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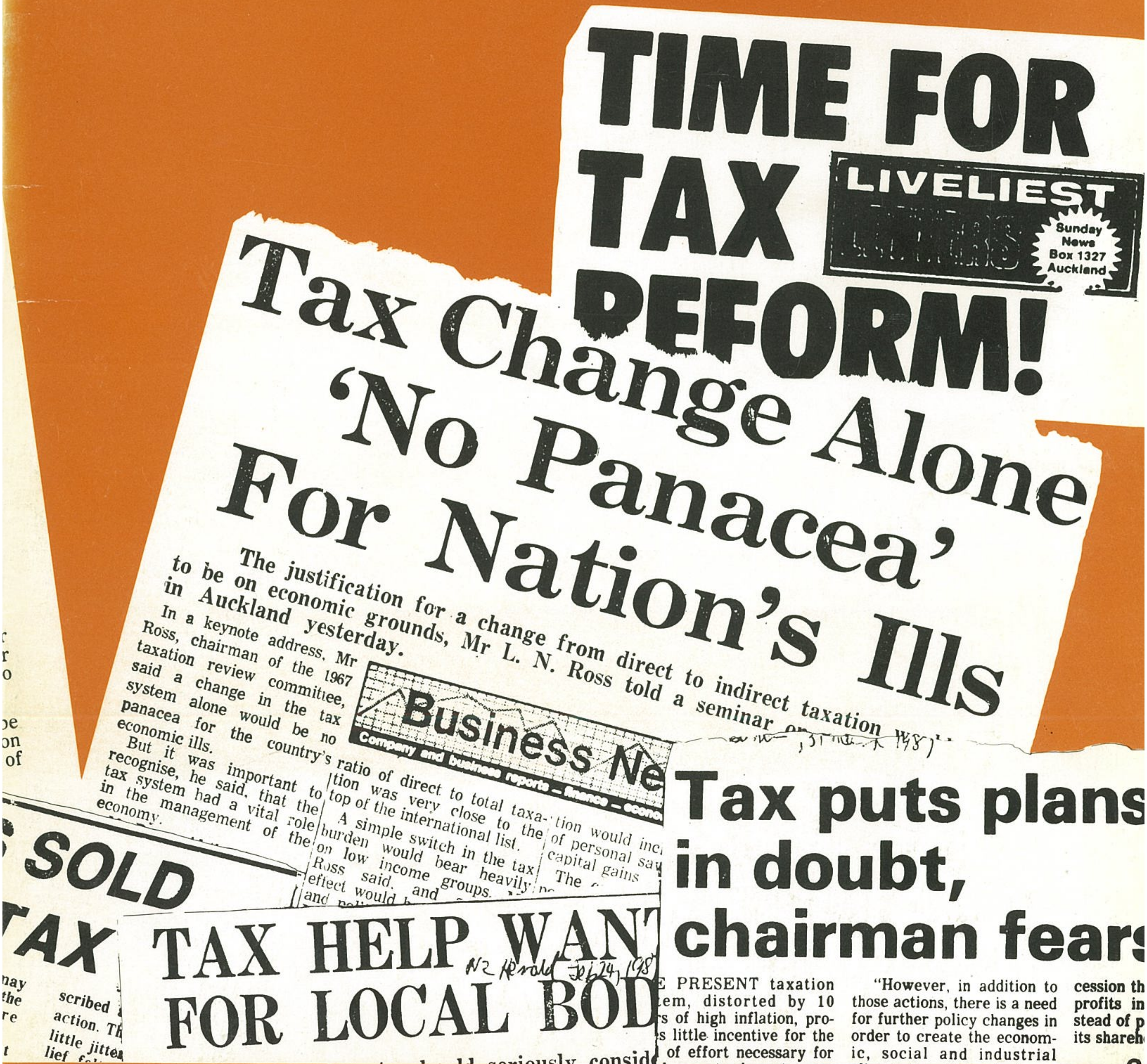
AN AGENDA FOR TAX REFORM



TIME FOR TAX REFORM!

LIVELIEST
Sunday News Box 1327 Auckland

Tax Change Alone 'No Panacea' For Nation's Ills

The justification for a change from direct to indirect taxation ... to be on economic grounds, Mr L. N. Ross told a seminar ... in Auckland yesterday.

