The Treasury

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POLICY AND STRATEGY

Tax policy report: Final policy decisions for a small business tax package

Date:	25 February 2016	**Priority:**	**High**
Security Level:		**Report No:**	T2016/261 IR2016/063

Action sought

	Action Sought	Deadline
Minister of Finance	**Agree** to the recommendations in this paper **Sign and refer** the attached EGI paper to the Cabinet office	10am Thursday, 3 March 2016
Minister of Revenue	**Agree** to the recommendations in this paper **Sign and refer** the attached EGI paper to the Cabinet office	10am Thursday, 3 March 2016

Contact for telephone discussion (if required)

Name	Position	Telephone	
Keith Taylor	Policy Manager, Inland Revenue	890 2808 (wk)	[23]
Matt Cowan	Senior Analyst, Treasury	917 6137 (wk)	

25 February 2016

Minister of Finance
Minister of Revenue

Final policy decisions for a small business tax package

Executive summary

This paper seeks your approval of a business tax package and provides a draft EGI paper and RIS for submission to Cabinet and consideration at the EGI meeting on 9 March.

As this package will mainly take effect from 1 April 2017 the enabling legislation needs to be enacted by the end of the year. We have included a possible timeline in this paper that would see the package announced in late March followed by a short period of consultation on the technical detail of how the measures would be implemented, a bill introduced in July and passed in December.

As directed officials have been consulting with trusted stakeholders on the components of the package. The responses has been very positive from all stakeholders and sectors we have talked to, including both large and small business representatives. Feedback has been that the changes to provisional tax will to a large extent address taxpayers' long standing complaints that it is a system that is difficult to get right and expensive to get wrong. Some caution was recommended by some stakeholders as they saw that there was potential to abuse the new provisional tax rules if suitable safeguards were not in place.

We note though that this package has not been the subject of the standard GTPP consultation which would have involved issuing a discussions document seeking comment on whether the proposals were the right things to be focusing on. While we have consulted in detail about whether the individual items are worth proceeding with we have only had high level conversations about whether or not there are other changes that could have been made. The general feedback was that there was not.

Of the 16 proposals included in the previous report on this package (IR2015/661, T2015/2800 refers) the following items remain unchanged. We have retained the original numbering (A2, A3 etc.) from that earlier report for consistency.

Measure	Fiscal impact over four years
A2. Increasing the current $50,000 residual income tax limit for use-of-money interest to $60,000 (for individuals and non-individuals)	$47m cost
A3. Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method	$7.5m cost
A8. Pay as you go for contractors - labour-hire firms	$20m gain
A9. Voluntary withholding agreements	Marginal upfront gain but difficult to quantify
B2. FBT simplification for closely-held companies	Marginal on-going cost but difficult to quantify
B6. Increasing threshold for adjustments in subsequent returns	No impact
B8. Increase the threshold for annual FBT returns from $500k to $1m of PAYE/ESCT	$2.1m cost
B9. Modify the 63 day rule on employee remuneration	Small upfront gain but difficult to quantify

The following table sets out the remaining items and the changes that are recommended.

Measure	Change	Fiscal impact over four years
A7. Pay as you go for contractors - electing own withholding rate	Include a minimum rate of 15%	$27m cost
A10. Removal of incremental late payment penalties on tax payments	Remove incremental penalties from income tax, GST and working for families. [33]	$87m cost
A11. Credit reporting of significant tax debt	Apply only to non-individuals in the first instance.	Potential on-going gain but difficult to quantify
A12. Information sharing with the Registrar of Companies	Restrict sharing with the Companies office to matters relating to serious offending only.	Potential on-going gain but difficult to quantify
B3. Simplified calculation of deductions for vehicles and premises	Make both vehicle and premises calculation methods optional.	$2.28m cost
B7. Remove requirement to renew RWT exemption certificates annually	Require most RWT exemptions to be issued for an unlimited period	No impact
A5. Adopting an Accounting Income Method (AIM) for paying provisional	Allow taxpayers with a turnover of less than $5 million use AIM. Do not restrict access to AIM based on	Expecting to be neutral

tax	GST registration or filing frequency.	
A6. Paying provisional tax on behalf of related parties	Limit to shareholder-employees of companies at this stage.	Expected to be neutral, subject to implementation design

The total cost of the package over four years is $153 million.

