Regulatory Impact Statement: A reporting framework informed by tax principles

Coversheet

Purpose of Document	
Decision sought:	The enactment of a statutory reporting framework informed by tax principles.
Advising agencies:	Inland Revenue
Proposing Ministers:	Minister of Revenue
Date finalised:	26 April 2023

Problem Definition

The key problems are limited public understanding of the tax system, the principles and policy standards by which it is measured, and deficits in the collection and analysis of data. These issues have implications for both the quality of public debate about the tax system and its key features, as well as the ability of governments to determine whether the tax system is operating in line with their policy objectives.

Executive Summary

The government's revenue strategy and work programme include improving the public's understanding of the tax system and encouraging informed debate on its key features to ensure the tax system remains fit for purpose in a changing world. A better understanding of the tax system will inform any tax policy change.

Possible options

Two options have been identified in addition to the status quo:

1. Option 1: Increased reporting on selected tax policy issues.
2. Option 2: Developing a specific statutory reporting framework informed by tax principles.

This assessment focuses on the possible enactment of a statutory reporting framework informed by tax principles.

Inland Revenue's preferred option

On balance, Inland Revenue supports the enactment of a statutory reporting framework informed by generally accepted tax principles. A reporting framework would increase the amount of publicly available information about the tax system and could contribute to an improved understanding of tax policy and operational standards among the general public. Over time reported information would demonstrate trends and provide insights into how the tax system is developing and responding to external pressures and government work programmes. The greater availability of tax information would produce more informed policy advice and encourage further academic research in related fields. It may also reduce the need for semi-regular, wide ranging reviews of the tax system through specially commissioned working groups or increase their effectiveness through the availability of pre-existing data.

Inland Revenue supports the use of well-established core tax principles such as efficiency and fairness. It has provided advice against including more general economic and social principles (such as the maintenance of human rights or addressing climate change) as tax principles. Inland Revenue also recommended against departing from the widely accepted definitions of tax principles such as by modifying them to include statements of opinion or preferred outcomes (for example, about the ultimate effect of taxes). In Inland Revenue's view, including more general principles not directly related to tax policy or altering their definitions could duplicate reporting efforts across government, undermine the independence and integrity of the reporting framework, and place its longevity at risk.

Views from consultation with stakeholders and the general public

Views of the general public

While formal consultation was not undertaken, officials discussed the project with some key stakeholders. Those consulted include members of the:

- Corporate Taxpayers' Group (CTG);
- Chartered Accountants Australia and New Zealand (CA ANZ).

Officials also attended public seminars on possible tax principles run by Tax Justice Aotearoa, an independent voluntary organisation focused on tax issues in New Zealand.

Based on this limited feedback, there is high-level support for the core tax principles and for improving the transparency of the tax system and how it changes over time. Some people raised additional principles which they consider are relevant to the design and operation of the tax system.

Stakeholders queried whether the data collected would be useful and made available to the public to use. Another issue raised by stakeholders concerned the broader issue of data sovereignty. As data sovereignty is a wider issue for the department, we will consider our approach to data sovereignty issues more broadly alongside the ongoing development and improvement of the tax principles reporting framework.

Responsible Manager(s) (completed by relevant manager)

Murray Shadbolt

Principle Policy Advisor

Policy and Regulatory Stewardship

Inland Revenue

s 9(2)(a)

[redacted]

26 April 2023

Quality Assurance (completed by QA panel)

Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	The Quality Assurance Panel with representatives from Inland Revenue has reviewed the *A reporting framework informed by tax principles* prepared by Inland Revenue and considers the information and analysis partially meets the quality assurance criteria. The argument for a framework as proposed is reasonably convincing. However, public consultation on the proposals has been limited to discussions with relatively few stakeholders, which may have limited the depth of the analysis.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. Governments around the world are currently facing similar challenges in the form of rising inflation and supply chain shortages putting pressure on the economy and revenue collection. In the future, increases in the median age of the populations of developed countries are likely to impact on tax revenue from labour income and place increased demands on healthcare and retirement support.

