The Treasury

Budget 2024 Information Release

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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

[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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Personal tax package – further distributional analysis including FamilyBoost

Date:	22 March 2024	**Report No:**	T2024/668
		File Number:	SH-13-5-2-5-1

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Note** the contents of this report. **Refer** to the Minister of Revenue.	None

Contact for telephone discussion (if required)

Name	Position		Telephone	1st Contact
Robert O'Hara	Analyst, Tax Strategy, The Treasury	[39]	[35]	✓
Jean Le Roux	Manager, Tax Strategy, The Treasury			

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: Personal tax package – further distributional analysis including FamilyBoost

Executive summary

This report follows on from T2024/598 “Personal Income Tax – initial distributional analysis of wider package”. It updates the distributional analysis with modelling of FamilyBoost. The personal tax package modelled in this report includes all tax proposals for Budget 2024 that impact on family incomes.

Overall, the package increases the income of **91%** of households by $30 per week on average. Households with children gain by 50% more on average ($39 per week) compared to households without children ($26 per week). The households that do not gain from the package are:

i. **135,000** households (**7%** of all households) will experience no change from the package. Many of these will be receiving main benefits and will experience no change because main benefit rates are set in after-tax terms, which means the rates will not be affected by the personal income tax threshold adjustments.

ii. A small number of households that receive main benefit income for part of the year will have reduced income from the package overall (**9,000** or **<1%** of all households). This is due to an unintended interaction with the personal income tax threshold adjustments and the way part-year benefit payments are calculated.

iii. Some households that [33] will have reduced income from the package overall (**34,000** or **2%** of all households).

If your objective is to minimise the number of households that have reduced income from the package, not proceeding with [33] would mean only 9,000 households (**<1%** of all households) have their income reduced from the package – by $1 per week on average.

These 9,000 households are those described in point (ii) above. It is unlikely that this outcome could be avoided by designing the package differently.

Analysis of effective marginal tax rates suggests the package will positively influence work incentives for 335,000 individuals, and negatively influence work incentives for 140,000 individuals. The remaining 3.6 million individuals aged 15 years and over will not be affected.

Recommended Action

We recommend that you:

a **note** the contents of this report

b **refer** to the Minister of Revenue.

Refer/not referred.

Jean Le Roux
Manager, Tax Strategy
_____/_____/_______

Hon Nicola Willis
Minister of Finance
_____/_____/_______

Treasury Report: Personal tax package – further distributional analysis including FamilyBoost

Purpose of Report

Modelling of personal tax package including FamilyBoost

1. This report follows on from T2024/598 “Personal Income Tax – initial distributional analysis of wider package”. It updates the distributional analysis with modelling of FamilyBoost. The personal tax package modelled in this report includes all tax proposals for Budget 2024 that impact on family incomes, and comprises:

    a **lifting Personal Income Tax thresholds** to $15,600; $53,500; $78,100; $180,000,

    b **increasing the In-Work Tax Credit** (IWTC) rate by $25 per week,

    c [33]

    d **extending the income range for the Independent Earner Tax Credit** (IETC) to $70,000, and

    e **introducing the FamilyBoost policy** allowing a 25% refund of early childhood education fees (up to a refund of $75 per week), with abatement from household income of $140,000 and reducing to zero at $180,000.

2. The marginal impact of adding FamilyBoost to the package is also modelled to show how FamilyBoost contributes to the distributional impacts of the overall package. Due to time constraints, analysis of impacts by gender is not included in this report.

Options that reduce disposable income for some households

3. While most components of the package are designed to increase household incomes, [33]

4.

5. We separately show the distributional impacts of the overall package without [33] . This would minimise the number of households that have reduced disposable income because of the personal tax package. The package would reduce incomes for only 9,000 households (<1% of all households), by $1 per week on average.

6. You have also asked for distributional analysis of [33] This change is not included in the modelling of the personal tax package but is discussed separately in this report.

