The Treasury

Budget 2014 Information Release

Release Document

July 2014

www.treasury.govt.nz/publications/informationreleases/budget/2014

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] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[3] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(ba)(i) - 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.

[6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[9] 9(2)(h) - to maintain legal professional privilege

[10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[13] Not in scope

[14] 6(e)(iv) - 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.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Inland Revenue
Te Tari Taake
POLICY AND STRATEGY

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HIKINA WHAKATUTUKI

THE TREASURY
Kaitohutohu Kaupapa Rawa

Date:	21 March 2014
To:	Hon Bill English, Minister of Finance Hon Paula Bennett, Minister for Social Development Hon Simon Bridges, Minister of Labour Hon Todd McClay, Minister of Revenue
Deadline:	Monday 24 March 2014

Aide Memoire: Options for a later implementation date of Budget proposals to provide financial support for families with a newborn

Purpose

You have asked about the fiscal, administrative and customer impacts, and trade-offs for two later implementation dates, being 1 April 2015, and 1 July 2015, ahead of your meeting on Monday 24 March 2014.

This note provides information on the impact of changing the implementation dates of a possible package of proposals to provide additional assistance for families with a new born baby, namely:

- A two or four week extension of the paid parental leave scheme
- An increase in the amount and/or payment period of the parental tax credit

This package is being considered as part of Budget 2014 (T2013/3191 refers).

Summary of fiscal costs – revised implementation date

Paid Parental Leave

The PPL costings below assess the same options of both a two week and four week extension of paid leave that were discussed in our last report (T2013/3191). The impact on the fiscal costs of implementing the options from the later date of April 2015 amount to ¼ of the previous cost for the full 2014/15 year (that is, the additional two week cost of $24m is reduced to $6m). If the extension commences in July 2015, the fiscal costs simply begin in that fiscal year, and the additional costs for the 2014/15 year become nil.

Parental Tax Credits

The fiscal costs of implementing the PTC changes in April 2015 amount to ¼ of the estimated full year costs. If the changes commence in July 2015, the fiscal costs simply begin in 2015/16 fiscal year, and the additional costs for the 2014/15 year become nil.

The estimated fiscal costs for both the PPL and PTC changes for a 1 April 2015 implementation date are shown in table 1a, and the costs of a 1 July 2015 implementation date are in table 1b.

Table 1a: Estimated costs with a 1 April 2015 implementation ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Cost of existing PPL scheme (14 weeks)	$169	$174	$179	$185	$190
Extending paid parental leave to 16 weeks and 18 weeks					
Cost of additional 2 weeks PPL	$6	$25	$26	$26	$27
Cost of additional 4 weeks PPL	$12	$50	$51	$53	$54
Increasing the entitlement for the PTC					
8 weeks PTC at $225 per week	$2.25	$9	$9	$9	$9
10 weeks PTC at $225 per week	$3.75	$15	$15	$15	$15

Table 1b: Estimated costs with a 1 July 2015 implementation ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Cost of existing PPL scheme (14 weeks)	$169	$174	$179	$185	$190
Extending paid parental leave to 16 weeks and 18 weeks					
Cost of additional 2 weeks PPL	$0	$25	$26	$26	$27
Cost of additional 4 weeks PPL	$0	$50	$51	$53	$54
Increasing the entitlement for the PTC					
8 weeks PTC at $225 per week	$0	$9	$9	$9	$9
10 weeks PTC at $225 per week	$0	$15	$15	$15	$15

Notes to table 1a and 1b: PPL figures are before tax and estimates are based on the 2011/12 financial year.
Increase in average ordinary time weekly earnings estimated based on Treasury Budget 2013 nominal wage growth forecasts

Summary of administrative costs – revised implementation date

Paid Parental Leave

The implementation costings for the PPL changes, as provided in the last report (page 5), are not affected by a later implementation date of either 1 April or 1 July 2015; the timing of these costs would, however, be pushed out and added to the 2014/15 costs. There may be some minor saving in the on-going administrative costs in that first year, as the policy is only in effect for ¼ of the 2014/15 year.

