Inland Revenue

Information Release

COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020

April 2022

Description

This information release includes Cabinet papers, policy reports and advice related to the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020, enacted on 25 March 2020. These were published on the Government's COVID-19 website on 8 May 2020.[1]

The Act covered these topics:

- Income tax
  - Depreciation on non-residential buildings
  - Increase in the provisional tax threshold
  - Increase in the low-value asset write-off threshold
  - Research and development tax credits – broader access to refunds
- Tax administration
  - Use of money interest remission
  - Information sharing
- Social assistance
  - Removal of hours test from the In-Work Tax Credit
  - Winter energy payment
  - Working for Families tax credits entitlement for emergency benefit recipients
  - GST on COVID-19 related social assistance payments

Availability

This information release is available on Inland Revenue's tax policy website at https://taxpolicy.ird.govt.nz/publications/2022/2022-ir-cab-2020-covid-19-tax-measures

Individual documents are available on the Government's COVID-19 website at https://covid19.govt.nz/about-our-covid-19-response/proactive-releases/

Documents in this information release

#	Reference	Type	Title	Date
CAB-20-SUB-0108: COVID-19: Overview of the Government's response and economic response package (16 March 2020)				
1	CAB-20-SUB-0108	Cabinet paper	COVID-19: Overview of the Government's response and Economic Response Package	16 March 2020

[1] https://covid19.govt.nz/about-our-covid-19-response/proactive-releases/supporting-the-economy/ and https://covid19.govt.nz/alert-levels-and-updates/proactive-releases/income-support-measures/

#	Reference	Type	Title	Date
2	CAB-20-SUB-0108	Cabinet paper attachment	Annex Three: Alternate options to extend the Winter Energy Payment and updated financial recommendations	16 March 2020
3	CAB-20-MIN-0108	Minute	COVID-19: Overview of the Government’s response: Economic Package	16 March 2020
CAB-20-SUB-0103: COVID: Tax measures (16 March 2020)				
4	IR2020/123	Tax policy report	COVID-19: Update to Inland Revenue's response and next steps	5 March 2020
5	IR2020/134	Tax policy report	Inland Revenue's tax relief package in response to the 2016 Gastroenteritis outbreak in Havelock North - a comparison	6 March 2020
6	IR2020/139 T2020/616	Tax policy report	Draft Cabinet paper: COVID-19: Tax measures to support affected businesses	11 March 2020
7	IR2020/149 T2020/634	Tax policy report	Cabinet paper: COVID-19: Tax measures	12 March 2020
8	CAB-20-SUB-0103	Cabinet paper	COVID-19: Tax measures	16 March 2021
9	CAB-20-MIN-0103	Minute	COVID-19: Tax measures	16 March 2021
CAB-20-SUB-0118: Order in Council: Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 (23 March 2020)				
10	CAB-20-SUB-0118	Cabinet paper	Order in Council: Goods and Services Tax (Grants and Subsidies) Amendment Order 2020, and amended application dates	23 March 2020
11	CAB-20-MIN-0118	Minute	Goods and Services Tax (Grants and Subsidies) Amendment Order 2020	23 March 2020
CAB-20-SUB-0127: COVID-19 recovery package: increases to main benefits and the Winter Energy Payment (23 March 2020)				
12	REP/20/3/267	MSD aide-mémoire	COVID-19 recovery package: increases to main benefits and the Winter Energy Payment	20 March 2020
13	CAB-20-SUB-0127	Cabinet paper	COVID-19 recovery package: increases to main benefits and the Winter Energy Payment	23 March 2020
14	CAB-20-MIN-0127	Minute	COVID-19 recovery package: increases to main benefits and the Winter Energy Payment	23 March 2020

#	Reference	Type	Title	Date
CAB-20-SUB-0128: R&D Tax Incentive: Reducing the impact of COVID-19 on business R&D (23 March 2020)				
15	2778 19-20	MBIE briefing	R&D Tax Incentive - Reducing the impact of COVID-19 on business R&D	19 March 2020
16	CAB-20-SUB-0128	Cabinet paper	Reducing the impact of Covid-19 on business R&D	23 March 2020
17	CAB-20-MIN-0128	Minute	R&D Tax Incentive: Reducing the impact of COVID-19 on business R&D	23 March 2020

Information withheld

Sections of the Official Information Act 1982 under which information was withheld:

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The Treasury

COVID-19 Information Release

April 2020

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Where this is the case, the relevant sections of the Act that would apply have been identified.

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[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;

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[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Budget Sensitive

Office of the Minister of Finance

Chair, Cabinet

COVID-19: Overview of the Government's response and Economic Response Package

Proposal

1. This paper provides an overview of the Government's initial response to the COVID-19 outbreak and seeks agreement to an Economic Response Package to support firms, workers and vulnerable households.

Executive Summary

2. The economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic, and we need to prepare for a major slowing in economic activity.

3. Our first priority is to support New Zealand's public health system, and the Minister of Health will seek the establishment of a $500m contingency from Cabinet this week to support response to the outbreak

4. I propose that the response focus initially on the following elements:

   4.1 **A Health** package, including:

      4.1.1 support for the health system to enable the necessary public health response so New Zealand can slow any potential domestic outbreak of COVID-19

      4.1.2 3 [redacted] and

      4.1.3 A COVID-19 Leave payment scheme, which is a financial assistance scheme to incentivise self-isolation for people unable to work with a cost of up to $126m for the initial 8 week period.

   4.2 **A Business and Worker Support** package to cushion the impact of the economic shock on firms and workers and support confidence in the near-term. This will include:

      4.2.1 A temporary wage subsidy, which will be proposed in a separate Cabinet paper

4.2.2 Employer support - officials are working with banks on potential options for working capital support, and developing advice as to how the Government could provide support for larger firms.

4.2.3 Support for worker redeployment of $100 million across the forecast period - a separate Cabinet paper will propose to allocate $28.2 million support for the Tairāwhiti region, made up of training, transport, administration, assurance and other project related services.

5. **Phase 1 of a Recovery package** to support beneficiaries and confidence during the early phase of economic recovery, comprising three elements:

- A $25 per week increase to the rates of all main benefits
- An extension of the Winter Energy Payment period until the end of 2020, and an increase to the rates of payment of $1,500 over the 2020 period
- Remove the hours test from the In Work Tax Credit

6. In addition, officials from the Ministry of Transport and the Treasury are undertaking work on an aviation sector package, and the Minister o Transport and I expect to make an initial set of announcements on this package on Tuesday 17 March.

7. We will need to consider Phase 2 of a Recovery package in future, to support confidence and a broader economic recovery. We will have the opportunity to make further decisions ahead of Budget 2020 if required.

8. Banks are well-placed to support businesses through this period – they hold significant buffers of excess capital and liquidity over regulatory minimums. The Reserve Bank has the ability to provide liquidity support to the banking system and will announce measures that it is taking to support financial markets and the economy on Monday, which I have been briefed on and the Treasury has been engaged with.

9. 25 [redacted]

Background

10. We need to act now to slow the COVID-19 outbreak in New Zealand and flatten the curve. As such, our first priority has to be supporting our public health system.

11. We also need to announce an Economic Response Package in response to the economic outlook that has deteriorated significantly as the COVID-19 outbreak has become a global pandemic. The pace of events is moving rapidly. Many major economies are seeing exponential outbreaks of the virus, and instituting public health responses that will slow down the global economy.

12. This confluence of events will have immediate and ongoing impacts on external demand and economic confidence. In addition, domestic public health responses and the risk of eventual widespread community transmission in New Zealand will have major impacts on labour supply and significant sectors of the domestic economy.

13. Evidence of lower global business confidence have become more apparent and are reflected in sharp falls in equity markets. Given the scale of the economic disruption, there is a risk that global credit markets could be affected. A range of countries have announced economic measures, which in most cases are packages aimed at targeted support to affected households and firms. In addition, central banks around the world have also been rolling out measures to support liquidity and credi markets.

14. Reductions in travel and tourism, including due to our border decisions will lead to a major economic downturn. The situation will continue to change quickly but I expect that the economic shock will become even more severe. Broadly speaking, there are two ways in which this could occur:

- The external demand shock intensifies. This could occur through increased disruption in a major trading partners such as Australia or China, or the United States as the world's biggest economy, a fall in global business confidence or extended disruption to financial markets

- A COVID-19 outbreak in New Zealand leads to widespread containment and quarantine.

15. This requires an urgent economic response package to cushion firms and workers from the worst effects that can be implemented as soon as possible.

Our Economic Response Package

16. As events unfold it appears that the size of the shock from COVID-19 could be larger than the Global Financial Crisis (GFC). The rapid deterioration in the economic outlook and the likelihood of widespread internal disruption suggest the need of fiscal policy to provide additional support to businesses and households.

17. Relative to the GFC, there will likely be more dependence on fiscal policy given that moneta y po icy is constrained. Between June 2008 and April 2009 the Official Cash Rate (OCR) fell by 5.75 percent. The OCR has been reduced today to 0.25%, and will be held there for at least a year. Conventional monetary policy will be able to provide limited further support.

18. Our economic response package needs to be designed for the nature of the disruption caused by COVID-19. This means a package with three immediate components:

- Support to the health system that enables the necessary public health response so New Zealand can slow any potential domestic outbreak of COVID-19, including sick leave measures.

- A substantial package to cushion the impact of the economic shock on businesses and workers, and support confidence in the near-term.

- The first phase of a broader recovery package to support household incomes through the shock and to spur the economic recovery.

19. The ultimate recovery package will go beyond the measures presented here. Having announced the package described in this paper, I intend to re-orient Budget 2020 to be the second phase of the broader recovery package. We also have the option of moving again before the Budget.

20. Subsequent phases of the recovery package will include rebuilding linkage with our international trading partners and looking for opportunities to work to our goal of a more productive, sustainable and inclusive economy. The next phases of the recovery package are not the subject of this paper but will be progressed as required and as the situation begins to normalise.

21. There are also four guiding principles for our response. Any measures the Government takes must be:

    - timely,

    - fiscally sustainable,

    - targeted to those who need it, and

    - proportionate to the level of the economic shock.

Supporting New Zealand's public health system

Public health response

22. The Minister of Health will seek the establishment of a $500 million contingency from Cabinet this week to support the public health response to the outbreak. This will be established outside Budget allowances. At the same time, specific costs associated with the publ c health response (to scale up public communications and support, continuity of care in the community, and testing and tracing cases) will be agreed and appropriated from the contingency. This will allocate approximately half the contingency leaving the remainder available to respond to the requirements of the wider sector as need arises.

23. There is a recognition that further funding over and above the $500 million contingency may be required as part of an 'All-of-Government' Strategic Response Plan to manage the public health response in the longer-term. Officials are still working to determine the scale of future costs.

33

33 [redacted]

Expanded provision of sick leave

25. The COVID-19 Leave payment scheme is a financial assistance scheme to incentivise self-isolation by employees, self-employed and contractors which supports the Government’s public health response to COVID 19, by encouraging self-isolation. It will provide support (through employers) for those people unable to work who are in self isolation, sick or caring. Employers will b expected to meet all of their sick leave and other employment expectations. The payment would be administered by MSD. To enable rapid roll-out, it is a simple payment that relies on high trust and therefore comes with consequent risks of some overpayment and other moral hazard risks. The scheme co ts are highly uncertain, but estimated at $126 million for 8 weeks (and could increase significantly with high take-up or where there is extension beyond 8 weeks). There is overlap with the wage subsidy scheme, but this is unavoidable given this scheme is supporting a public health objective, and so needs to have a broad coverage with imited exemptions.

26. There is an accompanying Cabinet paper to agree the design, including the rate of payment, and implementation for this scheme to provide financial assistance to incentivise and support those in self isolation or on sick leave due to COVID-19.

Business and worker support

27. Supporting business and workers through the shock will limit the extent of the fall in output, and ushion the impact on households and firms most affected by COVID-19. The aim is to l mit the disruption caused by public health measures implemented in New Zealand and internationally, as well as mitigate the negative confidence effects.

28. I am recommending a number of initiatives that will support these goals, some of which have already been announced and some of which are being worked on. These include:

- training and redeployment options for affected employees,
- a temporary wage subsidy scheme for workers and firms impacted by COVID-19,
- working capital support for small and medium sized businesses, and
- support for large enterprises.

29. I also propose including four tax initiatives as part of the business and worker support package:

- remission of use of money interest payments,
- expansion of immediate expensing for low value assets,
- reinstatement of depreciation deductions for commercial and industrial buildings, and
- increasing the threshold for provisional tax.

Training and redeployment for affected employees

30. Within the Economic Response package we have set aside $100 million across the forecast period to support worker redeployment. The first decision, set out in the Cabinet paper on a Tairāwhiti economic support package, will be considered by the Ad Hoc Cabinet Committee on COVID-19 Response (CVD) on Wednesday. This proposes $28.2 million to support for the Tairāwhiti region, made up of training, transport, administration, assurance and other project related services.

Wage subsidy scheme

31. The wage subsidy scheme is a temporary scheme to support workers and firms impacted by COVID. Many employers run on low margins, and many employees are in relatively low wage work (hospitality, forestry, and accommodation). This limits the capacity of those employees and employers to plan for significant disruptions of this scale. There also appears to be a gap in the insurance market for products which cover large-scale pandemic events, because of the scale of costs that would need to be covered. There is a role for Government to act as an insurer of last resort for businesses that cannot reasonably self-insure.

32. Details of the scheme are laid out in a separate Cabinet paper. Key design settings are laid out below.

Design	**Proposed setting**
Sectors	All sectors eligible
Regions	All regions eligible
Disruption to business	30% decline in revenue compared to the year before (can include forecast revenue)
Scale of subsidy (er full time worker)	$585.80 for full time per week or $350 for part time
Durati n o support	12 weeks (and then reviewed)
Duration of the scheme	12 weeks from the date of announcement (Tuesday 17 March)
Maximum subsidy per business	Cap of $150,000
Other pre-qualifications	Business must have taken active steps to mitigate the impact of COVID-19 (eg. engaged with their bank) and sign a declaration form to that effect.
Administering agency	MSD, with support from IR

Working capital support for small and medium sized businesses

33. Officials are meeting with banks to discuss the potential for future working capital support, including in the form of loan guarantees for businesses that face temporary credit constraints. Support provided by the Crown is best done in conjunction with banks, as they are best placed to understand their customers' needs and have infrastructure and processes in place to provide this support. The Crown is not well placed to implement direct lending facilities to a large number of small firms at pace.

34. A loan (or other types of debt facility) made available by banks to corporate entities but guaranteed by the Crown has the effect of de-risking the lending (from the bank's perspective). This should therefore allow working capital to be made available to firms that banks may not otherwise be prepared to provide.

35. It is critical that a scheme creates strong incentives for banks and firms to only use the scheme as a last resort, and where the borrowing business is expected to be commercially viable over the longer-term.

36. The NZBA has indicated banks will assist affected businesses. Depending on the customers' individual circumstances, potential options for support include:

- reducing or suspending principal payments on loans and temporarily moving to interest-only repayments
- helping with restructuring business loans
- consolidating loans to help make repayments more manageable
- providing access to short-term funding
- referring individual customers to budgeting services.

37. There are risks involved in government taking action or indicating a response too early. It may discourage NZBA lenders, and firms from exploring alternative solutions already ava lable to them.

38. Officials have begun working on options and are in discussions with banks to understand the nature of the problem, their capacity, what support they require, and the parameters o a guarantee scheme. Officials are meeting with banks on Monday, 16 March 2020.

39. In respect of any guarantee scheme, the government will seek to include the fol owing key design features, which could be tailored to support Ministerial objectives:

- Eligible firms must be otherwise viable but impacted by the COVID-19 shock
- The scheme would cover new or increased borrowing
- A maximum lending limit per firm
- Banks would be required to pay a fee to the Crown to utilise the scheme
- Time limited.

40. The design of the guarantee scheme will depend on Ministerial objectives and negotiations with the banks. The design of the scheme is scalable (i.e. could be designed to cover different size of businesses).

41. The scheme is likely to generate significant fiscal risk to the Crown, as an unknown proportion of borrowers may be unable to repay the loan. The fiscal risks can be managed to some extent through elements of the scheme design such as overall size, per firm limits, and terms and conditions.

42. I do *not* intend to make any public announcements on Tuesday on the specifics of any guarantee scheme given banks' partnership is essential and discussions with them are still ongoing.

43. However, I intend to publicly announce that officials are in discussions with banks to understand the extent of the problem, their capacity, what support they require, and possible government assistance. Officials will update me as work and negotiations with banks progress, and further public announcements may be made as work progresses.

Support for large or complex businesses

44. Some businesses may fall outside the scope of the proposed business and employee support package (including working capital support), such as large or complex businesses. I have asked the Treasury to develop options to allow the government to support larger businesses that have been materially impacted by COVID-19, where other avenues for support are not available, and the businesses are commercially viable over the longer-term. Any support would seek to mitigate the economic impact as adjustment occurs. I anticipate that any interventions will be case-by-case for larger businesses

Remission of use of money interest payments

45. Use of money interest (UOMI) is used to compensate the Government for the time value of money lost due to taxpayers underpaying their tax. It applies to all tax types administered by Inland Revenue, as well as underpayments of tax that are withheld at source, and Working for Families debt.

46. A separate Cabinet paper from the Minister of Finance and Minister of Revenue (to be considered at Cabinet on Monday 16 March) proposes to give the Commissioner of nland Revenue a time-limited discretion to remit UOMI if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-9 outbreak.

47. This measure will provide targeted relief to directly-affected taxpayers facing cashflow pressures and apply for all tax payments due on or after 14 February 2020. The eligibility criteria for interest remission would be aligned where possible with the eligibility criteria for the Wage Subsidy Scheme. Inland Revenue has produced communications materials to assist taxpayers to determine whether they are eligible for UOMI remission.

Expansion of immediate expensing for low value assets

48. Immediate expensing allows businesses to fully deduct the cost of low value assets when they are purchased (rather than spreading the deductions over many years). The threshold for the low value asset write-off is currently $500.

49. An increase in the threshold for writing off low value assets would reduce compliance costs for businesses and increase cash flow (by reducing tax to pay). It would also have the side-benefit of stimulating business purchases.

50. I recommend that we agree to a one-year temporary increase in the threshold to $5,000, reverting to $1,000 in the longer term, with a cost of around $0.7 bi lion over the forecast period. This measure will apply for the 2020-21 income year (generally beginning on 1 April 2020).

51. The temporary nature of the increase will create an additional incentive for businesses to bring forward purchases (i.e. before the threshold reverts to a lower level in the longer term), which will help provide additional support to the economy in the recovery phase.

Reinstatement of depreciation deductions for buildings

52. The previous Government abolished depreciation deductions for buildings in 2010. The recent Tax Working Group reviewed the international evidence and concluded that industrial and commercial buildings do depreciate. Therefore, the current rules regarding depreciation deductions create a distortion in the tax system that discourages investment in buildings.

53. A reintroduction of depreciat on deductions for buildings would encourage business investment in the recovery phase, support productivity and enable the capital costs of the seismic strengthening of a building to be depreciated. It would also increase cashflow (by reducing tax to pay for building owners) and serve as a broader demonstration of Government support for the business sector.

54. I recommend tha we agree to the reinstatement of depreciation deductions for buildings for commercial and industrial buildings (at a 2% diminishing value) for the 2020-21 income year (generally beginning on 1 April 2020). This will have a cost of around $2.1 billion over the forecast period.

Increasing the threshold for provisional tax

55. Provisional tax is paid in instalments during the year, instead of a lump sum at the end of the year. Provisional tax must be paid by all taxpayers who had to pay more than $2,500 at the end of the year from their last return.

56. I recommend that we agree to increase the threshold for provisional tax from $2,500 to $5,000. This measure will take effect for the 2020/21 income year (generally 1 April 2020). This measure will reduce cashflow pressure and compliance costs for small taxpayers by allowing roughly 95,000 taxpayers to defer their tax payments.

Recovery Package: Phase 1

57. The business and worker support measures and the public health response described above will offer a total of $8.8 billion in support to the economy over the next five years. This could be substantially higher if either the wage subsidy or sick leave schemes are extended longer than anticipated.

58. This funding will enable a strong public health response, support businesses and workers through the immediate effects of the shock, and improve confidence in the near-term. Fiscal policy will need to further support the economy to ensure a recovery takes hold. This support should aim to boost household incomes, and provide support beyond the immediate effects of the shock.

59. Accordingly, I recommend that, in addition to the above, we implement an initial recovery package to boost incomes and support households through the first phase of the recovery. I recommend an initial recovery package comprising three elements:

- A $25 per week increase to the rates of all main benefits
- An extension of the Winter Energy Payment period until the end of 2020, and an increase to the rates of payment of $1,500 to al over the 2020 period
- Remove the hours test from the In Work Tax Credit

60. This will only be the first phase of the package to support the recovery. The eventual package will need to go beyond this.

Main benefit increase

61. In their final report, the Welfare Expert Advisory Group (WEAG) identified key problems with the current income support system and proposed a comprehensive package of substantial changes to income support. Officials' own assessment of WEAG's analysis supports the conclusion that benefit incomes are inadequate.

62. I propose increasing the rates of all main benefits by $25 on 1 July 2020. MSD estimates that this would increase the incomes of approximately 350,000 low income families. Providing more support for all families receiving a main benefit would improve income adequacy at a population level and reduce poverty. It would ensure families on the lowest incomes have more income to meet their everyday living costs. This will also help as more people are likely to need income support in the coming months who have previously been in work.

63. Under current settings for Temporary Additional Supplement (TAS), the main benefit increase will result in some clients with high disability costs being financially disadvantaged. I propose introducing a Transitional Additional Payment (TAP) to ensure that no-one loses from the increase to main benefit rates.

In Work Tax Credit

64. The IWTC is an income-tested cash payment of $72.50pw ($3,770 per year) to working families with children. To be eligible families must be “normally” working at least 20 hours a week (sole parents) or 30 hours a week (couples). This provision allows recipients to keep receiving the IWTC over short periods with fewer hours-worked, such as sick leave or vacation. However, it does not allow workers with unpredictable or variable hours, such as shift workers or those with multiple jobs, to receive the IWTC when their hours-worked drop below the threshold.

65. I propose extending eligibility for the IWTC to all families who are not receiving a main benefit and have some level of employment income each week, by removing the hours test. This is an important change as people may face a reduction of, or variable hours, in the wake of the COVID-19. This option would cost $32 million per year.

Winter Energy Payment supplement

66. The Winter Energy Payment (WEP) is a non-taxable, non-income tested benefit paid with the client’s main benefit, New Zealand Superannuation or Veteran’s Pension to help eligible people meet their household heating costs during the winter months. WEP is paid automatically for 22 weeks between 1 May to 1 October and doesn’t affect other payments received by MSD (e g. it is not counted as income for other assistance). The current rates of WEP are:

- Single people with no dependent children: $20.46 a week ($450 per year)
- Couples, and people with dependent children: $31.82 a week ($700 per year)

67. I propose extending the WEP payment period to the end of 2020, and increasing the total payment received per recipient by $1 500 over the 2020 period.

68. It is estimated that around 850 000 WEP recipients would benefit from this change. Once we include the partne s of recipients, over 1 million people are expected to benefit.

Further Economic Considerations

Impact on the aviation industry

69. While c itical for the preservation of public health, the enhanced border measures announced on 14 March will have a severely adverse impact on the aviation sector. We already know that the number of arrivals into New Zealand has fallen significantly as a result of the previous border restrictions as well as the global uncertainties around COVID-19. The enhanced measures will pose significant challenges to the viability of international air travel to and from New Zealand over the short to medium term.

70. I consider that the Government has a key role to play in supporting the aviation sector in order to: maintain connectivity for critical freight flows (for example, pharmaceuticals, key time critical machinery); prevent those working in the aviation sector from bearing the economic brunt of the border restrictions; and encourage key

airlines to remain in New Zealand so that when borders re-open we can quickly recover international connections and tourism.

71. Officials from the Ministry of Transport and the Treasury are undertaking work on an aviation sector package, which comprises three areas

- Support for Air New Zealand
- Support for airports
- Maintaining key freight flows and assisting the return of international connections

72. These work areas are inter-related: support for airlines and services will provide benefits for airports, maintaining freight flows may also provide support to A r New Zealand, and there may be relief measures which provide benefits to a range of aviation operators.

