

The Treasury

Budget 2017 Information Release

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Reference: T2017/402

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Date: 3 March 2017

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

Deadline: None

Options for phasing Family Tax Credit changes

On 20 February 2017 we provided the cost for two tax and transfer packages (T2017/335 refers). Both packages would raise the Family Tax Credit (FTC) payment rates for children of different ages to one rate for first children and one rate for subsequent children regardless of age, effective 1 April 2018. Aligning the FTC rates is intended to be a simplification measure. To manage the fiscal cost of alignment, changes to FTC could be phased over a number of years. This aide memoire discusses options for phasing.

Split rates and simplification

At present, FTC payment rates for children aged 0-15 are automatically indexed to the Consumer Price Index (CPI). These adjustments are made on 1 April following a 5% or more increase in CPI since the previous adjustment. At the same time that FTC indexation occurs, the Working for Families abatement threshold drops by \$450 and the abatement rate increases by 1.25%. These indexed adjustments are legislated to continue until FTC payment rates are aligned for all first children and all subsequent children, the abatement threshold drops to \$35,000, and the abatement rate reaches 25%.

The last adjustments to FTC were made on 1 April 2012 (as part of Budget 2011 changes). Our forecasts at the 2016 Half Year Economic and Fiscal Update (HYEFU) indicated that the next adjustment will take place in time for increases to be made on 1 April 2019. Table 1 shows the impact of this forecasted adjustment.

Table 1: Status quo – based on 2016 HYEFU

Year beginning	1/4/2017	1/4/2018	1/4/2019	1/4/2020
Family tax credit annual rates				
Eldest child, aged from 16 to 18	\$5,303	\$5,303	\$5,303	\$5,303
Eldest child, aged from 0 to 15	\$4,822	\$4,822	\$5,119	\$5,119
Subsequent child, aged from 16 to 18	\$4,745	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 13 to 15	\$3,822	\$3,822	\$4,057	\$4,057
Subsequent child, aged from 0 to 12	\$3,351	\$3,351	\$3,557	\$3,557
Abatement threshold	\$36,350	\$36,350	\$35,900	\$35,900
Abatement rate	22.50%	22.50%	23.75%	23.75%

The FTC payment rates for older children are higher relative to the younger child rates. The two package options freeze the eldest (first and subsequent) child rates, and increase the rates in the lower age bands. Table 2 shows an option for earlier alignment effective 1 April 2018 with no phasing. Tables 3 to 5 show the distributional impact of this option for the years beginning 1 April 2018, 2019 and 2020.¹

Table 2: No phasing

Year beginning	1/4/2017	1/4/2018	1/4/2019	1/4/2020
Family tax credit annual rates				
Eldest child, aged from 16 to 18	\$5,303	\$5,303	\$5,303	\$5,303
Eldest child, aged from 0 to 15	\$4,822	\$5,303	\$5,303	\$5,303
Subsequent child, aged from 16 to 18	\$4,745	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 13 to 15	\$3,822	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 0 to 12	\$3,351	\$4,745	\$4,745	\$4,745
Abatement threshold	\$36,350	\$36,350	\$35,900	\$35,900
Abatement rate	22.50%	22.50%	23.75%	23.75%
Fiscal cost		\$577 m	\$416 m	\$410 m

Table 3: No phasing – 1 April 2018 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	200,000	17,000	36	*	*
\$14,000-\$31,000	249,000	85,000	35	*	*
\$31,000-\$48,000	221,000	45,000	32	*	*
\$48,000-\$60,000	136,000	30,000	32	*	*
\$60,000-\$70,000	78,000	23,000	31	*	*
\$70,000-\$100,000	241,000	60,000	37	4,000.00	-4
\$100,000-\$125,000	143,000	10,000	40	*	*
\$125,000-\$150,000	88,000	*	*	*	*
more than \$150,000	186,000	*	*	*	*
ALL	1,542,000	273,000	34	10,000	-2

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Table 4: No phasing – 1 April 2019 distributional analysis for families

¹ This analysis was carried out using the Treasury's behavioural micro-simulation model of the tax and welfare system, Taxwell-B. All estimates are based on Household Economic Survey 2015 Access to the Household Economics Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality of the Statistics Act 1975. The results presented here are the work of the Treasury, not Statistics New Zealand.

