

# Hon Grant Robertson, Minister of Finance

## Hon David Parker, Minister of Revenue

### Information Release

#### Release of the Government's tax policy work programme for 2021/22

September 2021

#### Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2021/2021-ir-cab-dev-21-sub-0156>

#### Documents in this information release

#	Reference	Type	Title	Date
1	IR2020/517	Tax policy report	Tax policy work programme update	9 December 2020
2	T2021/85 IR2021/052	Tax policy report	Formulation of the Government's revenue strategy <sup>1</sup>	9 February 2021
3	IR2021/198 T2021/1088	Tax policy report	Advancing the tax policy work programme	30 April 2021
4	IR2021/235 T2021/1270	Tax policy report	Cabinet paper – Release of the Government's tax policy work programme for 2021/22	3 June 2021
5	DEV-21-SUB-0156	Cabinet paper	Release of the Government's tax policy work programme for 2021/22	7 July 2021
6	DEV-21-MIN-0156	Minute	Release of the Government's tax policy work programme for 2021/22	7 July 2021

#### Additional information

The Cabinet paper was considered by the Cabinet Economic Development Committee on 7 July 2021 and confirmed by Cabinet on 12 July 2021.

---

<sup>1</sup> Also available on the Budget website until May 2022 at <https://budget.govt.nz/information-release/2021/revenue.htm> and on the Treasury website from later in 2021 at <https://treasury.govt.nz/publications/information-release/budget-2021-information-release>

## Related information releases

Documents related to the Government's tax policy work programme were released as part of the Budget 2021 information release:<sup>2</sup>

- T2021/85 | IR2021/052 – Tax policy report: Formulation of the Government's revenue strategy (9 February 2021)
- T2021/314 | IR2021/080 – Tax policy report: Draft revenue strategy and high-level tax policy work programme for comment progress update (4 March 2021)

## 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:

- 6(a) to prevent prejudice to the security or defence of New Zealand or the international relations of the Government
- 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/>).



---

<sup>2</sup> See footnote 1.



## POLICY AND STRATEGY

**Tax policy report:**     Tax Policy Work Programme update    

<b>Date:</b>	9 December 2020	<b>Priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2020/517

### Action sought

	<b>Action sought</b>	<b>Deadline</b>
Minister of Revenue	<b>Agree</b> to recommendations <b>Note</b> the contents of this report	14 December 2020

### Contact for telephone discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Emma Grigg	Policy Director	s9(2)(a) [redacted] s9(2)(a) [redacted]
Paul Kilford	Policy Lead	s9(2)(a) [redacted] s9(2)(a) [redacted]
s9(2)(a) [redacted]	Policy Advisor	s9(2)(a) [redacted] s9(2)(a) [redacted]

9 December 2020

Minister of Revenue

## **Tax Policy Work Programme update**

---

### **Purpose**

1. The purpose of this report is to provide you with a high-level overview of the current workload of Policy and Strategy. This will ensure that you are aware of the subject matter of likely reporting for the first quarter of 2021 and will help facilitate a preliminary discussion with you regarding a formal reset of the Tax Policy Work Programme (TPWP) in early 2021.

### **Background**

2. The TPWP outlines the Government's tax policy priorities over an 18-month period. The last publicly announced reset of the TPWP was in July 2019. Since then, the TPWP has been informally repositioned to reflect the Government's revised priorities in light of the COVID-19 response work (IR2020/330 refers) and the Labour Party's 2020 manifesto.

### **Timing of the refreshed TPWP**

3. Inland Revenue and Treasury officials will report to the Minister of Finance and you early in the 2021 on a refreshed TPWP. This process will start with the development of the Government's revenue strategy, which will in turn form part of the Fiscal Strategy Report. The publication of the Fiscal Strategy Report (including revenue strategy) is a legislative requirement. It is important that any TPWP is consistent with this revenue strategy.
4. Another step in the development of a TPWP is discussions with key private sector stakeholders. These discussions ensure that private sector priorities are known and considered as part of the refresh process.
5. In the past, some Ministers of Revenue have announced the new TPWP at the International Fiscal Association (IFA) conference in February. Because of the time needed to first develop the revenue strategy and have the necessary private sector discussions, this timing will be difficult in 2021. It may nevertheless be possible to use that speech to set a general direction of travel without the specifics of a fully developed TPWP.
6. In the meantime, the A3 attached to this report is intended to assist the preliminary discussion that we would like to have with you at the meeting scheduled for Tuesday 15 December. Bearing in mind that the refreshed TPWP will take some time to finalise, it highlights the areas where work is currently being undertaken and, as a result, the areas that are likely to be the subject of reporting early in 2021.
7. Officials' view is that advancing the items on this A3 will likely use all of Inland Revenue's current policy resources for the first half of 2021 (or until such time as our work is reprioritised by a refreshed TPWP). The Treasury is also keen to discuss your priorities in the context of your tax policy delegation as Associate Minister of Finance.

**Guide to the A3**

8. The appended A3 has been split into three categories. The first category, '*incoming Government priorities*' updates you on the progress of the Government's manifesto commitments that impact the Revenue portfolio. Second, '*COVID response in the tax system*' outlines key revenue priorities as the policy focus moves from the "cushioning the blow" phase of the COVID response, to "positioning for the recovery" and "resetting and rebuilding". The last category details the status of some *existing work programme items and potential new items* but has been consolidated and prioritised to reflect what you will see early in 2021.
9. The current TPWP includes some items, not detailed in the Labour Party's 2020 manifesto, that would have a fiscal cost and therefore could be impacted by funding limitations over the next three years. Items with a likely fiscal cost that have not already been accounted for are highlighted in the appended A3 in yellow.
10. Some tax initiatives have been funded through the Tax Policy Scorecard (the scorecard). The scorecard acts as a memorandum account to the Between Budget Contingency. It provides flexibility to tax policy, as revenue positive tax policy changes can be offset against revenue negative changes. This means that some tax policy initiatives can be progressed without going through the Budget process. There is a requirement that the scorecard balance must be positive over the forecast period. At present, the balance is low (\$50.435m). This means it needs to be managed so both revenue positive and negative items are charged against the scorecard. Officials can report on options for the scorecard in the New Year.
11. Officials consider that the items listed on the A3 contribute towards the Government's current priorities, in particular: accelerating the recovery; and laying the foundations for the future.

**Recommended action**

---

We recommend that you:

12. **note** the contents of this report and the appended A3;  
Noted
13. **agree** to discuss the status of the Tax Policy Work Programme with officials at the meeting scheduled for Tuesday 15 December.  
Agreed/Not agreed

s9(2)(a)

**Emma Grigg**  
Policy Director  
Policy and Strategy

**Hon David Parker**  
Minister of Revenue  
/ /2020

# Appendix: TPWP priorities for early 2021

[IN CONFIDENCE]

Incoming Government Priorities	COVID response	Existing work programme items and potential new items
<p><b>39% rate integrity measures</b></p> <ul style="list-style-type: none"> <li>Officials will report in February on integrity measures that may support the 39% personal tax rate along with guidelines for considering them and timelines for possible development and implementation.</li> </ul>	<p><b>Resurgence package measures</b></p> <ul style="list-style-type: none"> <li>Wage subsidy: IR will work with Treasury, MSD, and MBIE on clarification of eligibility criteria that could apply to new versions of the wage subsidy scheme, including how revenue is defined and repayment rules. There are overlapping features with the RSP (discussed below).</li> <li>Resurgence Support Payment (RSP): Subject to Cabinet decisions on 14 December, IR's focus will be on developing the system and preparing to administer this new grant, should there be an escalation in Alert Levels that activates the scheme. A question we expect to be addressed in early 2021 is whether the economies of scale in administering the wage subsidy and RSP are sufficiently pronounced that IR should administer the wage subsidy.</li> <li>Leave subsidy: IR will work with MBIE, MSD, and Treasury on medium-term changes to the scheme. This could include substantive changes including a legal framework and consideration of IR as the administrator.</li> <li>SBCS: IR's focus will be on implementing the changes agreed by Cabinet to the loan scheme.</li> <li>SME capital raising for recovery: This issue will be led by MBIE and Treasury. IR may be involved in some discussions around implementation.</li> </ul>	<p><b>Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill</b></p> <ul style="list-style-type: none"> <li>This Bill (known as ARFERM Bill) includes proposals on purchase price allocation and feasibility expenditure. An additional supplementary order paper is proposed for March 2021 which will introduce further changes to loss continuity and the donated trading stock rules.</li> <li>Timelines are still being determined and will be provided in a separate report.</li> </ul>
<p><b>Collection of trust information</b></p> <ul style="list-style-type: none"> <li>Guidance and clarification of the trust information to be collected under the new disclosure provisions in the TAA. This includes remedial amendments to ensure that appropriate exemptions are in place (e.g. for energy consumer trusts and similar non-private trusts) and that the new rules apply correctly.</li> </ul>		<p><b>Child Support Amendment Bill</b></p> <ul style="list-style-type: none"> <li>The Bill includes proposals that repeal the incremental penalties for child support. The bill is due to be reported back by 4 March 2021 and enacted before 1 April 2021.</li> </ul>
<p><b>Framework on data for policy makers</b></p> <ul style="list-style-type: none"> <li>Strategy for the collection and public release of information to support policy advice, evaluation and public debate on policy issues.</li> <li>Developing a framework that prescribes when it is reasonable to provide data to Ministers or other agencies in light of compliance and administration costs.</li> </ul>		<p><b>International tax</b></p> <ul style="list-style-type: none"> <li>Ongoing development of the OECD Pillar 1 and Pillar 2 solutions following the current public consultation period.</li> <li>s6(a)</li> <li>Prograssina double tax agreements.</li> </ul>
<p><b>Budget 2021</b></p> <ul style="list-style-type: none"> <li>Any additional initiatives arising out of Budget 2021 that have revenue portfolio implications, either policy or administrative (IR2020/508 and IR2020/509 refers).</li> </ul>		<p><b>Land</b></p> <ul style="list-style-type: none"> <li>Ongoing work to ensure that the land rules work effectively and as intended. First tranche of work is included in the ARFERM Bill.</li> <li>Priorities for early 2021 include developing a legislative framework for holding costs.</li> </ul>
<p><b>Housing</b></p> <ul style="list-style-type: none"> <li>The Treasury are leading a process looking at tax changes to rental housing and have recently reported to the Minister of Finance on this issue (a copy of which will be referred to you). Any decisions from that are likely to be progressed in early 2021.</li> </ul>		<p><b>Research and development tax credit</b></p> <ul style="list-style-type: none"> <li>Responding to recommendations of early implementation review (improving administration/relationships between partner agencies; assisting Callaghan with customer engagement; clarifying guidance to resolve interpretational issues).</li> <li>Minor policy remedials in ARFERM Bill, next omnibus Bill.</li> </ul>
<p><b>Future of work</b></p> <ul style="list-style-type: none"> <li>Reviewing tax treatment of labour in a changing environment – more people working as contractors, gig economy, cross border workers, people working multiple jobs, etc</li> <li>Reviewing the effectiveness and efficiency of the relevant taxing regimes – PAYE, other withholding taxes, FBT, employer superannuation contribution tax, etc</li> </ul>	<p><b>Tax administration (including information collection and use and Business Transformation)</b></p> <ul style="list-style-type: none"> <li>Green paper - Officials have commenced work on a green paper on tax administration. Officials welcome the opportunity to provide you with a more detailed briefing in the new year.</li> <li>Review of the taxation of lump sum payments such as ACC.</li> <li>Information collection and use: <ul style="list-style-type: none"> <li>Information sharing agreements and development of more efficient ways to allow the sharing of information;</li> <li>Repeat collection of large datasets – reporting, consultation and regulation making processes.</li> </ul> </li> <li>SME initiatives with MBIE – a joint work programme will be provided in the new year.</li> </ul>	
<p><b>Small Medium Enterprises</b></p> <ul style="list-style-type: none"> <li>Accounting Income Method (AIM) changes: Overhaul and simplify the AIM tax regime to make it easier for SMEs to move to a "pay as earn" model throughout the year. (This item could be included in the proposed "Green paper".)</li> </ul>	<p><b>COVID response in tax system (social insurance)</b></p> <ul style="list-style-type: none"> <li>MBIE is leading a cross-agency work programme investigating the use of social unemployment insurance as a policy to improve the fairness and efficiency of labour market reallocations following economic shocks (such as COVID and technological change).</li> </ul>	<p><b>Environmental issues</b></p> <ul style="list-style-type: none"> <li>Developing an agreed interagency framework on when to use pricing instruments for environmental and resource issues (building on the TWG's work in this area).</li> <li>Contributing to policy advice on environmental proposals in the Government's work programme, including any tax aspects.</li> </ul>
		<p><b>Social policy</b></p> <ul style="list-style-type: none"> <li>Working for Families review: IR's immediate focus is on developing a short-term work programme to review the Working for Families tax credits. Ministers have expressed interest in options for reform, potentially as part of Budgets 22 and beyond. This will be a significant project for IR with potential funding implications. The review is part of the longer-term Welfare Overhaul work programme led by MSD, which includes other work streams that could impact on IR.</li> <li>s9(2)(f)(iv)</li> </ul>
		<p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>The infrastructure workstream will focus on potential policy responses to remove distortions created by the existing tax policy settings.</li> </ul>
		<p><b>Charities and non-for-profits</b></p> <ul style="list-style-type: none"> <li>Reviewing the appropriateness of tax settings for charities and not-for-profits.</li> <li>This would include progressing the Tax Working Group recommendations involving accumulations within charity-owned commercial activities and private charitable foundations.</li> <li>The tax settings for the wider exempt sector, in particular local authorities and their trading subsidiaries, should also be reviewed.</li> </ul>
		<p><b>Maintaining the tax system</b></p> <ul style="list-style-type: none"> <li>Roughly twenty percent of our policy resource is currently spent maintaining and updating tax legislation within current frameworks in response to various factors (changing technology, business practices and jurisprudence), as well as fixing legislative errors and unintended consequences.</li> <li>Undertaking remedial and base maintenance work upholds regulatory stewardship objectives and fosters a strong relationship with the private sector, who are invested in the health of the tax system.</li> <li>We will report to you with options for progressing proposals raised in <i>GST policy issues – An officials' issues paper</i> (FEB 2020) early next year.</li> </ul>
		<p><b>Bill programme for 2021</b></p> <ul style="list-style-type: none"> <li>The ARFERM Bill and the Child Support Amendment Bill, both introduced in 2020, should be enacted in March 2021.</li> <li>We will recommend the introduction of a bespoke bill to enable IR to deliver the proposed RSP, an omnibus bill to set the annual rates of income tax for the 2021-22 tax year and implement policy and remedial measures, along with potentially a Budget 2021 Measures Bill.</li> </ul>

# The Treasury

## Budget 2021 Information Release

### August 2021

This document has been proactively released and is available on

- the **Budget website** from August 2021 to May 2022 only at <https://budget.govt.nz/information-release/2021>, and on
- the **Treasury website** from later in 2021 at <https://treasury.govt.nz/publications/information-release/budget-2021-information-release>.

#### 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 have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

## **Copyright and Licensing**

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

## **Accessibility**

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to [information@treasury.govt.nz](mailto:information@treasury.govt.nz).

**Tax Policy Report:** Formulation of the Government's revenue strategy

<b>Date:</b>	9 February 2021	<b>Report No:</b>	T2021/85 & IR2021/052
		<b>File Number:</b>	SH-13-9

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Grant Robertson)	<b>Discuss</b> the content of the revenue strategy with officials  <b>Direct</b> officials to provide a draft revenue strategy	11 February 2021
Minister of Revenue (Hon David Parker)	<b>Discuss</b> the content of the revenue strategy with officials  <b>Direct</b> officials to provide a draft revenue strategy	11 February 2021

**Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
James Beard	Director, Economic System, The Treasury		✓
Emma Grigg	Policy Director, Inland Revenue, Policy and Strategy	[23]	

**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/Yes (attached) OR Yes (iManage links)

## **Tax Policy Report: Formulation of the Government's revenue strategy**

### **Executive Summary**

---

#### ***The Government is required to formulate a revenue strategy...***

Cabinet will need to approve a revenue strategy prior to the Budget, so that it can be incorporated into the Government's fiscal strategy report.

A revenue strategy is a requirement of the Public Finance Act (PFA). It is also an opportunity to set the strategic direction of revenue policy. The revenue strategy helps to inform the development of priorities for the tax policy work programme (TPWP).

