

Taxation (Budget Measures: Family Incomes Package) Bill

Government Bill

Explanatory note

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 2 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 2 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 only 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, re-prioritising 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		-	-
Eldest child, 0 – 15	\$4,822	\$5,303	\$481	\$9.25
Subsequent child, 16 – 18	\$4,745		-	-
Subsequent child, 13 – 15	\$3,822	\$4,745	\$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.

Departmental disclosure statement

The Treasury is required to prepare a disclosure statement to assist with the scrutiny of this Bill. The disclosure statement provides access to information about the policy development of the Bill and identifies any significant or unusual legislative features of the Bill.

A copy of the statement can be found at <http://legislation.govt.nz/disclosure.aspx?type=bill&subtype=government&year=2017&no=265>

Regulatory impact statement

The Treasury produced a regulatory impact statement on 12 April 2017 to help inform the main policy decisions taken by the Government relating to the contents of this Bill.

A copy of this regulatory impact statement can be found at—

- <http://www.treasury.govt.nz/publications/informationreleases/ris>

Clause by clause analysis

Clause 1 gives the title of the Act.

Clause 2 gives the dates on which clauses come into effect.

Part 1

Amendments to Income Tax Act 2007

Clause 3 sets out the clauses that affect the Income Tax Act 2007.

Clause 4 amends *section HC 24*, to remove a cross-reference as a consequence of repealing the independent earner tax credit.

Clause 5 repeals a *cross-heading and section LC 13*, to repeal the independent earner tax credit.

Clause 6 amends *section MD 3*, to increase the family tax credit, and to align the family tax credit rates for younger children with the higher older children rates.

Clause 7 amends *section MD 13*, to decrease the threshold at which family credit abatement starts, and to increase the rate of abatement.

Clause 8 amends *section MF 7*. *Subclause (1)* amends cross-references, as a consequence of aligning family tax credit rates for younger children with the higher older children rates. *Subclause (2)* ensures that, as a drafting matter, temporary amendments

previously made in 2010 apply after the repeal of *section 8* of the *Customs and Excise (Tobacco Products—Budget Measures) Amendment Act 2016*. *Subclauses (3) and (6)* repeal Order in Council empowering provisions made redundant as a consequence of aligning family tax credit rates for younger children with the higher older children rates. *Subclause (4)* resets the start of the period for measuring movement in the Consumer Price Index to 1 April 2018, as a consequence of aligning family tax credit rates. *Subclause (5)* ensures that temporary amendments previously made apply and that cross-references are correct, as a consequence of aligning family tax credit rates.

Clause 9 amends *section RC 5*, to amend cross-references, as a consequence of providing tax relief to personal standard method provisional taxpayers.

Clause 10 amends *section RC 10*, to amend cross-references, as a consequence of providing tax relief to personal standard method provisional taxpayers.

Clause 11 amends *section RD 10*, as a consequence of increasing the bands at which lower personal tax rates apply.

Clause 12 amends *section RD 17*, as a consequence of increasing the bands at which lower personal tax rates apply.

Clause 13 replaces *sections RZ 1 to RZ 5D*, with *new sections RZ 1 and RZ 2*. *New sections RZ 1 and RZ 2* provide tax relief to personal standard method provisional taxpayers as a consequence of increasing the bands at which lower personal tax rates apply.

Clause 14 amends *section YA 1*. *Subclauses (2), (4), and (5)* amend cross-references as a consequence of repealing the independent earner tax credit. *Subclause (3)* replaces the definition of *new personal tax rate person* with a new definition of *new personal tax threshold person*, as part of providing tax relief to personal standard method provisional taxpayers as a consequence of increasing the bands at which lower personal tax rates apply.

Clause 15 amends *schedule 1*, to increase the bands at which lower personal tax rates apply, as part of the family incomes package.

Clause 16 amends *schedule 2*, as a consequence of increasing the bands at which lower personal tax rates apply, and repealing the independent earner tax credit.

Clause 17 amends *schedule 6*, as a consequence of increasing the bands at which lower personal tax rates apply.

