



Tax policy reform: equity, fairness, and health

7 March 2023

Louise Delany

PUBLIC HEALTH

PRIORITIES SERIES

Summary

The way that we collect government revenue in Aotearoa New Zealand helps perpetuate inequalities and provides insufficient money for public services to deal effectively with a daunting range of economic, social, health and climate change crises. Our tax system does not regard wealth as a source of revenue: we do not tax assets, inheritances, or gifts (with some exceptions). Our system does not demonstrate compliance with Te Tiriti o Waitangi.

This briefing outlines principles for redesign of our tax system and suggests changes. These proposals for change would need political commitment for them to become reality:

- A higher income tax rate for those with high incomes: a 50% tax rate on income over \$150,000, instead of the current top rate of 39% over \$180,000.
- A 2% annual tax on *net* wealth over \$2m (net after debts subtracted) eg, an annual \$20,000 on \$3m net wealth, along with a wealth transfer tax
- More openness in the tax system - disclosure and public access to tax-related information.

Tax is critical to creating the world we want. Through taxation we fund the essential services that support a well-functioning community and enable basic social, health, economic and environmental goals to be achieved. Tax design is about how we gather government revenue, from whom and from which sources.

Values underlie how we gather government revenue. Positive values, such as fairness, equality, and responsibility for others, promote our connection with others and social cohesion. These values are expressed in the concepts of manaakitanga, whanaungatanga, and kaitiakitanga - the nurturing of Te Taiao, the living world.

We know that huge inequities exist in Aotearoa. These inequalities reflect historical injustices and current unfair systems. Our tax system helps generate and perpetuate this unfairness.

This briefing suggests how we can reframe our tax design so that it is fairer and has increased capacity to provide fundamental public services. Crucially, Aotearoa needs some essential tax commitments by political parties in 2023 for post-election.

The briefing refers primarily to health to illustrate its points, however, it does not attempt to cover all areas of current and potential taxation relating to health, or the environment. The use of taxes for these purposes is important and well-used.¹⁻⁴ Rather than attempting a comprehensive coverage of all aspects of taxation and its range of purposes, however, this briefing focuses on an overarching theme: the structural and systemic issue of inequality and means by which it can be addressed.

Te Tiriti o Waitangi and tax

Historically our system has not demonstrated compliance with obligations under Te Tiriti. Māori effectively paid for their own colonisation through taxation and by transfers of land which amounted to unfair forms of tax.⁵ Consequent impoverishment and landlessness led to poverty for most Māori.^{5,6} This situation continues, with the median wealth for Europeans

in 2018 being \$138,000, compared to \$29,000 for Māori.⁷

Ideas on the future of tax policy that seek to honour Te Tiriti need to advance rangatiratanga, and also equity - associated with full rights of citizenship as guaranteed in Articles 2 and 3 of Te Tiriti respectively.

Our present tax system

The design of tax policy is about:

- How revenue is gathered
- How *much* revenue is gathered
- *Who* revenue is gathered from and whether revenue is gathered from all those who should be contributing
- Whether revenue-gathering applies to all appropriate revenue sources
- Transparency/openness of revenue gathering processes

In Aotearoa the government gets most of its tax revenue from:

- individual income (PAYE ie income that a person earns). This makes up 33% of total planned government revenue in 2022-23.⁸
- business income - most companies pay a tax rate of 28% [about 13% of total government revenue]⁸
- consumption tax, ie tax levied on goods and services that are bought. NZ's GST is currently 15% on almost all goods and services [20% of total government revenue].⁸

Our current tax system depends heavily, therefore, on income (salaries and benefits) and consumption. Wealth is not currently taxed (with limited exceptions such as local authority rates).

The lack of a focus on wealth

We have no form of wealth tax (with exceptions such as rates). New Zealand is an extraordinary outlier in this sense: every other developed country, at the national level, taxes either wealth, inheritances or property.^{9 10}

The wealthiest among us are favoured in several ways:

1. Most capital gains are not taxed. An example of capital gains: shares bought for \$400,000 and sold for \$600,000 generate a capital gain of \$200,000. While we have a 'bright-line test' for some capital gains, this only applies to housing and then only when a house is bought and sold within specified periods.
2. We do not tax inheritance, a major contribution to the wealth of many people. Those who benefit from inherited wealth retain its advantages in their lifetimes before handing it down to their children. Inheritance taxes were abolished in 1992 and gift taxes in 2011.¹¹
3. Wealth is easier to 'hide' than income, because of a lack of transparency on assets in Aotearoa. In particular, assets may be held in trusts rather than personal accounts. Wealthier people have, in various ways, more ability to avoid their tax obligations.

