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Chair, Cabinet

BUDGET 2017 FAMILY INCOMES PACKAGE

Proposal

- 1 I seek the agreement of Cabinet to a family incomes package to be included in Budget 2017. The package will:
 - provide better rewards for hard work by adjusting the bottom two tax thresholds and lowering the effective marginal tax rates for low and middle income earners;
 - start simplifying the tax and transfer system so it is easier to understand and incomes are more clearly linked to people's effort;
 - help lower income families with young children meet their living costs; and
 - improve incomes for those with high housing costs.

Executive Summary

- 2 New Zealand's strong economic performance has seen family incomes grow across the distribution. However, sustaining that performance requires us to keep improving microeconomic settings that creates incentives for work, investment and starting and growing a business.
- 3 As incomes grow, earners cross tax thresholds and the rewards for their hard work are reduced. Left unadjusted, the income tax thresholds will worsen work incentives over time.
- 4 Despite growing incomes, some families are seeing rising costs place pressure on their living standards. Rising housing costs in particular have increased the proportion of incomes spent on housing, particularly for low-income families. As a result, some low-income families have seen declines in after-housing-costs, or 'residual,' income over the last ten years.
- 5 I propose a Family Incomes Package that improves the rewards for hard work, simplifies the tax credit system, helps low income families with young children meet their living costs, and improves incomes for those with high housing costs.
- 6 From 1 April 2018, the package:
 - increases the \$14,000 income tax threshold to \$22,000, and the \$48,000 threshold to \$52,000;

- removes the Independent Earner Tax Credit;
 - aligns the Family Tax Credit rates for young children to those for children aged 16 to 18, increases the abatement rate to 25% and reduces the abatement threshold to \$35,000; and
 - increases the Accommodation Supplement maxima to reflect 2016 rents, while re-allocating locations into different Accommodation Supplement areas to reflect rental costs.
- 7 The package benefits 1,342,000 families¹ in New Zealand by, on average, \$26 per week. A couple with two children under 13, and one partner earning \$55,000, will gain \$41 per week. Depending on their circumstances, they may receive more from the Accommodation Supplement changes. A very small number of families will be disadvantaged by the package due to complex interactions in the tax and transfer system.
- 8 The tax changes are expected to support long-run economic performance. Overall, the package is estimated to have modest long-run impacts on GDP, and the labour supply impact is expected to be broadly neutral. This is likely because the increased labour supply induced by the tax changes are offset by the reduction induced by increased transfers.
- 9 In the short run, the package is expected to increase GDP of the last three years of the forecast period, mainly through household consumption.

Background

New Zealand's economic performance is strong

- 10 At a time when many parts of the world face significant political and economic risks, the outlook for New Zealand is positive. Businesses are investing, job growth is solid and wages are rising faster than inflation.
- 11 We are in the unfamiliar position of being one of the fastest growing countries in the developed world. Real GDP growth is forecast to be around 3.5 percent per annum in the March 2017 quarter and to accelerate to around 4 percent over 2018, remaining above 3 percent across most of the forecast period.
- 12 However, growth is not an end in itself. Growth is about creating job opportunities and higher wages for New Zealanders. We have seen very strong employment growth over recent years. The economy has seen another 328,000 jobs created since 2008; and the Treasury expects a further 150,000 by 2021.
- 13 The most recent Household Labour Force Survey reported that for the first time ever we have 2.5 million people employed in New Zealand. There were 19,000 extra jobs created in the last quarter; and 137,000 over the last year.
- 14 Our employment rate – the proportion of the total population aged 15 years or older in work – is 66.9 per cent. This is the highest rate New Zealand has ever had, and the second highest employment rate currently in the whole of the OECD.

¹ Note that family is defined broadly in this paper to include one adult, a spouse (if any) and dependent children (if any).

Impact of economic growth on incomes

Growth in average and median wages

- 15 Sustaining momentum in the New Zealand economy requires us to keep improving microeconomic settings that creates incentives for work, investment and starting and growing a business. New Zealand's economic performance has seen incomes grow for families across the income distribution. The Treasury expects the average annual wage to reach \$66,000 by 2021. It is currently \$58,700 and has been growing at twice the rate of inflation since late 2012. Since 2010, when personal income taxes were last adjusted, the median wage has increased from \$40,000 to \$48,000.

Increasing effective marginal tax rates

- 16 Where the median wage earner faced a marginal tax rate of 17.5 cents in the dollar from 2010 to 2015, today they face a marginal tax rate of 30 cents. Personal income tax rates were last changed in 2010 and are not adjusted automatically for inflation. Left unadjusted, the income tax thresholds will worsen work incentives over time.
- 17 Effective marginal tax rates (EMTRs) can be considerably higher than statutory tax rates when benefits or tax credits are withdrawn as income rises. For example, a median wage earner with a spouse and a child faces an EMTR of 52.5 per cent owing to the abatement of Working for Families tax credits.
- 18 High EMTRs cause low and middle income earners in particular to see less reward for their hard work. Table 1 below shows some of the EMTRs faced by low and middle income earners.

Table 1: EMTR decomposition for the \$14,000 to \$60,000 taxable income range

Those having:	\$14k - \$48k taxable income		\$48k - \$60k taxable income	
	EMTR	No. of individuals	EMTR	No. of individuals
No transfers abating	17.5	520,000	30	244,000
Independent Earner Tax Credit abating	30.5	89,000	-	-
Working for Families abating	40	68,000	52.5	32,000
Accommodation Supplement abating	42.5	44,000	55	*
Working for Families and Accommodation Supplement abating	65	16,000	77.5	13,000

* Value suppressed to maintain confidentiality. This analysis has not been re-weighted for Accommodation Supplement take-up and is not comparable with Tables 8 and 9.

- 19 Student loan repayments are also required at 12 cents in the dollar for those earning above \$19,084 per year. For example, the median wage earner with a student loan and no other assistance experiences an EMTR of 42 cents in the dollar.

Issues with residual incomes after housing costs

- 20 Despite growing incomes, some families are seeing rising costs place pressure on their living standards. Rising housing costs in particular have increased the proportion of incomes spent on housing, particularly for low-income families. As a result, some low-income families have seen declines in after-housing-costs, or 'residual,' income over the last ten years.
- 21 Recipients of the Accommodation Supplement have seen their residual incomes fall on average by two percent since 2006. Some groups, such as beneficiaries, have seen steeper declines of eight percent. Around 40 percent (approximately 120,000) of Accommodation Supplement recipients spend more than half of their income on housing costs.

Income distribution by family type

- 22 Table 2 below shows the income distribution of New Zealand's 2.4 million families and provides a breakdown by family income source. Note that in this paper, a family includes one adult, a spouse (if any) and dependent children (if any).

