The Treasury

Budget 2022 Information Release

August 2022

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[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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Inland Revenue
Te Tari Taake

TE TAI ŌHANGA
THE TREASURY

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

Date:	25 March 2022	**Report No:**	T2022/674 IR2022/147
		File Number:	SH-3-6

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the contents of this report **Discuss** the contents of this report with officials	28 March 2022
Minister of Revenue (Hon David Parker)	**Note** the contents of this report	28 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Michael Sherwood	Senior Analyst, Tax Strategy, The Treasury	[39]	[35]	
Keiran Kennedy	Manager, Welfare & Oranga Tamariki, The Treasury	N/A		✓
Kerryn McIntosh-Watt	Policy Director, Policy and Regulatory Stewardship, Inland Revenue	[23]	[23]	✓
Emma Hamilton	Senior Policy Advisor, Policy and Regulatory Stewardship, Inland Revenue	N/A		

Minister's Office actions (if required)

Return the signed report to Treasury. Refer a copy of this report to the Prime Minister and the Minister of Social Development and Employment

Enclosure: No

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

Executive Summary

Rationale for a one-off Cost of Living payment

Given the current increases in the cost of living, the Minister of Finance's office has requested urgent advice on a payment to individuals (a one-off cost of living payment, or CoL payment) earning less than $70,000 a year and who are not expected to receive an increase in income over the winter period by way of the Winter Energy Payment (WEP). The payment is intended to be made during the WEP payment period to individuals over 18.

The Treasury recommends caution with progressing such a significant policy in accelerated timeframes, as there are significant risks associated with designing this proposal at speed. While the current acceleration in cost of living is certainly resulting in an increase in hardship for a large number of lower-income households, a broad-based payment targeted based on individual income is unlikely to be the best way to provide of support to those who are struggling the most.

The following factors should be considered when deciding whether to progress with this payment.

- We estimate that inflationary pressures will have more of an impact on lower income households (as a proportion of their household income). Higher income households spend more but are much more able to afford an increase in essential costs. Preliminary distributional modelling suggests that a payment to everyone earning less than $70,000 would result in a quarter of the payment going to households with incomes in the top 30%.
- The Government has already announced a range of support measures that will address cost of living increases for lower income households, including reducing fuel and transport costs, as well many changes (such as the minimum wage increase). A number of these will that take effect from 1 April 2022. These measures are summarised in Table 2.
- Inflation is expected to be widespread and persistent. This makes a one-off payment a poor mechanism for supporting households with a longer-term problem.
- Inflation being persistent may make it harder to ensure this payment remains a one-off occurrence.
- A broad-based payment of this magnitude would add to inflationary pressures in the short-term, although the risk to longer-term inflationary pressures is relatively small if the payment is one-off.
- There are other Government priorities that the money for this payment could be used to pursue e.g. initiatives that directly impact on interim child poverty targets.

Because of these factors, the Treasury does not recommend progressing a broad-based CoL payment. The Treasury however recommends investigating a more targeted form of support to lower-income households along the lines of the options proposed by the Ministry of Social Development (MSD). These options include extending the WEP to non-beneficiary clients of MSD and providing a lump-sum payment to non-beneficiary clients.

[33]

Delivery of a one-off Cost of Living payment

If you wish to progress with a payment along the lines of the commission, the Treasury recommends that Inland Revenue be the delivery agency, given they are the agency best placed to deliver such a broad payment in the short term.[1] [33]

The Commissioner of Inland Revenue recommends against Inland Revenue delivering this new payment. Delivering this payment, which is estimated to require around 1000 staff at its peak for around 2 months, would have critical operational impacts on Inland Revenue [41] while delivering the current Covid-19 economic supports. The addition of this payment to the portfolio of services that Inland Revenue already delivers would severely compromise Inland Revenue's already stretched workforce and [34]

Design parameters for a one-off Cost of Living payment

There are several constraints on the design on the payment if you want it delivered in winter 2022. The following key design parameters for the payment are necessary for the payment to be delivered in this timeframe

Table 1. Design parameters for a one-off CoL payment

Key design parameters	Description
Lump sum payment	The lump sum could be paid in late July at the earliest. Some individuals would not receive the payment until after March 2023 based on the deadline for filing.
Point in time assessment of eligibility	The payment would go to individuals aged over 18 and not receiving the WEP at a specific date. This would result in some people 'missing out', if they were not eligible on this date, while others would receive this payment in addition to a partial WEP payment.
Income assessed based on actual finalised 2021/22 tax income data	The payment is only feasible if Inland Revenue can determine eligibility using finalised 2021/22 tax income data. This will be finalised for many clients by late July, though a portion will not be finalised until March 2023.

