

The Treasury

Budget 2011 Information Release

Release Document

June 2011

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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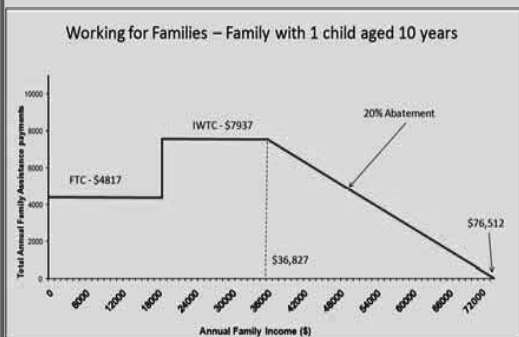
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Roadmap to options that follow...

Description

- For options 1-5, a high level description outlines changes relative to the status quo (WFF as at 1 October 2010)
- Note all measures and analysis are static
- Graphs based on the 2011/12 tax year.

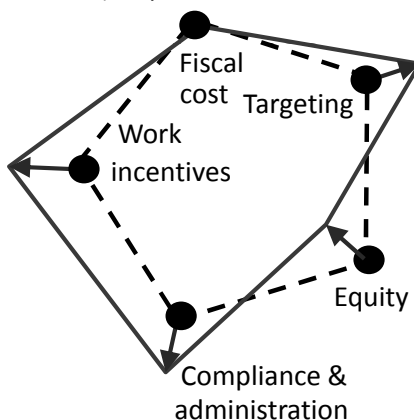


Graphs are used to show changes to total annual assistance payments with variation in actual family income

Fiscal cost

- Fiscal cost breakdown figures are for the Budget 2011 forecast period where available.
- Positive numbers indicate increased revenue, negative numbers are decreased revenue. Costs are rounded to nearest \$1 million.
- Note that all costs are calculated assuming only one policy change. If a package of options were selected costs would need to be recalculated.

- Each point on the pentagon represents an objective.
- Outward movement indicates an "improvement" to that outcome (assuming "more" of that objective being desired), and vice versa
- Indicative directions relative to status quo (dashed line) only and are not to scale

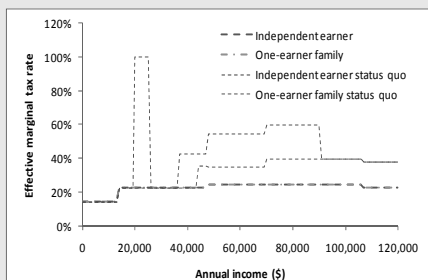


Targeting

- Targeting analysis is based on the relative reallocation of assistance to those on lower incomes. For these purposes, "lower income" is defined as those below the current abatement threshold of \$36,827.
- The two measures we use are the % of funding allocated to those below the abatement threshold, and the % of funding allocated to beneficiary families, where a beneficiary family is any family that has received a core benefit in the last 12 months.
- Targeting analysis is for the 2012/13 year unless otherwise stated

Work Incentives & Efficiency

Effective marginal tax rates (EMTRs) are used to measure the affect of the option on Work Incentives and Efficiency (noting that they measure financial incentives rather than the expected impact on behaviour or efficiency directly).



The graph shows the different EMTRs facing different income bands. The table shows the change in EMTR relative to the status quo. EMTRs are calculated on an individual basis.

Change in the gain from entering work (\$)

- Replacement rate analysis compares an example beneficiary entering paid employment at \$18 per hour under the status quo within each option.

	Option 4A	Option 4B
Replacement rate (\$)	-30.00	-20.00

-30.00 refers to the difference between entering paid employment under the status quo and entering employment under option 4A. That is, our example beneficiary gets \$30 per week less from entering work under Option 4A than in the status quo.

Compliance & Admin

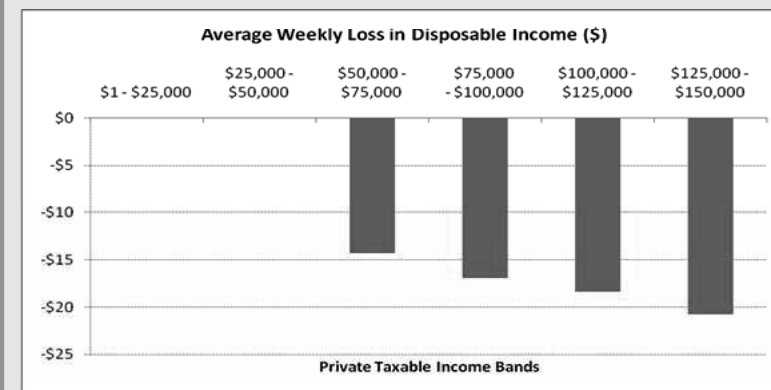
- Costs of implementing the change
- Ongoing administrative costs once implemented
- Impact on WFF applicants

Implementation Cost	Range
Low	\$0 - \$1.5m
Medium	\$1.5m - \$3m
High	\$3m and above

- Analysis has assumed a 1 April 2012 implementation date and no grandparenting

Equity

Equity analysis is based on Household Economic Survey 09/10 sample data. The analysis for all options is for the 2012/13 year except for Option 1 where the 2014/15 year is used to show the effects of removing indexation after two indexation rounds.



This table shows the winners and losers under each option as the raw number families and as a percentage of total families receiving WFF.

Shows the average weekly loss in disposable income from the status quo. I.e. shows examples of "winners and losers". Note the graph only shows the average loss of those that actually lose. i.e. those that have "no change" are excluded from the graph.

There are no winners under any of the options.

