Departmental Disclosure Statement

Taxation (Budget Measures: Family Incomes Package) Bill

The departmental disclosure statement for a government Bill seeks to bring together in one place a range of information to support and enhance the Parliamentary and public scrutiny of that Bill.

It identifies:

- the general policy intent of the Bill and other background policy material;
- some of the key quality assurance products and processes used to develop and test the content of the Bill;
- the presence of certain significant powers or features in the Bill that might be of particular Parliamentary or public interest and warrant an explanation.

This disclosure statement was prepared by the Treasury.

The Treasury certifies that, to the best of its knowledge and understanding, the information provided is complete and accurate at the date of finalisation below.

12 May 2017

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Part One: General Policy Statement

This Bill gives effect to many of the changes announced as part of the Budget 2017 Family Incomes Package. As a package, the changes are intended to provide better rewards for hard work, improve incomes for those with young children or high housing costs, and start to simplify the tax and transfer system.

The amendments in the Bill increase the two lowest personal income tax thresholds, repeal the Independent Earner Tax Credit, and increase the younger child payment rates of the Family Tax Credit. The other measures announced as part of the package, including changes to the Accommodation Supplement and Accommodation Benefit, are dealt with separately to this Bill through regulation.

Objectives

Providing better rewards for hard work

Personal income tax rates were last changed in 2010. Since that time, median income has increased from $40,000 to $48,000. Incomes across the distribution have also increased.

As incomes increase, the marginal tax rates individuals face also increase. This weakens work incentives by reducing the rewards of extra work. High Marginal Tax Rates (MTRs) can also encourage people to structure their affairs to reduce their tax obligations.

Where the median income earner in 2010 faced a MTR of 17.5%, they now face 30%. New Zealand's labour force participation rate is relatively high. However, if income tax thresholds are not adjusted periodically, work incentives could be diminished.

Over time, high MTRs may cause problems for New Zealand in maintaining its tax base, enhancing its productivity and maintaining or improving its living standards.

Improving incomes for those with young children or high housing costs

The tax and transfer system is redistributive and is designed to provide assistance to those in financial hardship. Average incomes at each decile have grown since 2010. Despite growing incomes, some families are seeing rising costs place pressure on their living standards. Rising housing costs in particular have increased the proportion of incomes spent on housing, particularly for low-income families. As a result, some low-income families have seen declines in residual (after-housing-costs) income.

For example, recipients of the Accommodation Supplement who receive a main benefit have seen their residual incomes fall in real terms on average by 8% since 2006, and recipients of the Accommodation Supplement who don't receive a main benefit or NZ Superannuation have seen their residual incomes fall in real terms on average by 3%. For all recipients of the Accommodation Supplement the average decline in real terms was 2%. Around 40% (approximately 120,000) of recipients spend more than half of their income on housing costs.

Simplifying the tax and transfer system

The tax and transfer system is complex. The rules for determining eligibility and claiming entitlements can be difficult to navigate. One of the objectives for the package is to start simplifying the system to more clearly link rewards to effort. This will also improve the ease of administration.

Specific changes

The following is a brief summary of the policy measures contained in this Bill.

Personal tax changes

This Bill increases the lowest two personal income tax thresholds from 1 April 2018. This will encourage labour supply and improve the rewards from work for low and middle income earners in particular. Table 1 shows the current and new thresholds.

Table 1: Current and new personal income tax thresholds

Current Bracket ($)	New Bracket ($)	Rate
1 – 14,000	1 – 22,000	10.5%
14,001 – 48,000	22,001 – 52,000	17.5%
48,001 – 70,000	52,001 – 70,000	30%
70,001+	70,001+	33%

Increases in tax thresholds generally improve work incentives. In particular, increases to the $14,000 threshold are likely to improve work incentives for those receiving a benefit as these individuals typically enter work at lower incomes. Increases to the $48,000 threshold are likely to improve individuals' incentives to work longer hours in aggregate.

To ensure the effects of the personal tax changes flow through the tax system appropriately, consequential amendments to the Inland Revenue Acts are required. The Bill amends fringe benefit tax attribution thresholds, employer superannuation contribution tax thresholds, portfolio investment entity thresholds, pay-as-you-earn codes, non-filing thresholds, extra pays, and secondary tax.

