

Departmental Disclosure Statement

Taxation (Budget Measures) 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 Inland Revenue.

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

23 May 2024

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Part One: General Policy Statement

The tax measures in this Bill were announced as part of Budget 2024. The measures aim to help reduce the cost-of-living pressures for New Zealanders by providing tax relief and additional support to low- and middle-income individuals and families.

The Bill provides tax relief to individuals by adjusting the personal income tax thresholds and expanding eligibility to the independent earner tax credit (IETC). It also provides support to low- and middle-income families by increasing the in-work tax credit (IWTC) base rate and the minimum family tax credit (MFTC) threshold.

The Bill gives effect to the FamilyBoost tax credit, which will support families with the cost of early childhood education.

The Bill also makes changes to the calculation of the base interest rate for student loans and includes an amendment to enable Inland Revenue to address certain administrative errors on applications for the Research and Development Tax Incentive.

The Bill gives effect to these changes by amending the following Acts:

- Income Tax Act 2007
- Tax Administration Act 1994
- Student Loan Scheme Act 2011.

The following is a summary of the specific policy measures contained in this Bill. A comprehensive explanation of all the policy items is provided in a commentary on the Bill that is available at <https://www.taxpolicy.ird.govt.nz/publications/2024/commentary-taxation-budget-measures-bill>

Personal income tax threshold changes

The Bill will increase the three lowest personal income tax thresholds from 31 July 2024. This will ensure there is greater financial return from work and help address the issue of rising wages pushing more workers into higher tax brackets. Table 1 shows the current and proposed thresholds.

Table 1: Current and proposed personal income tax thresholds

Current bracket (\$)	New bracket (\$)	Rate
0 – 14,000	0 – 15,600	10.5%
14,001 – 48,000	15,601 – 53,500	17.5%
48,001 – 70,000	53,501 – 78,100	30%
70,001 – 180,000	78,101 – 180,000	33%
180,001+	No change	39%

Because the changes take effect part way through the tax year, transitional brackets and rates will apply for the 2024–25 tax year.

The Bill also makes consequential amendments to other tax types and rules that are reliant on the personal income tax system:

- resident withholding tax (RWT)

- fringe benefit tax (FBT)
- employer superannuation contribution tax
- retirement scheme contribution tax
- portfolio investment entity (PIE) income rules.

The changes to RWT will apply from 31 July 2024. Minor changes will be made to the FBT rules, applying from 1 April 2024, to take account of the personal income tax threshold changes. All other consequential amendments will apply from 1 April 2025 to minimise compliance costs associated with making changes part way through the tax year.

Independent earner tax credit

The Bill expands the eligibility for the IETC by lifting the upper income threshold from \$48,000 to \$70,000. The lower limit of eligibility will remain at \$24,000. This will have effect from 31 July 2024.

The IETC is a tax credit available to individuals who do not receive other forms of government support, such as Working for Families tax credits, a main benefit, or New Zealand Superannuation.

The abatement rate will remain at 13 cents, and this will apply for every dollar of income over \$66,000. This means there is no remaining entitlement to the IETC when a person's income exceeds \$70,000.

Increasing the in-work tax credit rate

The Bill increases the IWTC base rate by \$25 a week, starting from 31 July 2024. Increasing the IWTC will increase the support for low- and middle-income families who take up, and remain in, employment and who have children. This is to help address the erosion of the real value of the IWTC relative to wage growth.

Increasing the minimum family tax credit threshold

The Bill also increases the MFTC threshold to \$35,316 (after tax) to ensure that MFTC recipients also receive the IWTC increase and benefit from the personal income tax changes. This change will also apply from 31 July 2024.

FamilyBoost tax credit

The Bill introduces the FamilyBoost tax credit from 1 July 2024, with the first payments to be paid in October 2024. The FamilyBoost tax credit will help low- to middle-income households with the rising costs of early childhood education (ECE).

