Tax policy report: Cabinet paper - foreign hybrid entity double deductions and BEPS reforms

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| **Date:** | 6 April 2017 | **Priority:** | **High** |
| **Security level:** | Sensitive - Budget | **Report no:** | T2017/949  IR2017/237 |

Action sought

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|  | **Action sought** | **Deadline** |
| Minister of Finance | **Agree** to the recommendations of this report.  **Authorise** the lodgement of the attached Cabinet paper. | Either:   * 10:00 am Wednesday 12 April 2017 for Cabinet on 18 April 2017; or * As soon as possible as a late paper for EGI on 12 April 2017. |
| Minister of Revenue | **Agree** to the recommendations of this report.  **Authorise** the lodgement of the attached Cabinet paper. | Either:   * 10:00 am Wednesday 12 April 2017 for Cabinet on 18 April 2017; or * As soon as possible as a late paper for EGI on 12 April 2017. |

Contact for telephone discussion (if required)

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| **Name** | **Position** | **Telephone** |
| Steve Mack | Principal Advisor, The Treasury | Withheld under section 9(2)(a) of the Official Information Act 1982 |
| Paul Kilford | Policy Manager, Inland Revenue |

6 April 2017

Minister of Finance

Minister of Revenue

Cabinet paper - foreign hybrid entity double deductions and BEPS reforms

This report asks you to refer the attached Cabinet paper to Cabinet Office so that it may be considered either by:

* The Economic Growth and Infrastructure Committee (EGI) at its meeting on 12 April 2017; or
* Cabinet at its meeting on 18 April 2017.

The paper proposes that Cabinet:

* Agree to tax law changes to restrict the ability of New Zealand businesses to use double deductions of foreign hybrid entities, particularly Australian Limited Partnerships, to reduce their tax liabilities in New Zealand; and
* Note the progression of proposals contained in three BEPS discussion documents (*Addressing hybrid mismatch arrangements*, *BEPS – transfer pricing and permanent establishment avoidance,* and *BEPS - strengthening our interest limitation rules*), subject to modification in consultation.

If Cabinet agrees to these recommendations, the Budget 2017 revenue forecasts will be adjusted by $100 million per year from 2019/20 (with $50 million forecast in the preceding year).

Recommended action

We recommend that you:

**Authorise** lodgement of the attached Cabinet paper either:

1. by 10:00 am, Wednesday 12 April 2017 for Cabinet on 18 April 2017.

Authorised/Not authorised Authorised/Not authorised

OR

1. as soon as possible as a late paper for EGI on 12 April 2017.

Authorised/Not authorised Authorised/Not authorised

**Steve Mack Paul Kilford**

Principal Advisor Policy Manager

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Inland Revenue

**Steven Joyce Hon Judith Collins**

Minister of Finance Minister of Revenue