# 3

# Revenue

## Key Features

- **Nominal economic growth, a key driver of tax revenue, is forecast to average 5.5% over the next three years. Over the same period, tax revenue grows at a lower average rate of 3.8%, reflecting the impact of the second round of tax reductions and the abolition of the New Zealand Superannuation surcharge.**
- **Tax revenue forecasts have been revised downward since the *December Update*, especially in 1997/98, if the deferral of the tax reductions is excluded. This is largely because of weaker economic growth in the short term and lower-than-expected corporate tax outturns in the current year. Economic growth picks up strongly in 1998/99, and by the last year of the forecasts, tax revenue is only slightly lower than in the *December Update*.**
- **The first round of tax reductions contributed to a decline in individual taxes of 1.9% in 1996/97 on the prior year. The second round of tax reductions and the abolition of the New Zealand Superannuation surcharge contribute also to a decline in individual taxes in 1998/99.**
- **Corporate taxes are estimated to be down about 5.4% in 1996/97 compared with the previous year. This is owing largely to overpayment of taxes in the prior year, leading to higher refunds in 1996/97, and to international tax rule changes introduced in December 1995. Corporate taxes are expected to rebound over the next three years, with growth averaging 7.7%.**
- **GST grew 6.3% in 1996/97 boosted by a change in revenue recognition rules which added about $345 million. Over the next three years, growth is expected to average 4.7%, roughly in line with that of the nominal economy.**

*Table 3.1* -TOTAL REVENUE

| | 1995/96 | 1996/97 | | 1997/98 | | 1998/99 | | 1999/2000 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimated Actual | | Forecast | | Projection | | Projection | |
| ($ million) | Actual | December Update | Budget | December Update | Budget | December Update | Budget | December Update | Budget |
| Source deductions | 12,539 | 12,320 | 12,265 | 12,217 | 12,680 | 12,886 | 12,466 | 13,487 | 13,263 |
| Other persons | 3,310 | 3,354 | 3,346 | 3,335 | 3,332 | 3,332 | 3,399 | 3,572 | 3,594 |
| Refunds to individuals | (550) | (587) | (618) | (652) | (680) | (672) | (705) | (637) | (705) |
| Company | 4,063 | 3,982 | 3,428 | 4,586 | 4,093 | 4,812 | 4,517 | 5,093 | 4,736 |
| Residents’ withholding tax | 1,014 | 953 | 1,055 | 812 | 968 | 795 | 996 | 772 | 970 |
| Non-residents’ withholding tax | 491 | 646 | 827 | 421 | 619 | 425 | 665 | 433 | 684 |
| Foreign dividend withholding tax | 59 | 72 | 111 | 16 | 36 | 18 | 38 | 20 | 40 |
| GST | 7,262 | 7,793 | 7,716 | 8,068 | 8,023 | 8,466 | 8,521 | 8,824 | 8,866 |
| Excise taxes | 1,875 | 1,827 | 1,786 | 1,863 | 1,818 | 1,877 | 1,837 | 1,893 | 1,848 |
| Other taxation | 2,170 | 2,250 | 2,289 | 2,377 | 2,378 | 2,495 | 2,550 | 2,618 | 2,697 |
| **Total Tax Revenue** | **32,233** | **32,610** | **32,205** | **33,043** | **33,267** | **34,434** | **34,284** | **36,075** | **35,993** |
| Compulsory fees, fines, penalties and levies | 235 | 249 | 256 | 257 | 263 | 264 | 271 | 271 | 278 |
| Total revenue levied through the Crown’s sovereign power | 32,468 | 32,859 | 32,461 | 33,300 | 33,530 | 34,698 | 34,555 | 36,346 | 36,271 |
| Revenue earned through the Crown’s operations | 2,591 | 2,606 | 2,641 | 2,009 | 2,141 | 2,027 | 2,177 | 2,084 | 2,282 |
| **Total Revenue** | **35,059** | **35,465** | **35,102** | **35,309** | **35,671** | **36,725** | **36,732** | **38,430** | **38,553** |

Note: Forecasts finalised on 29 May 1997. The presentation in this chapter follows that of the Forecast Statement of Financial Performance and excludes GST paid on departmental outputs. “Budget” refers to the 1997 Budget in all cases.

Source: The Treasury

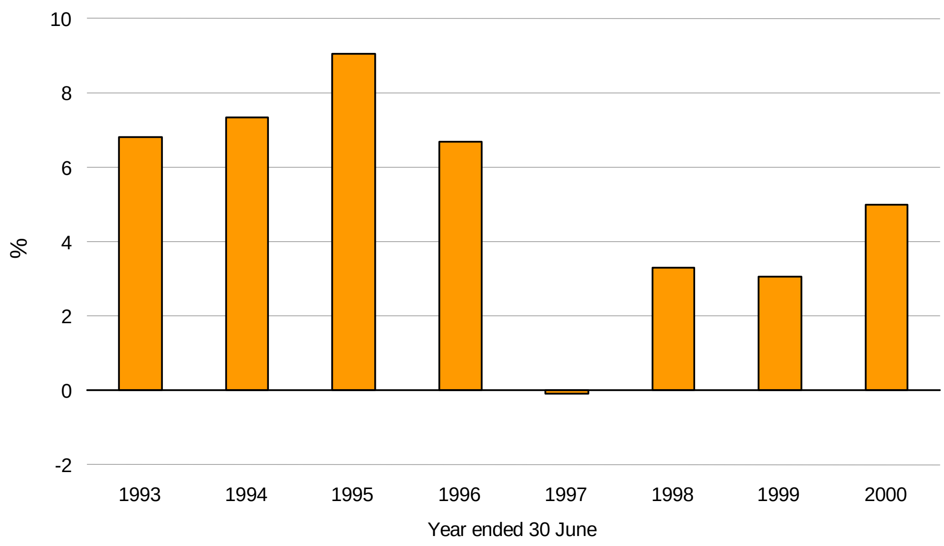
# Tax Revenue

Tax revenue declined slightly in 1996/97, falling 0.1% on the previous year, owing to a combination of tax reductions and weak corporate tax revenue. After adjusting for the direct effects of the tax reductions, tax revenue would have grown just 3.6%, compared with 7.7% average growth in the previous three years.

Corporate taxes, which comprise company tax, non-residents' withholding tax (NRWT) and foreign dividend withholding payments (FDWP), were particularly weak in 1996/97, falling 5.4% relative to the prior year. While part of this weakness reflects the timing impacts of changes in the international tax regime, introduced in December 1995, it also reflects additional factors. Companies overpaid their taxes in 1995/96, which led to lower-than-normal provisional and terminal tax payments and higher-than-normal refunds in 1996/97. In addition, corporate taxes are more sensitive to changes in the economy than other tax types. With economic growth slowing down, corporate profits and taxes have flattened. However, as the transient effects of international tax rule changes pass and as the economy regains momentum, corporate taxes are projected to rebound in 1997/98.

Overall, the outlook for the next three years is for tax revenue to grow more in line with growth in nominal GDP, after allowing for the effects of tax reductions.

*Figure 3.1* - TAX REVENUE GROWTH




Source: The Treasury

## Comparison with the 1996 *December Update*

The weak outturn for 1996/97 ($405 million below the *December Update*) has led to lower projections of tax revenue throughout the forecast period. A change in the pattern of projected economic growth has also had important effects on the tax forecast. Economic growth is now expected to be lower for 1997/98 than was expected in the *December Update*, but higher in 1998/99.

Two major policy changes since the *December Update* have further changed the revenue outlook. These are the abolition of the New Zealand Superannuation surcharge from 1 April 1998 and the deferral of the second round of tax reductions from 1 July 1997 to 1 July 1998.

Deferral of the tax reductions, which largely affects individual taxes, will help raise revenue in 1997/98 by $224 million above the level projected in the *December Update*. All other things being equal, the consequence of deferring the tax reductions would have been to increase revenue by about $1.0 billion. However, weaker economic growth in 1997/98 shaves about $560 million off the tax forecast in that year.

