

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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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.



Reference: T2017/583 SH-13-5-2-3

Date: 10 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

Aide Memoire: Preliminary results for further package options

On Tuesday 7 March you requested the fiscal cost and distributional impacts for the three tax and transfer packages presented in table 1. These packages are in addition to Packages 1, 2 and 3 presented in T2017/403. This aide memoire discusses some very preliminary results for the three additional packages.

Table 1: Overview of the three additional packages

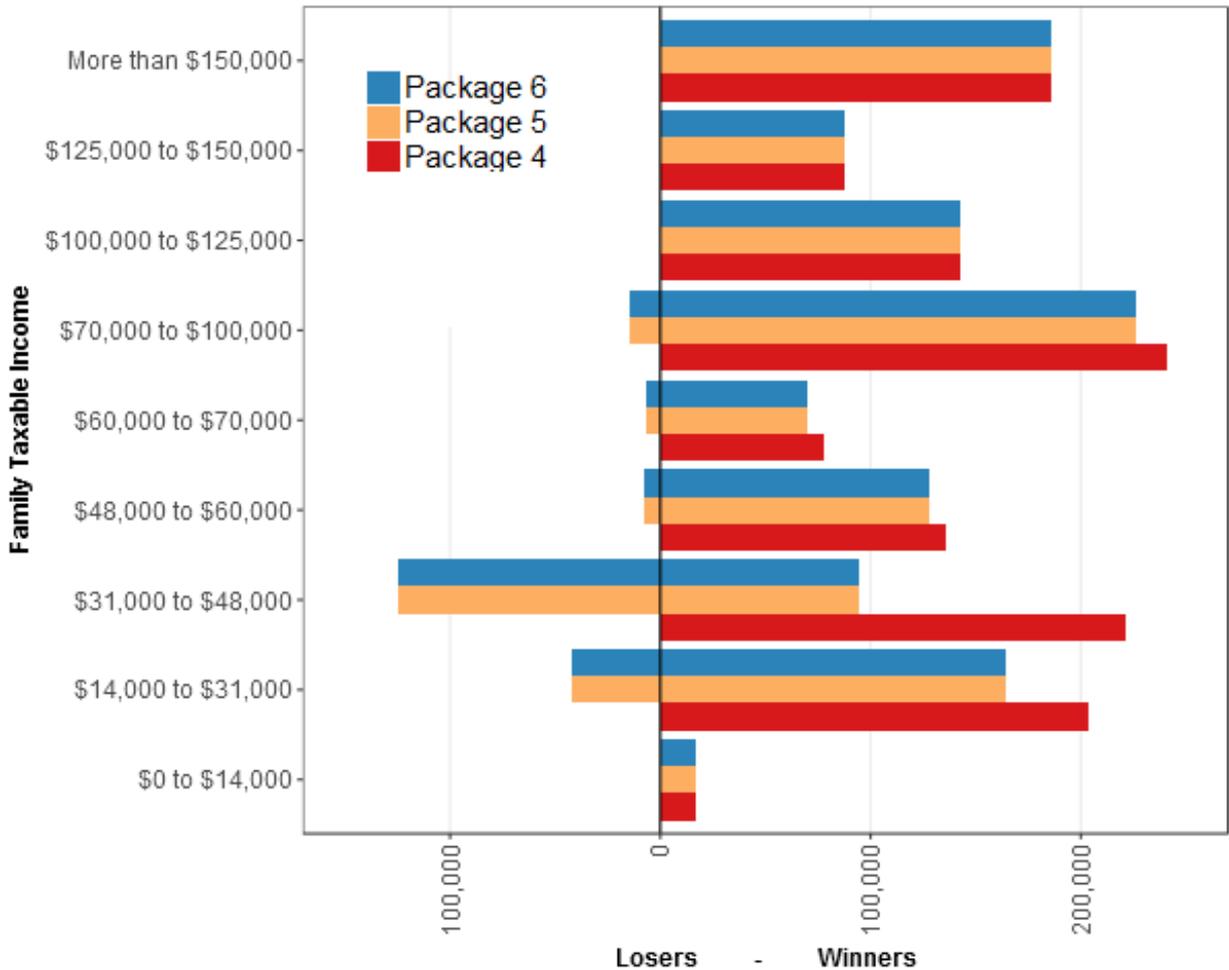
Table with 4 columns: Package 4, Package 5, Package 6 and rows for Tax thresholds, Independent Earner Tax Credit (IETC), Family Tax Credit (FTC), Accommodation Supplement, and Fiscal cost (including clawback).

We are completing our analysis and will provide that on Monday 13 March. Our initial view is that of these three packages, Package 5 may best achieve your objectives of improving work incentives and helping those on low incomes or in financial hardship. Changes to the Accommodation Supplement (AS) are likely to better target those in financial hardship than aligning the Family Tax Credit (FTC) rates. However, we have not been able to model the impact on labour supply from the changes to the AS and so the impact is unclear. MSD are preparing further information on the work incentives from any changes to AS. The alignment of FTC will occur even if not included in a tax and transfer package, albeit at a later date.

