



## Minute of Decision

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### Tax Reform Package for Budget 2010

**Portfolios: Finance / Revenue**

On 12 April 2010, Cabinet:

#### Background

- 1 **agreed** that the overall objectives of tax reform in the 2010 Budget are to:
  - 1.1 achieve a step up in economic growth by improving incentives to work, save and invest;
  - 1.2 improve the fairness, coherence and integrity of the tax system by reducing opportunities to avoid tax (and/or unduly gain access to social assistance); and
  - 1.3 have a tax system that supports New Zealand's competitiveness globally in a sustainable manner;
- 2 **agreed** that in order to achieve these objectives, changes need to be made to the tax mix to tax less growth-damaging bases, reduce personal income and corporate tax rates, and remove significant tax preferences;

#### Change in the tax mix: Increase in GST and reduction in personal income tax rates

- 3 **agreed** that the rate of GST be increased to 15 percent from 1 October 2010;
- 4 **noted** that the current income thresholds applying to personal income tax rates will not change;
- 5 **noted** that:
  - 5.1 there are two options for the initial implementation of the planned reduction in the personal income tax rates:
    - 5.1.1 Option 1: to reduce all personal income tax rates on 1 October 2010;
    - 5.1.2 Option 2: to introduce the reductions to the bottom three rates on 1 October 2010, while phasing in the reduction to the top personal tax rate on 1 October 2010 and 1 April 2011;

- 5.2 the fiscal implications of each of the above options, in conjunction with the base broadening and compensating measures referred to below, are set out in paragraphs 64 to 68 below;

## Compensation measures for a rise in GST

### Ministerial welfare programme

- 6 **agreed** that recipients of the following payments receive a special time-limited payment equivalent to 2.02 percent of the after tax weekly base rate of that payment, from 1 October 2010 to 31 March 2011, by way of a ministerial welfare programme under section 124(1)(d) of the Social Security Act 1964:
- 6.1 Unemployment Benefit and related benefits, Sickness Benefit, Invalids Benefit, Domestic Purposes Benefits, Independent Youth Benefit, Orphans Benefit, Unsupported Child Benefit and Widow's Benefit;
- 6.2 Student Allowances;
- 6.3 New Zealand Superannuation and Veterans Pensions;
- 7 **invited** the Minister for Social Development and Employment to establish a welfare programme under section 124(1)(d) of the Social Security Act 1964 to give effect to the proposal in paragraph 6 above;
- 8 **invited** the Minister for Social Development and Employment to propose regulations to exempt the compensation payment, referred to in paragraphs 6 and 7 above, from a person's income for the purposes of the Social Security Act 1964, the Social Security (Long-term Residential Care) Regulations 2005, and the Social Security (Temporary Additional Support) Regulations 2005;

### Government Superannuation Fund and National Provident Fund

- 9 **agreed** that recipients of Government Superannuation Fund and National Provident Fund annuities which are subject to an annual CPI adjustment receive a 2.02 percent increase in payments from 1 October 2010 to 27 April 2011, after which time the automatic inflation adjustment will occur;

### Student allowances and student loans

- 10 **noted** that because Student Allowances are legislatively set on a gross basis, across the board tax cuts would, without further action, increase the rates of these payments further to that proposed in paragraph 6 above, and put them out of line with the Unemployment Benefit;
- 11 **agreed** that the relevant regulations be amended to prevent the tax cuts flowing on to Student Allowances;
- 12 **noted** that the maximum entitlement to Student Loan living costs will be automatically increased on 1 April 2011, based on the CPI increase for the year ending 31 December 2010;
- 13 **noted** that increasing GST is expected to result in increased Student Loan borrowings and subsequent write-downs of the Student Loans scheme;

**Supplementary assistance**

- 14 **agreed** to increase the Disability Allowance, Child Disability Allowance, Childcare Assistance, and Foster Care Allowance board rates by 2.02 percent from 1 October 2010 to 31 March 2011;
- 15 **agreed** that the increase in Foster Care Allowances referred to in paragraph 14 above be subsequently reversed in the next CPI adjustment of this allowance, so as not to double-compensate;