In a keynote address, Mr Ross, chairman of the 1967 taxation review committee, said a change in the tax system alone would be no panacea for the country's economic ills.

But it was important to recognise, he said, that the tax system had a vital role in the management of the economy.

... ratio of direct to total taxation was very close to the top of the international list.

A simple switch in the tax burden would bear heavily on low income groups. ... Ross said, and ... effect would ...

... tion would inc... of personal sa... capital gains ... The ...

Business Ne...
Company and business reports — finance — econo...

Tax puts plans in doubt, chairman fears

...E PRESENT taxation ...tem, distorted by 10 ...rs of high inflation, pro...s little incentive for the ... of effort necessary for ...

"However, in addition to those actions, there is a need for further policy changes in order to create the economic, social and industrial ...

...cession th... profits in... stead of p... its shareh...

...S SOLD ...TAX

TAX HELP WANT... FOR LOCAL BOD...

NZ Herald Jul 24, 198...

NEW ZEALAND PLANNING COUNCIL

AN AGENDA FOR TAX REFORM

NZPC No. 19

New Zealand Planning Council
P.O. Box 5066
Wellington

June 1981

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FOREWORD

The Planning Council is convinced that reform of our tax system must be an important element of a strategy for economic and social development in the 1980s. However, reform is not a simple or straightforward issue. It is not something that should be approached piecemeal. What is needed is a comprehensive but expeditious review, laying the foundation for significant reform in the next term of Parliament.

This report sets out the reasons why reform is needed, the agenda for a review, and some ideas on how the review might be conducted. It is based on extensive consultations and written reports by a task force convened by one of our members, Pamela Jefferies, assisted by Graeme Thompson, Suzanne Snively, and other members of our secretariat. The Council is grateful to them for their work.

Frank Holmes,
Chairman

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Members of the New Zealand Planning Council

MEMORANDUM FOR CHANGE

Our tax system is in pressing need of reform. It may have served us well in the past, but it has been distorted by the effects of high inflation. Other anomalies and inequities have emerged as a result of concessions and incentives introduced piecemeal by governments for particular purposes, and because of loopholes in the law, which allow large-scale legal tax avoidance.

The Council identified the need to review the tax system in *Directions* (published in April 1981). Subsequently a working party within the Council was established to undertake background work in preparation of an agenda. Discussions were held with the major Government departments involved in taxation policy and with many in the community knowledgeable about taxation.

Tax Reform

Our consultations revealed widespread agreement that the system needs review so that it may be reformed as quickly as possible. Many individuals, feeling a growing tax bite as their money incomes grow, are more concerned with tax reduction than with tax reform. But tax reduction would not, of itself, deal with the distortions, anomalies, and inequities of the present system. Reform requires a more fundamental review and recasting.

In the absence of important changes of policy, the prospects this year are for a budget deficit and growth in the supply of money larger than is desirable in the long-term interest of the country. The circumstances are not propitious for a quick *net* tax reduction. If policies along the lines recommended by the Council continue to be followed and succeed in stimulating growth and curbing Government expenditure, this would gradually increase the scope for tax reductions as part of any planned tax reform. But even if the scope for immediate tax *reduction* is not great, the Council believes that all political parties should aim for tax *reform* as quickly as possible.

Reform inevitably involves some redistribution of the tax burden and changes in the means by which tax is collected. The Council believes that while tax reform should be given high priority, *it should not be approached piecemeal*, as governments have tended to do in the past. A major review is needed, to plan restructuring of the present system to make it more equitable and efficient and more acceptable to taxpayers.

Why Tax Reform?

Overall, we are not highly taxed in comparison with other countries. While total tax has been rising in relation to our gross domestic product, the ratio is below the average for the countries which belong to the Organisation for Economic Co-operation and Development (OECD). However, as table 1 shows the proportion of revenue derived from the personal income tax has greatly increased. At 64 percent of the total in 1980, New Zealand's personal income taxation is high compared with other countries.

