

To: Office of the Minister of Finance

From: Tax Strategy, Treasury

SCENARIO VARIATIONS: 3 APRIL 2008

You have requested costings for two variations to the scenario presently under consideration, the *Current Proposal*. Each of these variations is centred around the 12.5% low rate and have lower costs than the *Current Proposal*. We provided a costing for the *Current Proposal* on the 26th of March 2008.

Tax change scenarios

The *Current Proposal* is shown in table 1.

Table 1: Personal tax rates and thresholds under the *Current Proposal*

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

The first variation involves a lower 33% threshold from 1 April 2011, extending to \$42,000 rather than \$45,000. The scenario, *Variation One*, is shown below with changes in bold:

Table 2: Personal tax rates and thresholds under *Variation One*

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 \$42,000
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

The second requested variation, *Variation Two*, involves a lower threshold for the 21% rate across all years and lower 33% and 39% thresholds from 1 April 2011. Again these changes are shown in bold:

Table 3: Personal tax rates and thresholds under *Variation Two*

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

Costs for each option

Costs are provided for June Fiscal years, as these are the figures used for the fiscal projections, and show the change to disposable income. We have applied a standard claw-back of 17.1% to reflect static increases to other taxes

Table 4: The Current Proposal

Fiscal Cost (\$ million)	2009/10	2010/11	2011/12
Change to disposable income	-2,496	-3,658	-4,985
<i>less clawback (17.1%)</i>	-427	-625	-852
	-2,069	-3,032	-4,133

Table 5: Variation One

Fiscal Cost (\$ million)	2009/10	2010/11	2011/12
Change to disposable income	-2,496	-3,541	-4,515
<i>less clawback (17.1%)</i>	-427	-606	-772
	-2,069	-2,936	-3,743

Table 6: Variation Two

Fiscal Cost (\$ million)	2009/10	2010/11	2011/12
Change to disposable income	-2,274	-3,033	-3,646
<i>less clawback (17.1%)</i>	-389	-519	-623
	-1,885	-2,515	-3,022

Table 7 shows the difference between the costs for the *Variation One* and *Variation Two* scenarios from the *Current Proposal*.

Table 7: Cost difference from *Current Proposal* (positive value reflects lower fiscal cost)

Difference (\$million)	2009/10	2010/11	2011/12
Variation One	-	116	470
<i>less clawback (17.1%)</i>	-	20	80
	-	96	389
Variation Two	222	624	1,339
<i>less clawback (17.1%)</i>	38	107	229
	184	518	1,110

Fiscal projections of *Current proposal* and Variations

The following show projections of gross sovereign issued debt (excluding settlement cash) and the OBEGAL (excluding NZS Fund returns) based on each scenario above.

