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## A taxing policy question as consumption ills linger

First Reading - By VERNON SMALL - The Dominion Post    Last updated 08:15 20/08/2009

OPINION: If it does not move, tax it. If it can move, try to tax it less. If Treasury used single syllable words, that is how it might define its view of revenue raising.

Put simply, since people can leave or go elsewhere - and so can investment dollars - they should be taxed the least.

On the other hand, local consumption - which attracts GST - can by definition only happen here.

Similarly, stuff that is nailed to the ground is relatively immobile, though the investment dollars that build and develop it are slippery.

(The ground is the least mobile of all, of course - more of that later.)

These are the matters being played out in the Government-mandated review of tax policy by a team of the great and good led by Victoria University professor Bob Buckle.

It is being held against a backdrop of growing crown debt - leaving little or no room for overall revenue reduction - and since that the fragile economic recovery is showing symptoms of the old disease - excess consumption and a continued fascination with property investment.

It is also working within National's policy framework that aims, over time, to move to a top rate of 30 per cent for personal income, businesses and investment.

Bridging the gap between the current 38 per cent personal rate and 30 per cent would cost about \$800 million, with another \$300 million-odd needed to lower the middle 33 cent to the same level.

Finding that amount of money, either by rejigging the tax base or preferably broadening it, is a big ask.

So far, attention has focused on the working group's view of Working for Families and the design flaws that allow well-off families to blatantly rot the system, as well as the advantages of raising GST (with appropriate offsets for the poor, who are disproportionately affected).

A rise in GST to 15 per cent would generate \$2.9 billion with \$2.15 billion of that coming from the private sector. Automatic adjustments to benefits would trim \$250 million of that.

That might fit the fiscal bill, but neither Prime Minister John Key nor Finance Minister Bill English are showing any great public enthusiasm.

Soundings suggest that in private Mr English is keen to at least consider a significant shake-up of the tax system, especially if it raises a few more dollars to help trim the deficit. Mr Key, they say, is much more resistant to change and to moves that boost revenue.

The next issue on the group's work programme is "base-broadening" at its September 16 meeting.

Much has been made of ministers "leaving the door open" to a capital gains tax, but that has long been a poisoned chalice. More pertinent is the group's request for officials to also look at land or property tax.

Economist Arthur Grimes, who has long been interested in such a tax, is expected to present his views on the topic. (He and economist Andrew Coleman presented a draft paper on options to the New Zealand Association of Economists last month.)

The arguments for a broader property tax on land and improvements, akin to local government rates, are mixed.

But the economic case for a tax on the unimproved value of land are intriguing - though it would require a big sell to property owners, especially older voters, some farmers and Maori who are asset rich and income poor (with high levels of equity in their properties) and would take the biggest hit from any consequent fall in property prices.

The obvious way to handle those cases would be to levy the taxpayers' estate, though that will stick in the throat of many New Zealanders in the same way asset testing does for long-term geriatric care.

A small tax on land alone could fund a big move in personal tax rates.

A 0.1 per cent tax - \$460 million on the \$460 billion of privately-held land - would offset the lost revenue from cutting the : cent rate to 33 cents.

It would genuinely broaden the tax base, taxing foreigners who own property in New Zealand, and be likely to push more investment into areas other than property while helping curb a new housing boom.

The inevitable drop in property values would be a two-edged sword. Home ownership would become more affordable, and the extra impost would give owners of bare land an incentive to develop it.

It would arguably be relatively progressive, because wealthier people tend to have more valuable property holdings. And would provide far more predictable revenue than a capital gains tax.

There is also a ready-made framework in the local-body rating system, to help keep compliance costs down.

With those arguments to the forefront, it is easy to see how a land tax could become a central part of the mix of options the working group.

It was not so long ago that former Reserve Bank Governor and National Party leader, Don Brash, said a land tax combined with lower income tax and higher GST rates was a very appealing package.

Even so, it is hard to make the leap of logic that would see National - the natural home of the landed - slap a new tax on land beneath their voters' feet.

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