ISSUEANALYSIS

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Why tax cuts are good for growth

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EXECUTIVE SUMMARY

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- Economic growth involves a number of factors, which are often difficult to isolate. Tax cuts are no silver bullet on their own, but research shows they can have a significant positive impact on economic growth.
- Tax causes people to make different economic decisions than they otherwise would—such as whether to start work, work longer hours, acquire new skills or expand their business.
- These changes in behaviour can be measured and are known as 'deadweight losses'. This is the amount of money that is lost from the economy, on top of what the government actually collects in revenue. Studies show that taxing labour costs the economy at least $1.20 for every $1 raised.
- In New Zealand's case, the large amount of extra tax paid since 2000 means that at least **$4 billion** of potential wealth has been sacrificed (at the most conservative estimate).
- Productivity is a key issue for economic growth. Lower tax can help by giving firms more leeway to invest in capital, training, and research and development. It would also encourage risk-taking and entrepreneurship by making such activities more rewarding.
- Getting people into the workforce is another key to economic growth, but New Zealand has some of the worst incentives for people moving off benefits into work—particularly for sole parents. Tax combined with benefit abatement means that many people face an effective marginal tax rate of 91%.
- Governments around the world use tax as a competitive tool to attract investment and skilled workers. Over the past decade New Zealand is alone in going against the OECD trend of lowering taxes.
- Flatter and lower tax rates are better for growth than tax concessions because they reduce distortions and allow the market to function better.
- Substantial tax cuts are affordable through the Budget surplus and controlling future expenditure. The cost of tax cuts is likely to have been over-estimated.

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Introduction

Many voters support tax cuts because it means more money in the pocket. However reducing the level of tax can also have a substantial positive impact on economic growth, which means more jobs, opportunities and a higher standard of living for all New Zealanders.

Growth is a big issue for New Zealand. Since the 1950s our standard of living has slipped compared to other countries, and the major reforms of the 1980s and 1990s have only really stopped the decline rather than gained us any ground. Thanks to higher growth rates, incomes in Australia are now a third higher on average than in New Zealand. Twenty-one thousand Kiwis now permanently cross the Tasman every year.

It is worth noting that Australia is a lower taxing country, with the government taking 31.6% of GDP. In New Zealand 34.9% of all wealth created is confiscated by the government and transferred to the public sector.[1] Inevitably this level of taxation will have an impact on economic growth.

This is not to say that lower tax is a guarantor of growth or the only requirement. So many different things affect the economy that it is near impossible to prove causality. Nevertheless, research, theory and common sense tell us that tax will have a major impact. The level of tax, and the different kinds of tax employed, will create different incentives and therefore affect behaviour and outputs.

A lower tax rate can help by making it more rewarding for people to enter the workforce, work longer hours and at greater intensity.

Governments know that economic incentives matter. That is why they effectively tax cigarette smoking and fine speeding drivers—to discourage those kinds of behaviours. Taxing work, employment and business success will surely have the same impact.

There are also strong moral arguments for lower taxes, the most important being the right people have to keep more of what they earn for themselves and their families. However this paper focuses solely on how reducing New Zealand's tax burden can help economic growth and create a more prosperous nation.

In particular, this paper argues that lower and flatter taxes (both personal and corporate) are the best vehicle for maximising growth. The rest of this paper explains why and how.

The ingredients for growth

There is general agreement in New Zealand that the two main ingredients for economic growth are productivity and labour participation.[2]

More people in the workforce means more wealth created, more tax paid and less welfare expenditure. On this front New Zealand has done well in recent years although there is still room for improvement (a following section explains this in more detail). A lower tax rate can help by making it more rewarding for people to enter the workforce, work longer hours and at greater intensity.

The impact is similar for productivity. New Zealanders work about the average amount of hours by world standards, but productivity—the value created for those hours—lags behind other countries.[3] In effect, we have to work harder to produce the same amount of wealth other countries can produce in a shorter time.

Lower taxes can help by making it more rewarding to invest in areas that boost productivity, such as:

- capital (for example, new machinery and equipment);
- research and development (New Zealand is below the OECD average for private sector investment in R&D); and
- human capital (developing more skilled and productive workers, through training and education).

