

The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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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: T2017/1022 SH-13-5-2-3

Date: 16 April 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: None

Aide Memoire: Further information for Budget 2017 Family Incomes Package Cabinet Paper

Data tables

In the Budget 2017 Family Incomes Package Cabinet paper, we provided several tables that describe the distribution of New Zealand families by income source in the status quo (Table 2), as well as distributional impacts of the package on families (Tables 9 and 10).

The results in Tables 9 and 10 were based on using reweighted samples to match the administrative data on Accommodation Supplement recipients, whereas the status quo figures did not. Direct comparisons of these latter tables to Table 2 would be inconsistent.

The distributional impacts of the package in Table 9 excluded New Zealand superannuitants and full- and part-time students. This results in 90% of the remaining families gaining on average \$26 per week from the package. Including New Zealand superannuitants and students results in 87% of all New Zealand families gaining on average \$23 per week. This latter statistic was not provided in the Cabinet paper.

Using Table 10, the percentage of families who do not gain materially is about 22% (529,000 families of all 2,374,000 families using new weights).

Disadvantaged families

There are about 6,000 families who are disadvantaged from the package by an average of \$3 per week. These families may be grouped into three types:

1. Families who lose from the increase of Accommodation Supplement (AS), due to interactions with the Family Tax Credit (FTC), Temporary Additional Support, and Disability Allowance. Using Treasury's microsimulation model¹, these families

¹ Taxwell does not include interactions with Temporary Additional Support or Disability Allowance, but MSD's model includes these benefits (but not Independent Earner Tax Credit).

will lose less than \$2 per week. This is consistent with MSD's model, which also indicates that there could be up to 600 families who lose about \$2.30 on average per week. For some families who are eligible for the AS and FTC, the increase in the FTC will lower their AS payments because the AS entry threshold is partly based on the FTC rate.

2. Families who are part-year beneficiaries and lose a tax rebate, a technical possibility as beneficiaries are entitled to claim a tax refund for tax paid on their behalf by MSD (T2017/638 refers). It is possible that these families lose more than \$2 per week.
3. Families who have only children between ages 16 to 18 and who are in the Working for Families abatement zone. These families will face greater abatement of the FTC under the package, which would not be fully offset by the increases to the tax thresholds. Families with only one child in this age band have family incomes greater than \$48,000, and are highly unlikely to have losses greater than \$3 per week. Families with two children in this age band can experience greater losses, but would also have correspondingly higher family incomes. For example, to lose \$10 per week, a family would need an income over \$85,000 with one parent as the main income earner.

In the absence of the Family Incomes package, this last group of higher-income families would lose half of the estimated loss when the next indexation (and abatement) round for Working for Families payments occurs (expected to be 1 April 2019).

To fully compensate the disadvantaged families in this last group, the expected cost is around \$1 million. If this option is preferred, we recommend that Inland Revenue model this to capture any other interactions, such as Child Support.

We note that the first sentence of paragraph 73 should read without the "up to."

Examples of different families

In the Cabinet paper, paragraph 71 provides scenarios of representative families and how they will be impacted by the elements of the package. For scenarios 2, 4, and 6, the additional receipts of Accommodation Supplement are based on the changes proposed in the package, including the increases that example families would gain as a result of re-allocating locations among the AS Areas. These increases are greater than static maxima increases indicated in Table 7.

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