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To: Office of the Minister of Finance

From: Tax Strategy, Treasury

AIDE MEMOIRE: EXAMINING ALTERNATIVE PERSONAL TAX SCENARIOS

Summary

Policy costings (in \$ million) and distributive impacts are shown below. The latter are measured using Gini coefficients **for tax burdens** across individual taxpayers. Note that a **higher** Gini in this case implies a **more redistributive** (unequal) tax burden.

	Direct cost	'clawback' (via GST etc)	Net Cost	Gini coef. (of tax burden)
Current system	28,658	-	-	0.587
<u>Fixed rebate (\$p.w.):</u>		<i>\$ million</i>		
\$10	-1,050	+180	-870	0.598
\$15	-1,790	+310	-1,480	0.611
\$20	-2,510	+440	-2,070	0.624
<u>33% Threshold increase: (after replacing LIR with \$10p.w. rebate)</u>				
\$40k	-300	+52	-248	0.597 ^a
\$47.9k ^b	-1,316	+228	-1,088	0.593 ^a
\$54.8k ^c	-1,985	+343	-1,641	0.588 ^a
<u>39% Threshold increase (revenue -neutral rate reduction in brackets)</u>				
\$80k (36.9%) ^d	-453	78	-375	0.583
\$90k (36.3%) ^d	-581	101	-480	0.581
\$100k (35.8%) ^d	-679	118	-561	0.580

^a Compare with 0.598 to measure impact of *threshold only* changes.

^b restores 33% threshold to its real value in 2000-01.

^c restores percent of taxpayers paying 33% to 2000/01 levels (19%).

^d equivalent reduction in 39% rate at same fiscal cost.

Costings:

- Fixed rebates cost \$0.9 - \$2.1 billion. The cost more than doubles as the rebate doubles because high earners not currently receiving LIR receive the new rebate.
- 33% threshold changes: costs range from \$250 million (\$2k threshold rise) to under \$100 million per \$1k threshold increase for much larger threshold changes.
- By comparison, lower cost of raising 39% threshold (\$375 mill. to \$561 mill.).
- Raising the 39% threshold to \$100k is equivalent to reducing the rate to under 36%. (At \$100k, share of taxpayers on the top rate falls from 16% to under 5%).

Redistribution:

- A \$20 rebate is noticeably more redistributive than the current system (tax Gini increases from 59% to 62%); in percentage terms the tax reduction is much greater at low incomes, and about 15% of 'taxpayers' pay no tax.
- Targeting lower income deciles becomes harder as rebates increase – as most low-income individuals are already paying no/little tax.
- Tax Ginis suggest small redistributive changes from raising the 33% or 39% thresholds.
- For some scenarios, distributional impacts across **households** can look quite different from the distributional impact across **individuals**.

Introduction

Following our discussion on 16 October, it was agreed that we would provide some analysis of the likely budgetary costs and distributional consequences of a number of possible changes to the personal income tax. This note reports on some initial results from that exercise.

Options examined

The options examined below take three forms (with several variants within each):

- A. The introduction of a fixed \$ amount rebate for all taxpayers (at \$10, \$15, \$20 per week), replacing the existing LIR.
- B. Raising the starting threshold for the 33% marginal rate (with a \$10 p.w. rebate replacing the LIR).
- C. Raising the starting threshold for the 39% marginal rate, and comparing this with a revenue-neutral reduction in the top marginal rate.

In each case we present:

- Tables showing the budgetary costs of each option.
- Gini coefficients and graphs of the distributional impact of the proposed tax change.
- Some comments on the alternative options.

Assessing the distributional impact

Distributional impacts can be assessed in a number of ways. Below we report two measures:

- The **Gini coefficient for tax payments**, G_T , rather than for incomes.¹ ($G_T = 0$ implies income tax paid is proportional to income; $G_T = 1$ implies all income tax is paid by the highest income individual). Therefore, **a higher value of G_T implies a more redistributive tax system.**
- The **amount of tax savings per week** from each proposed tax change (in \$ and as a % of current tax paid²). These are shown for each decile of the individual income distribution.

To see how this affects households rather than individuals, where relevant we also comment on effects of policy on the distribution of (equivalised) household taxable incomes. This reveals how much less (or more) tax a typical household within each decile will pay under the proposal compared to the current regime.

The following sections examine options A, B and C in turn. In all cases the tax changes are assumed to apply from 1 April 2009 onwards and budget costings are shown for the first fiscal year (2009/10). These are based on 2009/10 prices using CPI forecasts from 2007Q3, and include the budgetary cost of flow-on impacts on NZ superannuation since these are legislated on a gross basis.³ (The potential impact of Working for

¹ Gini's for incomes are less helpful in such cases because post-tax income distributions can be misleading guides to the distribution of 'spending power'; the former do not include transfers such as Working for Families tax credits.

² Before WFF tax credits.

³ No modelling of the cost of changes to beneficiaries is undertaken since these are not automatically altered in response to tax changes.

Families indexation to CPI, once a 5% inflation threshold is reached, is currently expected in April 2010, and so is not modelled here. The Annex discusses possible costs and distributional impacts of this).

The Current Situation

Before considering the impact of various tax options, this section summarises some properties of the current tax system *in 2009/10, without any policy change*.

The current personal income tax is expected to deliver almost \$29 billion of tax revenue in 2009-10 in the absence of policy change.

Data in the Annex shows that in 2009/10:

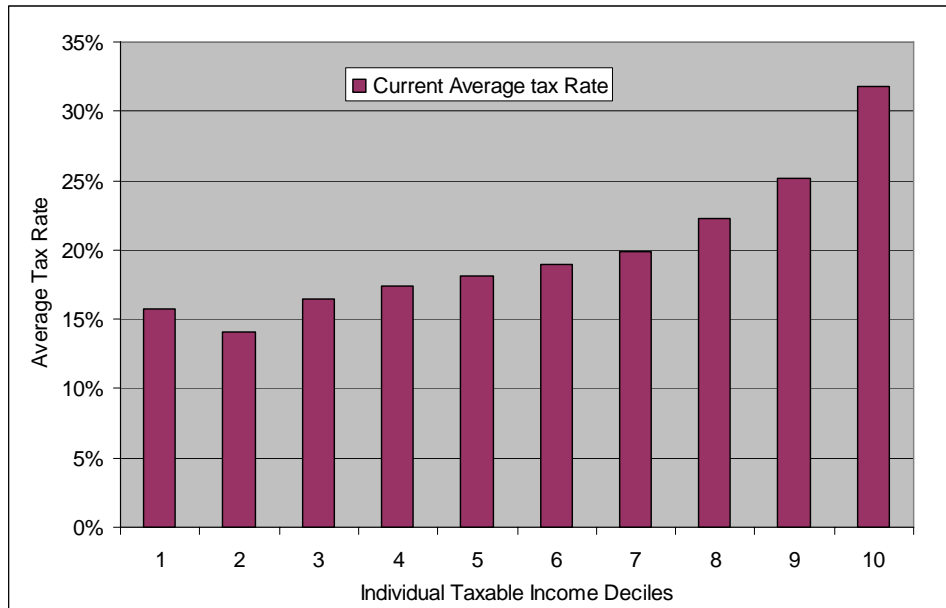
- 7% of taxpayers have zero taxable income;
- A further 8% of taxpayers earn between \$1 and \$5k, paying an average \$5 per week in tax;
- Nearly 1.9 million taxpayers (or 58%) earn between \$1 and \$38k so will be affected by removal of the LIR;
- 19% of taxpayers earn between \$38k and \$60k; and
- Up to 16% of all taxpayers earn in excess of \$60k.

In terms of equity, the Gini coefficient of personal income (for 2009/10), calculated from the deciles of the **equivalised household** income distribution, is approximately **0.39**.⁴ Measured across the **individual** income distribution this becomes **0.50** (because high earners tend to combine with low/non-earners within households, so there is less inequality across households).

The Gini coefficient for personal income **tax burdens** is currently $G_T = 0.59$ (individuals), **0.49** (households). That is, tax is paid disproportionately by higher earners so that incomes after tax are more equal than incomes before tax. In general, the 'equivalised household' Ginis for the various scenarios can be obtained by subtracting approx. 0.1 from the individual Ginis reported below (e.g. 0.59 becomes 0.49 etc.).

The distribution of the current tax burden (in 2009/10 with no policy change) is given below showing the rise in the average tax rate from under 15% in the second lowest income decile (on average) to 32% in the highest decile. The lowest decile in this analysis is fairly anomalous: the maximum income for these individuals is \$128 p.a. Subsequently we describe **changes** in tax burdens from this *status quo*. (These average tax rates do not include the impact of transfer payments such as working for families tax credits, child support, student loan repayments etc).

⁴ These numbers are approximate, measured using only ten (decile) points across the income scale, and are before redistributions via WFF etc. However Ginis reported for all tax policy scenarios use the same method so are suitable for relative comparisons.



Policy Scenarios

A. Fixed \$ amount rebate for all taxpayers

Introduction of a fixed \$ rebate is modelled in conjunction with the removal of the existing LIR. It is also assumed that the rebate is non-refundable.

Costings:

Table A1 Annual Cost of Fixed Rebates (on all taxable income)

					In \$ million
Annual (weekly) amount of rebate	Direct costs:			Indirect costs:	Total:
	Fixed rebate	Removal of LIR	Total direct cost	('clawback' via GST etc)	Net Cost
\$520 (\$10)	-1,530	+480	-1,050	+180	-870
\$780 (\$15)	-2,270	+480	-1,790	+310	-1,480
\$1040 (\$20)	-2,990	+480	-2,510	+440	-2,070

Table A1 shows the 'total direct cost' (column 4) of each rebate and the breakdown into two components: the removal of the LIR (col. 3) and the introduction of the fixed rebate (col. 2). The removal of the LIR recovers almost half a billion dollars. Total net costs range from \$870 million (\$10p.w.) to \$2 billion (\$20p.w.). This includes the 'indirect cost' (gain) from the associated change in consumer spending - additional GST, excise and corporate tax revenue (col. 5). The indirect 'clawback' generates an additional \$173 in other tax revenues for every \$1000 of foregone personal income tax revenue, amounting to \$440 million with a \$20 p.w. rebate.⁵ (These clawback calculations do not distinguish between taxpayers; e.g. whether tax rebates to high income earners generate proportionately more/less spending). We have also examined the size of 'revenue-neutral' fixed \$ rebate; that is the fixed rebate achievable using only revenues from the withdrawal of the LIR. This is \$3 p.w., based on retaining a 19.5% MTR.