*Table 3.2* - COMPARISON WITH THE 1996 *DECEMBER UPDATE*

| ($ million, June years) | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|
| **1996 *December Update* Revenue** | **32,610** | **33,043** | **34,434** | **36,075** |
| *Changes since the* December Update | | | | |
| Individuals' income tax | (102) | 413 | (405) | (295) |
| Corporate taxes | (334) | (275) | (35) | (86) |
| Residents' withholding taxes | 102 | 156 | 201 | 198 |
| GST | (77) | (45) | 55 | 42 |
| Excise duties | (41) | (45) | (40) | (45) |
| Customs duties | 47 | 24 | 73 | 99 |
| All other | 0 | (4) | 1 | 5 |
| **Total change in tax revenue** | **(405)** | **224** | **(150)** | **(82)** |
| **1997 Budget Revenue** | **32,205** | **33,267** | **34,284** | **35,993** |
| | | | | |
| Nominal GDP growth (% expenditure basis): | | | | |
| 1997 Budget | 3.8 | 4.8 | 6.1 | 5.5 |
| 1996 *December Update* | 5.5 | 5.4 | 4.6 | 5.5 |

Note: Corporate taxes includes company tax, non-residents' withholding tax and foreign dividend withholding payments.

Source: The Treasury

The remaining downwards revision can be attributed to updated judgments about tax flows and income bases in the 1995/96 and 1996/97 years, particularly in corporate taxes. This is partly offset by an upward revision in the interest-bearing deposit base which feeds through into residents' withholding taxes.

By 1998/99, economic growth is expected to be stronger than projected in the *December Update*, helping to boost revenue, and by 1999/2000 revenue is projected to be close to that forecast in the *December Update*.

## 1997 Budget Forecast

Future growth in tax revenue depends largely upon the strength of the economy. For tax purposes, nominal GDP is the most important measure of economic performance. Unlike "real" GDP, which is used extensively in Chapter 1 of this document, nominal GDP is not adjusted to remove the effects of inflation. Nominal GDP is used as the reference variable because the tax and expenditure estimates used in the Budget and its updates are expressed in nominal, or unadjusted, terms.

Nominal GDP is a measure of the total production in the economy and the incomes earned during its production. In the New Zealand tax system, taxes are levied on both income and consumption. The tax bases for the various tax types are closely related to various components of nominal GDP. Table 3.3 shows projected growth in nominal GDP and some of its components, which serve as major tax bases.

As the table indicates, nominal GDP is expected to grow at an average rate of 5.3% over the next three March years. Compensation of employees is expected to grow at about 4.4% over the same period, while entrepreneurial income, the income of small business owners, is projected to grow at a somewhat faster pace of 5.4%. These two components are mainly responsible for the growth of individuals' income tax.

Normally, taxes based on individual income would grow faster than the income itself, as higher income pushes taxpayers into higher tax brackets. However, the tax rate reductions effective in 1996/97 and 1998/99 are expected to lead to actual reductions in individual income taxes in those years. Positive growth in source deductions is expected in 1997/98 and again in 1999/2000. By 1999/2000 the level of total individual income tax is projected to be 7.8% higher than it was in 1996/97, despite the second round of tax reductions and the abolition of the New Zealand Superannuation surcharge.

*Table 3.3* - GROWTH IN NOMINAL GDP AND COMPONENTS

| (Annual average % change, March years) | 1996/97 Estimated Actual | 1997/98 Forecast | 1998/99 Projection | 1999/2000 Projection | 3-year Average |
|---|---|---|---|---|---|
| Nominal GDP (expenditure based) | 3.9 | 4.3 | 6.0 | 5.5 | 5.3 |
| Compensation of employees | 5.7 | 3.3 | 4.8 | 5.1 | 4.4 |
| Operating surplus: | 3.0 | 5.1 | 7.5 | 5.7 | 6.1 |
| Company operating surplus | 3.7 | 6.2 | 8.8 | 5.3 | 6.8 |
| Entrepreneurial income | 1.5 | 3.9 | 6.0 | 6.3 | 5.4 |
| Consumption: | 5.2 | 4.6 | 5.4 | 4.2 | 4.7 |
| Private | 5.5 | 3.2 | 5.5 | 5.3 | 4.7 |
| Public | 3.9 | 10.9 | 4.7 | 0.0 | 5.1 |
| Merchandise imports: | -0.7 | 2.4 | 10.2 | 5.3 | 5.9 |
| Consumer goods | 3.2 | 5.0 | 11.6 | 8.1 | 8.2 |
| Passenger cars | 18.8 | -15.0 | 11.5 | 8.7 | 1.0 |

Note: Economic forecasts are produced on a March year basis in order to be consistent with Statistics New Zealand's system of National Accounts, while economic forecasts for tax revenue forecasting are on a June year basis.

Source: The Treasury

Company profits are expected to grow more slowly over the next three years compared with the past three years, averaging 6.8% per annum. However, corporate taxes are expected to grow slightly faster than profits over the next three years, averaging 7.7%.

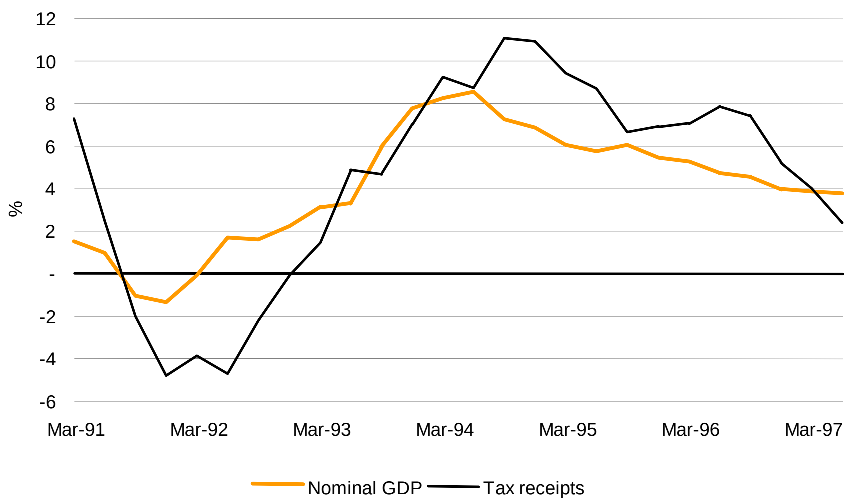
Total consumption is projected to grow at a slightly slower pace than nominal GDP, averaging 4.7% over the next three years. Growth in private and public consumption explains most of the growth in GST, which is also expected to grow at an average rate of 4.7%.

The overall growth rate of imported goods is expected to be greater than that of private consumption. This affects both customs GST and customs duty. Imports of passenger cars were strong in 1996/97, growing 18.8% over the prior year. However, this strong growth has led to a build-up of unsold cars which will depress imports in the next year before car imports resume strong growth the following year. Imports of consumer goods are projected to grow strongly throughout the period, averaging 8.2% per annum over the three years. Strong growth in petroleum imports is also expected to boost growth in customs duty, offset by weaker growth in excise duty on locally produced fuels. Growth in these revenue bases leads to expected growth in customs duty at an average rate of 7.3%.

## The business cycle and tax receipts

The tax take depends upon the state of the economy. As the economy expands, receipts increase, and as the economy contracts, receipts fall. However, this relationship is more than proportional. Tax receipts rise and fall, in percentage terms, more than the economy rises and falls.

*Figure 3.2* - AVERAGE ANNUAL GROWTH IN TAX RECEIPTS AND NOMINAL GDP




Source: The Treasury/Statistics New Zealand

There are two main factors behind the greater sensitivity of receipts:

- Individual income taxes are graduated, so increases in income push people into higher tax brackets.
- Company profits are the small residual left over after all expenses are deducted from income. Since many expenses are fixed, small changes in income lead to relatively large changes in profits, and therefore taxes, which respond more than proportionately.

