Income Tax Inflation Reset - Fact sheet

New Zealand has a cost of living crisis

Over the last four years, the cost of living has increased by more than 11.5%. In 2021 alone, inflation was 5.9%, the largest annual increase in prices in more than thirty years.

Since Labour came into office at the end of 2017, food prices are up over 13%, the median weekly rent is up $140, and it costs $45 more to fill up at the petrol pump.

There is no doubt Kiwis are facing a cost of living crisis.

Kiwis are also paying more income tax

One of the hidden costs of inflation is bracket creep, where earners are paying more tax solely because of inflation.

Kiwis who get a pay rise in line with inflation are no better off in terms of the goods and services they can afford.

In economic terms, their real incomes have not increased. They are simply treading water.

Despite Kiwis being worse off than they were 12 months ago because of the skyrocketing cost of living, many are facing higher tax bills as their nominal wages rise, even if their wages are not keeping up with inflation.

This is perverse and unfair.

At times of high inflation, bracket creep can be especially good for Government revenue, and especially bad for taxpayers.

Kiwis need tax relief right now

At the upcoming Budget, National is calling on the Government to give Kiwis a break and adjust the income tax brackets to account for the cost of living increase over the last four years under Labour.

Anyone earning over $14,000 or receiving NZ Super would be better off as a result of these changes. No one will get rich, but for Kiwis struggling with the rapidly rising cost of living they will surely be welcome.

Adjusting the tax brackets for four years of inflation

Between Q4 2017 and Q4 2021, the consumers price index increased by just over 11.5%. Adjusting the first three income tax brackets at Budget 2022 by this amount (rounded to the nearest $100) would mean the following:

What this would mean for taxpayers

Current income tax brackets

Tax rate	Lower threshold	Higher threshold
10.5%	$0	$14,000
17.5%	$14,000	$48,000
30.0%	$48,000	$70,000
33.0%	$70,000	$180,000
39.0%	$180,000	-

New income tax brackets

Tax rate	Lower threshold	Higher threshold
10.5%	$0	$15,600
17.5%	$15,600	$53,500
30.0%	$53,500	$78,100
33.0%	$78,100	$180,000[1]
39.0%	$180,000	-

As always, the tax reduction for each taxpayer will depend on how much tax they already pay and how close they are to the existing thresholds. Below are some examples:

Income	Annual tax saving
$45,000	$112
$55,000	$800
$75,000	$950
$85,000	$1,043
$150,000	$1,043

Over 3.2 million Kiwis would benefit from these tax changes.

To see how much you would save, try out our **Tax Calculator** at: national.org.nz/tax-calculator

[1] The 39% rate has not been adjusted as it was only introduced from 1 April 2021 so has not been as impacted by bracket creep.

What this would mean for superannuitants

The rate of NZ Super is indexed to the average after tax wage. That means changes to the income tax brackets which increase after tax wages will also see NZ Super rates increase. The table below shows the estimated annual gain on top of the new rates scheduled to take effect from April. Around 830,000 New Zealanders over 65 would gain from the changes to NZ Super.

	Annual increase to NZ Super (over April 2022 rates)
Couple	$546
Single (living alone)	$355
Single (living with others)	$328

This would not require spending cuts

These changes would not require spending cuts in core areas like health and education. They would be met from the Government's record $6 billion new spending allowance, and so would simply require Labour to be slightly less profligate with its new spending in Budget 2022.

Even after accounting for the $1.7 billion fiscal impact of these tax cuts (see below), the remaining $4.3 billion would still be the biggest allowance for new spending initiatives ever.

This would not increase inflation

As we are proposing the fiscal impact of these tax cuts be met from the Government's current new spending allowance of $6 billion, the overall impact on inflation would be minimal – it would essentially be replacing some Government spending with spending (or saving) by New Zealanders.

Estimated fiscal impact

Component	Estimated fiscal impact ($B) p.a.
Reduction in income tax revenue	$1.57
Indirect and company tax offset (10%)	-$0.16
NZ Super adjustment	$0.24
Total	**$1.66**

These costings do not include dynamic effects, such as increased hours worked from lower effective marginal tax rates, which would likely reduce the overall fiscal impact, or any other flow-on impacts.

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