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Stable bases and flexible rates:
New Zealand's tax system
C/- Deputy Commissioner, Policy
Inland Revenue Department
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New Zealand

Email: policy.webmaster@ird.govt.nz

1 September 2025

Dear Sir/Madam,

Draft of Inland Revenue's long-term insights briefing 2025

CPA Australia welcomes the opportunity to comment on the consultation **Draft of Inland Revenue's long-term insights briefing 2025** (briefing paper).

CPA Australia represents the diverse interests of more than 175,000 members, including over 3,300 members in New Zealand, working in over 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

This briefing paper on New Zealand's (NZ) tax system explores the implications of rising fiscal pressures for New Zealand's tax system and what changes could be made to our tax system to enhance fiscal resilience. This submission addresses the key questions outlined in the paper. A summary of our responses are as follows:

Summary of key responses

CPA Australia's 2024 **submission** (CPA) and Inland Revenue (IR) share significant common ground in our analyses of New Zealand's tax system, particularly in addressing long-term fiscal pressures. Both documents emphasise the need for a resilient tax framework capable of adapting to future challenges while maintaining core stability.

Key areas of alignment include:

Recognition of demographic shifts and fiscal pressures: Both bodies identify an ageing population as a primary long-term challenge, leading to increased expenditure on pensions (such as New Zealand Superannuation) and healthcare, alongside downward pressure on income tax revenue due to a shrinking working-age population.

CPA highlights this in our environmental scan response, noting the consequences for economic growth and expenditure, while IR's LTIB (e.g., Executive Summary and Chapter 1) frames it as a core motivation for enhancing tax system flexibility.

Stable core structure with flexibility: CPA agrees with IR's focus on balancing stability (to foster economic confidence, business certainty, and compliance) with flexibility to adapt to changing revenue and distributional objectives. This is evident in CPA's response to the question on maintaining a stable core, where we stress the risks of excessive flexibility (e.g., complexity from frequent changes) but advocate for adaptability to economic shocks. IR echoes this throughout the LTIB, proposing a "durable tax system" with stable bases (income and consumption taxes) and flexible rates to meet varying government needs over time (e.g., Chapters 1 and 7).

Evaluation of income and consumption taxes: We both agree that understanding the pros and cons of different approaches to income and consumption taxes is crucial for future system design. CPA discusses the trade-offs, such

as income taxes promoting equity but potentially disincentivising work, and consumption taxes (like GST) being less distortionary but regressive.

We advocate exploring options like inflation adjustments for capital gains tax (CGT) and targeted offsets for GST. IR's LTIB delves into similar analyses (Chapters 3–5), comparing tax bases on equity and efficiency grounds, and concludes that income and consumption taxes form a desirable mix, with flexibility to adjust rates.

Broadening tax base and considering alternatives: There is consensus on evaluating the comprehensiveness of current bases (income and GST) and assessing whether to add alternatives. CPA critiques the lack of a comprehensive CGT, noting it pressures income and GST rates, and suggests exploring land taxes, tax on assets, and inheritance taxes based on international experiences.

IR aligns with CPA by discussing CGT's pros (neutrality) and cons (lock-in effects, compliance costs) in Chapter 4, and evaluates alternatives like payroll, wealth, inheritance, and land/property taxes in Chapter 6, concluding they overlap with existing bases and may not be essential additions.

Integration of tax and broader fiscal policies: Both emphasise reviewing government expenditures and retirement income policies alongside tax reforms. CPA calls for comprehensive expenditure reviews to optimise spending before tax adjustments and suggests reforms like compulsory KiwiSaver or means-testing superannuation. IR supports this in Chapter 7, noting that flexibility in main bases aids fiscal resilience, and briefly touches on social security contributions (Chapter 6) as expenditure-linked options.

