

Tax Policy Report: Process for consideration of tax reform in Budget 2010

Date:	18 December 2009	Report No:	T2009/2765 PAD2009/238
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Action Sought

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Minister of Finance (Hon Bill English)	Agree to recommendations	12 January 2010
Minister of Revenue (Hon Peter Dunne)	Agree to recommendations	12 January 2010

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Bill Moran	Manager, Tax Strategy, The Treasury	[withheld – privacy]	[withheld – privacy]	✓
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Enclosure: No

Tax Policy Report: Process for consideration of tax reform in Budget 2010

Purpose of Report

1. This report seeks your agreement to a timeline and process for developing a package of tax changes for Budget 2010 and identifies potential options for change that you would like advice on over the next 2 months.

Proposed Process

2. The Tax Working Group (TWG) is aiming to release its final report to the public around 20 January 2010. Based on discussions with you, you have asked for:

1. A paper to present to Cabinet at the end of January 2010 containing a menu of potential options for tax reform;
2. A paper from officials on the logistics of changing various aspects of the tax system from 1 October 2010 and 1 April 2011 (or from 2011/12 income years where appropriate); and
3. Some advice on particular options for broadening and maintaining the tax base.

“Menu paper” to Cabinet

3. You would like to present a paper on options for tax reform in the 2010 Budget directly to Cabinet at the end of January 2010, following the release of the TWG report. This paper could cover the following:

- Summary of TWG and Capital Markets Development Taskforce findings on tax.
- A menu of options for further work that could form part of a tax reform package. Given the short timeframes involved in the lead up to Budget, it would seek clarification on the specific tax changes that Cabinet considers warrant further advice from officials. Appendix 1 reflects discussions with you recently on potential tax base broadening and maintenance measures that would form part of this advice. It would also seek direction on preferred implementation timing, e.g. 1 October 2010 or 1 April 2011 (or from 2011/12 income years where appropriate) and beyond.
- A description and/or examples of the types of analysis that officials can provide in support of advice, particularly on growth, equity and integrity effects of tax changes
- A proposed process for developing a tax package and making decisions for 2010 Budget. This is shown in Appendix 2, and could involve:
 - Cabinet authorising a sub-group of Ministers (in parallel to the Budget Ministers’ process for other aspects of the Budget) to develop a tax package based on Cabinet decisions on the menu paper, with final decisions made by Cabinet in early April.
 - A low key consultation process on certain elements of a potential package, for example on the removal of depreciation on buildings that do not depreciate.

- A restricted, named group of officials would be involved in the development of advice, with Budget sensitive handling of documents.

“Logistics paper” to Ministers

4. You have also asked officials to report to you on the logistics of implementing tax changes from 1 October 2010 and 1 April 2011 (or from 2011/12 income years where appropriate). This report would outline the consultative and legislative requirements of various changes, the lead times for transition and implementation, and any associated risks. Some tax changes may require implementation post-budget. These could be signalled in the Budget.

Risks

5. Given the full commitment of resources to the current tax policy work programme, should Cabinet decide to proceed with consideration of tax reform for Budget 2010, reprioritisation would likely be required. Officials will report to you in February if this is the case.

6. The effective exemption of Budget day legislation from Regulatory Impact Statement (RIS) requirements has recently been removed (Cab Min (09) 38/7A refers). This will mean that a full RIS will need to be prepared for the Budget package. This is likely to contribute to pressures on Treasury and Inland Revenue resources, and timeframes for developing a tax package.

Advice on other issues

7. You have also sought early advice on the following issues:
- Options to clarify the capital/revenue boundary (for example, using a brightline test)
 - Loss ringfencing rules for property investment

Officials will provide reports to you early next year covering these issues.

Recommended Action

We recommend that you:

- a **direct** officials to prepare a draft Cabinet paper on a menu of options for tax reform, which is to be provided to Ministers alongside the Tax Working Group report in late January 2010;
- b **confirm** Ministers' views on potential base broadening and maintenance measures have been recorded correctly (refer Appendix 1);
- c **note** officials will report to Ministers on logistics of implementing tax changes in late January 2010;
- d **note** officials may need to report back in February 2010 with a revised tax policy work programme, depending on decisions on tax reform for Budget 2010; and
- e **note** that Budget day legislation is no longer exempt from Regulatory Impact Statement requirements, and that this will place resource and timing pressures on Treasury and Inland Revenue.