Officials require direction on what income levels you would like to target, as well as how large you would like the payment to be. These will be the determining factors for the cost of the measure. If the payment was to include all adult New Zealanders who earn less than $70,000 but do not receive the WEP, the size of the payment could be as much as **$900m**. A more targeted option which provides the payment only to those earning less than $40,000 would reduce the cost to less than **$500m**.

Direction on the funding source you wish to use will also be required.

[1] However, delivering this payment would significantly impact on Inland Revenue's ability to maintain the integrity of the tax system and social policies.

To progress the payment, key decisions will need to be made at pace in time for Cabinet agreement prior to Budget moratorium taking effect after Cabinet on 11 April. This requires:

- Detailed policy decisions by Monday 4 April,
- Feedback on draft Cabinet paper by Wednesday 6 April, and
- Lodgement on Friday 8 April (assumes late lodgement).

Recommended Action

We recommend that you:

a **note** that the Treasury does not recommend providing further broad-based support in the form of a one-off Cost of Living payment

One-off payment delivered by IR

b **note** that Inland Revenue does not recommend a one-off Cost of Living payment delivered by Inland Revenue because of the significant operational impacts it would have on the Department

c **agree** to discuss with officials whether to progress further detailed policy work on a one-off Cost of Living payment

d **note** that if this payment is progressed, it will need to have the following parameters:

- It would be a lump-sum payment to individuals paid in late July at the earliest,
- Eligibility would be based on a point-in-time assessment of whether an individual is receiving the Winter Energy Payment and over 18, and
- Income targeting would be based on finalised earnings from the previous (2021/22) tax year

Alternate, more targeted payments delivered by MSD

e **note** that MSD have provided some alternate more targeted options for an extension of the Winter Energy Payment to non-beneficiary clients. [33]

f

Next steps

g **note** that, if progressed:

- a funding source will need to be identified for any payment
- further design work will be needed to ensure all aspects of implementation have been considered
- final decisions by Cabinet will be needed by Monday 11 April prior to the Budget moratorium

h **refer** this paper to the Prime Minister and the Minister for Social Development and Employment

Keiran Kennedy **Manager, Welfare & Oranga Tamariki, The Treasury**	Kerryn McIntosh-Watt **Policy Director, Policy and Regulatory Stewardship, Inland Revenue**

Hon Grant Robertson **Minister of Finance**	Hon David Parker **Minister of Revenue**

Purpose of Report

1. This report responds to a request from the Minister of Finance's office for urgent advice regarding a payment to a broad cohort of individuals in order to mitigate the impact of the increase in cost of living for individuals.

2. This report has eight parts:

   a. **Background and context**

   b. **Rationale** for a one-off Cost of Living payment in the wider economic context,

   c. **Feasibility** for a one-off Cost of Living payment delivered by Inland Revenue

   d. **Design considerations** for a one-off Cost of Living payment,

   e. **Policy choices** around targeting and the overall fiscal cost

   f. **Risks** associated with the payment

   g. **Alternate more targeted options** delivered by MSD

   h. **Next steps** including the timeline for future reporting and when decisions would need to be made to implement the payment

Background and context

3. The Minister of Finance's office has asked for advice on options for a payment similar to the Winter Energy Payment (WEP) to a cohort of individuals earning less than $70,000 p.a. and are not entitled to the WEP in 2022. The Minister of Finance's office also indicated that you would like the payment to be made at a similar time to the 2022 WEP, or shortly after.

4. This report primarily focuses on the impact of this proposed new one-off Cost of Living (CoL) payment, and the key design considerations. While this report does not provide advice a wider range of measures that could be considered to address cost of living, MSD has provided a table of more targeted ways to extend the WEP to some individuals who are not currently eligible. These could be considered as more targeted alternatives to the CoL payment.

