Inland Revenue
Te Tari Taake
POLICY AND STRATEGY

THE TREASURY
Kaitohutohu Kaupapa Rawa

Tax Policy Report: Options for building a package of tax reform

Date:	22 February 2019	**Report No:**	T2019/341 IRD2019/103
		File Number:	SH-13-7-9

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Indicate** what additional information is needed to inform your development of a package of tax reform.	25 February 2019
Minister of Revenue (Hon Stuart Nash)	**Indicate** what additional information is needed to inform your development of a package of tax reform.	25 February 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Mark Vink	Manager, Tax Strategy, The Treasury	s9(2)(a)	
Matt Benge	Chief Economist, Inland Revenue		
Shane Domican	Senior Analyst, The Treasury		✓

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Tax Policy Report: Options for building a package of tax reform

Executive Summary

This report is intended to support decision-making on a potential package of tax reform for Budget 2019. It provides information on:

- The fiscal context;
- The revenue generated by different options for extending capital income taxation; and
- The costs and impacts of potential revenue-negative measures for tax reform.

This report also responds to your request for further information on:

- s9(2)(f)(iv) [redacted]
- An illustration of the s9(2)(f)(iv) [redacted] alongside an extension of capital income taxation;
- The fiscal impact of capping tax rates on capital gains at 28%; and
- s9(2)(f)(iv) [redacted]

This report has been prepared under time pressure. The costings and impact analysis are preliminary only and subject to further refinement.

The fiscal parameters for the package

In designing a package, a key choice relates to the fiscal parameters of the package. A package could increase revenue ('revenue-positive'), reduce revenue ('revenue-negative'), or have a broadly neutral impact on revenue ('revenue-neutral').

Any tax reform package will need to be consistent with the Government's fiscal strategy. In order to comply with the Budget Responsibility Rules, any package will need to be consistent with maintaining sustainable operating surpluses and reducing net core Crown debt to 20% of GDP within five years of the Government taking office. As the fiscal impacts of tax reform mostly occur after 2021/22, there are also judgements required about the desired path for tax revenue in the long term.

The table below indicates three potential sources of funding for revenue-negative measures: revenue from taxing capital gains, fiscal drag; and/or using fiscal headroom within the constraints of the Budget Responsibility Rules.

Fiscal drag could provide revenue for revenue-negative measures while maintaining tax revenue as a stable percentage of GDP. This is because fiscal drag will cause tax revenue to rise as a percentage of GDP unless personal tax thresholds are adjusted. The Government's medium-term fiscal projections (beyond the five-year forecast horizon) have a technical assumption that tax revenue will remain at a stable percentage of GDP. This means that future policy changes to maintain tax revenue at a stable percentage of GDP are already assumed in the medium-term fiscal projections.

Package type	Revenue-negative measures funded from…
Revenue-neutral or revenue-positive package	Revenue from **an extension of capital income taxation**

Package type	Revenue-negative measures funded from…
Revenue-negative package while maintaining tax revenue as a percentage of GDP.	Revenue from **an extension of capital income taxation** and **fiscal drag**
Revenue-negative package while reducing tax revenue as percentage of GDP.	In addition to revenue from an extension of capital income taxation and fiscal drag, using **fiscal headroom** within the constraints of the Budget Responsibility Rules (through some combination of lower operating surpluses and/or reducing future Budget allowances). *The level of fiscal headroom will depend on other expenditure decisions taken in Budget 2019, and on the updated Budget forecasts.*

This report includes some preliminary modelling to illustrate the fiscal impact of potential tax reform package options.

The Treasury will provide integrated fiscal strategy advice to the Minister of Finance on 20 March. This will cover revenue and expenditure settings, alongside longer-term fiscal objectives.

Revenue from taxing capital gains

Modelling commissioned for the Tax Working Group indicates that a broad-based extension of capital income taxation could raise $8.3 billion over five years. Officials have continued to refine these estimates. On current estimates, the total level of projected revenue is roughly the same, but the composition of revenue has changed with more stemming from shares and less from real property.

