

The Treasury

Budget 2023 Tax Initiatives Information Release

July 2023

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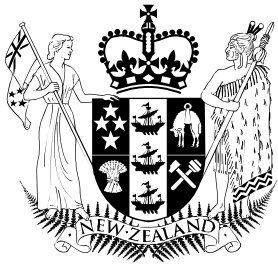
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Budget Ministers 4 – Revenue Annex

20 March 2023

Summary of tax switch options

Our proposed tax switch includes a net wealth tax of 1.5% over \$5 million alongside a personal income tax cut focussed on a Tax Free Threshold (TFT). Personal income tax cuts would be implemented from 1 September 2023, while the first wealth tax assessments would be made on 31 March 2024.

Table 1: Summary of potential tax switch options – assuming Sept 2023 personal tax cuts and April 2024 net wealth tax

\$ billion		2023/24	2024/25	2025/26	2026/27
Net Wealth Tax	\$5m threshold 1.5% rate	-	\$3.4 b	\$3.5 b	\$3.7 b
Personal tax switch^{1,2}	\$10,000 TFT	(\$2.7 b)	(\$4.4 b)	(\$4.6 b)	(\$4.2 b)
	\$8,500 TFT	(\$2.3 b)	(\$3.8 b)	(\$3.9 b)	(\$3.5 b)
	\$7,500 TFT	(\$2.1 b)	(\$3.3 b)	(\$3.4 b)	(\$3.1 b)
NB – potential admin costs for tax changes		\$160 m - \$170 m over forecast period³			

[1] Officials are costing two additional options that are not currently included here: a small increase to the \$48,000 tax threshold and an alternative increase to main benefit rates.

[2] Personal tax options include flow-on costs to other tax rates and indirect effects on benefits and NZ Super, and assume that the Independent Earners Tax Credit (IETC) is removed. The TFT options include a commensurate increase to main benefit rates.

[3] This includes a combination of capex, opex, and debt impairment costs. This is provided to give a broad indication of likely costs that will be expected to be funded within the overall tax switch envelope.

Personal Tax Options

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Personal income tax

Our preferred tax option is for a Tax Free Threshold (TFT), potentially alongside a small increase in the \$48,000 threshold to \$50,000.

- A \$10,000 TFT would reduce an individual's tax bill by around \$20 p.w.
- Treasury modelling suggests that households would gain around \$35 p.w. on average from a \$10,000 TFT, and that lower income households will gain the most as a share of their income.

[33]

Table 2: Costing for a \$10,000 tax free threshold

\$ million		2023/24	2024/25	2025/26	2026/27
Core costing	\$10,000 TFT	(2,400)	(4,100)	(4,300)	(3,800)
Additional options	\$20 p.w. main benefits increase*	(350)	(450)	(450)	(450)
	Removal of IETC	10	120	130	130
Total cost for \$10,000 TFT package		(2,700)	(4,400)	(4,600)	(4,200)
NB: Total cost for \$8,500 TFT package		(2,300)	(3,800)	(3,900)	(3,500)
NB: Total cost for \$7,500 TFT package		(2,100)	(3,300)	(3,400)	(3,100)

*Ministers have asked officials to cost an alternative increase to main benefits of \$10 and either \$15 or \$20 for families with children. Revenue estimates include flow-on impacts to other tax types and transfers. Estimates do not currently include an allowance for changes to student loan entitlement.

Flow-on decisions from tax switch

There are a number of decisions we need to take alongside the form of any tax change. These are summarised below. An annex to this slide pack sets out the flow on impacts for other transfer types.

Additional decisions		Fiscal impact
1. Application date and phasing	Full application on 1 September 2023 would create near-term fiscal pressure. Phasing the change in could reduce the size of the fiscal gap and align revenue with Net Wealth Tax.	Full application of a \$10,000 TFT from 1 September 2023 costs \$2.7 b in 2023/24
2. Increase main benefit rates	Beneficiaries do not directly benefit from tax change. Increasing main benefits from 1 September 2023. Officials are currently costing an alternative increase of \$10 to adults and \$15-\$20 to families with children.	\$20 p.w. increase costs \$450 m p.a. \$10 p.w. increase costs \$230 m p.a. Alternative option are being costed.
3. Remove IETC from 1 April 2024	The IETC is not well-targeted and no longer applies to its original target group (including the vast majority of full-time workers).	\$120 - 130 million saving p.a. from 2024/25

Supernormal bank profit levy



Supernormal profits levy on banks

Overview

- We are considering a tax on the supernormal profits of banks to support the cost of the response to Cyclone Gabrielle.
- Officials have proposed a design for an option that would:
 - Apply a small percentage levy on the profits earned in the 2021 and 2022 tax years.
 - Apply only to banks who earned a profit before tax of more than \$1 billion, which is in place as a simple proxy mechanism to limit the levy only to those banks that Treasury analysis suggests are most likely to be consistently earning supernormal profits.

Estimated revenue from indicative rates

Setting the rate is a judgement call and there is no precise method for determining a rate.

Treasury has costed the following indicative rates:

- 1.4%: \$230 million
- 2.8%: \$470 million
- 4.2%: \$700 million

Annexes



Annex 1 – flow-on impacts of personal tax changes

	Direct impact	Indirect impact	Decision for Ministers
NZ Super (NZS)	✓ NZS is set gross, so recipients will benefit directly (by around \$20 p.w. with a \$10,000 TFT).	✓ Tax changes mean NZS remains above wage floor for longer and so is indexed to CPI, not wages.	No decision needed.
Main Benefits	✗ None.	✓ Main benefits grow with (higher than otherwise) net average wage growth.	Whether to apply a change to main benefit rates alongside tax change.
Student Allowance	✓ Student allowance is gross so relevant changes will apply.	✗ None.	Whether to apply a flat rate change to student allowances instead of flowing through tax changes, and whether to make commensurate changes to student loan entitlement.
Paid Parental Leave	✓ PPL is set gross so relevant changes will apply.	✗ None.	No decision needed.
MFTC	✗ None – decision made annually by cabinet.	✓ Set by formula based on main benefits, tax settings, and minimum wage	Whether to apply changes to MFTC from 1 September 2023.

Note: there are other minor impacts on other income support that do not require decisions from Ministers.

Annex 2 - Revenue estimates for alternative wealth tax options

Officials have produced revenue estimates for a range of rates and thresholds for a Net Wealth Tax.

2025/26 revenue		Entry threshold			
		\$3 million	\$5 million	\$7.5 million	\$10 million
Rate	1.0%	\$3.7 b	\$2.5 b	\$1.8 b	\$1.4 b
	1.5%	\$5.1 b	\$3.5 b	\$2.5 b	\$1.9 b
	2.0%	\$6.3 b	\$4.3 b	\$3.1 b	\$2.4 b