Child Poverty Action Group

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Submission to The Finance and Expenditure Committee,

Budget Policy Statement 2008

We thank you for the opportunity to submit our views on this review. Child Poverty Action Group comprises a group of academics and workers in the field dedicated to achieving better policies for children. Our reports *Our Children: The priority for policy* 2001, and 2003 can be found with other background material at our web site.

The aims of our organisation are:

- The development and promotion of better policies for children and young people.
- Sharing information and connecting with other groups with similar concerns.

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We would like to be heard in support of this submission

[1] The 2008 Budget Policy Statement outlines the broad strategic priorities that will guide the preparation of the upcoming Budget, including overarching policy goals and major policy areas that will be focused on. It also explains how the next Budget will accord with the Government's short-term fiscal intentions.

[2] The government has identified three long- term pressures that need to be addressed:

- A high current account deficit
- Skills shortages, wage pressures and inflation
- Long-term costs of an ageing population especially health

[3] CPAG would respectfully suggest that the alarming level of child poverty, despite Working for Families, and the rapid growth in wealth and income inequality should be added to the list. Concern about the ageing population and its support largely omits the critical factor of the health and wellbeing of the future workforce which will support this largely pakeha, often wealthy older age group.

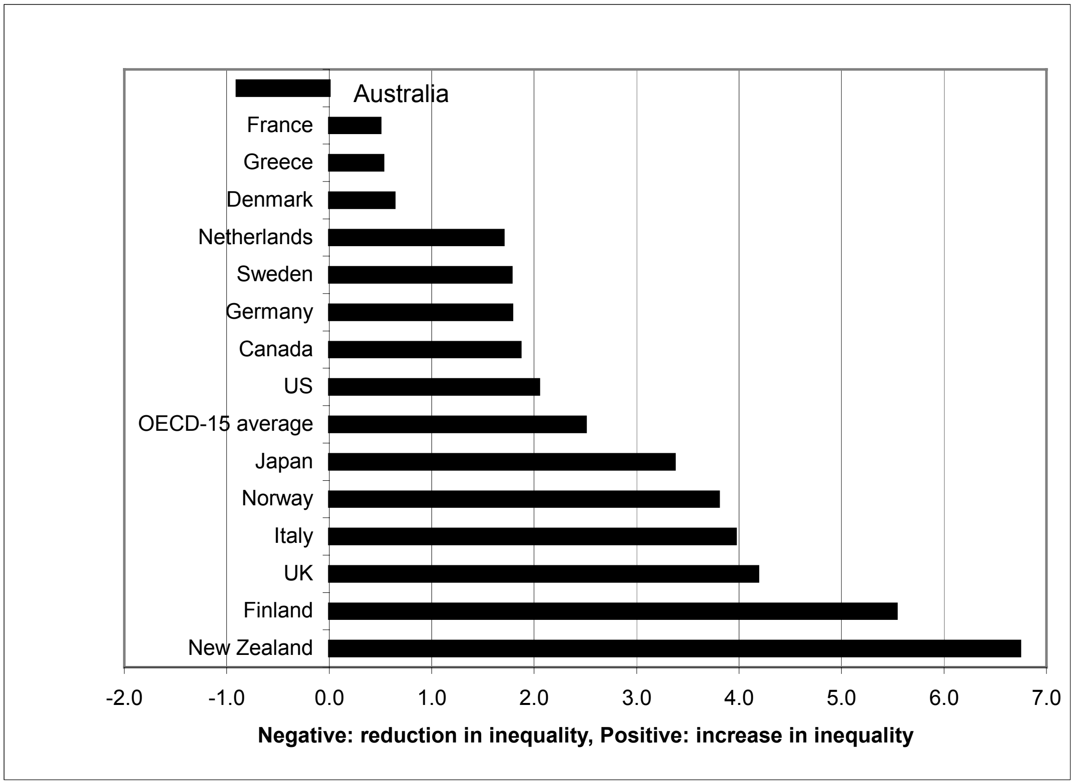
[4] CPAG is, however, pleased to note increased funding for capital expenditure.

[5] While CPAG acknowledges the achievements of the government in respect of paid parental leave, higher child tax credits and reducing the costs of primary health care, we would like to remind the government that about 185,000 children have gained very little from the paid parental leave and child tax credits and continue to suffer hardship.

[6] While it is good to see that tax cuts will have to pass the test that they do not lead to greater inequalities in our society, much of the $4.7 billion (by 2010/11) cost of tax concessions already delivered have already exacerbated these inequalities.

[7] The way tax is gathered is only one mechanism for achieving a fairer distribution of income, but it is a very important one. The tax system has become far less successful in apportioning the tax burden equitably, and can be held responsible for a good part of New Zealand's rapid growth in inequality as illustrated by Figure 1.

