Tax Working Group Public Submissions Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

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Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

New Zealand's Situation

After 80 Years of Tax and Spend Welfare

1. Retirement Debt

- **A.** \$850 billion dollars owed by government to New Zealanders of working age and the retired (3½ times GDP).
- **B.** This debt is growing by \$12-13 billion a year.
- **C.** By 2060 this debt will exceed \$1,350 billion (i.e., one trillion+).
- **D.** If the Private Sector kept their books like the government does, directors could end up in prison for fraud.
- **E.** New Zealand is well on the way to going broke.
- **F.** The \$850 billion debt should be entered as a liability in the government balance sheet.

2. Fiscal Position – A deficit of 3-4% of GDP, not a surplus as claimed once the increase in retirement debt for year is included (13 billion dollars).

3. Government Budgets – Often by implication include provision for future welfare payments without the income to pay for them (future superannuation and health liabilities).

4. Dependency – A cycle which encourages some people to look to the state for support when they could be making it on their own.

5. Productivity – Low productivity compared to most OECD nations (→ low wages).

6. Inequality – Bottom 50%+ of NZ'ers own almost nothing (5% total wealth).

7. Institutions – Government institutions failing miserably:

- **A.** Education – limited choice, falling standards, poor discipline. 40% leave schools with insufficient skills.
- **B.** Retirement - 50% + of retirees have little or no capital/savings.
  - Number of workers to retirees is shrinking.
- **C.** Health – Limited choice, long waiting lists, staffing problems, bureaucratic, inefficiency, rapid cost increases.
- **D.** Welfare dependency hurts the poor most leading to inadequate housing, bad parenting, monopoly supply; low self-esteem.

8. Power – Has been taken away from individual NZ'ers in many cases.

9. Con Game – Politicians take your money (tax) as quietly as possible and then give it back with as much fanfare as possible on so-called free education, free healthcare etc.

10. Politicians – Create dependency in order to win votes (Labour on welfare and Education; National on business and farming).

11. Privilege – Governments provide hand-outs to favoured corporates and the middle-class (and then ask low-income earners to pay unnecessary taxes as a result)

12. Taxation – High taxation via bracket creep hoping people will not notice.

13. Incentives – Are often poor and getting worse.

14. Capture – Institutional capture where money often goes to the benefit of the institution or providers not pupils or patients (health 2004-2009).

15. Resource Distribution – Within the social services is often of a ridiculous nature (based on political decision-making not user demand.)

16. Housing & Infrastructure – Both disaster areas.

New Zealand's Situation

Recommendations – Principles

- Each generation should pay for itself.
- Each person – each family should, as far as possible, pay/provide for themselves. Government should help them get in a position to do so.
- Fairness – every New Zealander, as far as possible, should be provided with the same opportunities to save.
- Security – provided by having the means to look after self and family.
- Privilege – remove government privileges (hand-outs) that go to business and higher income earners (corporate welfare, tertiary education).
- Power – return it to individual New Zealanders wherever possible.
- Competition – wherever possible.
- Fiscally sound – policy must be fiscally sound over the long term.
- Resource use – social policy that encourages resources to move to areas of greatest need.
- Goals – government required to outline goals (i.e., what they are trying to achieve).
- Protection – of most vulnerable a top priority of all policy.

New Zealand's Situation

Recommendations – Policy

- A tax-free income of $52,000 for single taxpayers or $65,000 for one-income families.

- A tax of 24 cents in the dollar on income above $52,000.

- A corporate tax rate of 20 cents in the dollar.

- Yearly savings of $18,200 per year on incomes above $52,000, slightly less for those on incomes below $52,000 (Super $6,240, Health and Risk $11,960).

- Savings paid for by tax reductions 50% (9,100), employer 35.7% (6,500), individual 14.3% (2,600).

- Savings and contributions indexed to an appropriate index.

- A guaranteed minimum income for low-income families (replacing working for families).

- **Healthcare – Savings**
  - $8,660 each year (inflation adjusted to go into individual's Health Fund).
  - $12,480 each year to go into one-income families' Health Fund.

- Healthcare – Expenditure - A chronically ill fund to be established with contributions from savers and government.

