

The Treasury

Budget 2017 Information Release

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[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.

Treasury Report: Family Incomes Package - Cabinet Paper and Draft Legislation

Date:	5 May 2017	Report No:	T2017/1199
		File Number:	SH-13-5-2-3

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Note the contents and attachments	Wednesday, 10 May 2017

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]	Analyst, Tax Strategy	[39]	[23] (mob) ✓
Dr Eina Wong	Senior Analyst, Tax Strategy	[39]	[23] (mob)

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Enclosure: Yes

Treasury Report: Family Incomes Package - Cabinet Paper and Draft Legislation

Executive Summary

This report provides for your consideration a Cabinet paper, disclosure statement and legislation to give effect to the Family Incomes Package, all in draft.

The draft Bill includes changes to tax thresholds, Working for Families tax credits, and repeals the Independent Earner Tax Credit, as agreed by Cabinet on 18 April (CAB-17-MIN-0184 refers). We recommend the draft Bill is considered only by Cabinet, rather than the Cabinet Legislation Committee first, as this allows more time for drafting.

As previously indicated, Accommodation Supplement changes can be implemented by Order in Council and do not require amendments to primary legislation. The Ministry of Social Development is planning to have the Order in Council drafted for Ministers' consideration in June 2017. The increase to Accommodation Benefit will require changes to Schedule 3 of the Student Allowances Regulations 1998 and can be implemented with the Accommodation Supplement changes.

A timeline for the legislative process is below.

Date	Event
Thursday, 11 May, 10am	Cabinet paper, legislation and disclosure statement lodged
Monday, 15 May	Cabinet considers draft Bill
Thursday, 25 May	Budget night legislation – Bill to go through all stages under urgency on Budget night.

Recommended Action

We recommend that you **note** the contents of this report, and the attached draft Cabinet paper, disclosure statement and legislation.

Dr Eina Wong
Senior Analyst

Steven Joyce
Minister of Finance

Chair
Cabinet

TAXATION (BUDGET MEASURES: FAMILY INCOMES PACKAGE) BILL – APPROVAL FOR INTRODUCTION

Proposal

1. This submission seeks approval for the introduction of the Taxation (Budget Measures: Family Incomes Package) Bill, to give effect to the Government's personal income tax and family tax credit reforms to be announced as part of Budget 2017.
2. The Taxation (Budget Measures: Family Incomes Package) Bill will introduce amendments to the following legislation:
 - Income Tax Act 2007;
 - Tax Administration Act 1994;
 - Taxation (Annual Rates and Budget Measures) Act 2011; and
 - Customs and Excise (Tobacco Products – Budget Measures) Amendment Act 2016.
3. The Bill has a category 2 (must be passed in 2017) priority in the 2017 Legislation Programme.
4. It is proposed that the Bill should be introduced on 25 May 2017, and passed as soon as possible under urgency. As is usual for Budget tax Bills of this nature, no select committee referral is proposed.

Policy

5. The Bill gives effect to tax and tax credit reforms to be announced in Budget 2017. The reforms are intended to:
 - 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.
6. The specific measures are outlined in CAB-17-MIN-0184. The measures contained in the attached legislation include:
 - raising the lower two tax thresholds to \$22,000 and \$52,000;
 - repealing the Independent Earner Tax Credit;

- increasing the Family Tax Credit payment rates for children under 16 to align with those for children 16 and over;
- increasing the abatement rate and decreasing the abatement threshold;
- ensuring the next Working for Families indexation round occurs following a cumulative five per cent increase in inflation from 1 April 2018; and
- temporarily lowering the uplift factor for provisional taxpayers using the uplift method.

7. A number of consequential changes are also included.

8. A Bill is necessary to give effect to the personal income tax and Family Tax Credit reforms as the changes are statutory in nature and can only be amended by legislation.