#### ***...and officials seek your direction on its content***

The Ministers of Finance and Revenue are meeting with officials on 11 February to discuss the revenue strategy. Officials seek your direction on the broad content of the revenue strategy. This will enable officials to draft a revenue strategy for your consideration. Following your direction on the revenue strategy, officials will provide advice on the TPWP.

#### ***Officials have proposed key issues to be addressed in the revenue strategy...***

Officials suggest that the revenue strategy is structured around four parts:

- the economic strategy;
- the fiscal strategy;
- objectives for the revenue system and revenue policy; and
- tax policy framework.

The revenue strategy should be consistent with the Government's wider economic and fiscal strategy.

Specifying the Government's objectives is a requirement of the PFA. It is an opportunity to provide clear and coherent objectives to guide policy development.

Table 1 sets out the key questions for your feedback. Officials propose that this is used to structure your feedback on the Joint Ministers meeting on 11 February.

[33]

## TABLE 1: FORMULATING A REVENUE STRATEGY

Objective: Formulate the Government's revenue strategy to set strategic direction, prioritise the tax policy work programme and meet requirements of the Public Finance Act.

### Economic strategy

With an overall goal of wellbeing, we understand that the Government's areas of focus are:

- Responding to COVID-19
- Accelerating the economic recovery
- Lay the foundations for a better future

**Are there specific wellbeing priorities that should inform the revenue strategy?**

For example: climate change, housing affordability and child poverty.

### Fiscal strategy

The Government's overall fiscal objectives include stabilising and reducing debt to prudent levels over the medium term.

**Does the Government wish to signal consideration of raising additional revenue in the longer term?**

**Do you wish to consider revenue-reducing measures in the shorter term to support the recovery?**

### Revenue objectives

**What are the objectives for tax policy and tax system?**

Officials recommend framing objectives in terms of:

- Raising sufficient revenue
- Efficiency
- Fairness

**How specific does the Government want to be in its objectives?**

The Government could provide further detail on its objectives for revenue, efficiency and fairness. For example, an indication of how the Government views fairness in the tax system.

[33]

### Policy Framework

**What is the overall strategic framework for tax policy?**

The principles that have guided the system have been: broad base, low rate; rate alignment; and neutrality. However, the system is not fully meeting these principles and may not be achieving the Government's objectives.

**How does the Government respond to pressures on the current framework?**

Option 1: Keep the framework, focus on ensuring integrity and improving fairness and neutrality.

Option 2: More strategic consideration of overall coherence of the system. Consider merits of fundamental reforms, such as "Nordic" dual income tax system.



## TAX POLICY WORK PROGRAMME

Officials will come back with further advice on priorities based on revenue strategy.

## Recommended Action

---

We recommend that you:

- a **discuss** the content of the revenue strategy with officials (refer to questions in Table 1);
- b **direct** officials to provide a draft revenue strategy and advice on the tax policy work programme;
- c **note** the following timeline for development of the revenue strategy and TPWP.

	<b>Milestone</b>	<b>Date</b>
1	Joint Ministers meeting on the revenue strategy and TPWP	11 February
2	Joint report to Ministers attaching draft revenue strategy and TPWP Cabinet paper	Week beginning 22 February
3	Draft revenue strategy and TPWP Cabinet paper is consulted on and lodged	4 March
4	DEV considers revenue strategy and TPWP paper	10 March
5	Cabinet confirms revenue strategy and TPWP Cabinet paper	15 March
6	Publishing of the Fiscal Strategy report (which includes the revenue strategy)	May 2021

Jessica Rowe  
**Acting Manager, The Treasury, Tax Strategy**

Emma Grigg  
**Policy Director, Inland Revenue, Policy and Strategy**

# **Tax Policy Report: Formulation of the Government's revenue strategy**

---

## **Purpose of Report**

---

1. Cabinet will need to approve a revenue strategy prior to the Budget. This is an opportunity for the Government to set out its revenue objectives and principles for the tax system, which will in turn assist with creating a tax policy work programme to give effect to these objectives and principles. This report seeks Ministers' direction so that officials can draft a revenue strategy.

## **Background on the revenue strategy**

---

2. The main purposes of the revenue strategy are to:
  - a. provide a strategic policy framework so that revenue policy is guided by clear objectives and principles;
  - b. ensure revenue policy is consistent with the Government's economic and fiscal strategy;
  - c. guide the setting of priorities for the TPWP; and
  - d. communicate the Government's policy framework and objectives to stakeholders to support transparency, inform private decisions and contribute to stable and predictable economic environment.
3. Formulation of the revenue strategy is part of the strategic phase of the generic tax policy process (GTPP). The GTPP's strategic phase involves the development of an economic strategy, fiscal strategy and revenue strategy.<sup>1</sup> Following the strategic phase, the tactical phase involves the development of a three-year work programme and an annual resource plan to implement the revenue strategy.

### ***Relevant legislation***

4. The Public Finance Act (PFA) requires transparency regarding the Government's revenue strategy and revenue objectives, and these must have regard to the principles of responsible fiscal management.
5. The key requirements in the PFA relating to revenue are the following:
  - a. The Government must set a revenue strategy – the PFA requires the Government to release a fiscal strategy report with the Budget. The report must include “details of the Government's revenue strategy, including the Government's objectives for the tax system and tax policy”.
  - b. The Government must set an objective for total Crown revenue – the fiscal strategy report must state the Government's long-term objectives for total operating revenues, as well as other fiscal variables.
  - c. In formulating the fiscal strategy, the Government must have regard to the principles of responsible fiscal management (set out in full in Appendix 1). The principles include the requirement that, when formulating the revenue strategy, the Government will have regard to efficiency and fairness, including the predictability and stability of tax rates. This principle will need to inform Ministers' decision-making on development of the revenue strategy.

---

<sup>1</sup> <https://taxpolicy.ird.govt.nz/how-we-develop-tax-policy>

6. The fiscal strategy report must also cover the following matters:
  - a. Explain how the long-term fiscal objectives accord with the principles of responsible fiscal management and state the period for which those long-term objectives relate.
  - b. For the financial year to which the report relates and at least the next two financial years, indicate explicitly, by the use of ranges, ratios, or other means, the Government's short-term intentions for revenue, and other fiscal variables.
  - c. Include scenario projections. The fiscal strategy report must also contain fiscal projections of trends in the fiscal variables, including revenue. The projections must illustrate, for stated significant assumptions, likely future progress towards achieving the long-term fiscal objectives.
7. The Budget Policy Statement (published no later than 31 March in each financial year) must state any changes to the long-term fiscal objectives or short-term fiscal intentions from those stated in the most recent fiscal strategy report.

### **Process and timeline**

8. The revenue strategy is first agreed by Joint Ministers of Finance and Revenue and then taken to Cabinet for approval. The revenue strategy is incorporated into the drafting of the fiscal strategy report, which is published on Budget day.
9. Officials are working to the following timeline for the development of the Government's revenue strategy and TPWP:

	<b>Milestone</b>	<b>Date</b>
1	Joint Ministers meeting on the revenue strategy and TPWP	11 Feb
2	Joint report to Ministers attaching draft revenue strategy and TPWP Cabinet paper	Week beginning 22 Feb
3	Draft revenue strategy/TPWP Cabinet paper is consulted on and lodged	4 March
4	DEV considers revenue strategy/TPWP paper	10 March
5	Cabinet confirms revenue strategy/TPWP Cabinet paper	15 March
6	Publishing of the Fiscal Strategy report (which includes the Revenue Strategy)	May 2021

### **Scope of the Government's revenue strategy**

---

10. The scope of the revenue strategy is a matter for the Government. The only legislative requirement is that it must cover the Government's objectives for tax policy and the tax system. We suggest that the scope include overall Crown revenue, recognising that non-tax sources of revenue are important for the Government's fiscal and economic objectives (e.g. revenue from the Emissions Trading Scheme).
11. Set out below are four broad parts to be addressed within the strategy: economic strategy; fiscal strategy; objectives for the revenue system and revenue policy; and policy framework. The four parts interact and are intended to flow logically.

12. A final element is setting the TPWP. We have included some preliminary comments on the possible parameters for the TPWP without detailed proposals at this stage, given the need to ensure the TPWP is informed by the revenue strategy.
13. By way of example, a copy of the Government's 2018 and 2020 revenue strategy is set out in Appendices 2 and 3<sup>2</sup>.

### ***Economic strategy***

14. The revenue strategy should be consistent with, and contribute to achievement of, the government's overall economic strategy.
15. The Government's three broad economic and wellbeing goals are to keep New Zealanders safe from COVID-19, accelerate the economic recovery and lay the foundations for a better future. Wellbeing will continue to be a priority for the Government with a focus on reducing child poverty, tackling climate change and addressing housing affordability.
16. Raising sufficient revenue is important for contributing to the Government's wider wellbeing goals. This suggests a focus on ensuring longer-term revenue sustainability and avoiding policy measures that would create permanent revenue holes.
17. The tax system can play a role in supporting the economic recovery.
  - The main way that the tax system can support economic recovery is by maintaining a stable and efficient tax system. This would minimise distortions to investment and employment, and not impede capital and labour being re-allocated to their most productive opportunities in the recovery.
  - Depending on economic and fiscal conditions, there could also be a role for temporary tax measures to provide greater encouragement for productive business investment and/or broader demand stimulus.
  - There could also be consideration of whether reforms to the tax system could promote longer-term productivity.
18. Ministers may wish to consider whether the revenue strategy should address specific Government priorities, such as housing, climate change and child poverty as follows:
  - a. Housing affordability – this has been a focus in the last few months for you and there will be ongoing focus on this work in the TPWP.
  - b. Climate change – the Emissions Trading Scheme, which raises Crown revenue, is the primary policy instrument to support the government's mitigation objectives. The Government may want to signal its objectives in this area, including the potential level and use of the ETS revenue, or the investigation of other environmental taxes.
  - c. Child poverty – a role of the tax system in addressing child poverty could be to raise sufficient revenue to fund government expenditure (including benefits and other transfers) targeted toward Government priorities, including child poverty. It will also be important that the tax and transfer systems are coherent and that they collectively achieve the government's objectives for equity and efficiency.
19. It will be important to consider whether tax policy is the appropriate instrument for progressing any objective. Taxation is a relatively blunt instrument and cannot always be appropriately targeted. In many cases, government transfers, expenditure or regulatory reform will be more appropriate instruments.

---

<sup>2</sup> The 2018 Revenue Strategy articulates the priorities of the new Government whilst the 2020 Revenue Strategy is the annual refresh of the Revenue Strategy.

## Economic strategy

With an overall goal of wellbeing, we understand that the Government's areas of focus:

- Responding to COVID-19
- Accelerating the economic recovery
- Lay the foundations for a better future

**Are there specific wellbeing priorities that should inform the revenue strategy?**

## Fiscal strategy

20. Given revenue is integral to the wider fiscal strategy, the revenue strategy needs to be consistent with the Government's overall fiscal strategy. This section sets out the fiscal context and suggests how fiscal strategy is likely to interact with revenue strategy. Further advice on the fiscal strategy will be provided in the coming weeks to support discussions about Budget 2021.
21. The Government's fiscal strategy is set out in the short-term intentions and long-term objectives published in the *Budget Policy Statement*. In the short term, the intentions acknowledge that debt will rise, but commits to "reduce deficits over the forecast period as conditions allow". The long-term fiscal strategy is anchored around the objective to "stabilise net core Crown debt as a percentage of GDP by the mid-2020s and then reduce it as conditions permit (subject to any significant shocks)".
22. The short-term intention for revenue is to ensure consistency with the operating balance objective. The long-term objective for revenue is to ensure consistency with the debt and operating balance objectives. There is no specific objective to maintain revenue at a certain level or within a certain range.
23. This fiscal strategy can be achieved with a wide range of possible revenue and expenditure paths. Within the HYEPU forecasts, the reduction in OBEGAL deficits is primarily due to the withdrawal of temporary COVID-19 expenditure and tight operating allowances in future budgets. Tax revenue as a share of GDP is expected to remain relatively stable.
24. In the medium-term projections published alongside the *Budget Policy Statement*, net core Crown debt steadily reduces as a share of GDP. Again, this is supported by restraining expenditure growth as a share of GDP, while tax revenue (by assumption) remains around its historical average as a share of GDP.
25. The fiscal forecasts and projections indicate that the debt objective will be achieved principally through constraining spending growth, low interest rates and economic growth, with a minimal role for increasing revenue as a share of the economy. This approach carries risks, particularly as the intended level of spending constraint may be challenging to achieve given long-run cost pressures, particularly in healthcare. Restraining spending growth may also compromise your broader economic objectives.
26. Given these pressures, you may wish to prepare options for raising revenue in the medium term. This would enable meeting your fiscal objectives while supporting a higher level of public expenditure than currently planned. The potential need for revenue raising initiatives to meet fiscal objectives could be signalled through the revenue strategy, or addressed as part of the TPWP.
27. The macroeconomic outlook remains uncertain. Early signs, particularly labour market data, indicate the economy is recovering faster than forecast, and that the scarring from COVID-19 could be less than expected. A stronger economy could support higher expenditure than currently planned while still meeting fiscal objectives, and without the

need for revenue-raising measures. However, it would be prudent to prepare revenue options to support fiscal sustainability in the event of slower growth or higher expenditure requirements than currently forecast.

28. As continued support for the recovery, the “automatic fiscal stabilisers” should generally be allowed to operate over the economic cycle, especially if there are downside shocks. This supports “cushioning” of households and businesses from economic cycles. You may also wish to consider the scope for temporary revenue-reducing measures to help accelerate the economic recovery, depending on economic and fiscal conditions. Longer term, you may want to investigate strengthening the automatic stabilisers to support macroeconomic stability, especially given the constraints on monetary policy.
29. In the short-to-medium term, the TPWP could focus on building the analytical base for a long-term revenue objective. A work programme based on this objective could include analysis of the long-term outlook for government revenue, and how long-term economic and fiscal trends will impact on the government revenue requirements. This work could ensure the Government has a range of tax policy options available to respond to longer-term challenges. Such a work programme could feed into the Treasury’s long-term fiscal statement (to be published in 2021) and Treasury’s and IR’s long-term insights briefings.

### **Fiscal strategy**

The Government’s overall fiscal objectives include stabilising and reducing debt to prudent levels over the medium term.

**Does the Government wish to signal consideration of raising additional revenue in the longer term?**

**Do you wish to consider revenue-reducing measures in the shorter term to support the recovery?**

### ***Objectives for the revenue system and revenue policy***

30. The PFA requires that the revenue strategy state the Government’s objectives for the tax system and tax policy. [33]
31. The Government’s tax principles should be a key part of the revenue strategy. Therefore, the PFA already provides for a process to articulate tax principles. [33]
32. Clear articulation of the outcomes that the Government is seeking from the revenue system serves two main goals: it supports revenue policy development to be coherent and have regard to consistent objectives.
33. Such objectives could be framed in several ways. One option is to articulate core tax policy principles as the over-arching objective, such as “to raise sufficient revenue in an efficient and fair manner”. The Government may wish to provide more detail on how the Government understands these key objectives – sufficient revenue, efficiency and fairness – to provide greater meaning and clarity about the Government’s priorities.

## **Sufficient revenue**

34. The revenue objective should be consistent and coherent with the overall fiscal strategy. As discussed above, this consistency could simply be asserted (implying revenue should be consistent with operating balance and debt objectives) or a more specific objective for the level of revenue could be determined.

