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Minister of Finance

Minister of Revenue

Cabinet

Measures to address cost of living increases for low-middle income individuals

Proposal

1. This paper proposes a cost-of-living payment of \$350 to provide short-term support for low-to-middle income individuals earning below \$70,000 per annum and not receiving the Winter Energy Payment (WEP). These payments will help households deal with the recent spike in inflation driven by COVID-19-related global supply chain issues and the war in Ukraine.
2. This new cost-of-living payment is set at half the Couples' rate for the WEP (\$700 total across winter), which is below the Singles' rate (\$450 total across winter). It would not be paid to people who receive a qualifying benefit (main benefit, New Zealand Superannuation or the Veteran's Pension) during the payment period as they are eligible to receive the WEP. The payment will be paid in three monthly instalments beginning 1 August, this being the earliest it is able to be delivered by Inland Revenue.
3. To ensure Kiwis are supported for cost-of-living pressures during the time required to implement the payment, this paper also proposes a two-month extension to the temporary reduction in the rates of fuel excise duty (FED) and road user charges (RUC) agreed by Cabinet [CAB-22-MIN-0073 and CAB-22-MIN-0113 refer]. This will take the reduction through to mid-August.

Executive Summary

4. New Zealand is experiencing a period where global uncertainty, strong domestic demand, COVID-related supply chain disruption and the effects of the war in Ukraine has led CPI inflation to spike above wage growth. The Government has already taken a number of actions to support New Zealanders through this period, including a package of support delivered from 1 April 2022 targeted at low-middle income families and people receiving main benefits, student allowances and superannuation. In addition, the WEP will be paid to main beneficiaries and superannuitants between 1 May and 1 October (\$700 total for couples; \$450 for singles).
5. While wage growth is forecast by the Treasury to return to levels higher than CPI inflation during the upcoming 2022/23 year, the Government is looking to prioritise further near-term support as inflation peaks over Winter 2022 to low-middle income New Zealanders who will not receive the WEP, and are also therefore less likely to

have received increased support from the Government's package of support on 1 April 2022.

6. This support will be in the form of a payment of \$350 in three instalments made towards the end of winter, to provide short-term support to low-to-middle income individuals earning below \$70,000 per annum and not eligible to receive the WEP. The income cap of \$70,000 has been set to provide support to those who earn around the average wage of around \$65,100¹. It would mean approximately 2.1 million people would be eligible for the payment.
7. Inland Revenue can deliver this payment from the start of August. Therefore, we are also proposing that the Government extends the cut in fuel excise duty and road user charges for two months, which will provide timely support to household budgets until this more targeted cost of living payment is paid. Budget 2022 will also continue our policy supporting half-price public transport until August.
8. Due to our careful fiscal management there is capacity at Budget 2022 for this targeted support to be delivered to low-middle income New Zealanders without adding to the budget allowance set out at the 2021 Half Year Update and incorporated in the Budget 2022 fiscal forecasts.
9. Announcements of the measures outlined in this paper will be made on Budget Day, 19 May. They will be accompanied by a broader 'Cost-of-Living' package focussed on addressing longer-term drivers of inflation, including progressing the Government's response to the Commerce Commission's retail grocery market study, targeted support for New Zealanders to access public transport at lower prices, and policies to achieve greater energy efficiency across the economy and households.

Background

Recently, the cost of living has increased sharply and changes have been enacted to support households

10. Between 2018 and 2021, average ordinary time wage growth in New Zealand averaged 3.5%, outstripping CPI inflation, which averaged 2.2%).
11. However, global factors including the war in Ukraine and continued COVID-19-related supply chain disruptions, as well as strong domestic demand due to New Zealand's broader economic recovery, have led to inflation in New Zealand rising sharply in recent quarters. The Consumers Price Index (CPI) rose 5.9% in the year to December 2021 reflecting higher fuel, food and housing related price increases. This mirrors global trends and is expected to continue upwards through 2022, with the Treasury's Budget Economic and Fiscal forecasts pointing to CPI inflation peaking at near 7% in the year to June 2022 compared to annual wage growth of around 5%.
12. It is worth noting that this will represent the only fiscal year in the forecast period where CPI inflation averages higher than wage growth, with the Treasury forecasting

¹ Based on the Household Labour Force Survey 2021 average earnings for individual wage and salary earners. Tax credits and other transfer payments will also affect a taxpayer's final disposable income.

wages to grow faster than inflation again in the years to June 2023, 2024, 2025 and 2026.

