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Can fiscal drag pay for the public spending effects of population ageing in New Zealand?

John Creedy & Norman Gemmell

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Notes

1. These cost simulations are based on 'steady-state' or 'full implementation' assumptions and hence should not be interpreted as capturing expected actual NZS cost changes under more likely implementation scenarios.
2. Given the broad base in NZ, GST is treated as a proportional tax on all expenditure.
3. See <http://www.ird.govt.nz/aboutir/external-stats/revenue-refunds/inc-dist-of-ind/>
4. This is for 2010/2011.
5. EMTR is the effective marginal tax rate on income, which is the sum of the social security contributions and the income tax rate. These effects on social welfare are shown in Figure 1.
6. Government revenue includes GST. The revenue from GST was zero for any year before 1986.
7. The BOP balance is defined as $\text{PIT} + \text{GST} - \text{GDP}$ (where PIT is personal income) over the 50 years.

PIT and GST, respectively. These are converted from ratios of taxable income to ratios of GDP using the 2010 taxable income/GDP ratio of 0.625, and added to the 2010 tax/GDP ratios in [Figure 5](#) to arrive at the 2060 values shown.

8. Recognition that several dimensions are usually involved and trade-offs must be specified explicitly, the New Zealand Treasury ([2011](#)) has recently proposed a 'living standards framework', which encourages quantification of a number of criteria against which to evaluate the outcomes of a policy change; see Karacaoglu ([2012](#)).

9. For example, the BC model projects a rise in the ratio of capital income tax revenue to taxable income from 1.1% in 2011 to 3.1% by 2060.

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