



THE TREASURY
Kaitohutohu Kaupapa Rawa

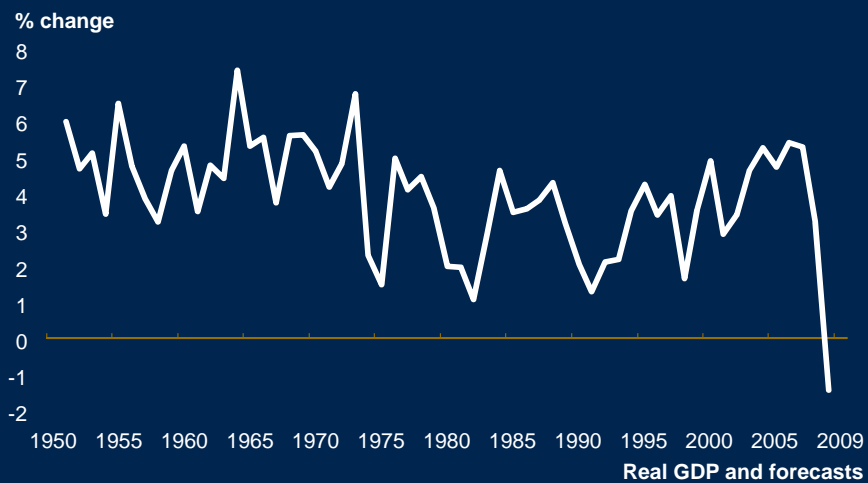
Tax Workshop

5 June 2009

John Whitehead, Secretary to the Treasury

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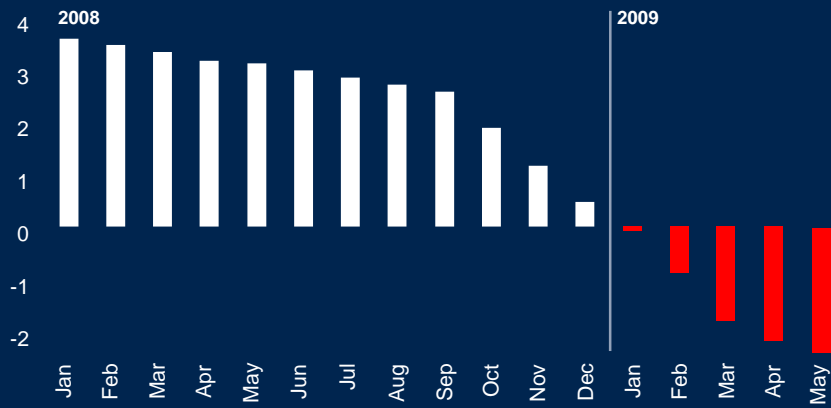
World recession