Table 2: Income distribution by family income source

Family taxable income	Total no. of families	Workers	Beneficiaries	NZS	Full-time students	Part-time students	Other income source	No taxable income
\$0 - \$14,000	349,000	14%	18%	1%	37%	4%	8%	18%
\$14,000 - \$31,000	492,000	23%	26%	34%	11%	3%	3%	*
\$31,000 - \$48,000	399,000	55%	*	36%	4%	3%	1%	*
\$48,000 - \$60,000	186,000	76%	*	17%	*	4%	3%	*
\$60,000 - \$70,000	117,000	72%	*	19%	5%	*	*	*
\$70,000 - \$100,000	316,000	81%	*	12%	*	4%	1%	*
\$100,000 - \$125,000	189,000	81%	*	11%	*	6%	*	*
\$125,000 - \$150,000	121,000	81%	*	14%	*	3%	*	*
\$150,000 +	231,000	83%	*	10%	*	4%	3%	*

* Value suppressed to maintain confidentiality. This analysis has not been re-weighted for Accommodation Supplement take-up and is not comparable with Tables 8 and 9.

New Zealand's current tax and family income structure

Personal income tax

- 23 Personal income tax is levied using a progressive rate structure and is one of the main sources of revenue for the Government.

Table 3: Personal income tax schedule

Thresholds		Rates
\$1	\$14,000	10.50%
\$14,001	\$48,000	17.50%
\$48,001	\$70,000	30%
\$70,001	+	33%

24 Personal income tax rates were last changed in 2010.

Family Tax Credit and Independent Earner Tax Credit

- 25 The progressive rate structure is supplemented by social assistance through tax credits delivered via the tax system. These consist of payments made either weekly, fortnightly or in lump sum at the end of the year administered by Inland Revenue. Appendix 1 shows the suite of credits.
- 26 Working for Families tax credits provide targeted assistance to increase family income to support families to raise their children and provide incentives to move off benefits and into work. This is achieved through a combination of conditions on entitlement and income thresholds above which entitlement begins to abate.
- 27 The Family Tax Credit, which is part of the Working for Families group of tax credits, is available to families with children and aims to increase family income to ensure all families can raise their children and maintain a standard of living. Payments are targeted to low income families and depend on the ages of the eldest and any subsequent children, with smaller amounts provided for younger children. Assistance abates by 22.5c in the dollar as family income increases above \$36,350 per year. Table 4 shows the current Family Tax Credit payment rates.

Table 4: Family Tax Credit payment rates

Child	Annual Rate
Eldest child, 16-18	\$5,303
Eldest child, 0-15	\$4,822
Subsequent child, 16-18	\$4,745
Subsequent child, 13-15	\$3,822
Subsequent child, 0-12	\$3,351

28 The Independent Earner Tax Credit delivers up to \$10 per week to around 500,000 individuals earning between \$24,000 and \$48,000. Individuals who receive a main benefit, Working for Families or New Zealand Superannuation are ineligible for the Independent Earner Tax Credit. While 645,000 individuals are eligible for the

Independent Earner Tax Credit, only 80% claim it, and 60% of those claim it after the end of the tax year.

Accommodation Supplement

- 29 Further assistance is provided in the form of targeted accommodation subsidies. The Accommodation Supplement is paid to eligible private renters, boarders and homeowners. Maximum levels of assistance (maxima) are set for different areas. As with Working for Families, the supplement is abated as income increases.
- 30 The Accommodation Supplement is targeted to low-income individuals and families, with around 290,000 current families. Around 68% of Accommodation Supplement recipients also receive a main benefit, and around 12% also receive New Zealand Superannuation. The Accommodation Supplement is targeted on the basis of income and housing costs; it gives the most to those on the lowest incomes with relatively high housing costs.
- 31 The maxima and areas were most recently updated in 2005, based on 2003 rents. Unlike Working for Families, the Accommodation Supplement is not indexed.
- 32 Eligible people in social housing pay an income-related rent which limits the amount of rent that they pay to no more than 25 percent of their net income. This amount is then topped up by the Income-Related Rent Subsidy paid to the registered housing provider, which covers the balance between the tenant's rental payment and the market rent of the property. This subsidy abates much more steeply with income than the Accommodation Supplement. It is also more generous than the Accommodation Supplement.
- 33 Temporary Additional Support is also available for those who cannot meet essential living costs from their income and other resources. While available for a maximum of 13 weeks, clients with ongoing shortfalls may reapply. Temporary Additional Support abates dollar-for-dollar as income increases.

Objectives

- 34 My objectives for the Budget 2017 family incomes package (the package) are as follows.

Improving the rewards for hard work

- 35 One of the priorities for Budget 2017 is reducing the income tax burden and, in particular, the impact of marginal tax rates on lower and middle income earners.
- 36 As people cross tax thresholds and move into higher brackets, their marginal and average tax rates increase. Average and marginal personal income tax rates decreased in 2007/2008 and 2010/2011, but have since risen moderately as a result of wage growth.
- 37 As marginal and average tax rates increase, the rewards for hard work reduce. Adjusting tax thresholds and lowering effective marginal tax rates for low and middle income earners will provide greater rewards for hard work and help them get ahead.

Simplifying the tax credit system

- 38 The tax and transfer system is complex. The rules for determining eligibility and claiming entitlements can be difficult to navigate.
- 39 One of my objectives for the package is to start simplifying the system to more clearly link rewards to effort. This will also improve the ease of administration.

Helping lower income families with young children meet their living costs

- 40 Families with children face many pressures on the family budget. There is no clear rationale for families with older children to receive more support than those with younger children. Lower rates of assistance mean families with young children are at greater risk of experiencing financial hardship than those with older children.
- 41 Aligning the Family Tax Credit rates will significantly benefit families with young children, ensuring they have enough income to meet their living costs.

Improving incomes for those with high housing costs

- 42 Housing costs are a large proportion of most family budgets. Rising housing costs are placing particular pressure on the living standards of families and are a cause of financial hardship for some households. Improving incomes for families with high housing costs will reduce this financial hardship.

The Proposed Package

- 43 I propose a family incomes package that:
- lifts the bottom two tax thresholds;
 - removes the Independent Earner Tax Credit;
 - increases the rate of Family Tax Credit for children under 16 to match the rate for children aged 16 to 18; and
 - increases the Accommodation Supplement maxima to reflect 2016 rents.
- 44 The package will take effect on 1 April 2018.

Income tax thresholds

- 45 The package will raise the \$14,000 income tax threshold to \$22,000, and the \$48,000 threshold to \$52,000. This will improve the rewards for hard work, and encourage greater labour supply among low and middle income earners in particular. Table 5 below shows the gains from tax threshold changes for different levels of income.

Table 5: Gains from tax threshold changes

Income		Maximum Annual gain	Maximum Weekly gain
\$1	\$14,000	\$0	\$0
\$14,001	\$48,000	\$560	\$10.80
\$48,001	+	\$1060	\$20.40

46 On average, this will give families \$19 per week. Individuals earning the average wage will receive \$20 per week.

Independent Earner Tax Credit

47 I propose removing the Independent Earner Tax Credit because improved work incentives can be more effectively achieved through other changes to the tax and transfer system.

48 The delivery of the Independent Earner Tax Credit is administratively complex, and this impacts effectiveness. Around 80% of eligible taxpayers claim the Independent Earner Tax Credit, and of these, 60% of recipients receive the tax credit after year-end as a refund after filing a tax return or requesting a personal tax summary, sometimes years later. Delayed delivery of the credit makes it difficult to directly link with work incentives.

49 Those who currently receive the Independent Earner Tax Credit will be fully compensated for the loss of the credit by the tax threshold changes throughout the year, without having to file at year end or selecting a different tax code.

