Inland Revenue
Te Tari Taake

POLICY ADVICE DIVISION

THE TREASURY
Kaitohutohu Kaupapa Rawa

Tax policy report: Cabinet Paper – Options for tax reform in Budget 2010

Date:	20 January 2010	**Priority:**	Critical
Security Level:		**Report No:**	T2010/36 PAD2010/02

Action sought

	Action Sought	**Deadline**
Minister of Finance	Sign and refer the attached paper to the Cabinet Office	10am, 21 January 2010
Minister of Revenue	Sign and refer the attached paper to the Cabinet Office	10am, 21 January 2010

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	
David Carrigan	Policy Manager, Inland Revenue	[deleted – privacy]	[deleted – privacy]
Bill Moran	Manager, Tax Strategy, The Treasury	[deleted – privacy]	[deleted – privacy]

20 January 2010

Minister of Finance
Minister of Revenue

Cabinet Paper – Options for tax reform in Budget 2010

Executive summary

Attached for you to sign and refer is a paper for Cabinet to consider at its meeting on 26 January 2010. This paper needs to be referred to Cabinet Office by 10am, 21 January 2010.

The paper reflects your agreement to the recommendations discussed on Friday 11 December 2009 with officials, and per Tax Policy Report T2009/2765-PAD2009/238. It includes:

- summaries of the Tax Working Group and Capital Markets Development Taskforce reports;
- a menu of tax reform options that could be considered in Budget 2010; and
- a process for considering tax reform options leading up to Budget 2010.

Recommended action

We recommend that you **sign** and **refer** the attached paper to the Cabinet Office by 10am 21 January 2010.

Signed and referred

Bill Moran
for Secretary to the Treasury

Signed and referred

David Carrigan
Policy Manager
Inland Revenue

Hon Bill English
Minister of Finance

Hon Peter Dunne
Minister of Revenue

BUDGET SENSITIVE

OFFICE OF THE MINISTER OF FINANCE
OFFICE OF THE MINISTER OF REVENUE

The Chair
Cabinet

OPTIONS FOR TAX REFORM IN BUDGET 2010

PROPOSALS

1. We seek the agreement of Cabinet to a menu of options that could potentially form part of a tax reform package to be included in Budget 2010, and to a proposed process for developing this package further and reaching final agreement on the tax reform issues to be included in Budget 2010.

2. The following proposals are therefore recommended:

- That the issues on which further advice will be sought from officials for tax changes to be considered for Budget 2010 be restricted to those options that could feasibly be considered adequately for announcement in Budget 2010 and that can be implemented by 1 October 2010, 1 April 2011, or for income years from as early as the 2011/12 income year.
- That no further advice be sought from officials, for the purposes of possible tax reforms to be included in Budget 2010, on the following structural tax changes:
  - changing the fundamental structure of the current company tax framework in New Zealand;
  - introduction of a capital gains tax;
  - introduction of a land tax; and
  - introduction of a risk free rate of return method of taxing rental housing.
- That further advice initially be sought from officials, for the purposes of possible tax reforms to be included in Budget 2010, on the following tax issues:
  - changes to personal, corporate, portfolio investment entity and trust tax rates;
  - increasing the GST rate;
  - changes to the depreciation rules in respect of buildings;
  - changes to the rules in respect of depreciation loading;
  - changes to the thin capitalisation rules;
  - non-structural changes to Working for Families;
  - clarifying the capital/revenue boundary;
  - introduction of loss ring fencing rules for property investment;
  - capital contribution payments; and
  - considering the tax status of loss attributing qualifying companies.
- That a tax reform package for Budget 2010 should be broadly revenue neutral, consistent with the Government's fiscal strategy.

- That the preferred implementation dates for any tax reform included in Budget 2010 would be, as appropriate:
  - 1 October 2010; or
  - 1 April 2011; or
  - income years from as early as the 2011/12 income year.
- That a sub-group of Ministers (the tax sub group) be established in order to further develop a tax reform package and that, after consideration of advice received from officials on agreed areas of possible tax reforms, the tax sub group will present back to Cabinet, for a final decision in early April 2010, a tax reform package to be included in Budget 2010.

EXECUTIVE SUMMARY

3. The Tax Working Group and the Capital Markets Development Taskforce have recently released their reports. The main tax findings contained in these reports are summarised in this paper.