We recommend seeking a tagged contingency from Cabinet of $2 million in capital for the 2016/17 year and $5.5 million in operating for the 2016/17 to 2018/19 year to cover any potential administrative costs.

Recommended action

We recommend that you:

(a) **Note** that officials previously reported on a package of business tax reforms on 27 November 2015 (IR2015/661, T2015/2800 refers).

Noted Noted

(b) **Agree** to the following proposals which remain unchanged from the 27 November 2015 report:

A2. Increasing the current $50,000 residual income tax limit for use-of-money interest to $60,000 (for individuals and non-individuals)
A3. Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method
A8. Pay as you go for contractors - labour-hire firms
A9. Voluntary withholding agreements
B2. FBT simplification for closely-held companies
B6. Increasing threshold for adjustments in subsequent returns
B8. Increase the threshold for annual FBT returns from $500k to $1m of PAYE/ESCT
B9. Modify the 63 day rule on employee remuneration

Agreed/Not Agreed Agreed/Not Agreed

(c) **Note** that the remaining proposals have been further developed since that earlier report and now require your final approval.

Noted Noted

A7. Pay as you go for contractors - electing own withholding rate

(d) **Agree** that contractors should be able to select their own rate subject to a minimum rate of 15%.

Agreed/Not Agreed Agreed/Not Agreed

A10. Removal of incremental late payment penalties on tax payments

(e) **Agree** that incremental late payment penalties on future income tax, GST and working for families debts should be repealed.

Agreed/Not Agreed Agreed/Not Agreed

[33]

[33]

A11. Credit reporting of tax debt
A12. Information sharing with the Registrar of Companies

(g) **Agree** to credit reporting of significant tax debt for non-individuals only.

Agreed/Not Agreed Agreed/Not Agreed

(h) **Agree** to information sharing with the Companies Office to assist them in prosecuting the following serious offences under the Companies Act 1993:

- Serious breach of director's duty to act in good faith and in best interests of company;
- Making false statements;
- Breach of statutory prohibition from managing a company;
- Breach of court order disqualifying a person from managing a company;
- Breach of prohibition by Registrar or FMA from managing a company; and
- Director of failed company being a director of or managing a phoenix company.

Agreed/Not Agreed Agreed/Not Agreed

B3. Simplified calculation of deductions for vehicles and premises
B7. Remove requirement to renew RWT exemption certificates annually

(i) **Agree** that taxpayers should be able to choose to opt into or out of simplified calculations of deductions for vehicles and premises.

Agreed/Not Agreed Agreed/Not Agreed

(j) **Agree** that in general RWT exemption certificates should be issued for an unlimited period.

Agreed/Not Agreed Agreed/Not Agreed

More timely payment of provisional tax

A5. Adopting an Accounting Income Method (AIM) for paying provisional tax
A6. Paying provisional tax on behalf of related parties

(k) **Agree** that AIM should be available to taxpayers with a turnover of $5 million per annum or less and that GST registration or filing frequency should not restrict access to this method.

Agreed/Not Agreed Agreed/Not Agreed

(l) **Agree** paying provisional tax on behalf of related parties should be limited to shareholder-employees of companies at this stage.

Agreed/Not Agreed Agreed/Not Agreed

(m) **Note** that the total fiscal impact of the package is $153 million over four years.

Noted Noted

(n) **Agree** to seek approval from Cabinet for a tagged contingency of $2 million in capital for the 2016/17 year and $5.5 million in operating for the 2016/17 to 2018/19 year to cover any potential administrative costs.

Agreed/Not Agreed Agreed/Not Agreed

(o) **Sign and refer** the attached Cabinet paper and RIS to the Cabinet Office by 10am on Thursday 3 March..