Family Tax Credit

50 I propose raising the young child Family Tax Credit rates to align with those of children 16 to 18. This will significantly increase payments to families with young children. There is no clear policy rationale for families with older children to receive more support than those with younger children. Table 6 shows the proposed increases.

Table 6: Increases in Family Tax Credit rates

Annual Rate	Current	1 April 2018	Annual increase	Weekly increase
Eldest child, 16-18	\$5,303	\$5,303	-	-
Eldest child, 0-15	\$4,822		\$481	\$9.25
Subsequent child, 16-18	\$4,745	\$4,745	-	-
Subsequent child, 13-15	\$3,822		\$923	\$17.75
Subsequent child, 0-12	\$3,351		\$1,394	\$26.80

51 I also propose that the tax credit abates at 25c in the dollar above \$35,000. These are the settings the Government agreed in 2011 would be progressively and fully implemented, and they are currently forecast to occur in 2025. Abatement will ensure that assistance is targeted to lower-income families.

52 On average, Family Tax Credit recipients will gain \$5 per week from this change. A family with one partner earning \$28,000 and a child under 16 will gain around \$20 per week.

Accommodation Supplement

- 53 The Accommodation Supplement has not been updated since 2005 and is based on 2003 rents. Since that time, recipients have seen their residual incomes decline and they are at greater risk of financial hardship as a result.
- 54 I propose to increase the Accommodation Supplement based on the 40th percentile of 2016 rents in each Accommodation Supplement area. This is broadly equivalent to 90% of the 2016 median rent in each area. The new maxima will better reflect the costs faced by recipients and alleviate financial hardship. The proposed maxima are shown in Table 7. Increases over the previous maxima are shown in brackets.

Table 7: Accommodation Supplement maxima

	Area 1	Area 2	Area 3	Area 4
1 person	\$165 (+\$20)	\$105 (+\$5)	\$80 (+\$15)	\$70 (+\$25)
2 people	\$235 (+\$75)	\$155 (+\$30)	\$105 (+\$30)	\$80 (+\$25)
3+ people	\$305 (+\$80)	\$220 (+\$55)	\$160 (+\$40)	\$120 (+\$45)

- 55 I propose to re-allocate locations in New Zealand among the Accommodation Supplement areas to reflect current housing costs. This reflects that growth in housing costs has not been uniform, and it will reduce financial hardship in areas where housing costs have risen the most. There are four areas, and the current and proposed allocations are shown in Appendix 2.
- 56 Increasing the Accommodation Supplement maxima and reallocating areas will provide around 136,000 families with an average gain of \$36 per week.

Impacts of the Family Incomes Package

Income tax thresholds

- 57 Increases in tax thresholds generally improve work incentives. In particular, increases to the \$14,000 threshold are likely to improve work incentives for those on benefit as these individuals typically enter work at lower incomes. Increases to the \$48,000 threshold are likely to improve individuals' incentives to work longer hours in aggregate.

Removing the Independent Earner Tax Credit

- 58 For those who currently receive it, the removal of the Independent Earner Tax Credit will not result in individuals being worse off because the tax threshold changes will fully compensate them during the year. Approximately 500,000 individuals currently receive all or part of this tax credit.
- 59 The labour supply impact of removing the Independent Earner Tax Credit, on its own, is marginally negative. However, reprioritising the savings will more effectively improve labour supply.

Increasing the rate of Family Tax Credit

- 60 Increasing the lower age rates for the Family Tax Credit will benefit eligible families with children aged 0 to 15. Families with children aged 16 to 18 and in the abatement zone will face a very small loss due to the increased abatement rate and decrease of the abatement threshold, but the losses are largely offset by the changes to tax thresholds.
- 61 Approximately 308,000 families will gain from the increase in the Family Tax Credit.

Increases in the Accommodation Supplement

- 62 The changes to the Accommodation Supplement will lift about 14,000 households out of “severe housing stress,” which is considered by Ministry of Social Development as households having an equivalised residual income of less than \$180 per week (adjusted to September 2016 figures using CPI index).
- 63 Around 69,000 more Accommodation Supplement recipients who will not benefit from the Accommodation Supplement changes will benefit from other parts of the package.
- 64 Increasing the Accommodation Supplement will reduce the gap between Accommodation Supplement and the Income-Related Rent Subsidy, and improves the incentives for social housing tenants to move towards housing independence, particularly for those with relatively higher incomes. It will also reduce the number of households that qualify for social housing, as more households will be able to afford housing in the private rental market. Increasing the Accommodation Supplement will not negate the need for broader reform of the housing subsidies in the longer-term but will improve the financial incentive for tenants to move out of social housing into the private rental market.

How the elements work together

- 65 The elements of the package work together to help low and middle income earners get ahead, with a particular focus on families with young children and those in housing stress. No single element considered can satisfactorily advance all of the policy objectives; each presents trade-offs.
- 66 For example, while low income families receive a smaller amount from the tax component, they tend to receive relatively more from the Accommodation Supplement and Family Tax Credit components. Similarly, the reverse is true for higher income families.
- 67 Increasing the Accommodation Supplement and Family Tax Credit rates will alleviate financial hardship but worsen work incentives for recipients. Removing the Independent Earner Tax Credit will simplify the tax system. It will also improve work incentives for those facing high EMTRs through abatement, but will worsen them for those receiving full entitlement.
- 68 Accordingly, the final package comprises a combination of the above options reflecting a balance of the objectives.
- 69 Overall, the package is expected to reduce the number of households in poverty, measured as 50% of median household equivalised income, by 13%, and the number of children in poverty, by the same measure, by 31%. Measured as 60% of median

household equivalised income, the package is expected to reduce the number of households in poverty by 4%, and the number of children in poverty by 13%.

70 Table 8 below decomposes the average weekly gain in each quintile into its components.

Table 8: Decomposition of average weekly gains by source for each quintile

Income Quintile	Average gain from AS	Average gain from tax changes	Average loss from benefit/tax interaction	Average gain from FTC	Average loss from IETC	Average gain	Minimum income in range
1	\$17.04	\$5.13	(\$3.38)	\$16.63	(\$0.10)	\$35.32	*
2	\$3.81	\$11.07	(\$0.14)	\$6.10	(\$5.73)	\$15.11	\$24,000
3	\$2.14	\$20.90	\$0.00	\$2.98	(\$2.32)	\$23.69	\$51,000
4	\$0.25	\$28.12	\$0.00	\$1.65	(\$3.77)	\$26.24	\$84,000
5	\$0.00	\$34.65	\$0.00	\$0.00	(\$1.43)	\$33.22	\$127,000

* Value suppressed to maintain confidentiality. Refer caveats at Table 9.

