



# Cabinet Economic Growth and Infrastructure Committee

## Summary

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### Making Tax Simpler: Investment Income Information

<b>Portfolio</b>	<b>Revenue</b>
<b>Purpose</b>	This paper seeks agreement to the introduction of a number of reforms to the collection of investment income information to make it easier for people to comply with their tax and social policy obligations.
<b>Previous Consideration</b>	On 25 May 2016, EGI agreed to the release of a government discussion document on <i>Making Tax Simpler: Investment Income Information</i> , and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-16-MIN-0105].
<b>Summary</b>	<p>“Investment income information” is information collected about resident withholding tax (RWT), non-resident withholding tax (NRWT), approved issuer levy (AIL), and portfolio investment entity (PIE) tax. These taxes are withheld from interest, dividends, PIE income and taxable Maori authority distributions.</p> <p>There are a large number of payers of investment income (eg banks, PIEs, other financial institutions, companies and Maori authorities), that make payments to a large proportion of the New Zealand population.</p> <p>Following a consultation process, a number of changes are proposed, which will:</p> <ul style="list-style-type: none"> <li>• reduce compliance costs for taxpayers by enabling Inland Revenue to pre-populate their investment income information in their tax records;</li> <li>• enable Inland Revenue to use the investment income information more effectively to improve the accuracy of withholding, and help prevent individuals getting into debt;</li> <li>• create an opportunity for the government to improve the delivery of social policies, eg by introducing shorter periods of assessment to improve the accuracy and timeliness of payments;</li> <li>• link the provision of the investment income information with the payment of withholding taxes to Inland Revenue;</li> <li>• improve the workability of a number of aspects of the withholding tax regimes for payers of investment income.</li> </ul>

The proposals are summarised in **paragraph 5**. A summary of the submissions received is in Appendix A on **pages 20-39**.

To date, limited feedback has been received from Maori authorities. Officials will continue to seek feedback from Maori authorities on the proposals.

**Regulatory  
Impact Analysis**

A Regulatory Impact Statement (RIS) is attached. The Regulatory Impact Analysis Team considers that the RIS meets the quality assurance criteria.

**Baseline  
Implications**

There will be some upfront costs for the payers of investment income, eg to upgrade their software. Administrative costs incurred by Inland Revenue will be met from within the Business Transformation budget.

The pre-population of interest income is estimated to result in between \$21 million - \$27 million in additional income tax being paid per annum, commencing in 2018/19.

**Legislative  
Implications**

Changes will be required to the Income Tax Act 2007 and the Tax Administration Act 1994.

The proposals will be included in the tax Bill that is expected to be introduced in early 2017 and enacted in early 2018.

**Timing Issues**

The proposed changes will be implemented in Inland Revenue's new computer system (START) during stage 2 of the Business Transformation programme.

The proposed application dates (see recommendation 19 below) should provide sufficient time for investment income payers to plan and implement the required changes.

**Announcement**

The Minister of Revenue will make an announcement when the Bill is introduced.

**Proactive  
Release**

The relevant Cabinet papers will be proactively released at that time.

**Consultation**

Paper prepared by Inland Revenue. Treasury, Justice and the Office of the Privacy Commissioner were informed. DPMC, MBIE, DIA, TPK and SSC were informed. A number of interested groups made submissions as part of the consultation process.

The Minister of Revenue indicates that discussion is not required with the government caucus, or with other parties represented in Parliament.

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**The Minister of Revenue recommends that the Committee:****Background**

- 1 note that on 25 May 2016, the Cabinet Economic Growth and Infrastructure Committee agreed to the release of a government discussion document on *Making Tax Simpler: Investment Income Information*, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-16-MIN-0105];
- 2 agree to the introduction of a number of reforms to the rules in the Income Tax Act 2007 and the Tax Administration Act 1994 regarding investment income information that will, in conjunction with Inland Revenue's Business Transformation programme:
  - 2.1 reduce compliance and administrative costs;
  - 2.2 create opportunities for better service delivery to individuals;

**Detailed recipient information**

- 3 agree to require investment income payers (payers of interest, dividends and taxable Māori authority distributions) to provide detailed recipient information to Inland Revenue on a monthly basis, or for the months in which payments are made if the payment frequency is less than monthly;
- 4 agree to require payers of portfolio investment entity (PIE) income to provide investors' prescribed investor rate (PIR) details six months into the income year;
- 5 agree that payers of PIE income be required to specify whether the investor is in a "locked in" fund in the year-end detailed information they provide to Inland Revenue;
- 6 agree to require investment income payers to provide the recipient's date of birth to Inland Revenue as part of the monthly reporting, if it is held;
- 7 agree to require investment income payers to provide detailed recipient information regarding each of the owners of jointly owned investments, if it is held;
- 8 agree that detailed recipient information in respect of interest income subject to approved issuer levy (AIL) be required to be provided to Inland Revenue monthly for domestically issued debt, at the same time as the Resident Withholding Tax (RWT) and Non-Resident Withholding Tax (NRWT) reporting;
- 9 agree that detailed recipient information about interest income that is exempt from RWT because the investor has a certificate of exemption be required to be provided to Inland Revenue annually, but will be allowed to be provided monthly if preferred by the interest payer;
- 10 agree that the reporting due date for interest and PIE income (excluding "locked in" schemes) year-end information be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May;

**Non-declaration**

- 11 agree to increase the non-declaration rate for interest subject to RWT to 45 percent;
- 12 agree that investors opening new investments in PIEs be required to provide their IRD number (or a declaration that they are non-resident and do not have an IRD number) within six weeks of making the initial investment if they are to remain a member of the PIE;

**Electronic filing**

- 13 agree that investment income payers be required to file their withholding tax returns, including the detailed recipient information, electronically unless they receive an exemption from Inland Revenue;

**Certificates of exemption**

- 14 agree the Inland Revenue make a source of information available to investment income payers to enable them to confirm whether or not recipients are exempt;
- 15 agree that recipients that are tax exempt under Acts other than the Income Tax Act 2007 be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers. This will ensure that they are included in the information source referred to in paragraph 14 above, and will enable investment income payers to rely on that source of information;

**End of year interest certificates**

- 16 agree that the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer be removed;

**Error correction**

- 17 agree that investment income payers be allowed to correct errors in previous withholding tax returns in their next return, subject to the following restrictions for errors being corrected in the following income year:
  - 17.1 the amount of the error must be lower than the greater of \$2,000 and 5 percent of the investment income payer's total withholding tax liability for the year; and
  - 17.2 the investment income payer must provide detailed recipient information in respect of the error, including the amount of the error for each recipient and the tax period or periods that the error relates to;

**Application date**

- 18 agree that the implementation of the changes for investment income information follow a legislated approach, where the submission of investment income information on a monthly basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide investment income information on the new basis;
- 19 agree that the legislation includes the following implementation timetable:
  - 19.1 1 April 2018: the date at which PIEs will be required to obtain the IRD number of new investors, or alternatively a self-certification that they are non-resident and do not have an IRD number;