2. There will also be impacts from technological change, impacts of climate change and the changing nature of work. Treasury produces a long-term fiscal position and insight briefing which sets out possible trends in revenue and expenditure. On historical trends expenditure will outpace revenue growth leading to increasing net debt. Governments will need to adapt their revenue strategies in response to these issues if they are to maintain existing social service delivery in changing conditions.

3. Past governments have also regularly commissioned reviews of the tax system. Examples include the 1982 McCaw review, the 2001 McLeod review, as well as the 2010 Victoria University of Wellington Tax Working Group, and the 2019 Tax Working Group. There are a range of reasons for establishing these reviews, including recommending future directions in light of changing circumstances, but it also suggests that there is a lack of readily available information about the tax system to indicate if it is fit for purpose. The effectiveness of such reviews has been the subject of academic debate.

4. Most recently, the Government tasked Inland Revenue with collecting information to determine the effective average tax rate paid by the wealthiest people relative to their economic income. This was an area where a lack of information was identified by the Government as impacting a fact-based discussion on the fairness of the tax system.

5. A Government's ability to maintain and adapt the tax system relies on both accurate information and the support of the taxpaying community. Deficiencies in either of these areas could affect the Government's capacity to respond effectively to challenges to the integrity and sustainability of the tax system.

What is the policy problem or opportunity?

6. The Government has identified challenges to effectively navigating current and future issues such as those noted above. These are:

   Measuring the achievement of Government objectives

   - The information deficits identified above can hinder governments in assessing whether the tax system is meeting their objectives. For example, most governments take the view that the tax system has a role in advancing social objectives (e.g. the redistribution of income). A greater availability of contemporaneous information about the tax system's role in redistribution would assist governments and the public in determining whether their policy objectives are being realised.

New Zealand's tax system is not well understood by the public

- Responding to future tax challenges will require informed debate about the tax system, its goals, priorities, constraints and impacts. Support for changes to the tax system to cope with demographic or technological change will likely require an understanding of where the burden of tax currently falls, where it will fall in the future and whether tax continues to be raised in a fair and efficient manner over time. However, despite being important to all New Zealanders, more could be done to improve the public's understanding of the current tax system and priorities. For example, there is an ongoing misunderstanding of what secondary tax is and whether it is fair. There are additionally areas of the tax system that are often subject to debate such as the application of exemptions to GST, and the setting of marginal tax rates.

- The issues noted above are all matters which capture the public's interest. Although the details of tax policy and administration is a specialist subject, increasing the public's understanding of the tax system should inform and improve the quality of public debate and engagement on tax issues through an improved knowledge of general tax policy frameworks.

Information deficits

- There are areas of the tax system on which there is little information available. Examples include the effective tax rate paid by high wealth individuals (HWI), the relative effect of the tax system on labour force participation, or the level of certainty within the tax system and its impact on business decisions.

- Data deficits in areas such as these limit the ability of governments to accurately identify and define policy issues. The unavailability of data and analysis also constrains officials' ability to offer advice on optimal policy responses to current issues. This can lead to relying on information based on overseas systems, which may not be fully comparable.

7. While there are a range of reasons for having tax working groups and reviews, one aspect is to use these groups to seek, collate and publicly report information on the tax system and whether it is fit for purpose. This can help lift the public engagement and debate but comes with associated administrative costs. There is debate in academic circles over the effectiveness of ad hoc reviews in leading to changes in tax systems compared to not having reviews.

8. As has been seen in other contexts, there is the potential for aspects of public debate to occur using incorrect information or misunderstanding of information, which can lead to mistrust. Trust in government has an impact on the efficient running of public services and this has been an issue for some segments of society. As the tax system relies on voluntary compliance from all taxpayers with targeted enforcement, changes in levels of trust in government or perceptions of tax can impact revenue collection. Improving trust and understanding in core public services such as the design of the tax system could support voluntary compliance and longer-term revenue integrity.

What objectives are sought in relation to the policy problem?

9. As noted in an earlier Cabinet paper (CAB-22-MIN-0332), Cabinet's policy objectives are to:

    - Improve the public's understanding of New Zealand's tax system;
    - Inform discussions on tax, fiscal and economic issues among stakeholders, policy makers and the wider public; and
    - Contribute to the achievement of wider long-term social, fiscal and economic objectives through data driven reporting.

