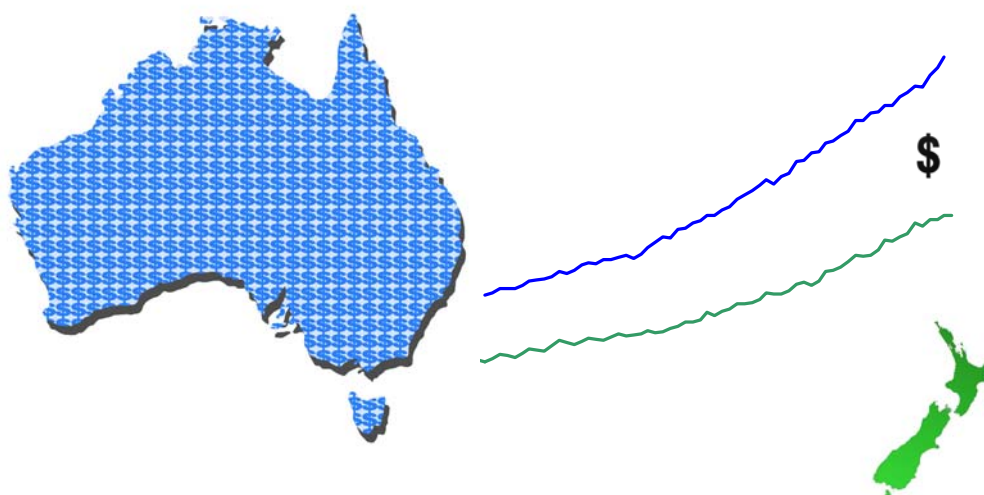


## Insight



### Tax relief, but Aussies still earn more

Personal tax cuts from 1 October 2010 will boost take home pay for New Zealand workers. NZIER has updated its personal tax calculators to allow comparison with Australia.

New Zealand's new personal tax regime is less onerous for high income earners than Australia's. But as Australia's average weekly wage is about 40% higher in Australia (Figure 1), a typical family is much better off in Australia if disposable income is the measure. Our model family's after tax income is 33% higher in Australia.

The personal income tax cuts will not be enough to stem the migration of Kiwis to Australia – incomes would also need to rise. The tax changes are a step in the right direction, but need to be seen as part of a broader package of policies to stimulate and support productivity growth.

#### New tax calculators now available

NZIER has released an updated personal income tax calculator that compares New Zealand and Australian take home pay. The calculator is available from [www.nzier.org.nz](http://www.nzier.org.nz).

The public can calculate their after tax incomes applying New Zealand and Australian tax rates, tax credits, and levies. The calculator does not take into account wage or lifestyle differences. Details of the calculators and assumptions are in the Annex of this document.

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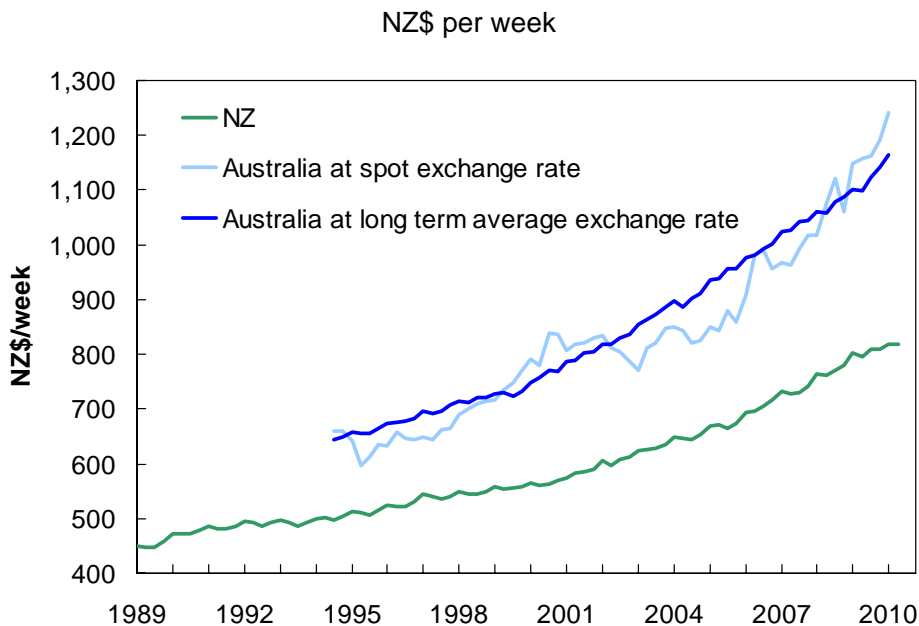
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### Income differences mean a model family still better off in Australia by \$18k pa

We compare a model family’s annual income. One parent works full time in telecommunications (NZ\$47,000) and the other parent works part time in retail (NZ\$12,800). They have two children, a 4 year old and a 7 year old. With the new tax rates the take home pay will be NZ\$56,430 in New Zealand. The same family will be around NZ\$7,000 better off with Australian income tax rates and credits, with take home pay of NZ\$63,304.