As the chart above indicates, receipts fell much more sharply than nominal GDP during the recession years 1991 and 1992, but rebounded much more strongly in 1994 and 1995. As the economy experiences slower growth in 1997, receipts can be expected to slow more than proportionately.

Taxes also respond to policy changes and technical factors. The tax growth estimates in the chart above were adjusted to remove the impact of the first round of tax reductions and to account for $150 million of July 1996 GST recorded in June 1996.

# Source Deductions

Source deductions is the largest revenue category and accounts for nearly 40% of total tax revenue. Source deductions include taxes withheld on wages and salaries, taxes on social welfare benefits, and taxes withheld on some pension fund contributions. About 80% of source deductions come from PAYE on wages and salaries. The risks to the source deductions forecast are mainly economic, as growth in source deductions is closely related to growth in compensation of employees.

## *1996/97 Estimated Actual*

Employment growth is estimated to have slowed to 1.7% in the year to June 1997, less than half the rate of growth in the previous year, while compensation of employees is estimated to have grown 4.9%. Source deductions fell by 2.2%, largely owing to the tax reductions. In the absence of tax reductions, they would have grown 5.6%.

## *Forecast Trend*

Employment growth is expected to further slow in 1997/98, growing just 0.4%, resulting in compensation growth slowing to 3.2%. Source deductions are projected to increase slightly faster than compensation, at 3.4%.

A second round of tax reductions is scheduled to take effect in 1998/99, which is expected to lead to a decline in source deductions revenue of 1.7% in that year. In 1999/2000, source deductions are projected to grow 6.4%.

*Table 3.4* - SOURCE DEDUCTIONS FORECASTS

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| | Actual | Estimated Actual | Forecast | Projection | Projection |
| Source deductions ($ million) | 12,539 | 12,265 | 12,680 | 12,466 | 13,263 |
| % growth | 6.6 | (2.2) | 3.4 | (1.7) | 6.4 |
| Wage bill growth (June years) | 6.1 | 4.9 | 3.2 | 5.4 | 4.8 |

Source: The Treasury

## Other Persons

The "other persons" category includes taxes paid by individuals and trusts on income that is not withheld, or is underwithheld, at source. About three-quarters of other persons tax is paid in provisional tax payments. Payers of this tax include owners of small businesses such as farmers, builders and retailers, and professionals such as doctors, lawyers and accountants. The other one-quarter is terminal tax, which is paid by all taxpayers whose withholdings are insufficient to cover their liabilities.

Typical situations which might cause a terminal tax liability include receipt of income from which no tax was withheld, such as foreign income or rental income, or receipt of income from which tax was withheld at a lower rate than the marginal tax rate for the particular taxpayer. The latter situation often arises with tax on interest income, which is currently withheld at the lower statutory rate of 21.5%, and on lump sums or bonuses, currently withheld at the "extra emolument" rate of 24%.

Provisional tax instalments are mainly based on the prior year's "residual income tax", the component of prior year liability which was not withheld at source, adjusted with an uplift factor, usually 5%. Taxpayers may instead elect to pay their provisional taxes based on estimates of current year liability. Approximately 80% of provisional tax is based on the prior year and 20% on current year estimation. Payments from individuals are based upon tax paid in the previous year, while the other 20% is based on estimated income from the current year.

Because provisional tax is often based on income earned in prior years, the impact of tax reductions on other persons revenue will tend to lag the impact on source deductions. Special transitional rules for 1996/97 and 1998/99 reduce the "uplift factor" used in calculating provisional taxes, in order to accelerate the benefit of tax reductions and reduce overpayment. However, one-quarter of other persons revenue is final payments on income that was underwithheld for other reasons, so tax reductions are expected to affect final payments with a lag.

The New Zealand Superannuation surcharge is to be abolished from 1 April 1998. Because part of this is paid as final tax, the impact of the abolition on tax revenue should also occur with a lag.

*Table 3.5* - OTHER PERSONS TAX FORECASTS

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| | Actual | Estimated Actual | Forecast | Projection | Projection |
| Other persons tax ($ million) | 3,310 | 3,346 | 3,332 | 3,399 | 3,594 |
| % growth | (0.6) | 1.1 | (0.4) | 2.0 | 5.7 |
| Entrepreneurial income % growth (March years) | 7.6 | 1.5 | 3.9 | 6.0 | 6.3 |

Source: The Treasury

### *1996/97 Estimated Actual*

Other persons tax revenue in 1996/97 was up 1.1%. Entrepreneurial income grew 7.6% in the prior year, 1995/96, and 1.5% in the current year, 1996/97. Ordinarily, provisional tax payments would have increased about 4%. However, this growth was partially offset by the first round of tax reductions which became effective on 1 July 1996.

### *Forecast Trend*

In 1997/98, other persons tax is projected to fall 0.4%, reflecting the follow-on effects of tax reductions and weak entrepreneurial income from the previous year. These factors are expected to reduce terminal tax payments in 1997/98.

A rebound in entrepreneurial income growth to 3.9% in 1997/98 and 6.0% the following year will help lift other persons tax by 2.0% in 1998/99, more than offsetting the negative effects of the second round of tax reductions in that year. In the last year of the forecast, entrepreneurial income is projected to grow 6.3%, while other persons tax grows 5.7%.

### Effects of tax policy changes on individuals' tax revenue

Policy changes to individuals' tax rates affect several tax types, including source deductions (PAYE), residents' withholding tax on interest (RWT), other persons' provisional and terminal taxes and refunds to individuals. All of these tax types are mechanisms for collecting individuals' income tax against liabilities, but changes to policies affect the different tax types with differing lags. For example, withholding taxes such as PAYE and RWT are immediately affected by a tax rate change.

The timing of the impact of a tax rate change on provisional tax is less certain. Provisional taxpayers may estimate their provisional tax instalments, or may base instalments on residual tax liability from the prior year, adjusted by a legislated uplift factor, typically 5%. Although the Government may change the uplift factor to allow for large policy changes such as the tax reductions, these are broad adjustments and will not necessarily match the changing liabilities of all taxpayers. Tax rate changes thus also have an impact on year-end residual liabilities, terminal tax and refunds to individuals.

The table below shows the estimated impact of rate reductions and surcharge abolition relative to a no-reductions revenue baseline. These reductions reflect timing effects as applied to static costings.

*Table 3.6* - ESTIMATED IMPACT OF RATE REDUCTIONS AND SURCHARGE ABOLITION

| ($ million) | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|
| Rate reductions | 1,181 | 1,253 | 2,431 | 2,518 |
| Surcharge abolition | 20 | 119 | 254 | 309 |
| **Total Tax Reductions** | **1,201** | **1,372** | **2,685** | **2,827** |

Note: These surcharge estimates include the impacts of previous threshold changes already incorporated in the *December Update* forecasts. Excluding previous changes, the impact on tax revenue of the surcharge abolition is $21 million in 1997/98, $140 million in 1998/99 and $190 million in 1999/2000.

Source: The Treasury

# Corporate Taxes

Company income tax is payable on New Zealand-derived profits of resident and non-resident companies including State-owned enterprises (SOEs), superannuation funds and unit trusts. Company tax revenue depends on corporate profits, the level of current and past losses available to offset tax liabilities, policy changes and the timing of assessments and payments.

Changes to the international tax regime implemented in December 1995 mean that a portion of company tax is now effectively collected through NRWT on dividends (see box on NRWT). Company tax and NRWT[1] are, therefore, closely integrated in the forecasts and are classified as corporate taxes.

Foreign dividend withholding payments (FDWP), which is tax withheld on dividends received by a New Zealand company from a foreign source, are also included in corporate taxes. This is because if this income did not have tax withheld, it would have been subject to company tax under the New Zealand company income tax rules.

### *1996/97 Estimated Actual*

Annual growth in corporate profits in 1996/97 was subdued. Firms' profits were squeezed throughout 1995/96 by the rise in the dollar along with interest rate and wage bill pressures. This pressure continued into 1996/97 in many sectors.