10. The intervention identified in this Regulatory Impact Statement seeks to primarily address the Government's desire to improve the public's understanding of the tax system and increase the quality of public engagement on tax policy issues, as set out in the first and second bullet points above. However, the initiative will contribute to the attainment of the third object by increasing the amount of information available about the operation of the tax system over time, putting a focus on the longer term perspective and the ability of the tax system to fund longer term social expectations of public services.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

11. Where applicable, the options will be evaluated using the policy criteria of reducing compliance and administrative costs and whether they effectively achieve the objectives below. There are no fiscal costs to consider with any of these options.

12. The specific criteria are whether the options are likely to meet the objectives of:

    - Increasing the public's understanding of New Zealand's tax system and improving the quality of public debate on tax policy;
    - Increasing the quality of information about the operation of New Zealand's tax system and its key features; and
    - Being sustainable over time (and able to generate consistent information over time to provide the public with trends on how the tax system is evolving).

13. An option will meet the criteria of increasing public understanding if it is providing information that helps the public to understand how the tax system works and the impacts of tax policy changes on the tax system. The type of information reported and the ability to convey information in a way that increases understanding will be important. An option will meet the criteria of increasing the availability of information if it increasing the quantity and quality of information about the operation of the tax system. An option will be sustainable if it is long-lasting and can generate time series data and demonstrate trends. An option will meet the administrative costs criteria if it reduces or minimises the amount of resources the department uses and likewise an option will meet the compliance cost criteria if it reduces or minimises the costs on the private sector.

What scope will options be considered within?

14. The scope of this project is focused on identifying ways of improving the public's understanding of New Zealand's tax system, and of increasing the amount of available information about its operation for the government and the public. Any suggestions for specific reform to tax policy settings or to amending the purpose and principles in existing Revenue Acts are beyond the scope of this project.

15. The scope is also focused on information that informs tax policy design rather than the administrative operations of the tax system. Therefore, it is not considering reporting frameworks or requirements on detailed administrative matters such as the level of administrative spending. These are covered by the Public Finance Act reporting requirements.

16. Wider reporting obligations and principles that apply to Inland Revenue as a public sector agency are also not within scope and are covered by the Public Service Act.

17. One option to improve information among the public would be a public awareness campaign. Various targeted campaigns are already used to help improve taxpayer compliance and understanding of the administration aspects of tax. However, this option would not address the other two objectives and is considered an extension of the status quo for the purpose of the analysis in this document.

What options are being considered?

Option 1(a) – Retain the status quo

18. The government could choose to retain the status quo and take no active steps toward addressing the policy problems identified earlier. The existing levels of reporting through Annual Reports, website information and Budget documents would remain. This includes a select number of published tax statistics and one-off research and evaluation publications. It also includes the government of the day's ability to implement a one-off investigation of aspects of the tax system through Inland Revenue or ad hoc working groups. Members of Parliament would continue to seek information through Written Questions, and the public through Official Information Act requests where the information exists.

Option 1(b) Retain the status quo, but with increased reporting on selected issues

19. In addition to 1(a) the government could decide to commission additional advice on specific areas of the tax system, with a focus on expected future challenges. This would involve the government identifying upcoming policy issues in advance and seeking data and official advice on an ad-hoc basis. The resulting information could be published or form the basis of public debate such as through a speech or press release.

Option 2 – The enactment of a statutory reporting framework

20. The Government could enact either:

- (2a) a reporting framework which requires the Commissioner of Inland Revenue to report regularly on data associated with current or future issues within the tax system; or

- (2b) a reporting framework informed by tax principles which requires the Commissioner of Inland Revenue to report regularly on the data associated with the operation of the tax system against those tax principles.

How do the options compare to the status quo/counterfactual?

