

Treasury Report: Treasury Technical Note to be Released on Budget Day on Impact of Tax Package on Forecasts

Date:	26 April 2010	Report No:	T2010/700
--------------	---------------	-------------------	-----------

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the attached technical note on the impact of the tax package on Budget economic forecasts and projections, and Refer it to you communications staff.	None.

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Bill Moran	Manager, Macro Policy 1	[deleted – privacy]	[deleted – privacy]	✓
[deleted – privacy]	Principal Advisor, Tax Strategy	[deleted – privacy]	[deleted – privacy]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: Yes

Treasury Report: Treasury Technical Note to be Released on Budget Day on Impact of Tax Package on Forecasts

Attached for your information is a technical note that Treasury intends placing on the Treasury website on budget day. It outlines the basis for the assumptions that have led us to assume for forecast purposes that the tax package will cause a one-off increase in the level of GDP of 0.9%, phased over 7 years. The details and conclusion differ slightly from those provided to you on 30 March in the *Budget 2010 tax package and the preliminary economic and fiscal outlook A3*. Most significantly, although the 0.9% hasn't changed we have reduced the phasing period from 10 years to 7 years.

The note may be subject to further minor or editorial changes and confirmation of the status of some of the evidence we have cited (eg, the IMF modelling of tax reform options that was presented during the recent Article IV visit and is mentioned in the last section of the note).

This note may attract public comment as to our knowledge this is the first time that Treasury has incorporated in its forecasts an assumption that a tax reform will boost long run GDP potential (although our forecasts have routinely included the short to medium-run Keynesian demand effects of tax packages).

Recommended Action

We recommend that you:

- a **note** the attached technical note regarding the basis for the assumptions regarding the effect of the tax package on economic growth forecasts and projections; and

Agree/disagree.

- b **refer** a copy of this report to your communications staff.

Agree/disagree.

Bill Moran
Manager
Macro Policy 1
for Secretary to the Treasury

Hon Bill English
Minister of Finance