

Sensitive

Office of the Minister of Finance

Office of the Minister of Revenue

Cabinet

Chair

Government Response to the Tax Working Group

Proposal

1. This paper proposes the overall Government response to the recommendations of the Tax Working Group (TWG).
2. The table attached to this Cabinet paper outlines the proposed Government response to each of the TWG's recommendations.

Executive Summary

3. The TWG's Final Report makes 99 recommendations. This paper sets out the Government's proposed response to these recommendations.
4. In response to the TWG's recommendations on capital gains taxation, after extensive consultation with coalition partners, the Government has been unable to reach consensus on its response to the TWG's recommendations on capital gains taxation. Consequently the Government is not proposing to adopt any of the TWG's recommendation on capital gains taxation. This means there will be no changes to the taxation rules on taxing capital income as a result of capital gains taxation recommendations in the TWG report and no further work on these recommendations is necessary. However, we intend to explore options for taxing vacant land, and to seek a review of the current rules for taxing land speculators with a view to tightening these rules.
5. The proposed responses to the TWG's recommendations (other than those relating to capital gains taxation) are generally classified into five categories:
 - 5.1. *Endorse the TWG recommendation:* The TWG recommended retaining the current tax settings and we agree with this recommendation.
 - 5.2. *Agree no further work necessary:* We consider no further work is necessary.
 - 5.3. *Note work already underway:* Work is already underway within Government to consider the recommendation
 - 5.4. *Consider for inclusion on work programme:* The recommendation should be considered for inclusion in the 2019/20 Tax Policy Work Programme (TPWP)

and/or other agency work programme. The tax policy work programme is jointly agreed by the Minister of Finance and the Minister of Revenue and this process includes taking the proposed programme to Cabinet.

5.5. *Consider as a high priority for inclusion on work programme:* The recommendation should be considered as a high priority for progression in the 2019/20 TPWP and/or other agency work programmes.

6. The table below provides a high-level summary of the TWG recommendations by key topic area. The table in the appendix provides the full set of recommendations and proposed Government responses.

Topic	Summary of TWG recommendations	Response
Capital gains taxation	A majority of TWG members recommended that the Government tax capital gains at full marginal rates on a very broad range of assets. A minority of TWG members recommended a more limited extension of capital gains taxation.	We propose to not adopt any of the recommendations on capital gains taxation. Consequently we agree no further work is necessary , but a review of the current rules for taxing land speculators should be considered as a high priority for inclusion on work programme (TPWP). We also intend to explore options for taxing vacant land including as recommended by the TWG, directing the Productivity Commission to include vacant land taxes within its inquiry into local government funding and financing.
Environmental and ecological outcomes	Adopt the TWG's framework for deciding when to use taxation as a tool to deal with negative environmental externalities.	Consider for inclusion on work programme (TPWP and other agencies).
	In the short term, pursue opportunities to strengthen existing policies.	Note work already underway.
	In the medium-to-long term, consider broader opportunities for environmental taxation.	There are no plans in this term of Parliament to introduce resource rentals for water or input-based instruments, including on fertiliser (i.e. a fertiliser tax). The Government will not be advancing new environmental tax proposals beyond current work programmes.

The taxation of business	The current approach to the taxation of business is largely sound. Accordingly, the TWG recommended that the Government retain the imputation system and the existing company tax rate.	Endorse the TWG recommendation.
	Consider measures to support businesses and enhance productivity. These include: <ul style="list-style-type: none"> • reform of the loss continuity rules; • reform of the treatment of black hole expenditure; and • compliance cost measures. 	Consider for inclusion on work programme (TPWP).
	The reinstatement of building depreciation deductions including the treatment of seismic strengthening costs	Consider for inclusion on work programme (TPWP) with the seismic strengthening work considered a high priority for inclusion on the work programme.
	Develop a regime that encourages investment into nationally-significant infrastructure projects.	Consider as high priority for inclusion on work programme (TPWP).
International income taxation	Continue to participate in multilateral discussions on the future of the international income tax framework, but stand ready to implement a digital services tax if necessary.	The Government has directed officials to draft a discussion document on the options for taxing the digital economy, including a digital services tax. We will report back to Cabinet with a draft of the discussion document in May.
Retirement savings	Increase the incentives for low income-earners to save through KiwiSaver.	Consider for inclusion on work programme (TPWP). This work would sit alongside the Government's broader work on KiwiSaver, which includes the default provider review and a consideration of options to increase KiwiSaver uptake and contributions.
Future of work	Ensure the tax system remains fit-for-purpose as technology and other forces reshape the labour market.	Note work already underway.
Integrity of the tax system	Adopt a suite of measures to improve compliance and enhance tax collection. These include: <ul style="list-style-type: none"> • a review of the loss-trading rules; • tighter requirements on shareholders in closely-held companies; and • further action to discourage under-the-counter transactions. 	Consider as high priority for inclusion on work programme (TPWP).
Personal income tax	Consider changes to income tax and/or benefits to increase progressivity. The TWG advised against a reduction in the top rate of personal income tax rate.	We propose to not adopt any of the recommendations on capital gains taxation. As a result there is no

		revenue to recycle. Consequently we agree no further work is necessary.
Administration of the tax system	Provide greater public access to data and information about the tax system.	Consider for inclusion on work programme (TPWP).
	Improve the process for resolving tax disputes.	
Charities	Conduct a periodic review of the charitable sector's use of what would otherwise be tax revenue, to verify that tax exempt status for charities and their business activities is achieving its intended objectives.	Note work already underway.
Goods and Services Tax (GST)	The TWG advised against any changes to GST.	Endorse the TWG recommendation.
	The TWG advised against the introduction of a financial transactions tax. The Government should monitor international developments regarding GST on financial services.	
Corrective taxes	<u>Tobacco</u> : Prioritise non-tax levers over further increases to tobacco excise (beyond those already contemplated).	Note work already underway.
	<u>Alcohol</u> : Simplify the rate structure of alcohol excise.	The Government has no intention to progress these changes in the current parliamentary term.
	<u>Sugar and gambling taxes</u> : The Government should develop a clearer articulation of its goals in these areas.	
Housing	Some measures (such as vacant land taxes) may help at the margin.	Consider options for taxing vacant land held by land-bankers as a high priority for inclusion on work programme (TPWP). We also intend to explore options for taxing vacant land including as recommended by the TWG, directing the Productivity Commission to include vacant land taxes within its inquiry into local government funding and financing.