## **Efficiency**

35. The Government's efficiency objectives for the tax system could start with the Government's objective to improve wellbeing of New Zealanders. The tax system's key contribution to wellbeing is that it raises revenue that is necessary to fund the provision of public goods. Taxes create behavioural distortions – such as by reducing the returns to entrepreneurship, investment or work – that reduce wellbeing. Wellbeing is enhanced when the social benefits of government expenditure exceed the costs of raising revenue.
36. In some cases, taxes can improve efficiency by aligning social and private returns to an activity. This is in situations where there are 'externalities'. Examples of the use of 'corrective' taxes include the R&D tax credit where the social returns to R&D investment are thought to be greater than private returns, due to knowledge spillovers. At present, New Zealand makes relatively limited use of taxation as an instrument for achieving specific policy goals by influencing behaviour. There are profound challenges to using the tax system to influence behaviour, in particular the limits of policymakers' knowledge about the existence and size of externalities and whether tax policy is the most effective instrument to target the problem. There are fiscal risks as the prevalence of potential externalities could lead to a patchwork of tax incentives and subsidies that is ultimately incompatible with the Government's revenue and fairness objectives.
37. The tax system can aim to minimise the efficiency costs of raising revenue, subject to achieving the Government's revenue and fairness goals. It may be useful to articulate in broad terms the principles to achieve efficiency:
  - a. Minimising economic distortions from raising revenue, subject to achieving the Government's revenue and distributional objectives.
  - b. Neutrality in the tax treatment of different forms of income and investments as a guide to minimising distortions.
  - c. Corrective taxes should only be used where there is clear evidence of an externality, taxation is the most appropriate instrument and fiscal risks can be managed.
  - d. Stable and predictable tax settings, which enables the smoothing of tax rates across time. This supports both microeconomic efficiency and macroeconomic stability by allowing the automatic stabilisers to operate over the economic cycle.
38. As part of efficiency, the revenue strategy could also comment on administrative efficiency, compliance costs, and integrity. In particular, the objective of ensuring taxpayers pay the correct amount of tax with minimal compliance and administrative costs. The strategy may want to comment on the objectives of the Business Transformation programme and any other specific priorities for tax compliance and administration.
39. The soon to be completed Business Transformation programme has put Inland Revenue in a position where it can more easily make policy changes, both through more flexible technology and an agile workforce. We now better understand what these capabilities mean for Inland Revenue, both now and in the future. The Government has invested significantly in this transformation, and a key part of the strategy would be to maximise the benefits of transformation.

40. Given the near completion of Inland Revenue's Business Transformation programme, and the combination of the impacts of COVID-19 and the changing nature of the economic and social environment, it seems an opportunity to leverage the new system and consider impacts to the administration of the tax and transfer system. Ministers may wish officials to consider what opportunities and challenges exist and what changes to the administration of the system Inland Revenue should focus on. This could take the form of a green paper developed through extensive consultation with a wide range of stakeholders. Officials propose to discuss this with Ministers separately.

### ***Fairness***

41. The revenue strategy should comment on the Government's overall objectives for fairness in the tax system. This will require judgement from Ministers about the desired level of specificity in the revenue strategy.
42. Although fairness matters inherently, fairness can also be related to other aspects of wellbeing. In the Treasury's Living Standards Framework, fairness is related to social capital through its impact on trust and social cohesion. Trust is important for voluntary compliance with the tax system.
43. There are two standard principles used in tax policy to express fairness:
  - a. Horizontal equity: The principle that people that are in the same position should pay the same amount of tax.
  - b. Vertical equity: The principle that those with higher income, or higher ability to pay, should pay a greater amount of tax.
44. The Government may wish to express its fairness objectives with more specificity.
45. For vertical equity, transfer expenditure (ie, welfare benefits and tax credits) are particularly important for distributional outcomes. Therefore, it would be appropriate to specify any objectives in terms of the overall tax and transfer system. The Government may wish to consider its vertical equity objectives in terms of the following concepts:
  - a. Progressivity – the degree of progressivity of the tax system and how the government defines progressivity;
  - b. Re-distribution – the degree of re-distribution of the tax (and transfer) system. The degree of income re-distribution is a function of both progressivity and the size of taxes and transfers.
  - c. Inequality or poverty – the outcome from the tax system in terms of the distribution of income, wealth or consumption, including measuring the extent to which the tax and transfer system reduces inequality.
46. The objectives may refer to particular bases (eg, income, wealth or consumption), units of focus (eg, individuals, families or families with children) or time periods (eg, annual or lifetime). Measurement can be a significant challenge, owing to the limitations of survey and administrative data. Improving measurement and analysis of distributional issues could be a priority for the TPWP, and officials are focused on a programme to understand whether NZ's tax system is sufficiently progressive which is the subject of a budget bid.

[33]

47. [33]

## Revenue objectives

### What are the objectives/principles of tax policy and tax system?

- Raising revenue
- Efficiency
- Fairness
  - o Vertical equity: Distributional and progressivity goals
  - o Horizontal equity
- Other considerations: social capital and voluntary compliance.

### How specific does the Government want to be in its objectives?

The Government could articulate specific principles of a good tax system, such as about the level of progressivity.

[33]

## Policy framework

48. Once the broad objectives for the tax system are set, the revenue strategy could articulate the framework, or key principles, that underpin the tax system. This can help to communicate to stakeholders how the tax system will operate and guide policy development.
49. New Zealand's tax framework has been based around three general principles over the last three decades:
  - a. broad bases and low rates;
  - b. rate alignment across entities and forms of income; and
  - c. neutrality.
50. These principles have been considered desirable to raise revenue in an efficient and coherent manner and to maintain integrity. Distributional objectives were primarily achieved using targeted transfers (main benefits, supplementary assistance and Working for Families tax credits). While the core features of New Zealand's tax framework have generally remained intact, and broadly been endorsed by various reviews, there has been some erosion of the framework over time, and there has been a lack of reform that could have further broadened tax bases. In other words, New Zealand's tax settings do not fully adhere to these principles:
  - a. New Zealand's tax bases are not as broad as they could be, notably with the absence of most capital gains.
  - b. New Zealand's tax rates are not particularly low. The company tax rate is amongst the highest in the OECD.
  - c. There is no longer rate alignment across forms of income, with different tax rates applying to income in the form of personal income (top rate is 39%), companies (28%), Portfolio Investment Entities (PIEs) (28%) and trusts (33%).
51. The deviations from the 'broad base-low rate'/'alignment'/'neutrality' framework appear to have been driven by the following trends:
  - a. greater concern for progressivity and re-distribution that has created upward pressure on the top personal tax rate;
  - b. global tax competition that has put downward pressure on the company tax rate;

- c. concern about household saving that has led to lower effective tax rates on certain saving vehicles (KiwiSaver and PIEs in general); and
  - d. Lack of expert and political consensus about the direction of tax reform and base-broadening reforms.
52. The above issues could point to areas for longer-term consideration of New Zealand's tax system, including the following questions:
- a. What are the effects of the non-alignment of tax rates and what should be the strategic policy response?
  - b. Whether there are base broadening reforms that could contribute to improving efficiency and/or fairness?
  - c. Whether New Zealand should make greater use of corrective taxes, such as the development of an environmental tax framework?
  - d. Whether New Zealand's business tax settings, including the company tax rate, are appropriately set to maximise wellbeing?
  - e. Whether New Zealand's approach to the taxation of income from saving, including the taxation of saving, is appropriate?
    - i. In particular, the main coherent alternative to a comprehensive income tax approach is the 'Nordic' or 'dual income tax' approach that taxes labour income at higher rates than capital income.
53. Some of the above issues could be picked up in the TPWP, subject to resource constraints and other priorities. For completeness, it is noted that you can still preserve a broad base low rate framework and advance progressivity where there is non-alignment of rates by bolstering integrity measures. A top tax rate of 39% is still relatively low by world standards, and you can ensure that the 39% top rate sticks by introducing additional taxes at a shareholder level to ensure income earned through companies (at 28%) cannot be used to circumvent desired progressivity.
54. The revenue strategy could express the policy framework by noting the main revenue bases and other key principles of a desirable tax system. The main judgement call required from Ministers is whether you wish to affirm the main features of the current system, or want to signal any directions for change or emphasise any particular objectives.
55. A second judgement concerns the level of detail within the policy framework. In formulating the revenue strategy, there is a trade-off to be made between transparency and flexibility. You might prefer to articulate high-level elements of the system, which will ensure that the revenue strategy provides flexibility when later setting priorities for the TPWP. Conversely, you may wish to more clearly identify priorities from among those noted above, particularly where there is a tension between competing objectives. This will provide stakeholders with greater transparency regarding the potential direction for revenue policy and the subsequent setting of the TPWP, but would limit flexibility going forward as commitments would be more entrenched.

## Policy Framework

### What is the overall strategic framework for tax policy?

The principles that have guided the system have been: broad base, low rate; rate alignment; and neutrality. However, the system is not fully meeting these principles and may not be achieving Government's objectives.

### How does the Government respond to pressures on the current framework?

Option 1: Keep the framework, focus on ensuring integrity and improving fairness and neutrality.

Option 2: More strategic consideration of overall coherence of the system. Consider merits of fundamental reforms, such as "Nordic" dual income tax system.

## Tax Policy Work Programme

---

56. The TPWP should be informed by the Government's revenue strategy. We will subsequently provide you with advice on the TPWP that will make this connection. The preceding discussion highlights potential priorities that you may wish to consider including on the TPWP.
57. Building up the evidence base about the tax system could be a particular focus for the work programme. Ensuring that the tax system raises revenue from those with the ability to pay is a key part of a well-functioning tax system. As part of this, a progressive tax system where people believe everyone is paying their fair share is required to support trust in the tax system and government in general. As part of the TPWP, further work on whether the New Zealand tax system is sufficiently progressive (including both data collection and research) will be undertaken and communicated publicly. This will help to support public faith in the tax system, highlight areas where the current system is unfair and may require change and thus support greater understanding by policymakers and the public about options for future tax reform.
58. Against that background, strategic issues for tax policy include:
  - a. **Fiscal sustainability:** ensuring the tax system generates sufficient revenue in the context of the Government's fiscal strategy.
  - b. **Accelerating economic recovery:** ensuring tax settings support economic recovery and longer-term productivity and wellbeing. If there is limited appetite for revenue-reducing measures to help accelerate the economic recovery, officials suggest this is signalled as part of the TPWP to help manage private sector expectations.
  - c. **Integrity and fairness:** ensuring the tax system is robust and minimises opportunities for tax avoidance, and helps ensure that personal income is taxed at progressive tax rates, including strategic responses to the non-alignment of tax rates.
  - d. **Distributional analysis:** understanding the effective progressivity and distributional incidence of the tax and transfer system and how it impacts inequality.
  - e. **International integrity:** ensuring the international tax settings remain robust to the digitalisation of the economy and multi-national companies pay their fair share of New Zealand tax.
  - f. **Environmental frameworks:** ensuring the revenue system appropriately supports environmental objectives.
  - g. **Housing market:** improve understanding of how the tax system affects the housing market, including impacts on housing demand and supply.

59. There will be other issues that the TPWP will likely need to be resourced for. These include:
  - a. Maintenance of existing tax bases.
  - b. Reform of tax administration to take advantage of Inland Revenue's Business Transformation programme.
  - c. Other government initiatives – such as implementation of top personal tax rate and any measures targeted at the housing market.
  - d. Supporting other government work programmes – including the welfare system overhaul and consideration of social insurance approaches.

### **Generic tax policy process**

60. The development of the revenue strategy is also part of the first phase of the generic tax policy process (GTPP). This phase is known as the 'strategic phase'. The development of the TPWP is the second 'tactical' phase. The tactical phase involves consultation on the development of a work programme, to ensure that stakeholder views on tax policy issues are considered and to promote transparency of government objectives.
61. The later stages of the GTPP are the operational phase (which covers detailed design and also includes a strong consultative component), the legislative phase and the implementation/review phases.
62. New Zealand has had a GTPP since 1994. The purpose of the GTPP is to ensure that we create a tax system that is widely accepted by taxpayers and responds to New Zealand's changing needs.
63. There will be a need to prioritise matters in the work programme given limited policy resources. We recommend that the Government prioritise and manage these trade-offs within the constructs of the existing generic tax policy process (GTPP).
64. Taxes are complicated and unintended consequences can arise if proposals are not carefully considered. It can be difficult to know about potential inconsistencies or other problems without the benefit of consultation. Submitters are closer to the coalface and will often have better access to information on the size and nature of the problem and how the issues can be solved. This consultative component of policy development allows the private sector to question officials about the reasons for different changes and inform the public about the Government's intentions in making changes. Even if the private sector do not agree with proposals, they have an interest in making sure any new rules are workable in practice. Their insights in this regard increases the durability of reforms. For submitters, having a better understanding of the Government's reason for making changes promotes transparency. This is important in getting broad buy in to changes and in limiting lobbying for special concessions.

**Principles of responsible fiscal management**

- (1) The Government must pursue its policy objectives in accordance with the following principles (the *principles of responsible fiscal management*):
  - (a) reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year; and
  - (b) once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues; and
  - (c) achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future; and
  - (d) managing prudently the fiscal risks facing the Government; and
  - (e) **when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates; and**
  - (f) when formulating fiscal strategy, having regard to the interaction between fiscal policy and monetary policy; and
  - (g) when formulating fiscal strategy, having regard to its likely impact on present and future generations; and
  - (h) ensuring that the Crown's resources are managed effectively and efficiently.
- (2) However, the Government may depart from the principles of responsible fiscal management if—
  - (a) the departure from those principles is temporary; and
  - (b) the Minister, in accordance with this Act, states—
    - (i) the reasons for the departure from those principles; and
    - (ii) the approach the Government intends to take to return to those principles; and
    - (iii) the period of time that the Government expects to take to return to those principles.

## Appendix 2: The Government's 2018 Revenue Strategy

---

This revenue strategy sets out the Government's objectives for the tax system and tax policy, in the context of its economic and fiscal strategies.

### *Economic Strategy*

The Government is committed to improving the well-being and living standards of all New Zealanders through productive, sustainable and inclusive growth. We will focus on lifting productivity and wages, transitioning to a net zero emissions economy, helping our regions thrive, updating and building infrastructure, growing exports, supporting Māori and Pasifika aspirations, and reducing child poverty. We will measure our success in terms of how we protect our environment, improve our skills and health, strengthen our communities and deliver shared prosperity.

### *Fiscal Strategy*

Underpinning our economic strategy is our commitment to responsible fiscal management within five Budget Responsibility Rules which include ensuring that New Zealand has a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy. We will ensure we raise sufficient revenue to achieve our fiscal objectives of delivering a sustainable operating surplus and ensuring net debt falls to 20 per cent of GDP within five years of taking office. We will do this while maintaining government operating expenditure to within the recent historical range of spending as a ratio of GDP, and prioritising investments to address the long-term financial and sustainability challenges facing New Zealand.

### *Objectives for the tax system*

The primary function of the tax system is to raise revenue to fund government expenditure, in a way that supports economic and fiscal goals.

The Government has established the Tax Working Group to consider what could improve the structure, fairness and balance of the tax system.<sup>3</sup> The Group's Terms of Reference include an exploration of a wide-ranging set of issues that interact with the tax system, such as the changing nature of work and the role of taxes in improving environmental outcomes. After the Group provides its final recommendations in February 2019, the Government will focus on considering its recommendations and making changes that will improve the structure, fairness and balance of the tax system.

The Government has the following objectives for the tax system:

- A system that is efficient, fair, simple, coherent and collects the tax that is due, on time and in full
- A progressive tax and transfer system for individuals and families.
- A system that promotes the long-term sustainability and productivity of the economy
- A system that supports a sustainable revenue base to fund government operating expenditure around its historical level of 30 per cent of GDP
- A system that treats all income and assets in a fair, balanced and efficient manner.

Another objective of the Government is to continually improve public confidence in the tax system and Inland Revenue. The system should help people meet their obligations, be fair, and inspire confidence. The Government is committed to raising revenue in ways that meet these objectives. The Government supports a sustainable broad-base low-rate framework for

the tax system. This helps ensure that taxes are fair and efficient, and that they impede economic growth as little as possible. It also helps keep compliance costs low and minimises opportunities for avoidance and evasion. The Government also believes the interface between the tax and welfare systems should support social policy objectives, including reducing child poverty. The progressive tax and transfer system should be as simple as practicable, easily accessible and understandable, cost-effective, support transitions into employment and empower New Zealanders to make informed decisions. The Government intends to establish a Welfare Expert Advisory Group to consider the fundamentals underpinning the welfare system and how to improve the interactions between welfare and tax systems, including a review of Working for Families payments.

The Government believes that the tax system can help in delivering positive environmental and ecological outcomes, especially over the longer term.

The Government will ensure that tax policy development is inclusive, consultative and transparent. This includes making the work programme publicly available, and undertaking regular stakeholder consultation on changes to tax settings.

#### *Tax policy priorities*

The Government's tax policy priorities under this revenue strategy include:

- Considering the recommendations of the Tax Working Group, which is due to report to
- Ministers by February 2019, and the Welfare Expert Advisory Group.
- Improving public confidence in the tax system and helping people understand that the tax
- system can help support wellbeing.
- Continuing to update, simplify and improve the integrity of the tax system through Inland
- Revenue's business transformation programme.
- Where possible, work in a multilateral way to strengthen the national and global tax system
- (such as working with the OECD on base erosion and profit shifting).
- Delivering other priorities in the Government's coalition and confidence and supply
- agreements.
- Delivering other items from the Government's tax policy work programme, including:
  - social policy;
  - enhancing and maintaining the broad-base, low-rate tax system including ongoing work to improve the integrity of the tax system;
  - international tax and work to address base erosion and profit shifting; and
  - business transformation and information sharing.

