

POST-CABINET PRESS CONFERENCE: MONDAY, 25 FEBRUARY 2019

PM: Good afternoon, everyone. A quick preview of the week ahead: on Tuesday, I will be in Auckland speaking to the New Zealand Co-op Business Leaders' Forum. On Wednesday, I will be in Hamilton to meet with rural women and to attend one of several CTU-organised forums that I will be taking part in. On Thursday, I will be in Christchurch for an announcement. On Friday, I will be in Auckland, attending meetings, including speaking at the North Harbour Club & Charitable Trust function.

Before we take general questions, I want to take the opportunity to address a few points being debated and discussed around the Tax Working Group report. I encourage everyone, of course, while we are yet to determine a view in response—I do want to make sure that we have the Tax Working Group report represented accurately. I encourage everyone to keep in mind why we set the Tax Working Group up, which was, ultimately, to look into issues of fairness, balance, and structure of New Zealand's tax system.

The report released last week largely found that New Zealand's tax system works well. It is simple and the Government—as I've said before—has absolutely no plans to throw the baby out with the bathwater.

But the tax experts also highlighted some areas where they found that the system is not fair and not balanced, and where the structure could change. On that, it is important to note that the recommendations of the Tax Working Group relate to between only 0.4 percent in year one and 2.5 percent in year five of the Government's total annual tax base over five years, and still only 4 percent of the tax base after 10 years. I only mention that to give a perspective of the scale, and that in my view it is far from an attack on the "Kiwi way of life".

As with any Government, tax settings are one part of the equation when it comes to an overall economic strategy. An example of how we've already made changes to the tax system that have been positively received include the \$1 billion R & D tax credit that will benefit any Kiwi business investing in their product development, and better taxing of multinational companies operating here, including our proposal last week to bring fairness with a digital services tax. We've also focused on running surpluses, paying down debt, preparing for the future, better supporting families, our investment in the regions, in infrastructure, in green technology, in skills and training—these are all important components of our economic strategy. This strategy is the base for making our society fairer and making sure families and those on low and middle incomes are well supported.

I understand, though, that the thought of potential changes to the tax system can cause worry, particularly when family budgets feel stretched. That is why we expressly told the Tax Working Group that if they make recommendations to fill any holes in the fairness of our tax system, then we would love to see how any extra money raised could be recycled through a tax switch. We have, though, by and large, a tax system that is fair—one that works well. But we have also been presented with a series of recommendations to close the remaining holes in the system. Those include, for instance, a range of options, as I've said, around those tax switches.

It's worth keeping in mind, though, international evidence shows only a small number of individuals pay capital gains tax directly. Advice from IRD shows that in Australia—which, along with most countries, has a CGT; and, I might add, a top income tax rate of 47 percent—only 4.7 percent of individual tax returns in 2015 included capital gains. Over 95 percent of Australians pay no capital gains tax in any given year. Even though we are talking about between 1 and 4 percent of the tax base, the packages suggested by the Tax Working Group do mean that the vast majority of New Zealanders will be better off.

I think New Zealanders know this too. They're not looking at the proposals individually, but as a potential package where they could receive income tax cuts or a boost to their

KiwiSaver accounts. I note, of course, the *TVNZ* poll which showed more people favoured a CGT - income tax switch than opposed it. Also I see *Newshub* has quite rightly reported that KiwiSavers would be better off as a result of the Tax Working Group packages than the status quo. But, again, I emphasize that while the Government is considering the report from the Tax Working Group, I do want to reiterate what they did and what they didn't say, for instance. For instance, gains would only attract CGT on realisation—i.e., when an asset gets sold—so there will be no impact day to day or year to year on the people who own these assets.

I also want to be clear that any changes that are made will not be backward-looking. The Tax Working Group has proposed that all gains made up until the point any CGT comes in will be protected, and that protection would be legislated for. Small businesses and farming are crucial to New Zealand's economy, and I want to be clear that the effects on them will be top of my mind when assessing options. Again, as I say, by and large we have a tax system that works well, but I do want to encourage people to look at the suggested packages of reform in context but also to engage in what I know will be a robust debate and a debate worth having here in New Zealand. I'm happy and open to any questions you might have.

Media: Prime Minister, you seem to be talking down the benefits of a capital gains tax and the revenue that could be brought in. Are you trying to distance yourself from the Tax Working Group?