7. This paper also outlines how the TWG's work on He Ara Waiora / A Pathway Towards Wellbeing is being progressed.

Background

8. On 23 November 2017, the Government established the TWG to consider measures to improve the structure, fairness and balance of the tax system. The TWG was asked to report to the Government on whether:

- 8.1. the tax system operates fairly in relation to taxpayers, income, assets and wealth;
- 8.2. the tax system promotes the right balance between supporting the productive economy and the speculative economy;

- 8.3. there are changes to the tax system which would make it more fair, balanced and efficient; and
 - 8.4. there are other changes which would support the integrity of the income tax system, having regard to the interaction of the systems for taxing companies, trusts, and individuals.
9. The Group was also asked to consider, in particular, whether a system of taxing capital gains or land (not applying to the family home or the land under it), or other housing tax measures, would improve the tax system.
10. The TWG delivered its Final Report to the Government on 21 February 2019. The report contains 99 recommendations. The recommendations cover a broad range of areas, including:
- 10.1. *Capital gains taxation* – the majority of the TWG recommended a broad extension to the taxation of capital gains. A minority recommended a more limited approach. The revenue collected could then be used to offset tax in other areas, including lowering personal income tax;
 - 10.2. *Environmental and corrective tax*– the TWG recommended the Government make better use of taxes to discourage activities that cause negative impacts. The TWG developed a framework for deciding when such taxes can be best applied;
 - 10.3. *International income taxation* – the TWG recommended the Government stand ready to implement an equalisation tax on digital services if a critical mass of other countries move in that direction;
 - 10.4. *Future of work* – the TWG was concerned about changes in the labour market and recommended current withholding taxes be extended as far as practicable to increase compliance;
 - 10.5. *Integrity of the tax system* – the TWG was concerned about integrity risks associated with the use of closely held companies and recommended increased enforcement to address these risks;
 - 10.6. *Charities* – the TWG recommended regular reviews of the charitable sector to ensure the tax concessions enjoyed by the businesses they run are being put towards the intended social outcomes.
11. The TWG considered the current tax settings in a number of areas to be largely sound and therefore no further action is required at this time. These areas include:
- 11.1. *Capital and wealth* – the TWG recommended against introducing a wealth or land tax;
 - 11.2. *The taxation of business* – the TWG recommended against moving away from the imputation system, reducing the company tax rate, or considering an alternative method of taxing small businesses;

- 11.3. *GST and financial transactions tax* – the TWG recommended against reducing the GST rate or introducing any new GST exemptions.

The Tax Working Group recommendations

12. The TWG's recommendations can be broadly categorised into thirteen areas. This section of the paper outlines at a high-level the thirteen areas and the proposed Government response. The full list of recommendations and the proposed Government response is outlined in the table in the appendix.
13. The proposed responses are categorised as follows:
- 13.1. *Endorse the TWG recommendation:* The TWG recommended retaining the current tax settings and we agree with this recommendation;
 - 13.2. *Agree no further work necessary:* We consider no further work is necessary;
 - 13.3. *Note work already underway:* Work is already underway within Government to consider the recommendation;
 - 13.4. *Consider for inclusion on work programme:* The recommendation should be considered for inclusion in the 2019/20 TPWP and/or other agency work programmes;
 - 13.5. *Consider as a high priority for inclusion on work programme:* The recommendation should be considered as a high priority for progression in the 2019/20 TPWP, or other agency work programme.
14. A number of recommendations are proposed to be considered as part of the upcoming refresh of the 2019/20 TPWP, or other agency work programmes. This is appropriate – as the Final Report notes, many of the TWG's recommendations should be read as opportunities to improve the tax system, not detailed proposals, and should therefore be progressed through the TPWP and the Generic Tax Policy Process.
15. We have identified a number of recommendations which should be given high priority for consideration in the upcoming refresh of the 2019/20 TPWP. The recommendations include measures to strengthen the integrity of the tax system and encourage investment into nationally-significant infrastructure projects.

Capital gains taxation

16. The majority of the TWG (eight members) recommended a broad extension to the taxation of capital gains. All members support an approach that taxes gains from residential property:
- 16.1. The majority recommendation involves a tax on capital gains at full marginal rates on a very broad range of assets. This includes gains from all types of land and improvements (except for the family home), as well as gains from shares, intangible assets, and business assets. Gains on personal assets (such as cars, boats or other household durables) would not be included, on the basis that these types of personal assets generally decline in value and the loss on sale represents the cost of private consumption;

- 16.2. The minority agreed that gains from residential properties should be taxed. (One of the minority would not tax gains from holiday homes or second homes.)
17. The key benefits of broad capital gains taxation identified by the TWG are:
 - 17.1. Improvements to the fairness and progressivity of the tax system. The tax would enhance fairness by taxing different sources of income more equally. It would increase the progressivity of the tax system because capital gains are earned predominantly by the wealthiest households;
 - 17.2. Greater integrity and revenue sustainability. Without taxing capital gains, it is difficult to protect the integrity of the tax system if there is a large gap between the company tax rate and the top personal rate;
 - 17.3. Greater neutrality in the treatment of investment decisions; and
 - 17.4. An additional source of revenue to fund measures that promote Government priorities.
18. The key costs identified were:
 - 18.1. Higher taxes on savings and investment;
 - 18.2. Distortionary costs associated with taxing on a realisation basis (especially 'lock-in,' which occurs when asset-holders defer the sale or disposal of assets to avoid the realisation of their tax obligations); and
 - 18.3. Complexity and administration and compliance costs.
19. In comparison, the minority recommendation to tax gains from residential property only would have a more limited effect. It would:
 - 19.1. Improve the fairness and progressivity of the tax system;
 - 19.2. Leave most of the economy unaffected, so there would be smaller aggregate impacts (positive and negative) on efficiency and productivity; and
 - 19.3. Be substantially less complex than broad capital gains taxation.

Government response

20. We have carefully considered the recommendations made by the members of the TWG. We note that the TWG did not achieve consensus on the merits of progressing broad capital gains taxation. After extensive consultation with coalition partners, the Government has been unable to reach consensus on its response to the TWG's recommendations on capital gains taxation. Consequently the Government is not proposing to adopt any of the TWG's recommendations on capital gains taxation. This means there will no changes to the taxation rules on taxing capital income as a result of the capital gains taxation recommendations in the TWG report and no further work is necessary.
21. The Government intends to explore options for taxing vacant land (discussed separately below) and to seek a review of the current rules for taxing land speculators

with a view to tightening these rules. We have asked that this be considered as a high priority for the TPWP.

Environmental and ecological outcomes

22. The TWG considered there is significant scope for the tax system to play a greater role in sustaining and enhancing New Zealand's natural capital – alongside regulation and spending measures.
23. As an initial step, the TWG developed a framework for deciding when to apply taxes to address negative environmental externalities, and recommended the Government build its environmental tax capabilities.

Government response

24. We welcome the TWG's work on the environment. Tax instruments can be an effective and efficient tool for addressing environmental challenges.
25. As the TWG notes, environmental tax should not be considered in isolation from other environmental regulatory measures. The Government is progressing several initiatives to ensure tax is appropriately used, complementing other regulatory responses:
 - 25.1. Emissions Trading Scheme (ETS) reforms are currently being considered as part of the Climate Change Response Act Amendment Bill. The Interim Committee on Climate Change is also considering the treatment of agricultural emissions.
 - 25.2. The Water Taskforce is working to achieve improvements in water quality as well as efficient and fair allocation of freshwater and nutrient discharges.
 - 25.3. The Government has already invested an additional \$5 million into OVERSEER to improve the scope and accuracy of estimated discharges into water.
 - 25.4. The Ministry for the Environment is currently reviewing the scope and rate of the Waste Disposal Levy.
 - 25.5. There is ongoing work to consider certain tax measures in place in New Zealand – the Ministry of Business, Innovation and Employment (MBIE) and Inland Revenue are currently providing advice on the 7 year spreading provision for petroleum development expenditure.
 - 25.6. There is an existing project ("The Congestion Question") between Government and Auckland Council to investigate whether or not to introduce congestion pricing in Auckland.
26. The question of what role the tax system should play to address environmental issues is an area where further cross-agency work is required and will be considered for the TPWP (alongside other specific environmental recommendations made by the TWG). The Government will also consider the merits of revenue recycling in future policy work on environmental taxation.

