

# The Treasury

## Budget 2023 Tax Initiatives Information Release

July 2023

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Reference: T2023/516

Date: 24 March 2023

To: Minister of Finance (Hon Grant Robertson)  
Minister of Revenue (Hon David Parker)

Deadline: Cabinet on Monday 27 March 2023

## Costings for personal income tax options

This note provides detailed final costings and distributional analysis for the personal income tax package under consideration.

The base package would introduce a **\$10,000 tax-free threshold** from 1 September 2023 and remove the Independent Earner Tax Credit from 1 April 2024.

The total cost of the base package is **\$13.46 billion** over the forecast period.<sup>1</sup> This figure excludes operational costs, but these are noted separately below.

As requested, there are two variations of the core tax changes:

Tax Variation	Description	Impact on overall costs
<b>Phase-in tax-free threshold</b>	Phased introduction of a \$10,000 tax-free threshold: \$5,000 from 1 September 2023, increasing to \$7,500 from 1 April 2024 and to \$10,000 from 1 April 2025.	<u>Reduces</u> overall cost of package by \$1.88 billion over the forecast period.
<b>Lift \$48k threshold to \$50k</b>	Introduction of a \$10,000 tax-free threshold and an increase in the \$48k threshold to \$50k from 1 September 2023	<u>Increases</u> overall cost of the package by \$2.25 billion over the forecast period.

In addition, there are three variations to the base package which would provide accompanying increases to main benefits and student support on 1 September 2023:

<sup>1</sup> Note that the base package includes the automatic flow-through to the rates of New Zealand Superannuation and main benefits via the impact on indexation. It also includes an adjustment to not pass along the tax changes to the rates of student allowance (which are set gross in legislation).

Welfare Variation	Description	Impact on overall costs
<b>\$10pw increase for main benefits &amp; students</b>	This option would increase the rates of main benefits, student allowance (after tax) and the maximum entitlement to student loan living costs by \$10pw per adult.	<u>Increases</u> overall cost of the tax package by \$0.95 billion over the forecast period
<b>Additional \$5pw for families with children</b>	This option would increase rates of main benefits and student allowance (after tax) by \$15pw per adult for those with children, and \$10pw per adult for those without children.	<u>Increases</u> overall cost of the tax package by \$1.09 billion over the forecast period
<b>Additional \$10pw for families with children</b>	This option would increase rates of main benefits and student allowance (after tax) by \$20pw per adult for those with children, and \$10pw per adult for those without children.	<u>Increases</u> overall cost of the tax package by \$1.23 billion over the forecast period

The following table provides a summary of the fiscal cost of the 12 options across the forecast period. As noted above, these exclude operational costs.

<i>\$ billions</i>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>4-Yr Total</b>
<b>\$10k TFT base package</b>	<b>-2.24</b>	<b>-3.81</b>	<b>-3.94</b>	<b>-3.48</b>	<b>-13.46</b>
- <i>\$10pw increase for main benefits &amp; students</i>	-2.42	-4.06	-4.19	-3.74	-14.41
- <i>Additional \$5pw for those with children</i>	-2.45	-4.09	-4.23	-3.78	-14.55
- <i>Additional \$10pw for those with children</i>	-2.48	-4.13	-4.27	-3.82	-14.69
<b>Phase-in tax-free threshold</b>	<b>-1.30</b>	<b>-2.79</b>	<b>-3.81</b>	<b>-3.69</b>	<b>-11.59</b>
- <i>\$10pw increase for main benefits &amp; students</i>	-1.48	-3.03	-4.07	-3.95	-12.54
- <i>Additional \$5pw for those with children</i>	-1.51	-3.07	-4.10	-3.99	-12.68
- <i>Additional \$10pw for those with children</i>	-1.54	-3.11	-4.14	-4.03	-12.82
<b>Also lift \$48k to \$50k</b>	<b>-2.60</b>	<b>-4.43</b>	<b>-4.59</b>	<b>-4.09</b>	<b>-15.71</b>
- <i>\$10pw increase for main benefits &amp; students</i>	-2.79	-4.68	-4.84	-4.35	-16.67
- <i>Additional \$5pw for those with children</i>	-2.82	-4.72	-4.88	-4.39	-16.81
- <i>Additional \$10pw for those with children</i>	-2.84	-4.75	-4.92	-4.43	-16.95

