

In Confidence

Office of the Minister of Finance
Office of the Minister of Revenue

Chair, Cabinet Economic Development Committee

REFRESH OF THE GOVERNMENT'S TAX POLICY WORK PROGRAMME FOR 2019-20

Proposal

1. This paper asks the Cabinet Economic Development Committee to note the Government's Tax Policy Work Programme for 2019-20. Following Cabinet consideration of this paper (including the attachments), we intend to publicly announce and publish the refreshed Tax Policy Work Programme in early August.

Executive Summary

2. The Government's Tax Policy Work Programme (TPWP) is refreshed approximately every 18 months. The TPWP prioritises and sequences the development of tax policy proposals. As the Ministers of Finance and Revenue, we are jointly responsible for setting and agreeing to the work programme.
3. The final TPWP for 2019-20 reflects our consideration of a range of factors, including the Government's overall policy agenda, our fiscal strategy, and the ability of the Treasury and Inland Revenue to deliver the TPWP over the next 18 months.
4. At a high level, the Government is working to build a productive, sustainable and inclusive economy in order to improve the living standards and wellbeing of all New Zealanders. The TPWP will make an important contribution to this goal over the coming year.
5. A well-functioning tax system is necessary to raise the revenue that funds public investments in the future of New Zealand. Tax also has a direct impact on the lives of New Zealanders – through its role in redistribution, and through its ability to shape and influence behaviour across the economy. At the same time, perceptions about the fairness of the tax system underpin social capital and shape public trust and confidence in the Government as a whole.
6. The TPWP has been shaped with these broader considerations in mind. We have identified the tax policy areas that are most likely to enhance productivity and increase the fairness of the tax system. We have also identified areas where the Government can reduce complexity and compliance costs for taxpayers. Our objective in doing so is to ensure that tax policy settings support the Government's wider social, economic and environmental objectives.
7. The TPWP for 2019-20 also responds to the recommendations made by the Tax Working Group (TWG) in their final report, *Future of Tax*. The key priorities on the refreshed TPWP reflect the Government's response to the TWG's recommendations.

8. We have grouped the items on the TPWP into workstreams (see attachment 3). These workstreams are:
 - 8.1 Land
 - 8.2 Business
 - 8.3 Infrastructure
 - 8.4 Information collection and use
 - 8.5 Business Transformation
 - 8.6 Reforms and remedials
 - 8.7 Social policy (including Government response to the Welfare Expert Advisory Group Report)
 - 8.8 Environment / Sustainable economy
 - 8.9 Charities
 - 8.10 Tax exemptions
 - 8.11 International
9. These workstreams reflect our current expectations for the work programme over the next eighteen months. Should new or emerging issues arise over this period (which are not currently listed on the refreshed TPWP), we will work with officials and Ministerial colleagues (where appropriate) to determine how best to prioritise these issues alongside existing items or commitments.
10. Following Cabinet consideration of this paper, we propose to announce the refreshed TPWP at an event run by the Young International Fiscal Association Network in early August and publish details of the TPWP on Inland Revenue's tax policy website.

Background

11. In 2017, the Government established the TWG to consider whether improvements can be made to the structure, fairness and balance of the tax system in order to support the Government's overall objectives.
12. The TWG found that New Zealand's tax system is generally sound and working well, but made 99 recommendations aimed at improving the fairness, balance and structure of the tax system. While the primary recommendation of a broad extension of the taxation of capital gains has not been adopted, the wider TWG recommendations provided us with a starting point for the TPWP refresh.
13. In April, the Government publicly announced its response to the TWG recommendations. The Government's response to the recommendations were grouped into the following categories:
 - 13.1 where it considered no further work would be necessary,

- 13.2 where work was already underway,
 - 13.3 recommendations that should be considered for inclusion on the TPWP, or
 - 13.4 recommendations that should be considered as high priority for inclusion on the TPWP.¹
14. The recommendations considered as high priority included:
- 14.1 Consider various land issues, including vacant land and land banking;
 - 14.2 Consider a regime that encourages investment into nationally-significant infrastructure;
 - 14.3 Measures to improve collection and encourage compliance;
 - 14.4 Consider the tax treatment of building seismic strengthening;
 - 14.5 Review of loss trading and loss continuity rules; and
 - 14.6 Consider closely-held company issues.
15. All of these high priority recommendations have been included on the refreshed TPWP.


