

The Treasury

Budget 2022 Information Release

August 2022

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Out of Scope
- [41] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment
- [42] 18(d) - information is already publicly available or will be publicly available soon

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Joint Report: Design Decisions for a 2022 Cost of Living Assistance Payment

Date:	6 April 2022	Report No:	IR2022/163 T2022/815
		File Number:	SH-13-5

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to the recommendations in this report	7 April 2022
Minister of Revenue (Hon David Parker)	Agree to the recommendations in this report	7 April 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Kerryn McIntosh-Watt	Director, Policy and Regulatory Stewardship, Inland Revenue	[23]		✓
Sharyn Rea	Segment Management Lead, Small & Medium Enterprises Cust Segment, Inland Revenue,			
Stephen Bond	Manager, Tax Strategy, The Treasury	[39]	[35]	
Michael Sherwood	Senior Analyst, Tax Strategy, The Treasury			✓

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Joint Report: Design Decisions for a 2022 Cost of Living Assistance Payment

This report seeks confirmation of decisions to introduce a temporary payment to support low and middle income individuals who have been impacted by the recent increases in costs of living. You have met with officials and provided indicative decisions for eligibility criteria and design parameters. We have progressed thinking on the final solution design and provide the policy and operational trade-offs of issues we have identified so far.

The payment will total \$350, paid in two monthly payments of \$116.67 and one of \$116.66 during August, September, and October 2022 by Inland Revenue. The intended recipients are primarily low and middle income individuals with assessed net income up to \$70,000 for the 2021/22 tax year. There will not be a minimum income threshold or floor; however, recipients must have had assessed income. Individuals who are ineligible for this payment are those who are receiving a qualifying benefit for the Winter Energy Payment (i.e., recipients of main benefits, New Zealand Superannuation, and Veteran's Pension), individuals who are under 18, incarcerated, or deceased, and people living overseas. We estimate that there could be around 2,136,000 individuals eligible for this payment for a fiscal cost of \$750 million.

The monthly payment (as opposed to a lump sum) enables the checking of eligibility criteria before each payment is made. This design will better capture when an individual's circumstance has changed, particularly if they have gone off a main benefit (and no longer eligible to receive the Winter Energy Payment) or if they have started receiving New Zealand Superannuation (and now receive the Winter Energy Payment). Because circumstances can change at any time each month, it is possible that some people could receive portions of both the WEP and this payment. There is no simple solution to address this issue in the timeframes available.

This payment will be time-limited. Eligibility will end on 31 March 2023. Any payments credited but not disbursed will not be available after 31 March 2024 and will be returned to the Crown.

There is some potential for individuals (particularly those with non-salary and wage income) to rearrange their incomes on their tax return to just below the income cap. We are unable to estimate this risk; however, those returns would be subject to normal integrity checks as part of the year end assessment.

As previously advised, the implementation and administration of this payment will have a significant impact on Inland Revenue's operations and its ability to provide support to its customers. [41]

[34]

[41]

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. The costs of implementation are estimated to be \$16 million over the forecast period. Inland Revenue will self-fund \$2 million of this and is seeking operating funding of \$14 million.

Inland Revenue will require amendments to primary legislation to administer the payment. Officials recommend that a bill be introduced on Budget night and go through all stages in the House under urgency to enable the first payment on 1 August 2022.

Because of the speed at which we have developed the design of this payment, it is possible that some issues have not been identified. We will report back to you as necessary. For this reason, we recommend that Cabinet delegates authority to the Ministers of Finance and Revenue any decisions required to finalise the design and which have no fiscal implications.

A draft of the Cabinet paper seeking authority to make this payment will be sent to the Minister of Finance separately.

Recommended Action

We recommend that you:

1. **Confirm** your agreement of the following indicative decisions that the Minister of Finance made on 5 April 2022:

Payment window

- a. First payment made 1 August, then monthly for a total of three months.
- b. Final payment approval date for eligibility would be 31 March 2023.
- c. Close date for payments would be 31 March 2024. This would be the last date that eligible individuals would be able to supply bank account details. After this, any credits not paid out would be returned to the Crown.

Payment amount and treatment

- d. The payment would be a flat rate paid each month (based on a total of \$350 across the period).
- e. There would be no apportionment for the payment – entitlement would be for a month.
- f. The payment would be:
 - tax-exempt and not included as income for social policy products.
 - not be recovered unless Inland Revenue has determined the information provided was fraudulent (based on our normal integrity work).
 - not be offset against other tax liability.

Income criteria

- g. Income threshold test based on assessed income for the 2021/22 tax year.
- h. 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). The last date for filing is 31 March 2023.
- i. In order for Inland Revenue to make this payment, it is necessary to exclude individuals with no tax assessment from receiving the payment.

Minimum income threshold

- j. There is no income floor.

Other eligibility criteria

- k. Provide the payment only to those aged 18 or over.
- l. Provide the payment only to New Zealand tax residents and present in New Zealand.
- m. Provide the payment only to individuals who are not deceased or incarcerated.
- n. Provide the payment only to New Zealand bank account holders.

