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Advancing Better Tax Policy

the role of wealth taxes in New Zealand

Introduction

Most OECD countries have seen increasing gaps between the wealthy and the less wealthy in recent decades (OECD, 2008). Most OECD countries are also increasingly concerned about inequality. The measures and impacts of inequality are highlighted in a range of well-known publications (Wilkinson and Pickett, 2010; Corak, 2013; Stiglitz, 2013, 2015; Dorling, 2014; Piketty, 2014; Rashbrooke, 2014b). Suggestions for the causes of inequality are numerous and varied. While the tax system cannot directly address many of the contributing factors, wealth taxes such as capital gains taxes can assist with

the unequal treatment of taxes on income and capital, and taxes such as estate duties or gift duties may help with redistribution of wealth. Taxes such as capital gains taxes assist with the unequal burden of taxes on income and capital, and taxes such as estate duties or gift duties may help with redistribution of wealth. These wealth transfer taxes are not used in New Zealand, with the exception of a small number of specific capital gains measures that typically capture transactions that are businesslike in nature. New Zealand is unusual among OECD countries in not deliberately taxing gains from capital, which are

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generally accepted to contribute to increasing inequality: 'the rich own a disproportionate share of capital and receive the overwhelming share of capital gains' (Stiglitz, 2015, p.187).

This study examines three taxes that have the potential to assist with addressing inequality:¹

- estate taxes: New Zealand removed estate taxes in 1992 and there has been no subsequent attempt to reinstate any form of inheritance or estate tax;
- gift taxes: gifts made after 1 October 2011 do not attract any gift duty in New Zealand; and
- capital gains taxes: New Zealand does not have a comprehensive capital gains tax.

The article reports on the historical background of these taxes to investigate why taxes that have the potential to act in a redistributive capacity have not been successful in New Zealand. In investigating the historical justifications for the tax policy approach adopted, the study questions whether these are still valid in an environment where inequality is increasing across a range of measures. The second purpose of the article is to maintain debate on the tax structure and, in particular, on the current absence of wealth taxes in New Zealand.

The article commences with a brief discussion of the New Zealand tax system and of inequality in New Zealand. A brief historical account of estate taxes, gift duties and capital gains taxes follows. It then considers the future of wealth taxes in New Zealand, with reference to the historical justification of the taxes and the current environment.

The New Zealand tax system

The New Zealand tax system has many strengths, including strong administration and high levels of compliance. There are three ways of taxing: taxing income, taxing expenditure (consumption) and taxing wealth. Wealth is not comprehensively taxed in New Zealand; instead, personal income tax, goods and services tax and company tax account for the largest component of tax revenue collected – forecast to be 81% in 2016/17 (New Zealand Government, 2016).

There are few legitimate opportunities in New Zealand to minimise tax obligations. The primary exception is in relation to capital assets, where gains are not taxed. Income from capital assets (e.g. rents, dividends, etc) is taxed; only the capital gain component is not. The absence of a comprehensive capital gains tax, or other wealth taxes, has attracted criticism from the OECD: 'the lack of a capital gains tax in New Zealand exacerbates inequality (by reducing the redistributive power of taxation)' (OECD, 2013, p.31).

New Zealand has adopted a 'broad-base, low-rate' approach to tax policy. As noted by Inland Revenue,

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the fundamental idea is to have a broadly defined tax base, which allows tax rates to be lower, thereby reducing the costs associated with taxation ... Further, having low rates and a broad base reduces biases between different forms of saving. (Inland Revenue, 2011)

However, the absence of taxes on wealth is not aligned with the broad-base, low-rate philosophy. Moreover, it creates a situation whereby capital assets, such as land, are tax-preferred and generates a preference for saving in the form of property investment. This is in direct contrast with the purported philosophy.

Inequality in New Zealand

Inequality is well-established in New Zealand. The top 10% in New Zealand earn 8.6 times the income of the bottom 10%, once tax and transfers are taken into account (Perry, 2013a). However, recent research suggests that inequality in New

Zealand is increasing, and particularly so for Māori and Pacific people (Marriott and Sim, 2015). A range of measures, from health and education through to housing affordability and social connectedness, show increasing gaps between Māori and Pacific people and the European population (Perry, 2013b; Marriott and Sim, 2015).