Equity and efficiency trade-offs: CPA and IR both highlight the need for the tax system to balance efficiency (e.g., minimising distortions) with fairness (e.g., progressivity). CPA notes GST's regressivity and suggests targeted transfers, while IR models a low-income GST offset in Chapter 5 to mitigate distributional impacts of rate increases.

Overall, these alignments reflect a shared view that New Zealand's tax system should remain broad-based and low-rate where possible, with mechanisms to address fiscal imbalances without undue complexity.

Areas where IR's position differs from CPA Australia

While CPA's submission focuses on practical challenges, stakeholder engagement, and targeted responses to IR's consultation questions, IR's draft LTIB adopts a more theoretical and comprehensive framework, leading to several key differences in emphasis and approach.

Theoretical frameworks for tax bases: IR places greater emphasis on conceptual overlaps between tax bases (e.g., labour income, capital income, and wealth) and idealised models like dual income taxes versus general income taxes, dedicating Chapters 2 and 3 to comparative analyses of their effects on economic factors (e.g., taxing the normal return to capital) and reviewing economic literature on labour versus capital taxation. In contrast, CPA prioritises practical critiques of capital income pressures without delving into these nuanced debates, such as whether capital's normal return should be taxed at lower rates than labour income.

Detailed analysis of company-shareholder integration: IR explores specific mechanisms for improving integration, such as imputation systems or dual income tax approaches, in Chapter 4, addressing sheltering opportunities arising from rate gaps. CPA, while critiquing the corporate tax rate's competitiveness (28%) and avoidance risks, does not propose or evaluate such detailed reforms, instead focusing on broader harmonisation to attract investment.

Modelling and practical design options for consumption taxes: IR includes quantitative modelling in Chapter 5, such as a targeted, income-tested GST offset to insulate low-income households from rate increases, emphasising its fiscal efficiency over exemptions. CPA advocates for similar offsets to address GST regressivity but stops short of providing or endorsing such modelling, leaning towards qualitative discussions of trade-offs.

Comprehensive pros and cons of alternative bases: IR applies a systematic equity-efficiency framework in Chapter 6 to evaluate alternatives (e.g., payroll taxes' overlap with income tax, inheritance taxes' progressivity but administrative burdens), including stamp duties and corrective taxes. CPA references these bases briefly, focusing

on international pitfalls (e.g., capital flight from tax on assets), but IR extends this with a consistent analytical lens and conclusions that they may not warrant addition at current or higher revenue levels.

International tax settings and inbound investment: IR notes in Chapter 3 the economic costs of over-taxing non-resident capital (e.g., borne by domestic workers via lower wages), tying this to New Zealand's capital importer status. CPA touches on related productivity challenges but does not emphasise these inbound investment implications as strongly, instead highlighting general capital shortages.

These differences arise partly because IR's LTIB is a standalone, forward-looking briefing, whereas CPA's submission is a direct response to IR's earlier consultation, allowing IR to expand on and diverge from CPA's points in the draft.

Suggested improvements to the IR Document

IR's draft LTIB is a thorough, principles-based document that promotes debate on tax durability. However, incorporating insights from CPA's submission could enhance its relevance, breadth, and practicality.

Suggested improvements include:

Expand the environmental scan to include broader challenges: IR's focus on ageing demographics is strong, but it could integrate other pressures highlighted by CPA, such as lagging productivity, inflation/cost-of-living crises, housing affordability, escalating debt servicing, and technological disruption (e.g., AI's impact on labour markets and permanent establishments). Chapter 1 or the Executive Summary could incorporate these for a more holistic view, acknowledging their interplay with tax policy (e.g., how low productivity strains revenue without tax incentives for innovation).

Deeper integration of expenditure and retirement policy reviews: While IR notes expenditure choices in the Executive Summary, it could more explicitly link tax reforms to CPA's suggestions, such as regular expenditure reviews or KiwiSaver reforms (e.g., compulsory contributions or EET taxation). Chapter 7 could model scenarios combining tax flexibility with spending optimisations, reducing over-reliance on revenue-raising.