13. In response to the current spike in inflation, the Government recently announced a range of measures to support New Zealanders. This included temporary reductions in fuel excise duties, road user charges and public transport fares to alleviate household costs and support the uptake of public transport.
14. This package came alongside a suite of permanent changes to the income support settings from 1 April, resulting from previous decisions taken to increase household incomes for low-income New Zealanders.
15. Main beneficiaries and superannuitants are being supported through annual cost-of-living increases and will shortly begin to receive the annual WEP which will provide support for their living costs through the winter months. Combined, these are a wide set of measures targeted at specific cohorts who are impacted by the current inflation situation including beneficiaries, superannuitants, students, minimum wage workers, caregivers and low-middle income families who are exposed to increases in the costs of living.

The immediate impact of inflation is largest for those on low to middle incomes

16. As a proportion of current household income, preliminary Treasury analysis suggests that inflationary pressures will have more of an immediate impact on low and middle income households than on higher income households. Among other things, this is driven by the fact that low and middle income households spend a greater proportion of their income on goods and services compared to higher income households. Between June 2018 and June 2019, households in the lower and middle income deciles spent most if not all of their income, while households in the top two deciles spent at least half.
17. Overall, the Treasury analysis suggests that the increase in household expenditure due to inflation has almost double the immediate impact on lower and middle income households versus higher income households.
18. Therefore, we see a strong case for ensuring that the Government provides extra support to low and middle income households to support them during this period when inflation remains above wage growth.

With inflation expected to persist, the Government is taking a measured approach to providing more support without overstimulating the economy and driving inflation higher

19. The Government needs to take a cautious and measured approach to further support to safeguard its fiscal position and avoid exacerbating price rises further. Strong aggregate demand, combined with constrained supply and a tight labour market, will continue to put pressure on inflation. Large scale fiscal support, such as permanent changes to tax rates or welfare system settings are likely to add to inflationary pressure while also requiring cuts to important Government services.
20. As New Zealand emerges from the peak of the Omicron pandemic and begins to recover, we will be reducing COVID-19 support measures. The supports we are

proposing in this paper will provide a bridge for those hit hardest by the near-term cost of living spike during that transition.

We are proposing a two-month extension to the temporary fuel excise duty and road user charge reductions

21. Global prices of petrol and diesel remain at elevated levels due to ongoing international factors, most notably the impacts of the war in Ukraine and sanctions and boycotts of Russia.
22. The Government took immediate action in mid-March to reduce fuel excise tax and road user charges to alleviate some of this pressure on households and businesses. These changes were a quick and efficient way of using the tax system to address the impact on New Zealanders and offset any further disruptions to the price of global fuel markets.
23. Over the coming months fuel prices are expected to remain elevated, and general pricing pressure to persist.
24. This policy supports a broad range of New Zealanders across all income levels. Treasury analysis suggests that low and middle income households are most affected as a share of their income by increases in fuel prices, so changes to fuel excise duty are likely to support those in need. However, a significant amount of the benefit of the reduction in fuel excise duty will flow through to higher income individuals and households, for whom the immediate impact of inflation is more manageable and who do not necessarily require additional support to meet the increased cost of living.
25. We indicated when announcing the fuel excise duty and road user charge changes that we would look to phase these out as fuel prices stabilised.
26. We are proposing a two-month extension to the temporary fuel excise duty and road user charge reductions. The extension of these changes will continue to provide broad-based cost relief for a wide range of New Zealanders throughout the winter.
27. Extending the temporary reduction of the fuel excise duty and road user charges for two months will ensure that support for the cost of living continues while work is done to put in place the systems and mechanisms to provide a targeted cost of living payment.

