

# Media Release



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## Huge Shift in Tax Freedom Day

"Tax Freedom Day this year is 11 May, as far as the central government tax burden is concerned", Roger Kerr, executive director of the New Zealand Business Roundtable, said today.

Mr Kerr said Tax Freedom Day represents the notional day in the year when the average New Zealander stops working for the government and starts working for themselves.

"The average New Zealander effectively spends more than one third of the year working for central government."

Mr Kerr said that the calculation of 11 May was based on central government core expenditure, which amounts to 35.8 percent of gross domestic product (GDP) according to the government's December 2008 Economic and Fiscal Update.

"On that basis, Tax Freedom Day is 12 days later than calculated a year ago when Tax Freedom Day 2008 was expected to fall on 29 April. Revised data indicate that Tax Freedom Day actually fell on 8 May in 2008 because government spending was higher than forecast while GDP was lower than expected. Over the past two years Tax Freedom Day has been pushed out by a whopping 14 days."

Mr Kerr said that the government's planned spending cuts and proposals to control central and local government spending were good news for taxpayers and had the potential to pull Tax Freedom Day back significantly in the next few years.

"In the meantime, however, the government has indicated that its 'main' December 2008 forecasts are now optimistic and that its 'downside scenario' provides a better indication of the most likely outcome. In that event, Tax Freedom Day 2009 will be delayed by a further 6 days until 17 May", he said.

Mr Kerr said that the Business Roundtable regarded government spending as the best measure of the overall tax burden because almost all government spending ultimately has to be financed from present or deferred taxation (borrowing). It 'looks through' periods when the budget is in deficit or surplus. The three-year programme of personal tax cuts, which started in April 2009, will not affect Tax Freedom Day unless it is accompanied by a change in the ratio of spending to GDP.

Indeed the core central government spending measure understates the true tax burden because it leaves out or underestimates elements of government spending such as local government outlays. If these are included, total government spending in New Zealand, as measured by the OECD, is projected to be 44.6 percent of GDP in 2009. On this basis, Tax Freedom Day would fall on 13 June.

This broader measure highlights the extent to which New Zealand is a relatively high-taxed country. Compared with New Zealand, Tax Freedom Day on this

measure comes more than a month earlier in Korea (27 April), Switzerland (2 May), Slovak Republic (7 May) and Australia (9 May), over three weeks earlier in Japan (17 May) and more than two weeks earlier in the United States (26 May) and Spain (29 May).

Indeed, on the basis of the broader measure, Tax Freedom Day for the OECD as a whole (3 June) falls before Tax Freedom Day in New Zealand. Moreover, a number of fast-growing Asian and other countries have levels of government spending, and hence tax burdens, that are well below the OECD average.

If the tax burden is measured as a ratio of taxation to GDP instead of spending, the picture of New Zealand as a highly taxed country is accentuated. The latest OECD figures show that the ratio of 'general government total tax and non-tax receipts' to GDP for New Zealand is 44 percent for 2009, well above the average OECD ratio of 38.2 percent and even higher than Germany's ratio of 43 percent.

"While soundly based government spending on public goods and a safety net is justified, economic research suggests that beyond a certain point, government spending and taxation are harmful to economic growth", Mr Kerr said. "No country has achieved per capita growth rates of 4 percent or more a year on a sustained basis with general government spending of around 40 percent or more of GDP. The massive spend-up by the previous government has done huge damage to the economy's growth performance and helped bring on the recession.

"It follows as a matter of logic that a necessary (though not sufficient) condition for faster growth is that the share of government spending in the economy must be decisively reduced, and the quality of spending improved, if New Zealand is to close the income gap with Australia by 2025", said Mr Kerr.

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