

The Treasury

Budget 2024 Information Release

September 2024

This document has been proactively released and is available on:

- The Budget website from September 2024 to May 2025 only at: <https://budget.govt.nz/information-release/2024>, and on
- The Treasury website from later in 2024 at: <https://www.treasury.govt.nz/publications/information-release/budget-2024-information-release>

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [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
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [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] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

From: Keiran Kennedy [TSY]
Sent: Friday, 19 April 2024 8:36 pm
To: ^Parliament: Simon McLoughlin; ^Parliament: Hamish Dick
Cc: Claire McLellan [TSY]; Jean Le Roux [TSY]; Stacey Wymer [TSY]; Tim Hampton [TSY]; Struan Little [TSY]; Caralee McLiesh [TSY]
Subject: Further Detail on PIT Costings - Backpocket

Hi Simon and Hamish

Further to our discussion this afternoon – below are some more detailed backpockets in addition to the content in T2024/1082 sent today re PIT costings.

Key Message

Treasury has updated the PIT costings based on final BEFU forecasts and updated *Households Economic Survey (HES)* data . This updated costing increases the cost of the PIT package (including IWTC increase and IR & MSD implementation costs) by an additional \$355m OFP. This costing varies from the preliminary costing presented at Budget Ministers 4 on 8 April.

Given the PIT decision is still to go through Cabinet as part of the Budget Cabinet paper, **Treasury would recommend** that the PIT costing in the B24 package be updated for the new costing and reflected in the Budget Cabinet paper.

What this updated costing means for the Budget 2024 package?

- The impact on the Budget 2024 package if this increase to the PIT tax package *is added to allowances is \$269m av per annum under budget allowances and \$23m over allowances in 27/28.*
- Noting that on Monday 15 April, we provided your office with an updated package which included all decisions from the weekend and the package was \$375m av per annum under allowances and \$101m under in 27/28.
- If the Minister wishes to create more headroom in the B24 package, she may need to consider reducing or removing an initiative to bring the overall cost of the package down or make some adjustments to your tax package parameters. We can provide you with some options for this.

Background to PIT costings

The PIT package for B24 has 3 main components: the *personal income tax threshold changes*, the *changes to the Independent Earner Tax Credit (IETC)* and the *increase to the in-work-tax-credit (IWTC)*

The PIT costings provided by Treasury (with inputs from IR, MSD and MOE) are for the *personal income tax threshold changes* and the *IETC* changes. The *IWTC* costing is provided by IR.

Treasury always intended to provide updated final costings for the PIT package based on BEFU forecasts and updated data - our advice has noted that the PIT costings were preliminary and subject to change.

What is the change in costing?

The final costing for the PIT package is \$10.9 billion (see full breakdown at para 21 in T2024/1082) , an increase of \$89m pa from the preliminary costings from BM 4. The biggest movement is in the PIT and IETC costings shown below:

PIT + IETC (31 July)^	2024/25	2025/26	2026/27	2027/28 & outyears	Total (OFP)
Costs at BM4 - 8/4	1,789	2,660	2,788	2,676	9,913
Cost updated - 19/4	1,856	2,774	2,869	2,767	10,266
Difference	67	114	81	91	353

^note excludes IWTC and implementation costs. These have increased by \$1.2 million OFP (operating) and \$1.4 million capital.

What are the drivers underlying the change in the PIT costings?

- Treasury has used updated data and updated inputs from MSD and IR to produce the revised PIT costing.
- The updated data is shifting from the *2021 Households Economic Survey (HES)* data and *Half Year Economic and Fiscal Update 2023* forecasts to the *2023 HES* data and final *Budget Economic and Fiscal Update 2024* economic forecasts. Both sets of updated data were available from early April [NB: 2023 HES data was available from 8 April; final BEFU forecasts were available from 6 April].
- The updated *Household Economic Survey* data showed an increase in the amount of household wage/salary income. Greater household income increases the overall cost of any personal income tax relief policy. This accounts for around half of the total increase in the cost of the Personal Income Tax package.
- The other half of the cost increase is owing to the updated economic forecasts resulting in a larger increase in NZ Superannuation (NZS) payments from the tax package compared to the status quo. Despite the increase in the impact of the tax package, the overall net cost of NZ Superannuation in the *Budget Economic and Fiscal Update 2024* forecasts was around \$1.3 billion lower over the forecast period compared to the *Half Year Economic and Fiscal Update 2023* forecasts.

