

Hon Stuart Nash, Minister of Revenue

Information Release

Raising the automatic write-off threshold for qualifying individuals from \$50 to \$200

August 2020

Availability

This information release is available on Inland Revenue's Tax Policy website at <https://taxpolicy.ird.govt.nz/publications/2020-ir-cab-leg-20-sub-0065/overview>

Documents in this information release

1. IR2020/204 – Tax policy report: Raising the automatic write-off threshold for qualifying individuals from \$50 to \$200 (30 April 2020)
2. LEG-20-SUB-0065 – Cabinet paper: Tax Administration (Write Off Amount) Order 2020 (26 May 2020)
3. LEG-20-MIN-0065 – Minute: Tax Administration (Write Off Amount) Order 2020 (26 May 2020)

Additional information

The Cabinet paper was considered by the Committee Legislation Committee on 26 May 2020 and confirmed by Cabinet on 2 June 2020.

One attachment to the Cabinet paper is not included in this information release as it is publicly available:

- Tax Administration (Write Off Amount) Order 2020

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

- 9(2)(a) to protect the privacy of natural persons, including deceased people
- 9(2)(f)(iv) to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

Copyright and licensing

Cabinet material and advice to Ministers from the Inland Revenue Department and other agencies are © Crown copyright but are licensed for re-use under the Creative Commons Attribution 4.0 International (CC BY 4.0) licence (<https://creativecommons.org/licenses/by/4.0/>).





POLICY AND STRATEGY

Tax policy report: Raising the automatic write-off threshold for qualifying individuals from \$50 to \$200

Date:	30 April 2020	Priority:	Medium
Security level:	Sensitive	Report number:	IR2020/204

Action sought

	Action sought	Deadline
Minister of Revenue	<p>Agree to recommendations</p> <p>Authorise the submission of the Cabinet Economic Development Committee paper to the Cabinet Office</p> <p>Refer a copy of this report to the Minister of Finance</p>	<p>7 May 2020</p> <p>By 28 May 2020 at the latest</p>

Contact for telephone discussion (if required)

Name	Position	Telephone
s9(2)(a) [redacted]	Policy Lead, Inland Revenue	s9(2)(a) [redacted]
s9(2)(a) [redacted]	Senior Policy Advisor, Inland Revenue	s9(2)(a) [redacted]

30 April 2020

Minister of Revenue

Raising the automatic calculation write-off threshold for individual customers from \$50 to \$200

Purpose

1. This report seeks your agreement to increase the write-off threshold of income tax debts from automatic calculations for people with reportable income¹ from \$50 to \$200 for the 2019/20 income tax year only. This increase can be achieved by the making of an Order in Council. This would reduce compliance and administrative costs for customers and Inland Revenue, and would remove a liability from customers which will assist with the economic recovery from the COVID-19 restrictions. The report also seeks your agreement to invite the Parliamentary Counsel Office to commence drafting the Order in Council.
2. A draft Cabinet Economic Development Committee paper is attached for your consideration and authorisation to the Cabinet Office. The draft paper seeks Cabinet's agreement to the increase in the write-off threshold and the submission of an Order in Council to the Executive Council giving effect to this increase.

Context and background

3. Inland Revenue implemented changes in 2019 to simplify individuals' year-end income tax filing obligations for the 2019 income tax year onwards. As part of these changes, tax liabilities of \$50 and under are automatically written off. The purpose of this threshold was to remove compliance and administration costs by not having to collect small amounts. This level of debt indicates that the source deductions have minor errors and consequently there is often negligible benefit in further collection action.
4. There is a cost to Inland Revenue collecting these debts and the cost of further collection activity can outweigh any potential monies gained. The administration of debt collection is putting additional stress on our already stretched resources.
5. The process of writing off small tax bills happens every year, although with the fuller information receipt and tax calculation process in place this year, we should see more accurate assessments issued in the first instance.
6. Customers have options for paying off debt that include setting up an instalment arrangement to repay an agreed amount over time, and/or writing off an agreed amount if we decide that full payment will cause the customer serious hardship. Inland Revenue also can write-off outstanding tax to pay if it considers recovery of the debt would be an inefficient use of resources.
7. Many New Zealanders are experiencing financial difficulties due to economic and physical restrictions resulting from attempts to control the COVID-19 epidemic. Inland Revenue is dealing with increasing contacts from people about current tax debts and future tax bills. With job losses and/or reductions in income, it is likely that a number of customers will be required to pay tax as a result of the 2019/20 auto-calculation. This will add to the financial difficulties that many people with only reportable income are currently facing. While there are current mechanisms to