- 19.2 1 April 2019: the date from which it becomes permissible for investment income payers to submit investment income information on a monthly basis (paragraph 3 above);
- 19.3 15 May immediately following the end of the tax year : the due date for filing the current detailed interest and PIE income information (excluding “locked in” schemes) for tax years beginning on or after 1 April 2018;
- 19.4 1 April 2020: the date from which the following will be required:
- 19.4.1 investment income payers (other than PIEs) to provide detailed recipient information on a monthly basis, or for the month in which the payments are made where the payments are made less often than monthly. These returns will be due on the 20<sup>th</sup> of the month following the month in which the payment is made;
  - 19.4.2 investment income payers to include date of birth information (if held) in the detailed recipient information they provide;
  - 19.4.3 joint ownership information to be provided by investment income payers;
  - 19.4.4 AIL and exempt recipient information to be provided;
  - 19.4.5 non-declaration rate for interest income subject to RWT to be increased to 45 percent;
  - 19.4.6 Inland Revenue to provide a database of valid certificates of exemption;
  - 19.4.7 recipients of investment income to have a certificate of exemption to be exempt from withholding taxes on investment income;

### **Fiscal implications**

- 20 note that all additional revenue and reduced expenditure that accrues under the above proposals forms part of the Inland Revenue Business Transformation Programme’s business case benefit, and has already been accounted for by the government;
- 21 note that any additional administrative costs arising as a result of the above proposals will be accommodated within the Business Transformation Programme funding allocated to Inland Revenue;

### **Legislative implications**

- 22 agree that the proposed amendments be included in the tax Bill scheduled for introduction in February 2017;
- 23 authorise the Minister of Revenue to make minor amendments of a technical nature to the measures proposed in the paper under EGI-16-SUB-0307 without further reference to Cabinet, including changes to modernise the way the investment income rules are expressed in legislation;
- 24 invite the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the above proposals;

**Publicity**

- 25 note that the Minister of Revenue intends to release a media statement to announce these measures when the Bill is introduced;
- 26 agree to the public release of an anonymised summary of submissions at the time the Bill is introduced.

Janine Harvey  
Committee Secretary

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**Hard-copy distribution:**

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Deputy Chief Executive, Policy, DPMC  
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Chair  
Cabinet Economic Growth and Infrastructure Committee

## **MAKING TAX SIMPLER: Investment Income Information**

### **Proposal**

1. This paper seeks the Cabinet Economic Growth and Infrastructure Committee's agreement to the introduction of a number of reforms to the collection of investment income information that will make it easier for people to comply with their tax and social policy obligations. The proposals are part of the Government's plans to modernise the revenue system through business process and technology change being implemented by Inland Revenue's Business Transformation programme. The measures will:

- reduce compliance costs for taxpayers by enabling Inland Revenue to pre-populate their investment income information in their tax records;
- enable Inland Revenue to use the investment income information more effectively to improve the accuracy of withholding and help prevent individuals getting into debt;
- create an opportunity for Government to improve the delivery of social policies – for example, by introducing shorter periods of assessment to improve the accuracy and timeliness of payments;
- link the provision of the investment income information with the payment of withholding taxes to Inland Revenue;
- improve the workability of a number of aspects of the withholding tax regimes for payers of investment income.

2. These proposals would be included in the next omnibus taxation bill, likely to be introduced in the first quarter of 2017.

### **Executive summary**

3. Investment income information is the information collected about resident withholding tax (RWT), non-resident withholding tax (NRWT), approved issuer levy (AIL) and portfolio investment entity (PIE) tax. These taxes are withheld from interest, dividends, PIE income and taxable Māori authority distributions. There are a large number of payers of investment income (including banks, PIEs, other financial institutions, companies (large and small), Māori authorities and some individuals) making payments to a large proportion of the New Zealand population.

4. The proposals take advantage of modern digital technology to reduce compliance and administrative costs. By reducing errors and improving timeliness, digital systems allow government agencies to make better use of income information – for example, to ensure that benefits and other assistance are not overpaid or underpaid. Better quality and more timely investment income information supports future improvements to social policy, such as better determining entitlements and obligations.

5. The proposals for the reform of investment income information are made up of the following measures that will take effect from 1 April 2020 unless otherwise noted:

- Payers of interest, dividends and taxable Māori authority distributions will be required to provide detailed recipient information to Inland Revenue on a monthly basis or for the months in which payments are made if the payment frequency is less than monthly. Payers may elect to file monthly from 1 April 2019 but will be required to file monthly from 1 April 2020.
- Payers of PIE income will be required to provide investors' prescribed investor rate (PIR) details to Inland Revenue six months into the income year and will be required to specify whether the investor is in a "locked in" fund such as a KiwiSaver fund in the year-end detailed information they provide to Inland Revenue.
- To help ensure that identity is correctly assigned, investment income payers will be required to provide the recipient's date of birth to Inland Revenue as part of the detailed recipient information reporting if it is held. This information is typically collected from new investors under anti money laundering rules.
- To enable jointly earned income to be split between the joint owners, investment income payers will be required to provide detailed recipient information regarding each of the owners of jointly owned investments if it is held. This will be provided either in the investment income payer's main return files or alternatively in a separate report to the main withholding tax returns.
- Detailed recipient information in respect of interest income subject to AIL will be required to be provided to Inland Revenue monthly for domestically issued debt (at the same time as RWT and NRWT information is reported).
- Detailed recipient information about interest income that is exempt from RWT (because the investor has a certificate of exemption) will be required to be provided to Inland Revenue annually but will be allowed to be provided monthly if preferred by the interest payer.
- From the tax year beginning 1 April 2018, the reporting due date for interest and PIE income (excluding "locked in" schemes) year-end information will be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May.
- The non-declaration rate for interest subject to RWT will be increased to 45% to encourage non-declared interest recipients to provide their IRD number to their interest payer.
- Investors opening new investments in PIEs will be required to provide their IRD number (or a declaration that they are non-resident, do not have an IRD number and providing their foreign tax identification number) within six weeks of making the initial investment if they are to remain a member of the PIE.
- Investment income payers will be required to file their withholding tax returns including the detailed recipient information electronically unless they receive an exemption from Inland Revenue.

- Inland Revenue will make a source of information available to investment income payers that enable them to confirm whether or not recipients have certificates of exemption.
- To ensure that all exempt recipients are included in the information source discussed above (which will enable investment income payers to rely on that source of information), recipients that are tax exempt under Acts other than the Income Tax Act 2007 will be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers.
- To reduce compliance costs for interest payers, the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer will be removed.
- To reduce compliance and administration costs, investment income payers will be allowed to correct errors in previous withholding tax returns in their next return subject to restrictions for errors being corrected in the following income year.

6. The above measures will contribute to the achievement of Government's Better Public Service Results 9 and 10. They will make investment income and withholding tax deduction information available on a timely basis for New Zealanders receiving investment income. As well as the compliance and administrative cost reductions and changes to social policy identified in this paper the information will create opportunities for future improvements in services as information is shared more effectively across government.

7. There will however be upfront costs to upgrade software, particularly for payers of investment income making payments to large numbers of recipients, and there will be some on-going compliance costs for payers that don't automate reconciliation processes. Therefore, I expect that there will be some resistance to the recommended changes. However, the continuation of the status quo limits the opportunities for those who want to benefit from more modern ways of interacting with Inland Revenue and it limits what we can do to provide better services to individuals, including changes to social policy.

