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People don't like tax reveals Peter Dunne

The Minister of Revenue, Peter Dunne, has voiced his long held opposition to a Capital Gains Tax in response to calls for one to be introduced, in part, due to New Zealand's "severely unaffordable" house prices. However, the Minister failed to give any logical reasons for his rejection of the Capital Gains Tax, instead relying on the "hoary old chestnut" gambit, as if the world has not changed. As the New Zealand Manufacturers and Exporters Association (NZMEA) point out, a Capital Gains Tax would not mean more tax, as tax on profits and income would fall as a result. The Association argues that a balance in the tax load carried by capital and other gains would be better for everyone.

NZMEA Chief Executive John Walley says, "The Minister claims that a Capital Gains Tax would be distortionary, but this is clearly not the case. The situation we have now, where most forms of income are taxed, but capital gains are not, is distortionary in the extreme, and impacts on investment and other economic behaviour at many levels. If the Minister needs any further evidence of this point he should look to the Treasury briefing."

The Treasury's briefing to the incoming Minister of Finance recommended, "equalising rates of tax on different forms of investment to improve savings and investment, including reducing the rate of tax on some existing forms of investment income and introducing a tax on capital gains to reduce the diversion of investment into tax-favoured or tax-exempt forms," and, "moving towards a tax system more heavily weighted towards consumption taxes and, over a longer horizon, with a greater contribution from property taxes."

"The fact is that almost every other developed country in the world has a Capital Gains Tax, so it is not 'political suicide' as Dunne claims. It is not the only reason for inflated house prices (issues like land availability also play a part), but it is a contributing factor, as investors piled into housing as opposed to productive activity during housing boom," says Mr. Walley.

"If the Government is serious about encouraging productivity growth it needs to promote investment in productive activity rather than tax advantaged assets, which do not create wealth or jobs.ⁱ This is the real issue here."

ⁱ 'Assets Tax and Productivity', <http://www.mea.org.nz/document.ashx?id=442>