Inland Revenue
Te Tari Taake

# POLICY ADVICE DIVISION

## PAD report: GST rate increase implementation issues

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| **Date:** | 7 May 2010 | **Priority:** | High |
| **Security Level:** | | **Report No:** | PAD2010/92 |

## Action sought

| | **Action Sought** | **Deadline** |
|---|---|---|
| Minister of Revenue | **Agree** to recommendations | 11 May 2010 |
| Minister of Finance | **Note** contents | None |

## Contact for telephone discussion (if required)

| **Name** | **Position** | **Telephone** | |
|---|---|---|---|
| Marie Pallot | Policy Manager, Policy Advice Division | [deleted – privacy] | [deleted – privacy] |
| [deleted – privacy] | Senior Policy Advisor, Policy Advice Division | [deleted – privacy] | [deleted – privacy] |

POLICY ADVICE DIVISION
*Wāhanga Tohutohu Kaupapahere*

***National Office***
*Level 4*
*7 Waterloo Quay*
*PO Box 2198*
*Wellington 6140*
*New Zealand*
*Telephone 04-8901 500*
*Facsimile 04-978 1623*

7 May 2010

Minister of Revenue
cc Minister of Finance

# GST rate increase implementation issues

## Executive summary

Cabinet has agreed that the rate of goods and services tax (GST) will be increased to 15% from 1 October 2010. This report seeks your agreement to the legislative changes required to give effect to this increase. It also discusses a range of issues that have been raised by businesses in anticipation of an increase and, where relevant, provides suggested responses and recommendations.

### Legislative changes

Apart from the obvious changes to rate references, there are rules already within the GST Act that address most of the transition issues arising from a rate change. For example, prices in existing contracts can be increased by the amount of GST in certain circumstances. However, some minor legislative changes to the transition provisions are recommended for Budget night legislation to remove interpretative ambiguity, to cover deemed supplies and to simplify the Act's return filing and recordkeeping requirements for returns that straddle the rate change date. These changes do not have any revenue implications and are within Cabinet's delegation to Ministers.

### Other issues

Other matters raised by businesses since becoming aware of a possible increase are:

- While prices set in regulation are automatically increased, government entities may wish to adjust the new prices by issuing new regulations. The issue will be discussed with government agencies once the Budget is announced.
- Concern that grant recipients should not be disadvantaged by a GST rate increase. The relevant administering public authorities will need to consider the implications of a GST rate increase on a case by case basis after Budget day.

- To reduce compliance costs, whether local authorities should be provided with the option of a composite GST rate for the rateable year that ends on 30 June 2011. We do not recommend a legislated composite GST rate.
- The Corporate Taxpayers Group suggests that GST exempt entities, such as banks and savings vehicles, should receive compensation for not being able to recover all input tax credits. We do not consider that compensation is justified.
- Assurance has been sought on how the Fair Trading Act would be applied in the event of a GST rate increase. The Ministry of Economic Development has advised on a preliminary basis that the Commerce Commission generally recognised that businesses may need a grace period when there were law changes affecting them. We support the need for clarity in this area and will continue to monitor this issue.
- It has been suggested that the Commissioner exercise pragmatism and leniency during the transition. We would like to discuss this matter with you. To provide assurance, Inland Revenue is intending to issue a statement shortly after Budget day on the application of penalties and interest over the transition period. Inland Revenue considers that, under current law, it is able to make a clear statement in relation to remitting or not applying most types of penalties when a taxpayer has made reasonable efforts to comply with the new GST rate. The position is not so clear-cut with late payment penalties and interest which, in the absence of specific legislative change (which would be an alternative option) would need to be remitted on a case-by-case basis.
- The Retailers Association has raised the impact of a GST rate increase on tourism and has suggested a GST refund scheme for tourists. The Association is also concerned about the impact of private purchases over the internet and suggests removing the current GST de minimis on private imports. These suggestions are of long-term nature rather than related to the transition period so no action on them is planned at this stage.
- A retailer has sought special treatment for uncompleted layby contracts as at 1 October. The GST on layby sales is not accounted for until the purchaser has made the last payment and taken possession of the goods, which in the absence of a legislative change would increase the GST payable. However, this is just one example of where savings to fund future consumption will purchase less with an increase in the GST rate, and this should not be directly compensated for.
- Businesses who distribute profits from gaming machines have suggested that an increase in the rate of GST will reduce the payout available for distribution to community beneficiaries and that the percentage taken in gaming duty should be proportionately reduced. However, it is arguable that expenditure on all goods, including gambling, should increase with a package that increases the rate of GST and also provides various forms of compensation, in which case the amount available for distribution to communities should not change. Given that it is not evident that the amount available for distribution will automatically decrease, we recommend against making any reduction in the rate of gaming duty.

