

New Zealand Economic Papers

ISSN: 0077-9954 (Print) 1943-4863 (Online) Journal homepage: www.tandfonline.com/journals/rnzp20

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To cite this article: Norman Gemmell & Peer Ebbesen Skov (22 Oct 2026): How close is New Zealand to its revenue-maximising top tax rate?, New Zealand Economic Papers, DOI: 10.1080/00779954.2026.2748603

To link to this article: https://doi.org/10.1080/00779954.2026.2748603

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Published online: 22 Oct 2026.

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NEW ZEALAND ECONOMIC PAPERS
https://doi.org/10.1080/00779954.2026.2748603

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How close is New Zealand to its revenue-maximising top tax rate?

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ABSTRACT

This note asks how close New Zealand's 39% top personal income tax rate is to the revenue-maximising rate. Using Inland Revenue taxable-income tabulations for FY2010–FY2024, we estimate the concentration of income above the top threshold and apply a sufficient-statistics approach based on the elasticity of taxable income to top-rate revenue analysis. Benchmark calculations place the current top rate below the revenue-maximising point, but the margin is more modest in practice once GST and stronger top-end responses are taken into account. Any practical headroom above 39% depends heavily on taxable-income responses and on whether a higher top rate is accompanied by policies that protect the tax base, including anti-avoidance provisions.

ARTICLE HISTORY
Received 5 May 2026
Accepted 1 October 2026

KEYWORDS
Elasticity of taxable income; Laffer curve; self-financing; personal income tax; New Zealand

JEL
H21; H24

1. Introduction

New Zealand's top personal income tax rate was cut from 39% to 33% in October 2010 and reinstated to 39% in April 2021. The top marginal tax rate remains contested in New Zealand's tax debate, with recent proposals ranging from repealing the 39% rate (ACT New Zealand, 2022) to introducing a 45% rate above $180,000 (Green Party of Aotearoa New Zealand, 2023). In FY2024, the 39% top rate raised about $7.3 billion on taxable income above $180,000, around 12% of total assessed tax in the same Inland Revenue tabulations, from around 154,000 taxpayers (Inland Revenue, 2024), so the sums involved are large. On a purely mechanical basis, lifting the top rate from 39% to 45% would raise about $1.1 billion (Inland Revenue, 2024). But that is only the mechanical gain. The realised gain is smaller if top earners reduce reported income when the net-of-tax rate falls, or shift income into lower-taxed forms. The question in this note is therefore: how close is New Zealand's current top rate to the point at which a further increase would reduce, rather than raise, revenue?

We study that question using the taxable-income approach of Feldstein (1999), adapted to the top-rate setting in Saez, Slemrod, and Giertz (2012). A higher top rate raises more from income already in the bracket, but also gives top taxpayers a stronger reason to reduce

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reported income. How much revenue survives depends on two objects: the elasticity of taxable income and the concentration of income above the threshold. Using annual Inland Revenue tabulations, we show that benchmark calibrations place the current 39% rate below the revenue-maximising point, but not by a large margin once GST and stronger top-end responses are taken seriously. At an ETI of 0.25, the PIT-only revenue-maximising top rate is 62%, and the GST-adjusted ceiling is 56%. At an ETI of 0.35, the GST-adjusted ceiling falls to 47%. At 0.45, it is roughly 39%. Notably for policy discussion, these revenue-maximising rates are fiscal benchmarks, not welfare targets: at the benchmark ETI of 0.25, the GST-adjusted marginal excess burden – the efficiency loss from behavioural responses, over and above the tax revenue transferred to government – is already about $1.21 per dollar of net revenue at the current 39% rate and rises to about $2.07 at a 45% rate, increasing sharply as the revenue maximum is approached.

We estimate the top-tail concentration parameter using annual Inland Revenue taxable-income tabulations for FY2010–FY2024. The resulting series is fairly stable over time, suggesting that the shape of the top tail does not move around much from year to year. The main exception is FY2021, when the series drops sharply after the 39% top personal rate was reintroduced while the trust rate remained at 33%. That episode is a reminder that, in New Zealand, revenue at the top depends not only on the PIT schedule itself, but also on whether the trust rate is aligned with the top personal rate.

Earlier work by Creedy and Gemmell (2015) has examined revenue-maximising tax rates and elasticities of taxable income in New Zealand. Building on that work, this note provides an updated calibration for the current 39% top rate and $180,000 threshold, using recent New Zealand top-tail data and ETI evidence, and incorporates the GST wedge and the implications of the recent trust-rate misalignment.

