



# Cabinet

AMENDED MINUTE  
CAB Min (10) 3/2

Copy No:

## Minute of Decision

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### Options for Tax Reform in the 2010 Budget

**Portfolios:** Finance / Revenue

On 1 February 2010, Cabinet:

#### Tax Working Group and Capital Markets Development Taskforce

- 1 **noted** that the Victoria University of Wellington Tax Working Group (TWG) and the Capital Markets Development Taskforce (CMDT) have recently released their findings;
- 2 **noted** that the TWG made the following findings:
  - 2.1 there are significant concerns around the current system's impact on growth, fairness and integrity;
  - 2.2 the top personal and trust rates, and preferably the company rate, should be aligned;
  - 2.3 personal rates should be reduced, preferably across the income tax scale;
  - 2.4 the company tax rate should be internationally competitive, particularly with Australia;
  - 2.5 base-broadening, particularly in relation to capital, should be undertaken. No firm conclusions were made on capital gains or land taxes, but the TWG supports changes to the depreciation and thin capitalisation rules;
  - 2.6 GST should be increased to 15% for revenue and efficiency reasons, and compensation should be given to those on lower incomes. GST should continue to apply broadly and no exemptions should be given;
  - 2.7 Working for Families has introduced high effective marginal tax rates and integrity issues into the tax system, but should be considered in a wider context;
- 3 **noted** the final TWG report attached to the paper under CAB (10) 13;
- 4 **noted** that in December 2009, the Cabinet Economic Growth and Infrastructure Committee agreed to a separate process for progressing tax issues (not otherwise included in the TWG) arising from the CMDT report [EGI Min (09) 27/3];

## Budget 2010

- 5 **agreed** that, given the timeframes that would be required to develop and implement certain tax reform options, further advice from officials for tax changes to be considered for Budget 2010 will be restricted to those options that could feasibly be considered adequately for announcement in Budget 2010 and that can be implemented by 1 October 2010, 1 April 2011, or for income years from as early as the 2011/12 income year;
- 6 **agreed** that no further advice be sought on the following structural tax changes:
- 6.1 changing the fundamental structure of the current company tax framework in New Zealand;
  - 6.2 introduction of a capital gains tax;
  - 6.3 introduction of a land tax;
  - 6.4 introduction of a risk free rate of return method of taxing rental housing;
- 7 **agreed** that further advice initially be sought from officials, for the purposes of possible tax reforms to be included in Budget 2010, on the following tax issues:
- 7.1 changes to personal, corporate, portfolio investment entity (PIE) and trust tax rates;
  - 7.2 increasing the GST rate;
  - 7.3 changes to the depreciation rules in respect of buildings;
  - 7.4 changes to the rules in respect of depreciation loading;
  - 7.5 changes to the thin capitalisation rules;
  - 7.6 non-structural changes to Working for Families;
  - 7.7 clarifying the capital/revenue boundary;
  - 7.8 introduction of loss ring fencing rules for property investment;
  - 7.9 capital contribution payments; and
  - 7.10 considering the tax status of loss attributing qualifying companies;
- 8 **agreed** that the preferred implementation dates for any tax reform included in Budget 2010 would be, as appropriate:
- 8.1 1 October 2010; or
  - 8.2 1 April 2011; or
  - 8.3 income years from as early as the 2011/12 income year;
- 9 **agreed** that a tax reform package for Budget 2010 should be broadly revenue neutral, consistent with the government's fiscal strategy;

**Process and consultation**

- 10 **agreed** that a sub-group of Ministers be established to further develop a tax reform package (the tax sub-group), comprising the Minister of Finance, the Minister of Revenue and other relevant Ministers as may be required;
- 11 **agreed** that officials from Treasury and Inland Revenue, and other departments as required, involved in the development of advice for a Budget 2010 tax package will be restricted to a named list of people, and that restricted Budget sensitivity provisions will apply to the handling of documents;
- 12 **agreed** that, after consideration of advice received from the Minister of Finance and the Minister of Revenue on agreed areas of possible tax reforms, the tax sub group will present back to Cabinet, for a final decision in early April 2010, a tax reform package to be included in Budget 2010.
- 13 **noted** that the tax sub group will report to Cabinet on progress made in developing a tax reform package sometime in March 2010;
- 14 **noted** that a limited amount of external pre budget technical consultation will be undertaken by officials on a confidential basis with a limited number of stakeholders on specific tax options (for example, in relation to potential reforms to the depreciation rules);
- 15 **noted** that no other external consultation on other more structural tax options will be undertaken prior to Budget 2010.

Secretary of the Cabinet

Reference: CAB (10) 13

*Secretary's Note: This minute has been reissued to correct a typographical error in paragraph 7.1.*

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