

Treasury Report: Addressing the fiscal outlook: consolidation option

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|--------------|------------------|-------------------|-----------|
| Date: | 27 February 2009 | Report No: | T2009/418 |
|--------------|------------------|-------------------|-----------|

Action Sought

| | Action Sought | Deadline |
|---|--|-----------------|
| Minister of Finance (Hon Bill English) | <p>Note advice on design and impact of consolidation option</p> <p>Discuss next steps with officials</p> | Monday 2 March |

Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|---------------------|-----------------------|---------------------|--------------------|
| [deleted – privacy] | | | ✓ |
| Mark Sowden | Manager, Macro Policy | [deleted – privacy] | |
| Bill Moran | Manager, Tax Strategy | [deleted – privacy] | |

Minister of Finance's Office Actions (if required)

| |
|-------|
| None. |
|-------|

Enclosure: No

Treasury Report: Addressing the fiscal outlook: consolidation option

Executive Summary

In the context of considering options to address the projections of a rapidly deteriorating fiscal outlook, you have asked for some advice about a particular package of options:

- i. Cancelling the personal tax cuts scheduled for April 2010 and April 2011, and providing a one-off payment in July 2009 equivalent to the full annual cost of those two tranches of tax cuts;
- ii. Taking a contributions holiday from the NZ Super Fund for eight years; and
- iii. Reducing new spending in future Budgets from \$1.75 billion to \$1 billion, either for a three year period or permanently.

This report demonstrates the impacts of this package on the fiscal outlook; discusses options around how the one-off payment could be designed; and sets out our views on the package as a whole.

Views on the package

There are a range of factors to consider when thinking about the package, including:

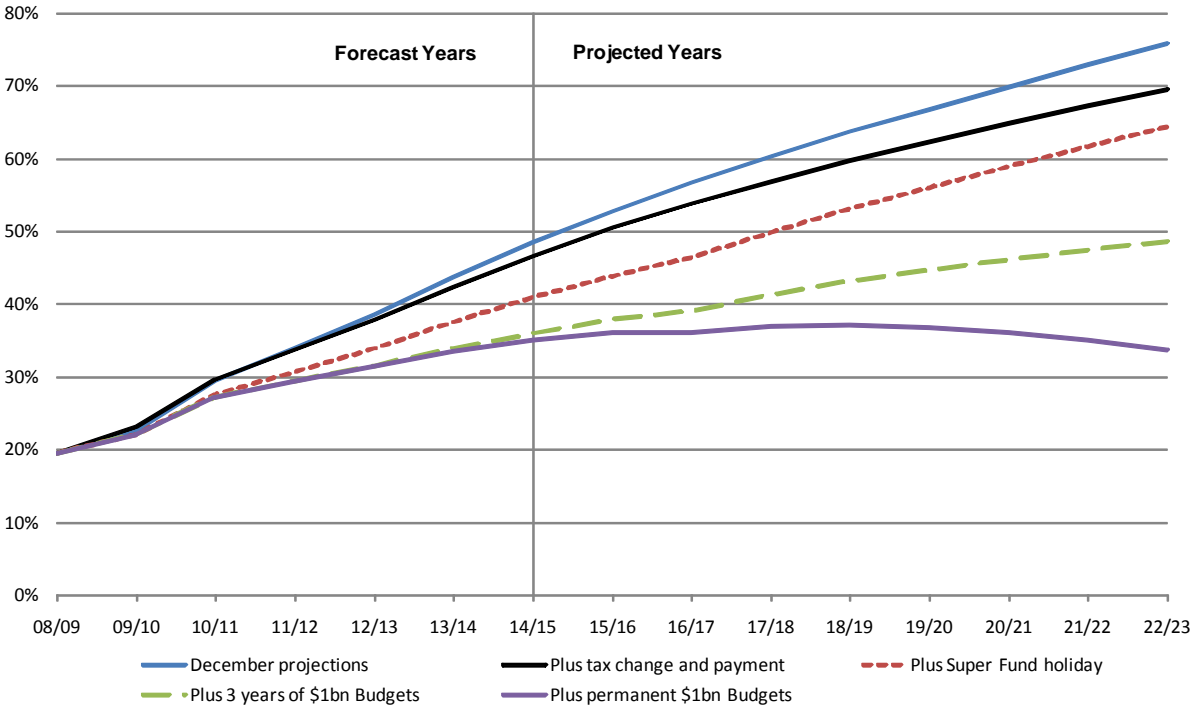
- i. Does the package improve the fiscal outlook;
- ii. Is the package likely to be seen as credible by rating agencies and the financial sector more generally;
- iii. How well does the package deliver stimulus to the economy during the recession;
- iv. What does the package do for economic growth and incentives;
- v. How much does the package help longer-term fiscal pressures;
- vi. What are the impacts of the package on different segments of society; and
- vii. Any operational or administrative considerations.