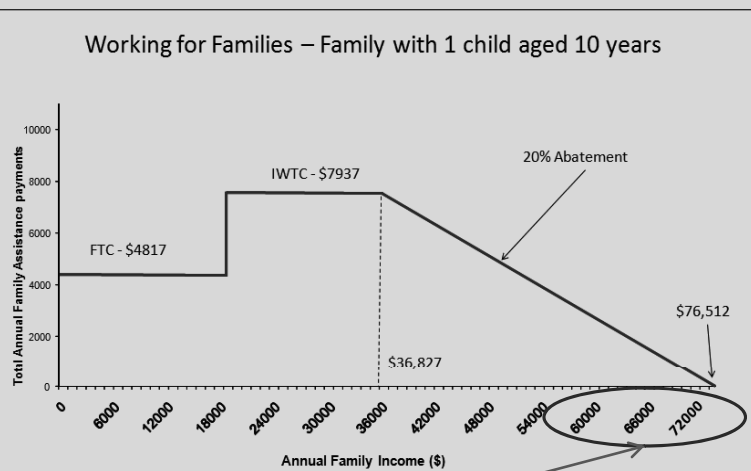
	Winners		Losers	No Change		
1A	0	0%	402,429	100%	194	0%

Working for Families – Status Quo

Description

Type	Description	Numbers of families*
Working for Families (2011/12 tax year) *numbers modelled in TaxWell, not actuals	Family tax credit	358,727
	In-Work tax credit	245,698
	Parental tax credit	19,798
	Minimum family tax credit	6,423
	Families receiving at least one type of tax credit	411,294

Current Working for Families Model – 1 October 2011



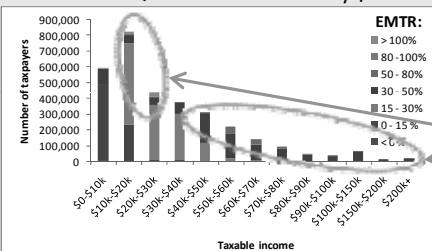
Assistance received by many higher income families

Working Incentives & Efficiency

Replacement Rate Analysis:

The following scenario is used to compare replacement rates of beneficiaries moving into paid work:

- Sole parent on the DPB with two children aged 6 and 14.
- She moves into fulltime work (40 hours) on a wage of **\$18 per hour** and pays \$300 rent.
- Under the SQ she'll be better off by **\$311.93 per week** by moving into paid work.



Fiscal cost

Cost of WFF's current tax credits for 2011/12 fiscal year:

Family Tax Credit	\$2,245 million
In-Work Tax Credit	\$607million
Parental Tax Credit	\$22 million
Minimum Family TC	\$14 million
Total Cost	\$2,888 million

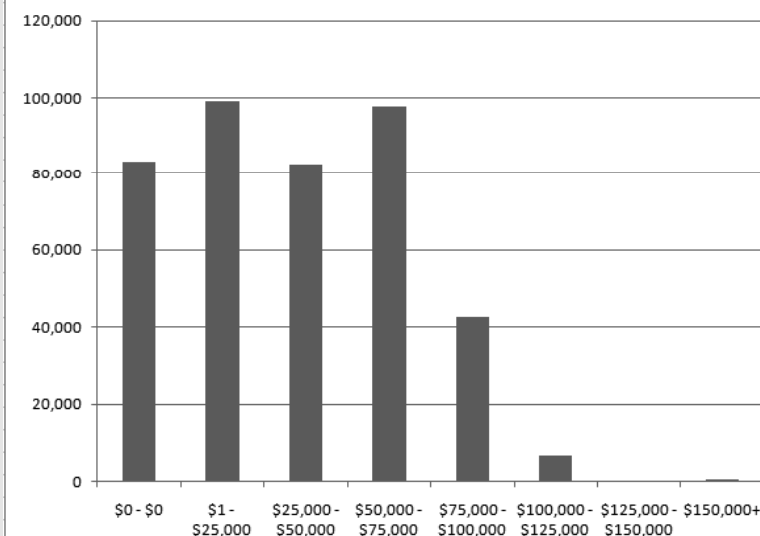
Targeting (2012/13)

Working for Families is mainly targeted to those on lower incomes (i.e below the abatement threshold). However, almost 40% of assistance goes to those earning over \$36,827.

Measure	2012/13	2014/15
% of funding below the current abatement threshold	60%	59%
% of funding going to beneficiary families	47%	49%

Equity

Number of families in each income band



Compliance & Admin

- Approximately 420,000 families receive WFF, 80,000 of them receive WFF as a lump sum at the end of each year.
- \$2.7 billion was paid out in WFF in 2009, nearly double the \$1.5 billion paid out in 2006.
- Indicative costs of administering WFF are between \$35m and \$45m.
- IRD receives between 750,000 and 900,000 customer contacts each year.