5. Inland Revenue is the most viable agency to deliver a CoL payment. The payment would be paid to a wide cohort of people, many of whom are not currently receiving regular government assistance. The fact that it holds data about the income for almost all New Zealanders in addition to having systems that can supporting making the payment puts it in the best position to be able to target the payment by income.

6. This advice was produced at speed and therefore does not consider a full range of options for addressing the issue of cost of living for many New Zealanders. [34]

Rationale for a one-off Cost of Living payment

Inflation has risen sharply and has increased New Zealanders' costs of living.

7. Inflation's acceleration over 2021 is expected to increase further over the first half of 2022. Consumers Price Index (CPI) headline inflation rose 5.9% in the December 2021 year, reflecting higher fuel, food and housing related price increases. Following the emergence of the Ukraine crisis, we anticipate inflation to increase further over the coming months as oil prices remain elevated and international supply constraints persist. This is partially offset by the recent changes to the fuel excise tax and public transport cost (TR2022/608 refers).

8. Rising inflation is having an impact on the cost of living. The December Household Living Cost Price Index (HLPI) shows all households are affected with annual cost of living rising by 5.2%. Higher-expenditure and Maori households saw greater cost of living increases. Rent and food price growth also remains elevated, increasing 3.6% and 6.8% in the year to February respectively. Real wages have also fallen. The Quarterly Employment Survey shows annual nominal hourly wages rose 3.8% in 2021, slower than the rise in inflation.

Wage growth can alleviate some of this cost for some households

9. At an aggregate level real wages averaged around two percent growth per annum in recent years. We are projecting an annual fall of just over two percent in real wages in the current quarter, returning to over two percent annual real wage growth by the end of 2023. The lowest skilled workers have had higher wage growth than the highest skilled workers in recent years. Between the December quarter of 2018 and the December quarter of 2021, wage growth for the lowest skill category in the labour cost index (LCI) has been a cumulative 10.2 percent, compared to 6.2 percent for the highest skilled workers.

Lower income households are the ones that most impacted by increased inflation, but the payment would end up benefiting a significant number of higher income households.

10. As a proportion of household income, we estimate that inflationary pressures will have more of an impact on lower income households. Higher income households spend more but are much more able to absorb an increase in essential costs.

11. The CoL payment, however, is not tightly focused on households with lower incomes. Preliminary distributional modelling shows that around a quarter of the payments will go to households with incomes in the top 30%.

12. [34]

The Government has already announced a range of support measures that will address cost of living increases for lower income households, many of which take effect from 1 April.

13. The Government has already taken action to reduce fuel and public transport costs. Table 2 below outlines other changes targeted at specific groups that will come into effect on 1 April 2022.

Table 2. Changes to be implemented on 1 April 2022

Cohort targeted	1 April 2022 changes to support these groups *(some groups may benefit from multiple changes)*	Approximate numbers in this group at December 2021	Increase larger than CPI change
Beneficiaries	Policy decisions were taken at Budget 2019 to index main benefits to average wage growth as this would typically result in a higher increase than if indexed to CPI. While CPI is higher than wage growth, the second tranche of main benefit increases agreed through Budget 2021 is being implemented on 1 April 2022. In combination, the increase to main benefits will still be larger than the increase in CPI.	368,000	Yes
Superannuitants	The indexation regime for NZS ensures superannuitants will receive the greater of the increase in either CPI or wages.	854,000	CPI increase resulting in 5.95% increase
Students	Rates of student support are indexed to CPI. In addition, the rates will increase by a further $25, agreed as part of Budget 2021.	163,000	Yes
Low-middle income families	The Family Tax Credit and Best Start Tax Credit are indexed to CPI once reached a cumulative 5%. Payments will be increased by 8.57% from 1 April, with an additional $5 increase to the Family Tax Credit rates agreed last year. Family Tax Credit will increase by almost $15 per week for eldest child and $13 per week for subsequent children. Best Start will increase by $5 per week. However, changes to abatement settings will mean that approximately one third of these families will receive less than they would have under CPI indexation alone.	332,500 families with non-zero entitlement at the end of tax year 2019	Yes for two-thirds of Working for Families recipients.
Support for caregivers	Orphans Benefit, Unsupported Childs Benefit and Foster Care Allowance will increase by $5 over and above CPI indexation.	13,000	Yes
Minimum wage workers	Minimum wage increases from $20/h to $21.20/h from 1 April. Over recent years the minimum wage has increased by well above the rate of inflation and we see this reflected in wage increases shown by the LCI for lower-skilled workers.	300,000	Yes

Inflation has become widespread and persistent, which may make a short-term support measure difficult to withdraw.