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1 Other changes will offset some of these reductions, but nevertheless, according to the modelling, almost 90% of these households will lose from the package overall. Note that the model has limited data on [33]

Notes on modelling

7. Modelling of impacts is shown for the year ending 31 March 2027 (tax year 2027). This ensures that all changes and flow-on impacts are in place for the full year that is modelled.[2] Forecasts from the 2023 *Half Year Economic and Fiscal Update* are used.

8. Note that the household impacts discussed in this report are made in comparison to household incomes at the same point in time (tax year 2027) if the policy change was not made. Gains and losses do not indicate whether a household is better or worse off compared to the previous year, but only how their projected **income in 2027 with the policy change** compares to their projected **income in 2027 without the policy change**.

9. For example, a household that is referred to as having reduced disposable income because of a policy change may not actually see their income decrease. Their income is lower than it would have been if the policy change was not made.

10. Modelling results are based on survey data and cannot capture the actual situation of every household in New Zealand. In reality, there are likely to be impacts from the package that are not reflected in the modelling outputs described in this report.

Impact of the package on households

11. This section looks at the impact of the personal tax package, including FamilyBoost (items 1a to e above), on households. This modelling assumes that [33]

12. Households are grouped into five quintiles[3] according to household equivalised income. Equivalisation controls for the size and composition (e.g., adults vs children) of different households to allow like-for-like comparisons of standard of living.[4]

13. The household impacts of the personal tax package are as follows:

    a **1.81 million households** (91% of all households) have their income <u>increased</u> by $30 per week on average, compared to their situation in 2027 if the package is not implemented. Households with children have higher average gains ($39 per week) than households without children ($26 per week). Table 1 shows the average weekly gains and losses by income quintile and household type.

    b [33]

    c **135,000 households** (7% of all households) experience <u>no change</u> from the package being implemented. The majority of these households are in the bottom 20% of households by income and are likely in receipt of main benefits.

2 [33]

3 Quintile 1 contains the 20% of households with the lowest equivalised income; quintile 5 is the 20% with the highest.

4 E.g., a household with 2 adults and 2 children and income of $100,000 is equivalent to a single person with $43,000.

Table 1: Average weekly change in income for households with and without children[5]

Average weekly change in income ($)	**Share of Households**	**Quintile 1** (low)	**2**	**3**	**4**	**Quintile 5** (high)	**Total**
Households with children, income **increased**	27%	$29	$37	$41	$44	$41	$39
Households without children, income **increased**	64%	$9	$15	$26	$35	$39	$26
Households with children, income **reduced**	[33]						
Households without children, income **reduced**							

14. [33]

15. If your objective is to minimise the number of households with reduced income from the package, [33] only **9,000 households** (<1% of all households) have their income reduced by the package – by $1 per week on average.

16. As the other parts of the package are designed to increase income, it appears counter-intuitive that some households have reduced income even without [33] These households have reduced income due to an unintended interaction with the personal income tax threshold adjustments and the way part-year benefit payments are calculated. It is unlikely this could be avoided by designing the package differently.

Impact of FamilyBoost

17. T2024/598 discusses the individual impacts of lifting personal income tax thresholds, increasing the In-Work Tax Credit, [33] , and expanding the Independent Earner Tax Credit. This section builds on that analysis by discussing the individual impact of FamilyBoost.

18. Starting from the package modelled in T2024/598, the addition of FamilyBoost to the personal tax package has the following additional impacts:

    a **80,000 households** (4% of all households and 12% of households with children) have their income increased by $34 per week on average. The majority of these households are in the bottom half of the equivalised income distribution, and the lowest earning households gain by the most on average.

    b The addition of FamilyBoost to the package increases the total number of gaining households with children by **11,000** (2% of households with children) and reduces a small number of losing households (<1% of households with children). Average weekly gains for households with children increase by $4 and average weekly losses decrease by $1.

5 Input data to the TAWA model has limited information on the interaction between [33] . Treasury's Analytics and Insights team are currently exploring ways to improve the modelling of this proposed policy change.