The uplift factor for individual provisional taxpayers who use the uplift method is also temporarily reduced. This ensures those taxpayers benefit from the threshold changes at the same time as wage and salary earners, rather than at the end of the tax year.

Independent Earner Tax Credit

This Bill repeals the Independent Earner Tax Credit from 1 April 2018. The credit has become poorly targeted and is administratively complex. It is estimated that around 80% of those eligible for the tax credit actually claim it. Of those, around 60% claim it after the end of the tax year.

Recipients are fully compensated for the loss of the credit by the lower tax threshold change, and will no longer have to file at year end or select a different tax code to claim it.

The labour supply impact of removing the Independent Earner Tax Credit, on its own, is marginally negative. However, reprioritising the savings will more effectively improve labour supply.

Family Tax Credit

This Bill increases the Family Tax Credit payment rates for younger children to align with those for older children from 1 April 2018. This significantly increases payments to families with young children. Table 2 shows the current and new rates.

Table 2: Family Tax Credit rates

Annual Rate	Current	1 April 2018	Annual increase	Weekly increase
Eldest child, 16 – 18	$5,303	$5,303	-	-
Eldest child, 0 – 15	$4,822		$481	$9.25
Subsequent child, 16 – 18	$4,745	$4,745	-	-
Subsequent child, 13 – 15	$3,822		$923	$17.75
Subsequent child, 0 – 12	$3,351		$1,394	$26.80

Increasing the lower age rates for the Family Tax Credit will benefit eligible families with children aged 0 to 15. Families with children aged 16 to 18 and in the abatement zone will face a very small loss due to the increased abatement rate and decrease of the abatement threshold, but the losses are mostly offset by the changes to tax thresholds. A Transitional Assistance Fund is also established as part of the wider package that will compensate those families that lose more than $3 per week.

The family income threshold above which the tax credit is abated is reduced from $36,500 to $35,000. The abatement rate is also increased from 22.5 cents in the dollar to 25 cents. These are the settings the Government agreed in 2011 would be progressively changed between now and 2025, according to current forecasts. The changes to abatement settings further target assistance to lower-income families.

Part Two: Background Material and Policy Information

Published reviews or evaluations

2.1. Are there any publicly available inquiry, review or evaluation reports that have informed, or are relevant to, the policy to be given effect by this Bill?	**NO**

Relevant international treaties

2.2. Does this Bill seek to give effect to New Zealand action in relation to an international treaty?	**NO**

Regulatory impact analysis

2.3. Were any regulatory impact statements provided to inform the policy decisions that led to this Bill?	**YES**
A regulatory impact statement (Budget 2017 Family Incomes Package, 12 April 2017) has been prepared by the Treasury and is available at: http://www.treasury.govt.nz/publications/informationreleases/ris/treasury/fip	

2.3.1. If so, did the RIA Team in the Treasury provide an independent opinion on the quality of any of these regulatory impact statements?	**YES**
The RIA Team provided the following comment: *The Regulatory Impact Analysis Team at the Treasury (RIAT) has reviewed the Regulatory Impact Statement "Family Incomes Package for Budget 2017" produced by the Treasury. We consider that the RIS meets the QA criteria.*	

2.3.2. Are there aspects of the policy to be given effect by this Bill that were not addressed by, or that now vary materially from, the policy options analysed in these regulatory impact statements?	**NO**
The temporary reduction to the uplift factor for provisional taxpayers using the uplift method was not covered in the regulatory impact statement. However, it would be exempt from the requirements as the matter is timing only and as such has only minor impacts.	

Extent of impact analysis available

2.4. Has further impact analysis become available for any aspects of the policy to be given effect by this Bill?	**NO**
2.5. For the policy to be given effect by this Bill, is there analysis available on:	
(a) the size of the potential costs and benefits?	**YES**
(b) the potential for any group of persons to suffer a substantial unavoidable loss of income or wealth?	**YES**
This information is available in the regulatory impact statement.	

2.6. For the policy to be given effect by this Bill, are the potential costs or benefits likely to be impacted by:	
(a) the level of effective compliance or non-compliance with applicable obligations or standards?	**NO**
(b) the nature and level of regulator effort put into encouraging or securing compliance?	**NO**

Part Three: Testing of Legislative Content

Consistency with New Zealand’s international obligations

3.1. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with New Zealand’s international obligations?
No issues were identified in the development of the policy that may have relevant international obligations. As such there have been no formal additional steps to determine whether the policies to be given effect by this Bill is consistent with New Zealand’s international obligations.

