

# The Treasury

## Budget 2024 Information Release

### September 2024

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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
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- [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
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- [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
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## Treasury Report: Confirming flow-on decisions for personal tax changes

<b>Date:</b>	11 April 2024	<b>Report No:</b>	T2024/1004
		<b>File Number:</b>	

### Action sought

	Action sought	Deadline
Hon Nicola Willis <b>Minister of Finance</b>	<b>Agree</b> to recommendations <b>Note</b> the contents of this report <b>Refer</b> to the Minister of Revenue	12 April

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Robert O'Hara	Analyst, Tax Strategy, <sup>[39]</sup> The Treasury	N/A (mob)	✓
Jean Le Roux	Manager, Tax Strategy, The Treasury	N/A (mob)	

### Minister's Office actions (if required)

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Confirming flow-on decisions for personal tax changes

## Purpose

1. This report seeks decisions regarding flow-on impacts of the personal tax package for Budget 2024. These decisions are required **by the end of Friday 12 April** so that officials can proceed with final costings. As noted in previous advice, the adjustments to the personal income tax thresholds and the increase to the In-Work Tax Credit (IWTC) will affect other components of the tax and transfer system in the following ways if no supplementary decisions are taken:
  - a **NZ Superannuation rates** will *increase* due to both the direct impact of the tax threshold adjustments and the indirect impact over time of being tied to the net average wage.
  - b **Main benefits** will be *unaffected* by the tax changes as the rates are set net of tax in legislation.
  - c **Student allowances** will *increase* by around \$2 per week as the rates are set gross in legislation.
  - d **Minimum Family Tax Credit (MFTC)** recipients gain \$25 via the IWTC increase.
2. Flow-on impacts are summarised in the table below. These are the default impacts assuming you do not take further action. You have options to change the way the tax package flows through to the rest of the tax and transfer system.
3. Officials recommend taking action to prevent the flow-through to student allowances and some flow-through to the MFTC to ensure consistency with the absence of flow-through to main benefits. These choices would mean recipients of these transfers are *neither better nor worse off* from the tax package and would reduce the cost of the package by **\$5.8 million** per annum.

### Summary table

Policy flow-on	Outcome for cohort in package from 31 July 2024 <u>if no further decisions are taken</u>	Recommended change & rationale	Outcome for cohort in package from 31 July 2024 <u>if recommended action is taken</u>
NZ Super	Gain by around \$2 per week (via PIT changes)	No action recommended.	Gain by around \$2 per week
Main Benefits	No impact from package	No action recommended.	No impact from package
Student allowances	Gain by around \$2 per week (via PIT changes)	Reduce gross rates to prevent flow through of tax changes. This is to ensure consistency with the treatment of main benefits.	No impact from package
Minimum Family Tax Credit (MFTC) recipients	Gain by around \$25 per week (via IWTC increase)	Decrease MFTC threshold so recipients don't gain from IWTC changes. This is to maintain policy intent of the MFTC and system integrity, while also ensuring these families are not worse off from the changes.	No impact from package

### *Student Allowances*

4. To be consistent with the treatment of main benefits, **we recommend preventing the tax changes flowing through to Student Allowances**. Alignment with the benefit system is a principle of the student support system, and since main benefits will not increase from the tax changes, the same approach should be taken for Student Allowance. We have consulted with the Ministry of Education and they support this recommendation.
5. This would involve changing legislation to reduce the gross rates of Student Allowance. Even though the overall effect would be that the net rates of Student Allowance people receive would not change, there is a risk that the decision to reduce the gross rates is scrutinised. Preventing flow-through to Student Allowances would *reduce* the cost of the personal income tax threshold changes by **\$3.3 million** per annum.
6. The maximum rate of student loan living costs will not be affected by the tax package, and we do not recommend taking further action for this aspect.

### *Minimum Family Tax Credit*

7. You have received separate advice on the Minimum Family Tax Credit (MFTC) from Inland Revenue (IR2024/119 and BN2024/170 refer). **Officials recommend that the MFTC threshold is reduced so that recipients will receive no more or less than they do currently.**
8. Around 3,200 families receive the MFTC. As of 1 April 2024, families must meet the following criteria to receive the MFTC:
  - a Have annual family after-tax income less than \$35,204 (or \$677 per week);
  - b Work at least 20 hours a week (if a single parent); or at least 30 hours (if in a two-parent family); and
  - c Not be receiving an income-tested benefit.
9. If families are eligible, the MFTC will top up the family's after-tax weekly income to \$677 per week.<sup>1</sup> As such, the MFTC is unlike other tax credits as it is not a fixed amount. If a family's income increases, the amount of MFTC correspondingly decreases by the same amount until they are no longer eligible. The family will receive the IWTC and Family Tax Credit in addition to the MFTC.
10. The MFTC threshold (currently \$677 per week) is tied to main benefits. It increases each year on 1 April. Families that receive the MFTC also receive the IWTC and the Family Tax Credit (as well as their net wages or salary). When the MFTC threshold is set each year, it takes into account these other Working for Families tax credits payments they are likely to receive, as well as the main benefit rate.
11. Officials recommend that the threshold is adjusted on 31 July 2024 to maintain the overall policy intent of the MFTC. The IWTC rate and personal income tax settings are both inputs to setting the MFTC threshold, and therefore officials recommend that the threshold is recalculated in light of these other changes.
12. However, fully adjusting the threshold in line with the policy intent would result in this cohort receiving \$2 per week less than they currently do as a result of the changes. For this reason, officials recommend adjusting the threshold by a smaller amount to ensure that recipients will receive no more or less than they do currently (option 3 in IR2024/119). This option would reduce the cost of the In-Work Tax Credit increase by **\$2.5 million** per annum.

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<sup>1</sup> The design of the MFTC means that that under current tax settings, sole parents with gross annual income between \$24,076 (20 hours on minimum wage) and \$41,483 (just over 34 hours on minimum wage) will have the same after-tax income.

## Recommended Action

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We recommend that you:

- a **agree** to prevent personal income tax changes impacting the net rates of Student Allowance by retaining the current net rates as at 1 April 2024,

*Agree/disagree*

- b **note** that, to give effect to recommendation (a), gross rates of Student Allowance must be decreased via an amendment to the Student Allowance Regulations 1998,

*Noted*

- c **note** that recommendation (a) would reduce the cost of the personal income tax threshold changes by \$3.3 million per annum and that this is not currently reflected in the personal income tax threshold changes costing,

*Noted*

- d **agree** to reduce the MFTC threshold so that recipients are not impacted by the tax package (option 3 in IR2024/119),

*Agree/disagree*

- e **note** that recommendation (d) would reduce the cost of the In-Work Tax Credit increase by \$2.5 million per annum and that this is not currently reflected in the In-work Tax Credit costing,

*Noted*

- f **refer** a copy of this report to the Minister of Revenue.

*Refer/not referred*

Jean Le Roux  
**Manager, Tax Strategy**

Hon Nicola Willis  
**Minister of Finance**

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