The package has a number of positive features across several of these factors. The package would make a credible, significant improvement in the fiscal outlook. It would be a visible illustration of the government's resolve to fix the fiscal outlook. We do consider there to be elements of existing government spending that could be reduced in place of cancelling the tax cuts. We also note that the one-off payment would weaken the signalling effect of the consolidation insofar as it worsens the fiscal outlook in 2009/10. Regardless, if this package of options is advanced, we think it would be important to reinforce the message that the government retains an agenda for medium-term tax reform.

Impact on the fiscal outlook

There are important caveats to note around the costings below. First, they take the *December Update's* downside scenario as a base; we now expect the outlook to be materially worse than that. Second, they do not build in macroeconomic feedbacks, which would be expected to temper the fiscal consolidation slightly.

Under the *December Update's* downside scenario, gross debt is projected to rise to 76% of GDP by 2022/23. Using this as a base, the graph and table below show the sequential impact of the different components of the package on gross debt.



To be clear, the chart shows the cumulative impact of the various changes on gross debt, i.e. the tax cut change would reduce gross debt by 6%; the Super Fund holiday would reduce it by a further 5%, etc.

| Component of package | Reduction in gross debt/GDP in 2022/23 | |
|---|--|--------------------------|
| | Permanent \$1bn Budgets | 3 years of \$1bn Budgets |
| Cancelling tax cuts and providing one-off payment | 6% | 6% |
| NZSF contributions holiday for 8 years | 5% | 5% |
| Reducing size of future Budgets | 31% | 16% |
| Total impact | 42% | 27% |
| Revised GSID/GDP in 2022/23 | 34% | 49% |

Clearly the change that has the biggest impact on the fiscal outlook is changing the allowances for future Budgets. This is because each Budget that is cut from \$1.75 billion to \$1 billion saves \$750 million per annum. Contrast this with cancelling the tax cuts, which delivers one tranche of savings of around \$1 billion per annum.

Design options for the one-off payment

We estimate the full-year impacts of cancelling the 1 April 2010 and 1 April 2011 tax cuts to be as set out in the table below.

| \$ millions | | | |
|--------------------|----------------|----------------|----------------|
| 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| 105 | 553 | 956 | 999 |

We have accordingly considered design options for providing a one-off payment of \$1 billion in July 2009. We have developed four options around the design of the one-off payment:

- i. Universal: all adults receive an equal lump-sum payment;
- ii. All beneficiaries and superannuitants receiving a lump-sum payment;
- iii. Hybrid: superannuitants and beneficiaries receive one amount, all other adults receive another amount; and
- iv. Income-tested: all individuals will annual earnings between (say) \$100 and a specified maximum amount receive an equal lump-sum payment.

The size of payments that could be made for \$1 billion are set out below. (Income-tested options are set out in the body of the report as they are more complex.) There is further detail in the body of the report about variations on payment size and associated fiscal cost.

| Option | Size of payment |
|---|--|
| Universal (all adults) | \$300 |
| Beneficiaries/superannuitants (assuming couples paid 1.5x single rate) | \$1200 |
| Hybrid | NZS/benefits: \$200 Other adults: \$400 |

Once you have considered this advice, we would welcome the opportunity to discuss it with you and consider next steps.

Recommended Action

We recommend that you:

- a **note** our advice about the package of options for fiscal consolidation; and
- b **discuss** next steps with officials.

Mark Sowden
Manager, Macro Policy
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Treasury Report: Addressing the fiscal outlook: consolidation option

Purpose of report

1. You have asked us for some advice about a particular package of options to improve the government's fiscal outlook. This report:
 - i. demonstrates the impacts of this package on the fiscal outlook;
 - ii. discusses options around how the one-off payment could be designed; and
 - iii. sets out our views on the package as a whole.

Package of options

2. You have asked us to provide analysis around the following package of options:
 - i. Cancelling the personal tax cuts scheduled for April 2010 and April 2011, and providing a one-off payment in July 2009 equivalent to the full annual cost of those two tranches of tax cuts;
 - ii. Taking a contributions holiday from the NZ Super Fund for eight years; and
 - iii. Reducing new spending in future Budgets from \$1.75 billion to \$1 billion, either for a three year period or permanently.

Views on the package

3. There are a range of factors to consider when thinking about the package as a whole, including:
 - i. Does the package improve the fiscal outlook;
 - ii. Is the package likely to be seen as credible by rating agencies;
 - iii. How well does the package deliver stimulus to the economy during the recession;
 - iv. What does the package do for economic growth and incentives;
 - v. Does the package help longer-term fiscal pressures;
 - vi. What are the impacts of the package on different segments of society; and
 - vii. Any operational/administrative issues.
4. Some brief views on each of these considerations are set out below.