In addition, we are also proposing a temporary payment totalling \$350 to provide support to low-middle income individuals

28. While the reduction in fuel excise duty and road user charge has been a useful measure for providing relief to a wide range of New Zealanders, we are proposing that a new temporary payment based on income be used to support low-to-middle income New Zealanders over the winter period.
29. We are therefore proposing a series of three periodic Cost of Living payments, together totalling \$350, to begin in August. This payment is intended to support the living costs of low-to-middle income individuals who:
 - 29.1 may have been heavily impacted by the recent increase in the cost of living;

- 29.2 are less likely to have benefitted from changes on 1 April to support or increase incomes such as increases in main benefit rates, Working for Families, and the increase in the minimum wage; and
 - 29.3 will not be receiving a temporary increase in income due to the WEP to support living costs over winter.
30. The payment has been calculated as representing half the amount of the WEP a couple would receive over the winter. While this means it will be slightly less than the amount a single person would receive, the payment will be paid twice to a number of households where two earners make less than \$70,000 a year, and so it is appropriate that these households do not receive a greater combined amount than a couple would receive.
 31. The Government has already enacted a range of changes to support eligible people through the welfare system and considers this payment necessary to address those who may be in hardship or heavily impacted by the costs of living, but not necessarily receiving regular and additional support through the welfare system, are not high income earners, or are not eligible for the WEP in 2022.
 32. We are proposing an income cap of \$70,000 to ensure this payment benefits a large number of low-middle income individuals who are all impacted by the rising cost of living in some manner.
 33. This threshold means the payment will be received by around 51% of income earners 18 or older, based on 2019/20 data. This equates to approximately 2.1 million people.
 34. By household, Treasury modelling suggests that around 21% of the value of the payment will go to the bottom 30% of households, 54% of the total payments will go to the middle 40% of households, with 19% going to the eighth and ninth household deciles and the top household decile receiving about 5% of the payment.

The cost of living payment will have the following features

35. The design settings for the payment are set out below.

Periodic payments

36. The \$350 payment will be made in three periodic instalments paid in August, September, and October 2022.
37. The payment will be paid to all eligible individuals who earned up to \$70,000 in the 2021/22 tax year.

Core eligibility settings

38. The payment will be paid to eligible individuals who:
 - 38.1 earned up to \$70,000 in the 2021/22 tax year;
 - 38.2 are aged 18 or over;

38.3 are New Zealand tax residents and present in New Zealand;

38.4 currently hold a New Zealand bank account; and

38.5 are not ineligible individuals.

Ineligible individuals

39. The payment will not be paid to individuals who are receiving a qualifying benefit² (such as main benefit, New Zealand Superannuation or Veteran's Pension) during the payment period. This is because these individuals will be receiving the WEP. The WEP provides between \$450 and \$700 to eligible recipients during the winter period.

Targeted using individual 2021/22 tax year data

40. The payment will be targeted using Inland Revenue data on individuals for the 2021/22 tax year, applying the following parameters:
- 40.1 the income threshold test based on assessed net income for the 2021/22 tax year
 - 40.2 individuals who have not filed an income tax return by the date of the first payment will begin receiving payments after they file (or as a lump sum after the monthly payment window closes)
 - 40.3 individuals with no tax assessment will be excluded.
41. As circumstances for individuals change over time, there will be some people who have experienced a recent drop in income who will not receive the payment (due to earning more than \$70,000 in the previous year), as well as some people who have experienced an increase in income who will receive the payment (despite arguably not needing it to meet the increased cost of living).
42. There will be no apportionment for the payment and entitlement will be assessed monthly for each instalment of the payment.

Assessment of eligibility

43. Prior to each monthly payment, Inland Revenue will assess an individual's eligibility for the payment. In practice, this means that an individual who did not receive a previous payment (e.g. due to being under 18 or receiving a main benefit) can receive a subsequent payment, if they now meet the eligibility criteria.
44. Whether an individual is eligible for the payment will depend on whether they are receiving a qualifying benefit on the date of assessment for each instalment of the payment.

² A qualifying benefit for the WEP are Sole Parent Support, Supported Living Payment, Jobseeker Support, Jobseeker Support Student Hardship, Emergency Benefit, Emergency Maintenance Allowance, Youth Payment, Young Parent Payment, New Zealand Superannuation and Veteran's Pension.