Examples of different families

71 The scenarios below illustrate how representative families will be impacted by the tax and tax credit elements of the family incomes package:

1. A couple with two children under 13, with one earning average wage (\$60,000) and the other earning half average wage (\$30,000) would have an annual gain of \$1,168, or \$22 per week. The Working for Families component of this would be different if either of the couple had different wages as they are within the Working for Families abatement zone.
2. A sole parent earning minimum wage with one child under 13 would have an annual gain of \$1,040, or \$20 per week. This change would be the same for any income from \$28,000 to \$35,000. An income above \$35,000 would put the family into the Working for Families abatement zone. Depending on where they live and their accommodation costs, they may also receive up to an additional \$5,720, or \$110 per week, from the Accommodation Supplement changes.
3. A couple with two children and both partners earning \$60,000 would have an annual gain of \$2,120, or \$41 per week. This gain would be the same for any level of earnings where both partners are above \$52,000.
4. A couple with two children under 13, with one partner earning average wage and the other not in paid employment would gain \$2,006, or \$39 per week. The Working for Families component of this would be different if either in the couple had different wages as they are within the Working for Families abatement zone. Depending on where they live and their accommodation costs, they may also receive up to an additional \$7,280, or \$140 per week, from the Accommodation Supplement changes.
5. A couple without children, with one earning average wage (\$60,000) and the other earning half average wage (\$30,000), would have an annual gain of \$1,100, or \$21 per week. This impact would be consistent for any childless couple with a primary earner over \$52,000 and a secondary earner less than \$44,000 but more than \$24,000.
6. A single individual earning full time minimum wage would receive an annual gain of \$40, or 80 cents per week. Depending on where they live and their accommodation

costs, they may also receive up to an additional \$3,380, or \$65 per week, from the Accommodation Supplement changes.

Distributional impacts (family incomes analysis)

72 On average, a gaining family gains \$26 per week from this package. The estimated distribution of gains by quintile is presented in Table 9 below. This table excludes families who earn any New Zealand Superannuation or families made up of independent students.

73 90% of the 1.5 million families represented in this table will gain from this package, and a small number of families will be disadvantaged by up to \$3 per week on average (to be discussed below). Most or all of these families in the top four quintiles will gain, and 52% of the bottom quintile gain from this package. This is because:

- Families in the bottom quintile primarily gain from the increases to the Family Tax Credit and Accommodation Supplement rates. Some families will also benefit from the increase of the \$14,000 tax threshold.
- Families in the second quintile gain from all elements of the package (assuming eligibility for Family Tax Credit and Accommodation Supplement is met), although the removal of the Independent Earner Tax Credit will reduce the gains from the tax threshold increases for those families who currently receive it. For those who do not receive the tax credit, their weekly gains will be higher than indicated in Table 9.
- Families in quintiles three to five will primarily gain from the tax threshold increases, although there will be some families who may gain from the increases in Family Tax Credit and Accommodation Supplement rates.

Table 9: Estimated distributional impacts of Family Incomes Package by quintile²

Quintile	Total families	Family type				Receive IETC	Receive core benefit	Receive AS	Gaining families		Losing families		Minimum income in band
		Single, no children	Single, with children	Couples, no children	Couples, with children				Number gaining	Average gain for those gaining	Number losing	Average loss for those losing	
1	299,000	68%	20%	6%	7%	*	60%	55%	154,000	\$35	*	*	*
2	298,000	67%	11%	12%	10%	65%	11%	12%	296,000	\$15	*	*	\$25,000
3	298,000	44%	4%	27%	25%	15%	*	*	296,000	\$24	*	*	\$51,000
4	298,000	13%	2%	46%	39%	40%	*	*	297,000	\$27	*	*	\$84,000
5	298,000	6%	*	45%	48%	17%	*	*	298,000	\$33	*	*	\$127,000
All	1,492,000	40%	7%	27%	26%	27%	14%	14%	1,342,000	\$26	6,000	\$3	-

²The Treasury recommends that this analysis be used with caution. To ensure the sample is representative of the New Zealand population sample weights have been modified to match the administrative characteristics of AS recipients. This has been done as an aggregate level adjustment. Temporary Additional Support (TAS) is excluded from the results. AS area changes have been included at the Urban Area (2001) level, however subsequent changes have been made to the AS boundaries at the Area Unit level. Area Unit data is not available in Taxwell, so these changes have not been included. Families with NZS recipients and non-dependent students have been excluded from the distributional analysis.

Impact on New Zealand Superannuitants

- 74 There will be around 750,000 New Zealand superannuitants when the package is implemented.
- 75 Because the rates of New Zealand Superannuation are indexed to after-tax wages, the weekly rate of New Zealand Superannuation (NZS) for one member of a married/civil union couple will increase by around \$6.70 with this package. This is in addition to their normal annual adjustment as a result of wage indexation.
- 76 New Zealand Superannuitants will also benefit from the tax threshold changes that will apply to their income.

People who don't benefit from the package

- 77 Families who do not benefit materially are mainly those who currently receive the Independent Earner Tax Credit and who have no dependent children and low accommodation costs. Full-time students and beneficiaries who do not work (other than sole parents) are another group who do not benefit from the package.
- 78 Table 10 below provides a breakdown of families who do not gain, or gain less than \$2 per week from the package.

Table 10: Families who do not gain or gain small amounts

	Total families who do not gain or gain small amounts	Working families	Beneficiary families	Student families	Families with other income source	Families with no taxable income
Number	529,000	189,000	83,000	189,000	27,000	41,000
Percent	100%	36%	16%	36%	5%	8%

Negative impacts

- 79 A small number of families will face losses from increasing transfers and/or increasing income tax thresholds. This occurs due to the complex interaction between tax and transfer settings. The actual number of families is likely to be fewer than 6,000, with average losses of \$3 per week.
- 80 Administrative data from the Ministry of Social Development suggests that around 2,000 Accommodation Supplement recipients may lose, on average, \$1.90 per week.

Transitional Fund

- 81 In previous major reforms such as the 2010 tax package, Working for Families, and 2015 Child Material Hardship package, the Government included a small fiscal provision for a payment which could be paid to beneficiaries who were negatively impacted as a consequence of the package. Such a payment provides some surety that the complexities in the social welfare system do not create perverse results for people with unusual circumstances.
- 82 I propose setting aside a small envelope of \$0.25 million per annum (\$1 million over four years) for a transitional assistance programme to compensate people who are negatively impacted by the package. This programme is intended to compensate

people who lose out as a result of complex interactions that have not yet been identified, rather than to compensate people who are identified as losing small amounts as a result of interactions that were anticipated at the time policy decisions are made.

- 83 This paper proposes delegating authority to the Minister of Finance and Minister for Social Development to establish the parameters for the transitional assistance programme and delegating authority to the Minister for Social Development to approve a ministerial welfare programme under the Social Security Act to administer the transitional assistance programme.

Economic effects

- 84 The tax threshold changes are expected to support long-run economic performance. The overall package is estimated to have modest long-run impacts on GDP, and impacts on labour supply is expected to be broadly neutral. However, each individual's labour supply responsiveness varies and can be dependent on a number of factors, which means that any changes will affect groups and individuals differently. It is likely that the increased labour supply induced by the tax changes will be offset by reduced labour supply among recipients of increased transfers.
- 85 The Treasury has estimated the response of labour supply to the tax, Independent Earner Tax Credit and Family Tax Credit changes. Including the Accommodation Supplement and Family Tax Credit, the changes overall are broadly neutral.
- 86 In the short run, the Family Incomes package is expected to increase GDP over the last three years of the forecast period, primarily through higher household consumption. The additional fiscal impulse could place upward pressure on the setting of the Official Cash Rate by the Reserve Bank at the margin, but occurs in the context of very low interest rates.

