

Media Release



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LITTLE RESPITE ON TAX FREEDOM DAY

"Tax Freedom Day this year is 3 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 one third of the year working for central government."

Mr Kerr said that the calculation of 3 May was based on central government core expenditure, which was forecast to be 33.4 percent of gross domestic product (GDP) in the government's December 2010 Half Year Economic and Fiscal Update.

"Tax Freedom Day in 2009 and 2010 fell on 4 and 8 May respectively, according to revised data. The apparent improvement may prove to be short-lived when the government's expenditure and GDP forecasts are updated in the budget.

"Tax Freedom Day arrived over two weeks earlier in 2004 (16 April). The delay in the arrival of Tax Freedom Day since then largely 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 43.8 percent of GDP in 2011. On this basis, Tax Freedom Day would fall on 10 June 2011, one day earlier than in 2010.

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 almost two months earlier in Korea (13 April), more than a month earlier in Switzerland (2 May) and Australia (7 May), and one to two weeks earlier in the Slovak Republic (21 May), Japan (29 May) and the United States (31 May).

Tax Freedom Day for the OECD as a whole (9 June) falls a day earlier than in New Zealand.

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 in the recent past as they have not generally increased spending to the same extent as developed countries.

"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 in 2010, "Our reading of the economic literature and the historical evidence suggests that closing an income gap of the size New Zealand faces, and reversing our decades of relative decline, cannot be done with government spending at more than 40 percent of GDP as it is in New Zealand at present."

The Business Roundtable agrees with the Taskforce's assessment that "A much greater sense of urgency and ambition will be needed to remove the policy initiatives and regulations that inhibit economic growth. In the medium term, New Zealand will need to consider ways of imposing greater fiscal discipline to ensure we can surpass Australia's relatively small share of government spending in GDP and the relative stability of that share of spending over time."

"The government needs to take meaningful steps in the budget to reduce the government spending share of national income 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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