Payment date

45. The first of three monthly instalments will occur on 1 August 2022, with subsequent monthly payments occurring on the first day of the month, or the next working day if the payment would occur on a weekend or a public holiday.
46. The final payment approval date for eligibility will be 31 March 2023, which is the last date for tax agents to file individual tax returns for their clients for the 2021/22 tax year. The close date for payments will be set at 31 March 2024. This would be the last date that eligible individuals would be able to supply bank account details.

Tax and welfare system treatment of payment

47. We propose each payment to be:
 - 47.1 not subject to income tax and not included as income for other support delivered through the tax and welfare system
 - 47.2 non-recoverable, unless Inland Revenue has determined the information provided was fraudulent [41]
 - 47.3 not be offset against other tax and social policy liabilities
48. People who receive the payment may also be entitled to other income or asset-tested support through the welfare system, such as the Accommodation Supplement, Temporary Additional Support, a Special Needs Grant, or a Student Allowance. Cabinet agreement is needed to exempt the payment from being considered income or a cash asset, so it does not reduce people's entitlement to these other income supports.
49. Therefore, we seek your agreement to exempt the payment from being considered income or a cash asset for welfare assistance via an amendment to the Social Security Regulations 2018 and personal income via an amendment to the Student Allowances Regulations 1998. Without the exemption, the payment may have the unintended consequence of reducing other income support available to low-income individuals and families.

The payment will be delivered by Inland Revenue, which will have implications for its other business

50. Implementation and administration of this payment will have an impact on Inland Revenue's operations and its ability to provide other support to its customers.
51. [41]
52. To minimise but not eliminate the risks identified and to support the delivery of this payment, Inland Revenue will reprioritise existing staff and is investigating hiring additional temporary staff.

53. If Inland Revenue can source additional contingent labour, the cost to implement this payment is \$16 million over the forecast period. Inland Revenue will self-fund \$2 million of this cost and are seeking funding of \$14 million. Some of this funding is specifically for staff to work on deferred activities, as discussed above.

There are some risks associated with making this payment

Inflationary risk

54. The Treasury has advised that strong aggregate demand, combined with constrained supply and a tight labour market, will result in inflation staying above target in the near term. In this context an increase in the level of fiscal support would further exacerbate inflation. This is mitigated by the payment being a one-off temporary support measure.
55. This is also why we have been careful not to introduce permanent new fiscal interventions. Time-limited, one-off payments will not severely increase the overall level of fiscal support. Further, the payment does not add to forecast fiscal spending as it is funded from expected future underspends from the CRRF.

Fairness risks

56. There is a risk that some people's circumstances will change during the payment period and this will impact their eligibility for the payment. These include a person's eligibility for the WEP changing because they come off a qualifying benefit, such as a main benefit, during the payment period. This could mean that they do not receive the WEP or the new payment for part of the winter period. This means that in the month they leave the benefit some people may receive some WEP as well as the new payment, and others may receive some WEP but not the new payment.
57. As discussed earlier in this paper, Inland Revenue will check if an individual has ceased to be eligible for a qualifying benefit prior to each monthly payment. This will help to significantly mitigate the impact of this issue. This issue of receiving both payments will still remain, but for a shorter period of time (a maximum of one month).
58. There will also be people who apply for a qualifying benefit which is granted after the monthly assessment for the payment, so will receive a backdated benefit including WEP and the monthly payment.
59. In addition, the fact that delivering this payment requires using historical income information means that the target population of this payment will not perfectly match everyone's current circumstances. For example, this payment will not be provided to someone who was earning over \$70,000 last tax year but has suffered a recent decrease in income. The payment will however be provided to someone who earned less than \$70,000 in the last tax year but has recently had a large increase in income over \$70,000.
60. Providing a payment based on individual income will also lead to different outcomes for households with the same level of income, which may be perceived as unfair. For example, a household with two earners making \$60,000 would get two payments (a

total of \$700), while a two adult household with one earner on \$120,000 and a stay-at-home parent would get one or zero payments (depending on if the stay-at-home parent had some level of non-wage income).