PM: No, no. In fact, what I was simply doing is putting the discussion into context, into both the scale of what's been proposed by the Tax Working Group. I've heard some quite inflammatory statements being made about what we're debating here, and I think it's actually important that we actually debate what was in the report and the reality, rather than some of those inflammatory statements. So it's—

Media: What's some inflammatory statements you heard?

PM: Oh, well, this notion that it's an attack on the Kiwi way of life. I think that's quite a broad, sweeping statement. I've heard incorrect statements about it being a double tax, around it being a deferred death tax, all of which is just simply not true. Look, let's have a debate, by all means, but let's debate the actual report, rather than simply making things up.

Media: You said that farming and SMEs would be top of your mind. Could you go into a little bit more detail about what that means?

PM: Yeah, that—look, Jason, that one's really simple for me. I grew up in Morrinsville; I grew up in a rural community. I certainly, you know, hear and know some of the discussion that's been had in that quarter. And all of my first jobs predominantly were with small-business owners, and I was a small-business spokesperson in Opposition, so I hear that too. And so, of course, it's me simply restating what I hope will be obvious: that all of those experiences and, you know, my background will be top of mind when we consider all of these options, as will be the primary driver of this piece of work, which was the idea of fairness and balance.

Media: Are you indicating that a capital gains tax on small business may be, in your view, not the way to go?

PM: No, no, simply that—no, simply that I have in my mind a range of experiences, a range of views, that I will—as will all of us in Government—be weighing up when we determine which option that we adopt and where we form consensus. And, really, this is a reassurance that we hear all those views and that we will be weighing all of them up in our ultimate decision.

Media: Will Government be hiring external consultants to provide advice on the Tax Working Group's recommendations, or will you just be getting advice from the IRD and Government departments?

PM: Look, sometimes in these areas they are complex. I have no information that suggests to me that we'll be doing that. My—again, I wouldn't necessarily have that layer of detail, but my view would be that, predominately, we would probably—more than likely—be receiving it directly from IRD. But, again, I won't necessarily know the way in which IRD may conduct their operational policy advice.

Media: You said that the majority of New Zealanders will be better off under the full package. Do you have any kind of data? Because we don't actually have any data recently on how many people own more than one property. The last data is from the 2009 SoFIE I think—

PM: Yeah.

Media: —and you might know how many New Zealanders own small businesses. I mean, how do you have confidence in that statement that the vast majority of New Zealanders—

PM: Yeah, well, you can see it, of course, from some of the statistics coming out of—even the way that the reach of the Australian capital gains regime, where over 95 percent of Australians pay no capital gains tax. So that's certainly indicative, because there are some similarities in what the Tax Working Group have recommended. But you can also see—my memory is that they've provided some graphic illustrations of the income decile area that is most heavily affected by some of their proposals. And, again, as I say, they have presented a range of packages for us to consider, and some of which obviously would benefit a larger number of people than it would affect in the opposite direction.

Media: So how much is your house worth, and what do you say to the people that are now saying that, actually, the family home should be included in the capital gains tax because it means that people who own a property that's worth a lot—perhaps like yours—are excluded from this tax?

PM: Yeah, look, we've always said we did not want to and will not consider a capital gain that affects the family home. You know, you could argue, of course, that a family home is what you live in. You're not deriving income from that, and this ultimately was an exercise to make sure that we were putting fairness into our system and treating income, regardless of its source, the same way, which is why we were very clear on excluding the family home.

Look, my personal situation is out there in the open for anyone to see. I own one home and I have a KiwiSaver, and it's also possible to see what my home is worth. You'll acknowledge that I live in Auckland, which obviously has heavily inflated prices. But it's a bungalow in Sandringham, and, to be fair, bungalows in Sandringham—you know, it's under \$2 million, but it is an expensive property.

Media: Are you looking to buy a bach? Is that the Kiwi dream?

PM: No, I am not. But look, actually, the vast majority of New Zealanders will either own a home and have some savings or aspire to own their own home and have some savings, and I don't want to diminish anyone's aspiration, but I think we have to acknowledge that that, for a large number of Kiwis—that is their reality.

Media: So what should we read into the fact that you sought to reassure small businesses and farmers, effectively, but not those who own baches, who own shares, who own investment properties?

