

Date: 22 October 2007

SH-13-3-0

To: Office of the Minister of Finance

From: Tax Strategy, Treasury

TAX CHANGE SCENARIOS

This note responds to your request for the revenue cost impact of several tax change scenarios. We have also provided a chart for each scenario showing the change in the tax schedule and weekly tax savings by income. All scenarios have been modelled assuming a 1 April 2009 implementation and the cost is for the first full fiscal year – 2009/10. GST clawback has been taken into account.

Given time constraints we consider these costings to be preliminary and subject to revision.

For ease, the options have been grouped into the following 6 groups. Groups A – D each have three variants around the introduction on a non-abated, non-refundable rebate (\$10, \$15 or \$20)

<p>Group A</p> <ul style="list-style-type: none">• Abolish the Low Income Rebate• 19.5% to \$40,000• 33% from \$40,000 to \$60,000• 39% from \$60,000	<p>Group B</p> <ul style="list-style-type: none">• Abolish the Low Income Rebate• 20% to \$45,000• 33% from \$45,000 to \$60,000• 39% from \$60,000
<p>Group C</p> <ul style="list-style-type: none">• Abolish the Low Income Rebate• 19.5% to \$40,000• 33% from \$40,000 to \$80,000• 39% from \$80,000	<p>Group D</p> <ul style="list-style-type: none">• Abolish the Low Income Rebate• 20% to \$45,000• 33% from \$45,000 to \$80,000• 39% from \$80,000
<p>Group E</p> <p>Reductions in the top tax thresholds</p>	<p>Group F</p> <ul style="list-style-type: none">• 15% to \$15,000• 21% from \$15,000 to \$45,000• 33% from \$45,000 to \$80,000• 39% from \$80,000

In summary the fiscal costs are:

(\$ million)	\$10 rebate	\$15 rebate	\$20 rebate
Group A	1120	1730	2340
Group B	1330	1940	2550
Group C	1490	2110	2710
Group D	1700	2320	2920

Under group E, reducing the top tax rate from 39% costs approximately \$180 million per percentage point. Reducing the top tax threshold from 39% **after** the threshold has been moved to \$80,000 (at a cost of \$380 million) costs approximately \$120 million per percentage point.

The cost of the proposal in group F is \$1780 million.

Group A

New tax schedule would be:

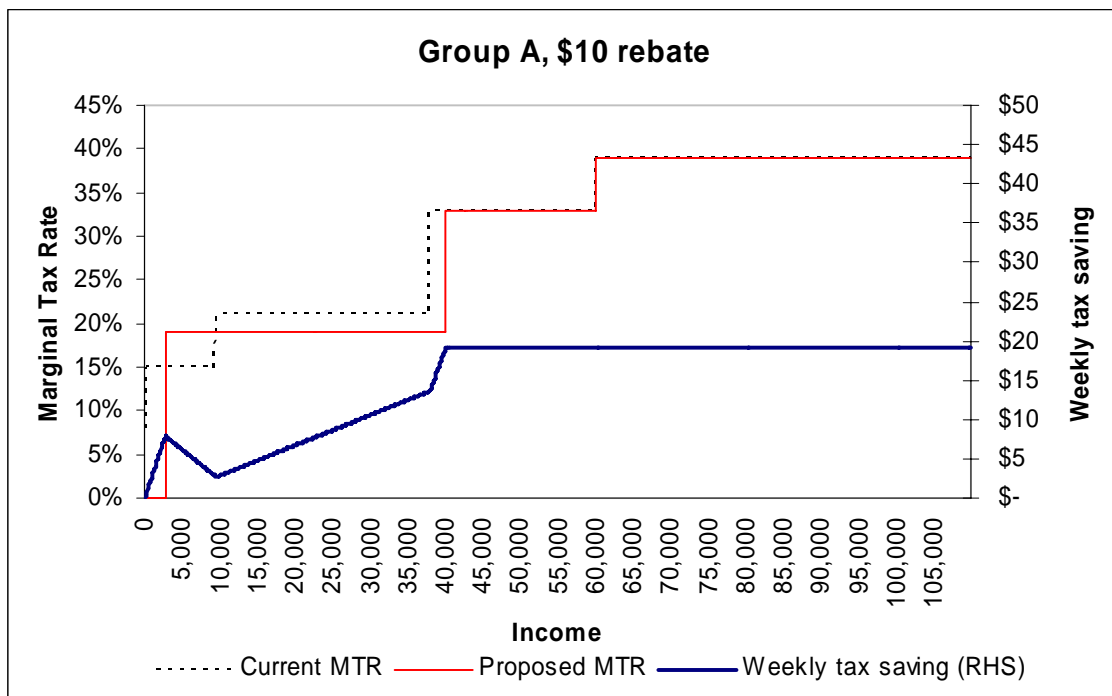
- Abolish the Low Income Rebate
- 19.5% to \$40,000
- 33% from \$40,000 to \$60,000
- 39% from \$60,000

