

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[40]	Not in scope	

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## Treasury Report: Further tax and transfer package options – variations for Packages 5a and 6a, and suggested timeline

<b>Date:</b>	30 March 2017	<b>Report No:</b>	T2017/813
		<b>File Number:</b>	SH-13-5-2-3

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	<b>Indicate</b> which packages you would like included in the slides for the Budget Ministers meeting on Monday 3 April  <b>Agree</b> to Budget night legislation for proposals that require legislative amendment.  <b>Agree</b> to the proposed timetable.	Friday, 31 March 2017
Associate Minister of Finance (Hon Simon Bridges)		
Associate Minister of Finance (Hon Amy Adams)		

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]	Analyst, Tax Strategy	[39]	[23]
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:** No

## Treasury Report: Further tax and transfer package options – variations for Packages 5a and 6a, and suggested timeline

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### Executive Summary

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This report presents the fiscal costs for the variations to Packages 5a and 6a you requested on 27 March. Budget Ministers next meet on Monday 3 April. We would like your indication about what package variations should be included in the materials for that meeting.

We also need an indication from you as soon as possible about your preferred package to take to Cabinet to ensure we can complete the required work for a package to be included in Budget 2017. Changes to tax thresholds and Working for Families tax credits, and removing the Independent Earner Tax Credit will require primary legislation. These changes could be introduced in a Bill on Budget day and subsequently enacted under urgency. Accommodation Supplement area and maxima changes can be implemented by an Order in Council and do not require amendments to primary legislation.

Our suggested timetable is:

Date	Event
Monday, 3 April	Budget Ministers #3
Tuesday, 4 April	Treasury advice on tax and transfer package with recommendations
Thursday, 6 April	Draft Tax Cabinet paper and RIS
Monday, 10 April	Budget Ministers #4
Thursday, 13 April	Tax Cabinet paper and RIS lodged for Cabinet meeting on 18 April <i>We recommend including a delegated authority for Ministers to agree minor policy changes before taking a paper to LEG.</i>
Tuesday, 18 April	Cabinet considers paper
19 April to 4 May	Drafting instructions issued, Bill of Rights vetting, final report to Ministers
Thursday, 4 May	<i>Cabinet Legislation Committee paper lodged</i>
Thursday 11 May	<i>Cabinet Legislation Committee considers draft Bill</i>
Monday 15 May	Cabinet considers draft Bill <i>Alternative Cabinet date – 22 May</i>
25 May	Budget night legislation – a Bill could go through all stages under urgency on Budget night.

We can provide a draft Cabinet paper seeking approval for your preferred package on Thursday 6 April if we have your agreed preferred package early next week.

## Recommended Action

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We recommend that you:

- a **note** the additional variations presented for Packages 5a and 6a.

*Noted.*

*Noted.*

*Noted.*

- b **indicate** which package variations you would like included in the slides for the Budget Ministers meeting on 3 April:

	Package 5a	Package 6a
Original		
Full abatement		
Phasing FTC 1		
Phasing FTC 2		
Phasing FTC 3		
AS options		

- c **note** that MSD expect that implementing a Budget 2017 tax and transfer package will require operational funding of \$3.8 million.

*Noted.*

*Noted.*

*Noted.*

- d **note** that changes to tax thresholds and Working for Families tax credits, and removing the Independent Earner Tax Credit will require primary legislation.

*Noted.*

*Noted.*

*Noted.*

- e **agree** to the proposed timetable with Cabinet considering a tax and transfer package as part of Budget 2017 on 18 April, and either:

- i. a draft Bill being considered by the Cabinet Legislation Committee on 11 May before going to Cabinet on 15 May;

*Agreed/Not agreed.*

*Agreed/Not agreed.*

*Agreed/Not agreed.*

**or**

- ii. a draft Bill going directly to Cabinet for consideration on 15 May;

*Agreed/Not agreed.*

*Agreed/Not agreed.*

*Agreed/Not agreed.*

- f **agree** that the legislation needed for changes to tax thresholds and Working for Families tax credits, and removing the Independent Earner Tax Credit should be introduced on Budget night and passed under urgency.

*Agreed/Not agreed.*

*Agreed/Not agreed.*

*Agreed/Not agreed.*

- g **note** that Accommodation Supplement area and maxima changes can be implemented by an Order in Council and do not require amendments to primary legislation.

