

Media Release



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No Respite on Tax Freedom Day

"Tax Freedom Day this year is again 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 is forecast to be 35.5 percent of gross domestic product (GDP) in the government's December 2009 *Half Year Economic and Fiscal Update*.

"Tax Freedom Day in 2008 and 2009 fell on 10 and 11 May respectively, according to revised data. However, it arrived two weeks earlier in 2007 (27 April). The big delay in the arrival of Tax Freedom Day since then reflects the rapid growth of spending during the last term of the previous government. The present government's forecasts indicate little relief for taxpayers in the next three years.

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.

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 43.3 percent of GDP in 2010. On this basis, Tax Freedom Day would fall on 8 June in 2010 compared with 13 June in 2009.

This broader measure highlights the extent to which New Zealand is a relatively high-taxed country. Compared with New Zealand, Tax Freedom Day on the broader measure comes more than a month earlier in Korea (25 April) and Switzerland (6 May), three weeks earlier in Australia (15 May), and one to two weeks earlier in the Slovak Republic (23 May), Japan (31 May) and the United States (1 June).

In a break with recent outcomes, Tax Freedom Day for the OECD as a whole (14 June) falls after Tax Freedom Day in New Zealand. This reflects the sharp expansion in spending by many OECD countries, partly in response to the global financial crisis. It highlights the need for "large scale fiscal adjustment" as countries recover from the economic downturn which is recommended by the International Monetary Fund.

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. Their advantage has increased as they have not generally increased spending to the same extent as developed countries.

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 40 percent for 2010, well above the average OECD ratio of 36.6 percent and much higher than Australia's ratio of 33.1 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."

"The Taskforce charged with charting a course to close the gap in trans-Tasman per capita incomes by 2025 reported, 'It is all but impossible that New Zealand's per capita economic growth can be doubled – which is what achieving the 2025 goal means – with government spending as large as it is now.' "

"The Taskforce observed that the government's fiscal strategy announced in the 2009 budget largely ratified the rise in the level of government spending under Labour and offered no specific plans to reverse past increases to any meaningful extent."

"The government needs to take further steps to reduce government spending and implement new procedures such as legislated tax and expenditure limits to control central and local government spending if the income gap is to be closed and Tax Freedom Day advanced", Mr Kerr said.

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