



Cabinet

CAB Min (08) 45/2

Minute of Decision

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Taxation (Urgent Measures and Annual Rates) Bill

Portfolio: Finance / Revenue

On 8 December 2008, Cabinet:

Changes to the personal tax rate structure

- I agreed that, subject to the proposals in paragraphs 2–5 below, the tax legislation be amended to implement the following personal tax rate structure (including any consequential amendments that would be necessary to implement the new structure):

From 1 April 2009

\$0 - \$14,000	12.5%
\$14,001 - \$48,000	21%
\$48,001 - \$70,000	33%
\$70,001 +	38%

From 1 April 2010

\$0 - \$14,000	12.5%
\$14,001 - \$50,000	21%
\$50,001 - \$70,000	33%
\$70,001 +	37%

From 1 April 2011

\$0 - \$14,000	12.5%
\$14,001 - \$50,000	20%
\$50,001 - \$70,000	33%
\$70,001 +	37%



- 2 **agreed** that an optional 38 per cent resident withholding tax (RWT) rate on interest for banks and other financial institutions will apply for the 2009/10 year, and that banks and other financial institutions that choose to use the optional 38 per cent rate can apply it to recipients who did not provide a tax file number and recipients of interest who were previously using the 39 per cent rate without receiving another election from them;
- 3 **noted** that any further changes to the RWT and portfolio investment entity (PIE) rate structure will be made in the tax bill introduced in July 2008, to provide consistency with the new personal tax rate structure;
- 4 **noted** that the tax rate that applies to Maori authorities will remain at 19.5 per cent at this stage, and that officials will report to the Minister of Finance and Minister of Revenue on whether this rate is appropriate, with any change potentially applying from 1 April 2010;
- 5 **noted** that:
 - 5.1 the bottom rate for withholding tax on secondary employment income and extra pays will remain at 21 per cent for the 2009/10 and 2010/11 income years and will change to 20 per cent from the 2011/12 income year;
 - 5.2 officials will report to the Minister of Finance and Minister of Revenue on whether a new 12.5 per cent bottom rate should be introduced from 1 April 2010;

Independent earner rebate

- 6 **agreed** that the Income Tax Act be amended to include an independent earner rebate (IER) that will, from the tax year starting on 1 April 2009, deliver \$10 per week or \$520 per year to individuals earning between \$24,000 and \$44,000 of income for the year and who do not receive a benefit, Working for Families tax credits or New Zealand superannuation;
- 7 **agreed** that the amount of the IER should increase to \$15 per week or \$780 per year for the tax year starting on 1 April 2010 and subsequent tax years;
- 8 **agreed** that the IER will be abated at 13 cents for every dollar of income earned from \$44,001 and above;
- 9 **agreed** that the IER be referred to in legislation as the 'independent earner tax credit' (IETC);
- 10 **agreed** to deliver the IETC to salary and wage earners through the PAYE system on a pay period basis and to other individuals through an end-of-year claim process;
- 11 **agreed** that a person should be resident in New Zealand for tax purposes in order to be eligible for the IETC;
- 12 **agreed** that the income eligibility criterion for the IETC be based on a person's total net income;

- 13 **agreed** that the types of income which would make a person ineligible for the IETC for a year or part of a year are:
- 13.1 "income-tested benefits" as defined in the Income Tax Act;
 - 13.2 New Zealand superannuation;
 - 13.3 the veteran's pension;
 - 13.4 Working for Families tax credits;
 - 13.5 social security payments and pensions paid by overseas governments that are similar to those listed above;
- 14 **agreed** that, if a person's spouse or partner receives Working for Families tax credits, then the person should also not be eligible for the IETC for a year or for part of a year;
- 15 **agreed** that the IETC should be reduced on a pro-rata basis for the number of months a person receives any ineligible income or is not a New Zealand tax resident;
- 16 **noted** that the fiscal cost of the changes to the tax rates and thresholds and introduction of the Independent Earner Tax Credit referred to in paragraphs 1–15 is:

	\$million – cost/(saving)				
	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue reduction from personal tax changes (incl. IETC)	302	1190	988	795	800
adjustment in gross NZS appropriations	-	55	238	336	435
adjustment in gross benefit appropriations	-	7	27	29	34
Subtotal	302	1,252	1,253	1,160	1,269
less tax 'clawback'	(47)	(195)	(195)	(180)	(197)
Net reduction in operating balance	255	1,057	1,058	980	1,072

KiwiSaver

Minimum employee contribution rate of two per cent

- 17 **agreed** that the new minimum contribution rate for employees be two per cent of gross wages from 1 April 2009;
- 18 **agreed** that existing employees and members retain their current contribution rate, but be able to elect the lower rate on or after 1 April 2009;
- 19 **agreed** that the default rate for employees who become members on or after 1 April 2009 be two per cent;
- 20 **agreed** that employees who are currently contributing two per cent under the current transition rules continue to contribute at this rate;
- 21 **agreed** that the member tax credit continue to operate on a dollar-for-dollar basis up to an annual cap of \$1042.86;

- 22 **approved** the following appropriation change to implement the proposals in paragraphs 17–21 above, with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & outyears
Benefits and Other Unrequited Expenses:					
KiwiSaver Member Tax Credit	-	(23.000)	(25.000)	(26.000)	(27.000)
Total Operating	-	(23.000)	(25.000)	(26.000)	(27.000)

Minimum employer contribution rate

- 23 **agreed** that the minimum employer contribution (the compulsory contribution) be two per cent from 1 April 2009;