⁵ This is based on standard modelling assumptions regarding how additional disposable income is spent and the associated impact on company profits. Taxes on spending account for almost 90% of the \$173 clawback.

Distributional Impacts:

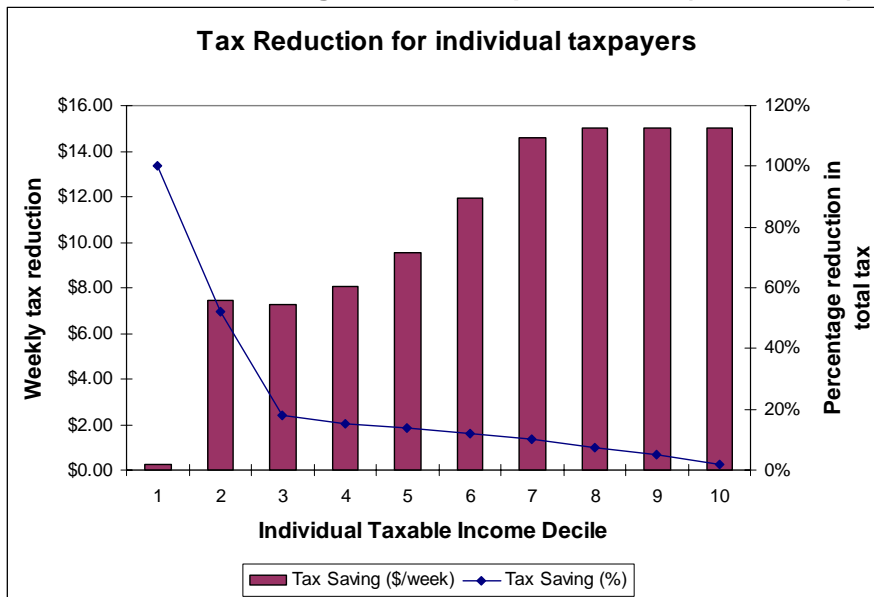
Table A2 Gini coefficients

Annual (weekly) amount of rebate	Gini coefficient for tax payments (G_T)
current	0.587
\$520 (\$10)	0.598
\$780 (\$15)	0.611
\$1040 (\$20)	0.624

Gini coefficients for the current and proposed tax regimes are shown in Table A2. This reveals that $G = 0.587$ for the current personal income tax system, rising to $G_T = 0.598$ (\$10 rebate) and $G_T = 0.624$ (\$20 rebate).

We have examined the distribution of tax burden changes across income deciles for all cases (see separate Annex). Chart A1 illustrates the intermediate (\$15 p.w. rebate) case; other cases are generally similar but differ in absolute amounts. Chart A1 shows that the full \$15 potential savings is reduced to \$7 - \$14 for deciles 2 – 7, due to the loss of the LIR. The lowest decile gains almost nothing (in \$ per week) because these individuals typically pay almost no tax. This is reduced to zero by the rebate.

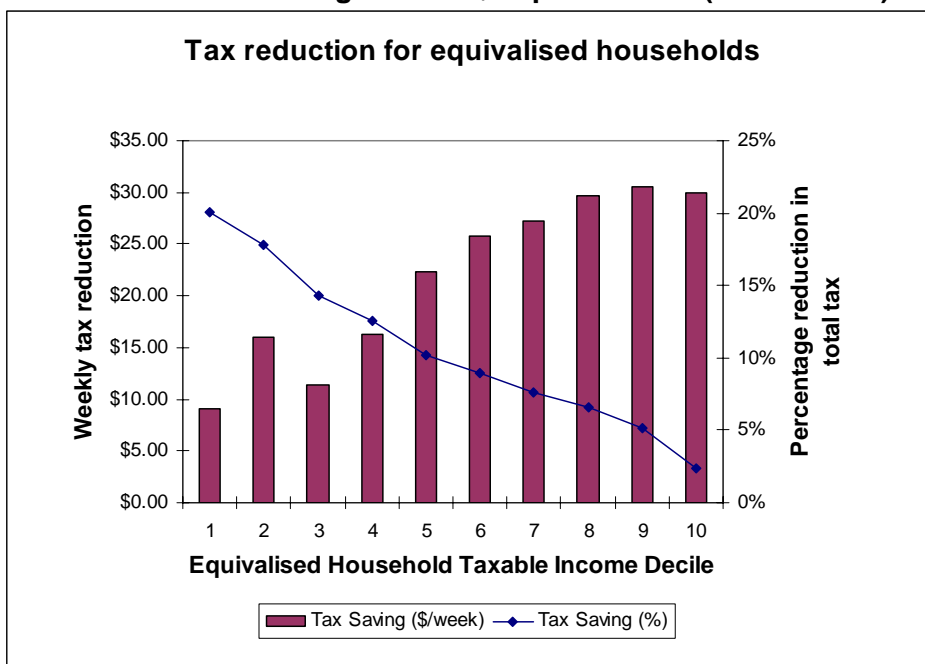
Chart A1: Tax Savings from a \$15 p.w. Rebate (Individuals)



The chart also shows that, in percentage terms, the greatest gains are made by the lower income deciles; the highest decile gets just a 2% tax saving. Because of the mixture of individuals within households, the distribution of tax savings across 'equivalised households' looks a bit different (Chart A2). For example, the bottom looks very different with average income in the lowest *individual* decile just \$85 p.a., but \$14,000 p.a. for the lowest *household* income decile. This highlights why caution is needed when interpreting distributional measures at the bottom of the income scale.

Comparing \$10, \$15 and \$20 rebates shows that 13%, 14% and 15% of 'taxpayers' pay no tax in these scenarios. As a result, increasing the fixed rebate targets the lowest income earners less well, since many are removed from the tax net by initial (smaller) rebates.

Chart A2: Tax Savings from a \$15 p.w. Rebate (Households)



This shows that even the lowest income deciles gain \$10-15 p.w. on average (15-20% of their current tax burden), rising to almost \$30 (5% or less of current tax burden) on average in the highest household deciles; i.e. most top households have two incomes.

B. Raising the 33% starting threshold

Modelling increases in the threshold for the 33% MTR is complicated by alternative assumptions regarding the calculation of the LIR abatement rate (when tax thresholds change). To avoid this we illustrate impacts of the 33% threshold change whilst replacing the LIR with a \$10 rebate. Three scenarios are considered:

- (i) A \$2k increase to \$40k.
- (ii) Increasing the threshold to \$48k to approximately restore its real value in April 2000.
- (iii) Increasing the threshold to almost \$55k which approximately restores the percentage of taxpayers paying at least 33% MTR to its value in 2000-01 (19%). Current (2009/10) percentage ≈ 35%.

Without changes to the \$60k threshold, option (iii) would leave a very small 33% rate range (\$55-60k, covering just 3% of taxpayers), but this case highlights the fiscal impact of a major uplift of the \$38k threshold. Maintaining real thresholds (option (ii)) provides an intermediate case.

Costings:

Table B1 Annual Cost of 33% Threshold Changes (in \$ million)

Threshold increase (from \$38k):	Direct cost	Indirect cost (clawback)	Total Cost
(i) to \$40k	-300	+52	-248
(ii) to \$47.9k	-1316	+228	-1088
(iii) to \$54.8k	-1985	+343	-1641

It can be seen that the impact of pushing out the \$38k threshold is initially about \$125 million per \$1k addition to the threshold (scenario (i)), reducing to under \$100 million per \$1k in scenario (iii).

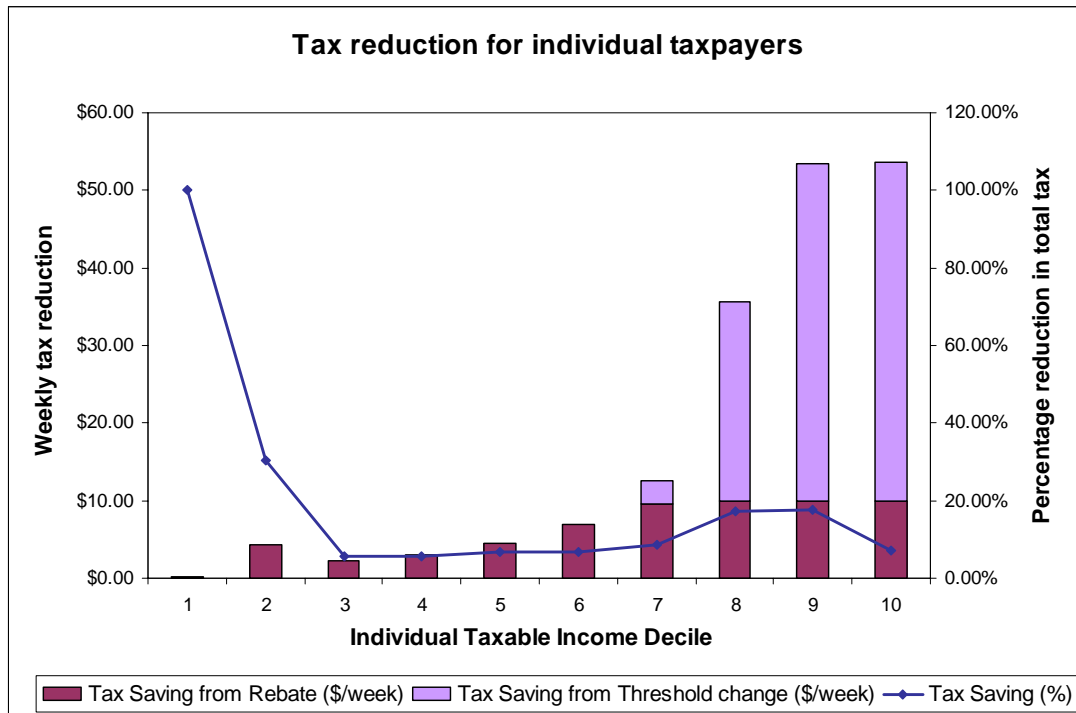
Distributional Impacts:

Table B2 Gini coefficients

	Gini coefficient for tax payments (G_T)
current	0.587
Replace LIR with \$10	0.598
<i>add threshold increase:</i>	
from \$38k to \$40k	0.597
from \$38k to \$47.9k	0.593
from \$38k to \$54.8k	0.588

The distributional impact of raising the \$38k threshold is insignificant for a \$40k threshold (G_T falls by 0.001) and still relatively small for a large increase in the threshold (G_T falls by 0.01 for a \$55k threshold). This is largely because, in percentage terms, gains from this tax change are fairly evenly spread across the distribution; see Chart B1. Note that the large threshold increase, to \$55k, combined with the \$10 rebate maintains the Gini at around its 'status quo' value. Chart B1 also shows that, in \$/week the major beneficiaries of large 33% threshold increases are those in the highest three deciles. (A similar pattern is observed for the threshold increase to \$48k – but with smaller absolute changes).

