

Date: 17 April 2009

SH-13-5



To: Mike Nutsford, Office of the Minister of Finance

### **AIDE MEMOIRE: DRAFT REVENUE STRATEGY 2009**

This aide memoire provides a draft of the government's three-year revenue strategy. It outlines areas that we would like to discuss with the Minister on Monday 20 April at 4pm, given its relationship to the government's fiscal strategy.

Alongside this note, the Minister will have received an outline of the fiscal strategy report (FSR). As part of the Generic Tax Policy Process, the government is due to produce a three-year revenue strategy (RS). Previously, the revenue strategy has been agreed jointly by the Ministers of Finance and Revenue, and included as an annex to the FSR. Treasury proposes that a similar approach to the RS be adopted this year.

Attached to this aide memoire is a draft revenue strategy. Inland Revenue has been consulted, but Hon Dunne has not yet been involved. Aspects of the draft strategy we draw to your particular attention and would like to discuss with the Minister are:

- The RS is closely linked to the fiscal strategy. To what extent would the Minister like the revenue strategy woven into the FSR story? Is he comfortable with wholly including the revenue strategy in the FSR, or would he prefer it to be published separately?
- The RS contains specific mention of delaying the second two tranches of the tax cuts. We consider that being explicit helps to clarify any apparent contradiction of a tax-cutting government that is delaying tax cuts. Does he consider it appropriate to refer to the policy decision here in the strategy?
- The RS allows for flexibility around how revenue flows will be used, i.e. for spending or reducing debt, or to what extent improvements in the fiscal position will allow further tax reductions. This is consistent with the approach being taken in the FSR.
- The RS states that the tax system should bias economic decisions as little as possible. This is a slightly different focus from government statements which have focussed on economic growth and prosperity, and less on economic decisions which may affect welfare but not growth. Is the Minister comfortable with this?
- The RS refers to having a tax system that should be fair but it is not explicit about what fairness means. Would the Minister like this to be fleshed out in the strategy, and if so, how?
- The RS as drafted includes specific reference to the tax policy work programme that was released in March this year.

**Next steps:** Following an initial discussion on the draft revenue strategy with the Minister, we will seek agreement from him and the Minister of Revenue on the strategy via a joint tax policy report.

## **Revenue Strategy – draft**

### ***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 which:

- 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 to work, save, spend or invest in ways that they believe is 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
- 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 percent tax rate alignment
- appropriate for the current economic situation
- that is simple and certain
- 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 percent as favoured by United Future (ACT)
- supporting appropriate legislation on income splitting to First Reading in Parliament (United Future)

**David Snell**, Principal Advisor, Tax Strategy, Economic Performance Group, [*privacy*]  
**Bill Moran**, Manager, Tax Strategy, Economic Performance Group, [*deleted – privacy*]