Improving the fiscal outlook

5. The package would make a marked improvement to the fiscal outlook over the medium term. Under the most ambitious option (i.e. including reducing all future Budgets to \$1 billion), gross debt would be brought back from 76% of GDP to 34% of GDP, and debt/GDP would have stabilised and be falling.
6. Even under this option, we would not return to running operating surpluses until 2017/18, i.e. nine years of deficits. In addition, it is worth noting that the inclusion of the one-off payment of \$1 billion in July 2009 would worsen the fiscal outlook in the immediate short term. This matters more for signalling and for short-term consolidation than for medium-term consolidation.
7. We would note that while the changes would make a large improvement compared with doing nothing, there may well be preferable packages that would deliver the same or better levels of consolidation. For instance, as we have discussed with you previously, we consider there to be a number of areas of existing government spending that do not deliver particularly good value for money. These could be considered as a consolidation option ahead of cancelling the two tranches of tax cuts.

Credibility

8. There are two factors to consider here: (i) is the package credible in terms of the government's perceived ability to actually deliver the changes (for instance, will the government be able to live within permanently lower Budget allowances?); and (ii) would rating agencies consider the kind of improvement in the fiscal outlook that this package would deliver to be sufficient to avoid a ratings downgrade.
9. It is difficult to give definitive answers about these questions. In our view if the government were to cancel the tax cuts this would be seen as a strong sign that it was serious about addressing the fiscal outlook and was prepared to make tough calls. If this were combined with the government signalling how it intends to live within constrained future spending limits (enforcing wage restraint in the public service, putting pressure on chief executives to manage baselines effectively etc.), these would help to make a case. On the question of sufficiency it is difficult to tell; it is worth remembering in this context that we do expect the fiscal outlook to deteriorate materially from that set out in the *December Update's* downside scenario.

Stimulus during recession

10. Providing a one-off payment of \$1 billion in July 2009 would bolster the considerable stimulus already being provided to the economy through fiscal policy, interest rate reductions and exchange rate depreciation. The stimulus would perform reasonably well in terms of the "timely, temporary and targeted" metric. However the extent to which stimulus is effective in stimulating aggregate demand depends on a range of factors: who is the payment targeted at and what is their marginal propensity to consume; will that consumption be spent on domestic or imported goods, etc.
11. It can be difficult to target stimulus at those most likely to spend it. For instance, our analysis of the previous government's tax package was that many low income individuals live within higher income households who might be expected to have a lower propensity to consume.

Economic growth and incentives

12. The proposed abandonment of the tax cut package potentially undermines the government's medium term objective of reducing and aligning personal, corporate and investment tax rates at a maximum rate of 30%. However the abandonment of the IETC extension, threshold changes and the 21% rate cut would have little immediate impact on medium term objectives. Furthermore, it could, via released savings, provide an opportunity for a more comprehensive medium-term tax package in the 2010 or 2011 Budget.

Helping longer-term pressures

13. To the extent that the package would significantly improve the medium-term fiscal outlook, it would help to meet longer-term fiscal pressures. This is potentially tempered by the inclusion of a protracted contributions holiday from the NZ Super Fund, which may send negative signals about the government's willingness to address longer-term fiscal pressures.

Differential impact

14. The major element of the package with differential impacts is around the changes to personal tax. These impacts could potentially be ameliorated through the design of the one-off payment, i.e. it could be designed to be targeted to mimic the differential effects of the tax cuts themselves. As discussed above, this is likely, however, to be in conflict with aims around wanting an effective fiscal stimulus.

Operational/administrative issues

15. There are two particular issues to highlight here. The first is around the administration of the one-off payment. The more universal and less targeted the payment, the simpler it would be to administer.
16. The second relates to the impact of the Super Fund contribution holiday on the Fund itself. We understand that [deleted – privacy] has met with you recently to discuss these points, so we do not cover them in any depth here. Briefly, they relate to pre-commitments that have liquidity implications in future years; vintage diversification; reputation with investors; attractiveness of the Guardians as an employer; and the investment opportunities that may be presented by the current crisis.

Overall

17. In our view the package has a number of positive features. The package would make a credible, significant improvement in the fiscal outlook. It would be a visible illustration of the government's resolve to fix the fiscal outlook. We do consider there to be elements of existing government spending that could be reduced in place of cancelling the tax cuts. We also note that that the one-off payment would weaken the signalling effect of the consolidation insofar as it worsens the fiscal outlook in 2009/10. Regardless, if this package of options is advanced, we think it would be important to reinforce the message that the government retains an agenda for medium-term tax reform, despite abandoning the current tax package.

Impact on the fiscal outlook

18. We have developed costings of the proposed changes, and modelled these through the Treasury's medium-term fiscal strategy model.