The rise in the exchange rate and the weaker domestic economy hit the profits of, in particular, manufacturing and farming sector firms and industries involved in exporting. The finance sector enjoyed strong asset growth. However, bottom-line profits were affected by restructuring costs and interest margin pressures. Profits in this sector improved in the second half of the year following the falls in interest rates.

While underlying profit growth remains positive, corporate taxes in 1996/97 are estimated to have been about 5.4% lower than in the previous year, mainly owing to the following factors:

- Terminal tax for the 1996 income year was low in comparison with recent history. This resulted from businesses overpaying provisional tax in response to the use-of-money-interest regime, and was also owing to unexpectedly lower profits for the 1996 income year. This resulted in lower-than-normal provisional and terminal tax payments and higher-than-normal refunds in 1996/97.

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1 NRWT also includes withholdings on royalties and interest, amounting to about 20% of the total in 1996/97.

- Some companies did not immediately lower their provisional tax payments in line with the new international tax rules introduced in December 1995. This resulted in extra tax revenue prior to June 1996 that was subsequently refunded after June 1996.
- Removing double-taxation on dividends paid to foreign investors and reducing the branch tax rate, which were part of the international tax rule changes, had a negative impact on tax revenue. Overall, the changes to the international tax rules are expected to be about revenue neutral. However, the positive impact from the changes, (mostly new transfer pricing rules) are now expected to increase tax revenue from 1997/98 and beyond.

### *Forecast Trend*

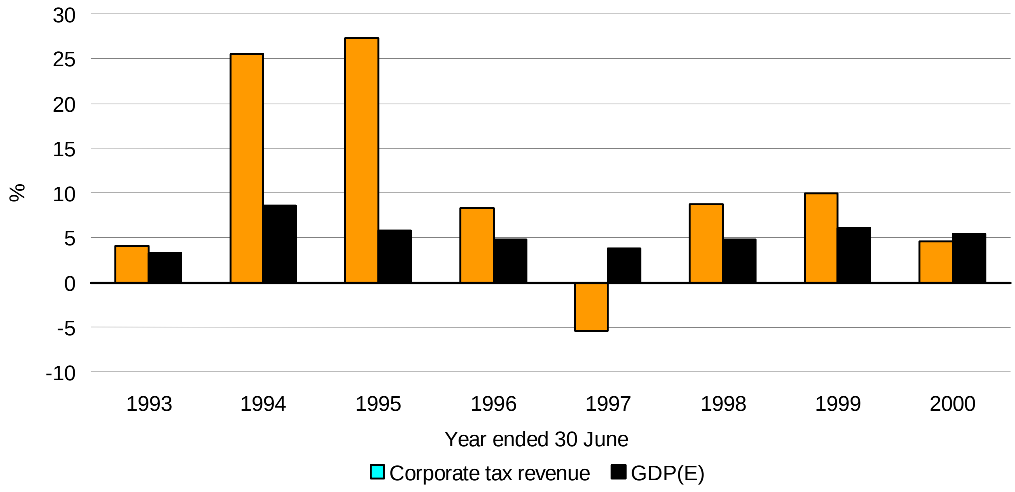
Corporate profits in 1997/98 are expected to be slightly up on 1996/97, with a stronger pick-up in 1998/99. This is driven initially by lower interest rates, slower wage growth and an upturn in productivity growth. Then in 1998/99 economic growth accelerates, boosted by increased government spending, the second round of tax reductions and stronger exports on the back of stronger world economic growth.

Corporate tax revenue is projected to grow slightly faster than profits in 1997/98 and 1998/99. This additional growth comes mainly from declining use of losses to offset tax liability by major corporates. However, this impact is not as marked as that which contributed to the high growth in company tax in 1993/94 and 1994/95, owing to an overall lower level of past losses available to offset tax liability. The delayed impact of the changes to the transfer pricing rules also contributes to additional corporate tax revenue growth in 1997/98 and 1998/99.

Over the forecast period, NRWT is expected to fall back from its high level of 1996/97. However, it will remain at a level higher than earlier years as companies pay out more of their profits as dividends. This is owing to the changes to the international tax rules which removed the double taxation on dividends paid to foreign investors.

The growth in corporate tax revenue slows in 1999/2000 in line with slowing growth in corporate profits.

*Figure 3.3* - ANNUAL GROWTH IN CORPORATE TAX REVENUE




Source: The Treasury

Although the corporate profit growth in each June year is slightly higher than in the *December Update*, the forecast of corporate taxes are down significantly in every year. This is largely owing to the changed view of the corporate income base in 1996/97 as a result of the overpayment of tax in 1995/96.

*Table 3.7* - CORPORATE TAX REVENUE FORECASTS

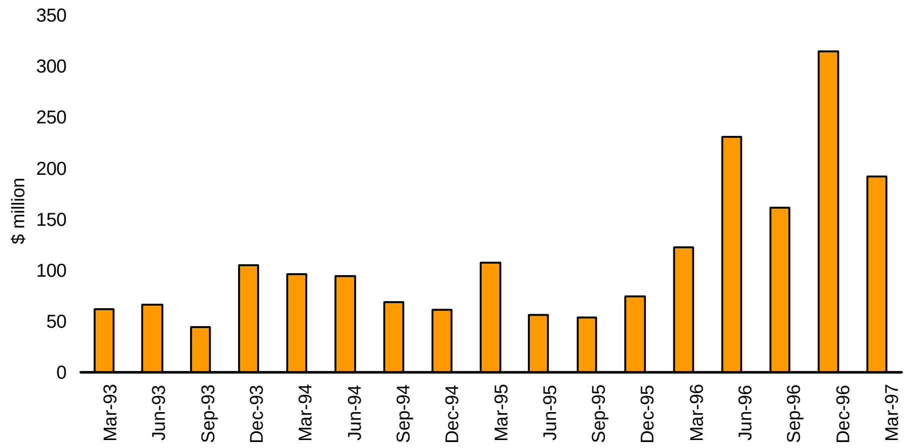
| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| | Actual | Estimated Actual | Forecast | Projection | Projection |
| Net company tax ($ million) | 4,063 | 3,428 | 4,093 | 4,517 | 4,736 |
| % growth | 2.4 | -15.6 | 19.4 | 10.4 | 4.8 |
| NRWT ($ million) | 491 | 827 | 619 | 665 | 684 |
| FDWP ($ million) | 59 | 111 | 36 | 38 | 40 |
| **Total corporate taxes ($ million)** | **4,613** | **4,366** | **4,748** | **5,220** | **5,460** |
| % growth | 8.3 | -5.4 | 8.7 | 9.9 | 4.6 |

Source: The Treasury

**The impact on company tax of changes to the international tax regime**

NRWT is payable on dividends, interest and royalties paid overseas. New international tax rules, in particular the extension of the foreign-investor tax-credit (FITC) scheme, implemented in December 1995, have changed the way New Zealand companies with foreign ownership are taxed and the level of dividends paid by these companies. The following chart shows, on a quarterly basis, the increase in NRWT cash receipts that is owing mainly to an increase in dividend payments to non-resident investors since the extension of the FITC scheme.

*Figure 3.4* - QUARTERLY NRWT CASH RECEIPTS




Source: The Treasury

Prior to the extension of the FITC scheme, dividend income to non-resident investors attracted both company tax and NRWT. The change effectively caps the total New Zealand tax on dividends paid to foreign investors to the statutory company tax rate as for New Zealand investors.

Companies with some foreign shareholders now receive tax credits (FITCs) for tax-paid dividends paid to non-resident investors. These credits reduce these companies' company tax liability with the benefit being passed to its non-resident investors via a supplementary dividend. This effectively means that, in addition to the fiscal cost of reducing the double taxation on dividends paid to non-residents, part of the tax previously paid by companies as company tax is now paid as NRWT.

The rule change has also led to large one-off dividend payments from prior-year retained earnings. This results in a one-off shift of company tax to NRWT. The level of these one-off dividends has exceeded expectations over the past year.