Clause 18 amends *schedule 31*, as a consequence of decreasing the threshold at which family tax credit abatement starts, and increasing the rate of abatement.

Part 2

Amendments to other enactments

Amendments to Tax Administration Act 1994

Clause 19 sets out the clauses that amend the Tax Administration Act 1994.

Clause 20 amends *section 24B*, to amend PAYE codes as a consequence of increasing the bands at which lower personal tax rates apply, and repealing the independent earner tax credit.

Clause 21 amends *section 33AA*, to amend non-filing thresholds as a consequence of increasing the bands at which lower personal tax rates apply.

Clause 22 amends *section 33C*, to amend non-filing thresholds as a consequence of increasing the bands at which lower personal tax rates apply.

Amendments to Taxation (Annual Rates and Budget Measures) Act 2011

Clause 23 amends the *Taxation (Annual Rates and Budget Measures) Act 2011*, as a consequence of decreasing the threshold at which family tax credit abatement starts, and increasing the rate of abatement.

Amendment to Customs and Excise (Tobacco Products—Budget Measures) Amendment Act 2016

Clause 24 amends the *Customs and Excise (Tobacco Products—Budget Measures) Amendment Act 2016*, as a drafting matter, to remove application dates for *Income Tax Act 2007* provisions that are overtaken by amendments proposed in this Bill.

Hon Steven Joyce

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The Parliament of New Zealand enacts as follows:

1 Title

This Act is the Taxation (Budget Measures: Family Incomes Package) Act **2017**.

2 Commencement

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- (1) This Act comes into force on the date on which it receives the Royal assent, except as provided in this section.
- (2) **Part 1** comes into force on 1 April 2018.
- (3) **Part 2** other than **section 24** comes into force on 1 April 2018.
- (4) **Section 24** is treated as coming into force on 30 May 2016.

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Part 1
Amendments to Income Tax Act 2007

- 3 Income Tax Act 2007 amended**
This Part amends the Income Tax Act 2007.
- 4 Section HC 24 amended (Trustees' obligations)** 5
- (1) In section HC 24(2), replace “subparts LC and LD (which relate to tax credits for natural persons and for certain gifts)” with “subpart LD (Tax credits for gifts and donations)”.
- (2) This section applies for the 2018–19 and later tax years.
- 5 Cross-heading and section LC 13 repealed (Tax credits for independent earners)** 10
- (1) The cross-heading before section LC 13 is repealed.
- (2) Section LC 13 is repealed.
- (3) This section applies for the 2018–19 and later tax years.
- 6 Section MD 3 amended (Calculation of family tax credit)** 15
- (1) Replace section MD 3(4)(a) and (b) with:
- (a) for the eldest dependent child for whom the person is a principal caregiver during the entitlement period, \$5,303; and
- (b) for each dependent child for whom the person is a principal caregiver during the entitlement period, other than the eldest dependent child, \$4,745. 20
- (2) In section MD 3(6), replace “subsection (4)(a)(i) and (ii), and (b)(i) to (iii)” with “**subsection (4)(a) and (b)**”.
- (3) This section applies for the 2018–19 and later tax years.
- 7 Section MD 13 amended (Calculation of family credit abatement)** 25
- (1) In section MD 13(3)(a)(i), replace “\$36,350, 22.5 cents” with “\$35,000, 25 cents”.
- (2) In section MD 13(3)(a)(ii), replace “\$36,350, 22.5 cents” with “\$35,000, 25 cents”.
- (3) This section applies for the 2018–19 and later tax years. 30
- 8 Section MF 7 amended (Orders in Council)**
- (1) In section MF 7(1)(a), in the words before the subparagraphs, replace “section MD 3(4)(a)(i) and (b)(i) and (ii)” with “**section MD 3(4)(a) and (b)**”.
- (2) Replace section MF 7(1)(a)(i) with:

- (i) correspond to the movement in the New Zealand Consumer Price Index that has not yet been taken into account by an increase:
- (3) Repeal section MF 7(1)(ab).
- (4) Replace section MF 7(2)(a) and (b) with:
- (a) in the case of the first Order in Council made under **subsection (1)(a)**, must be made when the total percentage increase in the movement in the New Zealand Consumers Price Index measured from that applying on 1 October 2008 is 5% or more: 5
- (b) in the case of the second Order in Council under **subsection (1)(a)**, must be made when the total percentage increase in the movement in the New Zealand Consumers Price Index measured from that applying on 1 April 2018 is 5% or more: 10
- (c) in the case of a subsequent Order in Council under **subsection (1)(a)**, must be made when the total percentage increase in the movement in the New Zealand Consumers Price Index measured from that applying on the date when the requirement to make the immediately preceding adjustment arose is 5% or more. 15
- (5) Replace section MF 7(2B) with:
- How movement in CPI determined*
- (2B) For the purposes of **subsections (1)(a)(i) and (2)(a), (b), and (c)**, a movement in the New Zealand Consumers Price Index over a period is determined by comparing the following numbers: 20
- (a) the number that, when the period started, was the most recent quarterly index number of the New Zealand Consumers Price Index all groups excluding cigarettes and other tobacco products: 25
- (b) the number that, when the period ended, was the most recent quarterly index number of the New Zealand Consumers Price Index all groups excluding cigarettes and other tobacco products.
- (6) Repeal section MF 7(2C).
- (7) This section applies for the 2018–19 and later tax years. 30
- 9 Section RC 5 amended (Methods for calculating provisional tax liability)**
- (1) In section RC 5(4), replace “Sections RZ 3 (Standard method: 2010–11 to 2012–13 income years) and RZ 5D (Standard method or GST method: transition for Maori authorities)” with “**Section RZ 1** (Calculating amounts under standard method: section RC 5: 2018–19 and 2019–20 income years)”. 35
- (2) This section applies for the 2018–19 and later income years.
- 10 Section RC 10 amended (Calculating amount of instalment under standard and estimation methods)**
- (1) Replace section RC 10(3)(a)(i) and (ii) with:

(i)	for the preceding tax year, uplifted by 5% (modified as applicable by section RZ 2 (Calculating amounts under standard method: section RC 10: 2018–19 and 2019–20 income years)); or	
(ii)	for the tax year before the preceding tax year, uplifted by 10% (modified as applicable by section RZ 2 ; or	5
(2)	This section applies for the 2018–19 and later income years.	
11	Section RD 10 amended (Amounts of tax for PAYE income payments)	
(1)	In section RD 10(2)(a), replace “\$48,000” with “\$52,000”.	
(2)	This section applies for the 2018–19 and later income years.	
12	Section RD 17 amended (Payment of extra pay with other PAYE income payments)	10
(1)	In section RD 17(2)(a), replace “\$14,000” with “\$22,000”.	
(2)	In section RD 17(2)(b), replace “\$14,000” with “\$22,000”.	
(3)	In section RD 17(2)(b), replace “\$48,000” with “\$52,000”.	
(4)	In section RD 17(2)(c), replace “\$48,000” with “\$52,000”.	15
(5)	In section RD 17(4)(c)(ii), replace “\$14,001” with “\$22,001”.	
(6)	In section RD 17(4)(c)(iii), replace “\$48,001” with “\$52,001”.	
(7)	This section applies for the 2018–19 and later income years.	
13	Sections RZ 1 to RZ 5D replaced	
(1)	Sections RZ 1 to RZ 5D are replaced by:	20
RZ 1	Calculating amounts under standard method: section RC 5: 2018–19 and 2019–20 income years	
	<i>When this section applies</i>	
(1)	This section applies to the calculation of a person’s provisional tax liability when—	25
(a)	section RC 5 (Methods for calculating provisional tax liability) applies for the person, for instalments payable for the 2018–19 and 2019–20 income years; and	
(b)	the person is a new personal tax threshold person.	
	<i>Standard method modified: for 5% uplift</i>	30
(2)	The standard method under section RC 5(2) is modified so that for the 2018–19 income year, instead of using 105%, the amount of provisional tax payable is calculated using 100%.	

