The Treasury

Budget 2023 Tax Initiatives Information Release

July 2023

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[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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[36] 9(2)(h) - to maintain legal professional privilege

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Budget Ministers 3 – Revenue Annex

08 March 2023

Net wealth tax

A net wealth tax on high-wealth New Zealanders

What is it

- The wealth tax will require high wealth New Zealanders to pay tax on a percentage of their net wealth (assets less liabilities) each year
- Will apply to all assets owned by high wealth taxpayers, except for the family home (and some other exemptions, such as personal assets)
- The purpose is to pay for a tax switch that reduces income tax and improves the progressivity of the tax system

Who pays

- New Zealand resident taxpayers with a high level of wealth (to be determined but we are modelling $3m- $5m).
- Will apply on an individual basis, consistent with the rest of the tax system
- If the threshold is $5m, Treasury analysis suggests that around 27,000 people will pay
- We are considering a rate of 1 to 1.5% in the design phase

How does it work

- Taxpayers will be required to value all of their in-scope assets, to determine how much to pay
- Inland Revenue will consult on the exact methods used for valuing different assets, following the introduction of legislation on Budget night
- A final design decision is whether taxpayers will only be taxed on their wealth that is **above** the threshold or whether they will be taxed on all wealth once they are above the threshold.

Annex – key design features

Design elements	Proposal
Exemption for wealth under threshold	Wealth below the entry threshold is exempt from the wealth tax; **OR** All wealth is subject to the wealth tax once the taxpayer is over the threshold
Is tax calculated on family or individual basis	Wealth tax is applied on an individual basis, except for some assets held by minor children and some trusts which are aggregated
Applying the tax to trusts	Whether the wealth tax applies to a trust will be determined by combining trust assets with either the principal settlor's assets (in the case of a discretionary trust) or the assets of the beneficiaries (in the case of fixed income trusts) If a trust's assets are subject to the tax, the trustee will be required to pay (rather than the settlor or beneficiary).
Timing of payment and valuation	The wealth tax calculation can be separate from income tax. Officials have suggested a single assessment date of 31 March.
NZ residents only	The wealth tax will only apply to New Zealand tax residents
Assets subject to tax	Most assets included, other than: family home; consumer durables (e.g. cars, boats), small amounts of cash, and defined benefit funds; Māori interests in communally owned assets managed by Māori entity structures; and personal assets such as art and collectables
Foreign assets	Foreign assets, including shares in a controlled foreign company (CFC) will be subject to the tax
Valuation rules	Open market value used for all assets, with power delegated to Commissioner of Inland Revenue to prescribe valuation methods for specific assets. Officials will consult on proposed valuation methods
Asset splitting/gifting	No specific rules be in place to prevent gifting of assets between adults, but assets held by minor children (above a de minimis threshold) will be treated as being held by their parent/guardian
Applying the tax to farms	No specific concession for farms, but officials will work on rules to ensure family homes located on a farm are not unfairly treated
Transitional residents	Transitional residents rule be extended to the tax, which would exempt foreign assets held by qualifying migrants for four years

Personal income tax switch

Illustrative packages: $2bn, $3bn or $4bn p.a.

Design choices

- A personal tax relief package could be based on one or more tax changes
- Examples are based on a tax-free threshold (where taxpayers would gain from $0) and/or a change to the $14k threshold (where taxpayers would gain from $14k upwards)
- Other options based on these variables are possible within the indicative cost range

	$2b package			$3b package			$4b package		
	1a – Tax-Free Threshold	1b – Bottom threshold	1c – Mixed approach	2a – Tax-Free Threshold	2b – Bottom threshold	2c – Mixed approach	3a – Tax-Free Threshold	3b – Bottom threshold	3c – Mixed approach
Tax-Free Zone	**$5,000**	**0**	**$3,000**	**$8,000**	**0**	**$3,000**	**$10,000**	**0**	**$5,000**
Current $14k threshold	**$14,000**	**$22,000**	**$17,500**	**$14,000**	**$28,000**	**$22,000**	**$14,000**	**$32,000**	**$22,000**
Maximum gain	$525 at $5k+	$560 at $22k+	$315 at $3k+ $560 at $17.5k+	$840 at $8k+	$980 at $28k+	$315 at $3k+ $875 at $22k+	$1,050 at $10k+	$1,260 at $32k+	$525 at $5k+ $1,085 at $22k+
Estimated number who gain / who gain the full amount	4.1m / 3.4m	3.5m / 2.7m	4.1m / 3.1m	4.1m / 3.3m	3.5m / 2.4m	4.1m / 2.7m	4.1m / 3.2m	3.5m / 2.2m	4.1m / 2.7m

* Costings and impacts are indicative and subject to final modelling. There are expected to be some additional flow-on implications that could be material.