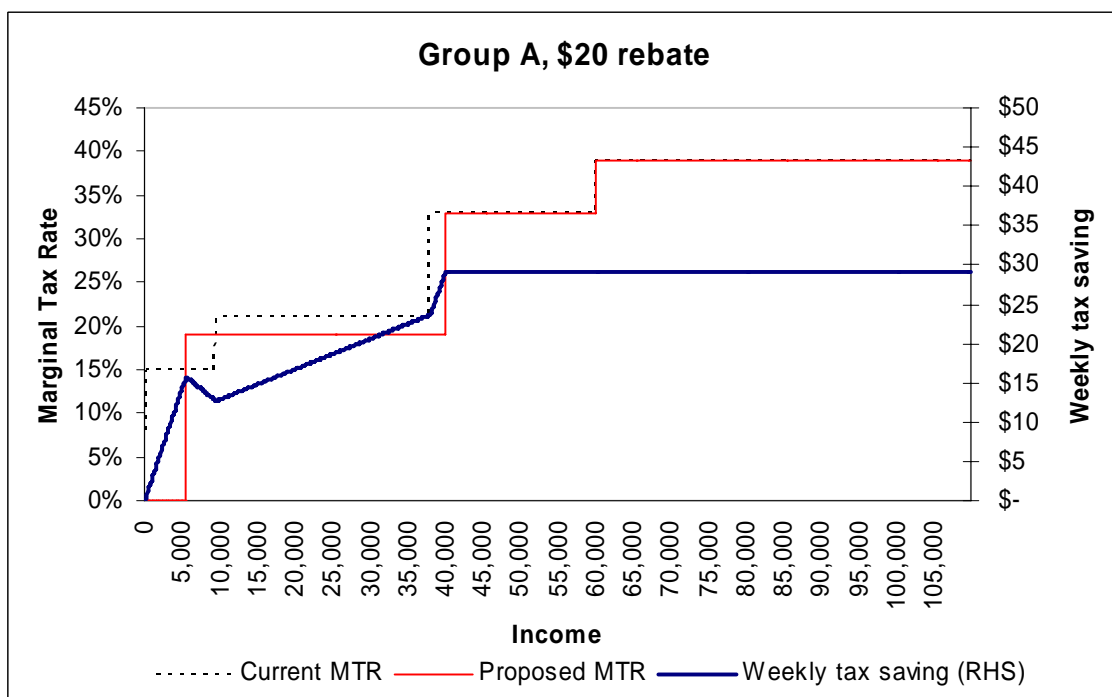
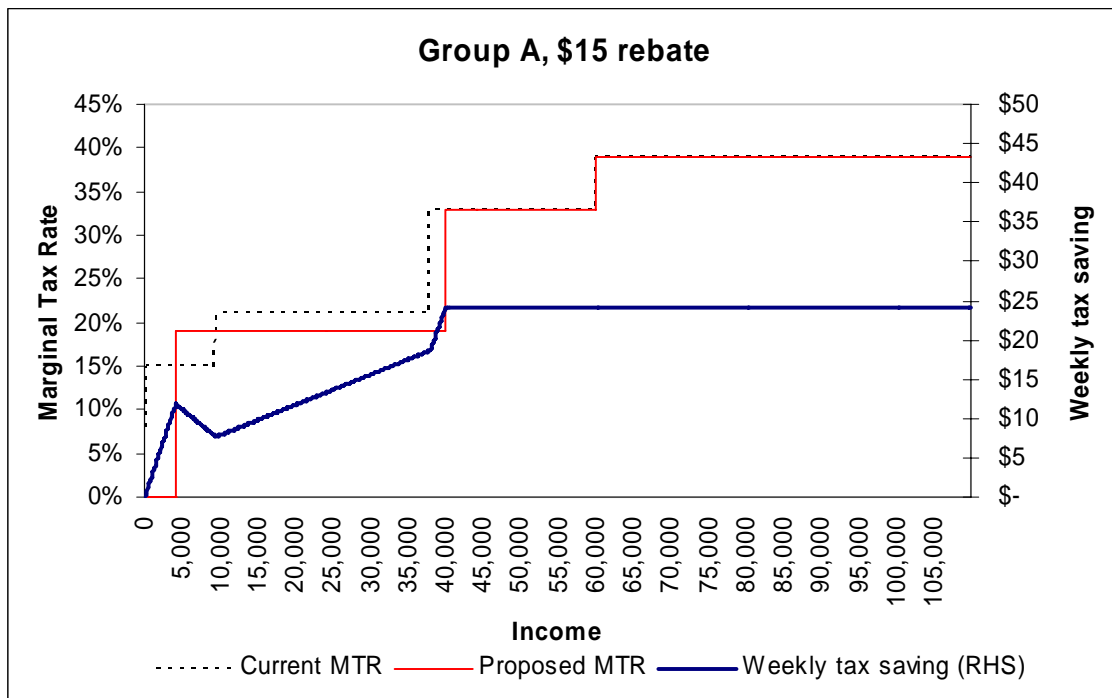
With three variants:

1. a \$10 per week non-abated, non-refundable tax rebate
2. a \$15 per week non-abated, non-refundable tax rebate
3. a \$20 per week non-abated, non-refundable tax rebate

Fiscal cost of Group A

(\$ million)	\$10 rebate	\$15 rebate	\$20 rebate
Group A	1120	1730	2340





Group B

New tax schedule would be:

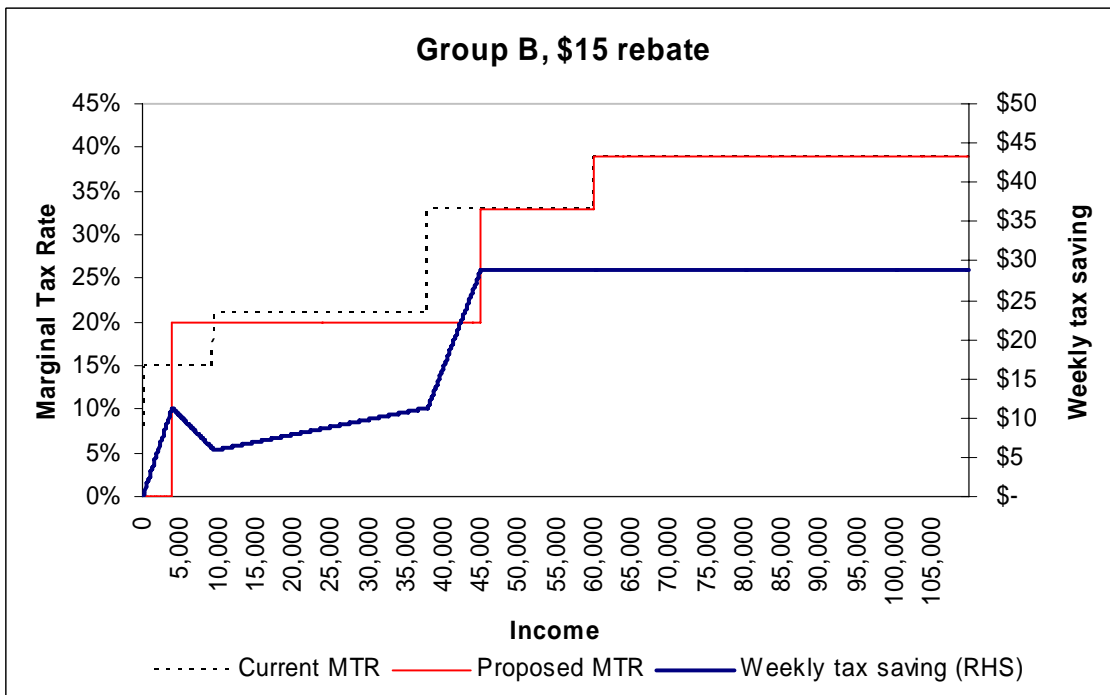
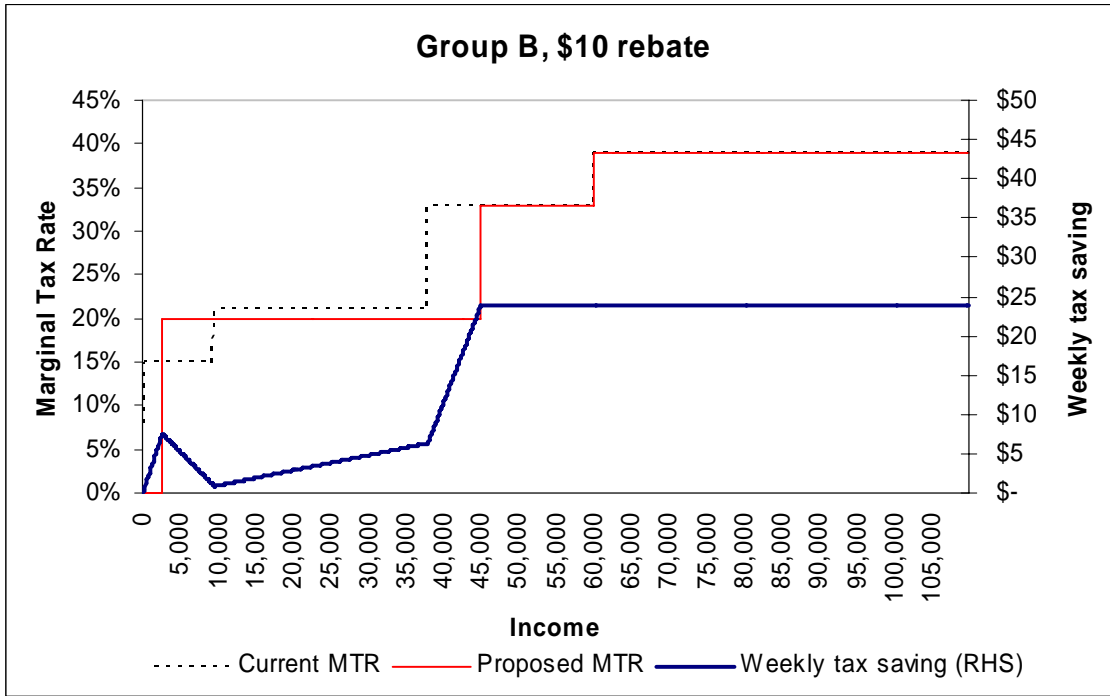
- Abolish the Low Income Rebate
- 20% to \$45,000
- 33% from \$45,000 to \$60,000
- 39% from \$60,000