Table 1: The Changing Pattern of Central Government Taxation

	1960	1965	1970	1975	1980
	(percent)				
Personal income tax[1]	41	42	46	59	64
Company income tax	18	23	20	15	10
Estate and gift duty	5	3	2	2	1
Taxes on goods and services ...	36	32	32	24	25
Total	100	100	100	100	100

1. Includes social security tax in 1960, 1965.

Source: *The Budget*, for selected years.

Probably even more important is the fact that rates of taxes paid on additional earnings become very high at relatively low levels of salary and wage income which is taxed at source. The average wage is expected to surpass $12,600 by the end of this year, moving the average wage earner into the 48 percent bracket at the margin. Historically, people on modest incomes have not been in such high marginal tax brackets. High inflation has pushed more and more people into higher tax brackets, and made it easy for governments to collect revenue from this source. Other revenue sources have not reaped such a bumper harvest. The yield from taxes on goods and services, for example, does not rise so rapidly and automatically with inflation. Moreover, governments have made extensive concessions in taxation on business with the aim of promoting exports and investment, or for other purposes.

Various groups have received a measure of relief from these high marginal tax rates, substantial in some cases. This relief has not been uniform. Some have benefited from rebates or concessions. Some succeed in reducing their tax payments by undetected evasion. Legal tax reductions are available—for example on dividends, on profits of proprietary companies, on farming, and on other businesses constituted under family trusts. There is an increasing trend for private sector employers to provide allowances, benefits, cars, and other perquisites which are non-taxable, especially but not solely for executives. Thus, even within the wage and salary-earning group in the community, people receiving similar incomes pay different rates of tax depending on the proportion of their true income they derive in non-taxable benefits. Individuals deriving income from businesses of all sorts have also benefited from the wide range of incentives, concessions, and allowances introduced or sustained for various purposes of economic policy.

Table 2: Income Tax Rate Scale for Individuals

(Annual rate from 1 April 1981)	Rate of tax for every dollar is
On so much of the taxable income as:	%
Does not exceed $5,500	14.5
Exceeds $5,500 but does not exceed $12,600	35.0
Exceeds $12,600 but does not exceed $17,600	48.0
Exceeds $17,600 but does not exceed $22,000	55.0
Exceeds $22,000	60.0

Source: *The Budget, 1980.*

A review is required to assess the consequences which flow from these high marginal tax rates. Unions know, that to maintain their members' real income, they must press for pay increases that will compensate not only for price increases but also for the higher rates of tax the members will pay. This pressure aggravates what is already a serious problem of inflation. The high marginal rates reduce the net return received for working overtime, taking more responsible jobs, acquiring new skills, or taking risks by changing jobs or embarking on new ventures. They make other countries, like our near neighbour Australia, which tax personal income less, look more attractive to enterprising people. They encourage both legal avoidance and illegal evasion of the tax.

The effect of these concessions, incentives, and allowances on groups of personal taxpayers cannot be measured from reported information. Nevertheless it is evident that these kinds of concessions are a major cause of the reduction in the proportion of revenue derived from company tax. The Council has estimated elsewhere, that investment and export tax incentives alone involve a loss of $300 million per annum in tax revenue, and other concessions undoubtedly cost large sums.

The business incentives have aimed at achieving important objectives such as overcoming structural weaknesses in the internal economy, expanding agricultural production, widening the export and manufacturing base, and earning more foreign exchange with some evident success. But there needs to be a continuing review of the costs and the effectiveness of the various measures in relation to possible alternatives.

Furthermore, there are real and apparent anomalies within the measures themselves. For example, businesses which assist the balance of payments by exporting are able to benefit from tax savings, but those which make their contribution by producing import substitutes cannot. Some very large and profitable companies pay little or no tax and some actually receive cash payments from the Government for the value of concessions they cannot absorb. As an element of the tax system which contributes greatly to perceived maldistribution of tax burdens, all these measures should be subject to review and close scrutiny.

Other taxes such as customs duties, sales taxes, and death duties, while individually not a high proportion of total tax, also need review to reduce anomalies; to decide what changes are desirable to meet standards of equity and efficiency; and to determine the practicable scope for extending the base of the tax system by modification of taxes of this sort.