Enhance discussion on housing and property taxes: CPA emphasises housing affordability's role in tax debates (e.g., CGT's secondary impacts on supply and rentals). IR covers land/property taxes in Chapter 6 but could add evidence-based modelling of their effects on affordability, including regulatory factors like land supply constraints, to align more closely with CPA's call for better evidence.

Strengthen stakeholder engagement and international comparisons: IR could build on CPA's advocacy for ongoing dialogue by including case studies from countries like Australia (e.g., pre/post-CGT grandfathering) in Chapters 4 and 6. This would address CPA's concerns about learning from international merits/pitfalls, particularly for wealth/inheritance taxes.

Address technological disruption beyond administration: IR briefly mentions tech issues in tax administration (e.g., paragraphs 132–135 in the consultation version, per CPA), but could add a subsection in Chapter 3 or 6 to explore broader implications for digital economies, remote work, and global developments, as urged by CPA.

Improve accessibility and modelling transparency: The LTIB is dense; adding summaries of key trade-offs in tables (e.g., pros/cons of bases) and clarifying modelling assumptions in Chapter 5 would aid readability. Explicitly referencing submissions like CPA's in the final version would demonstrate responsiveness.

These enhancements would make the LTIB more comprehensive, responsive to consultations, and better equipped to inform public debate on New Zealand's tax future.

Please refer to the Appendix for our detailed responses to the questions. If you have any queries, contact Jenny Wong, jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor, bill.leung@cpaaustralia.com.au.

Yours sincerely,

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- Mr Angus Ogilvie FCPA (Aust.), Chair of Tax Committee – New Zealand
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- Mr Peter Loerscher, CPA (Aust.), Tax Committee – New Zealand
- Mr Jeffrey Owens FCPA (Aust.), Tax Committee – New Zealand
- Mr Darshana Elwela – Tax Committee – New Zealand
- Mr Richard Ashby CPA (Aust.), Tax Committee – New Zealand

Responses to questions

Specific Questions

Q1. What do you see as the key attributes of a durable and stable tax system in the face of long-term fiscal pressures?

Based on CPA Australia's **submission**, a durable and stable tax system should foster economic confidence, provide taxpayer certainty, enhance compliance, and enable long-term business planning and investment decisions. It must balance stability with flexibility to respond to evolving challenges, societal needs, and economic shocks, while avoiding excessive complexity or frequent changes that could undermine public trust. Additionally, it should incorporate a genuinely broad-based, low-rate structure to alleviate pressure on income and GST rates, and be complemented by comprehensive expenditure reviews to optimise public spending and address fiscal imbalances without over-reliance on tax adjustments.

Q2. Do you consider that New Zealand should continue with the two main bases of an income tax and a consumption tax going forward?

Yes, CPA Australia considers that New Zealand should continue with the two main bases of income tax and consumption tax (GST), as they provide a stable revenue stream to fund public expenditures like healthcare and pensions. However, the current system lacks a genuinely broad-based structure due to exclusions such as a comprehensive capital gains tax (CGT), which pressures existing rates. We advocate evaluating recalibration of the tax mix to lower rates while maintaining revenue, and assessing alternative revenue sources based on international experiences to enhance effectiveness in addressing future challenges**.**

Q3. To what extent should New Zealand rely on increasing rates on its main tax bases versus adding new tax bases to address long-term fiscal challenges?

CPA Australia suggests a balanced approach, with reliance on increasing rates on main bases (income and GST) tempered by broadening the bases to create opportunities for lower rates and stable revenue. They critique the current lack of comprehensiveness (e.g., no CGT) and recommend evaluating additions like land taxes, tax on assets, inheritance taxes, or estate taxes, drawing on international merits and pitfalls. However, they emphasise that adding new bases should be assessed for policy objectives, equity, and efficiency, while prioritising expenditure reviews as an alternative to raising revenue through taxes**.**

Q4. Do you consider that the tax system should be designed with the flexibility to adapt to different governments' distributional concerns over time?

