



Cabinet

CAB Min (08) 14/9

Minute of Decision

Copy No:

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Budget 2008 Personal Tax Package: Sharing the Dividends

Portfolio: Finance

On 14 April 2008, Cabinet:

- 1 **noted** that in the last four Budgets the government has reduced taxes totalling \$4.5 billion per annum in line with the government’s ongoing economic and social priorities;
- 2 **noted** that changes to personal tax rates and thresholds are consistent with the government’s equity and growth objectives;
- 3 **noted** that New Zealand’s current effective personal tax rate structure is:

Current effective rates of personal tax
15% to \$9,500
21% to \$38,000
33% to \$60,000
39% over \$60,000

- 4 **agreed** to remove the Low Income Rebate (retrospectively from 1 April 2008 if a 1 October 2008 start date is chosen) and introduce the following statutory rates and thresholds over the next three years, **subject** to final decisions on the design of the tax package and its implementation date [paragraph 25]:

On 1 October 2008 or 1 April 2009	On 1 April 2010	On 1 April 2011
12.5% to \$15,000	12.5% to \$20,000	12.5% to \$25,000
21% to \$40,000	21% to \$40,000	21% to \$45,000
33% to \$70,000	33% to \$75,000	33% to \$80,000
39% over \$70,000	39% over \$75,000	39% over \$80,000

- 5 **noted** that there are two main options for the implementation date of the first phase of the tax package – 1 October 2008 or 1 April 2009;
- 6 **agreed** that the income tax rates and thresholds to be confirmed for the 2008/09 tax year reflect the composite personal income tax rates that would apply for this year if a 1 October 2008 start date is chosen;
- 7 **noted** that the design of the proposed tax package is consistent with the four tests of:

- 7.1 not requiring borrowing to fund it;
- 7.2 not requiring cuts to public services;
- 7.3 not exacerbating inflationary pressures in the economy;
- 7.4 not leading to greater inequality in our society;

8 **noted** that the fiscal costs of these changes are:

(\$ million)	2008/09	2009/10	2010/11	2011/12
Total revenue reduction	605	2,694	3,930	5,214
adjustment in gross NZS appropriations	-4	10	65	10
adjustment in gross benefit appropriations	46	188	207	219
Subtotal	563	2,496	3,658	4,985
less tax 'clawback'	96	427	625	852
add reduction in investment income	41	139	197	259
Net Operating Balance Impact	508	2,208	3,229	4,392

- 9 **noted** that these tax changes will not flow through to beneficiaries as net rates of income-tested benefits are set in legislation, but the tax changes will flow through to those on New Zealand Superannuation and Veterans' Pension as their gross rates of payment are set in legislation;
- 10 **invited** the Minister for Social Development to report back to Cabinet after Budget day to seek agreement to the necessary appropriation changes for income-tested benefits, New Zealand Superannuation and the Veterans' Pension as a result of this package;
- 11 **noted** that Treasury has factored these benefit and pension changes into the Budget Economic and Fiscal Update;

Consequential changes to other parts of the tax system

Composite Rates

- 12 **agreed** that if a 1 October 2008 start date is chosen, composite income tax rates are adopted for the 2008-09 income year which would reflect a blended average of the 2007-08 income year rates and the 2009-10 income year rates which would be:

Income Range	Tax Rate
\$0 - \$9,500	13.75%
\$9,501 - \$15,000	16.75%
\$15,001 - \$38,000	21%
\$38,001 - \$40,000	27%
\$40,001 - \$60,000	33%
\$60,001 - \$70,000	36%
\$70,001 and above	39%

PAYE rates

- 13 **agreed** that PAYE withholding rates be adjusted downwards from the date the tax cuts begin (including from 1 October 2008 if that is the intended start date for the tax rate reductions);

Fringe benefit tax (FBT)

- 14 **agreed** that the rates and thresholds that apply for the FBT square-up calculation be adjusted to reflect the tax cut package;
- 15 **agreed** that if a 1 October 2008 start date is chosen composite FBT rates be used for the transitional year which correspond to the personal tax rates under the composite rates table;

Resident Withholding Tax (RWT) and Portfolio Investment Entity (PIE) Tax Rates

- 16 **agreed** that the current PIE tax rates and RWT rates apply pending consultation between officials and managed funds and banks following announcement of the tax rate changes.

