




Government Tax Policy Work Programme 2021 - 2022

Key:
 Tax Policy
 Related Policy
 KPMG commentary

The Officials' documents released on the 39% rate change referred to further work with reporting to Ministers in February 2021. This appears to have been overtaken by the housing tax policy changes in terms of priority but remains on the agenda.

The Tax Principles Act is new. The emphasis is on "fairness". There are lots of important design questions, including about definitions and measures, which need to be answered for a framework to be established and implemented. The framework, to be a useful evaluation tool, must also be sustainable over time. Pilot research may be the best way to start.

Ensuring the tax system continues to operate efficiently means there is ongoing need for remedial amendments. However, this need is increasingly also a result of policy/legislation which is rushed.

The interest limitation and bright line changes have already been announced (with the latter enacted). The current work is on the detailed design of the interest limitation rule and 'new build' carve-out, in response to submissions on the discussion document. This work is largely due to be completed by 31 March 2022, when the relevant legislation will be enacted. However, ongoing work to determine how these latest changes "fit" with the wider land rules is likely during 2022.

The work here is well known and signalled. New Zealand's ability to influence global developments is likely to be limited.

The gig and sharing economy work is also OECD influenced. Australia has already started consultation on implementing its response.

COVID-19 has highlighted tax issues for cross-border working as has Inland Revenue's draft statement on how New Zealand's tax rules apply to non-resident employers. A coherent set of rules need to be developed.

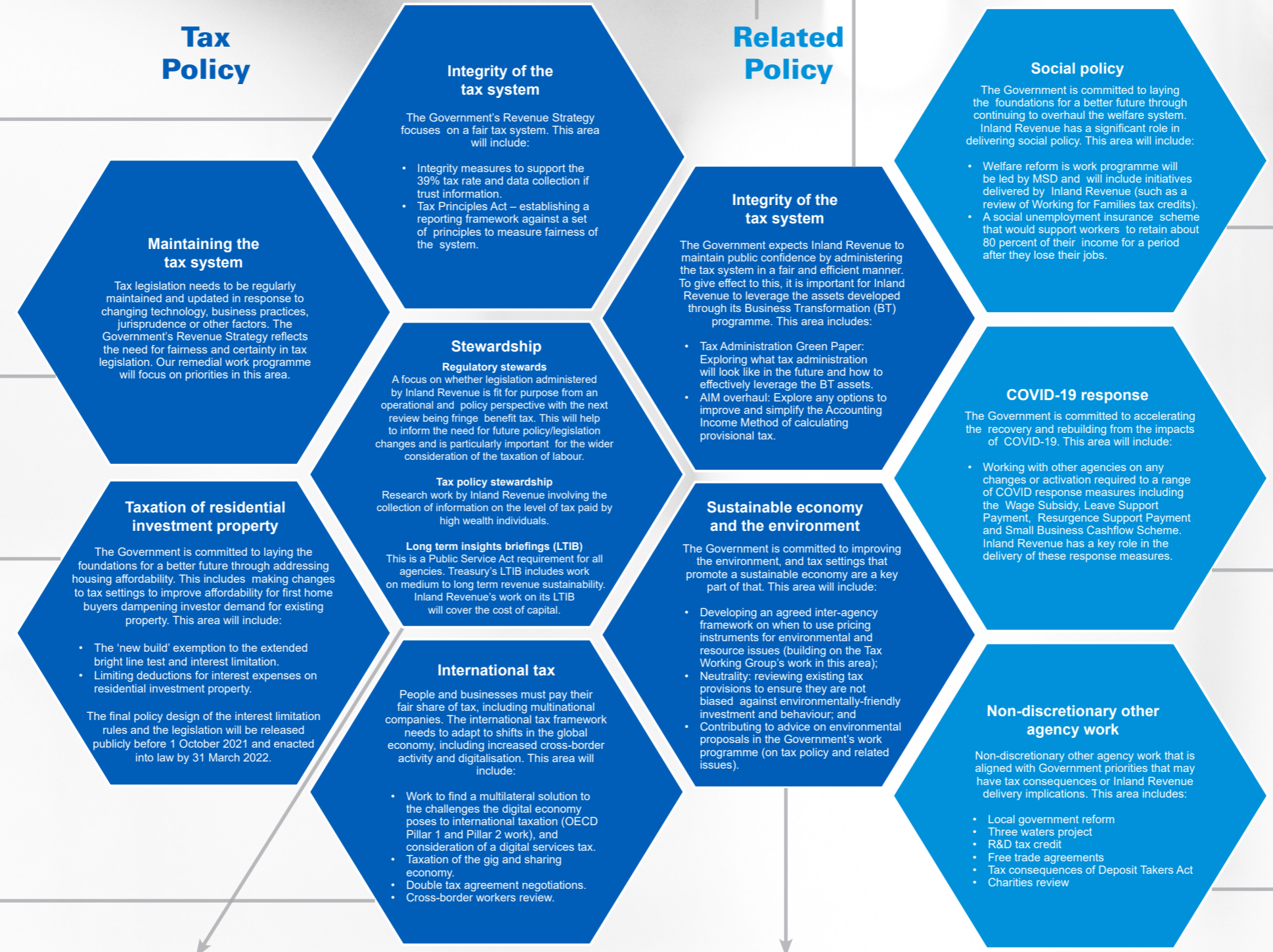
Inland Revenue was allocated approximately \$5m in Budget 2021 to consider the tax paid by high-wealth individuals. This work supports the 39% integrity measures (but is not the only work required) and is a recommendation of the Tax Working Group (TWG) to obtain better data/evidence.