**Advisory group**

We anticipate a significant number of further submissions and enquiries over the coming months and recommend having an advisory group, similar to the Rewrite Advisory Panel, which would act as a conduit for submissions and queries and report to Ministers as appropriate. Officials will discuss the role and composition of the group and the next steps with you.

The Treasury agrees with the recommendations in this report.

## Recommended action

We recommend that you:

(a) **Agree** to the following legislative changes:

(i) ***Contract prices***

**Agree** to the legislation being clarified to verify that contract prices expressed as "inclusive of GST" can be increased by the amount of the GST rate increase.

Agreed/Not Agreed

(ii) ***Deemed supplies***

**Agree** that in respect of deemed supplies of goods and services, transactions that took place before the rate change date will be subject to the old 12.5% rate, which means:

- For entertainment expenditure, for the 2010-11 tax year the registered person will have the option of using the normal time of supply rule applicable to the deemed supply **or** of treating the entertainment expenditure incurred prior to 1 October 2010 as being supplied on 30 September 2010.

- For change of use adjustments, that the registered person be required to identify items that changed to a business use before 1 October 2010 and to apply a rate of 12.5% to them even if the required tax adjustment is made on or after 1 October. A corresponding amendment would be made for changes from business to private or GST exempt uses.

Agreed/Not Agreed

(iii) ***Return filing***

**Agree** that:

- Registered persons that are required during the transitional period to make GST adjustments in respect of pre-1 October transactions, no longer be required to provide their adjustment form to the Commissioner of Inland Revenue.
- Any excess credits could be offset against the registered person's other tax liabilities, with any remaining credits being refunded.

Agreed/Not Agreed

(b) **Agree** to having an advisory group, up to the end of 2010.

Agreed/Not Agreed

(c) If recommendation (b) is agreed, **note** that officials will discuss the role and composition of the planned advisory group with you.

Noted

(d) **Note** that in the absence of specific legislation, Inland Revenue's statement on penalties will indicate that it will not impose most penalties if taxpayers have made reasonable efforts to comply, and that the circumstances in which late payment and interest penalties will be remitted will be clarified in the statement by Inland Revenue.

Noted

(e) Either

(i) **Agree** that there should not be any legislative change in relation to penalties and interest.

Agreed/Not Agreed

Or

(ii) **Agree** as a short-term measure over the transition period, to legislative change to provide a blanket exemption from penalties and interest when reasonable efforts have been made to comply.

Agreed/Not Agreed

(f) **Agree** that the Budget night legislation not include a composite GST rate for local authorities.

Agreed/Not Agreed

(g) **Agree** that GST exempt entities not be provided with specific compensation for not being able to recover all input tax credits.

Agreed/Not Agreed

(h) **Agree** that the Budget night legislation not include any changes to the way that GST is applied to layby sales.

Agreed/Not Agreed

(i) **Agree** that the Budget night legislation not reduce the rate of gaming duty for gaming machine operators.

Agreed/Not Agreed

(j) **Refer** a copy of this report to the Minister of Finance.

Referred

**Marie Pallot**
Policy Manager

**Hon Peter Dunne**
Minister of Revenue

## Background

1. Cabinet has agreed (CAB Min (10)12/10 refers) that the rate of goods and services tax (GST) will be increased to 15% from 1 October 2010.

2. Cabinet also agreed to include, in the legislation to be introduced at the time of the Budget, other amendments to the Tax Acts of a mechanical and consequential nature that are necessary to reflect the changes being implemented by the tax reform package for Budget 2010.

3. Consequently, this report discusses and seeks your agreement to the legislative changes required to give effect to the GST rate increase. It also discusses a range of issues that have been raised by businesses in anticipation of a rate increase and, where relevant, provides suggested responses.

4. Legislatively, the required changes are limited and relatively straightforward as there are already rules within the GST Act to address transition issues arising from a rate change. Less simple (although not unmanageable) is the business systems and administrative changes needed to implement the change. Accordingly, we have outlined in this report the issues that are likely to arise and develop strategies to address them.