The bottom line of current tax design in Aotearoa is that some wealthy people pay a lower rate of tax than poorer ones: In 2021, 42% of people with more than \$50m were reported

as paying income tax at rates lower (an average 12% of their income) than those on median annual incomes (\$55-60,000, who paid about 16-18%).¹² Levels of poverty and inequalities are transmitted from one generation to another. These features of our current tax design seem incompatible with Te Tiriti: “a tax base that prioritises income and sales tax, and is light on wealth/capital/inheritance taxes, has the potential to sustain inequity along racial lines.”¹³

And, given that critical sources of revenue are left untapped – wealth and most capital gains – government has less funding than it should to spend on the common good. The New Zealand government currently spends around 30% of GDP annually. Conversely, a number of Scandinavian governments spend more than 40%. In return their citizens enjoy better public services, and lower levels of health and social problems.^{9 14} New Zealand has many pressing social, environmental and climate change challenges, for which more revenue is required as amply demonstrated by recent events.



Challenges

Inequalities

Significant income and wealth inequalities between ethnic and other community groups have existed in Aotearoa New Zealand for many years.

Wealth inequalities are even greater than income inequalities. At least some wealth is essential for wellbeing, planning for the future and long-term stability. The wealthiest 10% have 70% of wealth in Aotearoa New Zealand (once the Rich List is factored in) and the

poorest 50% have just 2%.⁷ In 2021 20% of all NZ households had only \$11,000 or less net assets each.¹⁵

These large inequalities, both in income and wealth, act as a brake on improving child poverty, health outcomes, housing, and opportunities for Māori and Pacific communities.

Taxing wealth and capital gains would help reduce these inequalities.

Poverty

Poverty is defined here as 'material hardship and relative poverty, where people cannot afford some of the things that most others regard as highly desirable or even essential'.^{16p.17} Using relative measures, poverty rates in New Zealand worsened significantly in the early-to-mid 1990s, and have remained high.¹⁶

Tax policy affects poverty, and poverty affects health. Because major sources of revenue raising are ignored, government is less likely to be able to transfer sufficient money to the poorest. Large groups of Kiwis cannot afford essentials, so are more likely to have cold damp homes and run out of food due to lack of money. In 2021, the poorest 20% of Kiwi households have 1% of total household assets but 11% of total liabilities.¹⁵ *Over half of Kiwis lack sufficient liquid assets to maintain themselves and their whanau for three months at even the poverty line.*^{7p.80}

Poverty rates among Māori and Pacific households have been consistently higher than among Pākehā households. Māori and Pacific children experience material hardship rates more than double those of Pākehā children; they also face a higher risk of remaining in poverty for extended periods.¹⁷

Health

Tax policy helps drive the inequalities in income and wealth, and these generate inequalities in health and poverty. Their effect is compounded by the inadequacy of funding for investment in health services.¹⁸ A poor family is less able to afford good housing, with overcrowding leading to increased rates of illness. Poverty also leads to poor nutrition and the increased risk of poor health. In 2020, over 5% of working-age Pacific peoples, and 4% of Māori, had multiple long-term health conditions (eg, both heart & diabetes), compared with 1.6% of the European/other group and 1.2% of the Asian group.¹⁹

In 2017–19, average life expectancy was more than seven years lower for Māori compared with non-Māori. Ethnic differences are particularly acute in child health.¹⁹

Too little money is invested in health services.¹⁸ The scale of one element of this under-investment is shown by a 2021 report for government:

'The Ministry of Health estimates capital investment of more than NZ\$14 billion (2018 estimates), *excluding* repairs, maintenance and ICT, will be required over the next decade, with peak annual capital expenditure estimated at NZ\$2 billion to NZ\$3 billion during this period – *four-to-six times* the typical recent annual capital expenditure.'²⁰ [italics added]

Principles

In April 2022 the Hon David Parker announced the development of a new Tax Principles Bill. While this Bill has not yet eventuated, there could be real value in articulating relevant

principles in legislation. There are some long established principles such as 'efficiency', to which the following could be added:

- Compliance with Te Tiriti o Waitangi
- Reducing inequality
- Generation of sufficient revenue for public needs, including health and social services
- Intergenerational equity
- Consistency with environmental goals
- Promotion of human rights
- Openness and transparency in tax systems; with public access to tax-related information

Specific tax policy changes for 2023

Our new Prime Minister, the Hon Chris Hipkins, [said on 23 Jan 2023 that](#) "overall there are some New Zealanders who perhaps aren't contributing their fair share [of taxes]," and that "we should always look at how we can make the tax system fairer".²¹

Here are some specific, concrete proposals to make our tax system fairer. They would be most effective with a new purpose provision in new tax law that would specifically reference compliance with Te Tiriti o Waitangi.