Eligible households will be reimbursed up to 25% of their ECE fees incurred after any eligibility for 20 Hours ECE and the childcare subsidy from the Ministry of Social Development have been taken into account. This will be up to a maximum amount of \$975 per quarter with payments to be made every quarter. These payments will begin to reduce for households with annual income over \$140,000 and will abate completely for households with annual income of \$180,000 or more.

Changes to the student loan base interest rate calculation

The Bill increases the student loan base interest rate by 1% for a period of five years starting from 1 April 2025 to partially cover the loss in value of the scheme due to recent high inflation. This means the interest rate charged on an overseas-based

borrower's student loan will increase by 1%, as will the late payment interest rate charged on unpaid amounts.

Remedial item

The Bill also contains remedial amendments that will enable the Commissioner of Inland Revenue to amend an approval of a person enrolled in the Research and Development Tax Incentive in instances where the person has applied for approval using an incorrect entity name. These amendments will apply from 1 April 2021.

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

2.2.1. If so, was a National Interest Analysis report prepared to inform a Parliamentary examination of the proposed New Zealand action in relation to the treaty?	N/A

Regulatory impact analysis

2.3. Were any regulatory impact statements provided to inform the policy decisions that led to this Bill?	YES
<p>Three regulatory impact statements were prepared and are available at https://www.taxpolicy.ird.govt.nz/publications/2024/ria-taxation-budget-measures-bill</p> <ul style="list-style-type: none"> • Personal income tax relief, 24 April 2024 • A childcare tax credit – “FamilyBoost”, 12 March 2024. • \$25 per week increase to the in-work tax credit, 24 April 2024 <p>Student loan base interest rate calculation</p> <p>Cabinet’s impact analysis requirements apply to the proposal to temporarily increase the student loan interest rate, but there is no accompanying Regulatory Impact Statement. Therefore, it does not meet Cabinet’s requirements for regulatory proposals. The Treasury’s Regulatory Impact Analysis team has waived the requirement for supplementary analysis given time constraints and the likelihood that supplementary analysis would have limited value for decision makers.</p>	

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?	NO
The regulatory impact statements for this Bill did not meet the threshold for requiring an independent opinion on their quality from the Treasury’s Regulatory Quality team.	

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

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
No significant further impact analysis has become available for any aspects of the policy to be given effect by the Bill. Therefore, for the purposes of this statement, the answer is “No” as per the scope of this question explained in page 29 of Disclosure Statements for Government Legislation: Technical Guide for Departments (June 2013).	
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?	NO
The regulatory impact statements listed under 2.3 provide analysis on the size of the potential costs and benefits for the policy items included in the Bill that are subject to the regulatory impact analysis requirements.	
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?
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No specific issues relevant to international obligations were identified in the development of the policies in this Bill. As such, there have been no formal steps to determine whether the policies to be given effect by this Bill are 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 specific issues were identified in the Bill that may have 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
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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 available on the Ministry's website at https://justice.govt.nz/justice-sector-policy/constitutional-issues-and-human-rights .
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Offences, penalties and court jurisdictions

3.4. Does this Bill create, amend, or remove:	
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(a) offences or penalties (including infringement offences or penalties and civil pecuniary penalty regimes)?	NO
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(b) the jurisdiction of a court or tribunal (including rights to judicial review or rights of appeal)?	NO
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The Bill does not create or remove offences or penalties. However, existing penalties in the Tax Administration Act 1994 that apply to other tax types and social policy measures will apply to the FamilyBoost tax credit where appropriate.

3.4.1. Was the Ministry of Justice consulted about these provisions?	NO
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The standard penalties in the Tax Administration Act 1994 that apply to taxes and social policy measures Inland Revenue is responsible for administering will apply, as a matter of course, to the FamilyBoost tax credit. No modifications to these penalties are being made for the FamilyBoost tax credit. The Ministry of Justice was not consulted about the penalties as these are standard provisions that apply broadly to taxes and social policy measures administered by Inland Revenue.