14. Only a portion of the rise in inflation is transitory and due to notable price increases in certain products like petrol. Inflation has become widespread and core inflation has risen. While the transitory aspects of inflation will recede, core inflation will persist for longer, partly due to higher nominal wage growth and inflation expectations.

15. [34]

16. [34] Initial estimates indicate that the size of this payment could be up to $900m, depending on design decisions (especially around the targeting and size of the payment).

17. Higher inflation will increase the cost of delivering government services. This will put pressure on your ability to deliver services that meet public expectations while achieving your medium-term fiscal strategy.

An increase in the level of fiscal support would add to aggregate demand and inflationary pressures, driving costs of living higher still.

18. Strong aggregate demand, combined with constrained supply and a tight labour market, will continue to put pressure on inflation until the imbalance between supply and demand is resolved. Therefore, we expect that measures that increase the overall level of fiscal support and increase aggregate demand will exacerbate this imbalance and contribute to increased inflation. While the overall impact of a one-off payment is likely to be relatively small, if the policy becomes embedded (in line with the risk identified above) the impact on inflation and interest rates would be more significant.

19. In the near term, ensuring inflation expectations remain well anchored will require tightening of macroeconomic conditions. While monetary policy is the primary tool for stabilising the economy and is already in a tightening cycle, fiscal policy should play a supporting role to avoid interest rates needing to increase more than otherwise (T2022/608 refers).

To this end, the Treasury does not recommend proceeding with this payment.

20. The Treasury does not support providing a payment to a large cohort of New Zealanders as a way of supporting households with the increased cost of living for the following reasons:

    a. The proposed payment is not well targeted and would end up supporting a significant proportion of higher income households. Preliminary distributional modelling suggests that a payment to everyone earning less than $70,000 would result in a quarter of the payment going to households with incomes in the top 30%.

    b. There is already significant support that will be coming online for many cohorts that are struggling with cost of living increases (see table 2 above)

    c. Inflation is unlikely to dissipate in the short-term, which makes a one-off payment a poor mechanism for supporting households with a longer-term problem

    d. There is a risk that inflation being a longer-term issue will make it difficult to ensure this measure remains temporary.

e. A broad-based one-off payment of this magnitude would add to inflationary pressures in the short-term. This risk to longer-term inflationary pressures is small if the payment is one-off.

f. There are other Government priorities that the money for this payment could be used to pursue e.g. initiatives that directly impact on interim child poverty targets.

21. [33]

22.

If you intend to proceed with this proposal, we recommend that the policy settings mitigate the potential macroeconomic impacts.

23. If this policy is to be progressed, a funding source will need to be identified. One way to deliver this payment without increasing inflationary pressures would be to fund it from the existing Budget 2022 allowance and reprioritising away from other initiatives (T2022/244 refers). If the policy is delivered in addition to existing allowances, then the best means of limiting the macroeconomic impacts are to ensure the policy is:

a. **Temporary** – support is provided for a short, defined period only with a clear end date (this reduces the risk of excess demand and prolonged impact on inflation expectations. It also limits the ongoing fiscal impact of the policy); and

b. **Targeted** – support is provided only to those who need the extra support (this reduces the risk of a generalised increase in demand).

24. Tightly targeting this policy to those most in need would be preferable to a more broad-based payment from a macroeconomic perspective. Under the current specification, there are likely to be many individuals eligible for the policy because of tax structuring at the $70k threshold, or because they are the secondary earner in a high-income household, and this may not align with your objectives.

Feasibility of a one-off Cost of Living payment

While Inland Revenue could technically administer a payment, doing so would severely impact on their services to taxpayers.

25. The Commissioner of Inland Revenue recommends against Inland Revenue delivering this new payment. It would have critical operational impacts on Inland Revenue

[41]

26.

27.

28.