<i>Standard method modified: for 10% uplift</i>	
(3) The standard method under section RC 5(3) is modified so that for the 2018–19 and 2019–20 income years, instead of using 110%, the amount of provisional tax payable is calculated using 105%.	
Defined in this Act: amount, income year, new personal tax threshold person, pay, provisional tax	5
RZ 2 Calculating amounts under standard method: section RC 10: 2018–19 and 2019–20 income years	
<i>When this section applies</i>	
(1) This section applies to the calculation of a person’s provisional tax liability when—	10
(a) section RC 10 (Calculating amount of instalment under standard and estimation methods) applies for the person, for instalments payable for the 2018–19 and 2019–20 income years; and	
(b) the person is a new personal tax threshold person.	
<i>Standard method modified: for 5% uplift</i>	15
(2) In the calculation of the amount of an instalment, section RC 10(3)(a)(i) is modified so that for the 2018–19 income year, instead of using a 5% uplift, the amount of provisional tax payable is calculated using a 0% uplift.	
<i>Standard method modified: for 10% uplift</i>	
(3) In the calculation of the amount of an instalment, section RC 10(3)(a)(ii) is modified so that for the 2018–19 and 2019–20 income years, instead of using a 10% uplift, the amount of provisional tax payable is calculated using an 5% uplift.	20
Defined in this Act: amount, income year, new personal tax threshold person, pay, provisional tax	
(2) This section applies for the 2018–19 and later income years.	25
14 Section YA 1 amended (Definitions)	
(1) This section amends section YA 1.	
(2) In the definition of civil union partner , delete “and in section LC 13 (Tax credits for independent earners)”.	
(3) Replace the definition of new personal tax rate person with:	30
new personal tax threshold person means a person whose basic rate of income tax is calculated under schedule 1, part A, clause 1 (Basic tax rates: income tax, ESCT, RSCT, RWT, and attributed fringe benefits) for the 2018–19 income year or a later income year	
(4) In the definition of non-refundable tax credit , repeal paragraph (a).	35
(5) In the definition of residual income tax , repeal paragraph (b)(iiic).	
(6) This section applies for the 2018–19 and later income years.	

15 Schedule 1 amended (Basic tax rates: income tax, ESCT, RSCT, RWT, and attributed fringe benefits)

- (1) In schedule 1, part A, table 1, row 1, replace “\$14,000” with “\$22,000”.
- (2) In schedule 1, part A, table 1, row 2, replace “\$14,001–\$48,000” with “\$22,001–\$52,000”. 5
- (3) In schedule 1, part A, table 1, row 3, replace “\$48,001” with “\$52,001”.
- (4) In schedule 1, part C, table 1, row 1, replace “\$12,530” with “\$19,690”.
- (5) In schedule 1, part C, table 1, row 2, replace “\$12,531–\$40,580” with “\$19,691–\$44,440”.
- (6) In schedule 1, part C, table 1, row 3, replace “\$40,581–\$55,980” with “\$44,441–\$57,040”. 10
- (7) In schedule 1, part C, table 1, row 4, replace “\$55,981” with “\$57,041”.
- (8) In schedule 1, part D, table 1, row 1, replace “\$16,800” with “\$26,400”.
- (9) In schedule 1, part D, table 1, row 2, replace “\$16,801–\$57,600” with “\$26,401–\$62,400”. 15
- (10) In schedule 1, part D, table 1, row 3, replace “\$57,601” with “\$62,401”.
- (11) In schedule 1, part D, table 2, row 7, replace “\$14,000” with “\$22,000”.
- (12) This section applies for the 2018–19 and later income years.

16 Schedule 2 amended (Basic tax rates for PAYE income payments)

- (1) In the heading to schedule 2, part A, clause 1, replace “**and “ME” tax codes**” with “**tax code**”. 20
- (2) In schedule 2, part A, clause 1, delete “or ‘ME’”.
- (3) In the heading to schedule 2, part A, clause 2, replace “**and “ME” tax codes**” with “**tax code**”.
- (4) In schedule 2, part A, clause 2, delete “or ‘ME’”. 25
- (5) In schedule 2, part B, table 1, row 1, replace “\$14,000” with “\$22,000”.
- (6) This section applies for the 2018–19 and later income years.

