

Tax policy

Taxes affect decisions to work, save, spend, or invest, so tax can have a big impact on economic growth and future prosperity.

People, capital, and businesses are all increasingly mobile, so they have greater choices about where they work, invest, and do business. A country's tax system sends a signal about how it views enterprise, investment, and industry.

National believes that people – not government – know how to work, save, spend, or invest in ways that are best for them. National also knows that New Zealanders want a tax system that is fair and that enables government to provide the sort of services that benefit a modern economy and a mature society.

Our tax policy is therefore one of responsible reform. People want to know that valued public services will be protected and that effort will be rewarded. Business wants to know that competitiveness will be maintained and that consumer confidence will be supported.

In the short term, National's tax package will give households confidence and some cash in their back pockets to keep the economy going and to pay down debt.

In the longer term, our tax package encourages people to invest in their own skills and make best use of their abilities, because they get to keep more of any higher wages they earn. It encourages them to look for and to take up better and higher-paying jobs that make more use of their skills.

National's tax package

National's tax package sets out a three-year programme of personal tax cuts. Including the very recent tax cuts of 1 October 2008, this programme gives a person earning around the average wage a total tax cut of \$47 each week.

The package has two key elements:

- The introduction of an Independent Earner Rebate.
- Changes to personal income tax rates and thresholds.

We have ensured that our package is appropriate for the current economic and fiscal conditions. We have also ensured that it does not restrict future movement on income tax rates and thresholds.

Independent Earner Rebate

National will introduce a tax rebate for people who earn \$24,000 a year or above, and who are not receiving a benefit, Working for Families payments, or New Zealand Superannuation.

From 1 April 2009 the rebate will be \$10 per week. From 1 April 2010 it will increase to \$15 per week.

The value of the Independent Earner Rebate reduces as income increases above \$44,000. It abates at 13 cents for each dollar of income above \$44,000.

This means that from 1 April 2009 a person earning \$48,000 a year would no longer be eligible for the rebate. From 1 April 2010, the cut-off income will rise to \$50,000.

Official statistics suggest that well over half the people earning between \$24,000 and \$48,000 a year will be eligible for the Independent Earner Rebate.

Income tax rates and thresholds

Annual income tax rates and thresholds will be as follows:

From 1 April 2009

<i>Income tax rates</i>	
\$0 – \$14,000	12.5%
\$14,001 – \$48,000	21%
\$48,001 - \$70,000	33%
\$70,001 and over	38%

From 1 April 2010

<i>Income tax rates</i>	
\$0 – \$14,000	12.5%
\$14,001 – \$50,000	21%
\$50,001 - \$70,000	33%
\$70,001 and over	37%

From 1 April 2011

<i>Income tax rates</i>	
\$0 – \$14,000	12.5%
\$14,001 – \$50,000	20%
\$50,001 - \$70,000	33%
\$70,001 and over	37%

Impact on secondary tax rates

As a result of extending the middle income threshold to \$50,000, most people with second jobs will pay a secondary tax rate of no more than 20%.

Paying for tax cuts

National's rebalancing of the tax system is self-funding and requires no cuts to public services or additional borrowing.

This is shown in the table below. Totalled over the next term of government, the cost of National's personal tax cuts is balanced by the revenue savings from:

- Changes to KiwiSaver.
- Discontinuing the R&D tax credit.
- Replacing Labour's proposed tax cuts.

	2008/09 (\$m)	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	Total (\$m)
Cost of National's tax cuts	290	1,290	1,834	2,300	5,714
Savings from tax changes	-217	-1,101	-1,969	-2,710	-5,997
Net cost of tax cuts	73	188	-134	-410	-283

This makes it absolutely clear that to fund National's tax package there is no requirement for additional borrowing and there is no requirement to cut public services.

There is, in fact, a small saving to be made – of \$283 million – which will be used to reduce the operating deficit.

