

The Treasury

Budget 2013 Information Release

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Tax policy report: Final Revenue package for Budget 2013

Date:	19 March 2013	Priority:	High
Security Level:		Report No:	T2013/668 PAD2013/48

Action sought

	Action Sought	Deadline
Minister of Finance	Agree to recommendations	Tuesday 2 April 2013
Minister of Revenue	Agree to recommendations	Tuesday 2 April 2013

Contact for telephone discussion (if required)

Name	Position	Telephone	
Andrea Black	Principal Advisor, the Treasury	917 6156 (wk)	[3]
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19 March 2013

Minister of Finance
Minister of Revenue

Final Revenue package for Budget 2013

Executive summary

This report confirms with you the final shape of a Revenue package for Budget 2013.

A Revenue package has been developed to support the following high level strategy:

- Supporting business and encouraging economic growth;
- Better international taxation; and
- Base maintenance and ensuring that everyone pays the right amount of tax.

The report contains an outline of the various initiatives that support the strategy, and the outputs that can be expected in time for Budget Day.

However, we seek direction from you as to what you would like to announce on Budget Day. This is particularly the case given that the key revenue item – specified mineral mining – would have already been announced as part of the introduction to the April 2013 bill. Based on what you decide, officials will continue work on the individual projects, and then liaise with your offices as applicable regarding press releases, speeches and supporting information for Budget Day.

Recommended action

It is recommended that you:

Indicate in the table below how you wish to announce particular revenue items in the 2013 Budget:

Project	Options for announcement	Decision	
<i>Supporting business and encouraging economic growth</i>		Minister of Finance	Minister of Revenue
Black hole expenditure items	Inclusion in Budget speech Joint Budget press statement OR Minister of Revenue press statement	Yes/No Yes/No Yes/No	Yes/No Yes/No Yes/No
Cashing out tax losses for R&D intensive start-up firms	Joint announcement and release of an issues paper OR Minister of Revenue to announce and release issues paper	Yes/No Yes/No	Yes/No Yes/No
<i>Better international taxation</i>			
Reviewing the effectiveness of the thin capitalisation rules	Inclusion in Budget speech Joint Budget press statement OR Minister of Revenue press statement	Yes/No Yes/No Yes/No	Yes/No Yes/No Yes/No
Foreign Account Tax Compliance Act (FATCA)	Inclusion in Budget speech Joint Budget press statement relating to better international taxation OR Minister of Revenue press statement	Yes/No Yes/No Yes/No	Yes/No Yes/No Yes/No
<i>Base maintenance and ensuring that everyone pays the right amount of tax</i>			
Reviewing the tax treatment of mineral mining	Include in any Budget announcements as appropriate	Yes/No	Yes/No
Property compliance initiative continuation	Inclusion in Budget speech Joint Budget press statement OR Minister of Revenue press statement	Yes/No Yes/No Yes/No	Yes/No Yes/No Yes/No
Clarifying when land is acquired for the purpose of the land provisions	Joint announcement and release of an issues paper OR Minister of Revenue to announce and release issues paper	Yes/No Yes/No	Yes/No Yes/No

Andrea Black
Principal Advisor
The Treasury

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Policy Manager
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Hon Bill English
Minister of Finance

Hon Peter Dunne
Minister of Revenue

Background

1. In November 2012, we reported to you on the broad outline of a Revenue package for Budget 2013 (T2012/2854; PAD2012/239 refer). This was followed by another report in December 2012 to update you on the progress of the individual projects contained in the draft package (T2012/3196; PAD2012/273 refer).
2. Since then, officials have worked to refine the package and group the initiatives around a set of coherent themes.
3. We seek direction as to the most appropriate communication method for these initiatives.

Overall strategy for the Revenue Package for Budget 2013

4. The Revenue Package has been grouped according to the following high-level strategy:

Supporting business and encouraging economic growth

- It includes the announcement and release of an issues paper on a proposal that can assist small R&D-intensive firms, and a separate measure to allow some firms to deduct black hole R&D expenditure.

Better international taxation

- It supports the New Zealand financial industry by removing a large part of the compliance burden placed by FATCA (although the net effect of FATCA is to increase the compliance burden).
- It includes measures to improve the effectiveness of the thin capitalisation rules and thereby ensure that non-residents are unable to take excessive interest deductions against income earned in New Zealand. It is consistent with the OECD project on Base Erosion and Profit Shifting (BEPS).

