

The Treasury

Budget 2017 Information Release

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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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[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.

Date: 2 February 2017

To: Minister of Finance (Hon Steven Joyce)
Cc: Associate Minister of Finance (Hon Simon Bridges)
Associate Minister of Finance (Hon Amy Adams)

Deadline: None

Aide Memoire: Advice on Changes to the Tax System, Distributional Analysis of Possible Impacts

This report contains the information tabled at your session with Treasury on 31 January, where we discussed possible changes to the tax system, and their effects on different types of families. Treasury has previously provided advice on the impact of adjusting tax thresholds for fiscal drag, lowering the tax rates, and adjusting the tax thresholds in reports T2016/1948, T2016/2059, and T2016/2540.

There are two parts to this report. The first contains distributional analyses of the impacts of changes to personal tax thresholds. The second contains a breakdown of effective marginal tax rates with respect to transfer type and family type.

Analysis of the Impacts of Changing the \$48k Personal Tax Threshold

We previously reported to you on the **fiscal costs** and high level distributional analysis on the following options, which both increase the \$48,000 tax threshold.

Table 1

Status Quo			Option 1 - \$48k to \$55k		Option 2 - \$48k to \$62k	
Thresholds		Rates	Thresholds		Thresholds	
\$1	\$14,000	10.50%	\$1	\$14,000	\$1	\$14,000
\$14,001	\$48,000	17.50%	\$14,001	\$55,000	\$14,001	\$62,000
\$48,001	\$70,000	30%	\$55,001	\$70,000	\$62,001	\$70,000
\$70,001	+	33%	\$70,001	+	\$70,001	+
Fiscal cost (18/19 tax year) ¹			\$ 1,100 m		\$2,000 m	

Additional Distributional Analysis²

This analysis of the winners and losers of these two policy changes is based on potential workers – that is, we have not included super annuitants, students, and dependents. We have included the percentage of workers and beneficiaries for each

¹ The fiscal costs include an approximate 10% clawback of GST and other indirect tax revenue through additional household spending that would be expected as a result of increased income.

² Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics New Zealand.

*Suppressed for confidentiality, values must have more than 3000 counts (weighted) and 10 or more sample units

income band (note that these two values do not always sum to 100% because there are individuals who earn no taxable income or earn income from other sources). Tables 2 and 3 provide distributional analyses of the effects on individuals, families, and households with respect to their taxable income, for these two options.

- Both options benefit 1,073,000 (43%) of the individuals included in this analysis, 797,000 (52%) families, and 626,000 (64%) households.
- **All individuals who earn over \$55,000 will gain \$17 with the first option, and all individuals who earn over \$62,000 will gain an additional \$17 with the second option.**
- These gains flow into family and household incomes, increasing the incomes of families in the \$48,000–\$60,000 income range by \$11 on average with option 1, and \$13 with option two.
- **The differences between these two options are more significant for family incomes over \$62,000, and increase with family income.** The average gain for families in the \$60,000–\$70,000 income band is \$16 for option 1, and \$30 for option 2. Higher earning families benefit even more (up to averages of \$27 and \$53 for family incomes over \$150,000), as shown in Tables 2 and 3.
- A small proportion (less than the reporting threshold) lose due to interactions between the tax and benefit systems, but the amount they lose is very small.

Note that in Taxwell (Treasury’s microsimulation model of the tax and transfer system), a household consists of everyone living at an address, and families are one or two adults in a relationship plus any dependent children. Multiple families can live in the same household. Additionally, a person who is under 19 is *not* a dependent if they are over 15 and either receiving a benefit, earning more than \$5000 of regular income, living with their partner, or aged 18 and participating in certain types of education. This, for example, means that an 18 year old in regular employment and living with their parents is classified as a separate family.

Table 2 Distributional analysis for Option 1.

