

## Tax Policy Report: Revised Revenue Strategy for Budget 2010

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<b>Date:</b>	22 April 2010	<b>Report No:</b>	T2010/663 PAD2010/74
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### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<b>Agree</b> to the proposed revised Revenue Strategy	Monday 26 April 2010
Minister of Revenue (Hon Peter Dunne)	<b>Agree</b> to the proposed revised Revenue Strategy	Monday 26 April 2010

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone		1st Contact
Steve Cantwell	Principal Advisor, Tax Strategy	[deleted – privacy]	[deleted – privacy]	✓
Matt Benge	Assistant Deputy Commissioner, Inland Revenue	[deleted – privacy]	[deleted – privacy]	

**Enclosure:**      **Yes (attached)**

## **Tax Policy Report: Revised Revenue Strategy for Budget 2010**

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1. This report seeks agreement to a revised revenue strategy for the government.
2. Prior to Budget 2009 Ministers agreed a new three-year revenue strategy (T2009/992; PAD 2009/063 refers). As discussed at the joint Ministers meeting of Wednesday 14 April 2010 that Revenue Strategy needs revision in light of the agreed Budget 2010 tax package.
3. Attached for your consideration is a draft revised Revenue Strategy for the 2010 budget. Changes from the 2009 Revenue Strategy are highlighted for your easy reference. The draft is intended to reflect guidance provided by Ministers at the joint Ministers meeting of Wednesday 14 April 2010.
4. We propose that the current revenue strategy be revised but not extended, i.e. the revised strategy apply to the remainder of the three-year time period covered by the current revenue strategy. Therefore a new revenue strategy would be considered as part of Budget 2012.
5. It is proposed that the revenue strategy follow recent practice and be published as an annex to the Fiscal Strategy Report. As the Revenue Strategy is being changed to reflect the Budget 2010 tax package, we suggest that any public statements about the revenue strategy be coordinated with Budget communications.
6. The revised Revenue Strategy will be annexed to the proposed Fiscal Strategy Report for Budget 2010, scheduled to be considered by Cabinet on 3 May.

### **Recommended Action**

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7. We recommend that the Minister of Finance and Minister of Revenue:
  - (a) **agree** to a revised revenue strategy for the government, as attached to this report;
 

<i>agreed/disagreed</i>	<i>agreed/disagreed</i>
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  - (b) **agree** the revised strategy apply for two years i.e. the current three year strategy be revised but not extended;
 

<i>agreed/disagreed</i>	<i>agreed/disagreed</i>
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  - (c) **agree** this strategy be published as an annex to the Fiscal Strategy Report; and
 

<i>agreed/disagreed</i>	<i>agreed/disagreed</i>
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- (d) **note** that any communications on the release of the revenue strategy will fit within the Budget communications process and be coordinated with the release of Budget 2010.

*noted*

*noted*

**Steve Cantwell**  
Principal Advisor, Tax Strategy  
The Treasury

**Matt Benge**  
Assistant Deputy Commissioner  
Policy Development  
Inland Revenue

**Hon Bill English**  
Minister of Finance

**Hon Peter Dunne**  
Minister of Revenue

# Revenue Strategy

## ***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 that:

- 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 people to work, save, spend or invest in ways that they believe are 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; and
- 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 has been produced as part of the strategic phase of the generic tax policy process. It supports the Government's economic and fiscal strategy. In particular, it is consistent with returning to fiscal surplus as quickly as practical in order to maintain prudent levels of government debt, while providing the right incentives to achieve stronger and more sustainable economic growth.

The Government has implemented two rounds of personal tax cuts and is committed to further fiscally neutral reductions in income tax rates as the economic and fiscal conditions allow. Maintaining revenue flows is particularly important in the current economic environment. The Government will consider whether there are other desirable revenue-enhancing measures to help finance further reductions in tax rates consistent with the medium-term goal of reducing and aligning personal, trust and company tax rates.

### ***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 reducing and aligning personal, trust and company tax rates at a maximum rate of 30%;
- appropriate for the current economic situation;
- that is simple and certain; and
- 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% as favoured by United Future (and included in the confidence and supply agreement with ACT), and
- supporting appropriate legislation on income splitting to First Reading in Parliament (United Future agreement).