



Media Release

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Budget Tax Package Should be Focused on Economic Growth

The personal tax cuts planned for the 2008 Budget should be targeted at creating wealth, rather than at further wealth redistribution, and should result in a lower and flatter tax structure, as advocated by the 2001 Tax Review (McLeod Review).

These are the recommendations of a group of business and professional organisations comprising the New Zealand Business Roundtable, the New Zealand Chambers of Commerce, Federated Farmers of New Zealand and the Institute of Chartered Accountants of New Zealand. Their views are elaborated in the attached paper.

The group said that the government's move in the 2007 Budget to cut the company tax rate to 30% from 1 April 2008 was welcome.

However, in the New Zealand context the personal tax rate is more important than the company rate for many small and medium-sized businesses, and there is a strong case for alignment of the top personal, company and trust rates in the interests of simplifying the tax system and reducing compliance costs.

The government has said that promoting economic growth is a top priority objective. Reducing high effective marginal tax rates, including those arising from the Working for Families scheme, would do most to reduce deadweight economic costs and promote growth.

“We think the proposal of the minister of revenue, Hon Peter Dunne, to align the personal, company and trust rates at 30% has much to commend it. Given the government's fiscal position, this could readily be implemented provided firm control is exercised over government spending.

In the medium term, personal and other income tax rates should be lowered further to make New Zealand more internationally competitive and attract investment.

“Cuts in rates are also preferable to adjustments to tax thresholds, and we are opposed to measures such as the introduction of a tax-free threshold for the reasons given by the McLeod Review.

The group said its proposals were affordable and could be implemented without creating ongoing inflationary pressures and without cutting real spending.

“Recent tax moves have not been generally focused on growth, and they have increased the tax burden for many businesses and working people. The relative simplicity of the income tax system has been sacrificed in the process.

“The wage gap with Australia cannot be closed by redistribution – it requires growth. A bold package that aligns all income tax rates at 30% or below would increase productivity and economic growth, be very positive for business, reduce unnecessary compliance costs, help stem the outflow of enterprising New Zealanders, and greatly improve New Zealand’s economic outlook.”

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Attachment: 2008 Budget Personal Tax Package