The Treasury

Budget 2011 Information Release

Release Document

June 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[8] 9(2)(h) - to maintain legal professional privilege

[9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Cabinet

CAB Min (11) 14/5

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- 7 APR 2011

Minute of Decision

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Tax Minimum Equity Rules for Foreign-owned Banks

Portfolio: Finance / Revenue

On 4 April 2011, Cabinet:

1 **noted** that the current tax minimum equity rules for foreign-owned banks were introduced in 2005 and require New Zealand banking groups to hold equity equal to at least 4% of their New Zealand assets (specifically, 4% of its risk-weighted exposures);

2 **noted** that this rule prevents banks from using structures that allow excessive interest deductions against the New Zealand tax base;

3 **noted** that recent changes in the commercial and regulatory environment facing banks make now an appropriate time to review the current tax minimum equity percentage, as there have been steady increases in Tier 1 capital held by banks for commercial and regulatory purposes, while for tax purposes the equity ratio has remained close to the prescribed minimum of 4%;

4 **noted** that following analysis and consultation with the banking industry, it is proposed that the tax minimum equity percentage for foreign-owned banks be increased from 4% to 6% from 1 April 2012;

5 **agreed** to increase the tax minimum equity percentage for foreign-owned banks from 4 percent to 6 percent;

6 **agreed** that the decision in paragraph 5 have an application date of 1 April 2012;

7 **noted** that the decisions in paragraphs 5 and 6 above will result in an increase in revenue, as set out in the following table, with a corresponding impact on the operating balance:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Crown Revenue and Receipts: Tax Revenue	-	8.000	31.000	31.000	31.000

8 **noted** that it is proposed that the change to the tax minimum equity percentage be included in the August 2011 tax bill;

9 **noted** that it is proposed to announce the change as part of the Budget 2011 package.

Secretary of the Cabinet Reference: CAB (11) 153