73. This work will have significant linkages with other parts of the Government's economic response, particularly the business and worker support package. I expect officials to consider these in order to ensure Ministers are able to take fully informed decisions.

74. I have asked the Minister of Transport, Hon Phil Twyford, in consultation with me, to take responsibility for leading work on the aviat on package. However, issues relating to the Crown's ownership interest in entities such as Air New Zealand will remain the responsibility of shareholding Ministers.

75. The Minister of Transport and I expect to make an initial set of announcements on the aviation sector package on Tuesday   7 March, focussed on Air New Zealand. At the same time a broader suite of measures will be signalled to come in a few days after discussions with key aviation stakeholders. This will provide time for officials to work with airlines and airports to understand impacts, what is happening with services, and potential support mechanisms.

Impact on financial markets

76. 25 [redacted]

77. Banks currently hold significant buffers of excess capital and liquidity over regulatory minimums.

78. The Reserve Bank is working closely with me and the Treasury. It has today lowered the Official Cash rate and announced a range of measures to support liquidity, including delaying new bank capital requirements by a year. It is actively supporting liquidity in domestic wholesale markets and is monitoring this regularly. Longer-term, banks may be impacted by a rise in loan defaults which may be influenced by a sustained rise in unemployment.

79. The Reserve Bank is in regular contact with banks and is setting up enhanced frameworks to get data and information from banks on liquidity and loan portfolio performance. The Reserve Bank will keep me updated on emerging pressures that may affect the stability of the wider financial system.

Impact on our fiscal strategy

80. The fiscal position will deteriorate significantly as a result of the shock from COVID-19. This will be driven in part by the automatic stabilisers, which will see welfare payments increase and tax receipts reduce. Further deterioration will come as a result of the fiscal cost of measures implemented in this package.

81. Our Budget Responsibility Rules always included the caveat of a majo global economic shock. There is no doubt that is the situation we now face Given our low levels of net debt and low interest rates I propose to look through the near term fiscal impact of COVID-19. This would see a near term period of fiscal deficits. We would expect core Crown debt to increase in the near-term beyond the range of 15-25% of GDP.

82. These events will exacerbate existing medium term fiscal challenges. Once we are through the crisis, we will need a fiscal rebuilding period to demonstrate a commitment to return to surplus and prudent debt levels within a reasonable period of time.

83. As noted above, after announcing the package described in this paper, I intend to re-orient Budget 2020 to be the second phase of the broader recovery package.

Borrowing implications

84. The deterioration in the fiscal accounts will require an increase in government borrowing. It is appropriate that we provide transparent communication to financial markets about the government's borrowing intentions. Treasury will provide advice to me on the implications of the package for the government borrowing programme ahead of any announcement on this package, and subject to my approval, will make market communications on borrowing intentions shortly after the package is announced publically.

Coordination with Budget 2020

85. The proposals in this paper (and other related proposals that are part of the Economic Response which are in other Cabinet papers) are being treated outside of budget allowances, with a corresponding impact on the operating balance and net core Crown debt. [redacted]
33

86. I have also directed officials to review the initiatives submitted as part of Budget 2020, to ensure that the Budget is targeted to support New Zealand's response and recovery. [redacted]
33

33 [redacted]

87. It is likely that the Government may need to make policy decisions on COVID-19 with fiscal costs once the Budget moratorium has commenced. I am working through a process for how spending can be approved during the Budget moratorium.

Administrative Implications

88. The tax changes proposed will generate additional contacts of a complex nature for Inland Revenue as people seek advice on how these changes impact their situation.

89. Inland Revenue is already under pressure to manage customer demand from the upcoming 2020 auto-calculation period, as well as any implications from Business Transformation Release 4 changes. There are additional expected cumulative impacts that Inland Revenue will also need to manage (including from Budget 2020 items, any further COVID-19 responses, and the impact of reduced baselines due to the reduction of time-limited funding).

90. To manage this additional demand, Inland Revenue will need to reprioritise and manage customer demand.

91. The changes will also require community and s akeholder engagement.

92. The Wage Subsidy Scheme will add to the administrative burden of the Ministry of Social Development, which is already facing an increased workload as a result of COVID 19. I am seeking Cabinet’s agreement that I finalise additional resources for the Ministry in consultation with the Minister of Social Development.

Initial recovery package

93. There may be administrative implications resulting from the main benefit changes. These are being established, and will be agreed by the Minister of Finance and relevant portfolio Ministers.

94. Increasing the existing rate of WEP is relatively simple, compared to other income support options, as it is increasing an existing rate in the system and does not have any flow-on implications to other MSD payments.

Financial Implications

95. The fiscal cost of the economic response package will be around $12.5 billion. The c sts are highly uncertain and will depend on design of individual initiatives. Indicative costs for the three components of the economic response package are set out below:

Fiscal cost ($ million)	2019/20	2020/21	2021/22	2022/23	2023/24	Total over forecast period $million
Public Health Response	-626	-13	-62	-62	-62	-824

Supporting workers and businesses	-5,200	-88	-1,856	-186	-689	-8,019
Recovery package, phase 1	-314	-1,532	-616	-617	-598	-3,679
Total package	-6,144	-1,633	-2,534	-865	-1,349	-12,522

96. The health contingency, 33 [redacted] and sick leave measures, and some of the business and worker support options discussed in this paper (wage subsidies and remission of use of money interest) are the subject of separate Cabinet papers. The financial implication of those measures are included in the table for completeness, although recommendations to give effect to those initiatives a e included in the respective papers.

Tax measures

97. UOMI will be able to be remitted for tax payments due on or afte 14 February 2020. The other three tax measures in this paper will be effective for he 2020-21 income year (generally beginning on 1 April 2020). The benefits o business confidence should be immediate, and the cashflow benefits will begin flowing within weeks. The total cash cost to the Crown will total around $1.4 billion in the 2020/21 fiscal year. However, because of when taxpayers are required to make tax payments, and file their tax returns, there is a lag between when the benefit is realised by taxpayers and when the fiscal costs are be reflected in the Government's fiscal accounts. A consequence of this is the revenue impact on the Government's accounts peaks in the 2021/22 fiscal year before stabilising in following years.

Expansion of immediate expensing for low value assets

98. Officials have prepared early estimates of the potential fiscal impacts of the options for expanding immediate expensing for low value assets. These estimates have been produced under significant time pressure and should be treated as indicative only. Officials will continue to refine these estimates.

	$m increase / (decrease) in revenue					
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total over forecast period**
Temporary increase to $5,000 for one year, reverting to $1 000 thereafter	-	-50	-823	347	-141	-667

Reinstatement of depreciation deductions for buildings

99. Officials have prepared preliminary estimates of the fiscal impact of for reinstating depreciation deductions for buildings. These estimates have been prepared under time pressure and are indicative only. Officials will continue to refine these estimates.

	$m increase / (decrease) in revenue					
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total over forecast period**
	-	(35.000)	(1,030.000)	(530.000)	(545.000)	(2,140.000)

Reinstatement of depreciation deductions for industrial & commercial buildings						

Remission of UOMI payments

100. The proposal to give the Commissioner of Inland Revenue discretion to remit UOMI in response to the COVID-19 outbreak will result in foregone Crown revenue. This is because, absent this measure, there would have been an increase in UOMI payments to the Crown from COVID-19 affected taxpayers. The amount of fo egone revenue is not able to be quantified at this time.

101. However, the negative revenue implications from the proposal will not be reflected as a fiscal cost in the Crown accounts. This is because the Government's fiscal forecasts currently do not include COVID-19 related UOMI charges, so their remission does not impact the fiscal position.

102. There is also a number of risks associated with this proposal, including:

- This measure decreases the incentive to pay tax when it falls due. This could result in some taxpayers facing a larger tax bil at a later date, which they could be unable to pay. This could result in some core tax not being recoverable.
- This measure could allow some COVID 19 affected taxpayers that would face UOMI penalties under ordinary economic circumstances to not pay UOMI. This will reduce the interest receipts rece ved by the Crown.
- This measure could lead to the deliberate underpayment of tax in situations where taxpayer are actually able to pay in full and on time (i.e. they do not qualify for the remission), with delays potentially crossing fiscal years.

103. These risks will impact on the fiscal position if they materialise. We are unable to quantify the materiality of the potential impacts.

Increasing the threshold for provisional tax

104. Increasing the provisional tax threshold from $2,500 to $5,000 will have an operating impact of $12 million over the forecast period (due to lost penalties and interest). It will also cause a one-off increase in net debt of $350 million in 2020/21 (due to differences in the timing of tax payments).

	$m – increase/(decrease)					
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total over forecast**
Non-tax revenue: Penalties and interest	-	(3.000)	(3.000)	(3.000)	(3.000)	(12.000)

Initial recovery package measures

Main benefit increase

105. This paper seeks funding for a total of $1,878.596 million for an increase to main benefits of $25 per week from 1 July 2020, made up as follows:

- net $431.243 million for Benefits or Related Expenses (breakdown below) in 2020/21 from outside Budget allowances
- net $489.254 million for Benefits or Related Expenses (breakdown below) in 2021/22 from outside Budget allowances
- net $487.167 million for Benefits or Related Expenses (breakdown below) in 2022/23 from outside Budget allowances
- net $470.932 million for Benefits or Related Expenses (breakdown below) in 2023/24 and outyears from outside Budget allowances.

106. Additional funding is needed for MSD to administer these changes. The exact amount is being calculated and this paper seeks agreement to the approval of this funding being delegated to joint Ministers.

	$m increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development						
Benefits or Related Expenses:						
Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	-	245.380	292.694	281.021	255.168	255.168
Sole Parent Support	-	86.638	89.051	90.997	93.479	93.479
Supported Living Payment	-	125.093	129.498	133.556	137.798	137.798
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
Minister of Housing	-	-	-	-	-	
Benefits or Related Expenses:						
Accommodation Assistance	-	(25.478)	(22.488)	(19.887)	(18.985)	(18.985)
Total Operating	**-**	**431.243**	**489.254**	**487.167**	**470.932**	**470.932**

Winter Energy Payment

107. This paper seeks funding for a total of $1,301.435 million for an increase to the Winter Energy Payment of $1,500 and an extension of the Winter Energy Payment until the end of 2020, as set out below:

- net $314.318 million for Benefits or Related Expenses (breakdown below) in 2019/20 from outside Budget allowances

- net $978.117 million for Benefits or Related Expenses (breakdown below) in 2020/21 from outside Budget allowance

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development Benefits or Related Expenses: Winter Energy Payment	314.318	987.117	-	-	-	
Total Operating	**314.318**	**987.117**	**-**	**-**		**-**

108. Additional funding is needed for MSD to administer these changes. The exact amount is being calculated and this paper seeks agreement to the approval of this funding being delegated to joint Ministers.

In Work Tax Credit

109. The expected financial implications of the proposed changes to the In Work Tax Credit are $32 million per annum. This cost is subject to confirmation in detailed policy work to come. The final cost will be approved by joint Ministers alongside the administrative costs for other income support initiatives.

Legislative Implications

Tax measures to support businesses and workers

110. Legislation is required to give effect to the tax changes to support businesses and workers.

Initial recovery package

111. An increase to main benefit rates can be implemented via an Order in Council.

112. Changes to the In Work Tax Credit hours test require changes to primary legislation.

113. Changes to the payment period for the Winter Energy Payment require changes to primary legislation before 1 May 2020. An increase to WEP rates can be completed via an Order in Council.

Regulatory Impact Statement

114. No Regulatory Impact Statement has been prepared due to the urgency with which the measures have been developed.

Consultation

115. Consultation has occurred with Ministers and agencies with an interest in the proposals outlined in this paper.

Communications

116. The initiatives in this paper can form part of the Government's broader communications around its COVID-19 response.

Proactive Release

117. I intend to proactively release this Cabinet paper following Cabinet's consideration. This may be released as part of the Budget proactive release process

Recommendations

The Minister of Finance recommends that Cabinet:

1. note that the economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic, and we need to prepare for a major slowing in economic activity;

2. note that the situation makes an economi response package essential to address immediate public health risks, maintain economic confidence, cushion the impact of the economic shock and support the economic recovery

3. note that our economic response will have three components:

   3.1 support to the public health system, including sick leave measures to support incentives for self-isolation

   3.2 a substantial business and worker support to cushion the near-term impact on firms and workers and support confidence

   3.3 a recovery package to support beneficiaries and confidence during the early phase of economic recovery

Supporting New Zealand's public health system

Publi health response and 33 [redacted]

4. 33 [redacted]

Expanded provision of sick leave

5. note that there is an accompanying Cabinet paper to agree the design and implementation for a new scheme to provide financial assistance to incentivise and support those in self isolation or on sick leave due to COVID-19;

Business and Worker Support Package

6. note that supporting businesses and workers through the shock will limit the extent of the fall in output, and cushion the impact on households and firms most affected by COVID-19

7. note that I recommend a number of initiatives that will support businesses and workers

    7.1 training and redeployment options for affected employees,

    7.2 a temporary wage subsidy scheme for workers and firms impacted by COVID-19,

    7.3 support for large enterprises, and

    7.4 working capital support for small and medium sized businesses.

8. note that I also recommend including four tax initiat ves to support business cash flow and confidence

    8.1 remission of use of money interest payments,

    8.2 expansion of immediate expensing for low value assets,

    8.3 reinstatement of depreciation deductions for buildings, and

    8.4 increasing the threshold for provisional tax;

9. note the estimated costs of the business and worker support package could be around $6.3 billion over the next five years;

10. note the cos s of the business and worker support package will have a direct impact on the operating balance and net core Crown debt;

11. note urther work is required to confirm the exact costings of the policies within the business and worker support package;

12. nvite the Minister of Finance to report back to Cabinet on the outcome of the further work to confirm the costings of all the business and worker support package;

Training and redeployment for affected employees

13. note that the above package includes $100 million across the forecast period for Worker Redeployment;

14. agree that the Economic Response Package includes support for Worker Redeployment;

15. agree to establish the following new appropriation;

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister of Regional Economic Development	Regional Economic Development: COVID-19 Response: Worker Redeployment	Non-Departmental other expenses	This appropriation i limited to the suppo t package for worker redeployment nd training.

16. approve the following changes to appropriation to support Worker Redeployment, with a corresponding impact on the operating balance and net core Crown debt;

	$m – inc ease/(decrease)				
Vote Business, Science, and Innovation **Minister for Regional Economic Development**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Worker Redeployment package	(100)	-	-	-	-

17. agree that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Wage subsidy scheme

18. no e Cabinet is considering the introduction of a temporary wage subsidy scheme in a separate Cabinet paper;

Working capital support for small and medium sized businesses

19. note the Treasury will progress discussions with the banks on the design of a working capital support scheme for firms facing temporary credit constraints due to the economic impacts of COVID-19, to ensure we are prepared should a solution be required;

20. note that announcements should avoid committing the Government to a specific solution until the support of the banks has been secured;

21. note larger firms and financial institutions have more complex business models, and alternative courses of action, suggesting it will take time to assess the options that these firms have available;

Support for large or complex businesses

22. note Treasury is developing advice as to how the Government could provide support for larger firms;

Remission of use of money interest payments

23. note that Cabinet is also considering a separate proposal from the Minister of Finance and Minister of Revenue to give the Commissioner of Inland Revenue a time-limited discretion to remit UOMI if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak.

Expansion of immediate expensing for low value assets

24. agree to a one-year temporary increase in the low value asset write-off threshold to $5,000 for the 2020-21 income year, reverting o $1,000 for the 2021/22 and later income years; and

25. note the following changes as a result of the decision in recommendation 24 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Tax Revenue:	-	(50.000)	(823.000)	347.000	(141.000)

Reinstatement of depreciation deductions for commercial and industrial buildings

26. agree to apply a 2% diminishing value rate to industrial and commercial buildings for the 2020 21 and later income years; and

27. no e the following changes as a result of the decision in recommendation 26 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Tax Revenue: Income tax	-	(35.000)	(1,030.000)	(530.000)	(545.000)

Total Operating	**-**	**35.000**	**1,030.000**	**530.000**	**545.000**

Increasing the threshold for provisional tax

28. agree to increase the provisional tax threshold from $2,500 to $5,000 for the 2020-21 and later income years; and

29. note the following change as a result of the decision in recommendation X above, with a corresponding impact on the operating balance:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023 24 & Outyears**
Non-tax revenue: Penalties and interest	-	(3.000)	(3.000)	(3.000)	(3.000)
Total Operating	**-**	**3.000**	**3.000**	**3.000**	**3.000**

30. note that agreeing to recommendation 28 will have a one-off cash cost, increasing net core Crown debt by $350 million in 2020/21;

Recovery Package: Phase 1

31. note that phase 1 of a Recove y package will support beneficiaries and confidence during the early phase of econ mic recovery;

Benefit Increase

32. agree that on 1 July 2020 the after-tax weekly rate of the following benefits should increase by $25:

    32.1 Jobseeker Support

    32.2 Sole Parent Support

    32 3 Supported Living Payment

    32 4 Young Parent Payment

    32.5 Youth Payment

    32.6 Emergency Benefit;

33. note that the Minimum Family Tax Credit for working household on the lowest incomes will automatically increase on 1 April 2021 to maintain the margin between benefit and work income

34. note that due to complex interactions in the tax and transfer systems, a small number of families will be unintentionally financially disadvantaged as a result of the benefit increase

35. agree to establish a Ministerial Welfare Programme (under the Social Security Act 2018) to compensate those who are unintentionally financially disadvantaged as a result of the Package through the establishment of a transitional fund;

36. invite the Minister for Social Development to establish a Ministerial Welfare Programme to give effect to the decisions referred to in recommendation above;

Increases to the Winter Energy Payment

37. agree that the annual rates of payments under the WEP (to be paid in equa instalments) for 2020 will be;

    37.1 $1,950 for single people with no dependent children, paid from 1 May for a period of 35 weeks (up from the current $450 for 22 weeks from 1 May); and

    37.2 $2,200 for couples or single people with dependen children, paid from 1 May for 35 weeks (up from the current $700 for 22 weeks from 1 May)

38. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security Act 2018 ahead of 1 May 2020;

39. note that the WEP changes proposed in recommendation 37 above will apply in 2020 only and current setting will resume in 2021 and subsequent years;

40. agree to increase spending to provide for osts associated with the policy decisions in recommendations 37 above with the following impacts on the operating balance and net core Crown debt:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Operating Balance Impact	314.318	1,418.630	489.254	487.167	470.932	470.932
Debt Impact	-	-	-	-	-	-
No Impact	-	81.790	95.223	97.992	95.400	95.400
Total	**314.318**	**1,500.420**	**584.477**	**585.160**	**566.331**	**566.331**

41. approve the following changes to appropriations to give effect to the policy decision in recommendations 37-40 above:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development						
Benefits or Related Expenses:						
Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)

Jobseeker Support and Emergency Benefit	-	283.616	342.669	332.441	302.570	302.570
Sole Parent Support	-	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	-	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	314.318	987.117	-	-	-	-
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
Minister of Housing Benefits or Related Expenses:						
Accommodation Assistance	-	(25.478)	(22.488)	(19.887)	(18.985)	(86.838)
Total Operating	**314.318**	**1,500.420**	**584.477**	**585.160**	**566.331**	**498.478**

42. agree that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

43. agree that expenses incurred under recommendation 41 above will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;

44. note that additional funding is needed for MSD to administer these changes. The exact amount is being calculated and a final decision will be delegated to Ministers.

45. delegate authority to the Minister of Finance and the Minister for Social Development to appropriate funding for the administration of these changes

In Work Tax Credit

46. agree to remove the hours tests from the IWTC to allow families who are not receiving a main benefit and have some level of employment income each week, commencing 1 July;

47. agree that the legislative amendments required to give effect to the tax proposals in recommendations 24, 26 and 28 be included in a Bill to be introduced as soon as practicable;

48. invite the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to give effect to the proposals recommended in this paper;

49. agree to delegate authority to the Minister of Finance and Minister of Revenue to make decisions on the detailed design of the tax proposals recommended in this paper and to introduce a Bill containing these proposals as soon as practicable;

50. delegate authority to the Minister of Finance and Minister of Revenue to make decisions to increase funding for the IWTC, and any changes to appropriations, as required;

Further economic considerations

Impact on the aviation industry

51. note that officials from the Ministry of Transport and the Treasury are currently undertaking work on an aviation sector package, including support for Air New Zealand;

52. agree that the Minister of Transport, in consultation with the Minister of Finance, have lead responsibility for work on the aviation sector package , except for issues relating to the Crown's ownership interest in commercial entities which will remain the responsibility of shareholding Ministers;

Impacts on financial markets

53. note banks currently hold significant buffers of excess capital and liquidity over regulatory minimums;

54. note on Tuesday the Reserve Bank will announce a one year defe ral to planned increases in capital requirements;

55. 25 [redacted]

56. note the Reserve Bank is in regular contact with banks, is setting up enhanced frameworks to get information from banks and will keep me updated on emerging pressures that may affect the stability of the wider financial system;

Fiscal strategy implications

57. note that the fiscal position will deteriorate significantly as a result of the shock and the proposals in this paper, and that net core Crown debt will likely rise above 25% of GDP

58. note that a deterioration in the fiscal position is appropriate given the economic circumstances, but that tight fiscal control will be required to demonstrate that will be able to return to surplus and prudent levels of debt in a reasonable period of time;

Borrowing implications

59. no e that, subject to my approval, communication on the borrowing implications of the package will be announced by the Treasury around the time the initiatives in the cabinet paper are released publically

Coordination with Budget 2020

60. note that, after announcing the package described in this paper, I intend to re-orient Budget 2020 to be the second phase of the broader recovery package;

Legislative Implications

Legislative amendments for tax measures

61. agree that the legislative amendments required to give effect to the tax proposals in recommendations 24, 26 and 28 be included in a Bill to be introduced as soon as practicable;

62. invite the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to give effect to the proposals recommended in this paper;

63. agree to delegate authority to the Minister of Finance and Minister of Revenue to make decisions on the detailed design of the tax proposals recommended in this paper and to introduce a Bill containing these proposals as soon as practicable;

Legislative amendments for initial recovery package

64. agree that increases to main benefits be made through an Order in Council under section 452 of the Social Security Act 2018;

65. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security 2018 ahead of 1 May 2020;

66. agree to include a Income Support Package Legislation Bill in the 2020 Legislation Programme with a priority of Category 1;

67. authorise the Minister of Finance and Minister for Social Development to make technical, policy and administrative changes required to finalise draft legislation and regulations, in keeping with the policy aims, to implement this package;

68. invite the Minister of Finance and Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to give effect to the policy decisions agreed above;

Other legislative matters

69. note that we may need to pass a further Imprest Supply Bill to cover any financial implications of the economic response package in the current financial year;

70. authorise that the Minister of Finance and the relevant portfolio Ministers may resolve any minor policy, fiscal or administrative issues consistent with the aims of the Package

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

The Treasury

COVID-19 Information Release

April 2020

This document has been prepared for release by the Treasury.

Context

This paper (alternative options and updated financial recommendations) informed decisions on the Winter Energy Payment [CAB-20-MIN-0108].

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:

[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

[29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[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

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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).

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Annex Three: Alternate options to extend the Winter Energy Payment and updated financial recommendations

Summary

This note provides you with updated financial recommendations to table at Cabinet today relating to the Winter Energy Payment for the:

- current proposal; and
- two alternate lower cost options to extend the Winter Energy Payment.

Given the speed under which these proposals have been developed, we have identified issues in the current recommendations. These have been corrected in the attached recs.