8. Most Government agencies will be relatively unaffected by these proposals. The Debt Management Office pays large amounts of interest; however, it outsources the registry processes for debt issues to a registry services provider that will have to make any changes required. The registry services provider could increase its charges to the Debt Management Office to recover the costs of the changes but any such increase would be expected to be spread across all of the provider's customers.

9. There will be additional administrative costs for Inland Revenue associated with the transition but these will be accommodated within Inland Revenue's Business Transformation programme. The package I am recommending will give rise to additional revenue of \$21-27 million per annum in respect of interest income and further fiscal savings relating to social policy abatement (the fiscal savings are currently unable to be quantified due to the lack of investment information provided under current settings). This revenue and the savings form part of the Business Transformation programme business case which has already been included in Government revenue forecasts.

10. I propose to include these measures in a bill to be introduced in early 2017. This bill is not expected to be passed until early 2018. The application dates proposed should allow sufficient time for investment income payers to design and make the necessary changes to their systems.

## Background

11. The Government's objective for the tax system is that it should be simple to comply with, making it easy for customers to get things right and difficult to get wrong. It should serve the needs of all New Zealanders, put customers at the centre and help them from the start, rather than waiting until things go wrong.

12. Inland Revenue's Business Transformation is a long-term programme to modernise New Zealand's revenue system. It will simplify how services are delivered by changing how customers interact with a digitally-based revenue system, simplifying policies and making better use of data and intelligence to better understand taxpayers. Inland Revenue will facilitate compliance by providing assistance at the beginning so customers get it right from the start.

13. Business Transformation is far more than just a new computer system. It is re-shaping the way Inland Revenue works with customers, including improvements to policy and legislative settings and enabling more timely policy changes.

14. In March 2015 the Government released two documents, *Making Tax Simpler: A Government green paper on tax administration (Green Paper)* and *Making Tax Simpler: Better digital services – a Government discussion document (CAB Min (15) 915)*. Feedback on those documents informed *Making Tax Simpler: Investment Income Information – A Government discussion document* (the discussion document) which was released in July 2016 (CAB-16-MIN-0236). This set out the Government's proposals for improving the administration of investment income information and creating opportunities for better delivery of social policy in future.

15. Submissions from a range of parties expressed support for changes to improve the flow of information on investment income between payers and Inland Revenue and the better use of technology by Inland Revenue to match and pre-populate investment income data. However, all of the submissions expressed concerns over compliance costs and doubts over whether the benefits would justify the costs. These concerns were raised mainly about monthly reporting and joint account information provision.

16. Limited feedback has been received from Māori authorities and their advisors to date. I have instructed officials to continue to seek feedback from Māori authorities.

17. As expected, the submissions received were largely from investment income payers, advisory firms and industry organisations. The major benefits of this project are expected to flow to the recipients of investment income. As such, the tenor of the submissions may not reflect the wider reaction to the proposals.

18. The payers of investment income are required to deduct tax from the payments of investment income that they make (unless they pay less than a threshold amount or the recipient is eligible to be treated as exempt). The amount of the deductions is determined by the choices and circumstances of the recipients. For example, a non-resident earning interest can elect AIL or will be subject to NRWT at the rate applying for the country they are resident of, while a resident can select from a range of RWT rates if they have provided their IRD number to the payer. The payer then pays (remits) the deductions and submits a summary return (usually a paper form showing the total income paid and the total tax deducted) to Inland Revenue, usually in the following month. In the case of interest and PIE income the payer also provides detailed recipient information to Inland Revenue after the end of the tax year.

19. Payers of investment income also have obligations to report payment information to the recipients of the investment income. Companies have to provide shareholder dividend statements and Māori authorities have to provide Māori authority distribution statements when payments are

made. PIEs provide PIE investor statements and interest payers provide interest certificates after the end of the tax year.

## Comment

20. The measures I am recommending enable compliance and administrative cost savings and improvements to service delivery, including for social policy. The compliance cost savings will be achieved through the greater use of digital services and the pre-population of investment income to allow recipients to see as much of their tax information as possible in one place and to use it to meet their tax and social policy income calculation obligations. The use of digital forms will allow payers of investment income to a few recipients to save time and money by filing online rather than having to file paper returns. Some measures to improve the fairness and workability of the rules regarding investment income information are also included.

21. I am not recommending that payers of investment income be required to remit RWT, NRWT, PIE Tax and AIL to Inland Revenue any more often or any earlier. Rather, I am recommending that the payers of investment income align the process of providing detailed investment income information to Inland Revenue with their business processes for paying investment income and withholding the relevant tax.

22. Payers of investment income that make payments to large numbers of recipients have developed systems to calculate and deduct withholding taxes. These systems will need to be altered or redesigned to meet the proposed requirements and there will be upfront costs to achieve these changes. These payers are also likely to have some on-going costs to reconcile the information that they will be required to provide each month although they may be able to minimise these costs by automating their reconciliation processes.

23. Further information on each measure is provided below. The proposals have been grouped under the following themes:

### *Getting it right from the start*

- Requiring detailed recipient information to be provided on a monthly basis for most interest, dividends and Māori authority distributions.
- Increasing reporting on interest to include AIL (where the instrument has been issued from New Zealand) and interest income that has been treated as exempt.
- Increasing the non-declaration rate for RWT on interest income to 45%.
- Requiring new PIE investors to provide their IRD number to the PIE.
- PIEs to provide the PIR of their investors six months into the income year and to include locked in status in the detailed reporting at the end of the year.
- Date of birth information to be provided if held by the investment income payer.
- Joint owners' identity details to be provided by investment income payers.

### *Making the investment income rules work better*

- Mandating digital filing.
- Bringing the due date for end of year returns forward to 15 May (from 31 May) for interest and PIE income (excluding locked-in PIE funds). Bringing forward the date for interest income is an interim measure until monthly reporting is in place.

- Making an information source of valid certificates of exemption available to investment income payers.
- Requiring recipients of investment income to have a certificate of exemption in order to be treated as exempt.
- Removing the requirement for interest payers to provide end of year interest certificates to recipients who have provided their IRD number.
- Allowing error correction within the same income year and also in the following year subject to thresholds.

### *Getting it right from the start*

24. These measures will enable Inland Revenue to proactively intervene during the year where recipients are on inappropriate tax rates and will create opportunities for the improved delivery of social policy and other government services.

### *Requiring detailed recipient information to be provided monthly*

25. Legislation currently requires payers of interest subject to RWT or NRWT and payers of PIE income to provide detailed recipient information to Inland Revenue after the end of the tax year. No detailed recipient information is required to be provided for dividends, Māori authority distributions and interest subject to AIL or that is treated as exempt.

26. The receipt of the detailed recipient information well after the year end and the lack of information for some types of investment income means that investment income is unable to be easily associated with the recipient's other tax records (as personal tax summaries have been prepared before the investment income information that Inland Revenue does receive has been able to be processed). It also means that Inland Revenue is unable to proactively adjust tax rates during the tax year to reduce debts or refunds due at the end of the year.