	Option 1(b): Increased reporting on selected issues	Option 2(a): - Enactment of a statutory reporting framework on current issues	Option 2(b): - Enactment of a statutory reporting framework informed by tax principles
Public's understanding of tax system	+	+	++
Availability of information on tax system	+	++	++
Administrative costs	-	--	-
Compliance costs	0	--	-
Sustainable	0	+	++
Overall assessment	+	+	++

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

21. Each of the options considered above has specific costs and benefits.

- *Option 1(a) – Status quo:* Taking no additional action would maintain the status quo, with resources continuing to be applied as they are currently and reallocated in line with changes in government priorities. There would be ad hoc increases in administration and compliance costs if ad hoc reviews are requested on the tax system. However, the status quo would not address the economic and policy impacts which flow from both the current levels of public engagement with the tax system, and the existing information gaps. Accordingly, maintaining the status quo would not improve the public's understanding of the tax system, or contribute to improving the quality of current tax policy advice.

- *Option 1(b) – Increased reporting on selected issues:* Increasing the amount of reporting on selected issues would improve the availability of public information to some degree and give governments flexibility in commissioning policy advice on current and anticipated issues beyond its baseline level of reporting. This could take both a short and longer term perspective depending on government preferences. This would increase the public's understanding in the issues reported but not necessarily in the tax system overall. There would be additional administrative costs to additional reporting. However, this option presents several challenges, namely that:

  i. It mirrors the current ability of governments to commission official advice as it is required. Although this option could improve the quality of advice available on topical issues to governments, it would essentially represent an extension of the status quo.

  ii. While it could also increase the amount of available information about the tax system, the areas of the tax system which are reported on are likely to vary from one government to the next. This could make it difficult to build up a sustainable timeseries of data which would allow for the observation of variations and trends from one year to the next. It would continue to be subject to reprioritisation of resources within Inland Revenue's baseline funding and the wider Government work programme pressures and priorities. As a non-statutory option, the increased reporting could be stopped quickly and with little public involvement.

  iii. Commissioning specific advice is unlikely to increase the public's understanding of the tax system other than in areas being commissioned. Although official advice is usually released publicly following its consideration by Ministers, the audience for official documents tends to be Ministers or other officials, and once released generally picked up by journalists, researchers and academics rather than the general public. Accordingly, the public reach of this advice is likely to be limited.

- *Option 2(a) – Enactment of a reporting framework:* A statutory reporting framework which provided regular reporting on selected current issues would offer advantages over the previous two options. For example:

  i. Regular and defined reporting obligations would allow for the observation of trends and variations in the data as the information produced by the framework grows over time. Setting the requirement in legislation increases the chances that the reporting remains consistent over time, and begins to engage the public more, as has been seen with other legislated reporting frameworks. This improves sustainability and public understanding.

ii. The regular publication of reporting produced by the framework could encourage greater public interest in the tax system and promote debate on the specific areas that are reported on. This may also reduce the scope of future working groups to focusing on how tax systems should change rather than determining the current state of the tax system.

- However, a framework which reports on selected issues would also present several challenges. In particular:

  i. The issues which are the subject of reporting are likely to, at least in part, reflect the views and priorities of the enacting government. The selection of these issues is also likely to be influenced by challenges and risks posed by the current environment. Accordingly, there is the risk that a reporting framework which is focused on specific issues could be seen as focused on the political issues at that time. It could become quickly outdated through changes in the social and economic environment, which could in turn affect the willingness of the public to consider or engage with its findings. This limits the sustainability and could impact public understanding.

  ii. Although the framework would offer an educational function, this would largely be in respect of the specific issues which are covered by the reporting framework. This would leave the public unaware of the tax policy principles and frameworks which underpin the operation of the tax system, and which guide officials and ministers in evaluating policy proposals.

  iii. There would be increased administrative costs to meet the reporting requirement and the focus on current tax system issues could require additional data to be collected from taxpayers. This increased compliance costs could be greater if the current issues being reported on change over time in unpredictable ways.

