

Reference: 20170395

15 January 2018



Thank you for your Official Information Act request, received on 24 November 2017. You requested the following:

Am I able to enquire as to the amount of payment the tax working group announced today are to receive?

The hourly rate of key members of the group, including expenses.

Extension of time limit

On 20 December 2017 I wrote to you advising that I was extending the time limit for deciding on your request by an additional 20 working days, to allow for consultation on your request.

Information Being Released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	16/11/2017	Cabinet Business Committee paper on establishing the Tax Working Group	Release in full

I have decided to release the document listed above. The document notes in paragraph 21 that the chair of the Tax Working Group will be paid a daily rate of \$1,062, and members will be paid a daily rate of \$800, consistent with the Cabinet Fees Framework.

Information Publicly Available

The following information is also covered by your request and is publicly available on the website of the Department of the Prime Minister and Cabinet. The information is part of the Cabinet Fees Framework, and notes that members appointed to bodies in

which the Crown has an interest – such as the Tax Working Group – are entitled to reimbursement of out of pocket travelling, meal and accommodation expenses actually and reasonably incurred:

Item	Date	Document Description	Website Address
2.	19/12/2012	Description of entitlements to reimbursement for expenses, under the heading “Reimbursing Allowances” in the Cabinet Office circular CO (12) 6: <i>Fees framework for members appointed to bodies in which the Crown has an interest</i>	https://www.dPMC.govt.nz/publications/co-12-6-fees-framework-members-appointed-bodies-which-crown-has-interest#_tocReimbursing_allowances

Accordingly, I have refused your request for this information under section 18(d) of the Official Information Act:

- *the information requested is or will soon be publicly available.*

Please note that this letter (with your personal details removed) and enclosed document may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Matt Cowan
Acting Manager, Tax Strategy

In Confidence

Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Cabinet Business Committee

Establishing the Tax Working Group

Proposal

1. The Government's plan for its first 100 days includes a commitment for Cabinet to establish a Tax Working Group. This paper proposes the establishment of such a group and the appointment of its chair.

Executive Summary

2. The group will consider improvements in the structure, fairness and balance of the tax system. It will examine the extent to which the tax system operates fairly in relation to taxpayers, income, assets and wealth.
3. We intend to appoint Sir Michael Cullen as chair of the group, and to identify the group's members in consultation with the Prime Minister, the Deputy Prime Minister, the Associate Ministers of Finance, and the chair of the group.
4. The group will meet for the first time in February 2018, and will make recommendations to Ministers in a final report in February 2019.

Terms of Reference

5. The group's proposed terms of reference are provided in the appendix.
6. We propose the terms be relatively broad, to ensure the group considers how measures to address particular concerns would interact with the rest of the tax system, and how they would fit into the overarching tax framework.
7. However, the terms will specifically exclude certain items, including increasing any income tax rate and any changes that would apply to the taxation of the family home or the land under it. The terms will also exclude looking at the adequacy of the personal tax system and its

interaction with the transfer system, as this would be considered as part of a separate review of Working for Families.

8. We propose the group operate in an independent and public way. We will stress to the group the importance that the voices of New Zealanders are heard as part of its work. We will encourage the group to undertake extensive outreach and consultation. In addition, the group will be able to seek independent advice and analysis on any matter within the scope of its terms of reference. The group will be supported by a secretariat of officials from the Treasury and Inland Revenue.
9. An Organisation form for the group is attached to this Cabinet paper.

Membership

Chair

10. We intend to appoint Sir Michael Cullen as chair of the group.
11. Sir Michael brings a wealth of experience as a former Deputy Prime Minister, Minister of Finance and Minister of Revenue.
12. A Candidate CV form for Sir Michael is attached to this Cabinet paper.

Members

13. We propose the chair be joined by no fewer than six and no more than eight members, comprised of tax experts, academics, economists, and others with knowledge of the impact of the tax system on individuals, communities, and businesses.
14. We intend to identify the group's members in consultation with the Prime Minister, the Deputy Prime Minister, the Associate Ministers of Finance, and the chair of the group.
15. Once the members have been identified, we intend to ask the Appointments and Honours Committee to consider our proposed appointments – though due to the limited number of sitting dates before Christmas recess, an alternative consultation process may be required.

Independent advisor

16. We propose the group also have its own independent advisor, who will help the group review analysis it receives from external sources, and assist the group with its deliberations and understanding of the issues.

Representativeness of Appointments

17. We can confirm that an appropriate process has been followed in selecting Sir Michael as the chair of the group. In summary, that process comprised

consultation with Cabinet colleagues and consideration of the skills and profile needed to chair the group.

18. The group's members are yet to be appointed but we can confirm that an appropriate process will be followed in selecting them. In addition to consulting with Cabinet colleagues and the group's chair, the members' representativeness will be considered alongside the skills and perspectives they can bring to the group.

