

20 May 2010

## **Fact sheet – GST and compensation**

### ***What is changing?***

- The rate of GST will increase from 12.5 per cent to 15 per cent from 1 October 2010.
- The Government will provide immediate compensation for the rise in GST, increasing payments from 1 October 2010 by 2.02 per cent for all those receiving:
  - New Zealand Superannuation or a Veterans Pension.
  - All main benefits, such as the Unemployment Benefit, the Sickness Benefit, the Invalid's Benefit and the Domestic Purposes Benefit.
  - The maximum rates of the Disability Allowance, Child Disability Allowance and Childcare subsidies paid through Work and Income.
  - The Family Tax Credit and Minimum Family Tax Credit, which are part of the Working for Families scheme.
  - Student Allowances.
  - CPI-adjusted payments from the Government Superannuation Fund or National Provident Fund.

### ***Why?***

- Personal tax cuts plus compensation for GST mean the vast bulk of people are better off, even if they spend all of their income.
- GST does not tax savings. Therefore an across the board reduction in personal income taxes, together with an increase in GST, encourages people to save, or pay off their mortgage, rather than consume.
- New Zealand relies heavily on personal income and corporate taxes, which are harmful for economic growth. Shifting the tax mix away from these taxes, and on to GST, is less distorting and better for the economy.
- GST is a very difficult tax to avoid, no matter how people arrange their financial affairs.

### ***Key facts***

- Statistics New Zealand calculates overall prices – as reflected in the CPI – to rise by about 2 per cent as a result of increasing GST to 15 per cent, and that has determined the level of compensation for benefits, NZ Superannuation and other payments.

- Any rise in prices above Statistics NZ's estimation, excluding the impact of recent tobacco excise tax increases, will be picked up in the Consumer Price Index and reflected in the usual inflation adjustment for government assistance on 1 April 2011.
- Compensation for benefits, NZ Superannuation and other payments will never run out or expire – 1 April 2011 adjustments ensure this is permanent.
- People who receive NZ Superannuation or a Veterans Pension will get the benefit of a tax cut on top of the compensation for GST, thereby considerably increasing their after-tax income.
- The increase in GST will raise \$1.59 billion additional revenue in 2010/11, rising to \$2.46 billion by 2013/14.
- The compensation measures will cost about \$420 million in 2010/11, rising to about \$620 million a year by 2013/14. These figures include the impact of tax cuts on NZ Superannuation.
- Items exempt from GST include rent for private premises, mortgage payments, school donations and some credit service charges.

#### **The effect of raising GST on prices**

Statistics New Zealand expects the CPI to rise by about 2 per cent as a direct result of increasing GST to 15 per cent. Therefore 2.02 per cent is the figure we have used for increasing benefits, NZ Superannuation and other payments.

Consider a \$100 pair of jeans. Because jeans are subject to GST of 12.5 per cent, the retail price is actually \$112.50 (including GST).

When GST rises to 15 per cent, the retail price of the jeans will increase to \$115 (including GST).

This increase from \$112.50 to \$115 is an increase of 2.22 per cent (*not 2.5 per cent as sometimes assumed*).

Price increases of 2.22 per cent will also apply to other goods and services which are subject to GST.

Some goods and services, like rent and mortgage payments, are not subject to GST. These account for about nine per cent of consumer spending. This means the overall increase in prices across the economy is lower than 2.22 per cent.

The Consumer Price Index (CPI) measures the general rise in prices across the economy. It is used to regularly increase benefits, NZ Superannuation and other payments, to maintain people's standard of living.

#### **More information**

- *Individuals and families can work out how Budget 2010 tax changes personally affect them at [www.taxguide.govt.nz](http://www.taxguide.govt.nz)*