5. Given that the last rate increase is over twenty years ago, there is greater uncertainty around the impact on businesses compared with some other tax rate changes. Nevertheless, the feedback we have received is that the changes should be able to be feasibly done by 1 October 2010, although in some cases the timeframe may be tight.

6. Given Budget secrecy, we have not been able to consult widely before the Budget. We have, however, consulted with John Shewan of PricewaterhouseCoopers on a confidential basis. Also, tax practitioners have been emphasising to their clients the need to consider the issue now rather than later and as a result we have received a range of voluntary feedback and submissions on behalf of businesses. Some of the businesses have sought special treatment over the transition period, which is also discussed in this report.

### Communication

7. Communicating and educating taxpayers about the change is crucial to a successful implementation. We have reported on communication options and Cabinet has agreed to funds being provided for communication (refer CAB Min (10) 12/10). We have also been liaising with the NZ Customs Service on coordinating communications given that Customs is responsible for collecting GST on imports. Inland Revenue plans to speak to groups around the country on the tax package as a whole once it is announced. You have advised that you support establishing an advisory group to handle submissions and enquiries over the transition period and we have recommended discussing this further with you.

### What a rate increase means for businesses

#### *Altering systems and prices by 1 October 2010*

8. Businesses will need to alter their systems to incorporate the new rate. They may wish to alter the prices they charge for the goods and services they supply to cover the increased GST liability. This may not only impact on businesses' current stocks but also their orders of new stocks, which the Retailers Association has indicated are often ordered and price-labelled well in advance of delivery from places such as China. Some groups, such as tourism operators, have already needed to consider whether to factor in a GST rate increase as they have to set prices now for the year ahead.

9. The Retailers Association nevertheless consider a 1 October 2010 implementation date to be feasible. The Corporate Taxpayers Group is more concerned about that date because of uncertainty around businesses that have their own customised software being able to change that software in time.

#### *Returns*

10. As in 1989 when GST was last increased, there will be an impact on businesses' return filing. In particular, registered persons will continue to file GST returns at their normal times, but if the return period straddles 1 October 2010 the return will need to be split into two parts – the first covering the period up to 30 September and the second covering the remainder of the return period from 1 October.

11. To simplify the accounting for those who return GST on either a payments or hybrid basis, the new 15% rate will apply to all payments made or received on or after 1 October. An adjustment based on the registered person's creditors and debtors as at 30 September 2010 will ensure that supplies provided before 1 October but which have not been paid for by that date will in effect be subject to the old lower rate. A similar adjustment mechanism applied in 1989.

12. We envisage that the normal time of supply rules will apply over the transition period. While this may provide some scope for businesses to bring forward invoicing so as to get the old lower GST rate, special rules would impose unreasonable compliance costs. The GST Act already includes anti-avoidance provisions.

## Recommended legislative changes

13. The rules already within the GST Act that address transitional issues arising from a rate change enable, for example, prices in existing contracts to be increased by the amount of GST in certain circumstances. They also automatically increase fees and other charges set by Act or regulation, by the amount of the GST rate increase.

14. Some minor legislative changes to the transition provision are envisaged for Budget night legislation, as discussed below. These changes are within Cabinet's delegation to

Ministers. If further issues requiring legislative change are subsequently identified, they could be incorporated in the November 2009 tax bill through a Supplementary Order Paper or possibly a later bill if necessary and/or feasible.

**Rate references**

15. The rate specified in the GST Act needs to be amended so that businesses and organisations registered for GST are required to account for GST at the new rate of 15% from 1 October 2010. This also applies to goods imported on or after 1 October 2010. Accordingly, the rate references in sections 8(1) and 12(1) need to be changed from “12.5” to “15”. The rate reference in section 10(6), which sets the GST rate charged on goods and service provided to individuals in long-term commercial accommodation, such as rest homes, needs to consequently be changed from “7.5” to “9”.

**Contract prices**

16. A key concern for several submitters is interpretative uncertainty over whether contract prices expressed as “inclusive of GST” can be increased by the amount of the GST rate increase. Given that many contracts will be expressed on a GST inclusive basis, we agree that this issue should be put beyond doubt by amending the relevant section of the GST Act. The policy intent is clearly that contract prices expressed as GST inclusive should be able to be adjusted.

17. The uncertainty arises from the words in section 78(2) of the GST Act “or where the alteration in the law has been taken into account”. Accordingly, we recommend removing these words.