**Working for Families**

- 16 **agreed** to increase the amount of the Family Tax Credit and the Minimum Family Tax Credit by 2.02 percent from 1 October 2010;
- 17 **agreed** that the increase referred to in paragraph 16 above be reversed in the CPI adjustment of these credits that occur after 1 April 2011, so as not to double-compensate;
- 18 **invited** the Minister for Social Development and Employment to develop a mechanism to ensure that the increases in the Family Tax Credit and Minimum Family Tax Credit, referred to in paragraph 16 above, do not result in reductions in other forms of supplementary assistance during the period 1 October 2010 to 31 March 2011;
- 19 **agreed** to an automatic write-off of up to \$30 per family receiving Working for Families tax credits for the 2010/11 tax year, which will ensure that 96 percent of Working for Families recipients, who will have received an overpayment as a result of the adjustment referred to in paragraph 16 above, will not have to repay that overpayment;

**Compensation contingency**

- 20 **agreed** that a “GST Compensation Contingency”, of \$10 million per annum, be established as part of the Budget 2010 tax package to deal with any other issues directly related to compensation matters arising from the Budget 2010 tax reforms (including Ministry of Social Development administrative costs), and in particular where beneficiaries, New Zealand Superannuitants, or low income earners would not be adequately compensated for the GST increase;
- 21 **agreed:**
- 21.1 to put in place a special payment mechanism to ensure that beneficiaries, New Zealand Superannuitants, or low income earners who see an overall reduction in their net income from 1 October 2010 as a result of the tax package, can be compensated;
- 21.2 that the cost of this proposal be met from the GST Compensation Contingency;
- 22 **agreed** that:
- 22.1 if local authorities factor the GST-induced increase into the rates setting process for 2010/11, the rates rebate scheme settings be adjusted accordingly to take account of the corresponding CPI movement;
- 22.2 the cost of this proposal be met from the GST Compensation Contingency;

**Tax rates for companies, portfolio investment entities, and other savings vehicles**

- 23 **agreed** that the company tax rate be reduced to 28 percent from the 2011/12 income year;
- 24 **agreed** that, for portfolio investment entities (PIEs) that pay tax based on investors' marginal tax rates, the tax rates for those PIEs be reduced to 10.5 percent, 17.5 percent and 28 percent from 1 October 2010;
- 25 **agreed** that for PIEs that pay tax at only one rate (currently 30 percent), the tax rate be changed to 28 percent from the 2011/12 income year;
- 26 **agreed** that the tax rate of other savings vehicles, including superannuation funds, life insurance policyholder income, and Category A Group Investment Funds, be reduced to 28 percent from the 2011/12 income year;

**Base-broadening and integrity measures**

- 27 **agreed** that the safe harbour in the inbound interest allocation rules be reduced to 60 percent from the 2011/12 income year;
- 28 **agreed** to:
- 28.1 replace the current qualifying company and loss attributing qualifying companies rules with full flow-through treatment for income tax purposes (similar to the rules currently applying to limited partnerships), for the income years commencing on or after 1 April 2011; and
- 28.2 release an officials' paper for public consultation on the precise legal mechanism to implement these changes;
- 29 **agreed** that investment losses (including losses arising from residential rental properties) be excluded from the calculation of income for Working for Families tax credit purposes, from 1 April 2011;
- 30 30.1 **agreed** that integrity concerns in relation to eligibility or abatement of social assistance programmes, including trust distributions, income from non-locked PIEs, income from non-resident spouses, and fringe benefits, be addressed with effect from 1 April 2011; and
- 30.1 **directed** officials to report back to the Minister of Finance, the Minister of Revenue, and the Minister for Social Development and Employment after Budget day on the precise legal mechanisms to achieve this;
- 31 **agreed** to introduce legislation to remove the provision in the Income Tax Act requiring indexation of the abatement threshold for Working for Families tax credits, from the date of enactment;
- 32 **agreed** that the depreciation rate for all buildings with an expected useful life of 50 years or more be set to 0 percent from the 2011/12 income year;
- 33 **agreed** that the depreciation treatment of existing buildings not be grandparented;
- 34 **agreed** to remove the 20 percent depreciation loading on plant and equipment from the annual depreciation rate calculation with respect to assets purchased after 20 May 2010;

