TE TAI ŌHANGA
THE TREASURY

Reference: 20200117

14 April 2020

s9(2)(a)

Thank you for your Official Information Act request, received on 13 March 2020. You requested the following:

> *"a copy of the September 2019 briefing paper mentioned in this NBR article and, a copy of the Tax Policy Work Programme prepared by Associate Finance Minister David Parker".*

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	23 September 2019	Aide Memoire T2019/2987: Associate Finance Work Programme on Tax Policy.	Partial release
2.	23 September 2019	Treasury Presentation – background for meeting on Associate Minister of Finance's tax policy delegation	Partial release

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials, and
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

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We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including the Treasury's own website.

Information to be withheld

There are additional documents covered by your request that I have decided to withhold in full under the following section of the Official Information Act:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials:

Item	Date	Document Description	Decision
1.	10 December 2019	Joint report: Distributional analysis	Withheld in full
2.	22 January 2020	Draft Report: Distributional analysis	Withheld in full
3.	14 February 2020	Aide Memoire: Data sources for estimating income	Withheld in full

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

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

Yours sincerely

Paul Quirke
Senior Analyst, Tax Strategy

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Reference: T2019/2987 SH-13-5-3

Date: 23 September 2019

To: Minister of Finance (Hon Grant Robertson)
Associate Minister of Finance (Hon David Parker)
Minister of Revenue (Hon Stuart Nash)

Deadline: (if any) 3.00pm on Wednesday 25 September.

Aide Memoire: Associate Finance Work Programme on Tax Policy

The Associate Minister of Finance (Hon David Parker) and Minister of Revenue are meeting with Treasury and Inland Revenue officials to discuss the Associate Finance work programme on tax policy. The meeting is at 3.00pm on Wednesday 25 September.

Officials expect the meeting to focus on the Associate Minister of Finance's priorities for his tax policy delegation and the process for establishing a work programme to support these priorities.

The Treasury has prepared the attached slides to support the meeting. s9(2)(g)(i)

s9(2)(g)(i)

s9(2)(g)(i)

Oscar Parkyn, Principal Advisor, Tax Strategy, s9(2)(k)
Mark Vink, Manager, Tax Strategy, s9(2)(k)

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Tax strategy

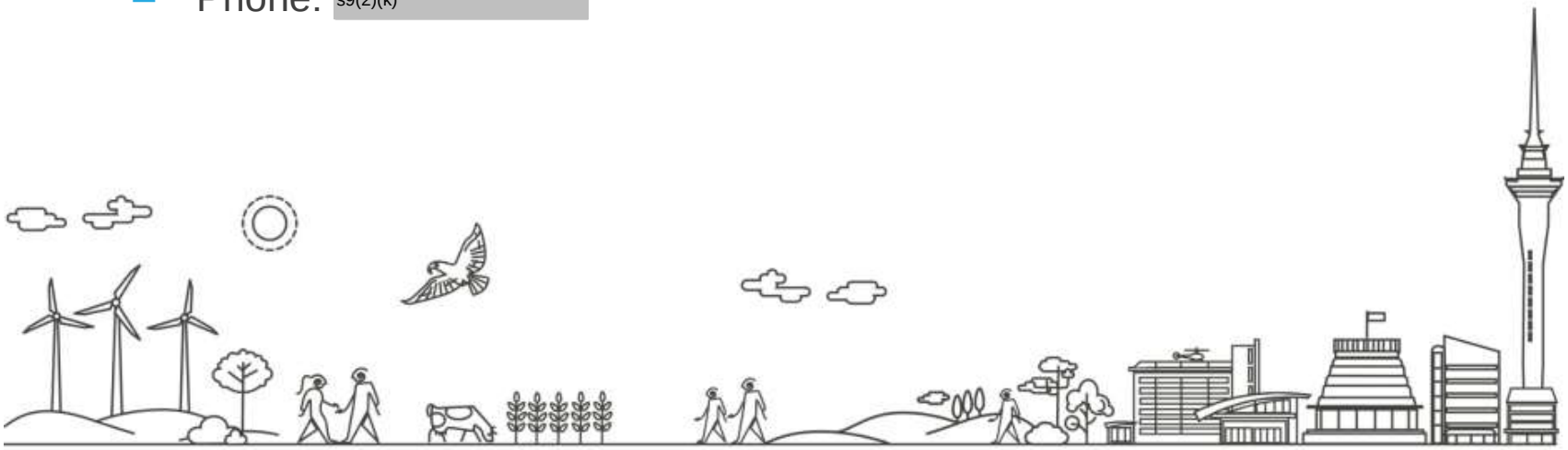
Background for meeting on the Associate Minister of Finance's tax policy delegation

