The taxman cometh: Kiwis paying 10 days more taxes than last year

The 2022 Tax Freedom Day calculations reveal the biggest shift in tax payments since 2010

- Kiwis will pay 10 days' more taxes in 2022 – a 15% increase on last year
- The return of the 39 per cent income tax rate is largely behind the shift
- Businesses are paying an extra day's worth of tax due to the cost of finance

AUCKLAND, 11 May 2022 – New Zealanders will be paying 10 days' worth of taxes more in 2022 than they did last year, according to the latest Tax Freedom Day calculation. Despite the new 39 per cent individual tax rate, the extent of the shift comes as a surprise, with record spending on home renovations and cars and a boost in welfare payments not matched by GST revenues. The increased tax burden is likely to throw further fuel on the burning debate about government spending and local council rates.

Baker Tilly Staples Rodway's annual Tax Freedom Day calculation marks the hypothetical day when New Zealanders have paid off their tax bill in full for the year, meaning every dollar they earn going forward goes straight into their pocket. Since the top tax rate was dropped to 33 per cent in 2010, it has typically fallen around the start of May. In 2021, it fell on May 11.

This year, however, Kiwis have spent an extra 10 days working for the taxman, with Tax Freedom Day forecast for May 21. The tax increase works out at 15 per cent more than last year. It is no coincidence that this shift coincides with the reinstatement of a 39 per cent income tax rate, which brings the date back to where it was in the early 2000s. Given the top band is only for earnings above $180,000, the proportion of tax being paid by New Zealand's highest earners is also increasing.

The other significant factor is "bracket creep", where an individual receives an increase in their salary, pushing them into a new higher tax bracket on their marginal earnings.

"The effects of bracket creep are becoming more obvious as more Kiwis receive pay rises. That's having flow-on effects such as Working for Families payments essentially being paid directly back to the government after tax," said Mike Rudd, tax director at Baker Tilly Staples Rodway.

"However, the somewhat surprising finding this year is that despite big increases in spending on home renos and Ford Rangers, GST revenues have actually fallen slightly."

When the pandemic hit in 2020, Kiwis started spending their savings on house renovations and big ticket purchases such as new cars rather than overseas travel. Spending ramped up still further in 2021 with a 24 per cent increase in spending on building alterations and a 38 per cent increase in new car registrations. The predicted GST take has not risen to reflect this. This can partly be attributed to the ongoing loss of tourism, missing the $3.8 billion generated by tourists in 2019.

However, GDP is expected to rise more than seven per cent this year, which Rudd said shows that beyond heavily-impacted sectors like tourism and hospitality, many businesses are performing well. On the other hand, some of the high tax take will simply be due to rising costs, not increasing profits. There are real concerns about the rising cost of finance.

“While supply chain issues, skills shortages and higher costs have certainly caused pain for many businesses over the past year, the predicted liquidations and insolvencies have not materialised. With government support, the majority of our clients are coping well and some are doing better than ever. However, what’s concerning is that our calculations show rising government finance costs, related to interest rates and additional compliance, have added an extra day to the taxpaying year. This deserves watching,” Rudd said.

It's also worth noting that despite the large increase in local authority rates across the country, the overall proportion of taxes paid to councils has fallen by around one per cent, as income and corporate tax takes soar. With Finance Minister Grant Robertson announcing a new national debt ceiling ahead of the Budget, this opens up further questions around who will pay for regional infrastructure.

“While some businesses are doing well in the current environment, it’s clear the financial landscape has shifted quite significantly since the outbreak of the pandemic and this has really brought the tax conversation back into focus around both the boardroom and the dinner table. As we head into local body elections this year, and the general election next year, the debate on tax going to get even hotter,” said Rudd.

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