Yes, CPA Australia agrees that the tax system should be designed with flexibility to adapt to different governments' distributional concerns, as this allows responses to changing revenue needs, societal shifts, and economic shocks. However, we caution that flexibility must not undermine the stable core structure, as excessive changes can increase complexity, create uncertainty for investments, and erode public trust. We highlight the recent 39% individual tax bracket as an example of short-term flexibility leading to complexity and income sheltering, advocating for careful management alongside expenditure reviews.

Q5. What do you see as the main mechanisms that could be used to increase the flexibility of the current income tax to changing revenue needs?

CPA Australia identifies several mechanisms: recalibrating the tax mix to broaden the base (e.g., introducing a comprehensive CGT with features like inflation adjustments, exemptions for personal assets, private home or small businesses, and roll-over relief for reinvested gains); harmonising tax rates across personal, corporate, and investment vehicles (e.g., PIEs) to reduce avoidance and inefficiencies; indexing marginal tax rates to inflation to

prevent bracket creep and promote equity; and addressing international tax settings to attract capital as a capital importer. CPA also suggests reforms to retirement income policies, such as compulsory KiwiSaver or means-testing superannuation, to complement income tax flexibility.

Q6. What do you see as the most effective mechanisms in improving company–shareholder integration under the current system?

CPA Australia does not explicitly detail specific mechanisms for company–shareholder integration but implies effectiveness through aligning tax rates to reduce discrepancies between personal, corporate (currently 28%), and entity rates, which create avoidance opportunities and undermine trust. We note that the corporate rate acts as a de facto withholding tax, with shareholders often facing additional marginal rate taxation, and recommend harmonisation to enhance attractiveness for domestic and foreign investors, boost economic growth, and minimise inefficiencies.

Q7. What do you see as the pros and cons of a general income tax versus a dual income tax for New Zealand?

CPA Australia's submission does not directly compare a general income tax versus a dual income tax, as our focus is on the current progressive income tax system's pros (promoting equity) and cons (disincentivising higher earnings, affecting variable income earners, and lacking comprehensiveness without CGT). We advocate exploring CGT options but do not specify a preference for a dual system (taxing capital at lower rates). Implicitly, we see pros in a general approach for neutrality but cons in complexity; a dual system might align with a call for lower capital taxation to encourage investment, though we emphasise learning from past CGT proposals' fairness and behavioural concerns.

Q8. What do you see as the pros and cons of a low-income GST offset scheme to address distributional concerns should the GST rate be increased?

CPA Australia views a low-income GST offset scheme positively as a pro for addressing regressivity, allowing the tax and transfer system to compensate low-income households through targeted offsets, ensuring fairness while encouraging economic growth. Pros include mitigating inequality from higher GST rates, which broaden the revenue base and simplify the system. Cons are not explicitly detailed but implied in broader GST concerns, such as disproportionate impacts on lower-income groups if not properly targeted, and the need for adjustments to ensure offsets are effective without adding administrative burdens.

Q9. Do you see alternative tax bases as desirable to add to New Zealand's tax mix at current or higher revenue needs?

As noted in our earlier **submission**, the consideration of alternative revenue sources, including inheritance, estate and wealth taxes, must take into account the lessons learned from international experiences. For instance, while some European countries, have implemented wealth taxes, the overall success and sustainability of these measures remain contentious. The OECD's report on wealth taxation outlines both the advantages and disadvantages of such taxes, suggesting that they may not be the panacea for fiscal challenges faced by governments. The effectiveness of wealth taxes can be undermined by tax avoidance strategies employed by high net wealth individuals, who can shift their assets to lower-tax jurisdictions. These issues were also highlighted in a recent OECD report on Taxation and Inequality reporting on the declining reliance on revenues from inheritance and wealth taxes in OECD countries.