PM: Yeah, I think actually what I'm pointing out here is that, actually, you can hear all of the elements of the arguments in different directions on CGT generally, and we've given—I'm giving this assurance on the family home. I've consistently done so. We've consistently said we're thinking about all of the different elements that are being debated. But I've only heard one side of this discussion around the more comprehensive elements of the Tax Working Group, and I just want to give that reassurance. We hear all sides of the debate—all sides—and we're weighing all of that up and giving it due consideration. That's

an element of the debate that hasn't had quite as much focus in previous discussions, which is why I wanted to put that on record.

Media: Are you concerned that the Opposition is going to run an intense scaremongering campaign around this?

PM: Oh, look, I don't think it serves anyone to engage in scaremongering rather than reality. Let's have the debate—New Zealand should. We are one of only two countries in the OECD that does not have these provisions in our tax system. So let's as a nation have this debate, but let's just debate the facts. You know, I think we owe that to people so that it is something that we can give proper consideration to.

Media: What would you say is the Kiwi way of life?

PM: I think, actually, it's a bit more values-based. It's about getting a fair go and paying your fair share, and I think that's actually motivated a lot of why we wanted to have this discussion.

Media: Prime Minister, do you accept that having carve-outs, whether it be for the family home or for anything else, does not level the playing field? Because if someone had an extra \$20,000, they'd be better off putting it somewhere that's not taxed, perhaps, than putting it somewhere where they will be taxed.

PM: Yeah, and keeping in mind that, of course, when you're talking about rental properties, it's the gain rather than the initial investment, which is why we dismissed this "tax on a tax" argument that's been put forward. But, ultimately, the Tax Working Group does traverse all of the issues around balancing up the simplicity and the fairness and making sure that you don't open up too many loopholes. So these are all things that we have to give proper consideration to.

Media: Winston Peters has said before that he's opposed to a capital gains tax. Are you worried that this whole debate is going to be a waste of time because he's just not going to consider a capital gains tax?

PM: No, I'm not worried about that.

Media: Have you spoken with him about it?

PM: Yeah, there's been a number of conversations, but, as I say, once we've reached a conclusion, we'll be putting the Government view out there for the public to see. I'm not going to disclose any nature of those conversations until that time.

Media: Prime Minister, Winston Peters on Friday said that it won't be easy to find a political consensus, that New Zealand First is getting their own advice—

PM: Sorry, where's this coming from, Jo?

Media: From Winston Peters.

PM: Yeah, sorry.

Media: So it won't be easy to get political consensus. They're getting—New Zealand First is getting their own advice and that they are giving serious consideration to the minority report. What's your take on those three positions?

PM: Oh, look, every—as I've said throughout, you know, some political parties have come in with existing views. You know, we have—we were the ones that said we wanted this working group to give us the opportunity to consider independent advice. Now the job for us as a Government made up of three parties is to form consensus. Now, that doesn't mean that parties won't come in with pre-existing thoughts, but it's the consensus element that I need to focus on.

Media: Are you concerned about his comment about giving serious consideration to the minority report?

PM: No. We will debate all of the options, I have no doubt. But, ultimately, what matters is where we form consensus.

Media: You said that you're focused on farmers and small business, what about life—

PM: No. I want them to know that I hear them. That's a group that probably hasn't heard that message.

Media: What about lifestyle block owners? They're concerned that land beyond where the family home is—

PM: Yeah. And beyond the brightline—yeah, because, of course, what the Tax Working Group used was just the current existing legal definition, which is, yes, you exclude the family home and, yes, you exclude a certain parcel of land. Beyond that, any gain on the land, over and above that, then is captured. So that's the definition that the Tax Working Group has used, but, of course, again, we're the ones that need to go away and consider everything the Tax Working Group's put forward.

Media: Isn't a lifestyle block just a larger form of a home—

PM: Yeah.

Media: —but you're actually going to be taxing the actual home.

PM: Well, again—and this is where the Tax Working Group fell back on the existing definitions—not the home, not a significant parcel around the home, but in order for them to determine where the land may be moving into a different category of definition, they've then said land over and above that could be captured. So that's the way the Tax Working Group's done it. Again, it's now for us to go away and consider what they've said.

Media: And that land beyond the 4,500 square metres is—

PM: Again, I'm not giving any definitive views here. At this point in time, it's important for me to come away, form consensus—but happy to clarify what it is that the Tax Working Group based their initial decision on.

Media: What's your personal view, though, on the capital gains tax?

PM: Oh, look, you know, everyone will have heard me during the election, but now I'm in a position of being the leader in a Government arrangement that requires consensus to pass legislation. That's the reality.