Signed and referred Signed and referred

Matt Cowan
Senior Analyst
Treasury

Keith Taylor
Policy Manager
Policy and Strategy
Inland Revenue

Hon Bill English
Minister of Finance

Hon Michael Woodhouse
Minister of Revenue

Background

1. On 27 November 2015 officials reported on a range of business tax measures that could be included in a Budget 2016 package (IR2015/661, T2015/2800 refers). Following the Joint Ministers' meeting of 9 December officials provided further information on some of the specific measures:

- *Accounting income method for payment of provisional tax* (IR2015/694, T2015/2861);
- *Removing some shareholders and partners from provisional tax* (IR2015/695, T2015/2893);
- *Self-management and integrity: strengthening the withholding rules for contractors* (IR2015/693, T2015/2860);
- *Improving the late payment penalty for small businesses and families* (IR2015/691, T2015/2888); and
- *Making markets work better through tax transparency* (IR2015/692, T2015/2867).

2. The covering report to these papers (IR2015/706, T2015/2927) indicated that officials would conduct confidential consultation with a number of trusted stakeholders to ensure the package addressed the key concerns raised by the private sector.

3. This report provides you with an update on the results of the consultation undertaken to date and a suggested timeline for announcement of the package and further consultation. Finally we seek your agreement to our recommendations on some of the detail of the final package, and to the attached EGI paper and RIS.

Suggested timeline

4. We understand that Ministers are considering a pre-Budget announcement of the small business tax package. This has the advantage of allowing for some post-announcement consultation on the technical aspects of how the measures would be legislated. If an announcement was made in late March or early April officials would release an Official's Issues Paper to seek feedback on the implementation of the package. An online forum would also be deployed, however this would focus exclusively on the Accounting Income Method as this is the most complex measure and a forum would allow for more granular consideration of the mechanics of the proposal.

5. It is proposed that measures in this package come into effect from 1 April 2017, with the exception of the Accounting Income Method and paying provisional tax on behalf of related parties, which would apply from 1 April 2018. In order to meet these application dates the enabling legislation would need to be passed by the end of 2016.

6. We have provided below a possible timeline that accommodates a pre-Budget announcement, consultation on the mechanics of the measures and a bill introduced in July which would be passed before the end of the year.

Task	Date
EGI approves paper	Wednesday, 9 March 2016
Cabinet approves package	Monday, 14 March 2016
Ministers announce package	Late March
IR releases issues paper	Day after announcement
Submissions close	Four weeks following release
Final policy paper to Ministers	Thursday, 12 May 2016
LEG paper, draft legislation and Bill commentary to Ministers	Monday, 20 June 2016
LEG approves	Wednesday, 29 June 2016
Cabinet approves legislation	Monday, 4 July 2016
Legislation introduced	Monday, 4 July 2016
First reading and referral to FEC	Thursday, 7 July 2016
Select committee process	Five months for report back
Assent by	Year end

7. In order to meet this timeline the Cabinet paper submitted to EGI for consideration at the 9 March meeting would seek approval for Cabinet to delegate decision making powers to Ministers on any technical matters arising from the issues paper consultation. In the event that consultation uncovered something substantial that required Cabinet consideration a further EGI paper could be submitted in parallel to the LEG paper and draft bill.

8. Note that in this timeline the select committee process is shortened from the normal six months, but not so much as to require a debatable motion in the first reading speech[1].

Consultation results to date

9. At this time of writing we have talked to the following stakeholders:

- Business NZ;
- Two leading tax practitioners;
- Tax Management New Zealand (TMNZ – a tax pooling intermediary);
- the Corporate Taxpayers Group (CTG);
- [25, 26]
-
- Chartered Accountants Australia and New Zealand (CAANZ);
- [25, 26]
- Small Business Development Group

10. We will also be briefing the Tax Simplification panel later in the month.

[1]Standing orders state that if a report back is required in less than four months then a motion seeking permission for this instruction must be put to the House.

11. There is strong support for the changes proposed to the use of money interest (UOMI) rules. The general consensus was that this addressed some of the main concerns businesses, both large and small, had with provisional tax. It was recognised that these measures were fiscally expensive, but that they were the right things for the Government to be investing in.