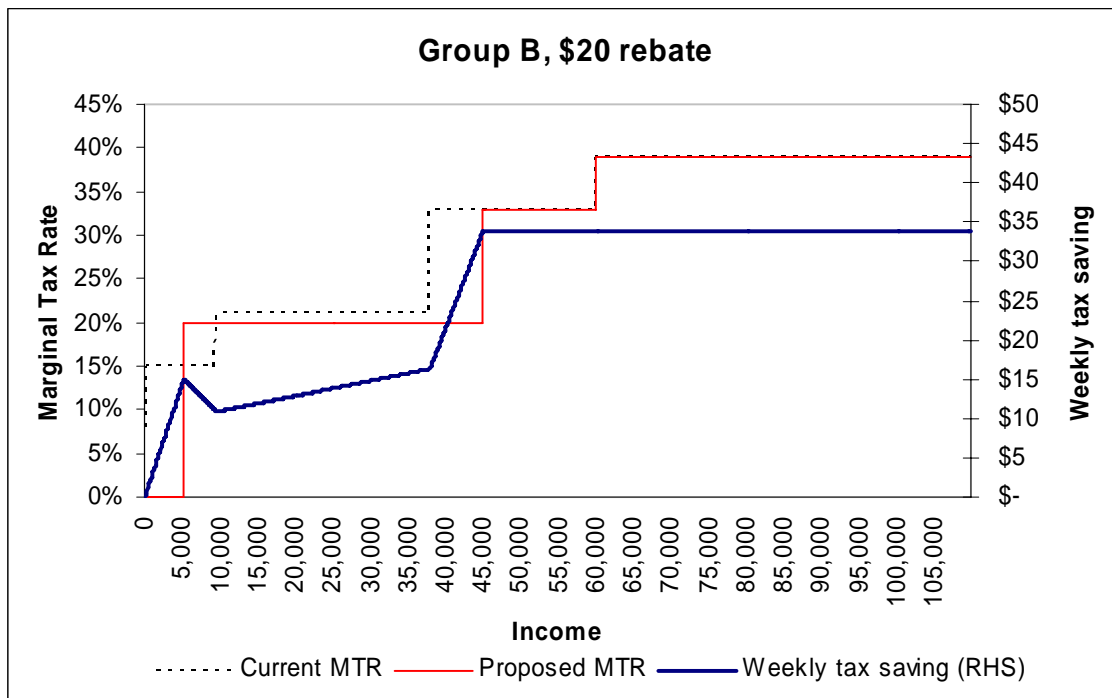
With three variants:

4. a \$10 per week non-abated, non-refundable tax rebate
5. a \$15 per week non-abated, non-refundable tax rebate
6. a \$20 per week non-abated, non-refundable tax rebate

Fiscal cost of Group B

(\$ million)	\$10 rebate	\$15 rebate	\$20 rebate
Group B	1330	1940	2550





Group C

New tax schedule would be:

- Abolish the Low Income Rebate
- 19.5% to \$40,000
- 33% from \$40,000 to \$80,000
- 39% from \$80,000