With Independent Earner Rebate

Annual salary (\$)	Tax cuts 1 Oct 2008 (\$)	Tax cuts 1 Apr 2009 (\$)	Tax cuts 1 Apr 2010 (\$)	Tax cuts 1 Apr 2011 (\$)	Total at 1 Apr 2011 (\$)
24,000	11.92	10.00	5.00	1.92	28.85
26,000	11.92	10.00	5.00	2.31	29.23
28,000	11.92	10.00	5.00	2.69	29.62
30,000	11.92	10.00	5.00	3.08	30.00
32,000	11.92	10.00	5.00	3.46	30.38
34,000	11.92	10.00	5.00	3.85	30.77
36,000	11.92	10.00	5.00	4.23	31.15
38,000	11.92	10.00	5.00	4.62	31.54
40,000	16.54	10.00	5.00	5.00	36.54
42,000	16.54	14.62	5.00	5.38	41.54
44,000	16.54	19.23	5.00	5.77	46.54
46,000	16.54	18.85	5.00	6.15	46.54
48,000	16.54	18.46	5.00	6.54	46.54
50,000	16.54	18.46	4.62	6.92	46.54
52,000	16.54	18.46	4.62	6.92	46.54
54,000	16.54	18.46	4.62	6.92	46.54
56,000	16.54	18.46	4.62	6.92	46.54
58,000	16.54	18.46	4.62	6.92	46.54
60,000	16.54	18.46	4.62	6.92	46.54
62,000	18.85	18.46	4.62	6.92	48.85
64,000	21.15	18.46	4.62	6.92	51.15
66,000	23.46	18.46	4.62	6.92	53.46
68,000	25.77	18.46	4.62	6.92	55.77
70,000	28.08	18.46	4.62	6.92	58.08
72,000	28.08	18.85	5.00	6.92	58.85
74,000	28.08	19.23	5.38	6.92	59.62
76,000	28.08	19.62	5.77	6.92	60.38
78,000	28.08	20.00	6.15	6.92	61.15
80,000	28.08	20.38	6.54	6.92	61.92
82,000	28.08	20.77	6.92	6.92	62.69
84,000	28.08	21.15	7.31	6.92	63.46
86,000	28.08	21.54	7.69	6.92	64.23
88,000	28.08	21.92	8.08	6.92	65.00
90,000	28.08	22.31	8.46	6.92	65.77
92,000	28.08	22.69	8.85	6.92	66.54
94,000	28.08	23.08	9.23	6.92	67.31
96,000	28.08	23.46	9.62	6.92	68.08
98,000	28.08	23.85	10.00	6.92	68.85
100,000	28.08	24.23	10.38	6.92	69.62

Without Independent Earner Rebate

Annual salary (\$)	Tax cuts 1 Oct 2008 (\$)	Tax cuts 1 Apr 2009 (\$)	Tax cuts 1 Apr 2010 (\$)	Tax cuts 1 Apr 2011 (\$)	Total at 1 Apr 2011 (\$)
24,000	11.92	0.00	0.00	1.92	13.85
26,000	11.92	0.00	0.00	2.31	14.23
28,000	11.92	0.00	0.00	2.69	14.62
30,000	11.92	0.00	0.00	3.08	15.00
32,000	11.92	0.00	0.00	3.46	15.38
34,000	11.92	0.00	0.00	3.85	15.77
36,000	11.92	0.00	0.00	4.23	16.15
38,000	11.92	0.00	0.00	4.62	16.54
40,000	16.54	0.00	0.00	5.00	21.54
42,000	16.54	4.62	0.00	5.38	26.54
44,000	16.54	9.23	0.00	5.77	31.54
46,000	16.54	13.85	0.00	6.15	36.54
48,000	16.54	18.46	0.00	6.54	41.54
50,000	16.54	18.46	4.62	6.92	46.54
52,000	16.54	18.46	4.62	6.92	46.54
54,000	16.54	18.46	4.62	6.92	46.54
56,000	16.54	18.46	4.62	6.92	46.54
58,000	16.54	18.46	4.62	6.92	46.54
60,000	16.54	18.46	4.62	6.92	46.54
62,000	18.85	18.46	4.62	6.92	48.85
64,000	21.15	18.46	4.62	6.92	51.15
66,000	23.46	18.46	4.62	6.92	53.46
68,000	25.77	18.46	4.62	6.92	55.77
70,000	28.08	18.46	4.62	6.92	58.08
72,000	28.08	18.85	5.00	6.92	58.85
74,000	28.08	19.23	5.38	6.92	59.62
76,000	28.08	19.62	5.77	6.92	60.38
78,000	28.08	20.00	6.15	6.92	61.15
80,000	28.08	20.38	6.54	6.92	61.92
82,000	28.08	20.77	6.92	6.92	62.69
84,000	28.08	21.15	7.31	6.92	63.46
86,000	28.08	21.54	7.69	6.92	64.23
88,000	28.08	21.92	8.08	6.92	65.00
90,000	28.08	22.31	8.46	6.92	65.77
92,000	28.08	22.69	8.85	6.92	66.54
94,000	28.08	23.08	9.23	6.92	67.31
96,000	28.08	23.46	9.62	6.92	68.08
98,000	28.08	23.85	10.00	6.92	68.85
100,000	28.08	24.23	10.38	6.92	69.62