Income inequality is higher than the OECD average, with low incomes more prevalent among Māori and Pacific peoples (OECD, 2013). The most recent Gini coefficient, for 2012, was 0.33 (OECD, 2016b). This is the same as Australia's and the OECD average, but higher than Denmark (0.25), Finland

(0.26), Norway (0.25) and Sweden (0.27) (OECD, 2016b).

Figures relating to inequality in New Zealand are not dissimilar to those frequently highlighted in other OECD countries. The wealthiest 1% of New Zealanders own three times as much as the poorest 50%, with the wealthiest 10% owning half of the country's total wealth (Rashbrooke, 2013). The lowest-income earners in New Zealand have seen little in the way of income increases over the past 30 years. Moreover, when housing costs are taken into account, the lowest-income households have less money to spend than 30 years ago (ibid.). Rashbrooke (2014a) observes the significant wealth inequality in New Zealand, which is also reflected in proportionately greater wealth held by New Zealand Europeans as compared to Māori and Pacific peoples.

Estate taxes

Estate duties² were introduced under the Stamp Duties Act 1866, which came into

operation on 1 January 1867. The amount of the duty was specific to the size of the estate. The scale graduated from 1% for estates under £100, increasing by 1% for each additional £100 up to 5% for estates in excess of £500. However, in relation to successions of 'real and personal estate' the duty depended on the relationship of the donor and the donee.³ The primary objective of the duty appears to have been to assist with revenue generation. However, the amount likely to be raised from the new tax was far from clear. Various figures were suggested in Parliament, with perhaps the most honest statement coming from the attorney general, Henry Sewell, who confirmed that 'the Government had no

at a more equitable distribution of wealth.

In addition, there was a view that the state had assisted in the generation of the wealth, and therefore it was reasonable that some be returned to the state:

those who have made their money in this Dominion, and have been enabled to make that money largely by the expenditure and improvements of the State, ... all these are very largely affected in the building up of the wealth of those who have made money in the past.⁶

1950 to less than 1% in 1978 (Goldsmith, 2008, p.272).

The primary concern with estate duty, resulting in the changes proposed in the Estate and Gift Duties Amendment Bill, appeared to be related to farming estates. There was concern at the impact of the estate duty on the 'medium-sized estate', where inadequate provision may have been made for the duty. It was noted in Parliament that 'a high proportion of these estates were those of farmers.'⁷ Farming was a crucial component of the New Zealand economy and farming lobby groups were influential in these changes (Duff, 2005). It was argued that looming estate duties were creating a deterrent for young farmers to continue on family farming operations due to the significant debt that could potentially be required to pay the estate duties when the farm was inherited (Green and McKay, 1980). Raising the threshold level from \$25,000 to \$100,000, with further increases to \$250,000 by 1 April 1982, removed the likelihood that small or medium estates would be liable to estate duty.

With the introduction of the Estate Duty Abolition Act 1993, no estate duty was payable under the Estate and Gift Duties Act 1968 for any person who died after 17 December 1992.⁸ The primary factors contributing to the demise of the estate tax were complexity and a lack of revenue generation. While the tax was not necessarily complex, there were complex avoidance schemes in place, which also contributed to minimal tax revenue generation from the duty. However, gift duty remained payable after this date.⁹

Gift duties

Gift duties were introduced in 1885 in New Zealand (Littlewood, 2012). The original aim was to minimise opportunities for people to avoid the death duties of the time by gifting property before their death. The Deceased Persons' Estates Duties Act 1881 Amendment Act introduced the same obligations for gifts as for estates, which were payable by the donee of the property.¹⁰

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data, as the tax was an entirely new one'⁴