The deadweight cost of tax

The imposition of tax causes people to make different decisions than they otherwise would, such as whether to invest in new skills or training, to start a new company, how many hours to work, or even whether to enter the workforce. The value of this lost output is called 'deadweight losses', caused by people switching from higher valued to lower valued economic activities. It is the amount of money that is lost from the economy in excess of what the government collects in revenue.

New Zealand Herald economics editor Brian Fallow uses this example:

> For example, tax beer more than wine and people may end up drinking more wine and less beer than they would if their choices were not distorted by tax. Tax the income from labour and you affect how people divide their time between work and leisure.[4]

The same applies to business decisions. Higher tax rates reduce the potential return from risk-taking and entrepreneurship, which means that many potential, successful businesses have never started up or expanded.

Therefore the cost of collecting tax is not always 1:1; it will often have a higher cost to society and the economy. Reducing the level of tax will reduce these deadweight costs.

A range of studies have attempted to estimate the exact level of losses both in New Zealand and around the world. In 1994 a Treasury-commissioned study calculated that the deadweight loss from taxing labour and consumption was $1.20 per $1 raised.[5] Winton Bates updated this estimate in 2001 and concluded that it was closer to $1.50.[6] A cost-benefit guide used by the Treasury for new spending recommends a default cost of $1.20, 'in the absence of an alternative evidence based value.'[7]

Since 2000 the amount of tax paid by New Zealanders has increased by 62%, from $32 billion to $52 billion.[8] If we use the conservative deadweight estimate of $1.20, then that is **$4 billion** in potential wealth that has been sacrificed at the altar of taxation.

Many potential workers, especially women and beneficiaries, are discouraged from entering the labour market because of harsh effective marginal tax rates

Encouraging people to work

A large amount of the deadweight loss caused by tax comes through the labour market. The elasticity of labour is important. Will taxes encourage people to enter the workforce and/or to work more hours? Clearly, the more people there are working, the wealthier New Zealand will be.

Much of the research shows that changes in net wages have little impact on labour participation for males, but for women it is a different story. Female labour force participation, and the hours worked, is much more responsive to changes in net income.[9]

Many potential workers, especially women and beneficiaries, are discouraged from entering the labour market because of harsh effective marginal tax rates (EMTRs). With each additional dollar earned, workers pay tax and may have their benefit reduced because of the increased income. This combination means that often they are hardly any better off. This problem has been worsened by the Working for Families package.

As part of the package, the 'Inwork payment' replaces the Child Tax Credit and has the deliberate goal of making full-time work more attractive. It is an excellent objective, but like most government tinkering, it creates problems elsewhere in the system. EMTRs are now much higher for many working families and in particular for beneficiaries moving into part-time work.

For example, moving from the unemployment benefit or domestic purposes benefit (DPB) into part time work (earning up to $20,000 a year) now incurs an EMTR of 91%.[10] When reductions in the accommodation supplement and childcare subsidies are taken into account, it is possible that some families will actually be *worse* off if they receive a pay rise or work extra hours.[11] It means that for many single parents it isn't worth the effort to start working part-time.

The problem is the same, although not as extreme, for two parent families. With one partner earning the average wage of $40,000, the second partner will face EMTRs of between 35% and 55% as they begin earning up to $40,000.[12]

This is the fundamental problem with a progressive tax and welfare system: the more tightly targeted it is, the greater disincentive it creates to work harder. Lower and flatter taxes are not the sole answer, but they can improve the situation by making work more rewarding and removing these disincentives to success.

In total, 350,000 families are now eligible for Family Assistance and as such will face higher EMTRs. Economist Gareth Morgan laments the impact that these disincentives will have: 'With an economy that has desperately low productivity growth this standard of policy contribution is simply digging the hole deeper.'[13]

Tax rates also have an impact on high-income earners and the self-employed, who have more flexibility and control over the hours they work. Their taxable income (which reflects not only hours worked but the intensity and productivity) tends to be responsive to changes in tax, in that lower tax results in more income reported. This demonstrates the high economic cost of taxing the most productive individuals.[14]

Rasing the top rate of personal tax to 39% has exacerbated this problem. And thanks to 'bracket creep', even a single worker on the average fulltime wage ($43,000) now faces a marginal tax rate of 33% in the dollar. These marginal rates—the rate of tax paid on the next dollar earned—are the most influential on behaviour, and New Zealand has high rates for nearly every group in society. This is why the Treasury urged the government to reduce marginal tax rates last year:

Overall, one in 12 working-age New Zealanders receives an income-tested benefit.