Parental Tax Credits

The administrative costings for the PTC change being implemented at 1 April 2015, rather than 1 October 2014 as initially costed, are only minimally affected. Our previous high-level costing included an element for IT work for a possible change from 1 October 2014 date; $0.4m was attributable to that mid-tax year change, which would no longer be needed.

However a 1 July 2015 implementation date for PTC would involve another mid-year tax change, which adds complexity to the Working for Families Tax Credit (WFFTC) calculation, as it involves calculating composite rates for the year. Because a 1 July 2015 implementation date is close to the start of the WFFTC year, officials have assumed that the higher PTC payments should be available to eligible parents in regular instalments from 1 July 2015.[1] This is consistent with the policy aim of providing additional income to the family in the period around the birth.

Given this approach, which introduces the complexity of calculating composite rates, additional IT coding is required. This work has not been costed. If Ministers wish to proceed with this option, officials will report back on the associated administrative costs, and whether it can be delivered in the existing WFFTC systems, within the timeframe available.

The timing of the work to implement the PTC changes would not alter significantly for either a 1 April 2015 or a 1 July 2015 implementation, and the bulk of the expenditure would still fall in 2014/15.

The revised implementation and administration costs for both the PPL and PTC changes for a 1 April 2015 implementation date are shown in table 2a

Notes to table 2a and 2b: Standard contingencies apply to these costing, to reflect the inherent uncertainty associated with these proposals.

1 Ensuring the ability to pay by regular instalments from 1 July 2015 contrasts with the approach outlined in our last report in respect of the proposed 1 October 2014 change, which, is also a mid-year change. As that report explained (paragraph 61) a change from 1 October 2014 could only be paid out as an end-of-year lump sum; this was primarily due to the tight delivery timelines between the May 2014 Budget and October. If this same lump-sum only approach were used for a 1 July 2015 implementation date it would result in the additional PTC amounts not being paid out to parents with a baby born in the 2014/15 tax year until July 2016, which appears to be inconsistent with the policy objectives.

Table 2a: Estimated costs with a 1 April 2015 implementation ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**Total over 4 years**
Paid parental leave (16 or 18 weeks and extension of eligibility to "non-standard" workers)					
Inland Revenue (Implementation and on-going)	0.43	0.03	0.03	0.03	0.52
MBIE (On-going)	0.02	0.06	0.06	0.06	0.20
Parental tax credit (Extending the entitlement and eligibility period for PTC)					
Inland Revenue:	5.9	0.7	0.7	0.7	$8.4

As noted above, neither the implementation costs nor their timing change if the PPL changes are introduced in 1 July 2015 instead. There are some minor changes to the timing of the on-going administrative costs, as shown in table 2b.

Table 2b: Estimated costs with a 1 July 2015 implementation ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**Total over 4 years**
Paid parental leave (16 or 18 weeks and extension of eligibility to "non-standard" workers)					
Inland Revenue (Implementation and ongoing)	0.42	0.03	0.03	0.03	0.51
MBIE (On-going)	0.0	0.06	0.06	0.06	0.18

The PTC changes for a 1 July 2015 implementation date have not been costed.

Customer impacts - revised implementation date

Deferring the changes to PTC and PPL to either 1 April 2015 or 1 July 2015 defers the benefits of having an increased income to those families with babies born before the changes come into effect.

Parental Tax Credits

From a customer service point of view, implementing the PTC changes from 1 April 2015 is likely to be the easiest approach for customers and agents to understand, as it fits within the normal WFFTC cycle.

Officials would not recommend a 1 July 2015 implementation date for PTC changes; the estimated cost savings from a three month postponement are relatively minor compared to the complexity of a mid tax-year change. Because 1 July 2015 is outside of the normal WFFTC cycle, it will create the need for more detailed end of year composite calculations, and so more involved communications to customers and agents.

[8]

Fiona Carter-Giddings, Manager, Labour Markets and Welfare, Treasury, 04 917 7021

Kirstie Hewlett, General Manager, Labour Environment, MBIE, 04 901 8603

Deborah Tucker, Senior Policy Advisor, Employment Standards Policy, MBIE, 04 901 8579

Chris Gillion, Policy Manager, Inland Revenue, 04 890 6056

Hayley Denoual, Senior Policy Analyst, Inland Revenue, 04 890 1139