Personal tax costings

19. Briefly, we have costed the cancellation of the 2010 and 2011 tax cuts as follows:
- We have used Taxwell, using 2007/08 HES data, and the *December Update* downside scenario for forecast assumptions. NZS payments are derived from a married couple figure of 66% of the net average wage floor.
 - When the tax cuts were implemented last year we assumed a 15.6% clawback (i.e. people will spend a portion of the tax cuts, some of which we will collect back in GST, etc.).
 - We have used Inland Revenue's previous costing of the Independent Earner Tax Credit, which is roughly \$120 million per year for a \$5 tax credit.
20. These assumptions yield the following fiscal savings from cancelling the tax cuts:

| \$ millions | | | |
|--------------------|----------------|----------------|----------------|
| 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| 105 | 553 | 956 | 999 |

21. Further variations on cancelling components of these tax cuts are below:

| Savings (\$m) if unwind: | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Result |
|---------------------------------|----------------|----------------|----------------|----------------|---|
| Tranche 3 | 0 | 120 | 484 | 500 | 1 Apr 10 rates/thresholds continue on to 2011 and beyond (IETC \$15/wk) |
| Tranches 2 and 3 | 105 | 553 | 956 | 999 | 1 Apr 09 rates/thresholds continue on to 2010 and beyond (IETC \$10/wk) |
| Tranche 3 and 37% | 30 | 244 | 621 | 652 | 1 Apr 09 rates/thresholds continue except middle threshold to \$50k and IETC to \$15/wk from 1 Apr 2010 |
| Tranche 3 + \$50k + IETC \$15 | 75 | 428 | 819 | 847 | 1 Apr 09 rates/thresholds continue except top rate to 37% (IETC \$10/wk) |

22. On this basis we have considered design options for providing a one-off payment of \$1 billion in July 2009 (this is the size of payment factored into the impact on the fiscal outlook below), as well as variations on this payment size.
23. At this point we have not built clawback assumptions into our costings of the \$1 billion one-off payment, i.e. we have not factored into our costing that some portion of the payments will make their way back into the government's coffers, because of uncertainty in the current climate about how people would use the lump-sum payments and given that design options around the payment are still open. We can improve this assumption as we go further through this process.

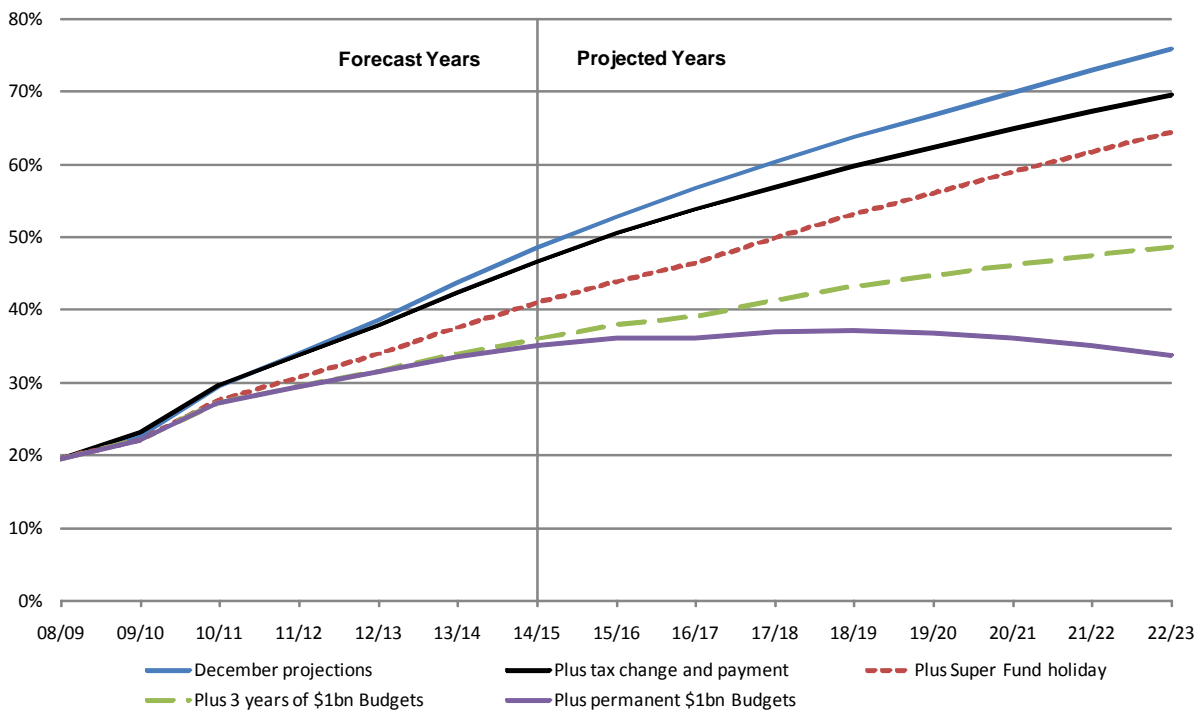
Other costings

24. The costings for contributions holidays from the NZ Super Fund and changes to future Budget allowances are straightforward and we have been able to model the impacts of these directly in our medium-term fiscal strategy model.