*Noted.*

*Noted.*

*Noted.*

Eina Wong  
**Senior Analyst**

Steven Joyce  
**Minister of Finance**

Hon Simon Bridges  
**Associate Minister of  
Finance**

Hon Amy Adams  
**Associate Minister of  
Finance**

## Treasury Report: Further tax and transfer package options – variations for Packages 5a and 6a, and suggested timeline

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### Purpose of Report

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1. On 27 March you requested variations to Packages 5a and 6a that include additional options for changes to the Family Tax Credit (FTC) and Accommodation Supplement (AS). This report presents the fiscal cost for these variations. The timeline to deliver a tax and transfer package as part of Budget 2017 is tight; a suggested timeline is included in this report.

### Variations on Packages 5a and 6a

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2. We have presented variations on Packages 5a and 6a so the component cost can be viewed and different combinations considered:<sup>1</sup>
  - a Table 1 presents the fiscal costs) for variations on Packages 5a and 6a. The numbers in the cells are for 1 April 2018, net of clawback, and rounded to the nearest \$10 million. A more detailed breakdown of the fiscal cost for each option is presented in the appendix.
  - b Tables 3 and 4 present further options for FTC changes.
  - c Tables 5 and 6 present two options for scaling maxima changes to AS.
3. Each of the packages has a small number of disadvantaged families. We will report to you separately about why these families are disadvantaged.

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<sup>1</sup> There may be fiscal adjustments due to interactions from “mixing” options, but these costs are relatively small.

**Table 1: Fiscal cost for variations on Packages 5a and 6a**

[40]

## Family Tax Credit variations

4. All of the FTC variations presented in Table 1 freeze the eldest (first and subsequent) child rates, and increase the rates at lower age bands so that alignment is achieved. The variations with phased increases in the FTC payment rates achieve alignment by increasing the payment rates for the lower age bands one-third of the way to alignment in year one, and the remaining two-thirds in year two. The phasing of the payment rate increase is shown in Table 2:

**Table 2: Phasing payment rates**

Year beginning	Status Quo	1/4/2018	1/4/2019
<b>Family tax credit annual rates</b>			
Eldest child, aged from 16 to 18	\$5,303	\$5,303	\$5,303
Eldest child, aged from 0 to 15	\$4,822	\$4,982	\$5,303
Subsequent child, aged from 16 to 18	\$4,745	\$4,745	\$4,745
Subsequent child, aged from 13 to 15	\$3,822	\$4,130	\$4,745
Subsequent child, aged from 0 to 12	\$3,351	\$3,816	\$4,475

5. Further options for phasing FTC changes are presented in Tables 3 and 4. Costs in both tables are rounded to the nearest \$10 million and are for 1 April 2018 (net of clawback). These options could be used in place of the options presented in Table 1.
6. Table 3 presents a matrix showing the cost change relative to aligning the FTC rates to the eldest child rates, increasing the abatement rate to 23.75% and reducing the abatement threshold to \$35,900. So, for example, if you instead consider increasing the abatement threshold to \$35,000 and an abatement rate of 25%, and align all lower-age rates to the eldest rates, the FTC component would reduce by \$90 million.

**Table 3: Cost in \$m relative to aligning the FTC rates to the eldest child rates, increasing the abatement rate to 23.75% and reducing the abatement threshold to \$35,900**

Abatement Parameters	No Payment Changes	Subsequent Child Rates close 1/3 of the gap with First Child rates	Subsequent Child Rates close the gap with Eldest Child rates
Threshold: \$36,350 Rate: 22.5%	-\$450	-\$280	+\$80
Threshold: \$35,900 Rate: 23.75%	-\$510	-\$350	\$0
Threshold: \$35,000 Rate: 25%	-\$590	-\$430	-\$90



7. Table 4 presents a matrix showing the cost change relative to no FTC changes (i.e., status quo).

**Table 4: Cost in \$m relative to no FTC changes**

Abatement Parameters	No Payment Changes	Subsequent Child Rates close 1/3 of the gap with First Child rates	Subsequent Child Rates close the gap with Eldest Child rates
Threshold: \$36,350 Rate: 22.5%	\$0	+\$170	+\$530
Threshold: \$35,900 Rate: 23.75%	-\$70	+\$100	+\$450
Threshold: \$35,000 Rate: 25%	-\$150	+\$20	+\$350