29. Inland Revenue has and will continue to play a critical role in the COVID-19 response providing support to individuals and businesses through new and existing economic support packages:

    a. Small Business Cashflow Scheme
    b. COVID Support Payment
    c. Extensive support to MSD on the Leave Subsidy Scheme and Short-Term Absence Payment
    d. Support to Ministry of Culture & Heritage for the Cultural Sector Emergency Relief Fund for self-employed and sole traders in the cultural sector
    e. Application of COVID remission for use of money and hardship relief provisions

    [41]

30. In addition to these COVID supports, and other business as usual activities, Inland Revenue is currently working on the automatic assessments of the 2021/22 tax year. These income tax assessments to be issued will be a source of cash for individuals which can be used to help with the costs of living. To give a sense of scale, in 2021 Inland Revenue distributed around $628 million between May and July to nearly 1.5 million individuals. The bulk of the cash (89% or $559 million) was paid to those with incomes below $70,000. If Inland Revenue is to deliver this payment, it could affect the timeliness of some of those refunds.

31. [41]

Impact of administering a new payment

32. [34]

33. We know from previous experience that spreading any type of tax or social policy payments out (rather than as a lump sum), drives even more customer demand for reasons outlined above. A regular payment would open questions about changing circumstances and re-assessment.

34. [34]

35. [41]

36. Despite the recommendation against Inland Revenue being delivery agency, the following design parameters have been provided to illustrate how this payment could be structured. This assessment has been put together in a short period and should be further tested if you decide to progress.

37. This responds to specific commissioning from the Minister of Finance's office around the parameters of a payment, that is similar to the Winter Energy Payment (WEP), paid to individuals earning less than $70,000 per annum, and who will not receive the WEP in 2022. We understand that ideally this payment would have similar characteristics to the WEP.

38. The payment would need to be:

a. Paid as a lump sum in late July 2022 at the earliest,

b. Based on a point-in-time assessment of eligibility (i.e. that an individual is not receiving the WEP on a specified date), and

c. Using actual finalised 2021/22 tax income data.

39. You will need to make decisions on the income range and payment rate. These are addressed in the following section.

A lump sum payment, based on a point-in-time assessment of eligibility, is feasible…

40. The Winter Energy Payment is paid weekly (to beneficiaries) or fortnightly (to New Zealand Superannuation and Veteran's Pension recipients) over a 22-week period between 1 May and 1 October. Entitlement to the WEP is assessed on an on-going basis, which means that some people end up receiving payments for only a portion of the 22 weeks (for example entitlement could be triggered by turning 65 or moving onto a main benefit during the payment period).

41. For a weekly or fortnightly payment to be effective, an individual's entitlement to the payment would also need to be assessed on a regular basis. Inland Revenue does not have administrative capacity to reassess eligibility on a regular basis. Delivering a weekly or fortnightly payment, without regular re-assessment of eligibility would be difficult to communicate to potential recipients, has a greater risk of perceived unfairness, be significantly more administratively complex, and would likely generate increased customer contacts at a time when Inland Revenue is already stretched.

42. Based on these factors the only feasible way to implement this type of payment is as a lump sum based on a point-in-time assessment of eligibility.

43. We note that there are some limitations with this approach. Relying on a point in time assessment of whether someone is receiving the WEP could lead to some people receiving both this payment in full and WEP for a portion of the 22-week period (e.g. by turning 65 after the assessment date), or missing out on this payment and receiving the WEP for only a portion of the 22-week period (e.g. by moving off a main benefit after the assessment date). This is discussed further in the risks section.

…using actual finalised 2021/22 tax income data.

44. The key mechanism for determining eligibility is linked to income levels and the best way to determine this is using the 2021/22 tax income data. Using finalised income from the 2021/22 tax year will significantly reduce the complexity of the system build to support the payment because income estimates or reconciliations won't be required. Using current tax year data would not be feasible because of the need to estimate income and reconcile estimated income with actual income.

45. This has some limitations because not all taxpayers' income data is available at the same time.

    a. Determining actual finalised income in the 2021/22 tax year is a relatively straightforward process for wage & salary earners.

    b. Payments for self-employed individuals and those receiving non-wage & salary income would not be processed until their tax returns (IR3) have been filed and processed. Based on data from the 2020/21 tax year, approximately 350,000 people with income under $70,000 filed an individual tax return (IR3). The deadlines are:

        i For some, the filing date is 7 July 2022.

        ii For others that use a tax agent, the filing date is 31 March 2023.

We recommend a payment in late July at the earliest.

