How to effectively pluck the tax turkey

The angst has finally passed and the false trails have been erased. Can we now stop worrying about a capital gains tax? It seems so.

Vernon Small

Despite Labour leader Phil Goff's comment that, within limits, such as the exclusion of the family home from the tax net, Labour would be open to talks about a capital gains tax, the enthusiasm for introducing one has noticeably flagged around the policy wonkeries of Wellington.

Let's face it, Prime Minister John Key set the bar too high by saying he would take a lot of convincing, and the evidence presented by the Government's tax working group, chaired by Victoria University professor Bob Buckle, would have to be very spectacular to sway him.

Even the backing of United States tax expert Len Burman was not enough. No stranger to advocating capital gains taxes, he wrote advice for New Zealand in 2003 and again this year, as well as being involved in the Australian tax review. But even before he did media interviews last week, the impetus was gone.

Added to Key's scepticism are several practical problems. Once you take out the nearly 70 per cent of homes that are owner occupied – a necessity for any political buy-in to an expanded capital gains tax (and as Burman pointed out in his 2003 paper, we do have a capital gains tax of sorts already) – its scope shrinks dramatically. As a tax base-broadening mechanism, it falls flat.

Rather than risk the firestorm such a tax would ignite, changes that apply more aggressive property-investment-as-business rules and that ring-fence investment properties could have broadly the same impact.

It was clear from the start that the Inland Revenue Department (IRD) was more enthusiastic about a capital gains tax than its twin tower of policy advice, Treasury, which is favours a flat-rate tax on unimproved land.

Easy, but is it fair? A flat-rate land tax discriminates against farmers, the elderly and Maori. Photo: FAIRFAX/ PHIL DOYLE

IRD policy guru Robin Oliver is dismissive of that idea, saying that as with GST, the flat-rate land tax is beloved of economists because it is universal, easy to collect, hard to avoid and not distortionary. However, it is unlikely to change investment behaviour, a key aim of politicians, fearing another property boom.

It is also unfair on farmers, the elderly and Maori, even though some analysts see it as progressive because the wealthier own more valuable land and therefore would pay more tax. (Under that argument, wouldn't a flat personal tax rate also be progressive, because the wealthier earn higher incomes and therefore pay more tax?)

Treasury likes it (and Reserve Bank chairman Arthur Grimes is intrigued by it) because it is as low-rate and broad-based as possible.

It even picks up foreigners who own land in New Zealand. Taxing foreigners abroad sounds like a Vaudeville joke, but must be the holy grail of tax planning.

So for little more than a 0.25 per cent tax on private land holdings – an average of about $500 a year per household – you could raise enough revenue to lower the top personal rate to 30 per cent. What policy adviser could argue with an instant solution to the Government's medium-term aim to align all top rates at 30 per cent? However, negative rumblings have started within the Government, although Key has not given this tax the same verbal lashing he gave the capital gains tax.

"We already have a land tax – it's called rates," one Beehive adviser said last week. And, he warned, if the aim is to lower the corporate rate – to stay competitive with Australia – and to cut the top personal rate without crimping Crown revenue, a land tax that is seen as soaking everyone for the benefit of top earners and businesses is hardly political nirvana.

Nevertheless, policy advisers here believe Australia may head the way of a land tax.

Just this week, the leader of the Britain's Liberal Democrats spoke in favour of a property tax. It would apply an annual levy of 0.5 per cent on a property's value above £1 million (NZ$2.28m), raising £1.1 billion from the estimated 250,000 properties affected.

But Kiwi politicians be warned. The Liberal Democrats see the tax as a way to fund cuts for low and middle-income earners, not the better off.

Arguments for tax reform in New Zealand have so far focused on how to pluck the same – or more – feathers from the same turkey. The political conundrum is as much about where it is spent as where it comes from.

■ Vernon Small is national affairs editor of the *Dominion Post*.

Sustainability achieves foothold in businesses

Do we care about sustainability? In the second part of our report based on ShapeNZ/Fairfax research, we look at whether sustainability matters to business.