Consequential impacts

- 87 The policy proposals outlined in this paper have a number of consequential impacts and decisions are needed in respect of some of these impacts.

Provisional tax

- 88 Individuals using the uplift method for their provisional tax pay their tax throughout the year based on the tax paid in the year prior. Taxpayers using this method would need to base their 2018 tax payments on the current income tax rate structure, and would overpay their tax during the year. This paper seeks delegated authority to determine the most appropriate method for providing relief within the existing fiscal envelope.

Family Tax Credit rate adjustments

- 89 The Family Tax Credit rates are automatically adjusted for inflation following a cumulative five percent increase in the CPI. The next adjustment is estimated to occur on 1 April 2019. However, this would be only a year after the package is implemented. I propose the next adjustment should be made on 1 April in the year following a cumulative five percent increase in the CPI beginning 1 April 2018.

- 90 Increases to the Family Tax Credit will also impact the In-Work Tax Credit and Parental Tax Credit, which will have higher full abatement points as a result of joint abatement.

Student allowances

- 91 As Student Allowances are set on a gross basis, across the board tax cuts would, without further action, increase the net rates of these payments and put them out of line with Jobseeker Support payments. This is not the intent of this package and this paper therefore seeks agreement that the relevant regulations be amended to keep the Student Allowance rates aligned with the Jobseeker Support rate.

[33]

Other consequential flow-on impacts

- 98 There will be a number of other consequential flow-on impacts to other assistance as a result of the policy proposals in this package.
- 99 Expenditure on the Income-Related Rent Subsidy will reduce as the changes proposed in this paper will increase the income of social housing tenants in work, especially those with children.
- 100 The rate of Accommodation Benefit for sole parents will increase as this is based on the Accommodation Supplement but Accommodation Benefit rates for non-sole parents will not change as they are not linked to the Accommodation Supplement.
- 101 The Treasury, Inland Revenue and the Ministry of Social Development will report to the Minister of Finance and Associate Ministers of Finance on the expected consequential flow-on impacts to other forms of assistance as a result of the policy proposals in this package.
- 102 This package does not propose changes to benefit rates. Consequently, the carers of children receiving Orphans Benefit, Unsupported Child Benefit and Foster Care Allowance who will not benefit from the increase in the Family Tax Credit will not see any increase in assistance from their benefit or allowance. They may however benefit from other parts of the package.

Consultation

- 103 Inland Revenue, the Ministry of Social Development, and the Treasury were consulted in the preparation of this paper. Due to the need for Budget secrecy, and the short timeframes involved in developing a family incomes package for Budget 2017, the ability to consult in the usual manner has been constrained.

Financial Implications***Fiscal costs***

- 104 The table below represents the total impact of the package.

	\$m – increase/(decrease)			
	2017/18	2018/19	2019/20	2020/21 & outyears
Operating balance impact	663.259	2,331.731	2,132.470	2,316.954
Debt impact	-	-	-	-
No impact	(66.975)	(276.143)	(299.829)	(324.716)
Total	596.284	2,055.588	1,832.641	1,992.238

Consequential impacts

105 There is a risk that further consequential impacts are identified as implementation progresses. I am advised that the fiscal costs are likely to be minor. If further consequential impacts are identified, the relevant Minister will report back to Cabinet.

Administrative Implications

[33]

Ministry of Social Development

107 The administrative costs for the Ministry of Social Development associated with implementing the Budget 2017 family incomes package are estimated to be approximately \$3.9 million. The Ministry of Social Development will fund this from within baselines.

Communications costs

108 Inland Revenue and the Ministry of Social Development will fund the cost of communicating the changes from existing baselines.

Human Rights

109 The family incomes package, as is the case with the current tax and transfer system, makes distinctions between groups of taxpayers. These distinctions arguably amount to limitations on rights guaranteed under the New Zealand Bill of Rights Act 1990 (for example: limiting the right to freedom from discrimination under section 19 of that Act).

110 However, officials consider any limitations on rights under the family incomes package are reasonable, and justifiable under section 5 of that Act. The Ministry of Justice will provide its Bill of Rights Act (BORA) review of any resulting Budget legislation for Cabinet's consideration as part of the Bill approval process.

Legislative Implications

111 Legislative amendments arising from proposed changes to personal income tax thresholds, Independent Earner Tax Credit and Family Tax credit changes will be introduced in a Bill on Budget day and subsequently enacted under urgency. The Bill will also include consequential changes arising from these amendments. This will apply, for example, in relation to provisional tax, fringe benefit tax attribution thresholds, employer superannuation contribution tax thresholds, portfolio investments entity thresholds, pay-as-you-earn codes, non-filing thresholds, extra pays and secondary tax. This paper seeks agreement for Inland Revenue to draft this Bill.

112 Regulatory changes will be required for the changes to the Accommodation Supplement, student allowances and the community services card. This paper seeks

to authorise the Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office in respect of these regulations.

113 The paper also seeks to delegate authority to the relevant Ministers to establish a Ministerial welfare programme to provide transitional assistance to compensate people who would be worse off as a result of interactions between different forms of assistance arising from the policy proposals in this paper.

114 Changes to appropriations in Vote Social Development and Vote Revenue will be made in the 2017/18 Estimates.

Regulatory Impact Analysis

115 Regulatory Impact Analysis requirements apply to this paper. A Regulatory Impact Statement (RIS) is therefore attached to this paper.

116 The Regulatory Impact Analysis Team at the Treasury (RIAT) has reviewed the Regulatory Impact Statement “Family Incomes Package for Budget 2017” produced by the Treasury. We consider that the RIS meets the QA criteria.

Disability Perspective

117 There are no disability implications.

Publicity

118 Budget day is 25 May 2017. The Office of the Minister of Finance will coordinate all communications relating to the family incomes package for Budget 2017. After Budget day, Inland Revenue and the Ministry of Social Development will provide more detailed public information in the lead up to the 1 April 2018 changes to advise affected people of the changes.

Recommendations

The Minister of Finance recommends that Cabinet:

Family incomes package

- 1 **Agree** to a family incomes package comprising changes to personal income tax thresholds, Independent Earner Tax Credit, Family Tax Credit and Accommodation Supplement.

Personal income tax thresholds

- 2 **Agree** to adjust the personal income tax thresholds as set out in the table below for the tax year beginning 1 April 2018:

Bracket (\$)	Rate
1-22,000	10.5%
22,001-52,000	17.5%
52,001-70,000	30%
70,001+	33%

Independent earner tax credit

- 3 **Agree** to repeal the Independent Earner Tax Credit, for the tax year beginning 1 April 2018.

Family tax credit

- 4 **Agree** that young child rates will be increased to align with the maximum amounts for the eldest and subsequent children as follows:

Annual Rate	Current	1 April 2018
Eldest child, 16-18	\$5,303	\$5,303
Eldest child, 0-15	\$4,822	
Subsequent child, 16-18	\$4,745	\$4,745
Subsequent child, 13-15	\$3,822	
Subsequent child, 0-12	\$3,351	

- 5 **Agree** that the abatement rate be increased from 22.5% to 25% effective 1 April 2018.
- 6 **Agree** that the abatement threshold be reduced from \$36,350 to \$35,000 effective 1 April 2018.

