The Treasury

Budget 2011 Information Release

Release Document

June 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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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

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[8] 9(2)(h) - to maintain legal professional privilege

[9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

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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.

THE TREASURY
Kaitohutohu Kaupapa Rawa

Date: 26 April 2011

28 APR 2011

To: Minister of Finance

AIDE MEMOIRE: KIWISAVER FORECASTS FOR BUDGET 2011

You asked for a breakdown of the difference between the KiwiSaver expense tracks from the Preliminary forecast, which did not include Budget 2011 changes, and the Final forecasts that did. The differences consist of a small forecast change and the impact of the Budget 2011 KiwiSaver changes.

How changes to KiwiSaver affect both non-departmental expenditure and tax revenue are summarised below:

- Halving the rate and cap of the MTC will reduce the MTC expense;
- Removing the ESCT exemption will increase tax revenues;
- Reducing subsidies will marginally reduce KiwiSaver membership, further reducing Kick-Start and MTC expense; and
- Increasing the minimum employer contribution will mean when lower income members increase their contributions from 2% to 3% they will also boost their level of MTC (but this will still be lower than under the status quo).

Note that the changes to tax revenue from removing the ESCT exemption would not show up in the forecast track. Table 1 explains the difference between the KiwiSaver expense track for both forecasts (positive number reflects saving) and separates those changes that affect expenditure and tax revenue.

Table 1: Reconciling KiwiSaver expense track preliminary and final Budget 2011 forecasts

	2010/11	2011/12	2012/13	2013/14	2014/15
Preliminary Forecast KiwiSaver Expense Track	1,018	1,107	1,088	1,073	1,112
Final Forecast KiwiSaver Expense Track	1,039	656	614	596	631
Reduction in Expenditure	**-21**	**451**	**474**	**478**	**481**
Breakdown of Difference					
Impact of forecast change	-21	-18	-14	-8	-13
Kick-Start Payment	0	6	4	2	2
Member Tax Credit	0	463	484	484	492
Expenditure Savings	**-21**	**451**	**474**	**478**	**481**
Tax Increase from removing ESCT exemption	0	44	196	212	226
Overall Savings	**-21**	**495**	**670**	**690**	**706**

28 APR 2011

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The forecast change is due to updated macroeconomic forecasts, which are inputs to producing the tracks. In particular, updates to forecasts of the size and composition of the Labour Force will have impacted on the KiwiSaver forecasts.

The impact of the forecast change was not included in the KiwiSaver Cabinet paper (*Budget 2011: Making KiwiSaver more cost-effective*, Cab Min (11) 15/16 refers). So the overall savings figure in Table 1 differs from the total level of savings from the Cabinet paper. But changes to the Kick-Start payment, Member Tax Credit and tax increase from removing the ESCT exemption in table 1 are the same as those set out in the KiwiSaver Cabinet paper.

The increase in ESCT reaches over $200m by the end of the forecast period and relates to ESCT imposed on employer contributions of up to 2%. Even without increasing the compulsory employer contribution rate, total employer contributions would have approached $1bn by the end of the forecast period. We estimate the average ESCT rate to be around 24% implying that just under one quarter of employer contributions would be collected as ESCT. The increase to ESCT revenue does not include ESCT paid from additional employer contributions as a result of increasing the compulsory employer contribution from 2% to 3%. Employers would meet this additional cost by reducing wages, profits or other forms of spending which would otherwise be taxed at a similar rate (so other taxes would fall by a similar amount).

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