27. This Government will not be advancing new environmental tax proposals beyond current work programmes. The Government remains committed to the Coalition Agreement, and therefore does not propose to introduce resource rentals for water in this term of Parliament. We also have no plans to introduce this term input-based instruments, including on fertiliser (i.e. a fertiliser tax).

The taxation of business

28. The TWG considered that the current approach to the taxation of business is largely sound. The TWG did not see a case to:
- 28.1. move away from the imputation system;
 - 28.2. reduce the company tax rate;
 - 28.3. introduce a progressive company tax; or
 - 28.4. introduce an alternative basis of taxation for smaller businesses, such as cash flow or turnover taxes.
29. The TWG also recommended a number of tax measures that could lower compliance costs and enhance productivity for businesses. These recommendations include changes to the loss continuity rules, expanding deductions for 'black-hole' expenditure, restoring building depreciation deductions, and aligning the Māori authority rate for wholly-owned subsidiaries of Māori authorities.

Government response

30. We endorse the TWG recommendation to broadly retain the current settings for the taxation of business.
31. We propose that a number of the recommendations targeted at lowering compliance costs and enhancing productivity be considered for the TPWP. These include:
- 31.1. *compliance saving measures*, such as increasing the threshold for paying provisional tax and assisting businesses to use cloud-based software to improve their business;
 - 31.2. *removing a number of requirements that impose costs on businesses for little benefit*, such as removing the requirement to obtain approval to issue GST buyer created invoices; and
 - 31.3. *measures to improve productivity and encourage entrepreneurship*, such as reviewing the loss continuity rules and the treatment of black-hole expenditure, and aligning the Māori authority rate for wholly-owned subsidiaries of Māori authorities.
32. These measures could complement existing TPWP initiatives, such as consideration of the removal of incremental penalties, which could benefit thousands of small businesses.

33. We propose that the other recommendations, such as considering depreciation deductions for buildings will be considered for inclusion in the TPWP. The issue of seismic strengthening will be a high priority for us.
34. Beyond this work, we will consider as a high priority the development of a tax regime that encourages investment into nationally-significant infrastructure projects.

International income taxation

35. The TWG noted that New Zealand is currently participating in discussions at the Organisation for Economic Co-operation and Development (OECD) on the future of the international tax framework. In its final report, the TWG concluded that New Zealand should continue to participate in OECD discussions on changing the international tax framework, but should also stand ready to implement a Digital Service Tax (DST) if a critical mass of other countries move in that direction, and it is reasonably certain that New Zealand's export industries will not be materially impacted by any reciprocal measures.

Government response

36. There is a problem with the current taxation of the digital economy, both in New Zealand and internationally. We agree with the TWG that New Zealand should continue to participate in the OECD discussions on the taxation of the digital economy, with a view to supporting a long-term solution (bearing in mind its effect on our exporters).
37. We also agree that the Government should actively consider a possible DST as an option for taxing the digital economy, in case the OECD cannot achieve sufficient progress this year.
38. We reported to Cabinet on this in February 2019. Following Cabinet approval, we have directed officials to draft a discussion document to get public feedback on the options for taxing the digital economy (being the international solution being discussed at the OECD and the DST). Feedback from the discussion document will be used to help formulate the best policy for taxing the digital economy.
39. We will report back to Cabinet in May with a draft of the discussion document.

Retirement savings

40. The TWG noted that New Zealand offers few tax incentives for retirement savings but does not see a case to significantly reform the taxation of retirement savings. Despite this, the TWG recommended an increase in the tax benefits for low and middle-income earners provided through KiwiSaver to encourage people to put more away for their retirement.
41. The TWG also recommended that:
 - 41.1. there is a case to exempt the New Zealand Superannuation Fund (NZSF) from New Zealand tax obligations, and

- 41.2. the Government should simplify the determination of Portfolio Investment Entity (PIE) rates (which would apply to KiwiSaver).

Government response

42. We propose to consider the simplification of the determination of PIE rates for inclusion in the TPWP. Many KiwiSaver members are on an incorrect PIE rate, typically the default rate of 28%. As part of its Business Transformation programme, Inland Revenue will start to receive more frequent income information. This information could be used to help ensure taxpayers are using the correct PIE rate.
43. This work would sit alongside the Government's broader work on KiwiSaver, which includes the default provider review and a consideration of options to increase KiwiSaver uptake and contributions.
44. We propose to consider the recommendation to exempt the NZSF in the TPWP. The economic and fiscal impacts of these measures would be significant, but have not yet been estimated, and should be a factor in further consideration of the recommendation.

Future of work

45. The TWG was concerned that the effectiveness of the pay-as-you-earn (PAYE) withholding system will reduce if labour market changes increase the proportion of self-employed workers in the future. Therefore, the TWG supported expanding the use of withholding taxes to increase compliance and recommended that withholding be extended as far as practicable (including to platform service providers) so long as this does not impose unreasonable compliance costs.

Government response

46. The nature of work is changing in New Zealand, with new technology already having an impact across many industries. It is important that the tax system continues to evolve, so it remains fair and equitable in the future.
47. Work across multiple government agencies is currently underway, with Inland Revenue officials undertaking targeted consultation on a number of proposals to expand the scope of the schedular payments rules and address non-compliance by self-employed workers. The TWG supported this work. We will receive an update on this work in the second half of 2019.

Integrity of the tax system

48. The TWG noted that the integrity of the tax system requires constant vigilance. Tax avoidance not only erodes social capital, but is also fundamentally unfair, as compliant taxpayers must pay more to make up for the lost revenue.
49. The TWG raised some specific integrity risks and recommended measures to address these risks including:

- 49.1. *The misalignment of the company and top personal tax rates*: The TWG recommended there is a need to strengthen enforcement of the rules for closely-held companies.
 - 49.2. *A review of the loss-trading rules*, potentially in tandem with a review of the loss continuity rules for companies.
 - 49.3. *Undeclared and cash-in-hand transactions (sometimes known as the 'hidden economy')*: The TWG recommended to increase the reporting of labour income and even the removal of tax deductibility if a taxpayer has not followed labour income withholding or reporting rules.
50. The TWG also recommended that tax collection could be enhanced by increasing the remedies available to the Commissioner of Inland Revenue, specifically:
- 50.1. the use of departure prohibition orders; and
 - 50.2. the introduction of a similar regime to Australia's Director Penalty Notice for serious cases, where the directors are the economic owners of the business and there has been persistent or intentional non-compliance.
51. The TWG also recommended the creation of a single Crown debt collection agency, to achieve economies of scale and more equitable outcomes across all Crown debtors.

Government response

52. We agree with the TWG that the issue of integrity should be a priority for the Government.
53. Tackling the hidden economy continues to be a focus for Inland Revenue, with time-limited operational funding being put towards increasing investigations capability, public awareness campaigns, and new policy initiatives. Australia has recently introduced new policy initiatives to combat the hidden economy, including removing tax deductibility from non-compliant taxpayers. Officials are monitoring the progress of these initiatives and the impact on the Australian hidden economy.
54. We also note that:
- 54.1. The expanded use of departure prohibition orders needs to be carefully considered to ensure they are used as a tool of last resort.
 - 54.2. While having the ability to pierce the corporate veil and impose personal liability on directors may result in more tax debt being collected, it may adversely impact on individuals choosing to establish a business or who elect to become an independent director. These and other potential trade-offs will need to be worked through before this measure can be progressed.
55. We propose that the integrity measures recommended by the TWG be considered as a high priority for inclusion in the TPWP. We will need to consider the merits of progressing these recommendations alongside other opportunities for enhancing the integrity of the tax system.

