



Embargoed until 11 am
5 October 2007

Media Release

Tax reform policy options

New Zealanders want personal tax cuts.

The Government and Opposition are both considering personal tax rate reduction policies.

The New Zealand Business Council for Sustainable Development today publishes papers on options for three tax cut policies – and nationwide research on what New Zealanders think of them. The option documents aim to spark discussion ahead of and at the Business Budget Summit 2007.

The Business Council-organised summit on November 1 assembles 80 chief executives and the Minister of Finance to look at long-term options for funding health care, closing the country's workforce skills gap, and the long term path to personal tax reform.

The Business Council today puts forward, though does not advocate, three main researched tax cut discussion options.

They include two shorter to medium term ones which adjust current tax rates, can be paid for by fiscal drag as incomes rise and people enter higher tax brackets.

The third option is a significant one aimed at long-term economic growth. It provides for lifting GST from 12.5% to 20% - while cutting all personal income and corporate tax rates to a single one of 20% for incomes above \$10,000. (A 15% tax rate already applies to incomes below \$9500).

CURRENT TAXES

The Government will this year spend about \$55 billion, covering the cost of health, education, benefits and other services.

Long term Treasury forecasts say to continue the present level of spending and growth of Government services the Government will need to keep spending about 30% of the country's production (Gross Domestic Product).

Currently New Zealand has a Goods and Services Tax (GST) rate of 12.5% and a corporate tax rate of 30%.

Personal tax rates are:

- 19.5c per \$1 of income up to \$38000
- 33c per \$1 of income between \$38,000 and \$60,000
- 39c per \$1 of income above \$60,000.

In addition to these rates, 1.3% of every \$100 you earn (up to \$96,619) is paid to the Accident Compensation Corporation.

THREE MAIN OPTIONS

The options researched by the Business Council for discussion, along with other ideas raised by the public and delegates, include:

Shorter to medium term:

OPTION One - Keeping GST at 12.5% and modest reductions in current tax rates: reducing the top individual tax rates of 39% and 33% to 30%, keeping the corporate tax rate at 30% and keeping the lower and middle tax rate at 19.5%. The Low Income Rebate would be kept for people earning \$9500 or less.

OPTION Two - This involves keeping GST at 12.5% and reducing the two top individual tax rates of 39% and 33% to 28%, the corporate tax rate from 30% to 28% and keeping the lower and middle tax rate at 19.5%. The current Low Income Rebate would be kept for people earning \$9500 or less.

OPTION Three - Increasing GST from 12.5% to 20% and using the revenue to lower both personal and company tax to a single rate of 20%. There would be a rebate for people earning \$10,000 or less to keep their tax rate at 15%. Benefits and Working for Families allowances would increase to fully cover the rise in GST.

Research by Deloitte for the Business Council shows all options are affordable. Options One and Two can be paid for by fiscal drag as incomes rise and more people creep into the higher tax brackets.

Under Option Three, the Government will still have the ability to raise and spend an income of more than 30% of GDP and run small surpluses. This is after compensating people on benefits for price rises caused by a lift in the GST rate, and adjusting Working for Families allowances. These might also have to be extended to include the low paid without dependents. This may be the only way to ensure that some modest income New Zealanders are not made worse off on day one.

However, Kiwis are wary of a single rate system proposal. Some 60% initially oppose it when polled by the Business Council's ShapeNZ research service, and 56% don't want it investigated further.

However, when later asked to choose between the three options only, support splits fairly evenly. Option One is chosen by 25%, while the single-rate Option Three is chosen by 24% and Option Two by 21%. 16% don't know.

Business Council Chief Executive Peter Neilson says: "It seems we remain preoccupied as a nation with who might win or lose on the first day of reform. Not many would argue for a return to a top personal tax rate of 66 cents in the dollar and for no GST. But we are yet to be persuaded to try something bold. We may continue to recycle last year's fiscal drag, while we head for gradual lowering of rates with a flatter tax base a long term goal.

"There seems to be a strong desire among New Zealanders for both tax reform – and maintaining social spending and social cohesion. They also believe the \$55 million the Government now spends is enough (or too much) to achieve economic growth and social goals.

“The decision on what course we follow will be taken in the next six to eight months.

“The political and personal stakes could not be higher.”

Full ShapeNZ tax survey results are available at www.budgetsummit.org.nz. The result is an interim one (the survey remains open at www.shapenz.org.nz until October 31). The results are for 846 respondents and are weighted by age, gender, personal income, employment status and party vote 2005. This provides a population sample matching the 2006 census and, at confidence level of 95% the maximum margin of error is 3.5%.

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The Business Council believes sustainable businesses are profitable, contribute to social progress and ecological balance – and protect New Zealand’s quality of life. The Business Council’s 60 members jointly employ more than 60,000 people in managing resources, manufacturing, retailing and the service sector. Members contribute annual sales of \$44 billion to the economy, equivalent to 34% of GDP. The Business Council runs a national online survey panel, ShapeNZ, to allow public input on major issues. The panel is built from purchased lists and is representative of the population as a whole, compared with the 2006 census. ShapeNZ members register and provide demographic and previous party vote information to ensure results can be accurately weighted to reflect the New Zealand population. Registration is also available at www.shapenz.org.nz