

3 March 2008

SH-13-3-0

To: Office of the Minister of Finance

From: Tax Strategy, Treasury

AIDE MEMOIRE: PHASED SCENARIO OF 29 FEBRUARY

Treasury has costed the following phased scenario of tax changes:

On April 1 2009

- Replace the Low Income Rebate with a tax free zone to \$5 000
- 20% on income between \$5 000 to \$40 000
- 33% on income between \$40 000 to \$70 000
- 39% on income in excess of \$70 000

On April 1 2010

- Tax free zone to \$7 500
- 20% on income between \$7 500 to \$41 000
- 33% on income between \$41 000 to \$75 000
- 39% on income in excess of \$75 000

On April 1 2010

- Tax free zone to \$10 000
- 20% on income between \$10 000 to \$42 000
- 33% on income between \$42 000 to \$80 000
- 39% on income in excess of \$80 000

We also include the gross rates for the main benefits on April 1 2009 for both the status quo and for the phased scenario.

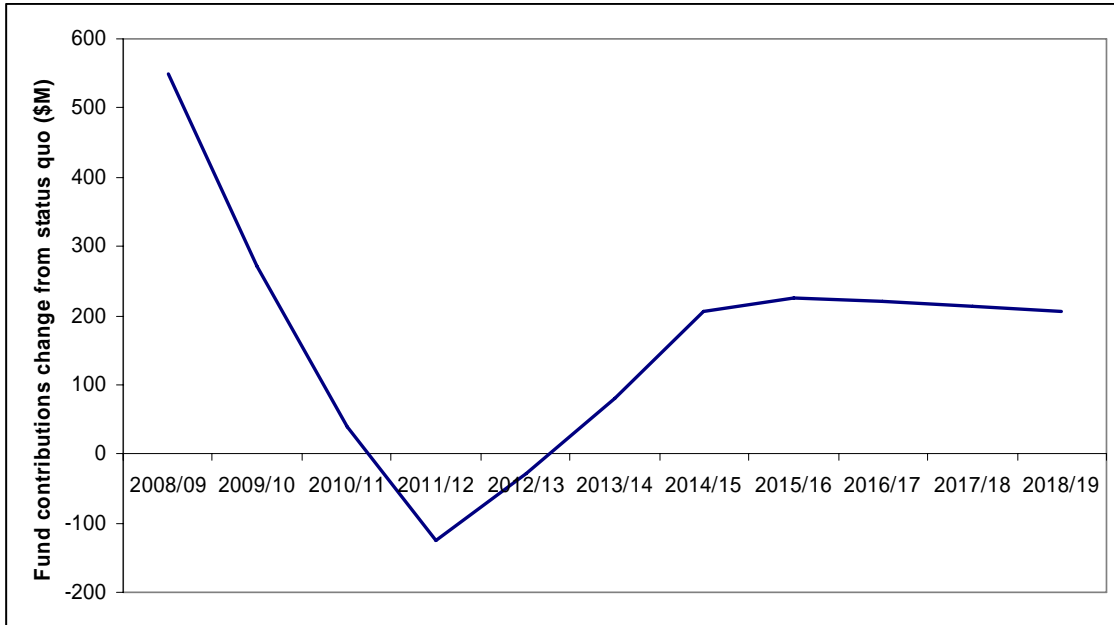
Assumptions used

Costs are provided for June fiscal years.

Contributions to the Superfund in 2008/09 and 2009/10 are based on the increase to the future cost of superannuation from the full phased scenario.

Again Superfund contributions are highly volatile within the forecast period, ranging from an increase from the status quo of \$550 million in 2008/09 to a decrease from the status quo of \$125 million in 2011/12 (from 2015/16 contributions are around \$200 million higher than the status quo). Figure 1 shows the nature of contribution volatility.

Figure 1: Changes from the status quo for fund contributions under the phased scenario



Costs for phased scenario

Table 1 shows the four year cost of the phased scenario.

Table 1: phased scenario

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|-----------------------------|---------------|---------------|---------------|---------------|
| Change to disposable income | -616 | -2,861 | -4,445 | -5,663 |
| Change to residual cash | -1,073 | -2,562 | -3,574 | -4,327 |

As noted above, Superfund contributions are volatile in early years (in particular the \$125 million reduction from the status quo in 2011/12). Table 2 shows the cost of the phased scenario where contributions are averaged across the four years; this provides a more accurate picture of the future cost of the tax changes.

Table 2: phased scenario with averaged superfund contributions

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|-----------------------------|-------------|---------------|---------------|---------------|
| Change to disposable income | -616 | -2,861 | -4,445 | -5,663 |
| Change to residual cash | -708 | -2,457 | -3,702 | -4,670 |

Gross benefit rates

Benefits rates are set on a net basis in legislation, so tax changes will not normally flow through to beneficiaries. Tax reductions at low incomes will lead to reduced gross benefit payments to maintain the legislated net rate.

Table 3 shows projected gross rates for the main benefit types on 1 April 2009 for the status quo (with no tax change) and for the phased scenario. Net rates are also shown.

Table 3: Main Benefit rates on 1 April 2009 under the status quo and phased scenario

| | Status Quo | | Phased Scenario | |
|---|------------|----------|-----------------|----------|
| | Net | Gross | Net | Gross |
| Unemployment Benefit, single person 25 years or older | \$9,859 | \$11,758 | \$9,859 | \$11,074 |
| Sickness Benefit, single person 25 years or older | \$9,859 | \$11,758 | \$9,859 | \$11,074 |
| Invalid's Benefit, single person 18 years or older | \$12,323 | \$14,877 | \$12,323 | \$14,154 |
| Domestic Purposes Benefit, sole parent | \$14,121 | \$17,153 | \$14,121 | \$16,401 |