Timing impacts have further complicated the compositional shift of company tax to NRWT. These arise from company tax being paid through the provisional tax system whereas NRWT on dividends is paid in the month following the dividend payment. Hence, companies can either claim a refund or reduce their provisional tax payments in anticipation of receiving FITCs, before they actually pay their dividends to their non-resident investors. This leads to the impact often appearing in company tax before NRWT.

## Resident Withholding Tax on Interest

### *1996/97 Estimated Actual*

Resident withholding tax (RWT) is tax withheld on New Zealand residents' interest income. Estimated revenue for 1996/97 is expected to be $27 million (2.7%) higher than the previous year because of continued growth in the deposit base, partially offset by a decline in interest rates. RWT depends on funds held in interest bearing deposits and interest rates. Both of these respond slowly to changes in wholesale rates because of the wide range of deposit instruments with varying maturity profiles.

### *Forecast Trend*

Lower interest rates and slower growth in the deposit base are both expected to contribute to a fall in RWT in 1997/98. Owing to the tax reductions, the RWT withholding rate will fall from 21.5% to 19.5% on 1 July 1998. However, rising interest rates and a higher deposit base are expected to more than offset the effect of the rate cut in 1998/99.

For taxpayers in the top marginal bracket of 33%, withholding payments may not cover their full tax liability. These taxpayers make terminal tax payments to square up liability with withholdings. When the RWT rate falls, this is expected to lead to higher terminal tax payments. These have been included in other persons taxes.

*Table 3.8* - RESIDENT WITHHOLDING TAX FORECASTS

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| | Actual | Estimated Actual | Forecast | Projection | Projection |
| RWT ($ million) | 984 | 1,011 | 924 | 952 | 926 |
| % growth | 43.8 | 2.7 | (8.6) | 3.0 | (2.7) |
| 90-day interest rate (June year, annual average) | 9.0 | 8.4 | 8.0 | 8.3 | 7.1 |

Source: The Treasury

## GST

Goods and services tax (GST) is a broadly based consumption tax imposed on goods and services provided in New Zealand and on imported goods. Financial services are exempt, and exported goods and services are zero-rated. GST comprises about 24% of total tax revenue.

### *1996/97 Estimated Actual*

Growth in GST revenue in 1996/97 is expected to be 6.3%. The growth in 1996/97 has been artificially boosted by a change in revenue recognition rules. This contributed about $345 million in extra revenue brought forward from the following year. The 1996/97 forecast is virtually unchanged from both the *December Update* and the *Current-Year Fiscal Update* with the exception of the transfer of $80 million in GST on the first ANZAC frigate from 1996/97 to 1997/98.

### *Forecast Trend*

Forecasts of total GST revenue are based on forecasts of total nominal consumption, adjusted to include residential housing construction and foreign tourist spending and to exclude New Zealand tourist spending overseas and actual and imputed rent.

GST growth in 1997/98 is forecast to be $307 million (4.0%) up on 1996/97. Nominal consumption growth is expected to slow in 1997/98 offset slightly by steady growth in residential investment and a rebound in tourist spending. Contributing to the GST growth is $80 million of GST on the ANZAC frigate now expected in 1997/98.

The forecasts for 1998/99 and 1999/2000 largely follow the growth of nominal income. Steady growth in nominal consumption, strong growth in residential investment and the GST payment on the second ANZAC frigate contribute to the growth in 1998/99.

*Table 3.9* - GST FORECASTS

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| | Actual | Estimated Actual | Forecast | Projection | Projection |
| GST revenue ($ million)_ | 7,262 | 7,716 | 8,023 | 8,521 | 8,866 |
| % growth | 6.7 | 6.3 | 4.0 | 6.2 | 4.0 |
| (% change, March years): | | | | | |
| Total nominal consumption | 6.1 | 5.2 | 4.6 | 5.4 | 4.2 |
| Residential investment | 8.3 | 5.3 | 6.2 | 11.1 | 7.3 |
| Tourist spending in New Zealand | 21.2 | (2.1) | 8.4 | 8.8 | 10.4 |
| Goods imports | 3.6 | (0.7) | 2.4 | 10.2 | 5.3 |
| Imputed rent | 12.6 | 3.9 | 4.3 | 6.0 | 5.5 |

Source: The Treasury

## Other Indirect Taxes

Tax revenue from excise is collected on the domestic production of tobacco, alcohol and petroleum fuels. Excise contributes slightly over half of the other indirect taxes. Forecasts of alcohol and tobacco excise reflect slowly declining consumption of alcohol and tobacco partially offset by increases in the excise rate owing to indexation.

Excise on petroleum fuels is forecast to grow slightly in 1997/98 and then taper off. This is owing to New Zealand’s only refinery operating near full capacity.

Customs duty contributes slightly over 25% of all other indirect taxes. Customs duty is estimated to have grown by 11.7% in 1996/97 as a result of high levels of imported passenger cars and refined petroleum products. In general, customs duty is expected to grow in line with total merchandise imports, with growth slowing in 1997/98, increasing swiftly in 1998/99, and then tapering off slightly in the last fiscal year.

*Table 3.10* - OTHER INDIRECT TAX FORECASTS

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| | Actual | Estimated Actual | Forecast | Projection | Projection |
| Total other indirect ($ million) | 3,716 | 3,734 | 3,847 | 4,023 | 4,167 |
| % growth | 4.3 | 0.5 | 3.0 | 4.6 | 3.6 |
| Excise duties | 1,875 | 1,786 | 1,818 | 1,837 | 1,848 |
| Customs duty | 843 | 942 | 968 | 1,075 | 1,163 |
| Other indirect | 998 | 1,006 | 1,061 | 1,111 | 1,156 |

Source: The Treasury

## Risks

Tax forecasts are inherently uncertain. Some tax bases are quite volatile, so there is always a degree of uncertainty about future revenues. Taken as a whole, variance in tax flows has been, in the past, the area which has had the greatest effect on fiscal results.

The principal risk to the revenue outlook is economic. Should economic growth be less than expected, wages and profits would be lower than expected. Lower wages would lead to lower source deductions. Because of the graduated personal income tax scale, taxes grow faster than wages in percentage terms and this has resulted in taxes growing faster than the economy in recent years. Slower economic growth would further reduce tax revenue growth by reducing the impact of the graduated income tax scale.

Company tax scales are not graduated, so taxes tend to move in line with profits. However, profits themselves are exceptionally sensitive to the economy. Since profits represent the comparatively small difference between income and expenditure, small changes in income lead to much larger changes in profits, and therefore company taxes.

Small-business income is like company profit in the sense that it represents the relatively small difference between income and expenditure. Consequently, small-business income is quite sensitive to the state of the economy, and provisional taxes paid by "other persons" also tend to be quite volatile.

Provisional taxpayers are also shifting the timing of their tax payments. Interest charges on the use of money have pushed most companies into more timely tax payments, although individual taxpayers are still responding to the new incentive structure. Shifts in timing make it difficult to interpret the future implications of recent tax payments.

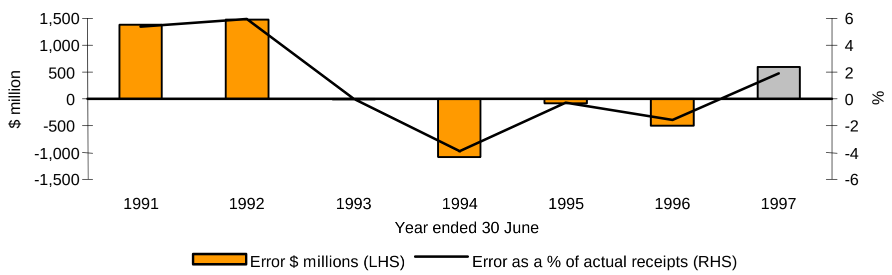
Judgments made concerning the extent to which the 1996/97 estimated actual outturn reflects overpaid tax in 1995/96 and the extent to which FITCs have already been offset against company tax in 1996/97 could also significantly alter the revenue projections.

Uncertainty about the impact of recent policy changes also introduces risk into the forecast. For example, the tax revenue depends upon the behavioural changes in response to the new penalities regime, which became effective from 1 April 1997.

