

CHiLD POVERTY ACTION GROUP

www.cpag.org.nz

February 15, 2008

Child Poverty Action Group urges all political parties to consider low-income families when redistributing through tax cuts. In its submission to the Budget Policy Statement, they recommend lowering tax rates for all low-income earners.

“It is time for the attention to be shifted from the top end of the tax scale. Low - income earners have been neglected for decades. They are much more harshly treated in New Zealand than in Australia where there is no income tax on the first \$11,000 of income.

“New Zealand already leads the OECD for growth in after-tax income inequality. Recent tax reform such as KiwiSaver and tax breaks on investment has further increased inequality” says CPAG researcher Donna Wynd.

According to the group tax cuts should focus on some combination of introducing a tax-free bracket, raising the \$9,500 threshold and reducing the first tax rate to 10%. If the first \$9,500 was made tax-free the cost would be approximately \$3.3 billion. Some of this cost could be recouped by reducing tax avoidance at the top end. Another option would be to raise the bottom tax threshold to about \$20,000, which is where it would be if it had been adjusted for inflation. Redressing the inequities in the tax system is going to get more expensive, and appear more and more radical, the longer they are allowed to continue.

“Reducing income taxes at the bottom of the scale is would be a real investment in the human capital,” Wynd says. “There are sound economic reasons to reduce income inequality when there is ample evidence that countries with more equal societies enjoy better growth and greater social cohesion. Conversely, there is no real evidence that cutting top tax rates increases investment or growth.”

Ends