27. Receiving more complete information and receiving it sooner and more frequently would enable better administration of investment income information and improved delivery of social policies, such as *Working for Families* tax credits. In addition, Inland Revenue is often the source of income information for other Government agencies and these proposals could therefore enable reforms to the delivery of other services provided by Government.

28. It would also create opportunities to improve the design of social policy – for example, by reducing the annual period for *Working for Families* to allow periods to better match times of need. The previously released *Green Paper* set out the Government's early thinking in this area. A consultation document on social policy, which will set out how these changes might work, is scheduled for release in 2017.

29. A number of frequency options for the provision of investment income information were canvassed in consultation. Feedback provided by the payers of investment income who make payments to large numbers of recipients showed that they preferred annual provision of information or if more frequent information was required quarterly provision of information. Some submitters did, however, note that if more frequent provision of information was required it would make little difference if it was required monthly or quarterly as the same systems changes would be required.

30. A group of interest payers pay withholding tax to Inland Revenue less often than monthly. These are interest payers that make interest payments of more than \$5,000 per annum and withhold less than \$500 per month. They are required to pay the tax they have withheld every two months if they withhold more than \$500 every two months, but only every six months if they withhold less

than \$500. There are approximately 23,500 payers who filed 6 or less RWT returns in the year ended 31 March 2015. Under the monthly reporting proposal these payers would have to file investment income information each month but will remain on the same payment basis.

31. Monthly information has been proposed as the preferred option as it allows the best matching of information for possible future changes to social policy calculation periods. For example, if the social policy period was changed to quarterly and the investment income was reported quarterly there would be a 3 month lag. This is because income calculations for social policy are completed before the beginning of the period and investment income reporting is done after the end of the period. This means that for the quarter beginning 1 July the social policy income calculation will be completed by 30 June while the investment income information for the quarter ended 30 June will not be provided until 20 July so the information for the quarter ended 31 March would have to be used. If the investment income information was provided on a monthly basis the information for the month ended 31 May would be available for inclusion in the social policy income calculation to be completed by 30 June. Reducing the delay allows assistance to be better targeted to periods of need.

32. While there may be some additional compliance costs with monthly provision of detailed investment income information, I consider that the benefits of monthly provision of detailed investment income information to the wider system justify the proposal.

33. A small group of submitters (made up of some very large payers of investment income) requested a period of three years from the enactment of the legislation to make and implement systems changes. This would suggest an application date for the proposed changes of 1 April 2021. This was endorsed by the New Zealand Bankers Association when I met with them. Inland Revenue have discussed possible application dates with these submitters and on the basis of those discussions recommended an application date of 1 April 2020 to me. While I am recommending a 1 April 2020 application date, I am willing to consider this further based on submissions made during the select committee process.

34. I also note that a number of financial institutions have just undertaken systems changes in relation to FATCA (recently completed or at remedial system development stage), are making systems changes for AEOI (now until second reporting date June 2019) and will also need to make changes for PAYE (by 1 April 2019). They are, therefore, expending considerable resources on overlapping tax related regulatory changes as shown by the following diagram:

	Late 2016	2017	2018	2019	Early 2020
FATCA	Remedial				
AEOI	System Development				
PAYE		Design	System Development		
Inv Income		Design		System Development	

35. Some types of investment income are only likely to be paid sporadically such as dividends and Māori authority distributions. Where this income is paid less often than monthly I recommend that detailed investment income information is only required for the months in which investment income is paid.

36. During consultation some investment income payers have expressed interest in piloting the new requirements. I recommend that the legislation is amended so that investment income payers

can, on a voluntary basis, provide detailed investment income information on a monthly basis from 1 April 2019.

37. To ensure that detailed investment income information is available on a much timelier basis for all recipients I further recommend that the legislation should require all payers of investment income consisting of interest, dividends and Māori authority distributions to provide detailed investment income information on a monthly basis from 1 April 2020.

*Interest income subject to AIL and investment income that is treated as exempt*

38. Investment income payers have submitted that they may be unable to provide detailed reporting in respect of debt subject to the AIL regime that has been issued offshore. This is because these debt issues are often managed by paying agents in foreign jurisdictions who may be prevented from providing detailed recipient information by the laws in the other jurisdiction. I, therefore, recommend that the detailed reporting requirement does not apply to debt instruments issued outside of New Zealand where the interest payments are subject to AIL.

39. The reporting of detailed information in respect of interest paid to recipients that have been treated as exempt from income tax is a compliance measure. In order to reduce compliance costs I recommend that this information is only required on an annual basis but that investment income payers are allowed to provide it on a monthly basis if they choose to do so.

*Increasing the non-declaration rate on interest income to 45%*

40. Non-declaration of a person's IRD number makes it much more difficult for Inland Revenue to associate income with the recipient's tax records. The current non-declaration rate for RWT on interest income is 33% and is equal to the top marginal tax rate; however, people can have higher effective marginal tax rates. If a person was on the 33% tax rate and had a student loan their effective marginal tax rate on their investment income could actually be 45%. The 33% non-declaration rate provides no incentive for people on the 33% tax rate or for people who also have social policy entitlements or obligations and may therefore have an effective marginal tax rate of more than 33% to provide their IRD numbers to their interest payer.

41. Submissions on the proposed 45% non-declaration rate for interest were mixed, however, around 20% of the end of year interest certificates relate to interest recipients who are non-declared. This equates to around 1 million non-declared interest certificates each year. Inland Revenue will work with banks to try to reduce the number of non-declared accounts. However, in order to encourage the remaining non-declared recipients of interest income to provide their IRD numbers to their investment providers, I recommend that the non-declaration rate for RWT on interest is increased from 33% to 45%.

42. Increasing the non-declaration rate will not be effective on its own. It is important that people who are non-declared are aware that they are non-declared. Inland Revenue will work with interest payers to try to obtain IRD numbers from non-declared recipients and to make them aware that they will be taxed at a higher rate unless they provide their IRD number to their interest payer before the proposal comes into effect.

*Requiring new PIE investors to provide their IRD numbers to the PIE*

43. The level of non-declaration is relatively low for PIE investments (about 2%) and PIEs have indicated during consultation that they would prefer to require all new PIE investors to provide their

IRD numbers when they sign up than to have a higher non-declaration rate. In addition, providers and Inland Revenue would try to obtain IRD numbers for the currently non-declared investors.

44. I recommend that PIEs are required to obtain IRD numbers from new investors with an exception for investors that certify they are non-resident, don't have an IRD number and provide their tax identification number from the country in which they are resident (this exception would require the collection of details that are consistent with Automatic Exchange of Information requirements).

*PIEs to provide the PIR of their investors six months into the income year and to report locked in status as part of detailed year end information*

45. Currently PIEs only provide detailed recipient information after the end of the tax year and do not indicate in that information whether the PIE invested in is a locked in PIE or not. PIE income in a locked in PIE (such as a KiwiSaver fund or a retirement savings scheme with complying withdrawal restrictions) is not counted for social policy income calculation purposes.

46. As PIEs do not provide detailed recipient information until the end of the year Inland Revenue is unable to proactively check the PIR selected by the investors. Also, because PIEs do not have to declare whether the PIE is a locked in PIE or not on the detailed investor information, Inland Revenue is unable to easily determine whether the PIE income should be counted in the investor's social policy income calculation.