When the legislation was amended with the introduction of the Death Duties Act 1909 there was a clear perspective that inheriting wealth, or at least inheriting considerable wealth, was not desirable. The estate duty was described in the House as

the fairest and most equable of all taxes under a rational law, and, provided dependants are properly exempted, death duties are a tax on wealth in the hands of those who did not earn it and to whom the deceased owed no duty.⁵

What was also evident was the opportunity to tax wealth and enable greater redistribution:

This Bill proposes to get at the wealthy classes. On whom does it impose a burden? Practically on no one at all. It is not so much an increase of taxation as a perfectly fair and legitimate attempt to aim

Estate duties were vulnerable to frequent changes of rates, thresholds and application. Littlewood (2012) estimates that in the 1890s approximately 20% of adults dying in New Zealand would bequeath estates that would leave them liable to the estate duty. Seventy years later, most estates were incurring some levy. For example, from 1960 to 1975 between 65% and 80% of estates paid estate duty. Estates of a moderate size (\$20,000 in 1960, \$100,000 in 1975) incurred duty of between 16 and 18% of their aggregate value (Green and McKay, 1980).

The Estate and Gift Duties Amendment Act 1979 changed the thresholds at which estates became subject to the duty, with the effect that the majority of estates were no longer liable to pay any duty. Green and McKay (1980) calculate that at the time of the amendment around 250 estates, or about 1.7% of all estates, would remain liable. By that time taxes collected from estate duties had diminished significantly, from around 4% of total tax revenue in

determined (the value of the gift or the total wealth of the donor); and the type of rate (i.e. flat or progressive).¹¹ Various avoidance mechanisms were generated over the following years, particularly when the gift duty was charged at a lower rate than the estate duty.¹²

Combined revenue from death and gift duties in 1990 was \$79.6 million (ibid., p.5). With the removal of death duties from the end of 1992, revenue collected from gift duties alone had reduced to \$5 million by 1995. Part of the reason for the lack of revenue generation from the tax was the allowable transfer limit. In 2011, when the tax was repealed, gift duty applied when the total value of gifts made by a person in a 12-month period was greater than \$27,000.¹³ The \$27,000 threshold for gift duty-free transfers saw the use of gifting programmes which made the tax relatively easy to avoid. Under a typical gifting programme, assets were sold at market value in exchange for an interest-free, on-demand loan for the value of the asset (Inland Revenue, 2010). Transfer of the legal title for the asset was made, but no payment. The debt was subsequently forgiven by the donor at \$27,000 every 12 months, which was within the allowable gift duty threshold. At the time the gift duty was repealed, such gifting programmes were acknowledged to be widely used (ibid.).

The gift duty had been recommended for repeal by a major tax review committee in 2001 (McLeod et al., 2001), on evidence that it generated little revenue and involved significant compliance costs. At the time it was repealed, 225,000 gift duty statements were filed annually, of which only 0.4% resulted in a gift duty liability. Repeal of the tax was expected to reduce government revenue by \$1.6 million per annum, while saving \$430,000 in annual administrative costs. Compliance cost savings by the private sector were forecast to be \$70 million per annum (Inland Revenue, 2010). Arguments for retention of the gift duty included: protecting the tax base; limiting the ability of individuals to reduce their taxable income by transferring income-generating assets to a trust; creditor protection; manipulation of eligibility for welfare assistance; avoidance of child support liability; and relationship

property disputes. However, none of these issues was felt to be of sufficient significance to not repeal the duty. Thus, after 19 years, the anomaly of retaining gift duties while repealing estate duties was resolved. The Estate and Gift Duties Act 1968 was amended in 2011 with the result that gifts made on or after 1 October 2011 were no longer liable for gift duty.

Capital gains taxes

New Zealand has never had a comprehensive capital gains tax (Burman and White, 2003). As noted, this approach is unusual among OECD countries. The taxation of capital gains is a topic that has generated much debate in New Zealand;

that such a tax would not lower tax avoidance is puzzling, as the absence of a capital gains tax generates incentives to classify taxable income as a non-taxable capital gain in order to avoid a tax liability. The position on fairness is also confusing. As a capital gains tax is likely to fall significantly on those who have more wealth, it is difficult to argue that horizontal equity is not improved with the introduction of a capital gains tax.