56. We have also noted the TWG's recommendation for a single Crown debt collection agency. The objectives of a single agency may be better achieved through greater alignment of agency policies on debt prevention and collection. Further cross-agency advice would need to be sought on how this could be developed.

Personal income tax

57. The TWG noted that any changes to personal income taxation will need to reflect the objectives of the Government:
- 57.1. If the Government wishes to improve incomes for very low-income households, the best means of doing so will be through welfare transfers.
 - 57.2. If the Government wishes to improve incomes for certain groups of low-to-middle-income earners (such as full-time workers on the minimum wage), then changes to personal income taxation may be a better option.
58. The TWG's preferred approach was to increase the bottom tax threshold, which could potentially be combined with an increase in the second marginal tax rate. Alongside these tax changes, the TWG recommended increasing net benefit payments to ensure beneficiaries would receive the same post tax increase as other people on the same income.
59. The TWG noted that many submissions called for increasing the top personal tax rate to make a material reduction in income equality through the personal tax system. However, consideration of such an increase was precluded by the TWG's Terms of reference and therefore the TWG did not undertake any further analysis.

Government response

We propose to not adopt any of the recommendations on capital gains taxation. As a result, there is no revenue to recycle. Consequently we propose that no further work is necessary.

Administration of the tax system

60. The TWG made several recommendations with regard to the administration of the tax system. These recommendations included:
- 60.1. providing greater public access to data and information about the tax system;
 - 60.2. establishing an independent taxpayer advocacy service and a truncated tax disputes process to assist taxpayers in disputes with Inland Revenue;
 - 60.3. continuing to invest in the technical and investigatory skills of Inland Revenue staff and for the Treasury to play a strong role in the development of tax policy; and
 - 60.4. following a set of principles with regards to public engagement (engage with a wider range of stakeholders and with a great variety of methods, engage earlier and more frequently, greater transparency and accountable, and engage in good faith).

Government response

61. There is a significant amount of anonymised tax information available through Statistics New Zealand's integrated data infrastructure (IDI), which can be used by researchers in certain circumstances. A number of the areas the TWG suggested more information would be helpful to researchers are not currently collected by Inland Revenue on a regular basis, such as information around wealth. Inland Revenue's Business Transformation programme is expanding the extent and type of information collected. This information could potentially be contributed to the IDI.
62. Officials have provided us with some initial advice on an independent tax advocate service as suggested by the TWG. At this stage, we do not propose any further work on the issue, as it is not clear how such a service would resolve the matters raised by the TWG. A truncated disputes process would require further work to consider any issues with the current processes before recommending any changes. This work could be considered for inclusion on the TPWP.
63. Officials have also provided us with a public engagement framework which incorporates the principles recommended by the TWG. Following decisions on the Crown/Māori Engagement Framework by Cabinet in September 2018, officials will work with Te Arawhiti to ensure the framework reflects the special Māori-Crown relationship in its approach to engagement. We will then explore release of the tax engagement framework.
64. Inland Revenue continues to be committed to investing in the technical skills and capability of its investigations staff. The Business Transformation programme will also help to free more Inland Revenue staff from transactional work to focus on identifying non-compliance.

Charities

65. The TWG raised four areas of concern in respect of charities and the not-for-profit sector:
 - 65.1. The first area of concern involved business activity in the tax-exempt charitable sector. The TWG was concerned about the extent to which charities are distributing or applying the surpluses from their activities for the benefit of their charitable purposes. The TWG recommended that the Government periodically review the charitable sector's use of what would otherwise be tax revenue to verify that the intended social outcomes are actually being achieved.
 - 65.2. The second area of concern involved the income tax treatment of private charitable foundations and trusts. The TWG recommended the Government consider whether to apply a distinction between privately controlled foundations and other charitable organisations, with a view to removing concessions for privately controlled foundations or trusts that do not have arm's length governance or distribution policies.

- 65.3. The third area of concern involved the income tax rules for de-registered charities. The TWG recommended the Government consider whether to amend the de-registration tax rules to more effectively keep assets in the sector or to ensure there is no deferral benefit through the application of these rules.
- 65.4. The fourth area of concern involved the treatment of GST concessions for not-for-profit organisations. The TWG recommended the Government review whether it is appropriate to treat some not-for-profit organisations as if they were final consumers or, alternatively, to limit GST concessions to a smaller group of non-profit bodies, such as registered charities.

Government response

66. The Government has already commissioned the Department of Internal Affairs (DIA), on behalf of the Minister for the Community and Voluntary Sector, with modernising the Charities Act 2005. The Government also added a review of charities and non-profit organisations to the Tax Policy Work Programme in 2018, which the TWG supported in its final report. That review is focussed on:
- 66.1. the appropriateness of the tax exemption for significant businesses associated with charities; and
- 66.2. the level of compliance costs experienced by small charities.
67. Some remedial measures to reduce compliance costs experienced by small charities have been made by the Taxation (Annual Rates for 2018–19, Modernising Tax Administration, and Remedial Matters) Act 2019. Further remedial measures will be included in a 2019 omnibus tax bill.
68. The ongoing DIA work will shed further light on the issues of accumulation and distribution within the charitable sector. DIA's findings will be relevant when considering whether the charitable tax exemption for businesses, private charitable foundations and trusts are appropriate.
69. Tax policy officials will continue to liaise with DIA throughout their consultation and policy process. At the conclusion of DIA's review, which is expected to be late 2019, officials will report on the related tax issues (including any interactions with the TWG's recommendations).

GST and financial transactions tax

70. The TWG received many submissions calling for a reduction in the GST rate, or for the introduction of new GST exceptions, to reduce the impact of GST on lower-income households.
71. The TWG acknowledged the public concern about the regressive nature of GST but decided not to recommend a reduction in the GST rate, or the introduction of new GST exceptions. This is because other more targeted measures, such as increases in transfers or changes to the personal tax system, will increase progressivity more effectively than reductions to GST.

72. The TWG also considered whether to remove the GST exemption on financial services. The TWG considered a number of options for taxing the consumption of financial services, but has not been able to identify a means of doing so that is both feasible and efficient. However, the TWG recommended that the Government monitor international developments in this area.
73. The TWG also did not recommend the introduction of a financial transactions tax.

Government response

74. We consider that no further work is required at this time in relation to GST or financial transactions taxes, other than monitoring international developments on taxing financial services.

Corrective taxes

75. A corrective tax is a tax that is intended to influence behaviour and lead to better health and wellbeing outcomes for New Zealanders. Outside of the environmental sphere, New Zealand currently levies corrective taxes on alcohol and tobacco.
76. The TWG recommended that the Government:
- 76.1. develop a framework for deciding when to apply corrective taxes;
 - 76.2. simplify the schedule of alcohol excise rates;
 - 76.3. prioritise other measures to help people stop smoking before considering further large increases in the tobacco excise rate beyond the increases currently scheduled; and
 - 76.4. develop a clearer articulation of the Government's goals regarding sugar consumption and gambling activity.

