



# **EMPLOYMENT POLICY PROPOSAL**

## **Implementation of a tax-free income bracket.**

April 2019

OFFICIAL POLICY OF THE NEW ZEALAND YOUNG NATS.  
NOT NATIONAL PARTY POLICY.

## 1. ISSUE

- a. The Young Nats believe that one of the biggest issues currently facing young people is that their after-tax income is too low, and this is a result of the high value of the first marginal tax rate.

## 2. PROPOSAL

- a. The Young Nats propose the implementation of an income tax-free bracket prior to the 10.5% Marginal Tax Rate Bracket, of a value determined by the party (Hereunder referred to as "X").
- b. The range of the income tax-free bracket has not been suggested by the Young Nats however we have obtained costings for this policy at various levels.

## 3. EXECUTIVE SUMMARY

- a. The previous National government promised a Families Income Package valued at \$2 Billion promising tax cuts for varying tax rates [1]. The issue widely held with these proposed tax cuts were that their full benefit was felt by higher-income earners and not those who earned relatively low incomes. In such, the project up to \$2 Billion is already pledged funding.
- b. For the average student working a part-time role (for the maths we determine this to be 20 hours) at minimum wage \$16.50 (At time of publication) the value of their income before tax is \$330. By having an income tax-free bracket of, for example, \$0 - \$5,000 this individual would save \$525 over the course of the year, or \$10 per week. [2].
- c. It is an across-the-board reward for work, with similar policies having been implemented in the United Kingdom and Australia and would work well with the inflation-adjusted tax rate policy presented by Simon Bridges in late January 2019. The inflation-adjusted tax rate policy is set to cost \$650 million [17] meaning the it is \$1.35 billion less than the promised tax cuts brought to the 2017 election [1]. A tax-free threshold could compliment an inflation-adjusted tax rate policy to equal the \$2 billion package presented at the previous election, and offer further tax relief for hard working New Zealanders.
- d. The increased after-tax income could assist people with the increased costs of living while encouraging individuals to work. Currently, many young people fall short of the requirements in obtaining the Working for Families Tax Credit, or the Student Accommodation Supplement [3], [4]. Our party also believes in the limited role of the state, and therefore believe this policy adheres with our party values of reducing the need for benefits for low-income earners and rewarding hard-work and empowering the individual to make decisions for their lives.
- e. Labour is committed to increasing the minimum wage to \$20 by 2021. This will have an effect of increasing costs by inflation and profit-seeking behaviour [5].
- f. While endorsed by the Tax Working Group as a way of making their proposed taxes "tax revenue neutral" [6], this idea was first endorsed by the National Party membership last year at the National Conference in July. The policy presented at the National Party Conference was costed, and these costings have been replicated and expanded here to show the full effect of an income tax-free threshold at varying ranges [7].

- g. It is recognised that an introduction of a policy above the \$2 billion already set aside by the former Prime Minister Bill English would come at an increased cost. This has been considered in Part 7 of this report. We conclude that the introduction of an income tax-free threshold would provide the party impetus to change the current benefits available. It should be noted that previous National Governments were successful in changing benefits in the past.

#### 4. SUMMARY OF SUPPORTING INFORMATION

- a. This idea helps to boost the after-tax income of New Zealanders. Regardless of the threshold selected the benefits are felt, and the larger the threshold the larger the benefits. The costing model that has been employed has been one provided by parliamentary services, which is a respected source of information in respect to information, using the most up-to-date 2018-19 numbers at the time of obtainment [7]. Benefits for young people include more money at the end of their week to face the increased living costs in rent, food and power. With countries overseas, such as the United Kingdom and Australia having such a policy, they are deemed attractive places for New Zealanders to move to, and the Young Nats believe that it is only right that New Zealander's get the across-the-board reward for their hard work here in New Zealand.

#### 5. SUPPORTING INFORMATION

##### a. Costings

The cost of the policy for varying brackets has been provided below [7].