2. Institutional setting

The October 2010 tax changes established a four-bracket PIT schedule with thresholds at $14,000, $48,000, and $70,000 and marginal rates of 10.5%, 17.5%, 30%, and 33% (New Zealand Legislation, 2010). A fifth bracket at 39% on income above $180,000 was introduced in April 2021 and remains in force (New Zealand Legislation, 2025).[1]

Trusts were taxed at 33% from 2011 until March 2024, when the trustee rate was increased to 39% for trusts with more than $10,000 of trustee income, aligning it with the top personal rate. During the three years of misalignment, the 6-percentage-point gap between the top personal rate and the trust rate created a straightforward arbitrage channel. Inland Revenue data reported in Budget 2023 show that trustee income rose from $11.4 billion in FY2020 to $17.1 billion in FY2021, a 50% increase within twelve months.

GST applies at 15% to most consumption. The ACC Earners' levy[2] applies to labour income only up to the levy cap, which lies below the $180,000 top PIT threshold. GST therefore affects the broader return to the marginal dollar at the top rate, whereas ACC does not.

3. Framework

For a marginal change in a top rate that applies above a threshold, the share of the mechanical PIT revenue effect offset by behavioural responses is

$$S = \varepsilon \cdot \alpha \cdot \frac{\tau}{1-\tau}, \tag{1}$$

where ε is the elasticity of taxable income, α is the income-concentration parameter defined below, and τ is the marginal PIT rate (Saez *et al.*, 2012). When $S = 0$, behavioural responses do not change the mechanical revenue effect. When $S = 1$, they fully offset it. For a rate increase, S is the share of the mechanical revenue gain lost; for a rate cut, it is the share of the mechanical revenue loss recovered.

Setting $S = 1$ and solving for τ gives the PIT-only revenue-maximising top rate

$$\tau^* = \frac{1}{1+\varepsilon \cdot \alpha}. \tag{2}$$

The income-concentration parameter α captures the thickness of the top tail above a bracket threshold. It is given by $\bar{z}/(\bar{z}-z^*)$, where z^* is the threshold and $\bar{z}$ is average income among taxpayers above that threshold. A useful way to think about it is this. If the average person in the top bracket earns only a little above the threshold, then there is not much income exposed to the top rate and the mechanical gain from raising that rate is small. If top-bracket incomes extend far above the threshold, the same rate increase applies to a larger slice of income and raises more mechanically.

Equations (1)–(2) are a useful starting point, but they do not capture the full wedge facing a top taxpayer. If an extra dollar earned is later spent, GST also bites, so the return to earning that dollar is lower than the PIT-only formula suggests. Following Graber, Håvarstein, Mogstad, Torsvik, and Vestad (2026), let $\tilde{\tau}$ denote the effective consumption tax rate. For the top-bracket analysis, we abstract from income effects, which are likely to be modest for small changes in the top rate relative to the substitution effect. Under these assumptions, the revenue-maximising top PIT rate can be written as

$$\tau_{PIT}^{TOP} = \frac{1-\tilde{\tau}\alpha\varepsilon}{1+\alpha\varepsilon}, \tag{3}$$

where $\tilde{\tau} = 0.15$ in our benchmark GST sensitivity.[3] Intuitively, a behavioural reduction in taxable income can reduce both PIT revenue and, to the extent that it also reduces resources available for consumption, GST revenue, so the revenue-maximising PIT rate is lower than in the PIT-only case. The size of this GST channel depends on the nature of the taxable-income response. It is strongest when lower taxable income reflects lower underlying economic income; if the response instead reflects reporting, evasion, or shifting while underlying income remains available to spend, the associated GST revenue loss will be smaller or absent. Under the benchmark assumption that the taxable-income response also reduces the consumption-tax base, the broader-wedge self-financing degree is

$$S^{GST} = \varepsilon \cdot \alpha \cdot \frac{\tau+\tilde{\tau}}{1-\tau}, \tag{4}$$

and the marginal excess burden per dollar of net revenue is

$$\mathrm{MEB}^{GST} = \frac{S^{GST}}{1 - S^{GST}}. \tag{5}$$

When $\tilde{\tau} = 0$, Equations (3)–(5) reduce to the PIT-only benchmark above. We therefore report the PIT-only case as a benchmark and the GST-adjusted case as the more relevant New Zealand sensitivity. For high-income taxpayers, GST lowers the return to the marginal dollar and therefore raises the marginal cost of public funds from a higher top PIT rate.