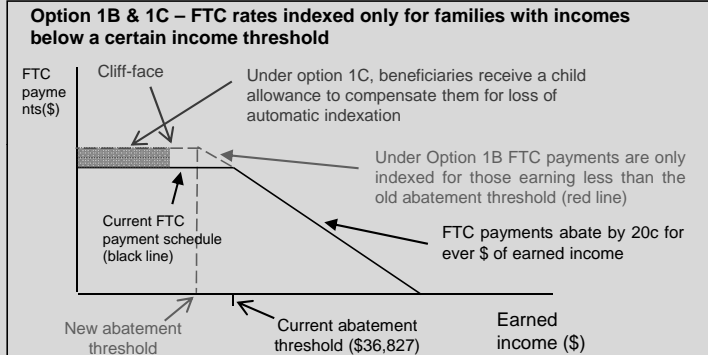
Total WFF families in 2012/13 = 412,493

Total beneficiary families receiving WFF = 180,496 (44%)

Option 1: Change the Indexation of the Family Tax Credit

Description

- The Family Tax Credit (FTC) rates are currently indexed to the CPI every few years when cumulative CPI inflation reaches 5 percent. The next scheduled increase is on 1 April 2012.
- This option changes indexation with three variations:
 - Remove automatic indexation of FTC rates with future decisions on an ad hoc basis by Ministers at budget time.
 - Continue to index the FTC but only for lower income earners shifting the abatement threshold to avoid a cliff-face
 - Remove the indexation of the FTC but pay beneficiaries a weekly child allowance to compensate them for their loss in purchasing power.



Fiscal Savings (\$m)

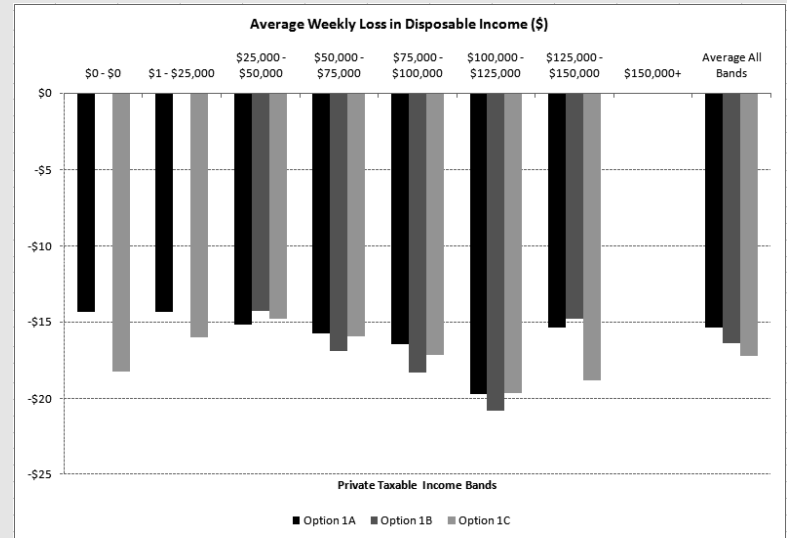
	11/12	12/13	13/14	14/15
1A	41	161	200	325
1B	22	86	109	184
1C	24	94	115	183

Targeting (2014/15)

Measure	Status Quo	1A	1B	1C
% of funding below abatement threshold	59%	60%	63%	62%
% of funding going to beneficiary families	49%	50%	52%	52%

Equity (2014/15)

- No measureable impact on aggregate poverty and income inequality measures



Working Incentives & Efficiency

Change in the gain from entering paid work (\$)

- For option 1A, 1B and 1C our example beneficiary only works 30hrs not 40.
- Example: If our DPB recipient enters paid employment, their gain will be \$1 per week less under option 1B than under the status quo

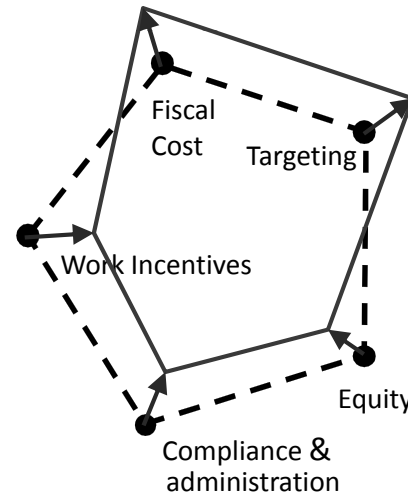
	Option 1A	Option 1B	Option 1C
Replacement rate (\$)	0.00	-1.00	-8.46

EMTR Analysis – 1B

For option 1B, EMTRs will increased for certain families. Below are some new abatement threshold examples for 2014/15 based on two indexation increases, 5.22% in 2012 and 5.28% in 2014:

- Two Children (10, 13) = \$32,647
- Four Children (10, 13, 16, 17) = \$27,747
- Seven Children (4, 6, 8, 10, 13, 16, 17) = \$22,602

Families above the new income threshold will face an EMTR 20% higher than the status quo.



Compliance & Admin

Option 1a & 1c:

- Implementation costs – Low
- Impact of WFF applications – Low (1a), Medium (1c)
- Ongoing Administration – No Change

Option 1b:

- Implementation costs – Medium. Requires calculation of individual abatement thresholds
- Impact of WFF applications – Medium. Increased complexity for applicants
- Ongoing admin – Low but increased complexity

Winner/Loser Analysis

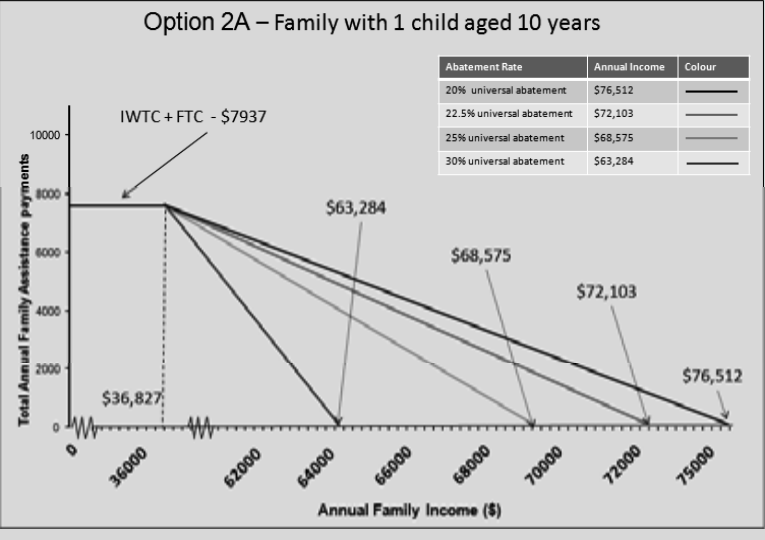
- Winner/Loser analysis is based on the number of families that receive a change in their WFF entitlement relative to the status quo
- Status Quo: 402,623