- 35 **agreed** that the depreciation treatment of assets already subject to the 20 percent depreciation loading be grandparented;
- 36 **agreed** to reduce the depreciation cost base to the extent that this base is funded through capital contributions made after 20 May 2010;
- 37 **agreed** that the redundancy tax credit be removed from 1 October 2010;
- 38 38.1 **agreed** that risks to the GST tax base arising from phoenix scheme fraud be removed with effect from 1 April 2011; and
- 38.1 **directed** officials to report back to the Minister of Finance and the Minister of Revenue on the precise legal mechanisms for achieving this, and for addressing other GST base maintenance risks;
- 39 **noted** that Cabinet has agreed to increase the excise and excise-equivalent duties on all tobacco products [CAB Min (10) 12/10];
- 40 **noted** that it is proposed in the paper attached to CAB (10) 163 that:
- 40.1 Budget 2010 legislation to implement the government's tax reform package include amendments to the New Zealand Superannuation and Retirement Income Act 2001, the Income Tax Act 2007, the War Pensions Act 1954 and other relevant Acts, to exclude tobacco products from the Consumers Price Index measures applied to adjust New Zealand Superannuation, Veterans' Pension and Working For Families tax credit entitlements in 2011, 2012 and 2013;
- 40.2 a corresponding amendment to exclude tobacco products from inflation adjustment calculations will need to be made to the Social Assistance (Future Focus) Bill, which is currently before the Social Services Committee;
- 40.3 it be noted that if the proposals referred to in paragraph 40.1 and 40.2 above are not agreed, the fiscal cost of the Budget 2010 tax reform package will increase;
- 41 **noted** that in Cabinet's decisions on the increase in tobacco excise, Cabinet directed the Treasury, in consultation with the Inland Revenue Department, the Ministry of Social Development, the Ministry of Health, and Statistics New Zealand, to assess the desirability of excluding the price impact of tobacco excise increases from the CPI and report back to SOC by 30 September 2010, or to Budget Ministers in time for amendments to be included in Budget night legislation if requested by Budget Ministers [CAB Min (10) 12/11];

## **Consequential changes to other parts of the tax system**

### **Consequential company tax rate changes**

- 42 **agreed** that a two year transitional period be introduced during which pre-existing imputation credits can be attached to dividends at the current maximum 30:70 imputation ratio;

### **Provisional tax**

- 43 **noted** that provisional tax will be reduced as a result of the reductions in the personal tax rates and the company tax rate;

- 44 **agreed** that provisional tax be reduced for taxpayers who pay provisional tax on the earlier year basis, from 1 October 2010 for individuals and from the commencement of the 2011/12 year for companies, to reflect reductions in the personal income tax rates and the company tax rate;

#### **Composite income tax rates**

- 45 46.1 **agreed** that, as effective personal income tax rates will be reduced on 1 October 2010, composite income tax rates be adopted for the 2010/11 income year which would reflect a blended average of the 2009/10 income year rates and the 2011/12 income year rates;
- 45.1 **noted** that these composite rates will differ depending on whether the reduction to the top personal rate is fully implemented on 1 October 2010, or is instead phased in on 1 October 2010 and 1 April 2011;

#### **PAYE rates**

- 46 **agreed** that PAYE withholding rates be adjusted downwards from 1 October 2010;

#### **Resident withholding tax on interest**

- 47 **agreed** that resident withholding tax (RWT) rates be adjusted downwards from 1 October 2010, to align with the personal income tax rates being reduced from 1 October 2010;

#### **Fringe benefit tax**

- 48 **agreed** that the rates and thresholds that apply for fringe benefit tax (FBT) calculations be adjusted to reflect the reduction in personal income tax rates;
- 49 **agreed** that composite FBT rates be used for the 2010/11 income year;

#### **ACC attendant care**

- 50 **agreed** to change the amount of tax withheld by ACC on attendant care payments from 1 October 2010, to reflect the new bottom personal income tax rate;

#### **Maori authority tax rate (and certain other schedular payments)**

- 51 52.1 **noted** that the Maori authority tax rate will continue to be 19.5 percent for the time being;
- 52.2 **directed** officials to report back to the Minister of Finance and the Minister of Revenue later in 2010 with proposals on what the appropriate rates to apply to Maori authorities and certain other schedular payments should be under the new personal income tax rates;

#### **Other consequential personal tax rate changes**

- 52 **agreed** that secondary tax codes, employer superannuation contribution tax (ESCT), fund withdrawal tax, extra pay amounts, and the retirement scheme contribution tax should reflect the new personal income tax rates;
- 53 **agreed** that the current amounts of child rebates and transitional tax credits should be preserved;