[33]

Impact of package on effective marginal tax rates

21. As noted in T2024/419 – IR2024/072 "Personal Income Tax – Design and Delivery", reducing tax rates may be expected to increase incentives to work, with positive implications for overall labour supply and the productive capacity of the economy.

22. For those already in work, the decision to work more or fewer hours can be influenced by effective marginal tax rates (EMTR – the fraction of each additional dollar earned that is lost to tax and reduced transfers). Changes that significantly reduce effective marginal tax rates would be expected to enhance incentives to work additional hours and may also encourage workers to increase their wage prospects by upskilling.

23. Treasury modelling can estimate the distribution of EMTRs for the New Zealand population. Table 2 shows the number and characteristics of people who we estimate will experience a change in EMTRs through proposed policy changes in tax year 2027. It is important to note that not all people with income within those tax ranges would experience these impacts – it will be dependent on their receipt of any benefits or tax credits, as well as the design of the final tax package.

24. Previous advice [T2024/419 – IR2024/072 refers] modelled the impact of the personal income tax threshold changes and extending the income range of the Independent Earner Tax Credit. Results showed that the EMTRs for 335,000 people were reduced (positive impact on work incentives) by these policies, while the EMTRs for 85,000 people were increased (negative impact on work incentives).

25. Adding the proposed family-based tax credit changes (the In-Work Tax Credit, [33] and FamilyBoost) to this package **increases the EMTRs for a further 55,000 people** (negative impact on work incentives). These people are in coupled families with children, and are spread across the first 4 income tax bands ($0 to $180,000). Modelling did not indicate an increase in EMTRs for sole parents.

[33]

26. These tax credits increase people's EMTRs because of the way the credits abate as incomes grow. Although people's income is increased by the credits, their EMTR also increases as they cross the abatement threshold and their payment reduces with each extra dollar of income. This negatively impacts their incentive to work. The proposed changes impact abatement in different ways:

a The increase to the In-Work Tax Credit by $25 per week means the payment will take longer to abate to zero, as the abatement rate is constant. This means some people whose payment would otherwise have fully abated will now receive an abating payment.

b [33]

c As FamilyBoost is a new credit, people who receive it and whose family income is within the abatement range ($140,000 to $180,000) will have an increased EMTR because of the abatement of the credit.

Table 2: Impacts on EMTRs from personal tax package

Reason for change	**Taxable incomes between:**	**Work incentive**	**Threshold changes + IETC threshold to $70,000**	**Threshold changes + IETC threshold to $70,000 + family-based tax credits**
PIT rate change from 17.5% to 10.5%	$14,000 - $15,600	Reduced EMTR, **increased** work incentive	35,000 people	35,000 people
Those who are eligible for IETC and no longer in abatement zone. Abatement rate of 13%	$44,000 - $48,000	Reduced EMTR, **increased** work incentive	45,000 people	45,000 people
PIT rate change from 30% to 17.5%	$48,000 - $53,500	Reduced EMTR, **increased** work incentive	125,000 people	125,000 people
Those who are eligible for IETC and are now in abatement range	$66,000 - $70,500	Increased EMTR, **decreased** work incentive	85,000 people	85,000 people
PIT rate change from 33% to 30%	$70,000 - $78,101	Reduced EMTR, **increased** work incentive	130,000 people	130,000 people
Those receiving changes to IWTC, [33] , or FamilyBoost	$0 - $180,000	Increased EMTR, **decreased** work incentive		[33] , made up of: • 15,000 from IWTC • [33] • 30,000 from FamilyBoost
Total number of people whose work incentives are affected			**335,000** positively affected (reduced EMTR) **85,000** negatively affected (increased EMTR)	**335,000** positively affected (reduced EMTR) [33] negatively affected (increased EMTR)

Results have been produced at pace. EMTR analysis has been recently developed to support TAWA modelling and advice. Due to its experimental nature, Treasury considers these results have low reliability and medium risk.

