Promoting equity & Wellbeing via reform of the New Zealand tax and welfare systems

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Executive summary

The changing economic landscape in New Zealand (NZ) and around the world necessitates a comprehensive rethink of how the tax and welfare systems currently function and the features that will be needed to keep up with these changes in the future.

This proposal considers the reform of the individual income tax regime to vastly simplify both tax compliance and enforcement, whilst simultaneously implementing a comprehensive welfare system by introducing a negative income tax (NIT) regime alongside a single tax-rate for individuals (collectively referred to as "the System").

The System promotes equity in NZ's tax and welfare systems by removing many of the economic distortions and systematic issues currently present, and addressing the current system's ineffectiveness at reducing inequality.

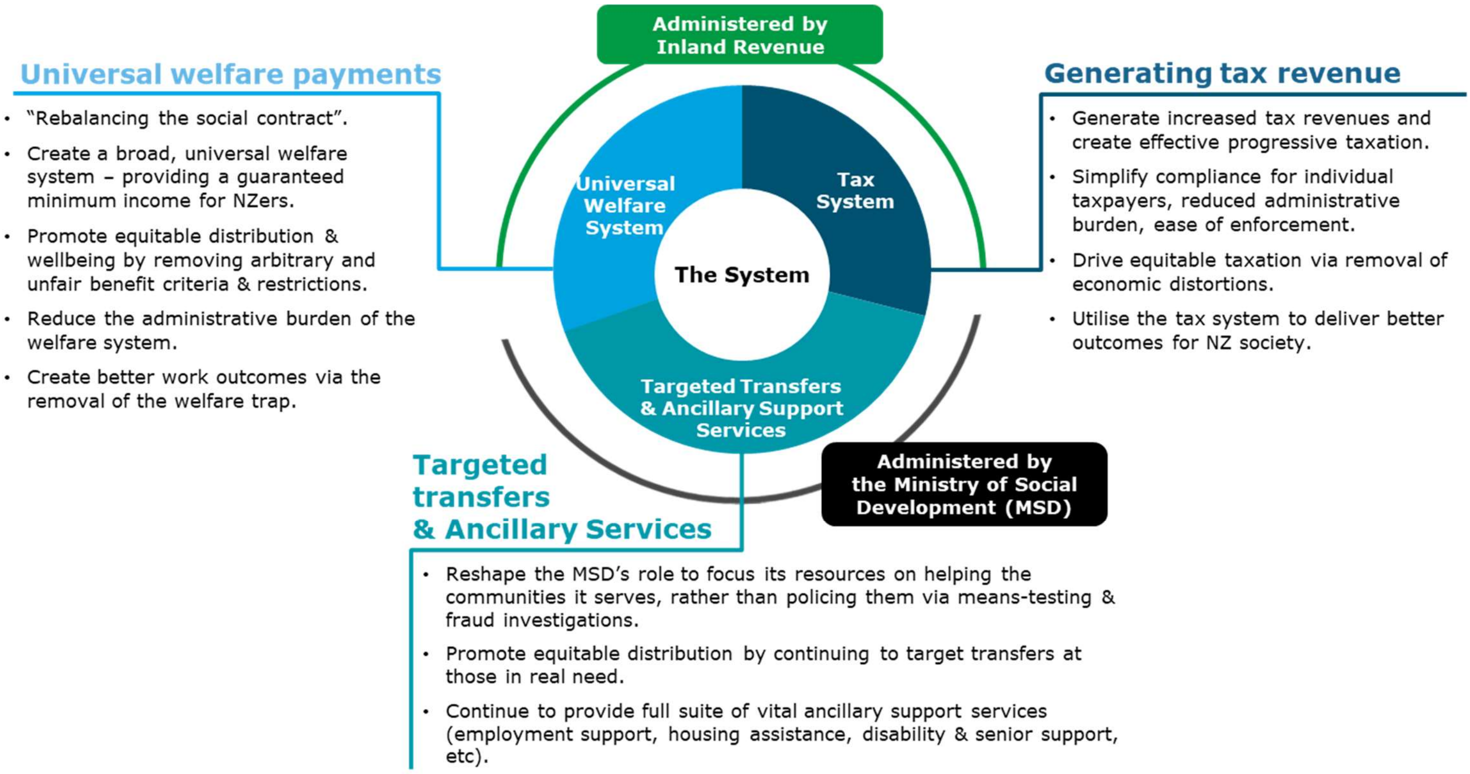
The System's implementation enables the reshaping of the Ministry of Social Development's (MSD's) role in NZ to better serve NZ society, to "rebalance the social contract",[1] and to reform the welfare system to make it more cost effective, simple and transparent.

Importantly, it is possible for the System to be fiscally neutral (or at least fiscally reasonable) without fundamentally altering the profile of NZ's tax-and-transfer system through reductions in Social Security and Welfare (SSW) spending, or the introduction of alternate taxes.

The System has the potential to bring major economic benefits, by driving GDP and economic growth, and supporting New Zealand's transition into the Future of Work.

It is also a system capable of dealing with the changing landscape of employment,[2] where jobs are becoming increasingly less stable, and avoids the pitfalls of the current welfare system, where people may actually be disincentivised from seeking employment.

The System addresses a number of urgent, complicated issues faced by NZ society by simplifying governmental functions and delivering equitable, Wellbeing focussed outcomes that benefit all NZer's.



[1] Pg. 40-42 Whakamana Tāngata

[2] As a result of the 'fourth industrial revolution'

New Zealand's changing economic landscape

In recent decades, countries across the world have seen unprecedented growth in levels of inequality,[3] with the division between those at the bottom and top of the socio-economic spectrum growing increasingly large. Even NZ – a nation that clearly produces more than enough for every individual to eat, be clothed, housed, and live a comfortable life – cannot escape these increasing levels of inequality.[4]

The divide between those with means and those without continues to grow. These trends are symptomatic of a system steadily driving the economic ends of the country further and further apart.

Two significant drivers of this are; (i) the shift towards an economy where the majority of wealth is generated by capital rather than labour (with a shift from labour to capital intensive means of production) which in turn makes providing everyone with jobs that pay a living wage less feasible; and (ii) the fact that, unlike the majority of our trading partners and other developed economies, NZ has no capital gains tax, wealth tax, death duty, stamp duty, or compulsory and tax incentivised retirement savings.[8]

Inequality in NZ

- One in five NZ children (more than 160,000) experience food insecurity.[3]
- More than 15% of NZ households that sit below the poverty line.[4]
- The top 20 percent of Kiwi households hold 70 percent of NZ's total net worth.[5]
- Inland Revenue recently disclosed that the number of High Wealth Individuals with assets in excess of $50million in NZ has grown by more 75% in the past 5 years.

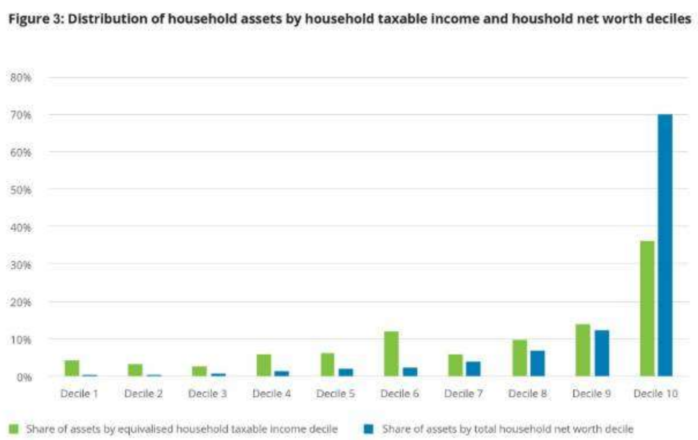


Figure 1 - NZ Household Wealth Distribution – Source: Tax Working Group

The NZ Government clearly agrees that societal measures beyond traditional economic indicators[9] are key to addressing these issues, with the recent release of the 'Wellbeing Budget' and the introduction of the NZ Living Standards Framework (LSF).[10] The economic focus, in NZ and globally, is shifting towards how society and social frameworks can improve the overall Wellbeing of all people, from food and housing to healthcare and political voice, rather than just their financial wellbeing.[11]

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[3] Both in terms of wealth & income inequality https://inequality.org/facts/income-inequality/

[4] Particularly wealth inequality, with considerable evidence showing it has grown over time, particularly post the Global Financial Crisis where economic stimulus efforts have had the direct effect of driving asset values higher. https://www.stuff.co.nz/business/opinion-analysis/115004967/focusing-on-wages-and-income-wont-budge-inequality

[5] https://www.childpoverty.org.nz/!/#/

[6] http://archive.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-social-indicators/Home/Standard%20of%20living/pop-low-incomes.aspx

[7] https://www.newshub.co.nz/home/new-zealand/2018/12/inequality-new-zealand-s-rich-getting-richer-while-poor-remain-static.html

[8] https://thespinoff.co.nz/society/30-07-2019/dont-eat-the-rich-just-set-hard-limits-on-their-greed/?fbclid=IwAR1TZ1iAUVTh0F8jH4DzLDYKgPn6aFdgm6VtImPSCb6ooXWnhRc-V1NFte8
https://thespinoff.co.nz/partner/budget-2019/29-05-2019/the-tax-empathy-gap-why-kiwis-dont-want-others-to-have-a-share/