¹ Reportable income is income that has had tax withheld at source and is reported to Inland Revenue by the payers, for example, salary, wages and investment income.

assist people in financial hardship, such as the write-off under the serious hardship provisions, it requires the person to apply for relief, usually by calling us.

8. While New Zealand recovers from the economic effects of COVID-19, one avenue to help alleviate pressure on individuals with a tax bill for the 2019/20 income year would be to increase the threshold for writing off lower value income tax bills for that tax year, which is payable by 7 February 2021 (or by 7 April 2021, if the customer has a tax agent). This would be one less financial burden faced by a number of people during a period when their finances are most severely affected.

Financial considerations

Income retained by customers

9. Based on 2018/19 figures, we calculated the likely amount of revenue foregone by Inland Revenue due to increasing the write-off threshold, and the amount of income retained by customers to spend elsewhere if they did not need to pay it to Inland Revenue, as well as the number of customers affected:
 - For the 2018/19 income tax year, 581,312 customers had debt below \$50, totalling \$4,050,847, which was written off. This is an average of \$6.97 per person.
 - If we were to increase the threshold for debt to be written off from \$50 to \$200, this would – based on 2018/19 figures – be an additional \$17,047,354 written off for a further 149,174 individuals, leaving an average of \$114 to remain with each of the customers in this group or not being required to be paid.
 - Total debt under \$200, including that under \$50, in the same period totalled \$21,098,201, spread over 730,486 customers.
10. For comparison purposes, the number of people with tax debts between \$200 and \$500 in 2018/19 was a further 90,472 people with debts totalling \$28,302,021, showing that the majority of people incur debt under \$200.
11. We note that providing relief this way may help many of those least likely to be able to pay when the bill becomes a tax debt:
 - Almost 50% of those with a debt under \$200 in 2018/19 earned less than \$60,000.
 - 48,669 customers receiving Working for Families Tax Credits had a 2018/19 tax bill of up to \$200.

However, we do note that such an increase will also provide relief to customers who can afford to pay the tax. In other words, it is not exclusively targeted to those that cannot afford to repay the tax or are impacted by Covid-19.

12. Additionally, the limitation to focusing on only individuals subject to the auto-calculation rules is that the write-off will mainly benefit those receiving salary/wage income with PAYE deducted and/or income from passive investments. The write-off does not cover self-employed individuals or individuals for whom Inland Revenue does not receive information directly from payments sources but who may be in the same financial situation as qualifying individuals. Such individuals and those who have a tax bill of over \$200 as a result of the auto-calculation, will be able to enter into instalment arrangements to pay the tax owing or seek write-off under the serious hardship rules.