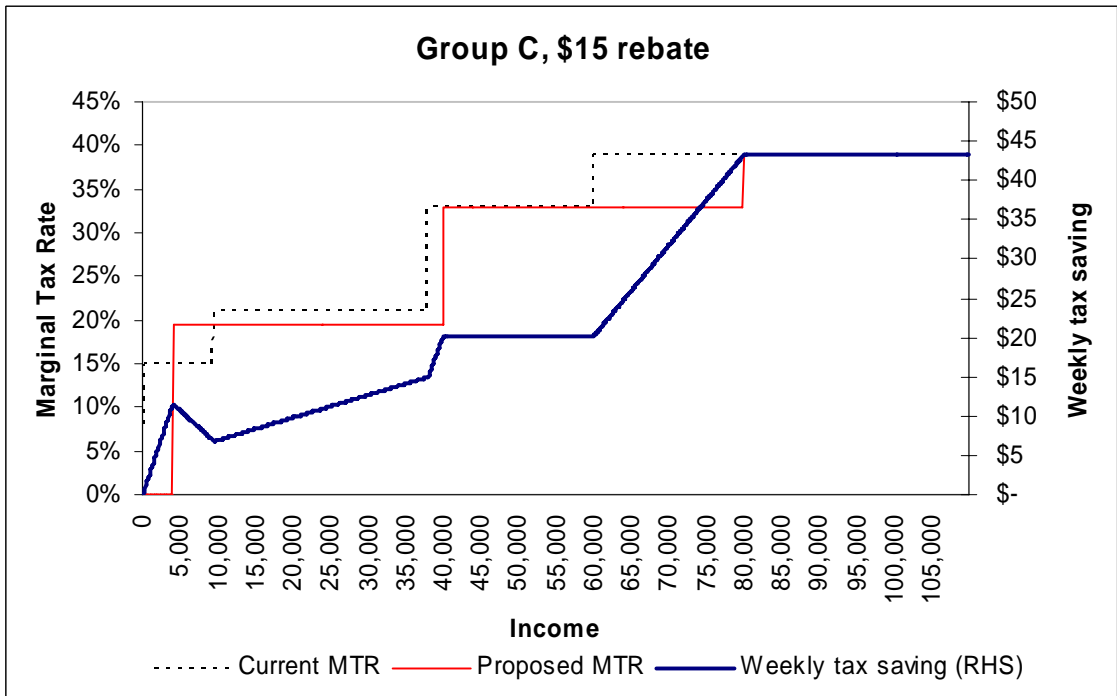
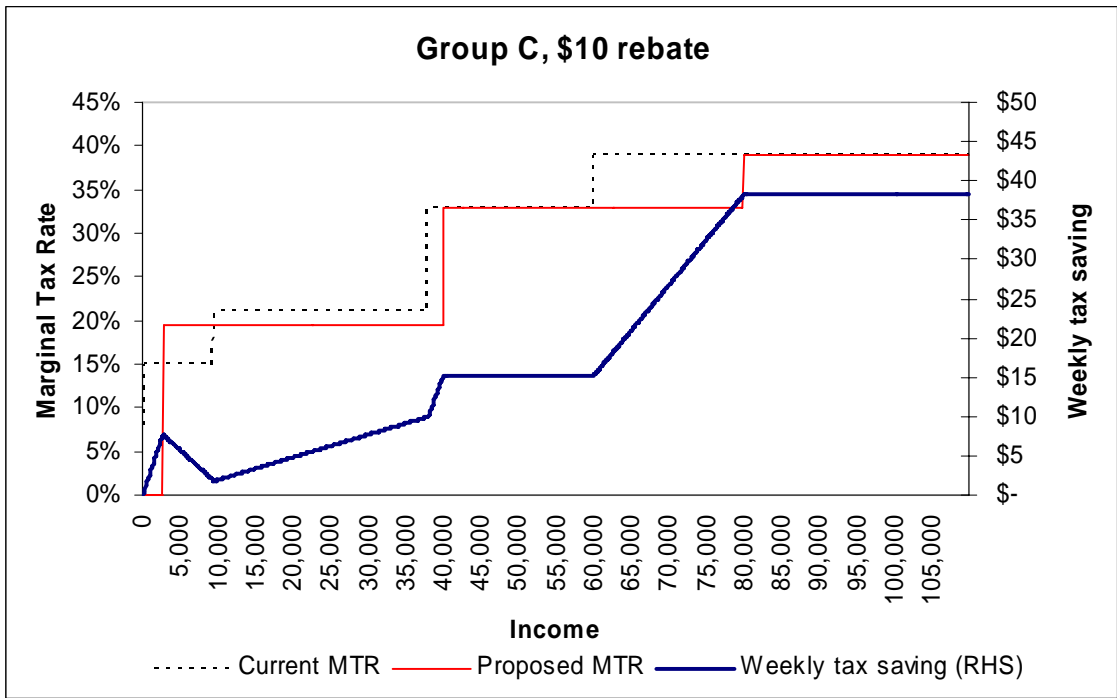
With three variants:

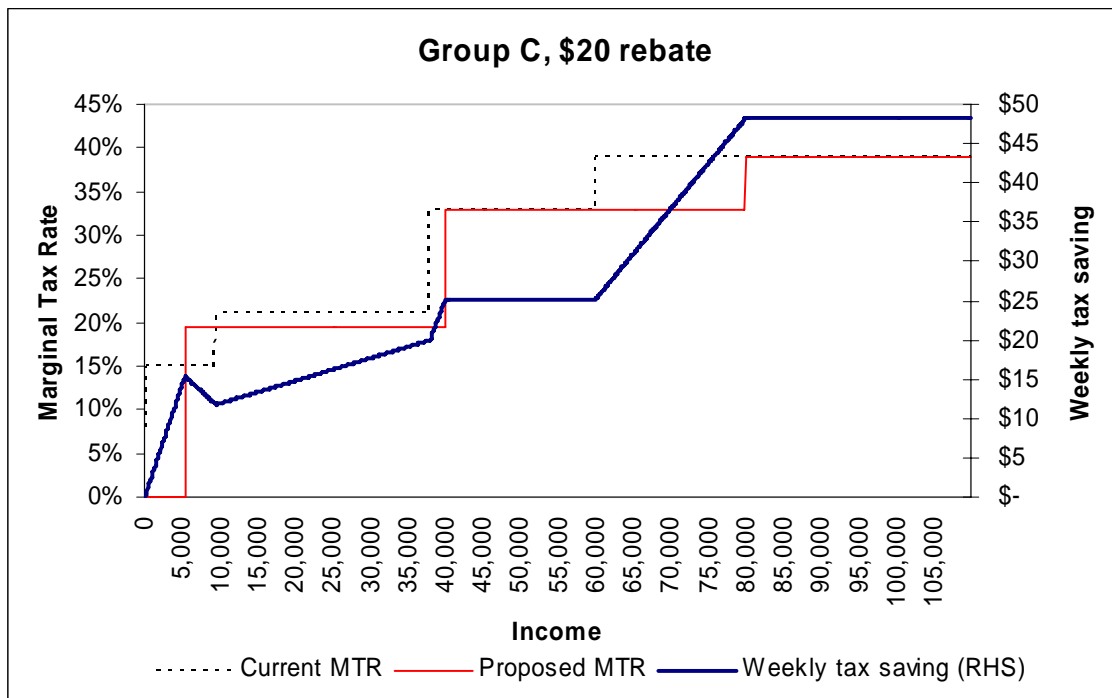
7. a \$10 per week non-abated, non-refundable tax rebate
8. a \$15 per week non-abated, non-refundable tax rebate
9. a \$20 per week non-abated, non-refundable tax rebate

Fiscal cost of Group C

(\$ million)	\$10 rebate	\$15 rebate	\$20 rebate
Group C	1490	2110	2710

The only difference between this group and group A is that in this group the top marginal tax threshold is increased from \$60,000 to \$80,000. This makes group C a uniform \$380 million more expensive.