Discontinuing the employer tax credit

- 24 **agreed** to repeal the employer tax credit from 1 April 2009 in respect of employer contributions that relate to employee contributions made on or after this date;
- 25 **approved** the following appropriation changes to implement paragraph 24 above with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & outyears
Benefits and Other Unrequited Expenses:					
KiwiSaver Employer Tax Credit	(83.000)	(595.000)	(716.000)	(790.000)	(819.000)
Total Operating	(83.000)	(595.000)	(716.000)	(790.000)	(819.000)

Employer superannuation contribution tax exemption

- 26 **agreed** that the exemption from employer superannuation contribution tax for employer matching contributions to KiwiSaver and complying superannuation funds be capped at the compulsory employer contribution of two per cent;
- 27 **noted** that the fiscal impact of the proposal in paragraph 26 above is:

	\$million - cost/(saving)				
	2008/09	2009/10	2010/11	2011/12	2012/13
Tax revenue reduction	-	-	(36)	(77)	(118)
Net impact on operating balance	-	-	(36)	(77)	(118)

Fee subsidy

- 28 **agreed** that the fee subsidy should be discontinued from 1 April 2009;
- 29 **agreed** that for existing members the discontinuance of the fee subsidy should occur on the date that the member is paid the annual fee subsidy for the current year of membership;

- 30 approved the following appropriation change to implement paragraphs 28 and 29 above with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & outyears
Benefits and Other Unrequited Expenses: KiwiSaver Fee Subsidy	(3.000)	(38.000)	(51.000)	(54.000)	(57.000)
Total Operating	(3.000)	(38.000)	(51.000)	(54.000)	(57.000)

Repealing recent Employment Relations Act amendment

- 31 agreed that the KiwiSaver Act be amended to include a provision that employer contributions must be on top of an employee's pay when an employee joins KiwiSaver or changes employment, but employees and employers have the ability as part of good faith negotiations to contract out of this general requirement and this will apply from the date of assent;
- 32 noted that the repeal of the recent Employment Relations Act amendment relating to KiwiSaver will be included in a separate bill to be passed under urgency [CAB Min (08) 45/3];

Compliance with securities legislation

- 33 agreed that KiwiSaver scheme providers should be provided with a limited general exemption from compliance with other securities and other related legislation from the date of assent to 14 February 2009;
- 34 agreed that an exemption from regulation 7A(4) of the Securities Regulations 1983 be afforded in respect of investment statements issued before 1 January 2009 and that the exemption expire on 30 June 2009;

Research and development tax credits

- 35 agreed that the research and development tax credit should be repealed from the 2009/10 income year;
- 36 approved the following appropriation changes to implement paragraph 35 above, with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears
Benefits and Other Unrequited Expenses: Research and Development Tax Credit	(54.000)	(243.000)	(290.000)	(332.000)	(373.000)
Total Operating	(54.000)	(243.000)	(290.000)	(332.000)	(373.000)

Working for Families overpayments

- 37 noted that the mid-year change to Working for Families, implemented in Budget 2008, causes a number of families to be overpaid their weekly or fortnightly amounts of Working for Families tax credits in the 2008/09 income year;
- 38 noted that the previous government agreed to include amendments in the Taxation (International Taxation, Life Insurance, and Remedial Matters) Bill to provide that Working for Families overpayments caused by the mid year tax changes would not have to be repaid;
- 39 agreed to include the above amendments relating to Working for Families overpayments in a taxation bill to be enacted before Christmas 2008;

Delegation

- 40 authorised the Minister of Finance, the Minister of Revenue and other Ministers as appropriate, to decide on any detailed design issues that may arise to give effect to the proposals in the above paragraphs;

Administrative costs of policy proposals

- 41 noted that the administrative costs of the new personal tax rate structure, the independent earner rebate, the repeal of research and development tax credits, and KiwiSaver scheme changes have been estimated to be:

	Smillion					
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14 & outyears
Operating	6.038	7.157	8.776	8.736	8.736	8.736
Capital	1.784	0.581	-	-	-	-
R&D Savings			(1.816)	(3.137)	(3.279)	(5.700)
Total (lower range)	7.822	7.738	6.960	5.599	5.457	3.036
Contingency	1.748	1.900	2.181	2.173	2.173	2.173
Total (upper range)	9.570	9.638	9.141	7.772	7.630	5.209

- 42 noted that officials will report to the Minister of Finance and Minister of Revenue by the end of February 2009 on actual administrative costs;
- 43 authorised the Minister of Finance and the Minister of Revenue to take final decisions on additional funding for administrative costs for Inland Revenue, after Inland Revenue and Treasury officials report on the detailed costs in February 2009;
- 44 agreed that any increases for administrative costs for 2008/09 that are approved by the Minister of Finance and Minister of Revenue in accordance with paragraph 43 above, be included in the 2008/09 Supplementary Estimates and, in the interim, be met from imprest supply;

Legislative implications

- 45 noted that a bill is necessary to give effect to the above proposals relating to:
- 45.1 personal tax cuts from 1 April 2009;
 - 45.2 introduction of an independent earner tax credit from 1 April 2009;
 - 45.3 repeal of research and development tax credits for the 2009/10 and later tax years;
 - 45.4 amendments to the KiwiSaver scheme from 1 April 2009;
- 46 noted that a bill is also necessary to fix the annual rates of income tax for the 2009/10 tax year;
- 47 approved the introduction of the Taxation (Urgent Measures and Annual Rates) Bill [IRD 13479/7.0] (the Bill) to give effect to these measures, subject to the final approval of the government caucus and sufficient support in the House of Representatives;
- 48 agreed that the Bill be introduced on 9 December 2008;
- 49 agreed that the government propose that the Bill be passed under urgency before the end of the year.


Secretary of the Cabinet

Reference: CAB (08) 585

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