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for Secretary to the Treasury

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Manager, Policy Advice Division
Inland Revenue

Hon Bill English
Minister of Finance

Hon Peter Dunne
Minister of Revenue

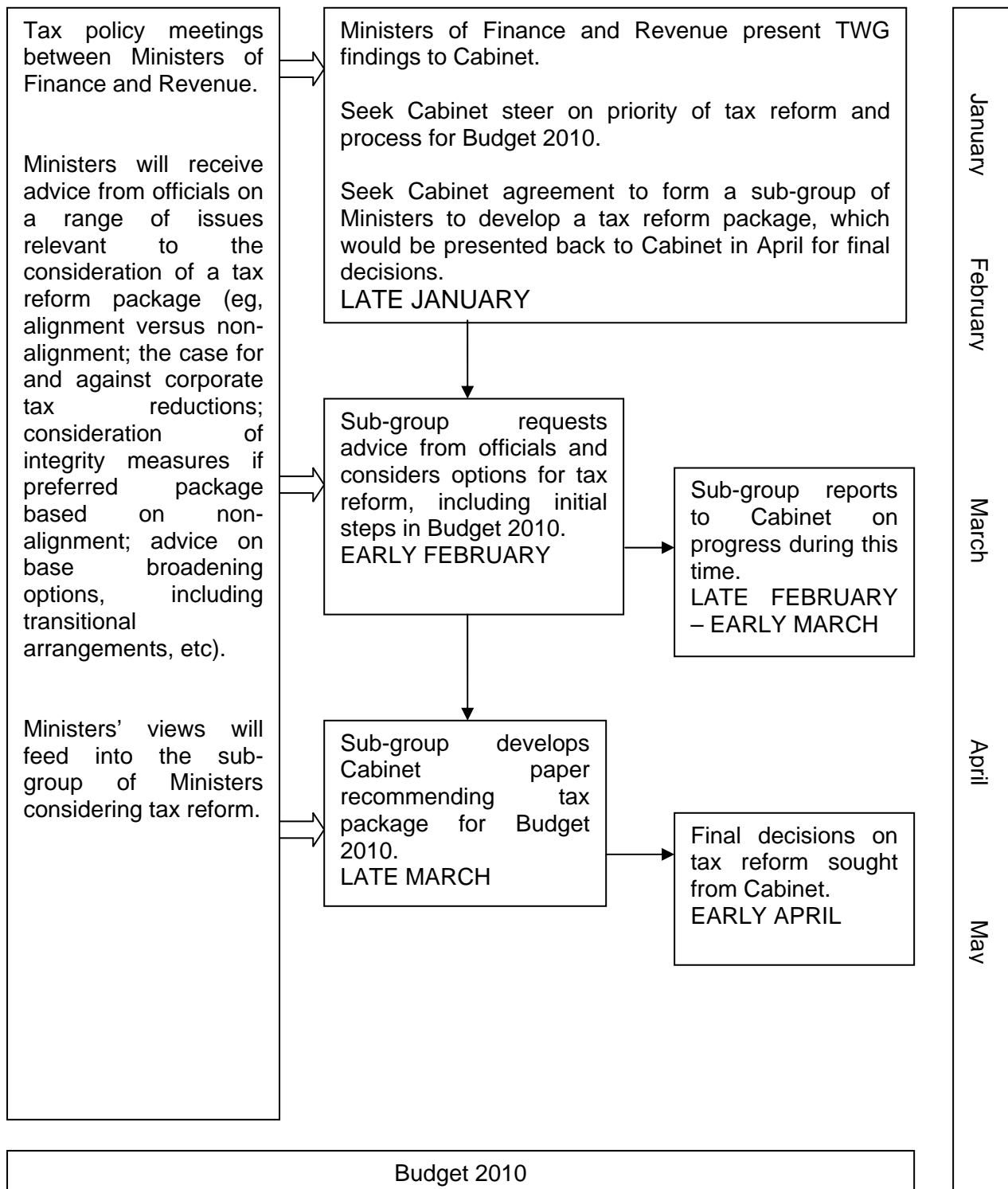
APPENDIX 1 – Potential tax base broadening and maintenance measures

The following table reflects Ministers' views on tax base broadening and maintenance measures, as agreed at a meeting of both Ministers on Friday 11 December 2009.

Tax measure	Agreed position
Capital gains tax	No work prior to Budget 2010
Land tax	No further work
RFRM	No further work
Clarifying the capital/revenue boundary (e.g. with a brightline test)	Interested in further advice
Loss ring-fencing	Interested in further advice
Thin cap at 60%	Advice required as soon as possible for potential inclusion in Budget 2010.
Depreciation loading	Advice required as soon as possible for potential inclusion in Budget 2010.
Depreciation on buildings	Advice required as soon as possible for potential inclusion in Budget 2010, would like advice on the effects and implications for particular sectors and on the treatment of losses on the sale and scrapping of buildings.
Excise taxes	No further work other than in respect of tobacco
Totalisator duty	No further work
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
Aligning of PIE rate with top personal rate	Interested in further advice
WFF integrity	Interested in further work in this area for potential budget announcement
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
LAQCs	Same priority as WFF integrity
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]

[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
Capital contribution payments	Consider for budget if possible, or post-budget
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]

APPENDIX 2 - Proposed process for Budget 2010 tax reform



Until Budget dates are finalised, timeframes are indicative only.