Option 1 – Individual						
Individual Taxable Income	Total Number of Individuals	Percentage of beneficiaries	Percentage of workers	Number of individuals gaining	Average weekly gain for gaining individuals	Number of individuals disadvantaged
0 - \$ 14,000	539,000	20%	24%	*	*	*
\$ 14,000 - \$ 31,000	408,000	27%	66%	*	*	*
\$ 31,000 - \$ 48,000	463,000	0%	97%	*	*	*
\$ 48,000 - \$ 60,000	305,000	0%	98%	305,000	\$12	*
\$ 60,000 - \$ 70,000	171,000	0%	97%	171,000	\$17	*
\$ 70,000 - \$100,000	327,000	0%	98%	327,000	\$17	*
\$ 100,000 - \$125,000	117,000	0%	99%	117,000	\$17	*
\$ 125,000 - \$150,000	57,000	0%	97%	57,000	\$17	*
\$ 150,000 +	97,000	0%	93%	97,000	\$17	*
All	2,483,000	9%	76%	1,073,000	\$15	*

Option 1 – Family						
Family Taxable Income	Total Number of Families	Percentage of beneficiaries	Percentage of workers	Number of families gaining	Average weekly gain for gaining families	Number of families disadvantaged
0 - \$ 14,000	200,000	31%	23%	*	*	*
\$ 14,000 - \$ 31,000	249,000	51%	43%	*	*	*
\$ 31,000 - \$ 48,000	221,000	1%	97%	*	*	*
\$ 48,000 - \$ 60,000	136,000	0%	97%	114,000	\$11	*
\$ 60,000 - \$ 70,000	78,000	0%	96%	57,000	\$16	*
\$ 70,000 - \$100,000	241,000	0%	99%	209,000	\$16	*
\$ 100,000 - \$125,000	143,000	0%	98%	143,000	\$19	*
\$ 125,000 - \$150,000	88,000	0%	98%	88,000	\$24	*
\$ 150,000 +	186,000	0%	98%	186,000	\$27	*
All	1,542,000	12%	79%	797,000	\$ 19	*

Option 1 – Household						
Household Taxable Income	Total Number of Households	Percentage of beneficiaries	Percentage of workers	Number of households gaining	Average weekly gain for gaining households	Number of households disadvantaged
0 - \$ 14,000	57,000	33%	16%	*	*	*
\$ 14,000 - \$ 31,000	118,000	62%	31%	*	*	*
\$ 31,000 - \$ 48,000	91,000	14%	83%	*	*	*
\$ 48,000 - \$ 60,000	75,000	1%	93%	55,000	\$ 11	*
\$ 60,000 - \$ 70,000	49,000	2%	92%	30,000	\$ 16	*
\$ 70,000 - \$100,000	187,000	0%	99%	150,000	\$ 15	*
\$ 100,000 - \$125,000	120,000	0%	99%	115,000	\$ 19	*
\$ 125,000 - \$150,000	84,000	0%	99%	82,000	\$ 23	*
\$ 150,000 +	195,000	0%	98%	195,000	\$ 28	*
All	976,000	11%	83%	626,000	\$ 21	*

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Table 3 Distributional analysis for Option 2

Option 2 – Individual						
Individual Taxable Income	Total Number of Individuals	Percentage of beneficiaries	Percentage of workers	Number of individuals gaining	Average weekly gain for gaining individuals	Number of individuals disadvantaged
0 - \$ 14,000	539,000	20%	24%	*	*	*
\$ 14,000 - \$ 31,000	408,000	27%	66%	*	*	*
\$ 31,000 - \$ 48,000	463,000	0%	97%	*	*	*
\$ 48,000 - \$ 60,000	305,000	0%	98%	305,000	\$14	*
\$ 60,000 - \$ 70,000	171,000	0%	97%	171,000	\$33	*
\$ 70,000 - \$ 100,000	327,000	0%	98%	327,000	\$34	*
\$100,000 - \$ 125,000	117,000	0%	99%	117,000	\$34	*
\$125,000 - \$ 150,000	57,000	0%	97%	57,000	\$34	*
\$150,000 +	97,000	0%	93%	97,000	\$34	*
All	2,483,000	9%	76%	1,073,000	\$28	*

