



POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **CPI indexation of Family Tax Credit/Best Start Tax Credit and adjustment of Minimum Family Tax Credit: Cabinet documents**

Date:	20 October 2022	Priority:	Medium
Security level:	In Confidence	Report number:	IR2022/479

Action sought

	Action sought	Deadline
Minister of Revenue	<p>Agree to recommendations so officials can instruct PCO to begin drafting the regulations</p> <p>Authorise the lodgement of the attached Cabinet paper</p>	<p>Lodge in time for Cabinet Legislation Committee at 9:15 a.m. on 27 October 2022.</p>

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead	s 9(2)(a)
Josh Fowler	Senior Policy Advisor	

20 October 2022

Minister of Revenue

CPI indexation of Family Tax Credit/Best Start Tax Credit and adjustment of Minimum Family Tax Credit: Cabinet documents

Discussion

Best Start and Family Tax Credits

1. You will recall that under the Income Tax Act 2007, the Family Tax Credit (FTC) and Best Start Tax Credit (BSTC) must be adjusted for inflation once the cumulative value of quarterly increases in the CPI reaches 5% since the payment rates were last adjusted.
2. These adjustments ensure the FTC and BSTC retain their real value over time and are achieved through Orders in Council (OIC) under a process set out in the Income Tax Act 2007.
3. The FTC and BSTC were last adjusted with effect from 1 April 2022. Our cross-agency report late last month (IR2022-440 refers) drew Ministers' attention to the likelihood that the September CPI figures would indicate the 5% threshold would be reached. Ministers agreed that the FTC and BSTC rates should be increased to reflect CPI when this occurs.
4. On 18 October 2022, the CPI figures for the September 2022 quarter were released. As expected, these recent figures indicate that inflation has exceeded 5% since payment rates were last adjusted and that the current FTC and BSTC rates therefore need to be increased. This will mean that the:
 - 4.1 The FTC rate will increase from:
 - 4.1.1 For the eldest child, from \$6,642 to \$7,121 (i.e. from \$127 to \$136 per week) after tax;
 - 4.1.2 For a subsequent child, from \$5,412 to \$5,802 (i.e. from \$104 to \$111 per week) after tax; and
 - 4.2 BSTC rate will increase from \$3,388 to \$3,632 (i.e. from \$65 to \$69 per week) after tax.
5. Although the FTC has been increased by OIC before, this will be the first time the BSTC will have been increased using OIC.

Minimum Family Tax Credit

6. The adjustment of the Minimum Family Tax Credit (MFTC) threshold is required under Cabinet policy rather than by legislation. The intention of the MFTC is to ensure low income working families remain better off financially in full time work than they would be on a main benefit.
7. Because benefit rates are expected to increase from 1 April 2023, the MFTC will similarly need to be increased to ensure that the policy intention is achieved. Based on the projected Half Yearly Economic Fiscal Update (HYEFU) figures, the MFTC will increase from \$32,864 to \$34,164 (after tax) per annum.

8. However, because the HYEPU figures will not be available until 9 November 2022, our current projected change to the MFTC is based on preliminary HYEPU figures. We recommend the enclosed Cabinet Legislation Committee paper delegate authority to the Minister of Revenue to revise the MFTC as may be required once the confirmed HYEPU figures are available.
9. We will provide you with further policy advice on MFTC settings if the Sole Parent Benefit differs materially from its expected position once it is confirmed in February 2023.

Summary of changes

10. The confirmed changes to the credits discussed above can be summarised below. No change is required to the In Work tax Credit as it is linked to work incentives and is not increased with price inflation.

Tax credit payment: (annualised)	From (\$)	To (\$)	Change (\$)	Fiscal cost (\$m)
Family Tax Credit				
Eldest child rate	6,642	7,121	479	249
Subsequent child rate	5,412	5,802	390	
Best Start Tax Credit	3,388	3,632	244	23
Minimum Family Tax Credit threshold	32,864	34,164	1,300	5
In-work Tax Credit*	3,770	3,770	n/a	19

*The in-work tax credit cost increase is due to higher FTC payments.

Funding implications

11. The higher than expected CPI of 7.2% released on 18 October 2022 will increase the costs of CPI indexation which had been estimated at Budget Economic and Fiscal Update 2022 (BEFU 2022) by \$5.7m in the 2022/23 Financial Year and \$20.0m in the 2023/24 Financial Year.
12. However, the preliminary results from the Half Year Economic and Fiscal Update 2022 (HYEPU 2022) indicate that the increased costs from the CPI indexation will be more than offset by other factors (e.g. wage growth) which will reduce the total cost of Working for Families in the 2022/23 and 2023/24 Financial Years. Any difference will be adjusted in the final HYEPU forecasts.

