

Explanation of the difference between the Paid Parental Leave costs in the Cabinet paper and the final figures

The cost of the proposed Paid Parental Leave (PPL) extension in the Cabinet paper (a total net cost of \$368.4 million over four years) is different to the final cost that was announced (a total net cost of \$325 million over four years). The difference in these costs relates to different calculations about the extent to which the total fiscal cost of the extended PPL would be offset by savings other than PAYE.

The costs in the Cabinet paper were calculated as follows:

- Total gross cost over four years - \$425.8 million
- Offsetting increase in PAYE from PPL payments (calculated at 13.5% average tax rate) – \$57.5 million
- Total net cost over four years - \$368.4 million (after rounding)

In addition to the PAYE offset, there was an additional 'return to work' offset that could be considered to reduce the cost of the extended PPL but which was not included in the Cabinet paper. The 'return to work' offset reduces the cost because some PPL recipients are likely to return to work before they receive their full PPL entitlement.

Following the Cabinet discussion, the 'return to work' offset was included in the cost of the PPL extension. This reduced the cost from the \$368.4 million in the Cabinet paper to \$325 million over four years. This is consistent with the approach used in calculating the financial veto that the previous government used to prevent a Private Members Bill on extending PPL to 26 weeks from passing in 2016.