

The Treasury

Budget 2013 Information Release

Release Document

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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] 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.

Response to Treasury on Property Compliance Initiative

What this initiative comprises

The property compliance programme's focus is to improve the integrity of the tax system through ensuring the appropriate level of tax is assessed on speculative activity in the residential property market and, more generally, on property related tax compliance.

This programme was instigated at the height of the last property boom in 2007. At that time residential property related transactions amounted to over \$41B in sales per year and there was, and still is, a significant risk of tax leakage through the failure to self-assess taxable income derived from property related activity, where the intention was to derive a profit (a subjective test).

In addition to developing several innovative approaches to identification and mitigation of this risk, e.g. targeted media campaigns, the main body of the programme has been focused on addressing behavioural non-compliance through investigative activity. This has resulted in consistent returns to date of \$6.6:1.

Early success was achieved in combatting non-compliance relating to new developments in areas where a rising market gave significant opportunity for quick profit, both on individual and volume based sale. In addition to this "speculative" activity the programme also addressed specific areas, such as people placing their family home in loss attributing qualifying company (LAQC) structures, and at point of sale, GST abuse (legislative change).

More recently, using the capability developed to track assets over the longer term we have sought to improve overall compliance in identified risk areas. For example, we have advised individuals renting property during the Rugby World Cup of our interest and we will be looking to see gains recognised in future tax positions taken.

[6],[2]

The financial returns achieved to date

The current annual target is \$45m in additional audit discrepancies per year, which represents a return on investment of \$6.7 for every \$1 invested.

Cumulative returns from 1 July 2010 to 31 December 2012

Property Compliance	Total cost	Discrepancies	Return on investment
	\$16.7 million	\$110.4 million	6.6:1

What this initiative would comprise if continued indefinitely

The financial returns achieved to date indicate that behavioural non-compliance with tax obligations continues to be a feature of Property related transactions. Advances in tracking, detection, and working across government are an important aspect of this initiative. These would be continued but would be focused on different areas in the future. [6],[2]

[6]

[7]

Expected returns over the forecast period:

	2013-14*	2014-15	2015-16	2016-17	Total
Revenue (\$m)	45.00	45.00	45.00	45.00	180.00
Funding (\$m)	6.65	6.65	6.65	6.65	26.60
ROI	6.77	6.77	6.77	6.77	6.77

*Funding already appropriated for the 2013-14 year.