

Briefing note

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From: Paul Kilford / Mark Vink

Subject: **Timeline for decisions: Tax Working Group**

Officials would like to discuss with Ministers the timetables for the Governments “full response” to the Final Report of the Tax Working Group. The attached table sets out alternative timetables to the current one based on Cabinet decisions on Monday 8 April.

We have assumed that Cabinet decisions could be deferred until after the Budget moratorium period, which ends after Budget on May 30. The decisions Ministers would be seeking from Cabinet would include the Government’s response to the TWG recommendations on:

- Extending the taxation of capital gains;
- Packages to improve the structure, fairness and balance of the tax system;
- Other recommendations made by the TWG.

It would also agree a process for communication and consultation on the Government’s response.

The table covers the key dates that would form part of any consultation/legislative process and the types of tax package that we consider to be feasible to deliver within certain timelines. We would be happy to provide Ministers with more detail around our suggested timelines including Ministerial engagement.

Note that when the table refers to something as being “unachievable”, this means that we consider there is a high risk with delivery in compressed timelines. As noted in our report last week these include quality assurance and costing risks, insufficient time for genuine consultation, implementation and delivery risks and overall impact assessments.

The table highlights our view that, if decisions are to be postponed, the only capital gains extension that could realistically be enacted this Parliamentary term is the TWG minority “residential land only” design. Other packages could be introduced, but our judgement is that attempting to enact them would be extremely high-risk.

An assumption underpinning the timelines (as they relate to capital gains) is that “announcements” will mean that the Government has made firm decisions on the fundamental building blocks, so consultation can be on detailed design elements necessary to bring those decisions into effect.

We see those building block decisions as covering:

- The realisation nature of the tax;
- Applicable tax rates;
- The assets covered;
- The nature of any rollover reliefs being considered;
- How losses will be treated;
- The effective date and transition method.

Having a good steer from Ministers on the form of the expected Cabinet paper as soon as possible will give us time to assist Ministers through the remainder of the decision-making process and also produce a good quality consultation document for a July release. In particular, with a June Cabinet decision, there is scope for Ministers to decide relatively early what assets classes they would like to include in the tax net. This will allow us to provide further advice through the Budget moratorium on the ancillary rules that may be needed to support such a tax.

Budget implications

The budget moratorium places some constraints on the timelines for decision-making. We have been targeting the date of Monday 8 April for Cabinet decisions on the tax package. This is the latest possible date that can be accommodated within the timelines for finalising budget forecasts.

Budget 2019 will be delivered on Thursday 30 May. This means the space for Cabinet decisions will open again from the start of June (note this means that no Cabinet Committee or Cabinet decisions can be taken prior to 30 May).

In the meantime, while decisions are still impending, it will be necessary to retain the existing specific fiscal risk for potential tax policy changes in the Budget Economic and Fiscal Update.

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Timeline options: taxing more capital gains

Decisions	Announcement	Consultation starts	Legislation introduced	Enactment / effective date	Content of package	Officials' comments, including Budget implications
April (Cabinet)	April	Late May	Late 2019	2020 / 1 April 2021	Either: <ul style="list-style-type: none"> • Minority only • Majority only 	Any significant deviations from the TWG majority package, including KiwiSaver and/or small business exemptions makes enacting a variation of the TWG report on this timeline unachievable.
April (Cabinet)	June	June	Late 2019	2020 / 1 April 2021	Minority only (including second homes) – either as the final package or as phase one of a two-stage process	
Between April and June (Ministers and Cabinet)	June	Between July and September depending on timing of Ministerial decisions	Mid 2020	2021 / 1 April 2022	Any package, including phase two of a staggered approach (effectively a combination of this row and the row above)	The later decisions are taken, the shorter the consultation period, with associated increase in risks.