TAX CHANGES NEED TO BE FAIR

Any tax changes need to be fair. A rise in GST will hit people on low incomes hardest. A cut in the top tax rate will benefit most those on high incomes. This is totally unfair.

70% of salary and wage earners are on \$46,000 or less. And there are 800,000 New Zealand families with a combined household income of \$64,000 or less.

It looks like National plans to increase GST by 20% (from 12.5% to 15%) in order to fund tax cuts aimed mainly at the top 10% of wage and salary earners. Final details will be known in the 20th May Budget.

In the election campaign in 2008, John Key said that there would not be an increase in GST.

Because people on low incomes tend to spend a higher proportion of their income in any one year, GST hits their household budget really hard. A recent TV One survey showed two-thirds surveyed were opposed to a GST rise. It is likely to mean inflation reaches 5% in 2011. While benefit payments may be adjusted, what about many workers on low incomes?

A cut to 30 cents in the top tax rate would give John Key an extra \$500 a week. It would increase the take-home pay of the Telecom CEO by an extra \$2,500 a week. A cut to 33 cents would not be quite as obscene but not far short of it. And the last National tax package in April 2009 was worth \$800 million a year to taxpayers, but a third of this went to the top three percent of taxpayers.

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The Government is arguing that workers and investment capital are more mobile (i.e. can go overseas) than property and consumption. This is meant to justify a "tax switch" from personal taxes to GST and a form of property tax. But for workers it is not tax rates that prompt a shift overseas but higher wage rates. We can't catch up with Australia by cutting taxes. We already have the 3rd lowest personal tax rates in the OECD. Total tax rates paid by companies are the 7th lowest in the OECD according to a recent PricewaterhouseCoopers and World Bank study.

The Government claims that low income earners will be compensated for increases in GST and that the reduction in the top tax rate is fair because, according to Bill English, "investment housing and commercial property in New Zealand are largely in the ownership of higher-income people." It is highly unlikely that the Government will genuinely compensate low income New Zealanders for a rise in GST. But even if they did, the combined impact of all their tax changes means those on higher incomes will be much better off. In other words the Government is trying to say that low income people will be compensated for higher GST and high income people will be compensated for a new form (or extension of existing) property tax. But this obscures the fact that high income people will get a huge benefit from tax changes and those on low incomes will get virtually nothing.

Cutting taxes should be low priority: the state needs revenue for quality public services and to help the country emerge from the recession. But if tax changes are made: the CTU supports a 45% tax rate for incomes above \$150,000, ending deductibility of losses in investment property against personal income, and introduction of a broad-based capital gains tax exempting primary homes.

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