### Comparison of packages

Figure 1 compares the number of winners and losers by family taxable income for the three additional packages. Figure 2 compares the average gains/losses by family taxable income for the three additional packages. These comparisons do not include the impact of changes to AS. We are currently unable to accurately model the boundary changes to AS in Taxwell (Treasury’s microsimulation model of the tax and transfer system). MSD has modelled these impacts and they are presented separately in tables 2 and 3.

**Figure 1: Comparison of package winners and losers by family taxable income**

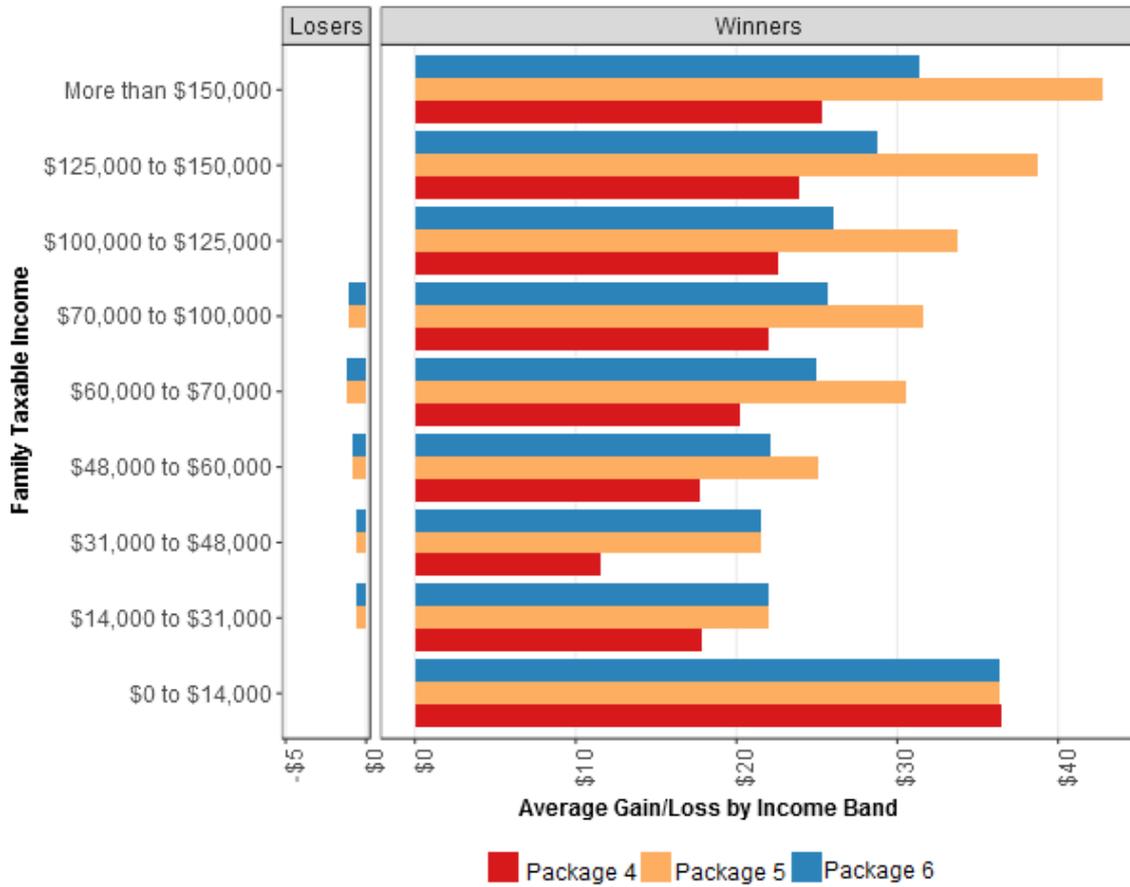


**Table 2: Taxable income distributional analysis of AS changes, including the impact of TAS**

Taxable income	Number of gainers
\$70,000 +	200
\$60,000 - \$70,000	700
\$48,000 - \$60,000	4,000
\$31,000 - \$48,000	22,000
\$14,000 - \$31,000	78,000
\$0 - \$14,000	28,000

Source: MSD

**Figure 2: Comparison of package winners and losers by average gain/loss**



**Table 3: Taxable income distributional analysis of AS changes, including the impact of TAS**

Taxable income	Average weekly gain
\$70,000 +	\$54
\$60,000 - \$70,000	\$60
\$48,000 - \$60,000	\$59
\$31,000 - \$48,000	\$52
\$14,000 - \$31,000	\$36
\$0 - \$14,000	\$27

Source: MSD.

## Distributional analysis

Tables 4, 5 and 6 present the distributional analysis for the FTC, income tax threshold and IETC elements of the three additional packages. As noted, the impact of changes to the AS is not included in these results. The distributional analysis for the AS is the same for Packages 4, 5 and 6 and is presented above in Tables 2 and 3.