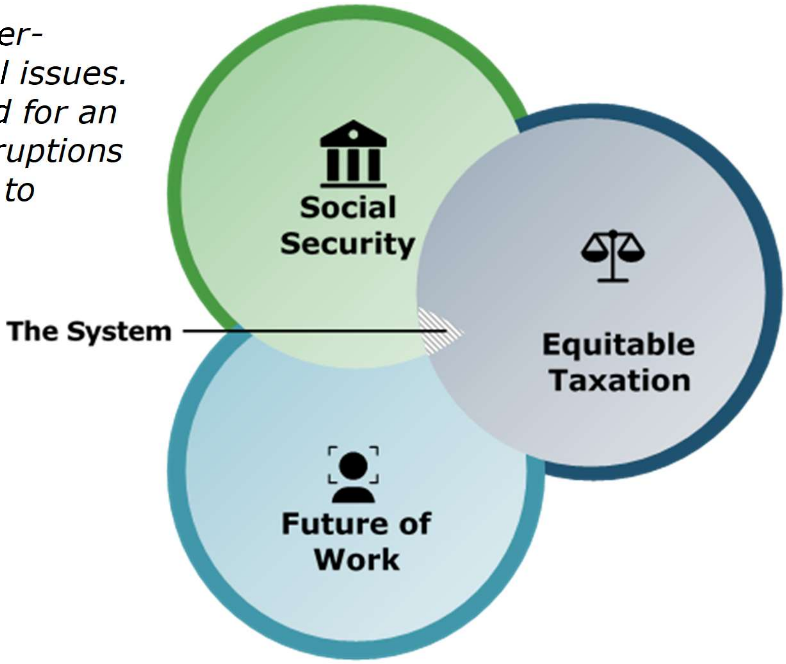
[9] such as GDP, which has been dismissed for more than 50 years as a poor measure of national wellbeing and economic success https://www.cusp.ac.uk/themes/aetw/rfk-gdp50/

[10] https://treasury.govt.nz/information-and-services/nz-economy/living-standards/our-living-standards-framework

[11] https://www.kateraworth.com/doughnut/

The System

The System is a solution to our ever-growing economic divide & societal issues. In particular, it addresses the need for an equitable taxation system, the disruptions in the way we work, and the need to improve our welfare system.



In reality, there are a number of variations of the System that could be used to achieve different results. For discussion purposes, I have limited this paper to the exploration of one model:

Tax-rate	33%
Tax exemption threshold	$31,500
Subsidy-rate	33%

A. Tax-rate

The 33% single-rate is intended to align with the current top tax-rate for individuals and the rate used for trustee income. It also aligns with the tax that is ultimately paid by a company when earnings are distributed to NZ resident shareholders.[12]

B. Tax exemption threshold (the Threshold)

The Threshold is the income level at which an individual becomes a net-taxpayer – below the Threshold the subsidy received is greater than the tax paid, so the individual is a net-recipient.

C. Subsidy rate

The subsidy rate interacts with the Threshold so that an individual receives total "subsidy payments" equivalent to 33% of the Threshold annually. To achieve different results, a different tax-rate can be used.

All qualifying NZ resident adults (16+) would receive these subsidy payments regardless of income level or means.

Examples of reasonable qualifying criterion might be NZ citizenship or permanent residency, with exemptions for non-residents working in NZ so that they are not severely disadvantaged (however, the level of subsidy should be pro-rated to their income, so that they are still net taxpayers).

The $31.5k Threshold has been deliberately chosen to approximate the average amount paid under the Job Seeker benefit to an individual with no other income,[13] being $10,395, or $200 per week.

[12] Companies pay income tax at 28%, then withhold an additional 5% in RWT when paying a dividend to a natural person or a trust
[13] https://www.workandincome.govt.nz/map/deskfile/main-benefits-rates/jobseeker-support-current.html

D. Tax credit or payment

The rebate payments should be administered similarly to the Working for Families payments (in-work tax credit, family tax credit etc). As such, they could be either; direct credited to a taxpayer's bank account by Inland Revenue (IR) weekly, fortnightly or as a lump sum after the end of the tax year.

These payments should be tax-exempt (a contrast to the somewhat bizarre current system whereby the government withholds tax on benefit payments it makes).

Additionally, the payments should be pegged to inflation (a reasonable peg could be the consumer price index) to ensure that the payments match inflation and continue to match real wages.

Examples of the System in practice:

Individual A – No other income

Other income	Subsidy payments	Tax paid	Cash-in-hand	Effective tax-rate
$0	$200pw $10,400pa	$0	$10,400	-

Individual B – $10k of other income

$10,000	$200pw $10,400pa	($3,300)	$17,295	-71%

Individual C – $31.5k of other income

$31,500	$200pw $10,400pa	($10,400)	$31,500	0%

Individual D – $31.5k of other income

$60,000	$200pw $10,400pa	($19,800)	$50,600	16%

Individual E – $100k of other income

$100,000	$200pw $10,400pa	($33,000)	$77,400	23%

Negative income tax

The concept of a NIT was first introduced by the British politician Lady Juliet Rhys Williams in the mid-1940s, and was later championed by the neoliberal economist Milton Friedman in the 1960s.[14]

A NIT is an income tax system whereby people earning below a threshold receive payment from the government instead of paying taxes. A comprehensive NIT essentially creates a Universal Basic Income (UBI) as it provides regular, unconditional payments to each individual in a society.

Despite its potential benefits, a comprehensive NIT – as proposed here – has never been introduced, either in NZ or any other country.

For less developed countries, the idea of providing a universal minimum income is likely beyond the realm of economic possibility.

Conversely, developed countries generally have complex and entrenched taxation and welfare systems, with some tax systems (and the associated legislation) dating back hundreds of years. A NIT would require a complete rewrite of these systems, requiring a huge amount of public will and political capital.

The closest any country has come to introducing a NIT was the USA in 1971, when President Nixon attempted to pass a sweeping set of welfare reforms centred around the introduction of an NIT.

Short of introducing a full-fledged NIT, a number of countries have introduced refundable tax-credits that are paid to individuals even when they do not have a tax liability to offset. For example, the Family and In-Work Tax-Credits in NZ, the Earned Income Tax-Credit in the USA and the Working Tax-Credit in the UK.

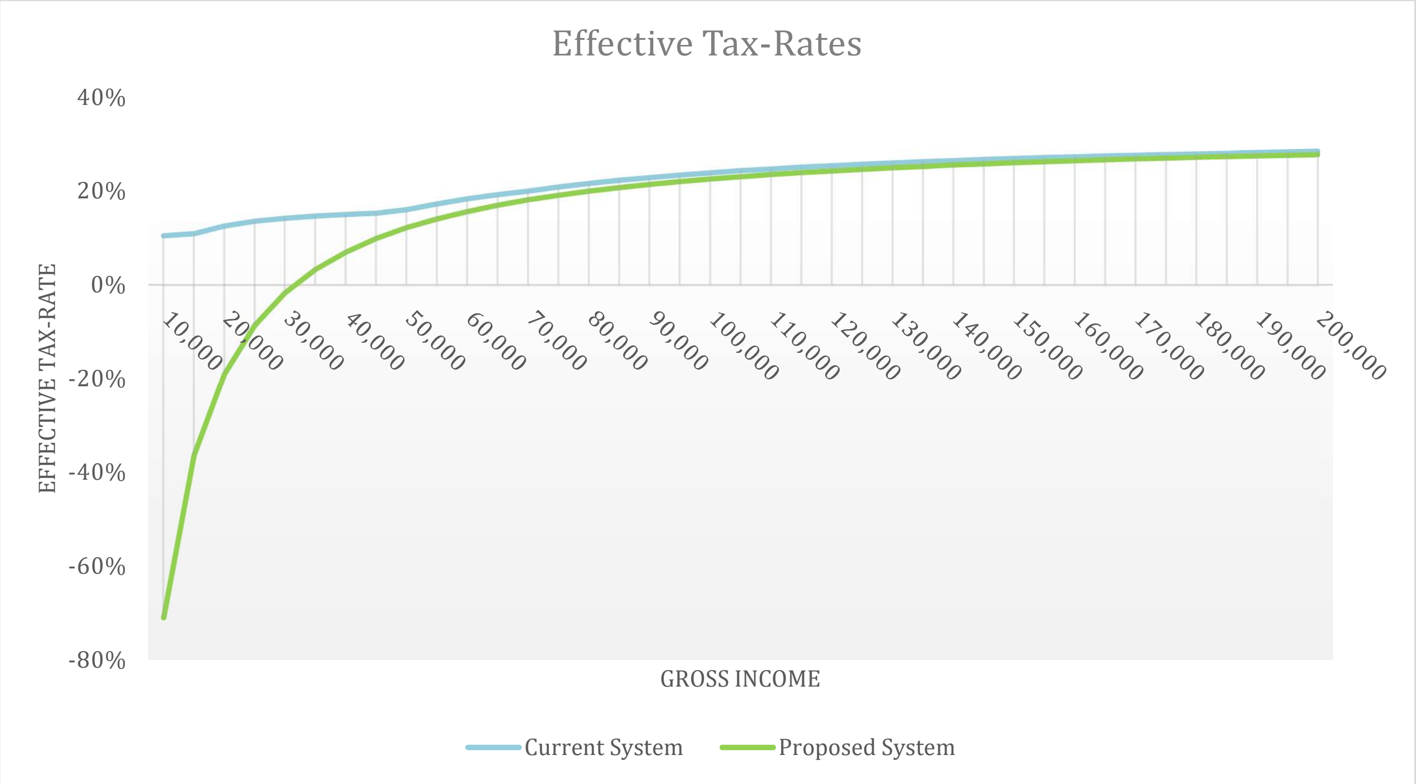
Similar to a NIT, these refundable tax-credits blur the lines between the systems of taxation and welfare, signalling an increasing understanding globally of the inherent links between tax and welfare, and demonstrating a growing political appetite for change.