How to Pursue Tax Reform

Despite widespread agreement that tax reform is needed, governments have found it difficult to make changes. One suggestion for reducing the burden of the personal income tax is to switch to taxes on goods and services. However this would push up the Consumer Price Index and, unless present procedures were modified, would provoke increases in pay and other incomes, and aggravate inflation further. Those who are receiving incentives and concessions or who have found loopholes in the tax law will not welcome changes which reduce their privileges. Although there are political and economic difficulties in reform, the widely-perceived disadvantages of the present system—its complexity, its stimulus to inflation, its adverse effects on work and enterprise, and its provocation of avoidance and evasion—suggest that reform must be undertaken despite the difficulties. The reform must be carried out as quickly as possible so that it may foster and facilitate the rise in economic growth which we believe can be achieved during the 1980s.

Timing is crucial. While comprehensive reform is needed as quickly as possible, *the changes must be based on an informed assessment of the implications.* Premature decision-taking could lead to a worse, rather than a better, tax system. It is vital that a systematic review be set in train promptly to provide the basis for reforms to be phased in during the next parliamentary term.

The review would be assisted by earlier reports on tax reform both in New Zealand and overseas. These include the Carter Commission Report (Canada) in 1966, New Zealand's Taxation Review Committee (the Ross Committee) in 1967, Australia's Asprey report in 1974, the report of the Swedish Royal Committee on Taxation in 1976, the United States Treasury's *Blueprints for Basic Tax Reform* in 1977, and the report of the Meade Committee published by the United Kingdom Government in 1978. A main emphasis in the proposed review would be to determine the relevance of such studies to our own present circumstances.

The Planning Council's working party has prepared background material and data and has consulted a number of reports and other references which could be made available to any review committee to enable them to undertake an early start.

In any event our tax system should not be considered only in a domestic context. Many enterprises and individuals have important links in trade and finance with the rest of the world. The effect of changes in our tax system on double taxation agreements, the pricing of goods in international and domestic markets, and migrant flows, particularly between Australia and New Zealand, must be recognised and dealt with.

Many New Zealanders believe that we are more heavily taxed than Australians. Yet the latest data show that total tax revenue relative to gross domestic product is about the same in both countries. It is the proportion of revenue derived from individual income tax (in 1978, 44 percent in Australia and 59 percent in New Zealand) which is the main difference and the probable reason for our feeling that we are more heavily taxed overall.

The ability to change the tax system rests ultimately on persuasion and co-operation. Co-operation in turn will only be forthcoming if the balance of benefits and costs is plain. Questions of efficiency and equity cannot be answered in absolute terms but revolve around the public's perception of what it thinks is profitable and fair. The importance of public education on specific and general issues during the review period should not be underestimated.

While the review is being carried out the Government may judge it opportune to make some tax changes either in the annual Budgets or at other times. It is important that any changes that are made are consistent with the objectives emerging from the tax system review. Our consultations suggest that these could include the widening of the personal income tax base to permit a reduction in average, and especially marginal rates of personal income tax. Some interim provisions could also be made to moderate the effects of our present tax system on investment decisions and on the capacity of companies and individuals to invest. Many of the distortions in our present tax system are exacerbated by inflation. Measures to reduce inflation and overcome its impact on the tax system (such as indexation) should be pursued.

THE AGENDA

The following agenda is designed so that the options for change can be identified, to provide the basis for a completely reformed tax system which could be in place by the end of the next parliamentary term.

The process of reform can be broken down into six steps briefly summarised below. These items are more fully discussed in the pages which follow:

Item 1: The task force on tax reform to be established as soon as possible.

Item 2: The existing tax system to be examined, with reports on the studies undertaken to be published as they are completed.

Item 3: A report to be presented to the Government by mid-1982, on options for reforming the New Zealand tax system.

Item 4: The Government to design a reformed tax structure and introduce legislation into Parliament.

Item 5: Tax changes to be implemented.

Item 6: Changes to be monitored and evaluated.

Item 1: The Task Force

The uniqueness of the task for the body involved in tax reform will emerge from the work programme set out below. There are a number of forms such a group may take and these are discussed after we have outlined some of its functions in items 2–6. Whatever body is selected needs the power and resources to draw on much work which is already underway and channel this information through the Government processes. Its brief is to draw on what is already known and established about taxation here and overseas and report on options for a reformed tax system for New Zealand.