More recent commentary on a capital gains tax can be found in the report of the Tax Working Group (2010) and New Zealand Treasury reports (Treasury, 2009, 2013). By 2010 views towards a capital gains tax were noticeably different:

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multiple tax reviews have considered the issue. While it is generally accepted that the New Zealand income tax base is effective, it is also recognised that the absence of capital gains taxation is a gap (McLeod et al., 2001; Treasury, 2009, 2013), yet, despite this, historic reviews have not recommended the introduction of one. The 2001 McLeod review, for example, concluded:

We do not consider that New Zealand should adopt a general realisations-based capital gains tax. We do not believe that such a tax would make our tax system fairer and more efficient, nor do we believe that it would lower tax avoidance or raise substantial revenue that could be used to reduce rates. Instead, such a tax would increase the complexity and costs of our system. (McLeod et al., 2001, p.iii)

As wealth or other capital was not taxed at the time of this review, the claim

‘the most comprehensive option for base-broadening with respect to the taxation of capital is to introduce a comprehensive capital gains tax’, the Tax Working Group observed. The primary concerns with the introduction of such a tax related to ‘practical challenges’, and ‘potential distortions and other efficiency implications that may arise from a partial CGT’ (Tax Working Group, 2010, p.7). Multiple reasons were provided by the Tax Working Group for bringing capital gains within the tax net, including:

- adopting an accrual system brings the tax system closer to taxing comprehensive economic income;
- reducing bias in favour of capital assets;
- reducing distortion of investment decisions;
- improving integrity of the system by including a currently untaxed form of income in the tax base; and revenue generation.

The ‘usual’ arguments against a capital gains tax were also identified: the lock-in

effect; what would be included/excluded; administration costs; and whether there are more effective ways of broadening capital gains taxation without a formal capital gains tax.

The future of wealth taxes in New Zealand

The history of wealth taxes in New Zealand suggests earlier favour towards their redistribution potential, but diminishing political and public appetite for them over time. The key current arguments against wealth taxes are that they are complex, generate high compliance costs and do not collect large amounts of revenue. Each of

Typically, discussions on wealth taxes are not far removed from discussions on avoidance arrangements. However, when arrangements are made solely for the purpose of avoiding paying legitimate tax, this can, and should, be treated as tax evasion. Greater investigation, prosecution and sanctions associated with non-compliance with wealth taxes is likely to assist with compliance and deter non-compliance. While it is argued that these activities are costly, this on its own is not sufficient reason to ignore the need for a change of narrative associated with the non-payment of wealth taxes.

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these points is addressed in the following sub-sections, which are followed by a discussion of the changing environment in relation to wealth taxes.

Complexity and compliance costs

Complexity and compliance costs have not limited the adoption of wealth taxes in other OECD countries, nor should they necessarily limit their application in New Zealand. The extent to which revenue can be generated from wealth taxes is determined by the quality of the policy, what is included or excluded, and the political concessions that are necessary to introduce such policy. While administrative and compliance costs are frequently raised as an obstacle, there have been no recent estimates of what these costs might be in New Zealand. By way of illustration, the Tax Working Group report (2010) in its discussion of the taxation of capital gains makes eight references to compliance costs and two references to administrative costs, with no quantification of either. However, estimated compliance costs relating to gift duties greatly exceeded revenue generated at the time the gift duty was repealed in 2011.

Revenue collection

One of the primary reasons given for the repeal of estate duty and gift taxes was their inability to collect significant revenue. Current revenue statistics across the OECD for a range of wealth taxes suggest that these remain unlikely to collect significant revenue. With the exception of Belgium, the 15 other countries with estate or inheritance taxes collect less than 1% of their total tax revenue via these means (OECD, 2016a, 4310: estate and inheritance taxes, data as at 2012). Revenue collection is even lower with gift duties, with the highest rate of tax revenue as a proportion of total taxation reported by Korea at 0.674%; the other eight countries all report collecting less than 0.25% of total taxation from gift taxes (ibid., 4320: gift taxes, data as at 2012). In 2014, 11 OECD countries reported recurrent taxes on net wealth, but only Luxembourg (5.8%) and Switzerland (4.2%) collect a moderate amount of their tax revenue from this source. Hungary collects 1.1%, Iceland 1.2%, Ireland 1.3% and Norway 1.1%. Other countries collect less than 1% through this tax (ibid., 4200: recurrent taxes on net wealth, data as at 2014).

