

The Treasury

Budget 2017 Information Release

Release Document July 2017

www.treasury.govt.nz/publications/informationreleases/budget/2017

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

| | | |
|------|--|--------------|
| [1] | to prevent prejudice to the security or defence of New Zealand or the international relations of the government | 6(a) |
| [4] | to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial | 6(c) |
| [11] | to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements. | 6(e)(vi) |
| [23] | to protect the privacy of natural persons, including deceased people | 9(2)(a) |
| [25] | to protect the commercial position of the person who supplied the information or who is the subject of the information | 9(2)(b)(ii) |
| [26] | to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied | 9(2)(ba)(i) |
| [27] | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest | 9(2)(ba)(ii) |
| [29] | to avoid prejudice to the substantial economic interests of New Zealand | 9(2)(d) |
| [31] | to maintain the current constitutional conventions protecting collective and individual ministerial responsibility | 9(2)(f)(ii) |
| [33] | to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials | 9(2)(f)(iv) |
| [34] | to maintain the effective conduct of public affairs through the free and frank expression of opinions | 9(2)(g)(i) |
| [36] | to maintain legal professional privilege | 9(2)(h) |
| [37] | to enable the Crown to carry out commercial activities without disadvantages or prejudice | 9(2)(i) |
| [38] | to enable the Crown to negotiate without disadvantage or prejudice | 9(2)(j) |
| [39] | to prevent the disclosure of official information for improper gain or improper advantage | 9(2)(k) |
| [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: T2017/936 SH-13-5-2-3

Date: 6 April 2017

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

Deadline: None
(if any)

Aide Memoire: Further tax and transfer package options - timeline and comparison of packages

Purpose

This note provides an update on the timeline to deliver a tax and transfer package for Budget 2017, and an overview of the tax and transfer packages currently under consideration, as set out in Table 1.

Table 1: Tax and transfer packages

| | Package 5a (full abatement, no phasing) | Package 5a (partial abatement, FTC phasing) | Package 6a (full abatement, no phasing) | |
|--|---|--|--|-----------------|
| Tax thresholds | Increase the \$14,000 threshold to \$22,000, and the \$48,000 to \$55,000. | Increase the \$14,000 threshold to \$22,000, and the \$48,000 to \$55,000. | Increase the \$14,000 threshold to \$22,000, and the \$48,000 to \$52,000. | |
| Independent Earner Tax Credit (IETC) | Remove the IETC. | | | |
| Family Tax Credit (FTC) | No phasing. Abatement rate: 25% Abatement threshold: \$35,000. | Year 1: 1/3 of the way to alignment. Abatement rate: 23.75% Abatement threshold: \$35,000 Year 2: Full alignment. | No phasing. Abatement rate: 25% Abatement threshold: \$35,000 | |
| Accommodation Supplement (AS) | Update the maxima to reflect 90% of 2016 median rents (40 th percentile), re-allocate areas to reflect rental costs. | | | |
| Fiscal cost (incl. claw-back, by fiscal yr) | 2017/18 | \$660m | \$590m | \$550m |
| | 2018/19 | \$2,640m | \$2,440m | \$2,190m |
| | 2019/20 | \$2,670m | \$2,730m | \$2,190m |
| | 2020/21 | \$2,740m | \$2,800m | \$2,230m |

Timeline

The timeline to deliver a tax and transfer package as part of Budget 2017 is tight; we need an indication from you as soon as possible about your preferred package to take to Cabinet to ensure we can complete the required work for a package to be included in Budget 2017.

| Date | Event |
|---------------------------|---|
| Monday 10 April | Budget Ministers #4 |
| Wednesday 12 April | Final draft tax Cabinet paper and final RIS |
| Thursday 13 April by 10am | Tax Cabinet paper and RIS lodged for Cabinet meeting on 18 April <i>We recommend including a delegated authority for Ministers to agree minor policy changes before taking a paper to LEG.</i> |
| Tuesday 18 April | Cabinet considers paper |
| 19 April to 4 May | Drafting instructions issued, Bill of Rights vetting, final report to Ministers |
| Thursday, 4 May | <i>Cabinet Legislation Committee paper lodged</i> |
| Thursday 11 May | <i>Cabinet Legislation Committee considers draft Bill</i> |
| Monday 15 May | Cabinet considers draft Bill <i>Alternative Cabinet date – 22 May</i> |
| Thursday 25 May | Budget night legislation – a Bill could go through all stages under urgency on Budget night. |

MSD have advised that they need decisions on the Accommodation Supplement component of the package on Monday if the public facing calculator is to be ready by Budget day. This is because of the time needed by IT to develop, code and test the calculator before it can be loaded on the website.