## Appendix 3: The Government's 2020 Revenue Strategy

---

*A fair, balanced and progressive tax system will promote the long-term productivity and sustainability of the economy*

The primary function of the tax system is to raise revenue to fund government expenditure. It should do this in a way that supports this Government's overall economic and fiscal objectives.

Our long-term objectives for the tax system are as follows:

- A system that is efficient, fair, simple, coherent and collects the tax that is due, on time and in full.
- A progressive tax and transfer system for individuals and families.
- A system that promotes the long-term sustainability and productivity of the economy.
- A system that supports a sustainable revenue base to fund government operating expenditure.
- A system that treats all income and assets in a fair, balanced and efficient manner.

The Government remains committed to these objectives. We support a sustainable broad-base low-rate framework for the tax system. This ensures that taxes are fair and efficient and that they do not impede economic growth. It also helps keep compliance costs low and minimises opportunities for avoidance and evasion.

At the same time it is important that people and businesses pay their fair share of tax. This includes multinational companies and those in the digital services field. As part of these efforts the Government will continue to participate in multilateral negotiations, convened by the OECD, on the future of the international tax framework.

The Government also aims to continue improving public confidence in the tax system and Inland Revenue. With this in mind the Government will ensure that tax policy development continues to be inclusive, consultative and transparent. We will also continue the modernisation and simplification of New Zealand's tax system through Inland Revenue's Business Transformation programme.

*The key priority for tax policy at present is to support the COVID-19 response*

The tax system has a key role to play in supporting the Government's COVID-19 response and recovery efforts.

In the short run the tax system must help to cushion the impact of COVID-19 on the economy. It is critical to ensure that the tax and welfare systems work together appropriately to deliver income support to affected businesses and workers. The Government is also taking policy and administrative measures to increase cashflow and reduce compliance pressures on businesses.

Tax policy will help position the economy for recovery by supporting investment and job creation. The Government has already announced business tax changes that will promote investment, reduce compliance costs and support cashflow.

These measures include:

- The reinstatement of depreciation deductions for commercial and industrial buildings.

- An increase in the threshold for provisional tax.
- An increase in the threshold for writing off low-value assets.
- A time-limited discretion for the Commissioner of Inland Revenue to remit use of money interest (interest charged on the amount a taxpayer owes) if a taxpayer is unable to pay on time due to the impacts of COVID-19.



POLICY AND REGULATORY STEWARDSHIP


**Tax policy report: Advancing the Tax Policy Work Programme**


---

<b>Date:</b>	30 April 2021	<b>Priority:</b>	High
<b>Security level:</b>	Sensitive	<b>Report number:</b>	IR2021/198 T2021/1088

**Action sought**


---

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations <b>Note</b> the contents of this report	5 May 2021
Minister of Revenue	<b>Agree</b> to recommendations <b>Note</b> the contents of this report	5 May 2021

**Contact for telephone discussion (if required)**


---

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Emma Grigg	Policy Director, Inland Revenue, Policy and Regulatory Stewardship	s9(2)(a)
Jessica Rowe	Acting Manager, Tax Strategy, The Treasury	s9(2)(a)

30 April 2021

Minister of Finance  
Minister of Revenue

## **Advancing the Tax Policy Work Programme**

---

### **Summary**

---

#### **Purpose**

1. This report briefs you on key considerations for the setting of the Government's Tax Policy Work Programme (TPWP) ahead of the joint Ministers' meeting on 6 May 2021.
2. Officials would like to discuss with Ministers:
  - 2.1 Government priorities for the TPWP; and
  - 2.2 A possible timetable for advancement of the TPWP, including Cabinet processes and publication.

#### **Background**

3. The previous Government published its TPWP in August 2019 (attached at appendix 1). This was to a large degree formed on picking up a number of recommendations from the Tax Working Group. Since then, there has been significant reprioritising of work to focus on the COVID response. In December 2020 officials reported to Minister Parker with a high-level overview of TPWP priorities for early 2021 (attached at appendix 2). On 11 February 2021 officials met with joint Ministers and received direction on the Government's revenue strategy and broad priorities for the TPWP.
4. The Government has now finalised its revenue strategy (attached at appendix 3). The revenue strategy is aligned with the economic and fiscal strategy, and sets out the Government's overarching policy goals and strategic direction for the next three years. The next step is for the Government to set a TPWP that reflects the core priorities as set out in the revenue strategy.

#### **Guide to attached A3**

5. An A3 has been appended to this report (appendix 4) to help facilitate the discussion on the TPWP at the joint Ministers meeting on 6 May. This document outlines what officials understand to be the Government's core priorities for both tax and social policy (noting Inland Revenue's role in policy advice and implementation of social policy), how these fit within the Government's overarching policy goals as articulated in the revenue strategy, and the impact that delivery of these initiatives has on our policy resource.
6. The A3 document also includes a series of questions that we would like to discuss with you when we meet. This will help officials in producing a draft TPWP for your consideration in May (see timetable at paragraph 10).

7. Officials feel we can adequately predict most of the resourcing needed to meet the Government priorities for the TPWP. The housing changes are particularly resource-intensive, but we expect that to dissipate once the legislation is beyond Select Committee in early 2022. The policy research project on wealth data will be separately funded, so does not add to resourcing pressures.
8. On the Tax Principles Act, our understanding is that this project will focus on developing a framework and legislation for regular reporting to Parliament on the extent to which the current tax system meets important tax principles. Our work on a Tax Principles Act would therefore be to investigate how any Act would relate to the existing fiscal framework, how often the principles would be reported against, responsibility for reporting, what the principles are, and outcomes expected if reporting showed inconsistency between policy and principles. There is an open question as to whether this work is led by Inland Revenue or Treasury.
9. The level of Treasury resourcing for the various items on the proposed TPWP are subject to the business planning processes being currently undertaken by the Treasury.

**Next steps**

10. Following on from the discussion of the TPWP at the joint Ministers meeting, officials will provide a draft Tax Policy Work Programme for your consideration. Officials suggest the following proposed timeline:

	<b>Milestone</b>	<b>Date</b>
1	Officials provide Ministers with a draft Tax Policy Work Programme	26 May
2	Cabinet confirms the finalised Tax Policy Work Programme	Mid-June
3	The Tax Policy Work Programme is published	End of June

## Recommended action

---

We recommend that you:

1. **note** the contents of this report and the appended A3s (including the questions for Ministers);

Noted

2. **agree** to discuss the Tax Policy Work Programme at the Joint Ministers meeting of 6 May 2021;

Agreed/Not agreed

s9(2)(a)

s9(2)(a)

**Jessica Rowe**

Manager (Acting), Tax Strategy  
The Treasury

**Emma Grigg**

Policy Director  
Inland Revenue

**Hon Grant Robertson**

Minister of Finance  
/ /2021

**Hon David Parker**

Minister of Revenue  
/ /2021

# Appendix One

## The Government's tax policy work programme: 2019–20

### Land

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 encourages and supports productive investment. The review will also look at whether we can do anything more around enforcement of the current rules. 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.

#### Possible items that could be included in a short-term package

Measures to support efficient land use:

- clarifying and tightening the rules for the deductibility of holding costs (e.g. rates and insurance) for land that is taxable on sale; and
- consider ways to encourage seismic strengthening of residential property.

Measures to improve the integrity of the rules:

- review the exemptions in the land rules, in particular the exceptions for developers and habitual renovators; and
- review whether the apportionment rules for GST are working appropriately for mixed use land.

Measures to improve collection:

- consider whether applying withholding tax on transactions involving New Zealand resident vendors is a better approach to collecting this revenue; and
- improving information flows (including from LINZ) to assist compliance with the current land tax rules.

#### Possible items that could be considered in a longer-run review

- the Productivity Commission's advice on the use of vacant land and property taxes to discourage land banking;
- review whether the land rules, in particular the "10-year" rules, negatively impact the supply of land or create inefficient "lock-in effects";
- consider whether other tax measures could reduce speculation and improve the supply of land. This could include reviewing the scope of existing rules such as the bright-line test and ring-fencing, as well as looking at potential new taxes to help improve the supply of available housing;
- consider whether withholding taxes might be appropriate for other taxable land transactions;
- consider whether allowing losses on building disposals might improve the fairness and efficiency of the current land tax rules. This option may remove a potential distortion discouraging transactions that may result in capital losses – for example, the acquisition of earthquake prone buildings; and
- review the provisional tax rules in light of bright-line income from land sales.

### Business

Enhancing economic performance and minimising the tax system's impact on businesses are priorities for the Government. Reducing compliance costs directly impacts on productivity (particularly of smaller firms) leaving them more time to focus on running their business, as well as continue to innovate and develop new opportunities. Increasing neutrality will also be a focus, ensuring that commercial decisions are not driven by tax whilst protecting the integrity of the tax base.

This workstream will focus on:

- increasing integrity, fairness and the neutrality of the system;
- lifting the economic performance of all businesses, especially smaller firms; and
- ensuring compliance at a low cost to businesses.

This includes working with other Government agencies to ensure that items in this workstream support wider Government work on business.

#### Examples of items that could be considered for inclusion relating to businesses

TWG recommendations including:

- seismic strengthening (note this also includes consideration of residential property);
- loss carry forwards and trading when ownership changes; and
- tax treatment of innovative spending (feasibility and blackhole expenditure).

Items already underway such as:

- R&D;
- purchase price allocation;
- cross-border employment;
- financial arrangement issues; and
- other integrity issues.

#### Examples of items that could be considered for inclusion relating to small businesses

TWG recommendations including:

- closely-held company issues;
- compliance and enforcement issues;
- simplifying FBT; and
- tax disputes for small taxpayers.

Items already underway such as:

- tax compliance for self-employed (accounts payable reporting);
- considering issues around the sharing economy/platforms;
- options for assisting businesses to become more digital; and
- AIM review.

### Infrastructure

Infrastructure is a key area of interest for the Government. It contributes to economic performance, and the Government is focussed on achieving better outcomes for infrastructure investment in New Zealand. Many of the changes being looked at are outside of the tax system, but the tax system may have to adapt to new arrangements. This project will consider whether the tax system should have a role in driving infrastructure investment.

The infrastructure project will:

- respond to the Tax Working Group's recommendation to consider developing a regime that encourages investment into nationally-significant infrastructure projects;
- ensure that the tax system treats new institutional arrangements for infrastructure appropriately; and
- consider consistency of revenue collection for infrastructure across Government.

### Information collection and use

The effective use of information by Government is critical to the efficient delivery of Government services. The efficient and effective collection and use of information helps to ensure the tax system minimises compliance and administration costs, while also supporting and contributing to wider Government priorities. Better information also contributes to the integrity and fairness of the tax system and helps to ensure that the tax system can respond well to future challenges.

This package will consider:

- overall data strategy for the collection and use of information;
- information sharing agreements and development of more efficient ways to allow the sharing of information;
- automatic exchange of information and country-by-country reporting consequential matters;
- repeat collection of large datasets – reporting, consultation and regulation making processes; and
- the collection and public release of information to support policy advice, evaluation and public debate on policy issues.

### Business Transformation (BT)

We will 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).

Further, we envisage the BT policy work stream as identifying and developing policy proposals that leverage off and support the new tax and social policy system. This would include work on:

- potential review of the prescribed investor rate (PIR);
- taxation of lump sum payments such as ACC weekly compensation; and
- other possible changes to:
  - withholding tax such as PAYE and RWT to minimise where possible any over- or under-withholding, and ensure that the amount of tax is about right; and
  - the tax products that have been deployed into START such as WFTC to improve administration.

### Reforms and remedials

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 we may identify legislative errors or unintended consequences which require remedial amendments.

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.

Some examples of items include:

- a GST issues paper to consult on various changes to ensure GST aligns with business practices and modern technology and to maintain the GST Act more generally;
- review of donee status applications under schedule 32 (charities with activities outside New Zealand);
- BEPS remedials; and
- general maintenance and remedial work as issues arise. This includes an important stewardship role, looking ahead to issues that might arise and working with other agencies on Government measures that have tax or social policy implications.

### Social policy including Government response to Welfare Overhaul

This work stream includes policy work on:

- the Government's welfare overhaul work programme including:
  - reform of Working for Families;
  - child support pass-on; and
  - debt;
- student loan scheme (non-BT work);
- KiwiSaver – enhancing Trans-Tasman superannuation portability; and
- other agency initiatives that impact on the tax or social policy system.

On the Government response to the welfare overhaul, officials are working closely with MSD and other agencies to develop a welfare package. This will take a phased approach given the complexity of the welfare system and the need to balance fiscal prudence with improving wellbeing and other high priority government objectives.

## Environment/Sustainable economy

The Tax Working Group noted a range of areas where greater environmental taxation could be used to change behaviour and raise revenue. In response, this project will consider the Group's framework for taxing negative environmental externalities. The Government decided not to advance specific environmental proposals raised by the Group beyond what is already on its work programme. However, this leaves scope for tax reforms for greenhouse gases, solid waste, water pollution, and congestion.

Tax policy officials will work with other agencies on environmental issues to provide environmental tax analysis and advise on tax implications of environmental policy. Key areas are:

- Emissions Trading Scheme (ETS) reform – specific issues include:
  - auctioning of units and hypothecation of revenue from the ETS;
  - options for including agricultural emissions in the ETS;
  - changes to the way that the ETS will apply to new forests; and
  - the introduction of an international scheme for air travel similar to the ETS;
- the Water Taskforce is working to improve water quality and nutrient run-off;
- the Ministry for the Environment is reviewing the Waste Disposal Levy to see how it can be increased and its coverage extended; and
- the Auckland Council is working on congestion charging for the use of key roads in Auckland.

This project will include two further areas of work:

- As part of the work on the environmental tax framework, consider how specific tax regimes, such as FBT, might be used to achieve positive environment outcomes (for example, FBT treatment of employer-provided public transport).
- Review of industry-specific tax provisions impacting on natural capital. Petroleum mining will be the initial focus-industry in a series of reviews. We are currently considering issues relating to the timing of deductions for petroleum development expenditure and have completed the legislative changes for the time-limited non-resident oil-rig exemption.

## Tax exemptions

The income tax legislation contains various exemptions from income tax, including income earned by charities and businesses run for charitable purposes, Local Authorities, Government entities often as public authorities, and Crown-controlled companies (in certain circumstances). In contrast state enterprises are subject to income tax and local council-controlled companies are also taxable. The overall treatment of these different entities is not completely consistent. There are an increasing number of requests for income tax exemptions, and a need to adopt a coherent framework to consider these requests.

The review will consider entity tax exemptions with a view to providing more consistency. It will consider:

- 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.

## Charities

Government periodically reviews the charitable sector's use of what would otherwise be tax revenue, to verify that intended social outcomes are being achieved.

This project will include a report to Ministers before the end of 2019 to address recommendations of the TWG. It will take into account DIA's modernisation review of the Charities Act. On current timeframes, it is anticipated that high level policy decisions arising from DIA's review will be made by Cabinet before the end of 2019, with detailed policy decisions to follow in the first half of 2020. The specific tax policy issues are:

- accumulation (will require coordination with DIA);
- business activity for significant charities (coordination with DIA);
- deregistration tax; and
- GST and not-for-profits (NFP).

A second report to Ministers will outline other sector tax matters that could potentially be subject to policy change and sector consultation. For example:

- imputation credit refundability;
- tax rules for mutuals/the \$1,000 NFP deduction threshold;
- rules for donating trading stock;
- removing out-of-date concessions; and
- resetting donee concessions and clarifying the approach to social enterprises.

Inland Revenue has consulted with DIA on these proposals and will be working with DIA on any policy or regulatory impacts associated with these initiatives. This work is on-going.

NFP/charity concessions interact with both local government settings and the Māori sector.

## International

There has been recent and growing concern from Governments and the public about the low levels of income tax paid by digital companies (that is, 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.

This workstream will include:

- 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 BEPS measures enacted last year.



## POLICY AND STRATEGY

**Tax policy report:**     Tax Policy Work Programme update    

<b>Date:</b>	9 December 2020	<b>Priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2020/517

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Minister of Revenue	<b>Agree</b> to recommendations <b>Note</b> the contents of this report	14 December 2020

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Emma Grigg	Policy Director	s9(2)(a) [redacted] s9(2)(a) [redacted]
Paul Kilford	Policy Lead	s9(2)(a) [redacted] s9(2)(a) [redacted]
s9(2)(a) [redacted]	Policy Advisor	s9(2)(a) [redacted] s9(2)(a) [redacted]

9 December 2020

Minister of Revenue

## **Tax Policy Work Programme update**

---

### **Purpose**

1. The purpose of this report is to provide you with a high-level overview of the current workload of Policy and Strategy. This will ensure that you are aware of the subject matter of likely reporting for the first quarter of 2021 and will help facilitate a preliminary discussion with you regarding a formal reset of the Tax Policy Work Programme (TPWP) in early 2021.

