LABOUR'S

FAIRER TAX SYSTEM

EXPLAINED.......

Authorised by Rick Barker, Parliament Buildings, Wellington

PRESS STATEMENT

Phil
GOFF
Labour Leader

MEDIA STATEMENT

Labour's promise: We'll own our own future

Labour has today revealed a bold plan to stop our valuable assets being flogged off overseas, give hard-working Kiwis a tax break, pay off the country's ballooning debt and grow our economy.

"New Zealand is drifting without a plan. Debt is out of control. The economy is not performing. Record numbers of New Zealanders are leaving permanently.

"We are fighting for the future of our country. It's that simple. It's time to show courage and take action," said Phil Goff.

"Labour's plan charts a course for a stronger, more resilient economy and will allow us to keep our valuable assets for the benefit of future generations. We will make the hard decisions needed to secure a prosperous, long-term future for all New Zealanders.

"Our policies will result in investment shifting from speculation on property to the productive sector. This will lead to more jobs with better pay, give the economy a much-needed boost so that we can pay our way in the world and make it easier for more Kiwis to buy their first homes.

"We need to build an economy that has the capacity to create safety nets to pay for future shocks, like the devastating Canterbury earthquakes.

"These changes won't be easy and some people won't like them. But it's the right thing to do," said Phil Goff.

Labour's policy includes the introduction of a Capital Gains Tax, which is already in use in nearly all developed countries, including Australia, the United Kingdom and United States.

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"It's not fair for people to have to pay tax on every dollar they earn from wages or interest on their money in the bank while others are making huge profits buying and selling assets without paying any tax," said Phil Goff.

"This tax switch is about creating a fairer tax system. In fact, under Labour, the overwhelming majority of Kiwis will end up paying less tax not more."

The key points of the proposed capital gains tax are that:

- Most New Zealanders will not pay the tax.
- It will not apply to the family home.
- Those who do pay it will still get to keep 85% of any gain they make because the tax rate will be set at a flat 15%.
- It's predicted the tax will raise $26 billion over 15 years that can be used to pay off debt, cut taxes for most New Zealanders, save our assets and prepare for the mounting cost of our aging population.
- Real estate in the Canterbury CERA zone will be exempt for at least five years to give earthquake-affected residents some relief.

Labour will also put the top tax rate back up to 39 cents for income earned over $150,000. That's likely to affect around 2% of the country's top earners.

"This is about everyone paying their fair share – nothing more, nothing less. We won't be borrowing billions of dollars to give tax cuts to the wealthy like the National Party is. Instead, we will be asking those earning the most to pay just a little more, to help meet costs like the Canterbury earthquakes.

"We know that many middle and low-income Kiwis are finding it hard to make ends meet. We'll ease their burden, by making the first $5000 they earn tax free. That's $500 extra a year in the pocket of every New Zealander.

"We'll also take all GST off fresh fruit and vegetables so families can afford healthy food.

"Labour has a plan. National doesn't. Its only idea is to sell our assets off to big corporates and foreign buyers. That is incredibly short-sighted and will see New Zealanders become tenants in their own land. For goodness sake, if you're in a hole, why would you sell off the ladder?!

"New Zealanders have said loud and clear that our assets should not be put on the block. We need to own our own future, to hold it and safeguard it for future generations. Putting our heritage up for auction is not the solution.

“For nearly three years, National has been content to tinker with the economy when bold action is needed. They’ve had their chance. They’ve failed.

“The time for tinkering is over. Labour has a plan and the courage to make it work so that New Zealand can become a better place to live for all Kiwis.

A CAPITAL GAINS TAX: HOW IT WILL WORK

This document outlines how a capital gains tax (CGT) will work. The document is split into two sections. It begins with a summary of the key design features. It then discusses these features in more detail, giving some context and explanation for their development.

For further information on how the CGT will operate see the Question and Answer document and the Scenarios.

DETAIL AT A GLANCE - SUMMARY

1. **Rate:** The CGT will be set at a simple low flat rate of 15% with no indexation for inflation

2. **Gain:** The tax will be applied to net gains.

3. **Exemptions:** The family home, personal assets, collectables, small business assets sold for retirement and payouts from retirement savings schemes, including KiwiSaver, will be exempt.

4. **Scope:** The CGT is broad based and comprehensive.

5. **Implementation:** The CGT will be forwarding-looking and only apply to gains accrued after implementation. Past gains will not be affected.

6. **Canterbury:** Real estate in the CERA zone will not be liable for CGT for an initial period of five years from the commencement of the CGT. After that it will be reviewed.

7. **Point of Taxation:** The tax will be applied on realisation. In most cases this will be the point of sale.

8. **Treatment of Gains at Death:** Capital gains on inheritance passed on after death will be rolled over to the heir, and not payable until the gain on the asset is realised.

9. **Trusts:** We will ensure trusts are not used as a means of avoiding a CGT.

10. **Capital Losses:** Losses can be carried forward and offset against future capital gains.

11. **Treatment of traders:** Assets currently taxed at the individual's marginal or at the business tax rate will continue to fall under the existing regime.

12. **Expert Panel:** An Expert Panel will be established to deal with issues that are technical in nature and involve areas where a high degree of specialised knowledge is required before a final

decision can be reached.

13. **Other issues:** Non-residents, migration, insolvency, and foreign currency.