Chart B1: Tax Savings from a \$55k Threshold (Individuals)



C. Raising the 39% starting threshold versus reducing the 39% rate

Increases in the threshold for the 39% MTR are modelled whilst holding all other parameters of the income tax system constant at current values. Three scenarios are considered:

- (i) \$20k increase to \$80k.
- (ii) \$30k increase to \$90k.
- (iii) \$40k increase to \$100k.

For each case in Table C1 we also report (column 5) the equivalent reduction in the top MTR which has the same budgetary cost as the threshold change shown.

Costings:

Table C1 Annual Cost of 39% Rate/Threshold Changes (in \$ million)

Threshold increase:	Direct cost	Indirect costs (clawback)	Total Net Cost	Revenue-neutral change to top MTR
by \$20k to \$80k	-453	78	-375	36.9%
by \$30k to \$90k	-581	101	-480	36.3%
by \$40k to \$100k	-679	118	-561	35.8%

Table C1 shows that the net cost of raising the 39% threshold to \$80k is about \$375 million. This rises to \$560 million if the threshold is raised to \$100k. The Table also shows that the three threshold-raising options are equivalent in revenue terms to reducing the 39% top rate to 36.9% (\$80k), 36.3% (90k), or 35.8% (\$100k). In general each 1% point reduction in the top rate costs about \$180 million, with a \$60k threshold (if starting from an \$80k threshold, for example, this reduces to \$115 million).

These threshold increases would have the effect of reducing the proportion of taxpayers paying the 39% rate (about 16% in the 2009/10 'status quo') to approximately 7½%, 5½% and 4½% respectively for the three options.

Distributional Impacts:

Table C2 Gini coefficients

Threshold increase:	Gini coefficient for tax payments (G_T)
<i>Current (\$60k)</i>	0.587
by \$20k to \$80k	0.583
by \$30k to \$90k	0.581
by \$40k to \$100k	0.580

Raising the 39% threshold to \$80k (\$100k) has a small effect on the Gini of tax payments, reducing it from $G_T = 0.587$ to 0.583 (0.580). These reforms only affect the upper two individual income deciles, e.g. shifting to an \$80k threshold, the highest income decile gains around \$31 p.w. in reduced tax (4% of their current tax liability). However they have a much wider distributional impact across households with those in the 5th to the 10th deciles affected (see separate Annex for details).

Longer-term Reform

We also comment on the possible consequences of immediate tax reforms for more far-reaching future reforms. One example could be a move to a two-rate system of, say, 20% and 33% rates. In this case, increases in the 39% threshold discussed above

would make future reductions in that rate easier in revenue terms since a smaller fraction of taxpayers, than currently, would be paying the top rate. In addition, raising the threshold now has greatest impact on the marginal rates faced by those on 60k - \$100k, reducing them by 6% points. The revenue neutral equivalent involves a 3% point reduction, to 36%, for all above \$60k. Though this represents a credible shift towards a lower top rate in the longer term, it reduces the top rate immediately by less but for all current top rate payers.

However, those on the highest incomes (above \$100k) are currently more likely to reduce the impact of the 39% rate via income splitting, PIEs etc. They would be affected to some extent by any subsequent rate reduction, with a 33% top rate expected to reduce tax avoiding strategies pursued by such taxpayers.

Our costings also suggest that raising the 33% threshold costs initially about \$125 million per \$1000 increase in the threshold. Large immediate changes to this threshold could therefore be fiscally costly, reducing available funding for future reductions in the 39% rate, or increases in the 39% threshold.

Any move to a two rate system would also require a decision on removing/retaining any fixed rebate introduced previously. Since such rebates have a similar effect to a tax free zone, they effectively represent an additional 0% tax rate over an initial income range. The value of this tax-free zone in future would depend on the size of the lower rate in a two-rate system. (e.g. a \$520 per annum rebate is equivalent to a \$2737 or \$2476 tax-free zone at 19% or 21% respectively. An LIR, on the other hand, does not involve an effective 0% rate.

ANNEX TAXPAYER INFORMATION AND DISTRIBUTIONAL ANALYSIS

The fiscal cost and distributional analysis for each option is based on data from the 2003/04 Household Economic Survey, with incomes re-weighted to the 2009/10 year. This re-weighting incorporates both inflation and real wage growth effects.

Distributional analysis was undertaken for both individuals and households, with a focus on the change in tax liability. Tax liabilities have not been adjusted for *Working for Families* tax credits. This is because tax credits apply to families rather than individuals, and the reduction in tax liability will generally be unaffected by excluding the tax credits, as these abate against gross, not net, income. These can be added to further analysis if required.

Individual Taxpayers

For each option, changes in marginal tax rates and individual tax liability for different income levels are provided. The effects for taxpayers at different points in the taxable income distribution are also shown. A snapshot of the taxable income distribution is given in Annex Table 1:

Annex Table 1

Individual Taxable Income	Number of Taxpayers	Total taxable income (\$m)	Total tax payable (\$m)
Zero taxable income	239,631	0	0
\$1 to \$10,000	420,506	1,762	249
\$10,000 to \$20,000	865,018	13,247	2291
\$20,000 to \$30,000	362,067	8,919	1667
\$30,000 to \$40,000	330,164	11,567	2248
\$40,000 to \$50,000	324,876	14,613	3156
\$50,000 to \$60,000	226,295	12,342	2912
\$60,000 to \$70,000	153,638	9,882	2513
\$70,000 to \$80,000	131,648	9,868	2699
\$80,000 to \$90,000	65,643	5,589	1607
\$90,000 to \$100,000	34,190	3,254	970
\$100,000 to \$150,000	92,118	10,979	3478
Above \$150,000	53,826	13,687	4868
TOTAL	3,299,619	115,709	28658

The distributional analysis shows the tax effects for individual taxable income deciles. Annex Table 2 shows total income, tax liability, average total and weekly tax rates for individual taxable income deciles for 2009/10 under current tax settings.

Distribution by Households

Our distributional analysis also looked at effects on households where this is relevant. The analysis specifically considers the tax effects for equivalised household taxable income deciles. This analysis will be relevant where an individual taxpayer might not benefit from a tax change, but is a member of a household that does. Focusing only on individual taxpayers can miss such information. Relevant tax and income statistics for equivalised household taxable income deciles for the 2009/10 year are shown in Annex Table 3. Because households may have more than one taxpayer, the income and tax liabilities for household deciles are higher than for individuals. In addition, the 'equivalised' households are obtained by weighting household members differently (children take lower weights).

Annex Table 2: Individuals

Individual taxable income deciles	Number of taxpayers	Total Taxable Income (\$m)	Total Tax Liability (\$m)	Average taxable income (\$)	Average Tax Rate	Average Weekly Tax (\$)
1	330,019	28	4	85	15.71%	0.26
2	329,762	1,731	244	5,249	14.11%	14.24
3	330,148	4,165	688	12,614	16.52%	40.08
4	329,993	5,224	910	15,831	17.41%	53.01
5	329,830	6,531	1,184	19,801	18.12%	69.01
6	329,966	9,167	1,737	27,781	18.95%	101.23
7	329,731	12,466	2,475	37,806	19.86%	144.37
8	330,461	15,844	3,533	47,945	22.30%	205.61
9	329,430	20,560	5,168	62,411	25.14%	301.69
10	330,280	39,994	12,714	121,090	31.79%	740.29
Total	3,299,619	115,709	28,658	35,067	24.77%	167.02

Annex Table 3: Equivalised Households

Equivalised Household taxable income deciles	Number of Households	Total Taxable Income (\$m)	Total Tax Liability (\$m)	Average Taxable Income (\$)	Average Tax Rate	Average Weekly Tax (\$)
1	157,255	2,201	373	13,999	16.95%	45.62
2	156,745	4,211	732	26,862	17.37%	89.76
3	156,954	3,669	655	23,373	17.85%	80.25
4	156,674	5,615	1,053	35,838	18.75%	129.23
5	157,521	8,745	1,801	55,518	20.60%	219.91
6	157,050	10,982	2,359	69,930	21.48%	288.91
7	156,947	12,850	2,909	81,877	22.64%	356.42
8	156,722	15,470	3,652	98,708	23.61%	448.16
9	157,179	19,081	4,874	121,399	25.54%	596.31
10	156,982	32,884	10,249	209,476	31.17%	1255.58
Total	1,570,029	115,709	28,658	73,698	24.77%	351.012

Indexation of Working for Families

As currently legislated, inflation indexation of Working for Families (WFF) rates and abatement occurs once the CPI index reaches a cumulative 5%. It is currently expected that the first adjustment will be on 1 April 2010.

This change would result in an increase in WFF expenditure of approximately \$260 million in 2010/11. This cost can be disaggregated into the impact of adjusting rates (\$170 million) and adjusting the abatement threshold (\$90 million). The distribution of this across family income levels is set out in the table below.

However, the indexation legislation was enacted prior to the extension of WFF (which substantially increased the abatement threshold) so Ministers may now consider that the extension has already incorporated price increases for a number of years.