**Other consequential changes**

- 54 **agreed** to include, in legislation to be introduced on Budget day, amendments to the Tax Acts and other relevant Acts in respect of the changes set out in paragraphs 3, 16, 19, 23-27, 29, 31-37, 40, 42-50, 52 and 53 above;
- 55 **agreed** to:
- 55.1 include, in legislation to be introduced later in 2010, amendments to the Tax Acts in respect of the changes set out in paragraphs 28, 30 and 38 above;
- 55.2 announce as part of Budget 2010 the government's intention to include these amendments in future legislation;
- 56 **agreed** to include, in the legislation to be introduced at the time of the Budget and the legislation to be introduced later in 2010, other amendments to the Tax Acts of a mechanical and consequential nature that are necessary to reflect the changes being implemented by the tax reform package for Budget 2010;

**Administration issues****Inland Revenue**

- 57 **noted** that Inland Revenue intends to increase audit and debt collection activities to continue to enhance taxpayer compliance;
- 58 **agreed** to provide additional funding to Inland Revenue for the additional audit and debt collection activities referred to in paragraph 57 above;
- 59 **noted** that providing additional funding to Inland Revenue, in accordance with paragraph 57 above, is expected to result in increased tax revenue and decreased Crown expenses of \$1.4 billion over seven years, with an ongoing benefit of \$165 million per annum;
- 60 **agreed** to increase Inland Revenue's administrative funding to implement the Budget 2010 tax package, as set out in paragraph 80 below;
- 61 **agreed** that a "Communication Campaign Contingency" of \$3.3 million in 2010/11 to communicate the Budget 2010 tax changes be set aside from the between-Budget spending contingency, and that a bid be submitted to the Minister of Finance and the Minister of Revenue for consideration at a later stage;

**Ministry of Social Development**

- 62 **noted** that implementing the proposed tax reform package for Budget 2010 will increase the administration costs of the Ministry of Social Development by an estimated \$1.2 million per annum;
- 63 **agreed** that:
- 63.1 where possible, the Ministry of Social Development should reprioritise these costs into existing baselines;
- 63.2 if further funding above baselines is required, these costs can be met from the GST Compensation Contingency;

## Fiscal impacts

64 **noted** that there are two Budget 2010 tax packages that Cabinet is asked to choose between that differ in the implementation of personal income tax rates (at existing income thresholds):

64.1 Option 1: 10.5 percent, 17.5 percent, 30 percent, and 33 percent, from 1 October 2010;

64.2 Option 2: 10.5 percent, 17.5 percent, 30 percent, and 36 percent, from 1 October 2010, with the top personal rate reducing further to 33 percent on 1 April 2011;

65 **noted** the fiscal implications of the Budget 2010 tax reform package, referred to in paragraphs 3, 6-53 and 57-60 with the full 1 October 2010 implementation of personal tax reductions (Option 1), as follows:

\$ million	Increase (decrease) in operating balance				
	2010/11	2011/12	2012/13	2013/14	4yr total
Personal Tax (10.5, 17.5, 30, 33)	(2,455)	(3,685)	(3,935)	(4,255)	(14,330)
Net NZS compensation	(255)	(360)	(385)	(390)	(1,390)
Net main benefits compensation	(75)	(100)	(100)	(105)	(380)
WFF compensation	(45)	(65)	(65)	(65)	(240)
Other compensation	(45)	(60)	(60)	(60)	(225)
Company tax cut to 28%	(20)	(340)	(450)	(305)	(1,115)
PIES & savings vehicles capped at 28%	(15)	(40)	(55)	(60)	(170)
Inland revenue admin costs	(10)	-	-	-	(10)
GST (including clawback)	2,040	2,840	2,985	3,160	11,025
WFF de-indexation	-	15	50	40	105
WFF Integrity Measures	5	25	25	25	80
Building Depreciation (all > 50yrs)	-	685	685	690	2,060
Depreciation Loading (grandfathered)	135	245	310	345	1,035
LAQCs (incl. remission loophole)	-	70	65	55	190
Thin Capitalisation 60%	-	200	200	200	600
Depreciation - capital contributions	5	5	5	10	25
GST maintenance	15	60	60	60	195
Tobacco excise <sup>1</sup>	130	160	170	150	610
Tobacco excise - remove CPI flow-through <sup>2</sup>	5	20	40	40	105
Audit and compliance activity (incl. admin)	120	210	210	205	745
<b>Sub-total of estimated static impact</b>	<b>(465)</b>	<b>(115)</b>	<b>(245)</b>	<b>(260)</b>	<b>(1,085)</b>
adjustment for macroeconomic effects	5	25	205	435	670
<b>Impact on operating balance</b>	<b>(460)</b>	<b>(90)</b>	<b>(40)</b>	<b>175</b>	<b>(415)</b>