### Accommodation Supplement variations

8. Two options for scaling changes to AS are presented. One option is based on 80% of 2016 median rents, as requested by Ministers. The other option is based on the 40<sup>th</sup> percentile of rents in each area (as opposed to the 50<sup>th</sup> percentile in the previous options based on median rents) in 2016. The 40<sup>th</sup> percentile option creates AS maxima that are very close to what would be created by basing them on 90% of median 2016 rents.
9. The option based on 80% of median rents creates some individuals losing as the scaled maxima was below the current maxima for the one-person rate in the current Area 2. This is driven by the expansion of AS Areas 1 and 2 under the proposed changes, compared to the smaller number of locations in the current Areas 1 and 2, and by the relatively narrow distribution of rents in some Areas. To avoid creating this loss, the one-person rate was increased to be equal to the current AS maxima for this group.
10. Tables 5 and 6 compare the gross fiscal cost (not accounting for clawback) of the AS scaling options by fiscal year. The far right column provides a comparison with the previous option (based on 2016 median rents). These costs do not include additional costs presented in Table 8 below.

**Table 5: Table 13: 80% of median AS option**

	80% of median - phased		80% of median - unphased	Median rent option
	2018/19	2019/20	2018/19	2018/19
Gross fiscal cost	\$202m	\$248m	\$239m	\$391m
Net fiscal cost	\$148m	\$181m	\$176m	\$283m
Reduction in TAS	\$55m	\$55m	\$63m	\$108m

**Table 6: 40<sup>th</sup> percentile (90% of the median) AS option**

	40 <sup>th</sup> percentile - phased		40 <sup>th</sup> percentile - unphased	Median rent option
	2018/19	2019/20	2018/19	2018/19
Gross fiscal cost	\$250m	\$356m	\$341m	\$391m
Net fiscal cost	\$183m	\$258m	\$249m	\$283m
Reduction in TAS	\$67m	\$99m	\$92m	\$108m

11. Table 7 compares the proposed AS maxima for each of the options.

**Table 7: Comparison of options for AS maxima**

	1 person			2016 median rent
	Current maxima	40th percentile maxima	80% of median	
Area 1	\$145	\$165	\$145	\$185
Area 2	\$100	\$105	\$100	\$115
Area 3	\$65	\$80	\$65	\$90
Area 4	\$45	\$65	\$55	\$80

	2 people			2016 median rent
	Current maxima	40th percentile maxima	80% of median	
Area 1	\$160	\$230	\$190	\$250
Area 2	\$125	\$155	\$125	\$170
Area 3	\$75	\$105	\$80	\$110
Area 4	\$55	\$80	\$60	\$90

	3 + people			2016 median rent
	Current maxima	40th percentile maxima	80% of median	
Area 1	\$225	\$300	\$250	\$330
Area 2	\$165	\$220	\$180	\$240
Area 3	\$120	\$155	\$125	\$175
Area 4	\$75	\$120	\$100	\$140

12. In addition to the costs above, MSD estimate the net fiscal costs of each option will increase by 6% as a result of newly-eligible AS recipients (not previously modelled). We have included that in the costs presented in Table 1 of this Report. The 6% figure assumes a take-up rate that is slightly higher than the current non-beneficiary take-up rate of about 20%. If the package has significant publicity, then take-up may increase further. By 1 April 2018, MSD's simplification project may also increase non-beneficiary take-up by simplifying processes and improving channels for applications.
13. MSD expect implementing a Budget 2017 package will require operational funding of \$3.8 million. This funding would cover the cost of the IT changes that would be required as well as operational funding for the implementation of the changes (e.g., a project team to manage the implementation, staff training, communications and stakeholder management, changes to operational documents, post-implementation support, etc.).
14. Finally, changes to the proposed AS Areas, as a result of further analysis to test the technical assignment of locations against the policy rationale, result in around \$2 million per year in additional fiscal costs. The impacts of all these additional costs are shown in Table 8. The AS Areas have yet to be finalised, and advice on the recommended changes will be provided by the end of this week.

