# The Treasury

## Budget 2017 Information Release

## Release Document July 2017

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| [39] | to prevent the disclosure of official information for improper gain or improper advantage | 9(2)(k) |
| [40] | Not in scope | |

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THE TREASURY
Kaitohutohu Kaupapa Rawa

# **Treasury Report:** Preliminary Options for Tax Cuts for Budget 2017

| | | | |
|---|---|---|---|
| **Date:** | 13 September 2016 | **Report No:** | T2016/1650 |
| | | **File Number:** | SH-13-5-2-3 |

## Action Sought

| | Action Sought | Deadline |
|---|---|---|
| Minister of Finance<br>(Hon Bill English) | **Discuss** with officials | 20 September 2016 |

## Contact for Telephone Discussion (if required)

| Name | Position | Telephone | | 1st Contact |
|---|---|---|---|---|
| Eina Wong | Senior Analyst | [39] | [23]<br>(mob) | ✓ |
| Suzy Morrissey | Team Leader, Tax Strategy | [39] | [23]<br>(mob) | |

## Actions for the Minister's Office Staff (if required)

**Return** the signed report to Treasury.

| | |
|---|---|
| Note any feedback on the quality of the report | |

**Enclosure**: No

# **Treasury Report:** Preliminary Options for Tax Cuts for Budget 2017

## Executive Summary

The Government has indicated potential tax cuts of up to $3 billion could be a part of Budget 2017 if economic and fiscal conditions allow. This report presents preliminary options of varying fiscal costs that target tax cuts and transfers to improve incomes for lower-income families.

Because the preliminary half-year economic and fiscal forecasts for 2016 are not yet available, we have modelled the options based on low ($0.9 billion), medium ($1.5 billion) or high ($2.3 billion) fiscal costs. We have also included changes to payments for Working for Families as well as main benefits. This report discusses three options that may be of particular interest based on fiscal and distributional impacts, while maintaining the integrity of our tax system.

These options may be further refined depending on the desired level of changes and how they fit within the Government's direction of fiscal, economic and social policy. We would like to discuss these options with you.

Ideally, we would also model the impacts on economic efficiency or marginal excess burdens for each of the options. Given the time and resource required, we have not done this, but we are working on developing this capability and will aim to include these impacts once options are further refined.

Any changes to the tax and transfer system will need to take into consideration the technological changes that Inland Revenue is undertaking as part of its Business Transformation. Inland Revenue is conducting further work on the timing issues, but currently, the most preferred time for changes to the personal tax schedule or benefits is 1 April 2018, with changes to Working for Families on 1 April 2019.

## Recommended Action

We recommend that you:

a **note** that the preliminary half-year economic and fiscal forecasts for 2016 are not yet available, and we are not yet able to advise whether the available operating allowance would support a particular desired level of tax cuts and transfers

b **note** that officials have provided preliminary options for personal tax changes with changes to payments for Working for Families tax credits and main benefits to test the direction of the work with you

c **note** that the focus of the options is on improving the incomes of lower-income families, and that any tax cuts at the lower income tax brackets will also benefit higher-income families

d **note** that, if you wish, we can modify design aspects of the options to address the balance of efficiency, equity, or fiscal objectives desired

e **note** that impacts on efficiency or marginal excess burdens have not yet been analysed for these preliminary options, but that we are working on the analysis to include for further refined options

f **note** that there are administrative constraints that impact the timing for when changes to taxes or transfers could occur without operational risks

g **agree** that you meet with officials to discuss the contents of this report.

*Agree/Not agree.*

Suzy Morrissey
**Team Leader, Tax Strategy**

Hon Bill English
**Minister of Finance**

# **Treasury Report:** Preliminary Options for Tax Cuts for Budget 2017

## Purpose of Report

1. We present some options in this report to give you an idea of what possible tax cuts could look like for a Budget 2017 package. These tax cuts also take into consideration changes to the wider welfare system, but in limited scope, including changes to Working for Families (WFF) payment levels and to main benefits payment levels.

2. To keep the report manageable, we have inserted more detailed supplementary information in appendices, including other tax options modelled not included in the main report.

## Scope of work and context

3. Officials met with you previously to discuss the work programme for the Tax and Transfer Working Group and its expected deliverables [T2016/1363 refers]. At that meeting, you directed us to focus on an "incomes policy" that focuses on the low-income population through the tax and transfer system. We have recently provided a briefing to you summarising recent Government responses for those cohorts [T2016/1640 refers]. We were also asked not to consider changes to the GST rate at this time, and that changes to address fiscal drag were not to be prioritised unless we consider advised as first-best advice.

4. We present some initial options to test with you the direction of the work. At this time, we have several unknowns/caveats that will impact the design of a tax package:

   a. The preliminary half-year economic and fiscal forecasts will not be finalised until late-October. This means that the fiscal envelope for a tax package is still unknown. Treasury recently reported to you on possible options to alter operating allowances while remaining consistent with the Government's fiscal strategy [T2016/1683 refers].

   b. We have been working on the assumption that a tax package may total up to $3 billion per year. With that goal, we have modelled Low ($ 0.9 billion), Medium ($ 1.5 billion), or High ($ 2.3 billion) annual fiscal options that we think may achieve the intended equity objectives while maintaining the overall simplicity and effectiveness of our tax system.

   c. It is possible to refine these options to be implemented in steps, depending on ministers' preferences for timing as well as constraints on Inland Revenue's ability to make technological changes during its Business Transformation (discussed later in this report).

   d. Because the options are preliminary, we have not modelled the efficiency impacts that measure changes to labour supply participation, or changes in excess burden by tax bracket. However, we provide the distributional impacts that indicate winners and losers at the family level based on changes to weekly disposable income.

   e. We are not able to comment on the tradeoffs between a possible tax package and other spending or debt targets at this time. That advice will be provided to you in early November after the economic and fiscal forecasts are finalised.

5. The current personal tax schedule is (effective from 1 October 2010):

Table 1. Current personal tax rates

| Income bracket | | Marginal tax rate |
|---|---|---|
| $1 | $14,000 | 10.5% |
| $14,001 | $48,000 | 17.5% |
| $48,001 | $70,000 | 30% |
| $70,001 + | | 33% |

*Average tax rates*

6. The table below estimates the average tax rates (ATRs) for individuals' incomes at minimum wage, average wage[1], or double average wages.