12. Small business representatives welcomed the package as a whole. They were particularly interested in the credit reporting as they felt that small businesses relied on credit reports when entering into agreements and tax debt was a troubling blind spot.

13. While the package was focused on small business, stakeholders also felt there was much to be pleased with for the large business sector. In addition to the UOMI changes they felt that the simplification measures would be very well received.

14. The proposal to allow contractors to select their own withholding tax rate was positively received, however some stakeholders commented that they did not see the need for a minimum rate of 10%. They felt that this undermined the self-management premise, as it indicated mistrust, would result in some contractors still being over taxed and was unnecessary if income paid to a contractor would always be reported to Inland Revenue even if the rate was 0%. However, other stakeholders acknowledged the need for a minimum rate to prevent contractors from trying to defer or avoid paying their tax.

15. On the proposal to impose withholding tax on labour hire firms there was universal support, including from the labour hire firm we consulted. It was generally accepted that there is a non-compliance problem in the sector and that the proposal was "the right thing to be doing."

16. The other area where stakeholders raised some concerns related to the integrity of some of the provisional tax changes. Further work, it was felt, needed to be undertaken to ensure that taxpayers could not abuse the proposed UOMI changes by "flip-flopping" between methods to gain advantages.

17. The Accounting Information Method (AIM) was seen by some as a ground breaking proposal that would benefit both businesses with fluctuating income and those that wanted to integrate their tax compliance with their BAU accounting processes. However the novelty of the proposal led others to question whether sufficient checks could be put in place to ensure integrity or whether data held in accounting software during the year was sufficiently robust to support provisional tax assessments.

Further policy decisions for the package

18. The proposed small business tax package comprises 16 discrete measures. For ease of reference we have retained the original numbering applied to the proposals in the earlier policy papers. The following measures remain unchanged from what was reported in the 27 November paper (IR2015/661, T2015/2800 refers):

Changes to provisional tax to increase certainty

A2. Increasing the current $50,000 residual income tax limit for use-of-money interest to $60,000 (for individuals and non-individuals)
A3. Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method

Self-management and integrity

A8. Pay as you go for contractors - labour-hire firms
A9. Voluntary withholding agreements

Supplementary tax simplifications

B2. FBT simplification for closely-held companies
B6. Increasing threshold for adjustments in subsequent returns
B8. Increase the threshold for annual FBT returns from $500k to $1m of PAYE/ESCT
B9. Modify the 63 day rule on employee remuneration

19. The remaining measures require further policy decisions before they can be finalised.

A7. Pay as you go for contractors - electing own withholding rate

20. We have reported to you previously on the need for a minimum rate of withholding tax for contractors (T2016/122, IR2016/025 refers). The key advantage of a minimum rate is that it reduces the fiscal risk that contractors may attempt to defer or avoid paying their tax through picking artificially low rates. The key disadvantage is that it limits choice for contractors and therefore forces withholding tax on compliant contractors who may prefer provisional tax.

21. We understand that Ministers have expressed a preference for including a minimum rate to reduce the fiscal risk associated with allowing contractors to select their own rate. We recommend that Ministers agree to set the minimum rate at 15%.

A10. Removal of incremental late payment penalties on tax payments

22. A prominent feature of the business tax package is that it aims to make the tax system fairer for taxpayers, including taxpayers that sometimes don't pay their tax on time. This includes changes to the late payment penalty rules.

23. The report *Improving the late payment penalty for small businesses and families* (IR2015/691, T2015/2888) provided further information on the initial proposal to remove incremental late payment penalties from income tax and GST. The report also discussed extending this policy to Working for Families Tax Credits [33]

24. Together these measures would reduce future tax debt to a level that is more manageable for both indebted taxpayers and Inland Revenue.

[33]

Incremental late payment penalties

25. Since this report, officials have refined the assumptions that have informed the estimated fiscal impact of this proposal.

26. The financial assumptions underpinning the fiscal forecast include the amount of the penalty that will be forgone in the future as a result of this proposal. This was determined by reviewing past years' tax debt information and using that as a basis for how many penalties maybe forgone in the future.

