

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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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)(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.
- [6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [9] 9(2)(h) - to maintain legal professional privilege
- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
- [14] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.

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, a [3] appearing where information has been withheld in a release document refers to section 9(2)(a).

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



# Cabinet Business Committee

CBC Min (14) 1/8

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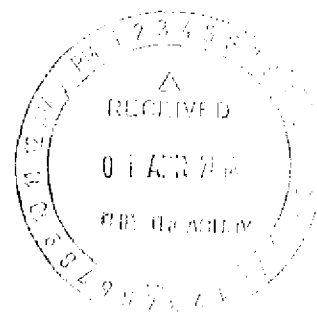
## Minute of Decision

*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.*

### Foreign Account Tax Compliance Act Implementation

Portfolio: Revenue

On 31 March 2014, the Cabinet Business Committee:



#### Background

- 1 **noted** that the United States' Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 by the United States of America (US) to combat tax evasion by US citizens;
- 2 **noted** that on 17 October 2012, the Cabinet External Relations and Defence Committee approved the negotiation of an inter-governmental agreement (IGA) with the US with regard to FATCA [ERD Min (12) 8/1];
- 3 [1]
- 4 **noted** that:
  - 4.1 on 30 September 2013, Cabinet approved amendments to domestic tax legislation to explicitly provide for the collection of FATCA-relevant information and for that information to be passed on to Inland Revenue [CAB Min (13) 34/10];
  - 4.2 the amendments referred to above now form part of the Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill, which is currently being considered by the Finance and Expenditure Committee;

#### Impact of implementing FATCA on Inland Revenue

- 5 **noted** that:
  - 5.1 implementing and administering the FATCA requirements, including Inland Revenue's obligations set out in the IGA, will have significant impacts on Inland Revenue;
  - 5.2 Inland Revenue will become the intermediary for data transfer between New Zealand financial institutions and the US Internal Revenue Service;

- 6 **noted** that as Inland Revenue is seeking funding for the costs associated with implementing the FATCA changes through Budget 2014, a single stage business case has been prepared, a copy of which is attached to the paper under CBC (14) 1 (the business case);
- 7 **noted** that Inland Revenue identified and evaluated a long list of options against set criteria, and that the following three options were short-listed:
- 7.1 Option 1: B2B Gateway – allows for unlimited New Zealand financial institutions (NZFIs) and multiple jurisdictions to exchange data automatically with Inland Revenue. This option is seen as wider than the delivery of FATCA, and comes with a number of operational and delivery risks. The additional appropriation necessary to implement this option (including depreciation expenses, capital charges and contingency) is \$20.5 million;
- 7.2 Option 2: Channel Choice – offers two channels for NZFIs to exchange data with Inland Revenue either by a self-service web browser file upload or a semi-automated B2B technology solution. The additional appropriation necessary to implement this option (including depreciation expenses, capital charges and contingency) is \$11.805 million;
- 7.3 Option 3: Single Channel – allows for NZFIs to exchange data using a self-service web browser file upload. This option may be unacceptable for some larger NZFIs that require an automatic exchange of data. In addition, this option does not allow for future growth and agility. The additional appropriation necessary to implement this option (including depreciation expenses, capital charges and contingency) is \$10.8 million;
- 8 **agreed** that Option 2 (paragraph 7.2 above) is the preferred solution, as outlined in the business case;
- 9 **noted** that:
- 9.1 there is a risk that the US Internal Revenue Service may extend the implementation date and the project may incur additional project costs as a result of the delay;
- 9.2 the contingency cost includes funds to accommodate a reasonable delay of up to three months;
- 10 **noted** that:
- 10.1 there is a risk that Inland Revenue may be required, in due course, to expand the exchange of information to include other OECD jurisdictions;
- 10.2 the scope and cost for this requirement are excluded from the business case;

### **Administration costs**

- 11 **noted** that implementing the changes proposed above carries a five-year cost of \$11.805 million (including depreciation and capital charge), from 2013/14 to 2017/18, which includes costs already incurred from July 2013 through March 2014;
- 12 **noted** that the cost forecast for 2013/14 is \$2.712 million, which includes operating costs of \$0.590 million and capital costs of \$2.122 million;

- 13 **noted** that the five-year cost of \$11.805 million referred to in paragraph 11 above includes operating costs of \$6.864 million (including depreciation and capital charge) and capital costs of \$4.941 million;
- 14 **noted** that there is also an ongoing annual operating cost of up to \$1.760 million (including depreciation and capital charge), starting from 2018/19;
- 15 **noted** that funding for the costs referred to in paragraphs 11 and 14 above is being sought through the Budget 2014 Package Cabinet paper, which is expected to be considered by Cabinet on 14 April 2014;
- 16 **noted** that these costs include an appropriate level of contingency, with some funding that will require approval by the Commissioner of Inland Revenue and some that will require approval by Joint Ministers, as outlined in the table below:

Details	\$m increase/(decrease)						2018/19 & Outyears
	2013/14	2014/15	2015/16	2016/17	2017/18	Five Year Total	
Estimated costs	2.712	2.337	1.853	1.318	1.324	9.544	1.322
Contingency subject to the Commissioner of Inland Revenue's approval	-	1.612	-	-	-	1.612	0.312
Contingency subject to approval of the Joint Ministers	-	0.649	-	-	-	0.649	0.126
<b>Total appropriation</b>	<b>2.712</b>	<b>4.598</b>	<b>1.853</b>	<b>1.318</b>	<b>1.324</b>	<b>11.805</b>	<b>1.760</b>

- 17 **noted** that Inland Revenue is also seeking to establish the approvals outlined in paragraph 16 above through the Budget 2014 Package Cabinet paper.

Reference: CBC (14) 1