Implementation

61. This payment will be announced on Budget Day (19 May 2022). The first payment will be made on 1 August 2022.

Financial Implications

Extension to the temporary reduction in fuel excise duty and road user charges

62. Waka Kotahi NZTA has indicated that a two-month extension of the temporary reduction in fuel excise duty and road user charges is expected to result in approximately \$235 million of revenue shortfall into the National Land Transport Fund (NLTF). Without a corresponding top up to the NLTF, there would be a reduction in the level of investment.
63. When we approved the first temporary reduction, we provided a top up to the NLTF to maintain the planned level of investment, and we propose to do this again and top up the NLTF for this two-month extension.
64. We also previously agreed that up to \$2.15 million of the approved funding for the scheme could be used by Waka Kotahi for set up and administration costs [CAB-22-MIN-0113 refers]. Based on an estimate from Waka Kotahi, we propose that a further \$0.850 million of funding can be made available to Waka Kotahi to support the continued administration of the scheme as a result of this two-month extension (i.e., bringing the total funding that may be used for the administration of the scheme to \$3 million from the total approved funding).
65. [33]

Cost of living payment

66. Officials have calculated a cost of \$747.600 million for the cost of living payment based on a payment of \$350 to an estimated 2,136,000 recipients. That estimate is highly uncertain because we do not currently know the size of the eligible population and officials have had to calculate it on the basis of adjusted 2019/20 tax data. Therefore, while officials do not expect the cost to be higher, for appropriation purposes Inland Revenue is seeking funding of \$800 million to ensure that there is sufficient funding in the event that the eligible population is higher than expected. Unspent money will be returned to the centre.
67. Any write-offs associated with this payment, for example unrecoverable payments to a wrong recipient, will be charged to the existing *Impairment of debt and debt write-*

offs appropriation in Vote Revenue. Inland Revenue expect any write-offs to be minimal and are not seeking any increase for this appropriation.

68. A new appropriation will need to be established to deliver this payment. We also propose that the appropriation be exempt from end-of-year performance reporting requirements, as information other than the number of payments made is unlikely to be informative. The Minister of Finance has granted this exemption under section 15D(2)(b)(ii) of the Public Finance Act 1989 conditional on Cabinet's agreement to the new appropriation. Inland Revenue will continue to report in other ways on the organisation's performance.

Implementing and administering the cost of living payment

69. The cost to implement and administer this payment is \$16.000 million, with Inland Revenue self-funding \$2.000 million of this cost.
70. The cost to implement this change in Inland Revenue's systems (e.g. START) is estimated at up to \$1.000 million. Inland Revenue will self-fund this implementation cost by reprioritising existing resources (e.g. system developers, testers and subject matter experts). Inland Revenue will report back to Cabinet to request additional funding if the implementation of the policy settings, or a change in policy settings, necessitates a more complex, and therefore more expensive, system solution.
71. Inland Revenue has estimated the cost to administer the payment at \$15.000 million, including \$1.000 million in 2021/22, \$10.500 million in 2022/23 and \$3.500 million in 2023/24. Inland Revenue will self-fund the \$1.000 million in 2021/22 and are seeking funding of \$14.000 million for the other two financial years.
72. The estimated cost includes customer voice and web contacts, communications, website information, internal training and procedures development, print, postage, and associated overhead costs. The costings include a mixture of reprioritisation of existing staff and additional temporary staff. The \$3.500 million in 2023/24 is specifically for deferred business as usual activities that Inland Revenue will need to catch-up on due to reprioritising staff to this payment in 2022/23.
73. Some flexibility will be required across financial years for the administration costs. Inland Revenue will likely need to use a level of existing resources to implement and administer the payment. This will require the reprioritisation of resources from other activities. Inland Revenue will need to catch up on this deferred work. Inland Revenue are seeking approval for an in-principle expense transfer of up to \$2.500 million to enable Inland Revenue to transfer funding from 2021/22 to 2022/23 for deferred work that has been delayed as a result of prioritising resources to this payment. Due to the tail of payments relating to IR3 customers, it may also be necessary for Inland Revenue to seek a transfer from 2022/23 to 2023/24 as part of a subsequent baseline update process.

Legislative Implications

74. Legislation is required to enable Inland Revenue to administer the payment. To allow Inland Revenue sufficient time to implement the required changes and make the first payment on 1 August 2022 a Bill would need to be enacted before then. We

recommend that a Bill be introduced and passed under urgency on Budget night to provide certainty as soon as possible. This approach is supported by officials.