PTO

DETAILED DESIGN DESCRIPTION

Rate of Capital Gains Tax

The tax will be set low flat rate of 15% at the individual level with no indexation for inflation. A low flat rate has the benefit of being simple and easy to apply, reducing the complexity of the scheme.

Setting the CGT rate lower than the rate on other forms of income makes some allowance for the effect of inflation, i.e. the 'real' return on an investment is the net capital gain indexed to take into account inflation. It also reflects that there is often some risk associated with investment for capital gains as opposed to other investments.

We decided against adjusting the gain for inflation (i.e. indexation) based on international experience. Australia and the UK used to, but both abandoned it due to the practical difficulties it created.

Setting the CGT rate lower than the rate on other forms of income also reduces the perceived "lock in" effects, i.e. it will reduce the risk of investors holding onto an asset longer than if the rate was higher.

Calculating the Gain

The tax will be applied to net capital gains.

The CGT is a net tax. It is calculated on the net gain, which is the gross gain after the costs associated with buying and selling the asset are deducted. Such costs include: stockbrokers' fees, legal fees, valuation fees, advertising costs to find a buyer or costs associated with improving the value of the asset.

Exemptions

The following assets will be exempted from the scheme:

The Family Home

The main residence will be exempt, that is, the residence where you live most of the time.

Personal Use Assets

All personal property defined as "used or kept mainly for the personal use or enjoyment of yourself or your associates" will be exempt from tax when they are sold.

This will include boats, furniture, electrical goods, or household items. Land and buildings are not personal use assets.

Exempting the 'personal' property from the tax, keeps the focus on major investment assets and removes unnecessary compliance costs for New Zealanders.

Collectables

Collectables, such as jewellery, antiques, artwork, rare folios or stamp collections and the like will be exempt from the CGT.

A CGT that included collectables would be intrusive, result in high compliance costs, and would not raise significant revenue.

It is important to note that if a person trades regularly in these items they *will* be subject to tax on the income from their capital gains tax as is already the case at present.

Advice from the Expert Panel will be sought on how to control any avoidance issues that might arise.

Pay-outs and Withdrawals from Retirement Savings Schemes

Pay-outs and withdrawals from retirement savings schemes, such as KiwiSaver will be exempt from the CGT.

Small Businesses

Small business assets, up to a maximum of $250,000, sold for retirement, where the owner is above a certain age (e.g. 55) has held the business for 15 years and has been working in the business, will be exempt. This means that those who have saved through investing in a small business will not be negatively disadvantaged.

The Expert Panel will be asked to consider the range of technical CGT issues, in consultation with the small business community, including the definition of 'small business' for CGT purposes.

Other Assets that are Exempt

The following assets will also be exempt from the CGT:

Lump sum compensation (e.g. for redundancy, ACC or court awards)

Life insurance policy surrendered or sold

Winnings or losses from gambling

Medals

Scope

The CGT will be broad based and comprehensive.

A broad based CGT assists in preserving the simplicity of the scheme and avoids the high compliance costs associated a large number of significant exemptions.

In designing the scope we have broadly followed the same approach as Australia and other jurisdictions. The will apply to:

land and property (except the main residence)

shares in a company

rights and options

leases

units in a unit trust

goodwill

licences

convertible notes

contractual rights

foreign currency

minerals and precious metals

livestock (if on capital account)

intellectual property rights (patents, trademarks)

an endowment policy

Below are some important asset classes:

- **Baches** will be included as part of the CGT regime, as exempting baches opens loopholes, definitional and administrative problems.
- **Farms** will be included. However, where the family farm is the place of primary residence, the primary building residence on the farm will be exempt from CGT, along with the portion of the property that is used for domestic purposes ('curtilage') as already defined for GST purposes. The land beyond this, including the depreciable assets on the land (farm machinery etc) will be fully subject to CGT.
- **Primary residence also used for business purposes** will be partially excluded from the CGT. The exclusion will be pro-rated based on a similar approach to that taken for farming.

Implementation

The CGT will be forwarding-looking and only apply to gains accrued after implementation. Past gains will not be affected.

The transition will involve a *'valuation day'*, or 'v-day', whereby all capital gains prior to v-day are tax-free; those after v-day subject to tax. This approach was taken by Canada, the United Kingdom and most recently, South Africa (which undertook a detailed study of international practice to inform its policy design decisions).

This approach avoids penalising people for investment decisions they made during a period when there was no CGT. It also does not disadvantage other people (especially younger people) or create lock-in incentives or avoidance opportunities by exempting future capital gains on currently-held assets.

Australia's approach of grand-parenting increases 'lock in' and complexity by creating avoidance opportunities through shifting value from post-CGT to pre-CGT assets. This has in turn increased the complexity of the Australian scheme.

The Expert Panel will provide advice on the implementation and operation of a valuation day system, including issues such as pragmatic valuation methods for assets not easily valued. The final approach adopted will need to be practical and flexible, such as the South African approach where taxpayers were provided with a choice of methods for valuations, some of which were relatively simple proxies for full market valuation.

Treatment of Property in Canterbury

Real estate (i.e. land and buildings, both residential and commercial) in greater Christchurch as defined by the Canterbury Earthquake Recovery Act 2011 will not be liable for CGT for an initial period of five years from the commencement of the CGT. After that it will be reviewed.

At the end of the exemption period, a separate Canterbury valuation day will be set. This means real estate in Canterbury will have a different v-day from the rest of the country.

A great deal of asset wealth has been destroyed by the earthquakes and aftershocks in Canterbury. It is important that the implementation of a capital gains tax does not create additional hardship for earthquake affected people of Canterbury.