4. Data and parameters

The data source, grouped-band structure, and basic construction follow Gemmell and Skov (2026). We therefore give only a summary here.

We use Inland Revenue's publicly available taxable-income tabulations for FY2010–FY2024.[4] These are grouped statistics constructed from Inland Revenue administrative tax data. For each income band, the data report the number of taxpayers, total taxable income, and assessed tax. The data are grouped rather than person-level, but they are sufficient to measure the shape of the top tail and hence the income-concentration parameter needed for our purpose.

For each year and threshold, we compute the income-concentration parameter by summing taxpayers and total income across all bands above the threshold and then calculating average income in that top-tail sample. In FY2024, this gives $\alpha = 2.47$ at the \$180,000 threshold.[5] Because the \$180,000 threshold lies on a band boundary and the tabulations report both taxpayer counts and total taxable income in each band, this calculation does not require assumptions about the within-band income distribution.

Figure 1 plots α at the \$180,000 threshold over FY2010–FY2024. The series is broadly stable around 2.3 over the period, with one marked exception. It drops from 2.31 in FY2020 to 1.87 in FY2021, coinciding with the reintroduction of the 39% top personal rate while the trust rate remained at 33%.

No identified panel estimate exists for New Zealand's top-bracket ETI alone. Alinaghi, Creedy, and Gemmell (2021) use bunching at tax kinks in administrative data and report ETIs in the 0.2–0.3 range, with significant heterogeneity across taxpayer groups.[6] Claus, Creedy, and Teng (2012) provide earlier New Zealand evidence. This remains a sensible starting point, but two broader lessons from recent work matter for interpretation. First, responsiveness appears to rise with income. Using Norwegian administrative data, Graber *et al.* (2026) show that compensated elasticities increase from about 0.1 around the median to around 0.45 at the 90th percentile and 0.6 by the 95th percentile. Second, short-run quasi-experimental estimates may understate the welfare-relevant response if earnings adjust only gradually. In Danish data, Kleven, Kreiner, Larsen, and Søgaard (2025) estimate a long-run elasticity close to 0.5, compared with a conventional short-run estimate of about 0.2. New Zealand's institutional setting pulls the relevant ETI in opposite directions. On one side, its broad-base tax design points towards lower responsiveness than in systems with more deductions, exemptions, and rate-dependent margins. On the other, a relatively large self-employed sector points the other way. As Kleven (2014) emphasises, self-employed taxpayers tend to have larger taxable-income elasticities than wage earners, in part because

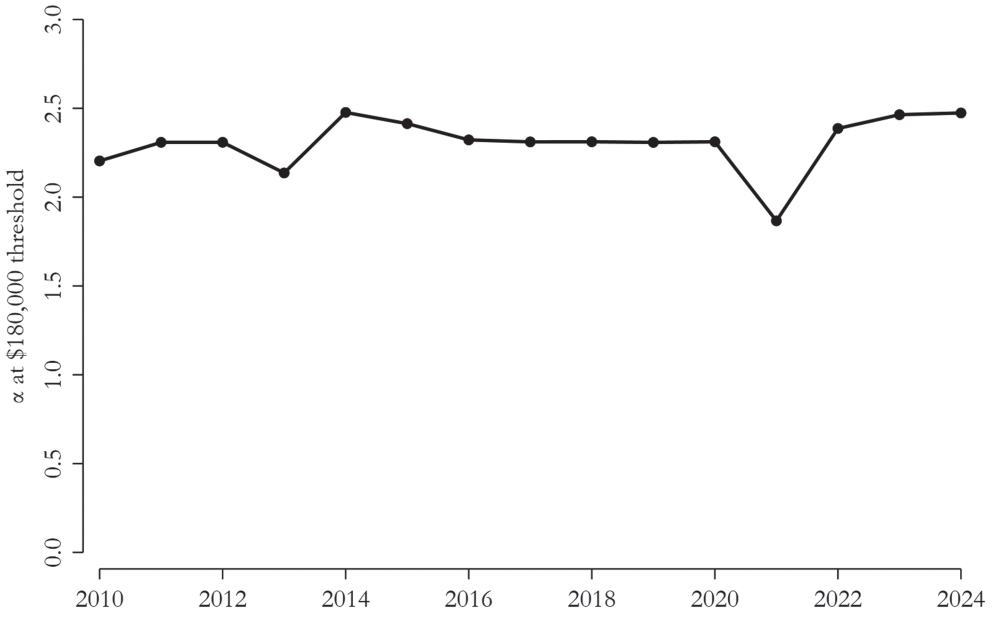


Figure 1. Income-concentration parameter at the $180,000 threshold, FY2010–FY2024.