75. The legislative changes to exempt the payment as income or a cash asset from income support will be progressed prior to the first payment on 1 August 2022.

Impact Analysis

Regulatory Impact Statement

76. Cabinet's impact analysis requirements apply to the proposals for measures to address the cost of living increases for low-middle income individuals. However, there is no accompanying Regulatory Impact Statement, and the Treasury has not exempted the proposal from the impact analysis requirements. Therefore, it does not meet Cabinet's requirements for regulatory proposals.
77. On behalf of the Minister of Finance, the relevant Treasury policy team and the Regulatory Impact Analysis Team have agreed that a Supplementary Analysis Report (SAR) will be provided by Budget night 2022.
78. The Ministry of Transport has agreed to prepare a post-implementation assessment on the reduction to fuel excise duty and road user charges.

Population Implications

79. The following section is based on Treasury modelling, which uses data that is different to the administrative data used by Inland Revenue to assess eligibility for the payment, so the total number of people who receive the payment will be different. These results assume that people's incomes and family situations do not change significantly between tax year 2022 and the payment periods in tax year 2023. The input data does not provide any information to exclude individuals who do not file a tax assessment, who will be excluded when this policy is implemented. These results were prepared using HEFU21 forecasts, as Treasury are currently finalising incorporating BEFU22 forecasts into their modelling.
80. Treasury modelling suggests that 1,088,000 households will gain an average of \$590, indicating that over half of the households will receive two payments. About 478,000 households with children and 610,000 households without children are expected to receive the payment.
81. The payment is somewhat targeted to low and middle income households. Around 54% of the total payments are estimated to go to the middle 40% of households, with 21% going to the bottom 30% and 24% going to the top 30%.
82. The Treasury estimates that the characteristics of the individual recipients will be:
 - 82.1 A third have children, two thirds do not have children
 - 82.2 22% received self-employment income in the previous tax year
 - 82.3 60% have partners

82.4 Around 57% of families (couples and single people) receiving the payment have total family incomes below \$70,000, 12% have family incomes between \$70,000 and \$100,000, and 31% have family incomes over \$100,000.

83. [34] low-income working families with children will receive the payment. Depending on the poverty measure used, roughly half of children in poverty are in non-beneficiary households.

Human Rights

84. The payment will discriminate on the basis of employment status and age. However, these discriminations are reasonably justified in the context of the proposal. The cost of living payment appears to be consistent with the rights and freedoms affirmed in the NZ Bill of Rights Act 1990.

Consultation

85. Consultation has occurred with the Treasury, Inland Revenue and the Ministry of Social Development. Waka Kotahi has been informed of the proposals affecting Waka Kotahi. Given time constraints in developing these proposals and proximity to Budget 2022, this process to develop this paper has been heavily truncated and some parts of the consultation process were necessarily bypassed.

Communications

86. This payment will be announced on Budget day, with full details of eligibility criteria and processes communicated by Inland Revenue soon after.

Proactive Release

87. The Treasury coordinates a proactive release of Budget documents following Budget Day. This release is to improve transparency of the Budget decision-making process.

88. The release of documents will include this paper, and related advice from the Treasury and Inland Revenue will also be released.

Recommendations

The Minister of Finance recommends that Cabinet:

- 1 **note** that the Government has taken steps to raise incomes for the most vulnerable and support the labour market to recover from Omicron;
- 2 **note** inflation rose sharply throughout 2021 and early-2022, mirroring global trends;
- 3 **note** that high inflation has driven up the cost of living sharply for households, and that preliminary Treasury analysis is that the immediate impact of inflation is greatest for low and middle income households;
- 4 **note** that the Treasury expects inflation to peak in the June 2022 year, and for wages to grow more quickly than inflation from the year to June 2023 onwards;

- 5 **note** that the Government took action earlier this year to support household budgets with the rising cost of living by reducing the rate of fuel excise duty and road user charges, which supports a broad range of households;
- 6 **note** that further support for the cost of living should be targeted and temporary to avoid stoking further inflationary pressure and should be aimed at supporting household budgets in this transitional period when wage growth remains below inflation;

