

Hon Peter Dunne

Minister of Revenue

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Budget proposals to make tax system fairer

Budget 2011 signals measures to ensure fairer treatment of employee benefits, new rules for mixed-use assets, and a new approach to livestock valuation elections for farmers, Revenue Minister Peter Dunne says.

Employee definitions of income

Building on the Budget 2010 changes to improve the integrity of the tax system, two further aspects of the tax and social assistance treatment of non-cash benefits are to be examined for fairness.

“The questions now are whether the definition of income for Working for Families tax credit purposes should be further widened to include more fringe benefits provided to employees, and whether salary that can be traded off for non-taxed non-cash benefits should be subject to tax,” Mr Dunne says.

Mixed-use assets

The Government will also review the tax treatment of mixed-use assets used for both private and business purposes.

“We want to make sure the rules are fairer and do not distort investment decisions,” Mr Dunne says.

“There have been instances where high-value assets such as yachts and holiday homes which are both rented out and used privately have provided owners with inflated tax deductions, which either result in less taxable rental income or tax losses that can be used to offset other income.

“Everyone would like to own a holiday home, but it should not be subsidised by the taxpayer.”

Livestock valuation elections

The Government has also begun investigating options for fairer rules covering livestock valuation elections.

Under the current rules, farmers usually value their livestock for tax purposes under one of two valuation methods – the herd scheme or the national standard cost scheme. Substantial differences in values between them are possible.

“Under current rules, a farmer can switch back and forth between the two methods, choosing the more favourable outcome for tax purposes. This can mean increases in market valuations go untaxed, while decreases in valuation can be eligible for tax deductions,” Mr Dunne says.

Public consultation documents will be released on all three Budget initiatives later this year.

Media contact: Mark Stewart 021 243 6985