Figure 1: Changes to Gini coefficient for OECD-15 countries, mid 1980s-2000, disposable incomes.



Source: OECD

[8] New Zealand's tax system does have many desirable features. In the mid-1980s New Zealand had a highly distortionary, inequitable and complex system: a mishmash of different sales taxes rates, and a top tax rate of 66% that was widely avoided. There were numerous gaps in the tax base so that a lot of income escaped tax. Fringe benefits to employees and capital gains from the sale of assets are two examples.

[9] The tax reforms of the late 1980s were designed to help restore a measure of fairness and simplicity, and to "level the playing field" instead of rewarding activities that were undertaxed or not taxed at all (St John, 2007b). As a result of these changes, the New Zealand tax system has been widely praised as "the least distorting in the OECD", based as it is on a broad-based low rate of income tax, accompanied by an across-the-board GST.

[10] While the low-level, broad-based approach works well in many ways the rate of GST is now 12.5% and impacts disproportionately on low-income people. Low-income earners are not compensated for the impact of GST through personal income tax rates. In comparison with other OECD countries, and given the flat personal tax rate schedule,

the lowest income tax rate in New Zealand is exceptionally high. As well, some of the gaps in the tax base have not been plugged the way the reformers had hoped for in the late 1980s. Investment in housing has remained very tax advantaged and a mechanism through which the better-off have been able to increase their wealth at the expense of others.

[11] Rather than rationally addressing the obvious problems, New Zealand's tax policy has been drifting in a sea of populist slogans and party politics in recent years. In 2007, in an attempt to spur business growth and investment, a number of tax measures that undermine the broad-based approach, such as tax breaks for specific purposes including research and development, were re-introduced. Other changes such as the introduction of KiwiSaver, tax breaks on other superannuation savings and favourable treatment of portfolio investment entities (called PIEs), have further tipped the scales in favour of the well-off at the expense of poorer single people and families with children.

[12] In addition, proposals for income splitting have been signaled as likely in the next tranche of reforms. These are sold as benefiting low-and middle-income families, but will provide the greatest benefit to high-income earners.

[13] The 2001 McLeod Committee conducted the first major review of taxes in NZ since 1982 and reinforced the need for an approach based on clear principles. Tax policy formulation in 2007 however does not seem to be based on any coherent or principled view of what constitutes a "good" tax or what makes a "good" change to the tax system.

[14] This loss of direction is likely to prove particularly harmful to children in low-income families, whose tax burden may become higher over time as the wealthier segments of society structure their affairs to take advantage of loopholes.

Taxation of housing

[15] The OECD has repeatedly noted that the most glaring gap in New Zealand's otherwise A-rated New Zealand tax system is the exemption of housing from tax. Arguably, this exemption has resulted in investment decisions that, while good for individuals, have been detrimental to the country as a whole (Poletti, 2007). And it has significantly increased the price of housing, with the attendant housing-related issues for low-income families.

[16] New Zealanders have shown their preparedness to buy houses in anticipation of capital gains. Rent yields have been declining since the mid-1990s (Salvation Army Social Policy and Parliamentary Unit, 2007, p. 39), suggesting that the income stream from housing investments is not a significant factor in their investment decisions. In New Zealand losses on housing investment can be written off against other income, resulting in a lower overall tax bill. In addition, investors can write off expenses and depreciation

against rent income, and capital gains are largely untaxed. Hence there is little incentive to invest in other, more productive, parts of the economy. Other OECD countries have some form of capital gains taxes and/or housing investment losses are ring fenced. Rules enabling losses to be offset against other income, and tax-free capital gains clearly favour investment in housing.

[17] In 2001 the first major review of taxes for 30 years recommended that New Zealand adopt a “Risk free rate method” of taxing housing instead of a capital gains tax. The merits of this were unfortunately never debated (The Treasury, 2001a).

[18] This distortion in the tax system also threatens New Zealand’s long-term economic stability. New Zealand’s net international liability at the end of March 2007 was $145 billion, an increase of $15 billion from the previous year. Of the increase in liabilities between March 2006 and 2007, $11.5 billion is an increase in net overseas debt, largely as a result of the banking sector borrowing from overseas to feed the housing asset bubble. At present New Zealand’s current account deficit for the year ended March 2007 stands at 8.3 % of GDP, making it vulnerable to volatility in overseas capital markets.

[19] There has been a corresponding decrease in net housing equity as houses which may previously have been debt-free are sold to investors who fund their purchases by borrowing. The equity withdrawal from the housing market has in turn fuelled consumer spending. Neither investment in residential housing or debt-fuelled consumption increase New Zealand’s productive capacity and hence our ability to repay the loans.