Note: The figure plots the income-concentration parameter $\alpha = \bar{z}/(\bar{z} - z^*)$ at the $180,000 threshold. The dip in FY2021 coincides with the reintroduction of the 39% personal rate while trusts remained taxed at 33%.

income that is not covered by third-party reporting carries a much stronger evasion margin. We therefore retain 0.25 as the benchmark, as it remains close to both the available New Zealand evidence and the international survey evidence in Saez *et al.* (2012). But the institutional considerations above, together with the newer international evidence on top-end and long-run responses, mean that higher ETIs deserve substantial weight, especially for persistent top-rate changes and for taxpayers near the top of the income distribution.

5. Results

5.1. Self-financing and efficiency costs

With $\tau = 0.39$, $\alpha = 2.47$, and $\varepsilon = 0.25$, the self-financing degree on a PIT-only basis is

$$S_{\text{PIT}} = 0.25 \times 2.47 \times \frac{0.39}{0.61} = 0.395.$$

At benchmark parameters, behavioural responses offset about 39 cents of each mechanical dollar of top-rate PIT revenue, leaving about 61 cents as net revenue on a PIT-only basis. A reform with a mechanical PIT gain of $100 therefore raises about $61 once behavioural responses are taken into account. Once GST is included, a $100 mechanical PIT gain corresponds to about $87 of mechanical public revenue after accounting for the consumption-tax interaction. Behavioural responses offset about 55% of this amount, leaving about $39 in net public revenue. The corresponding GST-adjusted marginal excess burden is about $1.21 per dollar of net revenue.

Table 1. Mechanical, behavioural, and net revenue effects of selected top-rate reforms.

Reform	ε	Mechanical ΔR ($bn)	S^{GST}	Net Public ΔR ($bn)	MEB^{GST}
45% top rate	0.15	+1.1	40%	+0.6	$0.68
	0.25		67%	+0.3	$2.07
	0.35		94%	+0.1	$17.06
	0.45		121%	−0.2	–
35% top rate	0.15	−0.8	29%	−0.5	$0.40
	0.25		48%	−0.3	$0.91
	0.35		67%	−0.2	$1.99
	0.45		86%	−0.1	$5.96

Note: All rows are evaluated at the $180,000 threshold, implying $\alpha = 2.47$. Calculations use the unrounded FY2024 value of α. Mechanical ΔR is the PIT revenue change holding taxable income fixed. Here $S^{GST} = \varepsilon\alpha(\tau + \tilde{\tau})/(1 - \tau)$ is the broader-wedge self-financing degree. Within the GST-adjusted framework, net public revenue is given by $\Delta R^{GST}_{net} = [(1 - S^{GST})/(1 + \tilde{\tau})] \times \Delta R^{PIT}_{mechanical}$. The calculations apply the marginal self-financing degree at the reform rate and should therefore be interpreted as local approximations to the discrete rate changes shown. $\mathrm{MEB}^{GST} = S^{GST}/(1 - S^{GST})$ is the corresponding marginal excess burden per dollar of net revenue. MEB is not reported when $S^{GST} \geq 1$.

Table 1 applies the same logic to selected top-rate reforms, all evaluated at the $180,000 threshold. The mechanical column reports the PIT revenue effect holding taxable income fixed. The net public-revenue column then applies the GST-adjusted framework and the behavioural response summarised by S^{GST}.

Two points stand out. First, at ETIs below about 0.37, a 45% top rate still raises revenue, but much less than the mechanical PIT calculation suggests. The mechanical gain is about $1.1 billion. At $\varepsilon = 0.25$, behavioural responses offset 67 cents of each GST-adjusted mechanical dollar, leaving a net public-revenue gain of about $0.3 billion. At $\varepsilon = 0.35$, the offset rises to 94 cents and the net gain falls to about $0.1 billion. At that point the corresponding marginal excess burden is already very high, so being below the revenue-maximising rate is not the same as saying further increases are cheap on welfare grounds. At $\varepsilon = 0.45$, S^{GST} exceeds one and the net revenue effect is negative.