- 7 **Agree** that the next adjustment of payment rates for inflation will occur following a five percent cumulative increase in the CPI from 1 April 2018.
- 8 **Note** that there is a flow-on impact to the In-Work Tax Credit and Parental Tax Credit as a result of the decision in recommendation 4 above arising from joint abatement.
- 9 **Note** that once the changes are implemented, the abatement threshold and abatement rate will have reached the values agreed by the Government in 2011.

Accommodation supplement

- 10 **Agree** to increase the maxima effective 1 April 2018 as follows:

	Area 1	Area 2	Area 3	Area 4
1 person	\$165	\$105	\$80	\$70
2 people	\$235	\$155	\$105	\$80
3+ people	\$305	\$220	\$160	\$120

- 11 **Agree** to update the Accommodation Supplement areas effective 1 April 2018 as set out in Appendix 2.

Fiscal impacts

- 12 **Note** the following fiscal impacts of the family incomes package, as a result of the decisions in recommendations 1-11 above:

	\$m – increase/(decrease)			
	2017/18	2018/19	2019/20	2020/21 & outyears
Operating balance impact	663.259	2,331.731	2,132.470	2,316.954
Debt impact	-	-	-	-
No impact	(66.975)	(276.143)	(299.829)	(324.716)
Total	596.284	2,055.588	1,832.641	1,992.238

- 13 **Note** the following decreases to tax revenue, with a corresponding impact on the operating balance, as a result of the decision in recommendations 2 and 3 above:

	\$m – increase/(decrease)			
	2017/18	2018/19	2019/20	2020/21 & outyears
Tax Revenue	(450)	(1,470)	(1,310)	(1,490)

- 14 **Note** the following changes to appropriations in accordance with section 185 of the Tax Administration Act 1994, reflecting the changes described in recommendations 4-6 above:

	\$m – increase/(decrease)			
Vote Revenue	2017/18	2018/19	2019/20	2020/21 & outyears
Minister of Revenue				
Benefits or related expenses:				
Family tax credit PLA	97	371	316	308
In-work tax credit PLA	0	2	2	2

- 15 **Approve** the following changes to appropriations to give effect to the decision in recommendations 1-11 above, with a corresponding impact on the operating balance:

Vote Social Development	\$m - increase/(decrease)			
	2017/18	2018/19	2019/20	2020/21 & outyears
Minister for Social Development				
Benefits or Related Expenses:				
Jobseeker Support and Emergency Benefit	(0.824)	(3.340)	(3.397)	(3.397)
Supported Living Payment	(3.531)	(14.537)	(16.163)	(16.163)
Sole Parent Support	(6.421)	(25.908)	(27.335)	(27.335)
Youth Payment and Young Parent Payment	(0.101)	(0.417)	(0.440)	(0.440)
New Zealand Superannuation	0.788	(0.319)	(16.801)	(40.135)
Veteran's Pension	(0.079)	(0.338)	(0.420)	(0.515)
Hardship Assistance	(24.245)	(102.451)	(108.352)	(115.061)
Minister for Social Housing				
Benefits or Related Expenses:				
Accommodation Assistance	87.559	361.583	380.296	399.723
Minister for Social Housing				
Multi-Category Expenses and Capital Expenditure				
Part Payment of Rent to Social Housing Providers	(1.649)	(6.183)	(4.940)	(4.940)
Total Operating	51.496	208.090	202.448	191.737

Implementation costs

[33]

- 17 **Note** that the Ministry of Social Development will fund implementation costs of \$3.9 million from existing baselines.

Transitional assistance programme

- 18 **Note** a small number of families may be disadvantaged by the package due to interactions in the transfer system.

- 19 **Agree** that a financial assistance payment should be made available to Ministry of Social Development clients who are financially disadvantaged as an unidentified consequence of the net effects of this package.
- 20 **Note** that any payments made as a result of recommendation 19 above will be limited to situations in which Ministry of Social Development clients are financially worse off overall as a direct consequence of this package.
- 21 **Authorise** the Minister of Finance and the Minister for Social Development to agree the parameters of the financial assistance payment referred to in recommendation 19.
- 22 **Invite** the Minister for Social Development to establish a Ministerial welfare programme to give effect to the Transitional Assistance referred to in recommendation 19.
- 23 **Approve** the following changes to appropriations to give effect to the decision in recommendation 19 above, with a corresponding impact on the operating balance:

Vote Social Development Minister for Social Development	\$m – increase/(decrease)			
	2017/18	2018/19	2019/20	2020/21 & outyears
Benefits or related expenses:				
Transitional Assistance	0.063	0.250	0.250	0.250

Flow-on impacts of the package

- 24 **Note** that the policy proposals outlined in this paper have a number of consequential impacts across other forms of assistance and that decisions are needed in respect of some of these impacts.
- 25 **Note** that there will be a number of other consequential flow-on impacts to other assistance as a result of the policy proposals in this package including impacts on the Income-Related Rent Subsidy and Accommodation Benefit.
- 26 **Direct** the Treasury, Inland Revenue, and the Ministry of Social Development to report to the Minister of Finance and Associate Ministers of Finance on the expected consequential flow-on impacts to other forms of assistance as a result of the policy proposals in this package.

Provisional tax

- 27 **Note** that in the absence of further decisions, provisional taxpayers using the uplift method will overpay their tax in the year beginning 1 April 2018.
- 28 **Authorise** the Minister of Finance and Minister of Revenue jointly to agree changes to alleviate the overpayment, within the overall fiscal envelope.

Student allowances

- 29 **Note** that because Student Allowances are legislatively set on a gross basis, across the board tax cuts would, without further action, increase the net rates of these payments and put them out of line with Jobseeker Support payments.

- 30 **Agree** that the relevant regulations be amended to prevent the tax cuts flowing on to the net rates of Student Allowances.

[33]

Legislation

- 36 **Agree** to include, in legislation to be introduced on Budget day, amendments to the Inland Revenue Acts to give effect to the policy decisions agreed in recommendations 1-9 and 28.
- 37 **Agree** that consequential changes are made to the Inland Revenue Acts, where appropriate, to reflect the new personal income tax thresholds, the repeal of the Independent Earner Tax Credit and the changes to the Family Tax Credit. This will apply, for example, in relation to fringe benefit tax attribution thresholds, employer superannuation contribution tax thresholds, portfolio investments entity thresholds, pay-as-you-earn codes, non-filing thresholds, extra pays and secondary tax.
- 38 **Direct** Inland Revenue to draft the necessary Bill for introduction on 25 May 2017.
- 39 **Note** that the Minister of Finance will report to Cabinet before the Budget seeking approval for the introduction of this Bill on Budget day, and for the timing of its passage through the House under urgency.

Delegated authority

- 40 **Authorise** the Minister of Finance to include, in a Bill that seeks to amend the Inland Revenue Acts, any additional necessary minor consequential amendments or

technical drafting changes that relate to the Budget 2017 family incomes package that are not already agreed to in this paper.