> In an economy like New Zealand's—with high participation rates and mobile labour and capital—these dynamic effects of high marginal tax rates on productivity are likely to have the greatest impact on growth.[15]

Isn't New Zealand's labour market already at full capacity?

New Zealand has an unemployment rate of 3.6% as of August 2006, the second lowest in the OECD. The number of people on the unemployment benefit has dropped by over two-thirds since 2001[16] and the job participation rate is at an all-time high of 68.8%.[17] Does this mean there are no more people to enter the workforce, and that changing incentives won't make a difference?

There are plenty of signs this isn't the case. For a start, numbers on the DPB—which has the worst disincentives to work—are still high at 101,000, and this has barely changed in five years.[18]

There has also been a large increase in numbers on the sickness benefit (up 10,000) and invalids benefit (up 17,000), with concerns raised over how legitimate many of these transferrals are.[19] Overall, one in 12 working-age New Zealanders receives an income-tested benefit.[20]

There are also signs that a large number of people are considering work but without real urgency, such as the semi-retired or second-earners. This is suggested by the large discrepancy between the numbers of people who say they are seeking work (86,000 according to the Household Labour Force Survey)[21] and those actually receiving the unemployment benefit (under 40,000).[22] Many people will not be eligible for the benefit because of their assets, their partner's earnings, or because they don't feel they need the benefit.

Even the New Zealand Council of Trade Unions has recognised this, noting 'this still means there is room for active labour market policies to assist more people into work … the key labour market issue right now is how to attract workers.'[23]

Finally, it is worth emphasising that the deadweight losses described above don't come solely from people entering the workforce, but also the number of hours worked and the work intensity. This is best measured by the taxable income and recent studies show it has a strong relationship to changes in tax.[24]

International competitiveness

As well as the local influence tax has on economic growth, it is also important in attracting skilled workers and businesses into New Zealand. Skilled labour and capital are increasingly mobile and there is increasing competition among countries to recruit this talent.

This is important because New Zealand is a highly taxed country on a world scale. The government's tax take for 2003 was 34.9% of GDP, higher than the weighted OECD average of 31%. It is also higher than most of our major trading partners and regional neighbours, including Australia, which takes 31.6% of GDP in tax.[25]

Do businesses move and invest because of tax?

Companies will look at a range of factors when deciding where and how to invest, including:

- The regulatory environment; is there a lot of red tape to deal with?
- A skilled workforce; can they find the right workers?
- Access to markets (for example, Ireland had an advantage as a gateway to the EU).
- The cost of setting up and employing people, which is affected by tax.

It is impossible to quantify the exact impact tax has among the range of other factors. Often it is not the dominant factor, but it is one area the government has direct control over.

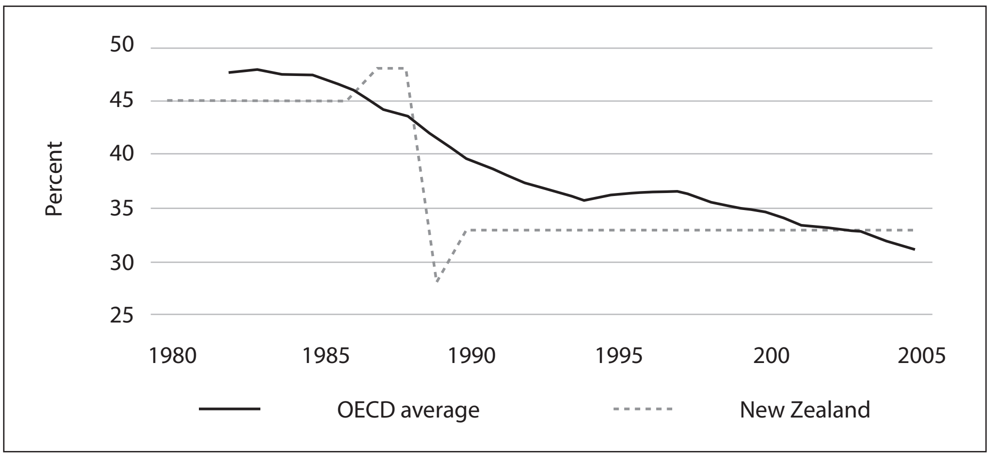
The importance of corporate tax for competitiveness has been recognised by the government in its Business Tax Review, which notes that 'A company tax rate higher than those of our trading and investment partners puts pressure on the New Zealand tax system because it creates incentives to stream profits to countries that have lower tax rates.'[26] It also notes Australia's lower rate of 30%, compared to New Zealand's rate of 33%, and the disincentive this creates for international firms wanting to locate in New Zealand.