Assessable income of families (\$p.a.)	Eligible families before indexing	Eligible families after indexing	Increase in eligibility through indexing	Increase in WFF (\$M)	Average increase per week
Negative to \$0	7,154	7,154	0	4	\$10.16
\$0 - \$10,000	11,226	11,226	0	4	\$6.46
\$10,000 - \$20,000	80,211	80,211	0	34	\$8.16
\$20,000 - \$30,000	68,794	68,794	0	26	\$7.34
\$30,000 - \$40,000	17,434	17,434	0	8	\$9.03
\$40,000 - \$50,000	9,427	9,427	0	9	\$17.75
\$50,000 - \$60,000	36,127	36,127	0	33	\$17.52
\$60,000 - \$70,000	47,909	48,105	0	41	\$16.19
\$70,000 - \$80,000	43,423	43,423	0	37	\$16.24
\$80,000 - \$90,000	34,420	43,831	9,411	35	\$15.31
Above \$90,000	14,244	21,418	7,174	19	\$16.73
Total	6,299	11,517	5,218	259	

Annex: Details on Tax Scenarios

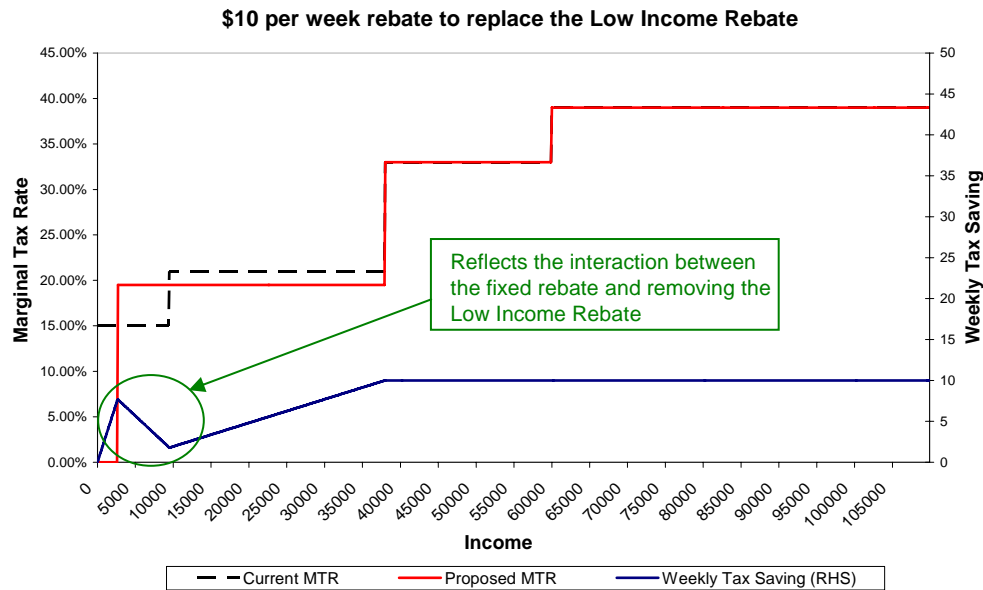
This annex provides further distributional analysis for the different options considered in the note “Examining Alternative Personal Tax Scenarios”

Scenarios included:

- **\$10** per week fixed rebate to replace the Low Income Rebate
- **\$15** per week fixed rebate to replace the Low Income Rebate
- **\$20** per week fixed rebate to replace the Low Income Rebate
- Increase in middle threshold to **\$40 000**
- Increase in middle threshold to **\$47 900**, to maintain real value from 1 April 2000
- Increase in middle threshold to **\$54 800** to maintain the 1 April 2000 proportion of taxpayers facing a marginal income tax rate of 33% or higher
- Increase top threshold to **\$80 000** or equivalent reduction in the top marginal tax rate to **36.9%**
- Increase top threshold to **\$90 000** or equivalent reduction in the top marginal tax rate to **36.3%**
- Increase top threshold to **\$100 000** or equivalent reduction in the top marginal tax rate to **35.8%**

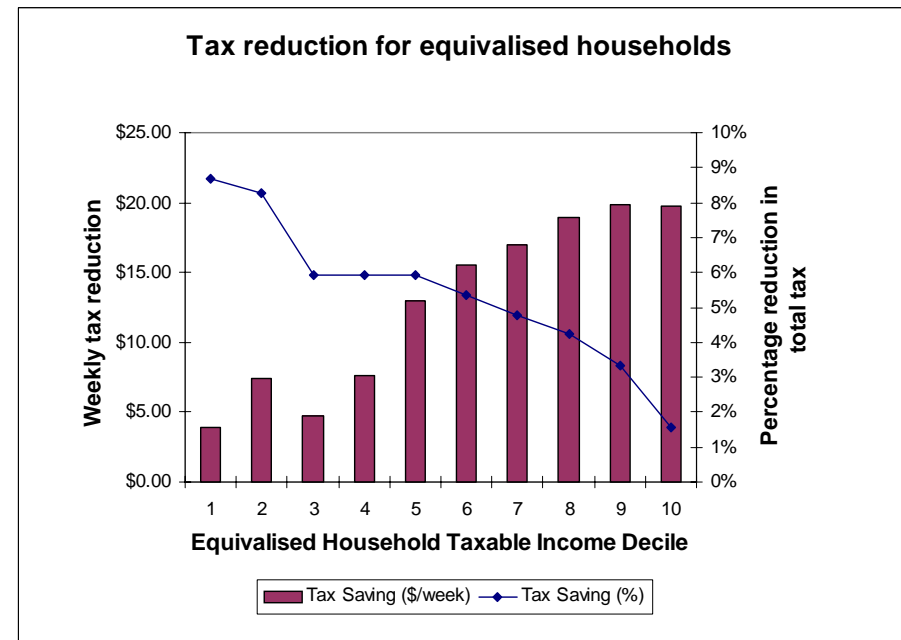
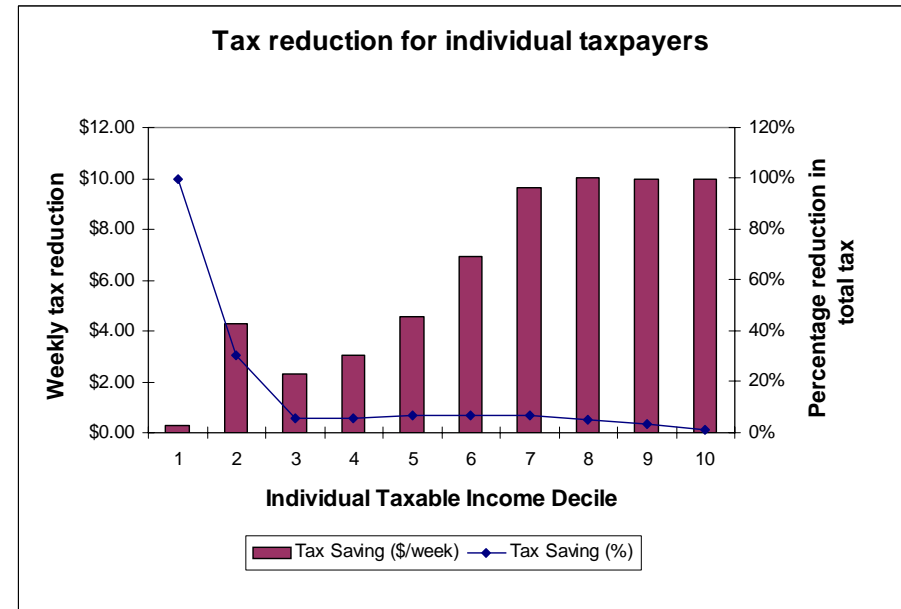
Scenario A - \$10 per week fixed rebate to replace Low Income Rebate

Fiscal cost: \$870 million per annum



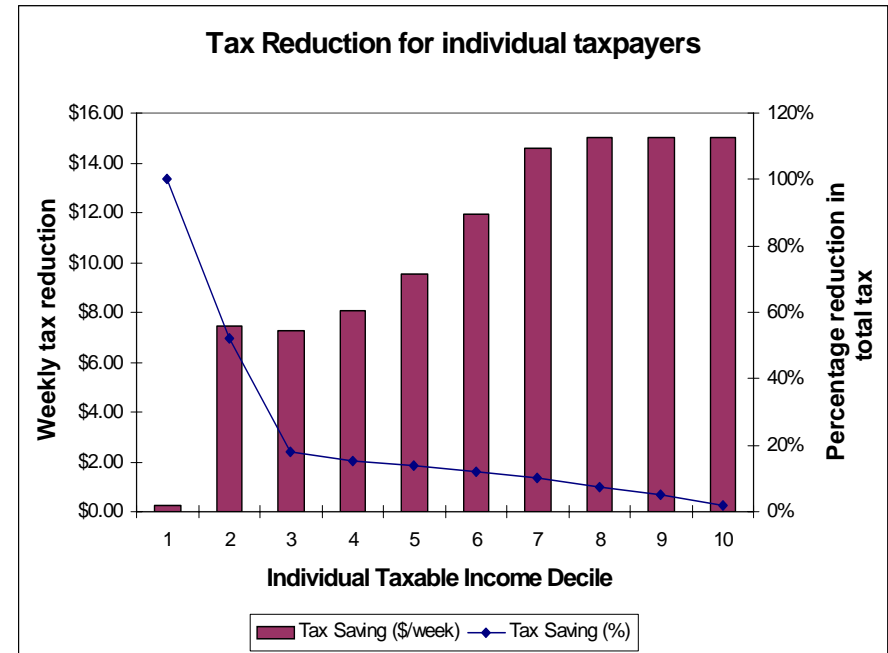
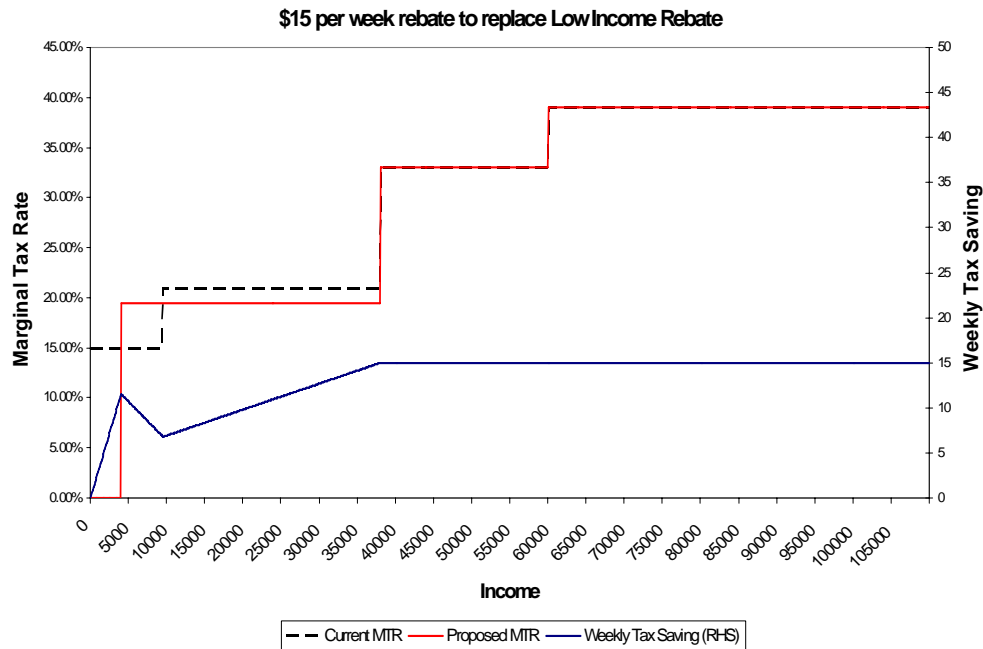
Key observations:

- All individual taxpayers either receive a tax reduction of at least \$1.87 per week or have their tax liability reduced to zero.
- The rebate creates an effective tax free zone of \$2 667 per year. 5.5% of taxpayers earn between \$1 and \$2 667 and will pay zero tax as a result.
- 1.5 million taxpayers earning between \$9 500 and \$38 000 have their marginal income tax rate reduced by 1.5 percentage points.
- Taxpayers earning \$9 500 receive a tax saving of \$1.87 per week.
- The maximum tax saving reaches \$10 per week for taxpayers earning more than \$38 000.
- The average tax reduction across all household deciles is at least \$3.96 per week.
- Household deciles five to ten receive an average reduction of at least \$13 per week.