Fiscal and administrative costs for Inland Revenue and the Government

13. There is no fiscal impact from this proposal. The additional debt written-off will be managed within existing baselines of the non-departmental appropriation, *Non-departmental Other Expenses: Impairment of Debt and Debt Write-offs*, being a decrease to the amount of the contingency ring-fenced within the appropriation. However, if this threshold increase were to be extended beyond the 2019/20 year, there would either be a fiscal cost or Inland Revenue would have a permanently lower amount of contingency.
14. Writing off small debts is within the context that the Commissioner must collect the highest net revenue that is practicable within the law, having regard for the resources available. Debts under \$200 indicate that the source deductions include a minor error; consequently, there is negligible benefit in further collection action. It is an inefficient use of Inland Revenue's resources to collect small amounts of tax, and not collecting these would not compromise the integrity of the tax system.
15. An increase in the automatic write-off threshold will also reduce our contacts from customers during the period we undertake the auto-calculation process and allow us to focus on the issuing of refunds.
16. Further, it will reduce compliance costs for customers who might otherwise apply for hardship and need to provide the necessary information to support their application. In the 2019 year, there were 7,262 applications for hardship and other adjustments to write off individual income tax where the balance was under \$200. The number of applications for the 2020 tax year is likely to increase as a result of Covid-19.
17. We note that if the threshold is not increased, we will still write-off some of these amounts under the serious hardship relief rules, which imposes additional burdens on both the customers and Inland Revenue staff. We will also still write-off some of these amounts where we consider it is an inefficient use of resources to collect the tax where no payment has been made by the due date.
18. There is also the opportunity cost of the time taken to administer multiple smaller debts where we could instead spend time recovering fewer larger debts. This would result in the collection of more revenue over the longer term.
19. As part of the 2019/20 automatically calculated tax returns, some people will also receive refunds. Based on 2018/19 data we issued refunds totalling about \$653 million and a total of \$115 million in tax bills and expect the same level for the 2019/20 tax year. The tax bills issued included those to over 145,000 people for amounts over \$200 totalling \$94 million. If people cannot afford to pay income tax, they can enter into an instalment arrangement or seek to have the tax written-off under the hardship rules.
20. Increasing the threshold will result in reduced contacts from customers who receive such tax bills. An average contact costs around \$44, and for tax bills we usually have about three contacts. It also removes postage costs in that we do not need to issue such customers with reminder notices. This will free up our resources to deal with other COVID-19 related enquiries and deal other Government COVID-19 priorities.
21. We recommend that the threshold be increased to \$200 for the 2019/20 tax year to provide financial relief to this group of people and free up Inland Revenue our already stretched resources to deal other contacts and delivery the Government's response to Covid-19

Consultation

22. We consulted with Treasury who agree there is no fiscal impact for the 2019/20 year and this change can be completed within the current Impairment of Debt and Debt Write-Offs appropriation.
23. We have also consulted Parliamentary Counsel Office in preparation of this report and the Cabinet Committee paper.
24. We are currently undertaking targeted consultation in line with the requirements for the making of an Order in Council. We are consulting with the:
 - Chartered Accountants Australia and New Zealand (CA ANZ)
 - New Zealand Council of Trade Unions *Te Kauae Kaimahi* (NZCTU)
 - National Beneficiary Advocacy Consultation Group (NBACG).

CA ANZ and the NBACG have indicated their support for the increase in write-off threshold for the 2019/20 tax year. We will update the Cabinet Committee paper once we hear back from the NZCTU to reflect their feedback.

Regulatory Impact Assessment

25. We have been informed by The Treasury that a Regulatory Impact Assessment is not required for this issue. It is exempt on the basis that the proposal has no or minor impact on businesses, individuals or non-for-profit organisations.

Next steps

26. If you agree with the temporary increase in the write-off threshold for the 2019/20 tax year, we attach a Cabinet Economic Development Committee paper for your consideration and authorisation to the Cabinet Office. The paper seeks the Committee's agreement to the increase in the threshold and the submission of an Order in Council to the Executive Council giving effect to the increase. The Cabinet Committee paper seeks waiver of the 28-day rule. This is because the Order in Council needs to be made as soon as possible to allow for the write-off to occur as part of 2019/20 auto-calculation process which commences in mid-May. We note that the Order in Council is taxpayer friendly. We will draft you a letter seeking such a waiver.
27. The indicative timeline for the Order in Council approach is as follows:

Activity	Date
Drafting instructions to PCO	7 May 2020
Authorisation and submission of DEV paper to Cabinet Office	21 May or 28 May (depending Ministerial consultation)
DEV consideration of proposed increase and authorisation of Order in Council to Executive Council	27 May or 3 June (depending on Ministerial consultation)
Cabinet endorsement of increase and authorisation of the Order in Council to	2 June or 8 June
Order in Council takes effect	2 June or 8 June for the 2019/20 tax year

We have indicated to the Parliamentary Counsel Office that we are reporting to you on this matter. We seek your agreement for us to invite the Parliamentary Counsel Office to commence to draft an Order in Council to give effect to the increase.

