

A TAX SYSTEM FOR NEW ZEALAND'S FUTURE

1 December 2009

Morning Session 2

GST

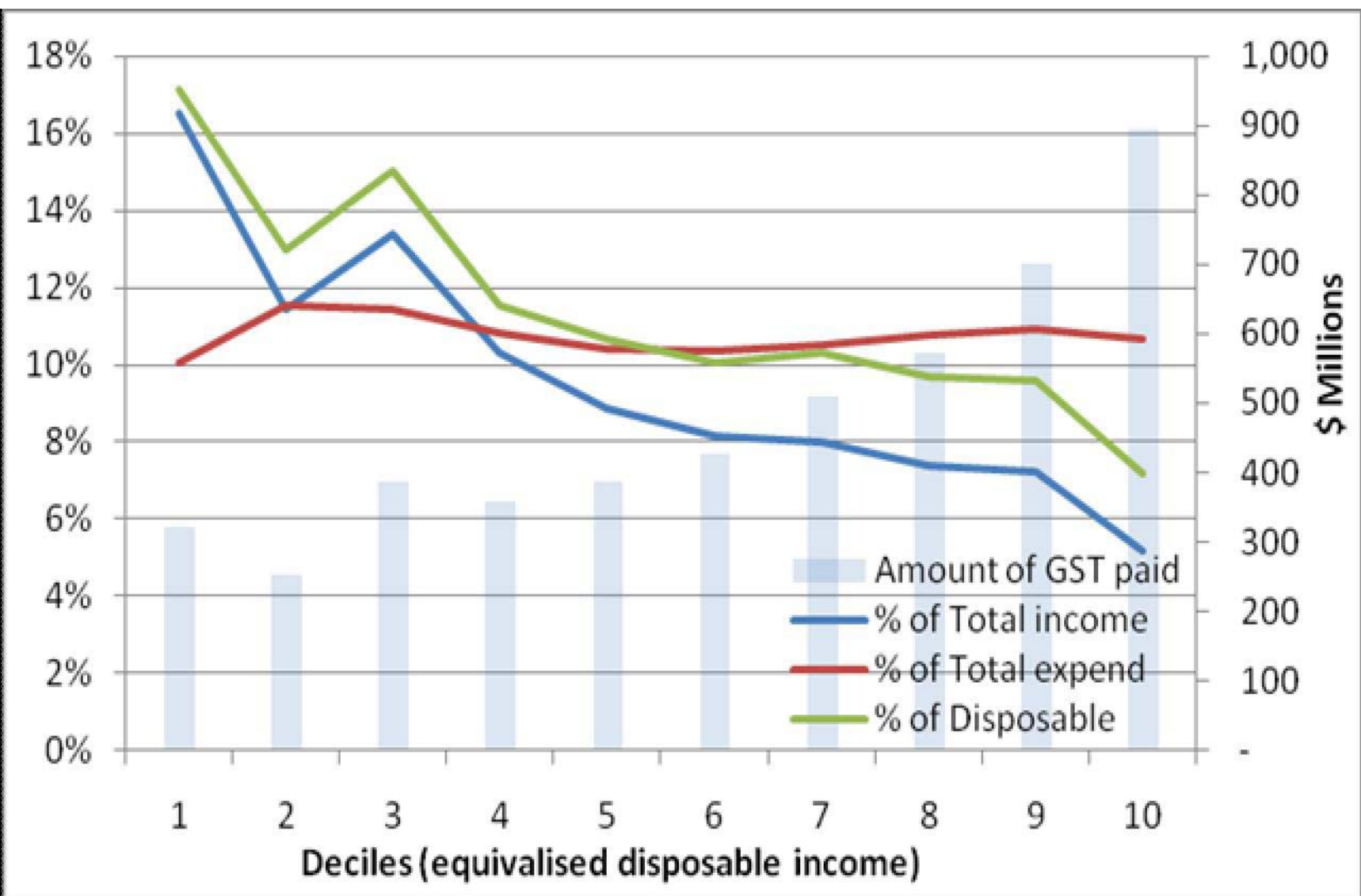
Discussant: Peter Conway, Secretary, New Zealand Council of Trade Unions

Equity Issues

- Indirect tax on income and lump sum tax on wealth
- Annual versus lifetime effects
- Are those in lowest decile actually those on lowest incomes?
- Debt and spending for those on low incomes and impact on measures of disposable income
- Retirees
- Business conditions and impact on how much is passed on to prices
- Rent – excluded but indirect GST content from improvements/maintenance

