

24 April 2018

Tax Working Group Secretariat
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New Zealand

Who's
putting local
issues on
the national
agenda?

**We are.
LGNZ.**

submissions@taxworkinggroup.govt.nz

Dear Sir Michael

The Future of Tax – we can help

Thank you for this opportunity to contribute to the Tax Working Group's examination of our tax system. A tax system that works well is vital for the future prosperity of New Zealand and its citizens. It is also vital for local government and the review provides an opportunity to look at the inter-relationships between property, income and consumption taxes, and the ability of each of these taxes to meet the challenges facing all spheres of government. We note that the Government is also planning to review local government income and expenditure later this year and we hope that each review will inform the other.

Although the Group is not considering changes to local government taxation, we believe LGNZ can help you with at least two of the specific challenges with which the Government has tasked the Group.

There is a clear connection between any additional taxes on property (capital gains, wealth or land tax) that the Group might consider and the way local community services are funded, as property taxes are a primary source of income for local government. Local government will be key to the effectiveness of any environmental taxes, because any environmental tax will sit alongside regulation administered by regional councils. Given these interrelationships, I am writing to offer the Group the support of LGNZ; we are likely to have the information, or access to data and analysis, which could assist the Group as it considers options to improve the structure, fairness and balance of the tax system in the following two areas.

Taxes on land and property

LGNZ members are vitally interested in any proposal by central government to increase taxes on the same property base that local government relies upon for funding community services. Our historical reliance on property taxes also means LGNZ has a deep understanding of how taxes on property impacts on different New Zealand communities, and on segments within a community. We were interested that the Group's submission background paper considered how non owner-occupied property wealth is distributed by quintile, but at this stage had yet to consider the distribution of property wealth across communities.

There are two broad stories around New Zealand today: one is a story of an increasing population, relatively strong economic growth and, as a result, strong demand for more and better infrastructure and services and rising property values. The other is a story of rural and regional communities that continue to be vital parts of our national economy and identity, but that do not have the numbers of people they used to. Some communities are experiencing an aging and falling population, and local industries are facing pressure to relocate to more populous centres (including offshore). A change in property tax could be the final straw for some regional businesses – our members have been working with communities facing hard choices on how to fund essential

community services while retaining local businesses. We can provide the Group with practical and applied insights, in addition to those available through its secretariat.

Environmental taxes

LGNZ welcomes the Government's request that the Group consider whether there is a case to make for greater use of environmental taxation to improve environmental outcomes and diversify the tax base. In its own investigations, LGNZ has recognised that environmental taxes can lead to better outcomes by changing future behaviour in ways that advance environmental objectives, such as addressing water pollution, as well as raising revenue to meet environmental objectives.¹

Again, our applied experience can assist the Group to develop and consider proposals for environmental taxes. LGNZ members apply the Resource Management Act and will be able to assist the Group evaluate how an environmental tax can be designed to work alongside the consent processes. We can help the Group understand some of the practical difficulties which have led to past proposals (typically prepared in isolation from local government) not work out as intended. For example, while there is the ability to charge for the occupation of coastal space under section 64 of the Resource Management Act 1991, charging has never been effective. The designers of the charging mechanism seem not to have had a clear understanding of the issues facing Councils in establishing and implementing the charging regime.

Challenges facing local government

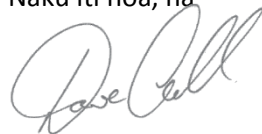
We would also like to take the opportunity to discuss with the Working Group the broader question of how taxes fund local public services provided by councils. Local government currently receives less than 6 per cent of all taxes collected in New Zealand which raises the question whether or not property taxes have the buoyancy to meet the challenges communities will face in the future.

In recent years a number of issues have arisen that highlight the limitations of property taxes. One of the more pressing issues concerns difficulties councils face when attempting to meet the infrastructure and service needs of the rapidly growing visitor industry. While visitors drive economic growth in local areas, it is central government that receives the fiscal benefit through additional GST and income tax, leaving existing ratepayers to pay for the additional infrastructure and services. In our view this is an example where the taxation system is failing communities and we believe it is an appropriate question for the Working Group to consider.

For your information a considerable amount of work has been undertaken on the question of local government's financial sustainability, including a review undertaken by LGNZ in 2014. The outcomes of that review are available from LGNZ's website and we are happy to forward these to your officials. The LGNZ review, like the many reviews undertaken over the last 60 years, highlights the need for councils to have complementary sources of income to sit alongside revenue from property taxes.

I encourage the Group to take up our offer and seek information and analysis from us to help inform the development of options where those options may impact on local government.

Nāku iti noa, nā



Dave Cull
President
Local Government New Zealand

¹ LGNZ, Local Government Funding Review, A Discussion Paper, February 2015.