**Table 8: Full fiscal cost of AS options**

	80% of median	40th percentile	2016 median rent
Net fiscal cost	\$176m	\$249m	\$283m
Newly-eligible recipients	\$11m	\$15m	\$16m
Operational costs	\$4m	\$4m	\$4m
AS Area changes	\$2m	\$2m	\$2m
<b>TOTAL</b>	<b>\$193m</b>	<b>\$270m</b>	<b>\$305m</b>

## Timeline

15. Our suggested timeline in Table 9 will ensure the required work can be completed for a tax and transfer package to be included in Budget 2017. However, this timeline means we need an indication from you about your preferred package as soon as possible.

### Legislative and regulatory change required to implement a package

16. Changes to tax thresholds and Working for Families tax credits, and removing the Independent Earner Tax Credit will require primary legislation. These changes could be introduced in a Bill on Budget day and subsequently enacted under urgency.
17. AS area and maxima changes can be implemented by an Order in Council and do not require amendments to primary legislation. The Order in Council can be progressed on a longer timeframe relative to the above required legislative changes. MSD propose that drafting instructions are issued to the Parliamentary Council Office (PCO) after 19 April. If prioritised, MSD have advised that the earliest an Order in Council could be in place for the AS changes is 1 June 2017. Standard PCO timeframes would imply a date of 27 July, which would still allow sufficient time prior to implementation.
18. The suggested timetable assumes a Bill is approved by the Cabinet Legislation Committee and Cabinet. However, Budget night legislation is typically approved by Cabinet alone. Bypassing Cabinet Legislation Committee and having a Bill approved by Cabinet would allow more time for drafting.

**Table 9: Suggested timeline**

Date	Event
Monday, 3 April	Budget Ministers #3
Tuesday, 4 April	Treasury advice on tax and transfer package with recommendations
Thursday, 6 April	Draft Tax Cabinet paper and RIS
Monday, 10 April	Budget Ministers #4
Thursday, 13 April	Tax Cabinet paper and RIS lodged for Cabinet meeting on 18 April <i>We recommend including a delegated authority for Ministers to agree minor policy changes before taking a paper to LEG.</i>
Tuesday, 18 April	Cabinet considers paper
19 April to 4 May	Drafting instructions issued, Bill of Rights vetting, final report to Ministers
Thursday, 4 May	<i>Cabinet Legislation Committee paper lodged</i>
Thursday 11 May	<i>Cabinet Legislation Committee considers draft Bill</i>
Monday 15 May	Cabinet considers draft Bill <i>Alternative Cabinet date – 22 May</i>
25 May	Budget night legislation – a Bill could go through all stages under urgency on Budget night.

## Next Steps

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19. We will :
- a Provide materials for the Budget Ministers meeting on Monday, 3 April 2017, and would like your indication about what package variations should be included in these materials.
  - b Provide advice on Friday, 31 March regarding:
    - i the recommended changes to AS Areas;
    - ii distributional impacts from scaling the AS options discussed in this report; and
    - iii the small number of families disadvantaged by tax and transfer packages.
  - c Ask you to confirm your preferred package on Tuesday, 4 April 2017.
  - d Prepare a draft Cabinet paper seeking approval for your preferred tax and transfer package. This can be provided to you next Thursday, 6 April 2017, if we have an indication of your preferred package early next week.

## Appendix - Packages 5a and 6a costs

### Package 5a variation costs (in \$m)

Table 10: Package 5a (original)

	1 April 2018	1 April 2019	1 April 2020
<b>NZS</b>	\$350	\$370	\$370
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$490	\$420	\$410
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$2,180	\$2,250	\$2,310
<b>Total cost before clawback</b>	\$3,060	\$3,090	\$3,150
<b>Clawback</b>	-\$310	-\$310	-\$320
<b>Total cost after clawback</b>	<b>\$2,750</b>	<b>\$2,780</b>	<b>\$2,830</b>

Table 11: Package 5a with full abatement of FTC

	1 April 2018	1 April 2019	1 April 2020
<b>NZS</b>	\$350	\$370	\$370
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$390	\$310	\$310
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$2,180	\$2,250	\$2,310
<b>Total cost before clawback</b>	\$2,970	\$2,980	\$3,060
<b>Clawback</b>	\$300	\$300	\$310
<b>Total cost after clawback</b>	<b>\$2,670</b>	<b>\$2,680</b>	<b>\$2,750</b>

