Public Equity Implications of Suggested Income Tax Proposals

Keith Rankin, 7 Sep 2014

With reference to my earlier Daily Blog articles on "Universal Basic Income?", I noted that the present income tax system contains embedded within it a public equity benefit of $9,080 per year that is paid as of right to all persons earning over $70,000, and in more convoluted ways to most other New Zealand adults.

With respect to the tax policies I have advocated (also here):

> For National my suggestion translates to a public equity benefit of $9,080 per year paid as of right to all persons earning over $48,000.
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> For Labour my suggestion translates to a public equity benefit of $11,840 per year paid as of right to all persons earning over $70,000; with at least $10,520 payable to all persons earning over $48,000.
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> For Green my suggestion translates to a public equity benefit of $14,640 per year paid as of right to all persons earning over $70,000; with at least $12,440 payable to all persons earning over $48,000.

At its core, the suggested National tax scale can easily translate, through Basic Income Flat Tax reform, to a flat tax rate of 33% and a basic income of $9,080. The suggested Labour tax scale can easily translate, through such reform, to a flat tax rate of 36% and a basic income of $11,840. And the suggested Green tax scale can easily translate to a flat tax rate of 40% and a basic income of $14,640.

This is the way elections should be fought; around a core of competing sets of equally affordable tax-benefit trade-offs.

What is affordable would be an FT-BI combination that is consistent with a stable (across the economic cycle) forecast public-debt to GDP ratio. Our present ratio is about right; not too big, not too small.

Each election National would propose a lowish tax rate and a lowish public equity dividend. Labour would propose a moderate tax rate and a moderate public equity dividend. Green would propose a higher tax rate and a higher public equity dividend.

Over time, as labour productivity increases, all responsible parties should propose increases in both the public equity dividend and the tax rate. This increase in return on public equity would be the country's growth dividend.