The costings are a combination of Treasury costings from its TAWA model for tax changes, Ministry of Social Development costings for benefit changes and flow-on impacts (including

to NZS), IR costings of tax consequentials and the Minimum Family Tax Credit, and Ministry of Education costings for student allowance/loan increases.

There are a few points to note:

- The cost of raising the Minimum Family Tax Credit threshold on 1 September 2023 has been included in all the variations.
- The costings follow the standard fiscal treatment of student loans changes. There is an additional capital component not included above as it is typically managed outside allowances.
- The increase to student allowance/loans means stopping the flow-through from the tax change and taking a separate decision to provide the same after-tax direct increase as for main benefits.

As noted, the costings do not include operational costs. Implementing these changes would cost MSD just below \$2 million operating over the forecast period, and \$0.6 million in capital. Implementation costs for Inland Revenue are estimated at around \$13 million per annum, with a phased tax-free threshold option adding an additional \$1.5m per annum and also placing a greater burden on third-party software providers.

### Child poverty

The following table outlines the impact of the changes on child poverty.

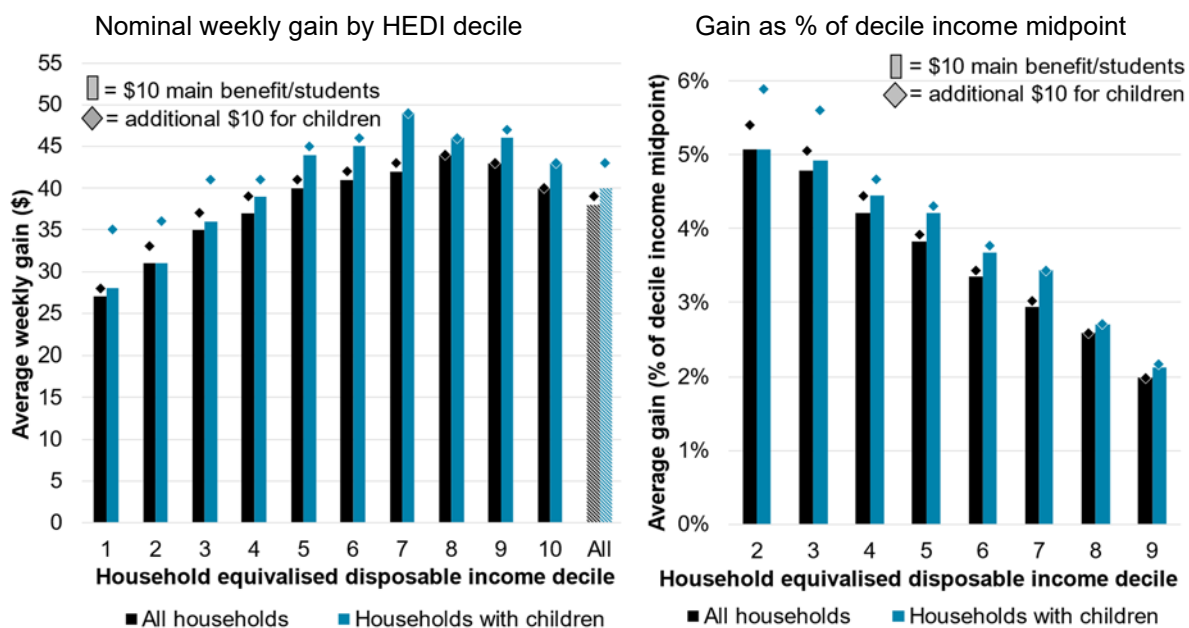
	<b>Impact on BHC50 poverty (TY25)</b>	<b>Impact on AHC50 poverty (TY25)</b>
<b>Impact of base package + \$10pw per adult increase to main benefits and student support</b>	<p><u>Reduces</u> the number of children in BHC50 poverty by 2,000. Note this impact is within the margin of error.</p> <p>The tax changes alone would result in a small, but not significant, increase in the number of children in BHC50 poverty.</p>	<p><u>Reduces</u> the number of children in AHC50 poverty by 17,000.</p>
<b>Impact of increasing support to families with children</b>	<p>Increasing support to families with children does not substantially change the impact of the proposals on the number of children in BHC50 poverty. The impacts all remain within the margin of error.</p>	<p>Compared with \$10pw only, an additional increase to families with children of:</p> <ul style="list-style-type: none"> <li>- \$5pw would result in 1,000 to 2,000 <u>more</u> children<sup>2</sup> being lifted out of poverty</li> <li>- \$10pw would result in 3,000 to 4,000 <u>more</u> children being lifted out of poverty.</li> </ul>
<b>Impact of different tax options</b>	<p>Phasing-in the tax-free threshold or lifting the \$48k threshold to \$50k does not substantially change the impact of the proposals on the number of children in BHC50 poverty. The impacts all remain within the margin of error.</p>	<p>Phasing-in the tax-free threshold results in 1,000 to 2,000 <u>fewer</u> children being lifted out of AHC50 poverty compared with the \$10k threshold option.</p> <p>Increasing the \$48k threshold to \$50k results in 1,000 to 2,000 <u>more</u> children being lifted out of AHC50 poverty.</p>