47. I recommend that payers of PIE income are required to provide investors' prescribed investor rates (PIRs) six months into the year, and in the end of year return include information on whether the fund the recipient has invested in is locked in. These changes will allow Inland Revenue to proactively adjust PIRs within the tax year and will allow Inland Revenue to appropriately allocate relevant PIE income to social policy income calculations.

*Date of birth information to be provided if held by the investment income payer*

48. Date of birth information is often used to confirm identity and the discussion document proposed that investment income payers provide date of birth as part of their detailed recipient information where it is held. This would apply for all types of investment income including interest income, dividends, PIE income and Māori authority distributions.

49. The date of birth information would be used as a further identification data point to help to ensure that income information was pre-populated to the correct person's tax records. It would be particularly helpful where a person's investment is non-declared, the person has provided an incorrect IRD number or where a person uses multiple names. It could also be used to help with data matching when information is shared between Government agencies.

50. Some submitters expressed concerns that it would be difficult to obtain this information from recipients, although limiting the requirement to provide date of birth information to information held by the investment income payer as suggested in the discussion document would resolve this problem. I note that date of birth information is typically required to be collected from new customers as part of anti-money laundering legislation.

51. I recommend that payers of investment income are required to include date of birth information in the detailed investment income that they provide to Inland Revenue if they hold that information.

*Payers of investment income to provide joint owners identity details*

52. Currently interest and PIE income payers provide one IRD number for jointly owned investments. This means that Inland Revenue can only associate the income with this IRD number and is unable to associate the income with the other owners of the joint investment.

53. The discussion document considered the issue of jointly owned investments and ways in which the joint income could be pre-populated to the known owners' tax records. Submitters were very clear that they are not well-placed to separate the income between the owners and some submitters were very strongly of the view that the only solution that is workable without unreasonable compliance costs is the provision of a separate report giving the known details of joint owners for jointly owned investments. Inland Revenue would then use this information to split the income evenly between the investors.

54. I therefore recommend that joint ownership information is provided by investment income payers and that they are given the option of providing it in their main withholding tax report or in a separate report. Inland Revenue officials have noted that there are some specific technical issues that were raised by submitters regarding share registry rules around trusts which will need to be taken into account when drafting legislation in respect of this proposal.

***Making the investment income rules work better***

*Mandating digital filing*

55. Using upgraded digital services which provide information in near real-time is key to maximising the benefits available from Inland Revenue's transformation processes and submitters generally supported using improved digital services. The nature and number of investment income payers and the numbers of recipients each payer makes payments to mean that mandating digital is a logical option. There will also be a range of digital filing options from an online form designed to suit payers with only a small number of recipients to a data file transfer process designed to suit payers with hundreds of thousands of recipients.

56. Inland Revenue receives almost five million interest certificates annually and with a shift to monthly reporting this could increase to 60 million. The changes in respect of AIL reporting and reporting in respect of exempt income would also increase these figures for interest income. There would also be additional reporting from dividend payers and Māori authorities. This level of reporting strongly indicates the need to make digital reporting mandatory. In addition, these payers currently have to file paper forms when they pay investment income. Completing and submitting an online form rather than completing and posting in a paper form is likely to reduce their compliance costs.

57. The number of recipients per investment income payer is also a factor in recommending mandatory digital filing. Almost 94% of the interest payers pay 5 or less recipients. Similarly, 570,000 of the 573,000 companies registered as at 21 April 2016 had 10 or less shareholders. Because so many of the investment income payers make payments to a very small number of recipients, having a digital filing threshold based on the number of recipients would be likely to mean the vast majority of investment income payers would not be required to file digitally. If they chose to continue to file paper returns it would cause very significant administration costs.

58. When information is submitted digitally the format of the information being submitted can be validated before it is accepted so by mandating digital reporting the number of incorrect or incomplete returns may be able to be reduced.

59. I therefore recommend that investment income payers are required to file their detailed investment income information digitally.

60. I also recommend having a process for allowing an exemption to the mandated digital filing for investment income payers who would experience unreasonable compliance costs or other hardship as a result of the requirement to file digitally. An example of investment income payers that this might apply to could be people without a computer or internet connection. The investment income payer would need to apply to the Commissioner of Inland Revenue for an exemption from the digital filing requirement.

*Bringing the due date for end of year returns forward to 15 May (from 31 May) for interest and PIE income (excluding “locked-in” PIE schemes)*

61. As the main changes proposed may not take effect until April 2020, I recommend that the due date for the annual detailed file that is currently provided by interest payers is brought forward from 31 May to 15 May (for the year ended 31 March). This will allow Inland Revenue to include the interest information in the personal tax summaries prepared from the beginning of June each year (although joint income will not be able to be split between owners at this stage and there is likely to still be a significant number of non-declared certificates). This change would apply from the tax year beginning 1 April 2018 with the first affected returns due by 15 May 2019.

62. I also recommend that the due date for the annual return of detailed PIE income information is brought forward from 31 May to 15 May for PIEs that are not “locked in” funds. This will allow the information to be associated with the recipient where they receive social policy entitlements or have social policy obligations.

63. These changes will enable Inland Revenue to pre-populate some information for taxpayers and enhance compliance. They will also allow some of the revenue benefits that will accrue from these proposals to be accessed earlier.

*Making an information source of valid certificates of exemption available to investment income payers*

64. The discussion document considered whether Inland Revenue should provide a database (or other source of information) that allowed payers of investment income to check whether their customers had a valid certificate of exemption. Submitters were strongly in favour of this proposal as long as the information was kept up to date and was easily accessible and usable.

65. Issues and cancellations of certificates of exemption are published in the New Zealand Gazette on a quarterly basis. When a certificate of exemption expires at the end of one quarter and is renewed on the first day of the next quarter, the renewal will not appear in the New Zealand Gazette until after the next quarter has finished. Providing a database would allow payers to confirm exemption validity on a close to real time basis.

66. I recommend that Inland Revenue provide a certificate of exemption database (or other source of information) that enables investment income payers to confirm certificate of exemption validity on a real time or near real time basis.

*Requiring recipients of investment income to have a certificate of exemption in order to be treated as exempt*

67. Recipients of investment income can be exempt from income tax under Acts other than the tax Acts. They are then able to request their investment income payer to pay their income to them without withholding any tax. They are able to apply for a certificate of exemption from Inland Revenue, but they don't have to in order to be treated as exempt. Where the exempt recipient does not choose to apply for a certificate of exemption but instead asks the investment income payer not to withhold on the basis of their exempt status, this can cause compliance cost for the payer as they need to check the claim of exemption is reasonable.

68. I propose requiring any recipient that is eligible to be treated as exempt from withholding tax to obtain a certificate of exemption from Inland Revenue if they wish to continue to be treated as exempt. This will ensure that they are included in the database of valid certificates of exemption discussed above and reduce compliance costs for investment income payers. It will also enhance compliance as any recipients that are incorrectly being treated as exempt recipients will be able to be checked against the database and have their exempt status removed.

69. Investment income payers and Inland Revenue will work together to contact exempt recipients that do not have certificates of exemption to encourage them to apply for a certificate of exemption prior to the application of this requirement. The application process will be a one-off process for the affected parties and is a relatively straight forward process.