17 Schedule 6 amended (Prescribed rates: PIE investments and retirement scheme contributions)

- (1) In schedule 6, table 1, row 4, replace “\$48,000” with “\$52,000”. 30
- (2) In schedule 6, table 1, row 6, replace “\$14,000” with “\$22,000”.
- (3) In schedule 6, table 1, row 6, replace “\$48,000” with “\$52,000”.
- (4) In schedule 6, table 2, row 2, replace “\$48,000” with “\$52,000”.
- (5) In schedule 6, table 2, row 3, replace “\$14,000” with “\$22,000”.
- (6) In schedule 6, table 2, row 3, replace “\$48,000” with “\$52,000”. 35
- (7) In schedule 6, table 2, row 4, replace “\$14,000” with “\$22,000”.

(8) This section applies for the 2018–19 and later income years.

18 Schedule 31 amended (Annualised equivalent amount for Part M)

(1) In schedule 31, replace the first and second rows after the heading row with:

Amount does not exceed \$35,000	\$35,000
Amount exceeds \$35,000 but does not exceed \$36,500	\$36,500
Amount exceeds \$36,500 but does not exceed \$38,000	\$38,000

(2) This section applies for the 2018–19 and later tax years.

Part 2

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Amendments to other enactments

Amendments to Tax Administration Act 1994

19 Tax Administration Act 1994 amended

Sections 20 to 22 amend the Tax Administration Act 1994.

20 Section 24B amended (PAYE tax codes)

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(1) In section 24B(3)(a), delete “when the employee is not entitled to a tax credit under **section LC 13** of the Income Tax Act 2007”.

(2) Repeal section 24B(3)(ab).

(3) In section 24B(3)(bb), replace “\$14,000” with “\$22,000”.

(4) In section 24B(3)(c), replace “\$48,000” with “\$52,000”.

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(5) In section 24B(3)(d), replace “\$48,000” with “\$52,000”.

(6) This section applies for the 2018–19 and later tax years.

21 Section 33AA amended (Exceptions to requirement for return of income)

(1) In section 33AA(3)(c)(i), replace “\$14,000” with “\$22,000”.

(2) In section 33AA(3)(c)(i), replace “\$48,000” with “\$52,000”.

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(3) In section 33AA(3)(c)(ii), replace “\$48,000” with “\$52,000”.

(4) In section 33AA(3)(d)(i), replace “\$14,000” with “\$22,000”.

(5) In section 33AA(3)(d)(i), replace “\$48,000” with “\$52,000”.

(6) In section 33AA(3)(d)(ii), replace “\$48,000” with “\$52,000”.

(7) In section 33AA(3)(e)(i), replace “\$14,000” with “\$22,000”.

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(8) In section 33AA(3)(e)(i), replace “\$48,000” with “\$52,000”.

(9) In section 33AA(3)(e)(ii), replace “\$48,000” with “\$52,000”.

(10) In section 33AA(3)(f), replace “\$48,000” with “\$52,000”.

(11) This section applies for the 2018–19 and later tax years.

22 Section 33C amended (Return not required for certain providers of personal services)

(1) In section 33C(b), replace “\$14,000” with “\$22,000”.

(2) This section applies for the 2018–19 and later tax years.

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Amendments to Taxation (Annual Rates and Budget Measures) Act 2011

23 Taxation (Annual Rates and Budget Measures) Act 2011 amended

Repeal sections 2(3), (4), and (5), 5(2), (3), and (4), and 14B of the Taxation (Annual Rates and Budget Measures) Act 2011.

Amendment to Customs and Excise (Tobacco Products—Budget Measures) Amendment Act 2016

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24 Customs and Excise (Tobacco Products—Budget Measures) Amendment Act 2016 amended

Repeal section 8 of the Customs and Excise (Tobacco Products—Budget Measures) Amendment Act 2016.

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