However, average incomes are higher in Australia (Table 1). For our model family, gross income would be around NZ\$25,000 more in Australia (at the long run average exchange rate), if we ignore any difference in skill levels or job composition in industries between countries. The take home pay would be NZ\$74,897. Under the new income tax rates this is around NZ\$18,000 more than disposable income in New Zealand.

**Figure 1 Average gross weekly incomes in New Zealand & Australia**



Source: Statistics NZ, ABS, RBNZ, NZIER

**Table 1 Annual gross income comparison (March 2010)**

Currency/metric	NZ	Australia				
	NZ\$ pa	A\$ pa	NZ\$ pa	% above NZ	NZ\$ pa	% above NZ
<i>Exchange rate conversion factor</i>			<i>LT avg = 0.84</i>		<i>Aug-10 = 0.79</i>	
Forestry & Mining(1)	56,489	102,492	122,564	117%	129,013	128%
Manufacturing	46,666	55,510	66,381	42%	69,874	50%
Electricity, Gas, Water & Waste Services	59,314	74,677	89,302	51%	94,001	58%
Construction	47,152	62,416	74,639	58%	78,567	67%
Wholesale Trade	47,964	57,309	68,533	43%	72,139	50%
Retail Trade	25,566	30,930	36,987	45%	38,933	52%
Accommodation & Food Services	20,910	24,705	29,544	41%	31,098	49%
Transport, Postal & Warehousing	45,450	57,704	69,005	52%	72,636	60%
Information Media & Telecommunications	56,839	66,929	80,037	41%	84,248	48%
Financial & Insurance Services	63,017	67,345	80,534	28%	84,772	35%
Rental, Hiring & Real Estate Services	40,015	52,796	63,135	58%	66,457	66%
Professional & Support Services	47,704	66,378	79,378	66%	83,554	75%
Public Administration & Safety	55,790	61,750	73,843	32%	77,729	39%
Education & Training	50,929	50,716	60,648	19%	63,839	25%
Health Care & Social Assistance	40,201	43,675	52,228	30%	54,976	37%
Arts, Recreation & Other Services	31,314	35,391	42,322	35%	44,549	42%
<b>Total All Industries</b>	<b>42,540</b>	<b>50,638</b>	<b>60,555</b>	<b>42%</b>	<b>63,741</b>	<b>50%</b>

**Note** (1) Australia is mining only

**Source** Statistics NZ, ABS, RBNZ, NZIER

**Data reference** NZ Infoshare table: QEX007AA, ABS Catalogue #: 6302.0

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## Technical annex

The calculator compares New Zealand's personal tax regime and Working for Families with the equivalent policies in Australia. Australian figures are translated to New Zealand dollar equivalent using purchasing power parity values from the OECD.<sup>1</sup> There is no adjustment for wage differentials or other costs outside of those listed below.

Net income is defined as income net of personal income taxes, low income tax offset, social insurance levies and family tax credits. Other forms of family income assistance (e.g., main welfare benefits and childcare and accommodation assistance) are not included in these figures.

### **New Zealand net income covers:**

- Individual income tax rates, the independent earners tax credit and the ACC levy
- Working for Families: family tax credit, in-work tax credit and minimum family tax credits.

Australian net income covers:

- Individual income tax rates, low income tax offset and Medicare levy
- Family tax benefits: plan A and B.

### **Changes since the previous tax calculator:**

- All the rates have been updated to 1 October 2010 levels
- The input of children has been simplified
- The independent earners tax credit is now included
- The Australian family tax benefit part B sets to \$0 when income is over \$150,000
- In-work tax credit has been amended.

### **What makes this calculator different?**

- A direct comparison is made to the main Australian tax and family benefit policies
- It incorporates the main taxes and benefits influencing the typical household and family combined at annual levels, rather than the difference in policy changes or individually
- The calculator allows you to set all the variables that impact the final tax amount without making assumptions.

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<sup>1</sup> The converting value used is a ratio of the Australian value in US dollars to the New Zealand value in US dollars for 2009 (the latest available)