

POLICY AND STRATEGY

Tax policy report: Options for taxing the digital economy – Cabinet paper

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| Date: | 29 January 2018 | Priority: | Medium |
| Security level: | In Confidence | Report number: | T2019/171IR2019/038 |

Action sought

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| --- | --- | --- |
|  | Action sought | Deadline |
| Minister of Finance | **Advise officials of any desired changes to the Cabinet paper** or the proposed redactions | 1 February 2019 |
| Minister of Revenue | **Advise officials of any desired changes to the Cabinet paper** or the proposed redactions | 1 February 2019 |

Contact for telephone discussion (if required)

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| --- | --- | --- |
| Name | Position | Telephone |
| Sam Rowe  | Senior Policy Advisor, Inland Revenue | s 9(2)(a) |
| Matthew Gan | Tax Specialist, The Treasury |  |

29 January 2019

Minister of Finance

Minister of Revenue

Options for taxing the digital economy – Cabinet paper

1. On 13 December 2018 we provided you with a tax policy report on options for taxing the digital economy (T2018/3710, IR2018/801). That report recommended the preparation of a Government discussion document on the different options, including a digital services tax. The recommendation to prepare a discussion document requires approval by Cabinet.
2. We provided you with a first draft of the Cabinet paper requesting approval to prepare the discussion document on 25 January. Following feedback from you and your offices, we now attach an updated draft of the Cabinet paper. We also attach a version of the Cabinet paper showing the redactions we propose to make to it for its proactive release. Please let us know by Friday 1 February 2019 if you would like any changes made to this draft or the proposed redactions.
3. Since we reported to you in December, the OECD has agreed to consider another proposal for taxing the digital economy. This proposal seems to provide for formulary apportionment of a multinational’s profit to market countries, based on certain metrics such as sales and user participation. The proposal would require the multinational to have a significant economic presence in the country (which need not be physical) and could involve withholding taxes. s 6(a)… . . . .
. . …………………………………………………………………………….……… . . We have included this proposal in the Cabinet paper.
4. The next steps are set out in the table below.

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| --- | --- |
| **Step** | **Date** |
| Your directions on any changes you would like made to the Cabinet paper or the proposed redactions | 1 February 2019 |
| Cabinet paper lodged | 7 February 2019 |
| Cabinet paper to DEV Committee | 13 February 2019 |
| Cabinet paper to Cabinet  | 18 February 2019 |
| Draft discussion document provided to you for approval  | s 9(2)(f)(iv) |
| Draft discussion document provided to Cabinet for approval |  |
| Discussion document released to public |  |

# Recommended action

1. We recommend that you:

**(a) Review** the attached Cabinet paper and advise us if you would like any changes made prior 1 February 2019.

Agreed/Not agreed Agreed/Not agreed

**(b) Review** the proposed redactions to the Cabinet paper and advise us if you would like any changes made prior 1 February 2019.

Agreed/Not agreed Agreed/Not agreed

 **Matt Cowan** **Sam Rowe**

 Team Leader Senior Policy Advisor

 Tax Strategy Team Policy and Strategy

 The Treasury Inland Revenue

 **Hon Grant Robertson** **Hon Stuart Nash**

 Minister of Finance Minister of Revenue

 / /2019 / /2019