

The Treasury

Budget 2023 Tax Initiatives Information Release

July 2023

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Budget Ministers 2

**Potential revenue package for
Budget 2023**

20 February 2023

The draft package would include a progressive tax switch and funding for Budget priorities

Tax switch

2. *Minimum or net wealth tax*

See annex for indicative revenue impacts

1. *Personal income tax cut*

Size and fiscal costs are scalable

Revenue could be moved between these depending on scope of package

Available for funding broader Budget package

3. *Increase trustee tax rate*

\$350m p.a. from 2025-26 onwards

[33]

4. *Supernormal profit tax on banks*

TBC – if one off then up to hundreds of millions for limited period

The components of the package are largely independent of each other as tax policy initiatives. There are, however, a number of cross-cutting issues to factor into decision-making, including:

- The net fiscal impact and the timing/sequencing of changes will have a significant bearing on inflation outcomes and achieving the fiscal strategy
- The complexity of the changes will influence deliverability and the consequent credibility of your fiscal strategy
- The overall impact of the package on incentives to work and invest and the relative weighting of distributional, system integrity, and efficiency objectives

Note. We have booked \$47m p.a. from the reforms to GST treatment of platforms which has been added to the 2023 Budget allowance (from 2024-25 onwards)

1. Personal tax relief for New Zealanders

Size and fiscal costs are scalable and different approaches have different pros and cons. For example, illustrative examples that cost \$2b per annum include a \$5,000 tax-free zone, or lifting the \$14,000 threshold to \$22,000.

Objectives

Different options will have different impacts across our objectives:

- Providing **cost of living** relief to New Zealanders
- Improving the **progressivity** of the tax system
- Countering the impact of **fiscal drag** on New Zealanders
- Improving **work incentives**

Key impacts

- A tax-free zone of \$5,000 gives \$525 to most individuals earning at least \$5,000, but will deliver smaller benefits to full time wage earners or improvements to work incentives than other options.
- Amending other thresholds or rates could provide larger benefits to different groups (for example, full-time wage earners) and more improvements to work incentives, but the benefit would not go to the very lowest income earners.

Risks

- We will need to consider the interaction with the **welfare system** ^[33]
For example, without changes to the main benefits, beneficiaries may not get the full benefit of any tax cut.
- Even small changes to personal tax will have large fiscal and macroeconomic impacts depending on how it is funded.

2. A minimum or net wealth tax on high-wealth New Zealanders

There are two options we are considering for raising revenue from high-wealth New Zealanders:

- A “minimum tax”, where high wealth New Zealanders would pay tax on the greater of their deemed income (a percentage of their net worth) or their taxable capital income.
- A net wealth tax, where high-wealth individuals would pay a percentage of their net wealth each year.

Annex 2 includes indicative revenue from a minimum tax. Officials are still analysing the potential revenue from a net wealth tax.

Objectives

- Raise **revenue** to fund personal tax cuts in a **progressive** manner
- **Address how high-wealth individuals can have relatively light taxation** primarily due to the non-taxation of most capital gains

Key impacts

- Relatively small number of high-wealth individuals affected.
- Total number affected will depend on design choices. Annex 2 provides indicative estimates for a minimum tax for different exemption thresholds. Officials are still analysing the impact of a net wealth tax.

Risks

- Economic impact is significant risk in either option, but the minimum tax may have more significant impacts on risk-taking and innovation.
- We need to make sure we get the design right. Taxes on wealth are complex and design is important to meet our objectives and minimise risks. We need to ensure we have good decision making processes and consider opportunities to refine design through Parliamentary process.

3. Increasing the trustee tax rate

Increase the tax rate on trusts to 39% to align with the top personal tax rate.

Raises approximately \$350m per annum from 2025/26 year (indicative figures). However the fiscal impact is uncertain given potential behavioural responses.

Objectives

- Raise **revenue** in a **progressive** way
- **Reduce avoidance** of the higher top personal tax rate (currently 39%)
- Mitigate over-taxation of lower-rate beneficiaries

Key impacts

- A small proportion of income-earning trusts (8%) will pay most of the additional tax.
- For example, in 2021, 14,000 out of 177,000 income-earning trusts accounted for 86% of trustee income (\$14.6 billion out of \$17.1 billion).
- 120,000 income-earning trusts accounted for the remaining 14% of trustee income (43,000 had no trustee income)

Risks

- There has been no public consultation, so there may be issues we are unaware of.
- There may be stakeholder concerns with increasing the trustee rate before receiving comprehensive data from the new trust disclosure rules.
- Some trusts with lower-income beneficiaries and settlors may be over-taxed, but we think most trusts can mitigate this.

4. A supernormal profits tax on banks

A temporary tax on the supernormal profits made by banks.

Could raise temporary revenue in low hundreds of millions. However different design options will change revenue significantly.

Objectives

- Capture any possible supernormal profits earned by banks

Key impacts

- [34]
- Total impact will depend on design.

Risks

- Wider support for this measure depends on ability to show banking sector has made excess gains that are exceptional, particularly relative to other industries.
- It could have wider economic impacts, through creating uncertainty for future investment and stability of tax settings. The size of these risks will depend on extent it is seen as credibly one-off.