### Accuracy of tax forecasts

The business cycle has had a large impact on the magnitude of forecasting errors over the period 1991 to 1997. There is a general tendency for forecasts to be too optimistic during a downturn and too pessimistic during the early stages of economic expansion. the Treasury's Budget forecasts of tax receipts display this pattern with receipts over-forecast for the years 1991 and 1992 and under-forecast for 1994. Recent improvements in the Treasury's forecasting accuracy reflect not only an improved understanding of taxpayer behaviour but also a less volatile period of economic growth in recent years.

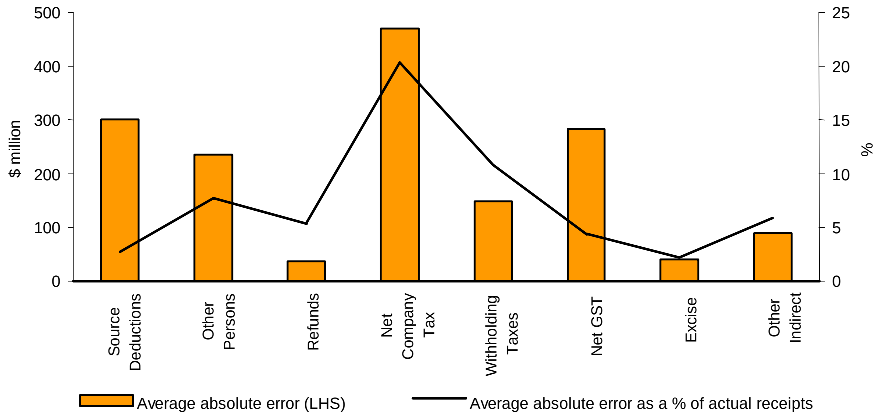
*Figure 3.5* - TOTAL TAX RECEIPTS FORECASTING ERROR ONE YEAR AHEAD




Source: The Treasury

Net company tax shows the largest percentage error of the various tax types, largely because small changes in economic growth can cause large changes to company tax. Even given perfect foresight about the state of the economy it would still be difficult to make accurate judgments about the level of corporate taxes. Errors in source deductions and GST are a relatively small percentage of actual receipts but are large in absolute terms as a result of the size of these tax types.

*Figure 3.6* - AVERAGE ABSOLUTE FORECASTING ERROR ONE YEAR AHEAD




Source: The Treasury

These charts are based on forecasts of tax receipts published in the *Budget Economic and Fiscal Updates* for the period 1990 to 1995. GST receipts have been adjusted to reflect the changes in the accounting treatment of inter-departmental expenses. They have also been adjusted for $150 million of July 1996 GST recorded in June 1996.

Notes: 1 Errors are calculated as forecast less outturn and therefore positive errors represent overestimation and negative errors represent underestimation.

2 Absolute values of errors are used as a basis for averaging so that positive and negative errors cancel each other out.

# Revenue Earned Through the Crown's Operations

## Introduction

Revenue earned through the Crown's operations is reported in the Forecast Statement of Financial Performance. This section discusses trends over the forecast period and analyses major changes since the *December Economic and Fiscal Update*.

Revenue earned through the Crown's operations comprises investment income, sales of goods and services, other operational revenue and unrealised gains and losses in the value of commercial forests. Table 3.11 summarises the forecasts for these components. Notes 3 and 4 to the Forecast Financial Statements on page 218 provide a breakdown of investment income and other operational revenue.

Revenue earned through the Crown's operations is forecast to increase slightly over the forecast period from 1997/98 onward. This reflects modest growth of investment income, with moderate increases in both interest income from student loans and dividends from SOEs. Lower revenue in 1997/98 relative to 1996/97 principally reflects the large special dividends received in 1996/97, as well as lower interest income from smaller holdings of securities and lower interest rates.

Upward revisions of investment income since the *December Update* also reflect the combined effect of moderate increases in interest and dividend income. The higher level of interest income derives from increased earnings on securities and student loans.

In addition to the modest increases in investment income, other operational revenue is also up relative to the *December Update* owing to higher recoveries from Accident Rehabilitation Compensation Insurance Corporation (ARCIC). Following a policy change, ARCIC is required to pay the Crown for the costs of public health acute services provided to earners. Operational revenue from these payments is, however, fiscally neutral, as it is offset by changes in the size of ARCIC surpluses.

*Table 3.11* - REVENUE EARNED THROUGH THE CROWN'S OPERATIONS

| | 1995/96 | 1996/97 | | 1997/98 | | 1998/99 | | 1999/2000 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Forecast | | Forecast | | Projection | | Projection | |
| ($ million) | Actual | DEFU | Actual | DEFU | Budget | DEFU | Budget | DEFU | Budget |
| Investment income | 1,606 | 1,621 | 1,590 | 1,083 | 1,146 | 1,095 | 1,188 | 1,147 | 1,294 |
| Sales of goods and services | 662 | 635 | 657 | 623 | 643 | 637 | 653 | 648 | 662 |
| Other operational revenue | 410 | 342 | 386 | 303 | 352 | 295 | 336 | 289 | 326 |
| Unrealised (losses)/gains in the value of commercial forests | (87) | 8 | 8 | .. | .. | .. | .. | .. | .. |
| **Total Revenue Earned through the Crown's Operations** | **2,591** | **2,606** | **2,641** | **2,009** | **2,141** | **2,027** | **2,177** | **2,084** | **2,282** |

Source: The Treasury

## Investment Income

Table 3.12 summarises the forecasts for the components of investment income.

*Table 3.12* - INVESTMENT INCOME

| | 1995/96 | 1996/97 | | 1997/98 | | 1998/99 | | 1999/2000 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Forecast | | Forecast | | Projection | | Projection | |
| ($ million) | Actual | DEFU | Actual | DEFU | Budget | DEFU | Budget | DEFU | Budget |
| Interest | 802 | 702 | 642 | 526 | 555 | 523 | 608 | 543 | 632 |
| Dividends | 709 | 895 | 906 | 557 | 591 | 572 | 580 | 604 | 662 |
| Other | 95 | 24 | 42 | .. | .. | .. | .. | .. | .. |
| **Total Investment Income** | **1,606** | **1,621** | **1,590** | **1,083** | **1,146** | **1,095** | **1,188** | **1,147** | **1,294** |

Source: The Treasury

### *Forecast Trend*

Investment income, increased in 1996/97 by special dividends received from Contact Energy, ECNZ and Works Corporation, is lower in 1997/98, but increases modestly from $1.146 billion in 1997/98 to $1.294 billion in 1999/2000. This mainly reflects:

- rising interest income from an increasing volume of student loans
- an increase in 1999/2000 of dividends received from SOEs, particularly Contact Energy. This outyear increase in dividends reflects an increase in anticipated profits over the forecast period.

### *Changes since December Update*

Compared with the *December Update*, investment income is expected to be higher by $63 million in 1997/98, $93 million in 1998/1999 and $147 million in 1999/2000. Sources of divergence from the *December Update* forecasts include:

- an increase in the volume of foreign-currency securities, as sales of securities for the purpose of debt repayment are lower than previously forecast. However, additional interest income from securities will be matched by correspondingly higher interest expenses on a larger stock of outstanding debt
- higher interest income from student loans as a result of higher interest rate forecasts and growth in volume of outstanding loans
- larger dividends from SOEs, particularly ECNZ in 1997/98 following its higher forecast surplus for 1996/97 and for Contact Energy in 1999/2000.

## Surplus from State-Owned Enterprises and Crown Entities

Financial results of SOEs and Crown entities are combined using the equity basis of accounting.

The forecast net surplus/deficits of SOEs and Crown entities are reported as a single line in the Forecast Statement of Financial Performance. The Crown’s ownership position is reported as a single line in the Forecast Statement of Financial Position.

Dividends, including those received from SOEs and Crown entities, are reported as investment income in the Statement of Financial Performance. SOE and Crown entity dividends are deducted from the surpluses recorded to arrive at a net figure that is added to the investment in SOEs and Crown entities. Dividends of SOEs and Crown entities have no impact on the operating balance.