4. Tax is one of the Government's six key drivers of economic growth. The principal aim of taxation is to raise the revenue necessary to fund government expenditure at least economic cost. There is evidence that the current tax system in New Zealand creates coherence and integrity problems through the application of different tax rates and diverse tax rules to different forms of income and different types of business entity. In particular, the current tax system, by favouring housing such as rental accommodation, effectively subsidises investment in the non-tradeable sector. This means it creates unintended biases against investment in areas where we must be internationally competitive if we are going to achieve our goal of sustainable growth.

5. Tax is one pervasive instrument available to the Government that has an economy wide effect and therefore can achieve a step up in economic growth by encouraging investment, savings, exports and jobs. We need a tax system that helps us move away from our preoccupation with borrowing and consumption. It is therefore important that we consider how changes to tax policy will contribute to this.

6. The overall objectives of tax reform are, therefore, to:

- achieve a step up in economic growth by encouraging investment, savings, exports and jobs;
- improve the fairness, coherence and integrity of the tax system by reducing opportunities to avoid tax;
- have a tax system that supports New Zealand's competitiveness globally in a sustainable manner.

7. The proposals in this paper will allow a menu of options that could potentially form part of a tax reform package to be included in Budget 2010 to be investigated further. The paper also proposes a process for developing this package and reaching agreement on the final tax reform issues to be included in Budget 2010.

BACKGROUND

8. The current fundamental features of the New Zealand tax system were designed in the 1980s. Since that time various individual changes have been introduced in order to deal with taxation and social policy issues that have arisen over time. Some of these changes, whilst necessary or desirable in their own right, have undermined the overall integrity and coherence of the tax system.

9. This has led to various calls for fundamental tax reform to be considered. Most recently, various potential tax reform issues have been extensively considered by the Tax Working Group. This Group, established by Victoria University of Wellington in conjunction with Treasury and Inland Revenue, has considered these areas over the last 7 months of 2009. The Tax Working Group's findings are outlined in their recent report entitled *A Taxation System for New Zealand's Future*, a copy of which is attached to this paper.

10. It is generally felt that retaining the current tax system will, over time, further exacerbate erosion in the efficiency, coherence and integrity of the tax system, raising significant sustainability risks. Without tax reform New Zealand will unlikely be able to deliver a world class tax system that is fair and supportive of economic growth.

COMMENT

Summary of Tax Working Group's findings

Tax Working Group framework and scope

11. The Tax Working Group's (TWG) aim was to consider taxes that fund government expenditure and to ensure that these taxes were raised at least cost; rather than to consider taxes that aim to promote or correct behaviour. The TWG considered that in order to minimise the costs of raising tax revenue the broad-base low-rate approach to tax design was a sound principle to adopt, although it noted that the approach of taxing less responsive bases should be adopted where possible when choosing between tax bases.

12. The TWG considered options for reforming the tax system as a whole; and did not consider or recommend particular reform options in isolation, or their timing. As in the current fiscal environment the scope for revenue-reducing tax changes is limited, the TWG looked to make changes to the tax mix as a whole that were revenue-neutral.

13. The TWG applied six principles of a good tax system to the current system and possible tax-mix changes: the coherence of the tax system; efficiency and growth; equity and fairness; revenue integrity; fiscal cost; and compliance and administration. The options for reform considered by the group included changes to the personal tax and transfer system, changes to the rate and application of company tax, changes to the rate of GST, and base-broadening options including capital gains taxes (CGT), land taxes, the risk-free return method (RFRM) of taxation, changes to the thin capitalisation rules, and changes to the treatment of depreciation.

Findings

14. The TWG noted three main concerns with the present tax system:

- The structure of the New Zealand tax system is inappropriate, due to:
  - its heavy reliance on the most growth-damaging and mobile bases;
  - lack of neutrality concerning the taxation of capital (evident, for example, in the distortions towards investment in property); and
  - the impact of Working for Families on the marginal tax rates of many tax payers; causing high effective marginal tax rates for many taxpayers, and discourage labour participation and productivity decisions.
- A lack of coherence, integrity and fairness. The TWG particularly noted the impact of different tax rates and diverse entity treatment – allowing income sheltering, and causing investment biases – in this regard.
- Unsustainability of the system over time. Perceptions of unfairness in the system, increasing international competitiveness for capital and labour, and projected demographic changes were seen as key problems with the long-term sustainability of the tax system.

