



Tax policy report: Summary table: Options for extending taxation on capital gains

Date:	7 March 2019	Priority:	High
Security level:	Sensitive - Budget	Report number:	IR2019/134 T2019/634

Action sought

	Action sought	Deadline
Minister of Finance	Read before your meeting on 7 March	7 March 2019
Minister of Revenue	Read before your meeting on 7 March	7 March 2019

Contact for telephone discussion (if required)

Name	Position	Telephone
Paul Kilford	Policy Manager Inland Revenue	s9(2)(a)
Mark Vink	Manager, Tax Strategy The Treasury	

7 March 2019

Minister of Finance
Minister of Revenue

Summary table: Options for extending taxation on capital gains

On 6 March, we sent you the report *Options for extending taxation on capital gains* (IR2019/132 T2019/618 refers). Attached to that report was a table that assessed various options against the standard tax policy criteria. Your office requested that the table be condensed to a single A3. The revised table is attached to this report for discussion at your meeting on Thursday 7 March.

Mark Vink
Manager, Tax Strategy
The Treasury

Paul Kilford
Policy Manager
Policy and Strategy, Inland Revenue

Hon Grant Robertson
Minister of Finance
/ /2019

Hon Stuart Nash
Minister of Revenue
/ /2019

Summary Assessment of Options for Extending Taxation of Capital Gains

	Comprehensive taxation (TWG option)	Small business and other targeted relief	Partial inclusion	All Land	Residential rental or residential rental plus second homes only
Description	<ul style="list-style-type: none"> Taxation of most assets at full marginal tax rates Various reliefs 	<ul style="list-style-type: none"> Same as comprehensive Targeted measures to relieve taxation in some circumstances 	<ul style="list-style-type: none"> Same as comprehensive Only portion of gains taxable, at 75%, top rate of 24.75% similar to Australian's of 23.5% 	<ul style="list-style-type: none"> All land would be taxable 	<ul style="list-style-type: none"> Capital gains taxation extended only to residential property Could either include or exclude second homes
Ranking Key	✓✓✓ Meets objective	✓✓ Partially meets objective	✓ Least progress		
Revenue over 5 years	\$8.3 billion ✓✓✓	Depends upon measures ✓ or ✓✓	Greater than \$6.2 billion ✓✓✓	\$4.3 billion ✓✓	\$2.3 billion ¹ ✓
Progressivity	<ul style="list-style-type: none"> Substantial increase in progressivity ✓✓✓	<ul style="list-style-type: none"> Relief for small business could reduce progressivity ✓✓	<ul style="list-style-type: none"> Substantial increase in progressivity ✓✓✓	<ul style="list-style-type: none"> Some progressivity benefit ✓✓	<ul style="list-style-type: none"> Smaller progressivity benefit, smaller if second home excluded ✓
Horizontal equity	<ul style="list-style-type: none"> Taxes income more equally ✓✓✓	<ul style="list-style-type: none"> Reduce horizontal equity ✓✓	<ul style="list-style-type: none"> Taxes income more equally ✓✓✓	<ul style="list-style-type: none"> Modest improvement ✓✓	<ul style="list-style-type: none"> Least improvement, smaller if second home excluded ✓✓
Efficiency and Productivity	<ul style="list-style-type: none"> Offsetting effects, broader taxation vs. lock-in ✓✓	<ul style="list-style-type: none"> Significant measures can distort activity ✓	<ul style="list-style-type: none"> Offsetting effects, broader taxation vs. lock-in ✓✓	<ul style="list-style-type: none"> Would be a relatively efficient tax since land in fixed supply ✓✓	<ul style="list-style-type: none"> Would be a relatively efficient tax since land in fixed supply IRD ✓✓ Treasury ✓✓✓
Sustainability	✓✓✓	✓	✓✓✓	✓✓	✓
Integrity	<ul style="list-style-type: none"> Reinforces fairness and sustainability gains ✓✓✓	<ul style="list-style-type: none"> Depends upon measures ✓	<ul style="list-style-type: none"> Reinforces fairness and sustainability gains ✓✓	<ul style="list-style-type: none"> Little effect on integrity ✓	<ul style="list-style-type: none"> Little effect on integrity ✓
Complexity	<ul style="list-style-type: none"> Increases compliance costs for all taxpayers earning capital gains ✓	<ul style="list-style-type: none"> Targeted measures can add considerable complexity ✓	<ul style="list-style-type: none"> Similar to comprehensive ✓	<ul style="list-style-type: none"> Smaller increase in upfront compliance costs ✓	<ul style="list-style-type: none"> Much smaller increase in compliance costs ✓✓✓
Coherence	✓✓✓	✓	✓✓	✓	✓
Overall	<ul style="list-style-type: none"> Broad tax reform substantially advances fairness objectives Complex 	<ul style="list-style-type: none"> Reduced fairness and efficiency benefits Very complex 	<ul style="list-style-type: none"> Broad tax reform substantially advances fairness objectives Complex 	<ul style="list-style-type: none"> Relatively efficient tax, but significantly affects farmers and some small businesses Relatively complex 	<ul style="list-style-type: none"> Relatively efficient tax Smaller effect on fairness Least complex

¹ Of which about \$0.4 billion comes from taxing second homes. This revenue estimate is preliminary and indicative and may change following receiving further information or quality assurance.