

20 May 2010

Fact sheet – Tax integrity

What is changing?

- Inland Revenue will get a \$119.3 million funding boost over four years, starting in 2010/11, to increase its audit and compliance activity around debt collection, the hidden economy and property transactions.
- GST rules will be changed to stop the use of so-called “phoenix” arrangements. Transactions between registered persons involving the transfer of land will be zero rated for GST. This change will take effect from 1 April 2011.

Why?

- Some people have been avoiding paying their fair share of tax.
- Increased audit and compliance activity is highly effective for tracking down people who are avoiding tax, including property speculators who are not paying tax on their property trading gains and people who are operating outside the tax system altogether.
- Transactions, particularly in the property sector, have been occurring between associated parties whereby one claims a GST refund and the other is wound up before it has to pay GST. The GST rule change will stop these “phoenix” schemes.

Key facts

- These measures will affect people who have been avoiding paying their fair share of tax.
- The increase in audit and compliance activity is expected to generate additional revenue of \$120 million in 2010/11, increasing to \$205 million a year by 2013/14.
- The new GST rules and increased maintenance of the tax base will raise \$15 million in 2010/11, increasing to \$60 million a year by 2013/14.
- Other integrity measures in the tax package include aligning the top personal income tax rate with the trustee rate; tightening the definition of income within Working for Families; changes to rules for loss attributing qualifying companies and qualifying companies; and changes to the thin capitalisation threshold for foreign multinationals.