[20] Most importantly the inflated housing market is having a negative impact on the ability of many families and whanau to adequately house themselves.

Tax reforms 2007

[21] Unfortunately, in 2007 there are signs that “one of the most efficient [tax systems] within the OECD” (OECD, 2007) is retreating back to a regime of inequitable and inefficient special tax advantages. This has occurred with little discussion or input from the general public, or even informed technical experts. Below we outline some of the current and proposed tax advantages that risk widening New Zealand’s income gap even further.

[22] One of the key planks to tax reform in the 1980s was not using the tax system itself to “pick winners”, but rather that maximum benefits flow from including as much as possible within the tax base, and thus a low rate of tax on a broad base was viewed as non-distortionary, simple and fair.

[23] While there has always been a case for a special tax on social hazards, special tax breaks to encourage specific activities are far less justifiable. For example, incentives

for saving do not usually achieve their goals, are unfair and complex, and mean overall taxes on everyone else have to be higher (Douglas, 1988). Most of all, tax breaks give rise to tax evasion as companies and individuals manipulate their incomes to take advantage of them.

KiwiSaver

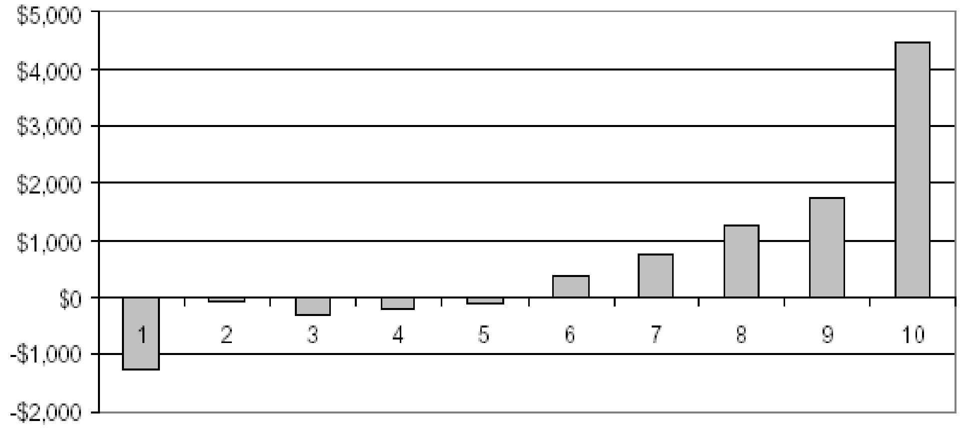
[24] One of the key policy changes is KiwiSaver. Ostensibly a retirement savings scheme, KiwiSaver is also designed to build a "stronger saving culture and encourage greater investing" (Cullen, 2007), and correct economic imbalances. The logic is that KiwiSaver will increase household savings and thereby reduce the current account deficit, and bring about "economic transformation" through increased growth (Cullen, 2007).

[25] "Saving" is complex. Annual ***saving*** is the difference between income and consumption. Saving occurs when people pay off some of their mortgages just as it does when money is building up in an investment or bank account or in a share portfolio.

[26] ***Savings*** is the term used to describe accumulated wealth. It is not clear that New Zealanders do not "save enough" for their retirement. Many households have ***savings*** (accumulated wealth) that are either very low, or negative while many others have substantial ***savings***. On an annual basis some households are dis-saving, ie running down their accumulated wealth, while other are saving positively. This can reflect age factors, and so it hard to know how to interpret a total household saving or savings. Indeed there is some work that shows on the whole, and allowing for New Zealand Superannuation, most people in the late workforce age group are doing enough to ensure they can largely continue to maintain their living standards into retirement (Scobie, Gibson, & Le, 2004).

[27] Figure 2 shows that financial saving is concentrated in the top deciles of household income. Low-decile households are borrowing rather than saving and have substantial debts. It is unlikely that the substantial – and fiscally expensive – incentives to join KiwiSaver will increase savings of these families. Perversely, the tax breaks for KiwiSaver are now so good, it is probably in some of these households' interests to join KiwiSaver even if they have to increase their debt to do so (Retirement Policy and Research Centre, 2007b).

Figure 2: Annual Household Financial Saving by Income Decile - 1997-98



Source: The Treasury (2001b)

[28] Until KiwiSaver, all financial saving, including retirement saving, was treated the same. Earned money was taxed, whether it was being used for consumption or saving, interest on all saving was taxed, and payouts were tax free. This equal treatment of saving, or tax neutrality, played a large part in the reputation for efficiency of the New Zealand tax system. Because all savings were treated the same, there was in principle no incentives to save one way rather than another, although housing remained tax-favoured.