	Winners		Losers		No Change	
1A	0	0%	402,623	100%	0%	0%
1B	0	0%	215,294	53%	187,329	47%
1C	0	0%	229,495	57%	173,128	43%

Option 2A: Increase the Universal Abatement Rate

Description

•Option 2A increases the universal WFF abatement rate from the current abatement threshold of \$36,827. There are three variations: increase the universal abatement rate from 20% to either 22.5%, 25% or 30%.



Fiscal Savings (\$m)

	11/12	12/13	13/14	14/15
22.5% U	114	119	120	125
25% U	209	217	216	224
30% U	351	364	364	379

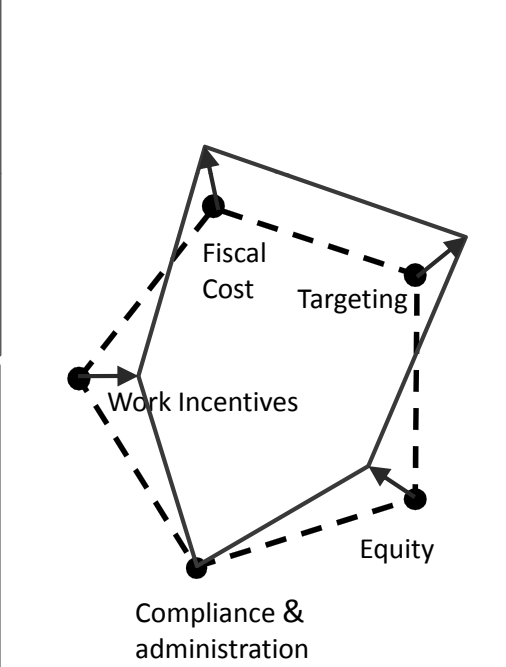
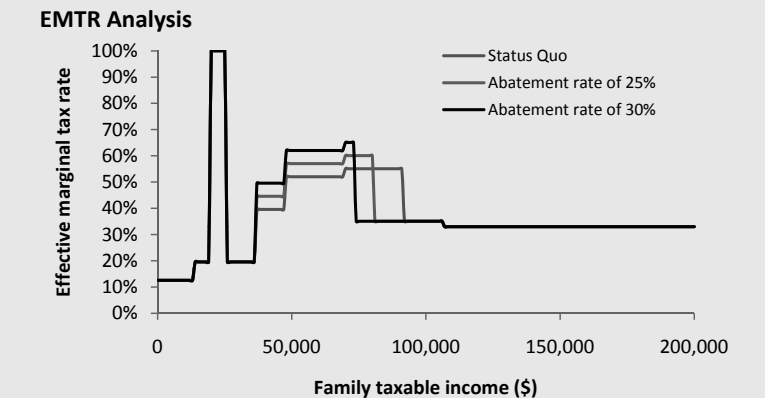
Targeting (2012/13)

Measure	SQ	22.5%	25%	30%
% of funding below abatement threshold	60%	62%	64%	68%
% of funding going to beneficiary families	47%	49%	51%	53%

Working Incentives & Efficiency

Change in the gain from entering paid work (\$)
 •Example: If our DPB recipient enters paid employment, their gain will be \$0.59 per week less under a 25% abatement rate than under the status quo

Option 2A	22.5%	25%	30%
Replacement rate (\$)	-0.29	-0.59	-1.18

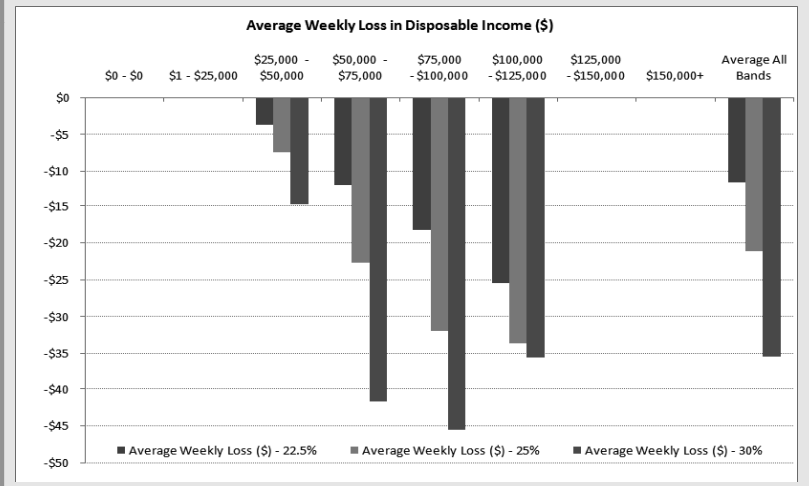


Compliance & Admin

- Implementation costs – Low
- Impact of WFF applications – Low
- Ongoing Administration – No Change

Equity (2012/13)

• No measureable impact on aggregate poverty and income inequality measures



Winner/Loser Analysis

•Winner/Loser analysis is based on the number of families that receive a change in their WFF entitlement relative to the status quo.
 •Status quo is 412,493 recipients.