27. The non-financial assumptions that impact on the forecast includes the likely behavioural effect of the changes, as taxpayers will make different decisions based on the new penalty rules. With less financial penalties being continuously imposed, the debt does not artificially grow in value leading to taxpayers being able to repay their debt quicker, as they are not repaying sometimes several months' worth of financial penalties. As a result, Inland Revenue's debt resources can be more efficiently used to better manage more indebted taxpayers, leading to more debt recovery over time.

28. However, Inland Revenue's legacy system (FIRST) cannot provide the financial data to measure the likely behavioural effect, and therefore the benefits of the non-financial assumptions cannot be offset against the financial forecast.

29. Officials have now forecasted the negative fiscal impact of this proposal to be approximately $87 million over four years. This exceeds the earlier fiscal estimate that officials provided to you in November 2015 of $65 million, over four years (T2015/2800, IR2015/661). The new estimate also has higher costs in out years. The benefits of this measure remain the same: approximately 65,000 taxpayers with income tax debt, 67,000 taxpayers with GST debt and 23,000 taxpayers with working for families' tax credit debt will not incur incremental late payment penalties.

30. One option to mitigate the increase costs is to limit the proposal to GST only. This would reduce the fiscal cost to $57 million over four years. GST would be recommended as it is the first tax to be administered by Inland Revenue's new system (START).

31. Despite this increased cost we recommend Ministers agree to removing the incremental late payment penalty from income tax, working for families and GST. If Ministers would prefer to limit the fiscal cost then we recommend proceeding with the proposal but limiting it to GST only.

[33]

[33]

A11. Credit reporting of significant tax debt

38. The report *Making markets work better through tax transparency* (IR2015/692, T2015/2867) provided further information on the proposal to share tax debt data with credit reporting agencies. In that report a set of criteria for the definition of "significant tax debt" was mooted.

39. We have since formed the view that the detail of the criteria would benefit from further work and from consultation as part of an Officials' Issues Paper. The use of a variety of thresholds to determine whether debt meets the definition of "significant" is still recommended.

40. Our advice on this proposal so far has also always been based on the application of the proposal to taxpayers regardless of their chosen business structure. However since we last reported on the proposal, we have discovered privacy issues around credit reporting significant tax debt of individuals. Specifically, more work is required to determine the consistency of this proposal with the Credit Reporting Privacy Code 2004, which contains obligations for credit reporting agencies' use of individual information.

41. Therefore we can now advise that option would only initially be available for significant tax debt attached to non-individual taxpayers. Despite this limitation, we believe the option remains well targeted to the policy problem. While individuals are capable of developing

significant business tax debt and causing harm to other businesses, a large proportion of the significant debt information problem stems from non-individual taxpayers.

42. We will continue to work with the Office of the Privacy Commissioner to better understand the issues around credit reporting individuals' significant tax debt.

A12. Information sharing with the Registrar of Companies

43. The report *Making markets work better through tax transparency* (IR2015/692, T2015/2867) also provided further information on the proposal to share data with the Companies Office in relation to serious offending against the Companies Act. The report recommended sharing around several serious offences, and also around two non-criminal provisions including the requirement that a company have a director based in New Zealand, and the Registrar of Companies' discretionary power to prohibit directors.

44. After some consultation and further work on this option it is recommended that the proposal be limited to information sharing with the Registrar of Companies in relation to several serious offences under the Companies Act 1993. These offences include:

- Serious breach of director's duty to act in good faith and in best interests of company;
- Making false statements;
- Breach of statutory prohibition from managing a company;
- Breach of court order disqualifying a person from managing a company;
- Breach of prohibition by Registrar or FMA from managing a company; and
- Director of failed company being a director of or managing a phoenix company.

45. We no longer recommend the inclusion of non-criminal provisions in the proposal because sharing around these provisions would require considerable further work to develop the required legal tests and frameworks, and this is not possible within the time constraints attached to this package.