15. The key recommendations of the TWG were:

- The top personal, trust, and company tax rates (as well as the top portfolio investment entity (PIE) rate) should be aligned, to reduce integrity problems and improve horizontal equity in the current system. At a minimum, the group recommended that the trust rate and top personal and PIE rates should be aligned and that integrity measures should be introduced.
- The top personal tax rates should be reduced as part of an alignment (or partial alignment) strategy, and to encourage growth. The group noted that a reduction in personal income tax rates across the personal income tax scale were also desirable.
- The company tax rate needs to be competitive, particularly with Australia. The group did not draw a conclusion about whether the company tax rate should be lowered, noting that this decision rests on trends in international company tax rates (particularly Australia), the extent to which economic rents exist, and the availability of foreign tax credits to non-resident investors. The decision about whether to lower the company tax rate was seen to be the determining factor between an aligned or non-aligned system. In any event, the group favoured the retention of imputation, particularly while Australia also retains its imputation system.
- The Group agreed that base broadening should be undertaken to remove biases in the current system and to improve its sustainability, and also agreed that there was a need to improve the current inconsistent treatment of capital income. It also noted that revenue-positive base broadening could be used to fund tax reform in other areas.

- The TWG did not reach a conclusion over whether a comprehensive CGT should be introduced. Most members had concerns around the practicality, and possible distortions from a CGT while others saw a CGT as advantageous from an efficiency and integrity perspective. The majority of the TWG supported consideration of taxing residential rental properties using an RFRM but noted that further analysis was required before determining if this was a beneficial reform.
- The TWG supported the identification of existing gaps in the taxation of income; and supported changes to depreciation rules and the thin capitalisation rules as part of a broader package.
- Most TWG members supported the introduction of a low-rate land tax due to its efficiency and revenue properties, although some had concerns about the transitional impact of a land-tax on existing land-owners.

- The Group agreed that GST should apply broadly, and that no exemptions should be made. Most members of the Group considered that GST should be increased to 15%, both as a revenue-raising measure and to reduce barriers to savings by lowering reliance on personal income taxes. The Group agreed that compensation for those on lower incomes should accompany any increase to offset the negative equity implications of an increase in the GST rate.

- The Group felt that Working for Families had introduced high effective marginal tax rates (EMTRs) into the tax system which negatively impacted labour participation and productivity decisions. The Group also noted integrity concerns due to the ability of taxpayers to use the tax system to artificially lower their incomes and qualify for Working for Families payments. However, due to the complexity of the tax-transfer interface, the Group recommended that a full review of welfare policy and its interaction with the tax system be undertaken in a different forum.

- The TWG also considered that the institutional arrangements around the tax base should promote certainty over tax rates and bases and should be economically and politically sustainable. Policy makers should consider the 6 principles outlined above – and in particular, coherence with the wider tax system – when making changes to any aspect of the tax system.

Summary of Capital Markets Development Taskforce's findings on tax

16. The Capital Markets Development Taskforce (CMDT) released their report *Capital Markets Matter* in December 2009. Its findings on tax highlighted the critical impact that taxes, in particular the effectiveness of capital taxation, have on capital markets. Although the design of an overall tax system was outside the scope of the CMDT, it nonetheless identified certain distortions in the tax system that it felt biased savings and investment decisions between different investment products and across borders.

17. In the context of the tax framework used in New Zealand, in particular in respect of capital markets, the CMDT considered that there was a need for fundamental reforms to the existing tax system. Issues specifically considered by the CMDT in this regard included:

- a potential change from the current system of company taxation with imputation; and

- whether a more comprehensive taxation of capital income would remove potential biases favouring investment in certain assets (such as residential property).

18. Reform options that were considered in relation to changing from the current system of company taxation with imputation included:

- changes to the imputation system within the current company taxation framework (to mutual recognition and streaming of imputation credits); and
- moves away from the current company taxation framework (to, for example, a low-rate classical tax system and a dividend exemption system).

19. On consideration, the CMDT broadly endorsed the current system of company tax with imputation as being a relatively neutral and efficient way of allocating capital into debt and equity investments. In addition, it endorsed the Government's position in seeking a mutual recognition of imputation and franking credits agreement with Australia. It considered that unilaterally recognising tax credits from overseas would be not be in New Zealand's best interests. Likewise, it did not endorse the streaming of imputation credits.

