A Fair Economy.
A Strong Future.

Budget 2008

Budget 2008 Personal Tax Package

Fact sheet on tax relief for individuals & families

Changes to tax rates and Working for Families

The government is introducing a $10.6 billion programme of tax cuts from 1 October 2008, with further changes scheduled to take effect from 1 April 2010 and 1 April 2011:

Table 1

	NEW RATES		
Current rates	**From 1 October 2008**	**From 1 April 2010**	**From 1 April 2011**
15% to $9,500	12.5% to $14,000	12.5% to $17,500	12.5% to $20,000
21% to $38,000	21% to $40,000	21% to $40,000	21% to $42,500
33% to $60,000	33% to $70,000	33% to $75,000	33% to $80,000
39% over $60,000	39% over $70,000	39% over $75,000	39% over $80,000

In addition, the Working for Families Family Tax Credit and the income threshold will increase from 1 October 2008 to take account of inflation, costing $1.1 billion over four years:

Table 2

Weekly rate	**Current weekly rates**	***NEW* weekly rates from 1 October 2008**
First child if under 16	$82.00	$86.29
First child if 16 or over	$95.00	$99.96
Subsequent child rate if under 13	$57.00	$59.98
Subsequent child rate if 13 to 15	$65.00	$68.40
Subsequent child rate if 16 or over	$85.00	$89.44
Income threshold	$35,000	$36,827

Who will benefit

All workers will pay less tax as a result of the changes. In particular, the personal tax cuts benefit:

- People on low incomes, mainly part-time workers, and those earning around the minimum wage.

- People on the average wage, and families getting additional support from the Working for Families changes.
- Nearly 300,000 taxpayers who, from 1 April 2011, are projected to no longer face the highest tax rate of 39%.
- Beneficiaries who are in part-time work and Superannuitants.

The table below shows how the tax cuts will affect after-tax income:

Table 3

Current annual taxable income ($)	Weekly after-tax income increase above current ($) from 1 Oct 2008	from 1 April 2010	from 1 April 2011	Annual increase ($) 1 April 2011
20,000	12	18	22	1,130
30,000	12	18	22	1,130
40,000	16	22	26	1,370
50,000	16	22	32	1,670
60,000	16	22	32	1,670
70,000	28	34	44	2,270
80,000 and above	28	39	55	2,870

The after-tax incomes calculated in this table exclude the ACC levy.

In addition, the changes to Working for Families will give more money in the hand each week to Working for Families recipients.

Table 4

	Weekly gain from tax cuts and Working for Families indexation	
	From 1 Oct 2008	**From 1 April 2011**
Two earner family with two children under 13 earning $45,000 and $20,000	$42.76	$84.55
One earner family with two children under 13 earning $45,000	$30.83	$62.82
Two earner family with one child under 13 both earning $20,000	$35.16	$67.76
One earner family with one child under 13 earning $45,000	$27.85	$56.42
One earner family with one child under 13 earning $35,000	$16.21	$30.94

Why are we doing it?

1. To provide timely tax relief for taxpayers

The tax cuts, along with the changes to Working for Families, will provide timely relief to households with stretched budgets due to recent cost increases.

All workers will benefit from these tax cuts, which will see a new low rate of 12.5% for workers on modest incomes and will raise tax thresholds for workers on middle and higher incomes.

2. To build on previous tax relief

In the last four Budgets, this government has reduced taxes benefiting a wide range of New Zealanders. By 2011, this tax relief will total $4.6bn a year (excluding Working for Families indexation), which has included support for:

- businesses through the Business Tax Reform package
- families through the introduction of Working for Families
- savers and investors through the introduction of KiwiSaver and the introduction of the capped tax rate for portfolio investment entities.

3. To simplify the tax system

New Zealand's tax system is relatively simple and straightforward compared to other countries, and these changes continue that approach. Most taxpayers don't need to do anything to benefit from these tax cuts.

Q&A on tax relief for individuals & families

A. Tax cuts – individuals

What are the new tax rates?

The table below shows the new tax rates being rolled out from 1 October 2008, 1 April 2010 and 1 April 2011, as compared to the current tax rates:

	NEW RATES		
Current rates	**On 1 October 2008**	**On 1 April 2010**	**On 1 April 2011**
15% to $9,500	12.5% to $14,000	12.5% to $17,500	12.5% to $20,000
21% to $38,000	21% to $40,000	21% to $40,000	21% to $42,500
33% to $60,000	33% to $70,000	33% to $75,000	33% to $80,000
39% over $60,000	39% over $70,000	39% over $75,000	39% over $80,000

When do the tax cuts take effect?

Wage and salary earners will start to benefit from these tax cuts from 1 October 2008. The tax cuts will result in lower tax being withheld by employers (pay as you earn or PAYE deductions) in the first pay period that ends on or after 1 October 2008.