28. We recommend you provide a copy of this report to your colleague, the Minister of Finance, for his information.

Recommended action

We recommend that you:

1. **agree** to increase the write-off threshold for automatic calculation income tax write-offs from \$50 to \$200 for the 2019/20 tax year;
Agreed/Not agreed
2. **agree** to officials providing drafting instructions to the Parliamentary Counsel Office to draft an Order in Council giving effect to the above recommendation;
Agreed/Not agreed
3. **note** that a waiver of the 28-day requirement for the making of the Order in Council will need to be sought so that it comes into effect as soon as possible after being made;
Noted
4. **authorise** the submission of the attached Cabinet Economic Development Committee paper seeking approval of the increase in the debt write-off level and approving the submission of the Order in Council to the Executive Council to the Cabinet Office by 28 May 2020 at the latest;
Agreed/Not agreed
5. **refer** a copy of this report to the Minister of Finance for his information.
Referred/Not referred

s9(2)(a)

Policy Lead
Policy and Strategy, Inland Revenue

Hon Stuart Nash
Minister of Revenue
/ /2020

In Confidence

Office of the Minister of Revenue

Chair, Cabinet Legislation Committee

TAX ADMINISTRATION (WRITE OFF AMOUNT) ORDER 2020

Proposal

1. This paper seeks the Cabinet Legislation Committee's agreement to increase the write-off threshold from \$50 to \$200 of income tax debts from automatic calculation for individuals with reportable income. This increase will alleviate the need for some 149,000 customers to have to worry about the payment of this tax debt and contact Inland Revenue about repayment options and possible write-off in the case of serious hardship.
2. It also seeks the Committee's agreement to submit an Order in Council making Tax Administration (Write Off Amount) Order 2020 which gives effect to this increase to the Executive Council.
3. It is proposed that the Order in Council applies to the write-offs of automatically calculated tax debts from the date it comes into effect. An amendment will be made to the Tax Administration Act 1994 to limit the application of this increase to the 2019-20 tax year. The paper seeks the Committee's agreement to the inclusion of this amendment in an appropriate Supplementary Order Paper.

Relation to Government Priorities

4. Increasing the write-off threshold for these tax debts will reduce financial pressure for many New Zealanders due to the impacts of Covid-19. It will also allow Inland Revenue to concentrate on other aspects of the Government's response to COVID-19.

Policy

5. Income tax obligations for customers with only reportable income (income that has had tax withheld at source and is reported to Inland Revenue by the payers, for example, salary, wages and investment income) are automatically calculated by Inland Revenue. Customers are advised of the resulting refund or tax liability.
6. Tax liabilities of \$50 and under are automatically written off under the current rules. This removes compliance and administration costs for both Inland Revenue and their customers through not having to collect small amounts. In the 2018-19 tax year, this resulted in writing off \$4,050,487 for 581,312 customers with debt below \$50. As part of this process, Inland Revenue also issued \$653 million in refunds in the 2018-19 tax year and a total of \$115 million in tax bills. Inland Revenue expects that the amount of refunds and tax bills issued for the 2019-20 tax year will be similar.
7. While New Zealand suffers from the economic effects of COVID-19, one avenue that I think will help alleviate pressure on certain New Zealanders who only earn salary or wage and investment income with tax liabilities for the 2019-20 tax year would be to increase the threshold for writing off lower value income tax bills. This would be one less financial burden faced by a number of people during a period when their finances are most severely affected by the impact of Covid-19.

