

29 April 2008

SH-13-3-0

To: Office of the Minister of Finance

From: Tax Strategy, Treasury

**COSTS AND DISTRIBUTIONAL DETAILS FOR SCENARIOS A AND B**

The attached A3 sheets provide the fiscal cost, distributional impact, equity measures, tax savings, and impacts on effective marginal tax rates for the two personal tax reform scenarios outlined in the Cabinet Budget Committee tax paper. The two scenarios involved a main scenario (Scenario A) based on preliminary macroeconomic forecasts and a second scaled scenario (Scenario B) which could be considered should final macroeconomic forecasts come in weaker.

As the final shape of the personal tax package was dependent on the final macroeconomic forecasts, CBC delegated authority to determine the final details of the tax package to the Prime Minister, the Minister of Finance, and Associate Minister of Finance (Hon Mallard).

The two scenarios are outlined below. Additional information is attached.

**Table 1: Personal Tax Reform Scenario A**

1-Apr-09		1-Apr-10		1-Apr-11	
12.50%	up to \$15,000	12.50%	up to \$20,000	12.50%	up to \$25,000
21%	up to \$40,000	21%	up to \$40,000	21%	up to \$45,000
33%	up to \$70,000	33%	up to \$75,000	33%	up to \$80,000
39%	over \$70,000	39%	over \$75,000	39%	over \$80,000

**Table 2: Personal Tax Reform Scenario B (deviations from Scenario A in bold)**

1-Apr-09		1-Apr-10		1-Apr-11	
<b>12.50%</b>	<b>up to \$14,000</b>	<b>12.50%</b>	<b>up to \$17,500</b>	<b>12.50%</b>	<b>up to \$20,000</b>
21%	up to \$40,000	21%	up to \$40,000	<b>21%</b>	<b>up to \$42,500</b>
33%	up to \$70,000	33%	up to \$75,000	<b>33%</b>	<b>up to \$75,000</b>
39%	over \$70,000	39%	over \$75,000	<b>39%</b>	<b>over \$75,000</b>

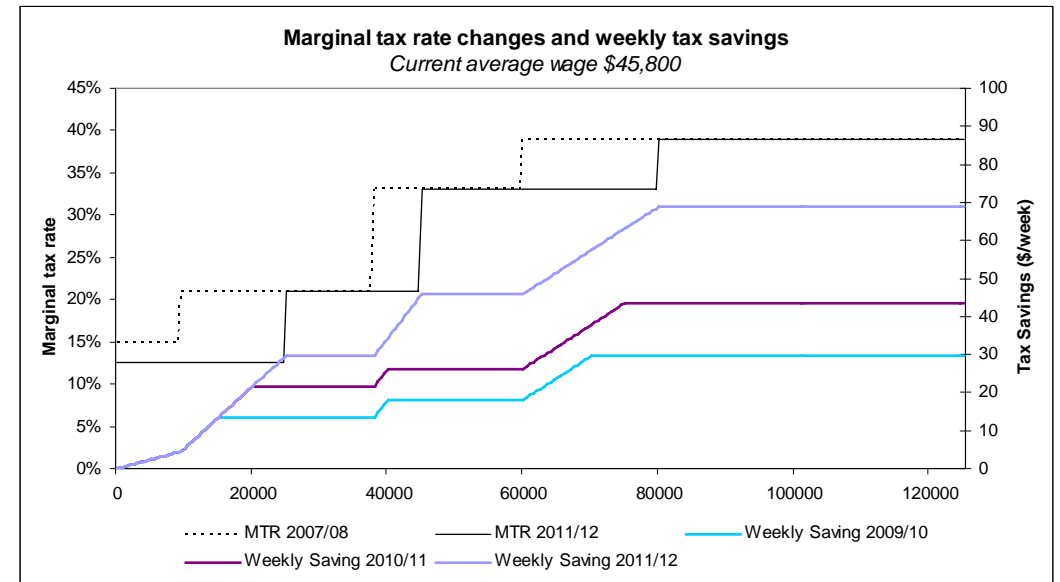
# Scenario A

Design		
On 1 April 2009	On 1 April 2010	On 1 April 2011
12.5% to \$15k	12.5% to \$20k	12.5% to \$25k
21% to \$40k	21% to \$40k	21% to \$45k
33% to \$70k	33% to \$75k	33% to \$80k
39% over \$70k	39% over \$75k	39% over \$80k