**Deemed supplies**

18. The GST Act deems supplies to take place in certain situations, such as when there is a fringe benefit, entertainment expenditure and change of use. Since the last GST rate increase in 1989, a number of changes have been made to these time of supply rules, aimed at reducing compliance costs by enabling taxpayers to file less frequently. An unintentional result is that when the GST rate is increased, some transactions that took place before the rate change date will be subject to the new higher rate, in effect applying the rate change in advance of 1 October 2010. Additional transitional provisions are proposed to ensure that the old rate applies in these cases.

19. This is not an issue for FBT as under the FBT time of supply rule the supply is treat as taking place at the time the fringe benefit is or is deemed to be provided or granted. This means that the GST on fringe benefits provided before 1 October will be charged at 12.5%.

### *Entertainment expenditure*

20. For entertainment expenditure there is no similar rule. That part of entertainment expenditure that is precluded from being deducted will be subject to the higher rate of GST as the supply is recognised on the date the registered person furnishes their income tax return for the tax year, irrespective of when within the year the entertainment took place.

21. The recommended solution is that for the 2010-11 tax year the registered person would have the option of using the normal time of supply rule applicable to the deemed supply **or** of treating the entertainment expenditure incurred prior to 1 October 2010 as being supplied on 30 September 2010, with the expenses incurred over the rest of the tax year being recognised on the date the registered person furnishes their income tax return for the 2010-11 tax year.

### *Change of use adjustments*

22. Supplies are also deemed to occur when there is a change of use. An item intended originally for business purposes may be used for making non-taxable supplies (i.e. for exempt or private purposes), in which case output tax is payable. Conversely, an item intended originally for exempt or private purposes may be used in the registered person's business, in which case there is a deduction from output tax (calculated as the tax fraction applied to the lower of the market value or cost price of the good).

23. Some registered persons will be making the respective output tax or deduction from output tax in the year rather than in the taxable period in which there is a change of use. In practice, many registered persons make the deduction after the end of the tax year as part of finalising their annual accounts – the adjustments for 2010 would therefore be made in mid 2011. In such cases, the higher GST rate may apply even when the change of use took place prior to 1 October 2010. This is particularly an issue for output tax deductions as the legislation explicitly refers to making a deduction for the tax fraction, which is presumably the tax fraction at the time the deduction is made. Therefore, even though output tax would have been originally paid at 12.5% when the item was purchased, the deduction from output tax would be at the equivalent of 15%.

24. Accordingly, with regard to a deduction from output tax, we recommend that the registered person be required to identify items that changed to a business use before 1 October 2010 and to apply a rate of 12.5% to them even if the deduction is made on or after 1 October. In such cases, the legislation should make it clear that the tax fraction mentioned in 21F(1) would be the tax fraction at the time the goods were acquired or imported by the registered person.

25. With regard to output tax, we recommend that the legislation explicitly provide the registered person with the additional option of identifying items that changed to a private use before 1 October 2010 and applying a rate of 12.5% to them even if the output tax is attributed on or after 1 October 2010.

## Return filing

26. Some minor legislative changes are envisaged to simplify the Act's return filing and recordkeeping requirements for returns that straddle the rate change date.

27. When there is a rate change the transitional mechanism in section 78B avoids the need for special time of supply rules for those registered persons returning GST on a payments or hybrid basis. The adjustment also affects persons on an invoice basis who have purchased second-hand goods for their business which meet the qualifying supplies definition. All the amounts that they pay or receive are accounted for at the new rate but with an adjustment to recognise the fact that the time of supply for some of the transactions would have been before the rate change date.

28. Basically, the adjustment mechanism takes the difference between a registered person's debtors and creditors immediately before the rate change and multiplies it by the difference between the old and new tax fractions.[1] If the result is a positive amount (that is, creditors on hand exceed debtors on hand) it is treated as output tax in the return period. If it is negative (i.e. debtors exceed creditors), the amount has to be set off against GST liabilities in the preceding return period, with any balance being carried forward for use in the current return period, and so on. Any excess cannot be offset against the registered person's other tax liabilities, or refunded.

29. The recommended legislative changes are:

- That the current requirement (in section 78B(2)(b)) that the registered person furnish the form on which they do their adjustment calculation to the Commissioner, be removed. Instead, registered persons would only need to retain the form as part of their records, and include the adjustment with any other GST adjustments relevant to that return period. A consequential change would be required to section 78B(4) in light of this recommended removal of section 78B(2)(b), to include the return references currently in section 78B(2)(b)(i) and (ii).

