



MINISTRY OF  
SOCIAL DEVELOPMENT  
*Te Manatū Whakahiato Ora*



Date: 18 March 2010

SH-13-5-2-1

To: Minister of Finance and Minister for Social Development and Employment

cc: Minister of Revenue

## **AIDE MEMOIRE: ADDITIONAL ADVICE ON ADJUSTMENTS TO ACCOMMODATION SUPPLEMENT**

At the meeting of the Ministerial tax sub-group on 8 March 2010, Minister Bennett requested further information about the reasons why decisions about the Accommodation Supplement (AS) are not needed now, and the proposed process for obtaining those decisions.

### **What is the Accommodation Supplement?**

The AS is the primary form of financial support for accommodation costs for low and middle income people. It is available to beneficiaries and working people who meet the eligibility criteria. The amount paid is equivalent to 70% of their accommodation costs above an entry threshold and up to a maximum amount. The maximum amounts payable vary by region and family type and were last adjusted in 2005 (based on 2003 median rents).

Expenditure on AS is estimated at \$1.165 billion in the 2009/10 year. As at February 2010, 316,000 people received an AS; about a third of people were receiving the maximum rate and 56,000 were not receiving a main benefit.

### **Impacts of the tax package on accommodation costs**

Rent costs are not subject to GST, so officials are not recommending any changes to AS as part of the GST compensation package.

The proposed changes to property taxation, whereby investment houses are no longer able to claim depreciation as a tax deduction, may result in an increase in rents. Treasury estimates that, *over time*, the most extreme impact would be approximately a one-off increase of 2.2%. The size of the impact is very difficult to quantify as it will depend on a range of factors such as the behaviour of landlords, the impact on construction of new houses, and the approach taken to enforcement of the new rules.

*[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

### **What officials are recommending**

In our 11 March 2010 report on compensation matters [T2010/339 and REP 10/03/095 refers], we recommended that - as the impact of the tax package on rents is uncertain and there are wider policy issues associated with housing assistance - Ministers should:

**direct** officials (led by the Ministry of Social Development) to report back to the Ministers of Finance, Social Development and Employment and Housing on the impacts of changes in the tax package on housing affordability, and wider considerations relating to the Accommodation Supplement and Income Related Rents, before Budget 2011.

There may be opportunities to offset costs of changing housing assistance by retargeting the payment, or reprioritising other entitlements. However, given the pressure on future Budget operating allowances, the expectations of what could be achieved will need to be realistic. The last time the AS was reviewed, in 2008, the costs of increasing the maximum rates to catch up with increased accommodation costs since the last adjustment were around \$60 million per annum. The previous Government decided this was unaffordable at that time.

### **Alternative Options**

*If Ministers do not wish to undertake such a wide review (officials' preferred approach), there are three alternative options:*

- EITHER **Agree *not*** to change the AS settings in response to the Budget 2010 tax package, and ***not*** to set in place a process for doing so in the near future;
- OR **Agree** to a narrow review that would provide advice on whether there might be a need for any changes to AS as a result of the impact of the property tax changes on rents (i.e. the estimated 2.2% impact over time);

OR **Agree** to increase, as part of Budget 2010, the maximum rates of AS by 2.2% from 1 October 2010 (or 1 April 2011) at a cost of between \$15 and \$25 million per annum, depending on the exact methodology used.

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