The changes are interlinked and would be mutually reinforcing:

1. *A higher rate for those with high incomes.* Currently, the top NZ tax rate is 39% on income over \$180,000. In Australia, those with over \$A180,000 pay 45% on the income over that amount.²² Instead of 39%, we propose a 50% tax rate on income over \$150,000. To counteract any diversion of income into trusts or offshore accounts, greater transparency would help clarify the sources of money and those who benefit from it.
2. *A net wealth tax.* Wealth is an untapped source of government revenue. This could be redressed with a simple, low-rate annual levy on the wealthiest New Zealanders: Tax Justice Aotearoa proposes an annual levy of 2% on *net* wealth (ie, once debts are subtracted) over \$2 million – eg, an annual \$20,000 for someone with \$3m in net assets. In 2021, 20% of Kiwi households had \$2m of net wealth.¹⁵ To curb attempts to get around the tax through asset-splitting, the annual levy would be supplemented by a tax on large-value gifts, including inherited gifts (those totalling more than \$100,000) received over a person's lifetime: that is, a gift and inheritance tax.
3. *Openness in the tax system.* The New Zealand public has a right to know who is paying what, when and how. That is the only way to ensure that everyone is playing by the rules and tax avoidance is minimised. Improved disclosure and public access to tax-related information, along with independent standards to make sure this information is comprehensive and accurate, would provide greater transparency. A concrete step in this direction would involve a publicly accessible register of beneficial owners who benefit from companies or trusts. A further and related step would involve the reform of trust rules.

Conclusion

A just and health-supporting society should ensure compliance with articles of Te Tiriti, foster health, social and economic determinants that enable people to fulfil their potential; and reduce the present intergenerational inequalities. This would strengthen social capital

and help build trust within our society. Our tax system is a powerful tool to prevent and reduce economic inequality.

Changing the tax system, in particular making use of wealth as a source of revenue, is also critical to ensuring government funding we need now and in the future, given the social, health and environmental challenges faced by Aotearoa New Zealand.

Doing something serious about intergenerational inequalities, poverty, and inadequacies in our health and other social services, requires a far greater focus on wealth as a source of government revenue. Without such a focus, election policies in 2023 that promise to address inequalities and provide increased capacity to fund public services including comprehensive infrastructure development, and emergency preparedness, would have little chance of fulfilment. Tax policies need to change.

What is new in this Briefing

- The implications of current tax policy for inequalities and poverty in Aotearoa NZ are described using a health lens.
- The inconsistency of current tax policy with Te Tiriti o Waitangi is identified
- The focus on taxation of income and consumption (GST); and the lack (in general) of tax on wealth and capital gains, are highlighted as relevant to inequality and poverty.

Implications for public health

- The links between inequalities and poverty, associated with current tax policy, and health inequalities, are emphasised
- Ideas for reframing tax design in Aotearoa NZ to promote fairness, reduce inequality, and provide increased capacity for fundamental public services (including health) are recommended/proposed.

Author

Louise Delany, Senior Lecturer, Department of Public Health, University of Otago; and member of Tax Justice Aotearoa New Zealand. No conflicts of interest declared. The proposals in this briefing are largely consistent with those of the Tax Justice Aotearoa New Zealand. For more information on this topic visit: tjanz.org.

Louise thanks reviewers, in particular Dr Matthew Scobie (Kāi Tahu, Pākeha), Senior Lecturer at the University of Canterbury Business School; and Max Rashbrooke, a senior associate of the Institute for Governance and Policy Studies who has written extensively on inequality, taxation and related issues.

PUBLIC HEALTH

PRIORITIES SERIES

This article is part of the Public Health Priorities Series, coinciding with the launch of the

Public Health Communication Centre. These articles highlight some of Aotearoa's most pressing issues and policy solutions to be considered in light of the upcoming general election. You can read more articles from the series as they are published [here](#).