Item 2: Examination of the Existing Tax System

The Council proposes that the task force's examination of the tax system be pursued in a set of parallel studies to be carried out simultaneously. Results of these studies would be made freely available to members of the public. In order to meet the deadline for publishing a report in mid-1982 on options for reform, an early start will have to be made. It should be recognised that how much can be done will be constrained by the limited information currently available and the amount of resources made available to the task force.

Careful consideration will need to be given to the terms of reference for the review, which should be both comprehensive and sufficiently flexible to enable the task force within the constraints mentioned above to consider all aspects of the tax system. Some of the issues which the Council believes should be examined are set out below. It is emphasised that this list is intended to be no more than illustrative. Both before the inquiry begins, and during its course, a range of additional issues for study will no doubt be identified.

In the Council's opinion the review should, in general, be confined to central government taxation. It recognises that local government taxation is an important component of the total taxation framework, but a complete review of the rating system would be complex and time-consuming and would unduly complicate and protract the main work. The Council believes, therefore, that local government taxation should be considered by the task force only in so far as it impinges on the central government tax structure. The task force may, if it judges this desirable as the study proceeds, recommend that a full review of local authority taxation be undertaken by some other body.

The System as a Whole

- Identify and expand the information base needed for the examination of the tax system.
- Evaluate how the acceptability of a tax system can be defined.
- Consider whether the present system is equitable.
  (a) What standards can be applied to assess equity? Is progressivity an acceptable standard?
  (b) How can the tax system best be redesigned to meet these standards?

- Review and report on the possibilities for indexing the tax system, both generally and with respect to particular types of taxation.
- Examine the degree to which the tax system supports efficient use of resources by the Government and the private sector.
- Determine the extent to which support through the tax system to companies, farmers, traders, and partnerships is cost-effective and achieving its objectives. Consider the alternative means by which the objectives might be attained.
- Consider how far the tax system acts to stabilise economic activity.
- Assess the revenue which is forgone through tax avoidance, tax evasion, and the use of tax losses.

The Personal Income Tax

- Examine the nature of the personal income tax, with particular reference to its various effects on salary and wage earners, families, partnerships, sole traders, farmers, charities, and other groups who are treated differently under the law.
- Examine the rate structure to assess the feasibility of reducing marginal rates or adopting a proportional income tax.
- Assess whether existing deductions, exemptions, and rebates intended to provide income support relative to family and household circumstances achieve their objectives. Would a negative income tax (see appendix A for description) serve these needs and could it be designed to serve other income maintenance needs as well?
- Examine the possibility of extending the tax base by including in the legal definition of taxable income, items not currently included; and also excluding from the definition of deductible expenditure, items currently deductible.
- Consider on what unit our personal tax system should be founded—the individual, the household, or the family?

The Company Tax

- Ascertain by total survey of listed companies and pilot surveys of private companies what taxes are being paid on income as determined by current accounting practice and the reasons for the percentage of tax to net income differing from the legal tax rate of 45 percent (50 percent for overseas companies).
- Consider the taxation of all company earnings whether distributed to shareholders and others by way of salaries, interest, directors fees, dividends, ordinary and specified preference shares, or retained within the company.
- Review tax policy in relation to company dividends: examine the taxation of company profits distributed by way of dividends; the taxation of dividends received by shareholders; and the behavioural impact of dividend taxation on investors and entrepreneurs.
- Assess the possibility and desirability of changing the basis of determining profit for tax purposes from an historic cost to a current cost accounting basis (CCA).

Other Existing Taxes

- Assess the following taxes as components of a tax system which is equitable, efficient, and a stable source of revenue: wholesale sales tax, customs duties and tariffs, highways road-user charges, motor spirits tax, estate and gift duties, beer and alcohol duties, other taxes, and licence fees.
- Review local government taxes, to the extent that they impinge on the central government taxation system.

Alternatives

Examine alternatives and their effects on the economy (see appendix A), based on what is known here and overseas: these alternatives may replace either existing individual taxes or the entire tax system. Some alternatives are a value-added tax, a retail sales tax, a direct expenditure tax, a flow-of-funds company tax, a capital gains tax, a resource-based tax, a factor productivity tax, a payroll tax, and a specific tax.