	Period	Annual rates	Weekly rates	Cost
Status Quo	1 May – 1 Oct (22 weeks)	$450 (single) $700 (couple)	$20.46 (single) $31.82 (couple)	-
Current proposal: *extend period and increase rates by $1500*	1 May – 31 Dec 2020 (35 weeks)	$1950 (single) $2200 (couple)	$55.71 (single) $62.86 (couple)	$1.3 billion
***Option 1**: extend period at current weekly rate*	1 May – 31 Dec 2020 (35 weeks)	$716 (single) $1114 (couple)	$20.46 (single) $31.82 (couple)	$292 million
***Option 2**: extend period and increase rates by $500*	1 May – 31 Dec 2020 (35 weeks)	$950 (single) $1200 (couple)	$27.14 (single) $34.28 (couple)	$429 million

Updated recommendations

Current proposal: extend period and increase rates by $1500
Increases to the Winter Energy Payment

29. agree that the annual rates of payments under the WEP (to be paid in equal instalments) for 2020 will be;

a. $1,950 for single people with no dependent children, paid from 1 May for a period of 35 weeks (up from the current $450 for 22 weeks from 1 May); and

b. $2,200 for couples or single people with dependent children, paid from 1 May for 35 weeks (up from the current $700 for 22 weeks from 1 May)

30. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security Act 2018 ahead of 1 May 2020;

31. note that the WEP changes proposed in recommendation 37 above will apply in 2020 only and current setting wil resume in 2021 and subsequent years;

32. agree to increase spending to provide for costs associated with the policy decisions in recommendations 32 and 37 above, with the following impacts on the operating balance and net core Crown debt:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Operating Balance Impact	243.374	1,489.320	489.254	487.167	470.932	470.932
Debt Impact	-	-	-	-	-	-
No Impact	-	81.790	95.223	97.992	95.400	95.400
Total	**243.374**	**1,571.110**	**584.477**	**585.160**	**566.331**	**566.331**

33. approve the following changes to appropriations to give effect to the policy decision in recommendations 32 and 37 above:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development Benefits or Related Expenses:						

Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	-	283.616	342.669	332.441	302.570	302.570
Sole Parent Support	-	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	-	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	243.374	1,057.807	-	-	-	
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
Minister of Housing **Benefits or Related Expenses:**						
Accommodation Assistance	-	(25.478)	(22.488)	(9 887)	(18.985)	(18.985)
Total Operating	**243.374**	**1 571.110**	**584.477**	**585.160**	**566.331**	**566.331**

Option 1: extend period at current weekly rate
Increases to the Winter Energy Payment

31. agree that the annual rates of payments under the WEP (to be paid in equal instalments) for 2020 will be;

    31.1 $716 for single people with no dependent children, paid from 1 May for a period of 35 weeks (up from the current $450 for 22 weeks from 1 May); and

    31.2 $1,114 for couples or single people with dependent children, paid from 1 May for 35 weeks (up from the current $700 for 22 weeks from 1 May)

32. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security Act 2018 ahead of 1 May 2020;

33. note that the WEP changes proposed in recommendation 37 above will apply in 2020 only and current setting will resume in 2021 and subsequent years;

34. agree to increase spending to provide for costs associated with the policy decisions in recommendations 32 and 37 above, with the following impacts on the operating balance and net core Crown debt:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Operating Balance Impact	-	723.144	489.254	487.167	470.932	470.932
Debt Impact	-	-	-	-	-	-
No Impact	-	81.790	95.223	97.992	95.400	95.400
Total	**-**	**804.934**	**584.477**	**585.160**	**566.331**	**566.331**

35. approve the following changes to appropriations to give effect to the policy decision in recommendations 32 and 37 above:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development						
Benefits or Related Expenses:						
Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	-	283.616	342.669	332.441	302.570	302.570

Sole Parent Support	-	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	-	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	-	291.631	-	-	-	-
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
Minister of Housing						
Benefits or Related Expenses:						
Accommodation Assistance	-	(25.478)	(22.488)	(19.887)	(18.985)	(18.985)
Total Operating	**-**	**804.934**	**584.477**	**585.160**	**66.331**	**566.331**

Option 2: **extend period and increase rates by $500**
Increases to the Winter Energy Payment

31. agree that the annual rates of payments under the WEP (to be paid in equal instalments) for 2020 will be;

    31.1 $950 for single people with no dependent children, paid from 1 May for a period of 35 weeks (up from the current $450 for 22 weeks from 1 May); and

    31.2 $1,200 for couples or single people with dependent children, paid from 1 May for 35 weeks (up from the current $700 for 22 weeks from 1 May)

32. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security Act 2018 ahead of 1 May 2020;

33. note that the WEP changes proposed in recommendation 37 above will apply in 2020 only and current setting will resume in 2021 and subsequent years;

34. agree to increase spending to provide for costs associated with the policy decisions in recommendations 32 and 37 above, with the following impacts on the operating balance and net core Crown debt:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Operating Balance Impact	33.829	827.022	489.254	487.167	470.932	470.932
Debt Impact	-	-	-	-	-	-
No Impact	-	81.790	95.223	97.992	95.400	95.400
Total	**33.829**	**908.812**	**584.477**	**585.160**	**566.331**	**566.331**

35. approve the following changes to appropriations to give effect to the policy decis on in recommendations 32 and 37 above:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development Benefits or Related Expenses:						
Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	-	283.616	342.669	332.441	302.570	302.570

Sole Parent Support	-	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	-	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	33.829	395.508	-	-	-	-
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
Minister of Housing **Benefits or Related Expenses:**						
Accommodation Assistance	-	(25.478)	(22.488)	(19.887)	(18.985)	(18.985)
Total Operating	**33.829**	**908.812**	**584.477**	**585.160**	**566.331**	**566.331**

The Treasury

COVID-19 Information Release

April 2020

This document has been prepared for release by the Treasury.

Context

Decisions on the wage subsidy scheme were supported by additional advice on the design of the wage subsidy scheme [see "Aide Memoire: Wage Subsidy Scheme Note" and "Speaking Notes and Recommendations: COVID-19 Financial Support Paper 1: Business Continuity Package: Targeted Wage Subsidy Scheme"].

Decisions on the Winter Energy Payment were supported by additional advice on alternative options [see "Annex Three: Alternative options to extend the Winter Energy Payment and updated financial recommendations"].

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:

[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

[29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[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

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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).

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CAB-20-MIN-0108
Revised

Cabinet

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.

COVID-19: Overview of the Government's Response: Economic Package

Portfolio **Finance**

On 16 March 2020, Cabinet:

Background

1 **noted** that the economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic, and that the government needs to prepare for a major slowing in economic activity;

2 **noted** that the situation makes an economic response package essential to address immediate public health risks, maintain economic confidence, cushion the impact of the economic shock and support the economic recovery;

3 **noted** that the government's economic response will have three components:

1.1 support to the public health system, including sick leave measures to support incentives for self-isolation;

1.2 a substantial business and worker support package to cushion the near-term impact on firms and workers and support confidence;

1.3 a recovery package to support beneficiaries and confidence during the early phase of economic recovery;

Supporting New Zealand's public health system

Public health response

4 **noted** that the government will establish a $500 million contingency to support the public health response to the outbreak;

Expanded provision of sick leave

5 **noted** that there is an accompanying Cabinet paper to agree the design and implementation for a new scheme to provide financial assistance to incentivise and support those in self isolation or on sick leave due to COVID-19 [CAB-20-MIN-0105];

Business and Worker Support Package

6 **noted** that supporting businesses and workers through the shock will limit the extent of the fall in output, and cushion the impact on households and firms most affected by COVID-19;

7 **noted** that the following initiatives are proposed that will support businesses and workers:

7.1 training and redeployment options for affected employees;

7.2 a temporary wage subsidy scheme for workers and firms impacted by COVID-19;

7.3 support for large enterprises;

7.4 working capital support for small and medium sized businesses;

8 **noted** that four tax initiatives are also proposed to support business cash flow and confidence:

8.1 remission of use of money interest payments;

8.2 expansion of immediate expensing for low value assets;

8.3 reinstatement of depreciation deductions for buildings;

8.4 increasing the threshold for provisional tax;

9 **noted** that the estimated costs of the business and worker support package could be around $8.0 billion over the next five years;

10 **noted** that the costs of the business and worker support package will have a direct impact on the operating balance and net core Crown debt;

11 **noted** that further work is required to confirm the exact costings of the policies within the business and worker support package;

12 **invited** the Minister of Finance to report back to Cabinet on the outcome of the further work to confirm the costings of the business and worker support package;

Training and redeployment for affected employees

13 **noted** that the above package includes $100 million across the forecast period for Worker Redeployment;

14 **agreed** that the Economic Response Package include support for Worker Redeployment;

15 **agreed** to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister for Regional Economic Development	Worker Redeployment Package	Non-Departmental other expenses	This appropriation is limited to the support package for worker redeployment and training.

16 **approved** the following changes to appropriation to support Worker Redeployment, with a corresponding impact on the operating balance and net core Crown debt:

	$m –increase/(decrease)				
Vote Business, Science, and Innovation **Minister for Regional Economic Development**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Worker Redeployment Package	100	-	-	-	-

17 **agreed** that the changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

18 **noted** that specific decisions on the draw-down of the worker redeployment package will be submitted to the relevant Cabinet committee for consideration;

Wage subsidy scheme

19 **noted** that on 9 March 2020, Cabinet directed officials to develop further targeted firm support options for Cabinet decisions, with priority on:

19.1 a wage subsidy scheme for workers in the most adversely affected sectors (including possible financial support for leave requested by employees as a result of public health directions);

19.2 training and redeployment options for affected employees;

19.3 targeted working capital support for firms that face temporary credit constraints;

[CAB-20-MIN-0090];

20 **noted** that the scheme will apply to all sectors, reflecting recent developments and the likelihood that impacts will spread across all sectors of the economy;

21 **noted** that the paper under CAB-20-SUB-0108 addresses a temporary wage subsidy scheme, and that a separate paper is being prepared for possible financial support for isolation payment leave requested by employees as a result of public health directions;

22 **agreed** to implement a temporary COVID-19 wage subsidy scheme;

23 **agreed** that the purpose of the scheme is to help affected employees and businesses to adjust to the impact of COVID-19, not to support businesses for the duration of that impact;

24 **noted** that the COVID-19 wage subsidy will apply to all sectors nationwide;

25 **agreed** that the COVID-19 wage subsidy will be payable to the employer at a rate per employee of $585.80 per week for full time employees (similar to the maximum rate of paid parental leave) and $350 for part-time employees;

26 **agreed** that the COVID-19 wage subsidy will be for 12 weeks per employee;

27 **agreed** to a maximum payment of $150,000 per employer;

28 **agreed** that any qualifying subsidy will be paid as a lump sum;

29 **noted** that depending on uptake, this package could inject approximately $5.1 billion into the economy over the next two months;

30 **noted** that the costs are inherently uncertain given the potentially changing economic conditions, and could be significantly higher;

31 **agreed** that the COVID-19 wage subsidy scheme will be open for 12 weeks from the date of announcement (17 March 2020);

32 **agreed** that the COVID-19 wage subsidy will be administered by the Ministry of Social Development (MSD) with support as required from Inland Revenue;

33 **noted** that MSD will accept applications from Tuesday, 17 March 2020, and will endeavour to make first payments within five working days after;

34 **noted** that employers will only be able to apply once within the period;

35 **noted** that the definition of employer will include 'closely related businesses' (ie where a single business owner or employer operates a number of businesses that are closely related they can be treated as one business);

Qualifying criteria

36 **agreed** that the COVID-19 wage subsidy will apply to employers that have suffered revenue loss of at least 30 percent, and that revenue loss is attributable to the COVID-19 outbreak;

37 **noted** that revenue loss assessment will be based on a period of at least one month and the loss of revenue is at least 30 percent lower than the equivalent period one year ago (ie February 2020 income is 30 percent lower than February 2019);

38 **noted** that the loss can be for any month from January 2020 through to the end of the scheme;

39 **noted** that the business must be registered and operating in New Zealand;

40 **noted** that the COVID-19 wage subsidy scheme will be open to self-employed and sole-traders;

41 **noted** that officials are still clarifying the eligibility of State sector entities in the scheme;

42 **noted** that the definition of full-time and part-time employees will align with the hours test specified in the COVID-19 Leave Payment Scheme paper [CAB-20-MIN-0105];

43 **agreed** that the COVID-19 wage subsidy will only be payable to employers who have taken active steps to mitigate the impact of COVID-19 on their business activities (such as engaged with their bank, Chamber of Commerce, industry association or the Regional Business Partner programme);

44 **noted** that MSD with support from Inland Revenue may develop more detailed criteria to determine the potential revenue loss;

45 **agreed** that employers will need to make a declaration setting out their commitment, on best endeavours, to retain employees identified in the declaration as subject to the targeted wage subsidy in employment on at least 80 percent of their regular income for the period of the subsidy;

46 **agreed** to administer the scheme at pace using a high trust model;

47 **noted** that MSD intends to administer the scheme in the following way:

47.1 employers will make applications in relation to affected employees;

47.2 employers will have to declare that:

47.2.1 they meet all of the eligibility criteria;

47.2.2 they have discussed the application with named employees, who consent to sharing information in the application and for the purposes of verification;

47.2.3 the employer consents that the details in the application may be verified with other agencies;

47.2.4 the employer is aware that they may be audited and prosecuted for fraud if they have provided false information;

47.2.5 the employer will notify MSD if circumstances change that affect their eligibility

47.2.6 the employer will repay any amount which they are not entitled to;

47.3 MSD [39] [redacted] will have the ability to later audit the application, verify information with other agencies and refer possible instances of fraud for investigation;

48 **noted** that standard justice processes are available to respond to any cases of fraudulent declarations that may be identified;

49 **agreed** that case-by-case discussions can take place with large employers, and any support be negotiated in partnership with banks;

50 **noted** that there may be some legislative implications, and the Minister of Finance, the Minister for Economic Development, the Minister for Social Development and the Minister of Revenue will identify these and bring them back to Cabinet for consideration;

51 **noted** the Ministry of Social Development will need additional operating funding to administer the scheme;

52 **delegated** authority to the Minister of Finance, the Minister for Economic Development, and the Minister for Social Development to appropriate funding for the administration of the scheme (establishing any new appropriations as necessary);

53 **delegated** authority to the Minister of Finance, the Minister for Economic Development and the Minister for Social Development to increase funding for the COVID-19 wage subsidy scheme if required;

54 **delegated** authority to the Minister of Finance, the Minister for Economic Development and the Minister for Social Development to make technical design changes and minor policy decisions about the wage subsidy scheme;

55 **agreed** to establish the following new appropriation:

Vote	Social Development
Minister	Minister for Social Development
Title	Business Support Subsidy Covid-19
Type	Non-Departmental Other Expense
Scope	This appropriation is limited to support employers to manage the impact of COVID-19 in line with criteria established by Cabinet.

56 **agreed** to a performance exemption under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative as this appropriation is solely for payments related to the COVID-19 response;

57 **approved** the following change to appropriations to fund the COVID-19 wage subsidy scheme with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Social Development **Minister for Social Development**	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24 & outyears**
Non-Departmental Other Expense: Business Support Subsidy Covid-19	5,100	-	-	-	-
Total Operating	5,100	-	-	-	-

58 **agreed** that the changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

59 **agreed** that expenses incurred under the above paragraph will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;

60 **agreed** that any underspends with the implementation and the costs of the COVID-19 wage subsidy scheme as at 30 June 2020 be transferred to the 2020/21 financial year to ensure that funding is available for this purpose;

61 **authorised** the Minister of Finance and the Minister for Social Development jointly to agree the final amount to be transferred, following completion of the 2019/20 audited financial statements of the Ministry of Social Development or beforehand if necessary, with no impact on the operating balance and/or net core Crown debt across the forecast period;

62 **authorised** the Minister for Social Development to make minor operational decisions about the COVID-19 wage subsidy scheme;

Working capital support for small and medium sized businesses

63 **noted** that the Treasury will progress discussions with the banks on the design of a working capital support scheme for firms facing temporary credit constraints due to the economic impacts of COVID-19, to ensure the government is prepared should a solution be required;

64 **noted** that announcements should avoid committing the government to a specific solution until the support of the banks has been secured;

65 **noted** that larger firms 25 [redacted] have more complex business models, and alternative courses of action, suggesting it will take time to assess the options that these firms have available;

Support for large or complex businesses

66 **noted** that Treasury is developing advice as to how the government could provide support for larger firms;

Remission of use of money interest payments

67 **noted** that Cabinet is also considering a separate proposal from the Minister of Finance and Minister of Revenue to give the Commissioner of Inland Revenue a time-limited discretion to remit use of money interest payments (UOMI) if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak;

Expansion of immediate expensing for low value assets

68 **agreed** to a one-year temporary increase in the low value asset write-off threshold to $5,000 for the 2020-21 income year, reverting to $1,000 for the 2021/22 and later income years;

69 **noted** the following changes as a result of the decision in paragraph 68 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Tax Revenue:	-	(50.000)	(823.000)	347.000	(141.000)

Reinstatement of depreciation deductions for commercial and industrial buildings

70 **agreed** to apply a 2 percent diminishing value rate to industrial and commercial buildings for the 2020-21 and later income years;

71 **noted** the following changes as a result of the decision in paragraph 70 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Tax Revenue:					
Income tax	-	(35.000)	(1,030.000)	(530.000)	(545.000)
Total Operating	-	**35.000**	**1,030.000**	**530.000**	**545.000**

Increasing the threshold for provisional tax

72 **agreed** to increase the provisional tax threshold from $2,500 to $5,000 for the 2020-21 and later income years;

73 **noted** the following change as a result of the decision in paragraph 72 above, with a corresponding impact on the operating balance:

	$m –increase/(decrease)				
Vote Revenue Minister of Revenue	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Tax Revenue Other Persons	-	(3.000)	(3.000)	(3.000)	(3.000)
Total Operating	-	**3.000**	**3.000**	**3.000**	**3.000**

74 **noted** that agreeing to paragraph 72 above will have a one-off cash cost, increasing net core Crown debt by $350 million in 2020/21;

75 **agreed** to the following change as a result of the decision in paragraph 72 above, with a corresponding impact on the operating balance:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Non-department borrowing expenses: Impairment of Debt and Debt Write-Offs	-	(2.000)	(2.000)	(2.000)	(2.000)
Total Operating	-	**(2.000)**	**(2.000)**	**(2.000)**	**(2.000)**

Recovery Package: Phase 1

76 **noted** that phase 1 of a recovery package will support beneficiaries and confidence during the early phase of economic recovery;

Benefit increase

77 **agreed** that on 1 April 2020, the after-tax weekly rate of the following benefits should increase by $25:

77.1 Jobseeker Support;

77.2 Sole Parent Support;

77.3 Supported Living Payment;

77.4 Young Parent Payment;

77.5 Youth Payment;

77.6 Emergency Benefit;

78 **noted** that the Minimum Family Tax Credit for working household on the lowest incomes will automatically increase on 1 April 2021 to maintain the margin between benefit and work income;

79 **noted** that due to complex interactions in the tax and transfer systems, a small number of families will be unintentionally financially disadvantaged as a result of the benefit increase;

80 **agreed** to establish a Ministerial Welfare Programme (under the Social Security Act 2018) to compensate those who are unintentionally financially disadvantaged as a result of the Package through the establishment of a transitional fund;

81 **invited** the Minister for Social Development to establish a Ministerial Welfare Programme to give effect to the decisions referred to in paragraph 80 above;

82 **noted** that comparable changes for Orphans Benefit and Unsupported Child benefits will be considered in Budget 2020;

Increases to the Winter Energy Payment

83 **agreed** that the annual rates of payments under the Winter Energy Payment (WEP) (to be paid in equal instalments) for 2020 will be:

83.1 $900 for single people with no dependent children, paid from 1 May 2020 for a period of 22 weeks (up from the current $450 for 22 weeks from 1 May 2020); and

83.2 $1,400 for couples or single people with dependent children, paid from 1 May for 22 weeks (up from the current $700 for 22 weeks from 1 May 2020);

84 **noted** that the WEP changes referred to in paragraph 83 above will apply in 2020 only, and that the current setting will resume in 2021 and subsequent years;

85 **noted** that:

85.1 changes to the WEP payment rates can be made via an Order in Council;

85.2 to progress increases as a temporary measure will require a return to the original rate of payment in May 2021 which can only be done via a change to the Social Security Act 2018;

Financial Implications

86 **agreed** to increase spending to provide for costs associated with the policy decisions in paragraphs 77 and 83 above, with the following impacts on the operating balance and net core Crown debt:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Operating Balance Impact	286.967	722.364	489.254	487.167	470.932	470.932
Debt Impact	-	-	-	-	-	-
No Impact	18.614	81.790	95.223	97.992	95.400	95.400
Total	**305,581**	**804.154**	**584.477**	**585.160**	**566.331**	**566.331**

87 **approved** the following changes to appropriations to give effect to the policy decision in paragraphs 77 and 83 above:

	$m - increase/(decrease)					
Vote Social Development	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Outyears**
Minister for Social Development Benefits or Related Expenses:						
Childcare Assistance	(0.067)	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	(1.078)	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	60.500	283.616	342.669	332.441	302.570	302.570
Sole Parent Support	25.435	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	37.025	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	188.849	290.851	-	-	-	-
Youth Payment and Young Parent payment	1.057	4.522	4.653	4.835	5.113	5.113
Minister of Housing						
Benefits or Related Expenses:						
Accommodation Assistance	(6.139)	(25.478)	(22.488)	(19.887)	(18.985)	(18.985)
Total Operating	**305.581**	**804.154**	**584.477**	**585.160**	**566.331**	**566.331**

88 **agreed** that the changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

89 **agreed** that expenses incurred above be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;

90 **noted** that additional funding is needed for the Ministry of Social Development to administer these changes, and that the exact amount is being calculated and a final decision will be delegated to Ministers;

91 **delegated** authority to the Minister of Finance and the Minister for Social Development to appropriate funding for the administration of these changes;

In Work Tax Credit

92 **agreed** to remove the hours tests from the In Work Tax Credit (IWTC) to allow families who are not receiving a main benefit and have some level of employment income each week, commencing 1 July 2020;

93 **delegated** authority to the Minister of Finance and Minister of Revenue to make decisions to increase funding for the IWTC, and any changes to appropriations, as required;

Further economic considerations

94 **noted** that further advice on upskilling and apprenticeships will be considered as part of the economic recovery package;

Impact on the aviation industry

95 **noted** that officials from the Ministry of Transport and the Treasury are currently undertaking work on an aviation sector package, including support for Air New Zealand;

96 **agreed** that the Minister of Transport, in consultation with the Minister of Finance, has lead responsibility for work on the aviation sector package, except for issues relating to the Crown's ownership interest in commercial entities, which will remain the responsibility of shareholding Ministers;

97 **invited** the Minister of Finance and the Minister of Transport to submit a paper to the Cabinet Economic Development Committee on 18 March 2020 on the impacts of COVID-19 on the aviation sector;

98 **authorised** the Minister of Finance, Minister of Transport, and Associate Minister of Finance (Hon David Parker) to have Power to Act to finalise the government's position on the provision of support to Air New Zealand;

Impacts on financial markets

99 **noted** that banks currently hold significant buffers of excess capital and liquidity over regulatory minimums;

100 **noted** that on Tuesday, 17 March 2020, the Reserve Bank is expected to announce a one year deferral to planned increases in capital requirements;

101 25 [redacted]

102 **noted** that the Reserve Bank is in regular contact with banks, is setting up enhanced frameworks to get information from banks, and will keep the Minister of Finance updated on emerging pressures that may affect the stability of the wider financial system;

Fiscal strategy implications

103 **noted** that the fiscal position will deteriorate significantly as a result of the shock and the proposals in the paper under CAB-20-SUB-0108, and that net core Crown debt will likely rise above 25 percent of GDP;

104 **noted** that a deterioration in the fiscal position is appropriate given the economic circumstances, but that tight fiscal control will be required to demonstrate that the government will be able to return to surplus and prudent levels of debt in a reasonable period of time;

Borrowing implications

105 **noted** that, subject to the approval of the Minister of Finance, communication on the borrowing implications of the package will be announced by the Treasury around the time the initiatives in the paper under CAB-20-SUB-0108 are released publicly;

Coordination with Budget 2020

106 **noted** that, after announcing the package described in the paper under CAB-20-SUB-0108, the Minister of Finance intends to re-orient Budget 2020 to be the second phase of the broader recovery package;

107 **noted** that the Minister of Finance is preparing advice on a funding framework for considering COVID-19 related responses alongside Budget 2020;

Legislative implications

Legislative amendments for tax measures

108 **agreed** that the legislative amendments required to give effect to the tax proposals in paragraphs 68, 70 and 72 above be included in a Bill to be introduced as soon as practicable;

109 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft the necessary amendments to give effect to the above proposals;

110 **agreed** to delegate authority to the Minister of Finance and Minister of Revenue to make decisions on the detailed design of the tax proposals proposed above, and to introduce a Bill containing these proposals as soon as practicable;

Legislative amendments for initial recovery package

111 **agreed** that increases to main benefits be made through an Order in Council under section 452 of the Social Security Act 2018;

112 **agreed** to include an Income Support Package Legislation Bill in the 2020 Legislation Programme, with a Category 1 priority (to be passed in 2020);

113 **authorised** the Minister of Finance and Minister for Social Development to make technical, policy and administrative changes required to finalise draft legislation and regulations, in keeping with the policy aims, to implement this package;

114 **invited** the Minister of Finance and Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to give effect to the policy decisions agreed above;

Other legislative matters

115 **noted** that the government may need to pass a further Imprest Supply Bill to cover any financial implications of the economic response package in the current financial year;

116 **authorised** the Minister of Finance and the relevant portfolio Ministers to resolve any minor policy, fiscal or administrative issues consistent with the aims of the Package.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:
Prime Minister
Deputy Prime Minister
Minister of Finance
Minister for Social Development

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

Tax policy report: **COVID-19: Update to Inland Revenue's response and next steps**

Date:	5 March 2020	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2020/123

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report	9 March 2020
Minister of Revenue	**Direct** Inland Revenue to continue preparatory work on the options discussed in this report **Refer** a copy of this report to the Office of the Prime Minister	9 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone
s9(2)(a)	Strategic Policy Advisor	s9(2)(a)
	Principal Policy Advisor	

5 March 2020

Minister of Finance
Minister of Revenue

COVID-19: Update to Inland Revenue's response and next steps

Purpose

1. This report follows our earlier report dated 17 February 2020 (IR2020/088 refers) that outlined Inland Revenue's administrative response to the COVID-19 outbreak to assist affected businesses in the forestry, fishing, and tourism and hospitality sectors. Attached to this report is information about the current state, as informed by taxpayers as at 5 March 2020 (see Appendix).