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?	YES
<p>For all proposals in the Bill other than the FamilyBoost tax credit, the answer to this question is “No”.</p> <p>FamilyBoost tax credit</p> <p>The Bill includes a provision that provides for the exchange of information with the Ministry of Education for the purpose of verifying an entitlement or eligibility of a person to the FamilyBoost tax credit. The exchange of information concerns enrolment details of a child at a licensed early childhood service.</p>	

3.5.1. Was the Privacy Commissioner consulted about these provisions?	NO
<p>Inland Revenue met with the Office of the Privacy Commissioner to discuss the information exchange provisions for FamilyBoost. The Office advised they required more time to consider the full impacts of the provisions before offering a view.</p>	

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?	YES
<p>Due to the nature of these proposals being subject to Budget confidentiality, limited public consultation has occurred on the specific details of the proposals given effect to by the Bill. However, most of the changes in this Bill were signalled as part of the 2023 General Election.</p> <p>Personal income tax threshold changes and the independent earner tax credit</p> <p>Inland Revenue officials had discussions with payroll software providers and payroll service providers about implementation timing for personal income tax changes, including the personal income tax threshold adjustments and changes to the independent earner tax credit.</p> <p>FamilyBoost tax credit</p> <p>Inland Revenue officials undertook early targeted consultation for the FamilyBoost tax credit as to engage with the ECE sector around pre-existing invoicing and payment practices, and to give the sector an opportunity to voice their thoughts or concerns about FamilyBoost and its delivery. By focusing consultation on invoicing and payment practices, officials sought to identify any risks which might result in changes to the policy design or legislation drafting. Consultation also aimed to increase buy-in for implementing required changes and to give the sector ample time to adjust their invoicing practices to accommodate the payment. Consultation occurred from 25 March until 1 May 2024.</p> <p>The ECE sector was generally receptive to speaking with Inland Revenue officials about FamilyBoost and appreciated the opportunity for early engagement. Consultation did not identify any significant risks or implications relating to the delivery of FamilyBoost. Consultation resulted in no changes to the design of FamilyBoost. Feedback was largely centred around differences in invoicing and payment practices, increased administrative burdens on the sector, accessibility and general feedback.</p> <p>Remedial item: Research and Development Tax Incentive</p> <p>Inland Revenue officials consulted with affected stakeholders on the amendments that would enable Inland Revenue to process claims for the RDTI made under an incorrect entity name.</p>	

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?	YES
<p>All proposals in the Bill have been reviewed by internal operational subject matter experts under Inland Revenue's standard process for assessing the administrative impacts of any new policy initiatives and ensuring 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.</p> <p>FamilyBoost tax credit</p> <p>In addition to the above, Inland Revenue undertook limited and targeted engagement with the early childhood education sector on the FamilyBoost proposal. This was to improve and ensure the workability of the proposal.</p>	

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 pages 50 and 51 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 pages 53 and 54 of 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?	YES
<p>Personal income tax thresholds – consequential change to FBT rules</p> <p>The Bill makes a technical change to the formula used to calculate FBT payable when an employer uses the attribution method. This will apply from 1 April 2024. The change ensures employers are paying the correct amount of FBT given the changes to personal income tax thresholds that come into force on 31 July 2024 part-way through the 2024–25 tax year.</p> <p>Working for Families tax credits changes</p> <p>The in-work tax credit (IWTC) increase and change to the minimum family tax credit (MFTC) threshold apply part-way through the 2024–25 tax year (from 31 July 2024). As such, the Bill will need to provide a method for calculating entitlement for the period from 1 April 2024 to 30 July 2024 under the previous rate and threshold, and for the period from 31 July 2024 to 31 March 2025 under the new rate and threshold. These alternative methods will apply retrospectively from 1 April 2024.</p> <p>Remedial item: Research and Development Tax Incentive</p> <p>The Bill contains amendments that would enable Inland Revenue to process applications for the Research and RDTI Tax Incentive when the name on the application is incorrect. This amendment will be to the advantage of taxpayers who would otherwise not be eligible to receive R&D tax credits due to an administrative error on the application form.</p> <p>More information on the retrospective application of these amendments can be found in the commentary on the Bill, which is available at https://www.taxpolicy.ird.govt.nz/publications/2024/commentary-taxation-budget-measures-bill</p>	

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