Administrative Issues

- Evaluate how much existing taxes cost to collect.
- Consider what are the economic, administrative and financial costs and benefits of changes to the existing tax structure and the adoption of new schemes.

The Council re-emphasises that this list of items for study is not intended to be exhaustive. It is expected that a number of other topics will suggest themselves to the Government and the task force.

Item 3: The Options for Reform

Examination of the existing tax system and viable alternative taxes for New Zealand in item 2 will identify at least one and possibly several viable tax systems. While experts may provide an evaluation of the costs and benefits of various taxes, the choice of the best option must be achieved through the political process. A report on options for reforming the New Zealand tax system should be published by mid-1982. It is recognised that all the intricacies of the problem cannot be fully assessed within 12 months; but the Council believes that the formulation of the options for change *should not be delayed beyond the middle of 1982.*

Item 4: Introduction of Legislation to Reform the Tax System

If the Government makes an early decision on the nature of the reforms which it wishes to introduce, legislation giving effect to the changes could be introduced as early as the end of the 1982 parliamentary session or at least during 1983.

Item 5: Implementation of Tax Changes

Following the presentation of its report, members of the task force might be invited by the Government to provide further assistance or advice to the Government as it proceeds to implement the revised tax scheme.

Item 6: Monitoring and Evaluating the Reformed Scheme

It is desirable that the Government should set up procedures for monitoring the effectiveness of the reformed system. Task force members might be called upon to help design techniques for monitoring and to assist in periodic evaluation.

The Task Force for Tax Reform

The functions of the task force while carrying out a systematic review and planning for change are varied. In advising and assisting the Government, the task force will be required not only to do the necessary technical and economic analysis, but also to inform the public on issues involved and about alternative tax schemes, as well as to consider means of overcoming any administrative or other difficulties likely to be involved in the changes they favour.

There are a number of people both studying and speaking out on taxation reform at present in New Zealand and our investigations into the subject have convinced us that there is a reservoir of expertise, drive, and initiative that could be tapped. The question is how to harness it to produce concentrated efforts to bring about the necessary changes quickly.

An inquiry into the tax system could be carried out by any one of a number of methods: for example, by a committee of inquiry; a parliamentary select committee; an enlarged public sector research department in the Treasury or the Inland Revenue Department; or a tax foundation staffed and funded along the lines of the New Zealand Institute of Economic Research.

In the light of the consultations it has had, the Council believes that of all the possible alternatives, the best would be a joint public/private sector body established for the purpose of tax reform and with a finite term. Such a body would be the most likely to secure the maximum contribution from both the public and private sectors and produce results most expeditiously.

The Council envisages that this task force would consist of two elements—a steering committee, and a secretariat.

Responsibility for the review would be given to a steering committee composed of people of acknowledged standing in fields relevant to the inquiry, drawn both from the public and private sectors. The Committee would be politically neutral. Its members would not be required to work full-time, but would direct the study as it proceeded, and formulate the final recommendations. The steering committee would be assisted by a secretariat of able and experienced people, also from both Government and private employment, who would work full-time, and whose director would also be a member of the steering committee.

It would be very important that the task force be set up with adequate resources to do its work, and that it have full access to the expertise available within both the public and private sectors. It has been suggested to us that the task force might have some link with the Planning Council, on the model of the Economic Monitoring Group. The Council would be glad to co-operate in this way, if the Government wished, and to make available what assistance it could; but it could not within the limits of its present resources, accept a more substantive role in the process.

The Council recommends that the task force be established as an independent body. It would be important that it maintain close contact with the Minister of Finance and with the relevant Government departments, particularly the Treasury, and the Inland Revenue and the Customs departments.

APPENDIX A: ALTERNATIVE TAXES

Possible alternative taxes to which the task force might turn its attention are summarised below.

Value-added Tax

A value-added tax is a tax imposed on the added value imparted to commodities and services at all economic stages falling within the scope of the tax. Under this tax, the tax base is net turnover at all stages of production (avoiding the cascade effect of a turnover tax assessed on gross turnover at each stage). The percentage of tax included in the price of the new goods remains the same irrespective of the number of economic stages through which the goods may pass. The total tax attracted by the finished product consists of the individual amounts of tax paid at the same percentage rate during its progress from raw material to completion.