[29] Initially the government contribution to KiwiSaver was limited to a $1,000 kick start and a fees subsidy of $40 a year. This would have been a reasonable policy and had minimal distortionary implications for savings decisions. Now however the level playing field has been abandoned (St John, 2007a, 2007b). Firstly, in spite of Treasury advice to the contrary, employer contributions of up to 4% of an employee's wages to KiwiSaver or any approved superannuation scheme have been made tax free. Because there are no limits on the wage the 4% applies to, the more a person makes, the more they gain.

[30] This tax break was announced in 2006 and it was not subject to public scrutiny or debate. As expected, it was the beginning of pressure for more tax breaks.

[31] And indeed this has proved to be the case. The 2007 budget announced very generous tax credits for both the first $1040 of member contributions and for employer contributions, which will eventually become a compulsory 4% contribution for KiwiSaver for members. This fiscal generosity raises the question about whether KiwiSaver will increase national savings as hoped. Treasury's cautious view was that "likely to result in an increase in private saving of close to (or perhaps more than) the full fiscal cost of the package" (The Treasury, 2007b).

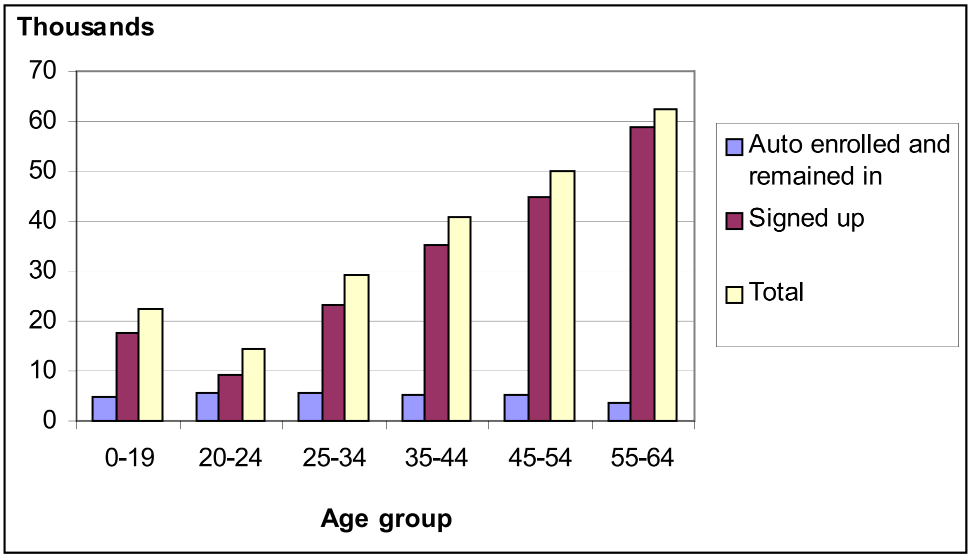
[32] Some positive features of KiwiSaver include full portability, choice of provider and the likelihood of increased financial literacy in the population over time. But there are several reasons to support the claim that KiwiSaver is "seriously regressive" (Wynd, 2007) despite the use of a tax credit approach rather than a tax incentive:

- At any given income level, the two-earner family gains the most if they both belong.
- High-income one-earner families are more likely to have the non-earner in KiwiSaver accessing the upfront $1,000 and the matching annual $1,040 subsidy.
- High earners are more likely to benefit from the advantageous PIE regime and from salary sacrifice options (Retirement Policy and Research Centre, 2007b).
- Older, wealthier baby boomers are more likely to join as they have less time to wait to get the upfront incentive. Returns on savings, ignoring the actual investment returns, are high.
- Subsidised KiwiSaver contributions overturn the old rule that reducing debt was the first main preparation for retirement. It now makes financial sense to either not reduce debt, especially student loan debt, or even to increase debt to join KiwiSaver.
- Younger debt-laden workers, beneficiaries and the low paid, and those with children are less likely to join because of the initial 4% contribution hurdle, and being locked in until they are aged 65. As at 29 October 2007 51% of those enrolled in KiwiSaver were aged 45-64. Those aged 20-34 comprised less than 20% of KiwiSavers (Figure 3). This group is also the most likely gain from the tax breaks offered by portfolio investment entities (see following section). It also suggests that it is higher-income workers who are getting the benefits of KiwiSaver – that is it is effectively operating as a direct transfer to the better off.

[33] For better-paid workers, it is unclear if KiwiSaver will increase savings as hoped, or simply encourage savings to be shifted into tax-advantaged superannuation schemes.

