

Reference: 20170195

3 August 2017



Thank you for your Official Information Act request, received on 31 May 2017. You requested:

“A copy of all advice, reports, and briefings Treasury prepared on the accommodation supplement increase proposed in Budget 2017 which was provided to senior management, Ministers or their Offices, or another department.”

On 6 June 2017 you agreed to amend your request to exclude email correspondence. On 8 June 2017 we advised you we required a 25 working day extension to allow for consultation.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	23 February 2017	Project Pygmalion: Summary of straw packages to date	Release in full
2.	24 May 2017	Backpocket Family Incomes Package Q&A	Release in part

I have decided to release the relevant parts of the documents listed above.

Some information has been deleted because it is not covered by the scope of your request. This is because the documents include matters outside your specific request.

Information Publicly Available

The information listed in the table below is also covered by the request and has been made publically available on the Treasury website (<http://www.treasury.govt.nz/publications/informationreleases/budget/2017/family-incomes-package>) as part of Budget 2017 information release. Accordingly, I have decided to decline the request for this information under section 18(d) of the Official Information Act – the information requested is or will soon be publicly available.

Item	Date	Document Description
3.	3/11/2016	Aide Memoire: Social Housing November Bilateral
4.	21/12/2016	Aide Memoire: Who receives accommodation supplement and Working for Families 21 December
5.	10/01/2017	Aide Memoire: Effect of Accommodation Supplement on effective marginal tax rates 10 Jan
6.	31/01/2017	Options to simply the tax and transfer system – Treasury slide pack, Tuesday 31 January 2017
7.	3/02/2017	Supplementary information about tax and transfers (and attachments)
8.	10/02/2017	Aide Memoire: Potential options for a tax and transfer package
9.	10/02/2017	Supplementary information about tax and transfers (No. 2)
10.	10/02/2017	February Social Housing Baseline Meeting
11.	17/02/2017	Supplementary information about tax and transfers (No. 3)
12.	24/02/2017	Supplementary information about tax and transfers (No. 4)
13.	3/03/2017	Supplementary information about tax and transfers (No. 5)
14.	8/03/2017	Impact of Accommodation Supplement Increases on the housing Market
15.	10/03/2017	Aide Memoire: Preliminary results for further package options
16.	13/03/2017	Further tax and transfer package options
17.	16/03/2017	Aide Memoire: Further tax and transfer package options – variability of gains
18.	17/03/2017	Supplementary information about tax and transfers (No. 6)
19.	20/03/2017	Aide Memoire: Further tax and transfer package options - additional variability of gains analysis
20.	21/03/2017	Aide Memoire: Further tax and transfer package options – distributional analysis on individuals
21.	24/03/2017	Supplementary information about tax and transfers (No. 7)
22.	30/03/2017	Further tax and transfer package options - variations for Packages 5a and 6a, and suggested timeline
23.	30/03/2017	Aide Memoire: Potential impacts of a tax and transfer package on example workers

24.	31/03/2017	Supplementary information about tax and transfers (No. 8)
25.	31/03/2017	Aide Memoire: Tax and transfer package - small numbers of families disadvantaged
26.	4/04/2017	Aide Memoire: Further tax and transfer package options - distributional analysis
27.	6/04/2017	Aide Memoire: Further tax and transfer package options - timeline and comparison of packages
28.	7/04/2017	Tax and transfer package - draft Cabinet paper and Regulatory Impact Statement
29.	10/04/2017	Supplementary information about tax and transfers (No. 9)
30.	21/04/2017	Costing and distributional analysis of potential changes to the Accommodation Benefit
31.	21/04/2017	Joint Report: Transitional Assistance Fund for Family Incomes Package
32.	28/04/2017	Treasury Report: Final decisions - Family Incomes Package and Budget Package
33.	11/05/2017	Treasury Report: Supplementary information about tax and transfers (No. 10)
34.	12/05/2017	Aide Memoire: Family Incomes Package - impact on poverty
35.	22/05/2017	Aide Memoire: Family Incomes Package - impacts including the Terranova settlement

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Dr Eina Wong
Acting Manager, Tax Strategy

Information for Release 20170195

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Project Pygmalion: Summary of straw packages to date

Date: 7 March 2017

Minister's objectives

In our discussions with the Minister of Finance, he has indicated that the main objectives for a "tax and transfer" package are to:

- Increase work incentives
- Improve incomes for those in housing or financial hardship
- Simplify the tax and transfer framework

The Minister of Finance has also discussed the relevance of linking the work that people do and the income they receive for it.

