

CABINET

**TAXATION (BUDGET TAX MEASURES) BILL - APPROVAL FOR  
INTRODUCTION**

**EXECUTIVE SUMMARY**

1. This submission seeks Cabinet approval for the introduction and advancement to enactment under urgency of legislation to implement the changes to tax policy described in paragraph 2.

**PROPOSAL**

2. The proposed bill contains provisions to:
  - repeal the final two tranches of the personal tax cuts enacted in December 2008 with effect from 1 April 2010 and 1 April 2011;
  - repeal the increase from 1 April 2010 in the amount of the weekly independent earner tax credit, also enacted in December 2008; and
  - close the KiwiSaver mortgage diversion facility to new participants from 1 June 2009.
3. The proposed bill has no formal priority in the 2009 legislation programme.
4. The proposed bill will introduce amendments implementing the policies listed in paragraph 2 to the following legislation:
  - Taxation (Urgent Measures and Annual Rates) Act 2008
  - Taxation (Business Tax Measures) Act 2009
  - KiwiSaver Act 2006
  - KiwiSaver Regulations 2006

**POLICY**

5. Cabinet decided that the second and third tranches of our planned tax cuts should be delayed. One way to signal that this is a delay of the cuts, and not simply a cancellation, would be to combine the repeal with a provision to allow the cuts to be reinstated by order-in-

council. We believe it is inappropriate that income tax rate changes should be given effect by way of an order in council. It is a matter for Parliament to enact. Therefore at this time the legislation will provide only for a repeal of the scheduled tax cuts. CAB Min (09) 12/9 dated 6 April 2009 and CAB Min (09) 15/7 dated 4 May 2009 refer.

**FISCAL IMPLICATIONS**

6. The fiscal implications of the decision to delay the second and third tranches of the planned tax cuts in 2010 and 2011 (CAB Min (09) 12/9 refers) has already been taken and so decisions in this paper will have no financial implications. At the time the decision was taken, the BEFU 2009 forecasts had not been finalised, and hence the fiscal implications were not noted by Cabinet. For completeness, the revenue saved by making the decision to delay the tax cuts is included here. The table below shows the net operating balance impact of the changes to tax rates and thresholds, and the independent earner tax credit (IETC). All numbers reflect the change in revenue with respect to the revenue forecast for the tax package legislated in the Taxation (Urgent Measures and Annual Rates) Bill in December 2008.

7. The total increase in personal tax revenue is shown in the revenue increase line (that is, delaying the second and third tranches of the December tax package increases personal income tax by approximately \$2.9 billion over the forecast period). On the basis that delaying the tax cuts will mean taxpayers spend less on goods that attract GST and excise taxes, a portion of what was to be delivered through tax cuts will no longer be recovered through these taxes. This is represented by the reduction in tax-claw back, estimated at 15.5% of the reduction in personal tax revenue.

<b>\$ million</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Operating balance impact from personal tax changes (incl. IETC)	0	118	615	1052	1086
less reduction in tax “claw-back”	0	19	96	164	170
<b>Net increase in operating balance</b>	<b>0</b>	<b>99</b>	<b>519</b>	<b>888</b>	<b>916</b>

**REGULATORY IMPACT ANALYSIS**

8. No regulatory impact analysis accompanies this submission because the proposals are to give effect under urgency, in terms first announced in the Budget, to specific Budget decisions to adjust a tax and to revoke an entitlement.

**COMPLIANCE**

- 9. The bill complies with the:
  - a principles of the Treaty of Waitangi;
  - b rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

- c principles and guidelines set out in the Privacy Act 1993;
- d relevant international standards and obligations; and
- e *LAC Guidelines: Guidelines on Process and Content of Legislation*, a publication by the Legislation Advisory Committee.

## **CONSULTATION**

10. Consultation has taken place with the following government agencies:

The Treasury  
Inland Revenue

## **BINDING ON THE CROWN**

11. The Acts and regulations proposed to be amended by this bill all bind the Crown.

## **CREATING NEW AGENCIES OR AMENDING LAW RELATING TO EXISTING AGENCIES**

12. The draft legislation will not create a new agency or amend the coverage of the Ombudsman Act 1975, the Official Information Act 1982, or the Local Government Official Information and Meetings Act 1987.

## **ALLOCATION OF DECISION MAKING POWERS**

13. The draft legislation does not involve the allocation of decision making powers between the executive, or the courts and tribunals.

## **ASSOCIATED REGULATIONS**

14. An amendment to the KiwiSaver Regulations 2006 in order to close the mortgage diversion facility to new participants from 1 June 2009 is included in the proposed bill. Because the amendment is to be achieved by an amending Act, rather than by an amending regulation, the 28 day rule has no application.

## **DEEMED REGULATIONS**

15. The proposed bill does not include a provision empowering the making of deemed regulations.

## DEFINITION OF MINISTER/DEPARTMENT

16. The proposed bill contains no definition of Minister, department (or equivalent government agency) or chief executive of a department (or equivalent position).

## COMMENCEMENT OF LEGISLATION

17. The proposed bill will come into effect on the date of Royal assent or on later dates.

## PARLIAMENTARY STAGES

18. The bill should be introduced no later than 28 May 2009 and passed under urgency.

## RECOMMENDATIONS

19. The Minister of Finance and the Minister of Revenue recommend that Cabinet:

1. **Note** that the Taxation (Budget Tax Measures) Bill has no priority on the legislation programme.
2. **Note** that on 6 April 2009, Cabinet agreed to delay the second and third tranches of the planned tax cuts in 2010 and 2011 (CAB Min (09) 12/9 refers).
3. **Note** that tax legislation will be amended to retain the tax structure from 1 April 2009 into subsequent years (this would include consequential amendments that would be necessary to implement the new structure):

\$0 - \$14,000	12.5%
\$14,001 - \$48,000	21%
\$48,001 - \$70,000	33%
\$70,001 +	38%

4. **Note** that tax legislation will be amended to retain the amount of the independent earner tax credit from 1 April 2009 into subsequent years, being \$10 per week or \$520 per year for the tax year.
5. **Note** that officials' reports on resident withholding tax and portfolio investment entity rate structures, tax rate for Maori authorities, and a new bottom rate for secondary employment income and extra pays (referred to in CAB Min (08) 45/2) will take into consideration recommendations 2 to 4.
6. **Note** the fiscal effect of the changes to the tax rates and thresholds and the independent earner tax credit referred to in recommendations 3 and 4 are:

<b>\$ million</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Operating balance impact from personal tax changes (incl. IETC)	0	118	615	1052	1086
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7. **Note** that the KiwiSaver Act 2006 and the KiwiSaver Regulations 2006 are to be amended to achieve closure of the KiwiSaver mortgage diversion facility to new participants from 1 June 2009, as agreed by Cabinet on 4 May 2009 (CAB Min (09) 15/7 refers).
8. **Approve** the introduction of the Taxation (Budget Tax Measures) Bill giving effect to these measures.
9. **Agree** that the bill be introduced on 28 May 2009.
10. **Agree** that the bill be introduced and advanced to enactment under urgency as soon as possible.

Hon Bill English  
Minister of Finance

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Hon Peter Dunne  
Minister of Revenue

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