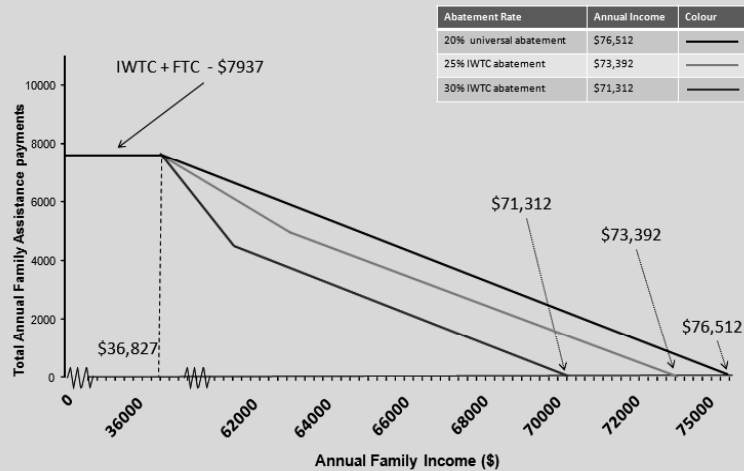
	Winners	Losers	No Change
22.5%	0	196,818	215,675
25%	0	196,818	215,675
30%	0	196,818	215,675

Option 2B: Increase the IWTC Abatement Rate

Description

• Option 2B increases the abatement rate of the IWTC only from the current abatement threshold of \$36,827 and reverses the order of abatement to abate the IWTC first. There are two variations: increase the abatement of the In-work Tax Credit to 25% and 30%.

Option 2B – Family with 1 child aged 10 years



Fiscal Savings (\$m)

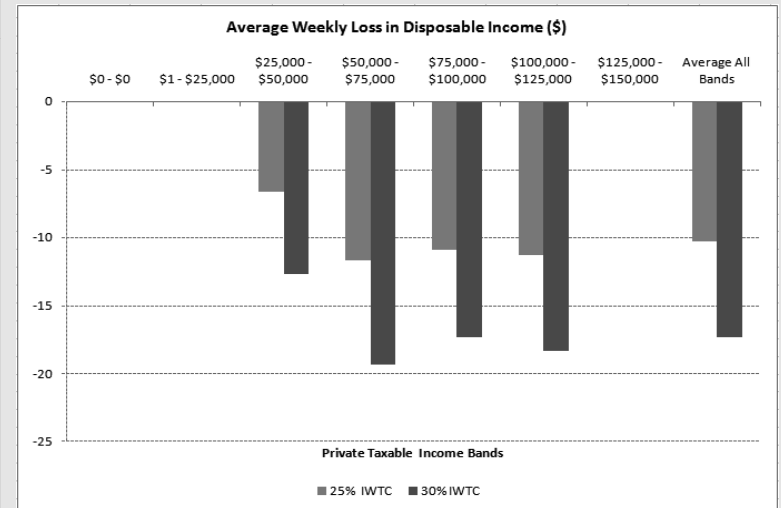
	11/12	12/13	13/14	14/15
25% IWTC	93	94	93	101
30% IWTC	160	162	161	168

Targeting (2012/13)

Measure	SQ	25% IWTC	30% IWTC
% of funding below abatement threshold	60%	62%	63%
% of funding going to beneficiary families	47%	48%	49%

Equity(2012/13)

• No measureable impact on aggregate poverty and income inequality measures



Winner/Loser Analysis

• Winner/Loser analysis is based on the number of families that receive a change in their WFF entitlement relative to the status quo.
• Status quo is 412,493 recipients.

	Winners		Losers		No Change	
25% IWTC	0	0%	187,880	46%	224,613	54%
30% IWTC	0	0%	187,880	46%	224,613	54%

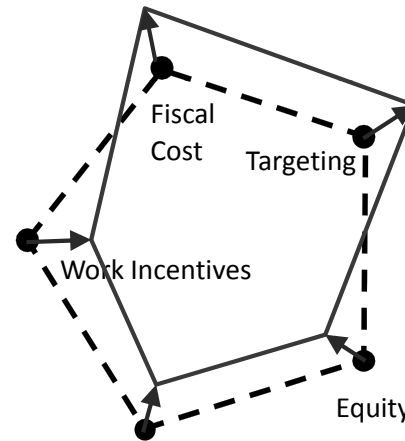
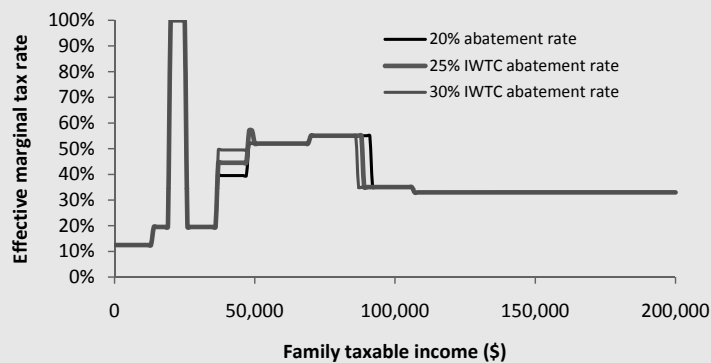
Working Incentives & Efficiency

Change in the gain from entering paid work (\$)