- 41 **Invite** the Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office to develop an Order in Council under sections 61H and 61I of the Social Security Act 1964 to give effect to the Accommodation Supplement changes in recommendations 10 and 11, and regulations to give effect to the decisions referred to in recommendation 30 in relation to the Student Allowances Regulations 1998.
- 42 **Invite** the Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office to develop regulations in relation to the Health Entitlement Cards Regulations 1993 (in consultation with the Minister of Health) to increase the relevant thresholds of the Community Services Card, should the Minister of Finance and the Minister for Social Development decide that these thresholds should be raised following the report back referred to in recommendation 35.
- 43 **Authorise** the Minister of Finance and the relevant Appropriation Minister to resolve any minor policy or administrative issues consistent with the aims of the package.
- 44 **Authorise** the Minister of Finance and the relevant Appropriation Minister to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2017/18 Estimates.

Communications

- 45 **Note** that the Office of the Minister of Finance will coordinate all communications relating to the family incomes package for Budget 2017, and that after Budget day, Inland Revenue and the Ministry of Social Development will provide more detailed public information in the lead up to the 1 April 2018 changes to advise affected people of the changes.

Authorised for lodgement

Hon Steven Joyce

Minister of Finance

Appendix 1: Targeted social assistance delivered through tax credits

	Working for Families Tax Credits				Other
	Family Tax Credit	Minimum Family Tax Credit	In-work Tax Credit	Parental Tax Credit	Independent Earner Tax Credit
Acronym	FTC	MFTC	IWTC	PTC	IETC
Description	Payment available to all families with children, including those receiving benefits. Aims to increase family income to ensure that all families have enough income to raise their children and maintain a standard of living.	Tops up income to a guaranteed minimum income level, so parents working part-time on low incomes can shift from the benefit system. Not available to parents on benefit.	Provides a boost to the earned incomes of low to middle income working families to ensure they are better off in work. Not available to parents on benefit.	Assists with the initial extra costs faced by a family in the weeks immediately following the birth of a new child. Not available to parents on benefit or PPL.	An entitlement for individuals who earn between \$24,000 and \$48,000 to increase incentives to work. The lower threshold was set at just under the then-minimum wage full time salary. Not available to beneficiaries, superannuitants or WFF recipients.
Number of recipients	308,500 families (2015 tax year)	5,100 families (2015 tax year)	215,400 families (2015 tax year)	14,500 families (2015 tax year)	~500,000 individuals (2016 tax year)
Percentage of all WFF recipients	85%	1%	59%	4%	N/A
Annual cost (\$m)	1,793	13	513	31	220
Maximum entitlement (annual)	\$5303 (Eldest child age 16-18) \$4822 (Eldest child under 16) \$4745 (Subsequent child age 16-18) \$3822 (Subsequent child age 13-15) \$3351 (Subsequent child under 13)	N/A	\$3770 (up to 3 children) +\$780 for fourth and subsequent children	\$2,200 for each newborn (or \$220 per week for 10 weeks)	\$520
Abatement threshold and rate	\$36,350, 22.5%	Guaranteed income level is \$23,764; abates \$1 for \$1. This threshold is reviewed annually.	Abated after the FTC at 22.5%	Abated after the IWTC at 22.5%	\$44,000, 13%
Approximate full abatement point	\$57,800 (1 child) \$72,700 (2 children) \$87,600 (3 children)	\$23,764	\$74,500 (1 child) \$89,400 (2 children) \$104,300 (3 children)	1 newborn, including IWTC: \$84,300 (1 child) \$99,200 (2 children) \$114,100 (3 children)	\$48,000 – designed to link in with \$48,000 personal income tax threshold

Appendix 2: New Accommodation Supplement Areas

Area 1																															
<p><u>Current Area 1</u></p> <p>Central Auckland urban zone</p> <p>Northern Auckland urban zone</p>	<p><u>Remaining in Area 1</u></p> <p>Central Auckland urban zone</p> <p>Northern Auckland urban zone</p> <p><u>Moving up from Area 2</u></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Algies Bay area unit</td> <td style="width: 50%;">Pokeno area unit</td> </tr> <tr> <td>Arrowtown urban area</td> <td>Pukekohe urban area</td> </tr> <tr> <td>Bombay area unit</td> <td>Queenstown urban area</td> </tr> <tr> <td>Clevedon area unit</td> <td>Rewiti area unit</td> </tr> <tr> <td>Glenbrook area unit</td> <td>Riverhead area unit</td> </tr> <tr> <td>Helensville urban area</td> <td>Snells Beach urban area</td> </tr> <tr> <td>Hunua area unit</td> <td>Southern Auckland urban zone</td> </tr> <tr> <td>Karekare area unit</td> <td>Tahekeroa area unit</td> </tr> <tr> <td>Kaukapakapa area unit</td> <td>Tauranga urban area</td> </tr> <tr> <td>Kingseat area unit</td> <td>Waiheke Island urban area</td> </tr> <tr> <td>Mahurangi area unit</td> <td>Waitakere West area unit</td> </tr> <tr> <td>Murawai Valley area unit</td> <td>Waiuku urban area</td> </tr> <tr> <td>Muriwai Beach area unit</td> <td>Wanaka urban area</td> </tr> <tr> <td>Parakai area unit</td> <td>Warkworth urban area</td> </tr> <tr> <td>Patumahoe area unit</td> <td>Western Auckland urban zone</td> </tr> </table>	Algies Bay area unit	Pokeno area unit	Arrowtown urban area	Pukekohe urban area	Bombay area unit	Queenstown urban area	Clevedon area unit	Rewiti area unit	Glenbrook area unit	Riverhead area unit	Helensville urban area	Snells Beach urban area	Hunua area unit	Southern Auckland urban zone	Karekare area unit	Tahekeroa area unit	Kaukapakapa area unit	Tauranga urban area	Kingseat area unit	Waiheke Island urban area	Mahurangi area unit	Waitakere West area unit	Murawai Valley area unit	Waiuku urban area	Muriwai Beach area unit	Wanaka urban area	Parakai area unit	Warkworth urban area	Patumahoe area unit	Western Auckland urban zone
Algies Bay area unit	Pokeno area unit																														
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Murawai Valley area unit	Waiuku urban area																														
Muriwai Beach area unit	Wanaka urban area																														
Parakai area unit	Warkworth urban area																														
Patumahoe area unit	Western Auckland urban zone																														