Group D

New tax schedule would be:

- Abolish the Low Income Rebate
- 20% to \$45,000
- 33% from \$45,000 to \$80,000
- 39% from \$80,000

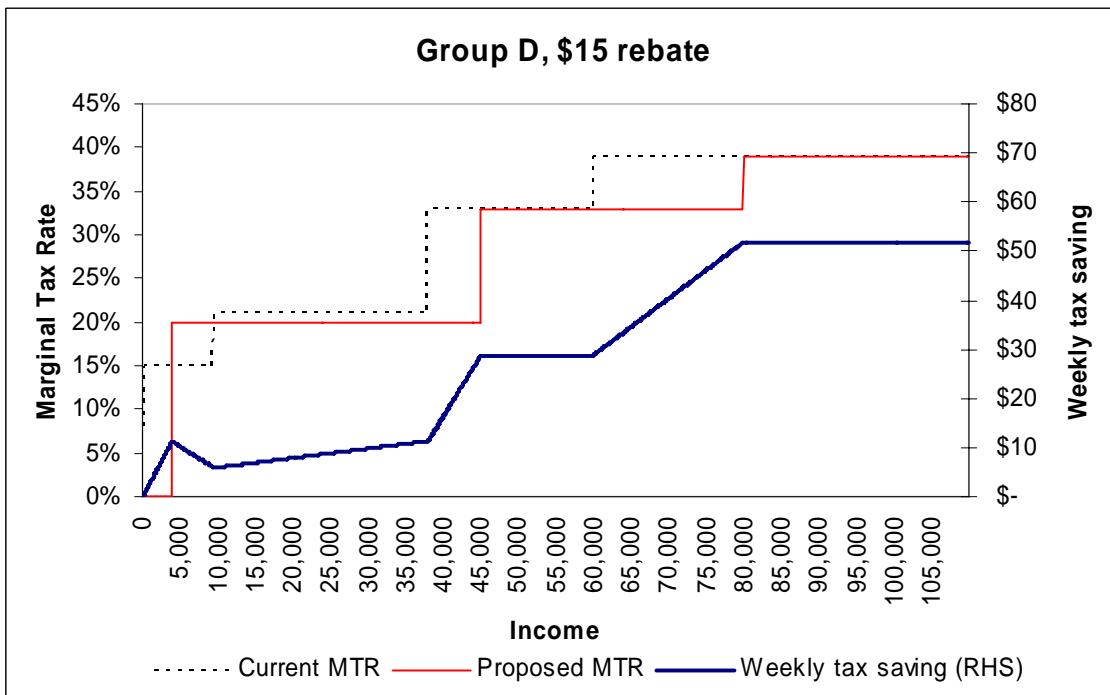
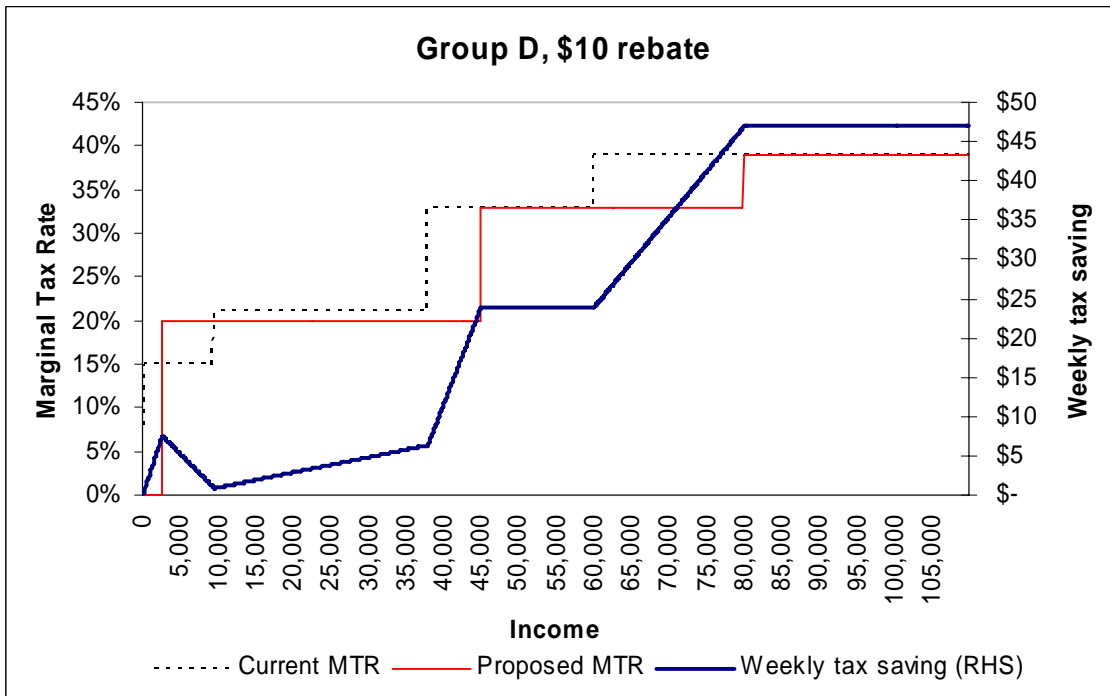
With three variants:

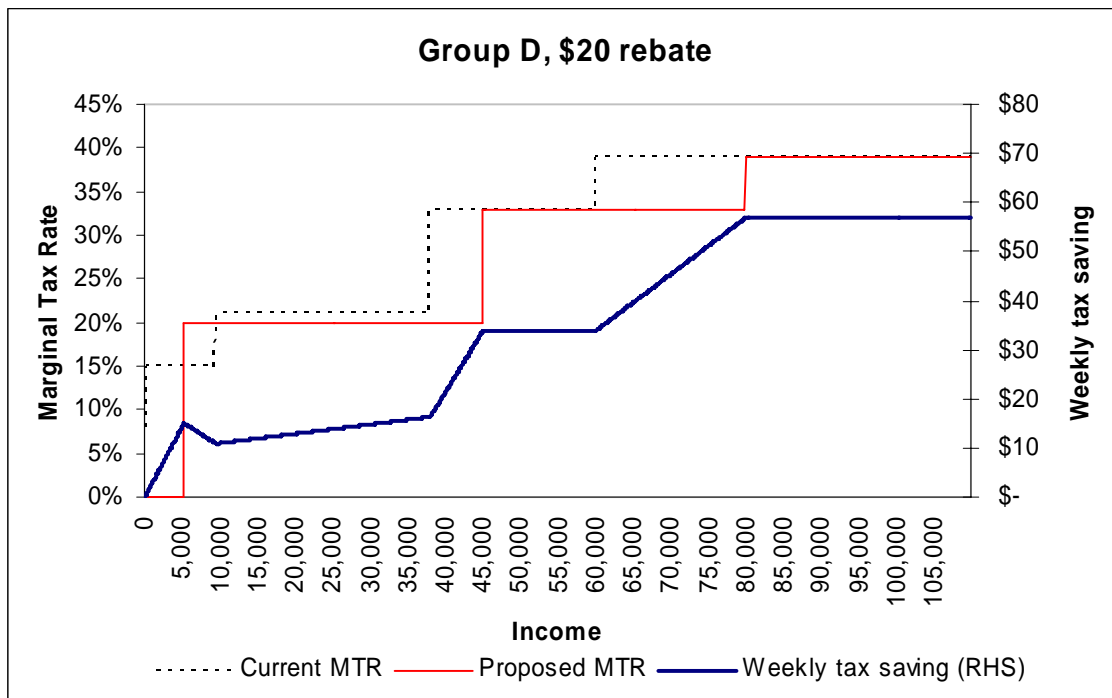
10. a \$10 per week non-abated, non-refundable tax rebate
11. a \$15 per week non-abated, non-refundable tax rebate
12. a \$20 per week non-abated, non-refundable tax rebate

Fiscal cost of Group D

(\$ million)	\$10 rebate	\$15 rebate	\$20 rebate
Group D	1700	2320	2920

Again, the only difference between this group and group B is that in this group the top marginal tax threshold is increased from \$60,000 to \$80,000. This makes group D a uniform \$380 million more expensive.



