Submission to the New Zealand Productivity Commission

Draft Report on Local Government Funding and Financing, July 2019

This submission has been prepared on behalf of members of the Queenstown Lakes District Tax Equity Group (TEG, formerly "Bed Tax Lobby Group").

TEG fully supports the principles highlighted in the draft report, in particular fairness, equity and the beneficiary pays principles. We also support the efficiency principle particularly its emphasis on minimising harmful incentive effects and minimising compliance and administration costs.

We agree that there are risks around different levels of government sharing the same tax base especially the risk around each setting its own tax rate without considering the rate set by the other.[1] The Commission's draft recommendation to empower local authorities to introduce turnover taxes on accommodation businesses targets the same revenue base from which GST is drawn. The combined effect of the QLDC's proposed level of new taxation would add to the existing GST liability of accommodation businesses, taking tourism taxation in NZ to the highest levels worldwide. As currently proposed there is no expectation that Councils take account of the GST rate.

We agree with Commission's observation that services should be funded by those who benefit from them and the benefit principle should play the primary role in determining who should pay.[2] We would repeat the observation in our initial submission that the accommodation sector is only one subsector of the tourism economy that benefits from infrastructure services provided by local and central government. All other businesses deriving income from tourism also benefit, some of them more so than accommodation. It is therefore highly unfair, inequitable and ignorant of the benefit principle to seek to impose an additional turnover tax on just that one subsector in order to boost funding for infrastructure of benefit to all.

The Commission's proposed accommodation levy appears inconsistent with the desirable attributes of fiscal adequacy and stable and predictable revenue.[3] The QLDC has proposed an initial rate of new taxation that falls short of its estimated revenue requirements. In general, hardwiring a significant portion of local government revenue to fluctuating patterns of tourism expenditure would be unlikely to achieve a stable and predictable funding outcome. It would require a re-write of local body financing disciplines which set the expectation that councils "do not set the equivalent of the rate of GST…and then see what revenue those rates will bring in".[4]

We disagree with the Commission that "designing and implementing a local GST would be complex and problematic".[5] It could be as simple as adding a new line (e.g. local sales tax) to the current GST return system, targeted at specific businesses defined in the Tourism Satellite Accounts or other recognised nomenclature.

[1] See for example Draft Report, p. 139
[2] Ibid: pp. 141-142, p. 150
[3] Ibid: p. 143
[4] Ibid: p. 163
[5] Ibid: p.166

We also disagree with the Commission that rebating a portion of GST to the regions would constitute an industry subsidy.[6] It should be viewed as a contribution towards a local- central government partnership to build and maintain infrastructure required for the overall benefit of the regions, for both visitors and residents alike. In this respect a GST rebate would be consistent with the Commission's observation that "If…local government's activities create benefits that spill over its boundaries… possibly to the wider country, then there is a case for central government to contribute to the cost of those activities."[7] It is well documented that Queenstown's role in attracting visitors to NZ does indeed constitute a national benefit.

Problems identified around a rebate (to regions) of a portion of visitor GST are equally applicable to the proposed accommodation tax. Namely: "fair allocation is likely to prove elusive…" and "…likely undermine local autonomy and accountability".[8] Allocation of a "visitor levy" to just one subsector is certainly not fair. Linking local body revenue to fluctuations in visitor expenditure would similarly undermine local autonomy and accountability. There is no consistency between these observations and the Commission's proposal for accommodation levies.

We are encouraged the Commission plans to investigate local sales taxes in other countries.[9] We would be open to assessing their application across the tourism economy in NZ. From our perspective a local sales tax approach could achieve revenue raising objectives yet avoid the pitfalls of selective narrow based taxation.

The Commission should encourage a much deeper analysis of economic impacts ("economic incidence") of any new sector tax.[10] There is a sizable body of international literature on economic impacts (a selection of references has been made available to departments and is available from Lincoln University's Dr Anthony Brien.) As a minimum the TEG is seeking a much more robust NZ assessment of economic impacts to accompany recommendations on NZ accommodation levies.

In response to observations that the proposed bed tax is simply a "pass through charge", we draw attention to the legal liability of business to return the tax regardless of any ability to recover it from the market. We stress that the price increase necessary to recover the new tax would be considerably higher than the tax itself, compounded by travel agents' commissions, compliance and administration costs, GST and bank processing fees. Triggering such a transparent and significant price increase in the NZ tourism market will almost certainly trigger distortions.

On compliance and administration costs, the legal and administrative requirements for a narrow based tax are the same as those required for a broad one. The only difference would be that more businesses would need to comply. But this offers the significant advantage of enabling the tax rate to be much lower, low enough to avoid the distortionary effects of a significant price spike in the accommodation sector. There is no difficulty in defining businesses that should be within the catch pool, either regionally or nation-wide. Main players in the tourism sector are easy to identify, and TEG would be pleased to work with agencies to refine a list of those who should share the tax burden.

[6] Ibid. p. 175
[7] Ibid. p. 178
[8] Ibid. p. 166
[9] Ibid.
[10] Ibid. p. 177