The Treasury

Budget 2012 Information Release

Release Document

June 2012

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[1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[3] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[6] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[7] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[8] 9(2)(h) - to maintain legal professional privilege

[9] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[10] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[11] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Cabinet Economic Growth and Infrastructure Committee

EGI Min (12) 4/1

Copy No:

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Proposed Mixed-Use Asset Rules

Portfolios: Finance / Revenue

On 21 March 2012, the Cabinet Economic Growth and Infrastructure Committee:

Background

1 **noted** that on 15 August 2011, Cabinet agreed to the release of an officials' issues paper for consultation on suggested new rules for determining the tax deductibility of expenditure relating to assets used both privately and for income earning (mixed-use assets) [CAB Min (11) 30/9];

Mixed-use assets

2 **agreed** that mixed-use assets be defined as:

2.1 assets which are:

2.1.1 used for earning income and used privately by the owner and/or associated persons of the owner to one degree;

2.1.2 not in use for at least 62 days in the income year;

2.1.3 land and land improvements;

2.1.4 other assets with a cost of $50,000 or more;

2.2 but not:

2.2.1 assets to which the existing motor log book rules apply; or

2.2.2 part of a family home used in earning income (for example, renting out a room to boarders or using a part of the home as a business office);

3 **agreed** that, subject to paragraphs 4 and 5 below, the deductions claimed against the income derived from a mixed-use asset be apportioned based on the actual income-earning use divided by the actual total use of the asset;

4 **agreed** that where the gross income derived from the asset in an income year is less than $1,000, asset owners should be able to treat the asset as being outside the tax base altogether, essentially for compliance cost reasons;

5 **agreed** that where the gross income from the asset in an income year is less than 2 percent of the cost of the asset (or its rateable value, if land-based), the apportionment formula will still apply but, if a loss results, that loss will only be able to be carried forward and offset against future profits from that asset;

6 6.1 **agreed** that the proposed rules apply to assets held by:

6.1.1 individuals;

6.1.2 partnerships;

6.1.3 trusts;

6.1.4 close, closely-held, qualifying and look-through companies (but not larger companies, where entity substitution is unlikely);

6.2 **noted** that additional rules will be needed to deal with specific interest deduction and imputation issues that arise with companies;

7 **agreed** that the approach outlined in paragraph 3 above, without the limitations set out in paragraphs 4 and 5, also be used for calculating a registered person's GST input tax deductions;

8 **authorised** the Minister of Finance and the Minister of Revenue to make decisions on the detail of the above proposals without further reference to Cabinet;

Financial implications

9 **noted** that the decisions outlined above will have the following impact on the operating balance:

	$m increase/(decrease)			
Vote Revenue: Minister of Revenue	**2012/13**	**2013/14**	**2014/15**	**2015/16 & outyears**
Tax Revenue: mixed use assets	-	9.000	50.000	50.000

10 **agreed** that the fiscal impact described above be used as a savings item in Budget 2012;

Legislative implications

11 **agreed** that legislation to implement the above proposals be included in the omnibus taxation bill, proposed to be introduced around July 2012, and that the changes take effect from the commencement of the 2013/14 income year;

12 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the above paragraphs.

Committee Secretary

Reference: EGI (12) 29