The main problem for Canterbury is the impact (on real estate other than the main residence) of a temporary decline in the underlying land values. This may lower a property's value at valuation-day well below its pre-quake level. Also the process of establishing a reliable valuation in affected parts of Canterbury would be problematic.

The exemption would also apply to any payments (e.g. through insurance) to compensate for the loss of real estate value that occur after the commencement of the CGT. For assets other than real estate that were damaged in the earthquake, the cost of the repairs will, through the normal CGT calculation, be offset against any capital gain.

Point of Taxation

The tax will be applied on realisation. In most cases this will be the point of sale.

The alternative to this, an accrual system, is simply too difficult to implement in practice. As an indication of this, no other country in the world has implemented one.

There are some special cases or CGT (events) that must also be addressed:

Gifting

Gifting an asset will be considered a CGT 'event', except in the case of inheritance upon death (see below). The person giving the gift will be liable for capital gains tax based on the market value of the asset. Gifting is included by most other countries, otherwise gifting could be used as a means of avoiding CGT.

Relationship Break-ups

As a general principle capital gains on assets transferred between a couple in the event of a relationship break-up will be rolled over and not payable until the asset is realised.

Any approach to relationship break-ups in New Zealand must take into account the approach of the Property (Relationships) Act 1976, which places marriages, civil unions and de facto relationships on an equal footing. The Expert Panel will advise on how to apply the rollover principle so it is consistent with existing legislation.

Treatment of capital gains at death

Capital gains on inheritance passed on after death will be rolled over to the heir, and not payable until the asset is realised. This follows the Australian example. The Expert Panel will be asked to give advice in this area.

Trusts

We will ensure trusts are not used as a means of avoiding a CGT. As a general principle, capital gains attained from assets in a trust will be liable for CGT. Transfers of assets into trusts should generally be regarded as CGT 'events'.

The Expert Panel will be asked to provide advice on outstanding issues in relation to trusts, in cooperation with the Law Commission. This will include whether CGT is applied to distribution to a beneficiary or unit holder or upon realisation even if that occurs within a trust structure. There may also be technical issues relating to Trans-Tasman treatment of assets.

Main Residences in Trust

The Expert Panel in cooperation with the Law Commission will explore mechanisms to ensure a family home can be protected from liability without giving up the main residence exemption.

Some people will have their main residence in a trust in order to protect the asset from liability from things such as law suits, where the trust has no income and has no existing tax liability, rather than out of a desire to minimise their tax liability. Our view is that people who wish to protect their main residence from legal liability (and have no other tax implications) should be able to benefit from the family home exemption.

Treatment of capital losses

Capital losses can be carried forward and offset against future capital gains. Advice will be sought from the Expert Panel as to whether there be an upper limit against which capital losses may be offset from gains.

When assets are sold, they may be sold for less than the purchase price. In these situations the individual makes a capital loss. These losses will be able to be offset against future capital gains. However, capital losses will be 'ring-fenced' so they can only be applied against CGT liability and not income from wages or salary.

Treatment of Traders

Assets currently taxed at the individual's marginal tax rate or at the business tax rate will continue to fall under the existing regime.

At present in New Zealand, while there is no general capital gains tax, individuals who regularly and intentionally trade for capital gain have their income from this source taxed as part of the personal income tax system, at the marginal tax rate. There is no intention for traders in capital assets to be taxed less than at present once a CGT is in force. The Expert Panel will explore means of ensuring that this does not occur.

Issues to be Referred to the Expert Panel

The Expert Panel will be asked to deal with issues that are technical in nature and involve areas where a high degree of specialised knowledge is required before a final decision can be reached. In many cases the Expert Panel will be asked to consult with the affected community in order to better inform their decision.

In addition to the detailed design issues relating to key policy features already mentioned, the Expert Panel will be asked to consider the following issues in more depth.

Assets whose V-Day Value is below their Purchase Value

The Expert Panel will be asked to provide advice on how to treat assets whose v-day value is below their purchase value.

For example, Canada dealt with this issue by allowing taxpayers the option of using 'the median rule'. This means they take the middle value out of the purchase price, the v-day value and the sale price as the base cost from which capital gains are calculated. This means that if the purchase price is in the middle, i.e. the asset is sold for more than its purchase price but less than its v-day value, then no capital gain (or loss) is assessed.

Māori Land

Māori customary land passes upon death to the subsequent generation and is not normally sold. The rollover on death provisions mean no CGT is payable.

Ordinary assets owned by Māori business entities would be treated in the same way as for other taxpayers.

Any complexities arising will be referred to the Expert Panel.

Rollover Provisions

The Expert Panel will be asked to give advice on the circumstances in which rollover provisions should apply.

Many countries have rollover provisions which provide for a deferral of CGT beyond the year in which the asset is transferred or disposed of. Apart from relationship break-ups and death, the issue of when rollovers should be allowed is complex and technical.

They may apply where the transfer of an asset class is between taxpayer entities (e.g. from one arm of a business to another). They may also apply when a taxpayer disposes of one asset, and replaces it with a similar asset.

Venture Capital

The Expert Panel will be asked to advise whether venture capital investment should be exempt from CGT as in Australia to avoid a Trans-Tasman tax differential, or whether, for reasons of simplicity, asset neutrality and anti-avoidance venture capital should be treated in the same way as other investments.