20. In regard to the question of whether a more comprehensive taxation of capital income would remove potential biases favouring investment in certain assets, potential solutions identified by CMDT to try and reduce these tax biases included:

- introduction of a risk free rate of return method of taxing certain houses or buildings;
- changes to depreciation rules to deny depreciation deductions for buildings; and
- introduction of specific capital gains taxes (on any under-taxed asset) or a more general capital gains tax.

21. In line with its terms of reference and membership (the CMDT noted that there was a considerable overlap with the work being conducted by, and membership of, the TWG), the CMDT stated that it would be guided in these fundamental areas by the analysis and recommendations of the TWG.

22. The CMDT did also consider certain specific issues that, while less fundamental, were considered particularly important in the context of some markets for capital. To that end, it made the following specific recommendations pertaining to tax:

- the tax treatment of so-called 'profit distribution plans' used by companies to raise capital should be reviewed and clarified;
- changes should be made to the thin capitalisation rules to prevent non-residents taking excessive tax deductions for interest;
- an exemption from withholding taxes should be introduced for certain interest paid on widely issued bonds held by foreigners, in order to encourage the development of a domestic corporate debt market and improve the efficiency of attracting debt investment from non-residents;
- an exemption from withholding taxes should not be introduced for dividends paid to foreigners out of 'active' foreign income;

- Inland Revenue should provide guidance to reduce uncertainty in how non-resident partners of New Zealand limited partnerships are taxed on the partnership's offshore income (in certain circumstances);
- a review should be undertaken on the treatment of annuity investments so that their tax treatment is consistent with the treatment of other similar investments; and
- a review should be undertaken of the deductibility of the costs of raising equity.

23. With the exception of potential changes being made to the thin capitalisation rules, which was also considered by the TWG and is being dealt with under the Budget 2010 proposals in this paper, all the other non fundamental tax recommendations made by the CMDT are being dealt with in accordance with the Government action plan agreed by Cabinet to implement the recommendations of the final report from the CMDT (Cabinet Minute (09) 44/7 and EGI Minute (09) 27/3 refer).

24. To that end, Inland Revenue and Treasury will prepare further analysis and report back to Ministers on these issues in accordance with the timescales noted in the Government action plan. It should be noted that this process does not form part of the Budget 2010 proposals.

Potential options for a tax reform package to be included in Budget 2010

25. Tax is one of the Government's six key drivers of economic growth. The principal aim of taxation is to raise the revenue necessary to fund government expenditure at least economic cost.

26. The analysis in the attached Regulatory Impact Statement (RIS) concludes that there is evidence that the current tax system in New Zealand creates coherence and integrity issues through the application of different tax rates and diverse tax rules to different forms of income and different types of business entities. The current tax system may also be less efficient and more damaging to growth than it needs to be.

27. The overall objectives of tax reform should therefore be to:

- reduce the impact of taxation on the efficiency and growth of the economy;
- have a tax system that supports New Zealand's competitiveness globally in a sustainable manner; and
- improve the fairness, coherence and integrity of the tax system by reducing opportunities to avoid tax.

28. The RIS identifies broad areas of possible tax reform that could achieve these objectives and that can feasibly be considered (from a policy perspective, as well as fiscally and operationally) for inclusion in the 2010 Budget with a view to implementation by 1 October 2010 or 1 April 2011 (or income years from as early as the 2011/12 income year, if applicable). These areas of possible tax reform are:

- changes to personal, corporate, PIE and trust tax rates;
- increasing the GST rate;
- changes to the depreciation rules in respect of buildings;

- changes to the rules in respect of depreciation loading;
- changes to the thin capitalisation rules;
- non-structural changes to Working for Families;
- clarifying the capital/revenue boundary;
- introduction of loss ring fencing rules for property investment;
- capital contribution payments; and
- considering the tax status of loss attributing qualifying companies.

29. The proposals in this paper identify the feasible tax reform options, and allow for a specific menu of options that could potentially form part of a tax reform package to be included in Budget 2010 to be investigated further.

30. It should be noted that all of the potential tax reform options that could be included in a tax reform package for Budget 2010 will warrant further and more detailed advice from officials, as further analysis will be required before any detailed policy decisions can be made.

