

TAX

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SKIP THE RHETORIC - SHOW ME THE NUMBERS



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The recent turbulence in financial markets around the world has elevated the economy to the forefront of most voters' minds. It is therefore not surprising that tax is once again emerging as the primary issue for this year's election. With about a month until polling day, most political parties have now released their election tax policies.

This week's Treasury pre-election report painted a dire picture of the Government's financial position, prompting National to scale back the size of their planned tax cut package. Until now, Labour has asserted that the state of the country's finances leaves little room for National to cut taxes, while National's response has been that tax cuts are needed to provide an urgent stimulus to the economy. In contrast to the 2005 election, this year both National and Labour have significant tax cut programmes which are in direct competition with each other.

We have prepared a brief overview of the tax packages currently being proposed by each political party.

Labour

Labour's tax package has already been announced and accounted for in the 2008 Budget, which provided for a three year programme of tax cuts, commencing on 1 October 2008. It is notable that this election Labour has placed a strong emphasis on tax cuts, unlike the 2005 election where Labour's primary focus was on its flagship policy, Working for Families.

The key aspects of the Budget tax package involved replacing the current low income tax rebate with a new bottom tax rate of 12.5% and annually adjusting the current income tax thresholds as follows:

1 October 2008	Rate	1 April 2009 (no change)	Rate	1 April 2010	Rate	1 April 2011	Rate
Current Labour threshold							
\$0 - \$14,000	12.5%	\$0 - \$14,000	12.5%	\$0 - \$17,500	12.5%	\$0 - \$20,000	12.5%
\$14,001 - \$40,000	21%	\$14,001-\$40,000	21%	\$17,501-\$40,000	21%	\$20,001-\$42,500	21%
\$40,001-\$70,000	33%	\$40,001-\$70,000	33%	\$40,001-\$75,000	33%	\$42,501-\$80,000	33%
\$70,001 +	39%	\$70,001 +	39%	\$75,001 +	39%	\$80,001 +	39%

The Budget tax package also included increases to Working for Families tax credit entitlements.

Prior to the Budget, the Government also:

- adjusted a number of business tax thresholds as part of an initiative to lower compliance costs for small and medium enterprises;
- changed tax rules relating to charities;
- introduced a tax credit for “research and development” expenditure.

Earlier this week the Labour government also announced that the secondary tax rate (for workers with more than one job) would be aligned with the new bottom tax rate of 12.5%, effective 1 April 2010.

Labour’s opponents have been quick to focus on the fact that the first tax cuts in Labour’s nine year Government commenced on 1 October 2008, only weeks before the election. It is worth noting that prior to the 2005 election, Labour’s ‘chewing gum budget’ also provided for a programme of inflation-adjusted tax cuts which never eventuated, a fact that National has been quick to capitalise on.

National

The National Party carefully guarded the details of its tax policy until Wednesday 8 October. Like Labour, National’s tax package also involves a three year programme of tax cuts as follows:

On top of these adjustments, National has also promised to introduce an “independent earner rebate” of \$10 a week (rising to \$15 a week from 1 April 2010). This rebate will be available for people who earn \$24,000 or more a year and who do not receive a benefit, Working for Families payment or New Zealand Superannuation. The amount of the rebate will be reduced for those earning over \$44,000 and will be unavailable for those earning \$48,000 or more (or \$50,000 a year from 1 April 2010).

To fund this tax package several of Labour’s tax initiatives will be changed or removed. In particular, there will be a number of changes made to KiwiSaver:

- The minimum employee contribution for KiwiSaver will be reduced from 4% to 2%;
- The minimum contribution required to be made by employers will be locked at 2%;
- The tax credits currently paid to employers for contributions to their employees will be removed;
- National will repeal the recent change to the Employment Relations Act which prevented employers offering a “total salary package” that took into account employer KiwiSaver contributions (National argues that this discriminates against other workers who do not join KiwiSaver and who would otherwise receive a lower salary as a result).

1 October 2008 current Labour threshold	Rate	1 April 2009	Rate	1 April 2010	Rate	1 April 2011	Rate
\$0 - \$14,000	12.5%	\$0 - \$14,000	12.5%	\$0 - \$14,000	12.5%	\$0 - \$14,000	12.5%
\$14,001-\$40,000	21%	\$14,001- \$48,000	21%	\$14,001-\$50,000	21%	\$14,001-\$50,000	20%
\$40,001-\$70,000	33%	\$48,001- \$70,000	33%	\$50,001- \$70,000	33%	\$50,001-\$70,000	33%
\$70,001 +	39%	\$70,001 +	38%	\$70,001 +	37%	\$70,001 +	37%

Other changes proposed by National include:

- Removing the existing research and development tax credit;
- Maintaining minimum New Zealand Superannuation payments at 66% of the average after-tax wage.

Although the total cost of National's proposed tax cuts and rebates would be \$5.7 billion (not including the cost of the existing Labour tax package being retained), once the other savings measures are taken into account the package produces a net gain of \$283 million, which National would use to reduce the country's operating deficit.

The Minor Parties

The tax policies of the five largest minor political parties can be summarised as follows:

- **ACT** has proposed a ten year programme of tax cuts, under which the top income tax rate would eventually fall to 15% and GST to 10%. The cost of these tax cuts would be funded by fixing the annual rate in growth of government expenditure at 3.6%. There would also be a \$25,000 tax free threshold for people who opt out of government provided accident, sickness and healthcare cover.
- **United Future** would have three tax rates – 10%, 20% and 30% (the top rate would apply equally to companies, trusts and individuals). They would also abolish gift duty and introduce income splitting for parents with dependant children.
- **The Maori Party** would introduce a tax-free threshold on the first \$25,000 earned annually and would also exempt food from GST.

- **New Zealand First** would introduce a tax-free threshold on the first \$5,200 earned annually and would incrementally reduce GST to 10% over three years. They would also provide specific, targeted tax incentives to certain industries and areas.
- **The Green Party** has yet to release a detailed tax policy, but we would expect its general principles towards taxation to remain that of pushing the burden of taxation from 'workers to polluters' by way of various eco taxes. They are likely to continue to argue for some form of tax-free threshold or relief for low income earners.

If you have any questions regarding how these policies may impact on you or your business, please contact any member of the Bell Gully tax team below.

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