### **Background**

2. The TPWP outlines the Government's tax policy priorities over an 18-month period. The last publicly announced reset of the TPWP was in July 2019. Since then, the TPWP has been informally repositioned to reflect the Government's revised priorities in light of the COVID-19 response work (IR2020/330 refers) and the Labour Party's 2020 manifesto.

### **Timing of the refreshed TPWP**

3. Inland Revenue and Treasury officials will report to the Minister of Finance and you early in the 2021 on a refreshed TPWP. This process will start with the development of the Government's revenue strategy, which will in turn form part of the Fiscal Strategy Report. The publication of the Fiscal Strategy Report (including revenue strategy) is a legislative requirement. It is important that any TPWP is consistent with this revenue strategy.
4. Another step in the development of a TPWP is discussions with key private sector stakeholders. These discussions ensure that private sector priorities are known and considered as part of the refresh process.
5. In the past, some Ministers of Revenue have announced the new TPWP at the International Fiscal Association (IFA) conference in February. Because of the time needed to first develop the revenue strategy and have the necessary private sector discussions, this timing will be difficult in 2021. It may nevertheless be possible to use that speech to set a general direction of travel without the specifics of a fully developed TPWP.
6. In the meantime, the A3 attached to this report is intended to assist the preliminary discussion that we would like to have with you at the meeting scheduled for Tuesday 15 December. Bearing in mind that the refreshed TPWP will take some time to finalise, it highlights the areas where work is currently being undertaken and, as a result, the areas that are likely to be the subject of reporting early in 2021.
7. Officials' view is that advancing the items on this A3 will likely use all of Inland Revenue's current policy resources for the first half of 2021 (or until such time as our work is reprioritised by a refreshed TPWP). The Treasury is also keen to discuss your priorities in the context of your tax policy delegation as Associate Minister of Finance.

**Guide to the A3**

8. The appended A3 has been split into three categories. The first category, '*incoming Government priorities*' updates you on the progress of the Government's manifesto commitments that impact the Revenue portfolio. Second, '*COVID response in the tax system*' outlines key revenue priorities as the policy focus moves from the "cushioning the blow" phase of the COVID response, to "positioning for the recovery" and "resetting and rebuilding". The last category details the status of some *existing work programme items and potential new items* but has been consolidated and prioritised to reflect what you will see early in 2021.
9. The current TPWP includes some items, not detailed in the Labour Party's 2020 manifesto, that would have a fiscal cost and therefore could be impacted by funding limitations over the next three years. Items with a likely fiscal cost that have not already been accounted for are highlighted in the appended A3 in yellow.
10. Some tax initiatives have been funded through the Tax Policy Scorecard (the scorecard). The scorecard acts as a memorandum account to the Between Budget Contingency. It provides flexibility to tax policy, as revenue positive tax policy changes can be offset against revenue negative changes. This means that some tax policy initiatives can be progressed without going through the Budget process. There is a requirement that the scorecard balance must be positive over the forecast period. At present, the balance is low (\$50.435m). This means it needs to be managed so both revenue positive and negative items are charged against the scorecard. Officials can report on options for the scorecard in the New Year.
11. Officials consider that the items listed on the A3 contribute towards the Government's current priorities, in particular: accelerating the recovery; and laying the foundations for the future.

**Recommended action**

---

We recommend that you:

12. **note** the contents of this report and the appended A3;  
Noted
13. **agree** to discuss the status of the Tax Policy Work Programme with officials at the meeting scheduled for Tuesday 15 December.  
Agreed/Not agreed

s9(2)(a)

**Emma Grigg**  
Policy Director  
Policy and Strategy

**Hon David Parker**  
Minister of Revenue  
/ /2020

# Appendix: TPWP priorities for early 2021

[IN CONFIDENCE]

Incoming Government Priorities	COVID response	Existing work programme items and potential new items
<p><b>39% rate integrity measures</b></p> <ul style="list-style-type: none"> <li>Officials will report in February on integrity measures that may support the 39% personal tax rate along with guidelines for considering them and timelines for possible development and implementation.</li> </ul>	<p><b>Resurgence package measures</b></p> <ul style="list-style-type: none"> <li>Wage subsidy: IR will work with Treasury, MSD, and MBIE on clarification of eligibility criteria that could apply to new versions of the wage subsidy scheme, including how revenue is defined and repayment rules. There are overlapping features with the RSP (discussed below).</li> <li>Resurgence Support Payment (RSP): Subject to Cabinet decisions on 14 December, IR's focus will be on developing the system and preparing to administer this new grant, should there be an escalation in Alert Levels that activates the scheme. A question we expect to be addressed in early 2021 is whether the economies of scale in administering the wage subsidy and RSP are sufficiently pronounced that IR should administer the wage subsidy.</li> <li>Leave subsidy: IR will work with MBIE, MSD, and Treasury on medium-term changes to the scheme. This could include substantive changes including a legal framework and consideration of IR as the administrator.</li> <li>SBCS: IR's focus will be on implementing the changes agreed by Cabinet to the loan scheme.</li> <li>SME capital raising for recovery: This issue will be led by MBIE and Treasury. IR may be involved in some discussions around implementation.</li> </ul>	<p><b>Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill</b></p> <ul style="list-style-type: none"> <li>This Bill (known as ARFERM Bill) includes proposals on purchase price allocation and feasibility expenditure. An additional supplementary order paper is proposed for March 2021 which will introduce further changes to loss continuity and the donated trading stock rules.</li> <li>Timelines are still being determined and will be provided in a separate report.</li> </ul>
<p><b>Collection of trust information</b></p> <ul style="list-style-type: none"> <li>Guidance and clarification of the trust information to be collected under the new disclosure provisions in the TAA. This includes remedial amendments to ensure that appropriate exemptions are in place (e.g. for energy consumer trusts and similar non-private trusts) and that the new rules apply correctly.</li> </ul>	<p><b>COVID response in tax system (social insurance)</b></p> <ul style="list-style-type: none"> <li>MBIE is leading a cross-agency work programme investigating the use of social unemployment insurance as a policy to improve the fairness and efficiency of labour market reallocations following economic shocks (such as COVID and technological change).</li> </ul>	<p><b>Child Support Amendment Bill</b></p> <ul style="list-style-type: none"> <li>The Bill includes proposals that repeal the incremental penalties for child support. The bill is due to be reported back by 4 March 2021 and enacted before 1 April 2021.</li> </ul>
<p><b>Framework on data for policy makers</b></p> <ul style="list-style-type: none"> <li>Strategy for the collection and public release of information to support policy advice, evaluation and public debate on policy issues.</li> <li>Developing a framework that prescribes when it is reasonable to provide data to Ministers or other agencies in light of compliance and administration costs.</li> </ul>	<p><b>International tax</b></p> <ul style="list-style-type: none"> <li>Ongoing development of the OECD Pillar 1 and Pillar 2 solutions following the current public consultation period.</li> <li>s6(a)</li> <li>Prograssina double tax agreements.</li> </ul>	<p><b>Land</b></p> <ul style="list-style-type: none"> <li>Ongoing work to ensure that the land rules work effectively and as intended. First tranche of work is included in the ARFERM Bill.</li> <li>Priorities for early 2021 include developing a legislative framework for holding costs.</li> </ul>
<p><b>Budget 2021</b></p> <ul style="list-style-type: none"> <li>Any additional initiatives arising out of Budget 2021 that have revenue portfolio implications, either policy or administrative (IR2020/508 and IR2020/509 refers).</li> </ul>	<p><b>Research and development tax credit</b></p> <ul style="list-style-type: none"> <li>Responding to recommendations of early implementation review (improving administration/relationships between partner agencies; assisting Callaghan with customer engagement; clarifying guidance to resolve interpretational issues).</li> <li>Minor policy remedials in ARFERM Bill, next omnibus Bill.</li> </ul>	<p><b>Tax administration (including information collection and use and Business Transformation)</b></p> <ul style="list-style-type: none"> <li>Green paper - Officials have commenced work on a green paper on tax administration. Officials welcome the opportunity to provide you with a more detailed briefing in the new year.</li> <li>Review of the taxation of lump sum payments such as ACC.</li> <li>Information collection and use: <ul style="list-style-type: none"> <li>Information sharing agreements and development of more efficient ways to allow the sharing of information;</li> <li>Repeat collection of large datasets – reporting, consultation and regulation making processes.</li> </ul> </li> <li>SME initiatives with MBIE – a joint work programme will be provided in the new year.</li> </ul>
<p><b>Housing</b></p> <ul style="list-style-type: none"> <li>The Treasury are leading a process looking at tax changes to rental housing and have recently reported to the Minister of Finance on this issue (a copy of which will be referred to you). Any decisions from that are likely to be progressed in early 2021.</li> </ul>	<p><b>Environmental issues</b></p> <ul style="list-style-type: none"> <li>Developing an agreed interagency framework on when to use pricing instruments for environmental and resource issues (building on the TWG's work in this area).</li> <li>Contributing to policy advice on environmental proposals in the Government's work programme, including any tax aspects.</li> </ul>	<p><b>Social policy</b></p> <ul style="list-style-type: none"> <li>Working for Families review: IR's immediate focus is on developing a short-term work programme to review the Working for Families tax credits. Ministers have expressed interest in options for reform, potentially as part of Budgets 22 and beyond. This will be a significant project for IR with potential funding implications. The review is part of the longer-term Welfare Overhaul work programme led by MSD, which includes other work streams that could impact on IR.</li> <li>s9(2)(f)(iv)</li> </ul>
<p><b>Future of work</b></p> <ul style="list-style-type: none"> <li>Reviewing tax treatment of labour in a changing environment – more people working as contractors, gig economy, cross border workers, people working multiple jobs, etc</li> <li>Reviewing the effectiveness and efficiency of the relevant taxing regimes – PAYE, other withholding taxes, FBT, employer superannuation contribution tax, etc</li> </ul>	<p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>The infrastructure workstream will focus on potential policy responses to remove distortions created by the existing tax policy settings.</li> </ul>	<p><b>Charities and non-for-profits</b></p> <ul style="list-style-type: none"> <li>Reviewing the appropriateness of tax settings for charities and not-for-profits.</li> <li>This would include progressing the Tax Working Group recommendations involving accumulations within charity-owned commercial activities and private charitable foundations.</li> <li>The tax settings for the wider exempt sector, in particular local authorities and their trading subsidiaries, should also be reviewed.</li> </ul>
<p><b>Small Medium Enterprises</b></p> <ul style="list-style-type: none"> <li>Accounting Income Method (AIM) changes: Overhaul and simplify the AIM tax regime to make it easier for SMEs to move to a "pay as earn" model throughout the year. (This item could be included in the proposed "Green paper".)</li> </ul>	<p><b>Maintaining the tax system</b></p> <ul style="list-style-type: none"> <li>Roughly twenty percent of our policy resource is currently spent maintaining and updating tax legislation within current frameworks in response to various factors (changing technology, business practices and jurisprudence), as well as fixing legislative errors and unintended consequences.</li> <li>Undertaking remedial and base maintenance work upholds regulatory stewardship objectives and fosters a strong relationship with the private sector, who are invested in the health of the tax system.</li> <li>We will report to you with options for progressing proposals raised in <i>GST policy issues – An officials' issues paper</i> (FEB 2020) early next year.</li> </ul>	<p><b>Bill programme for 2021</b></p> <ul style="list-style-type: none"> <li>The ARFERM Bill and the Child Support Amendment Bill, both introduced in 2020, should be enacted in March 2021.</li> <li>We will recommend the introduction of a bespoke bill to enable IR to deliver the proposed RSP, an omnibus bill to set the annual rates of income tax for the 2021-22 tax year and implement policy and remedial measures, along with potentially a Budget 2021 Measures Bill.</li> </ul>

## Appendix One: Revenue strategy

### *Economic and fiscal strategy*

Public finances, including government revenue, are important for wellbeing. Public policy supports New Zealanders' wellbeing when the social benefits of government expenditure outweigh the social costs of raising revenue.

The Government's overarching policy goals for the next three years are:

- Continuing to keep New Zealand safe from COVID-19;
- Accelerating the recovery and rebuild from the impacts of COVID-19; and
- Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty.

Government revenue underpins many of these outcomes by funding the social expenditure needed to meet these challenges. In some cases, revenue policy has a more direct role in contributing to these goals. This includes policies that support the economic recovery, promote housing affordability and mitigate climate change.

Government revenue needs to be sufficient to ensure a sustainable fiscal outlook. The level of revenue will be maintained to be consistent with reducing operating deficits and stabilising net core Crown debt as a percentage of GDP by the mid-2020s and then reducing it as conditions permit (subject to any significant shocks).

A sustainable revenue base is critical for managing fiscal pressures over the long term. These pressures relate to the ageing population, health care costs, infrastructure demand and the need for resilience to climate change and other shocks. There is also rising global concern with inequality and many countries, including New Zealand, face the challenge of fostering inclusive growth.

### *Revenue objectives*

The Government's revenue policy objective is to raise sufficient revenue in a fair and efficient manner. This will assist in fostering inclusive growth.

The Government's fairness objectives for the tax system are:

- *Progressivity*: individuals with a higher income, and therefore ability to pay, should pay a greater proportion of their income in tax.
- *Reducing inequality*: the tax system should help in limiting excessive wealth inequality over the longer term.
- *Horizontal equity*: the principle that people that are in the same position should pay the same amount of tax.

The efficiency objective is to minimise the economic costs of raising revenue, subject to the Government's revenue and fairness objectives.

Continued public trust and confidence in the tax system and its administration is important. This supports voluntary compliance and broader social capital.

### ***Framework***

The Government has a strong focus on the fairness of the tax system. This means that the income tax system should be progressive and, in combination with transfers, reduces income inequality. The Government has increased the progressivity of the personal income tax system with a new top tax rate.

The tax framework is based on the principles of broad base-low rate and neutrality. This generally applies, although taxation of capital is not as broad based as income. Income and consumption tax bases are broad in the sense that there are few specific concessions for particular economic activities, goods or services. This enables tax rates to be set lower than otherwise. Neutrality in the tax treatment of different investments promotes economic efficiency and productivity.

In some cases, revenue policy will be used to influence behaviour. This is appropriate only where there is clear evidence of net social benefits, tax policy is the most appropriate instrument, and fiscal risks can be managed. As an example, the research and development tax incentive promotes business innovation.

People and businesses must pay their fair share of tax, including multinational companies. The international tax framework needs to adapt to shifts in the global economy, including increased cross-border activity and digitalisation. New Zealand is continuing to work with the OECD to find a multilateral solution to the challenges that the digital economy poses for international taxation.

Tax settings will continue to be broadly stable and predictable. This supports efficiency and macroeconomic stability.

The Government expects Inland Revenue to maintain public confidence by administering the tax system in a fair and efficient manner. The tax system has been modernised and simplified through Inland Revenue's Business Transformation programme.

The tax system must remain fit for purpose in a changing world. Ongoing work will focus on implementing Government policy, maintaining the integrity of existing revenue bases and monitoring the sustainability and fairness of the tax system. The Generic Tax Policy Process shall be used to develop and consult on tax policy where practicable.