Fiscal Cost (\$ million)	2011/12
Chg to disposable income	-4985
less clawback (17.1%)	852
	-4133

Incomes	Change in EMTR by 2011 <sup>1</sup>				
	Increase	No change	0 - 5% fall	5 - 10% fall	> 10% fall
\$0k - \$10k	0	33,553	584,673	38,827	4,766
\$10k - \$20k	0	SOME	29,398	767,114	SOME
\$20k - \$30k	SOME <sup>2</sup>	161,622	14,640	228,534	SOME
\$30k - \$40k	SOME <sup>2</sup>	217,843	SOME	SOME	62,601
\$40k - \$50k	0	142,649	0	SOME	150,840
\$50k - \$60k	0	272,881	SOME	0	0
\$60k - \$70k	0	0	0	169,324	0
\$70k - \$80k	0	0	0	123,536	0
\$80k - \$90k	0	108,930	0	0	0
\$90k - \$100k	0	53,549	0	0	0
\$100k+	0	181,208	0	0	0
<b>Total<sup>3</sup></b>	<b>0</b>	<b>1,172,234</b>	<b>628,711</b>	<b>1,327,335</b>	<b>218,207</b>

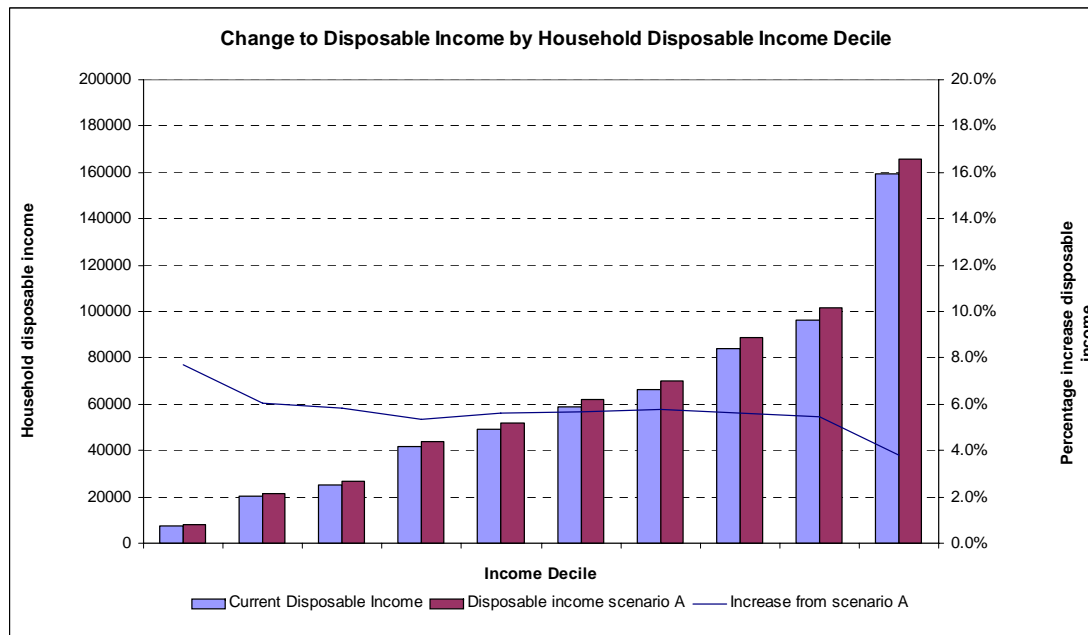
Equality measures	
Status Quo Gini coefficient	0.353
New Gini coefficient (2011)	0.352
Status quo 80/20 ratio	2.942
New 80/20 ratio (2011)	2.941



1. These have been estimated using Treasury's Taxmod model which is based on Statistics NZ's Household Economic Survey dataset. In some cases there are too few observations in the sample to report groups separately.

