

Income Tax (Adjustment of Taxable Income Ranges) Amendment Bill

Member's Bill

Explanatory note

General policy statement

The purpose of this Bill is to keep income tax thresholds in line with inflation. Currently, there are no automatic adjustments to the tax thresholds which means that over time individuals move into higher tax brackets without taking into account the rising cost of living.

This Bill will amend the Income Tax Act so that every three years - 12 months after every election - the income tax brackets will be reviewed to keep them in line with inflation (CPI) since the previous adjustment. Every tax threshold will need to increase by the level of inflation since the previous adjustment. The adjustment would be effected by Order in Council to ensure that the Government of the day may prevent the change if it believes it has a good reason to do so.

The absence of periodic adjustments to the tax thresholds is effectively a tax increase by stealth. This Bill will require Governments to either adjust the thresholds, or explain why they have not done so, if it wishes to increase taxes on New Zealanders.

Clause by clause analysis

Clause 1 is the title clause.

Clause 2 is the commencement clause and provides that the Bill comes into force on the day after Royal assent.

Clause 3 identifies the Income Tax Act 2007 as the Act being amended (the **principal Act**).

Clause 4 amends section YA 1 (Definitions) of the principal Act to insert a definition of **specified dollar range** to identify the relevant thresholds in the principal Act that are to be adjusted by the mechanism provided for in this Bill.

Clause 5 inserts *new sections YA 2A and YA 2B*. *New section YA 2A* requires specified dollar ranges to be reviewed within 12 months of a general election to determine if they need to be adjusted to reflect any percentage movement in the consumer price index. Any necessary adjustments to the specified dollar ranges are to be made by regulations (empowered to be made under *new section YA 2B*). If adjustment is required but regulations are not made, *new section YA 2A(3)* requires the Minister to explain the reasons for not making the adjustments to the House of Representatives.

Hon Simon Bridges

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Contents

	Page
1 Title	1
2 Commencement	1
3 Principal Act	1
4 Section YA 1 amended (Definitions)	1
5 New sections YA 2A and YA 2B inserted	2
YA 2A Indexation of specified dollar ranges	2
YA 2B Regulations	2

The Parliament of New Zealand enacts as follows:

1 Title

This Act is the Income Tax (Adjustment of Taxable Income Ranges) Amendment Act **2021**.

2 Commencement

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This Act comes into force on the day after the date on which it receives the Royal assent.

3 Principal Act

This Act amends the Income Tax Act 2007 (the **principal Act**).

4 Section YA 1 amended (Definitions)

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In section YA 1, insert the following definition in its appropriate alphabetical order:

specified dollar range means the dollar ranges set out in the following tables:

- (a) Schedule 1, Part A, Table 1:
- (b) Schedule 1, Part C, Table 1:
- (c) Schedule 1, Part D, Table 1:
- (d) Schedule 6, Table 1

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5 New sections YA 2A and YA 2B inserted

After section YA 2, insert:

YA 2A Indexation of specified dollar ranges

Review of specified dollar ranges

- (1) The Commissioner must, within 12 months of the return of the writ after a general election, review all specified dollar ranges to determine if they should be adjusted to reflect movement in the consumers price index in the period since the specified dollar ranges were last reviewed. 10
- (2) For the purpose of **subsection (1)**, a movement in the consumers price index over the period is determined by comparing the following numbers: 15
 - (a) the number that, when the period started, was the most recent quarterly index number of the New Zealand Consumers Price Index all groups:
 - (b) the number that, when the period ended, was the most recent quarterly index number of the New Zealand Consumers Price Index all groups.
- (3) In the case of the first review under this section, the number to be used for the purposes of **subsection (2)(a)** is the quarterly index number of the New Zealand Consumers Price Index all groups for the quarter that ended 3 years prior to the quarter to be used for the purposes of **subsection (2)(b)**. 20

Adjustment of specified dollar ranges by Order in Council

- (4) If the Commissioner concludes that any of the specified dollar ranges require adjustment, the relevant range or ranges must be adjusted by regulations made under **section YA 2B**. 25

Declining to adjust specified dollar range when required by review

- (5) Despite **subsection (4)**, the Minister may decline to recommend that regulations be made under **section YA 2B** and, if so, the Minister must present to the House of Representatives a report that explains their reasons for declining to recommend the making of regulations to adjust the specified dollar ranges. 30

Defined in this Act: Commissioner, Minister, specified dollar range

YA 2B Regulations

When this section applies

- (1) This section applies for the purposes of **section YA 2A**. 35

Specifications

- (2) The Governor-General may, by Order in Council, made on the recommendation of the Minister, make regulations to adjust a specified dollar range by replacing the figures in that range.

Timing of Order in Council

- (3) An Order in Council made under this section must be made no later than 1 December in any year and must apply from 1 April following that date.

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