Conflict of interest

19. We can confirm that appropriate enquiries concerning Sir Michael's conflicts of interest have been carried out. No conflicts have been identified other than having investments that are subject to tax, which cannot be avoided in a review of the tax system.
20. Similar enquiries will be made concerning the members' conflicts of interest. If the group considers matters that affect a member's particular investment in a material way, that will be disclosed at the time.

Remuneration

21. The group will be classified as a Group 4 Level 1 body under the Cabinet Fees Framework. We propose the chair be paid a daily rate of \$1,062, and the members be paid a daily rate of \$800, which is consistent with the fees framework.
22. These rates reflect the mix of skills, knowledge, and experience of the group's chair and members, as well as the scope and complexity of the group's work, and the high level of public interest in the group. The State Services Commission has provided advice on the level of remuneration.
23. We propose that the chair's and members' appointments be effective from 1 February 2018 until the group provides its final report to Ministers, which is scheduled to be in February 2019.

Timing

24. We intend to identify and appoint the group's members by the end of the year, ahead of the group's first meeting in February.
25. The indicative timeline for the group's work, and the advancement of any subsequent government proposals, is set out below. This follows through on commitments made in the election campaign that the implementation of any changes would be in the 2021 tax year:

December 2017	Tax Working Group established Chair and members appointed
February 2018	First meeting Call for Submissions released
September 2018	Interim Report released for consultation
February 2019	Final meeting Final Report provided to Ministers
April 2019	Cabinet decisions on group's recommendations
April to August 2019	Consultation on government proposals (if any)
October 2019	Bill introduced
July 2020	Legislation passed and enacted
April 2021	Implementation

Consultation

26. The Treasury, Inland Revenue, and the State Services Commission were consulted in the preparation of this paper. The Department of the Prime Minister and Cabinet was informed.

Financial Implications

27. New funding of \$4 million is sought to fund the initiative outlined in this paper. This includes both the direct costs of running the group, and additional costs for the Treasury in relation to setting up and supporting the group.
28. This new funding of \$4 million will adversely affect the Crown's operating balance and net debt by the same amount.
29. In addition to the costs noted above, the Treasury and Inland Revenue intend to allocate up to six existing full-time equivalent staff each to provide a full-time secretariat for the group, at a cost of approximately \$1 million to each agency. These costs, as well as travel and accommodation costs for the secretariat to support external events, will be met within existing agency baselines through reprioritisation.

30. Any unspent funding after the group is wound-up will be returned to the Crown.

Human Rights

31. There are no human rights implications arising from this paper.

Legislative Implications

32. There are no legislative implications arising directly from these proposals. If, following the provision of the group's final report, the government brings forward proposals for legislative change, a further Cabinet paper will be provided.

Regulatory Impact Analysis

33. A Regulatory Impact Analysis is not required as this Cabinet paper does not include a government regulatory proposal.

Gender Implications

34. There are no gender implications arising from this paper.

Disability Perspective

35. There are no disability implications arising from this paper.

Publicity

36. A press release announcing the group's chair, members and terms of reference will be issued once the members have been confirmed.

Recommendations

37. We recommend that the Committee:
1. **agree** that a Tax Working Group be established to consider improvements in the structure, fairness and balance of the tax system and report to Ministers on these issues
 2. **note** the proposed terms of reference of the Tax Working Group attached to this Cabinet paper
 3. **authorise** the Minister of Finance and the Minister of Revenue to make minor editorial changes to the terms of reference as necessary
 4. **note** the Minister of Finance and the Minister of Revenue's intention to appoint Sir Michael Cullen as chair of the group

5. **note** the Minister of Finance and the Minister of Revenue's intention to identify the group's members in consultation with the Prime Minister, the Deputy Prime Minister, the Associate Ministers of Finance, and the chair of the group
6. **note** the Minister of Finance and the Minister of Revenue's intention to ask the Appointments and Honours Committee to consider the appointment of the proposed members of the group once they have been identified, but that, due to the limited number of sitting dates before Christmas recess, an alternative consultation process may be required
7. **note** the Minister of Finance and the Minister of Revenue propose a daily remuneration rate of \$1,062 for the group's chair, and \$800 for the group's members, and that this is consistent with the Cabinet Fees Framework
8. **note** the Associate Minister of Finance (Hon Dr David Clark), acting as the Minister of Finance where the Minister of Finance as appropriation Minister is conflicted, has approved the establishment of a new Multi-category appropriation "Tax Working Group" in Vote Finance, to be administered by the Treasury and with the Minister of Finance as appropriation Minister, to consider improvements in the structure, fairness and balance of the tax system
9. **note** the Minister of Finance, the Minister of Revenue and the Associate Minister of Finance have jointly agreed that the single overarching purpose of this appropriation is to enable the Tax Working Group to consider and recommend improvements in the structure, fairness and balance of the tax system

10. **note** the Minister of Finance and the Associate Minister of Finance have jointly agreed that the categories for this appropriation be as follows:

Name	Type	Scope
Tax Working Group – Provision of Support and Advice	Departmental Output Expense	This category is limited to providing support and advice to the Tax Working Group.
Tax Working Group – Direct Costs	Non-departmental Output Expense	This category is limited to the direct costs of the tax working group.

