

The Treasury

Budget 2017 Information Release

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[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)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[36]	to maintain legal professional privilege	9(2)(h)
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[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.

Reference: T2017/895 SH-13-5-2-3

Date: 4 April 2017

To: Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Simon Bridges)
Associate Minister of Finance (Hon Amy Adams)

Deadline: None

Aide Memoire: Further tax and transfer package options – distributional analysis

Purpose

On 31 March 2017 you identified three variations of Packages 5a and 6a to be considered further as part of Budget 2017. This note provides distributional analysis for those three options as shown in Table 1:

Table 1: Tax and transfer packages

		Package 5a (full abatement, no phasing)	Package 5a (partial abatement, FTC phasing)	Package 6a (full abatement, no phasing)
Tax thresholds		Increase the \$14,000 threshold to \$22,000, and the \$48,000 to \$55,000.	Increase the \$14,000 threshold to \$22,000, and the \$48,000 to \$55,000.	Increase the \$14,000 threshold to \$22,000, and the \$48,000 to \$52,000.
Independent Earner Tax Credit (IETC)		Remove the IETC.		
Family Tax Credit (FTC)		No phasing. Abatement rate: 25% Abatement threshold: \$35,000.	Year 1: 1/3 of the way to alignment. Abatement rate: 23.75% Abatement threshold: \$35,000 Year 2: Full alignment.	No phasing. Abatement rate: 25% Abatement threshold: \$35,000
Accommodation Supplement		Update the maxima to reflect 90% of 2016 median rents (40 th percentile), re-allocate areas to reflect rental costs.		
Fiscal cost (including clawback)	1/4/18	\$2,640 million	\$2,350 million	\$2,190 million
	1/4/19	\$2,650 million	\$2,710 million	\$2,180 million
	1/4/20	\$2,720 million	\$2,780 million	\$2,220 million

All of the results in this note are sourced from Taxwell. Some results are suppressed (*) because values must have more than 3000 counts (weighted) and 10 or more sample units.¹

The variation on Package 5a with FTC phasing would see the rates for eldest and subsequent children aged 16-18 frozen, with the lower age bands increasing a third of the way to alignment in year one and to full alignment in year two, as shown in Table 2:

Table 2: Phasing payment rates

Year beginning	Status Quo	1/4/2018	1/4/2019
Family tax credit annual rates			
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

Distributional analysis

Tables 3 to 20 present the distributional analysis for the three variations presented, for families and for individuals. Note that Working for Families is assessed at the family level, and the methodology used to attribute FTC to individuals may artificially inflate the number of winners and losers.

Each of the packages would result in around 4,000 to 8,000 families losing on average, \$1-\$2 per week. Note that the number of losers changes between 2018 and 2019 in some of the scenarios due to interactions between the changes to abatement rates and thresholds in the counterfactual, and estimates of wage inflation.

The distributional analyses presented do not include the impact of the AS component as neither the Treasury nor the MSD model can adequately capture all of the interactions between the various components of the packages. The distributional impacts of the AS component as described in Table 1 was provided to you in last week's supplementary information report (No. 8, attachment 1, T2017/879 refers).

Each of the tables presents the analysis relative to current baselines. For example, Table 4 provides the distribution of gains for families in the year beginning 1 April 2019 relative to what they would have experienced in the year beginning 1 April 2019 in the absence of a package.

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¹ 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.