The Treasury

September 2019

The Treasury

- The Treasury and Inland Revenue (IR) jointly provide tax policy advice to the Ministers of Finance and Revenue.
- The Treasury's Tax Strategy team comprises around 11 staff. IR has around 100 policy staff.
- The Treasury focusses on strategic policy issues, IR performance and brings an economic and fiscal lens to tax policy.
- Key contact: Mark Vink, Manager, Tax Strategy
  - Phone: s9(2)(k)



Purpose

- We would like to understand your priorities for your tax policy delegation.
- We can help you to scope a proposed work programme.
- s9(2)(g)(i)

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Discussion

Many of the issues facing the New Zealand tax system are, at heart, about capital taxation.

Capital taxation involves conflicting goals. There can be a trade-off between **productivity** goals and **social capital** considerations.

Productivity

- New Zealand is a capital-shallow economy. Taxes on capital income can reduce aggregate productivity by distorting saving and investment decisions.

Social capital

- Capital taxation is central to perceptions of the fairness of the tax system (both in terms of horizontal and vertical equity).

A challenge for policy-makers is to strike an appropriate balance between these two goals.

New Zealand's approach to capital income taxation is distinctive.

- New Zealand's approach to the taxation of capital income is relatively distinctive in the OECD.
  - Lack of retirement saving tax incentives
  - Lack of a general tax on capital gains.
  - Imputation
- Many OECD countries choose to have explicitly lower tax rates on capital income than labour income to promote efficiency. For example:
  - Nordic dual income tax approach (higher tax rate on labour income than capital income)
  - Tax treatment of retirement saving (eg, EET treatment for retirement saving accounts)
  - Payroll and social security taxes (which apply only to labour income)
  - Although New Zealand does not have the above measures, GST effectively taxes labour income and not capital income (in addition, a GST also effectively taxes existing wealth when wealth is converted to consumption).
- Many of these OECD countries also have greater levels of income redistribution than New Zealand. This is achieved through a combination of other forms of taxation, transfers and other social expenditures.
- However, global concern about inequality is igniting debate about the taxation of capital.