Alternative packages with $48k threshold change

Alternative design choices

- Including a change to the $48k threshold (which will soon be crossed by full-time workers earning the minimum wage) would help to mitigate future impacts of fiscal drag
- Examples illustrate how a $2k increase in the $48k threshold impacts the extent of other changes in a given package

	$2b package			$3b package			$4b package		
	1a – Tax-Free Threshold	1b – Bottom threshold	1c – Mixed approach	2a – Tax-Free Threshold	2b – Bottom threshold	2c – Mixed approach	3a – Tax-Free Threshold	3b – Bottom threshold	3c – Mixed approach
Tax-Free Zone	$3,500	0	$2,500	$6,000	0	$2,500	$9,000	0	$5,000
Current $14k threshold	$14,000	$20,000	$16,000	$14,000	$24,000	$20,000	$14,000	$29,000	$20,000
Current $48k threshold	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
Gain from changes below the $48k threshold	$367.5 at $3.5k+	$420 at $20k+	$402.5 at $16k+	$630 at $5k+	$700 at $24k+	$682.5 at $20k+	$945 at $9k+	$1,050 at $29k+	$945 at $20k+
Maximum gain	$617.5 at $50k+	$670 at $50k+	$652.5 at $50k+	$880 at $50k+	$950 at $50k+	$932.5 at $50k+	$1,195 at $50k+	$1,300 at $50k+	$1,195 at $50k+
Estimated number who gain / who gain the full amount	4.1m / 1.6m	3.5m / 1.6m	4.1m / 1.6m	4.1m / 1.6m	3.5m / 1.6m	4.1m /1.6m	4.1m / 1.6m	3.5m /1.6m	4.1m / 1.6m

Additional choices

There are **three** additional considerations alongside the main package:

1. Providing an accompanying increase to main benefit rates

- Those on main benefits will not automatically benefit from a tax free zone. Indicative flat dollar amounts and costs for an increase of comparable value to the tax change are:

Package	Increase	Additional fiscal cost
$2bn	$10 p.w.	$200m
$3bn	$15 p.w.	$300m
$4bn	$20 p.w.	$400m

- Amounts can be adjusted – for example, to account for the indirect impact of the tax change on annual indexation to the average wage.

2. Withdrawing the Independent Earner Tax Credit (IETC)

- The IETC provides a maximum entitlement of $520 p.a. to individuals earning $24k - $48k who do not have other state support (e.g. Working for Families).
- It is not well targeted, and fiscal drag has made it even less so.
- Removing the IETC from April 2024 could result in savings of around $139m in 2024/5, decreasing over the forecast period.

3. Phasing tax changes in

- Phasing in the changes could minimise any short-term fiscal gap and near-term inflationary pressure.
- This could include introducing a tax-free threshold at a lower rate this year, and increasing it in future years; or if we introduce a few different tax threshold changes, introducing each one over time.

Cyclone funding

We could consider a levy to fund cyclone recovery costs

We have been considering whether a levy could fund some of the costs related to the recovery from Cyclone Gabrielle. That could reduce the impact of the cyclone recovery on net debt, and depending on design, any impacts of recovery expenditure on inflation. There are two broad options:

1. A levy on wages (and potentially profits) that would raise revenue from a broad base, and could be targeted at higher wage earners
2. The revenue from a one-off supernormal profits levy on the banks, which we have previously considered, could fund some of the costs

A levy on wages (and profits)

- A levy at a flat rate above a certain income threshold could raise money from a broad base and be integrated in our existing income tax system.
- A broader based levy would minimise any of the impacts of the recovery on inflation, while a more progressive levy (or one applied to profits) would ensure the cost of the recovery were shared in a progressive way.

A one-off supernormal profits levy on banks

- We have previously considered a one-off levy on banks.
- The revenue from such a levy could be allocated to fund the cyclone recovery from the consistently elevated profits of banks.
- There are some risks (such as banks passing on the costs), and it would have less of an impact on inflation than a broader-based levy.

Officials are providing advice on these options ahead of Budget Ministers 4