

The Treasury

Budget 2023 Tax Initiatives Information Release

July 2023

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Treasury Report: Supplementary advice – tax package

Date:	31 March 2023	Report No:	T2023/575
		File Number:	SH-3-6

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Indicate your preferred approach for students and note the child poverty impacts	Monday 3 April 2023

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Laura Browne	Senior Analyst, Welfare and Oranga Tamariki [39]	N/A (mob)	✓
Keiran Kennedy	Manager, Welfare and Oranga Tamariki	N/A (wk) [35]	

Minister's Office actions (if required)

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Enclosure: No

Purpose of Report

1. This report provides additional information on two aspects of the personal tax component of the tax-switch package under consideration. This advice supplements advice on the costings for the updated tax package [T2023/584 refers]. These are:
 - a confirming the approach for students, and
 - b child poverty impacts of the package.

Confirming the approach for Students

2. The current package under consideration introduces a tax-free threshold of \$7,500 from 1 April 2024, which would then increase to \$10,000 from 1 April 2025. This change will flow through to individuals receiving government transfers in different ways.
3. The current package proposes no additional policy decisions around either NZ Superannuitants or main beneficiaries. Both groups will gain from the package, though in different ways and to different extents. Even though they will not receive the full gain, main beneficiaries will still receive some increase from the package via higher than otherwise wage indexation. Based on current forecasts, the indirect gain equates to an additional \$4.50pw for Jobseeker Single 25+ and \$6.31pw for Sole Parent Support on 1 April 2024.
4. You have indicated that the current package will not provide an additional discretionary increase to main benefits or any increase to the after-tax rates of student allowance. There are some key considerations:
 - a **Legislative change would be required to reduce gross rates.** The rates of student allowance are set gross in legislation which means that in the absence of legislative change, they would gain automatically. Therefore, to not increase the after-tax rates of student allowance, an active change would be required to reduce the gross rates.
 - b **Students would be the main group to receive no gain from the package.** The 2010 tax package legislated to stop the tax changes flowing through automatically to the rates of student allowance. However, the key rationale was to maintain alignment with main benefits. At the time, both student allowance and main benefits were indexed to CPI, so there was no gain from the tax changes for either group. Now that main benefits are indexed to wage growth, student allowance recipients will be the main group to not benefit from the package.
 - c **We are seeking legal advice on whether this may be seen as discriminatory.** Advice relating to the 2010 tax package noted that the changes made some distinctions between groups of people on grounds prohibited under the New Zealand Bill of Rights Act 1990. Specifically, that the tax changes applied to earned income, and to the rates of NZ Superannuation, but not to main benefits or student allowances. At the time, officials considered these distinctions were justifiable. Similar issues may be highlighted with this package.

Table A: Summary of impacts in current package for key groups

Key group	Current policy decision	Gain from current package	Cost in current package
NZ Superannuitants	n/a	Will get the full benefit of the tax changes as payments are set gross in legislation.	\$2.44b over forecast period
Main beneficiaries	n/a	Will receive some benefit from the tax changes via higher than otherwise wage indexation.	\$0.36b over forecast period
Student Allowance recipients	Reduce gross rates of student allowance to not flow-through the tax changes.	None	-
MFTC recipients	Update rate	Rate will reflect new tax settings.	<\$0.01b over forecast period

- In our previous advice, we recommended considering an increase to student support, even if Ministers decided against increasing main benefits [T2023/409 refers]. However, if Ministers decided to increase main benefits as part of that package, we recommended applying the same increase to student support as main benefits.
- In light of the reasons outlined above, you may wish to consider either fully or partially flowing-through the tax changes to student allowances as part of the package. We also recommend aligning the maximum rate of student loan living costs as a consequence of this decision. This would add the following costs to the package. Note these costings have been prepared by the Ministry of Education under urgency.

Option (\$m)	23/24	24/25	25/26	26/27	Total OFP
Full flow-through to students					
\$15 per week after tax from 1 April 24, rising to \$20 per week after tax from 1 April 25	13.096	45.024	57.169	58.071	173.359
Partial flow-through to students					
After-tax increase of \$10 per week from 1 April 24	9.085	27.985	29.750	30.216	97.037

- The implications of these different approaches on the overall package are discussed in the main advice [T2023/584 refers]. While we have modelled a partial flow-through to students of \$10 per week, other increases to after-tax rates are possible (e.g., \$5 per week). If this your preference, we will commission the costings from the Ministry of Education.

Child Poverty impacts of the package

8. We have modelled the child poverty impacts of the proposed personal tax package. The following table outlines the child poverty impacts of the package in TY25 (i.e., the \$7,500 tax-free threshold). The increase to \$10,000 in TY26 and TY27 does not significantly change the results. This is the main initiative across the wider budget package that is likely to impact your child poverty measures.¹

Impact on BHC50 poverty (TY25)	Impact on AHC50 poverty (TY25)
<p>The impact of this package on the number of children in BHC50 poverty is within the margin of error.</p> <p>This package could either:</p> <ul style="list-style-type: none"> • <u>increase</u> the number of children in BHC50 poverty by up to 5,000, or • <u>reduce</u> the number of children in BHC50 poverty by up to 3,000. 	<p>This package will <u>reduce</u> the number of children in AHC50 poverty by between 5,000 and 15,000.</p>

Recommended Action

We recommend that you:

- a **indicate** your preferred approach for students in the tax package (tick one):

<input type="checkbox"/> no change	<input type="checkbox"/> full flow-through	<input type="checkbox"/> partial flow-through (\$10pw)	<input type="checkbox"/> partial flow-through (alternate)
No increase to after-tax rates of student allowance (current package)	Allow tax changes to flow-through to student allowance and consequential increase to student loan living costs	\$10 per week after-tax increase to student allowance and consequential increase to student loan living costs	Please indicate size of preferred after-tax increase: _____
No additional cost	Increase of \$0.17b over the forecast period	Increase of \$0.10b over the forecast period	Not yet costed. Can be provided if selected.

- b **refer** to the Minister of Revenue

Refer/not referred.

Keiran Kennedy
Manager, Welfare & Oranga Tamariki

Hon Grant Robertson
Minister of Finance

_____/_____/_____

¹ The additional increase to main benefits through the AGA may also have a small impact on child poverty measures. T2023/575 Supplementary advice – tax package