Government response

77. Following the release of the Interim Report, we wrote to the relevant agencies drawing their attention to the TWG's findings for their policy work programmes.
78. Work is already underway to progress some of these measures. The Ministry of Health is leading cross-agency work on tobacco policy, including follow up to a 2018 EY report (*Evaluation of the tobacco excise increases as a contributor to Smokefree Aotearoa 2025*). This work is looking at both tax and non-tax measures to support Smokefree Aotearoa 2025, and the TWG's recommendations on tobacco will be considered in this context. Officials will report back to Cabinet on these issues in June 2019.
79. We do not intend to progress the TWG's recommendations on alcohol excise, sugar taxes and gambling taxes in the current parliamentary term.

Housing

80. The TWG found that tax is not the primary driver of house prices (although aspects of the tax system have probably exacerbated the house price cycle). Within this context, however, the TWG recommended:

- 80.1. that the Productivity Commission include vacant land taxes within its review of local government body financing. The TWG's view is that vacant land taxes are best levied at the local rather than the national level;
- 80.2. the repeal of the time limit in the ten-year rule regarding selling for a gain contributed to by changes in land use regulation; and
- 80.3. requiring disclosure of the IRD number on the Land Transfer Tax Statement when transferring a main home.

Government response

81. We intend to explore options for taxing vacant land held by land-bankers. We have asked that this be considered as a high priority for the TPWP.
82. In addition as part of this work, we accept the recommendations of the TWG and intend to direct the Productivity Commission to specifically consider the issue of vacant land taxes as part of its inquiry into local government funding and financing. The Commission is due to report back to Government on its findings in November 2019.
83. Repealing the time limit in the ten-year rule, and requiring the disclosure of the IRD numbers of transacting parties, will also be considered as a high priority for the TPWP.
84. Housing-related infrastructure is another priority for the Government. Treasury and DIA are already leading a programme of work on infrastructure funding and financing within the Urban Growth Agenda. The aim is to improve housing affordability by enabling responsive infrastructure provision and appropriate cost allocation. This programme involves the investigation of alternative funding and financing models that will enable access to capital and better align charges for infrastructure with the beneficiaries of that infrastructure. It may ultimately involve the use of new special purpose vehicles with the ability to set charges and raise finance.

He Ara Waiora / A Pathway Towards Wellbeing

85. Through a planned engagement approach with Māori, the TWG developed a framework drawing on principles from Te Ao Māori to inform a more holistic view of wellbeing in tax policy development. This work, *He Ara Waiora / A Pathway Towards Wellbeing*, was co-designed through a series of wānanga with Māori which included submitters, academics, iwi leaders, and industry leaders, and received broad support through the Māori engagement process. The Group heard in a consolidated response from this process that the intent of *He Ara Waiora* represented a meaningful reflection of Te Tiriti o Waitangi, reflecting our continuing maturation as a nation.
86. The view was also expressed that a tikanga framework should have a broad ambit, rather than just focus on tax, and could appropriately be progressed by the Treasury in the context of the Living Standards Framework. The Treasury is continuing to work with some of the Māori academics, iwi leaders, and industry leaders that helped inform the framework, and are exploring how *He Ara Waiora* could inform the ongoing evolution of the Living Standards Framework. This work will also be developed in consultation with Te Puni Kōkiri and Te Arawhiti.

Engagement with Māori

87. Elements of any future TPWP will be of interest to Māori. Officials will work with Te Puni Kōkiri and Te Arawhiti on how to develop an appropriate engagement strategy, including how to approach engagement may be led by different agencies.

Consultation

88. The following agencies have been consulted on TWG recommendations 3-99: Department of the Prime Minister and Cabinet, Ministry for the Environment, Ministry of Housing and Urban Development, New Zealand Customs Service, Ministry for Primary Industries, Ministry of Business, Innovation and Employment, Department of Internal Affairs, Te Puni Kōkiri, and Te Arawhiti.
89. As recommendations progress, ongoing engagement with agencies and public stakeholders will be required.

Financial implications

90. Recommendations progressed on the TPWP and other Government work programmes may have financial implications. These implications will be reported to Cabinet separately as they progress.

Inland Revenue comment

91. Given the likelihood that Ministers will decide to include the priority TWG recommendations in the current TPWP, and that additional tax policy advice resources will be required to deliver a much larger work programme, Inland Revenue recommend that a tagged contingency to fund this additional tax policy advice be set up now to allow funding to be drawn down when such recommendations are added to the work programme. If funding is not provided, reprioritisation of the existing TPWP will need to occur.

Legislative Implications

92. There are no immediate legislative implications.

Impact Analysis

93. A regulatory impact assessment is not required for this Cabinet paper as it does not contain regulatory proposals

Human Rights

94. There are no human rights implications associated with this paper.

Gender Implications

95. There are no gender implications associated with this paper.

Disability Perspective

96. There are no disability implications associated with this paper.

Publicity

97. The Government has indicated that it will respond to the TWG recommendations in April 2019. This paper will form the basis of that response.

Proactive Release

98. We propose to release this paper proactively within 30 business days subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

99. We recommend the Committee:
 1. **note** that this paper reports to Cabinet on the recommendations made in the Tax Working Group Final Report provided to Government on 21 February 2019;
 2. **note** the appended table outlining each Tax Working Group recommendation and the proposed Government response;

Capital gains taxation

3. **agree** to not implement an extension of capital gains taxation;
4. **note** that, consistent with the appended table, the Government intends to explore options for taxing vacant land held by land-bankers and seek a review of the current rules of taxing land speculators as a high priority for the work programme (TPWP);
5. **note** that as part of this work, we accept the recommendations of the TWG and intend to direct the Productivity Commission to consider the issue of vacant land taxes as part of its inquiry into local government funding and financing.

Approach to other recommendations

6. **agree** to endorse the Tax Working Group recommendations where that is the proposed response indicated in the appended table;
7. **agree** that no further work is required on the Tax Working Group recommendations where that is the proposed response indicated in the appended table;
8. **note** the work already underway on the Tax Working Group recommendations where that is the proposed response indicated in the appended table;
9. **agree** to consider for inclusion in the 2019/20 Tax Policy Work Programme and/or other agency work programme, the Tax Working Group recommendations where that is the proposed response indicated in the appended table;
10. **agree** to consider as a high priority for inclusion in the 2019/20 Tax Policy Work Programme and/or other agency work programme, the Tax Working Group

recommendations where that is the proposed response indicated in the appended table;

11. **note** that the tax policy work programme is jointly agreed by the Minister of Finance and the Minister of Revenue and this process includes taking the proposed programme to Cabinet;
12. **note** that He Ara Waiora / A Pathway Towards Wellbeing is being taken forward by The Treasury in the Living Standards Framework Programme, in consultation with Te Puni Kōkiri and Te Arawhiti;

Administration and implementation

13. **note** that if Ministers add extra Tax Working Group recommendation projects to the Tax Policy Work Programme, and no additional policy advice funding is received, there will be a significant impact on the current work programme, which may mean some projects will need to be reprioritised or put on hold;
14. **note** that Inland Revenue will seek funding for additional tax policy advice as part of the 2019 Tax Policy Work Programme refresh, should Ministers wish to increase the amount of tax policy work undertaken.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Appendix

Recommendations of the Tax Working Group and proposed response

The table below lists all 99 recommendations in the Tax Working Group's Final Report and the proposed Government response.