Confirm/Not confirmed
Minister of Finance

Confirm/ Not confirmed
Minister for Revenue

2. **Note and agree** that some of those indicative decisions require minor clarifications:

- a. the \$350 payment will be paid at \$116.66 in the first month, and \$116.67 in the two subsequent months
- b. the payment would not be subject to income tax (as opposed to being tax exempt)
- c. the payment would not be offset against overdue liabilities (not just tax liabilities)

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Revenue

3. **Agree** that the policy intent is to provide temporary support for the living costs of low to middle income individuals after the expiry of the reduction in fuel excise duty and road user charges who:

- a. have been heavily impacted by the recent increase in costs of living;
- b. are less likely to have benefited 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
- c. will not be eligible to receive the Winter Energy Payment to support living costs over winter.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Revenue

4. **Agree** that the income cap for the payment will be \$70,000

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Revenue

5. **Agree** that the income basis will be a person's assessed net income (income after expenses, but before losses from a previous year) for the 2021/22 tax year

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Revenue

6. **Agree** that eligibility would be based on not receiving a qualifying benefit for the Winter Energy Payment, 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

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Revenue

7. **Note** that delivering this payment will impact on Inland Revenue's operations and its ability to maintain the integrity of the tax system and social policies while delivering the current Covid-19 economic supports at the same time

Financial recommendations

8. **Note** that the fiscal impact of the decision to authorise a Cost of Living payment with above design parameters] will be approximately \$816.000 million, consisting of:

- a. the cost of the payment itself, which is estimated to be \$747.600 million, although \$800 million will be sought from Cabinet because the estimated cost is subject to some uncertainty; and
- b. the cost of delivering the payment, which is estimated to be \$16 million, of which Inland Revenue will self-fund \$2 million;

9. **Note** that Cabinet will be asked to authorise a new appropriation to give effect to this policy decision:

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.

10. **Approve** an end-of-year performance exemption for the *Cost of Living Payments* appropriation, under s15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative, subject to Cabinet agreeing to the policy and the new appropriation

Agree / Disagree

Minister of Finance

Agree / Disagree

Minister for Revenue

Other recommendations

11. **Note** that officials are considering whether there any Bill of Rights Act (BORA) implications associated with the proposal and will report back to you

12. **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

13. **Agree** to introduce the required legislation on Budget night to go through all stages under urgency

Agree / Disagree

Minister of Finance

Agree / Disagree

Minister for Revenue

14. **Note** that MSD requires Cabinet agreement to exempt the payment from being considered income or a cash asset for welfare assistance administered by the Ministry of Social Development, under the Social Security Regulations 2018, and the Student Allowances Regulations 1998

15. **Note** that this payment was designed at speed, there may be further decisions needed, and there may be unintended consequences

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The Treasury

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Policy Director
Policy and Regulatory Stewardship
Inland Revenue

Hon Grant Robertson

Minister of Finance
/ 04 /2022

Hon David Parker

Minister of Revenue
/ 04 /2022

Joint Report: Potential one-off Cost of Living payment in 2022

Purpose of report

16. Recently, the Minister of Finance commissioned urgent advice on the merits and trade-offs of introducing a temporary payment to address increased costs of living (CoL). Based on that advice and further discussions with officials, Ministers have made indicative decisions on preferred key design parameters (T2022/791, BN2022/175 refers). Officials have progressed the design of the payment based on those decisions.
17. This report:
 - a. discusses the policy trade-offs, distributional impacts, fiscal costs, and operational and customer impacts arising from those initial decisions.
 - b. seeks formal confirmation on some design parameters.
 - c. seeks agreement to include a non-departmental other expense appropriation of \$800 million in the Cabinet paper.
 - d. seeks agreement for operational funding of \$14 million for Inland Revenue to implement and administer the payment.
 - e. notes that legislation is required for Inland Revenue to administer the payment and recommends that a bill goes through all stages under urgency on Budget night.
18. To be considered as part of Budget 2022 decisions, Cabinet must agree to the decisions no later than 11 April 2022 when the Budget moratorium begins. We understand that the Cabinet paper for discussion and decisions will be tabled at the Cabinet meeting on that day. A draft Cabinet paper based on recommendations in this report will be sent to you for consideration.
19. The design of this payment and the advice have been prepared at speed and it is possible that there could be outcomes that have not been identified, including impacts on certain population groups and impacts on Inland Revenue and its customers. As indicated in previous advice, there are significant risks to Inland Revenue in delivering this payment (T2022/674, IR2022/147 refers). We will provide further advice as needed.

Decisions to date

20. The key design parameters Ministers have indicated a preference for are:
 - a. A \$350 payment split over three monthly payments in August, September, and October 2022;
 - b. An income cap of \$70,000;
 - c. Eligibility is based on assessed income from the 2021/22 tax year;
 - d. No minimum income threshold or floor;
 - e. Exclusion of individuals eligible for the Winter Energy Payment (i.e., main benefit and New Zealand Superannuation recipients);¹

¹ This has been clarified in the recommendations to exclude anyone who receives a qualifying benefit.

- f. Exclusion of individuals under 18 years old; and
 - g. Exclusion of individuals with no assessed income.
21. For the purposes of the advice in this report, officials have assumed these decisions are final.
22. After considering the advice presented in this report, if Ministers decide to change any of these key decisions, officials would need time to reconsider the impacts on the policy and administration of this payment. Given the timeframes required for Budget 2022 decisions, any significant alterations at this point would mean that implementation of this payment is unlikely to proceed.

Policy rationale

23. Officials understand that Ministers intend this payment to provide temporary support to low-to-middle income individuals who:
- a. have been heavily impacted by the recent increase in costs of living;
 - b. are less likely to have benefited from income support changes on 1 April, such as increases in main benefit rates, Working for Families, and the increase in the minimum wage (T2022/674, IR2022/147 refers); and
 - c. will not be receiving the Winter Energy Payment (WEP) to support living costs over winter.

In order to achieve this objective, Ministers are interested in a payment made to individuals who are not high-income earners but also excludes individuals who will be eligible for the WEP in 2022.

24. Inflation affects all households, but preliminary Treasury analysis suggests that as a share of current income it has a larger immediate effect on low and middle income households more than higher income households. The increase in household expenditure due to inflation has almost double the immediate impact on lower and middle income households versus higher income households, as a proportion of current household income.
25. Such a payment will benefit a large number of individuals at the bottom and middle of the income distribution; however, at the household level, the impact is less progressive as many of these individuals are in higher-income households. Individuals on main benefits and New Zealand Superannuation will soon begin to receive the WEP on 1 May, and have recently benefited from increases in main benefit and Superannuation rates.
26. We note that the WEP is intended to help meet increased energy costs over the winter period, rather than the current increase in general costs of living. Increases to main benefits and Superannuation were decided in advance of the recent acceleration in inflation. Nevertheless, these temporary and permanent increases in income will support the benefiting households facing rising living costs in the near term. After the expiry of the cut to fuel excise duty and road user charges, there will be less and minimal government support to non-beneficiary incomes with the exception to those receiving Working for Families.

Potential eligible population

27. The table in Appendix 1 illustrates how individuals in the tax system are distributed by assessed net income (broadly defined as income after expenses, which is discussed later in this report).
28. Based on your decisions, there are around 2,081,700 individuals who would be eligible to receive this payment. This figure is based on the 2019/20 tax year data, the latest year for which Inland Revenue has completed tax assessments. We are not able to accurately forecast the number of eligible individuals for the 2021/22 tax year. There are factors that would increase this number such as population growth, and factors that would decrease it such as income growth. In costing this proposal, officials have taken the conservative approach of adjusting the number of eligible recipients up using the BEFU forecast labour force population growth of 2.6% to the 2021/22 March year. This increases the estimated eligible population to 2,136,000 individuals (rounded).

Payment eligibility criteria

29. The parameters reflect what Inland Revenue believes can be achieved within its work programme and priorities, and to minimise the expected disruptions to its services on customers. In most instances, changes to these parameters will increase the complexity of the payment and directly impact on Inland Revenue's ability to deliver the payment. As previously advised, the simplest of designs already significantly impacts on Inland Revenue's current operations and on its customers. A summary of the eligibility and design parameters is provided in Appendix 2.

Eligibility based on individual income

30. Inland Revenue does not hold information on household composition, except for Working for Families recipients, and would therefore not be able administer a payment based on household income. It is possible that some households would receive more than one CoL payment, including families with high incomes. Officials understand that the preference is to pay individuals. For completeness, we have taken your indicative decision that this payment is based on individual assessed net income.

Eligibility based on assessed net income

31. You have agreed that the income be based on a person's assessed income for the year. For completeness, we are seeking your agreement that this is based on assessed net income. Net income is a person's gross income for the year, less allowable deductions, before any losses from a previous year are taken into account. For salary and wage earners, net income is usually the same as their gross income because there are limited types of expenses they can claim.²
32. Inland Revenue officials consider that using an alternative definition such as gross income would adversely affect self-employed people, for example, as it would not take into account the legitimate expenses they had incurred during the year and could result

² Salary and wages earners can claim the following expenses:

- return completion and filing expenses (e.g., tax agent or accountant),
- cost of income protection insurance (if payout would be taxable),
- commission charged on income from interest and dividends (except bank fees),
- interest on money borrowed to buy shares or to invest (if that investment will produce taxable income), and
- interest paid to Inland Revenue for late payment of tax.

in them being over the income cap. This may not reflect their true economic position. Conversely, using taxable income would allow people to decrease their income by losses incurred in earlier tax years, which would not accurately reflect the income available to them in that year. On balance, net income would be the most appropriate measure to identify those eligible for the payment based on the policy intent.

33. Using net income would also broadly align to the definition of income used for other social policies such as Working for Families tax credits, child support, and the independent earner tax credit (IETC).

