

Press Release

13 December 2013

Historic Income Tax Changes Go Through Parliament

Today, the Parliament passed the most significant series of changes to the Cook Islands taxation system since 1997.

The suite of changes which are designed to improve the take home pay of lower income owners will assist in rewarding hard work, and shift the burden of taxation away from those who can least afford to pay.

Additionally, the Income Tax Amendment 2013 introduced fiscal regime which will govern the taxation regime associated with sea bed mining.

Minister Brown outlined that “The last time taxation rates were modified was over ten years ago, back in 2003 when the threshold was increased from \$6,000 to \$10,000 by the then Coalition Government, who incidentally included the Cook Islands Party.”

In outlining the benefits to the community the Minister cited the benefits to workers in the public sector serving the community.

“From the first of January 2014 a nurse will now get an additional \$180 and a school teacher an additional \$185 a fortnight compared to when we were first elected to Government three years ago.”

From 1 January the tax free threshold will increase for wage earners will increase from \$10,000 a year to \$11,000 a year, the tax thereafter will reduce from 25 percent to 18.5 per cent, and a new bracket introduced between \$30,000 and \$80,000 of 27.5 per cent as opposed to 30 per cent, and the highest marginal rate will apply at \$80,000.

Updated tax scales will shortly be made available on the MFEM website to assist employers.

Minister Brown outlined the taxreform package was particularly aimed at helping low income earners and improving the incomes in the outer islands.

“The largest relative decrease in taxation will go to those people who earn up to \$30,000 per annum or \$575 a week before tax. They will now receive almost \$1,500 extra a year in their hand from 1 January 2014 that is a 6 per cent increase in their take home wage.”

Other measures which were passed included the removal of the secondary tax provision, the abolition of the withholding tax on interest.

Other changes not related to the income tax changes which will commence from 1 January 2014 are an increase in the personal duty allowance for people entering the Cook Islands to \$750 and the allowance for goods arriving through the post to \$100 regardless of whether it is a gift or not.

The next phase of changes will see the Government introduce legislation in February which will put into effect a series of welfare reforms which will increase pensions by 25 per cent and other welfare payments by 10 per cent from 1 March 2014.

Minister Brown outlined that pensioners including those in receipt of the New Zealand superannuation would all be better off.

“All those pensioners below the tax-free threshold will receive the full 25% increase in their payment. For those over 70 with no other income, that means that they will now receive \$7,500 – the full \$1,500 increase – and continue to pay no tax.”

In reference to the inclusion of pensions into the income tax base, the Minister reiterated the issue of equity and fairness.

“A person aged between 60 and 70 who is on \$100,000 a year will still receive the pension. After tax the pension will be \$5,250, in effect a small decrease. However, the same person on \$100,000 a year has also had a personal income tax cut on their other income, meaning that overall they will still have almost \$2,000 extra in their hand from the income tax cuts.”

Even if you earn above those incomes you will still get to keep at least 70 per cent of your pension, with the remaining 30 per cent going to support those other pensioners whose incomes are lower.

In February the Government will legislate for all other welfare payments to be increased by ten per cent.

- child allowance will increase from \$ 60 to \$66 a month;
- destitute payment will increase from \$150 to \$165 a month;
- carers allowance will increase from 150 to \$165 a month; and
- power subsidy will increase from \$20 to \$22 a month.

In February the Government will reform the current import levy arrangements and increase the VAT from 12.5 per cent to 15 per cent from 1 April 2014.

In summing up Minister Brown outlined that the package had gone through a tremendous amount of work, he outlined special thanks to those took in the community that took the time to provide an input into the process through their submissions, attendance at forums and the staff of MFEM and Internal Affairs who had worked hard to put the package together.

“Ultimately, you could say there was ultimate partisan support for this initiative, I welcomed the support from both the leader of the Opposition and Norman George who ultimately could see the good policy approach and the benefits to the people.”

“Many people worked on this, but I would like to just outline the efforts of Andrew Haigh and James Webb. In particular, I would like to reflect on the efforts of James Webb. James is a young professional Cook Islander recruited by MFEM who has come back and is contributing positively to the Cook Islands.

Ultimately it is simple we are putting money in people's pockets and that's good for everyone."

The Ministry of Finance and Economic Management will shortly provide material to assist employers with the income tax changes.