Source: Maddison and IMF

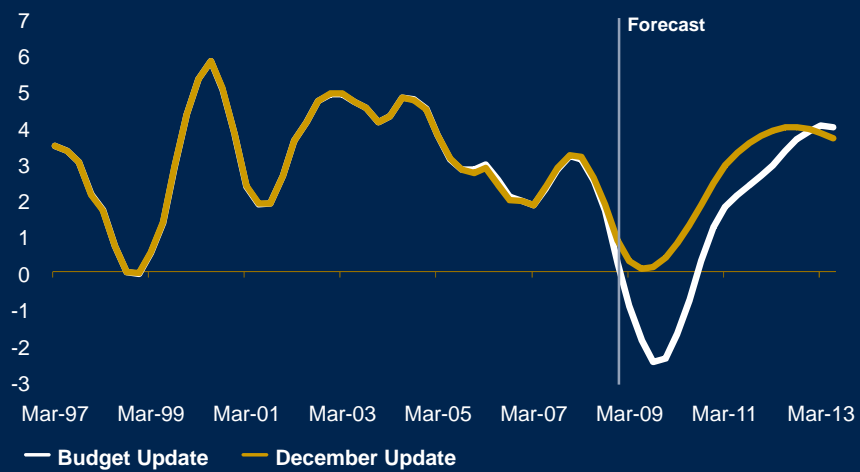
Consensus forecasts

Forecast growth in NZ's trading partners over 2009

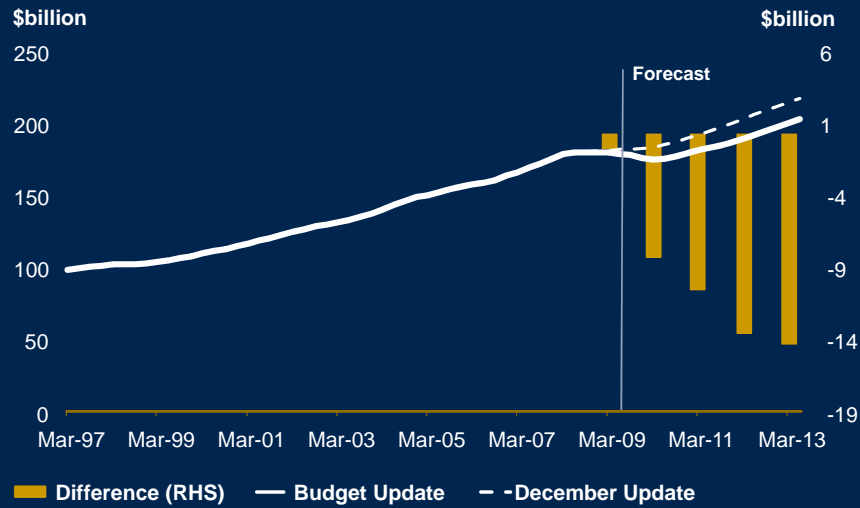


New Zealand real growth

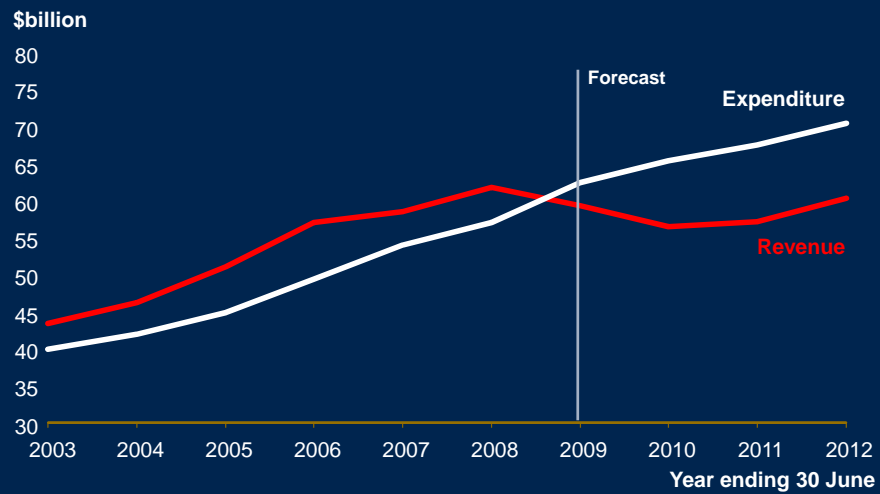
Annual average % change



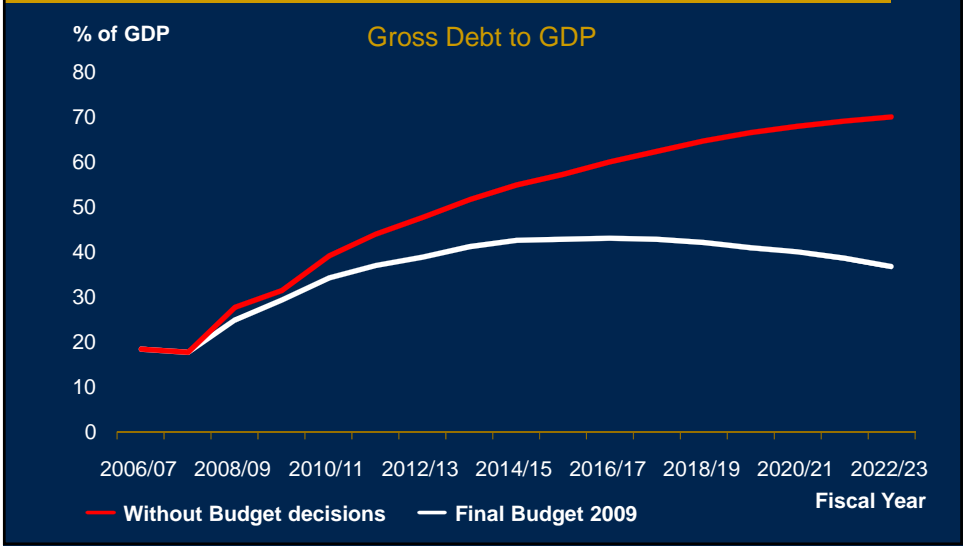
Lower nominal GDP



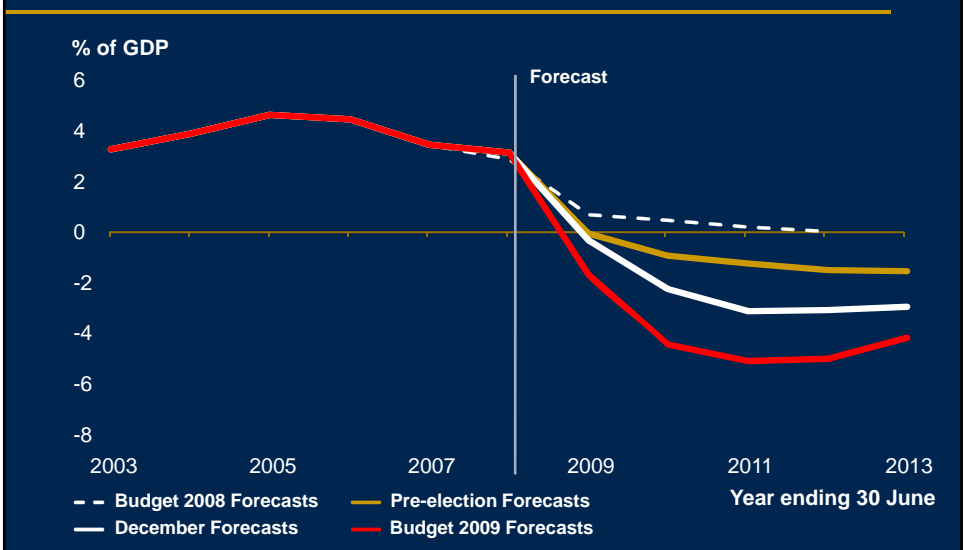
Crown revenue and expenses



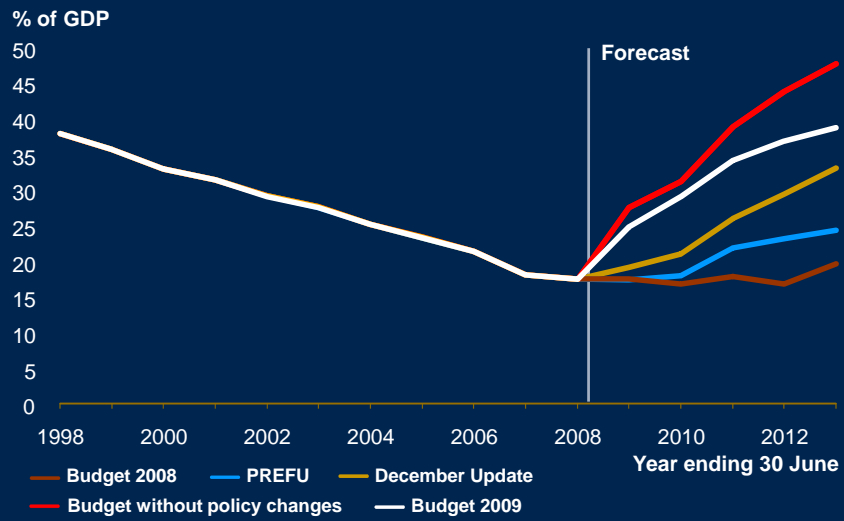
Impact of Budget decisions



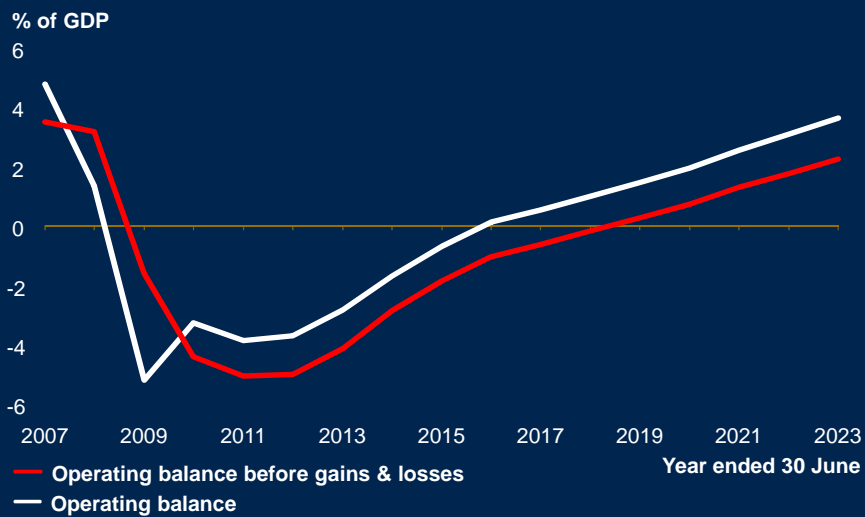
Budget deficit



Gross debt

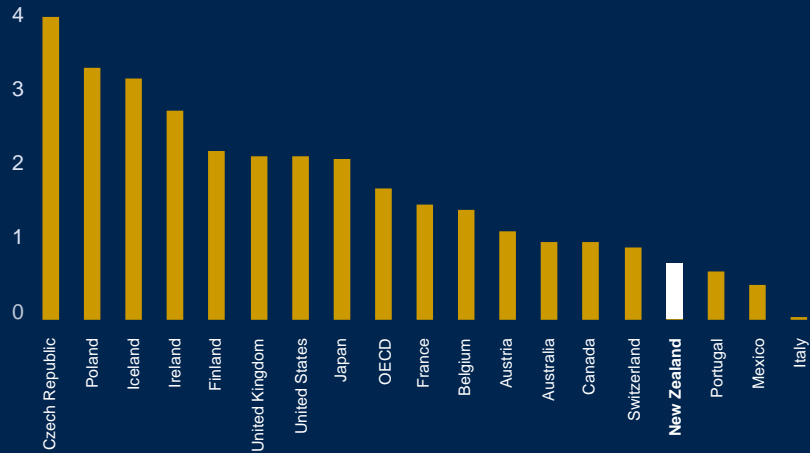