FAIRFAX MEDIA BUSINESS GROUP PRICEWATERHOUSECOOPERS SUSTAINABLE 60 2009 SERIES

For years American car manufacturers spent huge sums fighting any attempt by the US government to introduce tougher vehicle emissions standards. Their efforts were largely backed by consumers, protecting their rights to drive big, gas-guzzling sports utility vehicles.

The US motor industry has paid the price, according to Bob Field, chairman of Toyota New Zealand and acting chairman of the New Zealand Business Council for Sustainable Development. Sustainable intransigence wasn't the only thing that sent General Motors into bankruptcy and government bailout but a significant factor was the big US companies were largely making too many of the wrong sort of car for a new market.

Ford, which arguably out of the three Detroit giants recognised the need for sustainability the earliest, Field says, survived without a bailout. Sustainability criteria are being forced on both manufacturers and consumers as part of government packages. The "cash for clunkers" deal, for example, imposes minimum fuel performance standards for the new cars people are getting.

Toyota has been hurt along with the car makers worldwide, Field says. But a focus on the small, fuel-efficient car market, and moves as early as 1997 into hybrid electric car research, have made a big difference. About 80 per cent of all hybrid cars sold are made by Toyota.

While the market for SUVs has declined 35 per cent this year, Field says, small car sales are down just 27 per cent, and sales of Toyota's Prius hybrid car have risen. How much is hard to say, since supply can't meet demand and basically any Prius coming out of any factory is snapped up. In Japan, the new Prius has been the highest-selling vehicle for the past four months and waiting lists are up to 12 months.

Figures from the ShapeNZ/Fairfax research support Field's view that increasingly companies are thinking about sustainability.

Does your organisation behave sustainably (looks after the environment and people as well as profits)?

A Yes	67%
B No	21%
C I really don't know	12%

629 business decision-makers

What is your organisation's attitude towards sustainable business practice?

A Has a reputation which relies on sustainable business practice	39%
B Believes sustainability is only about being 'green and fluffy'	3%
C Something in between these options	43%
D None of the above	15%

1883 business decision-makers

What aspects of a sustainable workplace does your organisation possess?

A Flexible working options	70%
B Learning & education programme	53%
C Positive internal culture	61%
D Culturally sensitive	54%
E Code of conduct & committment to ethics	68%
F Equal opportunities	70%
G Attention to turnover and retention of talent	48%
H None of these	4%
I Don't know	2%
J Other (please specify)	2%

598 business decision-makers

Asked if, in principle, "businesses should create long-term shareholder value by embracing opportunities – and managing risks – resulting from economic, environmental and social developments", 76 per cent of the 1883 respondents said "yes" and just 3 per cent "no". (The rest didn't know). Extrapolate the business decision-makers from that group and the result is even more telling: 88 per cent say "yes" and just 3 per cent "no".

Fewer companies are actually using sustainable business practices, but the numbers are still growing. Asked about their organisation's attitude to sustainable business practice (see graph above), 39 per cent of total respondents – and 46 per cent of business owners – said their company "has a reputation which relies on sustainable business practice". Fewer than 5 per cent said being sustainable was just about being green and fluffy. Asked if their company behaved sustainably (see top graph above), 62 per cent of total respondents, and 67 per cent of business decision-makers said they looked after the environment and people as well as focusing on profits.

And in case anyone still thought "sustainable business" is only about environmental performance, the almost 600 New Zealand business decision-makers surveyed were under no illusions. Flexible working, commitment to ethics and equal opportunities are also critical (see graph top right).

What about the future? Bob Field says the environmental summit in Copenhagen in December will be crucial in terms of the how much businesses – in particular car companies – will gain from their sustainability drives.

"If there is a solid global commitment to emissions trading schemes, there will be a huge rush to make sustainable products and lower emission vehicles."

NIKKI MANDOW

ShapeNZ's methodology

This poll was conducted nationwide online by ShapeNZ. Its panel of more than 14,000 people is built from purchased e-mail lists to represent the New Zealand population at the 2006 census. Results are weighted by age, gender, ethnicity, income, employment status and party vote at the 2008 election to provide a maximum margin of error on the national sample of 2850 respondents of +/- 1.8 per cent. The maximum margin of error for results based on 705 business decision-maker respondents is +/- 3.7 per cent. For the 1782 respondents in work, the maximum margin of error is +/- 2.3 per cent.