THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL
NEW ZEALAND

Retirement Policy and Research Centre

Oral Submission on the Taxation (Annual Rates, Savings, Investment, and Miscellaneous Provisions) Bill. 28th September 2006

Dr Susan St John[1] **: 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 an 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.p10
- **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 apoproach 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.