Despite the claims of insignificant revenue generation from wealth taxes, various forecasts relating to capital gains taxes suggest that there is reasonable potential for revenue collection. The Labour Party proposed a capital gains tax prior to the 2011 election, and it was forecast to collect \$2.8 billion per annum when it reached a steady state (KPMG, 2011).¹⁴ This is approximately 4% of total tax revenue. The 2010 Tax Working Group report suggested that annual revenue of \$4.5 billion may be gained from a capital gains tax that excluded owner-occupied housing, while observing that in Australia over the previous ten-year period, 3.9% of total annual tax revenue was generated from capital gains tax. Figures from the New Zealand Treasury (Treasury, 2009) forecast \$5.5 billion from a realisation-based capital gains tax excluding the family home, once the tax reached a steady state of collection.

Equity

As noted by Wijnvliet (2014), 'from the perspective of the principle of ability-to-pay, there are no apparent reasons for preferential treatment of capital over labour whatsoever'. Wijnvliet goes on to note that tax equity (ability to pay) supports taxation of all increases in economic power. In a similar manner, Burman and White (2003) observe that the absence of a capital gains tax is horizontally inequitable as taxpayers in similar situations may pay significantly different amounts of tax, depending on how their investments are structured. Moreover, the situation is vertically inequitable, as the absence of taxes on wealth results in the wealthy proportion of the population paying less tax on their gains than less wealthy taxpayers whose income is generated from wages. Currently in New Zealand, capital accumulates in wealthy families and is passed on through generations potentially untaxed where the assets are not sold (and in some cases when they are sold).

One of the arguments frequently raised in support of wealth taxes is their ability to improve the progressivity of the tax system. Data is not available on values that are passed through generations by way of inheritance in

New Zealand. However, Australian data shows that average inheritances of the richest quintile are considerably higher than those received by the middle or poorest quintiles (Grattan Institute, 2015). Hodgson and Sadiq suggest that in Australia only 3% of taxpayers with taxable income below A\$80,000 receive capital gains, compared to 6.6% of taxpayers with income between A\$100,000 and \$150,000, and 19% of taxpayers with total income in excess of A\$500,000 (Hodgson and Sadiq, 2016).

Do the original reasons remain?

The initial reason estate duties were introduced was to assist with revenue generation. However, by the early 1900s a redistribution objective was also evident. In its earliest form the duty collected a moderate amount of revenue, but this deteriorated over time, with little apparent political appetite to address the various avoidance measures that became well-established. The primary reasons behind the dilution, and eventual repeal, of the estate duty appear to be the opposite of those behind their introduction. That is, the splitting up of farms to pay estate duties had become undesirable and the estate duty collected little in the way of revenue. This is likely to reflect both a change in political philosophy away from redistribution, and political manoeuvres to avoid conflict with the powerful agriculture lobby groups.

The reasons behind the introduction and repeal of the gift duty are similar. The tax was initially intended to collect revenue, while supporting the integrity of the estate duty. However, the relatively high exemptions and wide use of gifting programmes allowed for widespread misuse of the scheme and facilitated almost complete avoidance of the tax. Moreover, once estate duties were removed in 1993, there was little to justify the continued existence of the gift duty.

Secondary reasons that were evident in support of taxing wealth included the argument that as the state contributes to any gains made (through supportive policies, economic growth, etc), the trade-off for state support was in the form of taxes on any capital gains made. This argument is not visible today. However,

there is an argument to be made that the government does support capital growth, such as in the form of property rights or regulatory protection, and therefore it may be reasonable to expect a return from this support.