*Removing the requirement for interest payers to provide end of year interest certificates to recipients who have provided their IRD number*

70. The discussion document proposed removing the requirement for interest payers to send end of year interest certificates to recipients that have provided their IRD numbers to their interest payer. Submissions on this proposal were mixed with some submitters seeing this as a worthwhile cost reduction measure, some suggesting it would make little difference, and others suggesting that the end of year certificates would still be needed for interest recipients to be able to check that the interest information shown by Inland Revenue was accurate.

71. The proposal to use the current year end information to pre-populate recipients' tax records for tax years from 1 April 2018 will enable recipients of interest income to compare their year end certificate information with the information pre-populated by Inland Revenue for two years before the requirement to provide year end certificates was removed. Some interest payers have indicated that they will continue to voluntarily provide interest certificates at the end of the year to their customers even if the requirement is removed but that they would like more flexibility around those end of year certificates. By removing the requirement, interest payers that choose to continue to provide end of year certificates will be able to adapt the way that they do this (for example they could send them all out electronically therefore saving on postage and printing costs).

72. I recommend removing the requirement to provide end of year interest certificates to recipients that have provided their IRD numbers from the time that interest payers are required to provide detailed recipient information monthly. This will allow recipients some time to become comfortable with the information being pre-populated and gives Inland Revenue time to ensure that the pre-population process is operating as expected.

*Allowing error correction within the same income year and also in the following year subject to thresholds*

73. Some submitters noted that, if detailed recipient information is sent to Inland Revenue more quickly, there will be more errors in the information allocated to the recipients' tax records. As such there needs to be a simple means for the correction of errors. The investment income payers consulted with have expressed a definite preference for correcting errors in the period following the discovery of the error. This is currently allowed for errors found within the same income year but is not allowed if the errors related to a previous income year.

74. I propose that errors found within the same income year are allowed to be corrected in the next return. For an error to be corrected in a period in a subsequent income year to the year in which the error occurred, the amount of the error should be lower than the greater of \$2,000 and 5% of the investment income payer's total withholding tax liability (for the tax type and the tax year in which the error was made). In addition, the investment income payer would be required to provide information in respect of the error and the recipients affected.

75. The proposed thresholds are intended to ensure that minor errors do not require previous periods returns to be re-filed and also to allow for error correction by major investment income payers who can have very minor calculation errors across thousands of customers that add up to more significant sums very quickly.

## **Consultation**

76. In June 2014, Inland Revenue, the Treasury and Victoria University of Wellington hosted a conference entitled *Tax Administration for the 21st Century*. The conference explored options for making tax easier. Following this conference, the Government issued *Making Tax Simpler: A Government Green Paper on Tax Administration*, which set out the broad direction of proposed improvements to administration of the tax system, and *Better Digital Services: A Government Discussion Document*, which outlined how digital technology could be used to improve service, reduce compliance costs and improve compliance. To encourage feedback from a wide audience, the release of these documents was accompanied by the launch of online public consultation on a dedicated *Making Tax Simpler* website.

77. On 7 July 2016, the Government released *Making Tax Simpler – Investment Income Information: a Government discussion document* (the discussion document), which outlined how changes to the rules and processes around investment income information could be used to make it easier for recipients to get their tax right and for Inland Revenue to proactively intervene to help people avoid having large tax or social policy debts or refunds at the end of the year. Once again, to encourage feedback from a wide audience, the discussion document was accompanied by the launch of online public consultation on the *Making Tax Simpler* website. A summary of the feedback provided is at Appendix A and agreement is sought to the public release of an anonymised version of this material at the time the bill is introduced or the proposals are announced.

78. Officials also consulted directly with large investment income payers, registry services providers, industry organisations, accountants specialising in the large and the small business sectors, Te Tumu Paeroa and a Māori authority service provider. Feedback from consultation has informed the development of the measures included in this paper.

79. Limited feedback has been received from Māori authorities and their advisors to date. Officials have directly consulted with Te Puni Kokiri, Te Tumu Paeroa (formerly the Māori Trustee) and a Māori authority service provider. Officials who liaise with Māori authorities have

also emailed targeted information to them. I have instructed officials to continue to seek feedback from Māori authorities.

80. The Treasury, Te Puni Kokiri, the Office of the Privacy Commissioner, the Ministry of Business, Innovation and Employment, the Ministry of Justice, the Department of the Prime Minister and Cabinet and the State Services Commission have been consulted during the development of these proposals.

### **Financial implications**

81. All additional revenue and reduced expenditure that accrues under these proposals forms part of the Inland Revenue Business Transformation programme business case benefit and have already been accounted for by Government.

82. Inland Revenue has advised me that it is estimating that pre-population of interest income will result in between \$21-27 million additional income tax being paid per annum beginning 2018-19. It is difficult to accurately estimate other benefits arising from the proposed changes due to the limitations in the information that is currently collected.

### **Administrative implications**

#### *Inland Revenue*

83. The changes proposed in this report would be implemented in Inland Revenue's new computer system, START, during stage 2 of the Business Transformation programme. It is anticipated that there will be additional administrative costs associated with implementing the recommended changes for investment income information but these are expected to be largely transitional. The administrative costs of the proposed changes will be accommodated within the programme funding.

#### *Other government agencies*

84. In addition to public consultation, Inland Revenue has consulted with a number of government agencies and note that most will not have any additional costs as a result of these changes. The Debt Management Office does issue interest bearing debt and pays interest income to recipients, however, the management of the interest payments is outsourced to a registry service provider who will be making the systems changes as part of their wider registry business. ■■■

Withheld under section 9(2)(i) of the Official Information Act 1982

#### *Treasury comment*

85. The Treasury supports the proposed changes as they will enable improved delivery of government services through more timely and useful income information.

## **Compliance implications**

86. The proposals in this paper will enable recipients of investment income to meet their tax and social policy information requirements more easily and will reduce the risk that they will miss income out of their calculations. While the information and digital filing requirements may well reduce compliance costs for investment income payers making payments to a small number of recipients, it is expected that investment income payers making payments to large numbers of recipients will need to upgrade their systems and processes and there will be upfront costs. The proposed implementation dates with monthly reporting not being required until April 2020 are intended to give investment income payers enough time to make these changes as efficiently as possible.

87. There may also be some additional on-going costs for payers depending on their ability to automatically reconcile the payment they will be making with the information they will be providing. However, it is expected that there will be an overall reduction in both compliance and administration costs as the benefits are realised.

88. Inland Revenue will publicise the changes and will work with investment income payers to reduce the number of non-declared recipients and to identify recipients currently relying on exemptions under other Acts to reduce the number of recipients that will be negatively impacted by the proposed changes.

89. The proposed changes to the provision of investment income information will enable government agencies to intervene more quickly to ensure individuals are subject to accurate rates of withholding and are supported to avoid debt. More timely income information will also help detect fraud and overpayment earlier.

## **Human rights**

90. There are no human rights implications. While the provision of date of birth information to Inland Revenue (where it is held by the investment income payer) as part of the detailed recipient information may cause concern to some people, a number of investment income payers routinely collect this information already in order to meet anti money laundering requirements. The proposal that date of birth information be provided to Inland Revenue to help confirm identity was accepted or supported by a majority of those who provided feedback on the subject provided that it was limited to the information already held by the investment income payer.