There has been a consistent downward trend in tax rates around the world over the last 15 years, for both corporate and personal rates. New Zealand is one of the few countries to buck the trend, causing the IRD to warn that: 'A key concern is whether we will be able to continue to collect as much company tax as we do at present if we do not lower the rate of company tax.'[27]

In 1990 New Zealand's corporate rate of 33% was well below the OECD average of 40%. The global average is now 28.3% and continuing to track down.

As well as the local influence tax has on economic growth, it is also important in attracting skilled workers and businesses into New Zealand.

NZ vs the world: corporate tax rate



Source: The Treasury[28]

Accounting firm KPMG noted the importance of tax in its 2004 and 2006 global surveys of corporate tax rates:

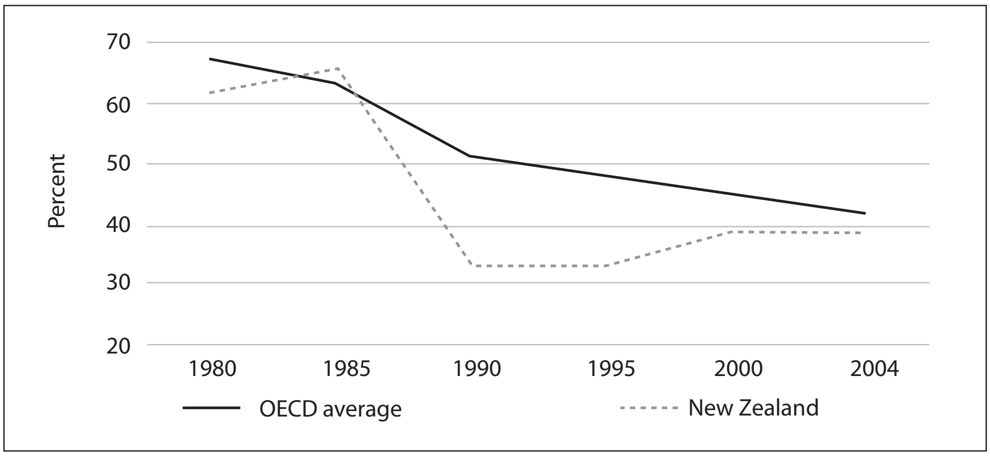
> What we are now experiencing is an intensity in global tax competition for internationally mobile capital. In turn, this is leading to investment analysis becoming increasingly sensitive to taxation.
>
> KPMG has some corporate clients who complain of losing work to foreign jurisdictions because the high New Zealand tax cost makes their tenders uncompetitive.[29]

The importance of personal tax

The global trend for personal tax rates is also downward. New Zealand's top rate of 39% is still relatively low by world standards, but it cuts in at just 1.4 times the average wage, one of the lowest thresholds in the world. Thanks to bracket creep, a worker on the average wage now pays a marginal tax rate of 33% compared to 21% a decade ago.[31]

New Zealand's top rate of 39% is still relatively low by world standards, but it cuts in at just 1.4 times the average wage, one of the lowest thresholds in the world.

Top Marginal personal tax rates



Source: The Treasury[32]

There are a range of reasons why individuals move countries and many of them are intangible, such as weather, family, friends and the challenge of starting a new life.

