



Tax policy report: Miscellaneous items for inclusion in the Taxation (Budget Measures) Bill 2010

| | | | |
|------------------------|------------|-------------------|-------------------------|
| Date: | 7 May 2010 | Priority: | High |
| Security Level: | | Report No: | T2010/791 PAD2010/95 |

Action sought

| | Action Sought | Deadline |
|---------------------|---------------------------------|-----------------|
| Minister of Finance | Agree to recommendations | 12 May 2010 |
| Minister of Revenue | Agree to recommendations | 12 May 2010 |

Contact for telephone discussion (if required)

| Name | Position | Telephone | |
|---------------|---------------------------------------|---------------------|---------------------|
| Chris Gillion | Senior Policy Advisor, Inland Revenue | [deleted – privacy] | [deleted – privacy] |
| Steve Mack | Principal Advisor, the Treasury | [deleted – privacy] | [deleted – privacy] |

7 May 2010

Minister of Finance
Minister of Revenue

Miscellaneous items for inclusion in the Taxation (Budget Measures) Bill 2010

This report seeks your agreement to include in the Taxation (Budget Measures) Bill 2010:

- a Budget night application date for the rule restricting taxpayers' ability to apply for special depreciation rates for buildings; and
- an amendment to allow future increases in the Working for Families abatement threshold to be made by an Order in Council if the Government wishes.

The report also discusses the implementation of the new resident withholding tax (RWT) rates on interest and portfolio investment entity (PIE) rates from 1 October 2010.

Application date for rule to restrict taxpayers' ability to apply for a special depreciation rates for buildings

You previously agreed to restrict the ability of taxpayers to apply for special depreciation [PAD2010/032 T2010/299 refer].

The restriction on special rate applications for buildings is aimed at reducing administrative costs of removing depreciation on buildings. Without such a change, we anticipated an increase in special rate applications from building owners, as a special depreciation rate may allow them to continue to depreciate their building.

We are concerned that if the ability to apply for special depreciation rates for buildings is not restricted from Budget night, taxpayers will be able to apply for special depreciation rates between 20 May 2010 and the beginning of the 2011/12 year. This would tie-up Inland Revenue resources and be counter to the decision to generally remove depreciation on buildings.

It is recommended that you agree to an application date of the day after the Budget day for the rule restricting taxpayers' ability to apply for special depreciation rates for buildings.

Working for Families: Order in Council for potential future increases in the abatement threshold

As a part of the tax reform package for Budget 2010, Cabinet has agreed to remove the provision in the Income Tax Act 2007 requiring automatic indexation of the abatement threshold for Working for Families (WFF) tax credits [T2010/503 and PAD2010/55 refer]. It is recommended that you agree to an amendment to allow future increases in the WFF abatement threshold be made by an Order in Council if the Government wishes.

Cabinet has agreed to remove the automatic indexation of the WFF tax credits abatement threshold because the indexation of both the amount of the Family Tax Credit (the main WFF tax credit) and the abatement threshold results in a double benefit for those on incomes above the current \$36,827 threshold. By removing the abatement threshold, the effect of inflation would mean that, over time, WFF tax credits would increasingly be targeted to lower income families.

Nevertheless, at some stage in the future, the Government may wish to increase the abatement threshold.

Officials recommend an Order in Council mechanism be used to allow for the Government to increase the abatement threshold in the future. Officials consider that an Order in Council procedure provides the flexibility to increase this abatement threshold without further legislation. There is no fiscal or administration costs associated with this.

If you agree, this could be included in the Taxation (Budget Measures) Bill 2010.

Implementation of RWT and PIE rates

Cabinet has agreed that the PIE tax rates and the RWT rates on interest should be changed in Budget day legislation to reflect the new personal tax rate structure with application from 1 October 2010 (CAB Min (1) 12/10 refers - clauses 24 and 47).

This decision means that banks and other financial institutions will have approximately 4 months to change their systems to apply these changes. Due to the Budget secrecy requirements, we have not been able to consult with financial institutions on whether 4 months provides sufficient time to implement these changes.

However, as the changes do not add additional RWT or PIE rates (they simply change existing rates) and do not amend the abatement thresholds at which each rate applies, our judgment is that the timeframe for the changes should be tight but manageable. Any implementation issues that emerge post-Budget can, if necessary, be addressed through legislative amendments at the Committee of the Whole stage of the November 2009 bill (around June this year).

Referral of report

Officials recommend that you refer a copy of this report to the Minister for Social Development and Employment.

Recommended action

We recommend that you:

- (a) **agree** to an application date of the day after the Budget night for the rule restricting taxpayers' ability to apply for special depreciation rates for buildings.

Agreed / Not agreed

Agreed / Not agreed

- (b) **agree** to an amendment to allow potential future increases to the abatement threshold for Working for Families (WFF) tax credit to be made by Order in Council.

Agreed / Not agreed

Agreed / Not agreed

- (c) **direct** Inland Revenue to give effect to recommendations (a) and (b) in the Taxation (Budget Measures) Bill 2010.

Directed

Directed

- (d) **refer** a copy of this report to the Minister for Social Development and Employment.

Referred

Referred

Steve Mack
for Secretary to the Treasury

Chris Gillion
Senior Policy Advisor
Inland Revenue

Hon Bill English
Minister of Finance

Hon Peter Dunne
Minister of Revenue