# Hon Peter Dunne

**Minister of Revenue**

24 May 2012

## Budget changes raise revenue, increase fairness

The Government is taking a number of steps to tighten the tax system by closing loopholes and updating the tax credit system, which will generate hundreds of millions of dollars of extra revenue over the next four years.

"This continues the Government's work over the previous three Budgets to protect its revenue base and ensure the tax system is fairer for all taxpayers," Revenue Minister Peter Dunne says.

The changes include:

- Tightening the rules around the deductibility of costs relating to assets that are both used by their owners and rented out for income, such as holiday homes, boats, and aircraft. The changes are expected to save about $109 million over the next four years.
- Putting changes to livestock valuation rules into Budget legislation to prevent farmers who change valuation schemes receiving an unintended tax break. The changes will reverse what would otherwise have been an estimated $184 million fall in operating revenue over the next four years.
- Removing three tax credits which no longer fit the purpose for which they were set up – the income-under-$9,880 tax credit, the childcare and housekeeper tax credit, and the tax credit for the active income of children, which will be replaced by a limited exemption. The changes will save $117 million over the next four years.

"These changes will help modernise the tax system and ensure tax deductions and tax credits are being targeted to areas where they are intended and needed," Mr Dunne says.

"In the case of mixed-use assets, such as a holiday home, it is unfair that owners can claim a tax deduction for the majority of their costs because it is available for rent or hire, even if it is mainly used privately. In effect, they are getting a taxpayer subsidy for their private use of the asset."

The new rules will require mixed-use asset owners to apportion their deductions based on the actual income earned and private use of the asset.

For example, owners who rent out their holiday home for 30 days in a year and use it themselves for 30 days in a year will be able to claim a deduction for 50 per cent of their general costs, rather than the 90 per cent they can claim now.

“In the case of livestock valuations, the previous rules were too loose and allowed some farmers switching between the two main livestock valuation methods to receive an unfair tax advantage over those farmers who applied the rules as they were intended,” Mr Dunne says.

In March, the Government announced it would disallow them to move from the ‘herd scheme’ to the alternative ‘national standard cost scheme’, except in narrow circumstances, effective from 18 August 2011. Budget legislation will put that into law. Details will be included in the next omnibus tax bill.

“The three tax credits we are removing in Budget 2012 have become poorly targeted. For example, the bottom 30 per cent of households make up just 11 per cent of childcare and housekeeper tax credit claimants,” Mr Dunne says.

“Their use, in most cases, is now quite different from what was originally intended. For example, the income-under-$9,880 tax credit was originally put in place in 1986 to protect full-time workers on low wages, but it no longer applies to that group.

“The childcare and housekeeper tax credit has been superseded in recent years by other government support, such as Working for Families and 20 hours free early childhood education.

“Times have changed, society has changed, and wider government policies have changed. The Government believes its spending on these tax credits could be better directed to areas of higher need.”

The tax credit for children will be replaced by a limited tax exemption to ensure that children will not need to file a tax return if they earn small amounts of ‘in the hand’ income that would not usually be taxed at source – for example, from babysitting or mowing the neighbour’s lawn.

However, children will no longer be able to claim a refund of tax that has already been correctly deducted and paid by an employer. These changes will take effect from the 2012/13 tax year.

People filing their 2011/12 tax returns can still claim these credits.

“These tax credit changes will also help make Inland Revenue more efficient. A lot of people are filing tax returns simply to claim these outdated tax credits.

“The changes will free up some of Inland Revenue’s resources, allowing it to focus on delivering the services New Zealanders want in the future,” Mr Dunne says.

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