46. IR strongly recommends that the initial payment is not made before late July. Before late July, IR will be in the process of issuing automatic income tax assessments which requires available staff resources. Making the first payment in late July will also allow most individuals who will file by 7 July to receive their payment at the that time. A cohort of people will not receive the payment until after 31 March 2023.

Policy choices for a one-off Cost of Living Payment

47. The two key design parameters for the payment are the payment rate and income threshold. These will determine the distributional and fiscal impacts of the policy.

48. This section provides some initial advice on these issues. We can provide more detailed analysis of different income thresholds ahead of a final decision.

Payment rate

49. The WEP is paid out at a rate of $450 for single people with no dependent children and $700 for couples and people with dependent children per winter period.

50. Given the payment is being paid to individuals, the two main options for the rate based on the WEP are either the full individual WEP rate (lump sum of $450) or half the couple rate (lump sum of $350). You may also wish to also consider rates between $350 and $450, or lower than $350 in order to limit fiscal costs.

Determining income parameters

51. Targeting the payment by income is one way to limit the cost of this policy, while also potentially targeting it at those you wish to benefit. Adopting an <u>individual's</u> income as a key policy parameter means that <u>family</u> income will not determine eligibility. Individual income is a relatively poor proxy to determine those that will be most impacted by the higher cost of living.

52. Moreover, using individual income means that families with similar combined incomes will receive different payments based purely on the make-up of that income. For example, a couple earning $75,000 each would receive zero payments, while a couple with one person earning $150,000 and one non-earner would receive one payment.

53. Having an **income cap** on who receives the payment will exclude higher-income individuals from receiving the payment. This seems appropriate, as they are the individuals who are the least likely to require support with the increased cost of living. Lowering the income cap below $70,000 would have a material impact on the number of individuals who receive the payment.

54. Your office indicated that you may also wish to consider having an **income floor**, under which an individual would not be eligible for the payment. While having an income floor for the payment would be one way to limit the cost of the measure, it would result in some very low-income individuals missing out on the support. We are unable to quantify how large this number is. Requiring at least some income to be earned for an individual is eligible for the payment (i.e. having a floor of $1) would be one way to reduce the cost of the measure.

Estimated size of target population and indicative fiscal impact

55. The following information has been prepared at speed and is based on pre-COVID incomes. Therefore, they should be taken as indicative only, and subject to further refinement. If this policy progressed, more detailed costings and distributional analysis will be undertaken.

56. Based on 2019/20 tax year data, officials estimate that around 3.5 million individuals earned less than $70,000.[2] Excluding individuals who received income from a main benefit, NZ Super, and children under the age of 18, the eligible population would be around **2 million individuals,** as shown in Table 3 below.

Table 3. Number of individuals potentially eligible for payment based on 2019/20

Income in 2019-20	Subtotal
$0	188,300
$1 to $10,000	334,800
$10,001 to $20,000	202,900
$20,001 to $30,000	200,800
$30,001 to $40,000	236,600
$40,001 to $50,000	317,400
$50,001 to $60,000	299,700
$60,001 to $70,000	253,100
Total under $70k	**2,033,600**

57. The following table provides a high-level indication of the potential number of recipients within different combinations of income caps (between $40,000 and $70,000) and floors (none, $1 and $20,000).

Table 4. Potential number of payment recipients within different income parameters

(based on 2019/20 income data, rounded to nearest 10,000)	No income floor	$1 floor	$20,000 floor
Up to $40,000	1,160,000	980,000	440,000
Up to $50,000	1,480,000	1,290,000	750,000
Up to $60,000	1,780,000	1,590,000	1,050,000
Up to $70,000	2,030,000	1,850,000	1,310,000

58. Along with income threshold, the rate for the payment will have a major impact on the overall fiscal cost. The table below provides some initial indicative fiscal costs for different permutations of these design parameters.

[2] This is the latest year for which Inland Revenue has completed income information. These figures exclude non-resident taxpayers, student allowance recipients, and some who had only passive income (RWT and PIE). As the data are from the 2019-20 tax year, they reflect limited effects from the Covid-19 pandemic (if any), which began late in that tax year. Therefore, these figures are an indication of the potential size of the population and are not precise.

Table 5. Indicative fiscal costs with different design settings.