Table key:

Endorse the TWG recommendation	The TWG recommended retaining the current tax settings and we agree with this recommendation.
Agree no further work	We consider no further work is necessary.
Note work already underway	Work is already underway within Government to consider the recommendation.
Consider for work Programme	The recommendation should be considered for inclusion in the 2019/20 TPWP and/or other agency work programme.
Consider as a high priority for work programme	The recommendation should be considered as a high priority for progression in the 2019/20 TPWP and/or other agency work programme.

Rec	TWG Final Report Recommendation	Response
Capital gains taxation		
1, 2	<p>The majority of the TWG recommends a broad extension of the taxation of capital gains.</p> <p>If a broad extension of capital gains taxation was adopted, the TWG recommends that it have the characteristics detailed in Volume II of the TWG report.</p>	<p style="background-color: #d3d3d3;">Agree no further work required on these recommendations.</p> <p style="background-color: #ffa500;">The Government intends to explore options for taxing vacant land including as recommended by the TWG, directing the Productivity Commission to include vacant land taxes within its inquiry into local government funding and financing and seek a review of the current rules of taxing land speculators as a high priority for the work programme (TPWP). (see response to recommendations 96 and</p>

Rec	TWG Final Report Recommendation	Response
		97).
Capital and wealth		
3	Do not introduce a wealth tax.	Endorse the TWG recommendation
4	Do not introduce a land tax.	Endorse the TWG recommendation
Environmental and ecological outcomes		
5	Adopt the TWG's framework for taxing negative environmental externalities.	Consider for inclusion on work programme (TPWP and Ministry for the Environment) Agree that the Government will not be advancing new environmental tax proposals beyond the current work programme.
6-8	Greenhouse gases a) Support for a reformed Emissions Trading Scheme (ETS) as the centrepiece of emissions reduction efforts, but there should be greater guidance on price and auctioning emissions units to raise revenue. b) Periodic reviews of the ETS to ensure it is fit for purpose. c) Emissions should face a price, including from agriculture, either from ETS or a complementary system.	Note work already underway – considered as part of the Climate Change Response Act Amendment Bill. The Interim Committee on Climate Change is also considering the treatment of agricultural emissions.
9-11	Water abstraction and water pollution a) Tax instruments could be considered to address water pollution and water abstraction challenges. b) Further develop tools to estimate diffuse water pollution. c) Introduce input-based tax instruments, including on fertiliser, if significant progress is not made in the near term on output-based approaches.	Note work already underway – The Water Taskforce is working to achieve improvements in water quality. There will be no resource rentals for water in this term of Parliament as per the Coalition Agreement. These are no plans in this term of Parliament to introduce input-based instruments, including on fertiliser (i.e., a fertiliser tax).
12-15	Solid waste a) Supports the Ministry for the Environment's review of the rate and coverage of the Waste Disposal Levy.	Note work already underway – The Ministry for the Environment is currently

Rec	TWG Final Report Recommendation	Response
	<p>b) Expand the coverage of the Waste Disposal Levy.</p> <p>c) Reassess the negative externalities associated with landfill disposal in New Zealand to ascertain if a higher levy is appropriate.</p> <p>d) Review hypothecation of the Waste Disposal Levy to ensure funds are being used in the most effective way to move towards a more circular economy.</p>	reviewing the scope and rate of the Waste Disposal Levy.
16	<p>Transport</p> <p>Supports current reviews by the Government and Auckland Council into introducing congestion pricing.</p>	<p>Note work already underway – There is a project (“The Congestion Question”) between Government and Auckland Council to investigate whether or not to introduce congestion pricing in Auckland</p>
Concessions		
17	Costs associated with the care of land subject to a QEII covenant or Ngā Whenua Rāhui be tax deductible.	Consider for inclusion on work programme (TPWP)
18	Consider a fringe benefit tax exemption for public transport.	Consider for inclusion on work programme (TPWP)
19	Review various tax provisions specific to farming, forestry and petroleum mining with a view to removing concessions harmful to natural capital, while also considering new concessions that could enhance natural capital.	Consider for inclusion on work programme (TPWP)
Other environmental recommendations		
20	Recycle some or all of the revenue raised by environmental taxes into measures that support the transition to a more sustainable economy.	Consider for inclusion on work programme (TPWP and Ministry for the Environment)
21	Over the longer term, consider an environmental footprint tax or a natural capital enhancement tax.	Defer for now, but consider for inclusion on work programme in the longer term (TPWP and Ministry for the Environment)
22	The Government should strengthen its environmental tax capabilities, including with the Parliamentary Commissioner for the Environment.	Consider for inclusion on work programme (TPWP, Parliamentary Commissioner for the Environment, and Ministry for the Environment)
23	Commission incidence studies on environmental taxes.	Consider for inclusion on work programme (TPWP and Ministry for the Environment)

Rec	TWG Final Report Recommendation	Response
		Environment)
24	Undertake further work to assess how taxes can complement other environmental policy measures and to work through the design principles in the TWG's framework for taxing negative environmental externalities.	Consider for inclusion on work programme (TPWP and Ministry for the Environment)
The taxation of business		
25	Retain the imputation system.	Endorse the TWG recommendation
26	Do not reduce the company tax rate at the present time.	Endorse the TWG recommendation
27	Do not introduce a progressive company tax.	Endorse the TWG recommendation
28	Do not introduce an alternative basis of taxation for smaller businesses, such as a cash flow or turnover taxes.	Endorse the TWG recommendation
29	Retain the 17.5% rate for Māori authorities.	Endorse the TWG recommendation
30	Extend the 17.5% rate to the subsidiaries of Māori authorities.	Consider for inclusion on work programme (TPWP)
31	Consider technical refinements to the Māori authority rules, as suggested by submitters, in the Tax Policy Work Programme.	Consider for inclusion on work programme
32	Change the loss continuity rules to support the growth of innovative start-up firms.	Consider for inclusion on work programme (TPWP)
33	Reform the treatment of black-hole expenditure by spreading such expenditure over five years with a \$10,000 safe-harbour threshold of upfront deductions for feasibility expenditure.	Consider for inclusion on work programme (TPWP)
34	Consider restoring depreciation deductions for buildings if there is an extension of the taxation of capital gains (subject to fiscal constraints). To manage the fiscal costs, the Government could reinstate building depreciation on a partial basis for: <ul style="list-style-type: none"> a) seismic strengthening only; b) multi-unit residential buildings; or c) industrial, commercial, and multi-unit residential buildings. 	Consider for inclusion on work programme (TPWP) Consider seismic strengthening work as a high priority for inclusion on work programme (TPWP).
35	Consider tax measures that encourage building to higher environmental standards.	Consider for inclusion on work programme (TPWP, MBIE, and Ministry for the Environment)
36	Consider developing a regime that encourages investment into nationally-significant infrastructure projects.	Consider as a high priority for inclusion on work