Fiscal impact of the personal tax package

27. The combined package (including FamilyBoost) is estimated to cost [33] over the forecast period (OFP). Fiscal costings are indicative only to inform decision making, and final costings of the overall personal tax package will be subject to change. Table 3 summarises the fiscal costs of the package and its components, including assumed implementation dates that were used for the costings.

Table 3: Summary of fiscal costs of personal tax package components ($billions)

Component: implementation date	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total OFP**
PIT changes: 1 July 2024	$1.82	$2.51	$2.56	$2.49	**$9.39**
IETC expansion: 1 July 2024	$0.17	$0.21	$0.19	$0.18	**$0.75**
IWTC increase: 1 July 2024	$0.16	$0.16	$0.15	$0.15	**$0.62**
[33]					
FamilyBoost: 1 July 2024	$0.17	$0.17	$0.17	$0.17	**$0.68**
Total	[33]				

28. Officials have provided options to reduce the fiscal cost of several components of the personal tax package [T2024/419 - IR2024/072 and IR2024/032 refer]. These options would also alter the distributional impacts of the overall package. The fiscal savings associated with each option are summarised in Table 4.

Table 4: Summary of options to reduce the fiscal cost of the personal tax package

Policy	**Description of scaling option**	**Saving in 2027/28**	**Saving OFP**
PIT	Retain bottom threshold	-$0.28b	**-$1.16b**
PIT	10% less for each threshold	-$0.21b	**-$0.81b**
PIT	50% less for $70,000 threshold	-$0.20b	**-$0.75b**
IETC	Scaling the expansion of IETC to $53,500	-$0.12b	**-$0.52b**
IWTC	Reducing the IWTC increase to $15 per week	-$0.06b	**-$0.25b**
[33]			

Flow-on impacts to transfer system

29. Recipients of main benefits will not automatically gain from the package. This is because main benefits are set in after-tax terms, so the increase to personal income tax thresholds will have no impact on the after-tax income of main benefit recipients. To ensure beneficiaries receive the same gain as wage earners, you could choose to make an accompanying increase to main benefit rates for an additional fiscal cost.

30. The net rates of Student Allowances will automatically increase by around $2 per week as a result of changes to personal income tax thresholds, as they are set gross of income tax. The maximum rate of student loan living costs will not automatically adjust, and we do not recommend applying an equivalent increase.

31. New Zealand Superannuation rates will experience both a direct increase (as they are set gross of tax and will increase due to personal income tax threshold adjustments) and an indirect increase (as they are set relative to the net average wage, which will increase from the personal income tax threshold adjustments).

32. Rates of New Zealand Superannuation are projected to increase from the package as in Table 5 below.

Table 5: New Zealand Superannuation rates with and without the personal tax package

After-tax weekly		2024/25	2025/26	2026/27	2027/28
Married person	**status quo**	$401.40	$412.98	$424.88	$438.28
	tax package	$401.40	$416.06	$431.50	$444.89
Couple	**status quo**	$763.08	$785.10	$807.72	$833.20
	tax package	$763.08	$791.18	$820.54	$846.00
Single person	**status quo**	$521.82	$536.87	$552.34	$569.76
	tax package	$521.82	$540.88	$560.95	$578.36
Single sharing	**status quo**	$481.68	$495.58	$509.86	$525.94
	tax package	$481.68	$499.27	$517.80	$533.87

33. Households with seniors gain by $23 per week on average from the overall personal tax package. This is less than the average gain for all households of $30 per week. However, no households with seniors have reduced income from the package.

Next Steps

34. You will receive several further reports in the coming days in relation to the personal tax package:

    a On 22 March you will receive an Aide Memoire summarising the fiscal impacts of potential scaling options for the personal tax package.

    b In the week commencing 25 March you will receive an Aide Memoire summarising the expected impact on inflation from lifting personal income tax thresholds, increasing the In-Work Tax Credit and expanding the Independent Earner Tax Credit.

    c You will receive a report from Inland Revenue by 2 April detailing the final design decisions, including consequential tax changes, that will need to be agreed in order to finalise the personal tax package.