Different Ownership Forms

The Expert Panel will be asked to consider the treatment on different ownership types, drawing on the Australian approach.

There is a range of asset ownership forms available in New Zealand, such as partnerships, tenants in common and joint tenants. Australia's approach is to have each individual within a partnership or tenancy calculate their capital gain or capital loss according to the portion of their legal interest in the asset (joint tenants are treated as if they each own an equal interest in the asset).

Other Issues

Treatment of Non-residents

As a general principle, non-residents will be subject to CGT in the same way as residents. The Expert Panel will advise on any complexities that may need to be taken into account. This will include any technical issues, such as the impact on double taxation agreements.

Treatment of People Migrating from New Zealand

Migration from New Zealand will be treated as a capital gains event in respect of assets other than land, buildings and business assets, which the Expert Panel will be asked to advise on. This is in line with the approach taken by Australia.

Treatment of Insolvent Companies and Companies in Liquidation

Once a liquidator makes a declaration that they expect no distribution, shareholders may then, if they wish, claim a capital loss on the shares as if they disposed of them for nil consideration; if a subsequent liquidation distribution does occur then it is treated as a capital gain.

Treatment of Foreign Currency

Where currency gains or losses are in connection with a trade or business or with the management or administration of investment assets, the gain is treated as income (rather than capital gain) and losses as an expense

Where currency gains or losses are incurred in connection with the purchase of an investment, the gain or loss on the currency change on realisation is a capital gain or loss and included as part of the total gain or loss on the investments.

QUESTIONS AND ANSWERS

1. ## What is a Capital Gains Tax (CGT)?

   A CGT applies to the net profit made from the sale of a capital asset over-and-above what was originally paid for it. For example, if you buy a house for $300,000 and later sell it for $400,000, the portion of the sale price that is subject to the tax is $100,000.

2. ## How will it work?

   You'll pay 15% tax on the gain you make from selling your investment property or other assets, except the family home. It's important to note that you're only paying tax on the gain - not on the whole value of the asset.

   This tax isn't backward looking, meaning any pre-CGT gains on assets won't be subject to the tax. When the tax is introduced, assets will be valued. This "valuation day" will determine the date after which gains will be subject to tax. Exactly how this process will work will be explored by our Expert Panel.

3. ## Are you going to tax my family home?

   No, the family home will be exempt from a CGT.

4. ## Why is a CGT needed now?

   Our economy is in trouble. We're in a financial hole with a record government deficit of $16.7 billion and $142 billion of overseas debt. It'll only get worse if we don't act now. We also don't want our country put up for sale by the National Party. We need to protect our valuable assets and a CGT will allow us to do that. We must prepare for future financial shocks, like the increasing cost of caring for our aging population. The country can't afford another series of natural disasters. We must prepare for future shocks. We also believe that Kiwis struggling with the rising cost of living deserve some relief.

   That's why Labour is making the bold decision to change our system so that we tax capital in the same way that we already tax wages, salaries and savings in the bank. This will help shift the focus of investment from speculation on property to the productive export sector. It'll help create jobs that pay well and grow our economy to benefit all New Zealanders.

5. ## How much revenue is CGT forecast to raise?

   Our policy has been fully costed by independent experts BERL. They estimate it will raise $78 million in the first year, rising to $2.27 billion in year 10. Over 15 years, it will raise about $26 billion in total. The amount raised will fluctuate depending on economic cycles. But even at the height of the global financial crisis, the CGT brought in $6 billion per year in Australia.

6. Where does the revenue go?

A CGT allows us to keep our assets, pay down debt and give hard working families a tax break. Over half of the revenue raised will be used to give hard working families a break in terms of a $5,000 tax free threshold and taking the full 15% of fresh fruit and vegetables. Most of the rest of the revenue will be used to pay off government debt, while still holding on to our assets which would otherwise be sold.

7. How many people will be affected?

Based on Australia's experience we expect fewer than 10% of New Zealanders will pay the CGT in any one year. That is approximately 267,000 people. We know from other countries that have a CGT, that those on the highest incomes will pay the most. In Australia, those earning more than $180,000 paid 60% of the CGT. In Canada and the United States the top 1% of taxpayers generated approximately 60% of the CGT.

8. Why is the National Party so against it?

It's hard to know, because a CGT makes economic sense. Many countries around the world have a CGT, including Australia, the US and the UK. National has no plan so its fall-back position is to attack those who come up with bold ideas. It is relying on short-term tinkering and wants to sell off our valuable assets to try and cover our debt. When you're in a hole, why would you sell the ladder? We'll end up with big corporates and foreign buyers controlling our valuable assets while we're relegated to being tenants in our own country.

9. Isn't this just a big new tax that will stop Kiwis getting ahead?

Not at all. Those who work hard, save and invest will still be rewarded. Most New Zealanders will never pay a CGT and those who do actually get to keep 85% of the gain they make when they sell off their capital asset. People already pay tax on their wages and salaries and bank deposits, so why shouldn't people with investment properties and other assets pay their fair share?

10. Will the family bach be affected?

The tax will affect all property except the family home but only when the property is sold. If the family bach is simply passed down through the generations, then the CGT won't apply.

11. What effect will a CGT have on the property market?

Home ownership has become an unaffordable dream for many Kiwis. A CGT would help change that. It should become easier for Kiwis to be able to buy their first home. Removing the tax bias towards investment property will reduce speculators' demand for investment properties, assist in dampening house price cycles and controlling interest rates. This will help renters buy their own home, reducing the demand for rental property. We note some property investors claimed a CGT here would see people rushing to buy in Australia instead. That is nonsense. Australia has had a CGT for more than 25 years.

12. Will a CGT push up rents?

The impact on rents is unclear. Landlords said property tax changes in Budget 2010 would push rents up. But it didn't happen, rents increased by 1.3% since June last year, while general inflation has been 4.5%. Australia's experience with CGT is that over time, rents generally have

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increased at the same rate as inflation. This was in line with pre-CGT rental increases.

13. What happens with shares?

Professional share traders already pay tax. But people who sell shares on an occasional basis will in future be liable for the CGT.

14. Does the tax apply to farms?

The main farm residence and surrounding land used for domestic purposes will be exempt. But the wider land used for the business of farming will be subject to the CGT. However, our 'small business' concession will also apply to farms.

15. What about small businesses and the owner-operators who've grafted hard to build up their asset in time for retirement?

There will be a special concession in some cases. For example, a farmer or plumber, aged over 55, who works in their business and has personally owned it for more than 15 years will be able to collect the first $250,000 of their gain tax-free. The detail about how this concession will work will be looked at by our Expert Panel.

16. Will I be taxed if I inherit an asset when someone dies?

No. The asset will automatically be rolled over to the new heir. But if you decide to sell the asset, CGT will apply to the gain made since valuation day.

17. Will collectables, like art, books or antique jewellery be subject to the tax?

No. The tax won't apply to peoples' personal property. However, if you sell these kinds of items regularly, as a trader, then you will pay tax on your profits; as you should be now anyway.

18. So you won't be taxing the millionaire's super yacht? That seems a little unfair.

This is a tax levied on the capital gains of a capital asset. Super yachts don't appreciate, but rather tend to depreciate over time. If we did levy the tax on items like super yachts that lose value, we would actually be providing a tax incentive for the very wealthy due to their ability to write off capital losses.

19. What about those in the quake-damaged Canterbury region whose assets have dropped in value?

We recognise that Canterbury is a very special case. As a result, we are exempting all properties in the Canterbury CERA region for at least five years.

20. What happens to my superannuation scheme or when I withdraw money from KiwiSaver, or if I get lump sum compensation through redundancy or ACC?

The tax will not apply in these cases.

21. Are assets in a trust going to be taxed?

Yes. We think it is important to ensure that people cannot escape paying CGT simply by hiding assets in trusts.

22. If my family home is in a trust, will it be taxed?

No. The fundamental principle is that the family home will not incur a CGT. We understand that people do sometimes place their family home in a trust to mitigate business or creditor risk. It's not our intention to penalise those who have done this. Trust law is complex though, so how we manage this will be decided once we get advice from our Expert Panel.

23. What about John Key's claim that a property tax will result in the economy "screaming backwards"?

National said it would be bad for the economy. You only need to look at GDP growth figures in Australia, which show that the economy roared ahead after the introduction of a CGT.

24. Won't a CGT be too complicated to understand and complex to administer?

All but three OECD countries have some form of a CGT. There is a wealth of international experience to draw on and we will learn from the work other countries have done. Labour will also get advice from our Expert Panel to ensure the system is easy to understand and to administer. It's worth noting that some tax experts have said that the lack of a CGT in New Zealand has caused considerable complexity, requiring arbitrary and ad hoc tax rules to limit the exploitation of this exemption.

25. Why has Labour made this decision in election year?

This isn't about having an eye on the election. This is about making bold decisions to improve our long-term economic outlook. We are fighting for the future of our country. Tinkering at the edges won't change New Zealand's long-term performance, lift wages and grow exports. We need a lasting solution. We know this decision won't be liked by everyone. But this is about creating a tax system where everyone pays their fair share, nothing more - nothing less.

26. How will the Expert Panel work?

Labour will establish an Expert Panel to provide top level advice to guide the design of the CGT, with a view to implementation in 2013. It will include senior experts appointed from the fields of tax policy, accounting, economics, law and social policy, and be supported by a secretariat. The Expert Panel will differ from the recent Tax Working Group in that it will focus on specific CGT design and implementation issues rather than a wide review of policy. The Government will then confirm the policy outline through the generic tax policy process (GTTP), allowing for further consultation and public submissions into a full select committee process.

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WHEN WILL THE CAPITAL GAINS TAX APPLY?

Scenario	Effect of CGT
Family Home Bill sells his home in Hamilton for $150,000 more than what he originally pays for it and moves to Wellington	CGT does not apply to the family home, so Bill does not have to pay any tax.
Rental Property Mark and Jane are 40 and 45 and have two rental properties providing an income stream and as an investment for their retirement.	The CGT is not retrospective so Mark and Jane will not pay any tax on the gains to date. If they sell their properties 5 years after the CGT is implemented, only the gains from the past 5 years will be subject to the 15% CGT.
Retiree Rental Property Jon is retired, and sells the rental property he and his wife have owned for 50 years, 2 years after implementation.	The CGT is not retrospective so only the gains in the past 2 years will be subject to the 15% CGT. All gains from the previous 48 years will remain untaxed.
Inheritance Richard owns a house in Mana and passes away, leaving it to his children.	CGT does not need to be paid on inheritance. Any increase in value in the house made since CGT was introduced will only be taxed once Richard's children sell the house.
Personal Use & Collectables I George has worked as a builder for 30 years and is a car lover. He has invested in classic collectable cars all his life, buying them, doing them up and then selling them on.	Collectables are exempt from the CGT. Unless he is a trader (and already paying tax on capital gains), George pays no tax on any capital gain from selling his cars.

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Personal Use & Collectables II Ruth has her mother's jewellery collection. She recently had it valued and it is worth in the order of tens of thousands of dollars.	Collectables are exempt from the CGT. Ruth would not be taxed if she decided to sell her mother's jewellery.
First Home Buyers Jack and Aroha are in their late-20s and have been renting together since University. Together they have a gross annual income of $120,000. They would like to buy, but have been unable to find an appropriate house within their price range.	As a result of the CGT, house prices will probably rise more slowly, bringing home ownership within reach of more New Zealanders, including some who are currently renting.
KiwiSaver Sione set up a KiwiSaver account at age 35. At the time he was earning $45,000. At age 65 he is able to withdraw the total of his KiwiSaver savings, which is around $140,000.	Payouts and withdrawals from retirement savings schemes, such as KiwiSaver, are exempt from CGT. Therefore Sione pays no tax on the $140,000.
Relationship Break-ups I Pete and Rosie bought a house together and married two years later. However after 10 years they divorced. Rosie agrees to buy Pete's half of the house as part of the settlement.	The family home is exempt, so no tax is paid by either Pete or Rosie at any stage.
Relationship Break-ups II Pete and Rosie also bought a rental property which increased in value by $250,000 over 5 years since the CGT was introduced. Rosie also buys Pete's half of the house as part of the settlement.	The capital gain will roll-over to Rosie. Rosie is then liable for CGT on $250,000, but only when she sells the house.

Renters Gordon rents and plans to continue to rent for the foreseeable future. He earns around $35,000. His rent is $200 a week.	Previous changes to property investment tax rules haven't resulted in appreciable changes to rents. Also, Australia's experience with CGT is that over time, rents generally have increased at the same rate as inflation. This was in line with pre-CGT rental increases.
Trusts Terry has an investment property that he has placed in a Trust. After ten years Terry instructs the Trust to sell the house.	As a general principle, capital gains attained from assets in a trust will be liable for CGT. For example, when the Trust disperses the profit on the house to Terry, he will be taxed 15% of any gain.
Dairy Farmer Sandra and Jim own a large dairy farm and live on a property located on the farm. The farm also has a number of dwellings used by farm workers. Being in their late sixties they decide to retire from farming and sell the farm.	The family home is exempt. Any gain made on family house and a portion of the property that is used for domestic purposes will be exempt from the tax. The approach used to calculate the land used for domestic purposes is the same used to calculate GST. Gains made on the remaining farmland, including other dwellings, machinery and stock, will be subject to CGT.
Canterbury Property Moira owns an investment property in Christchurch that was damaged in the Feb 22 earthquake. The house is repairable, but a number of houses around the property have been destroyed. She bought the house for $400,000, but due to the damage her house, and the loss of surrounding community, the house is worth half what she paid for it.	Real estate in greater Christchurch will not be liable for CGT for at least 5 years, so Moira will be unaffected by the CGT. The exemption will be reviewed after 5 years.

Savings in the Bank Jamie put $20,000 into a term deposit for four years, with interest of 5.75%. After 4 years the lump sum has increased by $4,600.	Jamie pays no CGT on the interest because the interest he earns is already taxed at his marginal tax rate. Currently, those with savings in the bank pay tax, while those with investments in a rental property for example don't pay tax.
Family Bach I Phillip and Karen are siblings. Their family bach has been left to them in their parent's will.	CGT does not need to be paid on inheritance. Phillip and Karen do not pay CGT when they inherit the bach.
Family Bach II Phillip and Karen decide to sell the bach. The bach was valued at $350,000 when CGT was introduced, but on sale they realise $400,000 for it.	CGT applies to the sale of baches. The tax liability on the capital gain of $50,000 is split equally between them, reflecting their 50:50 joint ownership. So Phillip and Karen pay 15% tax on $25,000 capital gain each have received. (This may include some increase in value from when their parents owned it.) After CGT, Phillip and Karen pocket $196,250 each from the sale.
Intellectual Property Green Growth Enterprises has just patented a feed product that reduces methane emissions from livestock. Their investment in this work is treated as capital for accounting purposes. The company on-sells the technology to a feed production company and makes a considerable profit on their initial investment in developing the product.	Green Growth Enterprises pays 15% tax on the profit from the sale of the technology after the introduction of CGT.

Small Business Wiremu, a glazier by trade, invested his life savings into setting up his own small glazing company. His business plan was to build up the company over 15 years and realise the capital when he retired. At 57 he sold the company for $450,000.	The small business concession applies up to $250,000. Therefore Wiremu only pays the 15% CGT on the remaining $200,000.
Business run from home Dorothy owns a small gift shop. She owns the building and lives upstairs with her store taking up the bottom floor. 50% of the area of the property is used for commercial purposes, and 50% is her primary residence. At 45 she decides to wind up the business and sell the property. She makes a capital gain on the property of $200,000.	The family home exemption means the portion of Dorothy's property that is for the family home will be exempt. Dorothy is only liable to pay 15% tax on half of the capital gain – as 50% of the area of the property was her primary residence.
Capital Losses Brent and Jordan decide to invest in an apartment in the city. At the introduction of the CGT the value of apartments was high. Ten years later however, the price of apartments had dropped. Brent and Jordan decided to pull out of housing assets and invest their remaining capital into the stock market. The apartment sells for $20,000 less than it was valued on the introduction of CGT. On retirement they sell their shares and make a capital gain of $50,000.	Capital losses are able to be carried forward so Brent and Jordan offset their capital loss of $20,000 from their apartment against their capital gain of $50,000 from their shares. This means they only pay 15% CGT on $30,000.
Transferring Retirement Savings from Australia Emily migrated to New Zealand from Australia in 2000. Twenty years later she retires in New Zealand and brings over the superannuation she had tied up in Australia.	Payouts from retirement savings plans are exempt from capital gains, so Emily pays no tax on the capital she brings into New Zealand.

