

TAX CUTS AND INCOME INEQUALITY

Budget 2010 has worsened income inequality in New Zealand. We have had a problem of a widening income gap for years mainly because of low wages for many and high income for a few. But this inequality is magnified if there are also tax reductions which favour those on high incomes.

There are many measures of inequality. One easy measure to use is the difference in take home pay. Of course this does not take account of Working for Families, or the effect of property taxes.

But as you can see from the Table, the gap in take home pay between workers on \$30,000, \$40,000 and so on and someone on \$120,000 will widen considerably in October. The gap between someone on \$30,000 and \$120,000 grows by \$72.89 and even the gap between someone on \$60,000 and \$120,000 grows by \$53.85.

If we look at some other examples apart from those in the Table, someone on \$15 an hour and compare them with someone on \$50 an hour or \$104,000 a year, the gap in take home pay now is \$916.08. In October the gap will be \$56.69 higher at \$972.77. And the increase in the gap in take home pay between someone on \$200,000 and \$30,000 grows by \$150 a week (\$149.81).

The Government will argue that property taxes will even up this inequality to an extent. While it may be true that those who own investment properties are likely to be on high incomes, the reverse is not true. There are plenty of high income earners that will not be affected by new property taxes and those who are affected have the option to move their investments elsewhere. And in any case we are yet to see what effect these taxes have whereas we know the impact of GST will be a higher cost of living and some will face higher rents and early childhood education costs contributing to a steep rise in inflation.

In fact, if we include the impact of GST the income gap widens even further. The graph shows the difference between someone on the minimum wage and those on twice, three times, four times and ten times the minimum wage. It also takes account of the GST increase. Look at the huge difference in benefit from the tax package.

Increase in the Weekly Take Home Pay Gap

Annual Income	Increase in Gap
\$30,000	\$72.89
\$40,000	\$66.16
\$50,000	\$59.62
\$60,000	\$53.85
\$70,000	\$48.08
\$80,000	\$38.46
\$90,000	\$28.85
\$100,000	\$19.23
\$110,000	\$9.62

Weekly tax reductions after GST increase