Option 2 – Family						
Family Taxable Income	Total Number of Families	Percentage of beneficiaries	Percentage of workers	Number of families gaining	Average weekly gain for gaining families	Number of families disadvantaged
0 - \$ 14,000	200,000	31%	23%	*	*	*
\$ 14,000 - \$ 31,000	249,000	51%	43%	*	*	*
\$ 31,000 - \$ 48,000	221,000	1%	97%	*	*	*
\$ 48,000 - \$ 60,000	136,000	0%	97%	114,000	\$13	*
\$ 60,000 - \$ 70,000	78,000	0%	96%	57,000	\$30	*
\$ 70,000 - \$ 100,000	241,000	0%	99%	209,000	\$29	*
\$100,000 - \$ 125,000	143,000	0%	98%	143,000	\$35	*
\$125,000 - \$ 150,000	88,000	0%	98%	88,000	\$45	*
\$150,000 +	186,000	0%	98%	186,000	\$53	*
All	1,542,000	12%	79%	797,000	\$35	*

Option 2 – Household						
Household Taxable Income	Total Number of Households	Percentage of beneficiaries	Percentage of workers	Number of households gaining	Average weekly gain for gaining households	Number of households disadvantaged
0 - \$ 14,000	57,000	33%	16%	*	*	*
\$ 14,000 - \$ 31,000	118,000	62%	31%	*	*	*
\$ 31,000 - \$ 48,000	91,000	14%	83%	*	*	*
\$ 48,000 - \$ 60,000	75,000	1%	93%	55,000	\$13	*
\$ 60,000 - \$ 70,000	49,000	2%	92%	30,000	\$28	*
\$ 70,000 - \$ 100,000	187,000	0%	99%	150,000	\$28	*
\$100,000 - \$ 125,000	120,000	0%	99%	115,000	\$33	*
\$125,000 - \$ 150,000	84,000	0%	99%	82,000	\$43	*
\$150,000 +	195,000	0%	98%	195,000	\$54	*
All	976,000	11%	83%	626,000	\$37	*

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Analysis of Effective Marginal Tax Rates (EMTRs)

An individual’s EMTR is the percentage of an extra earned dollar that they lose due to taxes and loss of benefits. Approximately 85% of individuals across the entire income distribution have EMTRs that are equal to their statutory marginal tax rates. However, a

number of individuals have high EMTRs, which may be a disincentive to work. Many individuals with high EMTRs are receiving extra support targeted at families with children, and transfers reduce with every extra dollar earned once the family's income rises above the relevant abatement threshold.

Table 4 provides the EMTR distribution under the current tax and transfer regime for individuals who have taxable incomes between \$48,000 and \$60,000, with respect to the type of relevant transfer. Table 5 contains the same data with respect to family type.

Table 4 EMTR with respect to type of transfer

Those receiving:	EMTR	# Individuals
No transfers abating	30.0 %	244,000
Working for Families abating	52.5 %	32,000
AS abating	55.0 %	*suppressed
WFF and AS abating	77.5%	13,000

Table 5 EMTR with respect to family type

Family Type	Mean EMTR	Median EMTR	# Individuals
Couples, with kids	42.7 %	30.0 %	90,000
Couples, no kids	30.5 %	30.0 %	120,000
Single, with kids	59.6 %	52.5 %	8,000
Single, no kids	30.3 %	30.0 %	81,000

Take-up rates and administrative data

Treasury's microsimulation model assumes full take-up of transfers such as Accommodation Supplement. This data should therefore be taken as the best estimate of the EMTRs that individuals would face assuming full eligibility.

Administrative data from MSD indicate that full take-up of benefits does not occur, and that there are only approximately 4,000 individuals in the \$48,000–\$60,000 income band in receipt of Accommodation Supplement.

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