

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2017/754

BM-2



Date: 24 March 2017

To: Minister of Finance (Hon Steven Joyce)  
Associate Minister of Finance (Hon Simon Bridges)  
Associate Minister of Finance (Hon Amy Adams)

Deadline: None  
(if any)

## Aide Memoire: Late Budget 2017 Initiatives

This briefing updates Finance Ministers on four late initiatives that have been received:

Vote	Initiative Title	Fiscal Implications
Vote Revenue	<i>Feasibility Expenditure</i>	[33]
Vote Internal Affairs [33]	<i>Ministerial Services Cost Pressures</i>	\$0.890 million per annum \$3.553 million total over the forecast period

The Treasury recommends one of these initiatives, **Vote Revenue: Expenditure Feasibility** is considered by Budget Ministers for inclusion in the Budget process due to the likelihood of incurring fiscal impacts associated with the policy announcement.

Further advice on the remaining three initiatives is included in the annex to this report. The Treasury does not recommend that these initiatives are included in the Budget 2017 process due to the level of development and remaining time to assess and incorporate decisions.

### Expenditure Feasibility initiative

#### *Background*

The Supreme Court ruling on Trustpower in July 2016, means that a narrower range of “preliminary” feasibility expenditure can be considered tax deductible. This will likely mean some new business investments will not go ahead purely for tax reasons due to businesses having worse incentives to invest in new projects.

### *Proposal*

The Generic Tax Policy process applies to this initiative and a discussion document is expected to be released on Budget day describing the policy options for making the tax system more neutral. Such a policy change could decrease Crown revenue by about \$25 million per year. The Treasury's assessment is that it is likely the policy change will go ahead, therefore we recommend funding be set aside in a tagged contingency to cover the fiscal impact.

### *Recommendation for Inclusion*

The Treasury supports including this initiative in full in order to provision for the lost revenue associated with it as we expect it to be investment-ready shortly following consultation.

Policy change will make the tax system more neutral and ensure businesses have less disincentive to invest in projects and will support economic growth. Inland Revenue are consulting with private stakeholders on this matter, we understand that they have made it clear this issue is of significant concern to them.

### *Timeline*

Following the expected release of a discussion document planned for Budget day, public consultation will be conducted as per the Generic Tax Policy Process. This could be included in the November Tax bill and implemented in mid-2018.

It is recommended this be included in the 2017 Budget process as there is the possibility of making the policy changes retrospectively to allow for deductions of feasibility expenditure undertaken in the 2016/17 financial year.

### *Implications*

If Ministers decide not to proceed, businesses will continue to have worse incentives to invest, meaning some projects that would have raised revenue and productivity will not go ahead. If this policy does not go through the Budget process, it may impact on the between-Budget contingency or could be included as a pre-commitment to the 2018 Budget, depending on the scope and timing of implementation.

### **Next steps**

Depending on Ministers' decisions, the initiative(s) will be declined or incorporated into the package with the associated fiscal implications. Including initiatives will increase the size of the operating package.

You may wish to discuss these initiatives with your colleagues and outline no new initiatives will be accepted given Budget Ministers are meeting to agree the packages on Monday 3 April. The Treasury can communicate this to agencies if required.

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## Annex to T2017/754 – Remaining Late Initiatives

### Vote Internal Affairs: Ministerial Services Cost Pressures

\$0.890 million per annum (\$3.553 million total over the forecast period).

<b>Description</b>	<p>Funding is proposed to meet cost pressures within Ministerial and Secretariat Services, including:</p> <ul style="list-style-type: none"> <li>• maintaining of support for visiting dignitaries (\$0.045 million per visit)</li> <li>• operating costs for VIP transport service for Ministers and entitled VIPs</li> <li>• agreed increases in events-based contracts for Ministerial Office staff following the 2016 Cabinet reshuffle</li> <li>• implementing security assessments for Ministers' residences</li> <li>• depreciation on Crown owned residences due to upward revaluation of Crown residences.</li> </ul>
<b>Why it has come through late?</b>	<p>A Cabinet paper was submitted to SEC for 22 March, which originally sought funding for this current fiscal year and the years described above. The Prime Minister (the Minister for Ministerial Services) advised that his preference for the funding post 2016/17 to be sought through the budget process as a late bid.</p>
<b>If it's not included, what are the consequences?</b>	<p>No more efficiencies are likely to be found in the related appropriations; Cabinet could direct funding to come out of an unrelated appropriations within Vote Internal Affairs or accept lower levels of service (i.e reduced the number of VIP guests invited per year; costs related to Ministerial services are demand driven).</p>
<b>Comment</b>	<p>This initiative has come up year-on-year. The previous Minister responsible had a preference for it to be considered outside the Budget process. The current Prime Minister is proposing it be included. It could be included in the Other package, however would need to be assessed and prioritised.</p>

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