MacKay ON MONEY (AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY

Tax & Estate Planning. My favourite subject at Vic and the subject of a heated discussion at a recent family dinner.

I used to do my swat in "periodicals" in the Vic library and I would habitually sit across the desk from a couple of brilliant scholars, Chris and Jillian Moller. With a well-deserved CNZM behind his name now, Chris as Rugby NZ's CEO was instrumental in securing the 2015 Rugby World Cup hosting rights. Previously he had been deputy CEO of Fonterra, so he's a seriously clever chap with an equally talented wife.

From memory Chris and Jillian were "straight A" students and I'm sure that through osmosis and proximity to the Mollers, I managed to ace the Tax & Estate Planning unit.

Tax was complicated back then. For example companies had incremental and marginal tax rates so businesses would trade under different entities in order to split income and to minimise what tax they paid.

Company tax is now a flat 28 per cent but back then it went up depending on how much profit a company generated, rather like how individuals pay tax today. The taxman was onto these avoidance tricks and so there were complicated formulae for aggregating lots of little companies who had common ownership into one big reporting entity.

Tax accounting for farmers was always a bit of a mystery. These were the 1970s and to most townies, it seemed if you owned a farm, you basically paid no tax but got to send all your kids to private schools and were able to buy a new Holden every couple of years in between overseas trips. According to Wikipedia "The government offered a number of subsidies during the 1970s to assist farmers after the UK joined the EEC… By the early 1980s, government support provided some farmers with 40 per cent of their income".

Death duties were also a big deal back in our country's history. I found some old family papers recently. Born in Invercargill in 1884, my grandfather Charles Stewart MacKay died in 1961.He left an estate of £15,644 – equivalent to $669,000 in today's dollars – out of which, the lawyers, Leicester, Rainey & Armour sent off £2,392 or about 15 per cent to the extraction experts at the Death Duty Department. I have a recollection of Dad telling me even chattels had to be individually valued – in this case, by an employee of H. Ernest Leighton Ltd – to come up with a total estate figure. So for example, Grandpa's fob watch worth say 20 guineas would trigger duty of three quid. His Chesterfield suite – duty of £2, his Crown Lynn dinner set, a quid and so on. Even a deceased's fountain pen would form part of the pot.

According to my sister Mary, the valuer guy put a price of 20 quid on a thin and very old hall carpet runner. Dad queried this and asked him what he himself would pay for it. A maximum of one pound the valuer replied. Then value it at one pound man!

Life insurance was often used by estate planners to pay for future death duty liabilities so as a financial adviser I was pleased to see Grandpa MacKay had an AMP Whole of Life policy (can't buy them these days) that paid out £757 ($32K today) on his death at age 76.

According to a very good and comprehensive paper The History of Death Duties & Gift Duty in New Zealand, authored by Michael Littlewood, "In 1915, death duties accounted for 13.5 per cent of the government's revenues; in 1935, 8.8 per cent; in 1955, 4.0 per cent; in 1975, 1.4 per cent; and in 1990, just 0.3 per cent".

In 1970, anything over $150,000 was taxed at 40 per cent. Duty kicked in at a lower level on estates of over $12,000. In 1976, the lower threshold was raised to $25,000 and over $255,000, attracted 40 per cent. Muldoon got rid of the lower thresholds in 1979 and in 1983 the magic figure became $450,000. So if that farmer with the new Kingswood was worth say $1million, the death duties would be $220,000. Perhaps that was the deal. No tax while you're alive, but we'll get you in the end! With a farmer at the helm, National in 1993, abolished death duties completely.

However the heated dinner table discussion wasn't about death duties, but rather about historical top personal income tax rates.

My brother-in-law maintains – correctly in my view –it was hard to be a really good saver in New Zealand pre the mid 80s or to be motivated to work harder and earn more. Our tax regime was harsh and there wasn't a lot left over. We baby boomers and our depression raised parents were penalised heavily. There were a whole lot of sales taxes back in those days too to soak up what was left after income tax.

In order to appease these hard done punters, there were a few sweeteners doled out in the form of "special exemptions".

According to Paul Goldsmith in his political history of tax in NZ, PAYE was introduced by Hutt Valley's Sir Walter Nash's second Labour Government of 1957 – 1960. As a "bribe" to encourage the punters, every taxpayer would get a £100 rebate and a 50 per cent rise in the family benefit. And there were also special exemptions.

I discovered one of Dad's tax returns from 1963, just a few years later. He was able to claim the following special exemptions:

- personal exemption £468
- wife exemption £56
- children exemptions £312
- insurance exemption £250

Despite all these, he still ended up paying 34 per cent of his total income in tax. I haven't been able to research the top marginal rate in the 60s. I suspect it was north of 60 per cent.

In 1970, things had changed of course and the principal special exemptions were allowed to be written off against assessable income were:

- Personal exemption $275
- Wife exemption $275
  (reduced by $1 for every $1 that wife's income exceeds $375)
- Child exemption – first four (each) $135
  – each additional $140
- Dependent Relative $135
- Donations and/or Private School Fees $100
- Life Assurance and Superannuation $950 ($750 if a member of an employer subsidised Scheme)

Tax was very non PC back in the 60s and 70s. There was no reference to a "husband" exemption. Only a "wife" exemption! In the tax year in which a couple got married, as long as the missus' income from the date of marriage to March 31 was less than $375, the bloke could claim an exemption of $275 which could result in a refund of up to $185. Marriage was quite fashionable back in those days and if it was a late summer wedding, one was effectively rewarded with a visit from the Minister of Revenue bearing gifts. A contemporary word picture would see Crusher Collins, the current Minister pulling up to the ceremony in the Ministerial BMW and instead of confetti or rice, showering the bridal party with tax free bank notes – but knowing she'd get it all back and more once they were back from the honeymoon.

