Dr Susan St John : the MTR

- **It is good tax policy** to ensure that far as possible each contributor should be taxed at his/her own marginal tax rate on investment income and contributions to superannuation. The government is to be congratulated on attempting to deal with this difficult issue.

- **However** the top rate applied by the PIE should be 39% (the top rate that a member earning more than $60,000 a year pays). The rate for those earning $38,000-$48,000 should be 33% not 19.5%. There appears no possible justification for the subsidy to high income contributors who save any way.

- There is an unfortunate confusion about the appropriate MTR for middle income earners. **Is it really 19.5%?**

- The table of tax brackets and thresholds on page 31 of the bill talks about a 15%/21%/33%.

- The under $38,000 rebate modifies the 19.5% rate for the first $9,500 of earned income and then the rebate abates against total income including investment income. In most other tax discussions the middle rate is taken correctly to be 21% - see the latest Life insurance tax reform bill—in talking about annuities
  - The annuity market, while well developed overseas, is very small in New Zealand. A major impediment is that the majority of potential annuitants are on a 21% effective tax rate rather than 33%. Therefore the product is not perceived to offer value for clients.

- **The rate for a PIE should be 21%**. The 19.5% rate is the correct rate only when total income including the investment income does not exceed $9,500- hardly the case for contributors to PIEs. (Example, if a mythical someone earned say only $5000 and had $2000 income in a pie then the $2000 should be taxed at 19.5% not 21% because the under $38,000 rebate would not apply to that $2000). In fact the Bill itself suggests that if income is under $9,500 the pie rate should be 15%!! **This is an untidy mess!**

- **It cannot be argued either that retired people should be paying 19.5% on their investment income**. They have been allowed the rebate on the first $9,500 of NZS income and their proper MTR is 21%. However there is a current inconsistency- interest is taxed at 19.5% in the banks and it is only if they put a return in they are expected to pay the 21%. But of course if they earn extra income by working they are taxed at 21%

- The RPRC submission suggests as a more long term approach either
  - The ‘under $38,000 rebate’ is removed so formalising **four statutory tax rates of 15%, 21%, 33% and 39%**. In this case the tax on investment income for those between $9,500 and $38,000 in PIE is clearly 21%. (deal with minors with investment income through trusts another way).
  - The tax rate for investment income is taken to be 19.5% and abatement of the under $38,000 rebate is against earned income only.

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[1] **Under the CPAG hat**

Has the government really thought through the implications of denying the in-work payment to those on ACC where the accident occurred before 1 January 2006? This is unfair and unnecessary discrimination that could be legally challenged.