Eligibility based on assessed income for the 2021/22 tax year

34. Ministers have agreed that eligibility be based on assessed income for the 2021/22 tax year.
35. The payment window for the CoL payment occurs within the filing period for the 2021/22 tax year. At the time of the first payment on 1 August, Inland Revenue expects to have tax assessments for around 3.2 million individuals (around 75% of individual customers). This includes people who had their income tax assessment completed automatically by Inland Revenue and people who filed a tax return by 7 July.
36. However, around 25% of potentially eligible recipients (around 500,000 individuals) would not receive this payment during the proposed August-October window because their assessment for the 2021/22 tax year is not complete. This includes those who file IR3 tax returns through a tax agent and have until 31 March 2023 to file, and those with assessments held awaiting further information (including some Working for Families recipients).
37. Based on 2019/20 tax filing information, around 38% of people who submitted an IR3 did so by the end of July, and 53% by the end of September 2020. Assuming the same pattern for the 2021/22 tax year, Inland Revenue expects that there will be a long tail of IR3 filers who would not receive their CoL payment during the proposed payment window. This will also mean increased contacts for Inland Revenue as people will be seeking answers for why they have not received a payment. This in turn will have an impact on other services for taxpayers, such as Working for Families recipients and Child Support customers who seek support from Inland Revenue.
38. There is some potential for individuals (particularly those with non-salary and wage income) to rearrange their incomes on their tax return to just below the income cap. We are unable to estimate this risk; however, those returns would be subject to normal integrity checks as part of the year end assessment.

Individuals with no assessed income

39. Inland Revenue generally has no information on individuals who have no assessed income reported and who do not interact with Inland Revenue in any way. These include, for example, those who sleep rough, or adults who do not work or receive any social policy support.
40. You have agreed that individuals with no assessed income will not be eligible for the payment. Inland Revenue supports this decision; otherwise, the operational impact on Inland Revenue would be material and substantially higher than previously discussed with Ministers.
41. To illustrate, if this group was eligible, then they would need to apply to Inland Revenue to provide all of the information required. This would be a significant shift in Inland Revenue's normal operating model and general approach to tax administration. It would also require systems changes and manual processes to be established.

Income cap of \$70,000

42. The Minister of Finance has verbally indicated that the income cap to be eligible for this payment is \$70,000. We propose that anyone with income up to \$70,000 would be eligible. This aligns to the tax threshold for the 30% marginal tax rate.³ For completeness, officials are seeking formal agreement to this level of cap.

No minimum income threshold or floor

43. Officials understand that Ministers are concerned that there may be some individuals who would be eligible for this payment as a result of having low or no income, but may not need the payment to meet an increase in their costs of living (for example, a stay-at-home parent in a high-income household, or a young person living at home with their parents).
44. Having a minimum income requirement in order to receive the payment would exclude a larger number of people from receiving the payment. For example, a floor of \$3,500 would exclude an additional 388,200 individuals. Some of these people will be those who may not require the payment for this purpose (e.g., individuals living in a high-income household who don't work, but have a small amount of interest income). However, a substantial number of the people excluded are individuals you may prefer to receive the payment.
45. Ministers have decided that no minimum income threshold or floor is required. We have provided further analysis below to support this decision. Officials agree that no minimum threshold should be required given the variety of characteristics of the individuals at the bottom of the income distribution and the trade-offs. This section describes the types of individuals who would be excluded as a result of having a minimum income threshold test for receiving the payment.
46. For context, the table below illustrates how individuals with assessed net income less than \$5,000 in the 2019/20 tax year were distributed. The data is split to show the number of individuals who have Working for Families entitlements (principal caregiver: WFF-PCG or partner: WFF-PTR), and those not in receipt of Working for Families. These are cumulative figures.

³ The 33% marginal tax rate applies for income of \$70,001 and up to \$180,000.

Upper Income band	Individuals excluding Beneficiaries, NZS, <18			Benefit, NZS receipt, or nil income			Total Excl. <18
	a	b	c	d	e	f	
	WFF-PCG	WFF-PTR	Non WFF	WFF-PCG	WFF-PTR	Non WFF	
Nil	-	-	-	19,700	11,600	139,800	171,200
500	7,100	2,800	102,600	20,100	11,700	142,100	286,400
1,000	8,800	3,500	126,400	20,500	11,800	144,900	315,900
1,500	10,100	4,100	144,100	20,900	11,900	147,600	338,700
2,000	11,300	4,600	158,900	21,300	12,000	150,600	358,800
2,500	12,400	5,100	172,200	21,800	12,100	153,300	376,900
3,000	13,300	5,500	184,800	22,200	12,200	156,500	394,700
3,500	14,200	5,900	197,000	22,700	12,300	159,600	411,900
4,000	15,100	6,300	208,600	23,200	12,400	162,800	428,600
4,500	16,000	6,700	219,900	23,600	12,500	166,100	444,900
5,000	16,800	7,100	230,900	24,100	12,600	169,300	460,900

Non-salary and wage income earners

47. Individuals with non-salary and wage income (such as business or investment income) could have a nil net income position. These individuals could also have a combination of these and salary and wage income.
48. There is no logic to setting a specific minimum income threshold or an income floor to exclude these particular individuals, given that the purpose of the payment is to address the increased costs of living. Deductions for business expenses and losses are legitimate to reflect the economic position of running a business. Moreover, Covid-19 has impacted business operators in the past two years, many of whom are also experiencing the general increased costs of living. Some of these businesses may have been recently established.