[14] https://web.archive.org/web/20160303234617/http://econ.duke.edu/uploads/assets/Conferences/HOPE%20Spring%202012/Book%20-%20May5-2011.pdf

Single-rate for individuals

Alongside a NIT, this proposal considers the introduction of a single-rate for natural persons – with all income received taxed at 33% – as a simplification of the current system of progressive marginal tax-rates.

In tandem with a NIT, the single-rate results in a progressive effective tax-rate,[15] as individuals pay more tax proportionally (net of the NIT payments they receive), as their income increases. Thus, despite all income being taxed at 33%, no individual would actually pay more tax (net). Further, the effective tax-rates under the System align with those under the current system at higher incomes.



A. Simplifying tax compliance

Currently, a taxpayer who is only earning income with tax deducted at source can end up being incorrectly taxed, with either a refund or additional tax to pay. For example, a person who:

- Only works for a part-year;
- Works multiple jobs; or
- Earns a large amount of resident passive income (RPI) (e.g. interest and dividends).

As the majority of NZ taxpayers only earn tax-deducted income (i.e. salary/wages and RPI), this simplification of individual taxation presents significant benefits by reducing the administrative burden on individuals.

As all income would be taxed at the same rate for individuals it is taxed correctly at source, thereby meaning the majority of taxpayers will not require end-of-year square-ups.

[15] See appendix A for source data/model

Further, a single-rate greatly simplifies tax compliance for taxpayers who make payments subject to withholding taxes. Under the System:

- Employers would simply withhold tax at 33% for all employees, no need to use different rates for different employees;
- Payers of RPI would withhold on all payments to individuals at 33% (the same rate as trusts);
- Multi-rate PIE's would not need to regularly recalculate their withholding rates. Since all taxpayers use the same rate, all PIEs would essentially become single-rate PIEs.

This results in significantly reduced compliance costs by minimising the administration associated with a complex system of withholding taxes and allows more effective and efficient enforcement of tax compliance by IR. By default, almost all amounts withheld on payments made to individuals will be at the correct rate, allowing IR to focus its compliance and enforcement efforts on more complex matters.

B. Promoting equity in the tax system

New Zealanders consistently demonstrate their commitment to equity and fairness in national polls,[16] however NZ's tax system doesn't necessarily reflect these values.

Currently, NZ's personal taxation system is geared towards benefitting those with greater means and provides opportunities for persons with wealth to reduce the tax they pay on their income. These benefits are not available to the average NZer.

Under the current progressive rate system, a tax benefit arises from shifting income to individuals with a lower marginal tax-rate. In this way, economic decisions are influenced by the tax system.

The most common way wealthier NZers reorganise their tax affairs is through trusts, which allow the streaming of income to individuals on lower tax-rates through the distribution of beneficiary income. Common situations might be where:

- One partner in a relationship earns salaried income and the other has no income (i.e. they are retired, a stay-at-home parent, etc.); or
- A family has adult children (16+) who are still in education/not in employment.

For the majority of employed NZer's (i.e. the 2.7million PAYE earners[17]), there is no opportunity to stream or split income with family members. To do so, they must be party to a NZ trust (of which there are currently an estimated 300,000 to 500,000)[18] and have alternate sources of income in the trust (rent, interest, dividends, etc.). The second requirement inherently precludes the majority of NZ households that earn only PAYE income.

On the face of it, the ability to stream income from a trust does not appear distinctly unfair. But, for example, a single-income household earning a $75k salary would pay the same amount of tax as a retired couple earning $100k off of an investment property or a family whose trust distributes $120k to 3 adult children at university (essentially giving them an additional $25k and $45k tax-free).

Thus, a consistent tax-rate across various legal persons helps combat potential economic distortions from unequal taxation of income in the hands of different persons, thereby promoting tax neutrality and promoting equity in taxation by ensuring all persons pay their share.

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[16] Massey University (2017). Stuff.co.nz/Massey University Election Survey, 2017. https://www2.deloitte.com/nz/en/pages/public-sector/articles/inclusive-growth-reframing-success.html
[17] https://www.classic.ird.govt.nz/aboutir/external-stats/revenue-refunds/wage-distribution-individ-customers/
[18] https://www.justice.govt.nz/justice-sector-policy/key-initiatives/trust-law-reform/

The future of Wellbeing

The System represents an important evolution in NZ's tax and welfare systems, and aligns with the priorities of the Wellbeing Budget by supporting the health of our people and communities.[19]

Although NZ has a comparatively generous welfare system by some standards, it is far from perfect and there are serious issues with the current system.

The Tax Working Group (TWG) identified that "the inequality reducing power of the tax-and-transfer system has fallen over the last three decades ... [reflecting] the fact that the [tax and transfer systems] have both become less effective at reducing inequality".[20] This ineffectiveness is highlighted by the relatively low effect of NZ's system on the Gini coefficient[21] compared to other OECD countries.

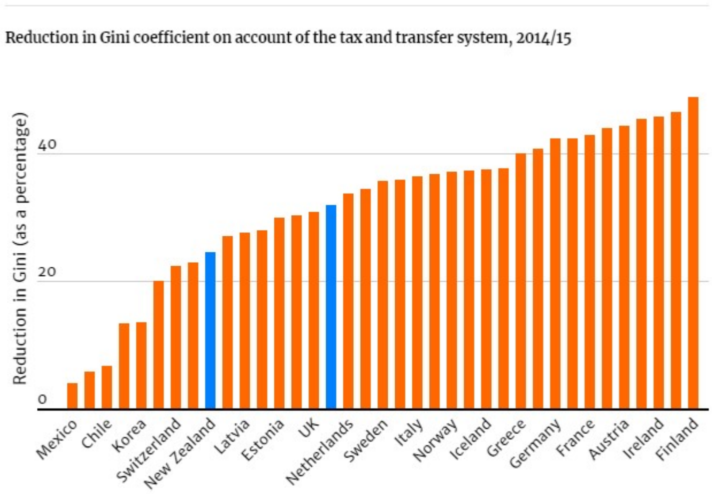

Figure 2 - Source: Tax Working Group

This was further highlighted in the Welfare Expert Advisory Group's 2019 report on the state of the NZ welfare system, Whakamana Tāngata:[22] "[u]rgent and fundamental change is needed. Agreement is near universal that the [current NZ] benefit and tax credit systems are unmanageably complex. The level of financial support is now so low that [many] New Zealanders are living in desperate situations."[23]

[19] https://treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2019-html
[20] Pg. 30 https://taxworkinggroup.govt.nz/sites/default/files/2019-03/twg-final-report-voli-feb19-v1.pdf
[21] The Gini coefficient is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents and is the most commonly used measurement of inequality. https://en.wikipedia.org/wiki/Gini_coefficient
[22] Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand http://www.weag.govt.nz/weag-report/whakamana-tangata/
[23] Pg. 6 Whakamana Tāngata

Currently, more than 25 separate benefits payments and tax-credit incentives are provided by various government ministries and agencies. These benefits often overlap considerably, and are almost universally means-tested, adding administrative complexity to these payments. Aside from the administrative burden, individuals are susceptible to 'falling through the cracks' by not getting the benefits they are entitled to and too often, there is not even a benefit that fits a person's particular circumstances. Further, the Working for Families minimum working hours requirements[24] are problematic due to the unnecessary stress created, with unconditional payments being considered a better alternative.[25]

While the System is not the mystic panacea to cure all of the welfare system's ailments, the reforms suggested represent a significant step in the right direction and align with the principles for the redesign of the welfare system set out in Whakamana Tāngata.

A. IR's role in the System

The System should be primarily administered by IR, as its capabilities and administrative capacity align closest with those required.

IR would maintain its role as collector of tax revenue, whilst also taking on the role of administering the regular rebate payments. As IR currently makes regular payments to taxpayers relating to tax obligations, alongside various tax-credit schemes, the department clearly has the capability to process automatic payments.

As payments will be universal and ubiquitous, they would require minimal resources from a compliance perspective. This is particularly true in light of the modern information sharing agreements between government agencies, alongside IR's recent business transformation, which focuses on reducing unnecessary compliance processes through the use of technology. Further, there would no longer be any need for complicated calculations of an individual's entitlements. The only checks required will be to ensure that everyone entitled to receive rebate payments are receiving them, and anyone not entitled is not.