• Example: If our DPB recipient enters paid employment, their gain will be \$0.59 per week less under a 25% IWTC abatement rate than under the status quo

Option 2B	25% IWTC	30% IWTC
Replacement rate (\$)	-0.59	-1.18

EMTR Analysis



Compliance & administration

Compliance & Admin

- Implementation costs – Medium
- Impact of WFF applications – Low
- Ongoing Administration – No Change

Option 3: Simplify the FTC Payment Schedule

Description

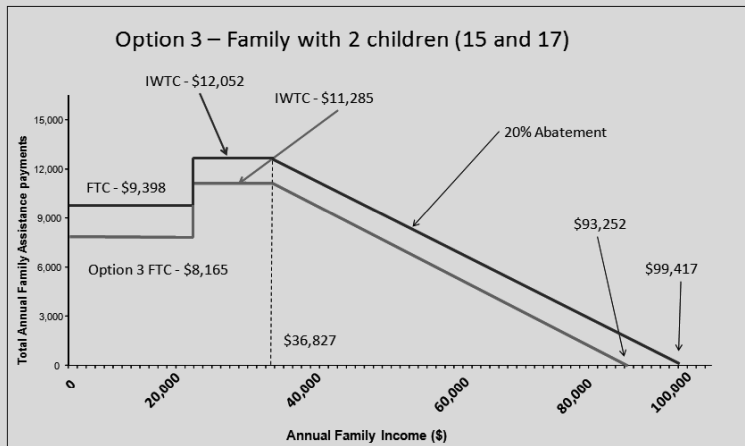
- This option simplifies the Family Tax Credit payment schedule by removing the higher rates for teenagers (i.e. one rate for one child and one rate for subsequent children).
- The current and proposed payment schedules are below:

Current Schedule

Age/Number of Children	Weekly Pay
First Child if under 16	\$88.03
First Child if 16 or over	\$101.98
Second child rate if under 13	\$61.19
Second child rate if 13 to 15	\$69.78
Second child rate if 16 or over	\$91.25

Proposed Schedule

Age/Number of Children	Weekly Pay
First Child	\$88.03
Second Child	\$61.19



Working Incentives & Efficiency

EMTRs

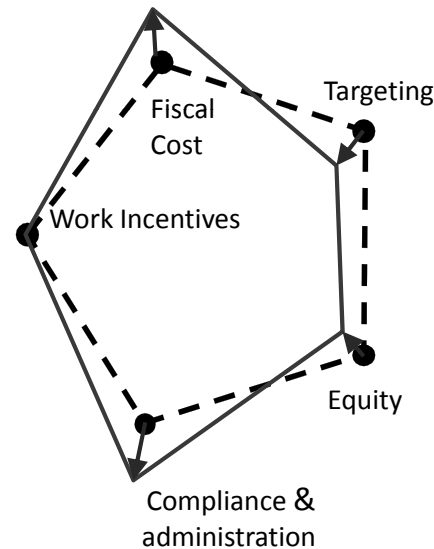
- EMTRs will be improved at higher income levels for those households with teenagers as WFF payments will fully abate away at a lower income level.

Change in the gain from entering paid work (\$)

- Is unchanged by this option

Fiscal Savings (\$m)

	11/12	12/13	13/14	14/15
Cost	72	75	74	76



Compliance & Admin

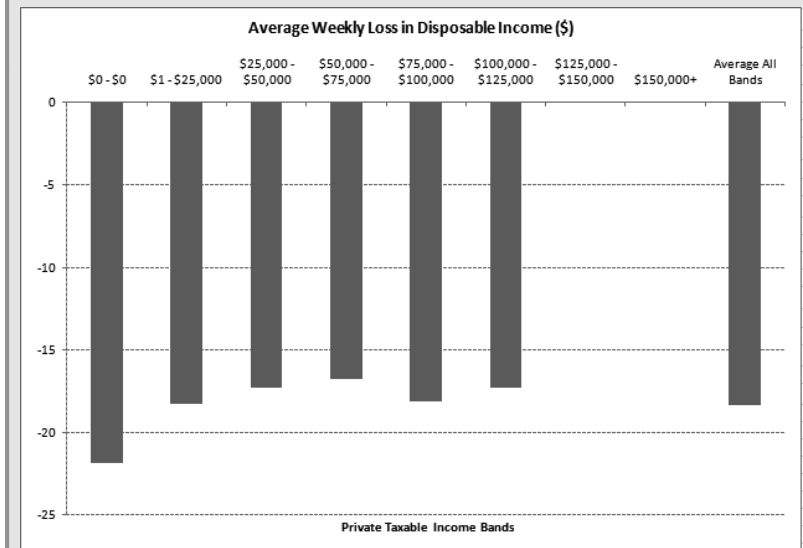
- Implementation costs – Low
- Impact of WFF applications – Low
- Ongoing Administration – simplified. Marginal decrease in costs

Targeting (2012/13)

Measure	Status Quo	Option 3
% of funding below abatement threshold	60%	60%
% of funding going to beneficiary families	47%	46%

Equity (2012/13)

- No measureable aggregate impact on income inequality and income poverty, but an increase in poverty rates expected for some population subgroups.



