

Submission to the Future of Tax Submissions Background Paper

IrrigationNZ's (INZ) submission focuses on the possible introduction of a water tax/ royalty as an environmental tax and is supported by the NZIER 2018 report: Taxing Times – Assessing proposed taxes on the primary sector¹.

Summary

A water tax would act in opposition to how an environmental tax should work and creates the wrong incentives

At a regional level, Ministry for the Environment data shows that regions with more irrigation have more swimmable rivers than regions with less irrigation². Other water quality issues (like nitrogen, phosphorus, sediment and heavy metals) affect both regions with irrigation and with little irrigation³.

A pollution tax should result in polluters being forced to bear the cost of their activities and the tax should create an incentive to reduce pollution.

Over 80% of the tax on irrigators would be raised in four regions (Canterbury, Otago, Marlborough and Hawkes Bay) which all have rivers rated more swimmable than the New Zealand average. This money would be transferred to regions with little irrigation (like Auckland, Northland and Waikato) that have less swimmable rivers than the New Zealand average.

A water tax would not create an incentive to reduce water pollution. It would result in farmers using irrigation in regions with more swimmable rivers subsidising the clean-up of rivers in regions with less swimmable rivers. A water tax would function in opposition to how a pollution tax should work and results in regions with less swimmable rivers being “rewarded” with a wealth transfer from irrigators in other regions.

A water tax may not encourage efficient water use

Based on an INZ irrigator survey on how they would fund the cost of a water tax, there is a significant risk that imposing a water tax may encourage more intensive farming as farmers could change land uses to pay the extra cost. These land use changes may create more environmental challenges and greater demand for water.

Irrigators also indicated that they would look to reduce investment in more water efficient modern irrigation systems as the additional cost of a water tax may make the significant capital investment required more challenging. The imposition of a water tax may make the switch from older flood and spray irrigation systems to modern spray and drip unaffordable. A move to more efficient irrigation system is the most significant change irrigators can make to reduce their water use and nutrient losses.

A water tax would be complicated to design and difficult to implement fairly

¹ NZIER, Taxing Times - Assessing proposed taxes on the primary sector, 2018

² www.mfe.govt.nz/fresh-water/state-of-our-fresh-water/water-quality-swimming-maps

³ http://archive.stats.govt.nz/browse_for_stats/environment/environmental-reporting-series/environmental-indicators/Home/Fresh%20water.aspx

Internationally, the idea of a water royalty has been considered by many countries but abandoned in all cases due to the complexity of designing and implementing such a charge.

To introduce a water tax, we need to confirm: who would pay the tax, who would be exempt (or what activities would be exempt), how would the tax be collected and on what basis, what is the tax rate and does it vary, and how would it be spent and where?

Through the National Water Measurement Regulations 2010, irrigators have been required to measure their water takes since 2012. Eight years on there is still no national set of accounts for the 12,700 irrigation water take consents in New Zealand, due to the complexities of the task. This is far less complex than designing, implementing and monitoring a water tax on all water users nationally.

The burden of a water tax would fall on a small subset of irrigators in east coast regions who are already required to invest a significant amount to improve water use efficiency and water quality. This is not an equitable way to fund improvements to rivers nationwide.

Around 60% of a water tax cost could be paid by just 12,700 irrigators, based on current consented water use data⁴. These irrigators are predominantly located in small number of regions – Canterbury, Otago, Marlborough and Hawkes Bay. This is very narrow tax base to bear much of the tax cost.

This group of irrigators is currently allocating a significant amount of their income to meet new regulatory environmental requirements with the intent of improving water quality locally. Is it fair or reasonable to impose a major new tax on this small group of businesses to pay for improvements to waterways across New Zealand when this small group is not the ‘cause’ of water pollution nationally? Depending on the tax costs, we note that the average farm could face an annual cost of \$20,000 (based on \$0.02 m³) or more in a water tax. This level of additional tax could make farming unviable or result in reduced spending in local communities.

Irrigation creates wealth for society and income for the government

In a 2014 study NZIER estimated that irrigation adds at least \$5.4 billion to New Zealand’s GDP⁵. Studies on the value of irrigation have shown that adding 1,000 hectares of irrigated land creates an average of 50 additional full-time jobs for pastoral industries and over 500 for horticultural ones. Creating additional jobs and income is beneficial for rural communities and for the government as it generates additional business and income tax income. We would question whether there is a case to tax irrigators given the broad socio-economic benefits irrigation provides.

⁴ www.lawa.org.nz/

⁵ NZIER, Value of Irrigation in New Zealand, 2014