*Table 3.13* - SURPLUS/DIVIDENDS OF SOES AND CROWN ENTITIES

| | 1995/96 | 1996/97 | | 1997/98 | | 1998/99 | | 1999/2000 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Forecast | | Forecast | | Projection | | Projection | |
| ($ million) | Actual | DEFU | Actual | DEFU | Budget | DEFU | Budget | DEFU | Budget |
| Surplus of SOEs | 577 | 617 | 626 | 621 | 585 | 660 | 612 | 720 | 679 |
| Dividends | (690) | (819) | (813) | (422) | (449) | (446) | (450) | (478) | (521) |
| **Net (Deficit)/Surplus Attributable to SOEs** | **(113)** | **(202)** | **(187)** | **199** | **136** | **214** | **162** | **242** | **158** |
| Surplus of Crown entities | 128 | 531 | 595 | 530 | 477 | 590 | 580 | 630 | 685 |
| Dividends | (17) | (75) | (91) | (134) | (136) | (125) | (128) | (126) | (139) |
| **Net Surplus Attributable to Crown entities** | **111** | **456** | **504** | **396** | **341** | **465** | **452** | **504** | **546** |
| **Total Net (Deficit)/Surplus attributable to SOEs and Crown entities** | **(2)** | **254** | **317** | **595** | **477** | **679** | **614** | **746** | **704** |

Source: The Treasury

## *Forecast Trend*

Following a year of strong growth in 1996/97, Crown entity surpluses fall by $118 million in 1997/98. The decline is largely recouped in 1998/99 and continues to grow steadily in 1999/2000. This forecast trend principally reflects:

- substantial annual movements in ARCIC's operating balance, resulting from offsetting effects of shrinking surpluses for the earners' and motor vehicle accounts, combined with stable and later growing surpluses for the employers' account based on current premium levels. The aggregate ARCIC surplus falls by $83 million in 1997/98 but climbs by $105 million over the following two years
- smaller Crown health enterprise (CHE) deficits in 1998/99 and 1999/2000 resulting from improved cost controls and revenue growth. CHE deficits are forecast to decrease from $218 million in 1997/98 to $170 million in 1998/99 and $132 million in 1999/2000.

SOE surpluses follow a similar path, but with substantially less variation. The SOE surplus grows from $626 million in 1996/97 to $679 million in 1999/2000.

Following payment of special dividends by Contact Energy, ECNZ and Works Corporation in 1996/97, dividends from SOEs fall to a steadier medium-term level in 1997/98 and show moderate growth in 1999/2000 with larger dividends from Contact Energy in that year.

Aggregate dividends from Crown entities are smaller and, on the whole, exhibit little significant change during the forecast period.

## Changes since *December Update*

Compared with the *December Update*, gross surplus attributable to Crown entities is higher by $64 million in 1996/97, is lower by a similar amount in 1997/98, remains largely unchanged in 1998/99 and then is higher by $55 million in 1999/2000. The principal modifications are:

- higher surpluses for ARCIC throughout the period. New forecast assumptions include fewer claimants and improved rates of return to self support
- larger than previously anticipated deficits for CHEs in 1997/98, 1998/99 and 1999/2000, as updated forecasts are based on new 1997/98 business plans.

Relative to the *December Update*, the total surplus of SOEs is down by $36 million in 1997/98, $48 million in 1998/99 and $41 million in 1999/2000, with forecast revisions attributable to:

- reduced 1998/99 surplus from Contact Energy owing to increased competition
- lower forecast surpluses from New Zealand Post resulting primarily from lower than previously expected revenue growth in the letters markets mainly because of lower forecast GDP growth
- outyear improvements in surpluses of ECNZ in 1998/99 and 1999/2000 owing to revised business forecasts.

There are no significant changes in dividends from Crown entities. For SOEs, the only significant modifications since the *December Update* are the higher dividends paid by ECNZ in 1997/98 and by Contact Energy in 1999/2000.

# Revenue Appendix

## Appendix A: IRD Forecasts

### Inland Revenue Department forecasts

The official forecasts discussed in this chapter are produced by the Treasury. However, an alternative set of forecasts was prepared by Inland Revenue. These independent forecasts were developed at the same time as the Treasury's forecasts and were used in the Treasury's quality assurance process.

Overall, the Treasury's forecasts are higher in every year. In 1996/97, the difference is quite small, just $31 million. This is because both sets of forecasters had actual data for 10 months of the year when the forecasts were finalised.

Over time, the difference between departments grows, and by the last year of the forecast, the difference reaches $697 million. While this difference is significant in dollar terms, it amounts to less than 2% of total revenue, and is well within the range of error experienced in forecasts just one year ahead.

The Treasury and Inland Revenue have rather different views of some tax types. the Treasury's forecasts for individual income taxes are $88 million lower than Inland Revenue's for the Budget year, 1997/98, but become $392 million larger by the end of the forecast. the Treasury's company tax forecasts are also higher, but by decreasing amounts.

In forecasting company taxes, Inland Revenue uses an approach that focuses on corporate earnings forecasts for individual companies and in each industry sector. In contrast, the Treasury's approach is driven largely by macroeconomic forecasts of the overall operating surplus. Different judgments about taxpayers' responses to ongoing reductions in tax rates, and about corporate taxpaying behaviour, also contribute to the difference in forecasts.

A table showing the detailed Treasury and Inland Revenue forecasts follows.