Second, the reverse comparison is also informative. Cutting the top rate to 35% produces a mechanical PIT revenue loss of about $0.8 billion. At $\varepsilon = 0.25$, the net public-revenue loss is about $0.3 billion. At $\varepsilon = 0.35$, it falls to about $0.2 billion, because a larger ETI under a tax cut means more of the mechanical loss is recouped through expansion of the reported tax base.

5.2. Revenue-maximising top rates

Table 2 shows two things. First, adding GST lowers the revenue-maximising PIT rate, but only moderately. At the benchmark ETI of 0.25, the PIT-only ceiling is 62%, while the GST-adjusted ceiling is 56%. So the current 39% rate still sits below either benchmark, but less comfortably once the broader tax wedge is recognised.[7] Second, the much bigger source of uncertainty is the ETI itself. At $\varepsilon = 0.35$, the GST-adjusted ceiling falls to 47%. At $\varepsilon = 0.40$, it falls to 43%. At $\varepsilon = 0.45$, it is essentially 39%. A 45% rate therefore remains below the benchmark ceilings at moderate ETIs, but it moves close to the revenue-maximising point once one allows for stronger top-end responses.

Figure 2 makes the two margins visual. Panel A plots the PIT-only revenue-maximising top rate against the GST-adjusted ceiling. The GST-adjusted ceiling lies below the PIT-only curve throughout, but the gap between the two is modest. What really moves the ceiling

Table 2. Revenue-maximising top PIT rate.

ETI (ε)	PIT-only top rate	GST-adjusted PIT ceiling	Headroom above 39%
0.15	73%	69%	+30pp
0.25	62%	56%	+17pp
0.35	54%	47%	+8pp
0.40	50%	43%	+4pp
0.45	47%	39%	0pp

Note: Calculations use $\alpha = 2.47$ at the \$180,000 threshold in FY2024. The GST-adjusted PIT ceiling uses Equation (3) with $\tilde{\tau} = 0.15$. Headroom is measured relative to the current 39% top PIT rate.

is the ETI. In that sense, GST matters, but the central quantitative uncertainty is top-end responsiveness.

Panel B makes the complementary welfare point. From Equation (5), the marginal excess burden rises nonlinearly as the top rate approaches its revenue-maximising level, because S^{GST} moves towards one near the GST-adjusted ceiling. The figure therefore makes clear that being below the revenue-maximising rate is not the same as saying further increases are cheap on welfare grounds. As the top rate moves closer to the GST-adjusted ceiling, the marginal cost of public funds rises very quickly.

6. The trust channel

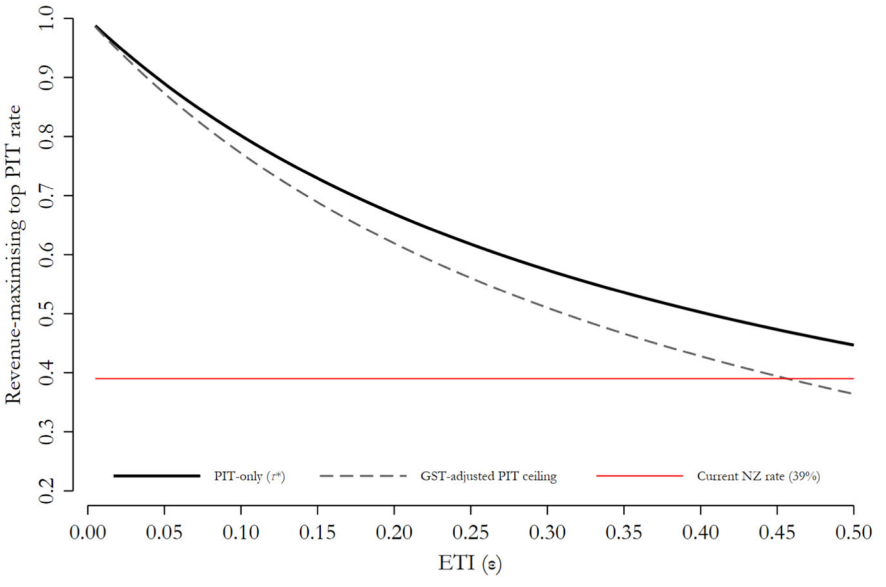
The standard ETI framework treats behavioural response as a shrinkage of the personal tax base. In New Zealand, part of that response can instead reflect income shifting from personal taxable income into retained trustee income. Because retained trustee income remains subject to tax at the trustee rate, income shifted out of the personal tax base does not disappear from the tax system altogether. This matters when the top personal and trustee rates differ.

