

National's New Tax Rates

by Keith Rankin, 12 December 2008

Listening to the tax debate in Parliament this week, most of the controversy has been about the lower threshold (\$24,000) for the proposed Independent Earner Tax Credit (IETC). The IETC will be \$520 per year (\$10 per week) from April 2009 for those who qualify, rising to \$780 (\$15 per week) in April 2011.

The application of this \$24,000 threshold means that, in 2011, persons earning between \$14,000 and \$24,000 will receive *annual* tax cuts of less than \$100. They will receive nothing before 2011. This contrasts with Labour's already legislated for tax cuts, from 2010, which target this group of workers.

Table 1 below shows the size of the tax cuts promised by Labour and National for workers on various annual incomes from \$10,000 to \$100,000. The figures clearly show that, for low income workers on about \$20,000 (most will be in part-time, short-time, or variable-time work situations), National will give them a tax cut of just over \$1 per week.

Earnings \$ pa	Labour			National (incl. IETC)			difference		
	\$ pa	\$ pw	% of earnings	\$ pa	\$ pw	% of earnings	\$ pa	\$ pw	% of earnings
10,000	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%
20,000	510	9.81	2.5%	60	1.15	0.3%	-450	-8.65	-2.2%
30,000	510	9.81	1.7%	940	18.08	3.1%	430	8.27	1.4%
40,000	510	9.81	1.3%	1040	20.00	2.6%	530	10.19	1.3%
50,000	810	15.58	1.6%	1560	30.00	3.1%	750	14.42	1.5%
60,000	810	15.58	1.4%	1560	30.00	2.6%	750	14.42	1.3%
70,000	810	15.58	1.2%	1560	30.00	2.2%	750	14.42	1.1%
80,000	1410	27.12	1.8%	1760	33.85	2.2%	350	6.73	0.4%
90,000	1410	27.12	1.6%	1960	37.69	2.2%	550	10.58	0.6%
100,000	1410	27.12	1.4%	2160	41.54	2.2%	750	14.42	0.8%

Further, workers who don't qualify for the IECT will be worse off than they would have been under Labour, for incomes up to about \$45,000.

National has been unable to enunciate any sound reasons for the exclusion of persons earning less than \$24,000 from access to the IETC.

The problem can be clearly seen by looking at the 2011 tax rates previously legislated for by Labour (Table 2), and the 2011 tax scale with which National will replace Labour's tax rates (Table 3). The critical differences lie in the income bands \$14,000 to \$20,000, and \$42,500 to \$50,000. To compensate for Labour's big cut on incomes from \$14,000 to \$20,000, National is introducing the \$780 IETC. The biggest problem is that independent workers earning from \$14,000 to \$24,000 do not qualify.

Table 2: Marginal Tax Rates

<i>Labour's Tax Rates: 2011-12</i>	
\$0 - \$20,000	12.5%
\$14,000 - \$20,000	12.5%
\$20,001 - \$42,500	21%
\$42,501 - \$50,000	33%
\$50,001 - \$80,000	33%
\$80,001 and over	39%

Table 3: Marginal Tax Rates

<i>National's Tax Rates: 2011-12</i>	
\$0 - \$14,000	12.5%
\$14,001 - \$24,000	20%
\$24,001 - \$44,000	20%
\$44,001 - \$50,000	20%
\$50,001 - \$70,000	33%
\$70,001 and over	37%

The problem can easily be fixed. First, it doesn't arise until 2010, because only National offered tax cuts for 2009.

It turns out that, for all independent workers earning more than \$24,000, the IETC combined with the Table 3 scale is identical to the tax scale in Table 4 below. Further, the scales in Table 3 and Table 4 are virtually identical for persons earning less than \$14,000 per year. Differences only arise for workers in the \$14,000 to \$24,000 income band.

Table 4: Alternative Marginal Tax Rates, incorporating Independent Earner Tax Credit

<i>New Zealand Income Tax Rates 2011-12 for Independent Taxpayers</i>	
\$0 - \$14,000	12.375%
\$14,001 - \$24,000	12.375%
\$24,001 - \$44,000	20%
\$44,001 - \$50,000	33%
\$50,001 - \$70,000	33%
\$70,001 and over	37%

By replacing the unwieldy IETC with the tax scale in Table 4, National could deliver all its promised benefits to persons earning more than \$24,000, while still giving something worthwhile to independent persons with incomes in the \$14,000 to \$24,000 range. The fiscal cost of doing this will not be large (about \$100 million), because only persons earning less than \$24,000 would be affected. The annual benefits to those affected people will be, on average, less than \$500.

It is particularly important that the Government realises that, as unemployment rises next year, many people currently earning more than \$24,000 per year will find themselves with annual incomes below \$24,000 in the years to come. It will be cruel to give them an IETC, like giving a person an umbrella, only to take it away when the rain comes, when they most need it.

National can save itself a lot of political embarrassment by replacing its proposed 2011 tax scale (Table 3 less the IETC) with the tax scale represented above in Table 4.

krankin @ unitec.ac.nz