Individuals with Working for Families

49. Inland Revenue holds information for anyone receiving Working for Families (WFF) tax credits. Each caregiver and their partner will have a tax assessment completed for them, whether they have income or not (such as stay-at-home parents). If they do not have income, then their assessed net income is nil. They have been included in the table in the "nil income" row.
50. With no minimum income threshold, these WFF recipients would be eligible. This would create an inequity when individuals with no assessed income are excluded. While we acknowledge that individuals with no assessed income are also experiencing increased costs of living, we consider their exclusion to be necessary for administrative reasons and this inequity to be justifiable.
51. If Ministers had preferred that this group of WFF individuals are not eligible for the CoL payment, it would be sufficient to require that some assessed net income is required to be eligible, for example a \$1 minimum. This would exclude around 31,300 individuals who had received a WFF payment. A higher income floor such as \$3,000, would exclude around 50,100 WFF individuals. However, any income floor will also exclude some individuals with non-salary and wage income, as discussed above.

Individuals who have part-year income or work part-time

52. The administrative data also captures anyone who either may have worked for part of the year or who worked part-time. These individuals tend to be distributed more towards the bottom of the income distribution. In some cases, individuals may have left New Zealand (e.g., students and those on temporary work visas). Unless Inland Revenue has information to indicate they are now overseas, these latter individuals may receive the payment if they meet all other eligibility criteria. These other criteria checks are discussed further below.

Comment on the operational impacts on Inland Revenue

53. A minimum income threshold would not materially reduce or increase the expected operational impacts on Inland Revenue. This is because of the size of the eligible population and the already significant impacts associated with this payment that have been identified.

Exclusion of those eligible for Winter Energy Payment (WEP)

54. Ministers have agreed that individuals eligible to receive the WEP are not eligible for this payment. For clarity, officials recommend you agree that individuals receiving a qualifying benefit⁴ for the purposes of eligibility for the WEP are not eligible for this payment. This is because some individuals have opted not to receive the payment despite being eligible, or their partner receives the full WEP payment on behalf of the couple, or their income is over the income limit to receive a qualifying benefit for a temporary period, for example.
55. Inland Revenue does not hold information about who receives the WEP. Instead, Inland Revenue would use the employer information it holds to identify those in receipt of a qualifying benefit (e.g., NZ Superannuation, Veteran's Pension, or a main benefit) as a proxy for eligibility for WEP. This would be at the approval date for each of the three payments (this would be close to the payment date) and would be based on the most recent payday filing information received from MSD. We provide further details on the monthly check below.

Minimum age of 18

56. Ministers have agreed that the payment will be available to people aged 18 or over. Inland Revenue would use the birthdate information it holds to check individuals' age before each payment. This would mean that a person who is under the minimum age at the approval date for the August payment (for example) could meet the age criterion at the approval date for the September payment.

Other eligibility criteria

57. Ministers have agreed that recipients would need to:
- a. be physically present in New Zealand;
 - b. have tax residence in New Zealand; and
 - c. not be incarcerated.

⁴ Qualifying benefits 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.

58. Inland Revenue would use the information it holds to determine if an individual meets the criteria. The checks would be made ahead of each monthly payment run and would include checking whether the individual's record indicates they are deceased.
59. There is a risk that some of the information Inland Revenue holds may not be up to date. This would mean some people who should receive the payment may not, and conversely, some people who received the payment should not have. Inland Revenue is also not able to verify whether someone is physically residing at the NZ address they have provided.
60. Inland Revenue is considering the processes through which individuals may provide updated information if they believe they are eligible for the payment. The corrected information would be used to check eligibility for all payments. Inland Revenue would run monthly checks to identify such cases and any missed entitlement would be paid out separately, as they are approved (as described in the process below). [33]