## Tax Policy Work Programme (TPWP) and other Government priorities: for discussion

Government priorities	Maintaining the tax system (Stewardship & Remedials)	Questions for Ministers
<p><b>Revenue strategy</b></p> <p>Officials are working on the following Government priority projects that are aligned with the revenue strategy:</p> <ul style="list-style-type: none"> <li>• <u>Taxation Principles Act</u>: Creating a reporting framework for the tax system against a defined set of principles.</li> <li>• <u>Policy research project on wealth and distributional analysis, including a survey of high wealth individuals</u> (resourced by Budget 2021 funding).</li> <li>• <u>International tax</u>: Particularly the OECD project on redesigning international tax frameworks.</li> <li>• <u>Integrity measures to support 39% rate</u></li> <li>• <u>Housing tax changes</u></li> <li>• <u>Environmental frameworks</u>: this includes consulting on an environmental tax framework, and investigation of a border carbon adjustment.</li> <li>• <u>Sustainability of revenue bases given medium to longer term fiscal pressures.</u></li> </ul> <p><b>Laying the foundations for a better future</b></p> <ul style="list-style-type: none"> <li>• <u>Non-discretionary other agency work</u>: including R&amp;D tax credit and GST/indirect tax implications of other agency proposals.</li> <li>• <u>AIM overhaul</u>: Delivering on a manifesto commitment to overhaul and simplify the Accounting Income Method (AIM) of provisional tax.</li> </ul>	<p>Maintaining the tax system includes:</p> <ul style="list-style-type: none"> <li>• Stewardship functions, and</li> <li>• Remedial and other policy matters aimed at maintaining a coherent and fair system.</li> </ul> <p><b>Statutory regulatory stewardship</b></p> <p>Regulatory stewardship obligations are imbedded in the State Sector Act and require a department to take a proactive and collaborative approach to the monitoring and care of regulatory systems. We anticipate the following commitments in this area:</p> <ul style="list-style-type: none"> <li>• <u>Long term insights briefing</u>: The Public Service Act 2020 requires the Chief Executive of a department to publish a long-term insights briefing every 3 years outlining medium-long term risks in their area of responsibility.</li> <li>• <u>Regulatory stewardship subject review</u>: Examines the health of a particular subject area to monitor regulatory systems and ensure system failures are avoided, including considering the findings of a recently completed regulatory stewardship review on the GST system.</li> </ul> <p><b>Other stewardship priorities:</b></p> <ul style="list-style-type: none"> <li>• <u>Green paper on the future of tax administration</u>: Establishes a strategic direction to ensure that Inland Revenue is efficiently leveraging the assets created through the Business Transformation programme.</li> <li>• <u>Future of work/taxation of labour</u>: Reviewing tax treatment of labour in a changing environment, including considering a regulatory stewardship review of FBT.</li> <li>• <u>Data collection for policy makers</u>: Strategy for the collection and public release of information to support policy advice, evaluation, and public debate on policy issues.</li> <li>• <u>Māori engagement framework</u>: Implementing a process to ensure Māori perspectives and voices are taken into account in our tax and social policy development process.</li> </ul> <p><b>Remedial and other policy matters</b></p> <p>It is important that the current system works effectively. The Government invests in this system by regularly progressing tax bills that contain remedial as well as policy items. Work on remedial matters is also of great importance to the private sector and devoting resource in this area strengthens this relationship and enhances the generic tax policy process. The next tax bill is scheduled to be introduced to Parliament in September 2021.</p> <p>It is also important that the current social policy and administrative system works effectively. Inland Revenue is either responsible for or significantly involved in Working for Families, Child Support and Student Loan policy. The Government invests in this system by regularly progressing bills that contain remedial as well as policy items.</p>	<p>We would like to discuss the following with you:</p> <ol style="list-style-type: none"> <li>1. Does the first column of these A3s accurately reflect the Government's priorities?</li> <li>2. The TPWP is generally set for 18-months. Assuming policy resource comes available after 2021, are there any other projects that you would like to see prioritised for 2022?</li> <li>3. Given resourcing pressures are you comfortable with slowing down work on: <ul style="list-style-type: none"> <li>• Integrity measures to support 39% rate</li> <li>• AIM overhaul</li> <li>• Flexible loss carry-back scheme?</li> </ul> </li> <li>4. What are your expectations regarding private sector suggestions for TPWP priority projects?</li> <li>5. Are you prepared to contemplate the revenue negative remedial/policy proposals from column 2 continuing as part of this TPWP? [Note that officials will report to you separately on the ongoing operation of the tax policy scorecard.]</li> <li>6. What is your preferred process and timing from here (Officials propose confirmation of the TPWP by Cabinet mid-June and publication late June)?</li> </ol>
<p><b>Other non-tax Government priorities</b></p> <p>Inland Revenue officials are also working on priorities aligned with the Government's priorities in the social and administration policy areas:</p> <ul style="list-style-type: none"> <li>• <u>Welfare reform</u></li> <li>• <u>Social unemployment insurance</u></li> <li>• <u>Non-discretionary other agency work</u>: including local government review, the three waters project, charities review and free trade agreements.</li> </ul> <p><b>Accelerating the recovery &amp; rebuild from the impacts of COVID-19</b></p> <ul style="list-style-type: none"> <li>• <u>COVID response measures</u>: including required changes to the wage subsidy, leave subsidy, resurgence support payment, flexible loss carry-back scheme and small business cashflow scheme.</li> </ul>		
<p><b>Resourcing</b></p> <p>The vast majority of this Government priority work involves a major 'delivery' element this year.</p> <p>We estimate these projects will utilise approximately 55% of Inland Revenue's policy resource for 2021. All of the policy resource of Treasury's Tax Strategy team will be devoted to a high priority sub-set of these projects.</p> <p>Approximately 20% of the total IR policy resource is dedicated to the social and administration policy areas.</p>	<p><b>Resourcing</b></p> <p>In the past, the stewardship and remedials functions have occupied around 40% of Inland Revenue's total policy resource: around 20% each. We would expect the items in this column to be consistent with that 40% practice. However, the maximum resource allocation at this stage is the 25% not dedicated to government priorities. As a result, some of this work is on a slower track than would ordinarily be the case. We anticipate more resource being devoted to the items in this column as work on the Government priorities is completed. Social policy stewardship and remedial resourcing is factored into the resource allocation referred to above.</p>	



POLICY AND REGULATORY STEWARDSHIP

TE TAI ŌHANGA  
THE TREASURY

**Tax policy report:**            **Cabinet paper – Release of the Government’s Tax Policy Work Programme for 2021/22**

---

<b>Date:</b>	3 June 2021	<b>Priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2021/235 T2021/1270

#### Action sought

---

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations	10am Thursday 24 June 2021
Minister of Revenue	<b>Agree</b> to recommendations <b>Authorise</b> the lodgement of the attached Cabinet paper	10am Thursday 24 June 2021

#### Contact for telephone discussion (if required)

---

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Emma Grigg	Policy Director, Inland Revenue, Policy and Regulatory Stewardship	s 9(2)(a)
Jessica Rowe	Acting Manager, Tax Strategy, The Treasury	

3 June 2021

Minister of Finance  
Minister of Revenue

## **Cabinet paper – Release of the Government’s Tax Policy Work Programme for 2021/22**

---

### **Executive summary**

---

1. This report attaches for your consideration, a copy of a draft Cabinet paper and draft Tax Policy Work Programme (TPWP) A3 for the refresh of the Government’s TPWP for 2021-22.
2. We previously reported to you on key considerations for setting the Government’s TPWP (IR2021/198 and T2021/1088 refers) ahead of a joint Ministers’ discussion held on 6 May 2021. You both indicated that you were happy with the proposed timeline for the delivery of the TPWP and that what we presented to you broadly reflected the Government’s tax policy priorities for 2021/22. You also indicated that you were happy for the TPWP to be published presenting a more high-level view of the work than previous releases. This report, which includes further details of the proposed refreshed TPWP, has been prepared on this basis.
3. The draft TPWP attached to this report has been divided into seven key tax policy areas. Three additional non-tax policy areas occupy Inland Revenue policy resource and are therefore noted on the TPWP to provide a full picture of the demands on officials’ time. This report provides you with further detail of these key areas, deliverables and timeframes, and how they align with the wider Government strategies and objectives outlined in the Revenue Strategy.
4. Subject to your feedback, we recommend a finalised version of the attached Cabinet paper be lodged in CabNet by 10am Thursday 24 June, for noting by the Cabinet Economic Development Committee at its meeting on Wednesday 30 June 2021.

### **Recommended action**

---

We recommend that you:

5. **Indicate** whether there are any changes required to the attached draft Tax Policy Work Programme (Appendix Two);  
  
Indicated/not indicated Indicated/not indicated
6. **Agree** that the attached Tax Policy Work Programme (Appendix Two) should be published on Inland Revenue’s tax policy website once it has been considered by Cabinet and announced by Ministers.  
  
Agreed/not agreed Agreed/not agreed
7. **Indicate** whether there are any items on the attached Tax Policy Work Programme (Appendix Two) that you do not want included on the published Tax Policy Work Programme.  
  
Indicated/not indicated Indicated/not indicated

8. **Authorise** lodgement of the attached Cabinet paper and associated appendices in CabNet by 10am 24 June 2021, for consideration by the Cabinet Economic Development Committee on 30 June 2021.

Authorised/not authorised

Authorised/not authorised

s 9(2)(a)



**Jessica Rowe**  
Manager (Acting), Tax Strategy  
The Treasury

**Emma Grigg**  
Policy Director  
Inland Revenue

**Hon Grant Robertson**  
Minister of Finance  
/ /2021

**Hon David Parker**  
Minister of Revenue  
/ /2021

## Background

---

9. The TPWP outlines the Government's priority tax policy projects. It is traditionally set for an 18-month period and is the joint responsibility of the Ministers of Finance and Revenue.
10. The TPWP is informed by the Government's Revenue Strategy. The Revenue Strategy is formulated in conjunction, and consistent, with the Government's Economic and Fiscal Strategies. The Revenue Strategy sets out the Government's overarching policy objectives and strategic direction for the next three years and is part of the strategic phase of the generic tax policy process (GTPP).<sup>1</sup> It is published as part of the Fiscal Strategy report at Budget. Following the strategic phase of the GTPP, the tactical phase involves the development of a TPWP that reflects the Government's core priorities as set out in the Revenue Strategy.
11. The Government has now finalised its Revenue Strategy (attached in Appendix One) which was published in the Fiscal Strategy Report as part of Budget 2021. We have also had discussions with you to understand the Government's tax policy priorities for the 2021/22 TPWP.

### ***Draft Tax Policy Work Programme***

12. The draft TPWP for publication has been kept high level. Unlike previous TPWPs, we have suggested not to provide a detailed list of items under each area. This approach builds in the necessary flexibility. As part of our ongoing engagement with stakeholders we will update them on progress and specifically when we are needing their input into policy work. We note that if additional priorities require delivery in 2021, trade-offs will need to be discussed with you.
13. Resourcing is currently tight but manageable for work on key deliverables in 2021. This means that the remedial work programme will see comparatively less resource than in previous years.
14. We anticipate there will be some latitude to prioritise additional issues in the TPWP in 2022 once key priorities have been delivered.
15. Based on our discussions with you, we have drafted a TPWP that is focused around seven key areas that reflect the Government's priorities for tax policy. These are:
  - 15.1 Integrity of the tax system
  - 15.2 International tax
  - 15.3 Maintaining the tax system
  - 15.4 Stewardship of the tax system
  - 15.5 Sustainable economy and the environment
  - 15.6 Tax administration; and
  - 15.7 Taxation of residential rental property.
16. In addition to the tax policy areas above, Inland Revenue officials are also focused on social policy, COVID-19 response and working with other government agencies on other Government priorities (e.g. charities, local government reform). In this regard, Inland Revenue is often involved largely because of its potential administrative role in the delivery of policy in these areas. Inland Revenue is also

---

<sup>1</sup> <https://taxpolicy.ird.govt.nz/about-us/how-we-develop-tax-policy>

involved in advice to other agencies about any GST and income tax consequences of their proposals.

17. The priorities and key considerations for each respective area (including timelines and immediate deliverables where relevant) are considered in more detail in the body of this report.

### ***Tax Policy Scorecard***

18. You will also receive a separate report in the next few weeks seeking your agreement to updated principles for use of the Tax Policy Scorecard (an existing mechanism to manage non-structural changes to the tax system – both fiscally positive and negative changes). Decisions taken in this report around the Scorecard's scope and funding mechanism may affect how future TPWPs are formulated.

### ***Broader fiscal constraints***

19. Beyond the Scorecard, there is a question around whether the Government spending priorities will extend to changes in the tax system. For the purposes of setting your new TPWP, officials understand that there will be limited scope for fiscally negative initiatives, and any such projects will need to be prioritised as part of the annual Budget process.

### ***Details of the refreshed TPWP***

---

20. The suggested TPWP has been divided into seven key areas, the details of which are as follows:

#### ***Integrity of the tax system***

21. This area focuses on the Government's fairness objectives in its Revenue Strategy (progressivity, reducing inequality, and horizontal equity). Current work relates to the new 39% rate and ensuring that it applies correctly. We will report to you shortly on potential options for advancing this work. We also note the work being done to collect information from trusts.
22. The TPWP also includes work on the development of a reporting framework against a set of tax principles. These principles and the reporting requirements would be included in legislation.

#### ***International tax***

##### ***Multinational taxation***

23. Adapting the international tax framework to reflect changing business models and ensure that multinational firms pay their fair share of tax is an area of focus in the Government's Revenue Strategy.
24. The work in this area includes New Zealand's ongoing engagement with the OECD on their two 'pillars' of work. Any OECD solution has the potential to fundamentally change the international framework and also ensure a more sustainable international tax system going forward. Pillar One would allocate new taxing rights to source/market countries and Pillar Two would help address remaining base erosion and profit shifting concerns and/or the 'race to the bottom' of corporate tax rates. Current OECD estimated timelines are that agreement on both pillars of work should be reached in principle in June/July, with more detailed solutions being agreed in time for a scheduled G20 Finance Ministers meeting in October 2021. However, because of its multilateral nature and the need for both domestic and international reforms, effective implementation of any OECD solution will take place sometime after that.

25. s 6(a)



*Cross-border taxation*

26. As part of the COVID-19 recovery, it is likely that there will be considerable numbers of workers entering New Zealand for employment opportunities or to work on specific projects once the borders open. Officials are working on a consultation document that aims to reduce some of the complexity and compliance costs faced by New Zealand businesses and international workers.

*Taxation of the sharing and gig economy*

27. Officials are working on the development of a discussion document which would consult on options for making it easier for operators in the sharing economy to comply with their tax obligations. This follows on from work undertaken by the OECD which identified a broad range of options for information collection and withholding by platforms that countries could consider implementing in their domestic legislation.

*Treaties*

28. The international area also includes ongoing negotiation and implementation of bilateral double tax agreements. In practice, these negotiations have been affected by COVID-19. However, there is an expectation that negotiations will be able to resume at some point in the medium term. We will report separately to Ministers on the prioritisation of these negotiations once we have a clearer picture of when they are likely to re-commence.

***Maintaining the tax system***

29. This area focuses on both policy and remedial matters required to maintain the tax system. Tax legislation needs to be regularly maintained and updated in response to changing technology, business practices, jurisprudence or other factors. Allocating sufficient resource to this area is strongly supported by external stakeholders. If unresolved, these issues can lead to high compliance costs and non-compliance. In this regard the work in this area is strongly linked to the Government objectives in its Revenue Strategy. It is also important to ensure that the tax system continues to raise sufficient revenue to support other Government priorities.

***Stewardship of the tax system***

30. Stewardship is one of the public service principles embedded in the Public Service Act 2020. That stewardship principle covers long-term capability, institutional knowledge and information, systems and processes, assets, and legislation administered by agencies.

31. The stewardship area can be divided into:

31.1 Regulatory stewardship – ensuring that the legislation administered by agencies is fit for purpose and best placed to deal with current and future challenges; and

31.2 Policy stewardship – ensuring agencies are well-placed to advise on policy areas for which they are responsible with a future focus.

32. Inland Revenue's next planned stewardship review will be focussed on fringe benefit tax. This will also inform the need for any policy and legislative changes and is

particularly important when considering the taxation of labour. This work will commence in the next few months.

33. The policy stewardship programme includes the new requirement under the Public Service Act for agencies to prepare long-term insights briefings. The Treasury's long-term insights briefing is being incorporated into its Long-Term Fiscal Statement and will be published in September 2021. It considers, amongst other things, the sustainability of revenue bases over the medium to long term. Inland Revenue's long-term insight briefing (due to be published in 2022) will cover the cost of capital and its links to productivity.
34. In addition, Inland Revenue is leading a research project *Ensuring the Tax System is Operating Fairly*, which will collect information on the level of tax paid by high-wealth individuals and their related entities.
35. Across the TPWP there is also ongoing work focused on the collection and public release of information to support policy advice, evaluation and public debate on policy issues.

### ***Sustainable economy and the environment***

36. This area supports the Government's objective of transitioning to a more sustainable and low-carbon economy.
37. A key part of the environment/sustainable economy area on the TPWP is the Government's consideration of the Tax Working Group's framework for taxing negative environmental externalities and pricing the use of resources. Officials are developing aspects of this framework alongside other agencies, with a view to undertaking public consultation on the framework later in the year.
38. Inland Revenue has been working with the various agencies and departments that already have work underway relating to environmental taxes; for instance, consequential policy work relating to the Ministry of Transport's feebate scheme to incentivise uptake of low-emissions vehicles. Officials have also been keeping a watching brief on environmental tax proposals in New Zealand (such as the Parliamentary Commissioner for the Environment's departure tax proposal) and internationally (such as proposals for carbon border adjustments).
39. Inland Revenue is also reviewing existing tax provisions to ensure the tax system is not biased against environmentally friendly investment and behaviour. Two examples of this are work on the application of fringe benefit tax to employer-subsidised transport and planned (targeted) consultation on petroleum development expenditure rules.

