



**PSA Submission on the
Taxation Principles
Reporting Bill
to the Finance and Expenditure
Select Committee**

June 2023

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About the PSA

The New Zealand Public Service Association Te Pūkenga Here Tikanga Mahi (the PSA) is the largest trade union in New Zealand with over 87,000 members. We are a democratic and bicultural organisation representing people working in: the Public Service including for departments, crown agents and other crown entities, and state owned enterprises; local government; tertiary education institutions; and non-governmental organisations working in the health, social services and community sectors. Te Rūnanga o Ngā Toa Āwhina is the Māori arm of the PSA membership.

The PSA is affiliated to Te Kauae Kaimahi the New Zealand Council of Trade Unions, Public Services International and UniGlobal.

Our values

Solidarity - Kotahitanga

We champion members' interests with a strong effective voice. We stand together, supporting and empowering members, individually and collectively.

Social justice - Pāpori Ture Tika

We take a stand for decent treatment and justice. We embrace diversity and challenge inequality.

Integrity and respect - Te Pono me te Whakaute

Our actions are characterised by professionalism, integrity and respect.

Solution focused - Otinga Arotahi

We are a progressive and constructive union, constantly seeking solutions that improve members' working lives.

Democratic - Tā te Nuinga e Whakatau ai

We encourage participation from members. We aim to be transparent, accessible and inclusive in the way we work.

Summary of recommendations

- That clause 3 is amended to oblige the Commissioner to extend their report also to include recommendations for changes to ensure taxation settings more closely reflect the principles.
- That wherever possible the Commissioner's report be published in in December of the tax year reported on.
- That clause 14 be amended to include a requirement for the Commissioner to consult the public on possible new measures for inclusion in the reports.
- The Committee may wish to consider whether it would be useful to include in the Bill provision for periodic review of the principles, including through public consultation, perhaps 5 yearly.
- That the description of the principle of "flexible and adaptable" is amended to include reference to environmental and demographic change.
- That Schedule One of the Bill is amended to include an additional principle of transparency.
- That Schedule One of the Bill is amended to include an additional principle of sufficiency and that the description of this principle refers to the need for stewardship of resources, public services and public infrastructure.

General PSA comment

Both transparency and accountability are fundamental to trust in Government, and this is particularly important in relation to how it gathers revenue through the taxation system. The PSA supports the Bill's intention to put in place a regime that requires the Commissioner of Inland Revenue to regularly report on the performance of the taxation system against a set of principles. We are hopeful that this will support greater transparency and accountability in both the management and operation of the taxation system. Having this information available will also we hope, encourage more informed debate about tax policy and more sustainable tax policy over time.

These reports will also provide a useful complement to other reports on the functioning of the public service system, including the Public Service Commissioner's 3-yearly report on the state of the public service provided for by s16 of Schedule 3 of the Public Service Act and the departmental long term insights briefings provided for by s 8 of Schedule 8 of that Act.

Recommendations to improve the Bill

1. What is reported on

Clause 3 sets out the purpose of the Act as "to oblige the Commissioner to report on New Zealand's current taxation settings in relation to the taxation principles in this Act, as measured using the approved taxation principles measurements." This information will be very useful. However, as this will inevitably lead to discussion of what is needed for taxation settings to better reflect the principles where they do not, **we recommend that clause 3 is amended to oblige the Commissioner**

to extend their report also to include recommendations for changes to ensure taxation settings more closely reflect the principles.

2. Timing and process for reporting

We support the framework of an annual report and a more substantial report every three years. The timing of publication will be important, and **we recommend that wherever possible this be in December of the tax year reported on.** This will ensure the reports will not be published during a general election period.

We also support the requirements in the Bill for presentation and publication (cl 12) and the approved taxation principles measurements (cl 13). These should increase transparency and public understanding of the taxation system.

Clause 14 provides for the Commissioner to include other new measures at their discretion. **We recommend amendment of clause 14 to include a requirement for the Commissioner to consult the public on possible new measures for inclusion.** Including public participation in this process would promote the principle of active citizenship and increase public engagement and understanding of the process, and the quality of public debate.

3. The principles

We have read and heard commentary that the descriptions of the seven principles proposed in the Bill are not sufficiently objective or timeless. In our view it is not possible for any principles to be free of underpinning values or not in some way reflective of the time in which they are set. What is important is that they are clearly articulated and justified, and that they are relevant and able to be reviewed and adjusted if necessary.

The principles proposed, and their descriptions, are in our understanding solidly orthodox. **The Committee may wish to consider whether it would be useful to include in the Bill provision for periodic review of the principles, including through public consultation, perhaps 5 yearly.**

Comment and recommendations on specific principles

Vertical equity

We support this principle but recommend its description be amended to read: (in italics)

“The tax system should be progressive. Tax is progressive if people with higher levels of economic income pay a higher proportion of that income in tax. A progressive tax system does not mean that every tax should aim to be progressive (e. g GST is regressive) but the overall system should aim to reduce inequalities in New Zealand.”

Flexible and adaptable

We support this principle, but we believe that the public would want to see a taxation system that is “flexible and adaptable” (principle 7) not just as described in relation to “changes in society, in

particular technological and commercial developments, and changes in inequality” but also in relation to the environmental and demographic change that is impacting so significantly on Aotearoa now and will continue to do so.

It is particularly important that taxes and the tax system should do no harm to the environment, and they may be used to encourage environmental improvement and stewardship. **We recommend that the description of the principle of “flexible and adaptable” is amended to include reference to environmental and demographic change.**

Transparency

As mentioned in our introductory comments, transparency is fundamental to trust in government and transparency of the taxation system is particularly important. While the reporting regime proposed in this bill goes some way to increasing transparency of the operation and effects of the taxation system, it is essential that the taxation system itself is transparent. **We recommend schedule one of the Bill is amended to include an additional principle of transparency.**

Sufficiency and stewardship

While the Bill aims to avoid principles that constrain tax policy, it is important that the taxation system provides sufficient revenue for Governments to implement policy and provide for the needs of Aotearoa. It is also important that sufficient revenue is gathered to ensure current costs are not passed on to future generations. There is a connection between this principle and the Public Service’s obligations in relation to stewardship. **We recommend schedule one of the Bill is amended to include an additional principle of sufficiency and that the description of this principle refers to the need for stewardship of resources, public services and public infrastructure.**

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