Comment

16. The items of work that have been included on the refreshed TPWP have been drawn from the Government's response to the recommendations of the TWG, together with Government priorities, existing items on the current TPWP, and emerging issues.
17. Specific items included on the refreshed TPWP have been arranged around workstreams. These workstreams seek to support the Government's wider social, economic and fiscal objectives.

Details of the refreshed TPWP for 2019-20


18. The attachments to this paper provide an overall picture of the proposed TPWP for 2019-20.

s 9(2)(f)(iv)



¹ The Government's response to the recommendations of the Tax Working Group – 17 April 2019

s 9(2)(f)(iv)





Attachment 3 – Details of the refreshed TPWP

- 24. This attachment provides detailed descriptions of the workstreams which will be progressed on the next TPWP, including the key deliverables and timings for each proposed workstream.
- 25. Instead of providing a list of specific policy projects which will be progressed on the next TPWP, the focus is on outlining why certain areas of work are being progressed. This broad approach allows, where appropriate, engagement with stakeholders during the policy development process to refine the specific items or initiatives that could be considered under each workstream. This is important given the number of items which could be considered under each workstream, and the need to manage expectations around the ability to deliver some of these items over the next 18 months.
- 26. Below is a summary of the workstreams on the TPWP.

Workstream	Description
<p>Land</p>	<p>The current land rules will be reviewed, particularly in relation to investment property and speculators, land banking, and vacant land. The objective would be to recommend ways to improve the efficient use of land, and ensure that the current tax settings are fair, balanced, and encourage and support productive investment. The review will also look at whether Inland Revenue can do anything more around enforcement of the current rules.</p> <p>It is unlikely that any significant reforms relating to vacant land and property would be feasible in the short term. However, in the short-term the Government could consider a number of measures aimed at improving the fairness and balance of the tax rules for land.</p> <p>The longer-term work will include work being carried out across Government; for example, the Productivity Commission is reviewing</p>

	<p>local government body financing and will consider the use of vacant land and property taxes to discourage land banking. This work will also consider the impact on housing affordability and availability.</p>
Business	<p>The TWG has recommended that the Government consider a number of business reforms which would improve productivity and efficiency. This workstream will focus on:</p> <ul style="list-style-type: none"> • Increasing integrity, fairness and the neutrality of the system; • Lifting the economic performance of all businesses, especially smaller firms; and • Minimising compliance cost for businesses. <p>Some of the items proposed in the business workstream (such as the treatment of innovative spending) have been on the TPWP for some time but have not been progressed due to other priorities.</p> <p>It will be important that stakeholders are aware during the policy development process that decisions on whether certain items of work are ultimately progressed will likely involve trade-offs, such as fiscal costs (including the Government's overall fiscal strategy) and other Government priorities.</p>
Infrastructure	<p>The TWG recommended the Government consider the development of a regime to encourage investment into large, nationally significant infrastructure projects. This workstream will consider the optimal tax settings for ensuring efficient infrastructure investment.</p>
Information collection and use	<p>This workstream focuses on improving the quality and frequency of information Inland Revenue collects to help minimise compliance and administration costs and contribute to wider policy objectives.</p>
Business Transformation (BT)	<p>This workstream will seek to continue to support Inland Revenue's BT programme. Over the next 18 months, Inland Revenue will implement release 4 of its BT programme (Student Loans and KiwiSaver) and commence design on release 5 (Child Support).</p> <p>We envisage the BT policy workstream as identifying and developing policy proposals that leverage off and support the new tax and social policy system.</p>
Reforms and remedials	<p>Many of the specific provisions in the taxation acts need to be regularly maintained or updated in response to changing technology, business practices, jurisprudence or other factors. In addition, as Inland Revenue and taxpayers begin to apply new tax legislation they may identify legislative errors or unintended consequences which require remedial amendments.</p> <p>These issues can create high compliance costs or inadvertent non-compliance so need to be addressed promptly to maintain the certainty, efficiency and fairness of the tax system.</p>
Social policy	<p>This workstream includes policy work on:</p> <ul style="list-style-type: none"> • the Government's welfare overhaul work programme (WEAG)