### ***Tax administration***

40. The Government expects Inland Revenue to maintain public confidence by administering the tax system in a fair and efficient manner. This involves ongoing improvements to legislation regarding tax administration to support changes to the way tax is administered by Inland Revenue. It is also important for Inland Revenue to leverage the assets developed through its Business Transformation programme to ensure effective tax administration.
41. With Business Transformation nearing completion, it is timely to build on the benefits it is providing and the opportunities it has enabled to think about the next tranche of changes for tax administration. Officials are preparing a green paper that will cover these areas and articulate the likely direction of change for tax administration over the next 5-10 years.
42. The Labour Party Manifesto included reference to overhauling the Accounting Income Method. Officials are exploring how this regime can be improved. Tax administration also covers aspects of the tax system such as Approved Information

Sharing Agreements to support the functioning of joined-up government services, the tax treatment of lump sum payments, and various KiwiSaver matters.

### ***Taxation of residential rental property***

43. The Government has announced its intention to introduce significant changes to the taxation of residential rental property. These changes complement other measures announced by the Government relating to the housing market. The objectives of these measures are:
  - 43.1 to ensure that every New Zealander has a safe, warm, dry, and affordable home to call their own – whether they are renters or owners;
  - 43.2 to support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers; and
  - 43.3 to create a housing and urban land market that credibly responds to population growth and changing housing preferences, that is competitive and affordable for renters and homeowners, and is well-planned and well-regulated.
44. To further these aims, the Government is introducing two changes to reduce the tax advantages enjoyed by residential property investors. The measures are:
  - 44.1 extending the length of the bright-line test for residential property from its current five-year period to 10 years; and
  - 44.2 further limiting deductions for interest incurred on residential investment property (other than interest incurred in relation to property development and acquisition of new builds).
45. A discussion document is due to be released in June outlining the design of the interest limitation rules. The extension of the bright line test to 10 years has already been enacted. However, some technical issues relating to the bright line test are also discussed in the document. Following a five-week consultation period, the final design of the rules and the draft legislation will be submitted to Cabinet in September and announced publicly before the application date of the new rules on 1 October 2021. Legislation will be introduced into the House in October and go through a select committee process and is expected to be enacted by 31 March 2022.
46. The estimated revenue to be raised by the interest limitation measure will also be submitted to Cabinet once the final design of the rules has been agreed.

### **Related non-tax policy areas**

#### ***COVID-19 response***

47. In line with the Government's commitments to keep New Zealand safe and accelerate the recovery from COVID-19, officials will continue to work with other agencies to make changes, as necessary, to COVID-19 related initiatives administered or supported by Inland Revenue. Examples include: Small Business Cashflow Scheme, Resurgence Support Payment, Wage Subsidy Scheme and Leave Support Scheme.

### ***Non-discretionary other agency work***

48. Tax policy officials are often required to provide input into work being delivered by other government agencies. This is important non-discretionary work that reflects wider Government priorities and may have delivery implications for Inland Revenue, or may require advice from a tax policy perspective (such as the GST or income tax consequences).
49. Current examples of work in this area include:
  - 49.1 Free trade agreements: Assisting MFAT to prepare for and negotiate the taxation exception in free trade agreements.
  - 49.2 Charities Act modernisation review: Liaising with DIA policy officials responsible for modernising the Charities Act, which includes a review of charitable business activities, charities accumulation of funds, private charitable foundations and trusts, and reporting requirements for small charitable entities.
  - 49.3 Three Waters Reform: Addressing the tax implications of the design and establishment of new water services entities and the transition to a new water service delivery system.
  - 49.4 Local Government reform: Providing tax policy advice as needed to support the Review into the Future of Local Government and DIA's review of the legislative framework for council-controlled organisations.
  - 49.5 Tax consequences of Deposit Takers Act: Providing tax policy advice to ensure that the tax consequences of bail-ins do not undermine efforts to stabilise distressed deposit takers.
  - 49.6 R&D tax incentive (RDTI): The RDTI is still a relatively new regime and some refinements continue to be needed to ensure it delivers on its policy objectives. MBIE, Callaghan Innovation and Inland Revenue have joint responsibility for this work.

### ***Social policy***

50. To achieve one of its overarching objectives to improve social outcomes and wellbeing, the Government has committed to bring forward the review of the Working for Families tax credits. Inland Revenue, with the Ministry of Social Development, DPMC, and the Treasury, will provide advice later this year on options for reform.
51. Inland Revenue is also supporting areas on the Welfare Overhaul work programme that interact with social policy products that Inland Revenue administers.
52. The Government (involving agencies including Inland Revenue, the Treasury, the Ministry of Business, Innovation and Employment, and the Ministry of Social Development), Business NZ, and the New Zealand Council of Trade Unions are jointly designing a social unemployment insurance scheme. This scheme could support workers to retain about 80 percent of their income for a period after they lose their jobs. Inland Revenue is assisting with advice on the financing of the scheme and design of any funding mechanism. Public consultation will occur later this year.

### ***High-level consultation***

---

53. As part of the development of the TPWP, officials sought feedback from stakeholders on what they saw as priorities for the Government's work programme. Officials received responses from the Corporate Taxpayers' Group and Chartered

Accountants Australia New Zealand. In general most stakeholders were particularly interested in the work on taxation of labour income (noting this work will commence with the regulatory stewardship review that will help inform future TPWP items) and in the possibilities for leveraging the Business Transformation asset. They were also supportive of an ongoing remedial and maintenance programme.

54. Further engagement is planned as part of the policy development process for each area of work.

### Next steps

---

55. Subject to any feedback you may have, we recommend that a finalised version of the attached Cabinet paper be lodged in CabNet by 10am Thursday 24 June, for consideration by the Cabinet Economic Development Committee at its meeting on Wednesday 30 June 2021.
56. The following timetable provides you with key dates that will allow for publication of the finalised TPWP in July:

Item	Timing
Draft Cabinet paper to Ministers' offices	3 June 2021
Cabinet paper lodged in CabNet (allows time for officials to revise the Cabinet paper in light of feedback from Ministers)	Thursday 24 June 2021
Paper to DEV for noting	Wednesday 30 June 2021
Paper to Cabinet	Monday 5 July 2021
Release of TPWP	Any time after Cabinet consideration

### Communications/announcing the TPWP

57. We would appreciate an indication of how you would like to announce the refresh of the TPWP. In previous years, the Minister of Revenue has announced the refresh in a keynote address at a suitable tax event or conference. At the same time, the details of the TPWP have been published on Inland Revenue's Tax Policy website. If you are comfortable with this approach, we will liaise with your offices to find a suitable opportunity for an announcement.

In Confidence

Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Cabinet Economic Development Committee

## **RELEASE OF THE GOVERNMENT'S TAX POLICY WORK PROGRAMME FOR 2021/22**

### **Proposal**

1. This paper asks the Cabinet Economic Development Committee to note the Government's Tax Policy Work Programme for 2021/22. Following Cabinet consideration of this paper (including the appendices), we intend to publicly announce and publish the refreshed Tax Policy Work Programme in early July.

### **Executive Summary**

2. The Government's Tax Policy Work Programme (TPWP) is refreshed approximately every 18 months. As the Ministers of Finance and Revenue, we are jointly responsible for setting and agreeing to the work programme.
3. The TPWP is based on the core priorities for revenue policy as set out in the Government's Revenue Strategy and reflects the Government's overarching policy goals for the next three years.
4. The TPWP for 2021/22 has a strong emphasis on deliverables to be completed in 2021. The suggested TPWP for publication is presented at a high level. Further details of work covered by the TPWP including consultation as part of the Generic Tax Policy Process will be provided to stakeholders regularly. If additional priorities arise that require delivery in 2021 then trade-offs will need to be made against current priorities.
5. Following Cabinet consideration of this paper, we propose to announce the TPWP and publish it on Inland Revenue's tax policy website.

### **Background**

6. The Government has finalised its Revenue Strategy for this term of Parliament, which was noted by Cabinet on 12 April 2021 and published in the Fiscal Strategy Report as part of Budget 2021.
7. The TPWP has been developed based on the strategic direction for revenue policy as set out in the Revenue Strategy (attached to this paper in *Appendix One*), along with the Government's overarching priorities and existing manifesto commitments.

8. The Government's overarching policy goals for the next three years are:
  - 8.1 To keep New Zealanders safe from COVID-19
  - 8.2 To accelerate our economic recovery; and
  - 8.3 To lay the foundations for a better future.
9. Government revenue underpins these policy goals through the funding of public expenditure. It is important that revenue is sustainable, not only to ensure current expenditure needs can be met, but also to manage long-term fiscal pressures and ensure the Government can meet its fiscal targets set out in its Fiscal Strategy.
10. In some cases, the proposed TPWP will have a more direct role in contributing to these goals, for example, the recent changes to the taxation of housing which will help to make the housing market more sustainable and tilt the balance towards first-home buyers. Similarly, the environmental tax area will contribute to the Government's objective of transitioning to a more sustainable and low-carbon economy.
11. The Government's Revenue Strategy has a strong focus on fairness. This encompasses three dimensions of fairness:
  - 11.1 *Progressivity*: individuals with a higher income, and therefore ability to pay, should pay a greater proportion of their income in tax.
  - 11.2 *Reducing inequality*: the tax system should help in limiting excessive wealth inequality over the longer term.
  - 11.3 *Horizontal equity*: people that are in the same position should pay the same amount of tax.
12. A fair taxation system is also important to maintain public trust and confidence in the system and support voluntary compliance and broader social capital. The emphasis on fairness is reflected in our proposed TPWP.
13. The TPWP outlines the Government's priority tax policy projects and has been arranged around seven key areas. Appendix Two provides a high-level summary of these areas. These areas are:
  - 13.1 Integrity of the tax system
  - 13.2 International tax
  - 13.3 Maintaining the tax system
  - 13.4 Stewardship
  - 13.5 Sustainable economy and the environment
  - 13.6 Tax administration; and

- 13.7 Taxation of residential investment property.
14. Three other areas, while not tax policy per se, commit Inland Revenue policy resource and therefore it is appropriate to note them to provide a full picture of our responsibilities for the revenue portfolio. These areas are also noted in *Appendix Two* and are:
- 14.1 COVID-19 response;
  - 14.2 Non-discretionary other agency work; and
  - 14.3 Social policy.
15. Taken as a whole, these areas and the specific items within them represent the programme of work that will be undertaken by tax policy officials over the next 18 months. There are a significant number of deliverables to be achieved in 2021/22. Delivering on this work programme will use all of the Government's tax policy resource. Should new or emerging issues arise over this period (which do not currently fit within these areas), we will work with officials and Ministerial colleagues (where appropriate) to determine how to best prioritise these issues alongside existing items or commitments.

#### **Details of the TPWP for 2021/22**

16. The TPWP has been arranged around seven key tax policy areas that support the Government's wider social, economic and fiscal objectives.
17. Details of these areas, and the more significant items within them, is set out in further detail below. This includes key deliverables, timeframes, and an explanation as to how they reflect wider Government objectives for revenue policy as set out in the Revenue Strategy. A high-level summary of the TPWP is attached in *Appendix Two*.

#### **Integrity of the tax system**

18. This area of work strongly links to the Government's Revenue Strategy fairness objectives. Work in this area will include ensuring that the new 39% top personal rate applies appropriately and includes the collection of data on the use of trusts. As part of our maintenance of the system work, we will also focus on integrity of the system.
19. The TPWP also includes work on the development of a reporting framework against a set of tax principles. These principles and the reporting requirements would be included in legislation.

#### **International tax**

##### *Multinational taxation*

20. Adapting the international tax framework to reflect changing business models and ensure that multinational firms pay their fair share of tax is an area of focus in the Government's Revenue Strategy.

21. The work in this area includes New Zealand's ongoing engagement with the OECD on their two 'pillars' of work. Any OECD solution has the potential to fundamentally change the international framework and also ensure a more sustainable international tax system going forward. Pillar One would allocate new taxing rights to source/market countries and Pillar Two would help address remaining base erosion and profit shifting concerns and/or the 'race to the bottom' of corporate tax rates. Current OECD estimated timelines are that agreement on both pillars of work should be reached in principle in June/July, with more detailed solutions being agreed in time for a scheduled G20 Finance Ministers meeting in October 2021. However, because of its multilateral nature and the need for both domestic and international reforms, effective implementation of any OECD solution will take place sometime after that.

22. s 6(a)



#### *Cross-border taxation*

23. As part of the COVID-19 recovery, it is likely that there will be considerable numbers of workers entering New Zealand for employment opportunities or to work on specific projects once the borders open. Officials are working on a consultation document that aims to reduce some of the complexity and compliance costs faced by New Zealand businesses and international workers.

#### *Taxation of the sharing and gig economy*

24. Officials are working on the development of a discussion document which would consult on options for making it easier for operators in the sharing economy to comply with their tax obligations. This follows on from work undertaken by the OECD which identified a broad range of options for information collection and withholding by platforms that countries could consider implementing in their domestic legislation.

#### *Treaties*

25. The international area also includes ongoing negotiation and implementation of bilateral double tax agreements. In practice, these negotiations have been affected by COVID-19. However, there is an expectation that negotiations will be able to resume at some point in the medium term.

#### **Maintaining the tax system**

26. This area focuses on both policy and remedial matters to maintain the tax system. Tax legislation needs to be regularly maintained and updated in response to changing technology, business practices, jurisprudence or other factors. Allocating sufficient resource to this area is strongly supported by external stakeholders. If unresolved, these issues can lead to high compliance costs and non-compliance. In this regard the work in this area is strongly linked to the Government objectives in its Revenue Strategy. It is also important to ensure that the tax system continues to raise sufficient revenue to support other Government priorities.

## Stewardship

27. Stewardship is one of the public service principles embedded in the Public Service Act 2020. The stewardship principle covers long-term capability, institutional knowledge and information, systems and processes, assets, and legislation administered by agencies.
28. The stewardship area can be divided into:
  - 28.1 Regulatory stewardship – ensuring that the legislation administered by agencies is fit for purpose and best placed to deal with current and future challenges; and
  - 28.2 Policy stewardship – ensuring agencies are well-placed to advise on policy areas for which they are responsible with a future focus.
29. Inland Revenue’s next planned stewardship review will be focussed on fringe benefit tax (FBT). This will also inform the need for any policy and legislative changes and is particularly important when considering the taxation of labour. This work will commence in the next few months.
30. The policy stewardship programme includes the new requirement under the Public Service Act for agencies to prepare long-term insights briefings. The Treasury’s long-term insights briefing is being incorporated into its Long-Term Fiscal Statement and will be published in September 2021. It considers, amongst other things, the sustainability of revenue bases over the medium to long term. Inland Revenue’s long-term insight briefing (due to be published in 2022) will cover the cost of capital and its links to productivity.
31. In addition, Inland Revenue is leading a research *project Ensuring the Tax System is Operating Fairly*, which will collect information on the level of tax paid by high-wealth individuals and their related entities as a proportion of their economic income.
32. Across the TPWP there is also ongoing work focused on the collection and public release of information to support policy advice, evaluation and public debate on policy issues.

## Sustainable economy and the environment

33. This area supports the Government’s objective of transitioning to a more sustainable and low-carbon economy.
34. A key part of the environment/sustainable economy area is the Government’s consideration of the Tax Working Group’s framework for taxing negative environmental externalities and pricing the use of resources. Officials are developing aspects of this framework alongside other agencies, with a view to undertaking public consultation on the framework later in the year.
35. Inland Revenue has been working with the various agencies and departments that already have work underway relating to environmental taxes. Officials have also been keeping a watching brief on environmental tax proposals in New Zealand and internationally.

36. Inland Revenue is also reviewing existing tax provisions to ensure the tax system is not biased against environmentally friendly investment and behaviour. Two examples of this are work on the application of fringe benefit tax to employer-subsidised transport and planned (targeted) consultation on petroleum development expenditure rules.

