

The Treasury

Budget 2013 Information Release

Release Document

July 2013

www.treasury.govt.nz/publications/informationreleases/budget/2013

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] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 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
- [3] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [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)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [6] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [7] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [10] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [11] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [12] Not in scope
- [13] 7(b) - to prevent prejudice to relations between any of the Governments of New Zealand, the Cook Islands or Niue
- [14] 9(2)(ba)(i) - to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.

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 [4] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

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



Cabinet Economic Growth and Infrastructure Committee

EGI Min (13) 6/14

Copy No: 30

Minute of Decision

- 2 APR 2013

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Improving the Effectiveness of the Thin Capitalisation Rules

Portfolio: Revenue

On 27 March 2013, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** that on 12 December 2012, EGI:
 - 1.1 **noted** that the thin capitalisation rules are tax rules which are designed to ensure New Zealand imposes a reasonable amount of tax on foreign investors;
 - 1.2 **noted** that the thin capitalisation rules are currently deficient in some respects, so that non-resident investors reduce tax in ways that are unintended;
 - 1.3 **agreed** to the release of an officials' issues paper on options to improve the thin capitalisation rules;
- [EGI Min (12) 29/1]
- 2 **agreed** to extend the application of the thin capitalisation rules to any group of non-residents if they are acting together and have a combined ownership of a New Zealand investment of greater than 50 percent;
- 3 **agreed** to tighten the inbound thin capitalisation rules so that the amount of debt allocated to the New Zealand group is limited to 110 percent of the external debt-to-asset ratio of the worldwide group, such that debt linked to shareholders is excluded;
- 4 **agreed** that the proposals in paragraphs 2 and 3 above, and any related changes to the thin capitalisation rules, apply from the start of the 2015/16 income year;
- 5 **noted** that the above proposals are expected to raise revenue of \$1 million in the 2014/15 fiscal year, \$9 million in the 2015/16 fiscal year, and \$10 million per annum in later years;
- 6 **noted** that officials are continuing to consult on outstanding technical issues raised by submitters, and will be reporting to the Minister of Finance and the Minister of Revenue with their findings in the next couple of months;
- 7 **authorised** the Minister of Finance and the Minister of Revenue to make decisions on design issues relating to the proposals in paragraphs 2 and 3 above, as well as to other technical amendments to ensure that the thin capitalisation rules are effective;

- 8 **agreed** to include the amendments proposed above, and subsequent decisions made as a result of paragraph 7 above, in the tax bill scheduled for introduction in August 2013;
- 9 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the above paragraphs.

Janine Harvey
Committee Secretary

Reference: EGI (13) 47
