



Cabinet

CAB Min (08) 18/17

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.

Additional Item: Budget 2008 Personal Tax Package – Final Decisions

Portfolio: Finance

On 12 May 2008, Cabinet:

- 1 **noted** that on 14 April 2008 Cabinet considered two possible tax packages for Budget 2008 - a **scenario A** package and an alternative **scenario B** package that would be considered if the Treasury’s final forecasts were lower than the preliminary forecasts:

Scenario A

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

Scenario B

On 1 October 2008 or 1 April 2009	On 1 April 2010	On 1 April 2011
12.5% to \$14,000	12.5% to \$17,500	12.5% to \$20,000
21% to \$40,000	21% to \$40,000	21% to \$42,500
33% to \$70,000	33% to \$75,000	33% to \$75,000
39% over \$70,000	39% over \$75,000	39% over \$75,000

[CAB Min (08) 14/9]

- 2 **noted** that on 14 April 2008 Cabinet:
 - 2.1 authorised the Prime Minister, the Minister of Finance and the Associate Minister of Finance (Hon Trevor Mallard) to take final decisions on the design of the tax package and its implementation date once Treasury finalised their economic and fiscal forecasts in late April;
 - 2.2 invited the Prime Minister, the Minister of Finance and the Associate Minister of Finance (Hon Trevor Mallard) to report back to Cabinet before Budget day on the final decisions on the design of the tax package, and implementation date [CAB Min (08) 14/9];

- 3 **noted** that subsequent to Cabinet consideration, the group of Ministers referred to in paragraph 2 (delegated Ministers) asked Treasury to provide information on an alternative scenario C:

Scenario C

On 1 October 2008	On 1 April 2010	On 1 April 2011
12.5% to \$14,000	12.5% to \$17,500	12.5% to \$20,000
21% to \$40,000	21% to \$40,000	21% to \$42,500
33% to \$70,000	33% to \$75,000	33% to \$80,000
39% over \$70,000	39% over \$75,000	39% over \$80,000

- 4 **noted** that the final fiscal forecasts have been revised down since the preliminary forecasts due to a combination of final macroeconomic forecasts, final budget decisions and updated SOE/Crown entity forecasts;
- 5 **noted** that delegated Ministers have agreed to proceed with scenario C on the basis that scenario A is no longer affordable, given the government's long term fiscal objectives, and because on an efficiency and growth objective basis, scenario C is marginally better than scenario B;
- 6 **noted** that scenario C sees the operating balance excluding gains and losses (OBEGAL) track very close to zero for a number of years late in the forecast and into the start of the projection period, and therefore the Minister of Finance intends to signal clearly, including in the Financial Strategy Report, how the government might respond (in very broad terms) if the operating balance were to look like it might move more materially into deficit;
- 7 **noted** that delegated Ministers have agreed that phase 1 of the tax package should be implemented from 1 October 2008;

Working for Families

- 8 **noted** that Treasury is forecasting the cumulative CPI (from 1 April 2007) to be 5.22% by the September quarter 2008 and that this would trigger the indexation of the Family Tax Credit and the Working for Families Tax Credit abatement threshold from 1 April 2009, under current legislation;
- 9 **noted** that delegated Ministers have agreed to bring this indexation forward to take effect from 1 October 2008;
- 10 **noted** that the indexation of Family Tax Credit rates and the Working For Families Tax Credit abatement threshold will use the Budget 2008 forecast of CPI growth between the March 2007 and September 2008 quarters, rather than the actual growth of the CPI over that period;
- 11 **invited** the Minister for Social Development to report back to Cabinet after Budget day on the consequential impacts to other parts of the social assistance system as a result of indexing the Family Tax Credit and the Working for Families Tax Credit abatement threshold;

Consequential impacts to other parts of the tax system

- 12 **noted** that agreeing to scenario C does not affect the basis on which any consequential impacts to other parts of the tax system were agreed by Cabinet on 14 April 2008 [CAB Min (08) 14/9];

Fiscal Impacts

- 13 **noted** the fiscal cost of the tax package is:

(\$ million)	2008/09	2009/10	2010/11	2011/12
Total revenue reduction	1,633	2,440	3,351	4,152
less adjustment in gross NZS appropriations	-10	-15	84	174
less adjustment in gross benefit appropriations	127	180	206	219
Subtotal	1,515	2,274	3,061	3,759
less tax 'clawback'	259	389	523	643
add reduction in investment income	87	118	158	196
Net Operating Balance Impact	1,343	2,003	2,696	3,313

- 14 **approved** the following changes to appropriations to bring forward the indexation of the Family Tax Credit and the Working for Families abatement threshold to 1 October 2008, with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2007/08	2008/09	2009/10	2010/11	2011/12 & Outyears
Benefits and Other Unrequited Expenses:					
Family Tax Credit	-	84.000	14.000	-	-
In-Work Tax Credit	-	15.000	3.000	-	-
Total Operating	-	99.000	17.000	-	-

- 15 **noted** that the administrative costs of implementing the tax changes are:

(\$ million)	2007/08	2008/09	2009/10	2010/11	2011/12 & outyears
Operating impact	0.483	4.488	1.074	1.134	0.384
Capital impact	0.134	1.075	0.296	0.256	

Secretary of the Cabinet

Reference: Paper tabled by the Minister of Finance,
Budget 2008 Personal Tax Package – Final Decisions

Distribution:

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