Area 2

Current Area 2		Remaining in Area 2	
Algies Bay/ Mahurangi area unit	Wanaka urban area	Wellington urban zone	Leigh area unit
Arrowtown urban area	Warkworth urban area	Nelson urban area	Little Barrier Island area unit
Bombay area unit	Western Auckland urban zone	Wakefield urban area	Mangatawhiri area unit
Clevedon area unit	Wellington urban zone	Wellsford urban area	Maramarua area unit
Glenbrook area unit	Nelson urban area	Brightwater urban area	Matheson Bay area unit
Helensville urban area	Wakefield urban area	Awhitu area unit	Meremere area unit
Hunua area unit	Wellsford urban area	Cape Rodney area unit	Onewhero area unit
Karekare area unit	Brightwater urban area	Great Barrier Island area unit	Otaua area unit
Kaukapakapa area unit	Awhitu area unit	Islands–Motutapu Rangitoto	South Head area unit
Kingseat area unit	Cape Rodney area unit	Rakino area unit	Tauhoa–Puhoi area unit
Muriwai Beach area unit	Great Barrier Island area unit	Kawau area unit	
Parakai area unit	Islands–Motutapu Rangitoto		
	Rakino area unit		
Patumahoe area unit	Kawau area unit	<u>Moving up from Area 3</u>	
Pokeno area unit	Leigh area unit	Blenheim urban area	Napier urban zone
Pukekohe urban area	Little Barrier Island area unit	Cambridge urban zone	New Plymouth urban area
Queenstown urban area	Mangatawhiri area unit	Christchurch urban area	Porirua urban zone
Rewiti area unit	Maramarua area unit	Cromwell urban area	Raglan urban area
Riverhead area unit	Matheson Bay area unit	Darfield urban area	Rangiora urban area
Snells Beach urban area	Meremere area unit	Hamilton urban zone	Rapaura area unit
Southern Auckland urban zone	Onewhero area unit	Hastings urban zone	Rolleston urban area
Tahekeroa area unit	Otaua area unit	Kapiti urban area	Taupo urban area
Tauranga urban area	South Head area unit	Katikati Community urban area	Te Awamutu urban zone
Waiheke Island urban area	Tauhoa–Puhoi area unit	Kerikeri urban area	Te Puke Community urban area
Waiuku urban area		Leeston urban area	Upper Hutt urban zone
		Lincoln urban area	Waihi Beach urban area
		Lower Hutt urban zone	Whangamata urban area
		Makara–Ohariu area unit	Whangarei urban area
		Matamata urban area	Whitianga urban area
		Motueka urban area	Woodend urban area
		Nabhra area unit	
		<u>Moving up from Area 4</u>	
		Ashburton urban area	Oxford urban area

Area 3

Current Area 3		Remaining in Area 3	
Alexandra urban area	New Plymouth urban area	Whakatane urban area	Takaka urban area
Blenheim urban area	Opiki area unit	Dunedin urban area	Kaitaia urban area
Cambridge urban zone	Otaki urban area	Thames urban area	Cloustonville area unit
Christchurch urban area	Paekakariki Hill area unit	Russell urban area	Kapiti Island area unit
Cloustonville area unit	Paihia urban area	Hanmer Springs urban area	Mana Island area unit
Cromwell urban area	Palmerston North urban area	Alexandra urban area	Mangaroa area unit
Darfield urban area	Pencarrow area unit	Palmerston North urban area	Maungakotukutuku area unit
Dunedin urban area	Porirua urban zone	Paihia urban area	Opiki area unit
Feilding urban area	Raglan urban area	Otaki urban area	Paekakariki Hill area unit
Hamilton urban zone	Rangiora urban area	Feilding urban area	Pencarrow area unit
Hanmer Springs urban area	Rolleston urban area	Rotorua urban area	Tokomaru area unit.
Hastings urban zone	Rotorua urban area	Tairua urban area	Kauwhata area unit
Kaitaia urban area	Russell urban area	Taipa Bay-Mangonui urban area	Tokorangi-hiwinui area unit
Kapiti Island area unit	Taipa Bay-Mangonui urban area		
Kapiti urban area	Tairua urban area		
Katikati Community urban area	Takaka urban area	<u>Moving up from Area 4</u>	Martinborough urban area
Kerikeri urban area	Taupo urban area	Carterton urban area	Masterton urban area
Leeston urban area	Te Awamutu urban zone	Coromandel urban area	Morrinsville urban area
Lincoln urban area	Te Puke Community urban area	Dargaville urban area	Oamaru urban area
Lower Hutt urban zone	Thames urban area	Edgecumbe Community	Otorohanga urban area
Makara-Ohariu area unit	Tokomaru area unit	Geraldine urban area	Paeroa urban area
Mana Island area unit	Upper Hutt urban zone	Gisborne urban area	Picton urban area
Mangaroa area unit	Waihi Beach urban area	Greymouth urban area	Pleasant Point urban area
Matamata urban area	Whakatane urban area	Greytown urban area	Shannon urban area
Maungakotukutuku area unit	Whangamata urban area	Hawera urban area	Te Aroha urban area
Motueka urban area	Whangarei urban area	Hokitika urban area	Temuka urban area
Nabhra area unit	Whitianga urban area	Huntly urban area	Timaru urban area
Napier urban zone	Woodend urban area	Inglewood urban area	Twizel Community
		Kaikohe urban area	Waihi urban area
		Kaikoura urban area	Waipawa urban area
		Kawakawa urban area	Waitara urban area
		Levin urban area	Winton urban area

Area 4

Current Area 4		Remaining in Area 4	
Ashburton urban area	Dannevirke urban area	Balclutha urban area	Putaruru urban area
Oxford urban area	Eltham urban area	Bluff urban area	Raetihi urban area
Carterton urban area	Featherston urban area	Bulls urban area	Reefton urban area
Coromandel urban area	Foxton Community	Dannevirke urban area	Riverton urban area
Dargaville urban area	Gore urban area	Eltham urban area	Rural (Incl.some Off Shore Islands)
Edgecumbe Community	Invercargill urban area	Featherston urban area	Rural Centre
Geraldine urban area	Kawerau urban area	Foxton Community	Stratford urban area
Gisborne urban area	Manaia urban area	Gore urban area	Taihape urban area
Greymouth urban area	Mangakino urban area	Invercargill urban area	Taumarunui urban area
Greytown urban area	Marton urban area	Kawerau urban area	Te Anau urban area
Hawera urban area	Milton urban area	Manaia urban area	Te Kuiti urban area
Hokitika urban area	Moerewa urban area	Mangakino urban area	Tokoroa urban area
Huntly urban area	Murupara urban area	Marton urban area	Turangi urban area
Inglewood urban area	Ohakune urban area	Milton urban area	Waimate urban area
Kaikohu urban area	Opotiki urban area	Moerewa urban area	Waiouru urban area
Kaikoura urban area	Opunake urban area	Murupara urban area	Waipukurau
Kawakawa urban area	Pahiatua urban area	Ohakune urban area	Wairoa urban area
Levin urban area	Patea urban area	Opotiki urban area	Whanganui urban area
Martinborough urban area	Putaruru urban area	Opunake urban area	Westport
Masterton urban area	Raetihi urban area	Pahiatua urban area	Woodville urban area
Morrinsville urban area	Reefton urban area	Patea urban area	
Oamaru urban area	Riverton urban area		
Otorohanga urban area	Rural (Incl.some Off Shore Islands)		
Paeroa urban area	Rural Centre		
Picton urban area	Stratford urban area		
Pleasant Point urban area	Taihape urban area		
Shannon urban area	Taumarunui urban area		
Te Aroha urban area	Te Anau urban area		
Temuka urban area	Te Kuiti urban area		
Timaru urban area	Tokoroa urban area		
Twizel Community	Turangi urban area		
Waihi urban area	Waimate urban area		
Waipawa urban area	Waiouru urban area		
Waitara urban area	Waipukurau		
Winton urban area	Wairoa urban area		
Balclutha urban area	Whanganui urban area		
Bluff urban area	Westport		
Bulls urban area	Woodville urban area		