

Date: 12 March 2009

SH-3-2-4-6

To: Minister of Finance



## AIDE MEMOIRE: WORKING FOR FAMILIES INDEXATION – COSTS AND OPTIONS

This aide memoire responds to a request from your Office on what steps would need to be taken if you no longer wished to index Working for Families (WFF) tax credits.

### Background

The Income Tax Act 2007 includes a requirement that the Family Tax Credit (FTC) rate – and the threshold after which payments begin abating – must be increased by inflation. These apply when cumulative quarterly increases in the CPI reach 5%. Our *preliminary* forecasts indicate that this will take place in time for increases to be paid from April 2011.

Increasing the abatement threshold means more people on higher incomes become eligible for WFF payments. It also means current WFF recipients (those with incomes above the threshold) receive more money.

### Costs

Our preliminary Budget forecasts include the following WFF indexation costs (note that final forecasts could push-back the year when the 5% threshold is met to 2012).

|                               | 2009/10 | 2010/11      | 2011/12       | 2012/13       |
|-------------------------------|---------|--------------|---------------|---------------|
| Indexation of FTC rate only   | -       | \$33m        | \$136m        | \$156m        |
| Indexation of threshold only  | -       | \$19m        | \$76m         | \$86m         |
| <b>Total Indexation Costs</b> | -       | <b>\$53m</b> | <b>\$217m</b> | <b>\$245m</b> |

Total costs are more than the sum of the individual costs, because of threshold and rate interactions.

The above costs impact on the operating balance. If Cabinet agreed to remove the indexation requirement, this would be considered a saving in the Budget 2009 operating allowance.

### Legislative Requirements

Any changes to the current indexation requirements would require legislative change. This could be done through either a specific amendment Bill or incorporation in a larger taxation amendment Bill. If you wished to incorporate the removal of the indexation requirement in time for Budget 2009, Cabinet agreement would be required by 20 April 2008. Actual legislative change could take place later in the year.

### Options

Please indicate if you would like officials to prepare a Cabinet paper proposing the removal of the WFF indexation requirements: **Yes/No**

If you would like a Cabinet paper to be prepared, would you wish to *remove* the indexation requirements for:

- 1) Increases to the FTC threshold only (saving of \$181m over 3 years); OR **Yes/No**
- 2) Increases to the FTC threshold *and* the rates paid (\$515m over 3 years) **Yes/No**

[deleted - privacy]

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