B. Reshaping MSD's role

The majority of NZ's welfare payments are currently administered by MSD, which plays a vital societal role through targeting transfer payments at those in real need, supporting the most vulnerable members of our society, and protecting those most at risk. This role extends far beyond providing money; the ancillary services MSD provides (such as employment support, housing assistance, disability services, etc.) are key to supporting NZ's future Wellbeing.[26] Thus, MSD should retain its role as an independent ministerial body.

However, the System offers the opportunity to "rebalance the social contract"[27] by reshaping MSD's role to better serve NZ society by directing resources towards activities and initiatives that actually serve the community, rather than policing it through onerous benefit testing.

Rather than numerous distinct welfare programs, the System would provide a minimum guaranteed income that could be "topped up" through additional benefits (protecting those at risk of suffering a reduction in benefits due to the System's implementation). This removes much of the bureaucratic process currently required to verify eligibility and monitor compliance, and frees MSD's resources – both time and money – to focus on helping those in need.

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[24] For example, the requirement to work 20 hours a week to get the in-work tax credit.
[25] Researcher Jess Beretson-Shaw of The Workshop https://www.stuff.co.nz/business/114949505/tax-system-means-for-some-its-not-worth-going-out-to-work
[26] Through our Social and Human Capital under the LSF https://lsfdashboard.treasury.govt.nz/wellbeing/
[27] Pg. 40-42 Whakamana Tāngata

Paying for the System

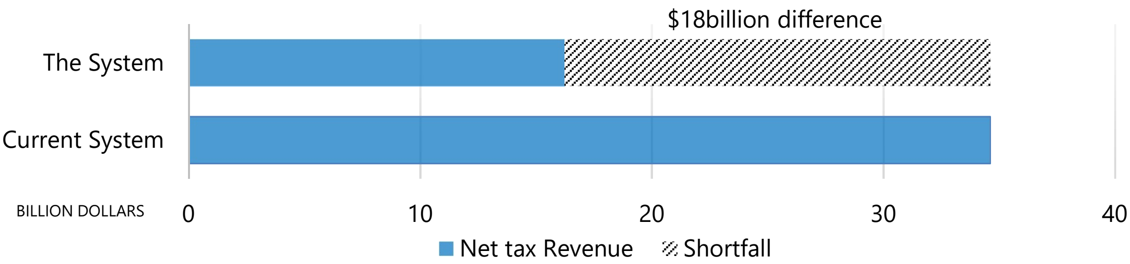
Despite the potential fiscal costs of implementing the System, staying the course with "the current system [would have] costs of its own, those associated with the broader negative effects of poverty including lower educational attainment, imprisonment and poorer health".[28]

Sustained inequities will rob NZ of its long-term growth prospects. If fewer people are able to take advantage of education and employment opportunities, or participate in technology and innovation, the human potential of our economy is compromised. We lose our future innovators, scientists, creatives and entrepreneurs.[29]

Whakamana Tāngata highlights that significant fiscal investment is currently required in order to improve the adequacy and design of NZ's welfare system.

It is clear that, despite the potential costs, the government should invest in reform of the NZ welfare system, to safeguard the Wellbeing of NZers and NZ as a whole. As NZ is currently running governmental surpluses, it is fiscally reasonable to materially increase spending on Wellbeing, meaning that fiscal neutrality is not vital to the System's viability.[30]

The annual cost of providing the rebate would be approximately $39billion.[31] This appears prohibitively high compared to NZ's current total expenditure on SSW of $29billion.[32] However, the System brings with it **increased tax revenue of approximately $21billion,[33] resulting in a net $18billion difference.**



I have modelled and discussed how the System could be made fiscally neutral – see Appendix C and below – demonstrating that the System could be introduced without fundamentally altering the profile of NZ's tax-and-transfer system.[34]

A. Returns from increased economic activity

Studies have shown that implementing a UBI leads to GDP and economic growth, even when the system is funded by increased taxes (i.e. the government takes the necessary money via taxes and returns it via rebates).[35] This is largely because a dollar given to a low-income household is more likely to be spent than a dollar given to a higher-income household, where it is often saved.

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[28] Pg. 8 Whakamana Tāngata
[29] Badger, E. et al. (2018). New York Times. Extensive Data Shows Punishing Reach of Racism for Black Boys. https://www2.deloitte.com/nz/en/pages/public-sector/articles/inclusive-growth-reframing-success.html
[30] https://www.stuff.co.nz/business/opinion-analysis/115004967/focusing-on-wages-and-income-wont-budge-inequality
[31] Appendix B
[32] Forecast for the year ending 30 June 2019 https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html#section-9
[33] Owing to the removal of the lower marginal tax-rates.
[34] There may be also other ways to achieve fiscal neutrality, but it is evidently achievable.
[35] http://rooseveltinstitute.org/wp-content/uploads/2017/08/Modeling-the-Macroeconomic-Effects-Report-Brief.pdf

In addition, due to "mental accounting"[36] people are more likely to spend money if they see an actual cash payment come into their account, rather than having less withheld in tax (people often don't even look at the amount of tax they are paying). Thus, the System is likely to stimulate spending.

Further, the universal payments provided by the System will drive NZ's shift towards a more dynamic and innovative economy. Studies have confirmed that, in relation to entrepreneurship, when an individual's basic needs are met and they know they have a safety net to fall back on, it's easier for them to be creative and they are more willing to take risks.[37] This innovation is vital to NZ's future, on the cusp of the fourth industrial revolution, as we shift away from a primary industry-driven economy towards the development of more sophisticated, innovative businesses.

This increase in economic activity will lead to increased incomes and profits, thereby leading to more tax revenue. Thus, part of the cost of the System will inherently be returned in additional tax revenues.

Recognising people's unpaid contributions

The System's payments also serve an important role in recognising and validating the contributions made by the people in our society who do important, unpaid work.

For example; parents, caregivers for elderly or disabled persons, volunteers for charities, community or cultural organisations).

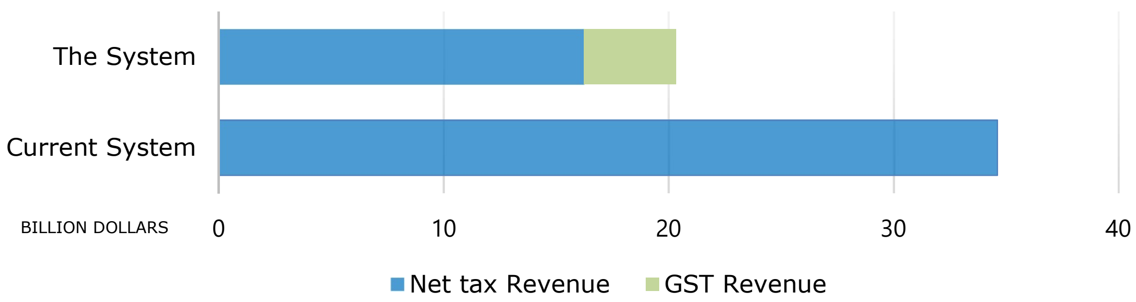
i. Increased core Crown revenues

The System would put ~$40billion into the hands of NZers via rebate payments. As noted, this will drive economic growth in NZ. Even if this additional spending only increased NZ's GDP by 0.5%, this would represent an increase of $1.6billion.[38] Core Crown tax revenue currently represents 28.2% of NZ's nominal GDP,[39] so this would generate roughly half a billion in additional revenue (note: this potential revenue has not been factored into this model).

ii. Increased GST revenue

Broadly, it seems a reasonable estimate that approximately 80% of the rebate paid will be spent in the year it is received by individuals,[40] **resulting in GST revenue of roughly $4billion.**

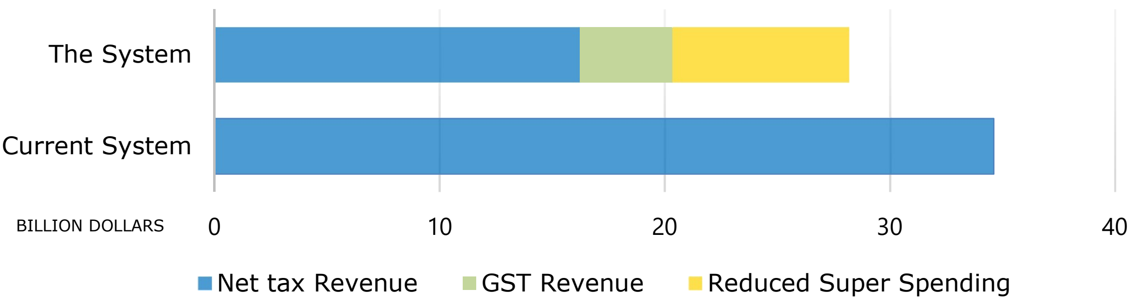
It is important to caveat that there may also be a decrease in consumer spending due to the increased tax-rate for individuals, and that not all of the rebate may be spent in NZ. However, this has been (broadly) accounted for in the 80% spend assumption.