Impact of changes on the fiscal outlook

25. There are some important caveats to note around the costings below. In particular:
- They take the *December Update's* downside scenario as a base; we now expect the outlook to be worse than that.
 - They do not build in macroeconomic feedbacks: cutting spending and increasing tax would dampen consumption, meaning lower GDP and a lower tax take. This would be partially offset by savings through items of government spending that are CPI-indexed, such as benefits.
26. Under the *December Update's* downside scenario, gross debt is projected to rise to 76% of GDP by 2022/23. Using this as a base, the graph and table below show the impact of the different components of the package on gross debt.

Impact of package on gross debt

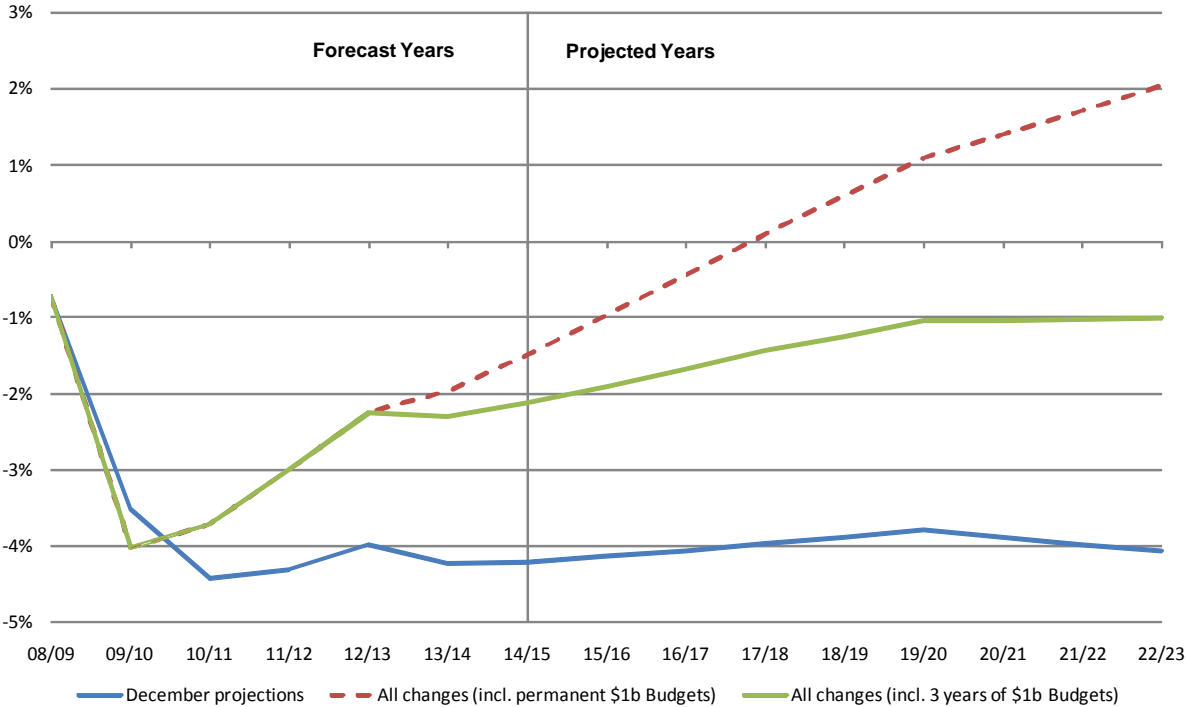


27. To be clear, the chart shows the cumulative impact of the various changes on gross debt, i.e. the tax cut change would reduce gross debt by 6%; the Super Fund holiday would reduce it by a further 5%, etc.

| Component of package | Reduction in gross debt/GDP in 2022/23 | |
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| | Permanent \$1bn Budgets | 3 years of \$1bn Budgets |
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- 28. Clearly the change that has the biggest impact on the fiscal outlook is changing the allowances for future Budgets. This is because each Budget that is cut from \$1.75 billion to \$1 billion saves \$750 million per annum. Contrast this with cancelling the tax cuts, which delivers one tranche of savings of around \$1 billion per annum. Similarly, the Super Fund contributions holiday provides savings of around \$2 billion per annum for the eight years it is in force, i.e. \$16 billion in total (plus associated debt servicing cost savings).
- 29. The impact that the package would have on the outlook for net debt (including NZ Super Fund assets) is broadly similar, *except* in relation to the impact of the Super Fund contributions holiday. While the contributions holiday component of the package helps to reduce gross debt, it also reduces Super Fund assets, so it makes little difference to the net debt position.

Impact of changes on operating balance



- 30. As the chart above demonstrates, the option of permanently reducing future Budgets to \$1 billion is required to achieve operating balance surpluses, and this is not achieved until 2017/18. Under the less ambitious option of three years of \$1 billion Budgets, while the operating deficit is reduced, it is not eliminated.