Table 2. Current average tax rates

| | Yearly income (52 weeks) | ATR with current tax schedule |
|---|---|---|
| 20 hours, minimum wage | $ 15,860 | 11.32% |
| 40 hours, minimum wage | $ 31,720 | 14.41% |
| 20 hours, average wage | $ 29,095 | 14.13% |
| 40 hours, average wage | $ 58,189 | 18.0% |
| 40 hours, 2x average wage | $ 116,378 | 25.2% |

## Motivation for Tax Cuts

7. The 2010 tax reforms following the recommendations from the Tax Working Group have placed the New Zealand tax system in a relatively desirable position compared to other OECD countries in terms of its simplicity and effectiveness. In particular, New Zealand has relatively low marginal tax rates. All else equal, this means that personal taxes are likely to have a smaller effect in distorting labour supply decisions than may be observed in other countries. Keeping tax rates broad is helpful in ensuring that the tax system is as efficient as possible. It also helps to make it fair. By keeping the tax base broad, we are able to keep tax rates low. This has a second benefit in reducing economic inefficiencies and promoting fairness. This has a high level of buy-in from the public.

8. While median household incomes have increased in real terms since 2008-09 by 10%, incomes for those at the bottom (after housing costs are taken into consideration), have not been increasing as quickly as for those at the top.[2] Before deducting housing costs, growth in incomes has been relatively evenly spread across the income distribution over this period (at around 8-10% in real terms at the top of each decile).

1 Average weekly ordinary time earnings (June 2016 quarter) was used for average wage calculations.

2 Perry, Bryan, "Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2015", August 2016, p.241.

9. New Zealand's current measures of income and poverty are captured through repeated cross-sectional surveys (such as the Household Economic Survey), which do not show the persistence of low incomes or poverty for families or individuals. Longitudinal information is required to show this. Some longitudinal research in New Zealand has been done using the Survey of Family, Income and Employment survey (SoFIE), conducted from 2002-2010. Research shows that there is considerable movement of individuals in and out of income deciles, but much of this movement is short range. Out of those who start in one of the three lower household income deciles in the first year, half are still there after seven years, a quarter have moved up to around the middle, and another quarter have moved to have incomes above the middle. Research using Inland Revenue administrative data on individual incomes also shows high mobility of incomes for New Zealanders.[3]

10. This report looks at options to address some of the above issues.

*Efficiency versus equity*

11. When considering fairness or distributional concerns, the relevant issue to consider is how average tax rates are affected. This reflects how much of a person's income goes in tax, recognising that benefits are a negative tax. When considering economic efficiency issues often marginal tax rates are more relevant, as it is usually these rates that affect incentives to work longer or harder.

12. We understand that the primary objective for potential tax cuts as part of Budget 2017 is addressing the income levels of the poor. We have identified that within the tax framework, a starting point is to look at families in the bottom two quintiles, with family incomes below $39,500. Although not a direct comparison to family incomes, the median unequivalised household income in 2015 was $73,500.[4] If we consider a subjective poverty line to be 50% of that income, then the focus would be on households earning less than $36,750.

13. Although the initial focus is on low-income individuals and families, tax cuts in the lower tax brackets will also benefit those on middle and high incomes.

14. Changes to the personal tax structure, transfers, or benefits will impact economic efficiency in terms of labour supply participation and excess burden. While maximising economic efficiency is not the starting point of our analysis, understanding the impacts would give Ministers better information on the relative economic gains, against which you could measure equity objectives. We are working on developing this modelling capability and will aim to have this available for the next round of advice when the options are further refined.

15. As part of any potential change to the personal tax structure, ideally we review the impacts of fiscal drag. At this time, we consider that changes with the aim of addressing fiscal drag are out of scope. We discuss this later in the report.

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3 Creedy, John and Gemmell, Norman, "Types of Income Mobility: Insights from TIM Curves," Victoria University of Wellington, working paper, July 2016.

4 Perry, Bryan, "Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2015", August 2016, p.241.

## Descriptive Statistics – Status Quo

*Low-income population*

16. The table below shows the percentage of families[5] with incomes below $39,500 per year who receive at least one of the following transfers:

Table 3. Transfers for families with incomes under $39,500 by transfer category

| | Core Benefits[6] | Family Tax Credit | Accommodation Supplement | NZ Superannuation |
|---|---|---|---|---|
| % families in category | 97% | 61% | 74% | 21% |
| # families in category | 255,000 | 155,000 | 315,000 | 17,000 |
| $ b cost for category | $ 3.1 b | $ 1.4 b | $ 1.0 b | $ 0.5 b |

17. Figures in Table 3 were calculated for tax year 2019/20 if no changes are made to personal taxes or transfer regime. This allows a direct comparison of the fiscal impacts of proposed changes discussed in the next section.

18. We recently provided a briefing to you that summarised several recent Government policies/responses that were focused on the low-income population; namely, the 2015 Material Hardship package, the potential changes to wages for low-wage earners as a result of the Terranova lawsuit, and the increase in the minimum wage in April 2016 to $15.25 per hour [T2016/1640 refers]. While the Hardship package is anticipated to reduce the depth of material hardship for impacted families, given the scale of the package, it is not expected to significantly reduce the number of families experiencing material hardship. The total fiscal cost of the package is estimated to be $240 million per year.

## Proposed Changes – Starting values

19. As discussed above, we have modelled several fiscal scenarios with several variants. Table 4 below summarises the fiscal costs of the options, but the discussion following will focus on three options in particular that you may find more interesting. These are highlighted in the table. We provide more detail on the remaining options in the Appendix 3.

Table 4. Summary of fiscal options (with clawback)[7]

| | Low | Medium | High |
|---|---|---|---|
| Tax cuts only | $ 0.5 b | $ 1.1 b | $ 1.8 b |
| Tax cuts + WFF | $ 0.9 b | $ 1.5 b | $ 2.2 b |
| Tax cuts + benefits | $ 0.6 b | $ 1.2 b | $ 1.9 b |
| Tax cuts + WFF + benefits | $ 1.0 b | $ 1.6 b | $ 2.3 b |

5 Families who have at least one adult under 65 years old. Calculated using Household Economic Survey from Taxwell.

6 Core benefits include: Job Seeker Support, Sole Parent Support, and Supported Living Payment.

7 Fiscal costs are approximate and calculated for tax year 2019/20. If changes occur for tax year 2018/19, costings and distribution results will be broadly the same. The clawback refers to the return of tax revenue from additional spending of tax cuts via GST, corporate taxes, and other indirect taxes.

20. In detail, the tax cuts are as follows, changes in red text. The low fiscal scenario increases the bottom tax bracket by $1,000 and lowers the tax rate by 1%. The medium fiscal scenario reduces the second tax rate by 2% with no change to the thresholds. The high fiscal scenario reduces the bottom two rates by 2% with no change to the thresholds.

Table 5. Preliminary tax cuts

| Status Quo | | | Low Scenario | | | Medium Scenario | High Scenario |
|---|---|---|---|---|---|---|---|
| $1 | $14,000 | 10.5% | $1 | $15,000 | 9.5% | 10.5% | 8.5% |
| $14,001 | $48,000 | 17.5% | $15,001 | $48,000 | 17.5% | 15.5% | 15.5% |
| $48,001 | $70,000 | 30% | $48,001 | $70,000 | 30% | 30% | 30% |
| $70,001 | + | 33% | $70,001 | + | 33% | 33% | 33% |

21. Although not discussed in detail in the main report, we ranked the options under the high fiscal scenario with lower priority because relatively greater gains are distributed to the higher income families. This is because the higher income families benefit from the tax cuts for a larger proportion of their incomes. Appendix 3 provides more detail for your reference.

22. The WFF payments are proposed to be increased for younger children so that all payments are the same, independent of the child's age. This aligns with current legislation which increases under-16 rates while holding 16-and-over rates constant, and with Treasury's advice on the material hardship package in the 2015 Budget.

23. Benefits payments are proposed to be increased by 2.5% for Job Seeker Support, Supported Living Payment, and Sole Parent Support. The reason for increasing benefits payments is because benefits are paid on a net basis, and so beneficiaries without another source of income would not benefit from a tax cut. Superannuation rates, however, are set on a gross basis so superannuitants would see the benefit of tax cuts (but we are not proposing changes to their rates here).

24. The WFF payment changes are as follows:

Table 6. Proposed increases to WFF payments

| | Status Quo | | Proposals | |
|---|---|---|---|---|
| 1st child | ages 0-15 | $ 5,099 | ages 0-18 | $ 5,303 |
| | ages 16-18 | $ 5,303 | | |
| 2nd child | ages 0-12 | $ 3,544 | ages 0-18 | $ 4,745 |
| | ages 13-15 | $ 4,042 | | |
| | ages 16-18 | $ 4,745 | | |

25. The proposals increase benefits payments by 2.5% and the changes are as follows:

Table 7. Proposed weekly increases to benefits payments

| | Sole Parent | Couple with children | Single | Single at home | Single young | Couple | Woman alone |
|---|---|---|---|---|---|---|---|
| Job Seeker | $ 8.46 | $ 4.87 | $ 5.46 | $ 3.64 | $ 4.55 | $ 4.55 | $ 5.68 |
| Supported Living | $ 9.61 | $ 6.01 | $ 6.82 | | $ 5.52 | $ 5.68 | |
| Sole Parent Support | $ 8.46 | | | | | | |

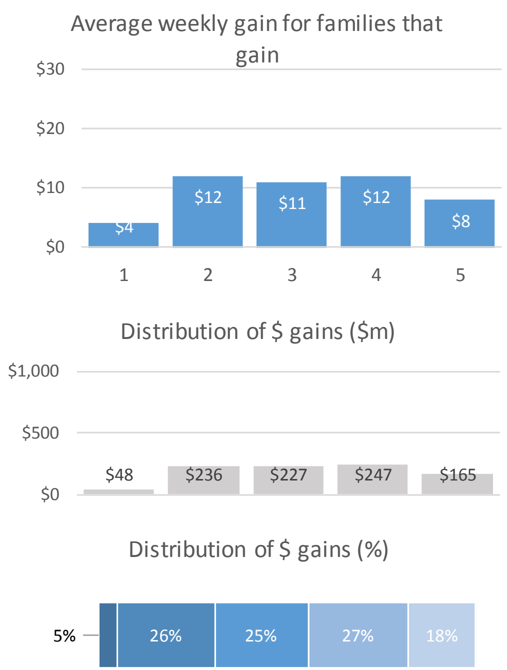
26. The table above illustrates that benefits increases will also go toward low-income families without children, unlike WFF increases.

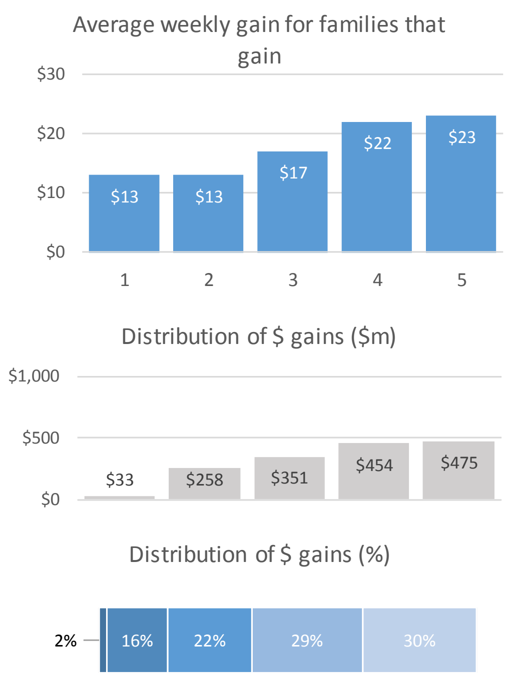
## The Options

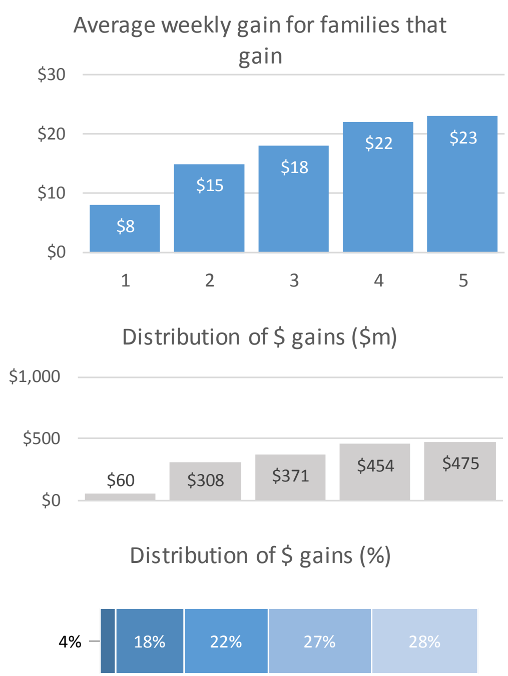
27. We have not included "tax cut only" options as these are least likely to provide tax relief to the lower income families. Rather, we have focused on options that include changes to WFF, or changes to both WFF and benefits.

28. The three options are presented in the following charts. To present the comparisons more easily, we focus on the families that gain from the changes, as the winners are more variable across income quintiles for all the options (as opposed to the disadvantaged). Also, we present the impacts on the working-age population, which decreases the total sample to those families who have at least one adult under age 65.

| *Option 1: Change tier 1 threshold and rate, and increase WfF* | *Option 2: Lower tier 2 rate, and increase WfF* | *Option 3: Lower tier 2 rate, increase WfF, increase benefits* |
|---|---|---|
| Fiscal cost with/without clawback ($m): **$901/$1060** | Fiscal cost with/without clawback ($m): **$1505/$1770** | Fiscal cost with/without clawback ($m): **$1573/$1850** |




**Note**. The fiscal cost estimates are based on applying the policies to all families. However, the gainers analysis has been restricted to families with at least one working age individual (i.e. families with at least one adult under 65 years of age).

Estimates provided from Taxwell using Household Economic Survey (HES).

Disclaimer: Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics New Zealand.

*Option 1: Change tier 1 threshold and rate, and increase WFF*

29. In this option, we simultaneously increase the threshold of the bottom tax bracket to $15,000 and lower the tax rate to 9.5%. Total dollar gains are greatest for those in income quintiles 2 and 4, with gains falling for highest income families. An alternative (with details in Appendix 3) is to also include benefits changes to give an even greater gain to the bottom 2 quintiles without increasing gains for higher income families.

30. As mentioned earlier in this report, we have not yet modelled behavioural changes and the impact on labour participation. However, we anticipate that because the tax rate and threshold changes are relatively small, the impacts would be relatively small.

*Option 2: Lower tier 2 rate, and increase WFF*

31. Option 2 allows for a larger tax cut, but only in the second tax bracket. To compensate those on lower incomes, an increase in WFF payments is also added. Relative to Option 1, the gains are smaller for income quintile 1 because the tax cuts do not go to these families, but gains are about the same for the income quintile 2 because of the WFF increases.

32. Because the change to the marginal tax rate is relatively small, we expect some, but likely small impacts to labour participation.

*Option 3: Lower tier 2 rate, increase WFF, increase benefits*

33. This option provides the greatest benefit to income quintile 2 (and 3), but at a slightly higher cost than Option 2. It compensates families on benefits who would not necessarily gain from the 2$^{nd}$ bracket tax cut to 15.5%. Relative to Option 1, average weekly gains and total dollar gains would be higher in all quintiles. The fiscal difference compared to Option 2 is relatively small (approximately $68 million per year) to include benefits increases. While the average weekly gain per family is smaller for quintile 1 compared to Option 2, there are more families that gain from the increase in WFF and benefits.

34. The impact on labour participation is expected to be similar to that of Option 2.

*Impact on average tax rates*

35. The following table illustrates declining ATRs for the options discussed. We assume that these hypothetical individuals do not receive transfers or benefits, which is why the ATRs under Option 3 are the same as those under Option 2.

Table 8. Proposal average tax rates

| | Status Quo | Option 1 | Option 2 |
|---|---|---|---|
| 20 hours, minimum wage | 11.32% | 9.93% | 11.09% |
| 40 hours, minimum wage | 14.41% | 13.72% | 13.29% |
| 20 hours, average wage | 14.13% | 13.37% | 13.09% |
| 40 hours, average wage | 18.0% | 17.63% | 16.84% |
| 40 hours, 2x average wage | 25.2% | 25.01% | 24.61% |

*A note on disadvantaged families*

36. Under our modelling, some families lose some income after the changes. These families are generally in the bottom quintile, and the numbers vary widely between options. However, the estimated loss per family is approximately $52 per year as a result of a decrease in Accommodation Supplement for non-beneficiary families. We note that the number of families losing may be overstated in our modelling as we assume full take-up rates. To obtain more accurate estimates in our subsequent advice, we will use administrative data and modelling from MSD.

37. More information on the above options on disadvantaged families is available in Appendix 3.

*Potentially larger increases to WFF or benefits*

38. If you prefer, more gains may be focused on lower income families by increasing payments to WFF or benefits to a greater degree, rather than by changing tax rates or thresholds. This would change the distributions of gains so that higher income families gain less proportionately.

*Comparison to previous tax options considered in Budget 2016*

39. The gains from the options just discussed are targeted more toward lower-income families. In comparison, the options that we considered as part of Budget 2016 were targeted more toward middle-income families.

## Potential Extensions

*Review the Independent Earner Tax Credit (IETC)*

40. In the course of this preliminary work, we looked at the statistics for the IETC. The stated purpose of IETC was to increase labour participation for lower income individuals when it was introduced on 1 April 2009. Eligible individuals receive approximately $10 per week ($520 per year unabated) if their annual income is between $24,000 and $44,000. The bottom threshold was deliberately set to just below full-time minimum wage income. At the time (just before the 2010 tax reforms), personal tax rates were higher, with the bottom two rates being 12.5% and 21%, respectively.

41. We estimate that in 2020, approximately 38% of individuals who will receive IETC will come from families whose incomes are *above* $ 82,400. We infer that there are some recipients who have a low annual income qualifying for IETC, but may be partnered with a high-income earner. These families may or may not have children, but even if they did, they would not be eligible for WFF.

42. The projected IETC pay out in 2020 is $255 million. Of that, $92 million is forecast to be paid to those relatively higher income families earning above $ 82,400 if full take-up of the tax credit occurs. As a comparison, total IETC paid out in 2015 was $220 million.

43. Based on this early analysis, we may have a situation where the policy intent to increase work incentives for lower-income individuals has resulted in lower-income individuals in high-income families receiving a significant proportion of the transfer. To date, there has not been a review of the IETC since its introduction. Given the potential fiscal impact, we suggest that this review be undertaken, but as a separate stream of work from the tax cuts. We would like to discuss this further with you.

*Minimum Family Tax Credit (MFTC)*

44. The issue of potential changes around the MFTC, a component of WFF tax credits, is complex. MFTC guarantees a minimum family income for a working family, and has an abatement rate of 100%, which may result in effective marginal tax rates above 100% for these families. Before reporting on any options, there is a need for further research and discussion between the main agencies involved, namely Inland Revenue, the Ministry of Social Development and Treasury. Officials will report on this topic in more detail separately in October.

## Timing and Administrative Implications

45. If Ministers would like to implement a tax package as part of Budget 2017, there are several timing options. The options are restricted by the ability of Inland Revenue to make changes to its systems, given that they have current commitments to the Business Transformation (BT) programme.

46. Inland Revenue advises that systems risks are minimised if changes are scheduled to avoid peak times of change for BT and with other operational constraints in mind. In particular, they advise that risks are minimised if any Working for Families changes are made on 1 April 2019.

47. Late 2017 will be one of the peak periods of effort for BT, with extensive system testing taking place at that time. It is important that testing takes place in a stable environment. For this reason, there are risks associated with making changes to Inland Revenue's heritage systems in October 2017, and in particular, extreme risks for making changes to Working for Families in that period.

48. Mid-year adjustments to Working for Families require complex changes to Inland Revenue's systems. The FIRST system is equipped to cope with 1 April changes, and the legislation can also incorporate these changes relatively easily. However, a 1 October start date would require significant amendments to the Tax Acts, and very complicated changes to FIRST.

49. April 2018 is the conversion date for 20 to 25 tax types in Inland Revenue's new system. It is also the implementation date for the Accounting Income Method, and the application date for PAYE changes. April 2018 is a critical time, not only for Inland Revenue but also for payroll and accounting software providers. While it may be possible to implement WFF changes at that time, there would likely be operational tradeoffs.

50. At this early stage in the development of possible options, Inland Revenue has provided a generalised overview of the risks over the next two years during the BT programme. As the options become more specific, Inland Revenue will undertake an assessment of the implementation costs, timing and feasibility of the initiatives.

*Timing for changes*

51. Reflecting the administrative constraints, the following are possible date options for implementing a staggered tax package that may fit more easily within the operating allowances:

    a. Tax-only and benefit changes on 1 April 2018, followed by WFF changes on 1 April 2019 (most preferred);

    b. All changes to occur on 1 April 2018 (with administrative difficulty).

c. Tax-only changes on 1 October 2017, with potential changes to WFF or benefits rates on 1 April 2018 or 2019 (with administrative difficulty);

52. These are preliminary views from Inland Revenue and they are undertaking further work on likely operational and Business Transformation consequences. For refinement of the tax package options, we would find it helpful to understand your timing preferences.

## Out of Scope

*Fiscal drag*

53. Since the most recent changes to tax rates in 2010, the current rates have not been subject to indexation for inflation or real wage growth. This means that movements in nominal incomes (the combined effects of inflation and real wage growth) have led to 'fiscal drag' and have moved income earners, on average, on to higher average tax rates.

54. However, fiscal drag has quite uneven effects: average tax rates (ATRs) have increased the most for those with incomes close to the $48,000 tax threshold where the marginal tax rate rises from 17.5% to 30%, but increased by very little at sufficiently high levels of income. At income levels below the bottom threshold of $14,000, average tax rates have not changed at all.

55. A key question is whether the Government wants to compensate for fiscal drag in some way when changing the personal tax schedule or whether there are other more important considerations. As indicated earlier in this report, our focus on tax cuts has been more on equity objectives for families in the lower income brackets, rather than efficiency objectives. For this reason, we have not prioritised addressing fiscal drag here.

56. We intend to report to you separately in early October on the implications of indexing personal tax thresholds for inflation. In Appendix 5, we provide more detail on adjustments to the current tax thresholds if the government were to do so now, taking account changes since October 2010.

*Accommodation Supplement*

57. As discussed above, changes to tax rates and benefits will also impact the amount of Accommodation Supplement (AS) to current recipients. We understand that the Minister for Social Housing is exploring changes to housing subsidies with a focus on reducing housing stress for Accommodation Supplement recipients. Initial work will be going to STR Cabinet Committee on 10 October. Because of the complexity of that work, we think that it should be considered separately from the potential changes to tax and transfers discussed in this report, at this stage. However, we note that there are strong links with this work, particularly given the growing importance of housing costs for low-income households, and will continue to consider developments in this area.

## Next Steps

58. We would like to discuss this report with you. In particular, we would find it helpful to discuss the following points:

    - Are there particular aspects of the options you would like to rule out at this time? E.g., increases to benefits payments, WFF payments.

    - Conversely, are there aspects of the options that you would like us to keep as we refine the options further?

    - Would you like us to review the IETC?

    - What are your preferences for timing of any changes?

## Appendix 1. Summary of Proposed Changes

Note that all policy options are carried out for tax year 2019/20

### Proposed tax cuts

Status Quo

| Thresholds | | Rates |
|---|---|---|
| $1 | $14,000 | 10.50% |
| $14,001 | $48,000 | 17.50% |
| $48,001 | $70,000 | 30% |
| $70,001 | + | 33% |

Low fiscal scenario

| Thresholds | | Rates |
|---|---|---|
| $1 | $15,000 | 9.50% |
| $15,001 | $48,000 | 17.50% |
| $48,001 | $70,000 | 30% |
| $70,001 | + | 33% |

Medium fiscal scenario

| Rates |
|---|
| 10.50% |
| 15.50% |
| 30% |
| 33% |

High fiscal scenario

| Rates |
|---|
| 8.50% |
| 15.50% |
| 30% |
| 33% |

### Proposed increases to annual Working for Families payments

Status Quo

1st child

| | |
|---|---|
| ages 0-15 | $5,099 |
| ages 16-18 | $5,303 |

2nd child

| | |
|---|---|
| ages 0-12 | $3,544 |
| ages 13-15 | $4,042 |
| ages 16-18 | $4,745 |

Proposals

1st child

| | |
|---|---|
| No age limitations | $5,303 |

2nd child

| | |
|---|---|
| No age limitations | $4,745 |

### Proposed increases to weekly benefits payments

| | Sole Parent | Couple with children | Single | Single at home | Single young | Couple | Woman alone |
|---|---|---|---|---|---|---|---|
| Job Seeker | $8.46 | $4.87 | $5.46 | $3.64 | $4.55 | $4.55 | $5.68 |
| Supported Living | $9.61 | $6.01 | $6.82 | | $5.52 | $5.68 | |
| Sole Parent Support | $8.46 | | | | | | |

### Quintile summary for working age families[8,9]

| Quintile | Quintile thresholds (family taxable income) | | Number of families |
|---|---|---|---|
| 1 | < $0 | $16,400 | 396,000 |
| 2 | $16,400 | $39,500 | 396,000 |
| 3 | $39,500 | $70,200 | 396,000 |
| 4 | $70,200 | $116,100 | 395,000 |
| 5 | $116,100 | + | 395,000 |
| Total | | | 1,978,000 |

### Quintile summary for all families[9]

| Quintile | Quintile thresholds (family taxable income) | | Number of families |
|---|---|---|---|
| 1 | < $0 | $20,200 | 473,000 |
| 2 | $20,200 | $36,700 | 466,000 |
| 3 | $36,700 | $62,900 | 514,000 |
| 4 | $62,900 | $109,700 | 485,000 |
| 5 | $109,700 | + | 486,000 |
| Total | | | 2,424,000 |

8 Working age families have at least one adult 16-64 years of age.

9 All estimates are for tax year 2019/20 using the Household Economic Survey in Taxwell.

## Appendix 2. Distribution of transfers under the status quo[9]

### Distribution of transfers under the status quo - Families with at least one adult < 65

Number of families

| Quintile | Total families | Families receiving IETC | Families receiving AS | Families receiving a core benefit | Families receiving NZS | Families receiving FTC | Families receiving IWTC | No modelled transfers |
|---|---|---|---|---|---|---|---|---|
| 1 | 396,000 | 0 | 140,000 | 115,000 | 17,000 | 28,000 | 9,000 | 189,000 |
| 2 | 396,000 | 147,000 | 175,000 | 140,000 | | 127,000 | 41,000 | 35,000 |
| 3 | 395,000 | 134,000 | 79,000 | 9,000 | 20,000 | 80,000 | 94,000 | 133,000 |
| 4 | 395,000 | 141,000 | 25,000 | | 17,000 | 20,000 | 58,000 | 171,000 |
| 5 | 396,000 | 75,000 | 6,000 | 0 | 26,000 | 0 | | 293,000 |
| Total | 1,978,000 | 497,000 | 425,000 | 264,000 | 80,000 | 255,000 | 202,000 | 821,000 |

Dollars (millions)

| Quintile | Taxable income | Families receiving IETC | Families receiving AS | Families receiving a core benefit | Families receiving NZS | Families receiving FTC | Families receiving IWTC |
|---|---|---|---|---|---|---|---|
| 1 | 2,898 | 0 | 417 | 1,188 | 499 | 236 | 22 |
| 2 | 10,828 | 76 | 608 | 1,931 | | 1,117 | 133 |
| 3 | 20,964 | 63 | 154 | 26 | 410 | 379 | 318 |
| 4 | 35,856 | 80 | 19 | | 269 | 63 | 145 |
| 5 | 77,616 | 33 | 7 | 0 | 440 | 0 | |
| Total | 148,162 | 252 | 1,205 | 3,145 | 1,618 | 1,795 | 618 |

### Distribution of transfers under the status quo – All families

Number of families

| Quintile | Total families | Families receiving IETC | Families receiving AS | Families receiving a core benefit | Families receiving NZS | Families receiving FTC | Families receiving IWTC | No modelled transfers |
|---|---|---|---|---|---|---|---|---|
| 1 | 473,000 | 0 | 174,000 | 138,000 | 7,000 | 36,000 | 14,000 | 212,000 |
| 2 | 466,000 | 110,000 | 167,000 | 115,000 | 195,000 | 112,000 | 28,000 | 120,000 |
| 3 | 514,000 | 159,000 | 95,000 | 13,000 | 158,000 | 76,000 | 77,000 | |
| 4 | 485,000 | 133,000 | 37,000 | | 80,000 | 33,000 | 82,000 | 183,000 |
| 5 | 486,000 | 98,000 | 7,000 | 0 | 73,000 | | | 313,000 |
| Total | 2,424,000 | 500,000 | 480,000 | 266,000 | 513,000 | 257,000 | 201,000 | 828,000 |

Dollars (millions)

| Quintile | Taxable income | Families receiving IETC | Families receiving AS | Families receiving a core benefit | Families receiving NZS | Families receiving FTC | Families receiving IWTC |
|---|---|---|---|---|---|---|---|
| 1 | 4,154 | 0 | 518 | 1,415 | 91 | 320 | 38 |
| 2 | 12,474 | 58 | 564 | 1,705 | 4,754 | 970 | 90 |
| 3 | 24,188 | 75 | 219 | 57 | 5,148 | 413 | 282 |
| 4 | 40,618 | 78 | 33 | | 2,212 | 109 | 209 |
| 5 | 90,519 | 44 | 8 | 0 | 1,935 | | |
| Total | 171,953 | 255 | 1,342 | 3,177 | 14,140 | 1,812 | 619 |

## Appendix 3.  Details on Low, Medium, and High Fiscal Scenarios

The following three pages present fiscal cost estimates and analyses of gaining and disadvantaged families for various policy combinations.

Note: These scenarios can also be compared graphically using the accompanying spreadsheet tool which we have made available to your office.

**Notes:**

- All estimates are for tax year 2019/20 using the Household Economic Survey in Taxwell. Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics New Zealand.

- The fiscal cost estimates are based on applying the policies to all families. However, the gainers/disadvantaged analysis has been restricted to families with at least one working age individual (i.e. families with at least one adult under 65 years of age). Fiscal cost estimates are on a tax year basis for tax year 2019/20.

- Numbers of families are rounded to the nearest one thousand. Average weekly gains are rounded to the nearest dollar. Total gains are rounded to the nearest one million dollars.  Note that this can mean some losses will show as zero after rounding.  Also, some column totals may differ from the arithmetic sum of the displayed columns due to rounding.

## Low fiscal scenario

**Tax cuts only**

Fiscal cost (no clawback) ($m): $630
Fiscal cost with clawback ($m): $536

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 220,000 | 56% | $23 | 5% | $2 | 6,000 | 1% | $0 | 0% | $0 |
| 2 | 313,000 | 79% | $65 | 13% | $4 | | | | | |
| 3 | 395,000 | 100% | $103 | 21% | $5 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $144 | 29% | $7 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $165 | 33% | $8 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,719,000 | 87% | $500 | 100% | $5 | 6,000 | 0% | $0 | 0% | $0 |

**Tax cuts + WfF**

Fiscal cost (no clawback) ($m): $1,060
Fiscal cost with clawback ($m): $901

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 231,000 | 58% | $48 | 5% | $4 | 6,000 | 1% | $0 | * | $1 |
| 2 | 377,000 | 95% | $236 | 26% | $12 | | | | | |
| 3 | 395,000 | 100% | $227 | 25% | $11 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $247 | 27% | $12 | * | * | * | * | * |
| 5 | 396,000 | 100% | $165 | 18% | $8 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,794,000 | 91% | $924 | 100% | $10 | * | * | * | * | * |

**Tax cuts + benefits**

Fiscal cost (no clawback) ($m): $710
Fiscal cost with clawback ($m): $604

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 295,000 | 74% | $46 | 8% | $3 | 40,000 | 5% | $2 | 100% | $1 |
| 2 | 390,000 | 98% | $102 | 18% | $5 | | | | | |
| 3 | 395,000 | 100% | $124 | 21% | $6 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $144 | 25% | $7 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $165 | 28% | $8 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,871,000 | 95% | $581 | 100% | $6 | 40,000 | 2% | $2 | 100% | $1 |

**Tax cuts + WfF + benefits**

Fiscal cost (no clawback) ($m): $1,140
Fiscal cost with clawback ($m): $969

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 303,000 | 77% | $79 | 8% | $5 | 37,000 | 5% | $2 | * | $1 |
| 2 | 395,000 | 100% | $289 | 29% | $14 | 0 | 0% | $0 | 0% | $0 |
| 3 | 395,000 | 100% | $227 | 23% | $11 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $247 | 25% | $12 | * | * | * | * | * |
| 5 | 396,000 | 100% | $165 | 16% | $8 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,884,000 | 95% | $1,007 | 100% | $10 | * | * | * | * | * |

*Suppressed for confidentiality, values must have more than 3000 counts (weighted) and 10 or more samples

## Medium fiscal scenario

### Tax cuts only

Fiscal cost (no clawback) ($m): $1,340
Fiscal cost with clawback ($m): $1,139

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 28,000 | 7% | $0 | 0% | $0 | 10,000 | 1% | $0 | 100% | $1 |
| 2 | 323,000 | 82% | $84 | 7% | $5 | | | | | |
| 3 | 395,000 | 100% | $247 | 21% | $12 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $351 | 30% | $17 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $475 | 41% | $23 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,537,000 | 78% | $1,158 | 100% | $14 | 10,000 | 1% | $0 | 100% | $1 |

### Tax cuts + WfF

Fiscal cost (no clawback) ($m): $1,770
Fiscal cost with clawback ($m): $1,505

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 49,000 | 12% | $33 | 2% | $13 | 8,000 | 1% | $0 | * | $0 |
| 2 | 380,000 | 96% | $258 | 16% | $13 | | | | | |
| 3 | 395,000 | 100% | $351 | 22% | $17 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $454 | 29% | $22 | * | * | * | * | * |
| 5 | 396,000 | 100% | $475 | 30% | $23 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,615,000 | 82% | $1,571 | 100% | $19 | * | * | * | * | * |

### Tax cuts + benefits

Fiscal cost (no clawback) ($m): $1,420
Fiscal cost with clawback ($m): $1,207

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 129,000 | 33% | $34 | 3% | $5 | 61,000 | 15% | $3 | 86% | $1 |
| 2 | 388,000 | 98% | $142 | 11% | $7 | 5,000 | 1% | $1 | 14% | $2 |
| 3 | 395,000 | 100% | $247 | 20% | $12 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $351 | 28% | $17 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $475 | 38% | $23 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,703,000 | 86% | $1,249 | 100% | $14 | 66,000 | 3% | $4 | 100% | $1 |

### Tax cuts + WfF + benefits

Fiscal cost (no clawback) ($m): $1,850
Fiscal cost with clawback ($m): $1,573

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 143,000 | 36% | $60 | 4% | $8 | 60,000 | 8% | $3 | * | $1 |
| 2 | 393,000 | 99% | $308 | 18% | $15 | | | | | |
| 3 | 395,000 | 100% | $371 | 22% | $18 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $454 | 27% | $22 | * | * | * | * | * |
| 5 | 396,000 | 100% | $475 | 28% | $23 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,722,000 | 87% | $1,668 | 100% | $19 | * | * | * | * | * |

*Suppressed for confidentiality, values must have more than 3000 counts (weighted) and 10 or more samples

## High fiscal scenario

### Tax cuts only

Fiscal cost (no clawback) ($m): $2,150
Fiscal cost with clawback ($m): $1,828

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 226,000 | 57% | $35 | 2% | $3 | 5,000 | 1% | $0 | 0% | $1 |
| 2 | 331,000 | 84% | $173 | 10% | $10 | | | | | |
| 3 | 395,000 | 100% | $392 | 22% | $19 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $536 | 29% | $26 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $682 | 38% | $33 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,742,000 | 88% | $1,818 | 100% | $20 | 5,000 | 0% | $0 | 0% | $1 |

### Tax cuts + WfF

Fiscal cost (no clawback) ($m): $2,580
Fiscal cost with clawback ($m): $2,193

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 237,000 | 60% | $74 | 3% | $6 | 5,000 | 1% | $0 | 0% | $1 |
| 2 | 383,000 | 97% | $340 | 15% | $17 | | | | | |
| 3 | 395,000 | 100% | $495 | 22% | $24 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $660 | 29% | $32 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $682 | 30% | $33 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,806,000 | 91% | $2,251 | 100% | $24 | 5,000 | 0% | $0 | 0% | $1 |

### Tax cuts + benefits

Fiscal cost (no clawback) ($m): $2,240
Fiscal cost with clawback ($m): $1,904

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 301,000 | 76% | $63 | 3% | $4 | 33,000 | 8% | $2 | 100% | $1 |
| 2 | 390,000 | 98% | $224 | 12% | $11 | 3,000 | 1% | $0 | 0% | $2 |
| 3 | 395,000 | 100% | $392 | 21% | $19 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $536 | 28% | $26 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $682 | 36% | $33 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,877,000 | 95% | $1,897 | 100% | $19 | 36,000 | 2% | $2 | 100% | $1 |

### Tax cuts + WfF + benefits

Fiscal cost (no clawback) ($m): $2,670
Fiscal cost with clawback ($m): $2,270

| Quintile | Number of families gaining | % of quintile gaining | Total gain ($m) | % total gain | Average weekly gain for gaining families | Number of families disadvantaged | % of quintile disadvantaged | Total loss ($m) | % total loss | Average weekly loss for losing families |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 309,000 | 78% | $97 | 4% | $6 | 31,000 | 4% | $2 | 100% | $1 |
| 2 | 395,000 | 100% | $392 | 17% | $19 | | | | | |
| 3 | 395,000 | 100% | $495 | 21% | $24 | 0 | 0% | $0 | 0% | $0 |
| 4 | 395,000 | 100% | $660 | 28% | $32 | 0 | 0% | $0 | 0% | $0 |
| 5 | 396,000 | 100% | $682 | 29% | $33 | 0 | 0% | $0 | 0% | $0 |
| Total | 1,890,000 | 96% | $2,325 | 100% | $23 | 31,000 | 2% | $2 | 100% | $1 |

*Suppressed for confidentiality, values must have more than 3000 counts (weighted) and 10 or more samples

## Appendix 4. Working for Families – Overview of current state

Working for Families (WFF) targets low and middle income families who have children. It aims to increase family income to ensure that all families have enough income to raise their children and maintain a minimum standard of living. WFF includes several different tax credits. These are:

*Family tax credit (FTC)*: available per child regardless of whether the principal caregiver is working or receiving a benefit. This is the main tax credit paid to families. Work and Income makes the payment to beneficiaries and Inland Revenue makes the payment to all other families who qualify. It is income tested.

*In-work tax credit (IWTC)*: available for families not receiving a benefit and working full time (defined as 30 hours for a couple and 20 hours for a sole parent). It is income tested.

*Minimum family tax credit (MFTC)*: has similar criteria to the IWTC but a more restrictive employment test to exclude self-employment. It provides a guaranteed minimum after tax income for a family in work to ensure they receive at least as much as they would on a benefit. It is income tested.

*Parental tax credit (PTC)*: available on the birth of a child if the family does not receive a benefit or paid parental leave. It is income tested and an alternative to Paid Parental Leave payments.

Families receiving FTC are eligible for different amounts depending on the age of their children and how many children they have. Families whose eldest child is at least 16 years and under 18 could receive up to $5,303 per year for that child.

The amount of the IWTC is $72.50 per week if the family has up to three children. An additional $15 per week is paid for each additional child. So a four child family would receive up to $87.50 per week and a seven child family would receive up to $132.50 a week.

All WFF tax credits are subject to an income test, so that the amount received is abated as family income increases. Most tax credits are abated at 22.5% per dollar over the family income threshold of $36,350. So a family with income of $36,450 would have $22.50 of their WFF tax credits abated. The family tax credit is abated first, followed by the IWTC and then the parental tax credit.

The MFTC is abated separately at 100% of income, so that it reduces by $1 for every $1 after-tax income earned. However, a person may also be required to pay additional deductions from their income, such as ACC levies and student loan repayments, so that the disposable cash from an extra $1 of wages after taxes, deductions and adjustments to government payments, may be negative.

The MFTC level of the 2016/17 tax year is $23,764. This is below the level at which the other WFF tax credits begin to abate.

The numbers of families that received Working for Families tax credits in 2015 are summarised in the following table:

Table A4.1. WFF tax credits 2015

| Working for families 2015 | No. Families | $m | Average | Average/wk |
|---|---|---|---|---|
| Family Tax Credit | 307,300 | 1,779 | 5,788 | 111 |
| Minimum Family Tax Credit | 5,100 | 19 | 3,686 | 71 |
| Parental Tax Credit | 14,300 | 15 | 1,042 | 20 |
| In Work Tax Credit | 214,100 | 533 | 2,490 | 48 |
| Child Tax Credit (grandparented) | 900 | 1 | 1,000 | 19 |
| **Total all types** | **345,900** | **2,346** | **6,783** | 130 |

| Joint family income band 2015 | No. Families | $m | Average | Average/wk |
|---|---|---|---|---|
| Under 10k | 22,700 | 80 | 3,529 | 68 |
| 10k - 20k | 83,100 | 613 | 7,380 | 142 |
| 20k - 30k | 55,100 | 453 | 8,219 | 158 |
| 30k - 40k | 38,700 | 353 | 9,124 | 175 |
| 40k - 50k | 36,200 | 303 | 8,379 | 161 |
| 50k - 60k | 30,900 | 217 | 7,036 | 135 |
| 60k- 80k | 50,800 | 249 | 4,903 | 94 |
| 80k- 100k | 22,900 | 64 | 2,797 | 54 |
| Over 100k | 5,500 | 13 | 2,395 | 46 |
| **Total** | **345,900** | **2,346** | **6,783** | 130 |

## Appendix 5. Fiscal drag

If the Government has a current objective to minimise the impact of fiscal drag, the tax thresholds would increase now to the following to account for changes since October 2010:

Table A5.1. New tax thresholds adjusted for fiscal drag

| Current upper threshold | Adjusting for CPI (6.0%) | Adjusting for wage inflation (16.1%) |
|---|---|---|
| $ 14,000 | $ 14,840 | $ 16,254 |
| $ 48,000 | $ 50,880 | $ 55,728 |
| $ 70,000 | $ 74,200 | $ 81,270 |

Indexing thresholds to headline CPI would compensate earners for increases in the cost of living, while going some way to mitigating the effect of fiscal drag. Indexing thresholds to wage inflation would correct for fiscal drag, but is more costly than indexing to CPI.

If one were convinced that the tax schedule that applied in 2010 after the tax changes provided the best feasible trade-off between fairness and efficiency concerns, there would be a case for attempting to move thresholds to take account of wage movements. However, it is an open question as to whether this is the best direction for reform or whether there are preferable alternatives.