Payment characteristics, frequency, and programme timeframe

Payment amount and characteristics

61. Ministers prefer a payment amount linked to the WEP and that this should be \$350, which is half of the couple rate for WEP. This would mean two monthly payments of \$116.67 and a third of \$116.66 (rounded). Payments would be a single flat rate with no apportionment, meaning everyone eligible would get the same amount each month.
62. Ministers have also agreed (and officials support) that the payment would:
 - a. Not be subject to income tax.
 - b. Not be included as income for social policy products administered by Inland Revenue.
 - c. Not recoverable unless Inland Revenue has determined the information provided was fraudulent (based on normal integrity work).
 - d. Not be offset against any overdue liabilities.
 - e. Be paid to a New Zealand bank account.
63. Treating the payment as above would align with the treatment of WEP and other social policy entitlements.
64. Some of these conditions have been clarified subsequent to the indicative decisions. Previously, officials had suggested the payment is to be tax-exempt (condition a). Further consideration is needed to determine the legislative characterisation of its tax treatment; however, it would be sufficient to agree that this payment is not subject to income tax.
65. Officials had previously suggested that this payment not be offset against any tax liabilities (condition d). After further consideration, this should be expanded to include other types of liabilities. We recommend a somewhat broader characterisation to "overdue liabilities" owed to Inland Revenue.
66. These clarifications have been included in the recommendations for your agreement.
67. MSD officials are providing separate advice to Minister for Social Development and Employment seeking her agreement to the exemption of this payment from being considered income or a cash asset for welfare assistance administered by MSD. Subject to her agreement, this will be sought as part of the Cabinet paper for this payment.

Payments on the first of the month

- 68. Ministers have agreed that the CoL payment will be delivered in three monthly payments, with the initial payment on 1 August 2022.
- 69. Officials recommend that payments be made on the first day of the month, or the next working day if the payment date lands on a weekend or public holiday. This is consistent with Inland Revenue’s standard pattern for making regular payments and determining payment and return filing due dates for taxpayers.

Monthly check of eligibility

- 70. Checking for qualifying benefit (e.g., New Zealand Superannuation, Veteran’s Pension, or main benefit) receipt before each of the monthly payments (rather than a single point in time) would mean that recent changes could be taken into account when determining eligibility. This check would mitigate issues that a point-in-time check would create by completely excluding people who go off benefit.
- 71. This means that people who are moving on or off benefit during a month may:
 - a. receive some WEP as well as the CoL payment (e.g., individuals who cease benefit partway through the month would show as not in receipt of a benefit at the monthly check); or
 - b. receive WEP for part of the month but no CoL payment (e.g., start benefit near the end of the month so would show as in receipt of benefit at the monthly check).

Figures 1 and 2 below illustrate these scenarios.

Figure 1. Effect of ceasing a benefit during a month

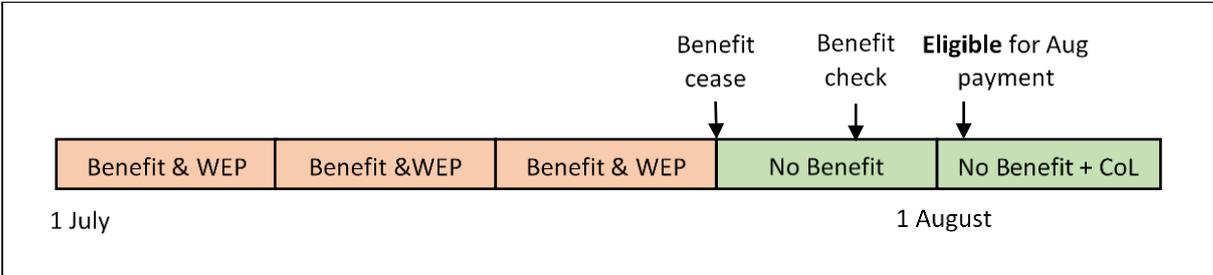
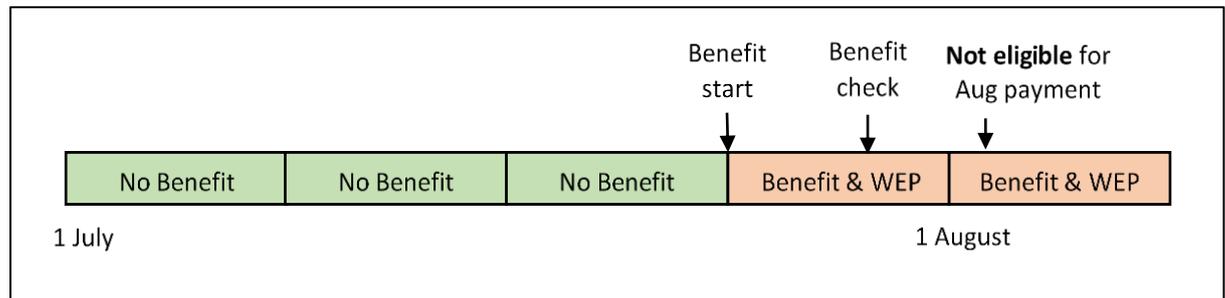


Figure 2. Effect of starting benefit in a month



72. It is possible that individuals who go on or off benefit frequently during the August-October payment window could receive both WEP and the CoL payments. In some instances, individuals could be much better off. For example, someone could be on benefit for May, June, and most of July and then go off benefit just before the 1 August payment. In this case, they would receive nearly three months of WEP, and then potentially all three CoL payments. In addition, some individuals may be granted a qualifying benefit after the monthly eligibility check and receive backdated payments of benefits and WEP.⁵ This will result in some people receiving both the WEP and CoL payment for the same period.
73. Data from MSD indicates that between July and September 2019, around 53,400 individuals went onto a main benefit, while around 40,600 went off benefit. The data does not indicate whether these were single or multiple events per person. It does indicate that the situations described above are possible. However, there is no simple solution to mitigate the issue of dual eligibility in the timeframes available.
74. In addition to the monthly payment, Inland Revenue would run regular 'catch up' runs up to 31 March 2023 to identify eligible recipients who have since completed their income tax assessments for 2021/22 and those whose information has been updated, such as the eligibility criteria discussed earlier.