Money is clearly a major factor though, and most expats earn higher than the average New Zealand income.[33] In particular, our nearest neighbour Australia has an average income over a third higher than New Zealand.[34] Last year 20,400 New Zealanders emigrated across the Tasman.[35]

Trying to isolate exactly how much of an influence tax has on migration decisions is impossible. However an IMF study from 2002 is one of the few to try and put some numbers around this area. It concluded that as much as 7–30% of the cost of tax cuts could be offset by reducing the cost of migration:

> Emigration induced by the tax and social security system involves true economic waste. In an economy with highly mobile labour, the welfare cost [to NZ] of migration should be taken into consideration when reforming tax and social security systems. In particular, a high income tax burden could have strongly negative effects on GDP and the welfare of the nation.[36]

Research by the Australian Chamber of Commerce and Industry (ACCI) suggests that while individuals don't necessarily leave Australia because of tax, it is a factor in deciding whether to return.[37]

Business leaders, tax experts, immigration consultants, recruitment specialists and politicians have all publicly acknowledged that tax is an effective tool for attracting migration.[38]

Even the government itself has acknowledged the pulling power of lower taxes through various initiatives. For example, a taxation bill introduced last year had the purpose of 'assisting the recruitment of top talent by providing a temporary tax exemption on the foreign income of new migrants'.[39]

What kinds of tax cuts are best for growth?

This is a very important question; in fact some research has claimed that the *makeup* of taxation is just as important to growth as the level of taxation.[40]

The government's recent Business Tax Review floated the possibility of tax concessions for these activities, in particular for exports and research and development. The reasoning is that targeted measures will have more 'productivity bang for the buck' than a general cut.

The previous Issue Analysis in this series, *How to fix a leaky tax system*, examined this argument and explained why targeted tax concessions are a poor choice. Concessions encourage tax avoidance and force higher than necessary taxes onto other industries. They are risky in that they assume the government has better knowledge and judgement than the market. And because they deliberately distort economic behaviours they will inevitably have higher deadweight costs.

Economic research has noted the impact distortionary taxes (such as income tax) have on economic growth, as compared to non-distortionary taxes (such as broad-based consumption taxes).[41] The Treasury has also described a broad-based, low-rate (BB-LR) system as 'a foundational principle for a taxation system which seeks to support economic growth':

> BB-LR taxation helps to support economic growth by minimising distortions arising from the harmful impact of tax on incentives and relative prices that may adversely distort behaviour and the allocation of resources.
>
> From a purely growth perspective without taking into account other welfare implications, moving to a flat tax rate is likely to have the greatest impact on economic growth as it conforms most closely to the BB-LR principle.[42]

As the quality of econometric research becomes more rigorous the relationship between the level of tax and economic growth is becoming clearer

Does tax actually make a difference?

'The claim that cutting taxes leads to higher economic growth is simply not true.'
Hon Dr Michael Cullen, Minister of Finance

Despite all this theory, do taxes actually make a difference in the real world? Is there empirical evidence to show that reducing the level of tax is linked to higher growth?

Dr Cullen is right in that tax cuts are not a magic solution or a guarantee of growth. The economy is a complicated beast and there are many different influences that could overshadow the effects of tax cuts. Therefore it is almost impossible to isolate the effect of just one input, however important it might be, and to prove causality as well as the direction of causality.

However, as the quality of econometric research becomes more rigorous the relationship between the level of tax and economic growth is becoming clearer. Some of the main studies include:

- Barro (1990) for the OECD concluded that when the government is very small, public spending on key assets such as infrastructure, a proper legal system and basic education has a positive impact on growth. However, once the size of government reaches a certain level it depresses growth as more and more resources are diverted from the productive private sector.[43]

- Robson (2005) surveyed a wide range of literature and found a strong correlation between lower taxes and economic growth. From 1980 to 2000, in economies where substantial tax cuts took place, per capita economic growth rates were almost double those in economies where no substantial cuts took place.[44]

- Two reports by the OECD have estimated the cost to be even higher; they associate a one percent increase in the tax to GDP ratio with a 0.6% to 0.7% reduction in per capita income.[45]

- A recent paper by Lee and Gordon (2005) suggests a strong negative relationship between the company tax rate and economic growth. It estimates that a 10% cut in corporate tax will raise the annual growth rate by one to two percentage points.[46]

New Zealand is a highly taxed country. Deep company tax cuts can be afforded if the government has the political willpower

The trend is obvious around the world today. The fastest growing countries are the USA, Australia and the Asian nations, which are reducing tax, while the high taxing European nations (France, Italy, Germany and in Scandinavia) are stagnant.