Winner/Loser Analysis

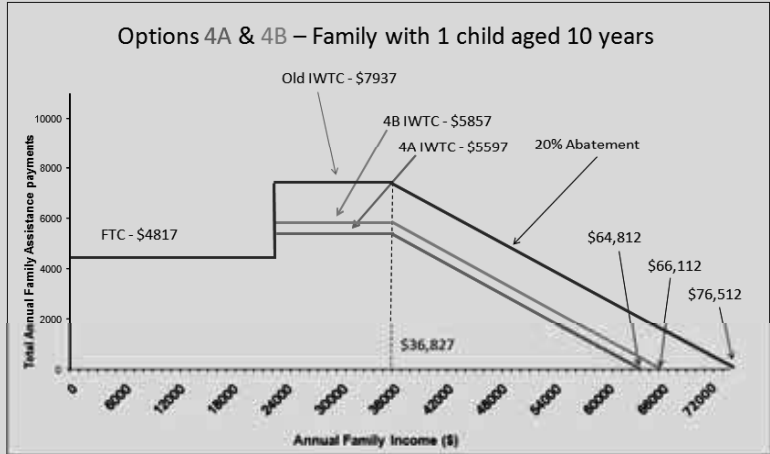
- Winner/Loser analysis is based on the number of families that receive a change in their WFF entitlement relative to the status quo.
- Status quo is 412,493 recipients.

Winners		Losers		No Change	
0	0%	78,613	19%	333,881	81%

Option 4: Change the IWTC to individual child rates

Description

- This option changes the In-work Tax Credit to a single child rate.
- There are two variations:
 - Option 4A - Change the IWTC to \$15 per child per week; and
 - Option 4B - Change the IWTC to \$20 per child per week for the first three children, then \$15 per week thereafter.
- The changes relative to the status quo are shown as follows:



Fiscal Savings (\$m)

	11/12	12/13	13/14	14/15
4A	318	316	306	304
4B	210	209	202	200

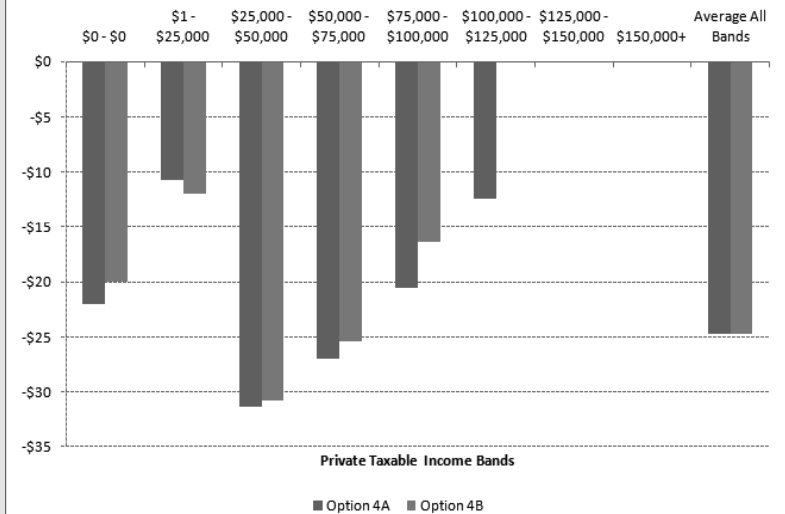
Targeting (2012/13)

Measure	Status Quo	4A	4B
% of funding below abatement threshold	60%	65%	63%
% of funding going to beneficiary families	47%	52%	50%

Equity (2012/13)

- No measureable impact on aggregate poverty and income inequality measures

Average Weekly Loss in Disposable Income (\$)



Winner/Loser Analysis

- Winner/Loser analysis is based on the number of families that receive a change in their WFF entitlement relative to the status quo.
- Status quo is 412,493 recipients.

	Winners		Losers		No Change	
4A	0	0%	247,944	60%	164,549	40%
4B	0	0%	228,011	55%	184,304	45%

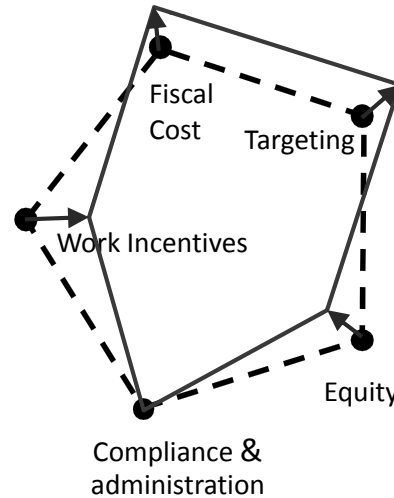
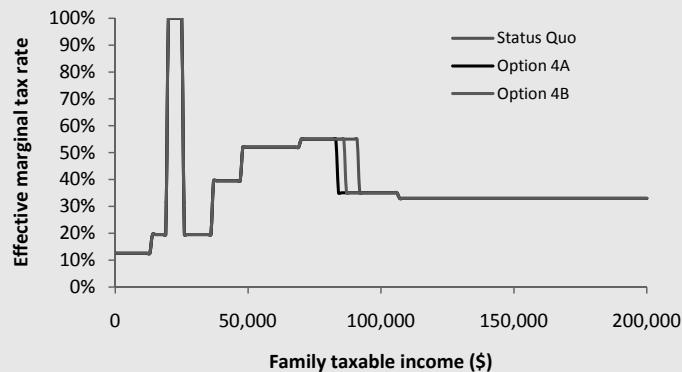
Working Incentives & Efficiency

Change in the gain from entering paid work (\$)

- Example: If our DPB recipient enters paid employment, their gain will be \$30 per week less under option 4A than under the status quo