[34] For beneficiaries, KiwiSaver is another wedge between them and those in work. While KiwiSaver is open to all New Zealanders except those over 65, beneficiaries are unable to take advantage of the tax-free employer contribution and must contribute $20 a week to get the full member tax credit. Long-term beneficiaries, in particular invalids, continue to face the prospect of lower standard of living during working age, no KiwiSaver and a meagre standard of living in retirement. Young families also face the invidious prospect of not being able to afford to join KiwiSaver, or worse being compelled to join in lieu of tax cuts as is being debated in 2008.

Figure 3: KiwiSaver enrolments as at October 2007



Source: Inland Revenue Department 2007. Information obtained under the Official Information Act.

[35] Women, too, have reason to be concerned. Supporting superannuation schemes that favour the well paid is fiscally expensive, and in the long run the universal superannuation that has played such a crucial role in protecting New Zealand's elderly from poverty is at risk. It is likely that in the future superannuation will be means tested and asset tested, as it is in Australia, providing only a minimal safety net for those with few superannuation savings. For many women, this is may mean a reduced standard living in retirement especially compared to others who have saved in KiwiSaver.

[36] Thus there is potential for KiwiSaver and other approved superannuation schemes to carry current socio-economic inequality well into the future. It seems a high price to pay when it is very unclear that the stated policy goal of resolving New Zealand's current account crisis is likely to be achieved in any meaningful way (Retirement Policy and Research Centre, 2007a). In the meantime, the fiscal costs of KiwiSaver subsidies may preclude overdue tax cuts for those on low incomes

[37] If investment and economic transformation are government's goals then rather than KiwiSaver, the money tied up in tax breaks would be better spent ensuring our children are well fed, housed, and educated (Wynd, 2007).

[38] In 2008, fears of the inflationary impact of tax cuts might lead to making KiwiSaver compulsory, thereby siphoning tax cuts into these accounts. Once again children in the lowest-income families will be disadvantaged as money they desperately need today is locked up till some time well in the future.

PIE issues

[39] Collective or portfolio investment entities (known as PIES) such as KiwiSaver funds are now taxed on earnings at a proxy rate for the tax rate for their investors. Low-income investors are now taxed at 19.5% in contrast to the previous rate of 33%. The highest rate of tax falls from 33% to 30% (from I July 2008) making investment in PIES very attractive for those on a 39% tax rate. Moreover the rules are such that it is possible to have income of up to $60,000 from PIES and still only pay 19.5% tax (Retirement Policy and Research Centre, 2007b), rather than the marginal rate of paid by wage and salary earners on the same income.

[40] There has been no distributional impact statement as to the impact of these changes. But they signal the return to manipulations by the better-off to minimise tax as occurred in the early 1980s (Retirement Policy and Research Centre, 2007a).

Income splitting: A common sense approach to child poverty?

[41] Income splitting has been proposed by the Minister of Revenue, the Hon Peter Dunne, as a way of ensuring the tax system takes account of the costs involved in raising children.[1] It may also emerge as a point of bargaining in the 2008 coalition talks in the event that the election is not won outright by either major party.

[42] Income splitting would allow single-income families to treat the income as if it had been earned equally between the two partners, and thus pay less tax. For example, a family with an income of $60,000 from one income, with a non-working partner and two children, pays $15,435 tax.[2] Under income splitting, the $60,000 would be treated as two incomes of $30,000, with a total tax bill of $12,218, a saving of $3,217 per year.

[43] This looks promising, and certainly the stated policy aims of recognising the costs involved in raising children and assisting single income families (and/or making it easier for one parent to remain at home) are worthwhile. There are, however, two major flaws that suggest income splitting will do little to alleviate child poverty, while advantaging the highest income groups the most

[44] Clearly, a key assumption is that children are growing up in families with two parents, only one of whom is working. Yet, as Figure 4 clearly shows, this type of household is a minority. By far the greatest number of households with children have two employed parents. While income splitting may benefit couples with disparate earnings, it will not improve incomes where the partners' earnings are equal or approximately equal.