31. A key assumption in the RIS for any tax reform package for inclusion in Budget 2010 is that the revenue target should remain as it is currently, i.e. cuts in one form of taxation must be funded by increases in tax revenue elsewhere. A Budget 2010 tax package will need to be broadly revenue neutral, consistent with the fiscal strategy.

32. The RIS also notes areas of tax reform that would require more detailed analysis, design and implementation than time would allow for inclusion in the 2010 Budget. These are:

- introduction of a land tax;
- introduction of a capital gains tax;
- application of a RFRM; and
- other systems of income taxation.

33. These issues are therefore not recommended for consideration in Budget 2010. Reform options that are not selected for Budget 2010 will still, however, be able to be considered at a later time as part of an ongoing process towards strategic and coordinated tax reform.

Process

34. The proposed process for developing a tax reform package to be included in Budget 2010 is summarised in Appendix 1 to this paper.

35. It is proposed that, once Cabinet has agreed on the potential issues that should be considered as part of this package, the following occurs:

- the formation of a sub-group of Ministers (the tax sub group) to further develop and refine a tax reform package;
- the tax sub group will consist of the Minister of Finance and the Minister of Revenue, and other Ministers as decided by the Prime Minister and the Minister of Finance (in consultation with the Minister of Revenue);

- the Minister of Finance and the Minister of Revenue provides advice to the tax sub group on the options to be included in Budget 2010;
- the tax sub group reports to Cabinet on progress made in developing a tax reform package sometime in March 2010; and
- the tax sub group develops a Cabinet paper for early April 2010 recommending a final tax package for inclusion in Budget 2010.

36. The exact timing will be finalised once the Budget date and timeline has been confirmed.

37. Officials from Treasury and Inland Revenue, and other departments as required, involved in the development of advice for a Budget 2010 tax package will be restricted to a named list of people. Budget sensitivity provisions will apply to the handling of documents throughout the budget process.

38. The advice developed for the sub group will cover the impacts on the six principles used by the TWG in their deliberations; the coherence of the tax system; efficiency and growth; equity and fairness; revenue integrity; fiscal cost; and compliance and administration. In particular, analysis will focus on the growth, equity and integrity effects of tax changes.

CONSULTATION

39. Inland Revenue and the Treasury were consulted in the preparation of this paper.

40. There has not been any specific external consultation in preparing this paper. However, many of the main tax issues noted have been fully considered and canvassed by a group of external New Zealand tax experts in the recent TWG report entitled *A Taxation System for New Zealand's Future*. In addition, background papers supporting the Tax Working Group process, and summaries of the Group's various sessions, have been made publicly available (at http://www.victoria.ac.nz/sacl/cagtr/twg/).

41. A limited amount of external pre budget technical consultation will, however, be undertaken by officials on a confidential basis with a limited number of stakeholders on specific tax options (for example, in relation to potential reforms to the depreciation rules). No other consultation on structural reform options is planned prior to Budget 2010.

FINANCIAL IMPLICATIONS

42. There are no financial implications associated with the proposals in this paper.

HUMAN RIGHTS

43. The proposals in this paper are not inconsistent with the Human Rights Act 1993 or the New Zealand Bill of Rights Act 1990.

LEGISLATIVE IMPLICATIONS

44. The proposals in this paper do not, in themselves, directly result in any legislative changes.

45. It is envisaged that all legislative changes arising from the tax reform package that will be included in Budget 2010 will be introduced on Budget day, and fall into one of the following categories, depending on the issues involved:

- Legislation which is introduced on Budget day 2010 and subsequently enacted under urgency. No external consultation would be undertaken prior to Budget day 2010 in respect of such legislation.
- Legislation which is introduced on Budget day 2010 which has been the subject of limited prior external consultation (this will be done on a confidential basis with a limited number of stakeholders). This legislation could be enacted under urgency.

REGULATORY IMPACT ANALYSIS

Regulatory Impact Analysis Requirements

46. Regulatory Impact Analysis (RIA) requirements apply to this paper. A Regulatory Impact Statement (RIS) has been prepared and is attached.

Quality of the Impact Analysis

47. The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by Treasury and Inland Revenue and considers that, given the stage of the policy process and that the decisions sought are to do further work on a range of possible options for tax reform for inclusion in Budget 2010, the information and analysis summarised in the RIS meets the quality assurance criteria.

Consistency with Government Statement on Regulation

48. We have carefully considered the analysis and advice of our officials, as summarised in the attached RIS. We are satisfied that tax reform is necessary and desirable in the long-term public interest, and that regulation will be necessary to enable reform.