Scenario A - \$15 per week fixed rebate to replace Low Income Rebate

Fiscal cost: \$1 480 million per annum

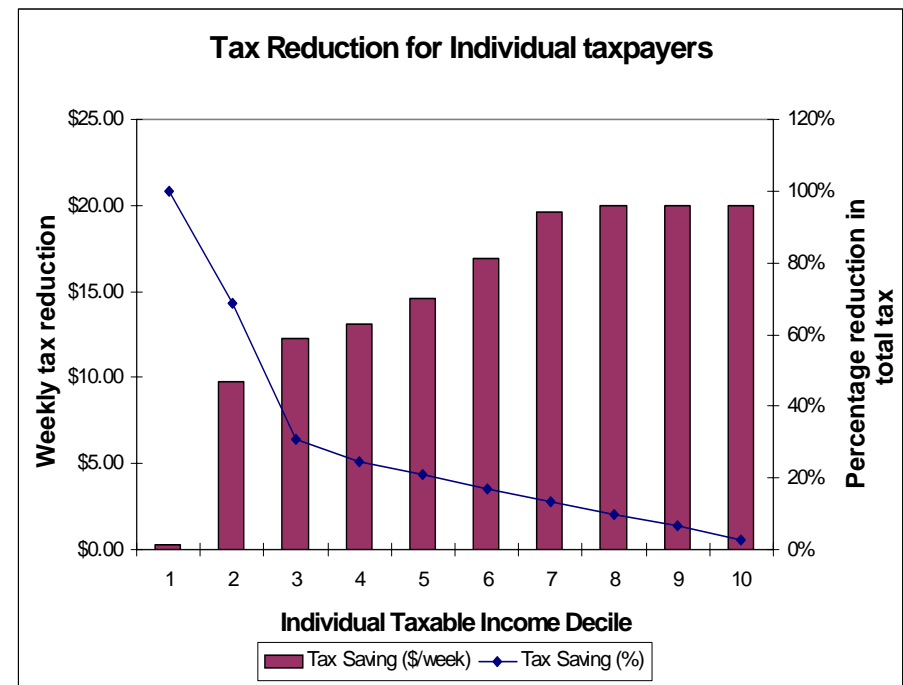
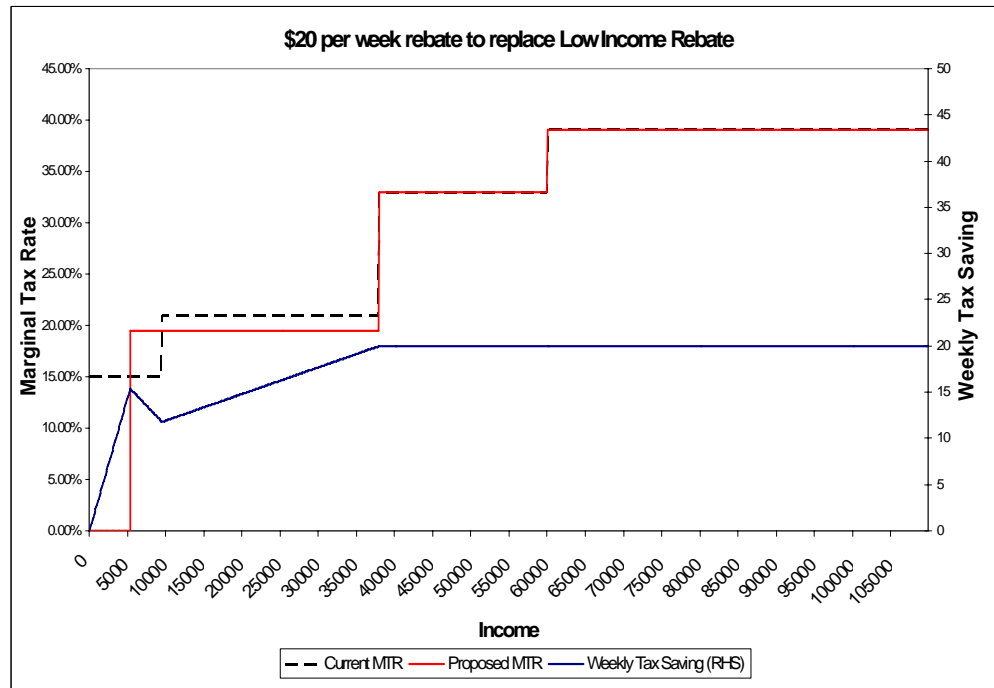


Key observations:

- All individual taxpayers either receive a tax reduction of at least \$6.87 per week or have their tax liability reduced to zero.
- The rebate creates an effective tax free zone of \$4 000 per year. 6.8% of taxpayers earn between \$1 and \$4 000 and will pay zero tax as a result.
- Taxpayers earning \$9 500 receive a tax saving of \$6.87 per week.
- The maximum tax saving reaches \$15 per week for taxpayers earning more than \$38 000.

Scenario A - \$20 per week fixed rebate to replace Low Income Rebate

Fiscal cost: \$2 070 million per annum

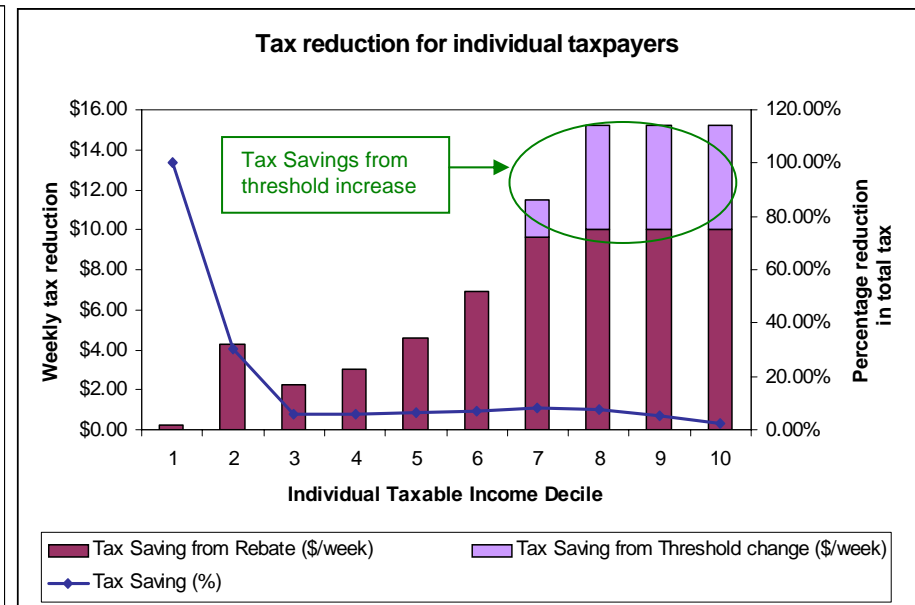
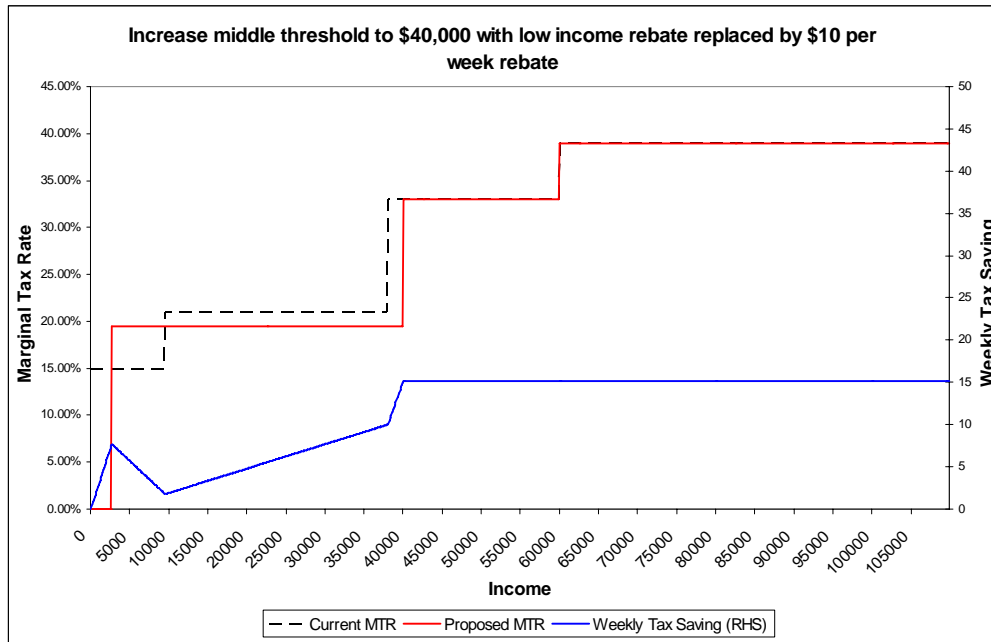


Key observations:

- All individual taxpayers either receive a tax reduction of at least \$11.87 per week or have their tax liability reduced to zero.
- A \$20 rebate creates an effective tax free zone of \$5 333. 7.9% of taxpayers earn between \$1 and \$5 333 and will pay zero tax as a result.
- Taxpayers earning \$9 500 receive a tax saving of \$11.87 per week.
- The maximum tax saving reaches \$20 per week for taxpayers earning more than \$38 000.