[36] A behavioural economics concept whereby people treat money differently, depending on factors such as the money's origin and intended use, rather than thinking of it in terms of the "bottom line" as in formal accounting. https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/mental-accounting/
[37] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2604598
[38] Based on 2019 GPD of $316.2billion
[39] https://treasury.govt.nz/publications/year-end/financial-statements-30-june-2017-html
[40] See Appendix C

B. Redirecting NZ Superannuation payments

754,000 NZer's currently receive Superannuation payments.[41] If the System were introduced, superannuation could be universally reduced by $200pw, as these payments are replaced by the System's.[42] **This would shift $7.8billion from Superannuation to the System,** without reducing anyone's actual cash-in-hand.



Superannuation provides an important, guaranteed income for NZer's in retirement. However, it is indiscriminate, generous benefit, which is becoming increasingly expensive as NZ's population ages. This system needs a rehaul, but successive governments have been too fearful of the political backlash to make fundamental changes.

Despite Superannuation representing over half of NZ's annual spending on SSW – $13billion p.a.[43] – these payments are almost universally not means-tested, unlike NZ's other welfare payments (jobseeker support, family tax credits, etc.).

This lack of means testing means that a wealthy NZer, who is not dependent on Superannuation due to other income, is entitled to receive the same payments as someone who has no income other than Super. Per the 2013 census, over 90% of eligible NZer's receive Superannuation.[44] Of these, 30% received income of at least $30,000p.a. and 10% received over $60,000p.a.[45]

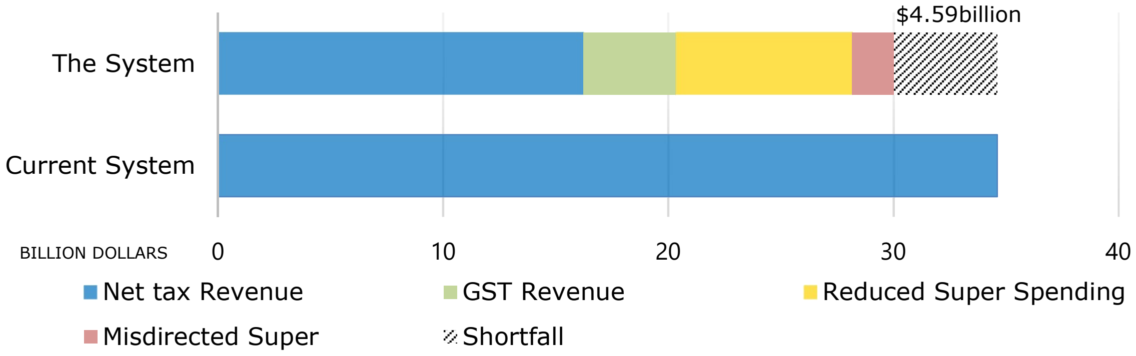
These figures indicate that at least 30% of NZ's Superannuation payments (representing $4billion p.a.) are directed towards people that may not actually need them and have significant income from other sources. This misdirected spending represents over 15% of NZ's total spending on SSW. Such a significant portion of NZ's social spending should not be directed towards individuals who have no need for it.

Further, with the introduction of Kiwisaver, NZers are increasingly likely to retire with savings and are less likely to be wholly dependent on superannuation in future – meaning the proportion of misdirected Superannuation is likely to grow.

As such, significant additional savings could be found by reducing these misdirected payments. As much as **$1.8billion could be saved by not making additional Super payments to the 30% of the 65+ population identified with significant means**. Note that these individuals would still receive $200pw under the System, but would not receive any further amounts simply for being

[41] See Appendix C
[42] Assuming that all superannuants receive at least $200pw – reasonable given the lowest rate is over $300pw.
[43] Budget Economic and Fiscal Update 2018, Pg 119 https://www.budget.govt.nz/budget/pdfs/befu2018/befu18.pdf
[44] http://archive.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-65-plus/income.aspx#
[45] https://www.stats.govt.nz/infographics/people-aged-65-plus-living-in-new-zealand

over 65. This could be achieved by making the additional payments dependant on either income, asset-base,[46] or both.



C. Reductions in current MSD spending

With the System's implementation, the size and complexity of MSD's role will be significantly reduced and there is scope to reduce or remove a number of the benefits it currently provides.

i. Reductions in the incidental costs of welfare

The current welfare system bears significant incidental costs, both in administrative effort and financial outlay, as administering means-tested welfare requires enforcement of complex rules and regulations which necessitate a large and expensive bureaucratic body.

MSD currently employs over 6,500 people and has departmental overhead expenses of ~2billion,[47] while IR employs over 5,500 people[48] and has departmental appropriations of over $2billion.[49]

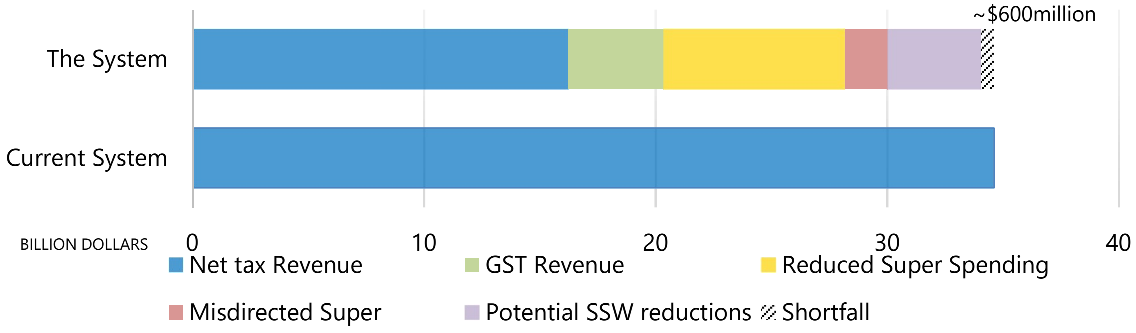
Significant savings could be achieved via efficiency gains from having a single body performing multiple interrelated functions, as IR would be responsible for collecting taxes, paying rebates to individuals, ensuring taxpayer and beneficiary compliance, and taking enforcement action against any non-compliance.

Further, the System would make these functions simpler and thereby more time and cost efficient.

[46] As it is common for wealthy retirees to have significant stable assets like property or shares that are not actually realised to receive the benefits of ownership
[47] https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html#section-9
[48] https://www.classic.ird.govt.nz/aboutir/
[49] Note that, as a core Crown service, overhead expenses for IR as an independent body are not easily available, however have assumed the appropriations are a reasonable approximation. https://treasury.govt.nz/publications/summary-tables/summary-tables-estimates-appropriations-2019-20-html#section-9

ii. Current welfare spending that may be reduced

A number of current benefits that could be reduced or removed due to the System's basic income have been identified in Appendix D, reflecting **potential savings of ~$4.05billion.**



It is important to reaffirm the vital role that MSD and benefit payments play in our society. It is exceptionally difficult to accurately assess which benefits could be reduced or removed, particularly as the impact of individual benefits in tandem may have a more significant impact than is immediately apparent.

In specific situations, it may be necessary to provide targeted top-ups or alternate options for equalisation in payments for those at risk of a reduction in their benefits (as the System should replace an individual's benefits, not reduce them).

Due to this, significant further research is required prior to any changes being implemented to fully understand the potential effects that any changes may have on individual recipients.

In addition to the reductions identified in Appendix D, NZ currently spends over $3billion on family-related benefits (Family Support, Family tax credit ($2.27billion), In-work tax credit ($525mil), etc). [50] These benefits account for family size, vary depending on the number of dependent children, and overlap with the "main benefits"[51] considerably. These family-related payments will continue to be important subsequent to any reforms to ensure that families are able to provide their children with a minimum standard of living. Reductions or simplifications of this spending should be possible, however due to the significant complexities involved, I have not suggested any reductions here.

[50] Receiving the family tax credit. Pg. 29 http://www.weag.govt.nz/weag-report/whakamana-tangata/
[51] Jobseeker, SLP, Sole Parent, etc

D. Alternative options

i. Changing the tax-rate

Increasing the personal tax-rate from 33% to 35% increases tax revenue by $3.4billion, while increasing the rebate-rate similarly (to keep the same "tax-free" threshold of $31,500) would only cost $2.4billion, a net gain of $1billion. Increasing the rates in this way would effectively shift the incidence of taxation further up the economic spectrum (at least in terms of gross income), improving the System's function of promoting fairness through wealth redistribution.

ii. Introducing a wealth or inheritance tax

In most circumstances wealth currently isn't taxed in NZ beyond the income it generates. Nor is the passing of wealth between generations taxed, allowing for the handing down of wealth without any meaningful amounts being returned to wider society. As a result, there are few means to redress the growing economic divide between those with wealth and those without.

The tax system has potential to reduce this imbalance through the introduction of either:

- Progressive wealth tax,[52] a tax on owning capital, rather than on the gains from selling capital (the rate of which increases progressively as the amount of capital the person owns increases); or

- Inheritance tax,[53] a tax on assets transferred between generations.

These taxes would generate a huge amount of revenue, even at low rates, and ease the burden currently shouldered by PAYE earners in NZ.

