



Income Tax Threshold Increase

Tax measure to boost wage earners' take-home pay

Context

The current tax-free threshold for individual income tax was set at \$11,000 per year in 2014 when the minimum wage was \$5.00 per hour. At that rate, minimum wage earners working 35 hours per week fell below the threshold and paid no income tax. The current minimum wage is \$7.60 per hour and will rise to \$8.00 per hour from 1 July 2020. At \$8.00, a minimum wage employee working 35 hours a week will pay \$605 in tax annually, or 33 cents an hour.

The Minimum Wage Review Panel, in handing down its 2019 review report to the Minister of Internal Affairs in March 2019, recommended that the Government raise the tax-free threshold to the level of the minimum wage, when working a 40 hour week. At \$8.00 per hour, this equates to \$16,640 per year.

The Government is the largest employer of staff that are on, or close to, the minimum wage. Mindful of the ongoing fiscal impact of this long-term measure, and the upcoming tax review, the Government will adopt the Panel's recommendation, but on the basis of the standard Government 1,825 hours per year (35.1 hour week). This equates to \$14,600 per year.

Summary

The Government will increase the annual income tax-free threshold from the current \$11,000 to \$14,600, an increase of \$3,600 or 33 per cent, in two stages:

- from 1 July 2020, the 2020 annual tax-free threshold will be raised to \$12,800;
- from 1 January 2021, the annual tax-free threshold will be \$14,600.

Objective



The higher tax-free threshold will provide an immediate cash benefit to all employees – and their households. All taxpayers will benefit the same dollar amount from this tax saving measure, with those on lower incomes receiving a larger proportional benefit.

The increase in take home pay from the tax saving is expected to stimulate local spending in the economy, with low income earners, who generally have a higher marginal propensity to spend, leading the way.

Eligibility

All Cook Islands employees that have PAYE deducted and earning more than \$11,000 per year will benefit from this tax saving measure.

Timing

The first increase in the threshold will take effect from 1 July 2020. The full effect of this change will take effect from 1 January 2021. This is a long-term measure and as such the revised threshold will remain in place after the pandemic has passed.

How to apply

You do not need to do anything to apply for this tax benefit. Your employer will adjust your weekly/fortnightly wage payment from the first pay period after 1 July 2020 to account for the higher tax-free threshold.

Budget impact

This measure is estimated to have a net cost of \$1.1 million in 2019/20 and \$4.5 million in 2020/21, with an additional \$100,000 for RMD tax administration and system costs.

Table 1: Impact of revised tax-free threshold, by salary level

| Annual salary level | Current income tax payable | New threshold: 1 Jul 2020 | | New threshold 1 Jan 2021 | |
|---------------------|----------------------------|---------------------------|----------------------|--------------------------|----------------------|
| | | Tax payable | Saving (% of salary) | Tax payable | Saving (% of salary) |
| \$14,600 | \$612 | \$306 | 2% | \$0 | 4% |
| \$17,500 | \$1,105 | \$799 | 2% | \$493 | 3% |
| \$20,000 | \$1,530 | \$1,224 | 2% | \$918 | 3% |
| \$30,000 | \$3,230 | \$2,924 | 1% | \$2,618 | 2% |
| \$40,000 | \$5,930 | \$5,624 | 1% | \$5,318 | 2% |
| \$50,000 | \$8,630 | \$8,324 | 1% | \$8,018 | 1% |
| \$60,000 | \$11,330 | \$11,024 | 1% | \$10,718 | 1% |
| \$70,000 | \$14,030 | \$13,724 | 0% | \$13,418 | 1% |
| \$80,000 | \$16,730 | \$16,424 | 0% | \$16,118 | 1% |
| \$90,000 | \$19,730 | \$19,424 | 0% | \$19,118 | 1% |
| \$100,000 | \$22,730 | \$22,424 | 0% | \$22,118 | 1% |

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