A NEW PROGRESSIVE TOP TAX RATE

Labour will introduce a new top tax rate of 39% on income over $150,000. This is part of our package to make the tax system fairer, reduce the tax burden on most Kiwi families, and deliver better economic outcomes.

Main Points:

- 98% of people will pay less personal income tax under Labour
- The new progressive top tax rate will pay for making fresh fruit and veges GST-free
- Under Labour, 78% of people will pay less tax than they would in Australia
- New Zealand's top tax rate will still be one of the lowest in the developed world
- Labour's fair tax plan will help reduce inequality and rebalance our economy

LABOUR WILL DELIVER LOWER TAX FOR MORE NEW ZEALANDERS

The top 10% of earners have received 40% of National's tax cuts, while the bottom 10% received just 0.4%. Last year the government gave over half the tax cuts to the top 12%.

National's tax changes benefitted those on higher incomes at the expense of those on middle and lower incomes who were hit harder by the GST increases. National's changes have made inequality in New Zealand worse, increasing the divide between rich and poor.

Labour believes that balance and fairness needs to be returned to the tax system, which is why it will introduce a 39% top tax rate for income over $150,000 and make the first $5,000 of income tax-free.

The new top tax bracket will affect only the top 2% of earners (IRD Statistics). Everyone with an income will benefit from the tax-free bracket, including those on incomes over $150,000. In fact, everyone on an income below $158,750 will receive a larger tax cut from the tax-free bracket than they pay from the increase to the $150,000+ bracket.

Income $	1,000	25,000	50,000	75,000	100,000	125,000	150,000	175,000	200,000
Annual tax cut $	105	525	525	525	525	525	525	-975	-2,475
Tax cut %	100%	15%	7%	3%	2%	2%	1%	-2%	-4%

THE NEW TOP TAX RATE WILL FUND GST OFF FRESH FRUIT AND VEGETABLES

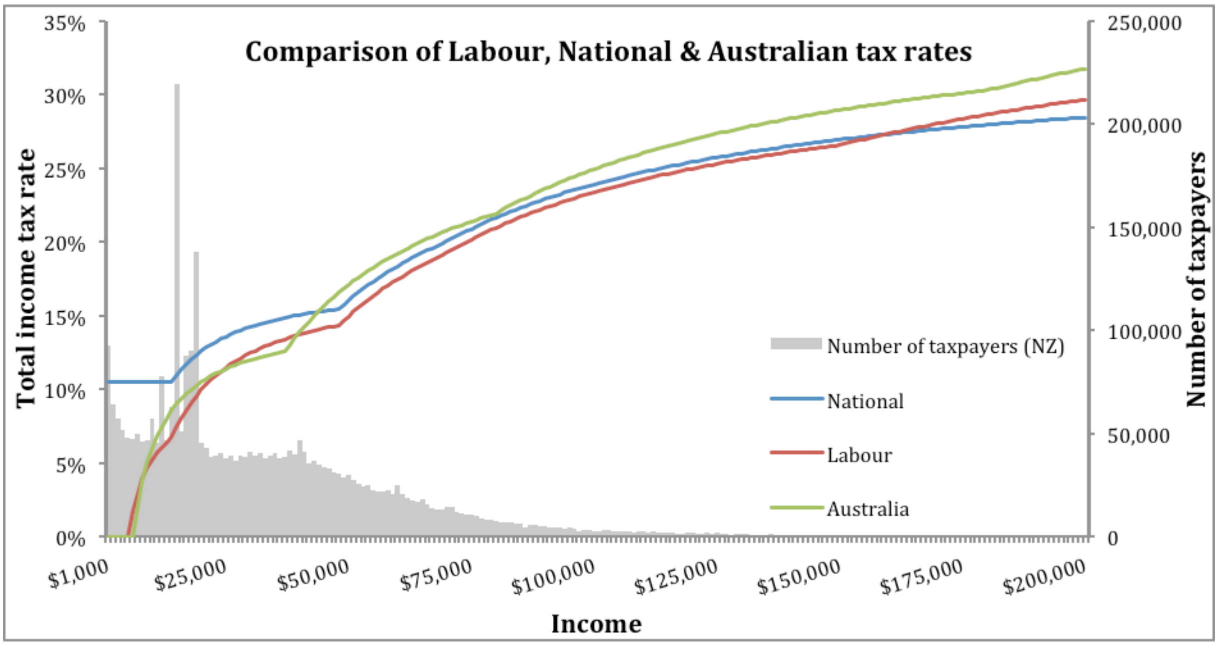
The new progressive top tax rate will raise $300 million a year. This is approximately the same as the cost of making fresh fruit and vegetables GST-free. A small extra contribution of 6 cents extra per dollar earned over $150,000 from the wealthiest 2% New Zealanders will enable all Kiwi families to better afford healthy food.