2. Since that earlier report, we consider that the impacts of the COVID 19 outbreak are likely to be longer lasting and New Zealand is likely to experience a period of slower growth for the remainder of 2020. This is based on New Zealand having its third confirmed case, the continued spread of COVID-19 to other countries outside of mainland China, and recent monetary policy responses in the United States and Australia. We are aware that a number of ministerial papers have been prepared for Cabinet with recommendations to soften the impact of the economic situation on businesses and individuals who now find themselves out of a job.

3. Cabinet is currently considering a range of non-tax and tax interventions that could be deployed given the likelihood that the economic downturn caused by the COVID-19 outbreak may be longer and deeper than initially anticipated. This report sets out Inland Revenue's view on the tax measures that we understand are under consideration and sets out the framework we have used to evaluate those measures.

4. Attached to this report are speaking notes to support your discussions with Ministers about potential policy responses to the economic impact of COVID-19.

Consideration of possible Government interventions

5. Inland Revenue officials have been supporting the Treasury in developing a suite of tax measures for discussion at Cabinet. We understand that conversations are focused on issues including:

   5.1 A current assessment of the impact that COVID-19 is having on New Zealand's economy;

   5.2 The principles that should be considered when making decisions about what interventions should be deployed;

   5.3 A suite of non-tax and tax responses;

   5.4 Details of potential macroeconomic interventions (including tax); and

   5.5 Details of potential microeconomic interventions (including tax).

Framework for responding to the economic impact of COVID-19

6. Our assessment, as at 5 March 2020, is that additional Government intervention is needed to preserve business continuity, but not at the expense of the overall tax system.

7. Policy change, if the Government choses to intervene, should be:

   7.1 Developed within the context of existing policy settings;

   7.2 Be sensible, sustainable, and predictable; and

   7.3 Should constitute sound tax policy, even if it is a temporary measure and even in the absence of a significant economic event.

8. At an operational level we consider that the framework should be that:

   8.1 Unaffected taxpayers continue to pay their taxes on time; and

   8.2 Affected taxpayers pay their taxes when they are able to

9. The administrative tax measures deployed by Inland Revenue on 14 February 2020 support and confirm those principles.

Objectives of the tax interventions to support businesses affected by the COVID-19 outbreak

10. Optimal policy settings should protect and preserve soundly managed businesses. There is a considerable economic cost of otherwise viable businesses failing and this cost should be minimised. These are businesses that are normally profitable but are impacted by COVID-19 in a way that could not be insured against. However, we should not protect and preserve poorly managed businesses (for example, those who have chosen rigid and risky business models, such as operating wholly within narrow markets). Those businesses should bear the cost of those decisions.

11. There are, however, too many value judgements involved in determining whether a business should be allowed to fail, and the tax system lacks the precision to make or implement those judgements.

12. The options discussed in the table on page 6 are, for the most part, not targeted and are assumed to provide cash flow benefits for well-run businesses that are positioned to maximise the full benefit offered by the support. We are working on ensuring that the options are all administratively feasible and can be implemented in the current year (subject to amending law).

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

14. The options can be considered under three themes:

   14.1 **Hardship assistance** – taxpayers may face difficulties in meeting their tax obligations that Inland Revenue can already assist with;

   14.2 **Business continuity** – short-term and long-term microeconomic measures that can assist businesses to survive an economic downturn; and

   14.3 **Fiscal stimulus** – economy-wide macroeconomic measures to mitigate any contractionary effects at the macroeconomic level.

15. The table on page 6 summarises the potential tax policy responses outlined under this framework. We recommend that you discuss the content of the table with officials.

16. Separate to policy responses targeted at mitigating negative economic impacts, Inland Revenue has also commenced working on information sharing. This could lead to legislative changes that will allow for better data flows between Government agencies, improving the efficiency of responding to this event and other significant economic shocks.

Tax policy responses that are not recommended

17. Officials are aware of some policy responses that consider removing or deferring the obligation of businesses to deduct PAYE and/or pay GST. Wages that are withheld are required to be held on trust under current law, which means that these PAYE funds cannot be used as working capital. Removing an obligation to pay GST will provide more benefit to unaffected taxpayers and no benefit to exporters or taxpayers getting refunds.

18. Inland Revenue and the Treasury strongly recommend that these sorts of measures are not implemented. Aside from the above arguments, these are likely to create significant administrative issues as such changes will be complex to deliver within tight timeframes. We also anticipate that integrity and enforcement issues would arise with such measures in both the short-term as well as after the economic impact of COVID-19 has ended.

19. Officials consider the concerns raised by business taxpayers regarding their payment obligations are better managed using existing tools and discretions allowed to Inland Revenue under the Tax Administration Act 1994 and the tax payment services provided by the tax pooling companies.

20. There are a number of changes that can be made to the provisional tax settings, such as not requiring provisional tax payments throughout the year and not charging the use of money interest that would normally apply. However, officials strongly recommend against changing provisional tax dates. These dates drive a number of key internal processes (such as use of money interest and tax liability assessments). Inland Revenue considers that changing the dates has the risk of creating unintended consequences and could impair our ability to effectively and efficiently manage tax collection of business income tax.

Considering tax policy changes under uncertainty

21. Determining appropriate policy responses is significantly constrained by uncertainty and incomplete information in a number of areas. This includes how deeply the COVID-19 outbreak will impact the economy, how long that impact will last for, and the efficacy of policy responses in mitigating any negative impacts. Data that might otherwise be useful for evaluating economic impacts is often subject to a lag.

22. The framework described earlier, and the options described in the table, should be considered in the context of this uncertainty. Officials' policy recommendations may change over time in accordance with new and/or unexpected developments resulting from COVID-19.

When should tax policy changes be made?

23. Inland Revenue has already undertaken a significant amount of preparatory work on tax measures that would soften the economic impact of the COVID-19 outbreak on businesses and households. Ministers should direct officials to continue to

develop these measures so that the Government is well prepared to implement any tax options if Cabinet decides that they should be implemented. The deployment considerations for each option is included in the table.

24. There are several indicators that may signal the need for the Government to respond to the current COVID-19 outbreak using temporary or permanent changes to current tax policy settings. These include health indicators such as announcements by the Ministry of Health concerning the severity of the outbreak, and economic indicators such as domestic or global market disruptions and significant revisions downward of growth forecasts. These sorts of indicators may act as a trigger to progress one or more of the tax responses outlined in this report.

25. Tax policy changes that are recommended now include:

 25.1 A law change to allow Inland Revenue to share information with key agencies to support and improve policy and operational responses; and

 25.2 A change in the setting of the underlying interest rate formula to reduce the interest charge on underpayments of tax (use of money interest).

s9(2)(f)(iv)

[redacted]

Impact on the tax policy work programme

30. The Minister of Finance has stated that the Government's response to COIVD-19 is a top priority. We have allocated resources to develop the options set out in the table on page 6. We note that this work will have an impact on longer-term priorities on the tax policy work programme. We are not anticipating any problems with delivering the Government's earlier announcements on feasibility expenditure, loss continuity, and measures for Budget 2020.

Consultation

31. The Treasury was consulted as part of the preparation of this report. The Ministry for Business, Innovation and Employment have been informed of this report.

Next steps

32. Inland Revenue is continuing to work with other agencies to support the Government's response to the COVID-19 outbreak.

33. A copy of this report has been sent to the Minister of Finance and a copy should be referred to the Office of the Prime Minister.

34. We have provided relevant speaking notes for discussion with Ministers on tax responses and will continue to update you and your offices as events develop.

Recommended action

We recommend that you:

(a) **note** the contents of this report;

Noted   Noted

(b) **note** that Cabinet is considering tax options for responding to the economic impact of COVID-19 and that we have provided relevant speaking notes attached to this report;

Noted

(c) **direct** officials to continue preparatory work to support the possible implementation of the options discussed in this report, including the recommended changes to allow information sharing and changing the use of money interest formula;

Directed/Not directed

(d) **refer** a copy of this report to the Office of the Prime Minister for their information.

Referred/Not referred

s9(2)(a)

Principal Policy Advisor
Policy and Strategy

Hon Grant Robertson
Minister of Finance
/ /2020

Hon Stuart Nash
Minister of Revenue
/ /2020

Table: Tax policy responses to the economic shock created by COVID-19

Theme	*Description*	*Objective*	*Temporary/Permanent*	*Deployed*
Hardship	Remission of late payment and late filing penalties	Provide taxpayers who cannot pay with relief to allow them to manage debt.	Permanent	Yes, from 14 February 2020.
Hardship	Instalment arrangements	Provides taxpayers with a tool to manage payment of tax debts, including giving Inland Revenue the ability to remove interest changes.	Permanent	Yes, from 14 February 2020.
Hardship	Remission of interest on tax debts in emergency situations	Allows Inland Revenue to remit interest charges when there is an emergency event that physically prevents taxpayers from meeting their tax obligations	Temporary	Not deployed as the current state does not meet the statutory criteria for this relief.
Business continuity	Loss carry-back Allow companies to carry back a loss and get the value of the loss carry back refunded	The effect would be the same as allowing a cash-out of losses to the extent of income earned in the prior three years. This is safer than providing a general cash out of losses, as the company must have a record of paying tax earlier. This option is intended to help with cash flow for companies that are generally profitable but are temporarily in loss due to a period of economic weakness. It is expected that small-to-medium scale businesses would benefit from this proposal rather than large corporates due to limitations on refunding tax that had been transferred to shareholders through imputation. Would target small-to-medium scale businesses over large corporates.	Permanent	To be developed. Would require legislation to implement.
Business continuity	Grant or subsidy to cover employee sick leave costs	Provide businesses with cash to compensate for the effect of sick leave taken by employees. RISK: Fraud.	Would be a temporary measure	To be developed. Would require legislation to implement.
Business continuity	Reduce the rate of use of money interest (UOMI)	Reduces the carrying cost of tax debt and reduces the financial penalty associated with under-estimating provisional tax liabilities. RISK: May be issues with returning to normal rates.	Would be temporary measure, pending the outcome of further work on the underlying UOMI formula We do not recommend a zero rate unless an emergency event	We recommend legislative reform on the underlying use of money interest formula.

Business continuity	Temporarily set the provisional tax uplift to zero, rather than the usual 5% that applies under normal conditions	Recognises that businesses are unlikely to experience income growth during the period of the economic shock. Benefits would potentially be realised for businesses by the time P1 payments were due.	Would be a temporary measure	Would require legislation to implement. Copies a similar tax policy change for businesses as in response to the Global Financial Crisis.
Business continuity	Provisional tax changes for Budget 2020	Bring forward provisional tax changes planned for Budget 2020 that could assist with cash flow issues that businesses are currently facing.	Permanent	Would require legislation. Policy is well developed.
Business continuity	Allow businesses earning under $60,000 to not have to pay provisional tax throughout the year but still get the UOMI concession	Businesses currently earning under $60,000 are currently not exposed to UOMI until their terminal tax date as long as provisional tax is paid through the year. This measure would benefit small businesses as it provides a significant cash flow benefit to them. Late payment penalties would be waived.	Would be a temporary measure	Would require legislation.
s9(2)(f)(iv) [redacted]				
Fiscal stimulus	Provide businesses with depreciation deductions for buildings	Reduce the tax cost with investing in industrial, commercial, and multi-storied residential complexes. Objective to raise business-confidence by removing a source of black-hole expenditure.	Permanent	Would require legislation. Policy is well developed.

Description of measures listed in the table

Hardship assistance

35. This theme targets taxpayers who struggle to meet their tax obligations as a result of COVID-19. This includes remission of late payment/filing penalties and facilitating instalment arrangements. These measures relieve some of the short-term cash flow issues that taxpayers may be currently facing.

36. These options are already available under current tax settings. They are immediately accessible by taxpayers and do not require any sort of policy development.

37. Taxpayers will seek this type of support individually, so these measures are incorporated into the framework at a microeconomic level and are the most targeted of the options considered in this report.

Business continuity

38. Although it is expected that there will be some degree of recovery from an economic downturn (i.e. people may expect the economy to return to more "normal" and predictable settings), some businesses may not survive the downturn due to cash flow issues and therefore will not be in a position to continue after the economic impacts of COVID-19 have ended. This could lead to a permanent reduction in economic activity in the long term. To mitigate this long-term economic contraction, officials have considered business continuity measures.

39. Short-term continuity measures include assisting businesses with paid sick leave (such as through a subsidy administered using payday filing), temporarily reducing the use of money interest (UOMI) rate on underpayments of tax, and changing some of the settings for provisional tax relating to uplift rates and UOMI concessions. Each of these would require legislation to implement.

40. Long-term continuity measures include allowing companies to carry back a loss and permanently changing the formula that calculates UOMI. These would be sustained changes to the tax system that officials recommend as ideal policy decisions rather than as a reaction to economically significant events. Regardless, they would also assist businesses with cash flow and so would help businesses throughout the COVID-19 outbreak.

Fiscal stimulus

41. The last theme, fiscal stimulus, is the broadest with respect to application. Consequently, these measures are likely to be the most fiscally significant, though we do not provide costings in this report.

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

43. Allowing deductions for building depreciation is a form of stimulus with respect to businesses. It is likely to affect fewer people compared to measures like personal tax cuts and cash payments. Reintroducing building depreciation also has a less direct effect on cash held by people/businesses. However, it does have a fiscal impact with regard to reducing tax liabilities, and it will also contribute positively to business confidence.

Appendix: Current state

44. In our earlier report (IR2020/088 refers), we outlined a package of administrative responses that Inland Revenue deployed on 14 February 2020 to support taxpayers affected by the COVID-19 outbreak. The deployed measures included:

    44.1 Remission of late payment and late filing penalties; and

    44.2 Offering instalment arrangements for taxpayers with cash flow problems to help manage tax debts.

45. Inland Revenue notes that these measures have been tried and tested in previous responses to economic shocks caused by natural disasters and viral outbreaks (for example, the Canterbury earthquakes in 2010, the Kaikoura earthquake in 2016, and the Hawke's Bay gastro outbreak in 2016).

46. We are aware that the tax pooling companies have also responded and are assisting business taxpayers to manage their tax debt obligations by offering competitive interest rates for taxpayers needing to use their services to meet provisional tax payments. For example, Tax Management New Zealand is charging taxpayers in the forestry sector 3.95% for their services. The current rate of interest charged by Inland Revenue for underpayments of tax is 8.35%.

Enquiries from customers

47. We have been regularly updating your office and using the Status Report to inform you about the key themes emerging from taxpayer contacts with Inland Revenue related to COVID-19. We expect that the number of customer contacts will increase rapidly following New Zealand's first confirmed case on 28 February 2020. As of the morning of 5 March, there have been three confirmed cases.

48. Customer enquiries have covered a range of issues. For individuals, half of the enquiries have related to income tax. Other issues of concern include child support liabilities and Working for Families entitlements. For businesses, Inland Revenue is managing an increase in contacts to request instalment arrangements or the remission of penalties. A number of small businesses are advising that they have ceased trading.

49. The economic impacts of COVID-19 appear to be being felt more strongly in particular regions, such as Northland and Gisborne. There are also strong signals that the Chatham Islands are experiencing a major economic downturn.

Cross-agency policy development

50. Inland Revenue officials are meeting with the Treasury daily to assist with preparing policy advice for the economic impact of COVID-19. We also have a presence at the Economic Advisory Group that is monitoring and responding to the economic impacts of COVID-19. Officials have upcoming meetings with the Ministry of Business, Innovation and Employment as well as the Ministry for Primary Industries.

51. Inland Revenue officials are currently working with the Treasury on their own advice as well as creating briefing material for Cabinet discussions. Speaking notes are attached to this report in relation to the tax elements of any all-of-Government responses.

52. Officials have also begun investigating the legal provisions for information sharing and we may propose legislative amendments to enhance our ability to give and receive data from other agencies. This will improve the efficiency with which we can respond to COVID-19 as well as other future events.

Out of scope

Out of scope

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

Tax policy report:	**COVID-19: Inland Revenue's tax relief package in response to the 2016 Gastroenteritis outbreak in Havelock North – a comparison**

Date:	6 March 2020	**Priority:**	High
Security level:	In Confidence	**Report number:**	IR2020/134

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report	10 March 2020
Minister of Revenue	**Note** the contents of this report **Refer** a copy of this report to the Office of the Prime Minister	10 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone
s9(2)(a) [redacted]	Strategic Policy Advisor	s9(2)(a) [redacted]
	Principal Policy Advisor	

6 March 2020

Minister of Finance
Minister of Revenue

COVID-19: Inland Revenue's tax relief package in response to the 2016 Gastroenteritis outbreak in Havelock North – a comparison

Purpose

1. This report specifically provides information on Inland Revenue's response to the Hawke's Bay gastro outbreak in 2016 (the Hawke's Bay emergency event) and how this compares to Inland Revenue's current COVID-19 outbreak response .

2. Officials have been directed to look at a provisional tax relief package for COVID-19 based on the Hawke's Bay gastroenteritis outbreak and how this response would work on a nationwide basis. This direction has been given by the PMBAC, at a meeting held on 5 March 2020, and advised to officials by email.

3. This report follows our earlier reports IR2020/088, dated 17 February 2020; and IR2020/123 dated 5 March 2020.

Hawke's Bay emergency event (2016)

4. In August 2016, approximately 28 percent of the population in Havelock North was affected by gastroenteritis through the contamination of its water supply. Given the number of individuals affected, Inland Revenue considered the event was an emergency event under the Civil Defence Emergency Management Act 2002. This was based on Ministry of Health advice that the level of infection would have an impact on the ability of small businesses to meet their upcoming tax obligations.

5. The table on page illustrates Inland Revenue's response to the Hawke's Bay emergency event and how Inland Revenue's current response to the coronavirus COVID-19 outbreak compares. The main difference is relief from use of money interest (UOMI) has not been actioned as the current state for COVID-19 is not yet, in our assessment as at 6 March 2020, an emergency event.

Overview of taxpayer relief responses to the Hawke's Bay gastro outbreak and COVID-19

6. The range of tax relief options deployed for the Hawke's Bay event included remission of late payment and late filing penalties, instalment arrangements, and remission of use of money interest. An Order in Council was approved and authorised Inland Revenue to remit use of money interest in this case.

7. The tax relief provided for that emergency event did not remove the obligation on taxpayers to pay tax or alter payment dates, but reduced the tax penalties and interest costs if the tax was not paid on time. The relief applied for a period of about six weeks (from late August 2016 to 30 September 2016). As such the response did not directly affect the operation of the provisional tax rules.

8. The range of tax relief options used for the Hawke's Bay emergency event, with the exception of use of money interest relief, have already been deployed for COVID-19 and includes remission of late payment and late filing penalties, and instalment arrangements for tax debts. These have been made available to taxpayers from 14 February 2020 under Inland Revenue discretionary hardship relief rules.

Table: Summary of relief package content deployed by Inland Revenue for Hawke's Bay gastro outbreak and COVID-19 outbreak

Relief package	***Hawke's Bay gastro outbreak (2016)***	***COVID-19 (nationwide) (2020)***
Remission of late payment and late filing penalties (provides taxpayers who cannot pay with relief to allow them to manage debt)	Deployed for six weeks	Deployed from 14 February 2020 No time limit
Instalment arrangements (provides taxpayers with a tool to management payment of tax debts, including giving Inland Revenue the ability to remove interest changes)	Deployed for six weeks	Deployed from 14 February 2020 No time limit
Use of Money Interest (reduces the carrying cost of tax debt and reduces the financial penalty associated with under-estimating provisional tax liabilities)	Deployed for six weeks	Not deployed as it does not meet statutory criteria for an "emergency event" as individuals are not physically prevented from paying tax

Use of money interest (UOMI) remission

9. Relief from interest on outstanding tax debts ("use of money interest") is not yet, in our view, appropriate for the COVID-19 situation. This is because the statutory criteria under the Tax Administration Act 1994 have not yet been met.

10. UOMI is designed to compensate the government for the loss of use of money from taxpayers paying too little tax.

11. The Tax Administration Act provides for an Order in Council to allow Inland Revenue to remit this interest where:

    11.1 an emergency event physically prevents a taxpayer from paying tax on time;

    11.2 this non-payment results in the imposition of interest; and

    11.3 the taxpayer is a member of a class of persons eligible for remission of interest if the Order in Council declaring the emergency event describes such a class of persons.

12. The key criterion for classification as an emergency event relates to a taxpayer being physically prevented from making a payment on or before the due date under the Inland Revenue Acts.

13. An emergency event, for the purposes of the Civil Defence Emergency Act 2002, is framed in the context where the event – for example, a plague or epidemic, has the potential to cause loss of life or injury or illness that endangers the safety of the public or property in New Zealand.

14. If the consequences of the COViD-19 outbreak begin presenting an immediate risk to New Zealanders' public health, the event would be considered to meet the statutory requirement as an "emergency event". Officials would recommend preparing an Order in Council to remove interest charges from taxpayer debts for areas that are specifically affected.

15. In our view, there are tax compliance and integrity risks with applying this relief on a nationwide scale. The relief should be reserved for situations when there is a need, such as direction from the Ministry of Health, to restrict or otherwise limit the movement of individuals for public health safety reasons in a particular area. The

closest comparison we can offer is the limitations imposed under the Civil Defence Emergency Act in response to the Canterbury and Kaikoura earthquakes.

Reducing the rate of UOMI

16. In our report on 5 March 2020 we noted that officials were working on a tax policy response looking at cutting the current rate of UOMI on underpayment of tax, which is currently 8.35%.

17. A tax policy work programme project looking at the formula that is used to set the rate of UOMI has been brought forward as part of Inland Revenue's COVID-19 response. The purpose of any reduction in the interest rate applied to underpayments of tax is to reduce the carrying cost of tax debt and reduce the financial penalty associated with under-estimating provisional tax liabilities.

18. We will report to you on the outcome of this work in the week beginning 9 March 2020.

UOMI relief offered by the tax pooling companies

19. As noted in our earlier report, we are aware the tax pooling companies are assisting business taxpayers affected by cash flow constraints created by the economic effects of the COVID-19 outbreak by offering competitive interest rates for taxpayers needing to use their services to meet provisional tax payments.

Consultation

20. Due to the time constraints in preparing this report, the Treasury has been informed of this report.

Next steps

21. Further work to determine other potential tax policy options as outlined in IR2020/123 dated 5 March 2020 continues.

22. We recommend you refer a copy of this report to the Office of the Prime Minister for their information.

23. Officials are available to discuss the content of this report.

Recommended action

24. We recommend that you:

(a) **Note** the contents of this report.