B3. Simplified calculation of deductions for vehicles and premises

46. In the report of 27 November 2015 (IR2015/661, T2015/2800 refers) we outlined a measure that would reduce compliance costs for businesses by extending the current mileage based claim method for vehicles and introducing a new fixed rate method for premises.

47. In that report we noted that while the mileage rate method would be optional, we had not reached a conclusion on whether the new fixed rate method for premises should be compulsory or optional. The arguments for making the method compulsory are that:

- Having a single compulsory method is simpler than giving taxpayers 2 options to choose from. Our concern is that some taxpayers will calculate their income under both methods for the purpose of selecting the most tax efficient option. This will increase complexity and compliance costs for such taxpayers. This is the main reason we favour a compulsory approach.

- The method should be fairly accurate, given that taxpayers can still claim their actual mortgage interest, rates and rental expenses and there is not a great deal of variation in utility costs. Accordingly, compulsory application of the method should not result in significant under or over taxation.

- There would be a small fiscal cost if the method were optional, as some taxpayers would only elect to use the method where it produced greater deductions. We do not have sufficient data to estimate the cost of this option, but it is expected to be fairly minimal given the small difference in expected deductions between the 2 methods.

On the other hand, the reasons for making the method optional are that:

- A compulsory method would result in some taxpayers having lower deductions than the current method (although the difference is not expected to be significant). Such taxpayers may see the measure as a restriction on their deductions, rather than a simplification measure.

- If revenue is not a significant concern, taxpayers should be given the choice of which measure to use.

48. On balance, our recommendation is that the method should be optional.

B7. Remove requirement to renew RWT exemption certificates annually

49. The November report also outlines a measure whereby annual RWT exemption certificates will be issued for longer periods. At the time of writing we had not concluded what the new rule should be, but provided a five year renewal as an example.

50. We now consider that annually renewable RWT exemption certificates should be issued for an unlimited period. This is because:

- A large number of exemption certificates are currently issued for an unlimited period (e.g. to charities, banks and entities with annual gross income over $2m) and officials did not want to change this practice.

- A fixed period would still impose a level of compliance obligation in having to periodically reapply for the certificate.

- Officials consider that integrity concerns could be addressed by requiring taxpayers to declare in their annual return whether they are still eligible to hold the certificates. In addition it is usually easy to confirm whether most taxpayers are eligible to hold their exemption certificates.

51. The new measure would not apply to annually renewable certificates issued on the grounds that the taxpayer has estimated annual gross income of over $2m for the next year. Such certificates would continue to be issued on an annual basis, as by their nature they are only valid for a short period.

A5. Adopting an Accounting Income Method (AIM) for paying provisional tax

52. The report *Accounting income method for payment of provisional tax* (IR2015/694, T2015/2861) provided further information on this measure which would allow small businesses to more closely align their provisional tax payments to their income and better integrate their tax compliance with their accounting software. The report also discussed what criteria a business would have to meet in order to qualify to use the new method.

53. Since that report we have completed a review of our internal data [25, 26] This gave us an understanding of how businesses engage with their accounting software and a better picture of their provisional tax status which has enabled us to make firm recommendations on what criteria should apply to the proposal.

54. Our analysis has shown that businesses with a $5 million turnover or below are best suited to use the AIM as it currently stands. This opens it up to 277,000 provisional tax payers.

55. The rationale for using this threshold is related to the complexity of the businesses. As a business becomes more complex they can outgrow off the shelf software and the size of their tax adjustments increase along with their complexity. [33]

[33] We intend to continue to work on the question of whether large corporates should be able to use AIM and will seek your approval to include this topic in a discussion document later in the year.

56. Our initial policy development of AIM limited eligibility to businesses who were GST registered. The rationale for this was that these businesses were currently updating their software on a regular basis for their GST returns and would benefit most from integrating their provisional tax payments into this existing process. Our analysis has shown that there are 178,000 businesses who are not GST registered and are under the $5 million threshold.

57. Our policy development of AIM and our discussions with [25, 26] have given us confidence that the software can support a tax calculation that gives Inland Revenue confidence in the payment without relying on a GST return for the same period. Therefore we recommend that AIM should be available to all taxpayers under the $5 million turnover threshold, regardless of their GST status. The estimated number of eligible taxpayers is approximately 277,000 and their combined income tax is around $5.4 billion.