Using this model, the estimated cost of having an \$X tax free threshold in 2018-19 is as follows. 2018-19 figures have been used as these were a part of the original costings, and as of publication, the figures remain accurate. The column on the far left shows the "true cost" as it shows the burden after the offset effects are taken into account, i.e. increased GST, excise duty and customs duty revenues as a result of spending.

Tax free income threshold	Estimated change in Crown Revenue from Income tax (\$m)	Estimated change in Crown revenue after offsets effects (\$m)
\$1,000	(\$354)	(\$319)
\$2,000	(\$702)	(\$632)
\$3,000	(\$1,046)	(\$942)
\$4,000	(\$1,387)	(\$1,248)
\$5,000	(\$1,726)	(\$1,553)
\$6,000	(\$2,061)	(\$1,855)
\$7,000	(\$2,394)	(\$2,154)
\$8,000	(\$2,724)	(\$2,451)
\$9,000	(\$3,051)	(\$2,745)
\$10,000	(\$3,374)	(\$3,037)
\$11,000	(\$3,694)	(\$3,325)
\$12,000	(\$4,010)	(\$3,609)
\$13,000	(\$4,321)	(\$3,889)
\$14,000	(\$4,626)	(\$4,163)
\$15,000	(\$5,128)	(\$4,615)

Source: Parliamentary Library, *Income Tax Model*. A1182866. [7].

## b. Differentiated Cost Model from the Tax Payers' Union

In our review we also determined that we would seek independent costings to determine if the costing obtained from the Parliamentary Library are accurate, understanding the outlay of costs can vary widely depending on the source.

The Taxpayers' Union proposed an income tax-free threshold in their published report in *May 2017 5 Options for Tax Relief in 2017* of between \$0 – \$13,000 with the 17.5% income tax rate applying from \$13,000. Under their model, they estimated the cost to be \$2.85 Billion [8]. Under this costing, the National Party would need to seek economies to meet the cost of the tax cut of \$7,000 (See Implementation, Limitations and Considerations) however our models already indicate that this would be the case (see above).

It has further been noted that the Tax Working Group has considered making a \$7,000 income tax-free threshold or alternatively an introductory tax rate of 5.25% to make a proposed Capital Gains Tax revenue neutral [6]. At time of publication, no costings have been provided by their policy as to how much an income tax-free threshold of \$7,000 would cost or how it would neutralise increased tax gains from a Capital Gains Tax.

## c. Calculation of Additional Spending

Using the costings provided in 6a, we have calculated the increased cost of the cut. Per Part 7 we have suggested some considerations of how higher income tax-free brackets could be achieved.

Tax free income threshold	Estimated change in Crown Revenue from Income tax (\$m)	Estimated change in Crown revenue after offsets effects (\$m)	Outlay of the Families Income Package announced by the English-Led National Government (\$m)	A + B (Cost) / Savings (\$m)
		A	B	C
\$1,000	(\$354)	(\$319)	\$2,000	\$1,681
\$2,000	(\$702)	(\$632)	\$2,000	\$1,368
\$3,000	(\$1,046)	(\$942)	\$2,000	\$1,058
\$4,000	(\$1,387)	(\$1,248)	\$2,000	\$752
\$5,000	(\$1,726)	(\$1,553)	\$2,000	\$447
\$6,000	(\$2,061)	(\$1,855)	\$2,000	\$145
\$7,000	(\$2,394)	(\$2,154)	\$2,000	(\$154)
\$8,000	(\$2,724)	(\$2,451)	\$2,000	(\$451)
\$9,000	(\$3,051)	(\$2,745)	\$2,000	(\$745)
\$10,000	(\$3,374)	(\$3,037)	\$2,000	(\$1,037)
\$11,000	(\$3,694)	(\$3,325)	\$2,000	(\$1,325)
\$12,000	(\$4,010)	(\$3,609)	\$2,000	(\$1,609)
\$13,000	(\$4,321)	(\$3,889)	\$2,000	(\$1,889)
\$14,000	(\$4,626)	(\$4,163)	\$2,000	(\$2,163)
\$15,000	(\$5,128)	(\$4,615)	\$2,000	(\$2,615)

#### d. Value for Taxpayer

This is the calculation of the value for the taxpayer at the following levels disaggregated at a weekly, monthly and yearly value for up to \$10,000 tax free.