Straw packages

We have provided to the Minister of Finance and his Associates specific options that could form, in various combinations, a potential "tax and transfer" package as part of Budget 2017. There are three "straw packages" currently before Ministers:

	Package 1 (Variation 3)	Package 2 (Mixed Threshold)	Package 3 (Partial fiscal drag adjustment)
Tax Thresholds	Increase the \$48,000 threshold to \$55,000	Increase the \$14,000 threshold to \$18,000 and the \$48,000 to \$52,000	Increase the \$14,000 threshold to \$16,000 and the \$48,000 to \$54,000
Independent Earner Tax Credit (IETC)	Maintain the existing IETC system	Remove the IETC	Remove IETC
Family Tax Credit (FTC)	Align the FTC rates to the eldest child rates on the 1 st of April, 2018.	Same as Package 1	Same as Package 1
Accommodation Supplement	Update the maxima to reflect 2016 median rents, while re-allocating areas to reflect rental costs, and reduce the renter's co-payment from 30% to 25%.	Same as Package 1	Same as Package 1
Fiscal Cost (including 10% clawback)	\$1,950m	\$1,850m	\$1,860m

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Impact on work incentives:

We have modelled the impact on labour supply for Packages 1 and 2, and expect the results for Package 3 to be similar to that for Package 2.

- Package 1. In aggregate, the labour supply impacts are small, and may be negative. In particular, less than 1% of coupled men, coupled women, and single women are likely to leave work. Sole parents are more likely to enter work, but for those who are already in work, some will work fewer hours (likely due to the increase in FTC and AS).
- Package 2. The labour supply response is similar to Package 1, although the magnitudes are likely somewhat larger for sole parents because of the change at the \$14,000 threshold. It also appears that the removal of IETC has no material impact on labour supply, which leads to a question of whether to keep the IETC, particularly given that it is not a well-targeted tax credit.

The modelling including AS impacts is highly uncertain and needs further analysis. While the packages' net impacts on labour supply may be negative, an assessment should consider the trade-offs with improving incomes for those in financial hardship.

Impact on incomes:

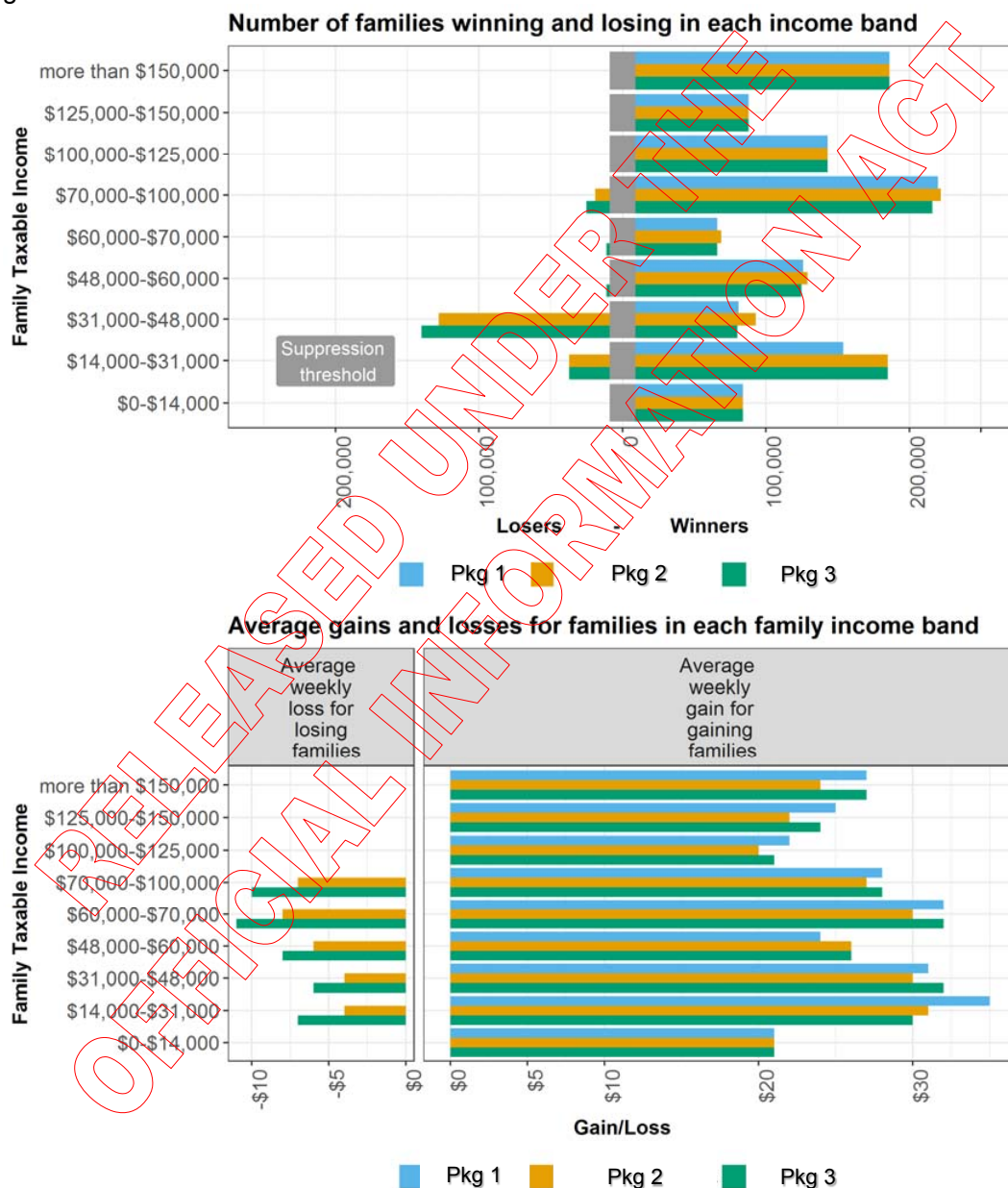
- Package 1. Incomes for most families (74%) will increase by an average of \$27 per week. For those whose family incomes are below \$31,000, 53% will see a rise in weekly incomes from the increase in AS and FTC. There are few families, if any, who are disadvantaged.
- Package 2. Incomes for most families (78%) will increase by an average of \$26 per week. Because both the \$14,000 and \$48,000 thresholds increase, more families will see a benefit from the tax changes, but the gains will also be more disbursed. There are more families under the \$31,000 income band who gain under this package (60%), and so the weekly gains are on average slightly lower. The removal of IETC will also disadvantage families who currently receive it, as the changes to the tax thresholds will not fully compensate for the loss. The average weekly loss for these families is about \$5.
- Package 3. The distribution of gains will be similar to those in Package 2, with average weekly gains slightly higher for gaining families. However, there are more families disadvantaged, as the increase of the \$14,000 threshold to \$16,000 will provide less compensation for those who lose IETC.

MSD estimates that the AS part of the package, in particular, is expected to increase residual incomes for those recipients. Residual incomes have decreased for many family types since 2006, with notable exceptions for those receiving Superannuation. The 2015 Child Material Hardship Package has also increased residual incomes for families with children, but only to the extent that their residual incomes haven't changed

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in real terms since 2006. For singles without children, the AS option will improve residual incomes, but their residual incomes will still be lower than in 2006.

The graphs below illustrate the numbers of families gaining or losing, and the average gains/losses for them:



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Simplification of tax and transfer framework:

- The alignment of the FTC to the eldest child rates has the secondary advantage of simplifying the tax credit. We note the primary motivation for aligning the rates is to improve incomes mainly for lower- and middle-income families.
- Removing IETC will also simplify the tax and transfer framework.

Other modelling work/next steps

Phasing FTC alignment. We have modelled phasing of FTC in three ways, each having a successively smaller fiscal cost:

- Phasing to full alignment over three years. (\$824m total)
- Phasing to full alignment over three years, with an annual decrease of the abatement threshold and an annual increase in abatement rate. (\$574m total)
- Phasing to partial alignment over three years, with annual changes to the abatement threshold and rate as above. This will be the least costly of the three phasing options. (\$117m total)

The phasing of FTC is unlikely to have a material annual impact on work incentives.

In addition to the packages discussed, MSD will provide options to phase AS changes.

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Family Incomes Package Backpack Q&A

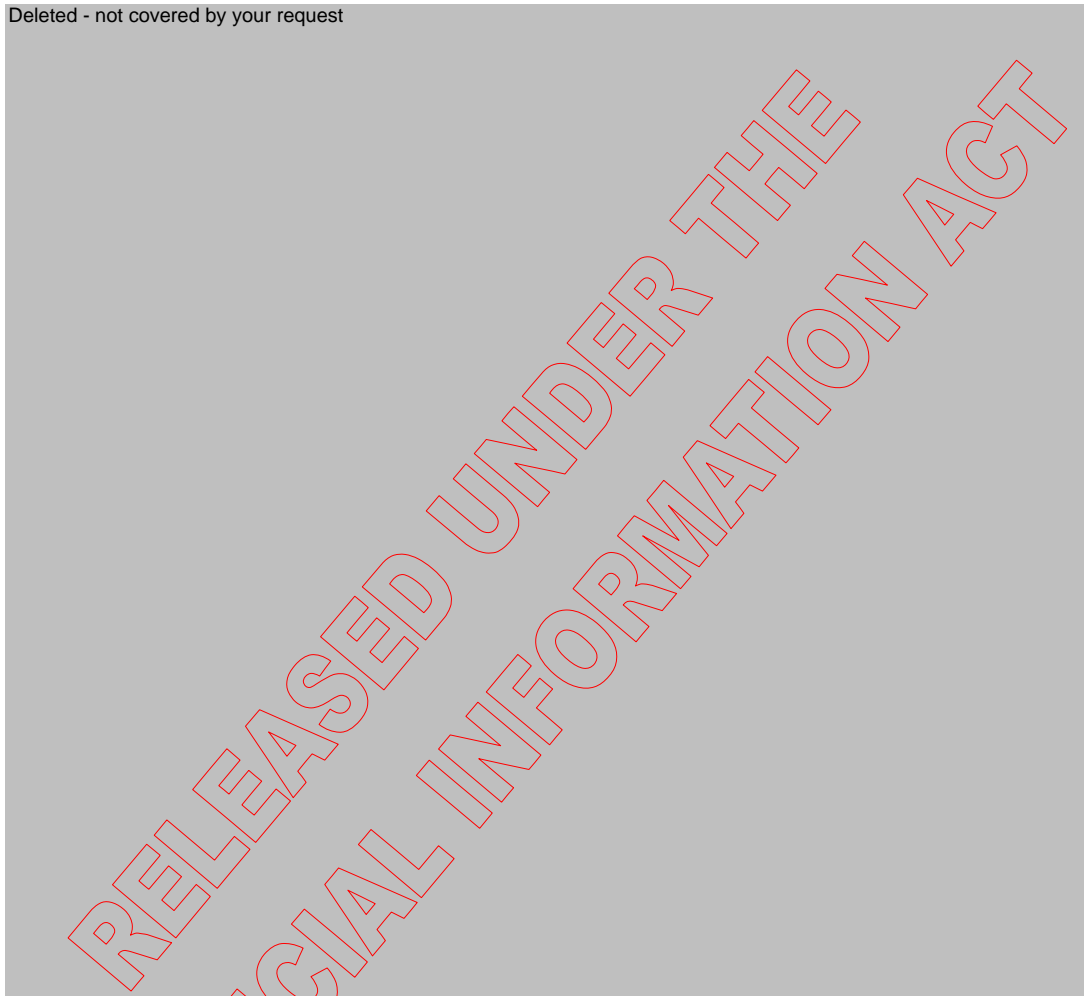
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Accommodation Supplement (see also appendix for an overview)

Q How does the Accommodation Supplement abatement work?

A person may still be able to receive Accommodation Supplement (AS) if they are receiving income. Income above certain levels will however reduce the rate payable. This abatement applies at the rate of 25 cents for every dollar above certain income thresholds, with are based on the cut-out point of the relevant benefit.

Beneficiaries do not face any abatement of their AS as they would lose eligibility to their benefit payment before they would lose eligibility to AS. Non-beneficiaries face

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abatement of 25 cents for every dollar above certain income thresholds up to a cut out point. If they earn more than the cut-out point then they are not eligible for any AS.

For families with children who receive AS, their WFF tax credits will be abating over much of the same income, combining to increase their effective marginal tax rate by 50 percentage points.

Q How many people get the Accommodation Supplement?

	Numbers as at 28 April 2017
Beneficiaries	189,468
Non Beneficiaries	55,888
NZS/VP	39,049
Total	284,405

Q Accommodation Supplement: What are the savings? What are the savings you expect from TAS? Net figure?