For 1970, here's a chart of some of the marginal tax rates:

Taxable Income	Tax Per cent	Cumulative Total
From 1 to 650	7.85	
1,701 to 2,000	24.50	
3,501 to 4,000	37.00	
5,501 to 6,000	49.00	$1,887.52
8,001 to 10,000	66.00	$4,352.52
10,000 to 12,000	67.00	$5,692.52
Over 12,000	67.50	

So on $12,000 – not a bad income in 1970 admittedly – you would lose 47 per cent in tax. And your top rate was 67.5 per cent. That's crazy and outrageous.

But not as crazy as in the early 1940s where I sourced some old documentation from. Over £3,700, a juicy income to be sure, the tax rate was 15 and 6 pence in the pound. That's 77.5 per cent. Those thieving polis should have been locked up and the keys thrown away!

The top rates would go down a bit during the 70s to – between 50 and 60 per cent when inflation was going silly. Heck, even as an accounting junior straight out of Uni in 1976 with Gilfillan, Gentles, Pickles, Perkins

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& Co on $6,100 pa, I was paying 42.5 per cent on every dollar over $6,000. But like the good socialist that he was, three years later in 1979, Muldoon introduced what they called a "Surtax", of 10 per cent, which increased the top rate from 60 per cent to 66 per cent, back to 1970 levels.

Taxable Income	Tax Per cent	Cumulative Total
0 to 6,000	20.0	$1,200
6,000 to 24,000	31.0	$6,780
24,000 to 30,000	41.5	$9,486
30,000 to 38,000	56.1	$13,974
38,001	66.0	

This was Muldoon as a latter-day Robbin Hood – but robbing from most of us boomers and our parents not just from the rich – and distributing it as he thought fit. He knew best of course. I can't believe my dad actually liked him.

So my brother-in-law is spot on. It was hard to get enthusiastic about saving money and working harder when you were getting screwed over by the politicians.

This sort of tax nonsense simply encourages "creative" accountants to come up with a whole lot of tax avoidance schemes and creates a "cashy" environment. Anyone paying 66 per cent on their top dollars was a target for all sorts of legitimate (but barely commercial) tax dodges – goats, kiwifruit, emus, movies, musicals, non-performing sheep farms, blood stock – you name it. And cashies were very popular.

So fast forward to the Fourth Labour Government under David Lange. I'm not a fan of everything Roger Douglas as Minister of Finance did, but he did revolutionise our tax system.

During their first term from 1984 to 1987, the top personal tax rate reduced from 66 per cent to 33 per cent and on October 1, 1986 GST was introduced at 10 per cent. But what many people have conveniently forgotten about Rogernomics was that while the top tax rate was lowered to 33 per cent they effectively shafted a whole lot of older taxpayers in 1985 by imposing a taxation "surcharge" of 20 per cent extra tax on any "other income" of National Superannuitants. This meant the highest marginal rate went from 33 per cent to 53 per cent on "other income". This included investment income or income from personal exertion (that is, income from still working). Twenty-three per cent of pensioners had to pay back some or all of their super. Oldies hated Labour for this and rightly so.

Bolger became PM in 1990 and lost any credibility he may have had by breaking his promise to repeal this onerous theft. In fact from memory and according to a 2001 Good Returns article, the surcharge went up to 25 per cent. The top marginal tax rate for superannuitants thus became 58 per cent. Very mean spirited Jim! It took a coalition MMP deal with Winston for National to abolish the surcharge entirely as from April 1, 1998.

Pandering to Jim Anderton, the Helen Clark government (1999–2008) then undid a lot of the good that had been done and raised the top rate from 33 to 39 per cent. After Aunty Helen's defeat, John Key and Bill English reduced it back to 33 per cent, but increased GST to 15 per cent.

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This is how the present marginal tax rates work:

Taxable Income	Tax Percent	Cumulative Total
0 – 14,000	10.5	$1,470
14,001 – 48,000	17.5	$7,420
48,001 – 70,000	30.0	$14,020
Over 70,001	33.0	

That means an income of $70K attracts an average of 20 per cent in tax.

Hopefully now we have a budget surplus, there may be some future tax cuts. Personally, I reckon Bill and Steven should look after low income earners and lift the tranches up. Instead of $14,000, $48,000, and $70,000 – make it $50,000, $75,000, and $100,000. That would mean someone on say $50,000 would get another $53 per week in the hand. And actually, all taxpayers earning over $14K would benefit.

I reckon for everyone to feel ok about tax, it needs to be reasonable and for taxpayers to feel we are getting value for money – health, education, police, prisons, defence, infrastructure, social support, NZ Superannuation etc. – and so we can feel we are living in an environment where we are safe, practising the golden rule and caring for ourselves and our fellow Kiwis.

In winding up, I want to reiterate the sentiments of my recent article on aging and the affordability of NZ Super. According to the 2016 Budget, the Government brings in about $78b, $72b being taxation revenue. Currently $13b p.a. out of the $78b is spent on NZ Super.

For this to continue to be affordable and palatable for all taxpayers – it makes perfect sense to push the starting age out to 67, but giving plenty of lead in time – from 2040. Those due to collect in 20 years' time are going to live a few years longer than the current Gold Card (GC) holders so will collect for longer. The independent Retirement Commissioner had recommended 2034 to be GC day so the proposal seems quite fair.

What the anti-commentators have conveniently forgotten is there was a change in the eligibility age from 60 to 65 between 1992 and 2001. So those of us who will still collect at 65 have already had our entitlement age move five years out and we did it in the knowledge it was the right thing for everyone.

We took one for the team. It's what Kiwis do!

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