## **Legislative implications**

91. The proposals contained in this package of measures would require legislative amendments to the Income Tax Act 2007 and the Tax Administration Act 1994. I also recommend that drafters be instructed to modernise the way the rules relating to investment income information are expressed in legislation.

92. It is proposed to include the amendments in a tax bill that would be introduced in early 2017. The application dates proposed take this timeline into account and should provide sufficient time for investment income payers to plan and implement the changes required.

## Regulatory impact analysis

93. The Regulatory Impact Analysis (RIA) requirements apply to the proposals in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.

94. Treasury's Regulatory Quality Team has reviewed the RIS prepared by Inland Revenue and associated supporting material, and considers that the information and analysis summarised in the RIS *meets* the quality assurance criteria.

## Publicity

95. I propose to announce these measures and release an anonymised version of the summary of submissions when the bill is introduced. I also propose to proactively release the Cabinet papers relating to this matter at that time.

## Recommendations

96. I recommend that the Cabinet Economic Growth and Infrastructure Committee:

1. **Note** that the proposals in *Making Tax Simpler: Investment Income Information – A Government discussion document* were previously considered by the Committee at the Committee's meeting on 25 May 2016 (CAB-16-MIN-0236).
2. **Agree** to the introduction of a number of reforms to the rules in the Income Tax Act 2007 and the Tax Administration Act 1994 regarding investment income information that will, in conjunction with Inland Revenue's Business Transformation programme, reduce compliance and administrative costs and create opportunities for better service delivery to individuals.

### *Detailed recipient information*

3. **Agree** to require investment income payers (payers of interest, dividends and taxable Māori authority distributions) to provide detailed recipient information to Inland Revenue on a monthly basis or for the months in which payments are made if the payment frequency is less than monthly.
4. **Agree** to require payers of PIE income to provide investors' PIR details six months into the income year
5. **Agree** that payers of PIE income will be required to specify whether the investor is in a "locked in" fund in the year-end detailed information they provide to Inland Revenue.
6. **Agree** to require investment income payers to provide the recipient's date of birth to Inland Revenue as part of the monthly reporting if it is held.

7. **Agree** to require investment income payers to provide detailed recipient information regarding each of the owners of jointly owned investments if it is held.
8. **Agree** that detailed recipient information in respect of interest income subject to AIL will be required to be provided to Inland Revenue monthly for domestically issued debt (at the same time as the RWT and NRWT reporting).
9. **Agree** that detailed recipient information about interest income that is exempt from RWT because the investor has a certificate of exemption will be required to be provided to Inland Revenue annually but will be allowed to be provided monthly if preferred by the interest payer.
10. **Agree** that the reporting due date for interest and PIE income (excluding “locked in” schemes) year-end information be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May.

#### *Non-declaration*

11. **Agree** to increase the non-declaration rate for interest subject to RWT to 45%.
12. **Agree** that investors opening new investments in PIEs will be required to provide their IRD number (or a declaration that they are non-resident and do not have an IRD number) within six weeks of making the initial investment if they are to remain a member of the PIE.

#### *Electronic filing*

13. **Agree** that investment income payers will be required to file their withholding tax returns including the detailed recipient information electronically unless they receive an exemption from Inland Revenue.

#### *Certificates of exemption*

14. **Agree** the Inland Revenue will make a source of information available to investment income payers to enable them to confirm whether or not recipients are exempt.
15. **Agree** that recipients that are tax exempt under Acts other than the Income Tax Act 2007 will be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers. This will ensure that they are included in the information source discussed in recommendation 13 above and will enable investment income payers to rely on that source of information.

*End of year interest certificates*

16. **Agree** that the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer will be removed.

*Error correction*

17. **Agree** that investment income payers will be allowed to correct errors in previous withholding tax returns in their next return subject to the following restrictions for errors being corrected in the following income year:
- 17.1 the amount of the error must be lower than the greater of \$2,000 and 5% of the investment income payers total withholding tax liability for the year; and
  - 17.2 the investment income payer must provide detailed recipient information in respect of the error including the amount of the error for each recipient and the tax period or periods that the error relates to.

*Application date*

18. **Agree** that the implementation of the changes for investment income information follow a legislated approach, where the submission of investment income information on a monthly basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide investment income information on the new basis.
19. **Agree** that the legislation includes the following implementation timetable:
- 19.1 1 April 2018 is the date at which PIEs will be required to obtain the IRD number of new investors or alternatively a self-certification that they are non-resident and do not have an IRD number.
  - 19.2 1 April 2019 is the date from which it becomes permissible for investment income payers to submit investment income information on a monthly basis (recommendation 3 above).
  - 19.3 15 May immediately following the end of the tax year will be the due date for filing the current detailed interest and PIE income information (excluding “locked in” schemes) for tax years beginning on or after 1 April 2018.
  - 19.4 1 April 2020 is the date from which the following will be required:
    - 19.4.1 Investment income payers (other than PIEs) to provide detailed recipient information on a monthly basis or for the month in which the payments are made where the payments are made less often than monthly. These returns will be due on the 20<sup>th</sup> of the month following the month in which the payment is made;
    - 19.4.2 Investment income payers to include date of birth information (if held) in the detailed recipient information they provide;
    - 19.4.3 Joint ownership information to be provided by investment income payers.

- 19.4.4 AIL and exempt recipient information to be provided;
- 19.4.5 Non-declaration rate for interest income subject to RWT to be increased to 45%;
- 19.4.6 Inland Revenue to provide a database of valid certificates of exemption;
- 19.4.7 Recipients of investment income to have a certificate of exemption to be exempt from withholding taxes on investment income.

### *Fiscal implications*

- 20. **Note** that all additional revenue and reduced expenditure that accrues under these proposals forms part of the Inland Revenue Business Transformation programme business case benefit and has already been accounted for by the Government.
- 21. **Note** that any additional administrative costs arising as a result of the proposed changes will be accommodated within the Business Transformation programme funding allocated to Inland Revenue.

### *Legislation*

- 22. **Agree** that the proposed amendments be included in a tax bill scheduled for introduction in February 2017.
- 23. **Delegate** to the Minister of Revenue authority to make minor amendments of a technical nature to the measures recommended in this paper without further reference to Cabinet, including changes to modernise the way the investment income rules are expressed in legislation.
- 24. **Invite** the Minister of Revenue to instruct Inland Revenue to draft legislation to give effect to the proposals contained in this paper.

### *Publicity*

- 25. **Invite** the Minister of Revenue to release a media statement to announce these measures when the bill is introduced.
- 26. **Agree** to the public release of an anonymised summary of submissions at the time the bill is introduced.