Implications of partial asset coverage

The revenue available for a package will depend on the design of the tax. The revenue from taxing gains on partial asset coverage is as follows (over five years):

- $2.3b if only residential investment property and second homes are taxed; and
- $4.3b if only real property is taxed.[1]

Implications of changing the top rate

The revenue from taxing capital gains at a maximum rate of 28% is outlined below:

Table 1: Forecast revenue from taxing capital gains with a capped rate of 28%

$billion	2021/22	2022/23	2023/24	2024/25	2025/26	Five year total
Total – with capped 28% rate	0.4	0.9	1.5	2.1	2.6	7.5
Total – with marginal rates applying	0.5	1.0	1.6	2.2	2.8	8.2

Note: There is significant uncertainty in the revenue impacts of taxing capital gains with a capped rate. This costing has been carried out on a static basis and does not incorporate any wider impacts. A capped capital gains rate would have significant impacts on the integrity and simplicity of the regime for taxing capital gains and would likely create additional compliance and administration costs. These, and other issues, would need to be considered further if this option is pursued.

Volatility and revenue sustainability

We will provide additional advice on other design features of taxing capital gains. Decisions on some of these features could have significant fiscal impacts. For example, taxing non-

1 We are advising you separately on the option of taxing real property only (IR 2019/085, T2019/403 refer). As outlined in that advice, taxing real property only will create opportunities to defer or avoid the taxation of this property through the use of land-rich companies. This could reduce revenue, but officials have not quantified the potential revenue impact.

Australasian shares on capital gains and dividends rather than on a Fair Dividend Rate (FDR) basis could raise an estimated additional $1-$1.5 billion over five years.[1] However, compared with retaining the FDR regime, the actual revenue stream from this change would be much riskier, as there would be greater revenue volatility as the returns would depend on the performance of foreign share markets. The TWG recommends retaining the FDR regime. We will report to you further on the key policy issues that need to be considered on this design choice.

Forming a package of tax reform

A second key choice will relate to the focus and composition of any fiscally-negative components of the package. Potential fiscally-negative options fall under three broad categories:

Category	Options
Income support	s9(2)(f)(iv) [redacted] • Welfare measures (for example, drawing on the Welfare Expert Advisory Group's report)
Productivity	• Business measures
Savings	• KiwiSaver measures • Broader saving measures
Housing	• Housing measures

An early indication on the relative areas of focus in the package will help officials focus design work on the areas of greatest priority to you.

Interactions with the Wellbeing Budget

There is also a question regarding the interaction between the broader Wellbeing Budget and a package of tax reform. The Government has committed to release a 'full response' to the Tax Working Group's report in April 2019.

It would be helpful for officials to understand how tax reform may interact with the other aspects of the Wellbeing Budget (which would then have implications for the timing and content of any announcements in April).

The costs and impacts of the options

The tables annexed to this report provide a summary of the fiscal costs and potential wellbeing impacts of fiscally-negative options for tax reform that we have discussed with you to date. This information is intended to support your decision-making on the size and composition of a package of tax reform. A summary of this information is provided below:

s9(2)(f)(iv)

[redacted]

Policy options	Range of fiscal costs over five years	Officials' comment
s9(2)(f)(iv)		
	Savings	
Adjust KiwiSaver parameters	$0.6 – $2.6 billion	**Distributional impacts:** Will provide additional support to lower income savers. But changes to personal income tax and transfer settings are a more effective way to support lower-income households. **Saving impacts:** Unlikely to have a material impact on overall private saving.
Move KiwiSaver to EET system	$15.4 billion	**Saving impacts:** Defers taxation of contributions into future. Ultimate impact on private savings and investment difficult to assess. Will likely decrease national savings.
Move KiwiSaver *and* similar schemes to EET system	$24.1 billion	
	Business	
s9(2)(f)(iv)		
Loss carry-forwards	$0.2 billion	s9(2)(f)(iv)
'Black-hole' expenditure	$0.1 billion	
s9(2)(f)(iv)		
s9(2)(f)(iv)		
	Housing	
Remove rental loss ring-fencing	$0.8 billion	**Housing impacts:** Will encourage new housing supply and reduce pressure on residential rents.
s9(2)(f)(iv)		

Next steps

We will discuss this report with you at the Joint Ministers meeting on Monday 25 March.

Recommended Action

We recommend that you:

a **note** that you will receive complementary advice on the following issues:

i. Options for an extension of tax on capital gains to different asset types (22 February)

ii. Detailed design for taxing capital gains (intended for week beginning 25 February)

Key design choice 1: Fiscal parameters

b **indicate** your preferences regarding the fiscal impact of the package and any additional advice required**:**

Option	Please tick preferred option	Please state any additional advice required
Revenue-positive package		
Revenue-neutral package		
Revenue-negative package		

Key design choice 2: Focus of package

c **indicate** your preferences regarding the key focus (or focuses) of the package and any additional advice required:

Potential focus	Please tick preferred focus(es)	Please state any additional advice required
s9(2)(f)(iv) [redacted]		
Welfare		
Business		
KiwiSaver		
Broader saving measures		
Housing		

Key design choice 3: Interaction with the Wellbeing Budget

d **indicate** how tax reforms may interact with other aspects of the Wellbeing Budget.

e **note** that this decision will have implications for the content and timing of any announcements in April.