Provisional tax

- 17 **agreed** that from the 2009-10 income year:
- 17.1 the standard uplift that would otherwise apply to calculate provisional tax instalments should be reduced as if the tax cut had applied to the whole of the previous tax year;
 - 17.2 a similar approach would be used for taxpayers using the GST ratio method to pay provisional tax; and
 - 17.3 a similar approach would also apply to the 2010-11 and 2011-12 income years;
- 18 **agreed** that if a 1 October 2008 start date is chosen, the figure on which provisional tax instalments are based should be reduced by the dollar amount of the maximum tax cut that a person earning \$70,000 would receive as if the 2008-09 blended tax rate scale applied to the prior income year on which the uplift amount is determined;

ACC attendant care

- 19 **agreed** to change the amount of tax withheld by ACC on attendant care payments to 12.5% to reflect the new bottom income tax rate from the start date of the tax rate cuts;

Maori Authority

- 20 **noted** that the Maori Authority tax rate will continue to be 19.5% and officials will report to the Minister of Finance and the Minister of Revenue on the implications for the Maori Authority tax rate from the personal tax rate changes later this year;

Minimum Family Tax Credit

- 21 **noted** that the Minimum Family Tax Credit will be reviewed later in 2008 year and the implications from the change in the personal tax rates will be considered in that review;

Other consequential changes

- 22 **agreed** to amend the Income Tax Act provisions relating to secondary tax codes, specified superannuation contribution withholding tax (SSCWT), extra pay amounts, fund withdrawal tax, retirement scheme contribution tax and the child rebate to reflect the new personal tax rate structure;
- 23 **agreed** to other amendments to the Income Tax Act of a mechanical nature that are necessary to reflect the new personal tax rate structure;

Final Decisions

- 24 **noted** that Treasury will finalise their economic and fiscal forecasts in late April 2008 and that it would be prudent to wait until these are finalised before taking a final decision on the design of the tax package and its implementation date;
- 25 **noted** the details of the alternative tax package, set out in the paper tabled at Cabinet, that may need to be considered in the event that the final economic and fiscal forecasts come out lower than the initial forecasts;
- 26 **authorised** the Prime Minister, the Minister of Finance and the Associate Minister of Finance (Hon Mallard) to take final decisions on the design of the tax package and its implementation date once Treasury has finalised their economic and fiscal forecasts in late April;
- 27 **invited** the Prime Minister, the Minister of Finance and the Associate Minister of Finance (Hon Mallard) to report back to Cabinet before Budget day on the final decisions on the design of the tax package, and implementation date;
- 28 **agreed** that if the final tax cut package differs from that agreed to above, and these differences do not affect the basis on which the decisions in paragraphs 6 - 23 above have been made, then the decisions in paragraphs 6 – 23 apply to the amended tax cut package;

Administration costs

If the tax package is implemented from 1 October 2008:

- 29 **approved** the following changes in appropriations to implement the Budget 2008 tax package from 1 October 2008, with a corresponding impact on the operating balance and debt:

Vote Revenue	\$m - increase/(decrease)				
	2007/08	2008/09	2009/10	2010/11	2011/12 & Outyears
Departmental Output Expenses (General):					
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Revenue Crown)	0.338	2.693	0.644	0.680	0.230
Services to Process Obligations and Entitlements (funded by Revenue Crown)	0.145	1.795	0.430	0.454	0.154
Net Asset Schedule of Inland Revenue:					
Capital Injection	0.134	1.075	0.296	0.256	-
Total Operating	0.483	4.488	1.074	1.134	0.384
Total Capital	0.134	1.075	0.296	0.256	-

If the tax package is implemented from 1 April 2009:

- 30 **approved** the following changes in appropriations to implement the Budget 2008 tax package from 1 April 2009, with a corresponding impact on the operating balance and debt:

Vote Revenue	\$m - increase/(decrease)				
	2007/08	2008/09	2009/10	2010/11	2011/12 & Outyears
Departmental Output Expenses (General):					
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Revenue Crown)	0.305	0.388	0.548	0.584	0.134
Services to Process Obligations and Entitlements (funded by Revenue Crown)	0.131	0.258	0.366	0.390	0.090
Net Asset Schedule of Inland Revenue:					
Capital Injection	0.046	0.428	0.296	0.256	0
Total Operating	0.436	0.646	0.914	0.974	0.224
Total Capital	0.046	0.428	0.296	0.256	-

- 31 **agreed** that the proposed changes to appropriations and projected balances of net assets for 2007/08 above in paragraphs 29 and 30 be included in the 2007/08 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Legislation

- 32 **noted** that the Minister of Finance intends to introduce a Bill on Budget day under urgency to legislate for the tax package;
- 33 **directed** Inland Revenue to draft the necessary Bill for introduction on 22 May 2008.

Secretary of the Cabinet

Reference: Paper tabled at Cabinet by the
Minister of Finance entitled *Budget 2008
Personal Tax Package – Sharing the Dividends*

Copies to:

Prime Minister
Minister of Finance
Secretary to the Treasury
Associate Minister of Finance (Hon Trevor Mallard)
Minister of Revenue
Commissioner of Inland Revenue
Secretary of the Cabinet