Time limits for eligibility and payment programme

75. Ministers have agreed, and Inland Revenue supports, that there is a defined time frame for individuals to have their payment approved, and a close date for the payment programme. This is to reduce unintended operational impacts and ongoing assessment of eligibility in future years.
76. The last date for eligibility is 31 March 2023. It is also the final date for all individual income tax returns to be filed for the 2021/22 tax year. After this date, Inland Revenue will no longer update information for purposes of evaluating eligibility, apart from updated bank account information.
77. The close date for the payment programme is 31 March 2024. After this date, any credits that have been approved but not issued (e.g., because of no bank account) will be returned to the Crown.

Distributional impacts

78. Initial indicative Treasury distributional modelling (which has yet to go through final quality assurance) suggests that around 1,088,000 households will gain an average of \$575, indicating that around half of the households will receive two payments. The payment is somewhat targeted to middle income households, around 55% of the total payments go to the middle 40% of households, with 20% going to the bottom 30% and 25% going to the top 30%. 478k households with children and 610k households without children will receive the payment.
79. This modelling estimates that the characteristics of the individual recipients will be:
 - a. A third have children, two thirds do not have children
 - b. 20% received self-employment income in the previous tax year

⁵ Some qualifying benefits may be granted retrospectively for up to 28 days prior to the application date and WEP will be granted for the same period.

- c. 40% do not have partners
- d. Around 60% have family incomes below \$70,000, 10% have family incomes between \$70,000 and \$100,000, and 30% have family incomes over \$100,000.

80. [341] the payment will be received by working families with children in poverty. Depending on the poverty measure used, roughly half of children in poverty are in working households.⁶
81. A final version of this analysis will be included in the cabinet paper for consideration at Cabinet on 11 April.

Operational impacts on Inland Revenue and funding required

82. Inland Revenue has previously advised Ministers of the risks of Inland Revenue delivering this payment (T2022/674, IR2022/147 refers). In summary, delivering this payment will impact Inland Revenue's operations [41] while delivering the current Covid-19 economic supports at the same time.
83. [341]

[41]

[41]

84. Inland Revenue anticipates contacts relating to this payment to be about providing new bank account details (around 300,000 individuals), questioning the payment and its relationship with other payments or notices we issue relating to tax and social policy debts, or whether the payment is accurate. Inland Revenue has modelled this anticipated contact and customer behaviour using contact rates from our Working for Families customers, a cohort of customers with similar characteristics.
85. We anticipate that contact will begin as soon as the announcement is made and peaking to approximately 750 FTEs being required in the weeks of 1 August, 1 September, and 1 October when the payments are made, and decreasing to approximately 250 FTE in

⁶ Based on Treasury analysis, but similar evidence can be found in MSD's Household Incomes Report.

the week before a payment being made. From November to March 2023, ongoing support of approximately 30 FTE per week will be required for IR3 filers. We have in this estimate only included using myIR and NZ Post channels for notifications of the payment.

86. [41]

87.

88. 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.

89. If we can get 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 will seek funding of \$14 million. Some of this funding is specifically for staff to work on deferred activities, discussed above.

Fiscal costs

90. We 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. For appropriation purposes, Inland Revenue is seeking funding of \$800 million. A new appropriation is proposed for the payment: the *Cost of Living payment* non-departmental other expense appropriation. Officials recommend that the Minister of Finance approve an exemption from end-of-year performance reporting requirements for this appropriation, as permitted by section 15D(2)(b)(ii) of the Public Finance Act 1989. This is because the information is unlikely to be informative.

91. Finalised costs for this payment will be included in the Cabinet paper, once design details for the payment are determined. A further \$16 million in operational costs are expected, of which Inland Revenue will self-fund \$2 million. The Cabinet paper will also seek an in-principle expense transfer of up to \$2.5 million for the deferred cost of work delayed as resources are reprioritised to delivering this payment.

Legislative requirements

92. 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. It may be possible to have a significantly truncated legislative process; however, officials recommend that a bill be introduced and passed under urgency on Budget night to provide certainty as soon as possible.

93. Officials from Inland Revenue and Treasury legal teams are considering whether there are any Bill of Rights Act (BORA) implications arising from with this proposal. We will provide advice on this separately.

Next steps

94. A draft Cabinet paper will be provided separately for your consideration, reflecting the decisions Ministers have made. We are seeking urgent feedback to prepare this paper for the 11 April Cabinet meeting.
95. Officials will continue to work on the solution design. Because the design of this payment has been developed at speed, it may be necessary to report back on further decisions required.