Base maintenance and ensuring that everyone pays the right amount of tax

- Changes to remove the current concessionary treatment of specified mineral mining and replace it with a regime more aligned with ordinary tax principles.

- A focus on property compliance, by securing baseline funding for Inland Revenue to continue the Budget 2010 Property Compliance initiative beyond 2013/14, and steps to clarify the date of acquisition for the purpose of the land rules.

5. There is also an initiative that relates to the base-lining of funding for the Overseas Based Borrower Compliance Initiative, which is a project run by Inland Revenue that has focused on collecting overdue student loans from overseas-based borrowers. This will be reported on separately as part of the student loans package for Budget 2013.

Outputs for Budget day

6. The following table gives a summary of the projects contained in the package, and the expected outputs and announcements for Budget day.

Project	Summary	Options for Announcement
<i>Supporting business and encouraging economic growth</i>		
Black hole expenditure items	Ministers have agreed to the recommended changes to allow for some expenditure (including certain R&D expenditure) that is currently black hole in nature, to instead be immediately deductible, or to be made depreciable, and some expenditure to remain non-deductible (T2013/419; PAD2013/026 refer). The cost of these changes is estimated to be \$0.36 million in 2013/14, \$1.56 million in 2014/15 and then continue to increase by \$450,000 per annum to approximately \$9 million.	<ul style="list-style-type: none"> • Inclusion in Budget speeches. • Budget press statements.
Cashing out tax losses for R&D-intensive start-up firms	Officials are preparing an issues paper for release at Budget time (T2013/420; PAD2013/025 refer). Officials are working on estimating fiscal and administrative costs for the two options for cashing out losses, and will brief Ministers shortly. Given there are no bookable costs for Budget 2013, Ministers do not need to make final decisions (on which of the two options to consult on) before the Budget Ministers meeting on 26 March.	<ul style="list-style-type: none"> • Announcement and release of an issues paper.

Project	Summary	Options for Announcement
<i>Better international taxation</i>		
Reviewing the effectiveness of the thin capitalisation rules	Officials have prepared a draft Cabinet paper, seeking agreement for the high-level decision to proceed with the reform. The changes are estimated to result in a revenue gain of \$10 million per year from 2016/17 (and smaller gains in preceding years). Officials will continue to consult on the underlying detail of the reform (PAD2013/36; T2013/506 refer).	<ul style="list-style-type: none"> • Inclusion in Budget speeches. • Budget press statement.
FATCA	Officials are working on securing an inter-Governmental agreement with the United States on FATCA, which will move the information requirements from the New Zealand banking sector to Inland Revenue.	<ul style="list-style-type: none"> • Inclusion in Budget speeches. • Include in a Budget press statement communication relating to better international taxation.
<i>Base maintenance and ensuring that everyone pays the right amount of tax</i>		
Reviewing the tax treatment of mineral mining	Repealing the current concessionary specified mineral mining tax regime and replacing it with a regime that is more aligned with ordinary tax principles (T2013/491; PAD2013/38 refer).	<ul style="list-style-type: none"> • Include information about the changes in any Budget announcements.
Property compliance initiative continuation	Asking for funding for the continuation of the Budget 2010 Property Compliance initiative to be added to Inland Revenue's baseline funding, so that this work is ongoing rather than needing to be confirmed on a regular basis. The initiative is estimated to result in a net gain of \$38 million per year, [2]	<ul style="list-style-type: none"> • Include in Budget speeches. • Budget press statements.

Project	Summary	Options for Announcement
	and the Waikato.	
Clarifying when land is acquired for the purpose of the land provisions	We are preparing an issues paper on the topic of when land is acquired for the purpose of determining a taxpayer's intent regarding their having acquiring that land.	<ul style="list-style-type: none"> Budget press statement and release of issues paper.

Fiscal implications

7. The fiscal implications of this package are estimated as follows:

\$m – increase/(decrease)	2013/14	2014/15	2015/16	2016/17 & outyears
Project				
Black hole expenditure items	(0.360)	(1.560)	(2.010)	(2.460)
Thin capitalisation	-	1.000	9.000	10.000
Reviewing the tax treatment of mineral mining	3.000	27.000	30.000	30.000
Property compliance initiative continuation (net gain)		38.000	38.000	38.000
TOTAL	2.640	64.440	74.990	75.540

Please note that these figures are based on a range of assumptions, and that they will be confirmed as officials report on each project in turn.

Next steps

8. We will work with Ministers' offices to assist with the preparation of Budget materials.