The government's own economic advisors in the Treasury have regularly urged the Finance Minister to lower taxes for growth, to no avail:

> The design of tax policies can have a significant impact on economic growth. Tax policy is a major tool that can assist in promoting economic growth… the most recent evidence suggests that, while [the current regime is] sound, reform of the tax regime could better support economic growth.

In July this year the government finally acknowledged the role tax can play, after years of denying it has any significant impact. The Business Tax Review is something of a turning point, in that the government acknowledges and outlines how tax cuts (to the corporate rate only, at this stage) can help economic growth.

Can we afford it?

New Zealand is a highly taxed country. Deep company tax cuts (and cuts to personal income tax) can be afforded if the government has the political willpower.

In nominal terms, the government collects 62% more tax than it did in 2000. This year's budget has a surplus of $11 billion and a cash surplus of $3 billion.[47]

Even using the conservative cash surplus of $3 billion would allow for significant cuts. For example, the top, middle and corporate tax rates could all be dropped to 30% and the lower-middle rate could be lowered to 18% all for $3.15 billion, according to Treasury's estimates.[48] This could be done without even touching current spending or debt repayment.

Future budgets have an annual $1.9 billion provision for unallocated spending. This money could also be used for tax reduction.

Controlling the increase in government spending would allow for even more substantial tax cuts. A combined report released earlier this year by Federated Farmers, Business New Zealand and the Business Roundtable outlined an achievable five-year plan of how to lower spending and taxes, to achieve a top personal and corporate rate of 28%.[49]

Finally, it is worth remembering that all the estimates of how much tax cuts would cost are static, in that they don't take account of the extra growth and revenue that will be generated as a result. This is not to say that tax cuts will be self-funding but that most methods overestimate the true cost.

This is especially true for New Zealand where there is a high level of tax evasion and avoidance.[50] Making taxes lower and flatter will bring many tax evaders out of the closet.

Conclusion

The movement for lower taxes is not an ideological exercise or a way for the rich to make more money. It is a key factor in lifting our living standards and creating more opportunities for all New Zealanders.

Taxes are necessary to run a civilised society, but there needs to be more honesty around the costs that taxation imposes. The disincentives it creates to work, the deadweight costs it imposes and the affect it has on our international competitiveness all need to be acknowledged.

The government has repeatedly said it wants economic transformation, higher growth and to reach the top half of the OECD. Until the issue of taxation is addressed, and in a coherent manner, it is unlikely much progress will be made.

Lower taxes are a key factor in lifting our living standards and creating more opportunities for all New Zealanders.

Endnotes

[1] See Phil Rennie, *Are New Zealanders paying too much tax?* Issue Analysis No 71 (Sydney: The Centre for Independent Studies, May 2006).

[2] See *New Zealand Economic Growth: An Analysis of Performance and Policy,* New Zealand Treasury April 2004; *Productivity Perspectives*, Business New Zealand, 19 December 2005, and the Council of Trade Union's website: http://union.org.nz/workplaceproductivity.html. In 2004 the government established the Workplace Productivity Working Group, including representatives from Business New Zealand, trade unions, the public and private sectors, and academia. See also the OECD's view: Jean-Philippe Cotis, OECD Chief Economist, *Boosting incomes and jobs: The OECD strategy*, speech delivered on 18 September 2006: http://www.oecd.org/dataoecd/8/47/37452674.pdf.

[3] See *Productivity Perspectives,* Business New Zealand, 19 December 2005, for how New Zealand has historically lagged. New Zealanders work longer hours than Europeans but fewer than Australians or Americans: http://www.dol.govt.nz/futureofwork/workplace-normalhours.asp.

[4] 'Company tax a deadweight issue that splits the party', *New Zealand Herald*, 8 July 2002.