Design options for the one-off payment

31. You have a range of options about how to design the one-off payment. We have considered the following options:
 - v. Universal: all adults receive an equal lump-sum payment. (An adult is defined as all aged 18 and over, and 15-17 year old independents.) Eligibility could be further restricted to adults located and resident in New Zealand.
 - vi. All beneficiaries and superannuitants receiving a lump-sum payment. This would include individuals receiving NZ Superannuation, benefits, or Working for Families tax credits.
 - vii. Hybrid: superannuitants and beneficiaries receive one amount, all other adults receive another amount.
 - viii. Income-tested. All individuals with annual earnings between (say) \$100 and a specified maximum amount receive an equal lump-sum payment.
32. Information about these options is set out on the following few pages: how many people would be eligible for payments; how large would the payments be, assuming different overall fiscal costs; what are some of the pros and cons of each of the options.

| Option | Description and cost | Pros & Cons | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|-------------------|----------------|--|--|---------|------------------|-------------------|---------------|----------------|-----------|-----------|-------------|---------------|---------------|--|----------|---------|---------|-----|----------|---------|---------|-------|----------|---------|---------|-------|--|--|--|--|--|---------|---------|-------------------|--------|---------|---------|-----------|--|-------------|-------------|------------------|----------|---------|---------|-------|----------|---------|---------|-------|----------|-------|---------|-------|--|
| Option 1 - Universal | <p>All adults receive an equal lump-sum payment. (An adult is defined as all aged 18 and over, and 15-17 year old independents). Eligibility could be restricted to adults located and resident in NZ (also applies to all options below).</p> <table border="1" data-bbox="387 269 1653 424"> <thead> <tr> <th colspan="5" data-bbox="387 269 1653 317">Lump-sum payment based on income</th> </tr> <tr> <th data-bbox="387 317 698 365"></th> <th data-bbox="698 317 902 365">Number eligible:</th> <th data-bbox="902 317 1193 365">\$300 payment</th> <th data-bbox="1193 317 1417 365">\$500 payment</th> <th data-bbox="1417 317 1653 365">\$1000 payment</th> </tr> </thead> <tbody> <tr> <td data-bbox="387 365 698 424">Universal</td> <td data-bbox="698 365 902 424">3,171,202</td> <td data-bbox="902 365 1193 424">\$951m cost</td> <td data-bbox="1193 365 1417 424">\$1,586m cost</td> <td data-bbox="1417 365 1653 424">\$3,171m cost</td> </tr> </tbody> </table> <p>[Note: For all options, costs scale by payment, e.g. \$2,000 payment above would cost \$6,342m]</p> | Lump-sum payment based on income | | | | | | Number eligible: | \$300 payment | \$500 payment | \$1000 payment | Universal | 3,171,202 | \$951m cost | \$1,586m cost | \$3,171m cost | <ul style="list-style-type: none"> ✓ Universal and individual basis relatively easy to administer ✓ Lump-sum received by large number of people ✗ Higher income people more likely to save than spend – reducing fiscal stimulus effect ✗ Does not fully compensate high-income earners in the short term for what the tax cuts would have delivered * Equity - families with more than one income earner would receive more than one payment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lump-sum payment based on income | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Number eligible: | \$300 payment | \$500 payment | \$1000 payment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Universal | 3,171,202 | \$951m cost | \$1,586m cost | \$3,171m cost | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 2 – Target beneficiaries and superannuitants | <p>Individuals receiving NZ Superannuation, benefits, or Working for Families tax credits could be eligible for a lump-sum payment</p> <table border="1" data-bbox="387 715 1653 1007"> <thead> <tr> <th colspan="4" data-bbox="387 715 1653 762">Lump-sum payment based for recipients NZS & benefits</th> </tr> <tr> <th data-bbox="387 762 698 802"></th> <th data-bbox="698 762 990 802">Singles</th> <th data-bbox="990 762 1258 802">Couples</th> <th data-bbox="1258 762 1653 802">Total individuals</th> </tr> </thead> <tbody> <tr> <td data-bbox="387 802 698 842">Number →</td> <td data-bbox="698 802 990 842">494,975</td> <td data-bbox="990 802 1258 842">225,077</td> <td data-bbox="1258 802 1653 842">945,129</td> </tr> <tr> <th data-bbox="387 842 698 882"></th> <th data-bbox="698 842 990 882">Single rate</th> <th data-bbox="990 842 1258 882">Couple rate</th> <th data-bbox="1258 842 1653 882">Total cost (\$m)</th> </tr> <tr> <td data-bbox="387 882 698 922">Option 1</td> <td data-bbox="698 882 990 922">\$1,200</td> <td data-bbox="990 882 1258 922">\$1,800</td> <td data-bbox="1258 882 1653 922">999</td> </tr> <tr> <td data-bbox="387 922 698 962">Option 2</td> <td data-bbox="698 922 990 962">\$1,200</td> <td data-bbox="990 922 1258 962">\$2,400</td> <td data-bbox="1258 922 1653 962">1,134</td> </tr> <tr> <td data-bbox="387 962 698 1002">Option 3</td> <td data-bbox="698 962 990 1002">\$2,000</td> <td data-bbox="990 962 1258 1002">\$3,000</td> <td data-bbox="1258 962 1653 1002">1,665</td> </tr> </tbody> </table> <table border="1" data-bbox="387 1007 1653 1305"> <thead> <tr> <th colspan="4" data-bbox="387 1007 1653 1054">Lump-sum payment based for recipients of WFF, NZS & benefits</th> </tr> <tr> <th data-bbox="387 1054 698 1094"></th> <th data-bbox="698 1054 990 1094">Singles</th> <th data-bbox="990 1054 1258 1094">Couples</th> <th data-bbox="1258 1054 1653 1094">Total individuals</th> </tr> </thead> <tbody> <tr> <td data-bbox="387 1094 698 1134">Number</td> <td data-bbox="698 1094 990 1134">544,554</td> <td data-bbox="990 1094 1258 1134">439,369</td> <td data-bbox="1258 1094 1653 1134">1,423,292</td> </tr> <tr> <th data-bbox="387 1134 698 1174"></th> <th data-bbox="698 1134 990 1174">Single rate</th> <th data-bbox="990 1134 1258 