Table 12: Package 5a with FTC 1

	1 April 2018	1 April 2019	1 April 2020
<b>NZS</b>	\$350	\$370	\$370
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$70	\$380	\$370
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$2,180	\$2,250	\$2,310
<b>Total cost before clawback</b>	\$2,650	\$3,040	\$3,120
<b>Clawback</b>	\$260	\$300	\$310
<b>Total cost after clawback</b>	<b>\$2,380</b>	<b>\$2,740</b>	<b>\$2,810</b>

**Table 13: Package 5a with FTC 3**

	<b>1 April 2018</b>	<b>1 April 2019</b>	<b>1 April 2020</b>
<b>NZS</b>	\$350	\$370	\$370
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$20	\$310	\$310
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$2,180	\$2,250	\$2,310
<b>Total cost before clawback</b>	\$2,590	\$2,980	\$3,060
<b>Clawback</b>	\$260	\$300	\$310
<b>Total cost after clawback</b>	<b>\$2,330</b>	<b>\$2,680</b>	<b>\$2,750</b>

**Package 6a variation costs (in \$m)**

**Table 14: Package 6a (original)**

	<b>1 April 2018</b>	<b>1 April 2019</b>	<b>1 April 2020</b>
<b>NZS</b>	\$260	\$270	\$280
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$490	\$420	\$410
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$1,770	\$1,810	\$1,850
<b>Total cost before clawback</b>	\$2,560	\$2,550	\$2,600
<b>Clawback</b>	-\$260	-\$260	-\$260
<b>Total cost after clawback</b>	<b>\$2,300</b>	<b>\$2,290</b>	<b>\$2,340</b>

**Table 15: Package 6a with FTC 1**

	<b>1 April 2018</b>	<b>1 April 2019</b>	<b>1 April 2020</b>
<b>NZS</b>	\$260	\$270	\$280
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$70	\$380	\$370
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$1,770	\$1,810	\$1,850
<b>Total cost before clawback</b>	\$2,140	\$2,510	\$2,560
<b>Clawback</b>	-\$210	-\$250	-\$260
<b>Total cost after clawback</b>	<b>\$1,930</b>	<b>\$2,260</b>	<b>\$2,300</b>

**Table 16: Package 6a with FTC 2**

	<b>1 April 2018</b>	<b>1 April 2019</b>	<b>1 April 2020</b>
<b>NZS</b>	\$260	\$270	\$280
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$110	\$330	\$330
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$1,770	\$1,810	\$1,850
<b>Total cost before clawback</b>	\$2,180	\$2,460	\$2,520
<b>Clawback</b>	-\$220	-\$250	-\$250
<b>Total cost after clawback</b>	<b>\$1,960</b>	<b>\$2,210</b>	<b>\$2,270</b>

**Table 17: Package 6a with FTC 3**

	<b>1 April 2018</b>	<b>1 April 2019</b>	<b>1 April 2020</b>
<b>NZS</b>	\$260	\$270	\$280
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$20	\$320	\$310
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$1,770	\$1,810	\$1,850
<b>Total cost before clawback</b>	\$2,090	\$2,450	\$2,500
<b>Clawback</b>	-\$210	-\$250	-\$250
<b>Total cost after clawback</b>	<b>\$1,880</b>	<b>\$2,200</b>	<b>\$2,250</b>

**Table 18: Package 6a with full abatement of FTC**

	<b>1 April 2018</b>	<b>1 April 2019</b>	<b>1 April 2020</b>
<b>NZS</b>	\$260	\$270	\$280
<b>Accommodation Supplement</b>	\$300	\$300	\$300
<b>Working for Families</b>	\$390	\$320	\$310
<b>IETC</b>	-\$260	-\$250	-\$240
<b>Total Tax</b>	\$1,770	\$1,810	\$1,850
<b>Total cost before clawback</b>	\$2,460	\$2,450	\$2,500
<b>Clawback</b>	\$250	\$250	\$250
<b>Total cost after clawback</b>	<b>\$2,220</b>	<b>\$2,210</b>	<b>\$2,250</b>