- That any excess credits could be offset against the registered person's other tax liabilities, or even refunded. Given that not many registered persons are likely to have adjustments that have to be carried forward for any length of time, the revenue implications of this change should be small and are likely to be offset by the savings from not having to reprogram computer systems to require the credits to be carried forward.

[1] The old tax fraction is 1/9 and the new one is 3/23.

## Other issues

30. Submissions have raised a number of other issues.

**Impact of rate increase on fees and other government charges**

31. While prices set in regulation are automatically increased (under section 78(3)), there is a practical issue around whether government entities may wish to adjust the new prices by issuing new regulations. The ACC and Customs are prime examples. With the exception of Customs, we have not been able to discuss the issue with government agencies due to Budget secrecy, but will do so once the Budget is announced. Treasury intends to send a letter to departmental chief executives immediately after the Budget providing administrative advice on the impact of the tax package on departmental funding.

**Grants and subsidies**

32. The current legislation (section 78(2)) ensures that government grants and subsidies are not automatically increased. There is concern that grant recipients should not be disadvantaged by a GST rate increase. The relevant administering public authorities will need to consider the implications of a GST rate increase on a case by case basis. This can be done after Budget day.

**Local authorities**

33. Like many suppliers, local authorities provide their services progressively over their year, which means that part of the annual services will be subject to GST at 12.5% and the rest at 15%. The Society of Local Government Managers (SOLGM) has noted that although it has received legal advice that local authorities can strike rates for the year on a GST exclusive basis, an implementation date of 1 October would still mean that they have to alter their systems to take into account two GST rates during the 2010-11 rateable year. The additional costs have not been quantified but SOLGM suggests that they could be avoided by changing the GST legislation to provide local authorities with the option of a composite rate for the whole year. One local authority has, alternatively, suggested maintaining a 12.5% rate for the rest of the rateable year (i.e. to 30 June 2011).

34. We do not recommend a legislated composite GST rate. We consider that local authorities should first explore the option of setting their own annual rates on a composite basis. This would seem feasible given that the decision to increase the GST rate will be known before the annual local authority rates have to be struck in mid 2010. Any composite GST rate set legislatively by the government would inevitably not be right for every local authority given the wide variety of billing options and timing of billing. It would also mean that the GST rate increase had an impact from 1 July in respect of rates, which would, amongst other things, raise equity concerns.

35. SOLGM notes that this year is particularly busy for local authorities given the local body elections later in the year and the amalgamation of Auckland authorities. The position faced by many local authorities does not, however, seem to be dissimilar from that of other

businesses, such as insurers, who also charge on an instalment basis and who too will face additional systems costs for the transition year.

36. Any deferral of the GST increase, as alternatively suggested, would mean a sizable revenue loss for the government.

**Costs to GST exempt entities – compensation sought**

37. The Corporate Taxpayers Group suggests that GST exempt entities, such as banks and savings vehicles, should receive compensation for not being able to recover all input tax credits. We do not consider that compensation is justified. These entities need to consider the impact of the whole package once it is announced and the extent to which any additional costs could be passed on to customers.

**Fair Trading Act implications**

38. Both the Corporate Taxpayers Group and the Retailers Association have concerns about the application of the Fair Trading Act when the rate of GST is increased. For example, marketing material existing prior to the rate rise might be relied upon by customers after the rate rise, and for a period the prices of items on the shelves may not necessarily match prices at the till given the logistics of changing the prices of all stock over a short period. The Fair Trading Act states that no person shall, in connection with the supply of goods and services, make a false or misleading representation with respect to price.

39. The submitters have sought some reassurance on how this law might be applied in the circumstances. For example, they consider that some guidance from the Commerce Commission on steps businesses can take to ensure that any pricing adjustments in connection with the GST rate increase are not misleading or deceptive would be useful, noting that there are precedents in this regard from other countries. We contacted the Ministry of Economic Development on the basis of a hypothetical rate change. Their preliminary comment was that the Commerce Commission were not unreasonable in applying the law and generally recognised that businesses may need a grace period when there were law changes affecting them.

40. We support the need for clarity in this area and will continue to monitor the issue in the lead up to the Budget.

**Leniency for taxpayers that get it wrong**

41. The Corporate Taxpayers Group has suggested that the Commissioner exercise pragmatism and leniency during the transition. The Group's concern is that taxpayers should not incur penalties and use-of-money interest simply because they are unable to update their systems in time for 1 October.