Media: When you're looking for that consensus, are you personally advocating for a capital gains tax and taking that to your coalition partners who are then—

PM: I'm focused on building some consensus.

Media: You talk about wanting a reasoned debate. Don't you have one hand tied behind your back, in a sense—and you can't publicly make a strong case for the CGT while you've got national property groups, everyone else, hammering it?

PM: Yeah. There are, equally—there are individuals putting up arguments on the other side. I mean, this is a chance for a range of individuals, a range of representative groups to engage in a discussion. And, again, as I say, when New Zealand is one of only a handful of countries that doesn't have this, it's a useful discussion to have. But, from politicians' perspective, we should ensure that we are adding fact to the debate rather than scaremongering. That's my view.

Media: Is there a risk here that you're going to expend political capital to try and make a tax change that only generates 4 percent of the Government's income and which actually makes it harder for the productive economy to do better because capital gains for that productive economy are taxed too.

PM: Yeah, look, you know—when you are in a coalition, you don't sit back and think: what do I spend my political capital on? That's just not how it works. Now, we've got a process to go through, and we're all going into it in good faith. In the meantime, I encourage

people to share their view. But, again, as I say, I don't sit back and think about political capital; I just think about making sure that I act in good faith with all of the parties engaged in this debate.

Media: Are you worried at all about generational fairness not being addressed, in the sense that baby boomers have had a pretty good run, and there's an argument under this change that they'll be even better off—

PM: Yeah. I do think that we gain nothing by pitting this as a generational issue. Look, I'm sure, if you broke down the demographics, you would see some of that borne out, but I actually don't think—as I say—that we gain anything by apportioning blame here. Past generations have operated under the system that was operating at the time. They've made investment decisions based on that. That's why it's only fair that nothing applies retrospectively in that regard, because, you know, they've acted in good faith. But this is actually about generally—rather than just generational fairness, just fairness overall.

Media: They'll be getting more superannuation. They've already made their capital gains—the baby boomers—and now they'll be getting a better superannuation package, essentially.

PM: Again, though, you know—we need to look at the fairness question overall, and I'd say that that relates to how we treat income generally, but, in my view, somehow pitching this as in any way, other generations are to blame—well, they're not. They've operated in the system that's existed at the time. But we do have to be mindful of, you know, the next generation's opportunities. That means as much for us about initiatives like affordable home building and buying as it does some of the other debates we're having.

Media: But doesn't this just pull up the ladder behind them and stops them from making the untaxed capital gains that that generation made?

PM: Again, you're making—we haven't yet made any conclusive decisions here, Bernard. But I take the point that, of course, there are some who would make generational arguments. I think at some point in time we just have to look at our tax system overall and say, "Is there a way to put more fairness into it?"

Media: Do you agree with James Shaw when he says that your Government doesn't deserve to be re-elected if you do not implement a comprehensive capital gains tax?

PM: He is entitled to take his own view as a party leader.

Media: Do you agree with him?

PM: No I don't, but it's up to him to take a view as a party leader.

Media: On rental policy—not the healthy homes stuff of yesterday—I'm here.

PM: Sorry. I don't know, every time. I mean you sit in the same place.

Media: Ha, ha! The July 1 deadline for this year, which is actually a result of a 2016 law passed by the National Government for underfloor and overhead insulation—the new insulation this year says there's still up to 100,000 houses uninsulated and landlords will be facing a \$4,000 fine if they didn't get it up to scratch by 1 July. What's your message for those landlords? Is there going to be anything leniency?

PM: Sorry, is there going to be any—?

Media: Leniency.

PM: Yeah, I mean we've obviously phased it in—so 2023 for Housing New Zealand, 2024 more broadly, and because we do want to give time for those changes and alterations to be made but, actually, I have a huge amount of faith that our landlords want the properties that they're renting out to be healthy. And what we also know is that, really, we actually have a duty of care for those tenants as well. At the moment, they're showing up in our hospitalisations; in some cases premature death. So we are striving to make sure that,

yes, we give those landlords time, but, actually, we do act with a degree of urgency so that we can ensure those homes are healthier.

Media: Just on that announcement yesterday that Phil Twyford made around the new standards, the National Party came out quite strongly saying that it was going to increase rents across New Zealand. In a statement today, Green Party co-leader Marama Davidson said “The National Party is more concerned about the back pockets of property investors than sick kids and the elderly”. I was wondering if this is a sentiment that you share.

