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CEO Comment

Tax Changes – will we finally catch up with the rest of the world?

The Government has set up a tax working group to assess the direction of the taxation system and potential policy options. While this move has to be welcomed, one has to wonder why the working group is necessary when there is already a consensus on how the tax system needs to change. It is clear that the tax system is both unbalanced and inefficient; the Government simply needs to take action on these problems.

The Government seems to be working towards having a level top tax rate of 30 percent, which will help to reduce tax avoidance, but we also need to see a more balanced tax take. New Zealand already has one of the higher corporate tax rates in the OECD, and will come under increasing pressure to reduce corporate tax rates as they continue to be lowered in other jurisdictions. In this context it is important to have a wide tax base so that Government revenue can be maintained, even with a reduction in corporate tax.

This view is broadly shared by the majority of the tax working group which includes Treasury and Inland Revenue officials, academics and economists.

A Treasury Policy Paper released in February 2009 identified two problems with the tax system:

- Relatively high effective personal marginal tax rates including abatement of tax credits (exceeding 50% for many households).
- Very different marginal tax rates applicable to different investment types, distorting investment into tax-favoured vehicles and generating tax-motivated incorporation.

They went on to say, “We consider that, from an efficiency and productivity growth perspective, the highest priority is to reduce this disparity, first by cutting the current top personal tax rates. A broader programme of rationalisation of income tax rates and base broadening (including taxing capital gains) would likely offer greater productivity gains than rate reductions alone.”

Gareth Morgan, another member of the working group, commented on the setup of the tax working group saying, “I would not rule out capital gains; it has to be considered again. It is fairer to everybody if you can get the tax base as wide as possible.”

Coming out of the recession we need to have a tax system that promotes investment in productive activity, not another asset bubble. This is the investment that will create jobs and see our economy come out of the recession stronger than when it went in. Hopefully the Government is ready to recognise this and will support productive investment in the tax framework.