

The Treasury

Budget 2012 Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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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
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- [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
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- [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
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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.



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.

Livestock Valuation Elections

Portfolios: Finance / Revenue

On 26 March 2012, Cabinet:

Background

- 1 **noted** that the livestock valuation election herd scheme is based on the national average market valuations (or herd values) for livestock;
- 2 **noted** that the alternative scheme, the national cost scheme, is based on the costs of acquiring, breeding, rearing and growing livestock;
- 3 **noted** that the tax advantage arises from moving to the national cost scheme from the herd scheme with the difference in the two values being allowed as a deductible expense over time;

Tax advantage

- 4 **noted** that some farmers are deriving an inappropriate tax advantage from their elections to exit the herd scheme;

Proposed changes

- 5
 - 5.1 **agreed** that elections to use the herd scheme be irrevocable;
 - 5.2 **agreed** that there be an exception to this when a farmer fundamentally changes their farming operation to a fattening operation;
- 6 **noted** that associated persons transactions could undermine the decisions in paragraph 5;
- 7
 - 7.1 **agreed** that the decisions in paragraph 5 be buttressed by a rule that requires persons who acquire livestock from an associated person who was using the herd scheme to use the herd scheme and the vendor's base herd scheme numbers;
 - 7.2 **agreed** that there be an exception to the decision in paragraph 7.1 when there is a complete change of ownership of the livestock from one generation to the next;

- 8 **noted** that because current sheep, beef and dairy cattle values are currently comparatively high, there is an opportunity for farmers to have one last election to leave the herd scheme in the 2012/13 year, and that this is estimated to reduce the baselines by \$46 million a year for each of the next six years if no action is taken;

Effective dates

- 9 **agreed** that, to prevent the baselines impact referred to in paragraph 8 arising, the decisions in paragraph 5 be effective from 18 August 2011, the date that the consultation paper detailing these problems was released;
- 10 **agreed** that the decisions in paragraph 7 be effective from the date of announcement of the above measures, so that they do not retrospectively apply to past associated party transactions and tax payments already made;
- 11 **noted** that agreeing to the above decision will have no fiscal effect, but rather has the effect of reinstating the baselines to what they would have been had these particular elections or transactions not been made;
- 12 12.1 **noted** that the back-dated cancellation of elections is likely to be regarded as retrospective, and will receive comment from the private sector;
- 12.2 **noted** that it was never intended that elections to leave the herd scheme be tax-driven and that any impact on tax payments will be prospective;

Other issues

- 13 **authorised** the Minister of Finance, the Minister for Primary Industries, and the Minister of Revenue to settle any detail and other minor issues that arose during the consultation on the “Herd scheme elections” issues paper;
- 14 **noted** that, because of the immediate impact, the Minister of Finance and the Minister of Revenue intend to announce the above decisions as soon as possible;
- 15 **noted** that the Minister of Finance and the Minister of Revenue will report back on the legislative process to be followed to implement the above changes.

Secretary of the Cabinet

Reference: CAB (12) 105