

Parliamentary Oral Questions 13 Jul 2011

2. Tax System—Fairness

MICHAEL WOODHOUSE (National) to the Minister of Finance: What progress has the Government made in making the tax system fairer?

Hon BILL ENGLISH (Minister of Finance): In Budget 2010 we recognised there were parts of the community who, over the past decade, have simply not paid their fair share of tax. The Government raised the effective tax rate on property by a number of different measures, including denying depreciation on long-life assets, tightened the eligibility for Working for Families so that those with high economic incomes could not use paper losses to qualify, and allocated \$120 million to the Inland Revenue Department to better enforce the rules. These measures have been successful, and we have achieved a more balanced and fair tax system that supports growth and provides good incentives in the economy.

Michael Woodhouse: How does the tax system interact with income support, which the Government provides?

Hon BILL ENGLISH: Income support and the tax system need to be seen together. We tax those who earn income at progressive rates, although 75 percent of taxpayers pay no more than 17.5c in the dollar now. We also support those on low and median incomes with dependent children. A single-income family with two children pays no net tax until their income reaches \$50,000 a year. This year Treasury projects we will collect \$26 billion of income tax. Net of tax we will pay about \$12 billion in income support and another \$8 billion for superannuation.

Michael Woodhouse: Which groups now pay most of the tax collected by the Government?

Hon BILL ENGLISH: Our tax and transfer system is highly redistributive, and the number of people paying income tax is surprisingly small. The lowest-income 43 percent of households currently receive more in income support than they pay in income tax. The 1.3 million households with incomes under \$110,000 a year collectively pay no net tax—that is, their total income support payments match their combined income tax. The top 10 percent of households contribute over 70 percent of income tax, net of transfers—over 70 percent of income tax, net of transfers. This system is highly redistributive and we believe it is fair.

Michael Woodhouse: What steps has the Government taken to prevent the erosion of the tax base?

Hon BILL ENGLISH: When we became the Government we found a pretty chaotic tax system, where a lot of wealthier people were simply not paying their fair share of tax, so we set out to tighten the taxation of property, beef up enforcement by the Inland Revenue Department, and reduce widespread income-sheltering through trusts. The Inland Revenue Department did an exercise where it tabulated New Zealand's 100 richest people, and found that over half of them were not paying the top personal tax rate. That is how badly the tax system was operating... See: https://www.parliament.nz/en/document/49HansQ_20110713_00000002

The answer was based on the data below:

Annual household taxable income	No. households		Gross tax paid		Gross transfers rec'd		Net tax paid	
	000	%	(\$m)	%	(\$m)	%	(\$m)	%
\$0 - \$10,000	64	3.9%	\$27	0.1%	\$423	3.9%	-\$396	-3.6%
\$10,001 - \$20,000	155	9.4%	\$265	1.2%	\$2,663	24.4%	-\$2,399	-21.9%
\$20,001 - \$30,000	226	13.6%	\$396	1.8%	\$2,669	24.5%	-\$2,273	-20.7%
\$30,001 - \$40,000	172	10.4%	\$486	2.2%	\$1,129	10.4%	-\$642	-5.9%
\$40,001 - \$50,000	104	6.3%	\$588	2.7%	\$855	7.8%	-\$267	-2.4%
\$50,001 - \$60,000	129	7.8%	\$1,001	4.6%	\$767	7.0%	\$234	2.1%
\$60,001 - \$70,000	113	6.8%	\$1,134	5.2%	\$642	5.9%	\$493	4.5%
\$70,001 - \$80,000	95	5.7%	\$1,146	5.2%	\$283	2.6%	\$864	7.9%
\$80,001 - \$90,000	97	5.9%	\$1,399	6.4%	\$343	3.1%	\$1,056	9.6%
\$90,001 - \$100,000	67	4.1%	\$1,150	5.3%	\$109	1.0%	\$1,041	9.5%
\$100,001 - \$110,000	82	5.0%	\$1,500	6.9%	\$275	2.5%	\$1,225	11.2%
\$110,001 - \$120,000	70	4.2%	\$1,513	6.9%	\$122	1.1%	\$1,391	12.7%
\$120,001 - \$130,000	51	3.1%	\$1,221	5.6%	\$122	1.1%	\$1,099	10.0%
\$130,001 - \$140,000	38	2.3%	\$1,041	4.8%	\$58	0.5%	\$983	9.0%
\$140,001 - \$150,000	32	1.9%	\$910	4.2%	\$107	1.0%	\$804	7.3%
\$150,001+	160	9.7%	\$8,091	37.0%	\$333	3.1%	\$7,758	70.7%
Total	1,656	100%	\$21,869	100%	\$10,899	100%	\$10,970	100%