Consistency with the government’s Treaty of Waitangi obligations

3.2. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with the principles of the Treaty of Waitangi?
No issues were identified in the development of the policies that may have specific implications for the rights and interests of Māori protected by the Treaty of Waitangi. As such, no formal steps have been taken to determine whether the policies to be given effect by this Bill are consistent with the principles of the Treaty of Waitangi.

Consistency with the New Zealand Bill of Rights Act 1990

3.3. Has advice been provided to the Attorney-General on whether any provisions of this Bill appear to limit any of the rights and freedoms affirmed in the New Zealand Bill of Rights Act 1990?	**YES**
Advice provided to the Attorney-General by the Ministry of Justice, or a section 7 report of the Attorney-General, is generally expected to be available on the Ministry of Justice’s website upon introduction of a Bill. Such advice, or reports, will be accessible on the Ministry’s website at http://www.justice.govt.nz/policy/constitutional-law-and-human-rights/human-rights/bill-of-rights.	

Offences, penalties and court jurisdictions

3.4. Does this Bill create, amend, or remove:	
(a) offences or penalties (including infringement offences or penalties and civil pecuniary penalty regimes)?	**NO**
(b) the jurisdiction of a court or tribunal (including rights to judicial review or rights of appeal)?	**NO**

3.4.1. Was the Ministry of Justice consulted about these provisions?	**N/A**

Privacy issues

3.5. Does this Bill create, amend or remove any provisions relating to the collection, storage, access to, correction of, use or disclosure of personal information?	**NO**

3.5.1. Was the Privacy Commissioner consulted about these provisions?	**N/A**

External consultation

3.6. Has there been any external consultation on the policy to be given effect by this Bill, or on a draft of this Bill?	NO
The need for Budget Secrecy prevented external consultation.	

Other testing of proposals

3.7. Have the policy details to be given effect by this Bill been otherwise tested or assessed in any way to ensure the Bill's provisions are workable and complete?	NO
The proposals in the Bill have been reviewed by Inland Revenue subject matter experts to assess the administrative impacts of the initiatives to ensure they are workable and complete. This involves assessing whether systems need to be changed and, if so, whether formal testing needs to be carried out. Due to the budget secret nature of the changes, such consultation was limited.	

Part Four: Significant Legislative Features

Compulsory acquisition of private property

4.1. Does this Bill contain any provisions that could result in the compulsory acquisition of private property?	**NO**
Given the nature of tax, this Bill does contain provisions that could result in the compulsory acquisition of private property. However, for the purposes of this statement, the answer is "No" as per the scope of this question explained in page 50 of the Disclosure Statements for Government Legislation: Technical Guide for Departments (June 2013).	

Charges in the nature of a tax

4.2. Does this Bill create or amend a power to impose a fee, levy or charge in the nature of a tax?	**NO**
Given this Bill is amending tax legislation, it does contain provisions that create or amend a power to impose a charge that is a tax. However, for the purposes of this statement, the answer is "No" as per the scope of this question explained in page 53 of the Disclosure Statements for Government Legislation: Technical Guide for Departments (June 2013).	

Retrospective effect

4.3. Does this Bill affect rights, freedoms, or impose obligations, retrospectively?	**NO**

Strict liability or reversal of the usual burden of proof for offences

4.4. Does this Bill:	
(a) create or amend a strict or absolute liability offence?	**NO**
(b) reverse or modify the usual burden of proof for an offence or a civil pecuniary penalty proceeding?	**NO**

Civil or criminal immunity

4.5. Does this Bill create or amend a civil or criminal immunity for any person?	**NO**

Significant decision-making powers

4.6. Does this Bill create or amend a decision-making power to make a determination about a person's rights, obligations, or interests protected or recognised by law, and that could have a significant impact on those rights, obligations, or interests?	**NO**

Powers to make delegated legislation

4.7. Does this Bill create or amend a power to make delegated legislation that could amend an Act, define the meaning of a term in an Act, or grant an exemption from an Act or delegated legislation?	**NO**

4.8. Does this Bill create or amend any other powers to make delegated legislation?	**NO**

Any other unusual provisions or features

4.9. Does this Bill contain any provisions (other than those noted above) that are unusual or call for special comment?	**NO**