

Date: 13 April 2010

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To: Mike Nutsford, Minister of Finance's Office
Olivia Williams, Minister of Revenue's Office

TREASURY – IRD AIDE MEMOIRE: REVENUE STRATEGY

This aide memoire sets out issues with the existing Revenue Strategy in relation to the Budget 2010 tax package. It provides material for discussion at the Tax Policy Meeting scheduled for Wednesday 14 April 2010 at 11:15am.

As part of Budget 2009, Ministers agreed to a 3-year Revenue Strategy, in accordance with the strategy phase of the Generic Tax Policy Process. This Strategy was published as an annex to the Fiscal Strategy Report 2009 – and a copy is attached to this aide memoire.

Treasury is in the process of drafting the Fiscal Strategy Report for Budget 2010. Ministers may wish to consider whether the Revenue Strategy should be revised in light of the Budget 2010 tax package. Aspects of the existing Revenue Strategy (refer attached) that may warrant consideration in particular are:

1. Fiscal/economic crisis – mentions delaying the introduction of the personal tax cuts planned for 1 April 2010 and 1 April 2011, and Government considering other desirable revenue-enhancing measures to allow them to be reconsidered;
2. Tax policy work programme – refers to a medium-term goal of 30% tax rate alignment; and
3. Government commitments – notes Government confidence and supply commitments to a medium-term alignment of personal, trust and company tax rates at a maximum of 30%.

Points for discussion

Tax cut deferral

The personal income tax cuts for Budget 2010 are larger and more comprehensive (across the board) than those previously scheduled for introduction on 1 April 2010 and 1 April 2011.

- Do you consider the Budget 2010 tax package supersedes the income tax reductions that were delayed in Budget 2009 indefinitely?
- Do you want to maintain the commitment to further reduce income tax rates (after the Budget 2010 tax package) as the economic and fiscal conditions allow?

- Is the Government looking to consider any further desirable revenue-enhancing measures (other than those already in the Budget 2010 tax package) in the future to enable further income tax cuts?

(Clarity about these points will also be helpful for the fiscal strategy story.)

Alignment of tax rates at or below 30%

The Budget 2010 tax package includes a company tax rate cut to 28%. The reference in the Revenue Strategy to a medium-term goal of alignment of rates at 30% is inconsistent with this (assuming of course that the goal is not to increase the company tax rate from 28% in the medium term).

The Government has committed, via confidence and supply, to a desirable medium-term goal of reducing and aligning personal, trust and company tax rates at a maximum rate of 30%. The Budget 2010 tax package is not inconsistent with this because alignment below 30% remains a potential option for the future.

- Do you still see alignment of the personal, trust and company tax rates as an option for the future?
- If not, what would you like to replace it with?

Revision of the Revenue Strategy?

- Do you want to revise the Revenue Strategy?
- If so, are there any other points (other than those noted above) that you would like incorporated into the revised Revenue Strategy?

Next steps

If you wish to revise the Revenue Strategy, officials will provide a draft for consideration before the Tax Policy Meeting scheduled for 20 April 2010. Cabinet agreement could be sought alongside the Fiscal Strategy Report on 3 May 2010.

Steve Cantwell, Principal Advisor, Tax Strategy, Business Environment, People & Skills, Ph. [deleted - privacy]

Bill Moran, Manager, Tax Strategy, Business Environment, People & Skills, Ph. [deleted - privacy]

Matt Benge, Assistant Deputy Commissioner, Policy Advice Division, Inland Revenue, Ph. [deleted - privacy]

Revenue Strategy

Government's objectives for the tax system

The Government is committed to building a stronger economy and increasing productivity.

The tax system should be as fair and efficient as possible in raising the revenue required to meet the government's needs. The Government supports a broad-base, low-rate tax system that minimises economic distortions.

The Government considers these goals are best supported by a tax system that:

- maintains revenue flows to pay for valued public services and reduce debt
- responds to New Zealand's medium-term needs in a planned and coherent way
- biases economic decisions as little as possible - which allows people to work, save, spend or invest in ways that they believe are best for them
- rewards effort and individuals' investment in their own skills
- has low compliance costs and low administrative costs
- minimises opportunities for tax avoidance and evasion, and
- shares the tax burden as fairly as possible.

The Government's strategy is to raise revenue in ways which meet these objectives.

Relationship with economic and fiscal strategy

This revenue strategy supports the Government's economic and fiscal strategy.

It has been produced as part of the strategic phase of the generic tax policy process.

Fiscal/economic crisis

The Government has implemented an initial round of personal tax cuts and is committed to further reducing income tax rates as the economic and fiscal conditions allow. Maintaining revenue flows is particularly important in the current economic environment. In response to the current economic situation, the government has delayed the introduction of the personal tax cuts that were planned for 1 April 2010 and 1 April 2011. The Government will consider whether there are other desirable revenue-enhancing measures to help create the conditions under which these tax cuts can be reconsidered.

Tax policy work programme

The tax policy work programme is designed to implement the Government's revenue strategy. It will deliver tax policy:

- consistent with a broad-base, low-rate tax system that raises revenue in the most efficient manner to support the medium-term goal of **30% tax rate alignment**
- appropriate for the current economic situation
- that is simple and certain, and
- that supports New Zealand as an internationally competitive economy.

The Government recognises that, over the longer term, the tax system will need to adapt to the effects of population ageing and increased international mobility of people, capital and businesses on the revenue base.

A tax policy work programme will continue to be released publicly.

Government commitments

The Government, through its confidence and supply agreements with United Future and ACT, is committed to:

- a desirable medium-term goal of **reducing and aligning personal, trust and company tax rates at a maximum rate of 30%** as favoured by United Future (and included in the confidence and supply agreement with ACT), and
- supporting appropriate legislation on income splitting to First Reading in Parliament (United Future agreement).