42. We would like to discuss this matter with you. To provide assurance, Inland Revenue is intending to issue a statement shortly after Budget day on the application of penalties and interest over the transition period. Inland Revenue considers that, under current law, it is able to make a clear statement in relation to remitting or not applying most types of penalties when

a taxpayer has made reasonable efforts to comply with the new GST rate. The position is not so clear-cut with late payment penalties and interest. Use-of-money interest is not a penalty but rather a recompense for the time value of money, and a blanket remission of interest may raise wider compliance concerns. There is, however, given the rarity of a rate change scope for remission of late payment penalties and interest on a case-by-case basis[2], which could be explained in the statement. A more general remission of interest (and late payment penalties) in the circumstances of an increase in the GST rate would require specific legislative change.

**Changes to assist retailing**

43. As discussed at your recent meeting with the Retailers Association, the Association has raised the impact of a GST rate increase on tourism and has suggested a GST refund scheme for goods taken out of New Zealand by tourists. Such a scheme has been considered and declined on a number of occasions in the past. As you noted at the meeting, this is one of a range of GST cross-border issues that it may be timely to consider in a wider review.

44. The Association is also concerned about the impact of private purchases over the internet and suggest removing the current GST de minimis on private imports. The de minimis was reviewed last year and we understand its removal would increase Customs administration costs. We also understand that having a de minimis is a World Customs Organisation requirement. Customs is considering whether the import transaction fee should be applied more widely, including to private import consignments, which would raise the cost of such imports.

45. These suggestions from the Retailers Association are of long-term nature rather than issues specific to the transition period around the GST rate change. Consequently, no action on them is required at this stage.

**Layby accounts**

46. One retailer has sought special treatment for uncompleted layby contracts as at 1 October. The contracts relate to Christmas hampers, for which most of the payments will have been made by 1 October 2010. Consistent with the Layby Sales Act 1971, the GST on layby sales is not accounted for until the purchaser has made the last payment and taken possession of the goods. In the absence of a legislative change, the options available to the retailer to address the situation would largely either result in additional costs for the retailer or reduce their profit margin.

47. Layby is a form of savings in order to purchase a specific good or set of goods. The submitter's situation seems to be just one example of where the purchasing power of savings to fund future consumption will be reduced with an increase in the GST rate. Given that there is no general intention to directly compensate savers for this effect, we recommend no legislative changes to the way that GST is applied to layby sales over the transition period.

[2] Taxpayers would need to demonstrate that they have had particular difficulties attributable to the GST rate change, such as altering their software systems in the timeframe.

**Gambling sector**

48. The New Zealand Community Trust, Southern Trust and The Lion Foundation, who distribute profits from gaming machines, have suggested that an increase in the rate of GST will reduce the payout available for distribution to community beneficiaries. Their solution is that the percentage taken in gaming duty should be proportionately reduced, on the basis that this would provide the government with the same overall tax take from the industry as before the GST rate increase.

49. The case put forward by the trusts seems to assume that consumers will spend the same amount on gambling before and after the GST rate increase. If, however, a person's income is increased to compensate for a GST rate increase (through either personal tax cuts or increases in benefits) and the GST rate increase does not affect the relative prices of the basket of goods that the consumer normally purchases, their expenditure on all goods in that basket should increase (provided they do not save more). For example, if incomes increase by 2%, the amount spent on gaming could increase by 2%, and assuming that the payout percentage is not altered, the amount available for distribution should not change.[3]

50. Given that it is not evident that the amount available for distribution will automatically decrease as a result of an increase in the rate of GST, we recommend against making any reduction in the rate of gaming duty.

51. We would also note that gaming machines are only one form of gambling and the GST rate increase will apply to other types of gambling, such as casinos and racing. Consequently, if any changes were contemplated, they would need to be considered more widely. They would also have fiscal implications.

## Advisory group

52. We anticipate a significant number of submissions and enquiries over the coming months and recommend having an advisory group, similar to the Rewrite Advisory Panel, which would act as a conduit for queries and submissions, provide advice through an Inland Revenue staffed secretariat, consider submissions and report as necessary to Ministers. Officials will discuss the role and composition of the group with you.

## Fiscal implications

53. The changes recommended in this report are not expected to have any revenue implications.

[3] The amount available for distribution is the residual after deducting from the amount bet the amount returned to gamblers, the various taxes paid to government and the amount paid to venue operators.

## Treasury comment

54. The Treasury agrees with the recommendations in this report. With regard to the application of penalties and interest, Treasury does not support legislative change and considers that Inland Revenue should handle the matter administratively.