**Table 4: Package 4 distributional analysis**

Family taxable income	Total number of families	Number of families gaining	Average weekly gain for gaining families	Number of families disadvantaged	Average weekly loss for losing families
0 - \$14,000	200,000	17,000	\$36	*	*
\$14,000 - \$31,000	249,000	204,000	\$18	*	*
\$31,000 - \$48,000	221,000	221,000	\$12	*	*
\$48,000 - \$60,000	136,000	136,000	\$18	*	*
\$60,000 - \$70,000	78,000	78,000	\$20	*	*
\$70,000 - \$100,000	241,000	241,000	\$22	*	*
\$100,000 - \$125,000	143,000	143,000	\$23	*	*
\$125,000 - \$150,000	88,000	88,000	\$24	*	*
\$150,000 +	186,000	186,000	\$25	*	*
	1,542,000	1,313,000	\$20	4,000	\$-1

Source: Treasury Taxwell

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

**Table 5: Package 5 distributional analysis**

Family taxable income	Total number of families	Number of families gaining	Average weekly gain for gaining families	Number of families disadvantaged	Average weekly loss for losing families
0 - \$14,000	200,000	17,000	\$36	*	*
\$14,000 - \$31,000	249,000	164,000	\$22	42,000	\$-1
\$31,000 - \$48,000	221,000	95,000	\$22	125,000	\$-1
\$48,000 - \$60,000	136,000	128,000	\$25	8,000	\$-1
\$60,000 - \$70,000	78,000	70,000	\$31	7,000	\$-1
\$70,000 - \$100,000	241,000	226,000	\$32	15,000	\$-1
\$100,000 - \$125,000	143,000	143,000	\$34	*	*
\$125,000 - \$150,000	88,000	88,000	\$39	*	*
\$150,000 +	186,000	186,000	\$43	*	*
	1,542,000	1,118,000	\$31	200,000	\$-1

Source: Treasury Taxwell

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

**Table 6: Package 6 distributional analysis**

Family taxable income	Total number of families	Number of families gaining	Average weekly gain for gaining families	Number of families disadvantaged	Average weekly loss for losing families
0 - \$14,000	200,000	17,000	\$36	*	*
\$14,000 - \$31,000	249,000	164,000	\$22	42,000	-\$1
\$31,000 - \$48,000	221,000	95,000	\$22	125,000	-\$1
\$48,000 - \$60,000	136,000	128,000	\$22	8,000	-\$1
\$60,000 - \$70,000	78,000	70,000	\$25	7,000	-\$1
\$70,000 - \$100,000	241,000	226,000	\$26	15,000	-\$1
\$100,000 - \$125,000	143,000	143,000	\$26	*	*
\$125,000 - \$150,000	88,000	88,000	\$29	*	*
\$150,000 +	186,000	186,000	\$31	*	*
	1,542,000	1,118,000	\$26	200,000	-\$1

Source: Treasury Taxwell

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

### ***Accommodation Supplement***

Tables 7 and 8 present some additional distributional information about the changes to AS.

**Table 7: Distributional analysis by family type of AS changes, including the impact of TAS**

Family type	Number of gainers	Average weekly gain
Couple	12,000	\$46
Couple, 1 child	6,000	\$53
Couple, 2+ children	11,000	\$53
Single	57,000	\$27
Sole parent, 1 child	23,000	\$44
Sole parent, 2+ children	24,000	\$42

Source: MSD

**Table 8: Distributional analysis by benefit type of AS changes, including the impact of TAS**

Benefit type/non-beneficiary	Number of gainers	Average weekly gain
JobSeeker/ Emergency Benefit	35,000	\$29
Sole Parent Support	24,000	\$38
Supported Living Payment	19,000	\$30
Youth benefits	200	\$20
Non-beneficiaries	41,000	\$51
NZ Super/Veteran's Pension	14,000	\$32

Source: MSD

## Further comment

About 20% (105,000 people) of IETC recipients have a partner who earns more than \$70,000. We consider this tax credit is poorly targeted given that removing the IETC is likely to have only a marginally negative impact on labour supply. Considering changes to tax thresholds at the same time as removing the IETC would mitigate the distributional impacts.

A \$1,000 increase for income tax thresholds generally costs about \$150 million. Differences may result from interactions with other transfer changes.

Our advice on Monday will include:

- options for scaling back FTC changes, for example, further decreasing the abatement threshold and increasing the abatement rate.
- further advice about AS, including scaling options. MSD's advice is that the alternative AS option (which includes the change to the co-payment from 30% to 25%) is the best way to provide support to the highest number of households with high levels of housing stress.
- more detail on the labour supply impacts from modelling Packages 4 and 5 for the changes to the tax thresholds and tax credits, excluding AS. We estimate that Packages 4 and 5 will increase the total hours of work by around 0.3%. We expect that the impact for Package 6 will be similar.

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