Items not requiring Cabinet approval

9. The Bill also contains proposed amendments relating to provisional tax approved by the Minister of Finance and Minister of Revenue under delegated authority (CAB-17-MIN-0184 refers). These proposed amendments will reduce the uplift percentage for individual provisional taxpayers using the uplift method for the tax year beginning 1 April 2018 from 105% to 100%.

Fiscal impact

10. The table summarising the fiscal impact that was presented to Cabinet on 18 April (CAB-17-SUB-0184 refers) contained an error in the operating balance impact. However, the correct operating balance impact was included in the final Budget 2017 fiscal forecasts. A table showing the correct operating balance impact, including the impact of the subsequent decision to increase Accommodation Benefit, is presented below.

(\$,000,000)	2017/18	2018/19	2019/20	2020/21
Reduction in Tax Revenue including IETC	486.000	1,896.000	1,895.000	1,976.000
Working for Families	97.000	373.000	318.000	310.000
Accommodation Supplement	87.559	361.583	380.296	399.723
Accommodation Benefit	6.300	19.500	19.500	19.800
Transitional Fund	1.063	0.500	0.400	0.250
Consequential Impacts	-74.338	-575.244	-760.906	-693.736
Operating balance impact	603.584	2,075.339	1,852.290	2,012.037

Regulatory impact analysis

11. A regulatory impact statement was prepared for the main policy items in the Bill and was submitted at the time that Cabinet approval for the relevant policy items in the Bill was sought.

12. The regulatory impact analysis requirements do not apply to the changes being made in relation to provisional tax in the Bill.

Compliance

13. The Bill complies with:
- a. the principles of the Treaty of Waitangi;
 - b. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - c. disclosure statement requirements (a disclosure statement has been prepared and is attached to this paper);
 - d. principles and guidelines set out in the Privacy Act 1993;
 - e. relevant international standards and obligations; and
 - f. *LAC Guidelines on Process and Content of Legislation* (2014 edition).

Consultation

14. Inland Revenue was consulted in the preparation of this submission.

Binding on the Crown

15. The Bill amends the Acts listed in paragraph 2 and, where those Acts bind the Crown either in whole or part, this Bill does not change that position.

Creating new agencies or amending law relating to existing agencies

16. The legislation will not create a new agency.
17. The legislation will not amend the existing coverage of the Ombudsman Act 1975, the Official Information Act 1982, or the Local Government Official Information and Meetings Act 1987.

Allocation of decision making powers

18. The legislation does not involve the allocation of decision-making powers between the executive, the courts, and tribunals.

Associated regulations

19. No regulations are required to bring the proposed Bill into operation.

Other instruments

20. The proposed Bill does not include any provision empowering the making of other instruments that are deemed to be legislative instruments or disallowable instruments.

Definition of Minister/department

21. The Bill does not contain a definition of Minister, department, or chief executive.

Commencement of legislation

22. Each provision of the Bill comes into force on the date specified in the Bill for that provision.

Parliamentary stages

23. The Bill should be introduced on 25 May 2017, and passed as soon as possible under urgency.

24. No select committee referral is proposed.

Recommendations

The Minister of Finance recommends that the Committee:

1. **Note** that the Minister of Finance and Minister of Revenue, as authorised in CAB-17-MIN-0184, have directed that amendments be made in the legislation to reduce the uplift percentage for individual provisional taxpayers using the uplift method for the tax year beginning 1 April 2018 from 105 percent to 100 percent.
2. **Note** that the Taxation (Budget Measures: Family Incomes Package) Bill has a category 2 (must be passed in 2017) priority in the 2017 Legislation Programme.
3. **Note** that the Bill makes amendments to the following legislation:
 - Income Tax Act 2007
 - Tax Administration Act 1994;
 - Taxation (Annual Rates and Budget Measures) Act 2011; and
 - Customs and Excise (tobacco Products – Budget Measures) Amendment Act 2016.
4. **Approve** the Taxation (Budget Measures: Family Incomes Package) Bill for introduction.
5. **Agree** that the Bill be introduced on 25 May 2017, and passed as soon as possible under urgency.

Hon Steven Joyce
Minister of Finance