49. This paper only identifies areas of the tax system for further policy investigation and development. We expect that any tax reform package developed for Budget 2010 will be substantially consistent with the Government’s commitment to deliver better and less regulation, but we will confirm this when we bring a proposed tax package for Budget 2010 to Cabinet.

PUBLICITY

50. No publicity of any of the options being considered for inclusion in a tax reform package to be included in Budget 2010 is planned prior to the Budget announcement itself.

RECOMMENDATIONS

51. We recommend that Cabinet:

Tax Working Group and Capital Markets Development Taskforce

1. **Note** that the Victoria University of Wellington Tax Working Group (TWG) and the Capital Markets Development Taskforce (CMDT) have recently released their findings.

2. **Note** the following findings of the TWG:

    - there are significant concerns around the current system's impact on growth, fairness and integrity;
    - the top personal and trust rates, and preferably the company rate, should be aligned;
    - personal rates should be reduced, preferably across the income tax scale;
    - the company tax rate should be internationally competitive, particularly with Australia;
    - base-broadening, particularly in relation to capital, should be undertaken. No firm conclusions were made on capital gains or land taxes, but the TWG supports changes to the depreciation and thin capitalisation rules;
    - GST should be increased to 15% for revenue and efficiency reasons, and compensation should be given to those on lower incomes. GST should continue to apply broadly and no exemptions should be given; and
    - Working for Families has introduced high EMTRs and integrity issues into the tax system, but should be considered in a wider context.

3. **Note** that a copy of the final TWG report is attached to this paper.

4. **Note** that Cabinet has already developed a separate process for progressing tax issues (not otherwise included in the TWG) arising from the CMDT report – Cabinet Minute (09) 44/7 and EGI Minute (09) 27/3 refer.

Budget 2010

5. **Agree** that, given the timeframes that would be required to develop and implement certain tax reform options, further advice from officials for tax changes to be considered for Budget 2010 will be restricted to those options that could feasibly be considered adequately for announcement in Budget 2010 and that can be implemented by 1 October 2010, 1 April 2011, or for income years from as early as the 2011/12 income year.

6. **Agree** that no further advice be sought at this time from officials, for the purposes of possible tax reforms to be included in Budget 2010, on the following structural tax changes:

    – changing the fundamental structure of the current company tax framework in New Zealand;
    – introduction of a capital gains tax;
    – introduction of a land tax; and
    – introduction of a risk free rate of return method of taxing rental housing.

7. **Agree** that further advice initially be sought from officials, for the purposes of possible tax reforms to be included in Budget 2010, on the following tax issues:

   – changes to personal, corporate, PIE and trust tax rates;
   – increasing the GST rate;
   – changes to the depreciation rules in respect of buildings;
   – changes to the rules in respect of depreciation loading;
   – changes to the thin capitalisation rules;
   – non-structural changes to Working for Families;
   – clarifying the capital/revenue boundary;
   – introduction of loss ring fencing rules for property investment;
   – capital contribution payments; and
   – considering the tax status of loss attributing qualifying companies.

8. **Agree** that the preferred implementation dates for any tax reform included in Budget 2010 would be, as appropriate:

   – 1 October 2010; or
   – 1 April 2011; or
   – income years from as early as the 2011/12 income year.

9. **Agree** that a tax reform package for Budget 2010 should be broadly revenue neutral, consistent with the Government's fiscal strategy.

Process and consultation

10. **Authorise** the Prime Minister and the Minister of Finance, in consultation with the Minister of Revenue, to form a sub-group of Ministers (the tax sub group) to further develop a tax reform package.

11. **Agree** that officials from Treasury and Inland Revenue, and other departments as required, involved in the development of advice for a Budget 2010 tax package will be restricted to a named list of people, and restricted Budget sensitivity provisions will apply to the handling of documents.

12. **Agree** that, after consideration of advice received from the Minister of Finance and the Minister of Revenue on agreed areas of possible tax reforms, the tax sub group will present back to Cabinet, for a final decision in early April 2010, a tax reform package to be included in Budget 2010.

13. **Note** that the tax sub group will report to Cabinet on progress made in developing a tax reform package sometime in March 2010.

