

The Treasury

Budget 2024 Information Release

September 2024

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From: Robert O'Hara [TSY]
Sent: Tuesday, 9 April 2024 4:27 pm
To: Emma Grigg
Cc: Jean Le Roux [TSY]; Claire McLellan [TSY]; ^IRD: Phil Whittington; ^IRD: Paul Kilford; Kerryn.McIntosh-Watt@ird.govt.nz
Subject: RE: Numbers for the MOF for the MOF for her appearance before FEC on Thursday

Thanks Emma,

The current thresholds have been in place since 1 October 2010, so we thought 2011 made sense as a reference point for the first year with the current thresholds.

Cheers,
Robbie

From: Emma Grigg <Emma.Grigg@parliament.govt.nz>
Sent: Tuesday, April 9, 2024 4:22 PM
To: Robert O'Hara [TSY] <Robert.O'Hara@treasury.govt.nz>
Cc: Jean Le Roux [TSY] <Jean.LeRoux@treasury.govt.nz>; Claire McLellan [TSY] <Claire.McLellan@treasury.govt.nz>; ^IRD: Phil Whittington <Phil.Whittington@ird.govt.nz>; ^IRD: Paul Kilford <Paul.Kilford@Ird.govt.nz>; Kerryn.McIntosh-Watt@ird.govt.nz
Subject: RE: Numbers for the MOF for the MOF for her appearance before FEC on Thursday

Thanks Robbie

Question from Nick – why do we use 2011 when the threshold changes were in 2010.

Emma

From: Robert O'Hara [TSY] <Robert.O'Hara@treasury.govt.nz>
Sent: Tuesday, April 9, 2024 12:37 PM
To: Emma Grigg <Emma.Grigg@parliament.govt.nz>
Cc: Jean Le Roux [TSY] <Jean.LeRoux@treasury.govt.nz>; Claire McLellan [TSY] <Claire.McLellan@treasury.govt.nz>; ^IRD: Phil Whittington <Phil.Whittington@ird.govt.nz>; ^IRD: Paul Kilford <Paul.Kilford@Ird.govt.nz>; Kerryn.McIntosh-Watt@ird.govt.nz
Subject: RE: Numbers for the MOF for the MOF for her appearance before FEC on Thursday

Kia ora Emma,

The below section of T2024/419 – IR2024/072 “Personal income tax – design and delivery” has some useful lines on fiscal drag. I’ve also added a couple of tables of additional stats that may be useful.

Thanks,
Robbie

Principle 2: Integrity

- 22. The revenue-raising capability of the personal income tax system depends on taxpayer compliance, which may be influenced by people’s perceptions of the fairness of the tax system. To the extent adjustments to tax thresholds in response to fiscal drag improve perceptions of fairness, we would expect some small positive impacts on compliance.
- 23. Since 1 October 2010 (the last time personal income tax thresholds were adjusted) the most significant impact from fiscal drag has been on individuals whose incomes had just crossed the \$48,000 threshold at the time (assuming their incomes have continued to grow in line with average wage growth). This is because of the steep increase in their marginal tax rate from 17.5% to 30%.
- 24. The median full-time wage and salary worker earned \$48,024 in the year ended June 2011. In the year ended June 2023, the median full-time wage and salary worker earned \$73,417. Owing to the effect of fiscal drag, their average tax rate (the total tax paid per dollar of income) increased by 5.1 percentage points from 15.5% to 20.6% between 2011 - 2023.
- 25. The personal income tax threshold adjustments in the National personal tax plan would reduce the tax liability of this median earner by \$902, bringing their average tax rate down to 19.4% and compensating for around one quarter of the average tax rate increase from fiscal drag since 2011. The expansion of the IETC would not benefit these earners as they will earn above the new threshold.

Median full-time wage	Gross annual wage	Tax paid	Average tax rate	Marginal tax rate
2011	\$ 48,024	\$ 7,427	15.5%	30.0%
Latest (2023)	\$ 73,417	\$ 15,148	20.6%	33.0%

Minimum wage (40hrs per week)	Gross annual wage	Tax paid	Average tax rate	Marginal tax rate
2011	\$ 27,114	\$ 3,765	13.9%	17.5%
Latest (2024)	\$ 48,284	\$ 7,505	15.5%	30.0%

From: Emma Grigg <Emma.Grigg@parliament.govt.nz>
Sent: Monday, April 8, 2024 7:46 PM
To: Jean Le Roux [TSY] <Jean.LeRoux@treasury.govt.nz>
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Subject: Numbers for the MOF for the MOF for her appearance before FEC on Thursday

Hi all

As discussed with Jean this evening Nick Venter from our office has asked for some help on preparing the MOF for a session with FEC first thing Thursday morning on the Budget Policy Statement. Nick has asked for “numbers” we might have on the background to the need for changing thresholds. In particular he is interested in comparing average wages/minimum wage to the amount of tax payable comparing particularly the 2010 thresholds when they were last adjusted to the threshold levels now and the proposed changes. I take from what he is asking for is largely the numbers around the fiscal drag story.

Jean agreed to discuss this with Shane in the morning – but also interested in others views of what could be useful facts/numbers that would help the MOF explaining the case for the tax threshold proposals.

Happy to discuss.

Emma

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