2025 Taskforce
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MEDIA STATEMENT

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BOLD TAX REFORM WOULD SPUR ENTERPRISE, EXCITEMENT AND GROWTH

The 2025 Taskforce has recommended an initial target of restoring government spending as a percentage of GDP to 2005 levels by 2012/13, and using the savings to eliminate the fiscal deficit and make it possible for every New Zealander to pay no more than 20% in personal, company or trust tax.

Everyone earning more than $14,000 a year would pay less tax and such a move would be likely to lead to a surge of enterprise, excitement about the future and stronger economic growth, Taskforce Chairman Don Brash said today. Those earning less than $14,000 a year would continue to enjoy current tax rates well below 20%.

“Everyone on the Taskforce was stunned to learn just what could be achieved on the tax front simply by restoring government spending to the same proportion of national incomes as it was five years ago,” Dr Brash said.

“We believe that just the announcement effect of such a move would lead to firms becoming more excited about investing in New Zealand, immediately boosting prospects for economic growth.

“The longer-term effect would be to make New Zealand overwhelmingly the most attractive place in the world for New Zealanders to work, save, invest and bring their ideas to fruition. It would also make New Zealand much more attractive to others with high-level skills, ideas and capital.

“This would be even more true if our ideas were implemented to bring New Zealand’s regulatory environment more into line with best practice as found in countries such as Canada.”

Dr Brash said the Taskforce was unanimously of the view that unless government spending and tax rates are cut markedly, the Prime Minister’s vision of bridging the income gap with Australia by 2025 cannot be achieved.

Dr Brash said the Taskforce believed that reducing spending as a percentage of GDP to 2005 levels would allow genuinely innovative taxation ideas to be brought to the table, and the Taskforce was highlighting two possible approaches for consideration.

The first would see a top rate of 20% for all personal, company and trust tax. The second would see split rates of perhaps up to 25% for wages and salaries, and 12.5% for profits, interest and dividends.

Dr Brash said there were different arguments for the two options. “Aligning the top personal rate with the company rate may be seen as simpler and leave less room for avoidance. The split rate is based on Scandinavian models which argue that taxes on income from capital simply leads to less investment in plant and machinery, which in turn lowers workers’ productivity, which in turn lowers their wages. In other words, taxes on income from capital are taxes on workers anyway – but with capital being more mobile, the lower the tax on capital income the better.”

Beyond 2012/13, the Taskforce proposed capping increases in government spending to inflation and population growth. This would allow further tax cuts and even more innovative taxation ideas to be discussed.

“The one thing which is absolutely clear is that those economies which have moved quickly from relatively low living standards to relatively high living standards have almost always had either low tax rates or aggressive tax reduction programmes,” Dr Brash said, citing Hong Kong, Singapore, Taiwan, South Korea and Ireland as examples.

END

The report will be posted on the 2025 Taskforce’s website at 1:30pm:
http://www.2025taskforce.govt.nz/fromthetaskforce.htm

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