Tax policy as a key health determinant: Reform for the Covid-19 reset

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Tax provides revenue for the collective societal services that are critical for the prevention and management of Covid-19. Tax is the way we all share our resources in contributing to a healthy, decent and just society. Tax reform options should be included in pre-election party proposals. More importantly, we need to continue to talk about tax reform.

Our tax system has glaring holes. It relies too much on taxing wages and on GST. New Zealand income tax rates have become less progressive than they were in the 1980s.[1] As a flat tax, GST takes a bigger chunk out of the incomes of the poor and thus does nothing to reduce inequalities.

Covid-19 has emphasised the gravity of these issues. Those with fewer resources are the most adversely affected by Covid-19, for reasons ranging from less access to savings by those with low and middle incomes;[2] disproportionate job losses affecting women;[3] increased stress in multi-generational homes during lockdown;[4] exacerbation of existing inequalities (for example in some rural communities);[5] and the likelihood that pending job losses will disproportionately affect Māori and Pasifika already facing higher levels of unemployment.[3 4] Hence the importance of economic cushioning provided by wage subsidies, benefits and other transfers, along with other government measures. We will eventually have to pay for this through taxation.

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The choices made in how and from whom we collect tax influence not only the amount of revenue collected, but also the extent to which inequalities may be addressed – or conversely exacerbated. Tax is therefore a health determinant, given its functions in ensuring adequate revenue for collective services, and in perpetuating or creating inequalities.

The pandemic now provides a major opportunity for tax reform.[6] New ideas for taxation should not be limited to specific measures for health and environmental objectives, but recognise that fundamental change is required. Public health participation in developing options for a Covid re-set should help shape how we achieve fairer and better tax revenue.

NZ's current tax policy

1. NZ's tax take as a percentage of GDP is less than the OECD average (NZ's revenue in 2018 was 32.7% of GDP, while the OECD average was 34.3%; and the NZ proportion

was significantly less than those countries which provide more adequate public services (eg, Denmark with tax revenue at 44.9% of GDP; Sweden with tax revenue at 43.9%).[7]

2. Without additional revenue, NZ's current tax take is not sufficient to repay the management of Covid and its social and economic impacts.[8 9]
3. New Zealand's tax revenue is not obtained fairly or sustainably.[10] We need a more progressive and distributive system to help tackle persistent inequalities.

Some ideas for a greater level of taxation on some forms of property were canvassed by the Tax Working Group, with a recommendation for a capital gains tax rejected by NZ Government in 2019.[11] We now have a chance to think again, with Covid having given extra impetus and urgency to the need for tax reform. The public health community needs to be part of conversations on the future of taxation in Aotearoa to ensure that we retain and improve our ability to provide public health services, ensure resilience in managing current and future crises, and reduce our stubborn inequalities.

Some tax reform solutions

Our tax system should be fair, proportionate, and ensure funding sufficiency. Changes to our system should include:

- **A higher income tax rate for those with high incomes.** Today, NZ's top income tax rate is half than that of the 1980s; and very low by the standards of developed countries (see diagram below). Currently, people on $700,000 pay the same top tax rate (33%), as people on $70,000.[12] In Australia, the top rate is 45%. In NZ, a new 50% tax rate on income over $150,000 would raise an extra $1.7 billion dollars a year.[1]