Cost/revenue, billions	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
New Progressive Top Tax Rate	0.225	0.320	0.333	0.357	0.369	0.389	1.993
GST Off Fresh Fruit & Veges	-0.075	-0.315	-0.331	-0.351	-0.369	-0.385	-1.827

Calculations based on Treasury and IRD data

COMPARISON WITH AUSTRALIA

Australia taxes higher incomes earners more than New Zealand does, and taxes lower income earners less. Labour will move our tax system towards this successful model.

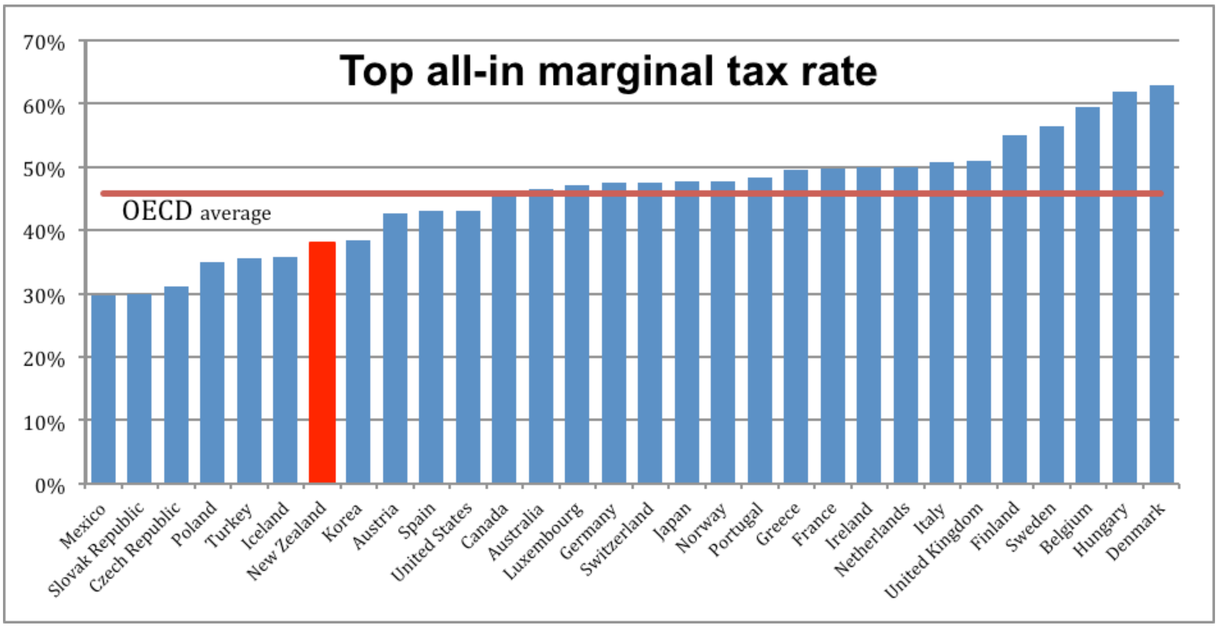


Source: IRD data

Under National, 68% of people pay more tax in New Zealand than they would on the same income in Australia. That number will be just 22% under Labour.

THE TOP RATE AND OTHER COUNTRIES

At 39%, New Zealand's top tax rate will be well below the OECD average. Australia's top tax rate is 45%. Countries with a low top tax rate tend to be poorer or more unequal.



Source: OECD Tax database

GIVING FAMILIES A FAIR GO: BACKGROUNDER

The rising cost of living and falling wages are making it harder to make ends meet for many Kiwi families. National's increase in GST and other price hikes have added to the squeeze. Families deserve better.

National borrowed for tax cuts that overwhelmingly went to the wealthy but failed Kiwi families on low and medium incomes, who were left worse off after the tax switch and are still waiting for the promised jobs and economic growth.

Labour will help ease the pressure families are under by giving all New Zealanders a tax cut, and help them with their grocery bills, while responsibly managing the government's debt.

A tax-free zone: A fair deal for everyone

New Zealanders currently pay tax on every dollar they earn, irrespective of the amount of income they earn.

Labour will introduce a tax-free zone in our first Budget, starting out at $3,000 from 1 April 2013 and rising to $5,000 from 1 April 2014. Everyone will get the same tax cut. This tax change will bring New Zealand in line with most other countries we compare ourselves to.

The estimated cost of the free-zone of $5,000 at full implementation is around $1.3 billion a year. Labour will pay for this with the CGT and by clamping down on tax avoidance.

Your first $100 per week of income will be tax-free. That's $1,000 a year extra for two-income families, including superannuitants.

It's simple. It's fair.

No GST on fresh fruit and vegetables

Labour will take the whole GST off fresh fruit and vegetables from 1 April 2013. This will reduce the price of these foods by 15%, which will help take pressure off the family food bill. Research shows it will help make healthy food more affordable, and bring down health care costs.

The cost of axing GST on fresh fruit and vegetables is about $300 million a year, around as much as the new top progressive tax rate will raise. Many other countries exempt foods from GST. It's simple and affordable. It's good for families.

The right choices for New Zealand

Labour will not borrow to pay for its tax and GST cuts. Nor will it sell off assets. Instead it will rebalance the tax system so that everyone pays their fair share.

Labour will build a country where everyone can prosper. Not a country divided by the growing gap between rich and poor. We want a country where everyone gets a fair go and pays their fair share.

A country where we own our future together.