



4 June 2009

Government ignores advice and clings to the past

Treasury Secretary John Whitehead has announced in public what Treasury has produced in reports for some time, that New Zealand's tax system needs some major reform to increase our international competitiveness. Unfortunately this call continues to be ignored by the Government.

In a speech to the Institute of Directors yesterday, Whitehead said, "At the risk of being chased down by an angry crowd with pitchforks and flaming torches, yes this should include consideration of moving the boundaries to tax more capital gains - for example on investment property - and shifting more of the tax base towards consumption."

"Capital gains, or property taxes, would encourage investment into productive activity."

"Also, New Zealand's company tax rates are at the upper end of the scale by the standards of the OECD and other small open economies."

"The pressure on us will be even stronger if the review of Australia's tax system currently under way leads to further company tax cuts across the Tasman," he said.

NZMEA Chief Executive John Walley says, "As Whitehead mentions, tax rate comparisons with other countries are important. The comparison with Australia is particularly important given that we effectively share a labour market."

"Shifting the tax base to include capital gains and a higher GST rate would allow corporate and personal taxes to be lowered, making conditions more favourable for both firms and workers that choose to do business in New Zealand. Taxing capital gains would also take away the tax advantaged position of land and buildings, reducing the chance of further housing bubbles and promoting further investment in productive activity that creates wealth and jobs."

"The Government seems to be determined to ignore the advice in front of it, instead preferring to look for any group willing to endorse their preconceived ideas. Surely a year of recession and the growing weight of opinion are enough evidence that change is urgently needed," says Mr. Walley.

"Prime Minister John Key has said that a capital gains tax is not likely to get beyond the discussion stage as it is not something he supports, nor is it something he would expect a National-led Government to implement. If the Government is serious about increasing productivity, then these attitudes will have to change."