[5] Erwin Diewert and Denis Lawrence, *The Marginal Costs of Taxation in New Zealand* (Wellington: Business Roundtable, 1994).

[6] Winton Bates, *How much government?: The effects of High Government Spending on Economic Performance* (Wellington: New Zealand Business Roundtable, 2001).

[7] *Cost Benefit Analysis Primer*, New Zealand Treasury (Wellington: December 2005) http://www.treasury.govt.nz/costbenefitanalysis/.

[8] Financial statements of the Government of New Zealand for the year ended 30 June 2006, 11 October 2006, p 25 http://www.treasury.govt.nz/financialstatements/year/jun06/cfsyjun06.pdf

[9] See Jean-Philippe Cotis, OECD Chief Economist, *Boosting incomes and jobs: The OECD strategy*, speech delivered on 18 September 2006 (http://www.oecd.org/dataoecd/8/47/37452674.pdf), p 4: 'Our research shows that high labour taxes on married women keep them out of the labour market.' Also see Sinclair Davidson, *Are There Any Good Arguments Against Cutting Income Taxes?* Policy Monograph No 69 (Sydney: The Centre for Independent Studies, August 2005) which examines the arguments around the income and substitution effects, and the impact tax has on hours worked.

[10] *Proposed Increase to Family Assistance: Implications for Family Incomes and Work Incentives*, Briefing paper from the Ministry of Social Development, 2 November 2005, p 18.

[11] See economist Gareth Morgan's example 'A nation of bludgers', 1 December 2005 http://nbr.infometrics.co.nz/a-nation-of-bludgers_1039.html.

[12] *Proposed Increase to Family Assistance: Implications for Family Incomes and Work Incentives,* Briefing paper from the Ministry of Social Development, 2 November 2005, Appendix B, p 20.

[13] Morgan, 'A nation of bludgers', 1 December 2005.

[14] See Alex Robson, *The Costs of Taxation,* Policy Monograph No 68 (Sydney: The Centre for Independent Studies, May 2005), p 7, and Sinclair Davidson *Are There Any Good Arguments Against Cutting Tax?* Policy Monograph No 69 (Sydney: Centre for Independent Studies, August 2005) which both analyse the effect tax rates have on taxable income of the wealthy. Also see the work of Nobel Prize winner Edward C Prescott who argues that tax rates explain the difference in hours worked (and prosperity) between the USA and Europe.

[15] New Zealand Treasury, *Briefing to the Incoming Government 2005—Sustaining Growth* (Wellington: November 2005), p 18.

[16] Ministry of Social Development (MSD) benefit fact sheet, June 2006.

[17] Statistics New Zealand, Household Labour Force Survey (HLFS), 10 August 2006.

[18] MSD benefit fact sheet, June 2006

[19] The number of people on sickness and invalids benefits has increased by 50% since 1999. In 2004 the chairman of the Auckland GP and Independent Practitioners Association Council, Doug Baird, and chairman of the NZ Medical Association's general practitioner council, Peter Foley, raised concerns about the numbers of patients demanding to transfer from the unemployment benefit to the sickness or invalids benefit. See 'Benefit scam—doctors accuse WINZ', *New Zealand Herald*, 26 July 2004.

[20] There are 280,000 people receiving an income tested benefit (MSD fact sheet) and 3.2 million people aged between 18 and 64 (HLFS June 2006).

[21] Statistics New Zealand, HLFS March 2006.

[22] MSD benefit fact sheet, June 2006.

[23] Council of Trade Unions, 'Unemployment 2nd Lowest in OECD—But More Still to Be Done says CTU', press release, 10 August 2006

[24] See Robson, *The Costs of Taxation*.

[25] Rennie, *Are New Zealanders Paying too much Tax?*, p 3.

[26] Inland Revenue Department (IRD), *Business Tax Review: A Discussion Document* (Wellington: July 2006), p 3.

[27] IRD, *Briefing for the incoming Minister of Revenue* (Wellington: September 2005), p 31.

[28] Treasury, *Briefing to the Incoming Government 2005—Sustaining Growth*, p 29.

[29] KPMG press release 'Corporate tax rate downward trend continues' (March 2004). See also the 2006 survey.