### **Tax administration**

37. The Government expects Inland Revenue to maintain public confidence by administering the tax system in a fair and efficient manner. This involves ongoing improvements to legislation regarding tax administration to support changes to the way tax is administered by Inland Revenue. It is also important for Inland Revenue to leverage the assets developed through its Business Transformation programme to ensure effective tax administration.
38. With Business Transformation nearing completion, it is timely to build on the benefits it is providing and the opportunities it has enabled to think about the next tranche of changes for tax administration. Officials are preparing a green paper that will cover these areas and articulate the likely direction of change for tax administration over the next 5-10 years.
39. The Labour Party Manifesto included reference to overhauling the Accounting Income Method. Officials are exploring how this regime can be improved. Tax administration also covers aspects of the tax system such as Approved Information Sharing Agreements to support the functioning of joined-up government services, the tax treatment of lump sum payments, and various KiwiSaver matters.

### **Taxation of residential investment property**

40. The Government has announced its intention to introduce significant changes to the taxation of residential investment property. These changes complement other measures announced by the Government relating to the housing market.
41. The Government's objectives for housing are:
  - 41.1 to ensure that every New Zealander has a safe, warm, dry, and affordable home to call their own – whether they are renters or owners;
  - 41.2 to support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers; and
  - 41.3 to create a housing and urban land market that credibly responds to population growth and changing housing preferences, that is competitive and affordable for renters and homeowners, and is well-planned and well-regulated.
42. To further these aims, the Government is introducing two changes to reduce the tax advantages enjoyed by residential property investors. The measures are:
  - 42.1 extending the length of the bright-line test for residential property from a five-year period to 10 years; and

- 42.2 further limiting deductions for interest incurred on residential investment property (other than interest incurred in relation to property development and acquisition of new builds).
43. A discussion document is due to be released in June outlining the design of the interest limitation rules. The extension of the bright line test to 10 years has already been enacted. However, some technical issues relating to the bright line test are also discussed in the document. Following a five-week consultation period, the final design of the rules and the draft legislation will be submitted to Cabinet in September and announced publicly before the application date of the new rules on 1 October 2021. Legislation will be introduced into the House in October and go through a select committee process and is expected to be enacted before 31 March 2022.
44. The estimated revenue to be raised by the interest limitation measure will also be submitted to Cabinet once the final design of the rules has been agreed.

### **Non-tax policy areas**

45. The following three areas involve significant Inland Revenue policy resource and it is appropriate to note them to provide a full picture of the demands on officials' time.
- 45.1 COVID-19 response: officials will continue to administer and make changes, as necessary, to COVID-19 related initiatives administered or supported by Inland Revenue. Examples include: Small Business Cashflow Scheme, Resurgence Support Payment, Wage Subsidy Scheme and Leave Support Scheme.
- 45.2 Non-discretionary other agency work: tax policy officials are often required to provide input into work being led by other government departments. This is important non-discretionary work that accords with a Government priority but may have delivery implications for Inland Revenue, or may require advice from a tax policy perspective. If tax policy officials do not contribute to this work, then the tax aspects could be overlooked, or this work may not be able to be delivered effectively. Examples include addressing the tax implications of the Three Waters Reform, local government taxation, Charities Act review and helping agencies understand the GST implications of their policy proposals.
- 45.3 Social policy: Social policy is a distinct policy area in its own right; however changes to social policy have impacts on the tax system and therefore require tax policy resource. The following Government commitments relating to social policy are particularly relevant:
- Social insurance: a number of agencies (including Inland Revenue, the Treasury, the Ministry of Business, Innovation and Employment, and the Ministry of Social Development), Business NZ, and the New Zealand Council of Trade Unions are jointly designing a social unemployment insurance scheme which could support workers to retain about 80 percent of their income for a period after they lose their jobs. Public consultation will occur later this year.

- Welfare Overhaul: Later this year Inland Revenue, the Ministry of Social Development, the Department of Prime Minister and Cabinet and the Treasury will provide advice on reforming Working for Families tax credits. Inland Revenue is also supporting areas on the Welfare Overhaul work programme that interact with social policy products that Inland Revenue administers.

## Publication of the TPWP

46. We intend to publish *Appendix Two* when the TPWP is announced. This Cabinet paper, the associated Cabinet minute and policy papers will also be proactively released as part of the Government's usual proactive release process, no later than 30 business days after decisions have been taken by Cabinet.
47. Publishing the TPWP is important for maintaining transparency and confidence in the tax system. This TPWP has a heavy focus on deliverables to be completed in 2021/22 and, unlike in previous years, has been kept at a purposefully high level to provide officials with flexibility when dealing with a full programme of work.
48. Stakeholders have told us that understanding key deliverables and the possible timing of different items of work on the TPWP is important to them. It means that stakeholders can see the Government's tax policy priorities and can plan for providing feedback on proposals. As this TPWP is purposefully high level, these details cannot be readily determined from the published document. However, officials are committed to the formalised Generic Tax Policy Process and will readily engage with stakeholders to give them visibility of what is coming up and when their input is needed.

## Consultation

49. Officials from Inland Revenue and the Treasury have been involved in refreshing the TPWP for 2021/22.
50. As part of the development of the TPWP, officials sought feedback from stakeholders on what they saw as priorities for the Government's work programme. Officials received responses from the Corporate Taxpayers' Group, and Chartered Accountants Australia New Zealand. The purpose of this consultation was to provide stakeholders with the opportunity to suggest their priorities for the next TPWP so that these could be considered by the Government in setting the work programme. In general, most stakeholders were particularly interested in the work on taxation of labour income and in the possibilities for leveraging the Business Transformation asset. They were also supportive of an ongoing remedial and maintenance programme.
51. The consultation undertaken to date is only the first step of a wider strategy for engagement. Further engagement is planned as the policy development process begins for each individual item or policy project on each respective TPWP area. Effective engagement will be guided by the Generic Tax Policy Process and will require:

- 51.1 greater integration and networking across a wider set of stakeholders and interested parties, including other businesses, social partners, Māori/iwi and across Government;
- 51.2 seeking stakeholder perspectives at all stages in the policy development process; and
- 51.3 greater diversity and inclusion in the policy process, through involvement of other areas and applying differing 'lenses' to a common problem/issue/opportunity.

### **Financial Implications**

- 52. While the formulation of the TPWP does not give rise to any fiscal implications itself, the potential fiscal impacts for the areas on the TPWP were considered as part of the overall development of the TPWP.
- 53. 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. These fiscal impacts will be managed through the tax policy scorecard and the Budget process.

### **Legislative Implications**

- 54. The formulation of the TPWP 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 are not limited, to the Income Tax Act 2007, the Tax Administration Act 1994 and the Goods and Services Tax Act 1985. The changes would also involve the enactment of a Tax Principles Bill.

### **Impact Analysis**

#### **Regulatory Impact Statement**

- 55. A Regulatory Impact Statement (RIS) is not required for the TPWP. Inland Revenue and the Treasury will prepare RISs for specific projects on the TPWP as required.

#### **Population Implications**

- 56. There are no population implications arising from the publication of the TPWP. Any specific population implications will be considered when specific projects on the TPWP are being developed.

#### **Human Rights**

- 57. The formulation of the TPWP 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.

## Proactive Release

58. We propose to proactively release this Cabinet paper, associated minutes, and key advice papers with appropriate redactions within 30 working days of Cabinet considering this paper.

## Recommendations

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

1. **note** that the Government's Revenue Strategy was included in the Fiscal Strategy Report released as part of Budget 2021 (reproduced in *Appendix One*);
2. **note** the Government's Tax Policy Work Programme for the 2021/22 year (as outlined in this paper and *Appendix Two*);
3. **note** that the TPWP has been informed by the Government's Revenue Strategy, wider Government priorities, election manifesto commitments and Ministerial priorities;
4. **note** that we will announce the TPWP in early July 2021, and that high level details of the TPWP (*Appendix Two*) will be published on Inland Revenue's tax policy website;
5. **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 David Parker  
Minister of Revenue

## Appendix One: Revenue Strategy

The Revenue Strategy has been updated in Budget 2021 to reflect changes already announced by the Government, including the change to the top income tax rate, which came into effect on 1 April 2021.

Public finances, including government revenue, are important for wellbeing. Public policy supports New Zealanders' wellbeing when the social benefits of government expenditure outweigh the social costs of raising revenue.

Government revenue underpins many of the Government's overarching policy goals by funding the social expenditure needed to meet these challenges. In some cases, revenue policy has a more direct role in contributing to these goals, through stimulating economic activity in some areas and trying to shift socially costly behaviours in others. This includes policies that support the economic recovery, promote housing affordability and mitigate climate change.

Government revenue needs to be sufficient to ensure a sustainable fiscal outlook. The level of revenue will be maintained to be consistent with reducing operating deficits and stabilising net core Crown debt as a percentage of GDP by the mid-2020s and then reducing it as conditions permit (subject to any significant shocks).

A sustainable revenue base is critical for managing fiscal pressures over the long term. These pressures relate to the ageing population, healthcare costs, infrastructure demand and the need for resilience to climate change and other shocks. There is also rising global concern with inequality and many countries, including New Zealand, face the challenge of fostering inclusive growth.

The Government's revenue policy objective is to raise sufficient revenue in a fair and efficient manner. This policy objective will assist in fostering inclusive growth. The Government's fairness objectives for the tax system are:

- *Progressivity*: individuals with a higher income, and therefore ability to pay, should pay a greater proportion of their income in tax.
- *Reducing inequality*: the tax system should help in limiting excessive wealth inequality over the longer term.
- *Horizontal equity*: the principle that people that are in the same position should pay the same amount of tax.

The efficiency objective is to minimise the economic costs of raising revenue, subject to the Government's revenue and fairness objectives.

Continued public trust and confidence in the tax system and its administration is important. This supports voluntary compliance and broader social capital.

The Government has a strong focus on the fairness of the tax system. This means that the income tax system should be progressive and, in combination with transfers, reduce income inequality. The Government has increased the progressivity of the personal income tax system with a new top tax rate.

## IN-CONFIDENCE

The tax framework is based on the principles of a broad base-low rates and neutrality. This generally applies, although taxation of capital is not as broad based as income. Income and consumption tax bases are broad in the sense that there are few specific concessions for particular economic activities, goods or services. This enables tax rates to be set lower than otherwise. Neutrality in the tax treatment of different investments promotes economic efficiency and productivity.

In some cases, revenue policy will be used to influence behaviour. This is appropriate only where there is clear evidence of net social benefits, tax policy is the most appropriate instrument and fiscal risks can be managed. As an example, the research and development tax incentives promote business innovation.

People and businesses must pay their fair share of tax, including multinational companies. The international tax framework needs to adapt to shifts in the global economy, including increased cross-border activity and digitalisation. New Zealand is continuing to work with the OECD to find a multilateral solution to the challenges that the digital economy poses for international taxation.

Tax settings will continue to be broadly stable and predictable. This supports efficiency and macroeconomic stability.

The Government expects Inland Revenue to maintain public confidence by administering the tax system in a fair and efficient manner. The tax system has been modernised and simplified through Inland Revenue's Business Transformation programme.

The tax system must remain fit for purpose in a changing world. Ongoing work will focus on implementing Government policy, maintaining the integrity of existing revenue bases and monitoring the sustainability and fairness of the tax system. The Generic Tax Policy Process shall be used to develop and consult on tax policy where practicable.

## Stewardship

### Regulatory stewardship

A focus on whether legislation administered by Inland Revenue is fit for purpose from an operational and policy perspective with the next review being fringe benefit tax. This will help to inform the need for future policy/legislation changes and is particularly important for the wider consideration of the taxation of labour.

### Tax policy stewardship

Research work by Inland Revenue involving the collection of information on the level of tax paid by high wealth individuals.

### Long term insights briefings (LTIB)

This is a Public Service Act requirement for all agencies. Treasury's LTIB includes work on medium to long term revenue sustainability. Inland Revenue's work on its LTIB will cover the cost of capital and its link to productivity.

## International tax

People and businesses must pay their fair share of tax, including multinational companies. The international tax framework needs to adapt to shifts in the global economy, including increased cross-border activity and digitalisation. This area will include:

- Work to find a multilateral solution to the challenges the digital economy poses to international taxation (OECD Pillar 1 and Pillar 2 work), and consideration of a digital services tax.
- Taxation of the gig and sharing economy.
- Double tax agreement negotiations.
- Cross-border workers review.

## Sustainable economy and the environment

The Government is committed to improving the environment, and tax settings that promote a sustainable economy are a key part of that. This area will include:

- Developing an agreed interagency framework on when to use pricing instruments for environmental and resource issues (building on the Tax Working Group's work in this area);
- Neutrality: reviewing existing tax provisions to ensure they are not biased against environmentally-friendly investment and behaviour; and
- Contributing to advice on environmental proposals in the Government's work programme (on tax policy and related issues).

## Social policy

The Government is committed to laying the foundations for a better future through continuing to overhaul the welfare system. Inland Revenue has a significant role in delivering social policy. This area will include:

- Welfare reform: This work programme will be led by MSD and will include initiatives delivered by Inland Revenue (such as a review of Working for Families tax credits).
- A social unemployment insurance scheme that would support workers to retain about 80 percent of their income for a period after they lose their jobs.

## Integrity of the tax system

The Government's Revenue Strategy focuses on a fair tax system. This area will include:

- Integrity measures to support the 39% tax rate and data collection of trust information.
- Tax Principles Act – establishing a reporting framework against a set of principles to measure fairness of the system.

# The Government's tax policy work programme: 2021-22

## COVID-19 response

The Government is committed to accelerating the recovery and rebuilding from the impacts of COVID-19. This area will include:

- Working with other agencies on any changes or activation required to a range of COVID response measures including the wage subsidy, leave subsidy, resurgence support payment and small business cashflow scheme. Inland Revenue has a key role in the delivery of these response measures.

## Maintaining the tax system

Tax legislation needs to be regularly maintained and updated in response to changing technology, business practices, jurisprudence or other factors. The Government's Revenue Strategy reflects the need for fairness and certainty in tax legislation. Our remedial work programme will focus on priorities in this area.

## Taxation of residential investment property

The Government is committed to laying the foundations for a better future through addressing housing affordability. This includes making changes to tax settings to improve affordability for first home buyers by dampening investor demand for existing property. This area will include:

- The 'new build' exemption to the extended bright line test and interest limitation.
- Limiting deductions for interest expenses on residential investment property.

The final policy design of the interest limitation rules and the legislation will be released publicly before 1 October and enacted into law by 31 March 2022.

## Tax administration

The Government expects Inland Revenue to maintain public confidence by administering the tax system in a fair and efficient manner. To give effect to this, it is important for Inland Revenue to leverage the assets developed through its Business Transformation (BT) programme. This area includes:

- Tax Administration green paper: Exploring what tax administration will look like in the future and how to effectively leverage the BT assets
- AIM overhaul: Explore any options to improve and simplify the Accounting Income Method of calculating provisional tax.

## Non-discretionary other agency work

Non-discretionary other agency work that is aligned with Government priorities that may have tax consequences or Inland Revenue delivery implications. This area includes:

- Local government reform
- Three waters project
- R&D tax credit
- Free trade agreements
- Tax consequences of Deposit Takers Act
- Charities review





# Cabinet Economic Development 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.*

---

### Release of the Government's Tax Policy Work Programme for 2021/22

**Portfolios**                      **Finance / Revenue**

On 7 July 2021, the Cabinet Economic Development Committee:

- 1        **noted** that the government's Revenue Strategy was included in the Fiscal Strategy Report released as part of Budget 2021 (reproduced in Appendix One to the paper under DEV-21-SUB-0156);
- 2        **noted** the government's Tax Policy Work Programme for the 2021/22 year, as outlined in Appendix Two to the paper under DEV-21-SUB-0156;
- 3        **noted** that the Tax Policy Work Programme has been informed by the government's Revenue Strategy, wider government priorities, election manifesto commitments, and Ministerial priorities;
- 4        **noted** that the Tax Policy Work Programme will be announced in early July 2021, and that high level details of the Programme will be published on Inland Revenue's tax policy website.

Janine Harvey  
Committee Secretary

---

**Present:**

Hon Grant Robertson (Chair)  
Hon Dr Megan Woods  
Hon Chris Hipkins  
Hon David Parker  
Hon Nanaia Mahuta (via zoom)  
Hon Poto Williams  
Hon Damien O'Connor (via zoom)  
Hon Stuart Nash  
Hon Michael Wood  
Hon Dr David Clark  
Hon Dr Ayesha Verrall  
Hon Phil Twyford  
Hon Meka Whaitiri  
Rino Tirikatene MP  
Dr Deborah Russell MP

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV