



# Tax changes most affect those who pay the most

Greg Fleming | 30 March 2010

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There is a much-told story of seven friends who each Tuesday night would eat together at their favourite restaurant. The total cost each week was \$140, which evenly divided would equal \$20 each. However they had the admirable habit of splitting the bill on the basis of their income.

John had generated significant wealth so he would pay \$70—half the bill, while Andy who was wealthy but not quite as well off would pay \$30. Fred and Harry paid \$15 each. Tim and Alex earned a very basic wage, plus they had several dependants so they would pay just \$5 each. Steve was unemployed so he ate for free.

This all worked well until one evening when the restaurant owner informed them he had cut his operating costs and wanted to drop his prices in order to stimulate more business. As a result he would be cutting their total bill by \$20 and he distributed the savings on the same basis that they had been sharing the cost.

This meant John received a \$10 discount and Andy \$4.30 whilst Fred & Harry each saved \$2.14. Tim & Alex's cut was only 71 cents and of course Steve got nothing, but he still ate for free.

Tim, Alex and Steve were outraged and Fred and Harry weren't too happy either. They argued that John earned so much money he didn't need the discount. The argument got very heated, and in the end John decided to leave.

The next Tuesday the friends met again for dinner, only this time John didn't show up. He had gone somewhere else for dinner. At the end of the night they went to pay the bill and were \$60 short.

The NZIER's recent analysis of the Government's intended tax cuts show that the lion's share of the savings will go to higher income earners. It also shows that even with the suggested increase in GST nearly everyone is going to be better off, even if just marginally so.

While tax is complex and needs to be carefully considered dismissing changes simply because they benefit the wealthy most, is ludicrous. They pay more and so will be most directly affected by tax changes. We also need to be careful in our criticism of the wealthy that we don't inadvertently encourage them to move away from New Zealand.

Maxim Institute. 49 Cape Horn Road, Hillsborough, Auckland 1041, New Zealand.

Tel: Auckland (09) 627 3261, Fax: (09) 627 3264, Post: PO Box 49 074, Roskill South, Auckland 1445, New Zealand, Email: [mail@maxim.org.nz](mailto:mail@maxim.org.nz)