account of the ways in which the taxation settings impact on different generations, including consideration of horizontal equity, vertical equity and revenue adequacy.

TJA also considers that, if law is enacted to make provisions for taxation principles, allowance should be made to enable further or amended principles to be added, following consultation.



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