Appendix: Detailed distributional analysis of personal tax package

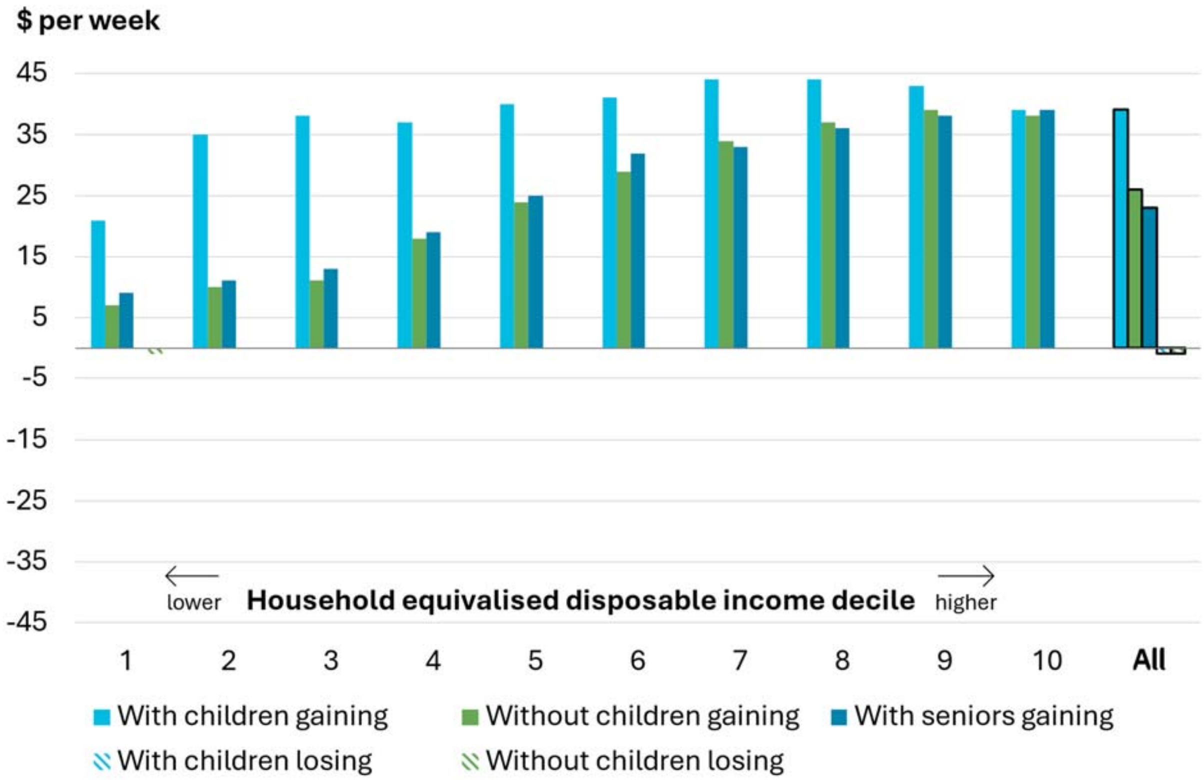
Figures 1 and 2 show the impacts of the personal tax package across the ten household equivalised income deciles. While absolute gains for households with seniors and households without children increase for the higher income deciles, the gains are relatively evenly spread across households with children.

[33]

[33]

Virtually all household losses from the package are eliminated, with only a very small number of households losing by $1 per week on average due to an unintended interaction with the personal income tax threshold adjustments and the way part-year benefit payments are calculated.

Figure 3: Average weekly gain/loss from package without [33]



Disclaimer for distributional outputs from the Treasury's TAWA model

These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI please visit https://www.stats.govt.nz/integrated-data/. The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.