

**“Fifteen percent of income taxpayers pay over 50 percent of all the income tax. Is that fair?”
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Maggie Thatcher tried to make all Britons pay something towards the tax-cost of local government with her ‘poll tax’, and came to grief. National and its coalition partners cut New Zealand’s top rate of income tax from 39% to 33%, raised GST for everyone, and survived – fairly easily as it turned out.

So, what is fair, and acceptable to voters, when it comes to sharing out the burden of paying the taxes that fund government spending? Data from the last Budget show that, in 2012-13, almost 15% of taxpayers are expected to earn more than \$70,000, and they’ll pay about 55% of all the income tax.

This is up from the days of the 39% top rate when, in 2009 for example, there were less than 10% of taxpayers earning over \$70,000, paying around 45% of all the income tax.

Which of these is more ‘fair’? Economists are often accused of having at least two answers to every question, but this is one that people can legitimately hold quite different views on.

But some would argue those statistics don’t fully capture who pays what. After all, many taxpayers get tax credits and other income payments from government that are really just like the government giving them their taxes back – in many cases getting more back than they pay in income tax. So, shouldn’t these be added in?

Recent data from the Treasury allows us to do just that. The table below shows that when we do this, top earners’ shares of the tax burden look very different.

2012-13	Income more than:	\$70,000	\$100,000	\$150,000
1	% taxpayers	14	6	2
2	% taxable income	43	25	13
3	% income tax (IT)	55	35	19
4	% IT (net of FTC)	63	40	22
5	% IT (net of FTC, B, AS)	96	61	34
6	% GST + IT (net)	67	41	22

IT = income tax; FTC = Family tax credits (incl. ‘independent earners’ credits); B = social welfare benefits; AS = Accommodation supplement; GST = goods & service tax.

For those over \$70,000 – the current top threshold – the 14% of taxpayers paying 55% of income tax, earn around 43% of all the income. Most people would see it as fair that richer income earners pay a higher share of tax on average than their income share. That’s what makes income tax ‘progressive’.



But when we allow for ('net off') family tax credits, it seems those top 14% of taxpayers pay more like 63% of 'net' income tax. And if we were to net-off other similar income payments made to taxpayers - like welfare benefits and accommodation supplement (but not NZ Super) that percentage rises to 96%! The other columns show how it would look if we measure 'top incomes' as more than \$100,000 or \$150,000 a year.

Of course, you might object that these comparisons aren't fair because they ignore the bigger share of GST that poorer people pay. So, line 6 of the table adds in an estimate for GST paid – the numbers then look very like line 4 – when just income taxes net of FTC was included. If we also allowed for all the NZ Super payments that some taxpayers receive, the percentages of 'net' tax paid would look remarkably like row 5 of the table. Over 90% of 'net tax' is paid by those earning more than \$70,000 and so paying the highest marginal tax rate of 33%.

What this means is that almost all the income tax and GST that doesn't just get paid straight to lower income taxpayers, is paid by the highest tax rate payers. Those below \$70,000, as a group, essentially get back from the government about the same as they pay in the two main taxes. Some, like Superannuitants, will be getting more, while others like single earners with no kids will get a lot less.

Here's another way of looking at the right-hand column of the table. Fifty friends decide to get together for a party and Pete is the only one earning more than \$150,000 a year. To buy the beers for the party, Pete agrees to a proposal to split the beer bill among everyone according to the shares of income tax they each pay. If everyone has 2 beers (that's 100 in total!) Pete will have to pay for his own beers and about another 30. The cost of the remaining 68 beers will be split among the other 49 guys. But what happens if Pete thinks this isn't fair and decides not to join the party?

Of course, this doesn't resolve the vexed question of *what is fair* for New Zealand. But it does suggest that before we jump to conclusions about who should pay how much, we should think carefully about what we mean by "paying a fair share" when it comes to tax. It really doesn't make sense to think of each tax or benefit in isolation because they're all just dollars paid to or from the government. And this is all before we even ask the question – who gains most from all the other spending (health, education etc.) that the government does with our tax dollars?!