[30] The weighted average threshold for the OECD is 5.6 times the average wage; see also Rennie, *Are New Zealanders Paying too much Tax?*

[31] As above.

[32] Treasury, *Briefing to the Incoming Government 2005—Sustaining Growth*, p 29.

[33] An online survey by the Kiwi Expat Association found that less than half of the respondents gave economic reasons for going oversees. Almost a third of respondents aged between 25 and 44 earned more than $NZ100,000, compared with about 3% in the New Zealand population as a whole. See 'Half ex-pat Kiwis homesick', http://tvnz.co.nz/view/page/425823/743231.

[34] Statistics New Zealand, *New Zealand in the OECD* (Wellington: 2005), p 24. http://www.stats.govt.nz/NR/rdonlyres/5090A93F-4D58-4D5E-BB27-9F55C001474D/0/GDPPerCapita.pdf

[35] Statistics New Zealand *External Migration* (Wellington: August 2006) http://www.stats.govt.nz/products-and-services/hot-off-the-press/external-migration/external-migration-aug06-hotp.htm?page=para001Master.

[36] IMF Working Paper, 'Implications of Migration on Income and Welfare of Nationals' (Washington DC: December 2002) http://www.imf.org/external/pubs/ft/wp/2002/wp02215.pdf

[37] Australian Chamber of Commerce and Industry, *Australia Needs Personal Income Tax Reform* (Canberra: December 2005).

[38] See Business New Zealand comments in 'Australia dangles bigger carrot', *Dominion Post*, 11 May 2006; Government Tax Review 2001, Issues Paper, p 17; comments from Jason Walker of Hays recruiting on Radio NZ, 10 May 2006; 'Come on over, Costello tells Kiwi taxpayers', *Dominion Post*, 20 May 2006.

[39] New Zealand Parliament, *Taxation* (*Depreciation, Payment Dates Alignment, FBT and Miscellaneous Provisions*) Bill 2005 (30 June 2005).

[40] See Arthur Grimes, *Economic Growth and the Size and Structure of Government: Implications for New Zealand* (Wellington: Motu and Economic and Public Policy Research Trust, University of Waikato, July 2003) and a speech by John Whitehead, Secretary to the Treasury, 'New Zealand's Economic Growth: A Near and A Far View', June 2004, http://www.treasury.govt.nz/speeches/nzae/#4

[41] Robert Barro 'Government Spending in a Simple Model of Exogenous Growth', *Journal of Political Economy* 98: 5 (1990), and 'Reforming Income Tax', OECD Policy Brief (Paris: OECD, March 2006), p 4, http://www.oecd.org/dataoecd/43/21/36346567.pdf.

[42] Treasury, *New Zealand Economic Growth: An Analysis of Performance and Policy* (Wellington: April 2004), http://www.treasury.govt.nz/release/economicgrowth/nzeg-app-apr04.pdf.

[43] Barro 'Government Spending in a Simple Model of Exogenous Growth', *Journal of Political Economy.*

[44] Alex Robson, *Taxation, Individual Incentives and Economic Growth* (Paris: Institute for Research on Economic and Fiscal Issues, 2005).

[45] OECD, *The Policy Agenda for Growth: An Overview of the Sources of Economic Growth in OECD Countries* (Paris: OECD 2003), and Andrea Bassanini, Stefano Scarpetta and Philip Hemmings, 'Economic Growth: The Role of Policies and Institutions—Panel Data Evidence from OECD Countries', OECD working paper (Paris: OECD January 2001).

[46] Young Lee and Roger Gordon, 'Tax Structure and Economic Growth', *Journal of Public Economics*, 89 (2005), pp 1027–1043.

[47] Financial statements of the Government of New Zealand for the year ended 30 June 2006, 11 October 2006, p 25 http://www.treasury.govt.nz/financialstatements/year/jun06/cfsyjun06.pdf

[48] New Zealand Treasury's Ready Reckoner, http://www.treasury.govt.nz/readyreckoner/reckoner.asp.

[49] The report is available here: http://www.scoop.co.nz/stories/BU0604/S00096.htm.

[50] See Phil Rennie *How to fix a leaky tax system*, Issue Analysis 74 (Sydney: The Centre for Independent Studies, September 2006)

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