Further information

f **indicate** whether you require any further analysis or information to support the development of a package of tax reform.

Yes / no *Yes / no*

Mark Vink
Manager, Tax Strategy, Treasury

Matt Benge
Chief Economist, Inland Revenue

Hon Grant Robertson
Minister of Finance
/ /2019

Hon Stuart Nash
Minister of Revenue
/ /2019

Tax Policy Report: Options for building a package of tax reform

Purpose of Report

1. This report is intended to support decision-making on a potential package of tax reform for Budget 2019. It provides information on:

    - The fiscal context (paragraphs 3 - 22);
    - The revenue generated by different options for extending capital income taxation (paragraphs 23 - 34); and
    - The costs and impacts of potential revenue-negative measures for tax reform (paragraphs 35 – 42, Appendix A-B).

2. This report also responds to your request for further information on:

    - s9(2)(f)(iv) [redacted]
    - The fiscal impact of capping tax rates on capital gains at 28% (paragraph 31);
    - Preliminary modelling of the distributional impact of extending capital income taxation s9(2)(f)(iv) [redacted] and
    - s9(2)(f)(iv) [redacted]

Fiscal context

Revenue impacts should be consistent with the Government's fiscal strategy…

3. The Tax Working Group presented you with options for a revenue-neutral package, in which the revenue from taxing capital gains over the first five years is used to pay for revenue-negative items.

4. However, there are other options that could be considered for tax packages. A key choice is the net fiscal impact of the package. You have the choice of implementing a revenue-positive, revenue-negative or a revenue-neutral package.

5. In order to comply with the Budget Responsibility Rules, any package will need to be consistent with maintaining sustainable operating surpluses and reducing net core Crown debt to 20% of GDP within five years of the Government taking office.

… and revenue-negative measures could be funded from capital gains, fiscal drag, or projected fiscal headroom

6. In a revenue-positive or revenue-neutral package, measures with a fiscal cost could be funded from the revenue from taxing capital gains. Fiscal drag would also provide revenue for revenue-negative measures, while broadly maintaining tax revenue at a stable percentage of GDP.[2]

7. Figure 2 shows the fiscal forecasts (based on HYEFU assumptions). This includes the HYEFU forecast period to 2022/23, and projections from 2023/24.

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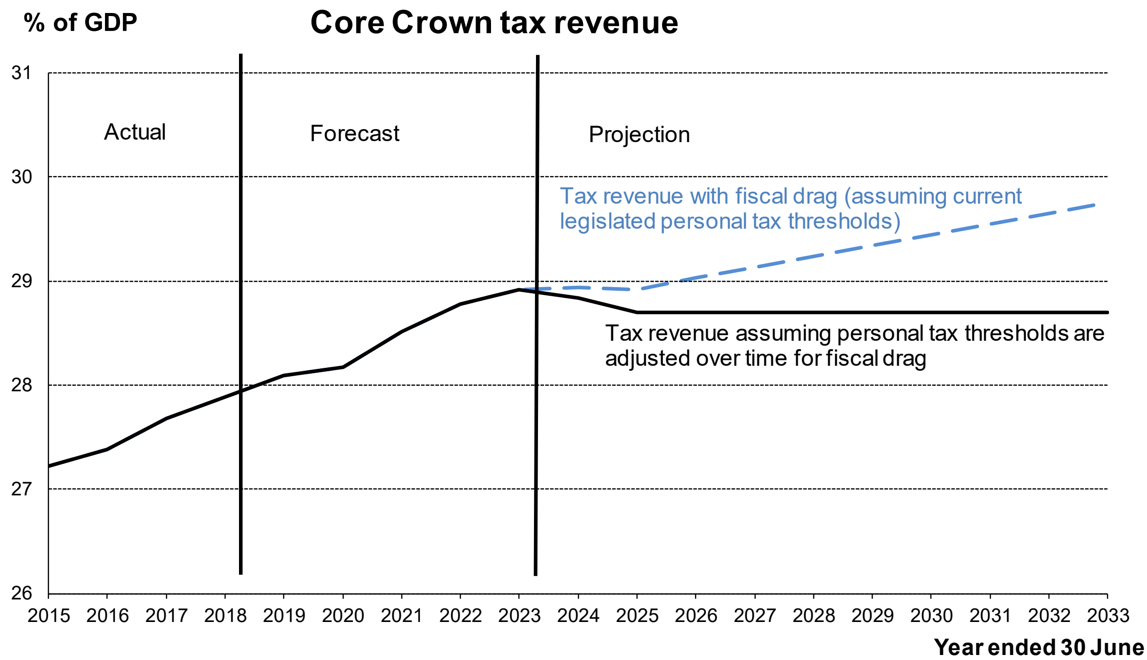
[2] Fiscal drag occurs when higher average tax rates apply to taxpayers as their incomes increase over time, unless tax thresholds are adjusted.

8. The projections in the *Fiscal Strategy Report* and *Budget Policy Statement* assume that tax revenue remains stable as a percentage of GDP in the projection period. This relies on a technical assumption that fiscal drag will not occur (i.e. that there will be future adjustments to personal income tax thresholds).

9. In order to show the impact of fiscal drag, Figure 2 shows an alternative projection in which fiscal drag leads to rising personal tax revenue as a share of GDP. Over the projection years from 2023/24 to 2025/26, fiscal drag is projected to provide approximately $2.6 billion in additional cumulative tax revenue (compared with tax revenue remaining stable as a percentage of GDP).

Figure 2: Core crown tax revenue with and without fiscal drag



Note: The figure is based on HYEFU 2018 forecasts with alternative projections assumptions. The solid line assumes that personal tax revenue is a stable share of GDP. The dashed line assumes that fiscal drag leads to rising personal tax revenue as a share of GDP. Other tax types are assumed to converge to a stable percentage of GDP.

10. In addition to revenue from an extension of capital income taxation and fiscal drag, a revenue-negative package could be funded from projected fiscal headroom within the constraints of the Budget Responsibility Rules. This would require some combination of lower operating surpluses and/or reducing future Budget allowances.

11. The table below summarises the three potential sources of funding for revenue-negative measures:

Package type	Revenue-negative measures funded from…
Revenue-neutral or revenue-positive package	Revenue from **an extension of capital income taxation**
Revenue-negative package while maintaining tax revenue as a percentage of GDP.	Revenue from **an extension of capital income taxation** and **fiscal drag**
Revenue-negative package while reducing tax revenue as percentage of GDP.	In addition to revenue from an extension of capital income taxation and fiscal drag, using **fiscal headroom** within the constraints of the Budget Responsibility Rules (through some combination of lower operating surpluses and/or reducing future Budget allowances).

Package type	Revenue-negative measures funded from…
	The level of fiscal headroom will depend on other expenditure decisions taken in Budget 2019, and on the updated Budget forecasts.

12. The level of fiscal headroom will depend on other expenditure decisions taken in Budget 2019, and on the updated Budget forecasts.

13. The Treasury will provide integrated fiscal strategy advice on 20 March. This will cover revenue and expenditure settings, alongside longer-term fiscal objectives.

Preliminary modelling of the impact of options on the long-term fiscal position

s9(2)(f)(iv) [redacted]

All of the illustrative packages are consistent with the maintenance of operating surpluses…

15. In each case, the Government is projected to maintain operating surpluses. However, the illustrative packages would reduce the size of the Government's operating surplus (assuming that the Budget operating and capital allowances are unchanged).

16. Lower surpluses will create greater risks for the Government if economic conditions worsen (particularly because capital gains are a volatile source of revenue). However, there are choices for the setting of future Budget operating and capital allowances that could also be considered to achieve the Government's fiscal objectives.

...but the illustrative packages risk the achievement of the net debt target

17. Net core Crown debt will be above 20 percent of GDP in 2021/22 for all of the illustrative packages that s9(2)(f)(iv) [redacted]. In the other packages, net core Crown debt will be between 19.2% of GDP and 19.8% of GDP.

18. The illustrative packages would reduce the buffer available to meet the Government's targets if economic conditions worsen. Updated Budget forecasts and decisions taken in Budget 2019 may also reduce fiscal headroom against the net debt target. Therefore, revenue-negative packages with significant fiscal impacts may need to be deferred or scaled down to be consistent with the net debt target.

19. Table 4 below provides preliminary modelling of the expected impact on net core Crown debt of each of the nine illustrative packages (based on HYEFU forecasts).

Table 4: Impact of illustrative packages on net core Crown debt

Package		**Preliminary projection of net core Crown debt in 2021/22 (as a % of GDP)**
Tax capital gains from residential property and a	s9(2)(f)(iv)	
Tax capital gains from all real property and a		
Tax capital gains comprehensively		

Note: Indicative estimates based on HYEFU economic and fiscal forecasts.

20. The choice of what asset types to extend capital gains taxation to, is not projected significantly impact net core Crown debt in 2021/22. This is because capital gains revenue is expected to build up slowly and not provide significant revenue in 2021/22 (the first year the rules apply from).

21. Figures 5-7 provide preliminary modelling of the impact on the Government's fiscal position of the most revenue negative option outlined in the above table (taxing only residential property, s9(2)(f)(iv)

Note: Page 12 has been removed under section 9(2)(f)(iv) OIA

Figure 7: Illustrative impact of potential tax package on core Crown tax revenue

s9(2)(f)(iv)

22. All of these illustrative estimates are preliminary, and have been prepared on HYEFU projections. The projections are subject to change from updated Budget forecasts, other decisions taken in Budget 2019, further refinements to the fiscal estimates and incorporation of macroeconomic effects from the final tax package.

Updated revenue estimates for an extension of capital income taxation

Officials continue to refine and update the revenue estimates…

23. Modelling commissioned for the Tax Working Group indicates that a broad-based extension of capital income taxation (as designed by the Group) could raise $8.3 billion over five years.

24. This revenue forecast was conducted on a *tax year* basis – meaning that revenue was calculated on the basis of the tax year in which a taxpayer would sell their asset – rather than on a *fiscal year* basis (i.e. the fiscal year in which the Government is expected to accrue the revenue from the sale of the asset).

25. Officials have revised this estimate as part of a process for inclusion in Budget 2019. The aggregate figures are broadly unchanged as a result of these revisions. However, the composition of forecast revenue has changed: there is forecast to be more revenue from shares, and less from real property.

Table 8: Forecast revenue from taxing capital gains – by fiscal year

$billion	2021/22	2022/23	2023/24	2024/25	2025/26	Five year total
Residential investment property and second homes	0.03	0.2	0.4	0.7	1.0	2.3
Commercial, industrial and other real property	0.06	0.1	0.2	0.3	0.5	1.2
Rural property	0.07	0.1	0.2	0.2	0.3	0.8
Domestic listed shares held directly	0.1	0.5	0.7	0.8	0.9	3.0
Australasian shares held by managed funds (with a 10% discount)	0.2	0.2	0.2	0.2	0.2	0.9
Total	0.5	1.0	1.6	2.2	2.8	8.2[3]
Total as reported in Tax Working Group final report (for comparison)	0.4	1.0	1.7	2.3	2.9	8.3

26. The reason for these revisions are:

- The conversion from a tax year basis to a fiscal year basis. This process has decreased the expected revenue for most asset types, but in particular for real property.
- The inclusion of Australian listed shares held by non-KiwiSaver managed funds within the revenue estimate.[4] These shares were not included in the previous estimate due to data limitations which have since been overcome.

…so the revenue estimates are not yet final.

27. Officials are continuing to finalise the revenue estimates for inclusion in the budget process (which will include a consideration of wider macroeconomic impacts and consequential fiscal impacts).

28. The revenue estimates will also change to reflect design decisions made by Ministers (discussed in the next section).

29. Officials are also updating the revenue forecasts for some of the revenue-negative options s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] Officials are updating estimates for other measures (particularly the business measures).

Partial coverage options will reduce the revenue available for a package…

30. The revenue available for a package will depend on the design of the tax. For example, the revenue from taxing capital gains with different asset coverage (over the first five years) is:

- $2.3b if only residential investment property and second homes are taxed; and

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3 Numbers may not sum to total due to rounding.

4 The previous costing was on a more conservative base and only looked at domestic shares held by managed funds while the Tax Working Group recommended taxing domestic and Australian listed shares held by managed funds. This revision does not affect the analysis of the distributional impact of taxing capital gains in KiwiSaver accounts.

5 s9(2)(f)(iv) [redacted]

- $4.3b if only real property is taxed[6]

31. Other design details can have significant impact on the revenue from taxing capital gains. You previously requested the fiscal impact of capping the tax rate on capital gains to 28%. This is estimated to reduce the revenue form taxing capital gains to $7.5 billion over the first five years (Figure 2 below).

Table 1: Forecast revenue from taxing capital gains with a capped rate of 28%

Revenue ($b – fiscal years)	2021/22	2022/23	2023/24	2024/25	2025/26	Five year total
Total – with capped 28% rate	0.4	0.9	1.5	2.1	2.6	7.5
Total – with marginal rates applying	0.5	1.0	1.6	2.2	2.8	8.2

Note: There is significant uncertainty in the revenue impacts of taxing capital gains with a capped rate. This costing has been carried out on a static basis and does not incorporate any wider impacts. A capped capital gains rate would have significant impacts on the integrity and simplicity of the regime for taxing capital gains and would likely create additional compliance and administration costs. These, and other issues, would need to be considered further if this option is pursued.

...and the fiscal impacts can be complex to assess.

32. Officials will provide additional advice on other design features of taxing capital gains. Some of these could have significant fiscal impacts. At the same time, it can be complex to assess the potential fiscal impacts, because potential revenue streams may be more or less volatile.

33. For example, taxing non-Australasian shares on capital gains and dividends rather than on a Fair Dividend Rate (FDR) basis could raise an estimated additional $1-$1.5 billion over five years.[1] However, compared with retaining the FDR regime, the actual revenue stream from this change would be much riskier, as there would be greater revenue volatility as the returns would depend on the performance of foreign share markets. The TWG recommends retaining the FDR regime. We will report to you further on the key policy issues that need to be considered on this design choice.

34. The TWG recommends retaining the FDR regime, and officials will report to you further on this

Forming a package of tax reform

A key decision for you is the focus and composition of the package…

35. One key issue for your consideration relates to the focus and composition of the package. The options for tax reform fall under three broad categories.

Category	Options
Income support	• s9(2)(f)(iv) • • Welfare measures (for example drawing on the forthcoming report of the Welfare Expert Advisory Group)
Productivity	• Business measures

6 We are advising you separately on the option of taxing real property only (IR 2019/085, T2019/403 refer). As outlined in that advice, taxing real property only will create opportunities to defer or avoid taxation of this property through the use of land-rich companies. This could reduce revenue, but officials have not been able to quantify the potential impact.

Savings	• KiwiSaver measures • Broader saving measures
Housing	• Housing measures

36. Early indication on the relative areas of focus in the package will help officials focus design work on the areas of greatest priority to you.

…and how it will interact with the Wellbeing Budget

37. There is also a question regarding the interaction between the broader Wellbeing Budget and a package of tax reform. The Government has committed to release a 'full response' to the Tax Working Group's report in April 2019.

38. It would be helpful for officials to understand how tax reform may interact with the other aspects of the Wellbeing Budget (which would then have implications for the timing and content of any announcements in April).

The costs and impacts of the options

39. Appendix A outlines the fiscal costs and potential wellbeing impacts of various options for tax reform. A summary of this table is provided below.

40. Any package that extends the taxation of capital income is likely to enhance social capital, to the extent that it increases the horizontal equity and the integrity of the tax system. An extension of capital income taxation will also help the Government achieve its objective of building a more progressive tax system.

41. The options for tax reform will have impacts on different aspects of wellbeing. We have assessed the potential impacts on social capital, human capital, and physical and financial capital based on a range of indicators. The tables below do not cover natural capital, as it is not feasible to estimate the impacts arising from these measures on stocks of natural capital.

42. Officials are continuing to refine the estimates of the fiscal costs. They should be considered preliminary, and are provided here for early consideration by Ministers.

Policy options	**Range of fiscal costs over five years**	**Officials' comment**
	Income support	
s9(2)(f)(iv) [redacted]		

Policy options	Range of fiscal costs over five years	Officials' comment
[redacted]		
	Savings	
Adjust KiwiSaver parameters	$0.6 – $2.6 billion	**Distributional impacts:** Will provide additional support to lower income savers. But changes to personal income tax and transfer settings are a more effective way to support lower-income households. **Saving impacts:** Unlikely to have a material impact on overall private saving.
Move KiwiSaver to EET system	$15.4 billion	**Saving impacts:** Defers taxation of contributions into future. Ultimate impact on private savings and investment difficult to assess. Will likely decrease national savings.
Move KiwiSaver *and* similar schemes to EET system	$24.1 billion	
	Business	
s9(2)(f)(iv) [redacted]		
Loss carry-forwards	$0.2 billion	[redacted]
'Black-hole' expenditure	$0.1 billion	
s9(2)(f)(iv) [redacted]		
	Housing	
Remove rental loss ring-fencing	$0.8 billion	**Housing impacts:** Will encourage new housing supply and reduce pressure on residential rents.
s9(2)(f)(iv) [redacted]		

Appendix A: Summary of revenue-negative package measures

s9(2)(f)(iv)

s9(2)(f)(iv)

[7] Note: as the measures apply from 1 April 2021, they apply for the last quarter of the Government's 2020/21 fiscal year. As a result the five year costing includes the final quarter of 2020-21 fiscal year.

Note: Page 19 has been removed under section 9(2)(f)(iv) OIA s9(2)(f)(iv) [redacted]

Policy option	Fiscal cost over five years (2020-2026)	Social capital	Financial and physical capital	Human capital	Officials' comment
s9(2)(f)(iv) [redacted]					

Savings option

Policy option	Fiscal cost over five years (2021-2026)	Social capital	Financial and physical capital	Human capital	Officials' comment
10. Remove ESCT for contributions to KiwiSaver where employee earns less than $48,000 per annum	$1.1 billion	*Distributional impacts:* Increases progressivity of tax system and provides additional contributions to low income KiwiSavers. *Horizontal equity:* Would benefit those saving through KiwiSaver, but not those in similar schemes or who choose to save through different means.	*Incentives to save and invest:* Unlikely to significantly increase the amounts that individuals save *Compliance and administration costs:* Potentially complex with associated compliance and administration costs	No significant impacts identified.	These measures would provide additional support to lower income savers, but it is unlikely to have a material impact on private saving. If the Government's objective is to increase support for lower-income households then changes to personal income tax and transfer settings would be more effective than these KiwiSaver
11. Remove ESCT for contributions to KiwiSaver where employee earns less than $48,000 per annum. The exemption abates at 6 cents per dollar for every dollar earned above $48,000	$1.7 billion	*Distributional impacts:* Increases progressivity of tax system and provides additional contributions to low income KiwiSavers. Removes "fiscal cliff" of above option where those earning any amount over $48,000 receive no benefit. *Horizontal equity:* Would benefit those saving through KiwiSaver, but not those in similar schemes or who choose to save through different means.	*Incentives to save and invest:* Unlikely to significantly increase the amounts that individuals save *Compliance and administration costs:* Potentially complex with associated compliance and administration costs.	No significant impacts identified.	

Savings options continued

Policy option	Fiscal cost over five years (2021-2026)	Social capital	Financial and physical capital	Human capital	Officials' comment
12. Increase member tax credit to $0.75 per $1 of contribution (from $0.50 currently)	$2.6 billion	*Distributional impacts:* Measure is progressive and provides additional contributions to low income KiwiSavers. *Horizontal equity:* Would benefit those saving through KiwiSaver, but not those in similar schemes or who choose to save through different means.	*Incentives to save and invest:* Unlikely to significantly increase the amounts that individuals save	No significant impacts identified	These measures would provide additional support to lower income savers, but it is unlikely to have a material impact on private saving. If the Government's objective is to increase support for lower-income households then changes to personal income tax and transfer settings would be more effective than these KiwiSaver
13. Primary caregiver KiwiSaver member can receive full member tax credit in year of child's birth regardless of their KiwiSaver contributions	$0.1 billion	*Distributional impacts:* Increase progressivity of tax system and provides additional contributions to low income KiwiSavers, particularly women during maternity. *Horizontal equity:* Would benefit those saving through KiwiSaver, but not those in similar schemes or who choose to save through different means.	*Incentives to save and invest:* Unlikely to significantly increase the amounts that individuals save	No significant impacts identified	
14. Reduce lower PIE rates by five percentage points for KiwiSaver funds	$0.6 billion	*Distributional impacts:* Increase progressivity of tax system and provides additional contributions to low income KiwiSavers, particularly women during maternity. *Horizontal equity:* Would benefit those saving through KiwiSaver, but not those in similar schemes or who choose to save through different means.	*Incentives to save and invest:* Unlikely to significantly increase the amounts that individuals save *Compliance and administration costs:* Potentially complex with associated compliance and administration costs	No significant impacts identified	

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Savings options continued

Policy option	Fiscal cost over five years (2021-2026)	Social capital	Financial and physical capital	Human capital	Officials' comment
15. Move KiwiSaver to "Exempt-Exempt-Taxed" system	$15.4 billion *Assumes no behavioural change. See KiwiSaver and the Taxation of Retirement Savings (T2019/297, IR 2019/081 refer) for context and assumptions.*	*Distributional impacts:* Measure is regressive and disproportionately benefits those with high income and wealth. *Horizontal equity:* Would benefit those saving through KiwiSaver, but not those in similar schemes or who choose to save through different means. *Integrity:* Would create opportunities to avoid tax.	*Incentives to save and invest:* It is unclear whether tax incentives for savings improve private savings and investment and allocative efficiency. Will likely decrease national savings.	No significant impacts identified	Defers taxation of contributions into future. Ultimate impact on private savings and investment difficult to assess. Will decrease national savings.
16. Move KiwiSaver and similar saving schemes to "Exempt-Exempt-Taxed" system	$24.1 billion *Assumes no behavioural change. Previous report KiwiSaver and the Taxation of Retirement Savings (T2019/297, IR 2019/081 refer) includes context and assumptions.*	*Distributional impacts:* Measure is regressive and disproportionately benefit those with high income and wealth. *Integrity:* Would create opportunities to avoid tax.	*Incentives to save and invest:* It is unclear whether tax incentives for savings improve private savings and investment and allocative efficiency. Will likely decrease national savings.	No significant impacts identified	

BUDGET-SENSITIVE

Business tax options s s9(2)(f)(iv) [redacted]

Policy option	Fiscal cost over five years (2021-2026)	Social capital	Financial and physical capital	Human capital	Officials' comment
s9(2)(f)(iv) [redacted]					

8 s9(2)(f)(iv) [redacted]

Business tax options, continued

Policy option	Fiscal cost over five years (2021-2026)	Social capital	Financial and physical capital	Human capital	Officials' comment
20. Reduce restrictions on loss carry-forwards when a company is sold	$0.2 billion	s9(2)(f)(iv)			
21. Allow deductions for "black-hole" expenditure	$0.1 billion				
s9(2)(f)(iv)					

Housing options

	Fiscal cost over				Officials' comment
s9(2)(f)(iv)					
25. Remove rental loss ring-fencing	$0.8 billion	*Distributional impacts:* Distributional impacts are not able to be assessed. *Horizontal equity:* Would ensure that investments in buildings are taxed similarly to other investments.	*Distortions to saving and investment decisions:* Improves investment decisions by supporting neutrality of tax system and productivity. *Incentives to save and invest* Would encourage housing supply	No significant impacts identified	Officials support this measure

Appendix B: Summary of fiscal impact of measures across five years

$b	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Personal income tax reductions							
s9(2)(f)(iv) [redacted]							
Welfare measures							
s9(2)(f)(iv) [redacted]							
Saving measures							
Remove ESCT for contributions to KiwiSaver where employee earns less than $48,000		0.2	0.20	0.2	0.2	0.3	1.1
Remove ESCT for contributions to KiwiSaver where employee earns less than $48,000. Exemption abates at 6 cents per dollar for every dollar earned above $48,000		0.3	0.3	0.3	0.4	0.4	1.7
Increase member tax credit to $0.75 per $1 of contribution		0.5	0.5	0.5	0.5	0.6	2.6
Primary caregiver can receive full member tax credit in year of child's birth regardless of their KiwiSaver contributions		0.01	0.01	0.01	0.01	0.01	0.07
Reduce lower PIE rates by five percentage points for KiwiSaver funds		0.1	0.1	0.1	0.1	0.2	0.6
Move KiwiSaver to "Exempt-Exempt-Taxed" system		2.5	2.8	3.1	3.4	3.7	15.4
Move KiwiSaver and similar saving schemes to "Exempt-Exempt-Taxed" system		4.2	4.5	4.8	5.1	5.4	24.1
Business tax options							
s9(2)(f)(iv) [redacted]							

$b	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Reduce restrictions on loss carry-forwards when a company is sold		0.05	0.05	0.05	0.05	0.05	0.2
Allow deductions for "black-hole" expenditure		0.01	0.02	0.02	0.03	0.04	0.1
s9(2)(f)(iv) [redacted]							
Housing options							
s9(2)(f)(iv) [redacted]							
Remove rental loss ring-fencing		0.3	0.2	0.1	0.1	0.1	0.8

Note: These costings should be considered as preliminary and indicative. Some costings are being updated to convert to fiscal years, and the measures do not take into account broader macroeconomic impacts and associated flow on fiscal impacts.

Note: Page 29-38 have been removed under section 9(2)(f)(iv) OIA