Further detail on the NZS increase in the PIT costings?

- NZS rates are set at a gross rate through legislation so a tax threshold change means that NZS recipients receive more in their hand because NZS is subject to less tax. This is different for beneficiaries because benefit rates are set at a net rate. This means that the PIT tax package has an additional component for the extra cost of NZS.
- There is a further impact via indexation. NZS is increased by CPI annually. The NZS rate is then further increased to 66% net av wage (wage floor) if the CPI adjusted rate is not at this level. The rate is currently above the wage floor and under current settings is not forecast to be increased by the wage floor until 1 April 2026.
- The tax package increases net average wages. In 2025/26, this causes NZS to be indexed to the wage floor. This increases the cost of NZS in 2025/26, 2026/27 and 2027/28, which results in an increase to the cost of the tax package.

NZS rate set using CPI or wage floor

	2024/25	2025/26	2026/27	2027/28
Status Quo	CPI	CPI	Wage floor	Wage floor
Tax change	CPI	Wage floor	Wage floor	Wage floor

- The cost of the NZS component of the tax package therefore depends on the difference between the growth rate in CPI and the growth rate in net average wages.
- Both CPI growth and wage growth are lower in the *BEFU 2024* economic forecasts compared to the *HYEFU 2023* forecasts, but CPI growth was revised down by more.
- The gap between CPI growth and wage growth therefore widened, increasing the cost of NZS in the tax package.

What this means for Treasury's fiscal forecasts?

- Treasury's fiscal forecasts will need to reflect the updated costs of the tax policy change to ensure our forecasts represent a best estimate of the Government's fiscal outlook.
- If the impact of this costing change is managed against allowances and the overall B24 package still remains under \$3.5 billion, this would mitigate any implications to the OBEGAL track presented in our preliminary fiscal forecasts.

- Noting that Inland Revenue’s revenue forecasts submitted to Treasury this week did not include this updated costing which means that the Treasury will likely adjust for this costing change centrally.

What was the Tax material presented to B Mins 4 on 8 April?

For reference here is relevant info on tax that was presented to B Mins 4 on 8 April

Tax

Default package - design parameters

- **The personal income tax (PIT) threshold changes are:** 10.5% for \$0-15.6k; 17.5% for \$15.6-53.5k; 30% for \$53.5-78.1k; 33% for \$78.1k-180k; 39% for \$180k+
- **The Independent Earner Tax Credit (IETC) change updates** the upper limit of eligibility to \$70k (from \$48k) with abatement from \$66k.
- **The In-Work Tax Credit (IWTC) change increases the credit** by \$25 to \$97.50 a week¹
- **FamilyBoost introduced** – parents can receive a rebate of up to \$75/week on early childhood education fees
[33]
- **Implementation date of 31 July 2024 for PIT/IETC/IWTC, 1 July 2024 for FamilyBoost. Consequential tax changes made on 1 April 2025.**

Fiscal cost (\$ Operating – billions)

Component:	24/25	25/26	26/27	27/28	Total
PIT changes: 31 July	\$1.64	\$2.45	\$2.59	\$2.49	\$9.18
IETC changes: 31 July	\$0.15	\$0.21	\$0.19	\$0.18	\$0.74
IWTC changes: 31 July	\$0.16	\$0.16	\$0.15	\$0.15	\$0.62
FamilyBoost: 1 July	\$0.17	\$0.17	\$0.17	\$0.17	\$0.68
Total	\$2.12	\$2.99	\$3.11	\$3.00	\$11.21

Note: Further work will be needed to produce final costings, including incorporating final BEFU forecasts, and these may differ. Some of the costings in these slides were produced at pace and are indicative only to inform decision making. The fiscal cost and distributional impact estimates of FamilyBoost carry higher uncertainty than other policies modelled as part of this package.

¹ Ministers are still to decide whether recipients of the Minimum Family Tax Credit will get the benefit of the \$25 pw IWTC tax credit increase. If they do not, then the overall cost of the IWTC changes is expected to reduce by approximately \$3m per annum.

Ngā mihi
Keiran

Keiran Kennedy (she/her) | **Manager, Budget Management | Te Tai Ōhanga – The Treasury**

Mobile: [35]

Email/IM: keiran.kennedy@treasury.govt.nz