1174">Couple rate</th> <th data-bbox="1258 1134 1653 1174">Total cost (\$m)</th> </tr> <tr> <td data-bbox="387 1174 698 1214">Option 1</td> <td data-bbox="698 1174 990 1214">\$1,000</td> <td data-bbox="990 1174 1258 1214">\$1,500</td> <td data-bbox="1258 1174 1653 1214">1,204</td> </tr> <tr> <td data-bbox="387 1214 698 1254">Option 2</td> <td data-bbox="698 1214 990 1254">\$1,000</td> <td data-bbox="990 1214 1258 1254">\$2,000</td> <td data-bbox="1258 1214 1653 1254">1,423</td> </tr> <tr> <td data-bbox="387 1254 698 1294">Option 3</td> <td data-bbox="698 1254 990 1294">\$750</td> <td data-bbox="990 1254 1258 1294">\$1,500</td> <td data-bbox="1258 1254 1653 1294">1,067</td> </tr> </tbody> </table> | Lump-sum payment based for recipients NZS & benefits | | | | | Singles | Couples | Total individuals | Number → | 494,975 | 225,077 | 945,129 | | Single rate | Couple rate | Total cost (\$m) | Option 1 | \$1,200 | \$1,800 | 999 | Option 2 | \$1,200 | \$2,400 | 1,134 | Option 3 | \$2,000 | \$3,000 | 1,665 | Lump-sum payment based for recipients of WFF, NZS & benefits | | | | | Singles | Couples | Total individuals | Number | 544,554 | 439,369 | 1,423,292 | | Single rate | Couple rate | Total cost (\$m) | Option 1 | \$1,000 | \$1,500 | 1,204 | Option 2 | \$1,000 | \$2,000 | 1,423 | Option 3 | \$750 | \$1,500 | 1,067 | <ul style="list-style-type: none"> ✓ Targeting low income people more likely to have fiscal stimulus effect ✓ Can target couples through benefit system ✓ If linked to receiving WFF, benefits and NZS relatively simple to administer. ✗ IETC recipients (in the range \$24k-\$48k) would not receive a lump-sum payment ✗ No lump-sum payment for most middle-high income earners in the short term to compensate what the tax cuts and IETC changes would have delivered. ✗ If not linked to receiving WFF, benefits and NZS, administration difficulty increases with targeting. |
| Lump-sum payment based for recipients NZS & benefits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Singles | Couples | Total individuals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Number → | 494,975 | 225,077 | 945,129 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Single rate | Couple rate | Total cost (\$m) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 1 | \$1,200 | \$1,800 | 999 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 2 | \$1,200 | \$2,400 | 1,134 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 3 | \$2,000 | \$3,000 | 1,665 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lump-sum payment based for recipients of WFF, NZS & benefits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Singles | Couples | Total individuals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Number | 544,554 | 439,369 | 1,423,292 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Single rate | Couple rate | Total cost (\$m) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 1 | \$1,000 | \$1,500 | 1,204 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 2 | \$1,000 | \$2,000 | 1,423 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option 3 | \$750 | \$1,500 | 1,067 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | <p>Costing assumptions:</p> <ul style="list-style-type: none"> • Benefits include invalids, sickness, unemployment, dependent purposes, independent youth and widow's benefits. • Of couples where only one person is in receipt of a benefit or NZS, their partner is also considered a beneficiary or superannuitant for the costings above. • Those on student allowances are not included in this option. In 2007, around 61,000 students received the allowance. | <p>✗ If targeted to low income earners, high income earners may be entitled if they have a rental loss that reduces income to below the threshold.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|-------------------|--|--|--|----------------|--------------|-------------------|----------|---------|-----------|-----------|--|------------------|------------|------------------|------------|-------|-------|-------|------------|-------|-------|-------|------------|-------|-------|-----|---|
| <p>Option 3 - hybrid</p> | <p>Superannuitants and beneficiaries receive one amount of lump-sum payment, and all other adults receive another. For example:</p> <table border="1" data-bbox="387 563 1655 863"> <thead> <tr> <th colspan="4" style="background-color: yellow;">Lump-sum payment based for recipients NZS & benefits</th> </tr> <tr> <th></th> <th>NZS + benefits</th> <th>Other adults</th> <th>Total individuals</th> </tr> </thead> <tbody> <tr> <td>Number →</td> <td>945,129</td> <td>2,226,073</td> <td>3,171,202</td> </tr> <tr> <th></th> <th>NZS/benefit rate</th> <th>Other rate</th> <th>Total cost (\$m)</th> </tr> <tr> <td>Scenario 1</td> <td>\$200</td> <td>\$400</td> <td>1,079</td> </tr> <tr> <td>Scenario 2</td> <td>\$300</td> <td>\$550</td> <td>1,508</td> </tr> <tr> <td>Scenario 3</td> <td>\$400</td> <td>\$200</td> <td>823</td> </tr> </tbody> </table> | Lump-sum payment based for recipients NZS & benefits | | | | | NZS + benefits | Other adults | Total individuals | Number → | 945,129 | 2,226,073 | 3,171,202 | | NZS/benefit rate | Other rate | Total cost (\$m) | Scenario 1 | \$200 | \$400 | 1,079 | Scenario 2 | \$300 | \$550 | 1,508 | Scenario 3 | \$400 | \$200 | 823 | <p>✓ Relatively simple to administer</p> <p>✗ Cannot easily target couples in "other adults" category</p> |
| Lump-sum payment based for recipients NZS & benefits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | NZS + benefits | Other adults | Total individuals | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Number → | 945,129 | 2,226,073 | 3,171,202 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | NZS/benefit rate | Other rate | Total cost (\$m) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scenario 1 | \$200 | \$400 | 1,079 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scenario 2 | \$300 | \$550 | 1,508 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scenario 3 | \$400 | \$200 | 823 | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Option 4 -
Income tested