Unfortunately, the current political establishment has shown little appetite to introduce either of these. The most recent TWG was barred from exploring any sort of inheritance tax, and recommended against a wide-ranging wealth tax, instead recommending a Capital Gains Tax (CGT).[52]

iii. Introducing a CGT

As highlighted by the TWG, a possible balm to the growing ails of the NZ tax system would be the introduction of a CGT and the additional revenue generated would likely offset the cost of the System[54].

Clearly this would add a significant layer of political complexity to the System, and would make it significantly more difficult to introduce. From an equity perspective however, a CGT would present significant additional benefits. While a CGT has currently lost political momentum, it is likely that it, or another wealth-based tax, will be introduced (or at least considered again) in the near future.

One concern with the CGT recommended by the TWG was the proposal to tax gains at an individual's marginal tax-rate. Under the current progressive rate system this creates a potential distortion as gains are essentially "earned" over a number of years, then taxed in a single period. The System would mitigate this as the imposition of a single-rate means gains are taxed at the same rate no matter when they are earned/realised.

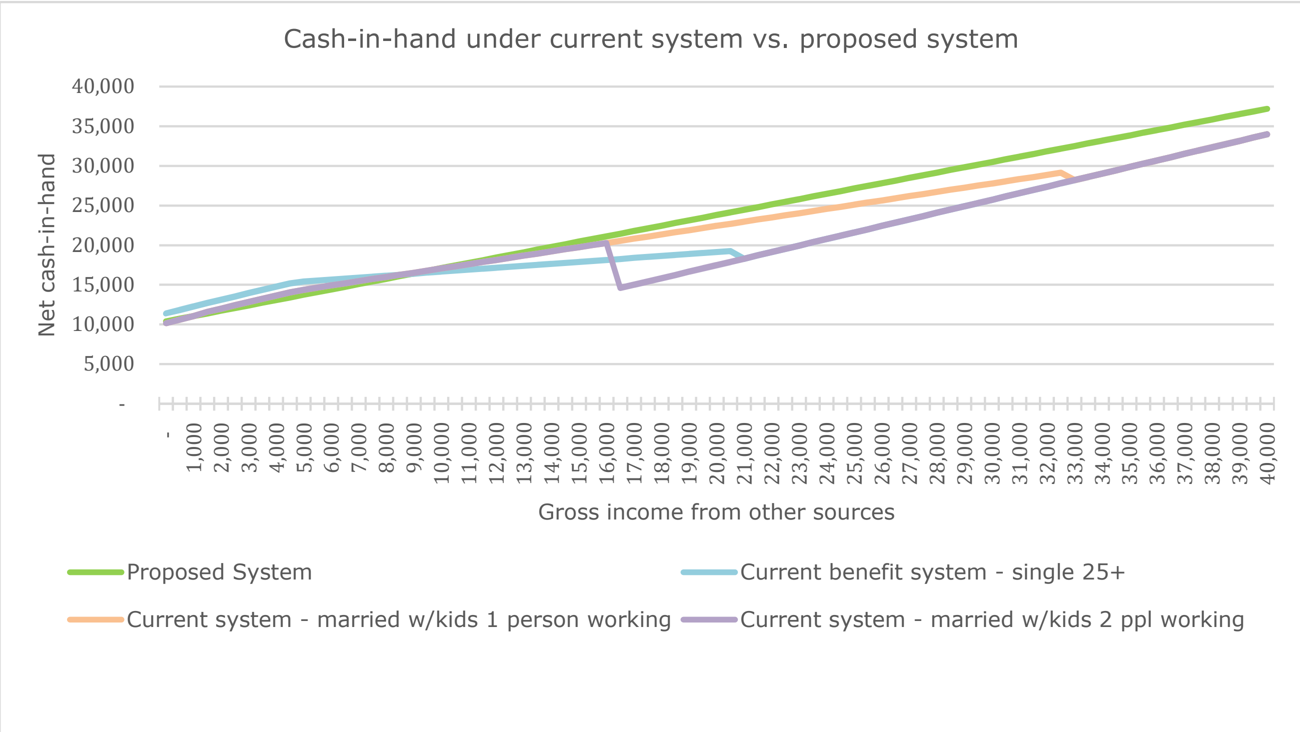
[52] https://thespinoff.co.nz/politics/24-07-2019/pikettys-capital-comes-to-the-big-screen-urging-us-to-make-the-world-less-terrible/
[53] https://thespinoff.co.nz/partner/budget-2019/29-05-2019/the-tax-empathy-gap-why-kiwis-dont-want-others-to-have-a-share/
[54] The TWG estimated that broadly taxing capital gains would raise roughly $8 billion over the first five years. https://taxworkinggroup.govt.nz/resources/tax-working-group-delivers-final-report

Supporting New Zealand into the Future of Work

Whakamana Tāngata identifies that "[the current] employment support system is [not] well placed to help people into work now or in the future, [where] people will likely transition more frequently between jobs and need more help to shift to new occupations. Expectations to take up paid work have increased, but [government] support to enter and remain in work has steadily declined over many years. The welfare system needs to support the outcomes of good and appropriate work by ensuring people are financially better off in paid work"[55] It highlights the current systems inadequacy to deal with the changing landscape of employment[56] and how individuals are disincentivised from seeking employment.

This phenomenon is known as the "welfare trap",[57] a systemic issue resulting from means-tested welfare, whereby a welfare recipient is disincentivised from entering employment or increasing their level of employment due to economic penalties suffered from transitioning out of welfare. In NZ this takes the form of; sharp abatement rates for benefit payments, the "income cut-out points" for benefits, and the lagging of payment levels behind actual circumstances.

These effects are illustrated in the graph below, comparing the cash-in-hand (i.e. payments received and income earned net of tax) under the current benefit system to the System[58].



[55] Pg. 11 http://www.weag.govt.nz/weag-report/whakamana-tangata/
[56] As a result of the 'fourth industrial revolution'.
[57] The unemployment trap, Barbara Petrongolo http://cep.lse.ac.uk/pubs/download/cp249.pdf
[58] The benefits used for the current system are the jobseeker rates for:

1. A single person over 25 with no children (as this is the top jobseeker rate for people without children);
2. One half of a married/de facto couple with children, where only one person works; and
3. One half of a married/de facto couple with children, where both persons work.

Note: cash-in-hand under the current system initially increases slightly more rapidly, due to the minimum income threshold of $80pw before benefit payments begin to abate. However, once this threshold is reached the cash-in-hand from increased employment under the current system clearly lags behind the System.

Humans are naturally loss averse, with studies suggesting that losses are twice as powerful, psychologically, as gains.[59] Thus, an individual would rather avoid losing 50¢ in benefits than gain $1 from another source (e.g. employment). Currently, people receiving jobseeker lose 70¢ of their benefit for every $1 of other income they earn – meaning they are effectively only **30 cents better off for every dollar earned** (even less so if after tax). The Treasury has calculated that, in some circumstances, when a beneficiary increases their income "the effective marginal tax-rate can be over 100 per cent; that is for every $1 earned, the taxpayer is over $1 worse off".[60]

The "cut-out" of benefits provides an additional financial disincentive for beneficiaries who increase their level of income. For example, Jobseeker cuts-out at $393pw/$20,436p.a.[61], meaning someone earning between $20,436 and $22,000p.a. is actually worse off in terms of cash-in-hand than if they only earned $20,400p.a. (as shown on the graph above). This effect is even more pronounced for couples (with or without children) if both partners are working, as the cut-out point is tested for both partners collectively (also meaning an unemployed individual may not qualify if their partner is working).

Thus, there are both psychological and financial disincentives for individuals receiving benefits to increase their level of employment, particularly at lower levels of income.[62]

Additionally, in circumstances where a beneficiary's income suddenly decreases (eg. as a result of only being temporarily employed or unexpectedly being unemployed) it is possible for benefit payments to "lag behind" a person's actual circumstances, meaning they don't receive the correct or necessary payments for a period of time. This could be disastrous for a family already heavily reliant on benefit payments and 'punishes' beneficiaries for increasing their level of employment via short-term opportunities.

In these ways, the current system distorts the labour market, particularly for casual/short-term labour, as beneficiaries, who would otherwise be prime candidates, are disincentivised from seeking out such opportunities.

In contrast, the System avoids the welfare trap as everyone receives the same rebate and pays the same amount of tax on each dollar earned, therefore no person is worse off from earning more. Further, as rebate payments do not abate due to increases in income, **for every $1 earned a person is $1 better off economically, and 67¢ in terms of cash-in-hand** (net of tax).

Therefore, the System makes sense economically, as it encourages people on lower incomes to seek work to supplement/increase their income while still providing a base level of support. The importance of this is likely to rise with the increasing casualisation of employment and rise of the gig economy, where large numbers of people have increasingly less job and income security/stability. This is fundamental to maintaining and growing NZ's "Human Capital" and driving NZ's overall Wellbeing, as identified in the LSF.[63]

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[59] Kahneman, D. & Tversky, A. (1992). "Advances in prospect theory: Cumulative representation of uncertainty".
[60] https://www.stuff.co.nz/business/opinion-analysis/115004967/focusing-on-wages-and-income-wont-budge-inequality
[61] For a single 25+ adult without children.
[62] https://www.workandincome.govt.nz/map/deskfile/main-benefits-cut-out-points/jobseeker-support-cut-out-points-current.html
[63] The Treasury's Living Standards Framework https://www2.deloitte.com/nz/en/pages/public-sector/articles/principles-for-an-equitable-tax-system.html#

Political feasibility

The System clearly represents a fundamental overhaul of the NZ tax system, and implementation would require a cultural shift in how NZer's think about welfare and equality.