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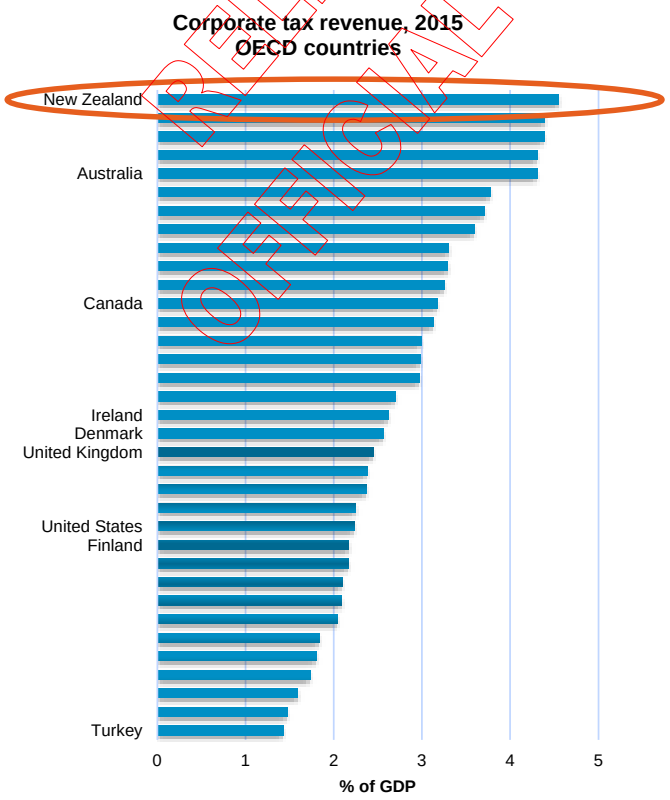
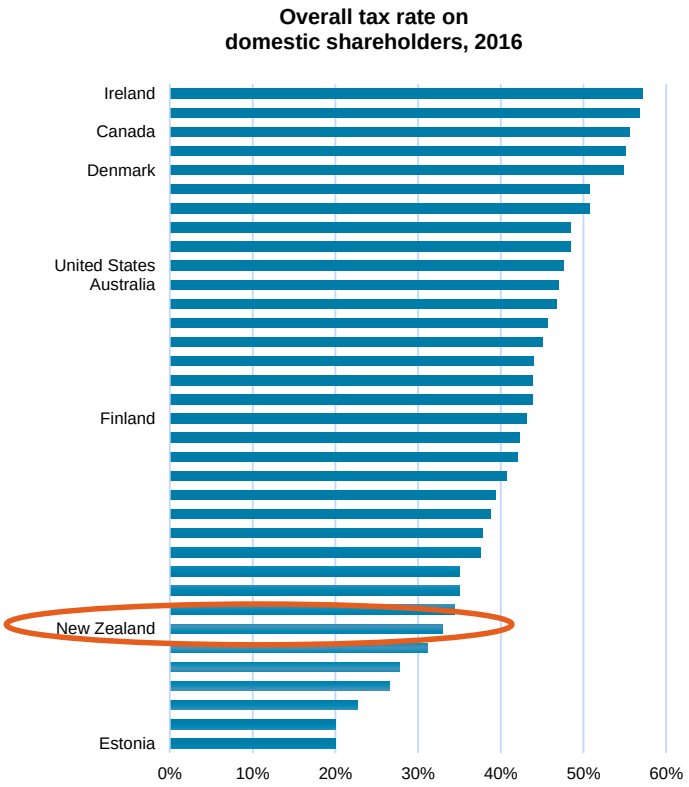
The story around New Zealand's business taxation is complex...

New Zealand has a high corporate rate, and relies heavily on the corporate base...



Source: OECD

…but, after imputation, New Zealand imposes relatively low rates of taxation on domestic shareholders.



Source: OECD

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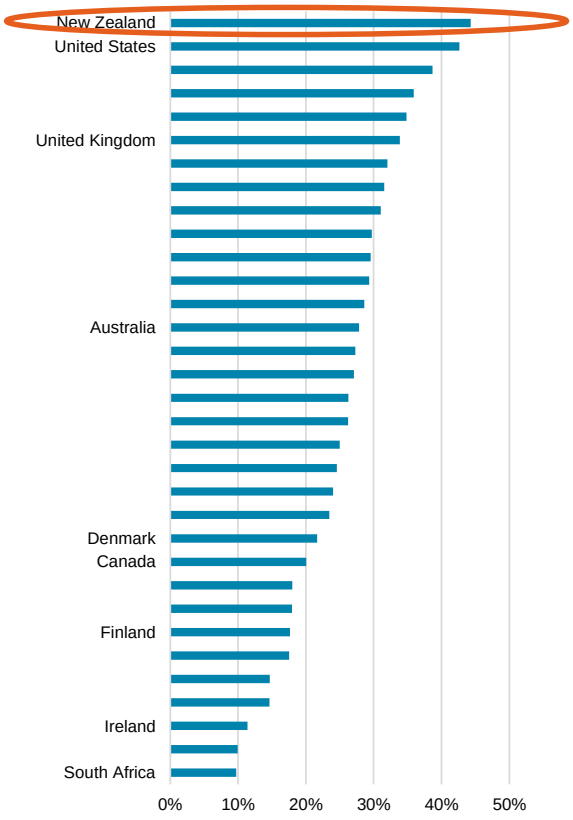
…but key issues relate to business investment…

- New Zealand is a capital shallow economy
  - The productive capital stock (eg, fixed assets such as buildings and machinery and intangible assets such as patents) is a driver of labour productivity. The capital stock is distinct from measures of wealth (which refer to the market value and ownership of assets and liabilities).
  - There have been persistently low rates of business investment in New Zealand over many decades (relative to the OECD average).
  - Low business investment is associated with New Zealand's poor productivity performance.
- Effective marginal tax rates on corporate income are higher than the OECD average.
  - Effective tax rates on corporate income are driven by the company tax rate, depreciation allowances and inflation.
  - Corporate taxation matters for investment because of the importance of foreign investment.
- Among OECD countries, New Zealand has the highest effective tax rate on investment in manufacturing plants.
  - The treatment of commercial and industrial building depreciation contributes to this outcome (as tax depreciation is lower than economic depreciation).
  - Deductions for building depreciation were abolished in 2010. There are now high effective tax rates on new building investment, which in turn affects the supply and price of the building stock.