The Budget operating balance



Productivity growth

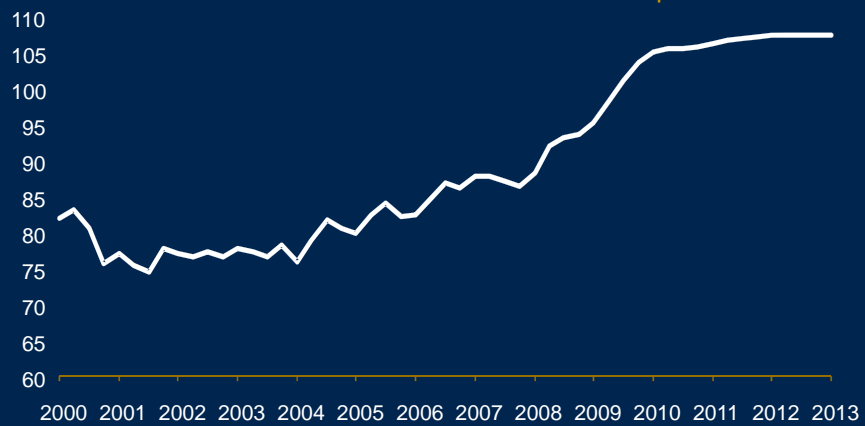
Growth in GDP per capita 2001-2006



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Overseas debt

% of GDP New Zealand's net international investment position



Tax issues

- We need a certain amount of tax for public services
- Revenue and government's accounts are under pressure
 - we can't borrow for major tax cuts.

And:

- There are issues with the fairness of our tax system
- We are in international competition for people, for investment and hence over our tax policies

So we need some changes but future tax reform, in the short to medium term, has to be revenue neutral

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Current tax system

- It's not fundamentally broken
- But pressures will increase and options narrow
- New Zealand currently has:
 - a large share of revenue raised through personal and corporate taxes
 - a comparatively high company tax rate
 - highly variable effective tax rates on capital income, depending on the type of investment
 - complex interactions with transfers systems