Annex 1 – distributional impact of personal tax relief options

Summary of gains for individuals

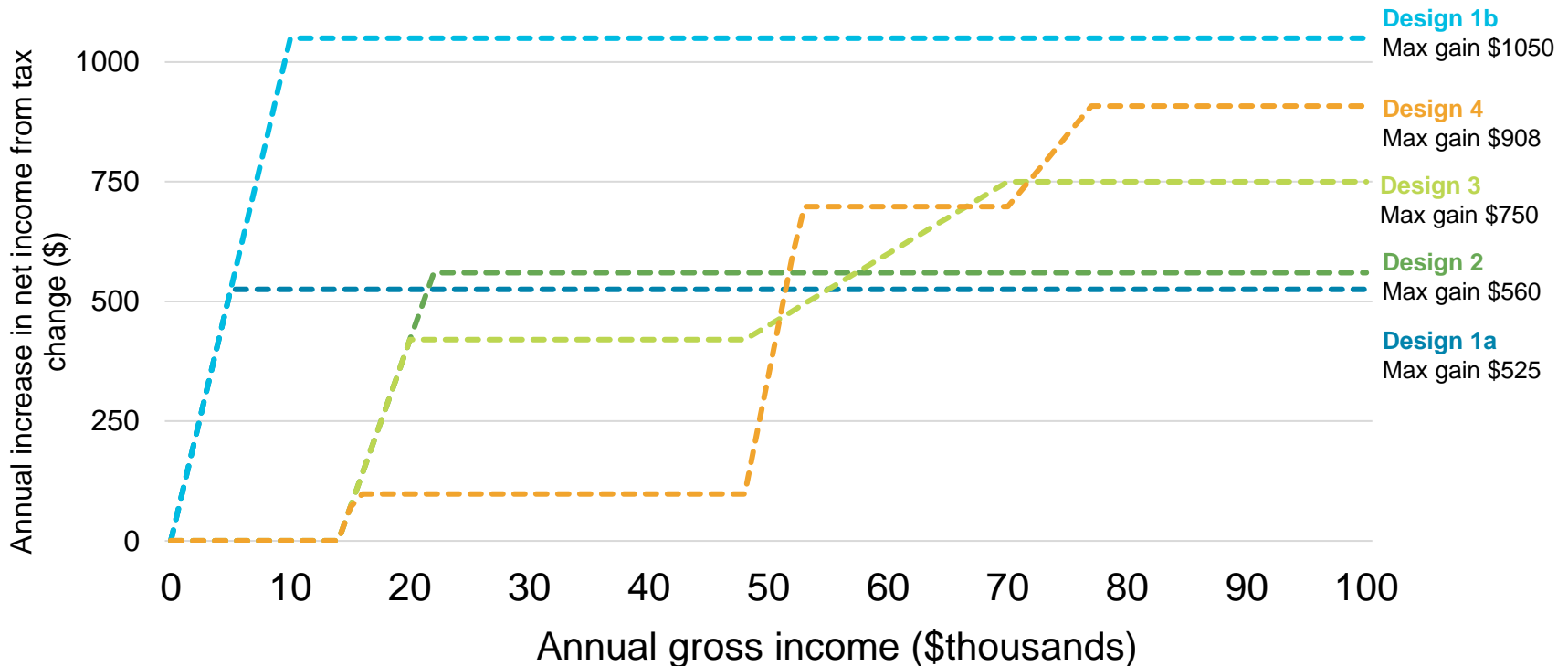
	Max gain per person	Est. number who gain	Est. number who gain full amount	Income where full gain achieved	Indicative fiscal cost p.a.
Design 1a: \$5k tax-free threshold	\$525	4.1 million	3.4 million	\$5,000	\$1,918m
Design 1b: \$10k tax-free threshold	\$1050	4.1 million	3.3 million	\$10,000	\$3,787m
Design 2: Bottom threshold to \$22k	\$560	3.3 million	2.6 million	\$22,000	\$1,912m
Design 3: Bottom threshold to \$20k and 30% rate to 28.5%	\$750	3.3 million	0.9 million	\$70,000	\$2,099m
Design 4: Raise all thresholds by 10% (except \$180k)	\$908	3.3 million	0.7 million	\$77,000	\$2,027m

Characteristics of individuals with income between \$100 and \$14,000

Characteristic	Number of individuals	% of total	Number who received main benefit at any time during year
<i>Student</i>	130,000	42%	7,000
<i>Is a dependent child (under 15)</i>	10,000	3%	-
<i>Partner with income >\$14,000 (and is not a student)</i>	102,000	33%	22,000
<i>Single with no children (and is not a student)</i>	51,000	16%	14,000
<i>Other</i>	20,000	6%	3,000
Total	313,000	100%	46,000

Annex 1b – distributional impact of personal tax relief options

Effect of example designs on after-tax incomes



Annex 2. Indicative revenue and distributional impact of minimum tax

Indicative revenue from a minimum tax (revenue per annum)					
		Net wealth threshold			
		\$3m	\$5m	\$7.5m	\$10m
Deemed rates of return	4%	\$1.7b - \$3.9b	\$1.2b - \$2.9b	\$1.0b - \$2.1b	\$0.7b - \$1.7b
	5%	\$2.4b - \$5.0b	\$1.7b - \$3.7b	\$1.2b - \$2.7b	\$0.8b - \$2.1b
	6%	\$3.0b - \$6.1b	\$2.0b - \$4.5b	\$1.5b - \$3.2b	\$1.0b - \$2.6b

Number of individuals paying additional tax under minimum tax with different exemption thresholds					
		Net wealth threshold			
		\$3m	\$5m	\$7.5m	\$10m
Individuals paying additional tax		92,000 – 179,000	41,000 – 87,000	24,000 – 44,000	12,000 – 29,000

Note. These figures are not costings. They are preliminary, subject to high uncertainty, and are likely to differ significantly from the final fiscal costing for this policy (whether positively or negatively). In particular, a final costing will include any further policy decision choices, a finalised behavioural assumption, updated wealth estimates, and refinement of modelling techniques.