

# Who pays how much tax?

PKF Francis Aickin Ltd

In the first article of our short series on election issues we posed some questions on the highly emotive issue of the sale of shareholdings in state-owned enterprises, in an attempt to guide those who are interested in good business towards some rational thinking. In this article we'll deal with taxation, and provide some facts on who pays what. For with information and understanding, hopefully people make better decisions.

There is always much debate about who should pay how much tax. So far we've heard a lot about who should pay more or less, but nothing about who actually pays what now.

At PKF we deal with over a thousand tax returns every year, so our team have put their heads together and come up with a range of households which are a reasonable reflection of the range of Far North household incomes, and then we've worked out what tax they pay.

In the range of households in the table, we've included their income tax liability, family tax credits and accommodation allowances, and GST. People typically know how much income tax they pay, but forget tax

credits such as Working For Families, which is in fact a negative tax. For GST we have made the assumption that on average, about half of every household's nett income is spent on items which include GST. We have also assumed that all of these households have two school children.

Income — nett tax payable:  
Beneficiary family (one part-time job earning \$4,160 pa)  
\$28,000 . . . -3,089.

Low income family (\$30,000 + \$5000)  
\$35,000 . . . -\$3,177

Mid income family (\$40,000 x 2)  
\$80,000 . . . \$14,382

High income family (\$120,000 + \$30,000)  
\$150,000 . . . \$42,304

Very high income (\$220,000 + 0)  
\$220,000 . . . \$73,725

So apart from the obvious, what does this tell us?

1. Lowering tax rates/increasing tax credits for low income earners, whilst it might provide small welcome relief, is really only tinkering. How much less can you pay when you pay nothing already?

2. The better way to improve nett household

incomes is to improve their earning capability. Clearly, there is a huge financial pay back for New Zealand by converting households from beneficiary and low income status, up the ladder to middle income earners, let alone the non-financial benefits of putting people into rewarding occupations.

3. There is also a pretty good pay back for New Zealand by investing in education and training to move lower income earners and beneficiaries into higher income work. To convert the low income family into a mid income family, there is a 'fund' from the additional tax they'll pay of about \$17,000 a year to provide training and incentives.

4. New Zealand has to be wary of falling into that spiral towards what we can now call 'The Greek Syndrome,' where there are many takers but few payers.

5. Currently there is a tax incentive for higher income earners not to flee to Aussie, as the Aussie rates are higher for these individuals. Let's not discourage the higher income earners from staying here, and earning more. Look at what they contribute to the financial capability of New Zealand to invest in itself and its people.

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