All individuals with annual earnings between a minimum (say \$100) and a specified maximum amount receive an equal one-off lump-sum payment. For example:

| Lump-sum payment based on income | | | | | |
|----------------------------------|--------------|-----------------|------------------------------|--------|----------|
| | | Number eligible | Total cost of payments (\$m) | | |
| | | | \$ 300 | \$ 500 | \$ 1,000 |
| Income eligibility > \$100 | No top limit | 3,062,240 | 919 | 1,531 | 3,062 |
| | <\$100k | 2,938,267 | 881 | 1,469 | 2,938 |
| | <\$70k | 2,730,254 | 819 | 1,365 | 2,730 |
| | <\$50k | 2,315,453 | 695 | 1,158 | 2,315 |
| | <\$20k | 1,239,934 | 372 | 620 | 1,240 |
| | <\$14k | 630,611 | 235 | 391 | 782 |

✓ Lump-sum received by large number of people
 ✗ Income testing adds some complexity to administration
 ✗ People with no personal taxable income would not receive the payment. This would include people in a loss position, or people who run their business through a company or trust and do not pay themselves taxable income.
 ✗ Higher income people are more likely to save than spend – reducing any fiscal stimulus effect
 ✗ Does not fully compensate high-income earners in the short term for what the tax cuts would have delivered
 ✗ Equity - if targeted to lower income earners, high income earners may be entitled if they have a rental loss that reduces income to below the threshold
 * Equity - families with more than one income earner would receive more than one payment

Delivery considerations for one-off payment

33. The precise nature of how the payment could be delivered may depend on what lump-sum payment option is chosen. Detailed options for delivery/administration could only be drawn up in conjunction with Inland Revenue. Inland Revenue (and possibly MSD) would likely seek additional funding for administration.
34. One broad approach for delivering the lump-sum payments would be to require eligible persons to apply for the payment. (It is not possible to automate the payment for all people as the data required are not available). The application process could be web-based and applications could be made via third parties such as post shops and MSD offices.
35. The application would require the following information:
 - i. their personal details such as name and address, IRD number;
 - ii. confirmation that they meet the eligibility criteria; and
 - iii. their bank account details. (Direct crediting is preferable as it reduces administrative costs in dealing with stale and lost cheques.)
36. Current information could be used to contact potential recipients and provide them details as to how to apply. Where entitlement can be determined using current information (such as in receipt of a benefit), the payment should be automated.
37. If payments are being made via different processes (via both IRD and MSD), then it will be necessary to consider how to manage double dipping.
38. Legislation would be required to change the tax rates/thresholds and IETC – one option is to include in budget night legislation under urgency. The earliest date for making lump-sum payments would depend on practically when it could be implemented by Inland Revenue and/or MSD.