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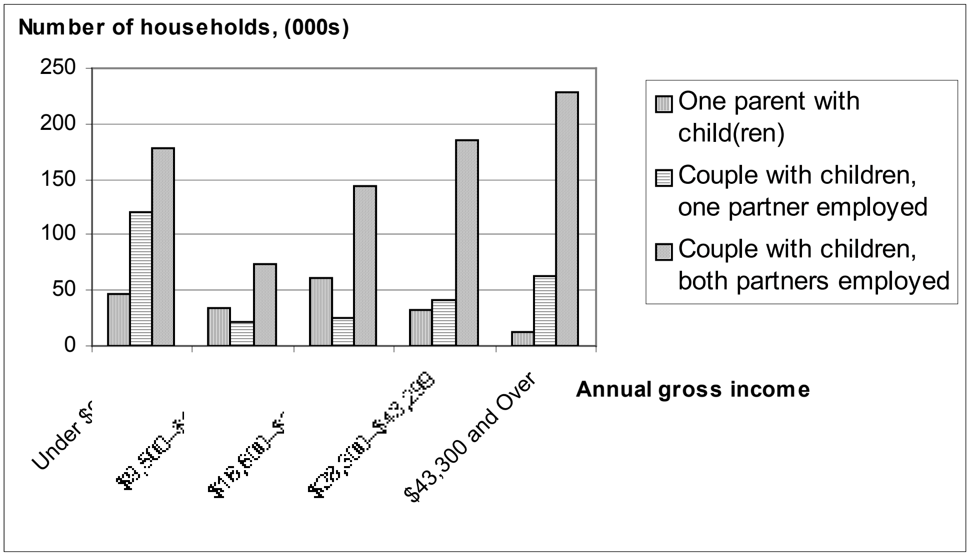
[1] This section draws on CPAG backgrounder by Amy Cruikshank, available at www.cpag.org.nz.
[2] All figures exclude family assistance for the sake of simplicity.

Most importantly, it will do nothing to assist single parent households, and it is single parent households that are most likely to be in hardship.

Figure 4: Annual household income of selected family types



Source: Statistics New Zealand household economic survey, 2004.

[45] The other flaw as regards improving the incomes of children in low-income households, is that it favours high-income earners (Figure 5). As noted, a household with a single earner on $60,000 can save $3,217 per year from income splitting. However, a household on $36,000 stands to gain only $570 per year. That is, a family on just over half the income gets less than one fifth as much tax relief. There is no gain to a two-earner families where income is currently equally earned.

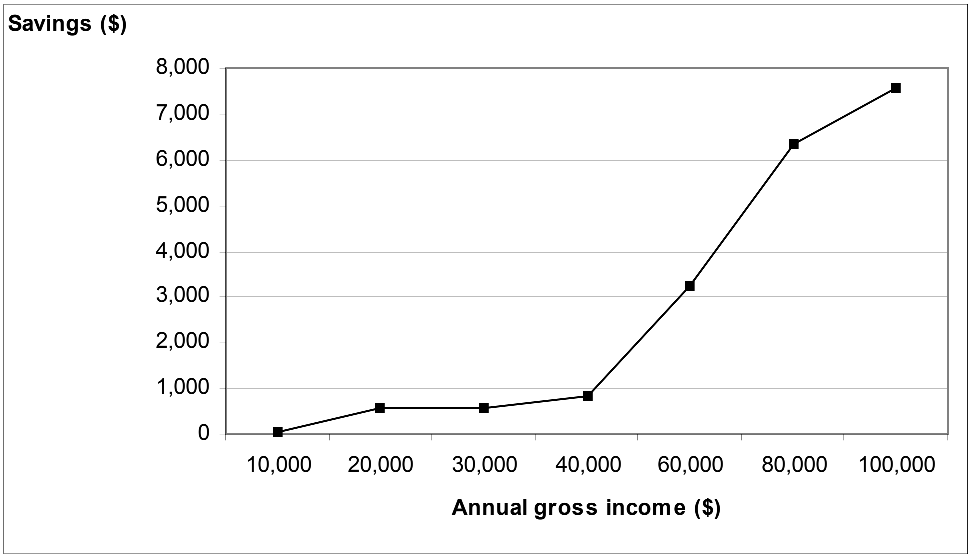
[46] Nor is it obvious how income splitting would interact with WFF. If it is an addition to WFF then the costs would be very significant indeed.

[47] In 2001, the McLeod tax review concluded:

> *Income splitting creates as many problems as it solves. Also, it is not well targeted. Income splitting favours any couple with one income. Traditional families with an 'empty nest' and a well-paid principal earner would benefit; working sole parents with dependent children would not.*

(The Treasury, 2001c, p. 98)

Figure 5: Annual tax savings from income splitting[3]



D Wynd, derived from IRD worksheets.

[48] In essence, income splitting, like the In Work tax credit, will simply serve to create a bigger gap between sole parent families and others. Any policy that is serious about addressing child poverty needs to reduce this gap, not increase it.