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	196,000	14,000	23	*	*
\$14,000-\$31,000	242,000	85,000	26	*	*
\$31,000-\$48,000	213,000	44,000	24	*	*
\$48,000-\$60,000	140,000	31,000	25	*	*
\$60,000-\$70,000	83,000	22,000	21	*	*
\$70,000-\$100,000	238,000	55,000	30	*	*
\$100,000-\$125,000	146,000	9,000	29	*	*
\$125,000-\$150,000	94,000	*	*	*	*
more than \$150,000	198,000	*	*	*	*
ALL	1,550,000	262,000	26	8,000	-1

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Table 5: No phasing – 1 April 2020 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	194,000	14,000	23	*	*
\$14,000-\$31,000	235,000	82,000	26	*	*
\$31,000-\$48,000	203,000	40,000	26	*	*
\$48,000-\$60,000	143,000	32,000	23	*	*
\$60,000-\$70,000	94,000	24,000	20	*	*
\$70,000-\$100,000	232,000	52,000	31	*	*
\$100,000-\$125,000	146,000	8,000	30	*	*
\$125,000-\$150,000	101,000	*	*	*	*
more than \$150,000	211,000	*	*	*	*
ALL	1,559,000	255,000	26	8,000	0

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Options for phasing

We have analysed three options for phasing FTC rate alignment:

1. Phasing to full alignment over three years.
2. Phasing to full alignment over three years, with an annual decrease of the abatement threshold and an annual increase in abatement.
3. Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate as above. This will be the least costly of the three phasing options.

The options lower the abatement threshold while at the same time slightly increase the abatement rate. This will target the allocation of FTC to lower-income families under the abatement threshold. The phasing of FTC is unlikely to have a material annual impact on work incentives.

For each option we have presented a table summarising how the FTC payment rates, abatement rate and abatement threshold would change. A table showing the

distributional impact for the years beginning 1 April 2018, 2019 and 2020 is also presented.²

Option 1: Phasing to full alignment over three years

Option 1 freezes the eldest (first and subsequent) child rates, and phases an increase over three years to the rates in the lower age bands. One rate for first children and one rate for subsequent children regardless of age is achieved on 1 April 2020. The abatement threshold decreases by \$450 on 1 April 2019, at the same time the abatement rate increases by 1.25%.

Table 6: Phased increase to align eldest child and subsequent child rates

Year beginning	1/4/2017	1/4/2018	1/4/2019	1/4/2020
Family tax credit annual rates				
Eldest child, aged from 16 to 18	\$5,303	\$5,303	\$5,303	\$5,303
Eldest child, aged from 0 to 15	\$4,822	\$4,982	\$5,143	\$5,303
Subsequent child, aged from 16 to 18	\$4,745	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 13 to 15	\$3,822	\$4,129	\$4,438	\$4,745
Subsequent child, aged from 0 to 12	\$3,351	\$3,815	\$4,281	\$4,745
Abatement threshold	\$36,350	\$36,350	\$35,900	\$35,900
Abatement rate	22.50%	22.50%	23.75%	23.75%
Fiscal cost	-	\$187 m	\$227 m	\$410 m

Table 7: Phased increase to align eldest child and subsequent child rates – 1 April 2018 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	200,000	17,000	12	*	*
\$14,000-\$31,000	249,000	85,000	12	*	*
\$31,000-\$48,000	221,000	45,000	11	*	*
\$48,000-\$60,000	136,000	30,000	11	*	*
\$60,000-\$70,000	78,000	23,000	10	*	*
\$70,000-\$100,000	241,000	54,000	13	3,000	-2
\$100,000-\$125,000	143,000	8,000	12	*	*
\$125,000-\$150,000	88,000	*	*	*	*
more than \$150,000	186,000	*	*	*	*
ALL	1,542,000	265,000	11	9,000	-1

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

² This analysis was carried out using the Treasury's behavioural micro-simulation model of the tax and welfare system, Taxwell-B. All estimates are based on Household Economic Survey 2015. Access to the Household Economics Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality of the Statistics Act 1975. The results presented here are the work of the Treasury, not Statistics New Zealand.

