

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[36]	to maintain legal professional privilege	9(2)(h)
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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



THE TREASURY

Kaitohutohu Kaupapa Rawa

Reference: T2016/2551 SH-13-5-2-3

Date: 10 January 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: None

## **Aide Memoire: Effect of Accommodation Supplement on effective marginal tax rates**

### **Cut out point for Accommodation Supplement (AS)**

The highest possible family income from wages/salaries, while receiving AS is approximately \$77,000. How much AS someone can receive (and subsequently the maximum they can earn while receiving it) depends on their family status, address, and accommodation costs. To receive the maximum payment, a person would need to be a sole parent, with multiple children, living in 'area 1'<sup>1</sup>, with rent over \$430. Anyone earning this amount, or close to it, would however be eligible for very little AS and are unlikely to claim this payment.

### **Interactions between AS and other transfer payments**

While this is the cut out point for AS, the interaction between this and other parts of the tax and transfer system have implications for people's incentive to work. How much a family receives from the tax and transfer system and the effective marginal tax rate (EMTR) this imposes depends on a number of factors including income, number and age of their children, address, and the number of hours they work. This can be illustrated by considering the following two hypothetical households.

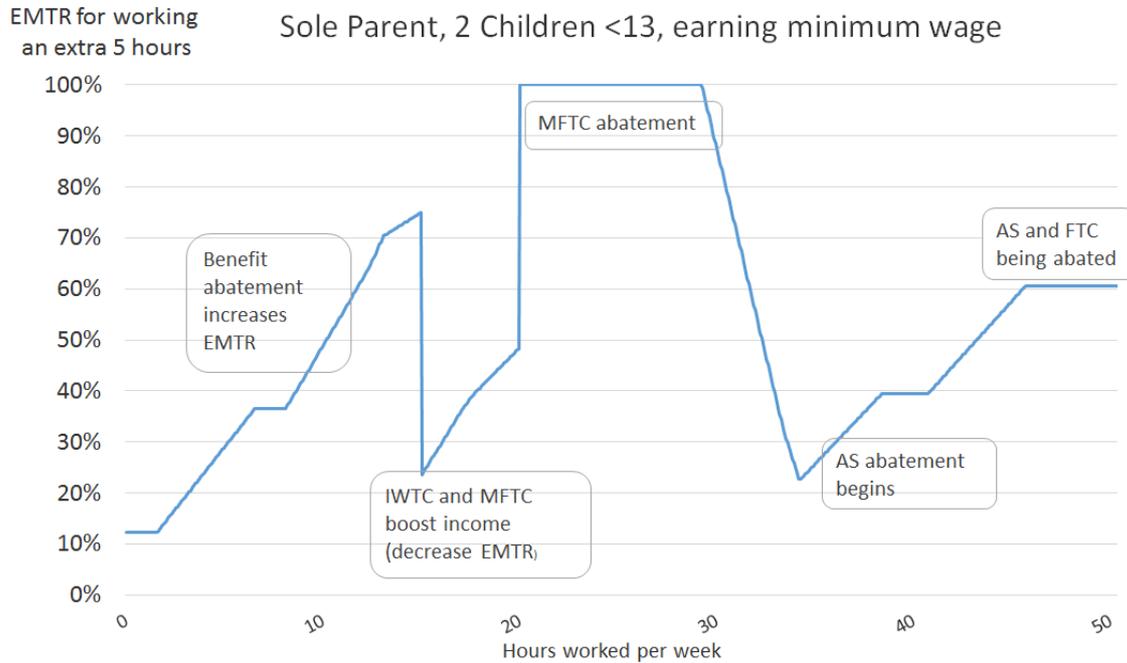
*A sole parent with two children under thirteen, who works 15 hours per week at minimum wage (\$12,000 per annum).*

In this example, the parent is working approximately 15 hours per week and the family's after tax and transfer income will be approximately \$41,000, made up of sole parent support (\$13,000), wages (\$11,000), family tax credit (\$8,000), and AS (\$9,000). If the parent in this example was to take on an additional 5 hours work per week (\$4,000/annum), their after tax and transfer income would increase by approximately \$3,000. However the source of income would change considerably as the family would no longer receive sole parent support, but would receive an additional \$3,500 from wages, close to \$4,000 from the in work tax credit (IWTC), and \$9,000 from the minimum family tax credit (MFTC) – with no change to family tax credit or AS.