The 2021 reintroduction of the 39% top personal rate created a 6-percentage-point gap relative to the 33% trustee rate. In the same year, trustee income rose from \$11.4 billion in FY2020 to \$17.1 billion in FY2021 (New Zealand Treasury, 2023). This pattern is consistent with income moving into the lower-taxed entity form, although the aggregate data do not identify how much income was shifted.[8] The trustee rate was increased to 39% in 2024, restoring alignment with the top personal rate.

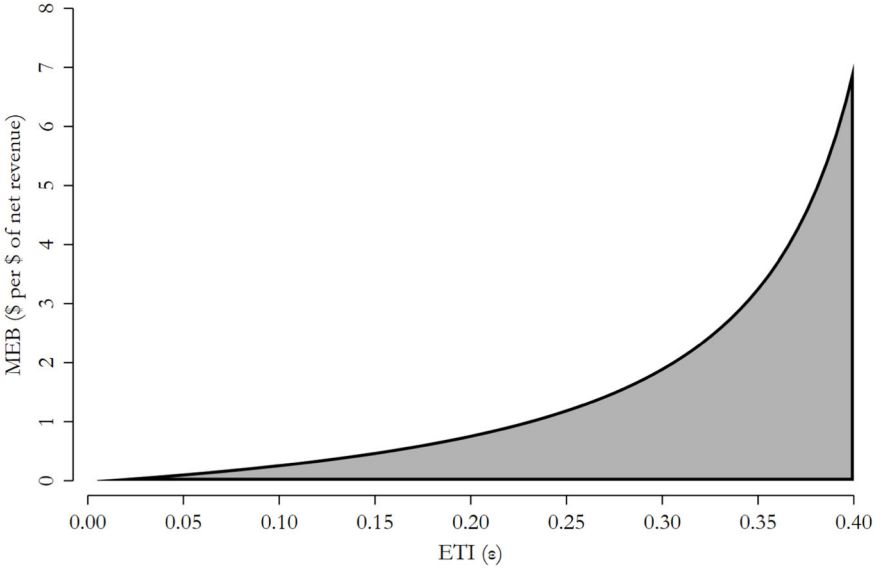
To gauge the revenue implications when the rates are misaligned, let s denote the share of the reduction in personal taxable income that is shifted to trustee income taxed at rate t. For this sensitivity, shifted income is treated as remaining available for GST-taxed consumption after trustee tax, so only the unshifted share $(1 - s)$ of the taxable-income response reduces the consumption-tax base. Combining the fiscal-externality extension in Saez *et al.* (2012) with the GST-adjusted expression for the revenue-maximising PIT rate then gives

$$\tau_s^* = \frac{1 + \alpha\varepsilon[st - (1 - s)\tilde{\tau}]}{1 + \alpha\varepsilon}, \tag{6}$$

where $\tilde{\tau}$ is the GST rate. When $s = 0$, Equation (6) reduces to the GST-adjusted revenue-maximising PIT rate above. At our benchmark $\varepsilon = 0.25$, with GST at 15% and the trustee rate fixed at its current 39%, shifting half of the PIT-base response raises the revenue-maximising PIT rate from 56.1% to 66.4%; if all of the response represents shifting, it rises to 76.7%.[9]



(a) PIT-only top rate and GST-adjusted PIT ceiling as a function of the ETI



(b) Marginal excess burden as a function of the ETI

Figure 2. Revenue-maximising top rate and marginal excess burden.

Note: Panel A plots the PIT-only revenue-maximising top rate from Equation (2) and the GST-adjusted PIT ceiling from Equation (3), using $\alpha = 2.47$ at the $180,000 threshold. The horizontal line marks the current 39% top PIT rate. Panel B plots the GST-adjusted marginal excess burden, $\text{MEB}^{GST} = S^{GST}/(1 - S^{GST})$, where $S^{GST} = \varepsilon\alpha(\tau + \tilde{\tau})/(1 - \tau)$.