Savings are expected within Temporary Additional Support and Special Benefit (which are both under the Hardship Assistance appropriation), and from the Income-Related Rent Subsidy appropriation (as some social housing tenants pay slightly more rent), from this package.

Net costs with and without the IRRS impact are provided below.

	\$m - increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	Outyears
Accommodation Assistance	87.559	361.583	380.296	399.723	399.723
Hardship Assistance	(24.245)	(102.451)	(108.352)	(115.061)	(115.061)
Net cost (Accommodation Assistance + Hardship Assistance)	63.314	259.132	271.944	284.662	284.662
Part Payment of Rent to Social Housing Providers	(1.649)	(6.183)	(4.940)	(4.940)	(4.940)
Net cost Accommodation Assistance + Hardship Assistance + IRRS	61.665	252.949	267.004	279.722	279.722

Note that Hardship Assistance reflects savings in both Temporary Additional Support and Special Benefit. These savings are mostly due to the increases to Accommodation Supplement, but there will be small impacts from the other components of the Family Incomes Package (particularly the changes to Family Tax Credit).

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The package is expected to increase AS expenditure by \$1.2 billion over the five years to 2020/21. It is also expected to reduce Temporary Additional Support and Special Benefit (Hardship Assistance) expenditure by \$350.1 million over the five years to 2020/21.

The table below shows the percentage reduction in spending on Hardship Assistance due to the Family Incomes package, over the forecast period

	2017/18	2018/19	2019/20	2020/21	Five-year total
% reduction in Hardship Assistance	-9%	-36%	-36%	-36%	-30%

Q Which locations move up? And by how much?

Places that have moved up are those where housing costs have increased by significantly more than other locations in the same AS Area, i.e. those that have had the highest relative housing cost growth.

The main changes to areas include:

- Western Auckland, Southern Auckland and areas immediately surrounding Auckland will move from Area 2 to Area 1
- Tauranga, Queenstown, Arrowtown and Wanaka will move from Area 2 to Area 1
- Wellington's surrounding suburbs will move from Area 3 to Area 2
- Christchurch and surrounding towns will move from Area 3 to Area 2
- 19 towns will move from Area 3 to Area 2 (in addition to Wellington and Christchurch)
- 36 towns will increase from Area 4 to Area 3

This means that around 166,000 AS recipients live in a place that moves up an Accommodation Supplement Area (58% of total AS recipients). Note that only those receiving the maxima will benefit from this change, this is estimated to be around 89,000 recipients in these places (31% of total AS recipients, and 65% of the 136,000 gaining from the package)

Q Students: who qualifies for the Accommodation Benefit?

Accommodation Benefit is a weekly payment that's paid with the Student Allowance to help with accommodation costs. It is only paid to eligible students who are in receipt of a Student Allowance.

In 2016, around 45,000 students (63% of student allowance recipients) received an Accommodation Benefit.

Students may be able to get an Accommodation Benefit if:

- they don't live in a place their parents own or pay for e.g. are flatting; or
- they live in a place their parents own or pay for and the student

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- is paying market rent on the place
- is responsible for the outgoing of the home; or
- has a child (or their partner).

Sole parent students may be able to get an Accommodation Benefit if they:

- are paying at least \$105 a week for rent or board, or \$126 a week for home ownership costs; and
- have cash assets of less than \$16,200 a year.

Students are not eligible for an Accommodation Benefit if they:

- are not getting a Student Allowance
- are over 24, live with their partner and their joint income is at least \$423.92 before tax a week, or
- have a tenancy agreement with a social housing provider (or their partner does).

Q How many students get the Accommodation Supplement?

Around 3,500 students were receiving an Accommodation Supplement in April 2017. The numbers of students who receive an Accommodation Supplement varies throughout the year as some students may be eligible to receive an Accommodation Supplement during the vacation period. Note that only students who receive the AS maxima will benefit from the AS changes. This is estimated to be around 1,000 students (and these are included in the estimate of 136,000 families benefiting from the AS overall).

Sole parent students are also paid their Accommodation Benefit at the rate of Accommodation Supplement. Around 2,800 sole parent students received this rate of Accommodation Benefit in April 2017, with around 1,900 receiving the AB at the maximum rate of the AS.