Objectives

We understand the main objectives for the tax and transfer package are to:

- improve work incentives; and
- improve incomes for those in financial hardship.

Consideration was also given to simplifying the system.

We have previously advised that a tax and transfer package costing around \$2 to \$2.5 billion is consistent with progress toward the Government's fiscal targets while providing some buffer to accommodate spending pressures in future Budgets and risks to the economic outlook (T2017/762 refers). Larger packages could be considered but would provide less buffer with respect to these risks.

We will shortly provide you with fiscal scenarios using updated economic forecasts for your consideration prior to finalising the Budget Ministers slide pack.

Improving work incentives

In aggregate, the labour supply impact of each package 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.

We estimate the tax, IETC and FTC changes for Package 5a (T2017/595 refers) will increase total labour supply by around 0.3% through improved work incentives for those affected. We expect the result will be very similar for each of the packages in Table 1. This impact is offset by the expected impact of increased Accommodation Supplement. This is to be expected where Government transfers are increased.

Improving incomes for those in financial hardship

We have previously provided distributional analyses for the tax, IETC and FTC components of each of these packages (T2017/895 refers). That analysis indicates each of the packages benefits around 1.3 million families by, on average, \$22 to \$28 per week. Quintile analysis, excluding Package 5a (FTC phasing) is appended.

Package 6a provides the largest immediate benefits to those at the bottom of the income distribution and reduces the gains felt by the highest income families, relative to the variations of Package 5a considered. However, it is also estimated to have the largest number of families facing losses. Each of the packages would see around 4,000 to 8,000 families facing average losses of \$1 to \$2 per week.

The Ministry of Social Development is working to provide similar analysis for the AS component.

Transitional assistance could be made available for those families facing unintended losses as a result of complex interactions between the tax and transfer system. The Ministry of Social Development is working through how much funding would be required to compensate those families.

Fiscal drag

We have provided advice on adjusting tax thresholds for fiscal drag (T2016/2540 refers). The tax threshold component of each of the packages under consideration more than compensates for the effects of price inflation since 2010 for the \$14,000 and \$48,000 thresholds.

[34]

Analyst, Tax Strategy, [39]

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

Appendix 1: Quintile analysis

Table 1: Package 5a (full FTC abatement, no phasing) - Families

| Quintile (taxable income) | No in group | Percentage of total | No of winners | Percentage of families gaining | Average weekly gains for those that gain | No of losers | Percentage of families losing | Average weekly losses for those that lose |
|---------------------------|-------------|---------------------|---------------|--------------------------------|--|--------------|-------------------------------|---|
| 1 | 309,000 | 20% | 91,000 | 29% | \$20 | 3,000 | 1% | -\$1 |
| 2 | 308,000 | 20% | 298,000 | 97% | \$13 | * | * | * |
| 3 | 309,000 | 20% | 307,000 | 99% | \$22 | * | * | * |
| 4 | 309,000 | 20% | 308,000 | 100% | \$30 | * | * | * |
| 5 | 308,000 | 20% | 308,000 | 100% | \$43 | * | * | * |
| ALL | 1,542,000 | 100% | 1,311,000 | 85% | \$27 | 6,000 | 0% | -\$1 |

Table 2: Package 6a (full FTC abatement, no phasing) - Families

| Quintile (taxable income) | No in group | Percentage of total | No of winners | Percentage of families gaining | Average weekly gains for those that gain | No of losers | Percentage of families losing | Average weekly losses for those that lose |
|---------------------------|-------------|---------------------|---------------|--------------------------------|--|--------------|-------------------------------|---|
| 1 | 309,000 | 20% | 91,000 | 29% | \$20 | 3,000 | 1% | -\$1 |
| 2 | 308,000 | 20% | 298,000 | 97% | \$13 | * | * | * |
| 3 | 309,000 | 20% | 306,000 | 99% | \$19 | * | * | * |
| 4 | 309,000 | 20% | 307,000 | 99% | \$24 | * | * | * |
| 5 | 308,000 | 20% | 308,000 | 100% | \$33 | * | * | * |
| ALL | 1,542,000 | 100% | 1,310,000 | 85% | \$22 | 8,000 | 1% | -\$2 |

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