Noted　　　　　　　　　　Noted

(b) **Note** that a report is being prepared for the week beginning 9 March 2020 which will seek policy approval to changes to the way that UOMI is calculated, information sharing and provisional tax compliance cost savings measure.

Noted　　　　　　　　　　Noted

(c) **Refer** a copy of this report to the Office of the Prime Minister for their information.

Referred/Not referred

s9(2)(a)

Principal Policy Advisor
Policy and Strategy

Hon Grant Robertson
Minister of Finance
/ /2020

Hon Stuart Nash
Minister of Revenue
/ /2020

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

Tax policy report: **Draft Cabinet paper: COVID-19: Tax measures to support affected businesses**

Date:	11 March 2020	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2020/139 T2020/616

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Note** the fiscal impacts	12 March 2020
Minister of Revenue	**Agree** to recommendations **Note** the fiscal impacts	12 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone
s9(2)(a) [redacted]	Policy Lead	s9(2)(a) [redacted]
	Principal Policy Advisor	
	Acting Team Leader	

11 March 2020

Minister of Finance
Minister of Revenue

Draft Cabinet paper: COVID-19: Tax measures

Introduction

1. This report sets out tax measures that can be implemented as part of the Government's response to the economic impact of COVID-19. Officials seek your agreement to implement these proposals. Attached is a draft paper for your review that seeks the agreement of the Ad Hoc Cabinet Committee on COVID-19 (CVD) to the measures.

2. The measures include the following:

   2.1 Remission of use of money interest (UOMI); and

   2.2 Expanding Inland Revenue's information sharing powers to support the response to COVID-19.

3. In addition to the above, officials will provide advice on potential changes to provisional tax in a separate report. These measures include:

   3.1 Increasing the provisional tax threshold (bringing forward existing Budget 2020 initiative);

   3.2 Removing the requirement to make payments to fall within the safe harbour rule; and

   3.3 Increasing the income threshold to use the accounting income method (AIM).

4. At this stage we do not recommend significantly reducing the rate of UOMI as a response to COVID-19. This is because it will benefit taxpayers that are not adversely affected. Lowering the rate will also create a disincentive to pay tax. These outcomes are counter to our current framework that unaffected taxpayers should continue to pay their tax. If the immediate and developing economic disruption caused by COVID-19 changes and a greater proportion of businesses are negatively impacted by COVID-19, there may be a case for revisiting the overall rate of UOMI.

5. We expect that a UOMI rate reduction will be triggered under the normal regulatory process next month. This would mean that the rates of UOMI could be lowered through the normal regulatory process without requiring any legislative changes.

6. Officials will provide you with a finalised Cabinet paper on Thursday 12 March based on the recommendations you agree to in this report and following any other comments you wish to make on the draft Cabinet paper.

Context

7. The measures outlined in this report are all intended to address microeconomic problems on a targeted basis, such as a business that needs relief due to the economic impact of COVID-19. Hence, options like UOMI remission are intended to deal with taxpayers on a case-by-case basis rather than have broad application.

8. This report does not consider how tax responses should address COVID-19 at a macroeconomic level. However, officials will provide advice on potential macroeconomic tax measures shortly.

Remission of UOMI

Background

9. The purpose of use of money interest (UOMI) is to compensate the Government for the time value of money lost due to taxpayers underpaying their tax.

10. It applies to all tax types administered by Inland Revenue, including income tax and GST. UOMI also applies to underpayments of tax that are withheld at source such as PAYE and RWT. UOMI also applies to Working for Families debt.

11. Under the current rules in the Tax Administration Act 1994, remission of UOMI can occur when an emergency event[1] physically prevents a taxpayer from paying their tax. For example, an Order in Council was used to this effect for the Hawke's Bay gastroenteritis outbreak in 2016 (IR2020/134 refers).

12. We consider that the current empowering provision for remitting interest on underpaid tax is not fit for purpose to address circumstances where a taxpayer is financially unable to pay their tax on time because of the economic impacts of COVID-19.

Proposal

13. Officials recommend that a UOMI remission measure specific to COVID-19 is legislated. This would give the Commissioner of Inland Revenue the discretion to remit UOMI if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak. The discretion would apply both when a taxpayer is financially unable to make a tax payment on time because of the economic nature of the event as well as when they are physically unable to make a tax payment on time.

14. Officials support this option as it fits within our current framework for evaluating tax policy responses to the economic impact of COVID-19; it does not incentivise unaffected taxpayers to stop paying their taxes, and it supports affected taxpayers to pay their tax when they are able to. It is a much more targeted measure than a general reduction in the rate of UOMI (discussed later).

15. For the Commissioner of Inland Revenue to exercise this discretion, she must be satisfied that the taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak. A taxpayer's business being significantly affected by COVID-19 would not be sufficient grounds for UOMI to be remitted if they still had the ability to make a tax payment on time. As such, UOMI is less likely to be remitted for a large business that has been adversely affected by COVID-19 than a small-medium business as the large business is more likely to have financial capability and cash reserves to make a tax payment by its due date.

16. Inland Revenue is currently developing guidelines for the UOMI remission eligibility criteria. The eligibility criteria for interest remission would be aligned where possible with the eligibility criteria for the wage subsidy scheme that was announced on 9 March. In particular, taxpayers eligible to receive the wage subsidy payment would be considered to have satisfied Inland Revenue's criteria for UOMI remission.

[1] As defined in section 4 of the Civil Defence Emergency Management Act 2002.

17. UOMI remission will apply only for tax payments due on or after 14 February 2020. This is the date that Inland Revenue announced that tax relief and income assistance measures would be available to people affected by a downturn in business owing to the COVID-19 outbreak.

18. The proposed discretion would only apply for two years from the date of enactment unless extended by an Order in Council. This would ensure that the discretion to remit UOMI is targeted at taxpayers affected by the current COVID-19 outbreak.

Provisions for information sharing

Background

19. The current rules require Inland Revenue to keep taxpayer information confidential unless a specific legislative exception authorises the disclosure. There are a number of exceptions in the tax legislation enabling Inland Revenue to share information with other agencies. These existing exceptions will be used, where possible, to share information with other agencies to assist in the response to the COVID-19 outbreak.

20. However, there may be situations where, as a result of the COVID-19 outbreak, the Government may require Inland Revenue to share information with other agencies with which Inland Revenue does not have any existing arrangements or where the existing arrangements are not flexible enough to enable the required sharing to occur.

Proposal

21. Officials recommend legislative amendments to allow Inland Revenue to share information with other agencies in order to respond to the COVID-19 outbreak. This provision will be targeted, time limited, and only used when existing legislative provisions are not adequate to share information.

22. A similar provision enabled Inland Revenue to share information as part of the response to the Canterbury earthquake and this proposal is modelled on that earlier provision.

23. The proposal would enable Inland Revenue to share information with Government departments and the New Zealand Police, ACC, and Kāinga Ora, to help those agencies provide assistance in relation to the COVID-19 outbreak.

24. The information would relate to both individuals and non-individuals and may include, but is not limited to, identifying information, contact and location information, financial information, and family information. The purpose of the amendment is to facilitate the efficient flow of information to ensure that the government's wider programmes responding to the economic shock caused by the COVID-19 outbreak are effective and correctly targeted.

25. The provision would apply for a period of two years only unless extended by an Order in Council. This would enable the Government to continue sharing information, if required, in response to COVID-19 after the two-year period.

26. Currently, tax legislation requires those persons who have access to taxpayer information under an information sharing provision to keep that information confidential and not disclose it or use it for a purpose other than that for which it was provided. This requirement will also apply to the proposed information sharing provision to assist in the response to the COVID-19 outbreak.

27. This provision would be limited to information sharing only and would not extend Inland Revenue's information gathering powers. The provision would apply from the date of assent of the bill that it is included in.

Other measures: provisional tax

28. You have requested that officials look at other tax measures relating to provisional tax that could be made to assist businesses in dealing with the economic impacts of COVID-19.

29. These tax measures are not included in the draft Cabinet paper. Officials are preparing a further report on these measures. The current recommendations for that report include:

    29.1 Increasing the provisional tax threshold from $2,500 to $5,000;

    29.2 Removing the requirement for a taxpayer to make payments to fall within the provisional tax safe harbour rule; and

    29.3 Increasing the income threshold to use AIM from $5 million to $10 million.

30. Although these measures are being considered in a separate report, they could be included in the same bill as the UOMI remission and information sharing provisions if Ministers agree to them.

Reducing the rate of UOMI

Directly reducing the rate of UOMI

31. At this stage we do not recommend significantly reducing the rate of UOMI as a response to COVID-19. This is because it will benefit taxpayers that are not adversely affected. Lowering the rate will also create a disincentive to pay tax. These outcomes are counter to our current framework that unaffected taxpayers should continue to pay their tax.

32. With a lower rate of UOMI, taxpayers are incentivised to pay other debt ahead of their tax or stop paying their tax altogether. There are operational measures that Inland Revenue could undertake to mitigate this impact, but officials consider that the resources required to do this could be better deployed assisting affected businesses.

33. The role of tax pooling companies also needs to be taken into account when considering a reduction in the rate of UOMI. These companies provide an important service to taxpayers.

34. In terms of measures relating to UOMI, officials consider that targeted remission is a better policy response. It would ensure that unaffected taxpayers are not encouraged to stop paying their tax, but it would assist eligible taxpayers that are financially affected by the economic impact of COVID-19.

35. If the immediate and developing economic disruption caused by COVID-19 changes, and a greater proportion of businesses are negatively impacted by COVID-19, there may be a case for revisiting the overall rate of UOMI.

Reviewing the UOMI rate-setting formulas

36. The formulas for calculating the UOMI rate for under- and over-payments of tax track the Reserve Bank of New Zealand (RBNZ) floating first mortgage new

customer housing rate series and the RBNZ 90 days bank bill rate series, respectively.

37. These formulas should be reviewed as a long-term project on the Government's tax policy work programme. We do not recommend a formula change now as the policy implications of doing so have not yet been properly considered.

A change in the rate of UOMI under the normal regulatory process

38. The normal UOMI rate-setting process is undertaken on a continuous basis by officials. Under this process, the rates of UOMI have to be adjusted whenever either of the tracking series for the under- and over-payment rates changes by a certain amount. That amount is 100 basis points since the last UOMI review, or 20 basis points over a 12-month period.

39. Officials have noted there is a chance that UOMI rates will be updated given the current direction of the underlying series that are tracked in the formulas. If the Official Cash Rate were to be cut as a monetary policy response to COVID-19 (expected by some sectors), this would increase the likelihood that either of the tracking series will fall by enough to trigger a UOMI rate review.

40. If a rate review were triggered, then the rate of UOMI would be lowered through the normal regulatory process. Officials' current recommendation is to allow this process to occur rather than pre-emptively cutting the rate or changing the formula. Based on the current floating first mortgage rate, the rate of UOMI would be reduced from 8.35% to 7.76%.

Fiscal impacts

UOMI remission

41. There is no direct fiscal cost from the proposal to give the Commissioner of Inland Revenue discretion to remit UOMI in response to the COVID-19 outbreak. There would be a negative financial implication for the Crown as this policy change would result in foregone UOMI revenue. However, as the Government's fiscal forecasts do not currently include COVID-19-related interest charges, their remission will have no impact on the fiscal position.

42. There are, however, a number of risks associated with this proposal:

    42.1 Decreasing the incentive to pay tax when it falls due (in smaller instalments) could result in some taxpayers being unable to pay their larger tax bill at a later date, which could result in core tax not being recoverable; and

    42.2 Taxpayers who would have been subject to UOMI penalties under ordinary economic circumstances could also face COVID-19-related stress. Remitting UOMI penalties for these taxpayers would have a fiscal cost (albeit unquantifiable), as some share of the remitted interest would have related to non-COVID-19 drivers.

43. More broadly, there is a risk that remitting UOMI could lead to the deliberate underpayment of tax in situations where the tax would have ordinarily been paid in full and on time, with delays potentially crossing fiscal years.

44. These risks will impact on the fiscal position if they materialise. We are unable to quantify the materiality of the potential impacts.

Information sharing

45. There are no fiscal impacts for the proposals relating to information sharing.

Administrative implications

46. Inland Revenue has not yet completed a full impact assessment of these proposals and will need to do this, including identifying any resourcing implications, once details of eligibility criteria are more developed.

47. The changes proposed to UOMI will generate additional contacts of a complex nature for Inland Revenue as people seek advice on how these changes impact their situation. The retrospective nature of the changes adds to the complexity. Inland Revenue is already under pressure to manage customer demand from the upcoming Business Transformation Release 4 changes, and the beginning of the 2020 auto-calculation period. There are additional expected cumulative impacts which Inland Revenue also need to manage, including Budget 2020 items, further COVID-19 responses, and the impact of reduced baselines due to the reduction of time-limited funding.

48. To manage this additional demand Inland Revenue will need to factor this into managing this peak season and given the likely resource contentions, re-prioritisation decisions would need to be made. The impact of not having sufficient capacity and capability is likely to be a sub-optimal customer experience and will potentially impact on performance standards.

49. These changes will require community and stakeholder engagement. This includes the UOMI remission facility for affected taxpayers which will require communication of the eligibility criteria. Inland Revenue intends to publish guidance to assist taxpayers in deciding whether they should seek this sort of relief.

50. Although some of the measures described in this paper are intended to be targeted at taxpayers that are significantly financially affected by the economic impact of COVID-19, there will be some applications for relief from taxpayers who have not been adversely affected. Inland Revenue staff will need to assess risk when actioning these requests and in doing so will be supported by our new systems which will help identify cases needing closer inspection.

51. Note that these proposals are potentially smaller than economy-wide initiatives that could be announced in future as a response to COVID-19. Any allocation of resources now not only detracts from current business operations but may also impose constraints on resourcing future responses to COVID-19.

Next steps

52. Based on the measures you agree to, we will provide you with a finalised paper on Thursday 12 March for you to take to the Ad Hoc Cabinet Committee on COVID-19 (CVD) on 18 March 2020.

53. The finalised CVD paper that you take on 18 March 2020 will seek policy approval for the tax measures you agree to in this report. Subject to CVD's agreement, there are two options for legislating. Either:

    53.1 CVD delegates authority to the Minister of Revenue to introduce a bill containing the measures as soon as practicable; OR

    53.2 A paper is taken to Cabinet Legislation Committee on 31 March 2020 authorising the introduction of a tax bill containing the measures.

Regulatory Impact Assessment

54. The Regulatory Impact Assessment requirements apply to the proposals recommended in this report. However, owing to the short time frame available to develop a response to the COVID-19 outbreak no impact analysis has been prepared. The Treasury therefore recommends that a Supplementary Analysis Report (SAR) is provided to Cabinet ahead of a Bill containing these proposals being agreed and introduced.

55. If the Bill containing these proposals goes to the Cabinet Legislation Committee on 31 March 2020 a SAR on the proposals will be provided at that time.

56. If Cabinet instead delegates authority to the Minister of Revenue to introduce the Bill as soon as practicable there will likely be no opportunity for a SAR to be provided to Cabinet before introduction.

Recommended action

We recommend that you:

1. **note** that we will provide you with a finalised paper on Thursday 12 March to take to the Ad Hoc Cabinet Committee on COVID-19 (CVD) on Wednesday 18 March 2020;

   Noted Noted

2. **agree** to include the UOMI remission measure in the Cabinet paper;

   Agreed/Not agreed Agreed/Not agreed

3. **agree** to include the information sharing measure in the Cabinet paper;

   Agreed/Not agreed Agreed/Not agreed

4. **note** that the standard UOMI rate-setting review process is expected to lead to a reduction in the rate of UOMI in April 2020;

   Noted Noted

5. **note** the following fiscal implications:

   5.1 Remission of UOMI has no fiscal cost;

   Noted Noted

   5.2 Expanding Inland Revenue's information sharing powers has no fiscal cost;

   Noted Noted

6. **Agree**, subject to the agreement of CVD, to one of the following options for legislating the tax measures recommended in this report, either:

   6.1 CVD delegates authority to the Minister of Revenue to introduce a bill containing the measures as soon as practicable;

   Agreed/Not agreed Agreed/Not agreed

   OR

6.2 A paper is taken to Cabinet Legislation Committee on 31 March 2020 authorising the introduction of a tax bill containing the measures (*officials' preference*).

Agreed/Not agreed Agreed/Not agreed

s9(2)(a) [redacted]

Acting Team Leader
The Treasury

s9(2)(a) [redacted]

Policy Lead
Policy and Strategy, Inland Revenue

Hon Grant Robertson
Minister of Finance
/ /2020

Hon Stuart Nash
Minister of Revenue
/ /2020

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

Tax policy report: **Cabinet paper: COVID-19: Tax measures**

Date:	12 March 2020	**Priority:**	High
Security level:	Sensitive	**Report number:**	IR2020/149 T2020/634

Action sought

	Action sought	Deadline
Minister of Finance	**Approve** the attached Cabinet paper	13 March 2020
Minister of Revenue	**Approve** and **lodge** the attached Cabinet paper with the Cabinet Office	13 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone
s9(2)(a) [redacted]	Policy Lead	s9(2)(a) [redacted]
	Principal Policy Advisor	
	Acting Team Leader	

12 March 2020

Minister of Finance
Minister of Revenue

Cabinet paper: COVID-19: Tax measures

1. This report seeks your approval of the attached Cabinet paper (**COVID-19: Tax measures**). This follows the draft Cabinet paper and corresponding report that we provided to you yesterday (IR2020/139; T2020/616 refers).

2. The tax measures included in the Cabinet paper are:

   2.1 Targeted remission of use of money interest; and

   2.2 Expanding Inland Revenue's information sharing powers to support the response to COVID-19.

3. Officials will be reporting separately on potential provisional tax measures.

4. You agreed to seek policy approval for the two tax measures at the Ad Hoc Cabinet Committee on COVID-19 (CVD) on Wednesday 18 March. You have also agreed that, subject to CVD's approval, the Minister of Revenue will be delegated authority to introduce a bill containing the measures as soon as practicable. This will occur in consultation with the Minister of Finance and the Leader of the House.

5. We will provide you with speaking notes for taking the paper through CVD next week.

6. The Cabinet paper, associated minutes, and key advice papers should be proactively released with appropriate redactions at the time the bill is introduced in late March. We expect that this will occur within the requisite 30 working days of Cabinet making final decisions.

Recommended action

We recommend that you:

7. **Approve** the attached Cabinet paper for consideration at the Ad Hoc Cabinet Committee on COVID-19 on Wednesday 18 March 2020.

Approved/Not approved | Approved/Not approved

8. **Agree** to the release of the attached Cabinet paper, associated minutes, and key advice papers with appropriate redactions when the bill is introduced.

Agreed/Not agreed | Agreed/Not agreed

s9(2)(a) [redacted]
Acting Team Leader
The Treasury

s9(2)(a) [redacted]
Policy Lead
Policy and Strategy, Inland Revenue

Hon Grant Robertson
Minister of Finance
/ /2020

Hon Stuart Nash
Minister of Revenue
/ /2020

Sensitive

Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Ad Hoc Cabinet Committee on COVID-19

COVID-19: TAX MEASURES

Proposal

1. This paper seeks the Ad Hoc Cabinet Committee on COVID-19's (the Committee) agreement to two tax measures in response to the COVID-19 outbreak:

   1.1 Give the Commissioner of Inland Revenue the discretion to remit use of money interest (UOMI) for taxpayers that have had their ability to pay tax on time significantly adversely affected by the COVID-19 outbreak; and

   1.2 Allow Inland Revenue to share information with Government departments, New Zealand Police, ACC and Kāinga Ora, in order to assist these agencies in relation to the COVID-19 outbreak.

2. If the proposals in this paper are approved, we propose including the necessary legislative amendments in a Bill to be introduced as soon as practicable.

3. These measures are directed at facilitating business continuity for affected businesses and complement wider government work in response to the COVID-19 outbreak.

Current economic context

4. The measures in this paper reflect early tax interventions to support business continuity given the current view on the overall economic position we are facing. As such, they are fairly targeted.

5. As the immediate and developing economic disruption caused by COVID-19 changes and a greater proportion of businesses are negatively impacted by COVID-19, there are other business tax measures that are less targeted and more stimulatory that may become desirable (for example, a cut to the UOMI rate). Officials continue to monitor the situation and advise on these measures.

Use of money interest (UOMI) remission

Purpose

6. We are proposing a change to the rules for when interest payable on underpayments of tax can be remitted. The proposal would allow Inland Revenue to ensure an

effective zero-rate of interest on tax debt owed by taxpayers severely affected by the economic shock caused by the COVID-19 outbreak.

Background

7. The purpose of use of money interest (UOMI) is to compensate the Government for the loss of use of money from taxpayers underpaying their tax.

8. It applies to all tax types administered by Inland Revenue, including income tax and GST. UOMI also applies to underpayments of tax that are withheld at source, such as PAYE and RWT. UOMI also applies to Working for Families debt.

9. There are some legislative mechanisms that allow UOMI to be remitted, however, these are not fit for purpose to respond to the nature of the economic shock caused by COVID-19.

10. For the remission of interest in response to emergency events, the current rules provide for an Order in Council process to allow Inland Revenue to remit UOMI where a taxpayer is "physically prevented" from making a payment and are directed at situations or events where public safety is of paramount concern because of the risk of injury or death, typically due to a natural disaster.

11. In our view, the current statutory framework is not appropriate to address circumstances where a taxpayer is financially unable to pay their tax on time because of the economic impacts of the COVID-19 outbreak.

Proposal

12. We recommend that the Commissioner of Inland Revenue (Inland Revenue) be given the discretion to remit UOMI if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak. The discretion would apply both when a taxpayer is physically unable to make a tax payment on time and when a taxpayer is financially unable to make a tax payment on time because of the economic nature of the event.

13. While the discretion would enable Inland Revenue to remit UOMI on a late tax payment, the taxpayer would still be required to pay their core tax debt.

14. For Inland Revenue to exercise this discretion, it must be satisfied that the taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak. A taxpayer's business being seriously affected by COVID-19 would not be sufficient grounds for UOMI to be remitted if they still had the ability to make a tax payment on time. As such, UOMI is less likely to be remitted for a large business that has been adversely affected by COVID-19 than a small-medium business as the large business is more likely to have financial capability and cash reserves to make a tax payment by its due date.

15. Inland Revenue is currently developing guidelines for the UOMI remission eligibility criteria. The eligibility criteria for interest remission would be aligned where possible with the eligibility criteria for the wage subsidy scheme. In particular, taxpayers eligible to receive the wage subsidy payment would be considered to have satisfied Inland Revenue's criteria for UOMI remission.

Application date

16. We recommend that the proposed discretion for the Commissioner of Inland Revenue to remit UOMI in response to the COVID-19 outbreak apply only for tax payments due on or after 14 February 2020. This is the date that Inland Revenue announced that tax relief and income assistance measures would be available to people affected by a downturn in business owing to the COVID-19 outbreak.

17. The proposed discretion would only apply for two years from the date of enactment unless extended by an Order in Council. This would ensure that the discretion to remit UOMI is targeted at taxpayers affected by the current COVID-19 outbreak.

Information sharing

Purpose

18. We propose an amendment to the rules governing Inland Revenue's ability to share information with other government departments. This would ensure information can be supplied to assist the efficient and effective delivery of the Government's COVID-19 response.

Background

19. Currently, tax legislation requires Inland Revenue staff to keep taxpayer information confidential unless a specific legislative exception authorises the disclosure. There are a number of exceptions in the tax legislation enabling Inland Revenue to share information with other agencies. These existing exceptions will be used, where possible, to share information with other agencies to assist in the response to the COVID-19 outbreak.

20. However, there may be situations where, as a result of the COVID-19 outbreak, it is desirable for Inland Revenue to share information with other agencies with which Inland Revenue does not have any existing arrangements or where the existing arrangements are not flexible enough to allow the required sharing to occur.

Proposal

21. We recommend legislative amendments to allow Inland Revenue to share information with other agencies in order to respond to the COVID-19 outbreak. This provision will be targeted, time limited, and only used when existing legislative provisions are not adequate to share information.

22. A similar provision allowed Inland Revenue to share information as part of the response to the Canterbury earthquake and this proposal is modelled on that provision.