Advice provided to date

T2022/674, IR2022/147	25 March 2022	Joint Report: Potential one-off Cost of Living payment in 2022
BN2022/160	29 March 2022	Budget Sensitive: Cost of Living payment parameters
T2022/766, IR2022/167	31 March 2022	Aide Memoire / Briefing Note: Table for joint ministers' discussion – one-off cost of living payment (table attached)
T2022/791, IR2022/175	5 April 2022	Annotated Agenda: Joint Ministers Meeting on the CoL payment

Appendix 1: Distribution of individuals by net income

96. The table below illustrates how individuals in the tax system are distributed by net income. It is based on Inland Revenue administrative data from the 2019/20 tax year, the most recent year of complete income information. The income bands are provided in \$500 increments up to \$5000, and in \$5,000 increments thereafter up to \$100,000.
97. The figures are cumulative. For example, there were 217,100 individuals who had income less than \$3,500 and who did not receive benefit or NZ superannuation income, had some net income, and were 18 or over (column a).⁷
98. The number of individuals with nil net income (171,200) include those with non-salary and wage income (such as business or interest income) and have deductions or losses, and those with no assessed income. These groups are discussed further in the report on the merits of setting a minimum income threshold or floor.
99. Column (e) is the sum of columns (c) and (d).

⁷ Excluding individuals with nil net income.

	a	b	c	d	e
Upper Income band	Individuals excluding Beneficiaries, NZS, <18, or nil income	Benefit, NZS receipt, or nil income	Total Excl. <18	Number of children <18	Total incl. <18
Nil	-	171,100	171,200	86,700	257,900
500	112,500	173,900	286,400	242,700	529,100
1,000	138,700	177,200	315,900	257,400	573,300
1,500	158,300	180,400	338,700	266,500	605,200
2,000	174,800	183,900	358,800	272,700	631,500
2,500	189,700	187,200	376,900	277,700	654,600
3,000	203,600	190,900	394,700	282,000	676,700
3,500	217,100	194,600	411,900	285,800	697,700
4,000	230,000	198,400	428,600	289,200	717,800
4,500	242,600	202,200	444,900	292,300	737,200
5,000	254,800	206,000	460,900	295,200	756,100
10,000	371,400	252,600	624,100	314,800	938,900
15,000	481,700	381,600	863,600	324,700	1,188,300
20,000	586,500	650,600	1,237,300	329,000	1,566,300
25,000	690,000	856,600	1,546,800	331,000	1,877,800
30,000	797,700	1,046,100	1,844,000	332,000	2,176,000
35,000	910,400	1,113,800	2,024,200	332,700	2,356,900
40,000	1,039,500	1,160,500	2,199,800	333,300	2,533,100
45,000	1,190,000	1,195,200	2,385,100	333,700	2,718,800
50,000	1,358,000	1,224,600	2,582,700	334,300	2,917,000
55,000	1,514,300	1,246,200	2,760,700	334,400	3,095,100
60,000	1,657,600	1,264,000	2,921,900	334,500	3,256,400
65,000	1,786,200	1,279,400	3,065,900	334,600	3,400,500
70,000	1,910,600	1,296,600	3,207,300	334,900	3,542,200
75,000	2,017,100	1,310,200	3,327,200	335,000	3,662,200
80,000	2,104,500	1,320,600	3,425,200	335,000	3,760,200
85,000	2,182,300	1,329,400	3,511,800	335,000	3,846,800
90,000	2,247,400	1,336,800	3,584,400	335,000	3,919,400
95,000	2,301,800	1,343,300	3,645,300	335,000	3,980,300
100,000	2,347,600	1,348,700	3,696,600	335,000	4,031,600

Appendix 2: Summary of design parameters

Parameter	Comment
Payment window	<p>First payment made 1 August, then monthly for three months</p> <p>Final payment approval date would be 31 March 2023</p> <p>Close date for payments would be 31 March 2024</p>
Payment amount and treatment	<p>Payment would be a single flat rate each month (based on a total of \$350 across the period)</p> <p>No apportionment – entitlement would be for a month</p> <p>Would not be:</p> <ul style="list-style-type: none"> - subject to income tax and would not be included as income for social policy products. - recoverable unless IR has determined the information provided was fraudulent ^[41] - offset against other tax liability
Income criteria	<p>Based on most recent assessment Inland Revenue holds</p> <p>Would use 2021/22 net assessed income</p> <p>Would be checked each month at payment approval date</p> <p>Eligibility will be dependent on there being an assessment</p>
Qualifying benefit (e.g., NZ Super, Veteran's Pension, or Benefit) receipt	<p>Would be checked each month based on most recent employer information.</p> <p>This means some new individuals would get it (e.g., people who go off benefit), and some previous individuals would not (e.g., people who go on benefit or NZS).</p>
Other eligibility criteria (age, tax residency, not deceased or incarcerated, NZ bank account)	<p>Would be checked each month at payment approval date.</p> <p>This means some new individuals would get it (e.g., who people who turn 18), and some previous individuals would not (e.g., people who leave NZ).</p>