Compliance and administrative implications

13. There are no compliance cost implications or changes in administration costs associated with increasing the value of the FTC, BSTC and MFTC. Publications and systems will be updated with the new level as part of the Ministry of Social Development and Inland Revenue's existing annual processes

Communication

14. We understand the Government would like to announce these changes following their consideration at Cabinet Legislation Committee on 27 October 2022. We are able to liaise with your office as required and provide you with supporting materials for an announcement.

Consultation

15. The Ministry of Social Development and the Treasury have been consulted during the preparation of this report and agree with its recommendations.

Proactive release considerations

16. Officials recommend that this Cabinet paper, associated minutes, and key advice papers should be proactively released within 30 working days of Cabinet making final decisions. Personal information will be redacted.

Next steps

17. Giving effect to your decisions will require the following administrative steps:
 - 17.1 Subject to your approval, lodging the Cabinet paper in time for Cabinet Legislation Committee on **27 October 2022**; and
 - 17.2 Providing drafting instructions to Parliamentary Counsel Office (PCO) so that the Order in Council can be prepared and provided to Executive Council for **14 November 2022**;
18. A draft Cabinet paper has been attached for you to take for consideration to the Cabinet Legislation Committee meeting on **27 October 2022**.
19. We will provide your Office with a set of speaking notes to assist you at that meeting.

Recommended action

We recommend that you:

Changes to Working for Families Tax Credits

1. **Note** that the recent decision to make CPI-indexation increases to FTC and BSTC rates will result in the:
 - a. FTC rate increasing:
 - i. For the eldest child, from \$6,642 to \$7,121 (i.e. from \$127 to \$136 per week) after tax;
 - ii. For a subsequent child, from \$5,412 to \$5,802 (i.e. from \$104 to \$111 per week) after tax; and
 - b. BSTC rate will increase from \$3,388 to \$3,632 (i.e. from \$65 to \$69 per week) after tax.

Noted

2. **Note** that the MFTC for the 2023/24 tax year is projected to increase from \$32,864 to \$34,164 after tax (or \$38,647 to \$40,223, gross).

Noted

3. **Note** that there are no funding implications from increasing the FTC/BSTC rates or the MFTC threshold for the 2023/24 financial year as the increased costs from the CPI indexation will be more than offset by other factors (e.g. wage growth) which will reduce the total cost of Working for Families in the 2022/23 Fiscal Year.

Noted

MFTC Policy Intention and Adjustments

4. **Note** that the policy intention of the MFTC is to ensure that low income working families remain better off financially in full time work than they would be on a main benefit.

Noted

5. **Note** the current projected MFTC increase is based on preliminary Half Year Economic Fiscal Update (HYEFU) forecasts, which will be confirmed after 9 November 2022.

Noted

6. **Note** that the enclosed Cabinet Legislation Committee paper seeks the delegated authority for the Minister of Revenue to revise the MFTC as may be required once the confirmed HYEFU figures are available.

Noted

7. **Note** that we will provide you with further policy advice on MFTC settings if the rate of Sole Parent Support main benefit differs materially from its expected position once it is confirmed in February 2023.

Noted

Procedure

8. **Note** there is a legislative requirement under section MF 7 of the Income Tax Act 2007 for the rate and threshold amounts to be set via Order in Council by no later than 1 December 2022 if it is to apply from 1 April 2023 (in effect).

Noted

9. **Agree** that the Parliamentary Counsel Office be instructed to draft the necessary regulations to bring into effect the decision in recommendations (1) and (2), above, for consideration by Cabinet Legislation Committee.

Agreed/Not agreed

10. **Note** that we have proposed you seek Cabinet Legislation Committee's authorisation to allow you to submit the Order in Council (once drafted) to the Executive Council at its meeting on 14 November 2022.

Noted

11. **Note** that we will provide your office with speaking notes for you to take to the Cabinet Legislation Committee meeting on 27 October 2022.

Noted

12. **Agree** to proactively release this Cabinet paper, associated minutes, and key advice papers, in line with the provisions of the Official Information Act 1982, within 30 working days of Cabinet making final decisions.

Agreed/Not agreed

13. **Refer** this report to the Prime Minister/Minister for Child Poverty Reduction, Minister of Finance and Minister for Social Development and Employment.

Referred

Timing

14. **Note** that if you agree to the recommendations above, the following timeline will apply:

27 October 2022	Cabinet Legislation Committee meeting
31 October 2022	Cabinet confirms decision
14 November	Order signed at Executive Council
Before December	Public announcement and proactive release of papers
1 April 2023	Rate changes come into effect

Noted

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Maraina Hak

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Policy and Regulatory Stewardship

Hon David Parker

Minister of Revenue

/ /2022