Under VAT all companies are assessed on a common base. Imports are taxed, so it acts as a form of protection. Exports are not taxed and this is an acceptable international practice. Many overseas countries have adopted VAT.

Retail Sales Tax

The retail sales tax is imposed at the final point of sale, usually at an *ad valorem* rate. These taxes are already in use in many countries and are extensively used at both the federal and state levels in the United States.

Unlike a tax imposed at an earlier economic stage, a retail sales tax does not lead to the practice of treating the tax as an element of cost to which the usual profit mark-up is added. Since the tax is commonly levied on a broad base (the total cost of all goods and services at the final point of consumption), a relatively low rate will yield a substantial amount of revenue.

Direct Expenditure Tax

A direct expenditure tax is one assessed on individual expenditure. It could be levied on selected levels of expenditure or it could become a total replacement for the personal income tax. Such a tax has not been tried by any developed country but has been advocated by a number of bodies set up overseas in the past few years to study tax reform. Advocates suggest an expenditure tax is relatively simple to administer and enforce and that it would overcome the complexities involved in widening the personal income tax base. It does not discriminate between earnings from income and earnings from capital and it encourages savings (and investment).

Flow-of-funds Company Tax

A flow-of-funds approach may be another means besides current cost accounting to adjust the allocation of taxable profit for inflation. With a flow-of-funds base, liability to taxation is based neither on profit calculated on an historical cost basis, nor on profit calculated on current cost accounting concepts, but on the flow of funds. That is, it is calculated on the flow of receipts from the sale of goods and services over the expenditure on the purchase of such goods and services whether these transactions be on current or capital account. The United Kingdom's Meade Committee extensively discussed these concepts, the methods of defining the base of a flow-of-funds tax, and its relationship to personal taxes. The taxation base is simply net cash flow. The flow would be taxed at the end of the financial year in which the cash was paid or received. Therefore, the transactions could be considered to be expressed in current costs with the oldest values ascribed to the currency being less than one year.

It may be easier to define this basis of taxation in legislation than it would be to define the concepts of current cost accounting for the calculation of taxable profit. While recommended by the Meade Committee this tax has not been tried in practice.

Capital Gains Tax

A capital gains tax is a tax assessed on the increase in the value of a capital asset. In valuing a capital gain for tax purposes, a distinction may be made between the realised gain arising from the sale or disposal of an object and an unrealised gain arising from an increase in the value of an asset which continues to be held. Another issue regarding the valuation of a capital gain for tax purposes is whether it is the increased value of the asset in money terms or the value after allowance has been made for inflation which is subject to tax.

New Zealand tax law draws a fundamental difference between income gains and capital gains. Only income gains are assessable for tax, although some specific gains of a capital nature are deemed to be income and taxed as such. While this distinction between earnings of an income nature and those of a capital nature is typical of most developed countries, New Zealand is one of the few countries which does not tax capital gains although the 1967 Ross Committee recommended its introduction.

Resource-based Tax

A resource-based tax is a tax on local natural resources such as minerals or forest products. Australia has a coal export tax and other taxes which are indirectly resource based. The usual intention of a resource tax is to collect revenue from foreign users of the resource. Whether foreign users are actually burdened with the tax depends on the extent to which the country collecting the tax can control the market price of the taxed resource. If a country is the main source of a particular resource, it may have a monopoly advantage and can tax the resource to maximum advantage.

Factor Tax

Factor (or productivity) taxes are taxes based on an assessed value of a fixed factor of production, such as land. The idea is that the tax has a beneficial effect on productivity because variable productive elements such as labour and initiative are free to react to economic and financial circumstances. As the factor tax is usually fixed, the greater the return created by careful use of variable factors, the greater the reward per unit of output. For example, of two taxpayers paying a fixed factor tax of 10 percent on a property worth $100,000, the taxpayer who earns a profit of $30,000 through use of the land will have a larger after-tax income ($30,000 minus $10,000 = $20,000) than the taxpayer earning only $15,000 ($15,000 minus $10,000 = $5,000).

Payroll Tax

A payroll tax is a tax linked to the payment of wages and salaries. Either employers or employees may be assessed for the tax, but in both cases the tax will have an influence on the total cost of labour, the price of products, and business profit margins. This tax may be used as a flexible instrument of economic policy, (for example, to encourage selective employment) or it may be given a specific purpose such as to finance unemployment and social security schemes. It could also be an effective method of raising Government revenue.

