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Tax credit needs to extend help to low earners

By: KEITH RANKIN

National's personal tax cuts, which came into effect yesterday, may have been targeted at helping middle-income New Zealanders but those on higher incomes receive more in dollar terms, if not percentage-wise.

In addition to providing tax relief for middle and higher income recipients, an attempt has been made to provide tax relief to those on lower incomes; to people without children who did not benefit from the Working for Families income assistance (family tax credits) that was the main feature of Labour's 2005 economic policy.

The result of the decision by National to address some inequities in Working for Families has been the Independent Earners Tax Credit (IETC).

National's personal tax cuts come in a three-stage package that will be fully implemented by April 2011. So- called "independent earners" with annual taxable incomes ranging from $24,000 to $44,000 gain a tax cut of $10 a week (or $520 a year), rising to $15 a week in 2011.

The definition of "independent" here is anybody not receiving other assistance - unemployment benefit, family tax credits and New Zealand Superannuation.

Independent earners making between $44,000 and $48,000 will receive some tax credits this tax year, but not all. For example, if you earn $45,000, you will get only $390 of a possible $520 tax credit. The reduced IETC you get is equivalent to 13 per cent being added to the marginal tax rate. But although you pay more tax on what you earn over $44,000, you will still end up getting more money overall at the end of the year.

All well and good. But it's hard to understand why there is a lower limit to the IETC. At the moment, if you earn $24,000, you get $520 tax credit. If your pay drops $1000 to $23,000, you get nothing at all.

Presumably the Government does not want to grant assistance to people who are classed as not in the labour force. In the process National has disadvantaged many dependent on substantial part-time earnings, as well as some full-time workers. (A person working 30 hours per week on the minimum wage of $12.50 per hour would gross $19,500 per year, well under the $24,000 lower limit for the IETC.)

Those earning under $24,000 may be part-time workers such as someone who is cut back to a four-day week in the economic climate, or students seeking to gain new skills. During a recession these people could easily become the sole earner in a household as job losses increase.

Table 1

National's Tax Scale: 2009-10	
$0 - $14,000	12.5%
$14,001 - $24,000	21%
$24,001 - $44,000	21%
$44,001 - $48,000	21%
$48,001 - $70,000	33%
$70,001 and over	38%

Table 2

Independent Earner Scale: 2009-10	
$0 - $14,000	12.5%
$14,001 - $24,000	15.8%
$24,001 - $44,000	21%
$44,001 - $48,000	34%
$48,001 - $70,000	33%
$70,001 and over	38%

Table 3

National's Tax Scale: 2011-12	
$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%

Table 4

Independent Earner Scale: 2011-12	
$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%

In my opinion, a simple amendment to remove the lower limit would greatly improve the new tax law.

An alternative would be to blend in the IETC, much as the IETC gets gradually less for people earning more than $44,000.

An alternative would be to blend in the IETC, much as the abatement rate of 13 per cent bleeds out the IETC for people earning more than $44,000.

The Government could easily do this, preserving all the present benefits of the IETC, while still giving something to people earning between $14,000 to $24,000.

The result would be "independent earner" income-tax scales, to replace the IETC (see accompanying tables).

Here's two examples:

Under tax scale 2009-10 (the current regime), independent workers earning $30,000 pay $5110 in tax, and get an IETC of $520, equivalent to $4590 income tax payable. Under the independent earner tax scale for the same year, it works out the same - tax payable of $4590.

Under tax scale 2009-10, independent workers earning $20,000 pay $3010 in tax, and get no IETC. Under the tax scale in Table 2, the tax payable is $2698, equivalent to a partial IETC of $312 ($6 a week).

This matter is especially important in times of recession because workers may have their hours of work reduced. In many cases, a reduction of work hours will drop someone's income under the $24,000 qualifying threshold for the IETC.

National doesn't want to be seen to be abandoning poorly-paid workers at a time when they, most of all, need help.

I suggest the Government legislates to replace the IETC in April next year with the independent earner 2009-10 tax scale, and in April 2011 with the independent earner 2011-12 tax scale shown.

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