7. Discussion

At benchmark parameters, New Zealand's 39% top PIT rate sits below the revenue-maximising point. Using the standard PIT-only formula, the implied ceiling is 62%; once GST is included in the wedge, it falls to 56%. Taken at face value, those numbers suggest some room to move above the current rate. Two considerations are important, however. First, the revenue-maximising rate is a fiscal benchmark rather than a welfare target. Even at the benchmark ETI of 0.25, the GST-adjusted marginal excess burden is already about $1.21 per dollar of net revenue, meaning that each additional dollar of net revenue raised is associated with about $1.21 of efficiency loss from behavioural responses, over and above the revenue transferred to government. Second, the calculations turn on how strongly top taxpayers reduce reported income when the net-of-tax rate falls. Newer international evidence (Graber *et al.*, 2026; Kleven *et al.*, 2025) points to larger and more persistent responses at the top of the income distribution. On that reading, plausible long-run elasticities for top taxpayers point to a practical policy range closer to 39%–45% than to the full theoretical range implied by the benchmark formulas.

That conclusion should not be read as saying that rates above 45% are impossible. The elasticity of taxable income is itself not an immutable preference parameter.[10] As Slemrod and Kopczuk (2002) stress, it depends in part on policy-controlled features such as the tax base, enforcement, and the scope for shifting across legal forms. A higher top rate can therefore remain revenue-viable if it is introduced as part of a broader package that protects the base, including stronger third-party reporting and tighter limits on shifting opportunities.

Our results are calibrated benchmarks rather than causal estimates. Even so, they make three useful contributions to the New Zealand tax debate. First, they show that a PIT-only reading of the revenue-maximising rate is too reassuring because GST also lowers the return to the marginal dollar. Second, they show that the practical headroom above 39% depends heavily on the relevant top-end ETI. Third, they show that top-rate policy cannot be separated from base-protection settings, especially trust-rate alignment and other margins for shifting income across legal forms.

Notes

1. New Zealand previously had a 39% top personal rate, introduced in 2000 above $60,000 and subsequently applying above $70,000. The top rate was reduced to 38% in April 2009 and then to 33% in October 2010 (Inland Revenue, 2023).
2. The Accident Compensation Corporation (ACC) administers New Zealand's no-fault accident-injury scheme. The compulsory Earners' levy is charged on liable earnings up to a maximum and helps fund injury-related treatment, rehabilitation, and income compensation. ACC levies are formally separate from general taxation.
3. In the broader-wedge framework, the relevant consumption-tax term is the effective tax rate on marginal expenditure rather than the statutory GST rate. In principle this should be constructed from marginal expenditure shares across consumption categories. For this note, we approximate it using New Zealand's uniform 15% GST rate. Given the broad-based single-rate design of New Zealand GST, this is a practical approximation in the New Zealand setting, as a full expenditure-side calibration lies beyond the scope of the note.
4. The data are publicly available from Inland Revenue's Taxable Income Distribution statistics (Inland Revenue, 2024).

5. In FY2024, there are 153,780 taxpayers above the \$180,000 threshold with average income of \$302,113, implying $\alpha = 302,113/(302,113 - 180,000) = 2.47$.
6. These estimates are identified at lower kinks under the pre-2021 schedule, where the top threshold of \$70,000 lay on average around the 84th percentile of the taxable-income distribution, not at the current \$180,000 top threshold. In the FY2024 IRD tabulations used here, the \$180,000 threshold lies around the 96th percentile of the active taxable-income distribution.
7. Equation (3) also has a revenue-side implication. A rise in GST from 15% to 19%, close to the 2024 OECD average standard VAT rate of 19.3%, lowers the net-of-tax rate facing earners by about 3.4%. At an ETI of 0.25, that would reduce FY2024 top-bracket PIT revenue by roughly \$62 million. A GST increase therefore partly offsets its own revenue gain through erosion of the PIT base.
8. The sharp fall in α in FY2021 and its subsequent recovery are also consistent with this shifting margin being important when the rates are misaligned.
9. This sensitivity holds the ETI fixed. Creedy (2015) shows that when shifting changes the effective marginal wedge, the relevant wedge becomes $\tau - st$ rather than τ. The behavioural response may therefore itself vary with s and t.
10. The ETI captures the overall response of reported taxable income, irrespective of the underlying behavioural margin. This also includes non-pecuniary influences, such as tax morale or ethical considerations, insofar as they affect that response.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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