- Healthcare – Expenditure - A catastrophic insurance policy to be taken out each year by every New Zealander for events costing $20,000 or more.

- Healthcare – A government underwrite.

- Healthcare during retirement - objective to retire with a fund of at least $80,000 (real) after 25 years, $150,000 after 40 years of contributions. Balance at death goes to surviving spouse / estate.

- **Superannuation**
  - $6,240 savings per year (indexed to wages).
  - Savings (earning a real 4%) likely to have a fund size of $750,000 after tax on retirement given 40-50 years of employment.

- **Risk Cover** (unemployment, sickness and accident compensation)
  - $3,300 savings a year.
  - A catastrophic insurance policy to be taken out each year.
  - A government underwrite.
  - No variance in rate of pay-out if out of work (e.g., ACC same as sickness).
  - Any balance in account on retirement goes into individual's Health Account.

- **Education -** an education tax credit for every child whose family wants it.

- **Housing and Infrastructure**
  - Use 10% of net yearly savings two billion dollars for housing and infrastructure.
  - Policies to ensure sufficient land is zoned for section development.

- **Out of Work Beneficiaries**
  - Special training for those who need it (compulsory).
  - Reformed management structure for out of work area.

Outcomes of Recommendations

As Savings replace 80 years of Tax and Spend Welfare

1. Retirement Debt	**A.** $30 billion (indexed) gross savings each year stops the rot and ultimately solves the problem. **B.** Net savings offsets growth in debt from year one and starts to offset existing debt within 10 years. **C.** By year 2060 savings for future welfare spending exceed $600 billion (offsetting debt owed to retired). **D.** Government financial accounts now mirror what the private sector has to do.
2. Fiscal Position	**A.** A small surplus ½% of GDP in year one instead of a deficit of 3.4% of GDP today. **B.** A turnaround in year one of 3½% of GDP ($9 billion). **C.** Fiscal position improves year-on-year to be $20 billion better off in 20 years' time, relative to where it will be under today's policy.
3. Government	– Government budgets are now fully funded for future welfare commitments.
4. Productivity	– Lower taxes, savings, lower debt, competition & individual decision-making add to productivity improvements over time.
5. Inequality	**A.** A turnaround in inequality starts day one. **B.** Individuals in work now save $6,240 for Super & $11,960 gross for health & risk (Twice this amount for 2 income families). **C.** A 20 year old who worked every year until retirement would likely retire with $1 million+ (Super), plus $100,000-$200,000 in their health a/c compared to savings of almost nothing today.
6. Institutions	**A.** Educational choice and an education tax credit available for every child whose family would like one. **B.** In retirement, New Zealanders would receive not only the existing pension but a lump sum super & health savings a/c. **C.** Health – Choice & competition largely solve the waiting list & staffing problems while efficiency improves as it did with SOEs. **D.** Welfare improves as self-provision/decision-making largely remove dependency.
7. Power	– Moves away from politicians and is transferred back to individual NZ'ers who now spend their own money. – Politicians' role is to act as regulator & insurer of last resort.
8. Con Game	– Politicians no longer take your money from you – you save your own money ($18,200 a year + interest earned) & buy your own insurance cover or pay directly for services you wish to buy.
9. Politicians	– No longer able to create dependency in order to win votes. – They no longer spend your money, you do.
10. Privilege	– Government hand-outs amounting to $6-7 billion have been removed which is a large part of the reason why a 20-year old will retire with a million dollars in their pocket, a 40-year old $400,000+ in their super and health fund accounts.
11. Taxation	– Low – no tax on first $52,000 of income ($65,000 single income families) and 24c on income above $52,000. No bracket creep.

12. Incentives
- Improved low marginal tax rates.
- Rewards in the system to stay healthy & in a job.

13. Capture
- No longer possible when New Zealanders have choice and there is competition in the social service marketplace (instead of compulsory government delivery).

14. Resource Distribution
- Distribution of social services will be determined by individual New Zealander's purchasing decisions, not politicians' decision-making or provider capture.

15. Housing and Infrastructure
- $3 billion of government investment (via savings accounts) along with regulatory changes will, over a 5-10 year period, help solve today's housing & infrastructure disaster.