Tax Bracket	Weekly Income Gained From Tax Relief for an individual	Monthly Income Gained From Tax Relief for an individual	Annualised Income Gained After Tax Relief for an individual	Weekly Income Gained From Tax Relief for a couple	Monthly Income Gained From Tax Relief for a couple	Annualised Income Gained From Tax Relief for a couple
\$0 - \$1,000	\$2.02	\$8.75	\$105	\$4.04	\$17.50	\$210
\$0 - \$2,000	\$4.04	\$17.50	\$210	\$8.08	\$35.00	\$420
\$0 - \$3,000	\$6.06	\$26.25	\$315	\$12.12	\$52.50	\$630
\$0 - \$4,000	\$8.08	\$35.00	\$420	\$16.15	\$70.00	\$840
\$0 - \$5,000	\$10.10	\$43.75	\$525	\$20.19	\$87.50	\$1,050
\$0 - \$6,000	\$12.12	\$52.50	\$630	\$24.23	\$105.00	\$1,260
\$0 - \$7,000	\$14.13	\$61.25	\$735	\$28.27	\$122.50	\$1,470
\$0 - \$8,000	\$16.15	\$70.00	\$840	\$32.31	\$140.00	\$1,680
\$0 - \$9,000	\$18.17	\$78.75	\$945	\$36.35	\$157.50	\$1,890
\$0 - \$10,000	\$20.19	\$87.50	\$1,050	\$40.38	\$175.00	\$2,100

#### e. United Kingdom and Australia Income Tax Free Thresholds [9], [10] and the mechanism of implementation here [11]

Australia and The United Kingdom already have income tax-free thresholds as listed below. New Zealand, when applying this threshold in NZD (New Zealand Dollars) has a marginal tax rate of 10.5% for \$0 - \$14,000, and 17.5% for \$14,001 - \$48,000 [11].

Australia	United Kingdom
\$0 - \$18,200	£0 - £11,850

New Zealanders often leave New Zealand for opportunities overseas, there are multiple reasons but comparatively high personal taxation is one of them [12].

In order to implement this policy, the required change would be made to Schedule 1 of the Income Tax Act 2007 [11] to change this:

Taxable Income	Tax Rate
Up to \$14,000	10.5%
Over \$14,000 and up to \$48,000	17.5%
Over \$48,000 and up to \$70,000	30%
Remaining Income over \$70,000	33%

To this:

Taxable Income	Tax Rate
Up to \$X	0%
Over \$X - \$14,000	10.5%
Over \$14,000 and up to \$48,000	17.5%
Over \$48,000 and up to \$70,000	30%
Remaining Income over \$70,000	33%

**f. How this could assist a young person (Student or Young Professionals) and how could this assist people more generally.**

- At a \$5,000 threshold with a saving annually of \$525 that is a fortnight's rent in the suburb of Newtown and Kelburn in Wellington (2 of the most heavily student populated areas) [13], [14]. Alternatively, this is an extra \$10 a week that can be applied to food.
- A young couple could benefit from the income tax-free threshold in that it increases their savings allowing them to sooner reach the home-ownership ladder.

## **6. IMPLEMENTATION, LIMITATIONS AND CONSIDERATIONS**

**a. This policy does not suggest a value for the bracket.**

This discussion document does not recommend a value for the tax-free threshold. This is a determination for the party broadly. Costings have been provided for all values until \$0 - \$15,000 bracket is achieved.

*Again, this policy does **not endorse** any methods as to how savings or decreased spending can be achieved for a higher than \$2 million tax relief package, however notes this would be a necessary consideration.*

## References

- [1] New Zealand Herald. (2017, May 25). *Budget 2017: Workers the winners, tax cuts*. Retrieved from [https://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11863043](https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11863043)
- [2] Calculated as  $10.5\% \times \$5,000 = \$525$ .  $\$525 / 52 \sim \$10.10$ .
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- [16] Reply from Amy Adams on Income Tax Free Threshold.
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