8. While there are current mechanisms to assist people in financial hardship, such as the write-off under the serious hardship provisions, it requires the person to apply for relief, usually by calling Inland Revenue and proving that they are in serious hardship. This adds to the administrative pressure Inland Revenue staff are already under. In the 2019 tax year, there were 7,262 applications for hardship and other adjustments to write off individual income tax where the balance was under \$200. The number of applications for the 2020 tax year is likely to increase as a result of Covid-19.
9. In addition, Inland Revenue has the power to write-off tax debt within the context that it must collect the highest net revenue that is practicable within the law, having regard for the resources available. Debts under \$200 indicate that the source deductions are not quite right; consequently, there is negligible benefit in further collection action. It is an inefficient use of Inland Revenue's resources to collect small amounts of tax, and not collecting these would not compromise the integrity of the tax system. Inland Revenue cannot use this power until the tax debt becomes outstanding which is usually 7 February 2021.
10. While Inland Revenue has the ability to help their customers facing financial hardship due to Covid-19 or write-off small debts because it is inefficient to collect them, I recommend that the write-off threshold be increased to \$200 for the 2019-20 tax year. This will result in about 149,000 individuals, based on 2018-19 tax year data, having their tax liability of between \$50 and \$200 written-off.
11. This has the benefits of providing certainty to these persons and reducing the compliance and administration costs of having these people contacting Inland Revenue and worrying about having to pay this tax debt. It also allows Inland Revenue to focus its limited resources on delivering our policies to cushion the economic effects of Covid-19.
12. My officials inform me that by providing relief this way we are expecting that we will impact many of those least likely to be able to pay when the bill becomes a tax debt. Almost 50% of those with a debt under \$200 in the 2018-19 tax year earned less than \$60,000, and 48,669 customers receiving Working for Families Tax Credits had a 2018/19 tax bill of up to \$200. I do recognise that this proposal is not very well targeted as there will be individuals who can afford to pay these tax debts.
13. I am informed that there will still be about 145,000 individuals who will be issued with tax bills over \$200 as part of the auto-calculation process amounting to about \$94 million. If such individuals cannot afford to pay their tax liability, they can seek to enter into an instalment arrangement or request that tax be written-off under the serious hardship rules.

Financial Implications

14. There is no fiscal impact from this proposal. The additional debt written-off will be managed within existing baseline of the non-departmental appropriation, *Non-departmental Other Expenses: Impairment of Debt and Debt Write-offs*.
15. Inland Revenue will manage the implementation and administration of the increased write-off threshold within existing baselines.

Legislative Implications

16. If this increase is approved, I propose to give effect to it by the making of an Order in Council under section 22J of the Tax Administration Act. I am required by legislation to undertake a consultation process. My officials have consulted with the following and I consider that I have met the legislative requirement to consult:
 - 16.1 Chartered Accountants Australia and New Zealand (CA ANZ)
 - 16.2 New Zealand Council of Trade Unions *Te Kauae Kaimahi* (NZCTU)

16.3 National Beneficiary Advocacy Consultation Group (NBACG).

17. s9(2)(f)(iv)

Impact Analysis

18. The Regulatory Quality Team at the Treasury has determined that the regulatory proposals in this paper are exempt from the requirement to provide a Regulatory Impact Assessment on the basis that they have no or minor impacts on businesses, individuals or not for profit entities.

Timing and 28-day rule

19. I propose that the Cabinet Legislation Committee approves to the Order-in-Council giving effect to the increase of the write-off threshold and authorises its submission to the Executive Council. It is proposed that the new threshold apply from the date it comes into effect (once it is gazetted).

20. To achieve an enactment date to coincide with the automatic calculation process starting in mid-May, I recommend that the 28-day rule be waived for the coming into force of this Order-in-Council. I note that the increase in the threshold will provide immediate relief in the current economic climate to some taxpayers liable to pay tax debts of between \$50 and \$200, so I recommend that these changes come into force at the earliest possible date. The 28-day rule should therefore be waived.

Compliance

21. The regulations comply with the principles, Acts, guidelines, and requirements set out below as follows:

21.1 the principles of the Treaty of Waitangi;

21.2 the rights and freedoms contained in the [New Zealand Bill of Rights Act 1990](#) and the [Human Rights Act 1993](#);

21.3 the principles and guidelines set out in the [Privacy Act 1993](#);

21.4 relevant international standards and obligations; and

21.5 the [Legislation Guidelines](#) (2018 edition), which are maintained by the Legislation Design and Advisory Committee.

Regulations Review Committee

22. There are no anticipated grounds for the Regulations Review Committee to draw the attached regulations to the attention of the house under Standing Order 319.