14. **Note** that a limited amount of external pre budget technical consultation will be undertaken by officials on a confidential basis with a limited number of stakeholders on specific tax options (for example, in relation to potential reforms to the depreciation rules).

15. **Note** that no other external consultation on other more structural tax options will be undertaken prior to Budget 2010.

Hon Bill English
Minister of Finance

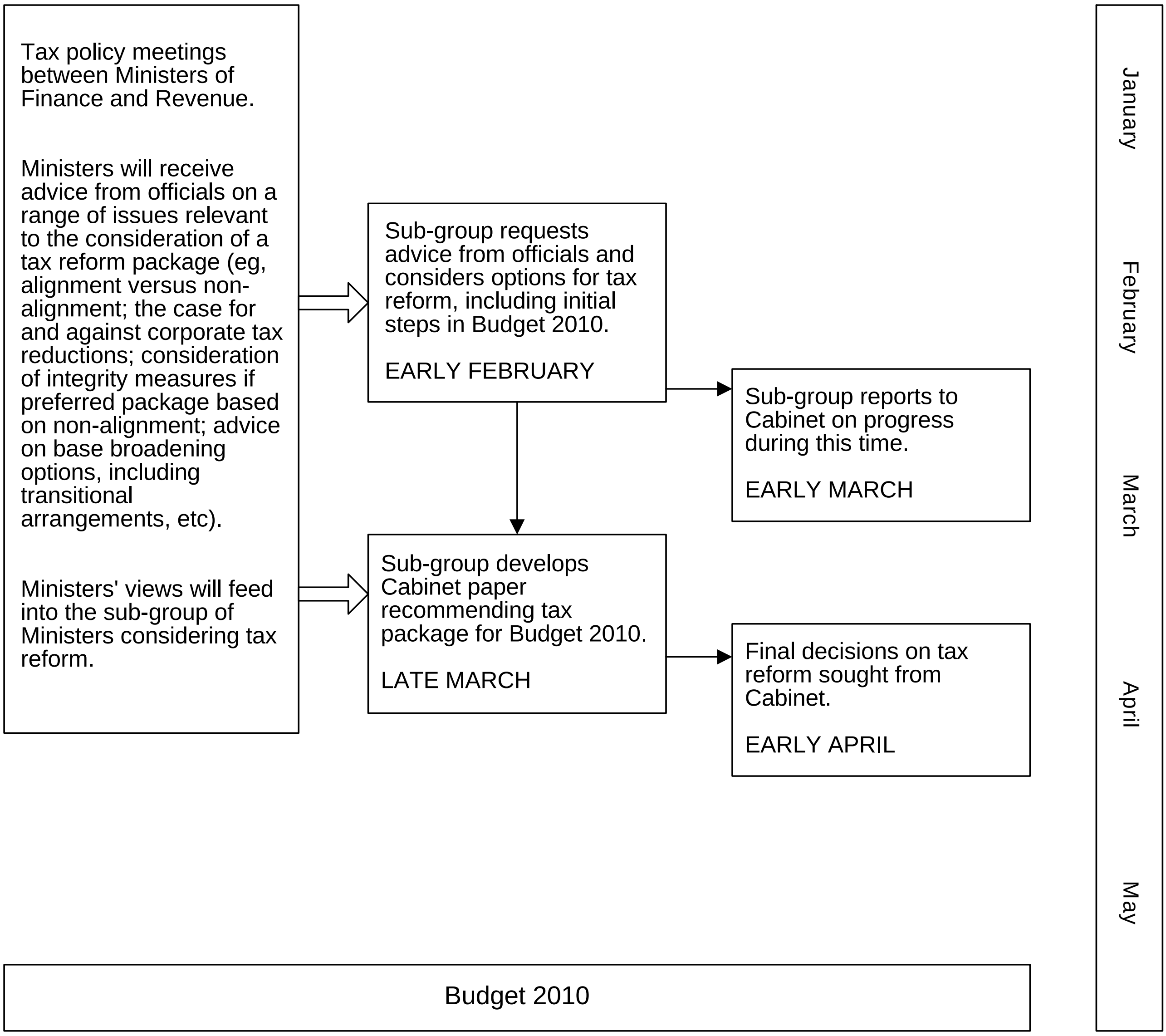
Date

Hon Peter Dunne
Minister of Revenue

Date

APPENDIX 1

Proposed process for Budget 2010 tax reform



Until Budget dates are finalised, timeframes are indicative only.