PM: Yeah. As I’ve said, I actually think that the vast majority of landlords do want their properties to be healthy homes. Two-thirds of rentals, for instance, already have ceiling and underfloor heating. So I do think we have to be careful not to tarnish everyone with the same brush. I also, again, want to come back to what the likes of the Reserve Bank say, which is that ultimately, what we see in rents is an issue of supply and demand. And so that’s why we’re so focused on trying to increase supply, because we do need to try and see a stabilisation of rents. As the Reserve Bank says, I think it’s a simplification to say that insulating a home means that we’ll have fewer rentals and rents will go up.

Media: But what they’re actually saying around the National Party, do you share their sentiment that the way that they’ve been operating politically from this is that they’re placing—

PM: I don’t think—they’re making out that this is a one or the other; you know, that asking landlords to insulate their homes means that they simply won’t provide them. I actually fundamentally disagree with National’s premise, and I think it actually does a disservice to landlords, personally.

Media: But it’s not just National saying it. The officials in the regulatory impact statement said that it’s likely that some rentals will move out of the long-term market and perhaps just put themselves up as Airbnbs. Do you see that as a problem?

PM: Again, the standards we’re asking here for: basic insulation, heating, drafts, and moisture. If you’re not willing to provide that for someone who rents your home, I question necessarily whether someone would choose to rent it on Airbnb.

Media: Prime Minister, James Shaw said last week that both yourself and the finance Minister had had words with him after the interview he did on *Morning Report*, where he said that voters would decide whether the Government should be re-elected. What was the nature of that conversation?

PM: You just asked if I agreed with him—I didn’t. But again, as I say, every party leader—it’s entirely up to them how they individually choose to express their view. They are independent parties, after all. Again, my job is to build some consensus. All right, last question.

Media: In your meeting with Scott Morrison, did the Australian Prime Minister express a desire for New Zealand to extend its military deployment to Iraq beyond June?

PM: I don’t tend to disclose individual conversations. Again, it’s fair to say that we’re in close contact on some of these issues because of the linkage between our deployments, and that’s actually really practical and logistical, because they are so closely aligned. But, ultimately, these decisions will be decisions that are independent and made in New Zealand’s best interest. Thanks, everyone.

Media: Can I just—Prime Minister, please, Māori TV. Can I just ask a quick question; sorry about that. I just had a few questions about your Te Matatini visit—

PM: Mmm.

Media: So what political issues or challenges did you see put to Government from the Te Matatini stage?

PM: So what was translated for me—I managed to hear a bit of the translation around Te Iti Kahurangi; I had someone reflect back to me what the—the performance out of Sydney was representing. But really I relied on the translation given to me when available. But I'm happy for anyone to provide that to me because I would like that insight into what some of the oriori, or others, represented.

Media: Are you aware of any key themes that came out from those challenges from the stage?

PM: Oh look, ongoing—making sure that we continue to uphold Te Tiriti, I certainly heard. The history of Māori politics I heard, and I did hear a little bit of challenge, again, from the Sydney group, but that wasn't necessarily about the New Zealand Government.

Media: There was a song written about you, about you as Prime Minister. What are your thoughts around that?

PM: Which one was that? Because I heard—

Media: That was from the Sydney-based group. They talked about—

PM: Yes, I did hear elements of that, and I'd want to check that I had all of the translation correct before I made any statements on it.

Media: Just lastly, before you go, we look at Te Matatini as a platform to Māori to express their issues and put challenges to Government. You've talked about bridging the gap between both houses, but they're still doing that from the Matatini stage. Is that a genuine—is that something that you're genuinely looking to improve on to give them a better or more vocal platform than that?

PM: Yes, actually, one of the conversations I had with the event organisers was what more we could do to enhance what I think is an event of national significance. You know, I asked the question this morning of Kelvin Davis around whether or not—the two, you know, every two years; he said because of the regionals, that's actually well placed for it to be held in that way. I want to make more of that event, and it is absolutely, you know, I think, a legitimate platform to issue challenge to Government, to encourage where we should be encouraged, but challenged where we should be. We just need to make sure we're available to hear that. As I say, I watched as much as I could. On Thursday, I was there live. I watched it on Sunday, the final. For me making sure that I check those translations so I hear all of those challenges is important.

Media: Minister on Scott Morrison, can you just answer—

PM: Oh, taking liberties now, Barry!

conclusion of press conference