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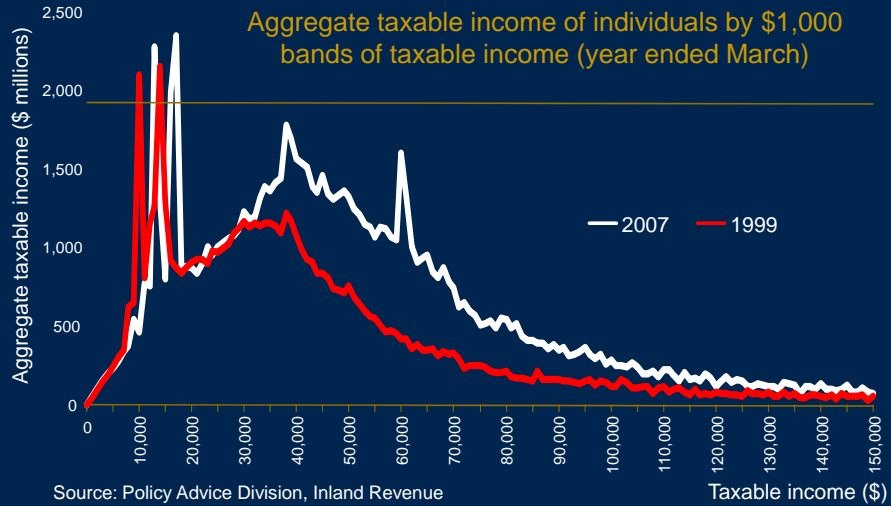
Tax rates

How money earned	Tax rate
Owner-Occupied Housing	0%
Investment Rental Property	< 0% - 38%
Australian Company	17%
Foreign Company (not Australian)	22%
PIE	30%
NZ Company	30% or 38%
Trust	33% (trustee) or 38% (beneficiary)
Qualifying Company/LAQC	30% (income) or 38% (losses)
Interest from bank deposit	38%
Salary or wages	38%

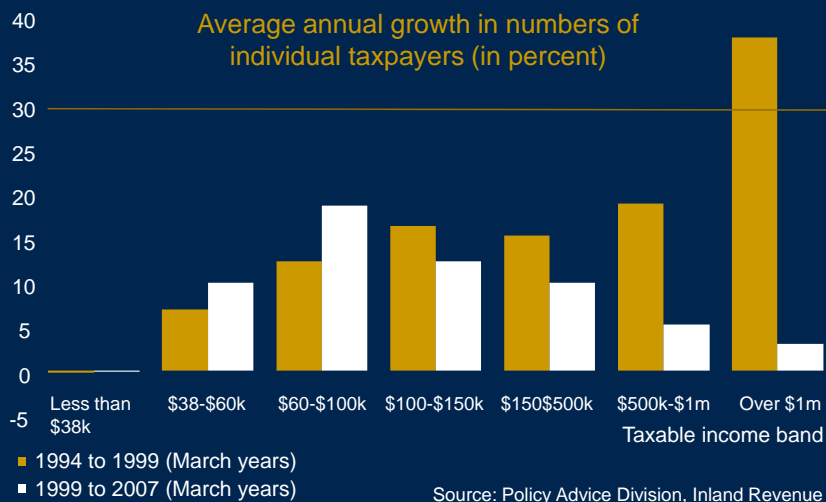
Taxing capital gains

Taxable income	A	B	C	D
Salary	\$90,000	\$60,000	\$60,000	\$60,000
Capital gain	none	\$30,000	\$90,000	\$180,000
Total income	\$90,000	\$90,000	\$150,000	\$240,000
Total tax	\$23,500	\$13,000	\$13,000	\$13,000
Tax liability if all income taxable	\$23,500	\$23,500	\$46,900	\$82,000