11. **approve** the following changes to appropriations to provide for the new Multi-category appropriation described in recommendations 8, 9 and 10 above, with a corresponding impact on the operating balance and net debt:

Vote Finance Minister of Finance	\$million– increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 & Outyears
Multi-Category Expenses and Capital Expenditure:					
Tax Working Group MCA					
Departmental Output Expenses:					
Tax Working Group – Provision of Support and Advice	1.920	1.280	-	-	-
Non-departmental Output Expenses:					
Tax Working Group - Direct Costs	0.480	0.320			
Total Multi-Category Expenses and Capital Expenditure: Tax Working Group MCA	2.400	1.600	-	-	-

12. **agree** that the expenses incurred under recommendation 11 above be managed against the operating and capital spending that will be reflected in the Half-Year Economic and Fiscal Update
13. **note** that consistent with its Budget Responsibility Rules, the Government will ensure that it is delivering a sustainable operating surplus across an economic cycle and reducing the level of net core Crown debt to 20% of GDP within the next five years, and
14. **agree** that the proposed changes to appropriations for 2017/18 should be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Hon Stuart Nash

Minister of Revenue

RELEASED UNDER OFFICIAL INFORMATION ACT

Appendix

Tax Working Group – Terms of Reference

The Tax Working Group has been established by the Government in order to examine whether there are further improvements in the structure, fairness and balance of the tax system to recommend.

The New Zealand tax system has been justifiably commended internationally for being a simple and efficient system. The Government's starting position is that the guiding principle for the New Zealand tax system – namely, that tax should operate neutrally and as much in the background as possible – is sound.

The Working Group will consider what improvements to this framework could improve the structure, fairness and balance of the tax system. In particular, the Working Group will consider the impact on the tax system of the likely economic environment over the next decade.

The Government has the following objectives for the tax system:

- A tax system that is efficient, fair, simple and collected
- A system that promotes the long-term sustainability and productivity of the economy
- A system that supports a sustainable revenue base to fund government operating expenditure around its historical level of 30 per cent of GDP
- A system that treats all income and assets in a fair, balanced and efficient manner, having special regard to housing affordability
- A progressive tax and transfer system for individuals and families, and
- An overall tax system that operates in a simple and coherent manner.

The Working Group should report to the Government on:

- Whether the tax system operates fairly in relation to taxpayers, income, assets and wealth
- Whether the tax system promotes the right balance between supporting the productive economy and the speculative economy
- Whether there are changes to the tax system which would make it more fair, balanced and efficient, and
- Whether there are other changes which would support the integrity of the income tax system, having regard to the interaction of the systems for taxing companies, trusts, and individuals.

In examining the points above, the Working Group should consider in particular the following:

- The economic environment that will apply over the next 5-10 years, taking into account demographic change, and the impact of changes in technology and employment practices, and how these are driving different business models, and
- Whether a system of taxing capital gains or land (not applying to the family home or the land under it), or other housing tax measures, would improve the tax system.
- Whether a progressive company tax (with a lower rate for small companies) would improve the tax system and the business environment.
- What role the taxation system can play in delivering positive environmental and ecological outcomes, especially over the longer term.

In considering the matters above, the Working Group should have due regard to the overall structure of the tax system to ensure it is fair, balanced and efficient, as well as simple for taxpayers to understand and comply with their tax obligations.

The following are outside the scope of the Working Group's review:

- The Goods and Services Tax
- Increasing any income tax rate
- Inheritance tax
- Any other changes that would apply to the taxation of the family home or the land under it, and
- The adequacy of the personal tax system and its interaction with the transfer system (this will be considered as part of a separate review of Working for Families).

In addition, the focus of the Working Group should not be on more technical matters already under review as part of the Tax Policy Work Programme, including:

- International tax reform under the Base Erosion and Profit Shifting agenda, and
- Policy changes as part of Inland Revenue's Business Transformation programme.

The Working Group will be able to recommend further reviews be undertaken on specific issues which the group considers it has not been able to explore sufficiently, or that were excluded from its terms of reference but which could benefit from being considered in the context of its recommendations.

The Working Group will be supported by a secretariat of officials from Treasury and Inland Revenue, and it will be able to seek independent advice and analysis on any matter within the scope of its Terms of Reference. The Working Group will have an independent advisor to analyse the various sources of advice received by the Working Group and help to analyse and distil the information to assist the Working Group's deliberations. The Working Group will be expected to engage with the public in developing its recommendations.

The Working Group should have its first meeting no later than February 2018, issue an interim report to the Minister of Finance and Minister of Revenue no later than September 2018, and issue a final report to the Minister of Finance and Minister of Revenue no later than February 2019. These dates may be varied with the consent of the Minister of Finance.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT