

Labour's Tax Plan

Introduction

Labour is committed to a progressive tax system, where taxpayers contribute to government revenue according to their means, and where all forms of income and wealth are taxed fairly.

Tax is important because it funds the public services and infrastructure that all New Zealanders rely on. Community expectations about living in a fair and decent society with first world public services rely on the tax system delivering adequate revenue.

▶ Labour will:

- **Reverse National's proposed tax cuts and re-invest that money in a fairer package of support for families and in core public services such as health, education, housing and police**
- **Crack down on housing speculation by extending the bright line test to five years. This taxes the sale of properties other than the family home**
- **Create a level playing field for families to buy their first home by removing a tax loophole that speculators use to avoid paying tax – as recommended by both the IMF and the Reserve Bank**
- **Set up a Tax Working Group, to ensure that there is a better and fairer balance between the taxation of income and assets, in particular the capital gain associated with property speculation. The outcomes of this Working Group – if any – will not take effect until the 2021 tax year**
- **Introduce tax incentives to encourage research and development**
- **Eliminate Secondary Tax as part of IRD's Business Transformation Programme**
- **Take strong action to ensure that multi-national companies pay their fair share of tax.**

Overview

Our tax system was developed to work efficiently in an economy where workers were employed full time in long term jobs, business transactions were recorded manually, and most transactions were located entirely in New Zealand.

Now, many people work in a variety of jobs, business records are recorded in computers and processed in real time, and transnational transactions are commonplace. We need to ensure that our tax systems are fit for the 21st century.

A tax system should serve New Zealand's broad social and economic objectives. The tax system should be progressive, with those who are more able to pay tax contributing a greater share, and it should be fair and balanced across income, consumption and wealth to pay for the needs of our society.

Income and Corporate Taxes

Labour is not proposing any changes to current personal income or corporate tax rates. We will reverse National's proposed package of future tax cuts that would cost \$2 billion per annum and see \$400 million go to the top 10% of earners.

Let's do this.



Instead, Labour will reinvest that money into families and core public services – such as health, education, and police. Our alternative Families Package will see 70% of families with children better off than under National's tax cut package. Please see our Families Package and Fiscal Plan for more details.

Reducing Incentives for Speculation

Our current tax system taxes some forms of income but not others, and creates incentives for some forms of investment, particularly housing speculation. This results in unfairness between taxpayers, and it enables some to avoid paying their fair share of tax. New Zealand is one of only three OECD countries that does not have some form of tax on capital gains.

This situation has contributed to the current housing crisis, and the lowest home ownership rate in 66 years. Housing affordability has become a critical issue for many New Zealanders. Rising house prices are being driven by a variety of factors, including tax rules that favour investment in housing and discourage investment in other activities.

As a first step Labour will minimise the tax benefits that can be gained through speculation on houses. Labour will remove the current loophole that allows losses from rental properties to reduce the taxation paid on other sources of income for which the landlord is liable (so-called 'negative gearing').

Labour will also extend the 'bright line test' that taxes the profits made on the sale of properties other than the family home from two years to five years. This was the original recommendation of the Treasury that was ignored by National and will capture more people who are flipping investment properties for capital gain.

Tax Working Group

In addition to these immediate actions, Labour will set up a Tax Working Group. The terms of reference of the Working Group will be to consider possible options for further improvement in the structure, fairness and balance of the tax system. The Working Group will have a primary focus on measures that will address the imbalance in taxation on gains from speculation in property and income from other sources.

The Working Group will examine how the taxation system promotes the right balance between supporting the productive economy and the speculative economy. The Working Group will be asked to look at options that are forward looking, not retrospective.

The Working Group will not consider increases to personal income or corporate taxes, or GST rates. The Working Group will not consider any proposals for an inheritance tax or any other tax changes that would apply to the family home or the land under it - regardless of its ownership structure.

The Working Group will be comprised of tax experts, academics, and economists and those with knowledge of the impact of the taxation system on individuals, communities, and businesses. The appointment of these experts will be made by Cabinet, and will be supported by recommendations from the Treasury, MBIE, the Reserve Bank, and Inland Revenue Department. The Working Group will be supported in its work by officials from Treasury and the Inland Revenue Department.

The Working Group's recommendations will be made to the Ministers of Finance and Revenue in the form of a report or reports which will be public and for which there will be several rounds of public consultation. Final decisions will be made by Cabinet.

Labour is committed to a high level of expert and public input into the Working Group at every stage of the process, including the Cabinet response to them. We understand the importance of the voices of New Zealanders being heard when changes such as this are being considered. We appreciate the importance of certainty with regard to the taxation system. We are also mindful of the need to give IRD time to adjust their systems and for any changes to commence at the beginning of a new tax year.

The implementation of any changes associated with the Working Group will be for the 2021 tax year, and therefore the mandate to implement the changes will be tested at the 2020 election before anyone is affected by changes.

The anticipated timeline for the Working Group is:

- Working Group established and mandated by Cabinet (By December 2017)
- First meeting of Group and call for public submissions (February 2018)
- Interim report released for feedback (September 2018)
- Final report issued with recommendations for Government (February 2019)
- Cabinet decisions finalised (April 2019)
- Public Consultation on detailed changes (if any) (April –August 2019)
- If necessary, Bill introduced (September 2019)
- Parliamentary Process (including full Select Committee process) September 2019 – July 2020)
- Legislation passed and enacted (July 2020)
- Implementation of changes in the next tax year, commencing (1 April 2021)

Supporting Research and Development

Tax incentives can be used to promote behaviour that serves New Zealand's social and economic goals. New Zealand's businesses spend around a third of the developed world average on R&D, which constrains the level of innovation and resilience in our private sector. Labour will reintroduce a tax credit for research and development, to encourage greater investment by the private sector.