Fuel excise duty and road user charges

- 7 **agree** to a further two-month extension to the three-month temporary reduction of fuel excise duty and road user charges [CAB-22-MIN-0073 and CAB-22-MIN-0113 refer];
- 8 **agree** for the Minister of Transport and the Minister of Customs to suspend and reduce the rates of petrol excise duty by Order in Council under Schedule 3, clause 20 of the Customs and Excise Act 2018;
- 9 **authorise** the Minister of Transport and the Minister of Customs to recommend to the Governor General an Order in Council to suspend and reduce the rates of petrol excise duty at the next meeting of Executive Council;
- 10 **authorise** the Minister of Transport and Minister of Customs, in consultation with the Minister of Finance, to make final decisions on details that arise without reference to Cabinet;
- 11 **authorise** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to make changes to the rate of petrol excise duty refund in the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004 through amendment regulations and for these amendment regulations to be considered at a future meeting of Executive Council;
- 12 **agree** to top up the National Land Transport Fund to account for the anticipated reduction in revenue as a result of the decision in recommendation 7;
- 13 **approve** the following changes to appropriations to provide for the decision in recommendation 12 above, with a corresponding impact on the operating balance:

	\$m – increase / (decrease)				
Vote Transport Minister of Transport	2021/22	2022/23	2023/24	2024/25	2025/26
Non-Departmental Output Expense:					
Funding for temporary decrease in Fuel Excise Duty, Road User Charges, Public Transport fares and Railway Track User Charges	-	235.000	-	-	-

- 14 **agree** to charge the operating balance impact over the forecast period of the above changes against the funds remaining following the closure of the COVID-19 Response and Recovery Fund (CRRF);
- 15 **note** that the indicative spending profile for the multi-year appropriation described in recommendation 12 above is as follows:

Vote Transport Minister of Transport	\$m – increase / (decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Non-Departmental Output Expense:					
<i>Funding for temporary decrease in Fuel Excise Duty, Road User Charges, Public Transport fares and Railway Track User Charges</i>	331.500	295.000	-	-	-

- 16 **agree** that the proposed change to appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 17 **agree** that, in addition to the previous decisions on the set up and administration of the scheme [CAB-22-MIN-0073 and CAB-22-MIN-0113 refer], up to \$0.850 million from the *Funding for temporary decreases in Fuel Excise Duty, Road User Charges, Public Transport fares and Railway Track User Charges* appropriation outlined in recommendation 12 above can be used to fund Waka Kotahi for the administration costs associated with the decision in recommendation 7 above;
- 18 **note** that the decision in recommendation 17 above brings the total funding that may be made available to Waka Kotahi for the set up and administration of the scheme to \$3.000 million;
- 19 **note** that Cabinet approved for introduction the Road User Charges (Temporary RUC Reduction Scheme) Amendment Bill, subject to the final approval of the Government caucus and sufficient support in the House of Representatives [CAB-22-MIN-0113 refers];
- 20 **note** that the Road User Charges (Temporary RUC Reduction Scheme) Amendment Bill includes a provision to extend the temporary reduction period for Road User Charges beyond 21 July 2022 by Order in Council, and officials will provide advice to the Minister of Transport on utilising this to give effect to the decision in recommendation 7 above;

Cost of Living Payment

- 21 **agree** to authorise a payment to some individuals, as a way to help low-to-middle income earners with the recently increased cost of living;

Payment amount and treatment

- 22 **agree** that the total amount of the payment will be \$350, to match half the total value of the couples' rate of the Winter Energy Payment (WEP);
- 23 **agree** that there will be no apportionment for the payment;
- 24 **agree** that the payment will be treated as not subject to income tax;
- 25 **agree** to exempt the payment from being considered income or a cash asset for income support, through amending the Social Security Regulations 2018 and the Student Allowances Regulations 1998;
- 26 **agree** that the payment will not be recovered, unless Inland Revenue has determined that information provided was fraudulent;
- 27 **agree** that the payment will not be offset against other tax or social policy liabilities;

Payment window

- 28 **agree** that the payment of \$350 will be split over three monthly payments, beginning 1 August 2022;
- 29 **note** that the payment will not be received by some individuals who are eligible for it until after they file their tax return (potentially as late as 31 March 2023);
- 30 **agree** that the final payment approval date for eligibility will be 31 March 2023;
- 31 **agree** that the close date for payments would be 31 March 2024;