Corporate marginal effective tax rates for manufacturing plants OECD countries, 2017



Source: OECD

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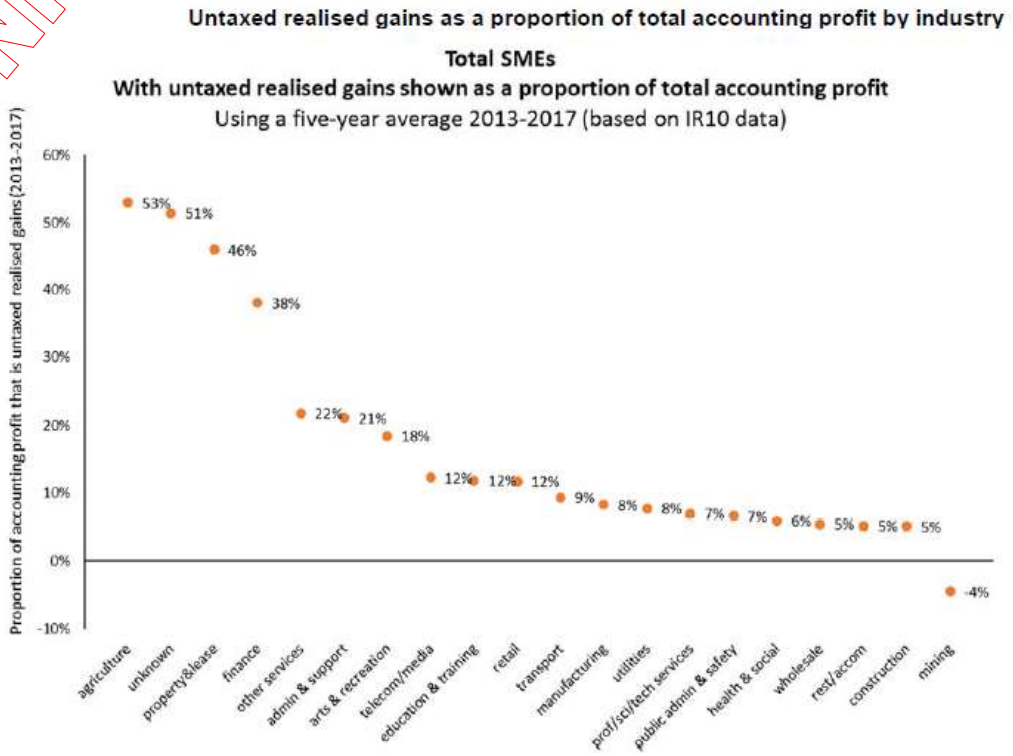
…and distorted investment signals…

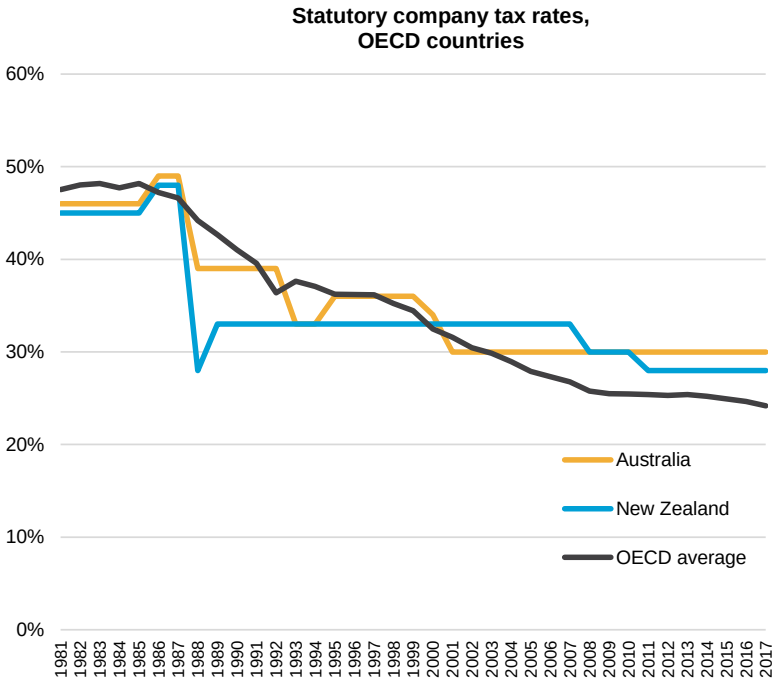
- The current tax system is likely distorting investment signals across firms and industries.
- The chart shows the proportion of SMEs' accounting profit that is untaxed realised capital gains.