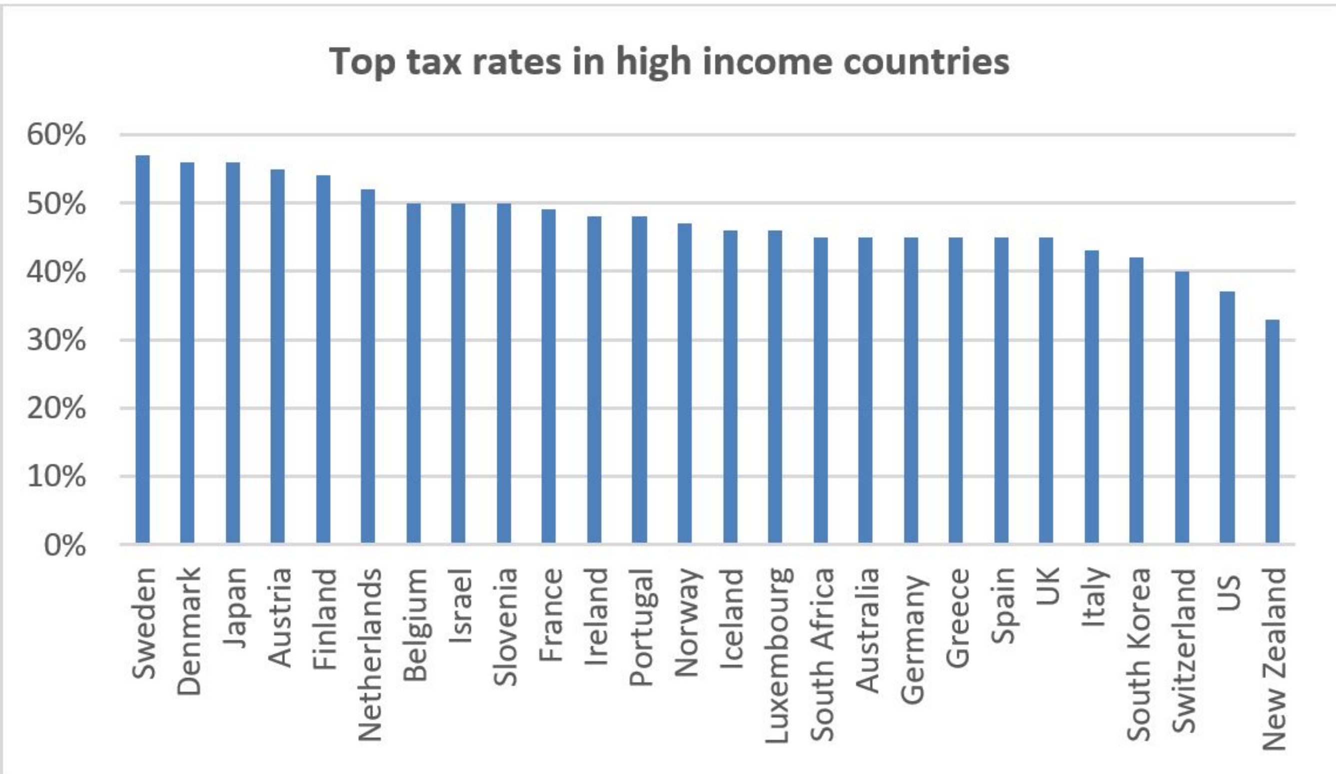

Diagram adapted by Max Rashbrooke[1] from: Glenn Kessler. Ocasio-Cortez's 70-percent tax rate: Not so radical? *Washington Post*, 31 January 2019

- **A comprehensive wealth tax.** NZ is presently the only OECD country without a meaningful wealth tax.[13] Most wealth is gained through property value gains, and inheritance, neither of which is fully taxed. Change is needed to fully bring people into the tax system who are currently largely outside it. While most of us in NZ pay tax on every dollar we earn, in contrast those with billions of dollars of wealth pay proportionately very little tax. In virtually any other developed country, they would pay tax on their capital gains, their inheritances or their wealth – ideas *Tax Justice Aotearoa* discusses here. There are two aspects to the idea of a comprehensive wealth tax: a net wealth tax to be paid annually; and a charge on wealth transfers occurring by inheritance or gift. A net wealth tax would involve an annual levy above a set threshold of assets, minus debt. This would be achieved through a small annual tax on large fortunes. For instance, a tax of 2% on wealth *above* a $2 million threshold would generate something like $6-8 billion a year. For details on a possible wealth *transfer charge*, see here.
- **Information:** Greater information on our tax system is essential, with data on wealth levels, ownership of wealth, information on assets, profits, tax due and paid. Action is also need to be taken at the global level, for example given the levels of wealth stored offshore, enabling tax avoidance and evasion.

- **Changes to international taxation:** As part of its response to the Covid-19 pandemic, the OECD has called for a 'Global Marshall Plan', similar to that used to rebuild Europe after World War II. This should require multinational corporations to pay taxes to the countries where their sales, staff and factories are located, rather than pretending that their profits are generated in low or no-tax states. Tax havens will have to go. We should consider ideas for a minimum corporate tax rate, and perhaps an excess profits tax.

Conclusion

We need a common commitment to a truly fair – and indeed kind – society together, by ensuring fair and sufficient resources through tax investment. There can be no return to the ways things were: a 'new normal' must ensure New Zealand's greater resilience for the future.

More information is available on these ideas on the Tax Justice Aotearoa website here.

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