Targeting the payment

- 32 **agree** that the payment will only go to individuals with income in the 2021/22 tax year of \$70,000 or less;
- 33 **agree** that the payment will not go to individuals who receive a qualifying benefit for for the WEP, which are Sole Parent Support, Supported Living Payment, Jobseeker Support, Jobseeker Support Student Hardship, Emergency Benefit, Emergency Maintenance Allowance, Youth Payment, Young Parent Payment, New Zealand Superannuation and Veteran's Pension during the payment period;
- 34 **agree** that the payment will not go to individuals under the age of 18;
- 35 **agree** to provide the payment only to individuals who are both New Zealand tax residents and present in New Zealand;
- 36 **agree** that the payment is not intended to be made to individuals who are deceased or incarcerated;
- 37 **agree** that the payment will only be made to New Zealand bank accounts;
- 38 **agree** that eligibility for the periodic payment will be tested prior to each payment;

Financial implications

39 **note** that the fiscal impact of the decision in recommendation 21 to authorise a cost of living payment is approximately \$816.000 million, consisting of:

39.1 the cost of the payment itself, which is estimated to be \$747.600 million, although given that this figure is uncertain, an appropriation of \$800 million will be sought; and

39.2 the cost of delivering the payment, which is estimated to be \$16 million, of which Inland Revenue will self-fund \$2 million;

40 **agree** to establish a new appropriation to give effect to the policy decision at recommendation 21 above:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Revenue	Minister of Revenue	Inland Revenue	Cost of Living payment	Non-Departmental Other Expense	This appropriation is limited to payments to individuals to address the cost of living in accordance with Cabinet decisions.

41 **note** that the Minister of Finance has approved an end-of-year performance exemption for the *Cost of Living payment* appropriation, under s15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative;

42 **approve** changes to appropriations to give effect to the policy decision at recommendation 21 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Revenue Minister of Revenue	\$m – increase / (decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Non-Departmental Other Expense: <i>Cost of Living Payment</i>	-	800.000	-	-	-
Multi-Category Expenses and Capital Expenditure: <i>Services for Customers</i>					
Services to Ministers and to Inform the Public about Entitlements and Meeting Obligations	-	8.500	3.500	-	-

Services to Process Obligations and Entitlements	-	2.000	-	-	-
Total Operating	-	810.500	3.500	-	-

43 **agree** to charge the operating balance impact over the forecast period of the above changes against the funds remaining following the closure of the COVID-19 Response and Recovery Fund (CRRF);

44 **note** that likely delays to other work as a result of resources being re-prioritised to implement and administer this payment require the in-principle transfer of up to the following amount from 2021/22 to 2022/23:

Vote Revenue Minister of Revenue	\$m – increase / (decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Multi-Category Expenses and Capital Expenditure: <i>Services for customers</i>	(2.500)	2.500	-	-	-
Total Operating	(2.500)	2.500	-	-	-

45 **authorise** the Minister of Finance and the Minister of Revenue jointly to agree to the final amount to be transferred, following completion of the 2021/22 audited financial statements, with no impact on the operating balance and net core Crown debt across the forecast period;

46 **note** that Inland Revenue will report back to Cabinet to request additional funding if the implementation of the policy settings, or a change in policy settings, necessitates a more complex, and therefore more expensive, system solution;

Legislative implications

47 **note** that legislative amendments are required to allow Inland Revenue to administer this payment and officials recommend that a bill be introduced and passed under urgency on Budget night;

48 **agree** to introduce the required legislation on Budget night to go through all stages under urgency;

49 **invite** the Minister of Revenue to direct Inland Revenue to draft the necessary amendments to the Tax Administration Act 1994 to give effect to the proposed new payment;

50 **delegate** to the Ministers of Finance and Revenue the authority to approve any further minor and technical changes that do not have any associated fiscal costs that are needed in advance of implementation;

51 **invite** the Minister for Social Development and Employment to instruct Parliamentary Counsel Office to draft amendments to the Social Security Regulations 2018 and the

Student Allowances Regulations 1998 to give effect to the decision at recommendation 25.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Hon David Parker

Minister of Revenue