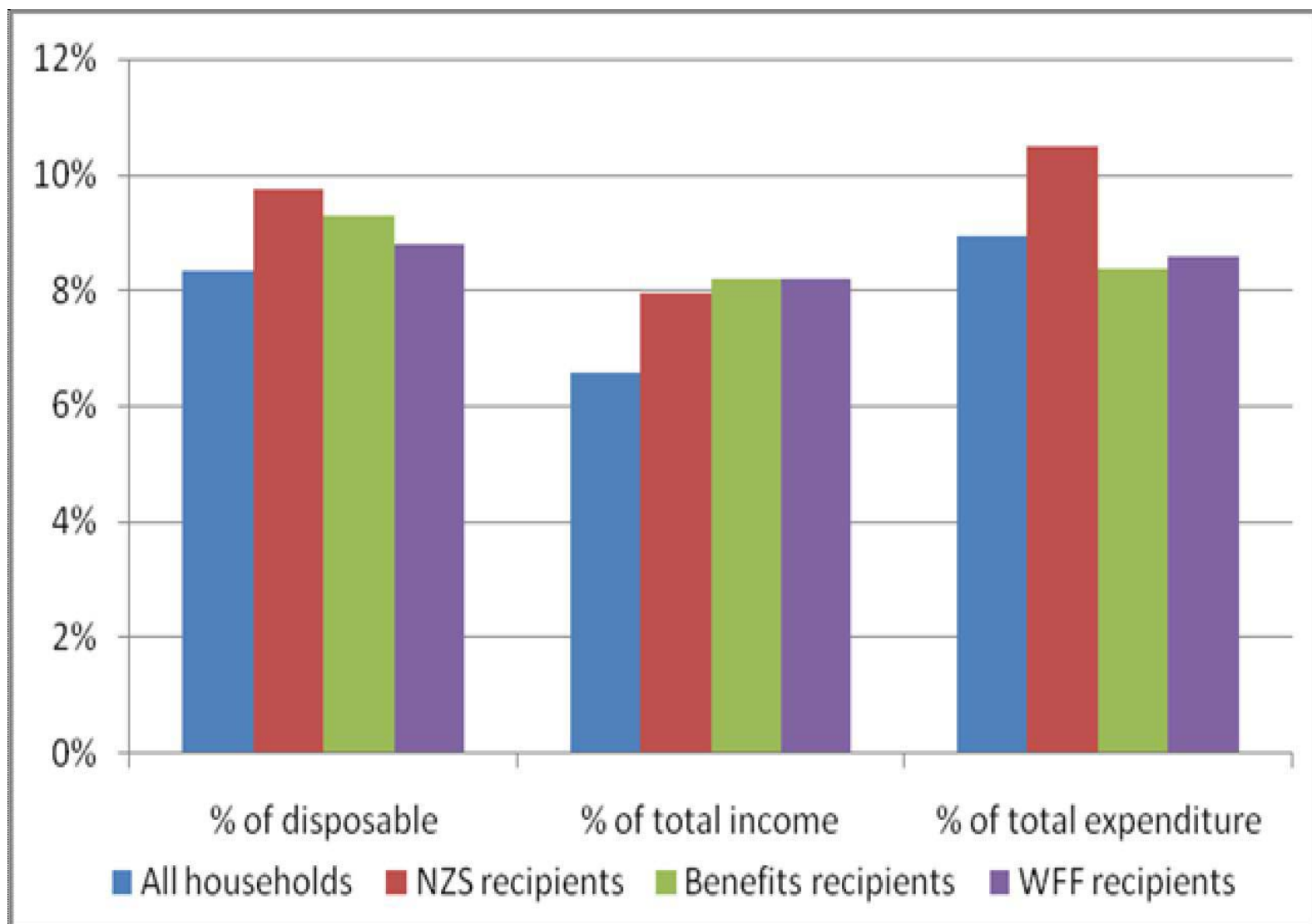
Share of GST by Decile

- 1st decile pays 7%
- 5th decile 8%
- 7th decile 11%
- 8th decile 12%
- 9th decile 14%
- 10th decile 19%



Annual vs Lifetime

- Those on higher incomes save more of current income
- But when the savings are spent the GST is paid so GST not regressive
- But strong perception that GST regressive
- And GST is regressive on annual basis which is when impact will be most noticeable