2. There are some individuals who only have investment income and therefore do not qualify for the LIR. They will move from the 19.5% rate to the 21% rate.

3. The totals do not include those in the "some" categories.



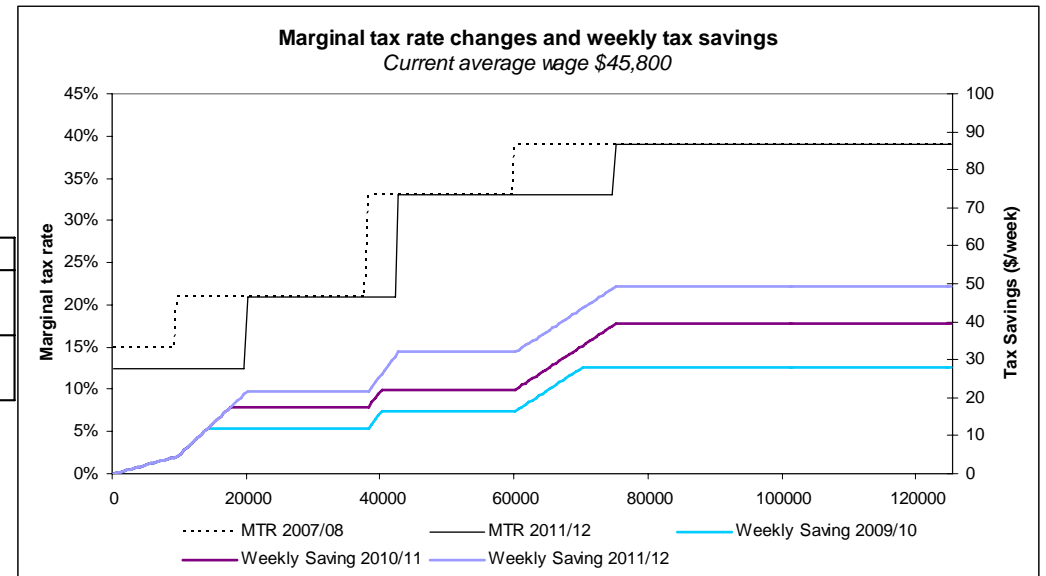
# Scenario B

Design		
On 1 April 2009	On 1 April 2010	On 1 April 2011
12.5% to \$14k	12.5% to \$17.5k	12.5% to \$20k
21% to \$40k	21% to \$40k	21% to \$42.5k
33% to \$70k	33% to \$75k	33% to \$75k
39% over \$70k	39% over \$75k	39% over \$75k

Fiscal Cost (\$ million)	2011/12
Chg to disposable income	-3646
less clawback (17.1%)	623
	-3023

Incomes	Change in EMTR by 2011 <sup>1</sup>				
	Increase	No change	0 - 5% fall	5 - 10% fall	> 10% fall
\$0k - \$10k	0	33,553	584,187	39,375	5,252
\$10k - \$20k	0	SOME	27,307	789,019	SOME
\$20k - \$30k	SOME <sup>2</sup>	352,082	21,572	4,910	SOME
\$30k - \$40k	SOME <sup>2</sup>	217,601	SOME	SOME	62,601
\$40k - \$50k	0	213,340	SOME	SOME	80,523
\$50k - \$60k	0	272,473	0	0	0
\$60k - \$70k	0	0	0	169,324	0
\$70k - \$80k	0	48,530	0	75,006	0
\$80k - \$90k	0	108,930	0	0	0
\$90k - \$100k	0	53,549	0	0	0
\$100k+	0	181,208	0	0	0
<b>Total<sup>3</sup></b>	<b>0</b>	<b>1,481,266</b>	<b>633,066</b>	<b>1,077,634</b>	<b>148,376</b>

Equality measures	
Status Quo Gini coefficient	0.353
New Gini coefficient (2011)	0.352
Status quo 80/20 ratio	2.942
New 80/20 ratio (2011)	2.941



1. These have been estimated using Treasury's Taxmod model which is based on Statistics NZ's Household Economic Survey dataset. In some cases there are too few observations in the sample to report groups separately.

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