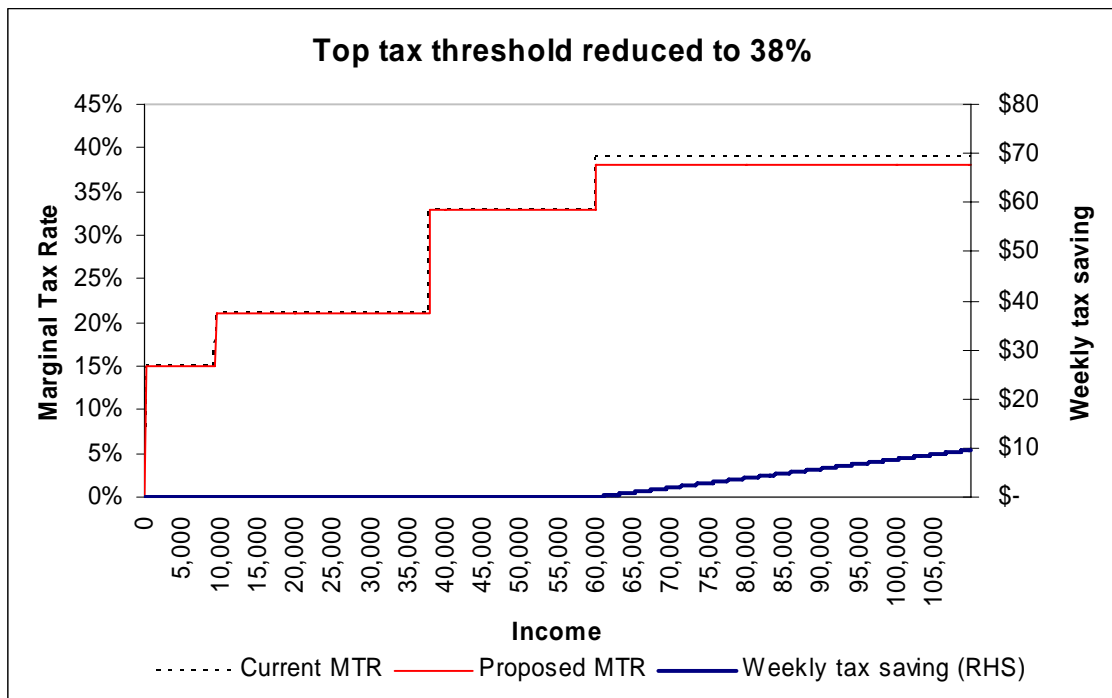


Group E

i) The table below shows the cost of retaining the current income tax schedule (including the LIR) and reducing the top tax threshold by 1% increments.

Top tax threshold	Fiscal cost (\$ million)	Marginal cost (\$ million)
38%	180	180
37%	360	180
36%	530	170
35%	710	180
34%	890	180
33%	1070	180

The chart below presents the 38% option. All other options would simply raise the slope of the line from the \$60,000 point. To give a sense of how far this would move, the 38% scenario gives a person on \$100,000 a weekly benefit of \$7.69. Under the 33% scenario this would increase to \$46.15 per week.

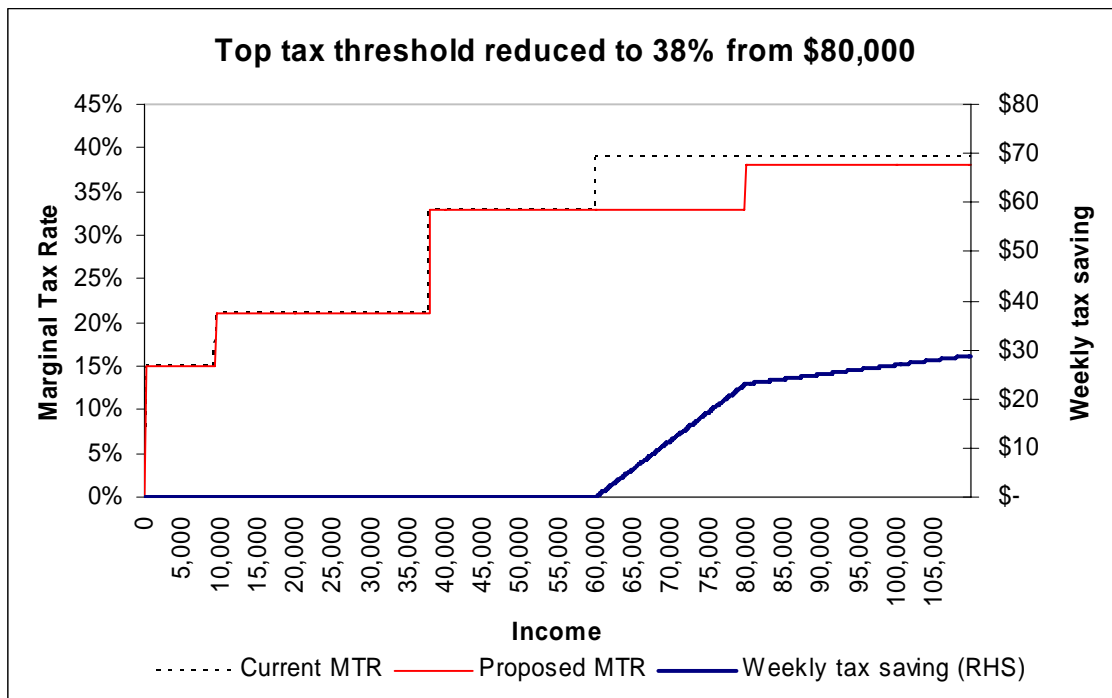


ii) The table below shows the cost of retaining the current income tax schedule (including the LIR) except for moving the top tax threshold to \$80,000 and then reducing the top tax threshold by 1% increments.

Note that first round cost of just moving the top tax threshold to \$80,000 is \$380 million and the costs below would be in addition to this.

Top tax threshold	Fiscal cost (\$ million)	Marginal cost (\$ million)
38%	120	120
37%	230	110
36%	340	110
35%	460	120
34%	570	110
33%	690	120

The chart below only presents the 38% option. Again, all other options would simply raise the slope of the line from the \$80,000 point until it would reach the same slope as the line from \$60,000 to \$80,000 (this would be with the 33% option).



Group F

Alter the LIR to represent a 4 cent rebate up to \$15,000 (to give a maximum rebate of \$600) and then abate the rebate at 2 cents per dollar until it is fully abated at \$45,000. At the same time the 33% rate is extended to \$80,000.

This scenario gives a new effective tax schedule of:

- 15% to \$15,000
- 21% from \$15,000 to \$45,000
- 33% from \$45,000 to \$80,000
- 39% from \$80,000

Total fiscal cost of this option is \$1780 million. This can be decomposed by recalling from the previous scenarios that extending the top tax threshold to \$80,000 costs \$380 million. Therefore, changing the LIR component (with the consequential shift of the 33% rate to \$45,000) costs \$1,400 million.

