

Budget 2010 tax package – options for funding a 28% company tax rate

12 March 2010

1: Starting Package + 28% Company Tax Rate

\$ million	2010/11	2011/12	2012/13	2013/14
Incidence of Changes on Companies				
Company Tax	-30	-410	-375	-395
Building Depreciation (all buildings)	0	420	425	430
Depreciation Loading (with grandfathering)	85	150	195	220
Thin Cap 60%	0	195	195	195
Net Changes to Company Taxes	55	355	440	450
Incidence of Changes on Individuals				
Personal Tax (10.5, 17.5, 30, 33)	-2345	-3560	-3890	-4080
Net NZS	-235	-330	-350	-370
Net Benefits	-80	-110	-110	-110
WFF Compensation	-50	-70	-75	-70
GST (including clawback)	1935	2620	2745	2855
WFF de-indexation	0	25	95	95
WFF Integrity Measures	5	15	15	15
Building Depreciation (all buildings)	0	265	265	265
Depreciation Loading (with grandfathering)	50	95	120	135
LAQCs	0	65	55	45
Contingency	-50	-50	-50	-50
Net Changes to Personal Taxes and GST	-770	-1035	-1180	-1270
Net Cost of Starting Package	-715	-680	-740	-820

Note:
 • All numbers are as per advice on 4/3/2010 ("Budget 2010 tax package – base scenarios "A3"). Exceptions are stated explicitly below.
 • Caveats from that advice have not been repeated here, but all remain relevant.
 • Numbers have not been updated to reflect new clawback assumptions or compensation costs, but overall costs are expected to be roughly the same in aggregate.
 • A contingency of \$50m per annum has been included to reflect remaining uncertainty in numbers and expected IRD implementation costs.

3: Scenarios B and C: Scenario A + Personal Rate Changes

\$ million	2010/11	2011/12	2012/13	2013/14
Net Cost of Scenario A	-525	-325	-395	-485
Scenario B				
Personal Rates of 10.5%, 18.5%, 30% and 33%	305	420	440	455
Net Cost of Scenario B	-220	95	45	-30
OR				
Scenario C				
Personal Rates of 10.5%, 18% and 33%	390	545	580	620
Net Cost of Scenario C	-135	220	185	135

4: Scenario D: Starting Package + Personal Rate Changes

\$ million	2010/11	2011/12	2012/13	2013/14
Net Cost of Starting Package	-715	-680	-740	-820
Scenario D				
Personal Rates of 10.5%, 18.5%, and 33%	540	760	805	845
Net Cost of Scenario D	-175	80	65	25

Note: Fiscal estimates for alternative personal rate structures in scenarios B, C and D do not take into account impacts of personal rate structure changes on base-broadening and interactions with NZS/benefits.

2: Scenario A: Starting Package + Base Broadening

\$ million	2010/11	2011/12	2012/13	2013/14
Net Cost of Starting Package	-715	-680	-740	-820
Further Base Broadening Options				
Tobacco Excise	160	170	160	150
5 year Brightline Test	10	85	85	85
GST Phoenix Schemes	10	50	50	50
Increase Totalisator Duty on Racing	10	50	50	50
Net Changes from Further Base Broadening	190	355	345	335
Net Cost of Scenario A	-525	-325	-395	-485

Note:

- Revenue from tobacco excise represents 75% of increased revenue expected from proposed changes and assumes legislative steps are taken to prevent automatic compensation for CPI increases.
- 5 year brightline test costs assumes changes effective from Budget night. Revenue estimates are still being refined and depend heavily on taxpayer behavioural assumptions and an assumption that robust loss-ringfencing measures are introduced.
- Revenue from GST phoenix schemes requires an announcement to consult on Budget night and inclusion in a tax bill in 2010. Current estimates are likely to understate revenue gains.
- Totalisator duty revenues reflect 1 April 2011 application date.

5: Distributional Impacts

5.1: Neutral Compensation

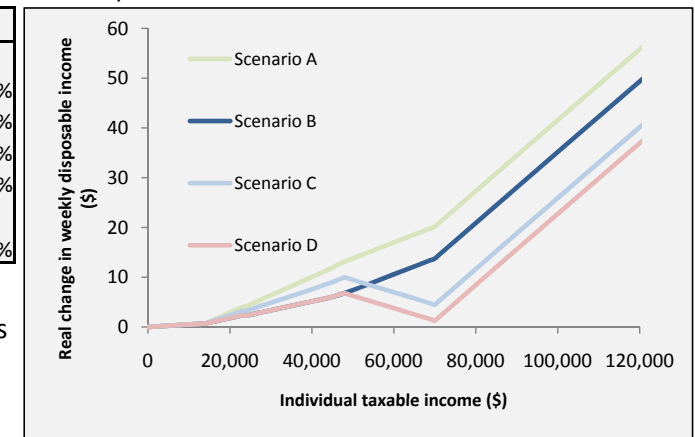
Income Bracket	Existing Tax Rate	Neutral Rate
\$0-\$14,000	12.5%	10.7%
\$14,001-\$48,000	21.0%	19.4%
\$48,001-\$70,000	33.0%	31.6%
Over \$70,001	38.0%	36.7%
GST	12.5%	15.0%

Note: the upper neutral rates are dependent on the lower rates also being neutral

5.2: Proposed Personal Rate Structures

Scenario	A	B	C	D
\$0-\$14k	10.5%	10.5%	10.5%	10.5%
\$14k-\$48k	17.5%	18.5%	18%	18.5%
\$48k-\$70k	30%	30%	33%	33%
\$70k+	33%	33%	33%	33%

5.3: Disposable Income Effects



All costings are provisional only and are based on HYEFU 2009 macroeconomic forecasts.