How much will I save?

The table below shows the weekly tax savings for three sample workers over the three year phasing of the tax cuts – a fulltime worker on the current minimum wage of $12 per hour, a worker at the average wage and a worker at twice the average wage:

Workers without children	**Weekly tax saving from**		
	1 October 2008	**1 April 2010**	**1 April 2011**
Full-time on minimum wage ($24,960)	$11.92	$17.64	$21.73
Average wage ($45,800)*	$16.54	$22.26	$32.12
Twice average wage ($91,600)	$28.08	$39.57	$55.19

* Quarterly Employment Survey (March 2008 quarter), Statistics NZ – ordinary time average weekly earnings per FTE

Who benefits from the tax cuts?

All workers will pay less tax as a result of these tax changes. In particular, the personal tax cuts benefit:

1. People on low incomes – the reduction in the bottom rate to 12.5% means that all workers will pay less tax. It particularly targets earners in part-time work or those earning around the minimum wage. The 12.5% rate will also improve the incentive for those on benefits and low wages to move into work, or for those working part-time to work more hours.

2. People earning around the average wage – raising the 33% threshold targets those around the average wage and provides additional tax relief to families with children who benefit from Working for Families. Importantly it reduces high effective marginal tax rates for many taxpayers.

3. People paying the highest rate of tax – the changes to the 39% threshold will move nearly 300,000 New Zealanders off the top marginal tax rate once it is fully phased in by April 2011.

4. Beneficiaries who are in part-time work and Superannuitants.

How do the tax cuts affect people at different levels of income?

These tax cuts will benefit all workers, and are designed to give New Zealanders a growth dividend following eight and a half years of strong economic growth. In designing this tax cut package, we have looked to ensure that changes don't disproportionately benefit those on the very highest incomes at the expense of those on the very lowest.

The 20% of households on lowest incomes will receive the biggest increase as a proportion of their disposable income (a 5% increase in disposable income). However, because their incomes are lower, these households receive the smallest increase in disposable income from the tax cuts (an average of $15 per week).

These personal tax cuts will, at full implementation, cut personal tax by roughly one quarter at the current level of the full-time minimum wage, one sixth at the current level of the full-time average wage and one eighth at $80,000 a year.

B. Changes to Working for Families

What are the changes to Working for Families?

The Working for Families tax credits consist of a range of tax credits:

- Family Tax Credit
- In-Work Tax Credit
- Parental Tax Credit
- Minimum Family Tax Credit

Budget 2008 provides two key changes to the Family Tax Credit from 1 October 2008:

1. The Family Tax Credit, which is based on the number and age of your children, will increase. All 371,000 families who qualify for Working for Families will benefit from this change.

2. The family income threshold will also be increased to take account of inflation. This means that at any level of income above $35,000, you will also receive an extra $7 per week boost to your Working for Families tax credits.

What is the new income threshold?

From 1 October 2008, the income threshold will increase to $36,827. As with the changes to personal tax, changing the income threshold from 1 October will require a composite rate for the year. The composite rate will be $35,914. More details on composite rates can be found in the Q&A on technical information.

How will I benefit?

The gains depend on the number of children in a family and also whether the family earns above the income threshold.

	Weekly gain from tax cuts and Working for Families indexation	
	From 1 Oct 2008	**From 1 April 2011**
Two earner family with two children under 13 earning $45,000 and $20,000	$42.76	$84.55
One earner family with two children under 13 earning $45,000	$30.83	$62.82
Two earner family with one child under 13 both earning $20,000	$35.16	$67.76
One earner family with one child under 13 earning $45,000	$27.85	$56.42
One earner family with one child under 13 earning $35,000	$16.21	$30.94

What savings will I make under the new rates?

The table below shows the new Family Tax Credit rates that will apply from 1 October 2008, as compared with the old weekly rates:

Weekly rate	**Old weekly rates**	***NEW* weekly rates from 1 October 2008**
First child if under 16	$82.00	$86.29
First child if 16 or over	$95.00	$99.96
Subsequent child rate if under 13	$57.00	$59.98
Subsequent child rate if 13 to 15	$65.00	$68.40
Subsequent child rate if 16 or over	$85.00	$89.44

In addition, the increase in the income threshold means that all families earning above the income threshold will get an extra $7 per week.

Why are you changing Working for Families now?

The Working for Families legislation requires that the income threshold and the level of the Family Tax Credit rates be adjusted for inflation when the CPI movement cumulatively reaches 5% from 1 April 2007.

Treasury forecasts indicate that this trigger will be reached in September 2008 (18 months after 1 April 2007). Normally, this inflation adjustment would be applied from 1 April 2009, but the government has decided to bring it forward to 1 October 2008 so that families and households currently under pressure from increased costs can benefit from this tax relief sooner.