	<p>including:</p> <ul style="list-style-type: none"> ○ reform of Working for Families; ○ child support pass-on; and ○ debt. <ul style="list-style-type: none"> • student loan scheme; • KiwiSaver; and • other agency initiatives that impact on the tax or social policy system. <p>On the Government response to the welfare overhaul, officials are working closely with MSD and other agencies to develop a welfare package.</p>
<p>Environment / sustainable economy</p>	<p>This workstream will consider:</p> <ul style="list-style-type: none"> • a framework for taxing negative environmental externalities including considering how specific tax regimes might be used to achieve positive environment outcomes; • monitor international developments; • collaborate with other agencies on environmental issues and initiatives; and • build capability in environmental taxation. <p>Tax policy officials will work with other agencies on environmental issues to provide environmental tax analysis and advise on tax implications of environmental policy.</p> <p>This workstream will also review industry-specific tax provisions impacting on natural capital. Petroleum mining will be the initial focus-industry in a series of reviews which includes considering issues relating to the timing of deductions for petroleum development expenditure.</p>
<p>Charities</p>	<p>Tax concessions for charities, not-for-profit, and donee organisations are subject to continual monitoring and review to determine their effectiveness. In recent years, the Government has largely focused on the integrity and coherence of charities-related tax concessions rather than the broader policy settings. This workstream will review those policy settings.</p>
<p>Tax exemptions</p>	<p>This workstream will develop a framework for considering tax exemptions for different types of entities. It will consider:</p> <ul style="list-style-type: none"> • how different entities fit within the Government’s public policy purposes; • the compliance costs and benefits; • fiscal implications; and • the impact of particular exemptions on competitive neutrality

	with the private sector.
International	<p>This workstream considers the growing concern about the low levels of income tax paid by digital companies (i.e. companies operating through highly digitalised business models). Pressure has been building on the long-standing international income tax framework; and the OECD (including New Zealand) have undertaken to review the framework.</p> <p>This workstream will include:</p> <ul style="list-style-type: none"> • Reporting back on the digital service tax discussion document; • Double Tax Agreement negotiations and assisting with free trade agreements; • Multi-lateral work (including the OECD working parties); and • Follow-on work to monitor and adjust the Base Erosion and Profit Shifting (BEPS) measures enacted last year.

Emerging issues

27. We also note that over the next 18 months, new or emerging issues can be expected to arise that are not currently listed on the TPWP. We will work with officials and Ministerial colleagues (where appropriate) to determine how best to prioritise these issues alongside existing items or commitments.

Attachment 4 – table illustrating how the TWG recommendations are reflected on the refreshed TPWP

28. This attachment provides a breakdown of how the TWG recommendations have been reflected on the refreshed TPWP.

Prioritising items for the refreshed TPWP

29. The items that have been included on the refreshed TPWP reflect our consideration of the following factors:
- 29.1 Whether the item is a priority area for the Government. All of the high priority TWG recommendations have been included in the refreshed TPWP;
 - 29.2 Whether the item supports or contributes to wider Government objectives (both social and economic);
 - 29.3 The potential fiscal cost of certain items of work and whether these items could be packaged together with other items of work to deliver a coherent package;
 - 29.4 Feedback from stakeholders to date;
 - 29.5 The need to ensure the TPWP contains a mix of items that are both responsive to the issues of today but also to any longer-term opportunities or challenges;

29.6 The resourcing required within Inland Revenue and the Treasury to deliver the items of work on the TPWP; and

29.7 Whether it was possible to phase the delivery of certain items of work.

Publication of the TPWP

30. Publishing the TPWP is important for maintaining transparency and confidence in the tax system. Taken together, the attachments to this paper represent a detailed picture of the refreshed TPWP for 2019-20. s 9(2)(f)(iv)

31. s 9(2)(f)(iv)

Next Steps

32. Details of key deliverables is included in attachment 3. A high priority area is addressing anomalies in the taxation of land and officials working towards a consultation paper with proposals, to be released in the second half of 2019, and enactment sometime next year. Initial reports or proposals on the other areas of the TPWP are expected later this year. How quickly these other areas progress to government reforms and legislation will depend on weighing their relative priorities in 2020.