The LTIB (along with the "non-discretionary other agency work") illustrates the impact of wider Government objectives on tax policy. The particular area of focus for the first LTIB - the impact of tax on investment and productivity - is important for tax policy initiatives. For example, the taxation of foreign direct investment (FDI) has been most influenced by the view that the tax was economically borne by New Zealanders. The tax policy conclusion was that FDI should be lightly taxed. The more recent framework is FDI is welcome if it is prepared to pay full New Zealand tax. Whether that is the correct position needs to be tested. A re-write of the Tax Administration Act is on the Parliamentary Counsel's work programme. Any re-write is to modernise the Act which should make it clearer. It should interact with the Tax Administration Green Paper included in the work programme as that is where rule changes will be made.

An important part of the tax policy work programme is how this fits into the "Whole of Government response". These elements of the work programme illustrate that "tax" is not necessarily the driver of change. All of these areas will require resource for Inland Revenue and engagement by taxpayers.

The implementation phase of BT is nearly complete. The next phase is using the new system to make the boat go faster. That must include further efficiencies and benefits for taxpayers and the tax system's many unpaid tax collectors and those tasked with providing information to Inland Revenue. The changes in this area will need to carefully balance vision with practicality and the imposition of cost on the rest of the system.

Any review of the shape of future tax administration is likely to go hand-in-hand with regulatory stewardship questions as to whether Inland Revenue's tax administration legislation is fit for purpose.



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Tax Policy

Related Policy

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

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

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

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

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

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

The final policy design of the interest limitation rules and the legislation will be released publicly before 1 October 2021 and enacted into law by 31 March 2022.

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

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

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

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

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

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

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

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

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

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

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

- Working with other agencies on any changes or activation required to a range of COVID response measures including the Wage Subsidy, Leave Support Payment, Resurgence Support Payment and Small Business Cashflow Scheme. Inland Revenue has a key role in the delivery of these response measures.

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

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

The impact of the welfare system on the tax system was scoped out of the TWG work. The impact of high effective marginal tax rates due to the interaction of the two systems is a longstanding problem and often ignored. It is unlikely that there are simple solutions.

If implemented, a social insurance scheme would be a significant change for New Zealand (many other countries have such schemes). The complex interactions with the tax and welfare systems may however make this a difficult policy to implement.

With this latest COVID-19 outbreak, Inland Revenue's role in supporting the Government's fiscal response will again come to the fore. This is likely to impact on both its operational and policy outputs during this period.

See our comments on the related tax policy areas. There is a lot on the Government's agenda which has the potential to impact on tax policy.

This is an unsurprising element of the work programme and it appears it will build on the work of the TWG. Other elements of the work programme (such as housing tax) show a Government willingness to use tax as a lever.

The TWG said that for sustainability objectives (or to change behaviour), tax may not be the best tool. Some rigour in analysis and thinking is 'therefore' required before tax is used as the main lever.