**Hon Michael Woodhouse**  
Minister of Revenue

\_\_\_\_/\_\_\_\_/\_\_\_\_  
Date

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- *Making tax simpler - Investment income information: summary of feedback* (March 2017) is available at <http://taxpolicy.ird.govt.nz/publications/2017-other-mts-investment-income-feedback/overview>
- The regulatory impact statement *Changes to the tax administration of investment income information* (8 November 2016) is available at <http://taxpolicy.ird.govt.nz/publications/2017-ris-areiirm-bill/overview>



# Cabinet Economic Growth and Infrastructure Committee

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Making Tax Simpler: Investment Income Information

Portfolio                      Revenue

On 16 November 2016, the Cabinet Economic Growth and Infrastructure Committee (EGI):

#### Background

- 1        **noted** that on 25 May 2016, EGI agreed to the release of a government discussion document on *Making Tax Simpler: Investment Income Information*, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-16-MIN-0105];
- 2        **agreed** to the introduction of a number of reforms to the rules in the Income Tax Act 2007 and the Tax Administration Act 1994 regarding investment income information that will, in conjunction with Inland Revenue’s Business Transformation programme:
  - 2.1      reduce compliance and administrative costs;
  - 2.2      create opportunities for better service delivery to individuals;

#### Detailed recipient information

- 3        **agreed** to require investment income payers (payers of interest, dividends and taxable Māori authority distributions) to provide detailed recipient information to Inland Revenue on a monthly basis, or for the months in which payments are made if the payment frequency is less than monthly;
- 4        **agreed** to require payers of portfolio investment entity (PIE) income to provide investors’ prescribed investor rate (PIR) details six months into the income year;
- 5        **agreed** that payers of PIE income be required to specify whether the investor is in a “locked in” fund in the year-end detailed information they provide to Inland Revenue;
- 6        **agreed** to require investment income payers to provide the recipient’s date of birth to Inland Revenue as part of the monthly reporting, if it is held;
- 7        **agreed** to require investment income payers to provide detailed recipient information regarding each of the owners of jointly owned investments, if it is held;

- 8 **agreed** that detailed recipient information in respect of interest income subject to approved issuer levy (AIL) be required to be provided to Inland Revenue monthly for domestically issued debt, at the same time as the Resident Withholding Tax (RWT) and Non-Resident Withholding Tax (NRWT) reporting;
- 9 **agreed** that detailed recipient information about interest income that is exempt from RWT because the investor has a certificate of exemption be required to be provided to Inland Revenue annually, but will be allowed to be provided monthly if preferred by the interest payer;
- 10 **agreed** that the reporting due date for interest and PIE income (excluding “locked in” schemes) year-end information be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May;

### **Non-declaration**

- 11 **agreed** to increase the non-declaration rate for interest subject to RWT to 45 percent;
- 12 **agreed** that investors opening new investments in PIEs be required to provide their IRD number (or a declaration that they are non-resident and do not have an IRD number) within six weeks of making the initial investment if they are to remain a member of the PIE;

### **Electronic filing**

- 13 **agreed** that investment income payers be required to file their withholding tax returns, including the detailed recipient information, electronically unless they receive an exemption from Inland Revenue;

### **Certificates of exemption**

- 14 **agreed** the Inland Revenue make a source of information available to investment income payers to enable them to confirm whether or not recipients are exempt;
- 15 **agreed** that recipients that are tax exempt under Acts other than the Income Tax Act 2007 be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers. This will ensure that they are included in the information source referred to in paragraph 14 above, and will enable investment income payers to rely on that source of information;

### **End of year interest certificates**

- 16 **agreed** that the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer be removed;

### **Error correction**

- 17 **agreed** that investment income payers be allowed to correct errors in previous withholding tax returns in their next return, subject to the following restrictions for errors being corrected in the following income year:
- 17.1 the amount of the error must be lower than the greater of \$2,000 and 5 percent of the investment income payer’s total withholding tax liability for the year; and
- 17.2 the investment income payer must provide detailed recipient information in respect of the error, including the amount of the error for each recipient and the tax period or periods to which the error relates;

**Application date**

- 18 **agreed** that the implementation of the changes for investment income information follow a legislated approach, where the submission of investment income information on a monthly basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide investment income information on the new basis;
- 19 **agreed** that the legislation includes the following implementation timetable:
- 19.1 1 April 2018: the date at which PIEs will be required to obtain the IRD number of new investors, or alternatively a self-certification that they are non-resident and do not have an IRD number;
- 19.2 1 April 2019: the date from which it becomes permissible for investment income payers to submit investment income information on a monthly basis (paragraph 3 above);
- 19.3 15 May immediately following the end of the tax year : the due date for filing the current detailed interest and PIE income information (excluding “locked in” schemes) for tax years beginning on or after 1 April 2018;
- 19.4 1 April 2020: the date from which the following will be required:
- 19.4.1 investment income payers (other than PIEs) to provide detailed recipient information on a monthly basis, or for the month in which the payments are made where the payments are made less often than monthly. These returns will be due on the 20<sup>th</sup> of the month following the month in which the payment is made;
- 19.4.2 investment income payers to include date of birth information (if held) in the detailed recipient information they provide;
- 19.4.3 joint ownership information to be provided by investment income payers;
- 19.4.4 AIL and exempt recipient information to be provided;
- 19.4.5 non-declaration rate for interest income subject to RWT to be increased to 45 percent;
- 19.4.6 Inland Revenue to provide a database of valid certificates of exemption;
- 19.4.7 recipients of investment income to have a certificate of exemption to be exempt from withholding taxes on investment income;

**Fiscal implications**

- 20 **noted** that all additional revenue and reduced expenditure that accrues under the above proposals forms part of the Inland Revenue Business Transformation Programme’s business case benefit, and has already been accounted for by the government;
- 21 **noted** that any additional administrative costs arising as a result of the above proposals will be accommodated within the Business Transformation Programme funding allocated to Inland Revenue;

**Legislative implications**

- 22 **agreed** that the proposed amendments be included in the tax Bill scheduled for introduction in February 2017;
- 23 **authorised** the Minister of Revenue to make minor amendments of a technical nature to the measures proposed in the paper under EGI-16-SUB-0307 without further reference to Cabinet, including changes to modernise the way the investment income rules are expressed in legislation;
- 24 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the above proposals;

**Publicity**

- 25 **noted** that the Minister of Revenue intends to release a media statement to announce these measures when the Bill is introduced;
- 26 **agreed** to the public release of an anonymised summary of submissions at the time the Bill is introduced.

Janine Harvey  
Committee Secretary

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**Present:**

Hon Bill English (Chair)  
Hon Steven Joyce  
Hon Dr Nick Smith  
Hon Nathan Guy  
Hon Michael Woodhouse  
Hon Peseta Sam Lotu-Iiga  
Hon Maggie Barry  
Hon Jo Goodhew  
Hon Nicky Wagner  
Hon Louise Upston  
Hon Paul Goldsmith

**Officials present from:**

Officials Committee for EGI

**Hard-copy distribution:**

Cabinet Economic Growth and Infrastructure Committee  
Melleny Black, PAG, DPMC



# Cabinet

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Report of the Cabinet Economic Growth and Infrastructure Committee: Period Ended 18 November 2016

On 21 November 2016, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 18 November 2016:

Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

Out of scope [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]

[REDACTED]

EGI-16-MIN-0307

**Making Tax Simpler: Investment Income Information**  
Portfolio: Revenue

CONFIRMED

Out of scope [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]

Michael Webster  
Secretary of the Cabinet

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