**Table 8: Phased increase to align eldest child and subsequent child rates – 1
April 2019 distributional analysis for families**

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	196,000	14,000	13	*	*
\$14,000-\$31,000	242,000	85,000	15	*	*
\$31,000-\$48,000	213,000	44,000	13	*	*
\$48,000-\$60,000	140,000	31,000	14	*	*
\$60,000-\$70,000	83,000	22,000	11	*	*
\$70,000-\$100,000	238,000	53,000	17	*	*
\$100,000-\$125,000	146,000	7,000	19	*	*
\$125,000-\$150,000	94,000	*	*	*	*
more than \$150,000	198,000	*	*	*	*
ALL	1,550,000	257,000	14	9,000	-1

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

**Table 9: Phased increase to align eldest child and subsequent child rates – 1
April 2020 distributional analysis for families**

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	194,000	14,000	23	*	*
\$14,000-\$31,000	235,000	82,000	26	*	*
\$31,000-\$48,000	203,000	40,000	26	*	*
\$48,000-\$60,000	143,000	32,000	23	*	*
\$60,000-\$70,000	94,000	24,000	20	*	*
\$70,000-\$100,000	232,000	52,000	31	*	*
\$100,000-\$125,000	146,000	8,000	30	*	*
\$125,000-\$150,000	101,000	*	*	*	*
more than \$150,000	211,000	*	*	*	*
ALL	1,559,000	255,000	26	8,000	0

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Option 2: Phasing to full alignment over three years, with an annual decrease of the abatement threshold and an annual increase in abatement rate

Option 2 freezes the eldest (first and subsequent) child rates, and phases an increase over three years to the rates in the lower age bands. One rate for first children and one rate for subsequent children regardless of age is achieved on 1 April 2020. The abatement threshold decreases by \$450 on 1 April 2018, 2019 and 2020. On 1 April 2018 and 2019 the abatement rate increases 1.25%.

Table 10: Phased increase to align eldest child and subsequent child rates with aligning abatement

Year beginning	1/4/2017	1/4/2018	1/4/2019	1/4/2020
Family tax credit annual rates				
Eldest child, aged from 16 to 18	\$5,303	\$5,303	\$5,303	\$5,303
Eldest child, aged from 0 to 15	\$4,822	\$4,982	\$5,143	\$5,303
Subsequent child, aged from 16 to 18	\$4,745	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 13 to 15	\$3,822	\$4,129	\$4,438	\$4,745
Subsequent child, aged from 0 to 12	\$3,351	\$3,815	\$4,281	\$4,745
Abatement threshold	\$36,350	\$35,900	\$35,450	\$35,000
Abatement rate	22.50%	23.75%	25.00%	25.00%
Fiscal cost	-	\$110 m	\$152 m	\$312 m

Table 11: Phased increase to align eldest child and subsequent child rates with aligning abatement – 1 April 2018 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	200,000	17,000	12	*	*
\$14,000-\$31,000	249,000	85,000	12	*	*
\$31,000-\$48,000	221,000	34,000	11	13,000	-2
\$48,000-\$60,000	136,000	17,000	10	16,000	-4
\$60,000-\$70,000	78,000	13,000	7	12,000	-6
\$70,000-\$100,000	241,000	26,000	7	33,000	-4
\$100,000-\$125,000	143,000	3,000	7	*	*
\$125,000-\$150,000	88,000	*	*	*	*
more than \$150,000	186,000	*	*	*	*
ALL	1,542,000	197,000	10	82,000	-4

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Table 12: Phased increase to align eldest child and subsequent child rates with aligning abatement – 1 April 2019 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	196,000	14,000	13	*	*
\$14,000-\$31,000	242,000	85,000	14	*	*
\$31,000-\$48,000	213,000	28,000	18	17,000	-3
\$48,000-\$60,000	140,000	19,000	15	15,000	-6
\$60,000-\$70,000	83,000	11,000	11	12,000	-8
\$70,000-\$100,000	238,000	37,000	10	19,000	-4
\$100,000-\$125,000	146,000	*	*	*	*
\$125,000-\$150,000	94,000	*	*	*	*
more than \$150,000	198,000	*	*	*	*
ALL	1,550,000	198,000.00	14	71,000	-4

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Table 13: Phased increase to align eldest child and subsequent child rates with aligning abatement – 1 April 2020 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	194,000	14,000	23	*	*
\$14,000-\$31,000	235,000	82,000	26	*	*
\$31,000-\$48,000	203,000	27,000	33	14,000	-3
\$48,000-\$60,000	143,000	20,000	27	15,000	-6
\$60,000-\$70,000	94,000	13,000	22	13,000	-8
\$70,000-\$100,000	232,000	40,000	23	13,000	-4
\$100,000-\$125,000	146,000	6,000	22	*	*
\$125,000-\$150,000	101,000	*	*	*	*
more than \$150,000	211,000	*	*	*	*
ALL	1,559,000	203,000	26	60,000	-4

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Option 3: Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate

Option 3 freezes the eldest (first and subsequent) child rates, and increase the lower age payment rates by 5% per year for three years or until alignment is achieved. One rate for first children is achieved on 1 April 2020. After three years of increases there would not be alignment for the lower age subsequent children rates. The abatement threshold decreases by \$450 on 1 April 2019, at the same time the abatement rate increases by 1.25%.

