

The Treasury

Budget 2017 Information Release

Release Document July 2017

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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: T2017/218 SH-13-5-2-3

Date: 10 February 2017

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

Deadline: 13 February 2017

Aide Memoire: Potential options for a tax and transfer package

This Aide Memoire provides high-level options to form a tax and transfer package. Treasury has previously provided advice on the impact of adjusting tax thresholds for fiscal drag, lowering the tax rates, adjusting the tax thresholds, and adjusting some Working for Families payments (T2016/1948, T2016/2059, T2016/2540 and T2017/152 refer).

It is important to note there is no value-free 'optimal' tax structure. We understand that your overarching objective for a package is to improve work incentives, with consideration for helping those on low incomes or in hardship. Table 1 outlines different options that could be put together to form a package, and considers how these options would help particular sub-populations by:

- Improving work incentives for beneficiaries (shifting to work)
- Maintaining work incentives for those already working
- Improving incomes for those in housing hardship
- Improving incomes for the lowest-income individuals and families

The aggregate impacts on labour supply, net incomes, and fiscal cost will depend on the final structure of the package.

A tax and transfer package could include all or some of the options listed in Table 1. We wish to discuss the composition of a potential package with you at the meeting on Monday 13th February before we undertake a comprehensive analysis of the potential package or packages.

Table 1: Options to form a tax and transfer package

| Proposals | Increase the \$14k threshold to \$21k | Increase the \$48k threshold to \$55k | Remove the IETC | Align FTC rates | Increase AS | Adjust IWTC |
|---------------------------|---|---|---|---|---|--|
| Approximate Fiscal Cost* | + \$1,100m | + \$1,100m | - \$200m | + \$600m | + \$370m | - \$19m |
| Who/what this targets | Beneficiaries' work incentives and incomes, and Work incentives and incomes for lower-wage earners | Work incentives and incomes for higher-wage earners | Individuals earning between \$24,000 and \$48,000 | Mainly families on low- and middle-incomes | Those in housing and other financial hardship (TAS) | Low- and middle-income families |
| Impact on work incentives | Potential to increase in aggregate, but need to understand impacts on EMTRs | Potential to increase in aggregate, but need to understand impacts on EMTRs | Likely to have a marginally negative impact on work incentives | Likely to have small impacts on work incentives | Likely to have small impacts on work incentives | May be a small negative impact for larger families |
| Impact on net incomes | Likely to increase for those earning over \$14k | Likely to increase for those earning over \$48k | Maximum annual loss is \$520 | Likely to increase for some families with children | Likely to increase for some recipients | Likely to decrease for some larger families with four or more children |
| Notes | This would compensate those who lose IETC | | 41% of recipients are partnered with someone earning more than \$70,000 | FTC is also received by relatively high-income families | | Simplifies the formula |

*Estimated fiscal costs. Final figures to be confirmed.

Explanation of options

- **Align FTC rates** - Aligning the Family Tax Credit (FTC) rates would raise the rates for children to one payment rate, regardless of age, to the following schedule:

Table 2: Proposal to align FTC rates

| <u>Status Quo</u> | | <u>Proposal</u> | |
|-----------------------|----------|-----------------|----------|
| 1 st child | | ages 0-18 | |
| ages 0-15 | \$ 4,822 | | \$ 5,303 |
| ages 16-18 | \$ 5,303 | | |
| Subsequent child | | ages 0-18 | |
| ages 0-12 | \$ 3,351 | | \$ 4,745 |
| ages 13-15 | \$ 3,822 | | |
| ages 16-18 | \$ 4,745 | | |

- **Increase AS** - The proposal to increase AS would update the maxima to reflect 2016 median rents, while re-allocating areas to reflect rental costs, and reduce the recipient co-payment from 30% to 25%.
- **Adjusting IWTC** - Adjusting the In-work Tax Credit would simplify the formula by removing the additional payment for the fourth and subsequent children, and replace it with a flat rate for all recipients, regardless of the number of children. This would provide savings, however, larger families would be worse off. As an alternative, the rate could be increased by \$10 per week over the current base payment to \$82.50, which would have an additional approximate cost of \$100 million per year.

We would not suggest removing or adjusting the Parental Tax Credit as part of a potential tax and transfer package. There would likely be little impact on work incentives, and the net income of some families would decrease. In addition, the tax credit was recently extended as part of Budget 2014 to help lower and middle-income families. The number of weeks of entitlement for the tax credit was increased from eight to ten weeks, and the maximum entitlement increased from \$150 to \$220 per week on 1 April 2015. The annual cost of the tax credit is \$31 million.

Overlap between Accommodation Supplement, benefits and Temporary Additional Support

As benefits are set on a net basis, recipients with only those sources of income will not see an increase in incomes from changes to personal tax thresholds. However, those who are working may observe an increase in their incomes. NZS rates are set on a gross basis, so recipients will benefit from changes to personal tax thresholds (that impact NZS rates).

The table below shows the overlap of benefit, AS, and TAS recipients. In addition, 39,000 AS recipients receive Superannuation, and 55,000 AS recipients are not on benefit and do not receive Superannuation.

Table 3: Overlap between AS/TAS/Benefits recipients

| | Number of people receiving support (000) | | |
|---------|---|------------|------------|
| | TAS | AS | Benefit |
| TAS | 65 | 64 | 62 |
| AS | 64 | 298 | 204 |
| Benefit | 62 | 204 | 286 |

The bold figures indicate total number of recipients. For example, there are 65,000 TAS recipients, 64,000 of whom also receive AS.

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