Rec	TWG Final Report Recommendation	Response
		programme (TPWP)
37	<p>Examine the following options to reduce compliance costs:</p> <p><u>For immediate action:</u></p> <ul style="list-style-type: none"> a) Increase the threshold for provisional tax from \$2,500 to \$5,000 of residual income tax. b) Increase the closing stock adjustment from \$10,000 to \$20,000 - \$30,000. c) Increasing the \$10,000 automatic deduction for legal fees, and a potential expansion of the automatic deduction to other types of professional fees. d) Reduce the number of depreciation rates, and simplifying the process for using default rates. <p><u>Subject to fiscal constraints:</u></p> <ul style="list-style-type: none"> e) Simplify the fringe benefit tax, and simplifying (or even remove) the entertainment adjustment. f) Remove resident withholding tax on close company-related party interest and dividend payments, subject to integrity concerns. g) Remove the requirement for taxpayers to seek the approval of the Commissioner of Inland Revenue to issue GST Buyer Created Tax Invoices. h) Allow special rate certificates and certificates of exemption to be granted retrospectively. i) Increase the period of validity for a certificate of exemption or special rate certificate. j) Remove the requirement to file a change of imputation ratio notice with Inland Revenue. k) Extend the threshold of 'cash basis person' in the financial arrangement rules which would better allow for the current levels of personal debt. l) Increase the threshold for not requiring a GST change of use adjustment. <p><u>The Government should also review and explore opportunities to:</u></p> <ul style="list-style-type: none"> m) Adjust the thresholds for unexpired expenditure, and for the write-off of low value assets. n) Help small businesses reduce compliance costs through the use of cloud-based accounting software. o) Consider compensation for withholding agents if additional withholding tax obligations are imposed. p) Review the taxation of non-resident employees. q) Review whether the rules for hybrid mismatches should apply to small businesses or simple business transactions. 	Consider for inclusion on work programme (TPWP)
38	Give favourable consideration to exempting the New Zealand Superannuation Fund from New Zealand tax obligations.	Consider for inclusion on work programme (TPWP) –

Rec	TWG Final Report Recommendation	Response
		noting the significant economic and fiscal implications associated with this proposal.
International income taxation		
39	New Zealand should continue to participate in the OECD discussions on the future of the international tax framework.	Note work already underway – New Zealand is currently participating in discussions at the OECD on the future of the international tax framework
40	The Government should stand ready to implement a digital services tax if a critical mass of other countries move in that direction, and if it is reasonably certain that New Zealand’s export industries will not be materially impacted by any retaliatory measures.	Note work already underway – Officials have been directed to draft a discussion document on the options for taxing the digital economy that will come to Cabinet in May .
41	New Zealand should actively monitor developments and collaborate with other countries with respect to equalisation taxes.	Note work already underway – as above
42	Ensure, to the extent possible, that our double tax agreements and trade agreements do not restrict our taxation options in these matters.	Note work already underway – as above
Retirement savings		
43	<p>Consider encouraging the savings of low-income earners by carrying out one or more of the following:</p> <ul style="list-style-type: none"> a) Refund the Employer Superannuation Contribution Tax (ESCT) for KiwiSaver members earning up to \$48,000 per annum. This refund would be clawed back for KiwiSaver members earning more than \$48,000 per annum, such that members earning over \$70,000 would receive no benefit. b) Ensure that a KiwiSaver member on parental leave would receive the maximum member tax credit regardless of their level of contributions. c) Increase the member tax credit from \$0.50 per \$1 of contribution to \$0.75 per \$1 of contribution. The contribution cap should remain unchanged. d) Reduce the lower PIE rates for KiwiSaver funds (10.5% and 17.5%) by five percentage points each. 	<p>Consider for inclusion on work programme (TPWP)</p> <p>This work would sit alongside the Government’s broader work on KiwiSaver, which includes the default provider review and a consideration of options to increase KiwiSaver uptake and contributions.</p>
44	Consider ways to simplify the determination of the PIE rates (which would apply to KiwiSaver).	Consider for inclusion on work programme (TPWP)

Rec	TWG Final Report Recommendation	Response
Personal income tax		
45	<p>Recommendations on personal tax are dependent on the objectives of the Government:</p> <p>a) If the Government wishes to improve incomes for very low income households, the best means of doing so will be through welfare transfers.</p> <p>b) If the Government wishes to improve incomes for certain groups of low to middle income earners, such as full-time workers on the minimum wage, then changes to personal income taxation may be a better option.</p>	<p>It is proposed to not adopt any of the recommendations on capital gains taxation. As a result there is no revenue to recycle. Consequently it is agreed no further work is necessary.</p>
46	Consider increases in the bottom threshold of personal tax to increase the progressivity of the personal tax system.	
47	Consider combining increases in the bottom threshold with an increase in the second marginal tax rate.	
48	If (47) is adopted, consider a reduction of the abatement rate of Working for Families tax credits to offset the impact of the increase.	
49	Prefer increasing the bottom threshold to introducing a tax-free threshold.	
50	Consider an increase in net benefit payments to ensure beneficiaries receive the same post-tax increase as other people on the same income.	
51	Consider changes to tax rates and thresholds alongside any recommendations made by WEAG.	
52	Do not reduce the top marginal tax rate because it is already low by international standards and it would not increase progressivity of the tax system.	Endorse the TWG recommendation
53	The TWG notes that many submissions called for increasing tax personal tax rates to make a material reduction in income equality through the personal tax system. These increases are precluded by the TWG's Terms of reference and the TWG did not undertake an analysis of the options (and their effectiveness).	Endorse the TWG recommendation
Future of work		
54	Support Inland Revenue's efforts to increase the compliance of the self-employed, particularly expanding the use of withholding tax as far as practicable, including to platform providers.	Note work already underway – additional operational funding for Inland Revenue is being put towards increasing investigations capability, public awareness campaigns,

Rec	TWG Final Report Recommendation	Response
		<p>and new policy initiatives.</p> <p>Inland Revenue officials are undertaking targeted consultation on a number of proposals to expand the scope of the Scheduling Payments rules and address non-compliance of self-employed workers. An update on this work will be provided in the second half of 2019.</p>
55	Support the facilitation of technology platforms to assist the self-employed meet their tax obligations through the use of 'smart accounts' or other technology based solutions.	Note work already underway – as above
56	Continue (through Inland Revenue's current work) to use data analytics and matching information for specific taxpayers to identify underreporting of income.	Note work already underway – as above
57	Review the current GST requirements for contractors who are akin to employees.	Consider for inclusion on work programme (TPWP)
58	Align the definition of employee and dependent contractor for tax and employment purposes.	Note work already underway – MBIE
59	Provide more support for childcare costs, with this support best provided outside the tax system.	Cross-agency advice should be sought.
Integrity of the tax system		
60	A review of loss-trading, potentially in tandem with a review of the loss continuity rules for companies.	Consider as a high priority for inclusion on work programme (TPWP)
61	<p>Inland Revenue should have the ability to require a shareholder in a closely-held company to provide security to Inland Revenue if:</p> <p>a) The company owes a debt to Inland Revenue; and</p> <p>b) The company is owed a debt by the shareholder; and</p> <p>c) There is doubt as to the ability/and or the intention of the shareholder to repay the debt.</p>	Consider as a high priority for inclusion on work programme (TPWP)
62	<p>Further action in relation to the hidden economy, including:</p> <p>a) An increase in the reporting of labour income (subject to not unreasonably increasing compliance costs on business).</p> <p>b) A review of the measures recently adopted by Australia in relation to the hidden economy, with a view to applying them in New Zealand.</p>	Note work already underway – see recommendation 54.