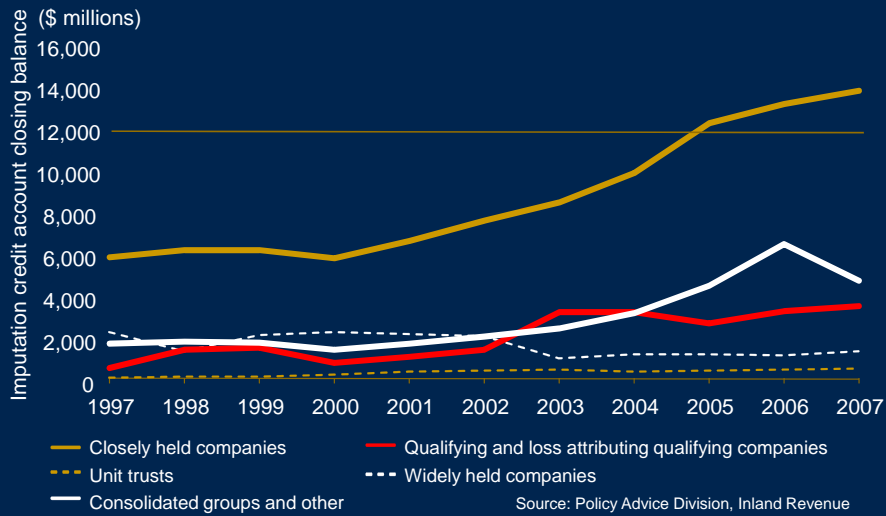
Impact of tax increases - 1



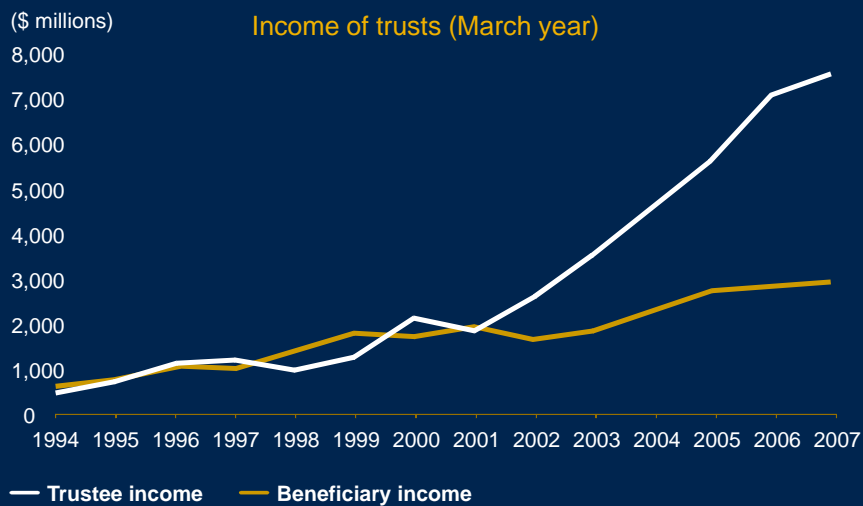
Impact of tax increases - 2



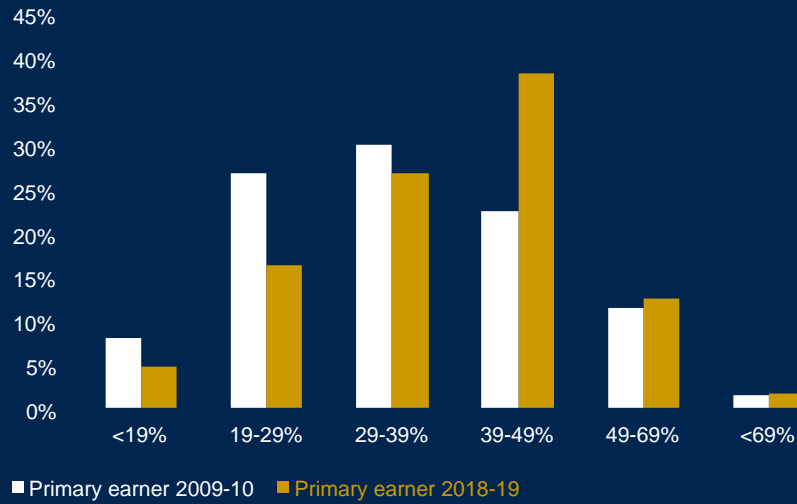
Impact of tax increases - 3



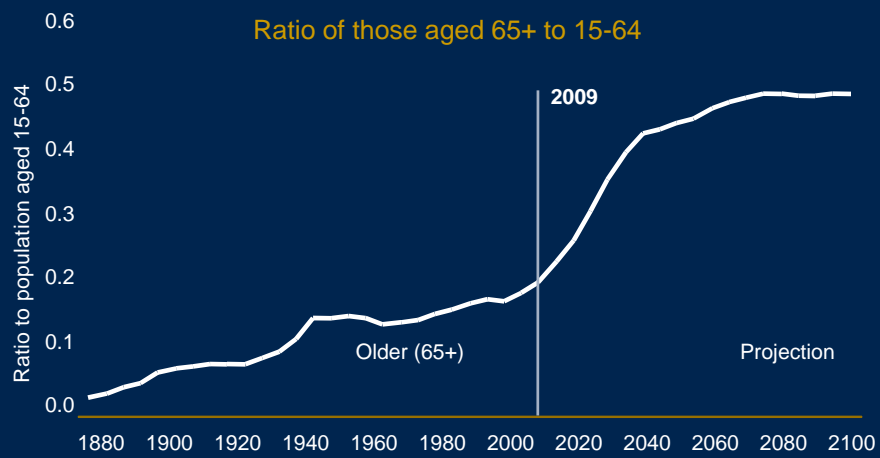
Impact of tax increases - 4



Effective marginal tax rates



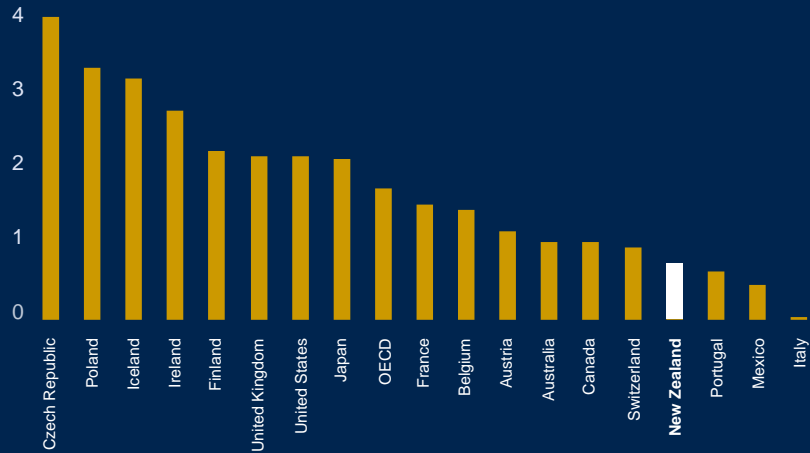
Demographics



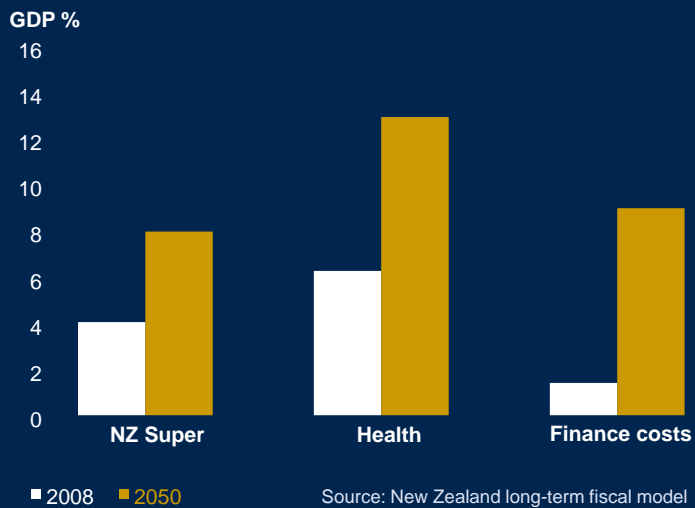