Removing Secondary Tax

Labour supports the Business Transformation Project being carried out by Inland Revenue. As part of this project, Labour will ensure that the need for Secondary Tax is removed.

Around 75,000 New Zealanders work in multiple jobs according to Statistics New Zealand.

Due to limitations with the current tax system, employees need to pay tax at a different rate on one of their income sources. Tax on one income source is charged in the normal way while tax on the other source is charged at a flat rate. This means many employees pay a higher rate of income tax during the year than they need to. For example, a worker making \$50,000 a year through two \$25,000 jobs would face a tax bill of \$10,893 - \$2,873 more than necessary.

Whilst employees can claim this overpayment back as a refund at the end of the tax year, many workers would prefer the income during the year. Labour is committed to abolishing Secondary Tax so that these workers have the ability to make ends meet.

To avoid people getting a large tax bill at the end of the year we will ensure that they are taxed at the appropriate rate through the year.

We will direct IRD to make it a priority to deliver this change. This is an issue National have been dragging their feet on. We will finalise a timetable for this once in office, in consultation with IRD.

In the meantime, Labour will also make the refund process for secondary taxation workers automatic – meaning that they would no longer need to apply for a refund for that year.

Multinational Tax

For our tax system to have integrity, everyone needs to pay their fair share. Increasingly, New Zealanders are concerned that some large multinational companies are using aggressive tax practices to avoid their obligations to our country. The government has estimated that \$300 million of revenue per year is being forgone, while the Tax Justice Network puts the figure at over \$500 million.

Labour will take strong action to ensure that multinational companies pay a fair share of tax, based on their genuine activities in New Zealand.

At the international level we support the OECD's Base Erosion and Profit Shifting (BEPS) programme of work.

At the bi-lateral level, we will review our tax treaties to identify areas in which new technology or business practices may have resulted in tax shifting out of New Zealand, and where appropriate will work with our international partners to resolve these issues.

Labour will collect an extra \$200m per year from multinationals currently avoiding their New Zealand tax obligations by resourcing IRD with an additional \$30m per year to crack down on multinational tax avoidance.

If multinationals aren't prepared to pay their fair share, Labour will introduce a diverted profits tax, to enable New Zealand tax authorities to impose tax at a penalty rate if they believe that tax has been deliberately avoided.

Other Levies and Charges

In addition to these changes to the tax system, Labour is proposing some levies and charges to create funding for specific programmes – helping to ensure the sustainability of the New Zealand economy, develop long term infrastructure and enhance the environment.

Regional Fuel Tax - Auckland faces transport gridlock on a daily basis. It costs \$2b in lost productivity every year according to the EMA and wastes huge amounts of precious time for hundreds of thousands of Aucklanders. If we carry on with the same approach things will get worse. The only way to unclog our roads is by investing in an integrated, first world public transport network.

Our package will create a linked up congestion-free network across Auckland, moving people and freight freely. As a priority we will build Light Rail to Auckland Airport. The total package we have proposed costs approximately \$15 billion over ten years. This compares to the current government's \$13 billion plan over the same period.

Labour has responded to the request of the Auckland Council to give it the ability to use new methods of funding infrastructure, like infrastructure bonds and targeted rates. It will also give Auckland Council the ability to implement a regional fuel tax. The regional fuel tax for Auckland is estimated to generate \$150 million a year for transport improvements. Labour does not have plans for any other regional fuel taxes.

Clean Water Royalty - Clean water is the birthright of all of us, and vital to our continued prosperity. Our rivers and lakes are a taonga of huge significance to Māori, a favourite place of recreation for New Zealanders. Water underpins our agriculture. Our fresh water resource needs to be protected and restored, and that can only happen if all water users and the Government work together. The Government will assist in this work by employing young people who are stuck on the dole and getting them working on improving the health of waterways.

Everyone owns our water, but some have interests in it that others don't. Large commercial users who profit from our water should pay a fair and affordable royalty – for example, water bottling companies.

Let's do this.



This revenue can help councils restore our waterways for future generations. Labour will give regional councils the resources to clean up their waterways through a water royalty.

A royalty on the commercial consumption of water will assist with the cost of keeping our water clean. Households and councils will not pay any water royalty. The royalty will be flexible to reflect the scarcity or abundance of water in different regions, the different quality of water, and its use. The royalty for irrigation water is expected to be around 1-2c per 1000 litres. The royalty for bottled water is expected to be charged on a per litre basis. It will be proportionate and fair. Levels will be set following consultation and the revenue will largely be returned to regional councils.

Tourism and Infrastructure Fund - Labour will establish a \$75m a year Tourism and Infrastructure Fund to pay for projects that will improve the experience of visitors to New Zealand and enhance our natural environment. We will provide this \$75m a year through a \$25 levy on international visitors. Citizens or residents of New Zealand will not pay the levy.

60 percent of the fund (\$45m per year) will be used to grow our tourism industry and 40 percent (\$30m a year) will be used to protect our biodiversity and ensure conservation is properly resourced.

It is only fair that the cost of these important projects is recouped from the international visitors that enjoy them. This will help take pressure off local communities and councils from increasing visitor numbers.

Alcohol, Petrol and Tobacco Levies - will be adjusted as per normal government practice and as set out in Budget documents.

Let's do this.