<sup>2</sup> The range is due to a small interaction with the tax option.

## Impacts on household income

The figures below show the income gain from the \$10,000 tax-free threshold by household equivalised disposable income (HEDI) decile, in both nominal per week terms and as a percentage of the decile income midpoint. The bars show the impact of the main tax change combined with a \$10 per week increase to main benefits and student living support. The diamond markers show the impact of an additional \$10 per week for beneficiaries and students with children. The black series show the impact on all households, and the blue series isolate the impact on households with children.

### Income gain from \$10,000 tax-free threshold and benefit increases by HEDI decile



For both households with and without children, and regardless of the benefit option chosen, the tax-free threshold provides the greatest relative gain (as a percentage of income) to the lowest HEDI deciles.

When providing an additional \$10 per week to beneficiaries and students with children, lower-decile households with children gain substantially more in both nominal terms and as a percentage of income.

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**Appendix: Detailed cost breakdown of \$10k tax free threshold on 1 September 2023 and variations**

<i>\$ millions</i>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>4-Yr Total</b>
\$10k Tax Free Threshold	-1,613	-2,937	-3,057	-2,726	-10,333
Flow through -NZS	-605	-856	-876	-746	-3,082
Flow through -other transfers	-24	-124	-121	-124	-392
Flow through -other tax types	-1	-15	-16	-17	-49
Removal of IETC	8	121	134	131	394
<b>\$10k TFT base package</b>	<b>-2,235</b>	<b>-3,810</b>	<b>-3,936</b>	<b>-3,482</b>	<b>-13,462</b>
Main benefits (+MFTC) +\$10pw	-165	-218	-225	-230	-838
Students (net impact) +\$10pw	-20	-29	-30	-31	-110
<b>Base + \$10pw welfare</b>	<b>-2,421</b>	<b>-4,057</b>	<b>-4,191</b>	<b>-3,742</b>	<b>-14,411</b>
<i>Marginal cost of tax variations</i>					
<b>Phase-in \$10k TFT</b>	938	1,024	126	-211	1,877
<b>Lift \$48k to \$50k</b>	-369	-622	-651	-609	-2,251
<i>Marginal cost of welfare variations</i>					
<b>+\$5pw families with children</b>	-27	-37	-39	-39	-140
<b>+\$10pw families with children</b>	-54	-72	-76	-77	-279