Source: Statistics New Zealand

Productivity growth

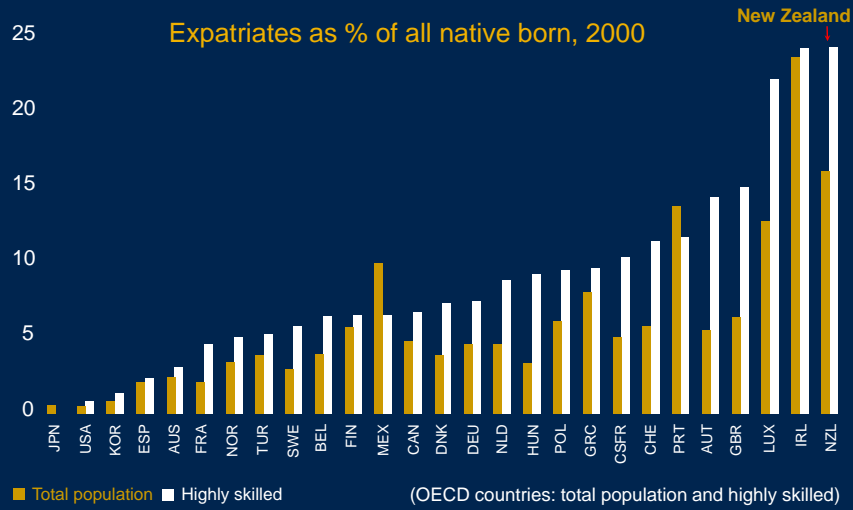
Growth in GDP per capita 2001-2006



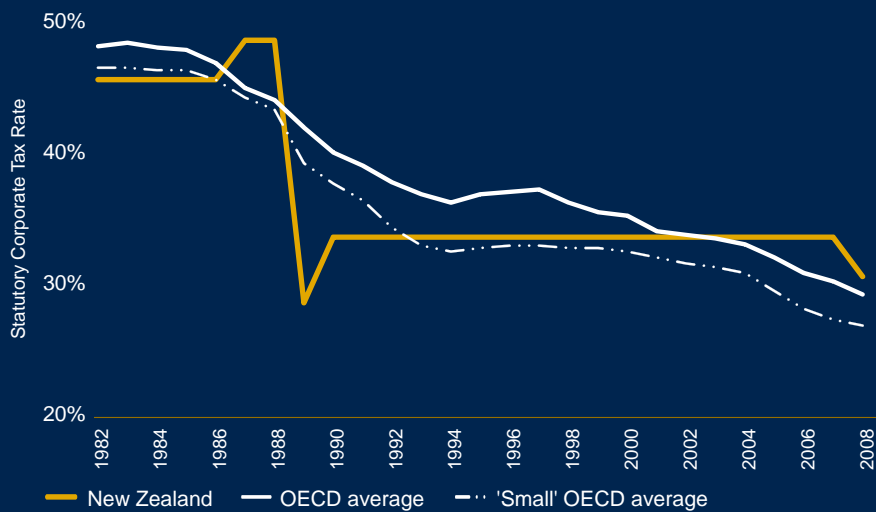
Spending changes – 2008 to 2050



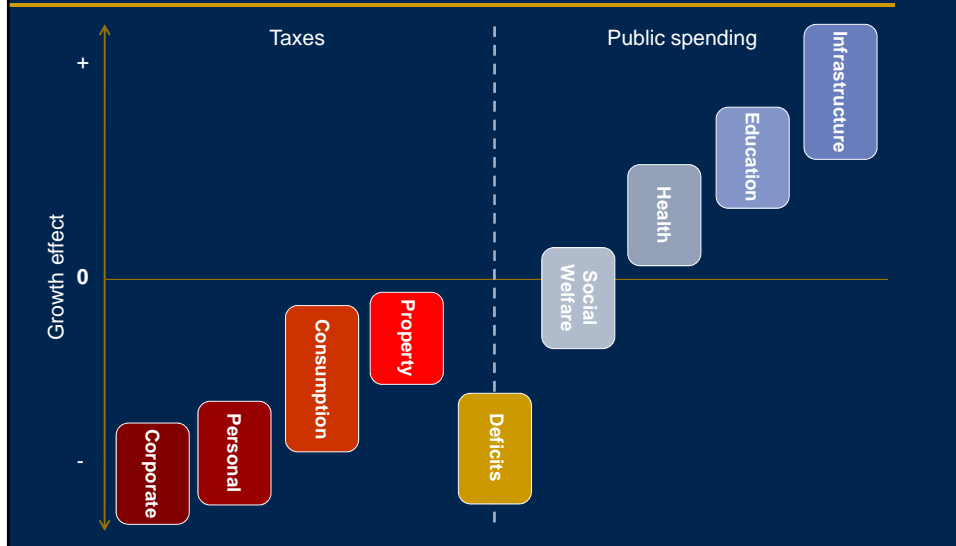
Globalisation – expats



Business tax rates



Effects of taxes & spending on growth



A Tax Strategy

Making NZ a better place to work, invest and do business

- Re-weighting from mobile to less mobile bases
- Reducing high effective marginal tax rates
- Reducing differences in tax rates across investment forms
- Use base-broadening, targeted transfers and spending to help equity and fairness
- Fiscal sustainability - revenue neutral or revenue positive reforms



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John Whitehead, Secretary to the Treasury

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