## *Table 3.14* - COMPARISON BETWEEN THE TREASURY AND IRD FORECASTS OF TAX REVENUE (ACCRUALS)

| ($ million) | 1995/96 Actual | 1996/97 Estimated Actual Treasury | 1996/97 Estimated Actual IRD | 1997/98 Forecast Treasury | 1997/98 Forecast IRD | 1998/99 Projection Treasury | 1998/99 Projection IRD | 1999/2000 Projection Treasury | 1999/2000 Projection IRD |
|---|---|---|---|---|---|---|---|---|---|
| **Direct Tax** | | | | | | | | | |
| *Individuals* | | | | | | | | | |
| Source deductions | 12,539 | 12,265 | 12,300 | 12,680 | 12,755 | 12,466 | 12,430 | 13,263 | 13,090 |
| Other persons | 3,310 | 3,346 | 3,350 | 3,332 | 3,400 | 3,399 | 3,340 | 3,594 | 3,430 |
| Refunds | (550) | (618) | (659) | (680) | (721) | (705) | (737) | (705) | (732) |
| Fringe benefit tax | 327 | 340 | 334 | 348 | 334 | 363 | 343 | 377 | 349 |
| *Subtotal: individuals* | *15,626* | *15,333* | *15,325* | *15,680* | *15,768* | *15,523* | *15,376* | *16,529* | *16,137* |
| Company tax (net) | 4,063 | 3,428 | 3,435 | 4,093 | 3,750 | 4,517 | 4,245 | 4,736 | 4,565 |
| *Withholding tax* | | | | | | | | | |
| Residents' interest income | 984 | 1,011 | 986 | 924 | 913 | 952 | 940 | 926 | 926 |
| Non-residents' income | 491 | 827 | 830 | 619 | 613 | 665 | 620 | 684 | 630 |
| Residents' dividend income | 30 | 44 | 43 | 44 | 30 | 44 | 25 | 44 | 25 |
| Foreign-source dividends | 59 | 111 | 113 | 36 | 60 | 38 | 75 | 40 | 75 |
| *Subtotal: withholding tax* | *1,564* | *1,993* | *1,972* | *1,623* | *1,616* | *1,699* | *1,660* | *1,694* | *1,656* |
| Total income tax | 21,253 | 20,754 | 20,732 | 21,396 | 21,134 | 21,739 | 21,281 | 22,959 | 22,358 |
| *Other direct tax* | | | | | | | | | |
| Estate and gift duties | 3 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Land tax | (1) | .. | .. | .. | .. | .. | .. | .. | .. |
| *Subtotal: other direct tax* | *2* | *1* | *1* | *1* | *1* | *1* | *1* | *1* | *1* |
| **Total Direct Tax** | **21,255** | **20,755** | **20,733** | **21,397** | **21,135** | **21,740** | **21,282** | **22,960** | **22,359** |
| **Indirect Tax** | | | | | | | | | |
| GST (Customs) | 2,802 | 2,820 | 2,840 | 2,971 | 3,020 | 3,239 | 3,233 | 3,415 | 3,318 |
| GST (IRD) | 4,460 | 4,896 | 4,867 | 5,052 | 5,007 | 5,282 | 5,265 | 5,451 | 5,489 |
| *Subtotal: GST* | *7,262* | *7,716* | *7,707* | *8,023* | *8,027* | *8,521* | *8,498* | *8,866* | *8,807* |
| Excise duties on: | | | | | | | | | |
| Alcohol drinks | 443 | 445 | 442 | 441 | 442 | 449 | 450 | 453 | 455 |
| Tobacco products | 655 | 644 | 644 | 663 | 670 | 664 | 676 | 668 | 678 |
| Petroleum fuels | 777 | 697 | 695 | 714 | 710 | 724 | 720 | 727 | 730 |
| *Subtotal: excise duties* | *1,875* | *1,786* | *1,781* | *1,818* | *1,822* | *1,837* | *1,846* | *1,848* | *1,863* |
| Customs duty | 843 | 942 | 930 | 968 | 965 | 1,075 | 1,030 | 1,163 | 1,095 |
| Road user charges | 410 | 434 | 440 | 482 | 480 | 510 | 510 | 540 | 540 |
| Motor vehicle fees and charges | 152 | 156 | 160 | 158 | 163 | 162 | 166 | 164 | 169 |
| Stamp and cheque duties | 216 | 186 | 190 | 192 | 200 | 204 | 208 | 211 | 213 |
| Gaming duties | 126 | 129 | 130 | 134 | 136 | 142 | 144 | 148 | 150 |
| Energy resources levy | 94 | 101 | 103 | 95 | 100 | 93 | 100 | 93 | 100 |
| *Subtotal: other indirect taxation* | *1,841* | *1,948* | *1,953* | *2,029* | *2,044* | *2,186* | *2,158* | *2,319* | *2,267* |
| **Total Indirect Tax** | **10,978** | **11,450** | **11,441** | **11,870** | **11,893** | **12,544** | **12,502** | **13,033** | **12,937** |
| **Total Tax** | **32,233** | **32,205** | **32,174** | **33,267** | **33,028** | **34,284** | **33,784** | **35,993** | **35,296** |
| Tax-to-GDP | 35.5% | 34.1% | 34.1% | 33.6% | 33.4% | 32.7% | 32.2% | 32.5% | 31.9% |

Sources: The Treasury and IRD

## *Table 3.15* - COMPARISON BETWEEN THE TREASURY AND IRD FORECASTS OF TAX RECEIPTS

| | 1996 | 1996/97 | | 1997/98 | | 1998/99 | | 1999/2000 | |
|---|---|---|---|---|---|---|---|---|---|
| | Actual | Estimated Actual | | Forecast | | Projection | | Projection | |
| ($ million) | | Treasury | IRD | Treasury | IRD | Treasury | IRD | Treasury | IRD |
| **Direct Tax** | | | | | | | | | |
| *Individuals* | | | | | | | | | |
| Source deductions | 12,576 | 12,255 | 12,300 | 12,645 | 12,755 | 12,501 | 12,430 | 13,228 | 13,090 |
| Other persons | 3,629 | 3,654 | 3,645 | 3,652 | 3,690 | 3,719 | 3,620 | 3,914 | 3,710 |
| Refunds | (842) | (936) | (979) | (1,000) | (1,040) | (1,025) | (1,065) | (1,025) | (1,060) |
| Fringe benefit tax | 322 | 335 | 330 | 343 | 332 | 358 | 341 | 372 | 347 |
| *Subtotal: individuals* | *15,685* | *15,308* | *15,296* | *15,640* | *15,737* | *15,553* | *15,326* | *16,489* | *16,087* |
| Company tax (net) | 4,177 | 3,368 | 3,355 | 4,013 | 3,650 | 4,474 | 4,145 | 4,656 | 4,465 |
| *Withholding tax* | | | | | | | | | |
| Residents' interest income | 946 | 986 | 971 | 914 | 898 | 952 | 925 | 926 | 911 |
| Non-residents' income | 481 | 827 | 803 | 619 | 593 | 665 | 600 | 684 | 610 |
| Residents' dividend income | 31 | 46 | 38 | 46 | 30 | 46 | 25 | 46 | 25 |
| Foreign-source dividends | 58 | 111 | 110 | 36 | 60 | 38 | 75 | 40 | 75 |
| *Subtotal: withholding tax* | *1,516* | *1,970* | *1,922* | *1,615* | *1,581* | *1,701* | *1,625* | *1,696* | *1,621* |
| Total income tax | 21,378 | 20,646 | 20,573 | 21,268 | 20,968 | 21,728 | 21,096 | 22,841 | 22,173 |
| *Other direct tax* | | | | | | | | | |
| Estate and gift duties | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Land tax | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| *Subtotal: other direct tax* | *1* | *1* | *1* | *1* | *1* | *1* | *1* | *1* | *1* |
| **Total Direct Tax** | **21,379** | **20,647** | **20,574** | **21,269** | **20,969** | **21,729** | **21,097** | **22,842** | **22,174** |
| **Indirect Tax** | | | | | | | | | |
| GST (Customs) | 2,784 | 2,805 | 2,830 | 2,961 | 3,010 | 3,234 | 3,221 | 3,415 | 3,310 |
| GST (IRD) | 4,484 | 4,566 | 4,537 | 5,012 | 4,970 | 5,262 | 5,243 | 5,436 | 5,471 |
| *Subtotal: GST* | *7,268* | *7,371* | *7,367* | *7,973* | *7,980* | *8,496* | *8,464* | *8,851* | *8,781* |
| Excise duties on: | | | | | | | | | |
| Alcohol drinks | 445 | 438 | 436 | 440 | 442 | 449 | 450 | 453 | 455 |
| Tobacco products | 654 | 656 | 668 | 663 | 670 | 664 | 676 | 668 | 678 |
| Petroleum fuels | 770 | 695 | 700 | 713 | 710 | 724 | 720 | 726 | 730 |
| *Subtotal: excise duties* | *1,869* | *1,789* | *1,804* | *1,816* | *1,822* | *1,837* | *1,846* | *1,847* | *1,863* |
| Customs duty | 834 | 932 | 910 | 959 | 950 | 1,068 | 1,020 | 1,157 | 1,090 |
| Road user charges | 409 | 454 | 475 | 482 | 480 | 510 | 510 | 540 | 540 |
| Motor vehicle fees and charges | 153 | 156 | 166 | 158 | 163 | 162 | 166 | 164 | 169 |
| Stamp and cheque duties | 180 | 220 | 224 | 191 | 200 | 203 | 208 | 211 | 213 |
| Gaming duties | 125 | 126 | 128 | 133 | 135 | 141 | 143 | 147 | 149 |
| Energy resources levy | 93 | 101 | 103 | 95 | 100 | 93 | 100 | 93 | 100 |
| Other | 9 | (8) | .. | .. | .. | .. | .. | .. | .. |
| *Subtotal: other indirect taxation* | *1,803* | *1,981* | *2,006* | *2,018* | *2,028* | *2,177* | *2,147* | *2,312* | *2,261* |
| **Total Indirect Tax** | **10,940** | **11,141** | **11,177** | **11,807** | **11,830** | **12,510** | **12,457** | **13,010** | **12,905** |
| **Total Tax** | **32,319** | **31,788** | **31,751** | **33,076** | **32,799** | **34,239** | **33,554** | **35,852** | **35,079** |
| Tax-to-GDP | 35.6% | 33.7% | 33.7% | 33.4% | 33.2% | 32.6% | 32.0% | 32.4% | 31.7% |

Sources: The Treasury and IRD