Rec	TWG Final Report Recommendation	Response
	c) The removal of tax deductibility if a taxpayer has not followed labour income withholding or reporting rules.	
63	That Inland Revenue continue to invest in the technical and investigatory skills of its staff.	Note work already underway – see recommendation 54.
64	Further measures to improve collection and encourage compliance, including: <ul style="list-style-type: none"> a) Making directors who have an economic ownership in the company personally liable for arrears on GST and PAYE obligations (as long as there is an appropriate warning system). b) Departure prohibition orders. c) Aligning the standard of proof for PAYE and GST offences. 	Consider as a high priority for inclusion on work programme (TPWP)
65	The establishment of a single centralised Crown debt collection agency to achieve economies of scale and more equitable outcomes across all Crown debtors.	Objectives may be better achieved through greater alignment of agency policies on debt prevention and collection. Cross-agency advice should be sought.
66	That Inland Revenue strengthens enforcement of rules for closely-held companies.	Consider as a high priority for inclusion on work programme (TPWP)
67	Explore options to enable the flexibility of a wider gap between the company and top personal tax rates without a reduction in the integrity of the tax system.	Consider for inclusion on work programme (TPWP)
Administration of the tax system		
<i>Tax secrecy and tax transparency</i>		
68	The Government should: <ul style="list-style-type: none"> a) Fund oversampling of the wealthy in existing wealth surveys. b) Include a question on wealth in the census. c) Request Inland Revenue regularly repeat its analysis of the tax paid by high wealth individuals. d) Commission research on using a variety of sources of data on capital income, including administrative data, to estimate the wealth of individuals. 	Consider for inclusion on work programme (TPWP)
69	The TWG strongly encourages the Government to release more statistical and aggregated information about the tax system (so long as it does not reveal data about specific individuals or corporates that is not otherwise publicly available). The Government could consider further measures to increase transparency as public attitudes change over time.	Consider for inclusion on work programme (TPWP)
70	The TWG encourages Inland Revenue to publish or make available a broader range of statistics, in consultation with	Consider for inclusion on

Rec	TWG Final Report Recommendation	Response
	potential users, either directly or (preferably) through Statistics New Zealand.	work programme (TPWP)
71	The TWG encourages Inland Revenue to collect information on income and expenditure associated with environmental outcomes that are part of the tax calculation.	Consider for inclusion on work programme (TPWP)
Ombudsman		
72	Any further expansion of the resources available to the Ombudsman should include consideration of provision for additional tax expertise, and possibly support to manage any increase in the volume of complaints relating to the new Crown debt collection agency proposed by the TWG.	Agree no further work required at this stage unless there is an unsustainable increase in complaints.
Taxpayer advocate service		
73	Establish a taxpayer advocacy service to assist with the resolution of tax disputes.	Agree no further work required.
74	Consider a truncated tax disputes process for small taxpayers.	Consider for inclusion on work programme (TPWP)
The development of tax policy		
75	The following principles should be applied in public engagement on tax policy: a) Good faith engagement by all participants. b) Engagement with a wider range of stakeholders, particularly including greater engagement with Māori (guided by the Government's Māori/Crown engagement framework). c) Earlier and more frequent engagement. d) The use of a greater variety of engagement methods. e) Greater transparency and accountability on the part of the Government.	Note work already underway – officials have provided Ministers with a public engagement framework which incorporates the principles recommended by the TWG. Ministers are considering releasing this framework for public feedback.
76	The TWG notes the need for the Treasury to play a strong role in tax policy development, and the importance of Inland Revenue maintaining deep technical expertise and strategic policy capability.	Note work already underway – Inland Revenue continues to be committed to investing in the technical skills and capability of their investigation staff.
Legislative frameworks		
77a	The TWG encourages the continuing use of purpose clauses where appropriate.	Agree no further work required
77b	Include an overriding purpose clause in the Tax Administration Act 1994 to specify Parliament's purpose in levying taxation.	Agree no further work required
Charities		

Rec	TWG Final Report Recommendation	Response
78	Periodically review the charitable sector's use of what would otherwise be tax revenue to verify that intended social outcomes are being achieved.	Note work already underway – the Government added a review of charities and non-profit organisations to the TPWP in 2018. Department of Internal Affairs (on behalf of the Minister for the Community and Voluntary Sector), is currently modernising the Charities Act 2005.
79	The TWG supports the Government's inclusion of a review of the tax treatment of the charitable sector on its Tax Policy Work Programme, as announced in May 2018.	Note work already underway – on the TPWP
80-81	The TWG notes the income tax exemption for charitable entities' trading operations was perceived by some submitters to provide an unfair advantage over commercial entities' trading operations. The TWG notes, however, that the underlying issue is the extent to which charitable entities are accumulating surpluses rather than distributing or applying those surpluses for the benefit of their charitable activities.	Note work already underway – see rec 78
82	Consider whether New Zealand should apply a distinction between privately-controlled foundations and other charitable organisations	Consider for inclusion on work programme (DIA)
83	Consider whether the deregistration tax rules could be amended to more effectively keep assets in the sector, or ensure that there is no deferral benefit through the application of these rules.	Note work already underway – on the TPWP
84	Review whether it is appropriate to treat some not-for-profit organisations as if they were final consumers, or, alternatively, whether it is appropriate to limit GST concessions to a smaller group of non-profit bodies such as registered charities.	Consider for inclusion on work programme (TPWP)
85	Consider whether the issues identified by the TWG in relation to charities have been fully addressed or whether further action is required, following the conclusion of the review of the Charities Act 2005.	Consider for inclusion on work programme (TPWP)
GST and financial transactions tax		
86	No reduction in the GST rate.	Endorse the TWG recommendation
87	No introduction of exemptions to GST.	Endorse the TWG recommendation
88	The Government should monitor international developments in	Endorse the TWG

Rec	TWG Final Report Recommendation	Response
	the area of applying GST to financial services.	recommendation
89	No application of GST to explicit fees charged for financial services.	Endorse the TWG recommendation
90	No financial transactions tax at this point in time.	Endorse the TWG recommendation
91	The TWG has already reported to Ministers on the issue of GST on low-value imported goods, and the Government recently introduced legislation in December 2018 advancing proposals to address the issue.	Note work already underway – the Taxation (Annual Rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters) Bill was introduced in December 2018.
Corrective taxes		
92	The TWG supports developing a framework for deciding when to apply corrective taxes.	Agree no further work required
93	Review the rate structure of the alcohol excise with the intention of rationalising and simplifying it.	Agree no further work required
94	Prioritise other measures to help people stop smoking before considering further large increases in the tobacco excise rate beyond the increases currently scheduled.	Note work already underway – The Ministry of Health is leading cross-agency work on tobacco policy, looking at both tax and non-tax measures to support Smokefree Aotearoa 2025.
95	Develop a clearer articulation of the Government's goals regarding sugar consumption and gambling activity.	Agree no further work required
Housing		
96	The Productivity Commission should include vacant land taxes within its review of local government body financing.	Consider taxing vacant land held by land-bankers as a high priority for inclusion on work programme (TPWP). The Government intends to direct the Productivity Commission to include vacant land taxes in its inquiry into local government funding and financing.
97	Consider that vacant land taxes are best levied at the local rather than the national level.	
98	Repeal the ten-year rule regarding selling property for a gain	Consider as a high priority for inclusion on work

Rec	TWG Final Report Recommendation	Response
	caused by changes in land use regulation.	programme (TPWP)
99	Require disclosure of IRD numbers on the Land Transfer Tax Statement when transferring a main home.	Consider as a high priority for inclusion on work programme (TPWP)