

APPENDIX VI

Commissioned paper by
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**Committee's terms of reference for modelling by
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The Select Committee on a New Tax System wishes to commission a project involving macro-economic modelling of the effects of the proposed new tax package.

The macro-economic modelling should aim to produce "range estimates" focusing on the sensitivity of the key assumptions that might underpin the short-term effects of the tax package.

Key issues that should be modelled include:

1. 100% passthrough of indirect taxes. Further work is needed with differing quanta and timeframes on the pass through. The assumptions should be based on assessments of how quickly particular taxes can be washed through (e.g. distinguishing between WST and stamp duties, allowing 80, 90, 100% flow through over the first three years, or some other realistic option). This is to include both short term and long term outcomes.
2. Revenue forecasts. The Committee needs a comparison of what revenue could be gained from the existing indirect tax system (as a % of GDP) and the proposed new one over the next five to ten years. Attached to that should be a sensitivity based on "low, medium and high growth" scenarios.
3. Tourism. The key sector identified in evidence as problematic is tourism. The full effect depends on the elasticity of demand, and further work is needed on different scenarios here. Also, the Committee would like to see what the effect would be if inbound tourism packages were zero-rated.
4. Wages. If wages are linked fully or partly to CPI, how does this affect macroeconomic outcomes in the short and long term?
5. Food. If food (excluding restaurants and takeaways) is excluded, offset by income tax cuts being reduced, what effect does this have on the CPI, and on the "pessimistic" wages assumption and macroeconomic variables in the short and long terms?
6. Other assumptions. Key sensitivities which are identified for other key assumptions should also be tested, after consultation with the Chair of the Committee.
7. Inflation. Assuming CPI effects of (i) 2.5 per cent, and (ii) 3.1 per cent, in the first year, what would be the short term and long term effects on macroeconomic variables?
8. Commentator. To maximise the information to the Committee, it is proposed that the report be received in sufficient time to be commented on by another private sector forecaster, who would also report to the Committee.