Certification by Parliamentary Council

23. The Parliamentary Counsel Office has certified that the attached Order is in order for submission to the Executive Council.

Consultation

24. Treasury has been consulted in the preparation of the paper who agree there is no fiscal impact and this change can be completed within the current Impairment of Debt and Debt Write-Offs appropriation.
25. The Parliamentary Counsel Office have been consulted in the preparation of this paper.
26. My officials have also consulted with the CA ANZ, the NZCTU, and the NBACG as required by legislation as representatives of persons likely to be affected by this proposal. CA ANZ and the NBACG have indicated their support for the increase in write-off threshold for the 2019/20 tax year. NBACG suggested that write-off threshold be increased to \$500.

Proactive Release

27. I propose to release the policy report, this Cabinet paper, and associated Order in Council, in full shortly following the publication of the signed Order in Council in the New Zealand Gazette, subject to redactions under the Official Information Act 1982.

Recommendations

The Minister of Revenue recommends that the Cabinet Legislation Committee:

1. **agree** to increase the write-off threshold for automatic calculation income tax write-offs from \$50 to \$200 for the 2019/20 tax year;
2. **note** that the Tax Administration (Write Off Amount) Order 2020 will give effect to the decision referred to in recommendation 1 above;
3. **note** that a waiver of the 28-day rule is sought:
 - 3.1 so that the regulations can come into force on the day it is gazetted;
 - 3.2 on the ground that that this will allow the Order to be in force for the automatically calculated tax liabilities under \$200 for the 2019-20 tax year, which will have the benefit of providing relief for some taxpayers to help cushion the economic impacts of COVID-19;
4. **agree** to waive the 28-day rule so that the Order can come into force once it is gazetted to coincide with the beginning of automatic calculations for the 2019-20 tax year;
5. **authorise** the submission to the Executive Council of the Tax Administration (Write Off Amount) Order 2020.
6. **agree** that the Tax Administration Act 1994 be amended so that the threshold increase in recommendation 1 applies for the 2019-20 tax year only.

7. s9(2)(f)(iv)

8. s9(2)(f)(iv)

Authorised for lodgement

Hon Stuart Nash
Minister of Revenue

Proactively Released



Cabinet Legislation Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Tax Administration (Write Off Amount) Order 2020

Portfolio **Revenue**

On 26 May 2020, the Cabinet Legislation Committee:

- 1 **agreed** to increase the write-off threshold for automatic calculation income tax write-offs from \$50 to \$200 for the 2019/20 tax year;
- 2 **noted** that the Tax Administration (Write Off Amount) Order 2020 will give effect to the decision referred to in paragraph 1 above;
- 3 **noted** that a waiver of the 28-day rule is sought:
 - 3.1 so that the regulations can come into force on the day it is gazetted;
 - 3.2 on the ground that that this will allow the Order to be in force for the automatically calculated tax liabilities under \$200 for the 2019-20 tax year, which will have the benefit of providing relief for some taxpayers to help cushion the economic impacts of COVID-19;
- 4 **agreed** to a waiver of the 28-day rule so that the Order can come into force once it is gazetted to coincide with the beginning of automatic calculations for the 2019-20 tax year;
- 5 **authorised** the submission to the Executive Council of the Tax Administration (Write Off Amount) Order 2020 [PCO 22970/3,0];
- 6 **agreed** that the Tax Administration Act 1994 be amended so that the threshold increase in paragraph 1 applies for the 2019-20 tax year only;
- 7 s9(2)(f)(iv)

8

s9(2)(f)(iv)

Gerrard Carter
Committee Secretary

Present:

Hon Chris Hipkins (Chair)
Hon Andrew Little
Hon Dr David Clark
Hon David Parker
Hon Stuart Nash
Hon Damien O'Connor
Hon Kris Faafoi
Hon Tracey Martin
Hon Aupito William Sio
Hon James Shaw
Hon Julie Ann Genter
Hon Eugenie Sage
Michael Wood, MP (Senior Government Whip)

Officials present from:

Office of the Prime Minister
Officials Committee for LEG

Proactively Released