Potential number of payment recipients	Example income parameters for payment	Indicative cost at Half-couple rate ($350)	Indicative cost at Single rate ($450)
~ 440,000	*Between $20k and $40k*	$150 million	$200 million
~ 1-1.2 million	Either: *Up to $40k,* **or** *Between $20k and $60k*	$370-$410 million	$475-$525 million
~ 1.3-1.6 million	Either: *Up to $50k,* *Between $1 and $60k,* **or** *Between $20k and $70k*	$450-$560 million	$580-$720 million
~ 2 million	*Up to $70k*	$710 million	$920 million

Indicative distributional impacts

59. Preliminary distributional modelling suggests that a payment to everyone earning less than $70,000 would result in a quarter of the payment going to households with incomes in the top 30%.

60. [34]

Risks associated with a one-off Cost of Living payment

61. There are several risks that are associated with implementing this payment under these conditions.

Integrity risks

62. There is a risk that implementing such a broad support at speed will result in providing money to people who were not intended to receive the payment.

63. Increasing existing supports may be a way of supporting some households without this additional risk, although would result in not supporting some who would benefit from a CoL payment. As noted previously, the Treasury would recommend investigating further the options provided by MSD to extend the WEP to more of their non-beneficiary clients.

64. There is also a small risk that the payment may be paid into the bank accounts of some people who are deceased, as IR does not always have immediate access to the data on who is deceased. This is a risk with any lump sum payment.

Lack of bank account details for some individuals

65. The payment would be paid to those eligible and for whom Inland Revenue holds current bank account details. Inland Revenue holds this information for around 79.4% of the potential recipients; the remaining recipients would need to contact Inland Revenue to provide this information.

Non-residents

66. Eligibility for the WEP contains a test of if you are residing in New Zealand in order to receive the payment. Inland Revenue can exclude non-tax residents and those with overseas addresses from receiving the payment based on the information they hold. However, a comprehensive check of residing in New Zealand in order to receive the payment is not feasible. This means that there are likely to be some people residing outside of New Zealand who will receive the payment.

Fairness issues

67. As discussed earlier, the design of the payment will require testing in a specific point in time whether an individual is eligible for the WEP. This will result in fairness issues for some individuals who move into or out of WEP eligibility after this specific date, but before the end of the 2022 WEP payment period.

68. This cohort will include people who are eligible for the WEP at the specific point in time when eligibility for the is assessed but later become ineligible (e.g. beneficiary who becomes employed) will miss out on the payment entirely, while only receiving the WEP for part of the winter period.

69. There will also be some people who are not eligible for the WEP at the specific point in time but become eligible after (e.g. those who turn 65 after the point in time) will receive both the payment and the WEP.)

70. If you wish to progress with the payment, this fairness issue is something that will have to be accepted. This is because the payment settings require a specific point in time at which all individuals are assessed to be eligible for the payment which includes an assessment of their eligibility for the 2022 WEP.

Alternate more targeted options delivered by MSD

71. In addition to the broad option of the CoL payment, there are also more targeted options for extending the scope of the WEP that you may wish to consider. While these are narrower in scope, they may be more effective at targeting those most acutely affected by the rise in the cost of living. These options would be administered by MSD and target a cohort of existing clients not currently eligible for WEP.

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Next steps

84. Implementing a payment from either IR or MSD within the desired timeframe will require the detailed design of this policy to be developed quickly. In order to meet this timeline, the following timetable for decision making will need to be me.

Table 6. Timetable for decision making

Stage	Date	Decisions required	Date when decision required
Paper 1 – policy design	Friday 25 March	Agreement to the high-level parameters for the payment. These will need to be settled to progress the costings, distributional impacts and detailed policy design in paper 2.	Decisions required by **Monday 28 March**
Paper 2 – detailed policy design	Friday 1 April	Decisions required on detailed policy parameters for Cabinet paper. These will need to be settled to include in the draft cabinet paper. Some further detailed policy parameters may be able to be delegated to Joint Ministers.	Decisions required by **Monday 4 April**
Paper 3 – draft cabinet paper	Tuesday 5 April	Feedback on the draft Cabinet paper is required to lodge by Friday 8 April at the latest.	Feedback required by **Wednesday 6 April**
Cabinet agreement	Monday 11 April		

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[1] This includes the Christchurch Mosque Attack payment, who receive an equivalent to WEP
[2] Some students may qualify, however, if they are entitled to supplementary assistance but this is likely to be a small group