

# The Treasury

## Budget 2023 Tax Initiatives Information Release

July 2023

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**Treasury Report:** Updated tax package costings and Budget tax forecasts

<b>Date:</b>	31 March 2023	<b>Report No:</b>	T2023/584
		<b>File Number:</b>	

**Action sought**

	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	None	None

**Contact for telephone discussion (if required)**

Name	Position	Telephone	1st Contact
Robert O'Hara	Analyst, Tax Strategy [39]	N/A (mob)	✓
Stephen Bond	Manager, Tax Strategy	N/A (mob)	

**Minister's Office actions (if required)**

Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

## Treasury Report: Updated tax package costings and Budget tax forecasts

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### Executive Summary

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This report provides updated costings for a Budget 2023 tax package, along with draft tax forecasts for the *Budget Economic and Fiscal Update 2023* (BEFU 2023). The updated tax package costings include a phased tax-free threshold, beginning at \$7,500 on 1 April 2024 and increasing to \$10,000 from 1 April 2025. This phased option results in a package that is broadly fiscally neutral both cumulatively over the forecast period and in the 2026/27 year.

The tax-free threshold option does not include an accompanying increase to net main benefits. In line with this approach to main benefits, it also assumes no net increase in student allowance. This would require a decrease in gross student allowance rates so that net rates are unchanged by the tax package. There are risks to this approach to student support – T2023/575 outlines these risks and seeks confirmation of your desired approach.

Final unconsolidated tax forecasts for BEFU 2023 are currently being compiled, based on the final macroeconomic forecast. The final BEFU 2023 nominal GDP forecast is nearly \$25 billion lower than the preliminary forecast, in total across the forecast period. This is likely to lead to a substantial reduction in the tax revenue forecasts.

The final tax forecast process is at an early stage. Quality assurance processes have not been completed and the usual consultation with Inland Revenue has not taken place. The unconsolidated BEFU 2023 tax forecasts will be completed on 5 April and reported to you by 6 April. The full, consolidated core Crown tax forecasts will be available once the fiscal forecasts are completed on 27 April.

The Treasury has estimated an alternative macroeconomic scenario based on the updated tax package. In this alternative scenario, cumulative nominal GDP over the forecast period is \$3.4 billion higher than the initial BEFU 2023 forecasts and tax revenue is \$1.3 billion higher.

## Recommended Action

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We recommend that you:

- a **Note** updated tax package costings are broadly fiscally neutral over the forecast period.

*Noted.*

- b **Note** final BEFU 2023 tax revenue forecasts are likely to be lower than preliminary forecasts.

*Noted.*

- c **refer** to the Minister of Revenue.

*Referred/not referred.*

Stephen Bond  
**Manager**

31 / 03 / 2023

Grant Robertson  
**Minister of Finance**

      /      / 2023

# Treasury Report: Tax costings and forecasts

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## Purpose of Report

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1. This report provides updated costings for a Budget 2023 tax package, along with draft tax forecasts for the *Budget Economic and Fiscal Update 2023* (BEFU 2023).
2. The updated tax package costings include a phased tax-free threshold, beginning at \$7,500 on 1 April 2024 and increasing to \$10,000 from 1 April 2025.
3. This phased option results in a package that is broadly fiscally neutral both cumulatively over the forecast period and in the 2026/27 year.
4. Unconsolidated tax forecasts for BEFU 2023 are currently being compiled. Given the size of the reduction in the nominal GDP forecast, there is likely to be a substantial reduction in the tax revenue forecasts.
5. The unconsolidated BEFU 2023 tax forecasts will be completed on 5 April and the full, consolidated core Crown tax forecasts will be available once the fiscal forecasts are completed on 27 April.

## Updated tax package costings

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6. Table 1 provides updated costings for a Budget 2023 tax package, with a new phased option for the tax-free threshold.

**Table 1: Updated tax package costings**

\$billions	2023/24	2024/25	2025/26	2026/27	4-year total
Net wealth tax <sup>1</sup>	0.00	3.38	3.51	3.67	10.56
Tax-free threshold <sup>2</sup>	-0.50	-2.32	-4.08	-3.69	-10.60
Admin costs <sup>3</sup>	-0.02	-0.06	-0.05	-0.04	-0.16
<b>Net</b>	<b>-0.52</b>	<b>1.00</b>	<b>-0.62</b>	<b>-0.06</b>	<b>-0.20</b>

[1] The net wealth tax costings assume a 1.5% rate on net wealth above \$5 million.

[2] The tax-free threshold costings assume a \$7,500 threshold from 1 April 2024, increasing to \$10,000 from 1 April 2025. No accompanying increases to net main benefits or net student support are included. The removal of the IETC from 1 April 2024 is included at a fiscal gain of around \$120-130 million per annum.

[3] Admin costs include funding costs for Inland Revenue and the Ministry of Social Development.

7. The uneven profile of the net package cost is partly driven by the timing of revenue recognition in other persons tax, which lowers the fiscal cost of the tax-free threshold in 2024/25 and increases it in 2025/26. This has implications for the timing of Budget surplus as set out in T2023/577.
8. The package also includes the removal of the IETC from 1 April 2024 at a fiscal gain of around \$120-\$130 million per annum.
9. The package does not include an accompanying increase to net main benefits. Beneficiaries will see an increase in net main benefits owing to indexation impacts but will not experience an equivalent gain in net income as someone earning the same gross income from wages.

10. The package also assumes no net increase in student allowance. This would require a decrease in gross student allowance rates so that net rates are unchanged by the tax-free threshold. This is discussed in the supplementary advice [T2023/575 refers].
11. The supplementary advice outlines the risks of this approach to student support and seeks confirmation of your desired approach. Fully flowing through the gain to students would cost an additional \$0.17 billion over the forecast period. Partially flowing through the gain (e.g., \$10 per week) would cost around \$0.10 billion over the forecast period.

### *Budget Economic and Fiscal Update 2023 tax forecasts*

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12. Total nominal GDP in the final BEFU 2023 forecast was nearly \$25 billion lower than in the preliminary forecast. Forecasts of the GDP components most-closely related to tax revenue have been reduced, most notably operating surplus, but also private consumption and compensation of employees. In addition, core Crown tax revenue deteriorated further relative to the 2022 Half-Year Update forecast in February.
13. The weaker macroeconomic forecast and recent weaker-than-forecast tax outturns will reduce the tax revenue forecasts compared to the preliminary forecasts. Corporate tax is likely to suffer the largest reduction, as operating surplus growth in the 2022/23 year is now forecast to be negative. GST and source deduction revenue forecasts are also likely to be reduced.
14. The Treasury has estimated an alternative macroeconomic scenario based on the updated tax package. In this alternative scenario, cumulative nominal GDP over the forecast period is \$3.4 billion higher than in the final BEFU 2023 forecast, owing to higher forecasts for compensation of employees, private consumption and business operating surplus.
15. This gives rise to an estimated additional \$1.3 billion of tax revenue in total over the forecast period, mainly via source deductions, GST, business income taxes and RWT on interest.

### *Next Steps*

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16. We will compare and discuss tax revenue forecasts with Inland Revenue on Tuesday 4 April. The unconsolidated tax forecasts will be finalised on 5 April and reported to you no later than 6 April.