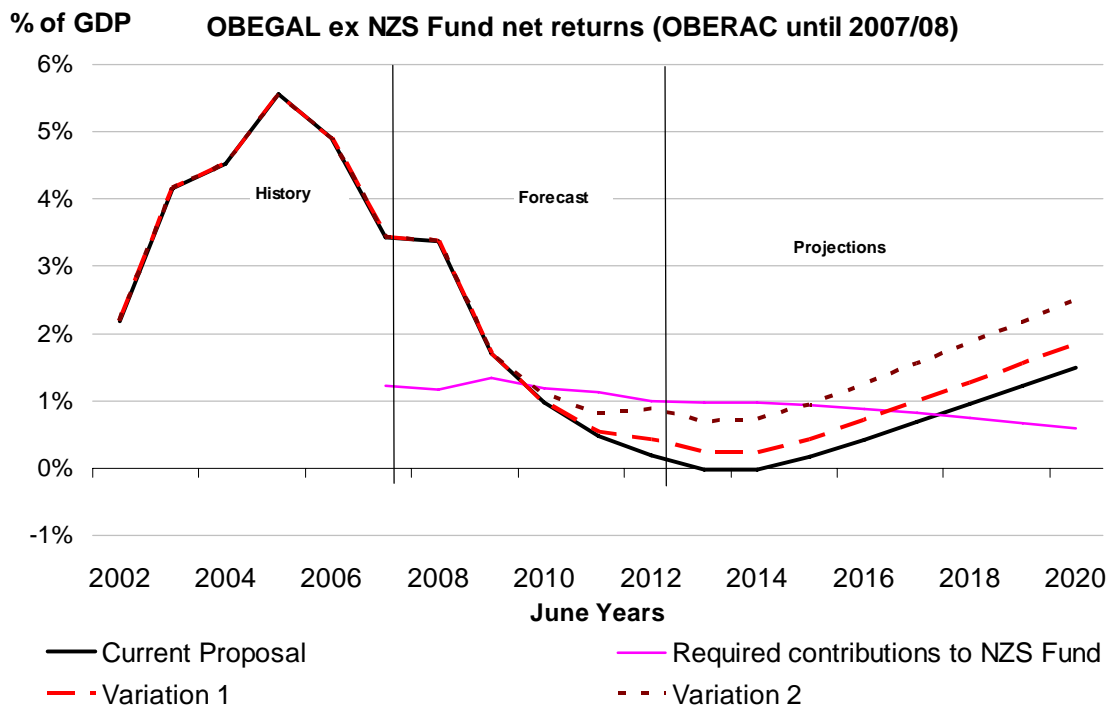
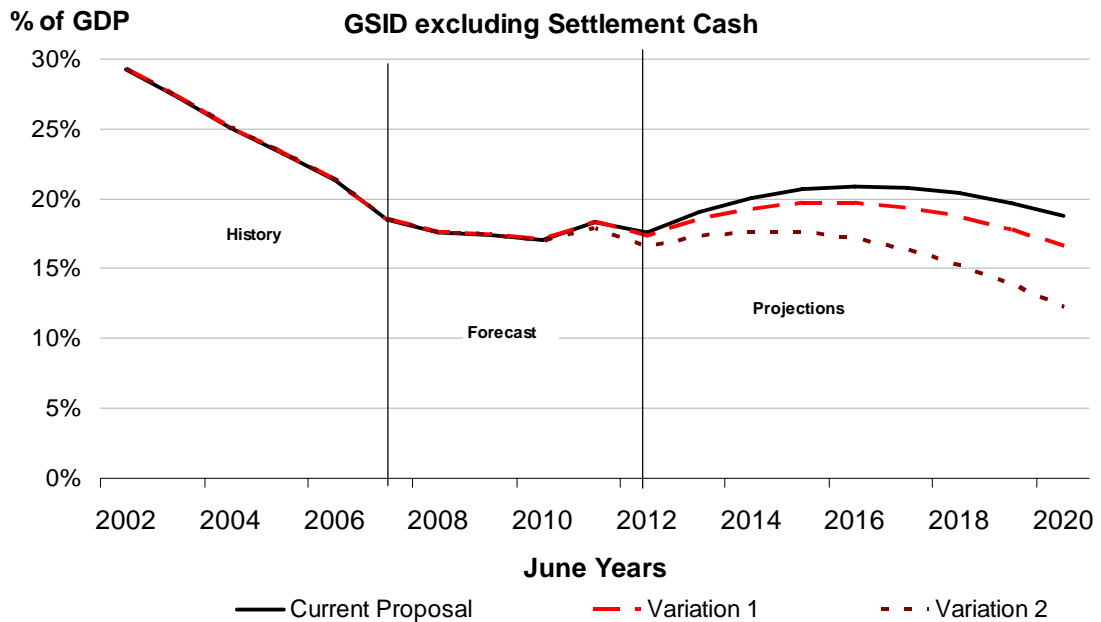


Table 8: Indication of value as % of GDP in 2018

	GSID	OBEGAL
Current Proposal	20.4%	1.0%
Variation 1	18.7%	1.3%
Variation 2	15.2%	1.9%