This means that around 2,900 students may benefit from the AS changes.

Q How does the student allowance abate when people start earning income, or work part-time, and how is the accommodation benefit affected if students work part time? (Need workings of student benefit and Accommodation Supplement)

Students can earn up to \$214.30 a week before tax, before it affects their Student Allowance. After this the Student Allowance reduces cent for cent.

Example:

- If a student's Student Allowance weekly payment is \$212.45 after tax
- He or she earned \$250 last week before tax
- His or her Student Allowance payment will be reduced by \$31.96 after tax to \$180.49 after tax

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Q How the Accommodation Benefit is affected by part-time work?

If a student receives an Accommodation Benefit it will stay the same, even if a Student Allowance payment goes down. But if the Student Allowance payment stops, the Accommodation Benefit will stop as well.

Q Won't the Accommodation Supplement just be a transfer to landlords?

There is a risk that any transfer, such as benefit payments, Working for Families, and the AS, may result in increased house rental prices. It is unclear to what extent this will occur as a result of changes in the AS, given rental market conditions, consumer behaviour and the design of the AS are all factors. However, recent research from MSD assessed the impact of AS increases in 2005, which found no significant impact on rents paid by AS recipients or movement from AS recipients towards the area with higher AS payments.

Q What impact will this have on queues for social housing?

MSD modelling suggests that the package could see an estimated 100 to 150 households move off the social housing register. These households will be in a better position to rent in the private market with the assistance of the increased Accommodation Supplement. In addition to this, between 350 and 500 households on the register would be expected to drop from Priority A to Priority B on the register.

Q What do the AS changes mean for someone paying median rent in Auckland?

As all median rents for the Auckland zones are above the AS maxima, the AS will abate to zero at the weekly income cut-out points (including annualised amounts), listed below.

Rent	AS abates to zero at	Annualised income	Median rent
Area1			
Single, 16+ years	\$1,049	\$55,000	\$341.17
Married without children	\$1,534	\$80,000	\$495.17
Married with children	\$1,851	\$96,000	\$760.67
Sole Parent one child	\$1,498	\$78,000	\$495.17
Sole Parent two children	\$1,778	\$92,000	\$617.09

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Q What about someone with a new mortgage on a median house price in Auckland?

Mortgage	
median house price	\$850,000
deposit	\$170,000
mortgage	\$680,000
repayment weekly	\$919

As these re-payments are well above the maxima, the above table of income-cut-out points also applies to mortgages (based on REINZ April median house price and 20% deposit in all Auckland zones).

Q How much is paid in Accommodation Supplement each year currently?

In 2016/17, \$1.129 billion is expected to be spent on AS.

Q What is the average amount they receive?

Around 285,000 clients receive AS, with an average payment of \$71 a week.

Q How much is paid in Temporary Additional Support for accommodation each year?

We cannot identify the proportion of TAS that is solely for accommodation costs.

TAS spending overall is \$223m in 2016/17.

Often spending on Special Benefit (SB) is mentioned in this context too (as it is the grand-parented predecessor of TAS), it is \$16m in 2016/17 (total of TAS & SB is \$239m in 2016/17).

Q How many people receive TAS? What is the average amount they receive?

As above (these amounts are not just for accommodation costs). As at 28 April 2017, 62,000 people receive TAS and they receive an average of \$63 a week.

If you add in Special Benefit, it comes to 65,000 recipients, getting an average of \$64 a week.

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Q What are the maximum amounts people get for Accommodation Supplement in each area? How are these rates changing?

The table below shows the increase in the maximum weekly amounts from current levels.

Area	Family Size	Current	New	Difference
Area 1	1 person	\$145	\$165	\$20
	2 person	\$160	\$235	\$75
	3+ person	\$225	\$305	\$80
Area 2	1 person	\$100	\$105	\$5
	2 person	\$125	\$155	\$30
	3+ person	\$165	\$220	\$55
Area 3	1 person	\$65	\$80	\$15
	2 person	\$75	\$105	\$30
	3+ person	\$120	\$160	\$40
Area 4	1 person	\$45	\$70	\$25
	2 person	\$55	\$80	\$25
	3+ person	\$75	\$120	\$45

Q What is the income threshold for the Accommodation Supplement to start abating?