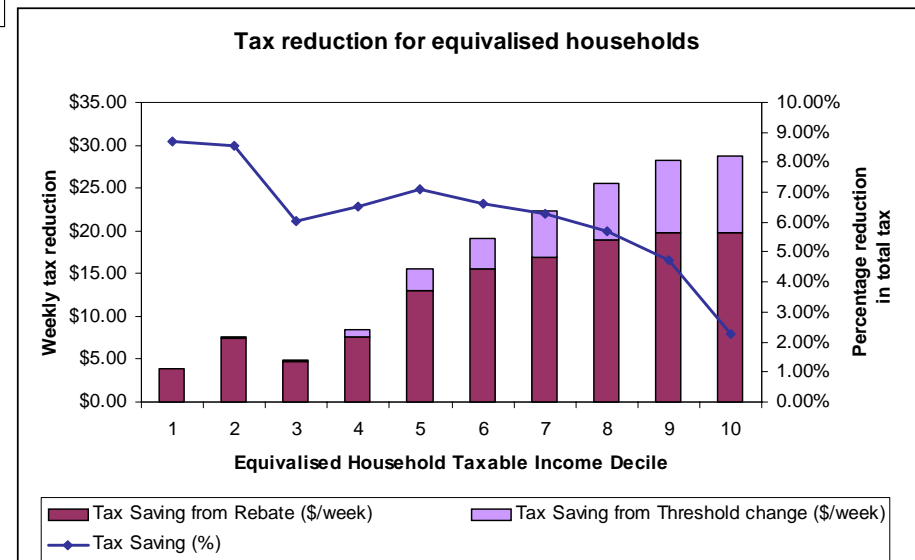
Scenario B – *Middle threshold increased to \$40 000* (LIR replaced with \$10 rebate)

Total Fiscal cost: \$248 million plus the cost of replacing LIR with \$10 weekly rebate at \$870 million



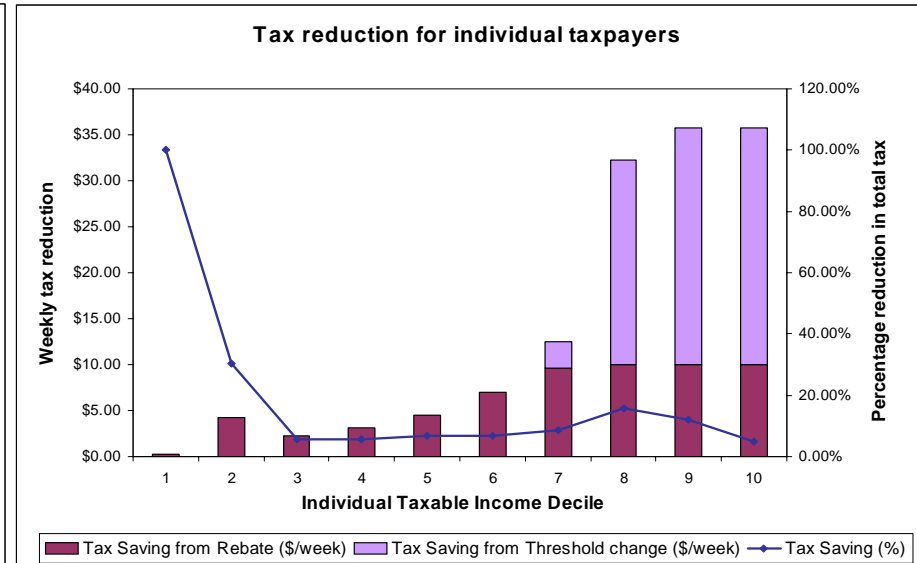
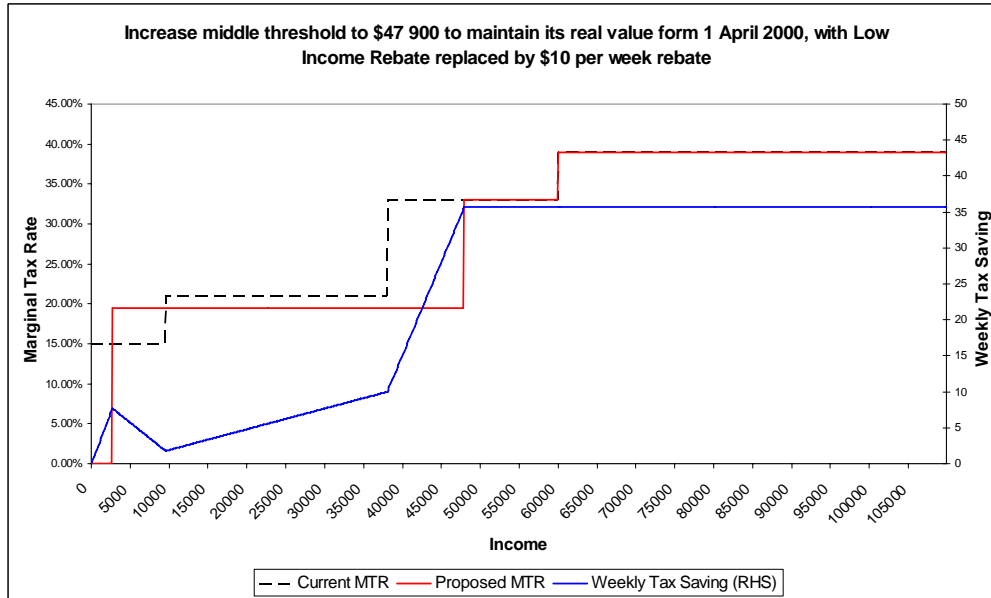
Key observations:

- 64,000 taxpayers (or 2%) earning between \$38,000 and \$40,000 have their marginal income tax rate reduced by twelve percentage points.
- The maximum individual tax saving increases to \$15.19 for taxpayers earning more than \$40,000 (the maximum saving from the fixed \$10 rebate is \$10 per week).
- Individual taxpayers in the top four deciles benefit from the increase in the middle threshold; households in the top seven deciles benefit.
- Households in deciles five to seven receive an average tax saving of at least \$15.62 per week; the average tax saving is \$25 per week for households in deciles eight to ten.



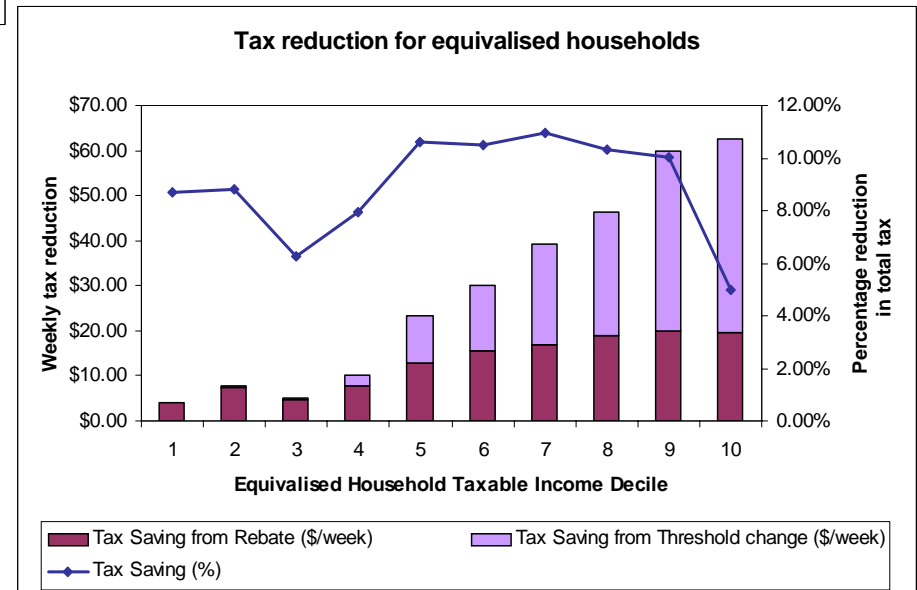
Scenario B – *Middle threshold increased to \$47 900* to match real value at 1 April 2000 (LIR replaced with \$10 rebate)

Fiscal cost: \$1 088 million plus the cost of replacing LIR with \$10 weekly rebate at \$870 million



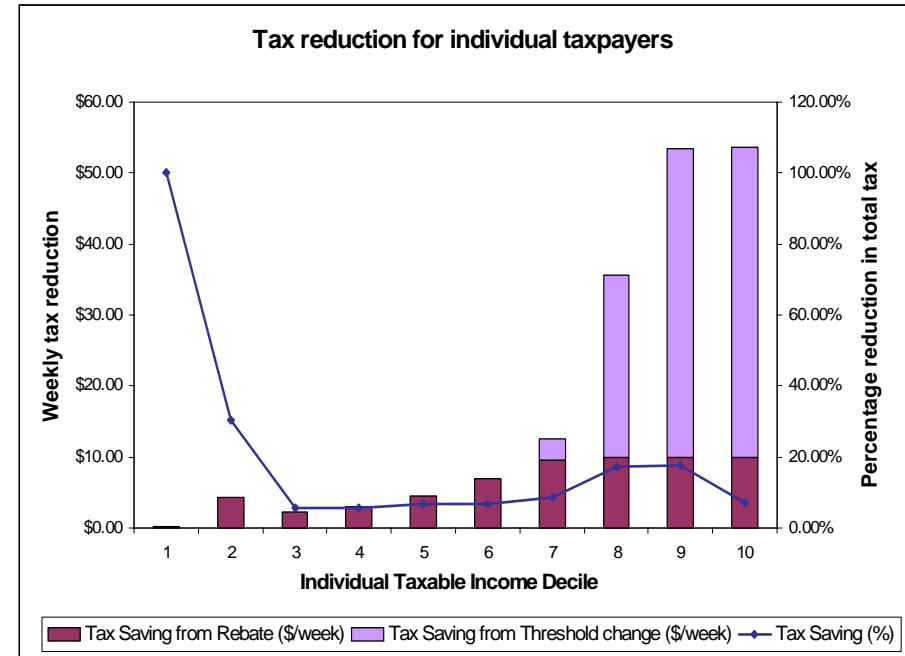
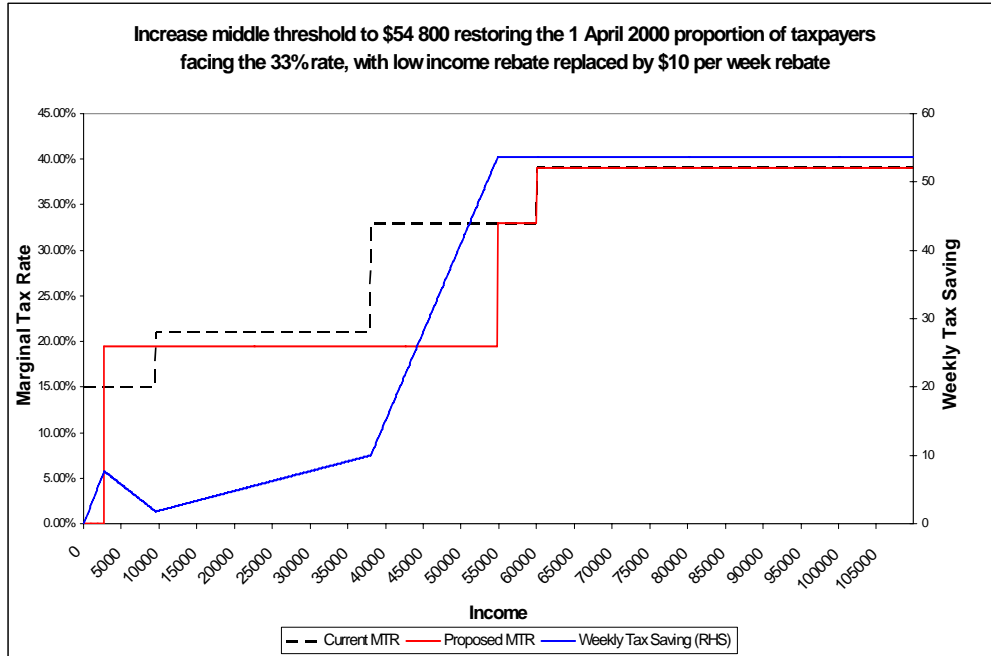
Key observations:

- 331 000 taxpayers (or 10%) earning between \$38,000 and \$47 900 have their marginal income tax rate reduced by twelve percentage points.
- 24.7% of taxpayers face a marginal income tax rate of 33% or higher; currently 35% of taxpayers face a rate of 33% or higher.
- The maximum individual tax saving increases to \$35.70 for taxpayers earning more than \$47,900.
- The average percentage reduction in total tax for individual taxpayers in deciles eight and nine are 15% and 12%.
- Average tax saving is greater than \$30 for households in deciles six to eight; the average saving is about \$60 per week for households in the top two deciles.
- The average percentage reduction in total tax is greater than 10% for households in deciles five to nine.



Scenario B – *Middle threshold increased to \$54 800* restoring the proportion of taxpayers on 33% rate on 1 April 2000 (LIR replaced with \$10 rebate)

Fiscal cost: \$1 641 million plus the cost of replacing LIR with \$10 weekly rebate at \$870 million

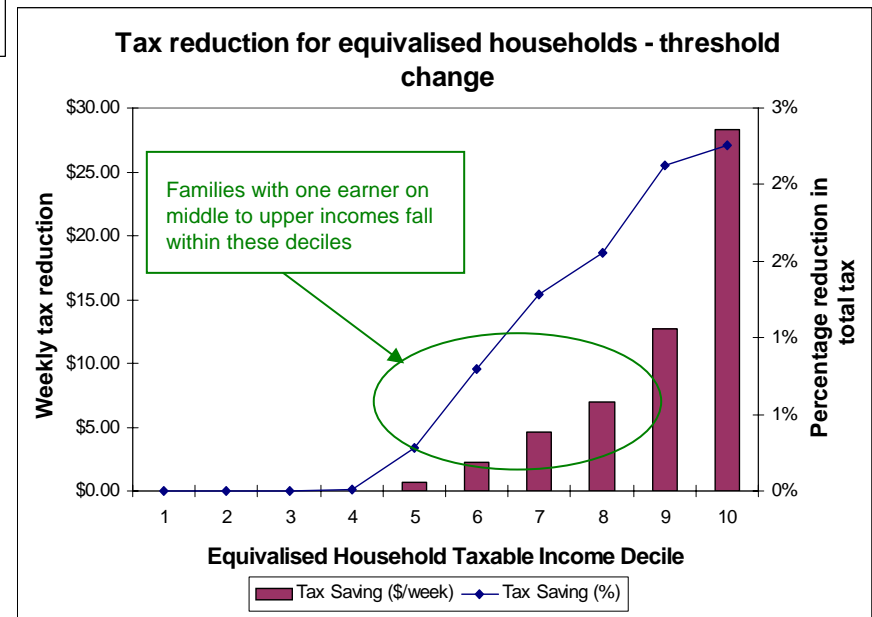
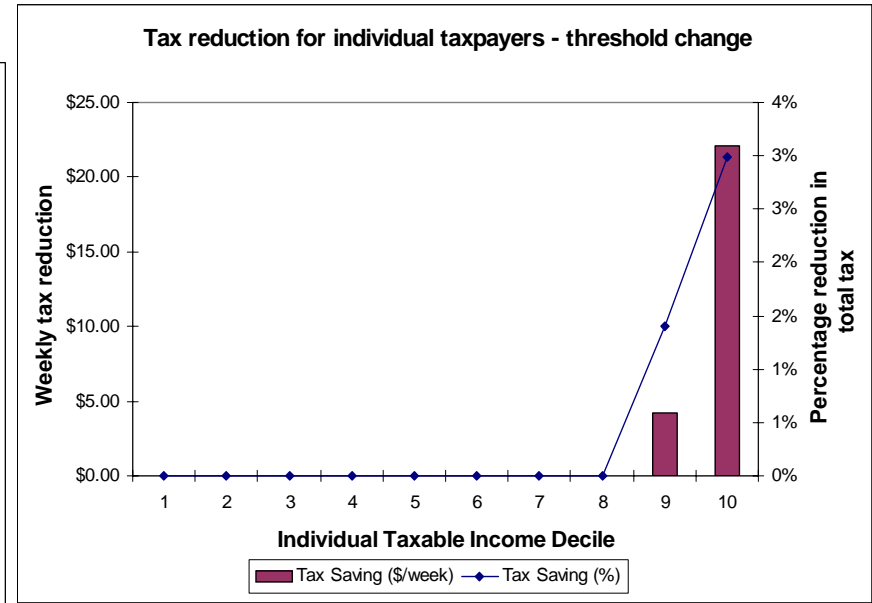
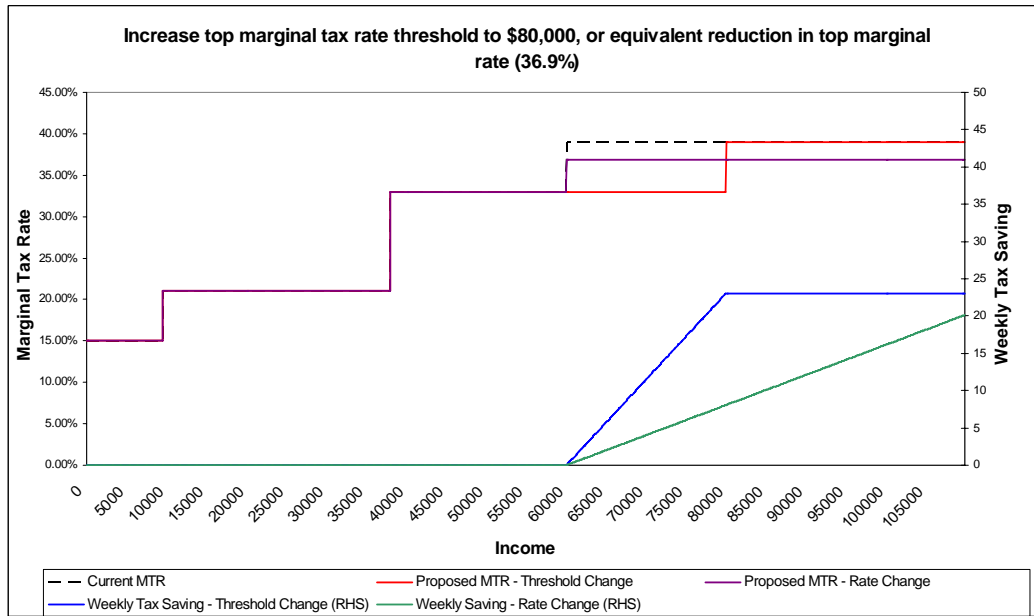


Key observations:

- 518 000 taxpayers (or 15.7%) earning between \$38,000 and \$54,800 have their marginal income tax rate reduced by twelve percentage points.
- 19% of taxpayers face a marginal income tax rate of 33% or higher; this is the same proportion as in the 2000/01 year.
- The maximum individual tax saving increases to \$53 for taxpayers earning more than \$54,800.
- The average percentage reduction in total tax is 17% for taxpayers in deciles eight and nine.

Scenario C – *Raise top threshold to \$80 000* or equivalent reduction in the *top marginal tax rate to 36.9%*

Fiscal cost: \$375 million

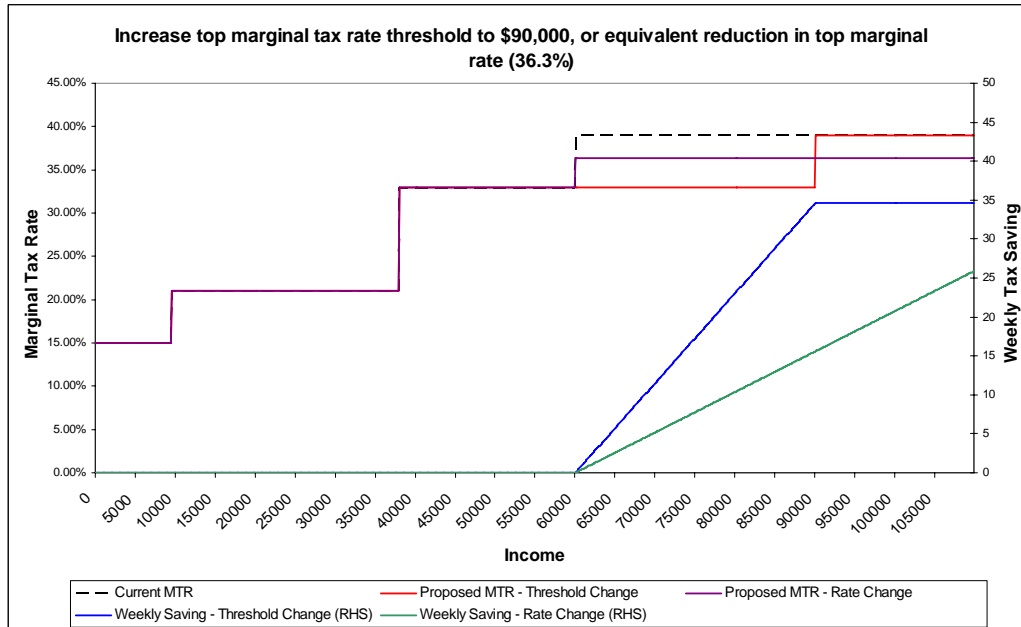


Key observations:

- Where the top threshold is raised to \$80 000, 8.5% of taxpayers have their marginal income tax rate reduced by six percentage points. This reduces the number of taxpayers on the top marginal tax rate to 7.5%.
- For the equivalent reduction in the top rate to 36.9%, 16% of taxpayers have their marginal income tax rate reduced by 2.1 percentage points.
- For individuals, tax savings are limited to the top two deciles.
- For households, tax savings are received by the fifth to tenth deciles.
- Where the threshold is shifted, the maximum tax saving is \$23 per week for taxpayers earning more than \$80 000.
- For taxpayers earning \$80 000 the increase in the threshold is worth \$15 per week more than where the top rate is reduced to 36.9%.
- The threshold change produces greater tax savings for those earning less than \$117 000.

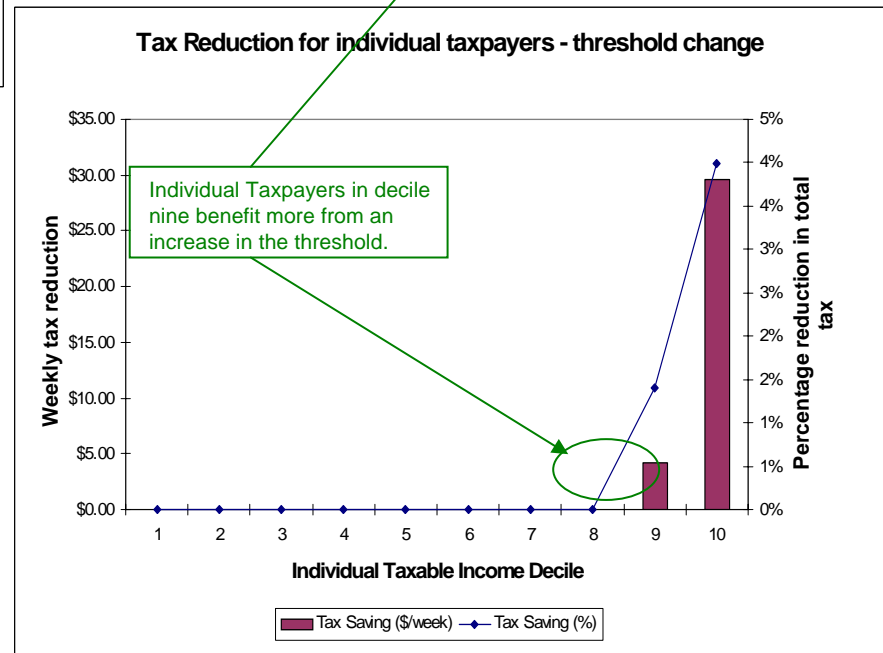
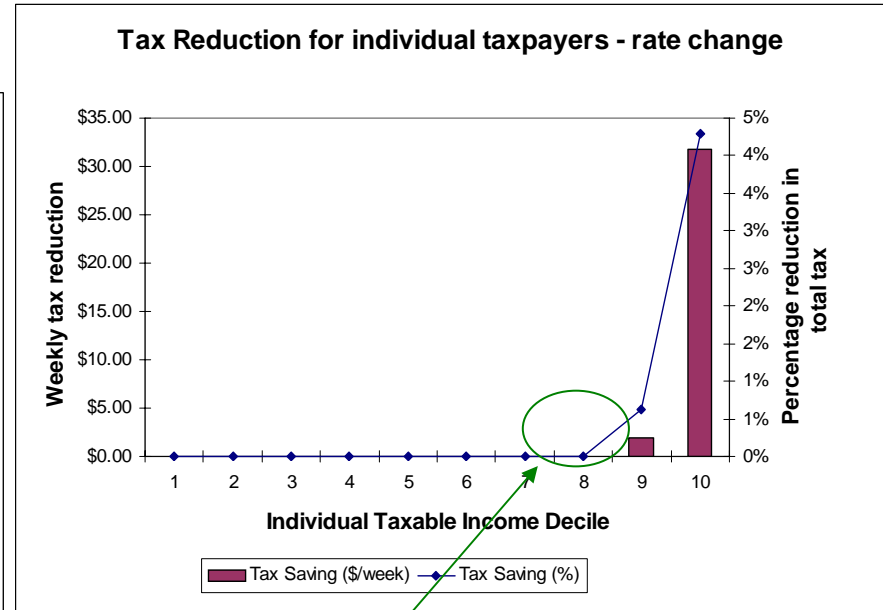
Scenario C – Raise top threshold to \$90 000 or equivalent reduction in the top marginal tax rate to 36.3%

Fiscal cost: \$480 million



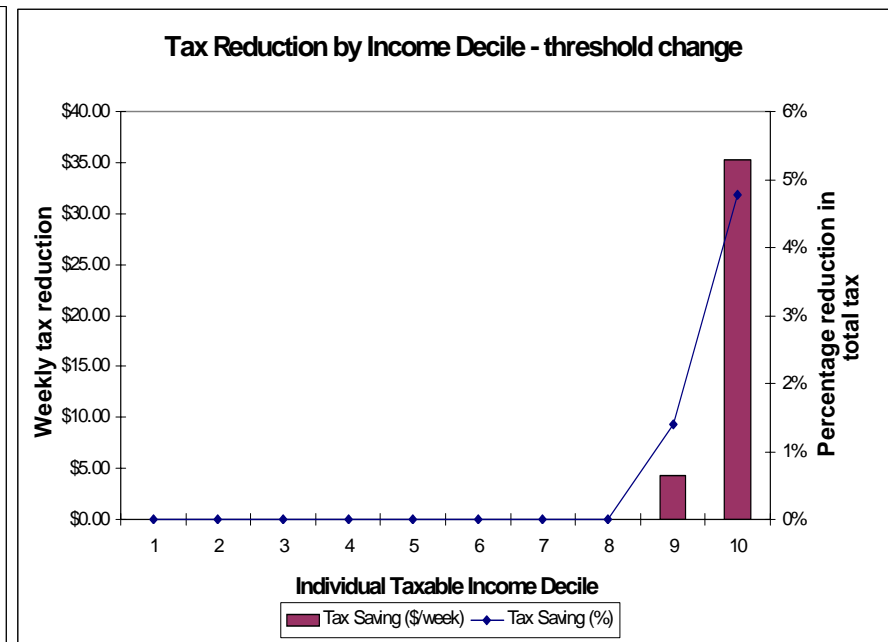
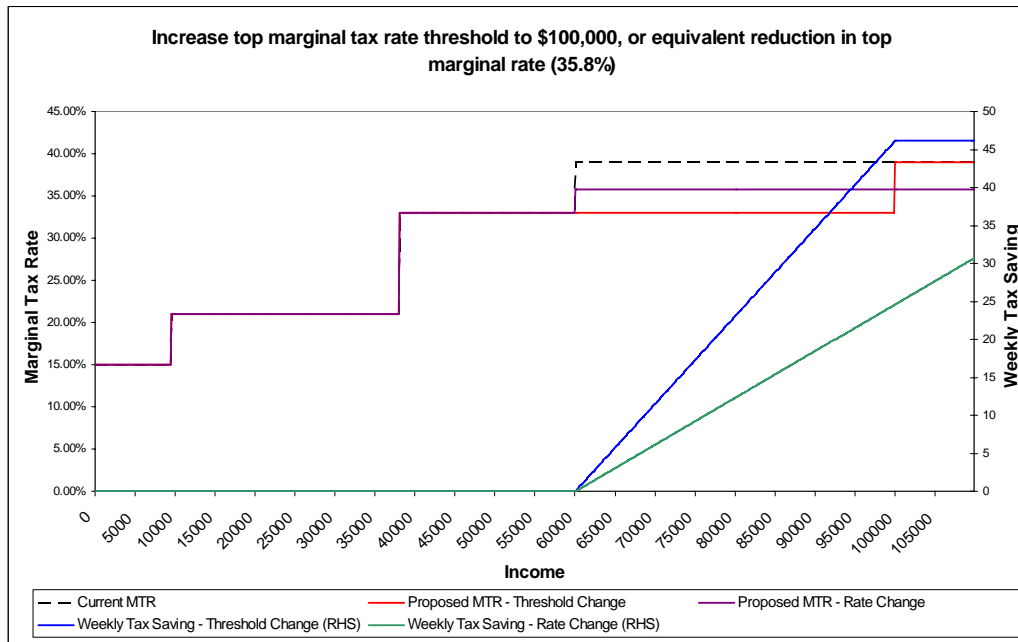
Key observations:

- Where the top threshold is raised to \$90 000, 10.5% of taxpayers have their marginal income tax rate reduced by six percentage points. This reduces the number of taxpayers on the top marginal tax rate to 5.5%.
- For the equivalent reduction in the top rate to 36.3%, 16% of taxpayers have their marginal income tax rate reduced by 2.7 percentage points.
- Where the threshold is shifted, the maximum tax saving is \$34.62 per week for taxpayers earning more than \$90 000.
- For taxpayers earning \$90 000 the increase in the threshold is worth \$19.04 per week more than where the top rate is reduced to 36.3%.
- The threshold change produces greater tax savings for those earning less than \$127 000.



Scenario C – *Raise top rate threshold to \$100 000* or equivalent reduction in the *top marginal tax rate to 35.8%*

Fiscal cost: \$561 million



Key observations:

- Where the top threshold is raised to \$100 000, 11.5% of taxpayers have their marginal tax rate reduced by six percentage points. This reduces the number of taxpayers on the top marginal tax rate to 4.5%.
- For the equivalent reduction in the top rate to 16% of taxpayers have their marginal income tax rate reduced by 3.2 percentage points.
- Where the threshold is shifted, the maximum tax saving is \$46.15 per week for taxpayers earning more than \$100 000.
- For taxpayers earning \$100 000 the increase in the threshold is worth \$21.53 per week more than where the top rate is reduced to 35.8%.
- The threshold change produces greater tax savings for those earning less than \$135 000.