However, the reality is that NZ's tax-and-transfer system will need to change to meet the challenges of the changing economic landscape and address the growing levels of inequality.

Traditionally, when it comes to tax policy, smaller countries like NZ will follow larger countries like the USA and AUS due to the policy "muscle" of larger economies, where governments can devote more resources to fully understanding and implementing proposed reforms. In addition, the increasing globalisation of taxation (through international tax treaties, trade agreements etc.) forces smaller economies to follow global trends and agreements, negotiations of which are led by global powers, for fear of being excluded themselves.

Conversely however, because NZ is small, we have the dynamism to rapidly implement comprehensive, fundamental changes that impact the whole country. As NZ only has one house of parliament, the process of implementing legislative change is much simpler than countries like AUS, the UK & USA, where there is a second legislative stage for proposed changes to pass through (e.g. the "upper house").

The unity of the executive and legislature in NZ are also conducive to significant change. In countries like the US, where the two branches are composed of different bodies, legislative change could be impeded by an executive with a different political agenda. Whereas in NZ, any changes introduced in legislation will almost universally need to have been supported by the government of the day in order to pass into law. This means that reforms can be legislated for with the comfort that they will be allowed to function as intended (at least initially).

While implementing a system such as the one proposed may appear a daunting political feat today, over the coming decade, the public (and therefore political) appetite for change is likely to continue to grow.

A. Public misconceptions regarding benefit fraud

A potential political roadblock to comprehensive welfare reform is the belief among many NZers that swathes of beneficiaries are taking advantage of the system (so-called "dole-bludgers").[64] It will likely be a concern that the System may be taken advantage of and payments misused.

In reality, benefit fraud amounts to 0.1% of all benefits paid in NZ.[65] In 2016, benefit fraud cost NZ $24million, whereas 'tax position differences'[66] amounted to $1.2billion in the same period.[67] The scale of benefit fraud in NZ is so incredibly minor that it should never hold back meaningful change.

The vast majority of welfare payments are made to people who need them. Over half of the ~300,000 people receiving a main benefit have either a health condition or disability.[68] These are some of NZ's most vulnerable people and these vital payments are often their only source of income.

[64] http://www.stuff.co.nz/national/politics/7759711/Battle-against-beneficiary-bashing
[65] Ministry of Social Development (2012). The Statistical Report For The Year Ending June 2010. Wellington, Ministry of Social Development
[66] IR's term for evasive or incorrect tax positions.
[67] https://www.newstalkzb.co.nz/on-air/saturday-morning-with-jack-tame/opinion/jack-tame-why-do-we-rage-about-benefit-frauds-and-not-tax-dodgers/
[68] Pg. 29 http://www.weag.govt.nz/weag-report/whakamana-tangata/

There is a fear that welfare payments will be misused and any additional income will be spent on "negative goods" (alcohol, drugs, gambling etc). However numerous studies have found that "almost without exception there is either no significant impact or a significant negative impact of [cash transfer programs] on expenditures on alcohol and tobacco".[69] The evidence suggests that cash transfers are not used for negative goods at any significant levels.

Additionally, there is a strong correlation between drug addiction and poverty, as dependency on substances like alcohol and cannabis is commonly formed to cope with the psychological trauma associated with poverty, particularly amongst young NZers.[70] Lifting these people out of poverty before they fall victim to addiction is likely to also reduce spending on negative goods.

Additional benefits

A. Supporting the regions

By 2040, approximately 1/3 of the population in many regions will be made up of people over 65,[71] while young people continue to move to the urban centres. Many of NZ's smaller towns have already experienced significant population decline due to this trend.[72] By 2043, it is forecast that 44 of the 67 "local authority areas", with a population of over 1.2million, will be in "decline".[73]

With this decline comes reduced employment opportunities (meaning a decrease in average wages) in the regions and the inability of regional areas to support essential services such as GP's, grocery stores and petrol stations. This can lead to self-perpetuating decline that can be hard to escape.

While unlikely to be an antidote for NZ's regional decline, the System could offer some significant benefits in easing the associated pains.

The System provides a level of protection for the people living in the regions, guaranteeing a minimum income for the people living there – despite the lower overall wage rates – so that those people who wish to live in the regions can continue doing so. This is particularly vital for Iwi in the regions, who need to encourage and empower their young people to remain in their communities, and to support the elder members of the community to ensure their continued quality of life.

Further, the lower cost of living in the regions (largely due to lower rents and house prices) mean that the rebate payments will have a more significant impact on the people who receive them. Over the longer-term, this lower cost of living will likely encourage more people to move to the regions – particularly those who are not in formal employment or who are able to work remotely – easing over-crowding in the urban centres.

B. Combatting domestic violence

A British study found that 20% of adults have experienced financial abuse in a relationship, and 86% of those victim to financial abuse also experience other forms of abuse.[74]

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[69] World Bank report on Cash Transfers and Temptation Goods - http://documents.worldbank.org/curated/en/617631468001808739/pdf/WPS6886.pdf
[70] https://www.drugfoundation.org.nz/news-media-and-events/social-economic-factors-behind-maori-cannabis-use/
[71] https://www.rnz.co.nz/news/national/314732/regions-must-adapt-or-suffer-decline,-says-academic
[72] https://www.victoria.ac.nz/__data/assets/pdf_file/0008/1175192/Brabyn.pdf
[73] Defined as have an ageing population and ongoing depopulation. https://briefingpapers.co.nz/ageing-populations-and-regional-decline/
[74] https://www.refuge.org.uk/our-work/campaigns/my-money-my-life-2/

Financial control is a key factor in domestic abuse, and providing financial resources allows victims a way out. In relationships where there is control and abuse of money, the System's payments would be distinct in that they are linked directly to individuals – unlike current NZ welfare payments that are generally family-based. While there is still risk that an abusive partner could exploit and misuse this independent income, women's centres, refuges and Government agencies could be equipped to assist victims, ensuring that when they leave a relationship, their payments leave with them.

Another Kenyan study found that the presence of a basic income correlated with significant declines in rates of violence.[75] In households where women received basic income payments, rates of both physical and sexual violence declined significantly.[76] The study suggests that the decline in rates of violence likely reflects the fact that the payments gave women leverage to either resist violence or leave the relationship. The study also found that the payments even had an effect on women who didn't directly receive additional money, but merely lived in the same village as those who did.

Enabling victims of domestic abuse to independently rebuild their lives is vital to the efficacy of any domestic abuse policy. The System could provide survivors with a guaranteed income that could ultimately help them escape the situation they find themselves in, and, more broadly, the rebate payments could decrease rates of domestic violence by lifting people out of poverty.

Conclusion

The System represents an important step forward in addressing the inequalities in NZ's tax and welfare systems, as well as NZ's wider society, and promoting outcomes that align with NZer's values of equity and fairness.

The rebalancing of MSD's social contract ensures that the SSW of all NZer's is guaranteed for future generations, while driving economic growth by unlocking the full potential of NZ's human capital as we enter the Future of Work. This is provided for in a system that is not only fiscally and politically reasonable but also more cost effective, simple and transparent than the current status quo.

Ultimately, the System addresses the reality that NZ's tax and welfare systems must change. With an aging population, growing levels of inequality, a taxation system centred on capturing earned income (rather than capital gains), and an economic outlook where productivity (and wealth) will be increasingly generated by capital rather than labour, change is inevitable and vital.

[75] https://www.fastcompany.com/90315666/how-a-basic-income-could-help-stop-domestic-violence

[76] In women-recipient households, the study found that the rates of domestic physical violence fell by 51% and incidences of forced sexual acts declined by as much as 66%. In male-recipient households, rates of physical violence fell by around 59%, but reductions in sexual violence were not statistically significant.