As my Working for Families entitlements increase, will it mean that other forms of social assistance I get will fall?

Some forms of social assistance, such as the accommodation supplement and income related rents are affected by the level of the Family Tax Credit. Where this occurs, the fall in this assistance will be less than the rise in the Family Tax Credit and therefore no one is worse off.

C. Tax cuts – superannuitants & beneficiaries

Do superannuitants benefit from the tax cuts?

Yes. After tax payments of New Zealand Superannuation will increase from 1 October 2008 as a result of the changes to personal tax rates. The increase for a married couple is $45.88 a fortnight and $23.84 for a single superannuitant living alone.

This increase is in addition to the annual adjustments made to reflect increases to living costs. As the new tax package is rolled out, there will be further increases to the rates of net New Zealand Superannuation on 1 April 2010 and 2011.

Note – for further details on how superannuitants benefit from the tax cuts, see the Fact sheet for superannuitants.

Do beneficiaries gain from the tax cuts?

Beneficiaries with children will benefit from the inflation increase to the Family Tax Credit. Beneficiaries that are working part-time will also pay less tax on income from part-time work.

Benefits rates are set on an after tax basis, so the tax cuts won't flow through to change benefit rates. Benefits will continue to be increased each year to take account of increases in the costs of living, with the next increase timed for 1 April 2009.

D: Budget 2008 tax relief – general information

Why are you implementing the tax cuts mid-year from 1 October 2008 instead of 1 April 2009?

New Zealand's economy has begun to feel the effects of a challenging global environment. Global increases in commodity prices have seen the cost of food and petrol increase significantly here at home. The continued fallout from the subprime mortgage crisis in the United States and the resulting global credit crunch have led to higher mortgage rates and a weakening of the housing market domestically, squeezing the budgets of existing homeowners and reducing household spending and investment.

The weakness of the US dollar has been the main driver of a very strong NZ dollar, making life difficult for some exporters. Adding to this, farmers are battling drought in a number of regions and GDP growth will slow as a result.

While not of New Zealand's making these challenges are affecting New Zealanders today. A tax cut now will provide real relief to hardworking New Zealanders; at a time when they need it and the economy needs it and can afford it.

How much will the tax cuts cost?

The table below shows how much New Zealanders will be receiving back in their pockets over the three years of tax cuts:

	Year			
	2008/09 $ million	**2009/10 $ million**	**2010/11 $ million**	**2011/12 $ million**
Phase 1: From 1 October 2008	1,515	2,101	2,150	2,161
Phase 2: From 1 April 2010	0	173	695	711
Phase 3: From 1 April 2011	0	0	216	887
Total	**1,515**	**2,274**	**3,061**	**3,759**

How can the government afford tax cuts given current economic challenges?

Over the past 9 years, the government has considerably strengthened the fiscal position. For example, we have reduced gross sovereign-issued debt (excluding Reserve Bank settlement cash) from over 30% of GDP at the beginning of the century to under 20% now. In fact, growth in GDP and tax revenue have been consistently faster than expected over our term in government, allowing us to achieve our fiscal objectives much faster than anticipated. Given this position of financial strength, we are able to deliver a sizable tax package over the next three years whilst remaining consistent with our long term debt and operating balance objectives such as accumulating financial assets in the NZ Superannuation Fund.

Will tax cuts and the Working for Families impact inflation?

After the longest period of economic growth in New Zealand since the end of World War II, economic growth is slowing with downside risks coming from international influences and an easing labour market. The softening economy gives us greater scope to reduce taxes without exacerbating inflationary pressures.

While the government is aware that inflation is high at present, not least because of high world food and oil prices, inflation is expected to decline back inside the 1-3% target over the next few years. In addition to slowing growth, the delay of the introduction of fossil fuels into the Emissions Trading Scheme until 2011 will help reduce inflation pressures.

Will the government have to borrow or cut back on services to pay for the tax cuts?

This package of tax relief is consistent with the government's debt target, and will not be funded by cutting back on public services. The government's debt objective is to ensure that gross sovereign-issued debt (excluding Reserve Bank settlement cash) remains broadly stable at around 20% of GDP. Based on current projections by the Treasury, we remain on track to achieve this. In addition, Treasury projections continue to allow room for increased investment in public services through projecting an allowance for new operating and capital expenditure.

How much is the inflation adjustment to Working for Families costing?

The total cost of the adjustment is $1.1 billion over the period 2008/09 to 2011/12. The cost of bringing the indexation forward from 1 April 2009 to 1 October 2008 is $99 million in the 2008/09 fiscal year and $16 million in the 2009/10 fiscal year. The small fiscal cost in the 2009/10 year arises because some people get their tax credits paid out at the end of the year, which means some expenditure falls in the following fiscal year.