Source: Tax Working Group Secretariat

…and pressures from globalisation.

- Company tax rates are falling around the world.
  - New Zealand is shielded from tax competition – at least to some degree – by economic geography.
  - Nevertheless, our policy settings are strongly affected by Australia's choices around business taxation.
- The result is downwards pressure on the company rate.
- Reductions in the company tax rate would create risks for the integrity of the tax system.
  - A large misalignment between the company rate and the top personal rate would create opportunities for tax evasion and avoidance.



Source: OECD

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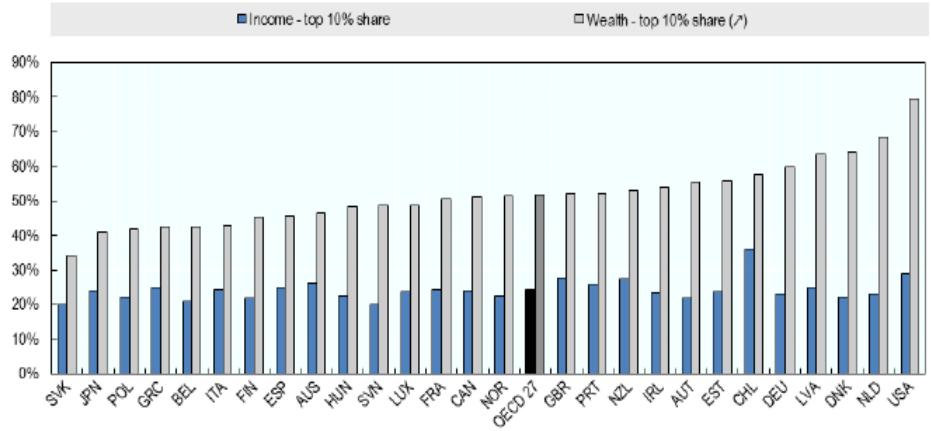
Wealth inequality is significant, although related to life-cycles and age

- Wealth is less equally distributed than income in New Zealand and all OECD countries.
- Wealth accumulation is related to income and saving over the life cycle. Therefore, there is a strong age pattern to wealth.
- Household wealth has been increasing over time. Older households have accumulated significant wealth that they can leave to younger generations through inheritances or gifts.
- Bequests may have an increased influence on household wealth and its distribution in the future. That may have important implications for social mobility and the intergenerational transmission of opportunity.

Shares of household income and wealth held by units in the top 10 of the distribution

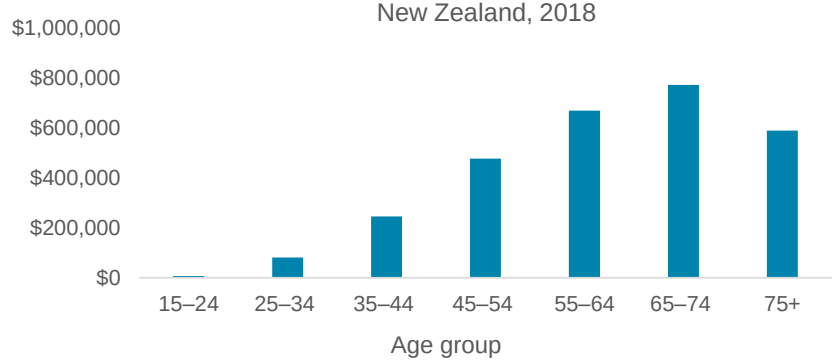
2015 or latest available year



Source: OECD

Median individual net wealth by age group

New Zealand, 2018



Source: Stats NZ, Household Economic Survey, year to 30 June 2018.

Pages 12-19 withheld under s9(2)(f)(iv)