Appendix A – Comparison of marginal tax-rates

	Current system		Proposed system			
Income	Tax Payable	Effective tax rate	Tax on income	Subsidy	Net Tax payable	Effective tax rate
-	0	-	0	$10,395	-$10,395	-
1,000	105	10.50%	330	$10,395	-$10,065	-1006.50%
5,000	525	10.50%	1650	$10,395	-$8,745	-174.90%
10,000	1050	10.50%	3300	$10,395	-$7,095	-70.95%
15,000	1645	10.97%	4950	$10,395	-$5,445	-36.30%
20,000	2520	12.60%	6600	$10,395	-$3,795	-18.98%
25,000	3395	13.58%	8250	$10,395	-$2,145	-8.58%
30,000	4270	14.23%	9900	$10,395	-$495	-1.65%
35,000	5145	14.70%	11550	$10,395	$1,155	3.30%
40,000	6020	15.05%	13200	$10,395	$2,805	7.01%
45,000	6895	15.32%	14850	$10,395	$4,455	9.90%
50,000	8020	16.04%	16500	$10,395	$6,105	12.21%
55,000	9520	17.31%	18150	$10,395	$7,755	14.10%
60,000	11020	18.37%	19800	$10,395	$9,405	15.68%
65,000	12520	19.26%	21450	$10,395	$11,055	17.01%
70,000	14020	20.03%	23100	$10,395	$12,705	18.15%
75,000	15670	20.89%	24750	$10,395	$14,355	19.14%
80,000	17320	21.65%	26400	$10,395	$16,005	20.01%
85,000	18970	22.32%	28050	$10,395	$17,655	20.77%
90,000	20620	22.91%	29700	$10,395	$19,305	21.45%
95,000	22270	23.44%	31350	$10,395	$20,955	22.06%
100,000	23920	23.92%	33000	$10,395	$22,605	22.61%
110,000	27220	24.75%	36300	$10,395	$25,905	23.55%
120,000	30520	25.43%	39600	$10,395	$29,205	24.34%
130,000	33820	26.02%	42900	$10,395	$32,505	25.00%
140,000	37120	26.51%	46200	$10,395	$35,805	25.58%
150,000	40420	26.95%	49500	$10,395	$39,105	26.07%
160,000	43720	27.33%	52800	$10,395	$42,405	26.50%
170,000	47020	27.66%	56100	$10,395	$45,705	26.89%
180,000	50320	27.96%	59400	$10,395	$49,005	27.23%
190,000	53620	28.22%	62700	$10,395	$52,305	27.53%
200,000	56920	28.46%	66000	$10,395	$55,605	27.80%
210,000	60220	28.68%	69300	$10,395	$58,905	28.05%
220,000	63520	28.87%	72600	$10,395	$62,205	28.28%
230,000	66820	29.05%	75900	$10,395	$65,505	28.48%
240,000	70120	29.22%	79200	$10,395	$68,805	28.67%
250,000	73420	29.37%	82500	$10,395	$72,105	28.84%
260,000	76720	29.51%	85800	$10,395	$75,405	29.00%
270,000	80020	29.64%	89100	$10,395	$78,705	29.15%
280,000	83320	29.76%	92400	$10,395	$82,005	29.29%
290,000	86620	29.87%	95700	$10,395	$85,305	29.42%
300,000	89920	29.97%	99000	$10,395	$88,605	29.54%

Appendix B – Comparison of tax revenues and rebate cost

Rate	33%	Current tax collect	34,610.00	New tax collect	55,459.80
Threshold	$ 31,500			Less: cost of rebate	- 39,220.34
Rebate	33%	Net difference	- 18,370.54	Net	16,239.47

Current system tax revenue / **Cost of rebate**

Income bracket	# of people (1,000) in tax bracket	% of population	Tax paid ($m) under current system	% of tax paid	Cost of rebate ($m) (based on # of people in tax bracket)	Rebate per week
Zero	367.00	10.00	-	-	3,814.97	$ 200
1 – 10,000	333.00	9.00	150.00	-	3,461.54	$ 200
10,001 – 20,000	616.00	16.00	1,150.00	3.00	6,403.32	$ 200
20,001 – 30,000	562.00	15.00	1,860.00	5.00	5,841.99	$ 200
30,001 – 40,000	342.00	9.00	1,760.00	5.00	3,555.09	$ 200
40,001 – 50,000	327.00	9.00	2,240.00	6.00	3,399.17	$ 200
50,001 – 60,000	296.00	8.00	2,810.00	8.00	3,076.92	$ 200
60,001 – 70,000	212.00	6.00	2,640.00	8.00	2,203.74	$ 200
70,001 – 80,000	180.00	5.00	2,790.00	8.00	1,871.10	$ 200
80,001 – 90,000	126.00	3.00	2,370.00	7.00	1,309.77	$ 200
90,001 – 100,000	95.00	3.00	2,100.00	6.00	987.53	$ 200
100,001 – 125,000	117.00	3.00	3,280.00	9.00	1,216.22	$ 200
125,001 – 150,000	78.00	2.00	2,790.00	8.00	810.81	$ 200
150,001+	122.00	3.00	8,670.00	25.00	1,268.19	$ 200
Total	**3,773.00**	**101.00**	**34,610.00**	**98.00**	**39,220.34**	
		Note: rounding error		*Note: rounding error*		

Info per: https://treasury.govt.nz/information-and-services/financial-management-and-advice/revenue-expenditure/revenue-effects-tax-changes/who-pays-income-tax

Proposed system tax revenue

Income bracket	Gross taxable income ($m) (per bracket)	Tax collected @ 33% rate
0	0	-
1 – 10,000	32,137.00	10,605.21
10,001 – 20,000	28,292.00	9,336.36
20,001 – 30,000	21,494.00	7,093.02
30,001 – 40,000	17,240.00	5,689.20
40,001 – 50,000	13,803.00	4,554.99
50,001 – 60,000	10,749.00	3,547.17
60,001 – 70,000	8,197.00	2,705.01
70,001 – 80,000	6,189.00	2,042.37
80,001 – 90,000	4,670.00	1,541.10
90,001 – 100,000	3,586.00	1,183.38
100,001 – 125,000	6,366.00	2,100.78
125,001 – 150,000	4,002.00	1,320.66
150,001+	11,335.00	3,740.55
Total	**168,060.00**	**55,459.80**

Info per: https://treasury.govt.nz/publications/information-release/aggregate-personal-income-tax-revenue-estimate-tool

Appendix C – Cost of the System

Rate	33%	
Threshold	$ 31,500	
Rebate	33%	
Current tax collect	34,610	*See appendix B*
Net collect under the System	33,982	*See below*
Net difference (shortfall)	- 628	
Net collect under the System		
New tax collect	55,460	*See appendix B*
Less: cost of rebate	- 39,220	
GST on additional spending	4,093	*Note 1*
Reduced super payments	7,842	*Note 2*
Reduce misdirected super	1,757	*Note 3*
Potential SSW spending reductions	4,051	*Note 4*
Net tax collect	**33,982**	

Note 1 - *GST inputs received on the additional spending of the rebate*	
	Per treasury data, 50% of all adults (16+) in NZ earn under $30k p.a., 35% earn under $20k & 20% under $10k
	For atleast 50% of the population reasonable to assume more or less all of the rebate will be spent during the year.
	For remaining 50%, a expectation that roughly 60% of the rebate will be spent seems reasonable.
	Overall assume 80% of the rebate paid will be spent during the year.
Note 2 - *Reducing superannuation payments by amount received as rebates under new system*	
754,000	Approx number of NZer's receiving super per 2019 budget
	https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html#section-9
7,841,600,000	NZ super payments replaced by the System
Note 3 - *Reduction for misdirected superannuation payments made*	
13,699,000,000	Current total super spend
	https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html#section-9
	Appears that treasury figures include govt returns from super (i.e. additional GST, etc)
5,857,400,000	Less: the $7.5bil in reductions as above (Note 3)
1,757,220,000	Assume 30% of superannuation payments are misdirected.
Note 4 - *Reduction in other items of current welfare spending*	
4,051,000,000	Potential reductions in current Ministry of Social Development spending as set out in Appendix D

Appendix D – Potential reductions in current MSD spending

Benefit	# of recipients	Current Spend	Proposed Spend	Savings	Points to note
Jobseeker Support	138,000	$1.85b	Nil	$1.85b	• Conceivable that jobseeker support could be cut entirely. The System's payments exceed most of jobseekers. • Only single adults over 25 receive more than $200pw, being $219 (net). • Difficult to contemplate a simple solution to the reduced payments without actually increasing the payments. However, as set out on page 18, the actual cash-in-hand received by most of these beneficiaries will exceed that currently received. So, the real impact upon elimination of the jobseeker benefit for these beneficiaries will be minimal.
Supported Living Payment (SLP)	95,000	$1.56b	$0.57b	$1b	• Those entitled to SLP cannot receive the jobseeker benefit and vice versa. • Net SLP payments are roughly $40-60pw more than jobseeker. • Important to maintain this level of benefit for the at-risk people this benefit targets, so rather than removing this benefit, it should simply be reduced universally by $200pw. • Savings of roughly $1billion p.a (95,000 * $10,400).
Sole parent support	59,000	$1.12b	$506m	$614m	• Independent from Jobseeker & SLP. • Net payments are $340. • Benefit for single parents should be maintained, however it could be reduced by $200pw. • Savings of roughly $614million p.a (59,000 * $10,400).
Student allowance & living costs	Not available	$987m	$400m	$587m	• $583m student allowances • $404m student loan living costs (i.e. the cost of the students borrowing on the loans). • The minimum student allowance amounts would largely be covered by the rebate payments. • Assumed that, broadly, 60% student related spending could be covered by rebate payments (i.e. student allowance payments and ability to draw-down living costs could be reduced).
Total				**$4.05b**	

Figures drawn from either: https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html#section-9
or https://www.workandincome.govt.nz/map/deskfile/main-benefits-cut-out-points/jobseeker-support-cut-out-points-current.html