Specific Tax

A specific, or ear-marked, tax clearly identifies monies set aside for specific Government expenditures. It could be combined with the existing tax system or be part of a changed system. One example is a motor spirits tax, set aside for roading expenditure. Another example is a social security tax, ear-marked to fund National Superannuation or other social expenditures. Experience with various forms of the social security income tax (in force between 1930 and 1969) showed, however, that different factors influence the size of the tax take and the size of the expenditure. In this case, the tax proceeds did not fully meet the expenditure. Experience with the motor spirits tax has been the reverse with more collected in tax than spent by the Government in roading.

Negative Income Tax

An alternative means of financing social welfare expenditure could be linked to the personal income tax in the form of a negative income tax. Under a negative tax, every person or family unit must be guaranteed a basic living allowance. When incomes fall below this a payment (negative tax) would be made by the Government. Positive rates of tax would be paid above this level. A negative income tax would be designed to reduce income inequality through direct transfers between taxpayers. In the case of a flat-rate income tax, a negative income tax would ensure that taxpayers received a minimum level of income and would introduce progressivity into the bottom end of the scale.

Advocates suggest that a negative income tax could clear up many of the anomalies in the existing tax and social welfare structure created by the piecemeal adoption of an increasing number of rebates, benefits, and exemptions. In practice it may be difficult to design a form of negative tax which takes account of differing household and family circumstances.

P. D. HASSELBERG, GOVERNMENT PRINTER, WELLINGTON, NEW ZEALAND—1981

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WARNING
Paying too much Tax can be damaging to your wealth.

NZ Herald Feb 17, 1981

Tax Changes Fall To Fear Of Inflation

NZPA Canberra

The Australian Government has decided against a broadly based indirect tax, either at retail or wholesale level, because it would prove too inflationary.

...decision, made at a reliance on direct taxation ...ing in Canberra to a greater reliance on in... ...months of direct tax had been the pros... ...egan pective inflationary impact. He said that, if the stan... ...dard rate of income tax was ...from 32c to 27c in the ...nd the lost revenue ...an indirect tax, ...have risen by ...r cent. ...this

SELF EMPLOYED
AND PERSONS WITH
INVESTMENT INCOME OVER $500
(after interest and dividend exemption)
Also Persons who received Withholding Payments

1980
3
RETURN

Taxing expenses

TAX evasion and avoidance has been described as New Zealand's biggest growth industry.

So the Inland Revenue decision to make a much more detailed study of employment expenses is sure to be viewed by many taxpayers as just another round in the battle...

That battle has the taxpayer struggling to hold on to as much of his earnings as he can — the taxman seemingly intent on grabbing more and more of those earnings.

...s a bitter contest. And no less so for the taxpayer when, as happened ...'s reminded how well tax avoida... out for some people.

...puty Minister of Finance ... kept stressing on TV the ... voidance is "taking legal ste...

...ort incentives, it ... at some peo... the ...

MORE WAYS TO REDUCE YOUR TAX

- How to increase your write-off of bad debts
- How a discretionary trust can reduce your taxes
- Why you should avoid director's guarantees
- How to best invest in rural property
- How professionals in practise need not pay tax on book debts
- How Doctors can arrange superannuation for themselves by employing each other as locums
- How builders could pay no income tax until work is completed
- How to use trust losses to advantage
- How ... and other professionals can reduce tax by using

The Evening Post, March 19

Tax-free-perks que...

THIS YEAR'S employee tax code declaration has upset the president of the Retailers' Federation, but the commissioner of inland revenue can see no cause for concern.

At his federation's annu...

to delegates, the Press Association reports.

Concern was also expressed about another section in the declaration which asks for the spouse's inland reven...

taxati... well p... T...

SHARE... TO PAY

According to a leading firm of Auckland sharebrokers, the volume of share selling by investors requiring cash for the March 7 tax deadline was "fairly substantial."

The brokers give this as an important factor ... the recent easi... price...

uneasiness but th... soon be pushed ... background by ... positive factors.

"One of these ... the market showe... basic strength ... scene..."