\*all figures rounded to nearest \$5m – notes to the table are contained in Appendix 1.

\*\* the fiscal impact of paragraphs 72, 74, 76 and 80 are already incorporated into the tables in paragraphs 65 and 66 – numbers do not reconcile as they are aggregated differently for appropriation purposes.

<sup>1</sup> Tobacco excise policy as agreed per CAB Min (10) 12/11.

<sup>2</sup> Subject to further work on the proposal to exclude tobacco excise increase-induced CPI flow-through to welfare assistance referred to in paragraph 41.

66 **noted** the fiscal impact of the Budget 2010 tax reform package with the phased implementation of personal tax reductions (Option 2), as follows:

\$ million	Increase (decrease) in operating balance				
	2010/11	2011/12	2012/13	2013/14	4-yr total
Impact of base package	(460)	(90)	(40)	175	(415)
savings from phasing top rate reduction <sup>1</sup>	280	(30)	(40)	-	210
<b>Impact on operating balance</b>	<b>(180)</b>	<b>(120)</b>	<b>(80)</b>	<b>175</b>	<b>(205)</b>

\*all figures rounded to nearest \$5m

<sup>1</sup> includes provisional tax adjustment

67 **noted** that on 1 February 2010, Cabinet agreed that the tax reform package for Budget 2010 should be broadly revenue neutral, consistent with the government's fiscal strategy [CAB Min (10) 3/2];

68 **noted** that the tax packages set out in paragraphs 65 and 66 above are consistent with Cabinet's intention, because:

68.1 they have a positive impact on the operating balance in the final year of the forecast period;

68.2 a preliminary assessment of the impact over the projection period to 2023/24 indicates that net debt is not materially different from the net debt position without the proposed tax packages;

69 **agreed** that effective personal income tax rates be reduced to 10.5 percent, 17.5 percent, 30 percent and 33 percent from 1 October 2010 (this package would include all of the base broadening and compensating measures with application from the dates set out above), with fiscal implications as set out in paragraph 65 above (Option 1);

70 **agreed** to include, in legislation to be introduced on Budget day, amendments to the Tax Acts in respect of the changes agreed to in paragraph 69 above;

#### Ministerial welfare programme

71 71.1 **agreed** to establish in Vote Social Development a new Benefits and Other Unrequited Expenses appropriation entitled 'Special Compensation Payment for GST increase';

71.2 **agreed** that the scope of this appropriation be: 'This appropriation is limited to providing payments for recipients of Unemployment Benefit and related benefits, Sickness Benefit, Invalids' Benefit, Domestic Purposes Benefits, Independent Youth Benefit, Orphans Benefit, Unsupported Child's Benefit and Widow's Benefit, Student Allowances, New Zealand Superannuation, and Veteran's Pensions, to provide compensation between 1 October 2010 and 31 March 2011 for the increase in the rate of GST';

- 72 **approved** the following appropriation, with a corresponding impact on the operating balance, to reflect the proposals in paragraphs 6-8, and 71 above:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & outyears
Benefits and Other Unrequited Expenses:					
Special Compensation Payment for GST increase	-	130.929	-	-	-

#### Government Superannuation Fund

- 73 74.1 **agreed** to establish in Vote Finance a new Non-Departmental Other Expense appropriation entitled ‘GST Compensation for Government Superannuation Fund and National Provident Fund recipients’;

73.1 **agreed** that the scope of this appropriation be: ‘This appropriation is limited to compensation for recipients of the Government Superannuation Fund and the National Provident Fund due to increases in GST between 1 October 2010 and 27 April 2011’;

- 74 **approved** the following appropriation, with a corresponding impact on the operating balance, to reflect the proposal in paragraphs 9 and 73 above:

Vote Finance Minister of Finance	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & outyears
Non-Departmental Other Expenses:					
GST Compensation for Government Superannuation Fund and National Provident Fund recipients	-	10.000	-	-	-

#### Working for Families, GST compensation, and flow-on impacts from GST increase

- 75 **noted** that all main benefits will be automatically adjusted in April 2011 to incorporate the increase to GST;

76 **approved** the following changes to appropriations for Votes Social Development, Revenue, Finance, and Veterans' Affairs, as set out in the tables below, with a corresponding impact on the operating balance, to reflect paragraphs 11-19 and 29-31 above:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Social Development</b>					
<b>Minister for Social Development and Employment</b>					
Departmental Output Expense:					
Care and Protection Services	-	0.607	0.810	0.810	0.810
Benefits and Other Unrequited Expenses:					
Invalid's Benefit	-	(4.289)	(5.041)	(5.636)	(6.046)
Widow's Benefit	-	(0.146)	(0.150)	(0.148)	(0.153)
Orphan's/Unsupported Child's Benefit	-	2.164	2.278	2.384	2.419
Unemployment Benefit and Emergency Benefit	-	(2.953)	(2.923)	(2.714)	(2.772)
New Zealand Superannuation	-	42.218	178.498	187.929	189.513
Domestic Purposes Benefit	-	(7.928)	(8.951)	(9.719)	(10.259)
Sickness Benefit	-	(1.603)	(1.647)	(1.672)	(1.702)
Independent Youth Benefit	-	(0.047)	(0.048)	(0.047)	(0.047)
Student Allowances	-	(0.373)	(1.506)	(1.163)	(0.844)
Accommodation Assistance	-	(2.572)	(8.941)	(8.167)	(8.220)
Disability Assistance	-	6.117	8.686	8.878	9.119
Hardship Assistance	-	(1.062)	(5.127)	(5.473)	(5.651)
Childcare Assistance	-	3.033	4.055	4.215	4.342
Transition to Work	-	0.386	0.538	0.547	0.559
Employment Related Training Assistance	-	0.301	0.333	0.298	0.308
Non-Departmental Other Expenses:					
Debt Write-downs	-	11.600	17.100	17.300	17.500
Non-Departmental Capital Expenditure:					
Student Loans	-	21.200	31.100	31.500	31.900
<b>Total Operating</b>	-	<b>45.453</b>	<b>177.964</b>	<b>187.622</b>	<b>188.876</b>
<b>Total Capital</b>	-	<b>21.200</b>	<b>31.100</b>	<b>31.500</b>	<b>31.900</b>

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Revenue</b>					
<b>Minister of Revenue</b>					
Benefits and Other Unrequited Expenses:					
Family Tax Credit PLA	-	38.649	27.377	1.178	7.407
In-Work Tax Credit PLA	-	2.893	(3.081)	(11.224)	(8.912)
Minimum Family Tax Credit PLA	-	(0.338)	(0.546)	(0.618)	(0.545)
Parental Tax Credit PLA	-	(0.050)	(0.314)	(0.390)	(0.495)
Non-Departmental Other Expenses:					
General Tax and Family Support Bad Debt Write-Offs	-	0.400	1.700	-	-
<b>Vote Finance</b>					
<b>Minister of Finance</b>					
Non-Departmental Other Expense:					
Government Superannuation Fund Unfunded Liability PLA	-	-	17.000	17.000	17.000
<b>Vote Veterans' Affairs - Social Development</b>					
<b>Minister of Veterans' Affairs</b>					
Benefits and Other Unrequited Expenses:					
Veterans' Pension	-	0.848	3.319	3.262	3.286
<b>Vote Veterans' Affairs - Defence Force</b>					
<b>Minister of Veterans' Affairs</b>					
Benefits and Other Unrequited Expenses:					
War Disablement Pensions	-	0.773	3.124	3.363	3.425
<b>Total Operating</b>	-	<b>43.175</b>	<b>48.579</b>	<b>12.571</b>	<b>21.166</b>