The weekly income thresholds above which AS is abated are below:

	Income threshold	Annualised
Single, 16+ years	\$384	\$20,000
Married without children	\$586	\$30,000
Married with children	\$622	\$32,000
Sole Parent one child	\$551	\$29,000
Sole Parent two children	\$551	\$29,000

Q How much more is the Accommodation Supplement going to cost the government?

Accommodation Supplement expenditure is expected to increase by \$1.2 billion over the five years to 2020/21.

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Q How many families will gain in this part of the package?

136,000 families will gain by an average of \$36 a week (this is around 47% of those receiving AS).

This includes:

- 75,000 beneficiary families with an average gain of \$30 a week
- 46,000 low-income working families with an average gain of \$48 a week
- 15,000 superannuitants with an average gain of \$29 a week.

Students

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Q How many students benefit from the increase in the Accommodation Benefit rate?

Around 41,000 students will receive more assistance for accommodation costs as a result of an increase in the Accommodation Benefit rate. Around 26,000 students who live in Auckland, Wellington or Christchurch will receive a \$20 per week increase.

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Appendix: Accommodation Supplement primer

The Accommodation Supplement available to people on low incomes to help with their accommodation costs. Both beneficiaries and low-income working people can receive it, and it covers those who are renters, boarders or home-owners paying a mortgage.

Overview of the Accommodation Supplement

The AS is calculated as 70 percent of housing costs above an initial 'entry threshold' amount, which the recipient pays, up to a maximum amount. Entry thresholds vary by benefit and family type and tenure (rent, board or mortgage) and are set in most cases at 25 percent of the benefit rate for renters and boarders and 30 percent for home-owners. The maxima vary by region and family type. Entry thresholds are adjusted annually when benefits are adjusted. The maxima are not adjusted regularly and were last changed in 2005 based on 2003 rental data. The 30 percent co-payment has remained the same since the late 1990s.

This means that AS recipients pay the entry threshold amount, 30 percent of rent, home-ownership costs or the rent component of board up to the maximum, and 100 percent of any costs over that.

Eligibility

To be able to receive AS a client must:

- meet a cash asset test (\$8,100 for a single person and \$16,200 for couples)
- meet an income test (if people earn above set weekly income thresholds then they are not eligible for AS)
- have accommodation costs
- be a New Zealand citizen or permanent resident (i.e. not in New Zealand unlawfully, here on a temporary entry visa or a temporary permit) or
- be deemed to hold a residence class visa in New Zealand under the Immigration Act 2009 (eg Australian citizens or residents) and
- generally be ordinarily resident in New Zealand.

Abatement

A person may still be able to receive Accommodation Supplement if they are receiving income. Income above certain levels will however reduce the rate payable. This abatement applies at the rate of 25 cents for every dollar above certain income thresholds. These thresholds are based on the cut-out points of the relevant benefits. Beneficiaries do not face any abatement of their AS as they would lose eligibility to their benefit payment before they would lose eligibility to AS. Non-beneficiaries face

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abatement of 25 cents for every dollar above certain income thresholds up to a cut out point. If they earn more than the cut-out point then they are not eligible for any AS. The income thresholds and cut-out points vary according to family type (and by AS area for the cut-out points).

Weekly income cut out points for non-beneficiaries (based on rates from 1 April 2018, using BEFU17 forecasts)

Area 1

Single, 16+ years
Married without children
Married with children
Sole Parent one child
Sole Parent two children

current	proposed
\$964	\$1,049
\$1,226	\$1,534
\$1,522	\$1,851
\$1,191	\$1,498
\$1,451	\$1,778

Area 2

Single, 16+ years
Married without children
Married with children
Sole Parent one child
Sole Parent two children

\$784	\$809
\$1,086	\$1,214
\$1,282	\$1,511
\$1,051	\$1,178
\$1,211	\$1,438

Area 3

Single, 16+ years
Married without children
Married with children
Sole Parent one child
Sole Parent two children

\$644	\$709
\$886	\$1,014
\$1,102	\$1,271
\$851	\$978
\$1,031	\$1,198

Area 4

Single, 16+ years
Married without children
Married with children
Sole Parent one child
Sole Parent two children

\$564	\$669
\$806	\$914
\$922	\$1,111
\$771	\$878
\$851	\$1,038

Income thresholds above which AS is abated

Single, 16+ years
Married without children
Married with children
Sole Parent one child
Sole Parent two children

Income threshold
\$384
\$586
\$622
\$551
\$551