	Option 4A	Option 4B
Replacement rate (\$)	-30.00	-20.00

EMTR Analysis



Compliance & Admin

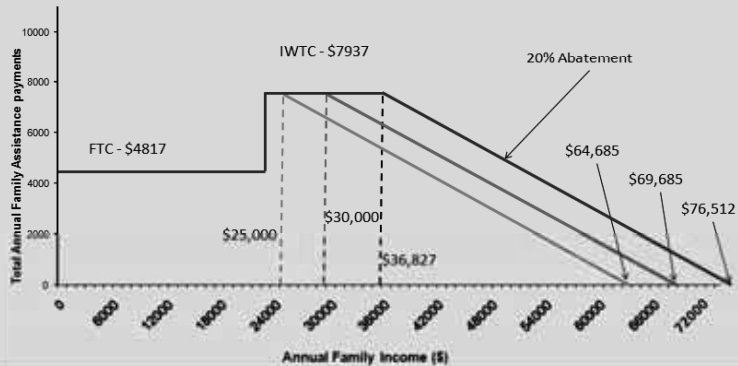
- Implementation costs – Low
- Impact of WFF applications – Low
- Ongoing Administration – No change

Option 5: Lower the abatement threshold

Description

- This option lowers the abatement threshold for the FTC, IWTC and the parental tax credit. It is currently \$36,827.
- We have covered two scenarios:
 - Option 5A – Lower the threshold to \$30,000; and
 - Option 5B - Lower the threshold to \$25,000.
- The changes relative to the status quo are shown as follows:

Options 5A & 5B – Family with 1 child aged 10 years



Fiscal Savings (\$m)

	11/12	12/13	13/14	14/15
5A	262	265	259	261
5B	449	451	439	439

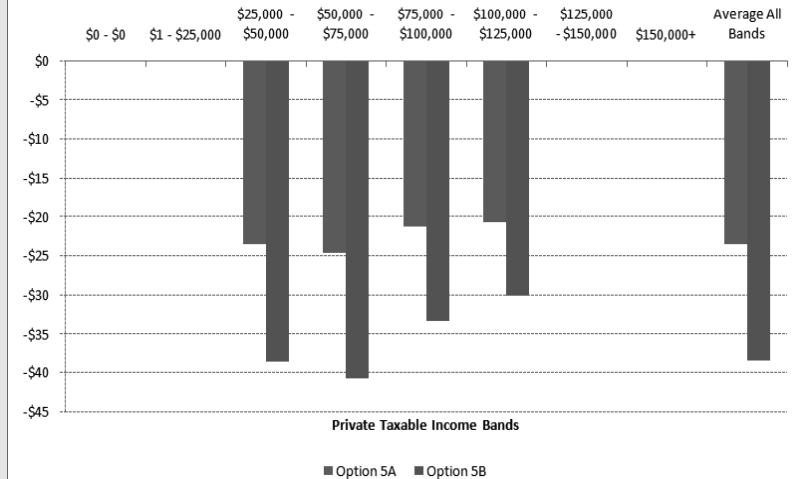
Targeting (2012/13)

Measure	Status Quo	5A	5B
% of funding below abatement threshold	60%	65%	69%
% of funding going to beneficiary families	47%	51%	55%

Equity (2012/13)

- No measureable impact on aggregate poverty and income inequality measures

Average Weekly Loss in Disposable Income (\$)



Winner/Loser Analysis

- Winner/Loser analysis is based on the number of families that receive a change in their WFF entitlement relative to the status quo.
- Status quo is 412,493 recipients.

	Winners	Losers	No Change
5A	0 (0%)	215,931 (52%)	196,563 (48%)
5B	0 (0%)	226,193 (55%)	186,300 (45%)

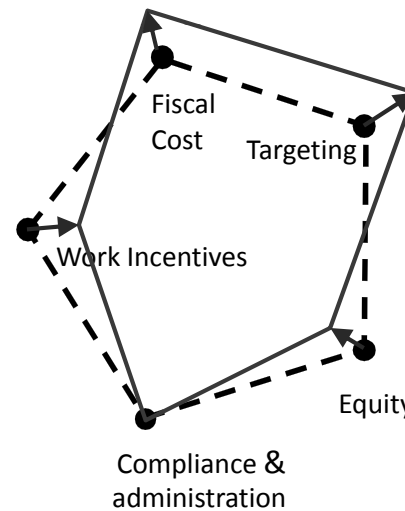
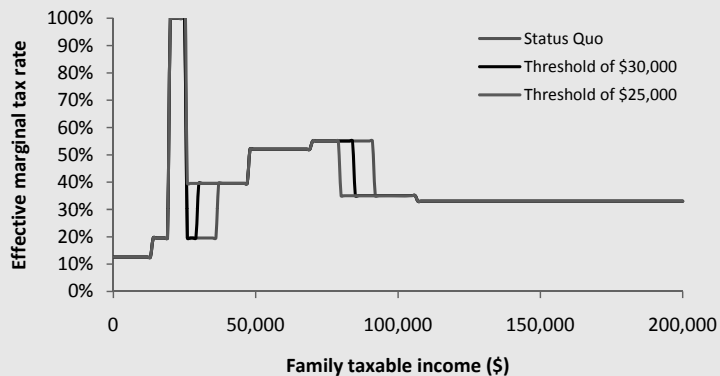
Working Incentives & Efficiency

Change in the gain from entering paid work (\$)

- Example: If our DPB recipient enters paid employment, their gain will be \$26.26 per week less under option 5A than under the status quo

	Option 5A	Option 5B
Replacement rate (\$)	-26.26	-45.49

EMTRs Analysis



Compliance & Admin

- Implementation costs – Low
- Impact of WFF applications – Low
- Ongoing Administration – No Change