Additional GST revenue

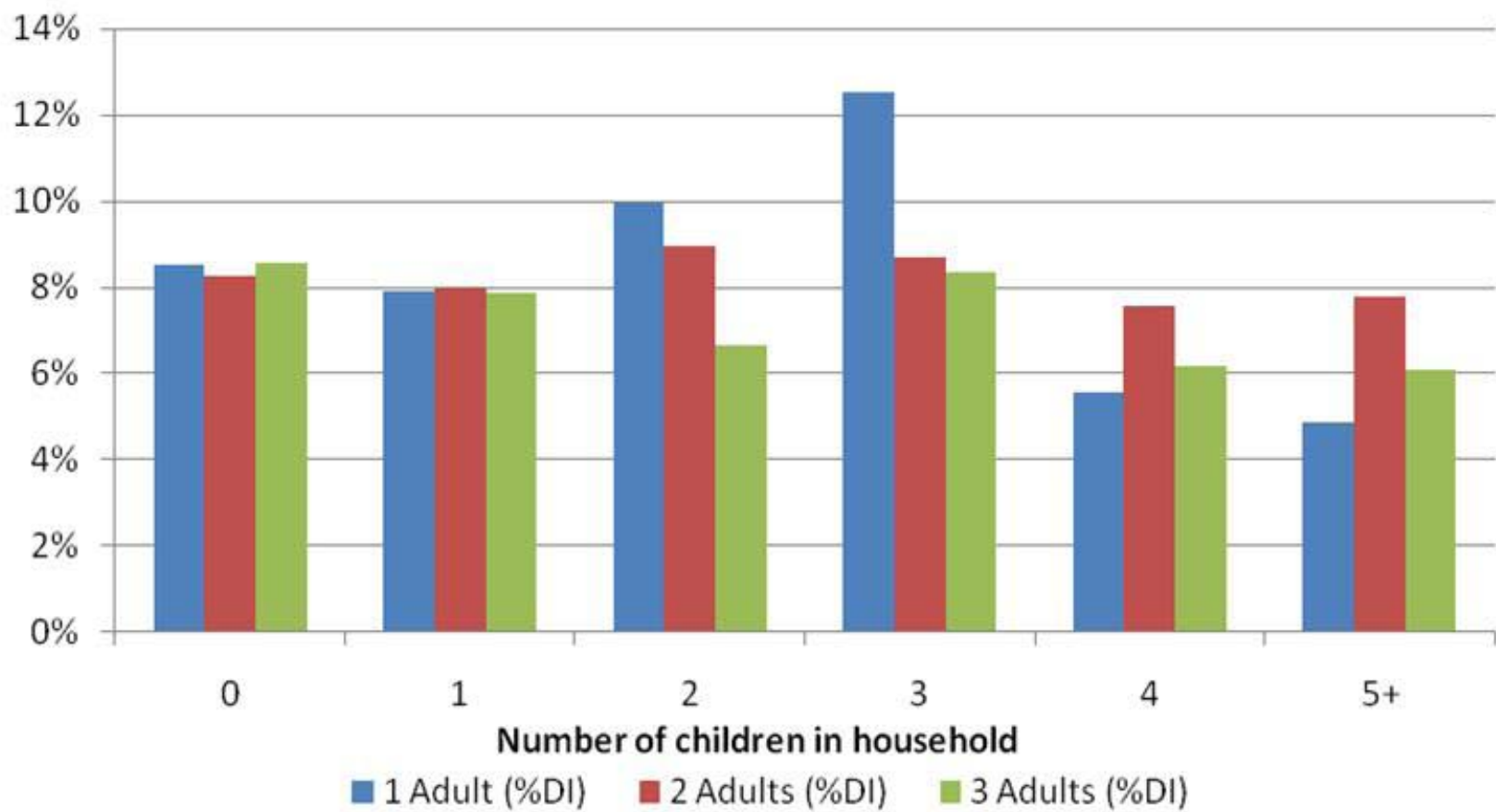
- Variable impact depending on which decile, and whether WFF, NZS or benefits apply
- Just over a third of additional GST revenue would come from first five deciles

	A	B	C	D	Total
1	0.29	1.62	2.13	1.08	4.03
2	1.02	2.31	2.00	0.75	4.35
3	1.98	3.40	1.64	1.60	6.23
4	3.04	2.18	1.96	3.26	7.14
5	3.56	2.50	1.51	3.81	8.46
6	5.77	1.08	2.29	3.42	9.24
7	4.73	0.85	1.10	6.26	10.64
8	3.51	0.94	1.36	10.06	12.89
9	2.11	2.00	1.59	13.81	15.58
10	1.18	1.39	0.68	22.32	21.45
Total	27.19	18.25	16.25	66.37	100.00

A=WFF, B=NZS, C=Benefit, D=No WFF, NZS or Benefit

Number of adults in household

- Single adult households paying a high proportion
- Especially when two or three children



Offset Options

- Lift in benefits
- Earlier lift in automatically adjusted benefits
- Lift in NZS
- Lift in WFF
- Universal element of WFF
- Tax cuts for those on low incomes (tax free band)

Is it worth it?

- Risk of avoidance, 'black economy'
- Public acceptance of GST undermined
- Calls for exclusions
- Inflation risk
- Once offsets done only raises \$200 million net on 30/30/30 scenario
- Is tax the big issue driving labour mobility?