In 1967 the Taxation Review Committee suggested that:

while the community has long accepted that the tax system should operate to reduce inequalities in the distribution of income and wealth, this desire for equality should not be pressed to a point where it could have serious repercussions on personal saving and such incentives

pronounced among Māori and Pacific people.

Political economy

It is not possible to engage in a discussion of capital taxes in New Zealand without reference to the political background that influences likely future avenues of taxation. As will be evident from the brief historical accounts provided above, wealth taxes have become politically unattractive in New Zealand. Duff (2005) suggests that wealth transfer taxes incur considerable political cost and potentially fewer benefits than other tax options that may generate similar levels of revenue. While there may be political cost associated

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to economic activity, as effort, investment, enterprise, and the willingness to take risks.

However, the situation of today has resulted in exactly this outcome: there are strong financial incentives to invest in the relatively low-risk property market due to its preferred tax treatment. Moreover, the presence of tax-preferred investment options, such as investment housing, distorts investment decisions away from what may be a more productive use of investment funds. As demand increases for investment in tax-preferred housing, housing prices increase where demand exceeds supply. This pattern is visible in the current market, and is exacerbated by poor returns on other forms of financial investment. Moreover, it contributes to lower levels of owner-occupation. Recent data shows that owner-occupied housing in New Zealand has reduced from 75.2% in 1986 to 63.7% in 2013 (Statistics New Zealand, 2016). The reduction in owner-occupied housing is even more

with introducing a new tax of such kind, the suggestion that there are few benefits is incorrect. Moreover, their political unpalatability does not make them a poor policy option. Instead, it has the potential to distort the debate on their contribution to society.

Many of the tax policies adopted in New Zealand over the past 20 years have followed the general trend in developed economies: lowering rates on company tax, lowering rates on personal income tax, and removal of distortions in the form of special exemptions and credits. As observed by Swank and Steinmo, 'concerns about efficiency and revenues have seemingly eclipsed the goal of redistribution through steeply progressive rates' (Swank and Steinmo, 2002, p.651). Swank and Steinmo also observe the 'paradigm shift in tax policy' driven by internationalisation competing with pressure for reduced tax rates on domestic capital and labour. However, what they call the 'new political economy of taxation' (ibid.) does not support the

exclusion of capital gains from taxation. Indeed, it provides support for the taxation of capital. New Zealand has followed the global trend in taxation with its broad-base, low-rate philosophy, resulting in increases in the goods and services tax, while the top marginal income tax rate and the company tax rate have decreased. Globally there has also been a move away from taxing wealth in the form of gifts, estates or inheritances. However, there has not been a similar retreat from taxing gains on capital. The complete absence of wealth taxes here is in conflict with both the global approach and New Zealand's own broad-base, low-rate approach to tax, with the exclusion

capital gains tax and a land tax at 0.25% – were not pursued further. The absence of a capital gains tax, and its accompanying distorting impacts, have been highlighted by the New Zealand Treasury in recent years. In 2009 the Treasury observed the 'strong case for reducing and removing the distortions in how we tax capital and capital gains' (Treasury, 2009, p.1). It acknowledges the preferred tax treatment afforded to rental housing as compared to other investment types (Treasury, 2013). The potential to divert income and undermine the integrity and fairness of the tax system is also noted, together with the potential to broaden the base of the tax system with the introduction of a

Conclusion

This article set out to examine whether the historic justifications pertaining to wealth taxes in New Zealand remain valid in the current environment. The original explanations for the presence of estate taxes and gift duties and the absence of capital gains taxes no longer apply: estate taxes and gift duties are unlikely to generate significant revenue; the focus has moved away from deliberate redistribution to a broad-base, low-rate approach to taxation in order that the tax system remains globally competitive; and it is no longer generally accepted that the absence of capital gains taxes is fair or efficient. However, while the narrative associated with wealth transfer taxes has changed, it remains possible and desirable to focus on both redistribution and having a globally competitive tax system. In an environment of increasing inequality there is a robust case for an increased focus on redistribution by way of the tax system.