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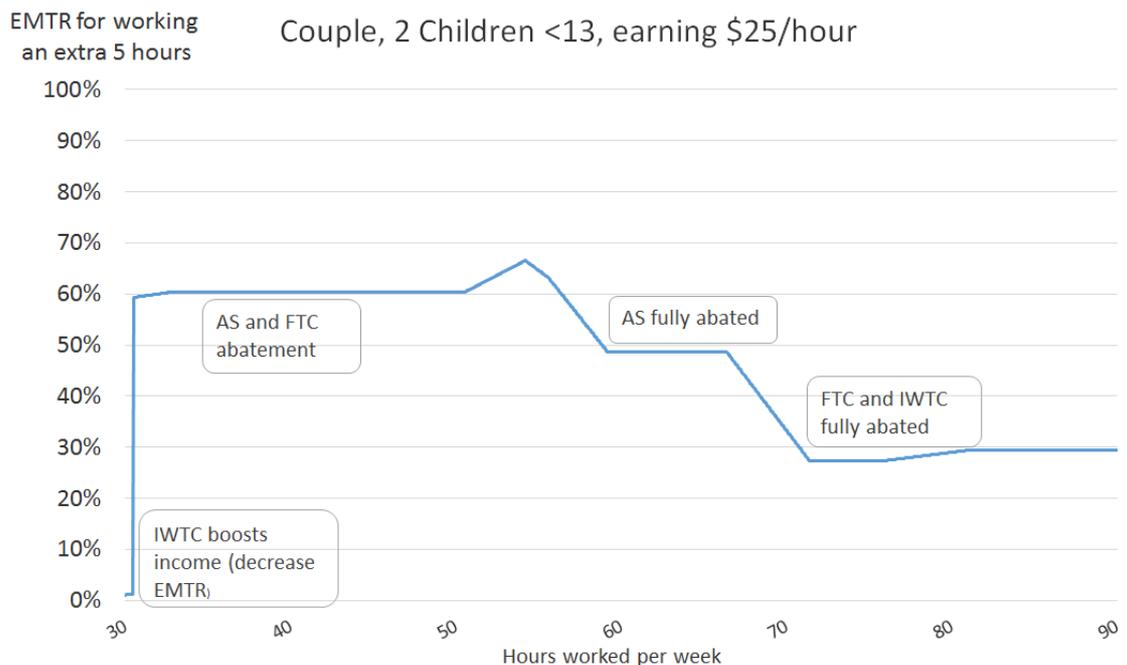
<sup>1</sup> The maximum AS payment is differentiated into four areas, area 1 (with the highest rate) includes North and Central Auckland.

If the parent then took on an additional 10 hours work, they would receive no change in their after tax and transfer income. This is because every dollar earned in wages would be reduced from their minimum family tax credit. The graph below shows how this sole parent's EMTR for working an additional 5 hours/week changes depending on the number of hours they are working.



*Couple with two children under thirteen, both earning \$25/hour.*

This example illustrates the interaction of AS and working for families tax credits for a couple earning around the median wage. As the graph below<sup>2</sup> shows, the abatement of these two support payments results in EMTRs around 50-60% for this family.



<sup>2</sup> In this example one spouse works twice as many hours as the other.

### **Other considerations - AS**

It is believed that the take up of AS is low for non-beneficiaries. For beneficiaries the take up is much higher as they are enrolled in the support system by Work and Income. 68% of AS recipients are beneficiaries, and subsequently will not face abatement of the support (as their income is below the abatement threshold). The AS will therefore have little impact on the choice of beneficiaries to take up or increase work. However, people on low-middle incomes, including former beneficiaries, are likely to be impacted by the 25% abatement of AS. Former beneficiaries may also be more likely to receive AS, as they have more exposure to the system and are likely to have previously received AS from Work and Income.

An additional 12% of AS recipients are super-annuitants. These would be people who have low (or possibly middle) income, and high accommodation costs i.e. do not have low/no mortgage properties.

### **Other considerations – Childcare and student loans**

An additional consideration is the impact of childcare costs. Childcare costs can vary considerably, with average weekly costs around \$320. Some of this cost is covered by the 20 hours early childhood education subsidy, and costs may be further reduced by the childcare subsidy, which can reduce costs by \$1.50-\$5.00 per hour of childcare. When the remaining childcare cost is combined with the EMTRs described above, work incentives may be impacted substantially.

Student loan repayments would increase the EMTR by an additional 12% for anyone with student loan repayment obligations. While this is a repayment of debt, it is still likely to influence work incentives – especially for those already facing high EMTRs.

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