Consultation

33. Officials from Inland Revenue and the Treasury have been involved in refreshing the TPWP for 2019-20.

34. As part of the development of the refreshed TPWP, officials undertook high-level discussions with the following stakeholders: New Zealand Bankers' Association, the Corporate Taxpayers' Group, and Chartered Accountants Australia New Zealand. The purpose of these discussions was to provide stakeholders with a broad overview of the priorities for the next TPWP and, in turn, allow stakeholders to outline the areas of inquiry which they considered should inform the Government's priorities. Other stakeholders, such as the Small Business Council, were consulted on specific items on the refreshed TPWP.

35. Officials have provided a copy of the draft TPWP to Government agencies including: the Ministry of Business, Innovation and Employment, the Ministry of Education, the Ministry of Social Development, the Ministry for the Environment, the Department of Internal Affairs, the Ministry of Housing and Urban Development, Land Information New Zealand, ACC, Te Puni Kōkiri, Te Arawhiti, the Department of Prime Minister and Cabinet and the Ministry of Foreign Affairs and Trade. The consultation undertaken to date is only the first step of a wider strategy for engagement. Further, more detailed engagement is planned as the policy development process begins for each individual item or workstream on the TPWP. Effective engagement will require:

- 35.1 greater integration and networking across a wider set of stakeholders and interested parties, including other businesses, social partners, Māori/iwi and across Government;
 - 35.2 seeking stakeholder perspectives at all stages in the policy development process; and
 - 35.3 greater diversity and inclusion in the policy process, through involvement of other areas and applying differing 'lenses' to a common problem/issue/opportunity.
36. Once the refreshed TPWP is announced, we expect officials to start the engagement process.

Financial Implications

37. While the TPWP refresh does not give rise to any fiscal implications itself, the potential fiscal impacts for the items on the TPWP were considered as part of the overall development of the TPWP.
38. As items of work on the TPWP progress through the policy development process, consideration will be given to the fiscal impacts (if any) of each proposal. We note that some items on the TPWP will have (potentially significant) fiscal impacts if the Government ultimately decides to progress them to implementation. Ultimately, these will be managed through the tax policy scorecard and the Budget process.

Legislative Implications

39. The TPWP refresh does not require legislative changes. However, many items on the TPWP will require changes to legislation if the Government chooses to progress them. These changes will generally be, but not limited to, the Income Tax Act 2007, the Tax Administration Act 1994, and the Goods and Services Tax Act 1985.

Impact Analysis

40. A Regulatory Impact Analysis statement (RIA) is not required for the TPWP. Inland Revenue and the Treasury will prepare RIAs for specific projects on the TPWP as required.

Human Rights

41. The TPWP refresh is consistent with the Human Rights Act 1993 and the Bill of Rights Act 1990. Human rights and Bill of Rights implications will be considered within the specific projects on the TPWP when they are being developed.

Gender and Implications

42. This paper does not give rise to any gender implications. Any impacts will be considered within each specific project on the work programme.

Disability Perspective

43. This paper does not raise any disability issues.

Publicity

44. We will announce the refreshed TPWP at an event run by the Young International Fiscal Association Network in early August. Attachments two, three and four of this paper will also be published on Inland Revenue's tax policy website.

Proactive Release

45. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers in part within 30 working days of Cabinet considering this paper.

Recommendations

The Ministers of Finance and Revenue recommend that the Cabinet Economic Development Committee:

46. **Note** that the Government's Tax Policy Work Programme (TPWP) has been refreshed for 2019-20 (as outlined in this paper and the associated attachments).
47. **Note** that we will announce the refreshed TPWP in early August 2019, s 9(2)(f)(iv) specifically attachments two, three and four will be published on Inland Revenue's tax policy website.
48. **Note** that this Cabinet paper, the associated Cabinet minute, and key advice papers will be released on Inland Revenue's tax policy website.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

s 9(2)(f)(iv)

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TABLE ILLUSTRATING HOW TAX WORKING GROUP (TWG) RECOMMENDATIONS ARE REFLECTED ON THE REFRESHED TPWP

In its response to the recommendations of the TWG, the Government indicated that it would consider 10 recommendations as high priority items for potential inclusion on the TPWP, and 28 recommendations as items to be considered for inclusion. The following table provides a breakdown of how these recommendations have been reflected on the proposed TPWP.