- <u>*Option 2(b) – Enactment of a reporting framework informed by tax principles:*</u> A reporting framework based around tax principles would contain the advantages of Option 2 while mitigating its shortcomings. A reporting framework focused on aspects of the tax system related to the tax principles would:

  i. Provide a regular source of information about the operation of the tax system relating to the fundamental principles of a tax system. This would allow for the observation of trends and variations in the data over time as the information produced by the framework grows and provide context to understand the inherent trade-offs between different principles of tax.

  ii. Contribute to an improved public understanding of the operation of New Zealand's tax system and its underlying policy frameworks. In particular, it would show the interrelatedness between some principles of tax systems, and where trade-offs are required.

  iii. Offer a trusted, politically neutral source of information. Any future tax working group would have a good base of information to work from potentially reducing the ad hoc administration and compliance cost of developing that information for a review.

  iv. Direct in legislation the collation of specific information using defined indicators ("principle indicators") that are key measures of tax principles, to ensure trends of key data are maintained over time. This would involve more administrative work in collating the information and ensuring it remains relevant over time (adapting the measures for changes in technology and ways of working for example) but would also offer the most benefit of the options. It would also involve compliance costs in taxpayers providing any data need to report on the specific measures, but as it is related back to core tax principles the likelihood is that the data will be consistently collected over time, allowing for some efficiencies to be established in the collection and analysis of the data.

22. Option 2(b) (i.e. the enactment of a reporting framework informed by tax principles) is the option being considered. A subsidiary issue lies in how best to express the principles within a statutory framework.

Section 2a: Selection of the framework's principles

23. There are broadly two approaches to the selection of the principles which would guide the statutory reporting framework for the tax system.

Option One – General and tax principles

24. The first option would involve the inclusion of general and tax specific principles which cover tax policy design and other areas of social policy as they impact a tax system. For example, during consultation some stakeholders raised the idea of including principles relating to Te Tiriti, human rights, environment/climate change, and social wellbeing.

25. Other principles which have been suggested are linked to operational or administrative processes. Suggestions have been related to principles of public engagement and consultation on policy changes, ensuring the public had direct say on tax policy decisions and respecting the sovereignty of taxpayer information.

Option Two – Core tax principles

26. The second option would involve the selection of core tax principles commonly used in a tax policy context. These principles will be familiar to tax professionals and economists and include such principles as equity (or fairness), efficiency, integrity, and certainty. They are focused on the core aspects of the design of a tax system that inform tax policy advice.

27. This option could also include tax principles such as coherence, simplicity and flexibility which have been developed more recently.

Discussion

Option One – General principles

28. Although many of the wider principles suggested for inclusion in the framework represent important realms of enquiry, including general principles within the framework would extend its focus beyond the operation of the tax system from a tax policy perspective, and into areas of policy for which reporting frameworks already exist. Including wider general principles would therefore risk producing inefficiencies through the duplication of existing efforts which would not necessarily yield new or additional information.

29. For example, on a principle around wellbeing the tax principles reporting proposal would only report on the impact of tax on wellbeing. There is a separate requirement to report on wellbeing as part of the Public Finance Act 1989, which covers a wider range of areas. Likewise, including principles which relate to consultation/engagement and the administration of the tax system would risk duplicating requirements governed by the Tax Administration Act 1994, the Public

Service Act 2020 and the Public Finance Act 1989. The inclusion of principles which relate to areas such as the environment and human rights would extend the framework's focus into wider issues of social and public policy which have existing reporting frameworks.[1] Additionally, as these areas are not specific to tax policy design, it is unclear what tax system related information would be reported in connection with these wider principles. Accordingly, Inland Revenue recommends they not be included in the list of tax principles for tax system reporting purposes.

Option Two – Core tax principles

30. Although core tax principles will be familiar to economists and tax professionals, they may be unfamiliar to the wider public. These principles have a long and established history of usage in tax policy and are tested and understood in a tax system context.

31. For example, the principles of equity, certainty, efficiency and convenience have been referred to in the context of taxation at least since the publication of Adam Smith's *magnum opus*, *The Wealth of Nations*, in 1776.

32. Variations of these principles, along with more recent additions such as coherence, revenue integrity and fiscal adequacy, were used by the 2010 Victoria University of Wellington Tax Working Group and the 2019 New Zealand Tax Working Group to assess the design of New Zealand's tax system. These principles have also been used by overseas tax working groups and in international discussions facilitated by the OECD. The wide use of these principles in a tax context means the framework would be able to draw on a range of existing scholarship and literature in producing its reporting.

33. The tax principles could also inform public debate on the direction of tax policy and the tax system and would provide a framework for considering how different proposals might result in trade-offs between one principle and another.

34. It is possible that some of the information produced by the tax principles reporting framework could assist other reporting frameworks which are focused on wider principles. For example, some aspects of reporting on the tax principles of equity and efficiency (and specifically the neutrality of tax on decision making) could highlight the impact of specific tax policy on the environment. Equity and efficiency may also cover the tax impact of different forms of collective ownership which could help wider reporting on the social wellbeing of different population groups. Measures of vertical and horizontal equity may be able to compare taxpayers by different population characteristics.

35. Although the principles would be a guide to the reporting requirements within the legislation, they would not have any statutory purpose outside of the reporting framework. The principles are not intended to impose requirements on current or future tax laws or guide the outcome of tax related disputes.

---

[1] For example, Statistics New Zealand and the Ministry for the Environment report on aspects of the environment every six months, with reporting on the environment overall every three years under the Environmental Reporting Act 2015. Similarly core Human Rights' instruments ratified by New Zealand provide for a range of procedures for monitoring compliance.

36. For the purpose of guiding the reporting requirements, the principles set out in the table below have been proposed for Cabinet's agreement. An interpretation statement is next to each principle to expand on the application of the principles in a tax policy context, given the general public may be unfamiliar with the terms in a tax policy context.

No.	Principle	Description
1.	Horizonal Equity	People with similar levels of income should pay similar amounts of tax. The time value of money matters when considering horizontal equity. The tax system should generally recognise the economic effect of income, not its name, while acknowledging there are important areas where exemptions to taxing economic income are justified in the pursuit of wider societal outcomes (e.g. not taxing the imputed rent on an owner occupied home).
2.	Vertical Equity	The tax system should be progressive. Tax is progressive if people with higher levels of economic income pay a higher proportion of that income in tax. A progressive tax system does not mean that every tax should be progressive (e.g. GST is regressive) but the overall system ought to be. In practice, wealthy people should at the very least pay no lower a rate of tax on their economic income as middle income New Zealanders already do.
3.	Efficiency	Tax revenue should be raised in ways which minimise distortions to the economy and the use of resources.
4.	Compliance and administrative costs	Compliance and administrative costs for taxpayers and the Government should be reasonable but this is not justification for substantial unfairness in the tax system.
5.	Revenue integrity	The revenue system should be sustainable over time and minimise opportunities for tax avoidance.
6.	Certainty and predictability	People should be able to determine their tax obligations before they are due.
7.	Flexibility and adaptability	The tax system should keep pace with changes in society, in particular technological and commercial developments, and changes in inequality.

Explanation of the tax principles

37. An explanation of what the principles mean in a tax context could help the public to understand their meaning and how they relate to designing tax policy, and to the measures that would be reported. This would support the objective of helping to inform the public and increase public engagement in the design of a tax system. However, there are several principles whose explanations include statements and assertions not commonly associated with the expression of these principles. As further discussed below, Inland Revenue's view is the inclusion of these statements could present a risk to the integrity, independence and endurance of the reporting framework. For example:

Insertion of unfamiliar statements

- An explanation of horizontal equity would usually not include reference to the time value of money (i.e. "*the time value of money matters when considering horizontal equity*"). While the timing of tax payments can have an influence on horizontal equity there could be other factors that also have an impact. Similarly, an explanation of vertical equity would typically refer to people in different positions rather than "*wealthy people*." An explanation of the principle of flexibility and adaptability would usually not include explicit reference to changes in inequality.

Inclusion of contested statements

- The statement "*GST is regressive*" concerns the distributional impact of a tax on consumption. The distributional impact of consumption taxes remains an area of ongoing inquiry, and there is debate among economists as to whether the distributional impacts of consumption taxes should be assessed relative to annual income or expenditure. The definitions of income or expenditure to be used are also often discussed.

- As a proportion of annual income, lower income households tend to pay a higher proportion of their income on consumption, while higher income households able to save a portion of their income display lower consumption relative to income. This can make GST appear regressive. However, the GST to annual income ratio can fluctuate over their lifetime depending on a person's savings and borrowings at any given time.

- Although evaluating GST relative to expenditure can "smooth" variations in a person's lifecycle, the use of an expenditure base has limitations (as, for example, people may pass on wealth as an inheritance). There is also debate among economists on how best to determine the appropriate expenditure base.

Presuming decisions about trade-offs

- The pursuit of some principles simultaneously (e.g. certainty and flexibility) will produce conflict, meaning that some degree of trade-off between principles is inevitable. However, in general, decisions about trade-offs between statements of principle are value judgements made with reference to values existing outside the principles themselves.

- For example, the inclusion of the statement "*but this is not justification for substantial unfairness*" within the explanation of the principle relating to compliance and administration costs represents a value judgment about the priority or ranking of principles among themselves. This risks pre-empting the views of future decision makers by presuming a decision about a trade-off between principles which has not yet been made.

Neutrality and Longevity

38. The features noted above could pose a risk to the perceived independence of the reporting framework. Because decision makers may reach different decisions about trade-offs between principles or value the pursuit of some principles over others, statements which provide a position on these issues could cause the framework (and the information which it produces) to be viewed as unduly influenced by these statements.

39. Statements about the effects of taxes (e.g. "*GST is regressive*") could be overtaken by new developments in economic research. To the extent new insights suggest a different conclusion, the framework's overall perceived integrity and relevance could be affected.

40. This could affect the longevity of the framework. As some of the framework's value will emerge from the observations which can be drawn from the data series produced by the framework over time, the features noted above could prevent the framework's full value being realised if future government place less value in its use. Alternatively, they may amend the legislation with a risk that some continuity of reporting is lost.

41. On the other hand, providing a list of the tax principles without some guiding explanation will not assist in the objective of better informing the public. Similarly, an explanation that is factual but bland is unlikely to engage the public in debate.

42. In either case, it will put an onus on officials who are reporting information on the tax system to set out the caveats and assumptions used in measuring the reports, and the potential weaknesses in the implications that could be drawn from those measures. The reporting would also need to indicate that decisions makers do need to make trade-offs between the different principles as well as any wider principles or priorities that matter to decisions makers.

Principle indicators

43. There is no one measure that can provide insight into each tax principle. Due to the challenges associated with assessing each principle directly, Inland Revenue does not recommend prescribing specific methods for assessing each principle within the legislation itself. However, it would be useful for the public and officials to understand the types or categories of information that could be reported against various tax principles. This would also ensure that key trends can be discerned over time through the use of consistent measures set out in the legislation.

44. The framework achieves this by establishing categories of information (or "principle indicators") which are relevant to each of the principles. Under this approach, the legislation would describe the information that is most relevant, leaving Inland Revenue the ability to select the most appropriate methodologies for collecting and evaluating that information. The indicators would not be restrictive or exhaustive, and Inland Revenue could report on other indicators not listed in the legislation in relation to the tax principles where they are relevant. The indicators would guide what should be reported at a minimum.

45. A *descriptive* (rather than *prescriptive*) approach to information collation would prevent confining the framework to specific methodologies and ensure it is able to the take advantage of latest advances in the tax and economic literature. It would also help the framework to account for the quality or availability of different data sets. For example, an enquiry into the principle of certainty could include analysis of the confidence taxpayers have in determining their tax obligations. This could be accomplished through surveys, focus groups or interviews with taxpayers and their agents. Other relevant information could include the number of remedial or retrospective amendments passed during that year, the availability of technical interpretation guides or the number of disputes a year.

46. However, it will be important to place information collected by the framework in its proper context and outline any limitations. For example, continuing with the theme of certainty, the fact that remedials have been passed into law does not automatically mean the tax environment is uncertain, as some remedials can perform a clarificatory role, which increases the level of certainty within the tax system.

47. Regular engagement with stakeholders (e.g. every three years) and a process for alerting the public to the measures intended to be published would help to ensure that the indicators within the framework remain relevant and meet social expectations.

Incorporation of Revenue Strategy

48. Officials considered whether to make changes to the legislative requirement for the government to prepare and publish a Revenue Strategy.

49. The Government's annual Revenue Strategy is currently part of the Fiscal Strategy report which is required under the Public Finance Act 1989 (PFA). Section 26L(1)(d) sets out the requirement to include details of the Government's revenue strategy in the fiscal strategy report. This must include the Government's objectives for the tax system and tax policy. Section 26G sets out the principles that apply to responsible fiscal management which includes in section 1(e) "when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates". These mirror a number of the tax principles proposed for inclusion in the Tax Principles legislation.

50. Section 26J requires a fiscal strategy report to state the Government's long-term objectives for fiscal policy and, in particular, for total operating revenue. The fiscal strategy report must explain how those long-term objectives accord with the principles of responsible fiscal management.

51. There is an option of relocating the requirement to produce a Revenue Strategy within the TPA would consolidate these functions within the same legislation where the focus is on the tax principles. The PFA could focus on wider fiscal strategy and cross reference the Government's revenue strategy under the TPA.

52. The Revenue Strategy could also be used as a "brief of instructions" which would allow the Government to seek specific information on areas of the tax system which are of particular interest to the Government. It could indicate how information provided through previous reporting has (or has not) impacted on the Revenue Strategy.

53. However, as the PFA has semi-constitutional status, the Treasury has suggested further time should be taken to consult and work through the implications of this proposal, particularly the ongoing interaction between the PFA and the TPA, what would be covered in the Fiscal Strategy reporting and what would be in the Revenue Strategy and tax principles reporting.

54. Therefore, an alternative is to proceed to the introduction of tax principles reporting legislation and undertake further consideration on shifting the Revenue Strategy into the TPA. Inland Revenue agrees with this approach.

Section 3: Delivering an option

How will the new arrangements be implemented?

55. The information that would be used for reporting will depend on the availability and suitability of the underlying data. Information from surveys could be produced and published relatively quickly, while analysis of all taxpayer information (for example, to determine the distribution of tax paid by income decile) would take more time to be ready for publication. This is due to the time provided in the Revenue Acts for some taxpayers to file, which can involve extensions of time.

56. An example of this is surveys undertaken to determine the level of certainty taxpayers have that they can determine the correct tax position. Annual surveys will have a higher cost than three-yearly surveys.

Frequency of reporting

57. Information on the tax system as it relates to the tax principles and the principle indicators would be published in a report prepared by Inland Revenue. There are three options for how frequently that report should be prepared. The options are:

   - Annually;
   - every three years; or
   - an shorter annual report with a comprehensive three-yearly report.

58. A more frequently published report would create higher administrative costs for Inland Revenue, and potentially for taxpayers and third parties providing the information (to the extent they are not already required to provide it for other purposes). Although the exact form is yet to be determined, the report could be published on an Inland Revenue website, and the comprehensive report would be tabled in Parliament.

59. However, as a number of measures proposed under the tax principle reporting are unlikely to change significantly on an annual basis, Inland Revenue would not recommend a comprehensive annual report. Inland Revenue prefers the third option of a “hybrid” reporting model where a more comprehensive report is produced every three years and a briefer version of the report is provided in other years. This model would seek to use resources efficiently while taking advantage of principle related information which is already regularly produced and annually available.

How will the new arrangements be monitored, evaluated, and reviewed?

60. Inland Revenue will monitor feedback on the publication of material and consider what improvements can be made. As new data or analysis becomes available, Inland Revenue will consider whether it is related to the tax principles and can be published, having regard to the requirements of Revenue Acts to maintain confidentiality and secrecy of specific taxpayers.

61. If the decision is made to publish a comprehensive report every three years, Inland Revenue would undertake engagement with key stakeholders on what measures should be reported for the next report and whether there should be any additional material or explanation to help with informed public debate. If this requires new data

to be collected from third parties, this will itself be subject to the usual Generic Tax Policy Process.

62. Consideration will be given to how best to provide the information to the public, which could include the use of data tables, graphs or interactive dashboards as well as seminars and presentations.

63. After the first comprehensive report is completed, the reporting framework will be reviewed to determine whether it is achieving its objectives, whether to add or change the measures included in the legislation and the report, and if other changes can help to meet the objectives.