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Speech Notes: 11 May 2017 – Tax Cuts

First, a big thanks to the Corporate Taxpayers Group and their Convenor John Payne for hosting me at the Deloitte offices today.

It's your money

The $20 billion question this year is what to do with the Government surplus. After eight years of hard slog in the fog of deficit, there is now a legitimate tax debate for New Zealand to have. Curiously, ACT stands alone in saying the people who work, save and invest to earn the money should get to keep it.

New Zealanders are currently over-taxed, and politicians waste too much of that tax money. So today I'll be announcing ACT's policy of substantial tax cuts. It's a policy far stronger than the tinkering, reminiscent of Michael Cullen's infamous 'chewing gum budget', that National will announce on May 25th.

We need more than tinkering. The total tax bill for Kiwi households and firms now equals 35% of the country's earnings – that means Tax Freedom Day (the day which we've worked enough to pay off the year's tax bill) occurred this Monday – six days later than last year.

Real taxation levels have actually been increasing for seven years, as nominal wage growth continues to push taxpayers into higher tax brackets. National never campaigned on tax hikes, but they're happy to reap the revenue from these stealth tax hikes.

This bracket creep costs the average earner $500 a year, and the figure keeps going up as earners are pushed into higher brackets. All up, bracket creep will have cost taxpayers $2.8 billion between 2011 and 2018.

But it's hard to explain that in day-to-day politics. Just think for a moment about the cynicism of a Government that is not focused good policy, but policy it can get away with.

This stealth tax increase means that when the Finance Minister finally does announce tax changes, it's more likely to be a 'tax reset' to get us back where we started in 2011, than a real reduction of tax rates.

But interestingly, even *redistribution* of wealth is increasing, with Steven Joyce last year boasting that the top 10 per cent of households now pay 37.7% of tax - more than back when National were accusing the Labour Government of 'communism by stealth'. In other words, National not only enjoys taxing you, but proudly boasts about it.

Current and future surpluses

The result of such enthusiastic tax-taking is that the government is projecting surpluses totalling around $20 billion in the next four Budgets.

Remember: a government surplus is a taxpayer deficit. Yet the Finance Minister has had the cheek to, in a recent press statement, describe it as a 'dividend' for the country. Since when was a tax bill a dividend? Steven Joyce boasts about surpluses when he should be apologising and giving the money back.

The political contest in this month's Budget will be what to do with this unneeded revenue. The Greens, Labour, and NZ First all have a simple answer: spend it.

National isn't much better. The spending announcements have already begun. The gravy train is leaving the station.

Steven Joyce has now confirmed his drawn-out tax cut strip tease won't even go all the way. He's not going to adjust tax rates, despite his party spending years teasing earners with the prospect of tax cuts.

The most we're likely to see is a minor adjustment of tax bracket thresholds, and even then, it's unclear it will make up for the last seven years of bracket creep. The tax cut strip tease doesn't even go all the way.

In other words, National have lost any legitimate claim to be a low-tax government.

And the Opposition's track record is even worse. In the last three years of Helen Clark's leadership, aided and encouraged by Winston Peters, surpluses turned into a spending blow-out of $12 billion over three years – and that was without the excuse of an earthquake or financial crisis.

This year's election campaign has barely begun, but the Opposition parties' spending promises are already stacking up – it's clear their time in opposition has not reformed their addiction to the taxpayer teat.

Waste and corporate welfare

This leaves ACT as New Zealand's only small-government, low-tax party. But even ACT is not proposing cuts to core services like health, justice, police, or education. The Government doesn't need to, when it's forecasting such fat surpluses and has so much wasteful spending it should cut.

The truth is that waste is rife in the New Zealand Government.

ACT would slash waste, and we'd start with corporate welfare. That's grants and subsidies handed out to organisations and private businesses where the return to taxpayers is often not even assessed.

Corporate welfare is motivated not by whether it gives a return to the taxpayer, but on whether it gives politicians good photo-opportunities. Steven Joyce in a lab coat, Steven Joyce beside a rocket, Steven Joyce wearing a VR headset. You get the picture. In 3D.

But corporate welfare isn't just wasteful. It has a darker effect on our business environment. When we let politicians pick winners, we foster an economy where a direct line to the offices of MBIE is more valuable than a sound business model, where political fashionability is more important than consumer appeal. For that reason corporate welfare is insidious, and ACT opposes all of it.

Then there's the sheer *waste*. The average taxpayer could think of far better uses of, say, the $53 million set to be spent on a Dubai business expo in 2020. One prominent left-wing activist recently congratulated me on my criticism of the expo. Taken aback, I asked if she was feeling okay. She said she was perfectly fine but she'd been a host at the 1992 expo in Seville, Spain. She said most of the visitors were not high-flying global businesspeople but curious locals. And she said she'd had the time of her life… mostly after work.

Then there are Government grant-factories like Callaghan Innovation, widely regarded as dysfunctional, but still dishes out about $165 million a year. Even Vic Crone described its problems as “a mountain to be climbed”.

ACT says the problems are insurmountable. If the businesses receiving money fail, like Gameloft, the French game designer of *My Little Pony* recently did, the taxpayer loses out. If they succeed, the taxpayer receives no dividend. Heads we lose, tails they win.

But corporate welfare doesn’t end there.

Consider “International Business Growth Services”, costing taxpayers over half a billion since Budget 2011, to help firms “identify and exploit market opportunities”. Surely businesses can do this themselves? What did government think businesses were doing previously?

Then there’s NZ on Air, using around $130 million to subsidise programmes like seasons of *The X Factor* ($800,000); *Mastermind* ($685,000); *Jono and Ben* ($1.7 million); *The Adam and Eve Show* ($3 million); and *Find Me a Maori Bride*' ($590,000).

And the $56 million-a-year Marsden Fund, which bankrolls select 'academic' research, has even more ridiculous examples. What do taxpayers really gain from funding research on *Cultivating chamber music in Beethoven's Vienna: a study in socio-musicology* ($580,000); or anti-trade activist Jane Kelsey's *Transcending embedded neoliberalism in international economic regulation* ($600,000); or *Missing narratives of modern Chinese intellectual history: modernity and writings on art, 1900-1930* ($495,000)?

Public sector waste

And I haven’t even started on public sector waste, so let’s take a quick look.

MBIE recently realised there was a hole in their heart that only a 3.2 metre, $147,000 LED screen in its reception could fill. It’s the kind of example sometimes held up as trivial. Politicians and officials fudge this waste by saying it’s “only 3c per taxpayer!”

But think of it this way: MBIE’s big screen has cost all the tax one worker on the average wage pays for ten years. That person - let’s say she’s an insurance call centre manager - begrudgingly accepts that a fifth of her income is taken as PAYE. She probably thinks education, welfare, and health should be reasonably funded. But if MBIE asked her directly to pay for a big screen TV over ten years, you can imagine the response. Surely she’d be better off keeping her money?

On a larger scale, there’s the army of Wellington bureaucrats – 2500 policy analysts (salaries averaging $90,000) and over 5000 managers (salaries averaging $124,000) – that's almost $900m. Anyone who says there’s no room for tightening our belts there has got to be kidding. (Now you know why I’m not giving this speech in Wellington, by the way.)

And while much of the spending I’ve described so far started under Labour, it’s all continuing under *National*, who claim to be the party of fiscal responsibility.

I realise that there will be some people in this room who hears these spending items and thinks “oh wait a minute, *that one’s* quite good,” perhaps because you’ve experienced the benefits first hand. But that’s exactly the point with special privileges. It’s never your privilege that’s the problem, it’s all the other hands out lining up behind you.

Again in the case of the Dubai expo, after criticising the spending I was excoriated by a guy in the *Dominion Post* who said he likes most of the things I say, but not this one. Of course, he turned out to a director of Tourism NZ and works with NZTE – in other words, he's a direct beneficiary of this government spending; a government employee involved in tourism and trade promotion, who even in his own bio says he's been involved in "a few cock-ups".

So. For Budget 2017, ACT has identified $1.1 billion of this type of waste and corporate welfare that we would cut immediately.

Current rates – personal

We're not just making these cuts for fun. (Though fun it will be.) The point is returning this spending to the taxpayers who earned it.

First, let's look at income tax. The first bracket between 0 and $14,000 of income is taxed at 10.5%. Up to $48,000 it's taxed at 17.5%. Once you earn over $48,000 you're whacked with a 30% tax rate, and at over $70,000 it's 33% - meaning even modest earners are seeing a third of every pay rise confiscated by the government.

ACT's alternative income tax brackets

A strong ACT in the next government will demand fairer tax rates which let every worker keep more of their pay.

We'll get rid of the top tax bracket entirely, and lower tax for everyone.

As you can see on the front of your handout, here's our income tax plan:

We'll cut the bottom tax rate, from 10.5% to 10%. The next bracket, for income between $14,000 and $48,000, will be cut from 17.5% to 15%. The 30% and 33% tax brackets for income over $48,000 will be combined and cut down to 25%.

So ACT's tax rates will be 10%, 15%, and 25%. Simple. Beautiful, even. No-one will have to pay more than a 25% tax rate, and every worker will get a tax cut.

What will this mean for different earners?

Someone on the full-time minimum wage, which is just over $30,000 annually, will keep $539 more of their pay each year. Someone on the average wage of just under $60,000 a year will keep $1500 more each year. Professional people and tradespeople who earn $70,000 will keep another $2000 a year, or $40 a week. And a typical chartered accountant on $95,000 would keep an extra $4000 a year.

These tax cuts will reduce government revenue by $4.4 billion – a cost that could be met using forecasted surpluses of $20 billion over the next four years, and that's before any cuts to wasteful spending.

Bracket indexation

But we can't just stop there. It's not enough to just adjust the tax rates. Inflation and nominal wage growth will continue to push taxpayers into higher tax brackets, even when they're not getting any richer in real terms. That's what's been happening for the last seven years.

We need to future-proof tax policy. So a stronger ACT will demand compulsory and automatic bracket adjustments in line with inflation. That means if the government wants to

tax you harder, it will have to say so upfront and take its chances at the ballot box. That's the fair thing to do.

Company tax

But there's more. Individuals are not the country's only taxpayers. There's also company tax. Our company tax rate is currently 28% - one of the highest in the world.

The US, Australia, and the UK have all signalled they will be cutting company tax rates. This will make our own rate even less competitive.

In the case of the US, if Donald Trump achieves his 15% federal company tax rate, he's effectively declaring a tax war, offering lower taxes for people to bring their business home. Meanwhile, New Zealand has the fourth highest tax on capital of all OECD countries.

We can't risk losing investment to the US or other low-tax destinations. We should proactively improve our tax settings to attract business and investment to New Zealand. Yet National, which brands itself as a business-friendly party, has failed to adjust the company tax rate since Budget 2010 when they brought it down from 30%.

ACT will bring the company tax rate in line with our top personal tax rate of 25%. That reduces the amount of time and energy wasted on trying to game the system. Simpler is better – for everyone – as far as tax is concerned.

So, ACT would cut company tax from 28% to 25%. This would reduce government revenue by $1.1 billion – a cost that would be met entirely by our cuts to corporate welfare, because ACT believes a tax cut for every business is far fairer than having government pick winners.

What about the debt?

And what about the debt? Public debt remains relatively stable at just under $100 billion. Meanwhile, private debt is set to breach $400 billion this year. The IMF have already highlighted our private debt levels as a risk to our economy.

It is important that the government has a long-term plan to steadily pay down public debt. But the far greater liability is in the mortgages and balance sheets of families and businesses.

When private debt is more than four times higher than public debt, the emphasis needs to be on returning government surpluses to households and businesses. The most obvious way is through tax cuts.

ACT says that debt-laden New Zealanders, such as those struggling to pay off mortgages, deserve the right to pay off their own debt with the money they've rightfully earned.

Under our tax policy, debt will continue to be paid down, but at a steady rate, through restraint in spending instead of higher taxation.

Superannuation?

And when it comes to long-term government finances, ACT is the only party with real credibility. This is because we are the only ones willing to respond to the ballooning cost of superannuation.

What sort of leadership are we getting from the Labour, New Zealand First, and Green Parties who won't even acknowledge there's a problem, even though they know there is one, because just three years ago, two of them campaigned on raising the age.

And is National any better? Promising to fix the problem, at a time 20 years in the future when they will never be held accountable. It perpetrates an injustice that anyone with a copy of Microsoft Excel and five minutes' spare time can see, just because, heaven forbid, one baby boomer privilege would be curtailed.

ACT is clear that the solution must be fair on all generations. That means spreading the adjustment over a longer period of time, starting earlier.

ACT would adjust the age from 65 to 67, over the course of 12 years, starting in 2020. This will save young taxpayers tens of billions in future tax hikes. This means ACT can credibly lower tax, and then keep it low.

Only ACT

To conclude, this month's Budget announcements will be enlightening. National's boasts of new spending and perfunctory tax tinkering will typify their middle-of-the-road, Labour-lite approach. And what's the point of electing a National Government that taxes you like a Labour Government?

Meanwhile, ACT has always been the party of small government, and low tax. The only time National has cut tax this century was when they had a strong ACT providing a majority in Parliament.

So *only* a stronger ACT will make National return surpluses to the taxpayer.

Workers will keep around $4.4 billion a year more under ACT's policy. Another $1.1 billion will be returned to businesses to reinvest. And we'll do it without touching health, education, police or justice, all of which will still receive forecasted *increases* in funding.

These plans are ambitious, but not fantasy. They could easily be implemented by National in the next 12 months – and with a handful of ACT MPs providing the government a majority, we can make them do it.

ACT will this year, and every year, fight to return surpluses to the responsible people and companies who earned it. It's your money, and you can spend it better than the government in Wellington can.

If we allow New Zealanders to keep this money and invest in their businesses, their families, their communities, and themselves, we'll all be better off for it. Thank you.