58. We also recommend that a taxpayer should be able to use AIM regardless of their GST filing frequency (i.e. one, two or six monthly).

A6. Paying provisional tax on behalf of related parties

59. There are various forms of business entities, and various forms of income streams, where the payment of untaxed amounts to owners and other related parties takes place, and gives rise to a provisional tax liability. We had previously talked to you about including partnerships, and forms of income such as interest, dividends and rents, in this proposal.

60. The majority of untaxed income paid out is by companies by way of salaries to shareholder-employees, and these other entity types and other income types bring a range of additional complications. Given the limited time available officials recommend that this proposal to apply to the payment of shareholder salaries by companies only. The extension to other entity types and forms of income could be considered in the future.

Fiscal impact

61. The tables below provide a summary of the revenue impact of the measures recommended in this package.

Fiscal impact of measures ($m) Changes in provisional tax to increase certainty				
	2016-17	***2017-18***	***2018-19***	***2019-20***
Increasing the current $50,000 residual income tax limit for interest to $60,000 (for individuals and non-individuals)	-45.6	-0.6	-0.6	-0.6
Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method	-1.8	-1.8	-1.8	-1.8
Self-management and integrity				
	2016-17	***2017-18***	***2018-19***	***2019-20***
Allowing contractors to elect their own withholding rate	-2	-42	13	4
Extending withholding tax to labour-hire firms	5	5	5	5
Making system fairer				
	2016-17	***2017-18***	***2018-19***	***2019-20***
Changes to late payment penalties[3]	-7.8	-13.17	-27.77	-38.16
Supplementary tax simplifications				
	2016-17	***2017-18***	***2018-19***	***2019-20***
Simplified calculation of deductions for dual use vehicles and premises	-0.18	-0.7	-0.7	-0.7
Increase the threshold for annual FBT returns from $500k to $1m of PAYE/ESCT	0	-2.1	0	0
Total	**-52.38**	**-55.37**	**-12.87**	**-32.26**

62. The remaining measures either have no fiscal impact, or have an impact that is difficult to quantify but expected to be low or neutral, with the exception of the initial late payment penalty proposal (see text below table):

	Fiscal impact

[3] The changes to the incremental late payment penalty measure has an estimated fiscal cost of $87 million over four years. However, over six years, this increases to $184 million

Permitting voluntary withholding agreements	Marginal upfront gain, but difficult to quantify
Credit reporting of tax debt	Potential on-going gain from improved compliance, but difficult to quantify
Information sharing with the Registrar of Companies	Potential on-going gain from improved compliance, but difficult to quantify
FBT simplification for closely-held companies	Marginal on-going cost from reduced FBT payment, but difficult to quantify
Increasing threshold for self-adjustments in subsequent returns	No impact
Remove requirement to renew RWT exemption certificates annually	No impact
Modify the 63 day rule on employee remuneration	Small upfront gain from deductions being taken later, but difficult to quantify
Accounting income method	Expected to be neutral within an across financial years
Paying provisional tax on behalf of related parties	Expected to be neutral within and across financial years subject to implementation design

[33]

64. Furthermore, while the changes to the incremental late payment penalty measure has an estimated fiscal cost of $87 million over four years, over six years this rises to $184 million.

65. Announcing the package in March will make its cost a pre-commitment against the Budget. The consultation on the package would close after Budget moratorium, so any change to the cost following consultation would feed into the forecast at HYEFU.

66. These figures represent officials' best estimate of the fiscal impact of the package within the time and information available. Many of the figures rely on assumptions about taxpayer's behaviour which are difficult to forecast.

Administrative costs

67. Final administrative costs will not be confirmed until late May. We have consulted the Treasury Vote Analysts and they have proposed a tagged contingency of $2 million in capital for the 2016/17 year and $5.5 million in operating for the 2016/17 to 2018/19 year.

68. Once the costs have been finalised we will report to Cabinet and seek to draw down the final amounts required.