23. The proposed provision would allow Inland Revenue to share information with Government departments, the New Zealand Police, ACC, and Kāinga Ora, to help those agencies provide assistance in relation to the COVID-19 outbreak. For example, Inland Revenue could provide employee information to assist auditing of job subsidy claims to counter fraud. The ability for Inland Revenue to share information is often an important factor to the success of programmes, including

mitigating fraud risk, that provide temporary income relief which have either been in response to a very large negative economic shock (ReStart – GFC) or tightly time-limited in response to a highly-localised and short-lived event (Earthquake Job Loss Cover – February 2011 Christchurch aftershock). The information that could be shared under the power would relate to both individuals and non-individuals and may include, but is not limited to, identifying information, contact and location information, financial information, and family information.

24. The proposed provision would apply for a period of two years only unless extended by an Order in Council. This would allow the Government to continue sharing information, if required, in response to COVID-19 after the two-year period.

25. Currently, tax legislation requires those persons who have access to taxpayer information under an information sharing provision to keep that information confidential and not disclose or use it for a purpose other than that for which it was provided. We recommend that this requirement should also apply to the proposed information sharing provision to assist the response to the COVID 19 outbreak.

26. As a safeguard, Inland Revenue will retain a discretion to refuse to disclose information if Inland Revenue considers it is undesirable to do so.

27. This provision would be limited to information sharing only and would not extend Inland Revenue's information gathering powers

Application date

28. This provision would apply from the date of enactment of the Bill.

Other tax measures

29. Inland Revenue and the Treasury are continuing to work on a range of other tax measures to support business continuity. Approval for these measures will be sought over the next few weeks and are likely to include approving regulations to clarify the GST treatment of the work-subsidy payments and other tax relief measures that will require legislative change.

Consultation

30. Owing to the short timeframes for developing a policy response to the COVID-19 outbreak, there has been no public consultation on the proposal to give the Commissioner of Inland Revenue the discretion to remit UOMI.

31. The Office of the Privacy Commissioner has been informed of the information sharing proposal. However, due to the short timeframes for developing a policy response to the COVID-19 outbreak, the Commissioner has not been consulted on the proposal.

Financial implications

UOMI remission

32. There is no direct fiscal cost from the proposal to give the Commissioner of Inland Revenue discretion to remit UOMI in response to the COVID-19 outbreak. There would be a negative financial implication for the Crown as this policy change would result in foregone UOMI revenue. However, as the Government's fiscal forecasts do not currently include COVID-19-related interest charges, their remission will have no impact on the fiscal position.

33. There are, however, a number of risks associated with this proposal:

    33.1 Decreasing the incentive to pay tax when it falls due (in smaller instalments) could result in some taxpayers being unable to pay their larger tax bill at a later date, which could result in core tax not being recoverable; and

    33.2 Taxpayers who would have been subject to UOMI penalties under ordinary economic circumstances could also face COVID-19-related stress. Remitting UOMI penalties for these taxpayers would have a fiscal cost (albeit unquantifiable), as some share of the remitted interest would have related to non-COVID-19 drivers.

34. More broadly, there is a risk that remitting UOMI could lead to the deliberate underpayment of tax in situations where the tax would have ordinarily been paid in full and on time, with delays potentially crossing fiscal years.

35. These risks will impact on the fiscal position if they materialise. We are unable to quantify the materiality of the potential impacts.

Information sharing

36. There are no financial implications relating to the sharing of information proposal.

Administration impacts

37. Inland Revenue has not yet completed a full impact assessment of these proposals and will need to do this, including identifying any resourcing implications, once details of eligibility criteria are more developed.

38. The changes proposed to UOMI will generate additional contacts of a complex nature for Inland Revenue as people seek advice on how these changes impact their situation. The retrospective nature of the changes adds to the complexity. Inland Revenue is already under pressure to manage customer demand from the upcoming Business Transformation Release 4 changes, and the beginning of the 2020 auto-calculation period. There are additional expected cumulative impacts which Inland Revenue also need to manage, including from Budget 2020 items, further COVID-19 responses and the impact of reduced baselines due to the reduction of time-limited funding.

39. To manage this additional demand Inland Revenue will need to factor this into managing this peak season and given the likely resource contentions, re-

prioritisation decisions would need to be made. The impact of not having sufficient capacity and capability is likely to be a sub-optimal customer experience and will potentially impact on performance standards.

40. These changes will require community and stakeholder engagement. This includes the UOMI remission facility for affected taxpayers which will require communication of the eligibility criteria. Inland Revenue intends to publish guidance to assist taxpayers in deciding whether they should seek this sort of relief.

41. Although some of the measures described in this paper are intended to be targeted at taxpayers that are significantly financially affected by the economic impact of COVID-19, there will be some applications for relief from taxpayers who have not been adversely affected. Inland Revenue staff will need to assess risk when actioning these requests and in doing so will be supported by our new systems which will help identify cases needing closer inspection.

Legislative implications

42. Implementing the proposals recommend in this paper requires changes to the Tax Administration Act 1994.

43. If approved, we propose that the legislative changes resulting from these recommendations be included in a Bill to be introduced as soon as practicable.

44. To ensure a Bill can be introduced as soon as practicable, we recommend that the Committee delegate authority to the Minister of Revenue, in consultation with the Minister of Finance and the Leader of the House, to introduce a Bill. This would mean the Cabinet Legislation Committee would not consider the Bill prior to its introduction.

Impact analysis

Regulatory Impact Assessment

45. Cabinet's impact analysis requirements apply to the proposals included in this paper. The proposal to allow Inland Revenue to remit UOMI would amend interest levels for unpaid taxation for 2-years. No impact analysis has been provided for this proposal due to the short time frame imposed by the response to COVID-19. While understandable under the circumstances, the proposal creates potential for significant and unintended impacts throughout its 2-year duration. The Treasury therefore considers a regulatory impact analysis is required and this can be achieved via a Supplementary Analysis Report (SAR). The Treasury will work with the responsible Minister and his officials on the nature and timing of the SAR.

Climate Implications of Policy Assessment

46. The Ministry for the Environment has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Human rights

47. The proposals in this paper do not impinge on rights and freedoms under the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Gender implications

48. There are no gender implications arising from these proposals.

Disability perspective

49. No disability issues arise from these proposals.

Publicity

50. A media statement on the proposals included in this paper will be released following the Committee's meeting on Wednesday 18 March. A commentary on the Bill containing these proposals will also be released when the Bill is introduced. Inland Revenue will include details of the new legislation in a *Tax Information Bulletin* after the Bill is enacted.

Proactive release

51. We propose to proactively release this Cabin t paper, associated minutes, and key advice papers with appropriate redactions when the Bill is introduced in late March 2020.

Recommendations

The Minister of Finance and the Minister of Revenue recommend that the Ad Hoc Cabinet Committee on COVID-19:

Use of money interest remissi n

1. **Agree** that the Commissioner of Inland Revenue be given the discretion to remit use of money interest for taxpayers that have had their ability to pay tax on time significantly adversely affected by the COVID-19 outbreak;

2. **Agree** that the Commissioner of Inland Revenue's discretion to remit use of money interest in response to the COVID-19 outbreak would apply only to tax payments due on or after 14 February 2020;

3. **Agree** that the Commissioner of Inland Revenue's discretion to remit use of money interest in response to the COVID-19 outbreak would apply for a period of 2-years only unless extended by an Order in Council;

4. **Note** that giving the Commissioner of Inland Revenue the discretion to remit use of money interest in response to the COVID-19 outbreak would not have any fiscal cost;

Information sharing

5. **Agree** that the tax legislation be amended to allow Inland Revenue to share information, with Government departments, New Zealand Police, ACC and Kāinga Ora, in order to assist these agencies in relation to the COVID-19 outbreak;

6. **Agree** that this information sharing provision apply from the date of enactment for a period of 2-years only unless extended by an Order in Council;

7. **Agree** that the same confidentiality requirements on officers or employees who currently receive taxpayer information from Inland Revenue would also apply to officers or employees of Government agencies who receive information under recommendation (5) above.

8. **Note** that Inland Revenue will retain a discretion to refuse to disclose information if Inland Revenue considers it is undesirable to do so.

Legislative vehicle

9. **Agree** that the legislative amendments to the Tax Administration Act 1994 required to give effect to the proposals recommended in this paper be included in a Bill to be introduced as soon as practicable;

10. **Invite** the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to give effect to the proposals recommended in this paper;

11. **Agree** to delegate authority to the Minister of Revenue to make decisions on the detailed design of the proposals recommended in this paper and, in consultation with the Minister of Finance and the Leader of the House, to introduce a Bill containing these proposals as soon as practicable.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Cabinet

Minute of Decision

COVID-19: Tax Measures

Portfolios **Finance / Revenue**

On 16 March 2020, Cabinet:

Use of money interest remission

1 **agreed** that the Commissioner of Inland Revenue be given the discretion to remit use of money interest for taxpayers that have had their ability to pay tax on time significantly adversely affected by the COVID-19 outbreak;

2 **agreed** that the Commissioner of Inland Revenue s discretion to remit use of money interest in response to the COVID-19 outbreak would apply only to tax payments due on or after 14 February 2020;

3 **agreed** that the Commissioner of Inland Revenue's discretion to remit use of money interest in response to the COVID-19 ou break would apply for a period of two years only, unless extended by an Order in Coun il;

4 **noted** that giving the Commissioner of Inland Revenue the discretion to remit use of money interest in response to the COVID-19 outbreak would not have any fiscal cost;

Information sharing

5 **agreed** that the tax legislation be amended to allow Inland Revenue to share information with government departments, New Zealand Police, ACC and Kāinga Ora, in order to assist these agencies in relation to the COVID-19 outbreak;

6 **agreed** that this information sharing provision apply from the date of enactment for a period of two years only, unless extended by an Order in Council;

7 **agreed** that the same confidentiality requirements on officers or employees who currently receive taxpayer information from Inland Revenue would also apply to officers or employees of government agencies who receive information under paragraph 5 above;

8 **noted** that Inland Revenue will retain a discretion to refuse to disclose information if Inland Revenue considers it is undesirable to do so;

Legislative implications

9 **agreed** that the legislative amendments to the Tax Administration Act 1994 required to give effect to the above proposals be included in a Bill to be introduced as soon as practicable;

10 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft the necessary amendments to give effect to the above paragraphs;

11 **authorised** the Minister of Revenue to make decisions on the detailed design of the above proposals and, in consultation with the Minister of Finance and the Leader of the House, to introduce a Bill containing these proposals as soon as practicable.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:
Prime Minister
Deputy Prime Minister
Minister of Finance
Minister of Revenue

Sensitive

Office of the Minister of Revenue

Cabinet

ORDER IN COUNCIL: GOODS AND SERVICES TAX (GRANTS AND SUBSIDIES) AMENDMENT ORDER 2020, AND AMENDED APPLICATION DATES

Proposal

1. This paper seeks Cabinet's agreement to submit an Order in Council amending the Goods and Services Tax (Grants and Subsidies) Order 1992 to the Executive Council. The amendment would exclude the following payments rom the application of goods and services tax:

   1.1 the COVID-19 Wage Subsidy as referred to in the Cabinet paper titled "COVID-19 financial support, Paper A: Business Continuity Package: Targeted wage subsidy scheme"; and

   1.2 the COVID-19 Leave Payment as referred to in the Cabinet paper titled "COVID-19: Financial Support Paper B: COVID-19 Leave Payment Scheme".

2. The design and scope of these payments were both agreed to by Cabinet on 16 March 2020.

3. It also seeks Cabinet's agreement to amend application dates for certain COVID-19 related tax measures approved by Cabinet on 16 March 2020 (CAB-20-MIN-0103 and CAB-20-MIN-0108 refers).

Policy

Excluding goods and services tax (GST) from the Wage Subsidy and the Leave Payment

4. The Goods and Services Tax Act 1985 generally treats any government grant or subsidy payment as subject to GST when received by a GST-registered person such as a business. Recognising that this approach might not always be appropriate from a policy perspective, the Goods and Services Tax Act 1985 allows certain grants and subsidies to be excluded from the application of GST through an Order in Council which specifically lists the grants and subsidies to which GST should not apply.

5. I propose an Order in Council be made to amend the Goods and Services Tax (Grants and Subsidies) Order 1992 to add the COVID-19 Wage Subsidy and the COVID-19 Leave Payment ("the payments") to the schedule of grants and subsidies which are not subject to GST.

6. In absence of the amendments, GST-registered businesses would be required to account for output tax on the payments received. Therefore, the effect of these amendments is to allow GST-registered businesses to use the full amount of the payment received to provide financial support to their employees during self-isolation (in the case of the Leave Payment) and to assist in adjusting to the impact of COVID-19 (in the case of the Wage Subsidy). It will ensure fairness between businesses that are registered for GST and those that are not, and will minimise compliance costs.

7. This approach is consistent with the approach taken in respect of the subsidies provided to businesses impacted by the Hurunui and Kaikoura earthquakes in 2016, which were also not subject to GST.

8. Finally, I also propose that this GST treatment apply in respect of the payments made under both schemes, which have been available since 17 March 2020. The Order in Council will ensure no payments made from the date it comes into force will be subject to GST. This will provide businesses with immediate certainty regarding the GST treatment of these payments.

9. A further legislative amendment is necessary to ensure that payments made before the Order in Council comes into force will also not be subject to GST. I propose this amendment be included in the bill containing tax measures in response to COVID-19 that was agreed to by Cabinet on 16 March 2020, and which is to be introduced in early April.

Amending the application dates for COVID-19 tax measures

10. On 16 March 2020 Cabinet agreed that the provision allowing Inland Revenue to share information with other departments for COVID-19 should apply from the date of enactment (CAB-20-MIN-0103 refers). The information sharing should instead apply from the date of announcement of the payments on 17 March 2020. The information sharing will enable Inland Revenue to disclose employer and employee information to the Ministry of Social Development, and is especially important in limiting the risk of fraud.

11. Cabinet also agreed on 16 March 2020 to increase the low-value asset write-off threshold from $500 to $5,000 for the 2020-21 income year, and then reducing it to $1,000 for the 2021-22 and later income years (CAB-20-MIN-0108 refers). This increase to $5,000 should instead apply for property acquired within 12 months of the announcement date, 17 March 2020. At the end of this 12-month period, the threshold should be reduced to $1,000. This will mean that businesses' purchasing decisions are treated equally for these purposes rather than being affected by their balance dates.

Fiscal cost

12. There is no fiscal cost of the proposal in this paper. GST revenue from the COVID-19 Wage Subsidy and COVID-19 Leave Payment is not built into the revenue forecasts. Consequently, removing GST from the subsidies will have no effect on forecasts.

Timing and 28-day rule

13. A waiver of the 28-day rule is sought because of the urgency of the move, and the power it confers will apply to events before the making of the Order. A waiver of the 28-day rule will enable the Order to take effect on the day of its notification in the *Gazette*.

Compliance

14. The Order in Council complies with the following:

14.1 The principles of the Treaty of Waitangi	Not applicable
14.2 The rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993	Not applicable
14.3 The principles and guidelines set out in the Privacy Act 1993	Not applicable
14.4 Relevant international standards and obligations	Not applicable
14.5 The Legislation Guidelines (2018 edition) which are maintained by the Legislation Design and Advisory Committee	Compliant

Regulations Review Committee

15. Officials believe there are no grounds for the Regulations Review Committee to draw the Order in Council to the attention of the House under Standing Order 319.

Certification by Parliamentary Counsel

16. The regulations have been certified by the Parliamentary Counsel Office as being in order for submission to Cabinet, except that they will come into force earlier than the 28th day after the date of their notification in the *Gazette*.

Impact Analysis

17. The proposal does not require the preparation of a regulatory impact assessment.

Proactive Release

18. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers in whole within 30 working days of Cabinet making final decisions.

Consultation

19. Inland Revenue officials have consulted with the Treasury who agreed with the proposal in this paper. Inland Revenue officials have also informed the Ministry of Social Development and the Ministry of Business, Innovation and Employment.

Recommendations

I recommend that Cabinet:

1. note that on 16 March 2020 Cabinet agreed to the introduction of the COVID-19 Wage Subsidy scheme;

2. note that on 16 March 2020 Cabinet agreed to the introduction of the COVID-19 Leave Payment scheme;

3. note that an Order in Council under the Goods and Services Act 1985 is required to declare that the COVID-19 Wage Subsidy and the COVID-19 Leave Payment ("the payments") will not be subject to goods and services tax (GST);

4. authorise the submission to the Executive Council of the Goods and Services Tax Grants and Subsidies) Amendment Order 2020;

5. note that applications for the COVID-19 Wage Subsidy scheme and COVID-19 Leave Payment scheme opened on 17 March 2020;

6. agree that the Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 should apply in respect of all payments made under the schemes in recommendations 1 and 2 from the date the Order comes into force;

7. agree that an amendment should be included in the Bill containing tax measures agreed to by Cabinet on 16 March 2020 which ensures that GST does not apply to the payments made between 17 March 2020 and the date the Order comes into force;

8. note that a waiver of the 28-day rule is sought because of the urgency of the move, and the power it confers will apply to events before the making of the Order; and

9. agree to waive the 28-day rule so that the Order can come into force on the day of its notification in the *Gazette*;

10. note that on 16 March 2020, Cabinet agreed that the provision allowing Inland Revenue to share information for COVID-19 outbreak related purposes should apply from the date of enactment (CAB-20-MIN-0103 refers);

11. agree that Cabinet rescind the decision referred to in recommendation 10 and instead agree to enable Inland Revenue to share information for COVID-19 outbreak related purposes from the date of announcement, 17 March 2020;

12. note that on 16 March 2020, Cabinet agreed that the threshold for low-value asset write-off threshold be increased from $500 to $5,000 for the 2020-21 income year, reducing to $1,000 for the 2021-22 and later income years (CAB-20-MIN-0108 refers); and

13. agree that Cabinet rescind the decision referred to in recommendation 12 and instead agree to the threshold being $5,000 for property acquired within 12 months of the announcement date (17 March 2020), and at the end of this 12-month period the threshold should be reduced to $1,000.

Authorised for lodgement

Hon Stuart Nash
Minister of Revenue

Cabinet

Minute of Decision

Goods and Services Tax (Grants and Subsidies) Amendment Order 2020

Portfolio **Revenue**

On 23 March 2020, Cabinet:

1 **noted** that on 16 March 2020 Cabinet agreed:

1.1 to the introduction of the COVID-19 Wage Subsidy scheme;

1.2 to the introduction of the COVID-19 Leav Payment scheme;

[CAB-20-MIN-0103, CAB-20-MIN-0105, CAB-20-MIN-0108]

2 **noted** that an Order in Council under the Goods and Services Act 1985 is required to declare that the COVID-19 Wage Subsidy and the COVID-19 Leave Payment ("the payments") will not be subject to goods and services tax (GST);

3 **authorised** the submission to the Executive Council of the Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 [PCO 22809/5.0];

4 **noted** that applications for the COVID-19 Wage Subsidy scheme and COVID-19 Leave Payment scheme opened on 17 March 2020;

5 **agreed** that the Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 apply in respect of all payments made under the schemes in paragraph 1 from the date the Order comes into force;

6 **agreed** that an amendment should be included in the Bill which contains the tax measures ag eed to by Cabinet on 16 March 2020 which ensures that GST does not apply to the payments made between 17 March 2020 and the date the Order comes into force;

7 **noted** that a waiver of the 28-day rule is sought because of the urgency of the move, and the power it confers will apply to events before the making of the Order;

8 **agreed** to a waiver the 28-day rule so that the Order can come into force on the day after its notification in the Gazette;

9 **noted** that on 16 March 2020, Cabinet agreed that the provision allowing Inland Revenue to share information for COVID-19 outbreak related purposes should apply from the date of enactment [CAB-20-MIN-0103];

10 **agreed** to:

10.1 rescind the decision referred to in paragraph 9; and instead

10.2 enable Inland Revenue to share information for COVID-19 outbreak related purposes from the date of announcement, 17 March 2020;

11 **noted** that on 16 March 2020, Cabinet agreed that the threshold for low-value asset write-off threshold be increased from $500 to $5,000 for the 2020-21 income year, reducing to $1,000 for the 2021-22 and later income years [CAB-20-MIN-0108];

12 **agreed** to:

12.1 rescind the decision referred to in paragraph 11; and instead

12.2 the threshold being $5,000 for property acquired within 12 months of the announcement date (17 March 2020), and at the end of this 12-month period the threshold should be reduced to $1,000.

Michael Webster
Secretary of the Cabinet

Aide-mémoire

Cabinet paper

Date: 20 March 2020 **Security Level:** Cabinet Sensitive

For: Hon Carmel Sepuloni, Minister for Social Development

File Reference: REP/20/3/267

COVID-19 Recovery Package: Increases to main benefits and the Winter Energy Payment

Cabinet	23 March 2020
Proposal	This Cabinet paper seeks Cabinet approval to submit to the Executive Council the Social Security (Rates of Benefits and Allowances) (COVID-19 Recovery Package) Amendment Order 2020, to give effect to two changes in response to the economic impacts of COVID-19: • A one-off net $25 increase to the weekly rates of main benefits • An increase to the Winter Energy Payment (WEP) equivalent to doubling the annual rates of payment for the 2020 winter period (1 May – 1 October 2020 inclusive).
Talking points	• As you are all aware, phase one of a Recovery package has been agreed to in response to the economic impacts of COVID-19. This package includes making a one-off $25 increase to main benefits, as well as doubling the rate of the Winter Energy Payment for the 2020 winter period. • This Amendment Order will make the legislative changes required to make these changes. • The increase to main benefits is the largest across-the-board increase in several decades and will help support 350,000 low-income individuals and families. • Doubling the Winter Energy Payment will provide further support to beneficiaries and superannuitants to help meet their heating costs this winter and will benefit about 800,000 people.
Background	The economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic. An economic response package has been developed in response to

	this [CAB-20-MIN-0108 refers]. This package has three immediate components: • Support to the public health system • A business and worker support package • Phase one of a Recovery package to support household incomes. The changes that the Amendment Order makes are both part of phase one of the Recovery package. There are no statutory prerequisites for this Amendment Order. That is, the legislation does not set out any additional requirements before the Amendment Order can be approved.
Main benefit increase	On 1 April 2020, the weekly rates of the following benefits will be increased by $25 net: • Jobseeker Support • Sole Parent Support • Supported Living Payment • Young Parent Payment • Youth Payment • Emergency Benefit[1]. This $25 increase is in addition to the annual general adjustment increases, which will also be implemented on 1 April 2020. While each adult in a couple will receive an increase of $12.50 per week, for a small number of couples where one adult is not included in the benefit, the couple will only receive an increase of $12.50 per week. This main benefit increase is estimated to cost $2.366 billion over the next four years. There are a number of other payments made by the Ministry of Social Development (MSD) that will be affected by this increase, such as housekeepers allowance which has its rate set at the difference between the Jobseeker Support rate payable to the client and the married rate of Jobseeker Support. Due to complex interactions in the tax and transfer systems, a small number of families will be unintentionally financially disadvantaged as a result of the benefit increase. The existing Income Support Package (Transitional Assistance) Programme will be amended in a separate process to account for reductions in assistance as a result of the main benefit increase.

1 As the rate of Emergency Benefit is at the discretion of MSD, there is no set Emergency Benefit rate to increase per se. However, in practice Emergency Benefit is generally set at the maximum rate of the equivalent benefit the client would receive if they were otherwise eligible. This is most frequently Jobseeker Support, therefore Emergency Benefit recipients are likely to receive the same increase.

The Cabinet paper seeks Cabinet's agreement that the additional funding needed for this Programme to account for the small number of people who will be financially disadvantaged from the main benefit increase will be met from the existing Transitional Assistance appropriation as there is sufficient funding available in this appropriation. Treasury support this approach.

Winter Energy Payment increase

As part of the Recovery package, Cabinet also agreed that the annual rates of WEP payments for 2020 will be:

- $900 for single people with no dependent children
- $1,400 for couples or single people with dependent children.

This will mean that the weekly rate of WEP will be $40.91 for single people and $63.64 for couples. WEP will continue to be paid from 1 May to 1 October in 2020.

Doubling the rate of WEP for the 2020 winter period is estimated to cost $480 million.

As the increase to WEP is temporary, the rate of WEP will need to be decreased back to its current levels before the start of the winter period next year (1 May 2021). While the rate of WEP can be increased through an Order in Council, decreasing the rate requires amending the Social Security Act 2018. The legislative changes required to return WEP rates to their current settings will be done through an urgent bill that Inland Revenue is leading. This bill is planned to complete all House stages under urgency on 7 April 2020.

Author: s 9(2)(a) Policy Analyst, Income Support Policy

Responsible manager: s 9(2)(a) Policy Manager, Income Support Policy

Office of the Minister for Social Development

In confidence

Chair
Cabinet

COVID-19 RECOVERY PACKAGE: INCREASES TO MAIN BENEFITS AND THE WINTER ENERGY PAYMENT

Proposal

1 This paper seeks Cabinet approval to submit to the Executive Council the Social Security (Rates of Benefits and Allowances) (COVID-19 Recovery Package) Amendment Order 2020, to give effect to two changes in response to the economic impacts of COVID-19:

- A one-off net $25 increase to the weekly rates of main benefits
- An increase to the Winter Energy Payment (WEP), equivalent to doubling the annual rates of payment for the 2020 winter period (1 May – 1 October 2020 inclusive).

Background

2 The economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic. An economic response package has been developed in response to this [CAB-20-MIN-0108 refers]. This package has three immediate components:

- Support to the public health system
- A business and worker support package
- Phase one of a Recovery package to support household incomes.

3 On 16 March 2020, Cabinet agreed to Phase One of a Recovery package in response to the economic impacts of COVID-19. As part of this, it was agreed that on 1 April 2020, the after-tax weekly rates of the following benefits should increase by $25:

- Jobseeker Support
- Sole Parent Support
- Supported Living Payment
- Young Parent Payment
- Youth Payment
- Emergency Benefit[1].

4 This $25 increase is in addition to the annual general adjustment increases, which will also be implemented on 1 April 2020. This is the first year that main benefits will be adjusted by average wage growth, instead of inflation.

[1] As the rate of Emergency Benefit is at the discretion of MSD, there is no set Emergency Benefit rate to increase per se. However, in practice Emergency Benefit is generally set at the maximum rate of the equivalent benefit the client would receive if they were otherwise eligible. This is most frequently Jobseeker Support, therefore Emergency Benefit recipients are likely to receive the same increase.

5 As part of the same Recovery package, Cabinet also agreed that the annual rates of WEP payments for 2020 will be:

- $900 for single people with no dependent children
- $1,400 for couples or single people with dependent children.

6 For clients, this will mean that the weekly rate of WEP will be $40.91 for single people and $63.64 for couples. There are no changes to the period that WEP is paid this year, meaning it will continue to be paid from 1 May to 1 October in 2020.

7 This Cabinet paper seeks approval for the legislative changes required to enact both of the changes outlined above.

Main benefit increases

8 From 1 April 2020, main benefits will be increased by $25 (in addition to the wage indexation increase). There are a number of other payments made by the Ministry of Social Development (MSD) that will be affected by this increase.

9 It is worth noting that each adult in a couple will receive an increase of $12.50 per week, and for a small number of couples where one adult is not included in the benefit, the couple will only receive an increase of $12.50 per week.

10 A small number of MSD clients are on a grandparented rate of Widows Benefit or Domestic Purposes Benefit[2]. As these are intended to be main benefits, the weekly rates of these two payments will also be increased by $25 each on 1 April 2020.

11 Further, the rates and thresholds for several other MSD payments are tied to main benefits in some way. Given these links, consequential amendments will be made to these rates and thresholds in accordance with their existing relationship with a main benefit rate. For example:

11.1 Housekeepers allowance can be paid to a client if their partner is not receiving a benefit and they have a housekeeper who is caring for the client's home and substantially dependent on the client. The rate of this allowance is the difference between the Jobseeker Support rate payable to the client (the half-married rate) and the married rate of Jobseeker Support. Given this relationship, the rate of housekeepers allowance will be increased by $12.50 to align with the increase for couples where one adult is not included in the benefit.

11.2 The blind subsidy is an additional allowance of 25 percent of the average personal earnings of a totally blind person who is receiving Supported Living Payment. The income thresholds for blind subsidy are linked to the half-married rate of Supported Living Payment and the Supported Living Payment abatement formula. Consequently, the income thresholds for the blind subsidy will be increased by $12.50 to reflect its ties to the half-married rate of Supported Living Payment (see paragraph 9).

12 Due to complex interactions in the income support system, a small number of families will be unintentionally financially disadvantaged as a result of the main benefit increase. The existing Income Support Package (Transitional Assistance) Programme will be amended in a separate process to account for reductions in assistance as a result of the main benefit increase.

[2] Former recipients of both these payments (who had these payments granted before 15/7/2013), and who were then transferred to Jobseeker Support, had their higher rate of benefit grandparented until their circumstances changed. Consequently, some clients still receive the grandparented rate of Widows Benefit or Domestic Purposes Benefit.

13 I seek your agreement that the additional funding needed for this Programme to account for the small number of people who will be financially disadvantaged from the main benefit increase will be met from the existing Transitional Assistance appropriation as there is sufficient funding available in this appropriation.

Doubling of the Winter Energy Payment

14 For the winter period this year (1 May to 1 October 2020), the weekly rate of WEP will be doubled, with the new rate equating to $40.91 for single people and $63.64 for couples.

15 As the increase to WEP is temporary, the rate of WEP will need to be decreased back to its current levels before the start of the winter period next year (1 May 2021). While the rate of WEP can be increased through an Order in Council, decreasing the rate requires amending the Social Security Act 2018. MSD is working with Inland Revenue on the legislative changes required to return WEP rates to their current settings and this will be done through an urgent bill that Inland Revenue is leading. This bill is planned to complete all House stages under urgency on 7 April 2020.

Operational implications

16 While there are risks associated with implementing main benefit increases and WEP increases in a relatively short timeframe, this is mitigated by the fact that MSD is already preparing to increase main benefit rates on 1 April 2020 as part of the annual general adjustment of rates and thresholds. To create efficiencies, implementing this component of the Recovery package will be combined with the operational changes required to implement the annual general adjustment.

17 Several thousand records will need to be adjusted manually to ensure that the $25 increase takes effect and people receive their full and correct entitlement. This is because the rates of payment for people in some specific situations are not calculated automatically by the system. MSD will prioritise this work to ensure that these records are adjusted as soon as possible, however some of these records will not be adjusted by 1 April 2020. The relatively small number of impacted clients will be paid in arrears to ensure they receive the full benefit of the $25 increase.

18 The increase to WEP represents an additional operational step, as WEP is not part of the annual general adjustment. The operational changes required to double the rate of WEP will be done in time for 1 May 2020.

Timing and 28-day rule

19 This Amendment Order, if approved, will be submitted to the Executive Council for consideration on 23 March 2020. It will be published in the New Zealand Gazette on the next available date for gazetting and will come into force on 27 March 2020. This will ensure that the proposed amendments are incorporated into the Social Security (Rates of Benefits and Allowances) Order 2020 when it takes effect on 1 April 2020.

20 I seek a waiver to the 28-day rule on the grounds that the changes in this Amendment Order only confer benefits to the public, and that early commencement is necessary to be consistent with other changes introduced by the annual general adjustment of rates and thresholds.

Compliance

21 The Orders and Amendment Regulations comply, where applicable, with:

- the principles of the Treaty of Waitangi
- the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993
- the principles and guidelines set out in the Privacy Act 1993
- relevant international standards and obligations
- Legislation Guidelines: 2018 Edition, published by the Legislation Advisory Committee.

Regulations Review Committee

22 There are no grounds for the Regulations Review Committee to draw the Orders or Amendment Regulations to the attention of the House under Standing Order 319.

Certification by Parliamentary Counsel

23 The Orders and Amendment Regulations have been certified by the Parliamentary Counsel Office as being in order for submission to Cabinet.

Communications

24 The Minister of Finance announced these changes on 17 March 2020, as part of a wider economic package in response to the impacts of COVID-19.

Proactive release

25 I intend to proactively release this Cabinet paper within standard timeframes.

Consultation

26 The Department of the Prime Minister and Cabinet – Child Poverty Unit, Treasury, and Inland Revenue have been consulted.

27 Ministry of Housing and Urban Development, Ministry of Education, Ministry of Health, Veterans Affairs, Oranga Tamariki – Ministry for Children and Department of Internal Affairs have been informed.

Recommendations

It is recommended that Cabinet:

1 **note** that on 16 March 2020, Cabinet agreed to the following changes as part of the Government response to the economic impacts of COVID-19 [CAB-20-MIN-0108 refers]:

1.1 increase main benefit rates by $25 per week

1.2 double the rate of the Winter Energy Payment for 2020 only

2 **note** that legislative changes are needed to enact both the $25 increase to main benefits and the doubling of the rate of the Winter Energy Payment

3 **note** that consequential amendments will be made to a number of payments which have existing links to main benefits

4 **note** that Cabinet previously approved funding for the Income Support Package (Transitional Assistance) Programme in December 2019 [SWC-19-MIN-0201 refers] to provide transitional assistance for people affected by the Budget 2019 Income Support Package

5 **note** that due to complex interactions in the income support system, the already established Income Support Package (Transitional Assistance) Programme will be amended by the Minister for Social Development to also account for reductions in assistance for a small number of people as a result of the main benefit increase [CAB-20-MIN-0108 refers]

6 **agree** that the Transitional Assistance funding required for phase one of the Recovery package will be met from the existing Transitional Assistance appropriation as there is sufficient funding available in the existing Transitional Assistance appropriation

7 **note** that further legislative changes are needed to ensure the increase to the Winter Energy Payment is temporary only, and these changes will be made through a bill which is planned to be passed under urgency in early April

8 **agree** to a waiver of the 28-day rule on the grounds that the changes being made by the Amendment Order will only confer benefits to the public

9 **authorise** the submission to the Executive Council of the Social Security (Rates of Benefits and Allowances) (COVID-19 Recovery Package) Amendment Order 2020.

Authorised for lodgement

Hon Carmel Sepuloni
Minister for Social Development

Cabinet

Minute of Decision

COVID-19 Recovery Package: Increases to Main Benefits and the Winter Energy Payment

Portfolio **Social Development**

On 23 March 2020, Cabinet:

1 **noted** that on 16 March 2020, Cabinet agreed to the following changes as part of the government response to the economic impacts of COVID-19:

1.1 increase main benefit rates by $25 per week;

1.2 double the rate of the Winter Energy Payment for 2020 only;

[CAB-20-MIN-0108]

2 **noted** that legislative changes are needed to enact both the $25 increase to main benefits and the doubling of the rate of the Winter Energy Payment;

3 **noted** that consequential amendments will be made to a number of payments which have existing links to main benefits;

4 **noted** that in December 2019, Cabinet approved funding for the Income Support Package (Transitional Assistance) Programme to provide transitional assistance for people affected by the Budget 2019 Income Support Package [SWC-19-MIN-0201];

5 **noted** that due to complex interactions in the income support system, the already established Income Support Package (Transitional Assistance) Programme will be amended by the Minister for Social Development to also account for reductions in assistance for a small number of people as a result of the main benefit increase;

6 **agreed** that the Transitional Assistance funding required for phase one of the Recovery package will be met from the existing Transitional Assistance appropriation as there is sufficient funding available in the existing Transitional Assistance appropriation;

7 **noted** that further legislative changes are needed to ensure the increase to the Winter Energy Payment is temporary only, and these changes will be made through a bill which is planned to be passed under urgency in early April 2020;

8 **authorised** the submission to the Executive Council of the Social Security (Rates of Benefits and Allowances) (COVID-19 Recovery Package) Amendment Order 2020 [PCO 22812/2.0];

9 **noted** that a waiver of the 28-day rule is sought:

9.1 so that the Amendment Order can come into force on 27 March 2020;

9.2 on the grounds that the changes being made by the Amendment Order will only confer benefits to the public;

10 **agreed** to a waiver of the 28-day rule.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:
Prime Minister
Deputy Prime Minister
Minister for Social Development

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

R&D Tax Incentive – Reducing the impact of Covid-19 on business R&D

Date:	19 March 2020	**Priority:**	Urgent
Security classification:	In Confidence	**Tracking number:**	2778 19-20

Action sought

	Action sought	Deadline
Hon Dr Megan Woods **Minister of Research, Science and Innovation**	**Agree** to bring forward the application date of broader refundability of R&D tax credits to the 2019-20 income year. **Agree** to lodge the attached Cabinet paper on Friday 20 March for consideration by Cabinet on Monday 23 March. **Agree** to refer this briefing to the Minister of Revenue.	20 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st contact
Kirsty Hutchison	Manager, Innovation Policy	04 901 4131	S 9(2)(a)	✓
Xavier Watts	Senior Policy Advisor, Innovation Policy	S 9(2)(a)	S 9(2)(a)	

The following departments/agencies have been consulted

The Treasury, Inland Revenue, Callaghan Innovation

Minister's office to complete:

- ☐ Approved
- ☐ Declined
- ☐ Noted
- ☐ Needs change
- ☐ Seen
- ☐ Overtaken by Events
- ☐ See Minister's Notes
- ☐ Withdrawn

Comment

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BRIEFING

R&D Tax Incentive – Reducing the impact of Covid-19 on business R&D

Date:	19 March 2020	**Priority:**	Urgent
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Purpose

The purpose of this briefing is to seek your agreement to an urgent amendment to the R&D Tax Incentive rules, aimed at encouraging businesses to continue their R&D despite Covid-19.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Agree** to bring the application date of broader refundability of R&D tax credits forward to the 2019-20 income year (year 1 of the R&D Tax Incentive scheme).

Agreed/Not agreed

b **Agree** that businesses should be able to choose whether to apply the year 1 or year 2 refundability rules to their year 1 R&D Tax Incentive claims.

Agreed/Not agreed

c **Agree** that the amendment should be introduced via the Urgent Covid-19 Tax Matters Bill.

Agreed/Not agreed

d **Note** the proposal is revenue neutral, and has no effect on our estimate of the fiscal costs of the R&D Tax Incentive. (The fiscal cost model treats tax credits and cash refunds of tax credits as equivalent.)

Noted

e **Note** that Inland Revenue has confirmed it will be capable of implementing and administering this amendment if it goes ahead.

Noted

f **Agree** to lodge the attached Cabinet paper on Friday 20 March 2020 and seek Cabinet approval for the amendment on Monday 23 March 2020.

Agreed/Not agreed

g **Agree** to proactively release this briefing when the Cabinet paper is proactively released.

Agreed/Not agreed

h **Agree** to refer this briefing to the Minister of Revenue.

Agreed/Not agreed

..... / ...... / ......
Hon Dr Megan Woods
Minister of Research, Science and Innovation

S9(2)(a)

19/03/2020

Kirsty Hutchison
Manager, Innovation Policy
Labour, Science and Enterprise, MBIE

Problem definition and proposed amendment

1. There is a significant risk that businesses will cut their R&D spending in response to Covid-19. We are particularly concerned about loss-making businesses (and businesses who do not pay enough income tax to fully utilise their R&D tax credits)[1] who cannot benefit from their R&D tax credits this tax year because they do not qualify for refundability under the R&D Tax Incentive's 2019-20 (year 1) income year refundability rules.

2. The year 1 refundability rules restrict refundability to a small subset of eligible entities - New Zealand tax resident R&D-intensive unlisted companies who do not receive tax exempt income (other than from intercompany dividends). In addition, a $255,000 cap applies to refundability in year 1. Loss-making businesses who do not qualify for refundability in year 1 have no choice but to carry their credits forward to year 2 of the regime (the 2020-21 income year), and cash these out in year 2 if they qualify under the proposed new broader refundability rules.

3. It is these loss-making businesses who will need additional support to retain their R&D staff and continue their R&D investments despite Covid-19. One way of providing these businesses with that additional support is by applying the broader refundability rules from the 2019-20 income year.

4. The new refundability rules will replace the existing rules from year 2 of the scheme. The new rules allow businesses to be eligible for refundability provided they are eligible for the R&D Tax Incentive. In addition, the new rules replace the existing $255,000 refundability cap with a labour-related tax cap, which allows firms refunds up to the total amount of labour-related taxes[2] paid in the relevant income year.

Benefits as part of a Covid-19 response package

5. If the application date of the year 2 refundability rules is brought forward as proposed more businesses will be able to access more refundable tax credits sooner.

6. This amendment provides targeted support to innovative businesses, to enable them to retain their R&D programmes and the high-skilled jobs that will be necessary to our future economic recovery. The amendment will provide more support for businesses already intending to claim the R&D Tax Incentive in year 1, and could encourage them to enrol and file their year 1 claims with Inland Revenue sooner (rather than waiting to file closer to their claim due date). If this amendment is not made, businesses are more likely to reduce or stop their R&D, resulting in a deeper and more protracted decline in economic activity. It would also weaken the economy's ability to recover once the global economy has stabilised.

7. A small minority of businesses may be able to access more refunds under the year 1 refundability rules than the proposed year 2 refundability rules. To ensure business certainty in the regime is maintained, and that no business is disadvantaged by the urgent amendment,

[1] In this paper, references to "loss-making businesses" are intended to also include businesses who aren't in a tax loss position in year 1 but don't have enough income tax payable that year to fully utilise their R&D tax credits. This could include, for example, a business who has brought losses forward from a previous year and has used these to reduce its income tax liability in year 1, and as a result has excess R&D tax credits.

[2] The labour-related taxes included in the cap are PAYE (which includes amounts withheld from payments to contractors), fringe benefit tax (FBT), and employer superannuation contribution tax (ESCT).

officials recommend that businesses be allowed to choose which refundability rules they would like to apply to their year 1 R&D Tax Incentive claim. From year 2, all businesses would have to apply the year 2 refundability rules (they would not be able to choose to apply the year 1 rules).

Consultation with selected stakeholders on benefits

8. This proposal was initially suggested by a member of the R&D Advisory Group, who represents a Big 4 accounting firm. This stakeholder suggested the amendment because of their experiences with R&D performing businesses during the 2008/09 Global Financial Crisis (GFC). They saw a significant increase in interest from businesses in the Australian R&D Tax Incentive as the GFC took hold, because businesses needed support to retain their R&D staff during the crisis.

9. Economically, it was key for businesses to retain these staff, because the R&D undertaken during those years would flow through to new products and services in the next two to five years. Without Government support, a lot of R&D labour spend would have been cut. For loss-making businesses, non-refundable credits that can only be carried forward are of little benefit. Refundable credits, on the other hand, can provide these businesses with much needed cash to help support their R&D now, when that support is needed the most.

10. This stakeholder said that providing this support through the R&D Tax Incentive is particularly beneficial because:

    - It targets businesses who are investing in new products, services or processes. This means the support will deliver a longer term benefit to the economy.

    - The greatest R&D expense for most businesses are wages and payments for R&D labour. In addition, R&D expenditure is reasonably discretionary, so is easy to scale back. Providing this additional support through the R&D Tax Incentive will help more New Zealanders keep their jobs.

11. The proposed amendment has been tested with each of the Big 4 accounting firms, which are all members of the R&D Advisory Group. We have also tested the proposal with a representative of the Corporate Taxpayers Group.[3] All stakeholders consulted support this proposal, because it will provide much needed cashflow/timing benefits to businesses.

12. Officials asked all stakeholders consulted to provide an estimate of the amount of cash support this proposal would provide to businesses they are connected with in New Zealand. This sample provides an indication of the likely amount and timing of the cash benefit to firms. Based on the information received we estimate this proposal will provide approximately $50-70 million of cash support to the surveyed businesses. Cash sensitive businesses will be incentivised to file as soon as possible. Businesses that file close to the end of the tax year could expect to receive these refunds within the next few months.

[3] The Corporate Taxpayers Group is an organisation of major New Zealand companies that works with officials to achieve positive changes to tax policy in New Zealand. The Group's members include Air New Zealand Limited, Airways Corporation of New Zealand, AMP Life Limited, ANZ Bank New Zealand, ASB Bank Limited, Bank of New Zealand, Chorus Limited, Contact Energy Limited, Downer New Zealand Limited, Fisher & Paykel Healthcare Limited, Fletcher Building Limited, Fonterra Cooperative Group Limited, General Electric, Genesis Energy Limited, IAG New Zealand Limited, Infratil Limited, Lion Pty Limited, Meridian Energy, Methanex New Zealand Limited, New Zealand Post Limited, New Zealand Racing Board, New Zealand Steel Limited, New Zealand Superannuation Fund, Opus International Consultants Limited, Origin Energy New Zealand Limited, Pacific Aluminium (New Zealand) Limited, Powerco Limited, Shell New Zealand (2011) Limited, SKYCITY Entertainment Group Limited, Spark New Zealand Limited, T&G Global Limited, The Todd Corporation Limited, TOWER Limited, Vodafone New Zealand Limited, Westpac New Zealand Limited, Z Energy Limited, and ZESPRI International Limited.

Risks

13. There is a risk that bringing forward the application of broader refundability rules could increase the risk of fraudulent claims in year 1 of the scheme. We consider this risk to be small.

14. Year 1 of the scheme ends in less than two weeks, which will provide little opportunity for fraudulent claims to be developed during year 1 in response to the amendment. There are also safeguards built-in to the new broader refundability rules, in the form of a labour-related tax cap, which ensures businesses have a tangible economic presence in New Zealand before refunds will be allowed. The combination of these two factors mean the risk of successful fraudulent claims is very small.

15. Inland Revenue systems are currently set up to apply the year 1 rules to R&D Tax Incentive claims. I have consulted with Inland Revenue, which has confirmed that they will be able to implement and administer the proposal.

Fiscal implications

16. The proposal is revenue neutral, and has no effect on our estimate of the fiscal costs of the R&D Tax Incentive. The model of fiscal costs used treats tax credits and cash payments (in the form of refunds) as equivalent.

17. There will be a one off net debt cash impact. This means that the amount that businesses will benefit from this will be reflected as a net debt impact in the 2019/20 fiscal year. There is no impact on the appropriation or operating balance.

Next steps

18. If you agree to this amendment, it could be included in the Urgent Covid-19 Tax Matters Bill. To enable the legislation to be included in the Bill, you will need to obtain Cabinet approval for the amendment on Monday 23 March 2020. Officials have drafted a Cabinet paper for you (which is included in the Annex), which would need to be lodged by Friday 20 March 2020. The Bill is expected to become law in early April.

19. Inland Revenue has confirmed that it will be capable of implementing and administering this amendment. We will continue to work closely with Inland Revenue and Callaghan Innovation to ensure appropriate communications and guidance is provided to taxpayers if the amendment goes ahead.

Annex: Draft Cabinet paper

In Confidence

Office of the Minister for Research, Science and Innovation

Chair, Cabinet

Reducing the impact of Covid-19 on business R&D

Proposal

1. This paper seeks Cabinet's agreement to changing the application date of the R&D Tax Incentive's broader refundability rules, so that these rules apply one year early (from the 2019-20 income year, rather than the 2020-21 income year).

Relation to Government Priorities

2. This proposal supports the Government's response to Covid-19, by providing additional support to R&D performing businesses.

Background

3. The R&D Tax Incentive was introduced in the 2019/20 income year to replace the existing Callaghan Innovation Growth Grant regime. The aim of the Incentive is to help the Government achieve its goal of increasing R&D spending to 2% of GDP by 2027.

4. Policy development on the R&D Tax Incentive was undertaken in two phases. The first phase came into force on 1 March 2019 for most businesses (the 2019/20 income year, which is referred to as "year 1" in this paper).

5. Phase 1 included a limited form of R&D tax credit refunds for loss-making businesses.[4] The year 1 refundability rules are based on rules used in the R&D Tax Loss Credit,[5] and are fairly restrictive. This means that only a small proportion of R&D Tax Incentive claimants will be able to access refundable credits in year 1 of the scheme. Loss-making businesses who do not qualify for year 1 refundability cannot benefit from their credits in year 1, but can carry their credits forward and potentially get them refunded in a future year if they satisfy certain criteria. These limited refundability rules were used because there was not enough time to develop more comprehensive refundability policy rules as part of the first phase of work.

6. The R&D Tax Incentive provides tangible benefits to profitable businesses, and for those businesses who are eligible for refundability in year 1. It provides no tangible benefit in year 1, however, for loss-making businesses who do are not eligible for refundability under the

[4] In this paper, references to loss-making businesses also includes businesses who are not in a tax loss position but have insufficient income tax liability to offset their R&D tax credits against. This would include, for example, a business who has brought losses forward from a previous year and has used these to reduce its income tax liability in year 1, and as a result has excess R&D tax credits.

[5] An existing tax measure that supports R&D Intensive loss-making businesses.

year 1 rules. There is a risk that these businesses, in particular, will cut their R&D spending in response to Covid-19, unless we make year 1 refundability accessible to more businesses.

7. Phase 2 policy development developed broader refundability rules, which were intended to apply from the 2020-21 income year for most businesses (referred to as "year 2" in this paper). These proposed new refundability rules are contained in the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill, which recently completed its Third Reading.

8. I am proposing that the application date of these new broader refundability rules apply retrospectively from year 1 (rather than year 2), so that more businesses are able to access more R&D tax credit refunds. This will help provide additional cashflow to loss-making R&D performers who might otherwise have to cut their R&D labour and spending in response to disruptions caused by Covid-19.

Problem definition and proposal

9. There is a significant risk that businesses will cut their R&D spending in response to Covid-19, particularly loss-making businesses who cannot benefit from their R&D tax credits this tax year because they do not qualify for refundability under the existing year 1 refundability rules.

The year 1 refundability rules

10. The year 1 refundability rules restrict refundability to a small subset of eligible entities. These rules only allow refunds for New Zealand tax resident R&D-intensive unlisted companies who do not receive tax exempt income (other than from intercompany dividends). In addition, a $255,000 cap applies to limit refundability in year 1. Loss-making businesses who do not qualify for refundability in year 1 currently have no choice but to carry their credits forward to year 2 of the regime (the 2020-21 income year), and cash these credits out in year 2 if they qualify for refundability under the proposed new broader refundability rules.

11. It is these loss-making businesses who need additional support for their R&D now, to encourage them to retain their R&D staff and continue their R&D investments despite Covid-19. One way of providing these businesses with that additional support is by changing the application date of the proposed new broader refundability rules.

The year 2 broader refundability rules

12. The proposed new broader refundability rules will replace the year 1 rules and apply from year 2 of the scheme. The new rules remove the restrictive eligibility criteria referred to above and allow businesses to be eligible for refundability provided they are eligible for the R&D Tax Incentive more generally. In addition, the new rules replace the existing $255,000 refundability cap with a labour-related tax cap, which allows firms refunds up to the total amount of labour-related taxes paid in the relevant income year.

The proposal: bringing the application date forward to year 1

13. If the application date of the year 2 refundability rules is brought forward by a year, so that they apply from year 1 of the scheme, this will provide more businesses with access to R&D tax credit refunds sooner. It will also provide some businesses with larger refunds than they would have obtained under the year 1 refundability rules. By providing more businesses with more cash sooner, this amendment provides important support to businesses, and encourages them to continue doing R&D so that they can continue to receive this support in future.

Giving businesses a choice between year 1 and year 2 rules

14. A small minority of businesses may be able to access more refunds under the year 1 refundability rules than the proposed year 2 refundability rules. To ensure business certainty in the regime is maintained, and that no business is disadvantaged by the urgent amendment, officials recommend that businesses be allowed to choose which refundability rules they would like to apply to their year 1 R&D Tax Incentive claim. From year 2, all businesses would have to apply the year 2 refundability rules (they would not be able to choose to apply the year 1 rules).

New Zealand's future economic recovery

15. This amendment provides targeted support to innovative businesses, to enable them to retain their R&D programmes and the high-skilled jobs that will be necessary to our future economic recovery. The amendment will provide more support for businesses already intending to claim the R&D Tax Incentive in year 1, and could encourage them to enrol and file their year 1 claims with Inland Revenue sooner (rather than waiting to file closer to their claim due date). If this amendment is not made, businesses are more likely to reduce or stop their R&D, resulting in a deeper and more protracted decline in economic activity. It would also weaken the economy's ability to recover once the global economy has stabilised.

Risks

Fraud risks

16. There is a risk that bringing forward the application of broader refundability rules could increase the risk of fraudulent claims in year 1 of the scheme. Year 1 of the scheme ends in less than two weeks, which will provide little opportunity for fraudulent claims to be developed during year 1 in response to the amendment. There are also safeguards built-in to the proposed new broader refundability rules, in the form of a labour-related tax cap, which ensures businesses have a tangible economic presence in New Zealand before refunds will be allowed. The combination of these two factors mean the risk of successful fraudulent claims is very small.

Implementation risks

17. Inland Revenue systems are currently set up to apply the year 1 rules to R&D Tax Incentive claims. I have consulted with Inland Revenue, which has confirmed that they will be able to implement and administer the proposal.

Financial Implications

Fiscal cost

18. The proposal is revenue neutral, and has no effect on our estimate of the fiscal costs of the R&D Tax Incentive. The model of fiscal costs used treats tax credits and cash payments (in the form of refunds) as equivalent.

Cash support for businesses

19. Officials asked all stakeholders consulted to provide an estimate of the amount of cash support this proposal would provide to businesses they are connected with in New Zealand. Based on the sample of businesses who responded to this request we estimate this proposal will provide approximately $50-70 million of cash support to the surveyed businesses. Cash sensitive businesses will be incentivised to file as soon as possible.

Businesses that file close to the end of the tax year could expect to receive these refunds within the next few months.

Legislative Implications

20. Implementing these proposals requires changes to tax legislation (including the Income Tax Act 2007 and potentially also the Tax Administration Act 1994).

21. If approved, I propose including the legislative changes resulting from these recommendations in the Urgent Covid-19 Tax Matters Bill, scheduled for introduction and passage through all stages under urgency on 7 April.

Impact Analysis

Regulatory Impact Assessment

22. A regulatory impact assessment is not required as the broader refundability proposals have already been discussed in the regulatory impact assessment for the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill. Producing a new regulatory impact assessment would substantively duplicate this analysis.

23. While this policy proposal moves the start date for the broader refundability proposals forward, the appropriation for the Tax Incentive in Budget 2018 already allows for the fiscal cost of full refundability, as the existing fiscal cost model assumed no constraint on refundability. There is therefore no change to the analysis already developed in the regulatory impact assessment for the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill as a result of this proposal.

Climate Implications of Policy Assessment

24. Officials do not consider that the policy would have significant implications for the climate. The policy does not aim to reduce greenhouse gas emissions and will not have any notable impact on emissions, waste, or other environmental factors.

Population Implications

25. The proposal will have a positive impact on the population on New Zealand, as it will help encourage businesses to retain their R&D labour and continue purchasing the goods and services necessary to continue performing R&D.

Human Rights

26. There are no human rights implications arising from the proposals in this paper.

Consultation

27. Each of the Big 4 accounting firms (EY, Deloitte, PwC and KPMG), some businesses, and a representative of the Corporate Taxpayers Group[6] have been consulted on the proposal. All stakeholders consulted strongly support the proposal.

[6] The Corporate Taxpayers Group is an organisation of major New Zealand companies that works with officials to achieve positive changes to tax policy in New Zealand. The Group's members include Air New

Communications

28. I will make an announcement on the contents of the Bill, including this proposal, following enactment of the Legislation. A commentary on the Bill will also be released, and Inland Revenue will update its guidance material. Inland Revenue will include details of the new legislation in a *Tax Information Bulletin* after the Bill is enacted. There will also be targeted communication to businesses likely to be affected by the amendment.

Proactive Release

29. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers with any appropriate redactions within 30 working days of Cabinet making final decisions.

Recommendations

The Minister of Revenue recommends that the Committee:

1. **Note** that the new refundability rules that are contained in the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill, which recently completed its Third Reading, are intended to apply from the 2020-21 income year for most businesses (referred to as "year 2" in this paper).

2. **Agree** that the application date of these new broader refundability rules apply retrospectively from year 1 (rather than year 2), so that more businesses are able to access more R&D tax credit refunds.

3. **Note** that this will help provide additional cashflow to loss-making R&D performers who might otherwise have to cut their R&D labour and spending in response to disruptions caused by Covid-19.

4. **Agree** that in year 1 of the scheme, businesses should be able to choose whether to apply the year 1 refundability rules or the year 2 refundability rules.

5. **Invite** the Ministers of Research, Science and Innovation and Revenue to instruct Inland Revenue to draft legislation to give effect to the policy proposal and its intent contained in this paper.

6. **Agree** to introduce legislative provisions to give effect to the proposal in the Urgent Covid-19 Tax Matters Bill.

7. **Agree** to include any consequential legislative amendments necessary to give effect to the proposal in the Urgent Covid-19 Tax Matters Bill.

Zealand Limited, Airways Corporation of New Zealand, AMP Life Limited, ANZ Bank New Zealand, ASB Bank Limited, Bank of New Zealand, Chorus Limited, Contact Energy Limited, Downer New Zealand Limited, Fisher & Paykel Healthcare Limited, Fletcher Building Limited, Fonterra Cooperative Group Limited, General Electric, Genesis Energy Limited, IAG New Zealand Limited, Infratil Limited, Lion Pty Limited, Meridian Energy, Methanex New Zealand Limited, New Zealand Post Limited, New Zealand Racing Board, New Zealand Steel Limited, New Zealand Superannuation Fund, Opus International Consultants Limited, Origin Energy New Zealand Limited, Pacific Aluminium (New Zealand) Limited, Powerco Limited, Shell New Zealand (2011) Limited, SKYCITY Entertainment Group Limited, Spark New Zealand Limited, T&G Global Limited, The Todd Corporation Limited, TOWER Limited, Vodafone New Zealand Limited, Westpac New Zealand Limited, Z Energy Limited, and ZESPRI International Limited.

8. **Note** that the Urgent Covid-19 Tax Matters Bill is scheduled for introduction and passage through all stages under urgency on 7 April, and includes amendments to the Income Tax Act 2007 and the Tax Administration Act 1994.

9. **Note** that this proposal is revenue neutral and has no effect on our estimate of the fiscal costs of the R&D Tax Incentive. The model of fiscal costs used treats tax credits and cash payments (in the form of refunds) as equivalent.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Research, Science and Innovation

In Confidence

Office of the Minister for Research, Science and Innovation

Chair, Cabinet

Reducing the impact of Covid-19 on business R&D

Proposal

1. This paper seeks Cabinet's agreement to changing the application date of the R&D Tax Incentive's broader refundability rules, so that these rules apply one year early (from the 2019-20 income year, rather than the 2020-21 income year).

Relation to Government Priorities

2. This proposal supports the Government's response to Covid-19, by providing additional support to R&D performing businesses.

Background

3. The R&D Tax Incentive was introduced in the 2019/20 income year to replace the existing Callaghan Innovation Growth Grant regime. The aim of the Incentive is to help the Government achieve its goal of increasing R&D spending to 2% of GDP by 2027.

4. Policy development on the R&D Tax Incentive was undertaken in two phases. The first phase came into force on 1 March 2019 for most businesses (the 2019/20 income year, which is referred to as "year 1" in this paper).

5. Phase 1 included a limited form of R&D tax credit refunds for loss-making businesses.[1] The year 1 refundability rules are based on rules used in the R&D Tax Loss Credit,[2] and are fairly restrictive. This means that only a small proportion of R&D Tax Incentive claimants will be able to access refundable credits in year 1 of the scheme. Loss-making businesses who do not qualify for year 1 refundability cannot benefit from their credits in year 1, but can carry their credits forward and potentially get them refunded in a future year if they satisfy certain criteria. These limited refundability rules were used because there was not enough time to develop more comprehensive refundability policy rules as part of the first phase of work.

6. The R&D Tax Incentive provides tangible benefits to profitable businesses, and for those businesses who are eligible for refundability in year 1. It provides no tangible benefit in year 1, however, for loss-making businesses who do are not eligible for refundability under the year 1 rules. There is a risk that these businesses, in particular, will cut their R&D spending in response to Covid-19, unless we make year 1 refundability accessible to more businesses.

[1] In this paper, references to loss-making businesses also includes businesses who are not in a tax loss position but have insufficient income tax liability to offset their R&D tax credits against. This would include, for example, a business who has brought losses forward from a previous year and has used these to reduce its income tax liability in year 1, and as a result has excess R&D tax credits.

[2] An existing tax measure that supports R&D Intensive loss-making businesses.

7. Phase 2 policy development developed broader refundability rules, which were intended to apply from the 2020-21 income year for most businesses (referred to as "year 2" in this paper). These proposed new refundability rules are contained in the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill, which recently completed its Third Reading.

8. I am proposing that the application date of these new broader refundability rules apply retrospectively from year 1 (rather than year 2), so that more businesses are able to access more R&D tax credit refunds. This will help provide additional cashflow to loss-making R&D performers who might otherwise have to cut their R&D labour and spending in response to disruptions caused by Covid-19.

Problem definition and proposal

9. There is a significant risk that businesses will cut their R&D spending in response to Covid-19, particularly loss-making businesses who cannot benefit from their R&D tax credits this tax year because they do not qualify for refundability under the existing year 1 refundability rules.

The year 1 refundability rules

10. The year 1 refundability rules restrict refundability to a small subset of eligible entities. These rules only allow refunds for New Zealand tax resident R&D-intensive unlisted companies who do not receive tax exempt income (other than from intercompany dividends). In addition, a $255,000 cap applies to limit refundability in year 1. Loss-making businesses who do not qualify for refundability in year 1 currently have no choice but to carry their credits forward to year 2 of the regime (the 2020-21 income year), and cash these credits out in year 2 if they qualify for refundability under the proposed new broader refundability rules.

11. It is these loss-making businesses who need additional support for their R&D now, to encourage them to retain their R&D staff and continue their R&D investments despite Covid-19. One way of providing these businesses with that additional support is by changing the application date of the proposed new broader refundability rules.

The year 2 broader refundability rules

12. The proposed new broader refundability rules will replace the year 1 rules and apply from year 2 of the scheme. The new rules remove the restrictive eligibility criteria referred to above and allow businesses to be eligible for refundability provided they are eligible for the R&D Tax Incentive more generally. In addition, the new rules replace the existing $255,000 refundability cap with a labour-related tax cap, which allows firms refunds up to the total amount of labour-related taxes paid in the relevant income year.

The proposal: bringing the application date forward to year 1

13. If the application date of the year 2 refundability rules is brought forward by a year, so that they apply from year 1 of the scheme, this will provide more businesses with access to R&D tax credit refunds sooner. It will also provide some businesses with larger refunds than they would have obtained under the year 1 refundability rules. By providing more businesses with more cash sooner, this amendment provides important support to businesses, and encourages them to continue doing R&D so that they can continue to receive this support in future.

Giving businesses a choice between year 1 and year 2 rules

14. A small minority of businesses may be able to access more refunds under the year 1 refundability rules than the proposed year 2 refundability rules. To ensure business certainty in the regime is maintained, and that no business is disadvantaged by the urgent amendment, officials recommend that businesses be allowed to choose which refundability rules they would like to apply to their year 1 R&D Tax Incentive claim. From year 2, all businesses would have to apply the year 2 refundability rules (they would not be able to choose to apply the year 1 rules).

New Zealand's future economic recovery

15. This amendment provides targeted support to innovative businesses, to enable them to retain their R&D programmes and the high-skilled jobs that will be necessary to our future economic recovery. The amendment will provide more support for businesses already intending to claim the R&D Tax Incentive in year 1, and could encourage them to enrol and file their year 1 claims with Inland Revenue sooner (rather than waiting to file closer to their claim due date). If this amendment is not made, businesses are more likely to reduce or stop their R&D, resulting in a deeper and more protracted decline in economic activity. It would also weaken the economy's ability to recover once the global economy has stabilised.

Risks

Fraud risks

16. There is a risk that bringing forward the application of broader refundability rules could increase the risk of fraudulent claims in year 1 of the scheme. Year 1 of the scheme ends in less than two weeks, which will provide little opportunity for fraudulent claims to be developed during year 1 in response to the amendment. There are also safeguards built-in to the proposed new broader refundability rules, in the form of a labour-related tax cap, which ensures businesses have a tangible economic presence in New Zealand before refunds will be allowed. The combination of these two factors mean the risk of successful fraudulent claims is very small.

Implementation risks

17. A dedicated core team has been established to administer the R&D Tax Incentive. This core team comprises staff from Inland Revenue and Callaghan Innovation and is funded through a transfer from Vote Business, Science and Innovation to Vote Revenue of up to $6 million a year.

18. Inland Revenue systems are set up to administer R&D Tax Incentive claims and Inland Revenue has confirmed that they will be able to implement and administer the proposal.

19. Callaghan Innovation has offered use of its resources to manage any extra communications that may come in because of this proposal. Callaghan Innovation have also agreed to assist with any other work associated with this proposal, if Inland Revenue does not have sufficient capacity.

Financial Implications

Fiscal cost

20. The proposal is revenue neutral, and has no effect on our estimate of the fiscal costs of the R&D Tax Incentive. The model of fiscal costs used treats tax credits and cash payments (in the form of refunds) as equivalent.

Cash support for businesses

21. Officials asked all stakeholders consulted to provide an estimate of the amount of cash support this proposal would provide to businesses they are connected with in New Zealand. Based on the sample of businesses who responded to this request we estimate this proposal will provide approximately $50-70 million of cash support to the surveyed businesses. Cash sensitive businesses will be incentivised to file as soon as possible. Businesses that file close to the end of the tax year could expect to receive these refunds within the next few months.

Legislative Implications

22. Implementing these proposals requires changes to tax legislation (including the Income Tax Act 2007 and potentially also the Tax Administration Act 1994).

23. If approved, I propose including the legislative changes resulting from these recommendations in the Urgent Covid-19 Tax Matters Bill, scheduled for introduction and passage through all stages under urgency on 7 April.

Impact Analysis

Regulatory Impact Assessment

24. A regulatory impact assessment is not required as the broader refundability proposals have already been discussed in the regulatory impact assessment for the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill. Producing a new regulatory impact assessment would substantively duplicate this analysis.

25. While this policy proposal moves the start date for the broader refundability proposals forward, the appropriation for the Tax Incentive in Budget 2018 already allows for the fiscal cost of full refundability, as the existing fiscal cost model assumed no constraint on refundability. There is therefore no change to the analysis already developed in the regulatory impact assessment for the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill as a result of this proposal.

Climate Implications of Policy Assessment

26. Officials do not consider that the policy would have significant implications for the climate. The policy does not aim to reduce greenhouse gas emissions and will not have any notable impact on emissions, waste, or other environmental factors.

Population Implications

27. The proposal will have a positive impact on the population on New Zealand, as it will help encourage businesses to retain their R&D labour and continue purchasing the goods and services necessary to continue performing R&D.

Human Rights

28. There are no human rights implications arising from the proposals in this paper.

Consultation

29. Each of the Big 4 accounting firms (EY, Deloitte, PwC and KPMG), some businesses, and a representative of the Corporate Taxpayers Group[3] have been consulted on the proposal. All stakeholders consulted strongly support the proposal.

Communications

30. I will make an announcement on the contents of the Bill, including this proposal, following enactment of the Legislation. A commentary on the Bill will also be released, and Inland Revenue will update its guidance material. Inland Revenue will include details of the new legislation in a *Tax Information Bulletin* after the Bill is enacted. There will also be targeted communication to businesses likely to be affected by the amendment.

Proactive Release

31. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers with any appropriate redactions within 30 working days of Cabinet making final decisions.

Recommendations

The Minister of Research, Science and Innovation recommends that Cabinet:

1. **Note** that the new refundability rules that are contained in the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill, which recently completed its Third Reading, are intended to apply from the 2020-21 income year for most businesses (referred to as “year 2” in this paper).

2. **Agree** that the application date of these new broader refundability rules apply retrospectively from year 1 (rather than year 2), so that more businesses are able to access more R&D tax credit refunds.

3. **Note** that this will help provide additional cashflow to loss-making R&D performers who might otherwise have to cut their R&D labour and spending in response to disruptions caused by Covid-19.

[3] The Corporate Taxpayers Group is an organisation of major New Zealand companies that works with officials to achieve positive changes to tax policy in New Zealand. The Group’s members include Air New Zealand Limited, Airways Corporation of New Zealand, AMP Life Limited, ANZ Bank New Zealand, ASB Bank Limited, Bank of New Zealand, Chorus Limited, Contact Energy Limited, Downer New Zealand Limited, Fisher & Paykel Healthcare Limited, Fletcher Building Limited, Fonterra Cooperative Group Limited, General Electric, Genesis Energy Limited, IAG New Zealand Limited, Infratil Limited, Lion Pty Limited, Meridian Energy, Methanex New Zealand Limited, New Zealand Post Limited, New Zealand Racing Board, New Zealand Steel Limited, New Zealand Superannuation Fund, Opus International Consultants Limited, Origin Energy New Zealand Limited, Pacific Aluminium (New Zealand) Limited, Powerco Limited, Shell New Zealand (2011) Limited, SKYCITY Entertainment Group Limited, Spark New Zealand Limited, T&G Global Limited, The Todd Corporation Limited, TOWER Limited, Vodafone New Zealand Limited, Westpac New Zealand Limited, Z Energy Limited, and ZESPRI International Limited.

4. **Agree** that in year 1 of the scheme, businesses should be able to choose whether to apply the year 1 refundability rules or the year 2 refundability rules.

5. **Invite** the Ministers of Research, Science and Innovation and Revenue to instruct Inland Revenue to draft legislation to give effect to the policy proposal and its intent contained in this paper.

6. **Agree** to introduce legislative provisions to give effect to the proposal in the Urgent Covid-19 Tax Matters Bill.

7. **Agree** to include any consequential legislative amendments necessary to give effect to the proposal in the Urgent Covid-19 Tax Matters Bill.

8. **Note** that the Urgent Covid-19 Tax Matters Bill is scheduled for introduction and passage through all stages under urgency on 7 April, and includes amendments to the Income Tax Act 2007 and the Tax Administration Act 1994.

9. **Note** that this proposal is revenue neutral and has no effect on our estimate of the fiscal costs of the R&D Tax Incentive. The model of fiscal costs used treats tax credits and cash payments (in the form of refunds) as equivalent.

10. **Note** that agreeing to recommendation 2 above, will have a one-off cash impact, increasing net core Crown debt by up to $70 million in 2019/20.

Authorised for lodgement

Hon Dr Megan Woods
Minister of Research, Science and Innovation

Cabinet

Minute of Decision

R&D Tax Incentive: Reducing the Impact of COVID-19 on Business R&D

Portfolio **Research, Science and Innovation**

On 23 March 2020, Cabinet:

1 **noted** that the new refundability rules that are contained in the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill, which recently completed its Third Reading, are intended to apply from the 2020-21 income year for most businesses (referred to as 'year 2' in the paper under CAB-20-SUB-0128);

2 **agreed** that the application date of these new broader refundability rules apply retrospectively from year 1 (rather than year 2), so that more businesses are able to access more R&D tax credit refunds;

3 **noted** that this will help provide additional cashflow to loss-making R&D performers who might otherwise have to cut their R&D labour and spending in response to disruptions caused by COVID-19;

4 **agreed** that in year 1 of the scheme, businesses should be able to choose whether to apply the year 1 refundability rules or the year 2 refundability rules;

5 **invited** the Minister of Research, Science and Innovation and the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the policy proposal and its intent contained in the paper under CAB-20-SUB-0128;

6 **agreed** to introduce legislative provisions to give effect to the proposal in the Urgent COVID-19 Tax Matters Bill;

7 **agreed** to include any consequential legislative amendments necessary to give effect to the proposal in the Urgent COVID-19 Tax Matters Bill;

8 **noted** that the Urgent COVID-19 Tax Matters Bill:

8.1 includes amendments to the Income Tax Act 2007 and the Tax Administration Act 1994;

8.2 is scheduled for introduction and passage through all stages under urgency on 7 April 2020;

9 **noted** that:

9.1 the above proposal is revenue neutral and has no effect on the estimate of the fiscal costs of the R&D Tax Incentive;

9.2 the model of fiscal costs used treats tax credits and cash payments (in the form of refunds) as equivalent;

10 **noted** that agreeing to paragraph 2 above will have a one-off cash impact, increasing net core Crown debt by up to $70 million in 2019/20.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:
Prime Minister
Deputy Prime Minister
Minister of Research, Science and Innovation