

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

[www.treasury.govt.nz/publications/informationreleases/budget/2017](http://www.treasury.govt.nz/publications/informationreleases/budget/2017)

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

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

**Treasury Report:** Supplementary information about tax and transfers  
(No. 6)

<b>Date:</b>	Friday, 17 March 2017	<b>Report No:</b>	T2017/637
		<b>File Number:</b>	SH-13-5-2-3

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Steven Joyce)	<b>Note</b> the enclosed information.	Friday, 24 March 2017
Associate Minister of Finance (Hon Simon Bridges)		
Associate Minister of Finance (Hon Amy Adams)		

**Contact for Telephone Discussion** (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
[34]	Analyst, Tax Strategy [39]	[23]	✓
Dr Eina Wong	Senior Analyst, Tax Strategy [39]	[23]	

**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:** Yes

## Treasury Report: Supplementary information about tax and transfers (No. 6)

This report provides additional information about tax and transfers following recent reports and meetings with officials.

	Date	Title	Description
<b>Independent Earner Tax Credit</b>			
1	17/03/2017	The number of individuals who may be eligible for both the Independent Earner Tax Credit and Accommodation Supplement.	
<b>Accommodation Supplement (Source: MSD)</b>			
2	17/03/2017	Impact of proposed AS changes on the social housing register	
3	17/03/2017	Variability of gains for MSD clients	
4	16/03/2017	The impact of rising housing costs on accommodation supplement recipients	

### Information still to be provided

After meeting with you on 7 March 2017 we reprioritised the information still to be provided to allow for analysis of the further tax and transfer package options.

We are working to provide:

- An analysis of the impact on work incentives to changes to the Accommodation Supplement.
- An updated graph of the Unemployment Benefit / Jobseeker Support weekly net to AOTWE from 1990-2015 for different household types.
- Tables of Income Related Rent Subsidy by income (spend and recipients).

### Index of information provided to date

The appendix to this report contains an index of the tax and transfers information provided to date.

## Recommended Action

---

We recommend that you **note** the enclosed information.

Dr Eina Wong  
**Senior Analyst**

Steven Joyce  
**Minister of Finance**

Hon Simon Bridges  
**Associate Minister of  
Finance**

Hon Amy Adams  
**Associate Minister of  
Finance**

## Appendix: Index of information provided about tax and transfers

Document date	Report number	Description
5/09/2016	T2016/1640	Aide Memoire: Income Policies for Low-income Populations
21/12/2016	TR2016/2527	Aide Memoire: Who receives accommodation supplement and Working for Families 21 December
13/09/2016	T2016/1650	Preliminary Options for Tax Cuts for Budget 2017
29/09/2016	BN2016/508	Ability to implement Budget 2017 tax cuts and Working for Families changes 29 Sep
7/11/2016	T2016/2059	Aide Memoire: Advice on Adjusting for Fiscal Drag and the Possible Impacts
7/11/2016	T2016/1948	Advice on personal tax cuts for Budget 2017
10/01/2017	T2016/2551	Aide Memoire: Effect of Accommodation Supplement on effective marginal tax rates 10 Jan
23/12/2016	T2016/2540	Advice on Adjusting Tax Thresholds and the Possible Impacts
17/10/2016	T2016/1991	Aide Memoire: Clawback rate update 5 Sep
31/01/2017		Options to simply the tax and transfer system – Treasury slide pack, Tuesday 31 January 2017
1/02/2017	T2017/14	Taxes and labour supply
3/02/2017	T2017/164	Removing the Independent Earner Tax Credit
2/02/2017	T2017/152	Advice on Changes to the Tax System, Distributional Analysis of Possible Impacts
3/02/2017	T2017/170	Supplementary information about tax and transfers (and attachments)
3/02/2017	T2017/170	Attachment 1 – Breakdown of population
3/02/2017	T2017/170	Attachment 2 – A3 summary of the main transfers
17/10/2014	T2017/170	Attachment 3 – DPMC report: Work programme to address children living in material deprivation
7/11/2014	T2017/170	Attachment 4 – DPMC report: Work programme to address children living in material hardship
12/12/2014	T2017/170	Attachment 5 – DPMC report: Package to reduce the number of children living in material hardship
15/12/2014	T2017/170	Attachment 6 – T2014/2197 – Points for meeting on children in material hardship
5/02/2015	T2017/170	Attachment 7 – DPMC report: Material hardship package
11/02/2015	T2017/170	Attachment 8 – T2015/160: Children in material hardship package
1/11/2014	T2017/170	Attachment 9 – Treasury’s advice on benefit settings
10/02/2017	T2017/218	Aide Memoire: Potential options for a tax and transfer package
10/02/2017	T2017/197	Supplementary information about tax and transfers (No. 2)
7/02/2017	T2017/197	Attachment 1 - Accommodation Supplement spend
7/02/2017	T2017/197	Attachment 2 – Amended replacement rate graphs updated from Child Material Hardship package
10/02/2017	T2017/197	Attachment 3 – Comparison of Unemployment Benefit/Jobseeker support with AOTWE

3/02/2017	T2017/197	Attachment 4 – Breakdown of population
3/02/2017	T2017/197	Attachment 5 – Household living-costs price indexes 2008-2016
10/02/2017	T2017/197	Attachment 6 – Primer about tax credits (source Inland Revenue)
23/09/2017	T2017/197	Attachment 7 – Aide Memoire: Explanation of FTC Interactions with the Tax and Welfare System (T2017/1847)
4/12/2015	T2017/197	Attachment 8 – MSD Report: Incentivising and rewarding independence from welfare and social housing
4/12/2015	T2017/197	Attachment 9 - MSD Report: Incentivising and rewarding independence from welfare and social housing (Appendix One)
27/05/2016	T2017/197	Attachment 10 – Report: Reassessing the use of MSD resources to trial a transition payment
10/02/2017	T2017/197	Attachment 11 – Understanding the impact on TAS of increases to AS and main benefits
10/02/2017	T2017/197	Attachment 12 – Housing subsidies – example and scenarios
10/02/2017	T2017/197	Attachment 13 – Further information on AS recipients who own their own home
10/02/2017	T2017/197	Attachment 14 – Information on non-recipients of Accommodation Supplement
17/02/2017	T2017/265	Supplementary information about tax and transfers (No. 3)
17/02/2017	T2017/265	Attachment 1 - A3 of straw packages for discussion
17/02/2017	T2017/265	Attachment 2 - Family tax credit rate change options (phasing)
17/02/2017	T2017/265	Attachment 3 - Accommodation Supplement - returning residual incomes to 2006 levels
17/02/2017	T2017/265	Attachment 4 - Phasing of AS changes
17/02/2017	T2017/265	Attachment 5 - Eligibility settings for the AS and social housing
17/02/2017	T2017/265	Attachment 6 - Mid-year implementation impacts of AS changes
24/02/2017	T2017/335	Supplementary information about tax and transfers (No. 3)
20/02/2017	T2017/335	Attachment 1 – Preliminary package options for consideration
20/02/2017	T2017/335	Attachment 2 – AS Option – impact on residual incomes
24/02/2017	T2017/335	Attachment 3 – Reconciliation of attachments 2, 3 and 5
24/02/2017	T2017/335	Attachment 4 – Updated family type distribution
24/02/2017	T2017/335	Attachment 5 – EMTR analysis for individuals with taxable income between \$14k and \$48k
24/02/2017	T2017/335	Attachment 6 – Phasing of Accommodation Supplement changes – amended
24/02/2017	T2017/335	Attachment 7 – Advice on creating incentives for matching clients to the right size house
3/03/2017	T2017/403	Supplementary information about tax and transfers (No. 5)
3/03/2017	T2017/403	Attachment 1 – Corrected preliminary package options for consideration
3/03/2017	T2017/403	Attachment 2 – Additional package option that partially adjusts for fiscal drag
3/03/2017	T2017/403	Attachment 3 – Variability of gains and losses by income band
3/03/2017	T2017/403	Attachment 4 – Homeowners receiving the Accommodation Supplement - further information and options for time-limiting eligibility

3/03/2017	T2017/403	Attachment 5 – Further analysis of declines in residual incomes
3/03/2017	T2017/403	Attachment 6 – AS options 1 & 2 - residual income and distributional analysis
3/03/2017	T2017/402	Aide Memoire: Options for phasing Family Tax Credit changes
8/03/2017	T2017/261	Impact of Accommodation Supplement Increases on the housing Market
10/03/2017	T2017/583	Aide Memoire: Preliminary results for further package options
13/03/2017	T2017/595	Further tax and transfer package options
16/03/2017	T2017/630	Aide Memoire: Further tax and transfer package options – variability of gains

## Attachment 1: Relationship between the Independent Earner Tax Credit and the Accommodation Supplement

---

Some people eligible for the Independent Earner Tax Credit (IETC) are also eligible for the Accommodation Supplement (AS). These two transfers have different policy objectives. The IETC is intended to increase incentives for participation in the workforce for those earning between \$24,000 and \$48,000 per annum. The AS subsidises the housing costs of low to middle income earners in accommodation.

### Eligibility

The IETC delivers \$10 per week to individuals earning between \$24,000 and \$44,000 (it abates thereafter and cuts out at \$48,000). Individuals who receive a main benefit, Working for Families or New Zealand Superannuation (NZ Super) are not eligible to receive the IETC. Eligibility is not affected by a higher-income earning partner.

With some exceptions, any resident 16 years of age or older is eligible to receive the AS if they have more than moderate accommodation costs, a low income and meet a cash assets test. Eligibility for AS is not tied to being in receipt of a main benefit, so low-income non-beneficiary individuals and families are eligible. The AS abates at 25 cents for every \$1 earned by the applicant and any spouse over the cut-off for the Jobseeker Support benefit.

### Dual eligibility

Only 20 percent of AS recipients are not in receipt of a main benefit or NZ Super.<sup>1</sup> Because IETC is not paid to recipients of NZ Super or main benefits, it is this group of AS recipients that may be eligible for IETC and AS. Eligibility for AS is assessed on family income, while IETC eligibility is assessed on individual income. Our modelling, presented in Table 1, suggests that an upper bound of 84,000 individuals may be receiving the IETC and AS.

**Table 1: IETC and AS recipients<sup>2</sup>**

Basis	Recipients		
	IETC	AS	IETC and AS
Individual	549,000	633,000	84,000
Family	509,000	482,000	79,000

Source: Treasury Taxwell

---

1 Figures from June 2015 segmentation.

2 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 the Treasury, not statistics New Zealand.



## Attachment 2: Impact of proposed AS changes on the social housing register (Source: MSD)

---

The proposed increase to AS would lead to an 'automatic' adjustment in the eligibility for social housing. Under more generous AS settings, fewer households would be likely to score a 4 (the highest rating) for affordability as part of the social housing assessment because these households would be better able to afford housing in the private rental market.

### **How affordability is considered as part of the social housing assessment**

Applications for social housing are considered against five criteria (adequacy, suitability, affordability, sustainability and accessibility). The affordability component of the eligibility criteria for social housing is based on a comparison with what the household could afford in the private market with support from AS. The risk ratings for the affordability component are based on the proportion of income left over after housing costs, with the highest ratings given to applicants who are spending a high proportion of their income on housing costs, i.e. more than 65%.

There are four levels of risk rating for affordability:

At risk (4)	Residual income after housing costs is 35% or less of total income
Serious housing need (3)	Residual income after housing costs is between 36% and 55% of total income
Moderate need (2)	Residual income after housing costs is between 56% and 69% of total income
Low or no need (1)	Residual income after housing costs is 70% or greater of total income

For an applicant to be Priority A on the register they need to score 4 on at least one criteria and have any other rating greater than 1. Priority B applicants have a highest score of 3 across the five criteria and have any other rating greater than 1.

### **The proposed AS changes would be likely to lead to between 100 – 150 households<sup>3</sup> moving off the social housing register**

We have estimated the impact that the proposed AS changes (changes to regions and increased maximas) would have on the social housing register. This estimate suggests that if the 6,110 households that were on the register at the end of December 2016 were reassessed for social housing under the proposed AS settings then:

- Between 100 and 150 households currently on the register would not be eligible for social housing and so would move off the register entirely with almost half of these households who would no longer be eligible being in Auckland
- Between 350 and 500 households would be expected to drop from a Priority A to a Priority B on the register (it takes longer for Priority B applications to be housed).

These figures are estimates only. The actual impact on the register from the proposed AS changes would depend on a number of factors such as trends in the rental market at the time of implementation and the composition of the register at the time the AS changes are implemented.

---

3 The number of people related to each household on the register varies (for example, one application could be for a single individual while another application could be for a two-parent family with three children).

### **Households currently on the register would be reassessed over a short time period**

The proposed AS changes would be expected to lead to a reduction in the level of demand for social housing as households would be better able to afford housing in the private rental market. The new affordability calculation would be used for any new applicants for social housing as soon as the AS changes were implemented.

Those households who were already on the register at the time any AS changes are implemented would be reassessed over time. The length of time it will take to reassess all existing applications on the register following the introduction of any AS changes will depend on the availability of frontline staff to complete these reassessments. Further advice on this issue including the estimated timeframe for completing these reassessments will be provided as part of the implementation plans for the proposed AS changes.

## Attachment 3: Variability of gains for MSD clients (Source: MSD)

---

The following tables show the variability of weekly gains for MSD clients, from:

- The Accommodation Supplement (AS) option on its own, and
- The impact of all components of package 5a (described below).

MSD clients cover:

- Recipients of a main benefit
- Non-beneficiary recipients of AS, and
- Recipients of NZ Superannuation (NZS) and Veteran's Pension (VP) who also receive AS.

These impacts have been modelled using MSD's administrative data, which allows for a greater granularity of analysis.

The gains from the AS option have been described in previous advice (refer T2017/630). This analysis provides greater detail of the around 25% of recipients who receive gains of more than \$50 per week, and shows that around 5% of recipients who gain (around 7,000), gain more than \$100 per week.

MSD has also modelled the impact of all of the components of package 5a (excluding the IETC) on MSD clients. Given that both the AS and FTC options target low-middle income families, this analysis can identify the number of families who are likely to gain from both components, and how many are likely to gain significant amounts.

The analysis of the impact of package 5a shows that, compared to the AS option alone, it slightly decreases the proportion of clients with gains of less than \$50 per week, and doubles the proportion of clients who experience gains of more than \$100 per week (from 5% in the AS option, to 10% in package 5a).

The gains are also broken down by taxable income bands, and by main income source (main benefit, non-beneficiary and NZS/VP).

### **Accommodation Supplement Option**

The AS option updates the maxima to reflect 2016 median rents and re-allocates areas to reflect rental costs.

Summary of the variability of gains from the AS Option:

- Around 75% of recipients who gain, gain by \$50 per week or less
- Around 5% of recipients who gain (7,000) gain more than \$100 per week
- Around 77% recipients that gain have a taxable income of less than \$31,000 per year
- Around 55% of recipients that gain receive a main benefit, around 30% are non-beneficiaries and around 15% are superannuitants.

**Table 1 – Total recipients that gain from AS option by taxable income**

Weekly gains	Taxable income						ALL
	0-\$14k	\$14k-\$31k	\$31k-\$48k	\$48k to \$60k	\$60k to \$70k	\$70k +	
0-\$10	8,000	13,000	2,000	400	90	30	<b>24,000</b>
\$10-\$20	4,000	12,000	3,000	500	90	40	<b>20,000</b>
\$20-\$30	4,000	10,000	2,000	400	90	30	<b>17,000</b>
\$30-\$40	4,000	13,000	4,000	600	100	30	<b>22,000</b>
\$40-\$50	3,000	9,000	2,000	500	80	20	<b>15,000</b>
\$50-\$60	500	5,000	2,000	500	80	20	<b>8,000</b>
\$60-\$70	400	3,000	1,000	400	90	20	<b>5,000</b>
\$70-\$80	300	2,000	1,000	400	90	20	<b>4,000</b>
\$80-\$90	1,000	4,000	2,000	500	100	20	<b>8,000</b>
\$90-\$100	200	2,000	1,000	200	50	20	<b>3,000</b>
\$100+	300	3,000	2,000	1,000	300	60	<b>7,000</b>
<b>TOTAL</b>	<b>26,000</b>	<b>76,000</b>	<b>22,000</b>	<b>5,000</b>	<b>1200</b>	<b>300</b>	<b>133,000</b>

**Table 2 – Total recipients that gain from AS option by main income source**

Weekly gains	Main income source			
	Main benefit	Non-beneficiary	NZS/VP	ALL
0-\$10	18,000	3,000	3,000	24,000
\$10-\$20	11,000	5,000	3,000	19,000
\$20-\$30	11,000	5,000	2,000	18,000
\$30-\$40	13,000	7,000	3,000	23,000
\$40-\$50	9,000	5,000	3,000	17,000
\$50-\$60	3,000	3,000	500	7,000
\$60-\$70	2,000	3,000	300	5,000
\$70-\$80	1,000	2,000	300	3,000
\$80-\$90	3,000	3,000	700	6,000
\$90-\$100	1,000	2,000	200	3,000
\$100+	2,000	5,000	200	7,000
<b>TOTAL</b>	<b>72,000</b>	<b>38,000</b>	<b>20,000</b>	<b>132,000</b>

**Package 5a**

Package 5a includes:

- The AS option described in the previous section (areas and maxima updated)
- Increasing the Family Tax Credit (FTC) rates to align with the eldest child rates, increase the abatement rate to 23.75% and reduce the abatement threshold to \$35,900
- Increasing the \$14,000 income tax threshold to \$22,000, and the \$48,000 income tax threshold to \$55,000, and
- Remove the IETC (this part of the package has not been modelled).

Summary of the variability of gains from package 5a for MSD clients:

- Around 68% of recipients who gain, gain by \$50 per week or less
- Around 10% of recipients who gain (around 17,000), gain more than \$100 per week

- Around 80% recipients that gain have a taxable income of less than \$31,000 per year
- Around 60% of recipients that gain receive a main benefit, around 30% are non-beneficiaries and around 10% are superannuitants.

**Table 3 – MSD clients that gain from package 5a by taxable income**

Weekly gains	Taxable income						ALL
	0-\$14k	\$14k-\$31k	\$31k-\$48k	\$48k to \$60k	\$60k to \$70k	\$70k +	
0-\$10	9,000	25,000	1,000	60	*	*	35,000
\$10-\$20	4,000	14,000	4,000	300	20	10	22,000
\$20-\$30	4,000	16,000	2,000	300	80	20	22,000
\$30-\$40	4,000	13,000	4,000	400	70	20	21,000
\$40-\$50	4,000	12,000	3,000	400	70	20	19,000
\$50-\$60	500	5,000	3,000	500	100	30	9,000
\$60-\$70	400	5,000	2,000	500	90	30	8,000
\$70-\$80	400	4,000	1,000	400	90	30	6,000
\$80-\$90	1,000	4,000	2,000	400	70	20	7,000
\$90-\$100	200	4,000	2,000	400	100	20	7,000
\$100+	600	8,000	6,000	2,000	700	100	17,000
<b>TOTAL</b>	<b>28,000</b>	<b>110,000</b>	<b>30,000</b>	<b>6,000</b>	<b>1,400</b>	<b>300</b>	<b>173,000</b>

**Table 4 – MSD clients that gain from package 5a, by main income source**

Weekly gains	Main income source			
	Main benefit	Non-beneficiary	NZS/VP	ALL
0-\$10	29,000	3,000	3,000	35,000
\$10-\$20	12,000	7,000	3,000	22,000
\$20-\$30	16,000	4,000	3,000	23,000
\$30-\$40	13,000	5,000	2,000	20,000
\$40-\$50	11,000	5,000	3,000	19,000
\$50-\$60	3,000	5,000	500	9,000
\$60-\$70	3,000	3,000	400	6,000
\$70-\$80	3,000	3,000	300	6,000
\$80-\$90	4,000	3,000	600	7,000
\$90-\$100	3,000	3,000	300	6,000
\$100+	5,000	11,000	200	16,000
<b>TOTAL</b>	<b>102,000</b>	<b>52,000</b>	<b>16,000</b>	<b>170,000</b>

**Caveats:**

- Does not include any newly-eligible recipients as a result of the change.
- Recipient numbers are rounded to the nearest 1000, 100 or 10 (and are suppressed with a count below 10). This also means that not all totals will reconcile exactly across the tables.
- Impacts (for beneficiaries with income from wages) of the tax changes are made at a point in time, and may not reflect annual gains as estimated in Taxwell.
- No behavioural impacts are included.
- Taxable income is based on main benefit and income declared to MSD by clients.

- Volumes are based on AS clients as at 30 September 2016, scaled to the HYEUFU forecast for 1 April 2018.
- Final AS maxima and region update may differ as a result of further work by MSD.
- Does not include the impact on the Income Related Rent Subsidy (IRRS) or the Accommodation Benefit.
- Does include the impact on Temporary Additional Support (which Taxwell distributional analysis does not).