- 77 **noted** that the figures contained in the tables set out in paragraphs 65, 66, 72, 74 and 76 above are based on preliminary Budget forecasts, and that figures included in Estimates documents will be based on final Budget forecasts;
- 78 **noted** that the Student Loans costs included in paragraph 76 above assume no inflation adjustment to the Student Loan minimum repayment threshold as a result of increasing GST, and that these costs will be included when Cabinet reconsiders inflation adjustment of the repayment threshold for the 2011/12 tax year;
- 79 **noted** that the Annual General Adjustment process should take into account the increases that have been made to appropriations in paragraph 76 above;

**Administrative costs and debt collection impacts**

80 **approved** the following changes to appropriations, with a corresponding impact on the operating balance and net debt, to reflect the proposals in paragraphs 57-60 above;

Vote Revenue Minister of Revenue	\$m – increase/(decrease)							
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17 & outyears
Departmental Output Expenses:								
Policy Advice (funded by revenue Crown)	-	0.061	-	-	-	-	-	-
Services to Inform the Public About Entitlements and Meeting Obligations (funded by revenue Crown)	-	5.447	5.825	6.056	6.056	4.82	4.82	4.959
Services to Process Obligations and Entitlements (funded by revenue Crown)	-	0.478	-	-	-	-	-	-
Management of Debts and Outstanding Returns (funded by revenue Crown)	-	8.206	10.304	10.712	10.712	8.526	8.526	8.771
Taxpayer Audit (funded by revenue Crown)	-	12.405	15.189	15.792	15.792	12.57	12.57	12.931
Non-Departmental Other Expenses:								
Impairment of Debt Relating to General Tax and Family Support	-	(77.000)	(154.000)	(154.000)	(146.300)	(138.600)	(130.900)	(123.200)
Total Operating	-	(50.403)	(122.682)	(121.440)	(113.740)	(112.684)	(104.984)	(96.539)
Departmental Capital Expenditure:								
Capital Investment	-	8.168	0.646	0.265	0.014	-	-	-
Total Capital	-	8.168	0.646	0.265	0.014	-	-	-

81 **agreed** that the changes to appropriations in paragraphs 72, 74, 76 and 80 above be included in the 2010/11 Estimates and that, in the interim, any expenses be met from Imprest Supply;

**Delegated authority**

82 **authorised** the Minister of Finance and the Minister of Revenue (together with the Minister for Social Development and Employment where appropriate) to propose, for inclusion in a Bill that seeks to amend the Tax Acts, any necessary minor consequential amendments that relate to the Budget 2010 tax reform package;

83 **authorised** the Minister of Finance, the Minister of Revenue, and the Minister for Social Development and Employment, to propose any technical drafting changes required to implement the compensation package;

84 **authorised** the Minister of Finance and the Minister for Social Development and Employment to make decisions on the use of the GST Compensation Contingency, including the ability to establish new appropriations and to make changes to existing appropriations;

85 **authorised** the Minister of Finance and the Minister of Revenue to make decisions on the use of the Communications Campaign Contingency, including the ability to establish new appropriations and to make changes to existing appropriations;

- 86 **authorised** the Minister for Social Development and Employment to issue drafting instructions to the Parliamentary Counsel Office to develop regulations to:
- 86.1 exempt the compensation payment referred to in paragraphs 6 and 7 above from a person's income for the purposes of the Social Security Act 1964;
  - 86.2 prevent the tax package further increasing net Student Allowance amounts as set out in paragraph 11 above;
  - 86.3 increase the amounts of Disability Allowance, Child Disability Allowance, Childcare Assistance, and Foster Care Allowance, as set out in paragraph 14 above;

### **Monitoring impact of package on rents**

- 87 **directed** the Ministry of Social Development to monitor the impact of the tax reform package on rents and report to the Cabinet Social Policy Committee by 30 September 2011;

### **Legislation**

- 88 **noted** that a Bill or Bills (as required), to be introduced on Budget day under urgency to legislate the tax reform package, will include the amendments referred to in paragraphs 54 and 70 above;
- 89 **invited** the Minister of Finance and the Minister of Revenue to issue drafting instructions to Inland Revenue and the Parliamentary Counsel Office for the necessary Bill (or Bills, as required) for introduction on 20 May 2010;
- 90 **invited** the Minister of Finance and the Minister of Revenue to report to Cabinet before Budget day, seeking approval for the introduction of the Bill (or Bills, as required) on Budget day, and for the timing of its passage through the House under urgency.

Secretary of the Cabinet

Reference: CAB (10) 163

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