



NEW ZEALAND – January 2020

SHOULD NEW ZEALAND JUST TAX LAND? 1

Should New Zealand just tax land?

Prime Minister Jacinda Ardern says there will be no capital gains tax implemented under her leadership.

OPINION: The tax system will need to change, because of shifting demographics and changing nature of our economy. Will we bin the current system and change to something radical like a wealth, capital or land tax?

Or something more timid that tweaks the current system to be more sustainable? My bet is on the latter.

There is no perfect tax system, rather a well-functioning one that finds the right balance between collecting taxes but not putting off effort.

Our tax system has worked pretty well so far. But the pressures will grow over coming decades. The two most immediate threats, from my view, are demographics and decarbonisation.

A big chunk of taxes comes from a cut of wages. But as the population ages, the tax burden will grow for a shrinking base of taxpayers.

The current promises will place an unbearable burden on future generations of workers, unless the way we tax changes and what we spend on becomes more careful, particularly entitlements for older people that we have made no effort to save for.

We will need to make other changes too like the way we raise money to fund transport. Current taxes on petrol and road user charges, will need to move more towards taxing congestion and use.

As many of the services we use becomes global, the way we tax is also becoming more global, and harder to control.

A NEW REGIME FOR COMING DECADES

We will need a new regime for our taxes, but it is not clear what that should be. We have had two reviews of our tax system in the last decade or so: one under National's leadership, the other under Labour's.

Both noted that our tax system is generally sound. One glaring discrepancy was on how we tax savings, where land was lowly taxed compared to all other forms. This leads to the natural conclusion that we should explore some kind of land tax that is broad based but low.

Because land cannot run away, it is a relatively easy thing to tax.

There are a lot of issues to work through, like being asset rich and cash poor, which will make it hard to pay a land tax for some. Although this is also kind of the idea, land should be put to the best use and if there is a cost of holding land, it will sharpen the incentive to put the land to economic use.

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In urban areas, it will make sense to use large lots, rather than leave them vacant. We already have much of the mechanism to do so, given our local authority rates use land and property value information to decide someone's share of the rates bill.

Contrary to popular belief, local authority rates are not a land tax and have nothing to do with the price of land and housing.

But the political realities are also clear. The reaction to any tax will be met with the usual outcry from property and farm-owning voters. Perhaps this clamour will fade as the number of renters increase over time, and the country will become more polarised on tax and social policy.

Already there are more renting adults than owners, but they don't vote as much. I can't see this changing for at least another decade.

INCREMENTAL IMPROVEMENTS

If we had the opportunity, we could rip up the tax system and implement something much simpler by cutting out exemptions.

The income tax code should be more progressive like Australia's, where they have lower tax rates for lower incomes, and more thresholds and higher tax rates. There is a fear that higher tax rates will stop people from working harder.

But compared to Australia, there is little evidence that our highly paid workers are harder working than their Australian peers. New Zealand research shows that such a tilting of the tax system would be better for our society.

We will need to make the obvious changes when it comes to fuel taxes.

We should look to make the system better suited to what it is trying to tax: congestion and actual road use.

Ideally, these would be complemented by wealth tax, ideally levied on land which cannot be hidden in offshore jurisdictions, to lower the burden of tax on younger people in ageing society. It would make our tax system fairer and more sustainable.

NOT YET

It is time for us to broaden our tax base and bring in the most obvious gap, wealth and specifically land. But it's not going to happen quickly.

I also can't see us moving away from our current system of taxes to something radically different – rather we remain trapped in incrementalism in the face of substantial and transformative change in our demographics and economy.

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