References

1. Tax Working Group. Environment [scroll down page to the Environment section] Wellington: Tax Working Group; 2018 [Available from: <https://taxworkinggroup.govt.nz/key-documents.html> accessed February 1, 2023.
2. Secretariat for the Tax Working Group. Tax Working Group Information Release: Submissions from organisations and academics. Wellington: Tax Working Group, 2018:103-16
<https://taxworkinggroup.govt.nz/sites/default/files/2018-09/twg-bg-3996840-submissions-from-organisations-and-academics.pdf>.
3. Teng A, Puloka V, Signal L, et al. Pacific countries lead the way on sugary drinks taxes: lessons for New Zealand. *N Z Med J* 2021;134(1543):137-40.
4. Blakely T, Cleghorn C, Mizdrak A, et al. The effect of food taxes and subsidies on population health and health costs: a modelling study. *The Lancet Public Health* 2020;5(7):e404-e13.
5. Hooper K, Kearins K. Substance but not form: capital taxation and public finance in New Zealand, 1840-1859. *Accounting History* 2003;2(8):101-19.
6. Hooper K, Kearins K. Financing New Zealand 1860-1880: Māori land and the wealth tax effect. *Accounting History* 2004;9(2):87-105.
7. Rashbrooke M. Too Much Money. Wellington: Bridget Williams Books 2021.
8. Chaston J. Budget 2022/23 - Summary of all tax collections Auckland: Interest.co.nz; 2022 [Available from: <https://www.interest.co.nz/public-policy/115869/budget-2022-summary-all-tax-collections> accessed January 28, 2023.
9. Delany L, Rashbrooke M, Spratt J. Why tax wealth? Wellington: Tax Justice Aotearoa; 2020 [Available from: <https://d3n8a8pro7vhmx.cloudfront.net/tja/pages/43/attachments/original/1634853922/Why-Tax-Wealth-TJA-Policy-Brief-One.pdf?1634853922> accessed January 28, 2023.
10. OECD. The Role and Design of Net Wealth Taxes in the OECD. Paris: OECD 2018.
11. Delany L. A wealth transfer tax Wellington: Tax Justice Aotearoa; 2020 [Available from: [https://d3n8a8pro7vhmx.cloudfront.net/tja/pages/43/attachments/original/1634853916 The_Case_for_a_Wealth_Transfer_Tax.pdf?1634853916](https://d3n8a8pro7vhmx.cloudfront.net/tja/pages/43/attachments/original/1634853916/The_Case_for_a_Wealth_Transfer_Tax.pdf?1634853916) accessed January 28, 2023.
12. Coughlan T. More than 40% of millionaires paying tax rates lower than the lowest earners, Government data reveals Wellington2021 [Available from: <https://www.stuff.co.nz/national/politics/300238241/more-than-40-of-millionaires-paying-tax-rates-lower-than-the-lowest-earners-government-data-reveals> accessed January 28, 2023.
13. Scobie M. Tax principles and Te Tiriti o Waitangi Wellington: Tax Justice Aotearoa; 2022 [Available from: https://assets.nationbuilder.com/tja/pages/64/attachments/original/1671665433/Taxation_and_Te_Tiriti.pdf?1671665433 accessed January 28, 2023.
14. Kleven H. How Can Scandinavians Tax So Much? *Journal of Economic Perspectives* 2014;28(4):77-98.
15. Stats NZ. Distribution of wealth across New Zealand households remains unchanged between 2015 and 2021 Wellington2022 [Available from: <https://www.stats.govt.nz/news/distribution-of-wealth-across-new-zealand-households->

remains-unchanged-between-2015-and-2021 accessed January 28, 2023.

16. Royal Society Te Aparangi. Spotlight on Poverty Wellington: Royal Society Te Aparangi; 2021 [Available from: <https://www.royalsociety.org.nz/assets/Spotlight-on-poverty-digital-v2.pdf> accessed January 28, 2023.
17. Imlach Gunasekara F, Carter K. Persistent low income in New Zealand children. *N Z Med J* 2012;125(1362):95-100.
18. Rashbrooke M. Lightening the Load. Wellington: Association of Salaried Medical Specialists; 2022 [Available from: <https://asms.org.nz/lightening-the-load/> accessed January 28, 2023.
19. Ministry of Health. Health and Independence Report 2021: Ministry of Health; 2022 [Available from: <https://www.health.govt.nz/system/files/documents/publications/health-and-independence-report-2021-nov22.pdf> accessed January 28, 2023.
20. Rust R. Health Infrastructure Review Wellington: New Zealand Infrastructure Commission; 2021 [Available from: <https://www.tewaihang.govt.nz/assets/Uploads/Health-Infrastructure-Review.pdf> accessed January 28, 2023.
21. Hendry-Tennent I. Incoming Prime Minister Chris Hipkins hints at tax changes, says some New Zealanders aren't paying their way Wellington: Stuff; 2023 [Available from: <https://www.newshub.co.nz/home/politics/2023/01/incoming-prime-minister-chris-hipkins-hints-at-tax-changes-says-some-new-zealanders-aren-t-paying-their-way.html> accessed January 28, 2023.
22. Australian Taxation Office. Individual income tax rates Canberra: Australian Commonwealth; 2023 [Available from: <https://www.ato.gov.au/rates/individual-income-tax-rates/> accessed January 28, 2023.

Public Health Expert Briefing (ISSN 2816-1203)

Source URL: <https://www.phcc.org.nz/briefing/tax-policy-reform-equity-fairness-and-health>