Table key:

Consider for inclusion on 2019/2020 TPWP

Consider as a high priority for inclusion on 2019/2020 TPWP

TWG recommendations	How it is reflected on the TPWP
<p>Land recommendations (including options around investment property and speculators, land-bankers and vacant land)</p> <p><i>Recs 96 and 97 – Vacant land and land banking, including Productivity Commission review</i> <i>Rec 98 – repeal 10-year rule</i> <i>Rec 99 – IRD numbers when transferring main home</i></p> <p><i>Note also Government indicated that it intended to seek a review of current rules relating to land speculators.</i></p>	<p>Included in the TPWP work on land.</p>
<p>TWG recommendations on “concessions” and exemptions</p> <p><i>Rec 17 – tax deductibility of costs associated with QEII covenant or Ngā Whenua Rāhui</i> <i>Rec 18 – FBT exemption for public transport</i> <i>Rec 19 – removing concessions harmful to natural capital</i> <i>Rec 38 – New Zealand Superannuation Fund exemption</i></p>	<p>Concessions and exemptions included in general work on tax exemptions on the TPWP.</p> <p>Recommendation 19 relating to tax concessions for petroleum mining included in environment/sustainable economy work on TPWP.</p>
<p>Environmental recommendations</p> <p><i>Recs 5, 20 to 24 – recommendations relating to the environment.</i></p>	<p>Included in the environment/sustainable economy work on TPWP, generally as a watching brief and working closely with Ministry for the Environment.</p>
<p>Business recommendations (including Māori authority rates, loss continuity and loss trading rules, blackhole expenditure, depreciation, seismic strengthening, GST contractors, closely-held company issues, and improving collection and compliance).</p> <p><i>Recs 30 and 31 – Māori authority rates</i> <i>Rec 32 – loss continuity</i> <i>Rec 33 blackhole expenditure</i> <i>Rec 34 – depreciation and seismic strengthening</i> <i>Rec 35 – tax measures that encourage building to higher environmental standards</i> <i>Rec 37 – options to reduce compliance costs</i> <i>Rec 57 – GST and contractors</i> <i>Rec 60 – loss trading and loss continuity review</i> <i>Rec 61 and 66 – closely-held company issues</i> <i>Rec 64 – measures to improve collection and encourage compliance</i></p>	<p>Included in the work on the TPWP for businesses.</p>

<p><i>Rec 67 – ensuring the integrity of the tax system is maintained by exploring options around misalignment of tax rates</i></p> <p><i>Rec 74 – tax disputes</i></p>	
<p>Infrastructure recommendation</p> <p><i>Recommendation 36</i></p>	<p>Included in the work on infrastructure on TPWP.</p>
<p>Retirement savings recommendations</p> <p><i>Rec 43 – KiwiSaver</i></p> <p><i>Rec 44 – PIE rates simplification</i></p>	<p>Specific TWG recommendations on retirement savings not prioritised on the TPWP. However, opportunities from Business Transformation (BT) to improve social policy, including ways to simplify PIE rates (rec 44) included in BT work on the TPWP.</p>
<p>Tax secrecy and transparency recommendations</p> <p><i>Rec 68 – research and surveys</i></p> <p><i>Rec 69 – measures to increase transparency</i></p> <p><i>Rec 70 – Inland Revenue publishing broader range of statistics</i></p> <p><i>Rec 71 – Inland Revenue information collection</i></p>	<p>Included in the information collection and use work on TPWP.</p>
<p>Charities recommendations</p> <p><i>Recommendations 84 and 85</i></p>	<p>Included in the charities work on the TPWP, and is closely connected to work by the Department of Internal Affairs.</p>