While there are few strong arguments for reinstating estate taxes and gift duties, there are few strong arguments against introducing a capital gains tax. While such a tax will generate (as yet undetermined) compliance costs, it will collect revenue and reduce current distortions within the tax system. Moreover, a capital gains tax is more aligned with the broad-base, low-rate philosophy than is its absence. Nonetheless, New Zealand's approach to capital gains taxes appears entrenched, despite support for them from international agencies (such as the OECD) and the Treasury.

Taxes on capital can play a central role in addressing inequality (Piketty, 2014). Adjusting the tax system will not resolve the inequality across a range of measures issue in isolation, but it can assist through redistributive impact of taxes, which has diminished over time (OECD, 2013). In a society with inequality across a range of measures there is a convincing case for expanding the broad-base, low-rate approach to taxation through the inclusion of a capital gains tax. Changes to the tax system can make a positive contribution towards ensuring that inequality does not continue to increase in New Zealand.

In a society with increasing inequality there is a convincing case for expanding the broad-base, low-rate approach to taxation through the inclusion of a capital gains tax.

of a key component of the tax base from the tax system.

As noted by Duff (2005), wealth taxes appear to be particularly politically vulnerable. However, as they are unlikely to be paid by the majority of the population, the widespread antipathy to wealth taxes across the political spectrum is puzzling. The majority of the population in New Zealand does not support a capital gains tax, despite the fact that it is likely to affect only a minority. This may arise from widespread misunderstanding of what a capital gains tax is, how it would apply and who it would affect. This lack of understanding, and consequent antagonism, suits the agenda of those who are likely to be affected by wealth taxes.

In 2009 a number of tax changes were proposed, most of which were subsequently implemented: increasing GST; reducing company tax rates; reducing personal income tax rates; removing the 20% depreciation loading; and removing depreciation for buildings. However, two other proposals – a realisation-based

capital gains tax.

In the Treasury's view, 'the ideal reform would be to broaden the tax base through a more comprehensive capital gains tax' (ibid., p.32). This leads to the inevitable question, why has 'the ideal reform' not been introduced when the balance of arguments weighs in support of a capital gains tax? The current government has put forward no strong arguments for the absence of a capital gains tax. Arguments such as the need to include owner-occupied houses are not valid, as it is typical for these to be excluded in capital gains taxes globally. A capital gains tax may not, in isolation, address the high cost of property in New Zealand, but it would go some way to ensuring that property is not a tax-preferred investment. A capital gains tax will be revenue positive. Perhaps most importantly, a capital gains tax will assist with ensuring equitable outcomes from the tax system and reduce the existing privileging of the wealthy.

- 1 Land taxes are another option that could be included in this discussion, but in the interests of space they are not addressed here.
- 2 Estate duties are also known as death duties. They differ from inheritance taxes: estate taxes are charged against the estate of a deceased person, while an inheritance tax is paid by the person who receives the inherited property.
- 3 Stamp Duties Act 1866, schedules II and IV.
- 4 *New Zealand Parliamentary Debates*, 26 Sept. 1865, p.632.
- 5 *Ibid.*, 29 Nov. 1909, p.441.
- 6 *Ibid.*, 29 Nov. p.449, 10 Dec. 1909, p.920.
- 7 *Ibid.*, 5 Sept.1979, p.2755.
- 8 Estate Duty Abolition Act 1993, section 3.
- 9 Estate Duty Abolition Act 1993, section 6.
- 10 Deceased Person's Estates Duties Act 1881, sections 10–11.
- 11 For a comprehensive history of gift duties and estate taxes in New Zealand, refer to Littlewood (2012).
- 12 Such as in the Death Duties Act 1909, under which gift duty was charged at a flat rate of 5% while the top rate for estate duty was 15% (Littlewood, 2012).
- 13 Estate and Gift Duties Act 1968, schedule 3.
- 14 After considerable adverse reaction, the policy was abandoned in 2015. Justification for the retreat from capital gains tax (and inheritance tax) was inadequate resources to fully analyse the policies effectively and the view that the policies should be considered in the context of a wide-ranging review of the tax system as a whole.

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