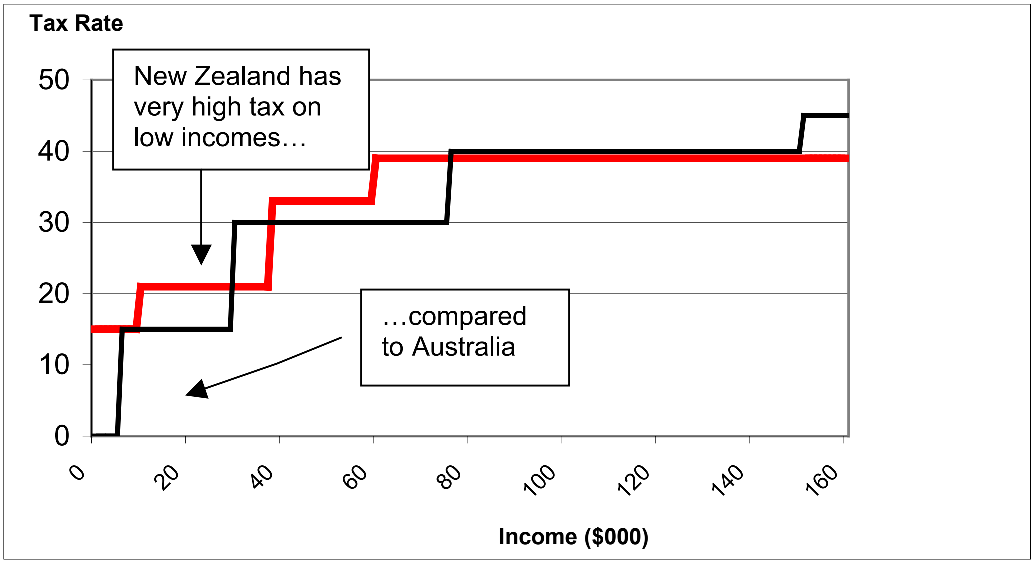
Reforming the tax system

[49] New Zealand's after-tax income inequality is one of the highest in the OECD. It also has an income tax structure which is amongst the most regressive in the OECD. There is an urgent need to reform the income tax structure to make it more progressive. While the greatest pressure for tax reform (in the form of tax cuts) is coming from middle- and high-income earners, it is low-income earners who have the greatest need of additional income. There is also an argument that tax reform needs to redistribute the tax burden, rather than reducing the overall tax burden, which is not high by OECD standards.

[50] Overall low income earners are much more harshly treated in New Zealand than Australia (Nolan, 2007). Compared to Australia, the New Zealand tax rates are significantly higher for low-income earners (Figure 6). A key difference is that in Australia the first $11,000 (counting the low-income rebate) of earnings are tax-free.

[3] All tax calculated using tax code "M", and the IRD PAYE calculator at http://www.ird.govt.nz/calculators/tool-name/tools-c/calculator-paye-2008.html?id=homepage. No

Figure 6: New Zealand and Australian tax rates



[51] One of the problems is that the tax system is not indexed. The bottom tax threshold ($9,500) has not been increased for 20 years. Yet, it is clear that there are surpluses to redistribute and the government will be giving tax cuts in 2008.

[52] One option is to introduce a tax-free first band. It is, however, very costly – approximately $220 million for each percentage point change in the bottom tax rate means to have the first $9,500 tax-free would cost roughly $3.3 billion.[4]

[53] Another option is to lower the 15% band to 10% and extend the threshold out from $9,500 to $38,000. This would cost an estimated $5.3 billion. If part of this needs to be clawed back, there could be adjustments to the rates applying above $38,000. The cost could also be much lower if the 10% was taken out to only $20,000[5] - maybe in the order of $3-3.5billion.

[54] A key feature is that this proposal would also help overcome the high effective marginal tax rates faced by many low-income earners receiving family assistance. Similarly, it would reduce the very high EMTRs faced by beneficiaries moving into work by eleven percentage points. Further it would help reduce "partner penalties"[6] whereby a secondary income earner working a modest number of extra hours is hit with high

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allowance has been made for KiwiSaver contributions.

[4] All calculations derived from IRD reckoner at: http://www.treasury.govt.nz/government/revenue/estimatesrevenueeffects/estimates/index.htm#notes4. Figures are very rough estimates only as IRD's reckoner is designed to apply to small changes.

[5] This would be the top of the first income bracket had it been indexed since the late 1980s.

[6] See Johnson (2006, pp. 47-64) for a comprehensive analysis of this.

effective marginal tax rates as family tax credits and accommodation supplement is abated away.

[55] For low- and middle-income families with children in paid employment the Working for Families package has changed things for the better. For these families at least, the tax credits available to them make New Zealand's tax structure considerably more progressive. For example a single parent with two children on 67% of average earnings, now receives more in tax credits than they pay in income tax.[7] However, these credits cannot be seen as a comprehensive solution to New Zealand's regressive tax structure, as they ignore single income earners and beneficiaries.

[56] CPAG has argued elsewhere (St John & Wynd, 2008, forthcoming) that the most cost-effective way to address the immediate poverty issues of the 185,000 children who have been left behind in the WFF package is abolish the separate category of per child per week tax credits currently named the In Work Tax Credit (IWTC).