Table 14: Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate

Year beginning	1/4/2017	1/4/2018	1/4/2019	1/4/2020
Family tax credit annual rates				
Eldest child, aged from 16 to 18	\$5,303	\$5,303	\$5,303	\$5,303
Eldest child, aged from 0 to 15	\$4,822	\$5,063	\$5,303	\$5,303
Subsequent child, aged from 16 to 18	\$4,745	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 13 to 15	\$3,822	\$4,013	\$4,214	\$4,424
Subsequent child, aged from 0 to 12	\$3,351	\$3,519	\$3,694	\$3,879
Abatement threshold	\$36,350	\$35,900	\$35,450	\$35,000
Abatement rate	22.50%	23.75%	25.00%	25.00%
Fiscal cost	-	\$41 m	\$18 m	\$58 m

Table 15: Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate – 1 April 2018 distributional analysis for families

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	200,000	17,000	8	*	*
\$14,000-\$31,000	249,000	85,000	7	*	*
\$31,000-\$48,000	221,000	41,000	5	5,000	-2
\$48,000-\$60,000	136,000	17,000	3	17,000	-3
\$60,000-\$70,000	78,000	4,000	3	20,000	-3
\$70,000-\$100,000	241,000	7,000	3	52,000	-5
\$100,000-\$125,000	143,000	*	*	6,000	-3
\$125,000-\$150,000	88,000	*	*	*	*
more than \$150,000	186,000	*	*	*	*
ALL	1,542,000	172,000	6	107,000	-4

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Table 16: Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate – **1 April 2019 distributional analysis for families**

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	196,000	14,000	6	*	*
\$14,000-\$31,000	242,000	84,000	6	*	*
\$31,000-\$48,000	213,000	33,000	4	12,000	-2
\$48,000-\$60,000	140,000	11,000	3	24,000	-3
\$60,000-\$70,000	83,000	*	*	22,000	-4
\$70,000-\$100,000	238,000	4,000	*	53,000	-5
\$100,000-\$125,000	146,000	*	*	5,000	-5
\$125,000-\$150,000	94,000	*	*	*	*
more than \$150,000	198,000	*	*	*	*
ALL	1,550,000	147,000	5	121,000	-4

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Table 17: Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate – **1 April 2020 distributional analysis for families**

Income band	Number of families in band	Number of families gaining	Average weekly gain for families that gain (\$)	Number of families losing	Average weekly loss for families that lose (\$)
\$0-\$14,000	194,000	14,000	9	*	*
\$14,000-\$31,000	235,000	81,000	10	*	*
\$31,000-\$48,000	203,000	27,000	9	15,000	-3
\$48,000-\$60,000	143,000	16,000	5	19,000	-5
\$60,000-\$70,000	94,000	3,000	8	23,000	-5
\$70,000-\$100,000	232,000	13,000	5	39,000	-4
\$100,000-\$125,000	146,000	*	*	5,000	*
\$125,000-\$150,000	101,000	*	*	*	*
more than \$150,000	211,000	*	*	*	*
ALL	1,559,000	156,000	9	105,000	-4

Source: Treasury Taxwell.

* Suppressed – count fewer than 3000

Fiscal cost comparison

Table 18 compares the fiscal cost of the different FTC options we have presented.

Table 18: Fiscal cost comparison

Year beginning	1/4/2018	1/4/2019	1/4/2020	Total
No phasing (Table 2)	\$577 m	\$416 m	\$410 m	\$1,403 m
Phased increase to align eldest child and subsequent child rates (Table 6)	\$187 m	\$227 m	\$410 m	\$824 m
Phased increase to align eldest child and subsequent child rates with aligning abatement (Table 10)	\$110 m	\$152 m	\$312 m	\$574 m
Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate (Table 14)	\$41 m	\$18 m	\$58 m	\$117 m

[34] Analyst, Tax Strategy, [39]

Dr Eina Wong, Senior Analyst, Tax Strategy, [39]