[57] If $60 were added to the Family Tax Credit (Old name Family Support) for the first child and the IWTC abandoned, those currently excluded from the IWTC would receive a significant boost to their incomes. If approximately 150,000 families are on benefits, the cost would be $450m. This would be highly targeted redistribution as only the poorest would gain.

[58] Rather than relying on the Minimum Family Tax Credit (MFTC), with its worktest and draconian abatement rate, the rate of abatement of all benefits for additional income needs to be reduced, along with tax on low incomes, as per above. In this way, families with children, especially sole parents, can seamlessly supplement their incomes without working the long hours, or meeting fixed minimum hours per week as implied by current policy. This would be more in keeping with the realities of the labour market and provide greater security of income. This does not preclude mentoring parents eventually back into the full time workforce or into study once the needs of their children have been met.

[59] It is also time for changes to tax on housing investments to be revisited. The 2001 tax review recommended however that New Zealand not introduce a capital gains tax, rather a tax on equity using the Risk Free Rate Method. (RFRM) (The Treasury, 2001a, p. 32). In this proposal, individuals are taxed on their net equity in housing as if they had invested this money in a deposit at a risk-free rate of say 4 percent. This would be the only tax so that complex accounting for rents and costs, profits and losses would not be needed. CPAG endorses the RFRM is the most efficient and effective method for taxing housing, with the proviso that it not apply to family homes, or apply to owner

[7] Comparisons across countries are difficult because not all family assistance is delivered via tax credits.

occupied homes with an exemption of a set limit, which could be in the range of $1 million per person.

Recommendations

[60] By the standards of most other OECD countries New Zealand's income tax structure is regressive, with existing tax breaks such as those available to property investors heavily favouring the better off. This has been exacerbated by recent changes, including the tax breaks now available to those enrolled in KiwiSaver. We have argued here that recent changes are inequitable, and unlikely to achieve their stated aim of increasing the nation's overall rate of growth or savings significantly. This inequity and policy confusion come at a considerable cost to the taxpayer. KiwiSaver is budgeted to cost $965 million in 2008/09, rising to $1.29 billion by 2010/11 (The Treasury, 2007a, p. 142). By 2015/16 the total cost is expected to be over $2 billion (Office of the Retirement Commissioner, 2007, p. 54). The beneficiaries of this fiscal largesse will largely be middle- to high-income earners in a position to take the greatest advantage of it. **CPAG recommends that the KiwiSaver tax breaks be abolished, and the money be used instead to lower the bottom income tax rate to 10%, and push the bottom tax bracket out from its present $9,500 to at least $20,000**.

[61] It can be argued that KiwiSaver and other superannuation tax breaks are one way to reduce the fiscal surplus and give tax cuts that will not contribute to inflation. However tax cuts to low-income families is unlikely to drive up inflation. At present, it is evident that many low-income families, both working and beneficiary families, are borrowing to meet day-to-day expenses such as rent and electricity. This is occurring in financial markets where there are few regulations and those few are often flouted in practice. Real tax cuts for low-income families will provide some real financial relief for these families, and would reduce their need to borrow from poorly regulated and unscrupulous moneylenders. **CPAG recommends that along with reductions in income tax on the first tranche of income, the IWTC be abolished and $60 added to the first child Family Tax Credit; the MFTC be abolished and the threshold for the rate of abatement of benefit income be raised to $130 a week and indexed.**

[62] In 2001 the McLeod report noted tax breaks on housing were fiscally costly. There can be no doubt this cost is now much greater. **CPAG recommends immediate changes to the tax regime on housing investment with a Risk Free Rate method as detailed by the McLeod report**. This could be used to offset reductions in the tax burden on low-income earners, in order that they, too, could afford decent housing for their families.

[63] **CPAG urges that tax breaks for high earners on PIEs be scrapped, in favour of a system in which investment earnings are imputed and thus taxed at the correct marginal tax rate**. The existing arrangements favour the better off, and

offer an incentive for the wealthy to structure their affairs so as to minimise tax. Between them, tax breaks on PIEs and KiwiSaver, as well as research and development have the potential to seriously undermine the flat-rate, broad based system that has mostly served New Zealand well since the 1980s. Income splitting as proposed will further undermine it. Because there really is no such thing as a free tax break, one group inevitably pays to support another's reduced tax burden. In this case, the cost will almost certainly be borne by low- and middle-income earners unable to take advantage of the tax advantages offered. This means fewer resources will be available to their children – children in families already borrowing to meet the basic living costs.

[64] We doubt that better-off older New Zealanders think it is acceptable for children in poor families to subsidise their private retirement savings. However, we don't really know if that is the case because these fundamental changes to our tax structure have taken place with almost no input from the public, and this is one of the most shameful aspects of the changes.

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