

# The Treasury

## Budget 2023 Tax Initiatives Information Release

July 2023

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TE TAI ŌHANGA  
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# Minimum/deemed return tax

Slides for discussion on 10 November 2022



# What we want to cover with you

1. Check that we're focusing on right things for upcoming advice
2. Get any early reactions to some of the issues we are thinking about and understand if there is anything in particular you want advice on
3. Next steps

# Objectives

We understand you are motivated by three main objectives:

1. **Revenue.** Raise revenue to fund personal tax cuts or other government expenditure
2. **Distributional.** The additional tax is paid by those with high wealth and therefore those with high ability to pay
3. **Addressing uneven taxation.** Address how high wealth individuals can have relatively light taxation (primarily due to the non-taxation of most capital gains)

**Question:** Is this broadly right? Is there anything missing or incorrect?

# Broad outline of a deemed/minimum tax for high wealth individuals

We understand the option you want advice on is broadly:

1. For people with net worth above a threshold (e.g. net worth above \$5 million)
2. Their income tax liability is the *greater* of:
  - a. **Deemed return tax.** Calculate deemed income by taking their net wealth and multiplying by a deemed rate of return. This deemed income is then taxed based on the individual's personal tax scale.
  - b. **Current tax rules.** How much tax the person (or related people/entities) has already paid under existing income tax rules

There are a large number of design decisions for this tax. The next slide highlights some of those that are likely to be most significant.

**Question:** Is this broadly right? Is there anything missing or incorrect?

# We are considering the key design issues you would need to decide

- Below is a selection of some of the design issues we have identified on which we welcome any initial reaction.
- We will cover these in the next round of advice, as well as the fuller range of design issues.

## What is the asset base?

- All assets?
- Exempt family home?
- Exempt other personal assets e.g. vehicles?
- Only count business/investment assets that tend to be undertaxed (e.g. those that earn capital gains)?
- NZ assets owned by non-residents?

## How tax is calculated

- Attributing assets held in trusts
- Close companies
  - Valuation
  - Attributing company tax to individuals
  - Salaries of shareholder employees
- What is the deemed return rate?

## When – timing issues

- Issues when pay minimum tax in loss-making years but then person has higher taxable income in later years
- Firms going into downturns

**Question:** Do you have any initial reactions to these choices? Are there any particular aspects of these you want advice on?

# Policy considerations that we will advise on

Issue	Key issues we will explore
Revenue and distributional impact	<ul style="list-style-type: none"><li>• What is the revenue potential?</li><li>• Who is likely to be impacted (numbers, characteristics, etc.)?</li></ul>
Economic impact	<ul style="list-style-type: none"><li>• Neutrality across investment. Migration. How could design issues impact incentives (e.g. to list companies)? Incentives to invest in risky assets – start up losses, asymmetric treatment of profit and losses</li></ul>
Horizontal equity and other fairness issues	<ul style="list-style-type: none"><li>• What are the other competing fairness considerations?</li><li>• E.g. Neutrality across investments, impact of exemptions and design decisions, impact on taxpayers with low incomes, etc.</li></ul>
Compliance, administration, integrity	<ul style="list-style-type: none"><li>• What will be likely compliance cost of valuation and how many people are likely to need to value assets?</li><li>• How complex are rules likely to be?</li><li>• How will IR enforce these rules?</li><li>• How long do we expect to need for implementation?</li></ul>

**All of these policy issues are heavily impacted by design.**

As a result, our advice will be interim and change as a potential design is developed.

**There is also significant uncertainty in the impacts.** In particular, quantifying the impacts will be challenging.

**Question:** Are there any particular issues you want advice on?

# There are potentially a wider set of options depending on your objectives

- A couple of examples below could raise revenue progressively (although it is impossible to say to what extent without further work). Depending on design, the economic and compliance costs could be lower than a minimum tax.

## Capital gains tax

- As we have previously advised, taxing capital gains is likely to be the most effective means of raising revenue progressively and addressing uneven taxation.
- This could still be effective if it applied only to those with more than \$5m of wealth.

## Inheritance tax

- An inheritance tax would raise revenue progressively.
- If designed well it could raise revenue with relatively low economic costs.
- It would also require estimating the value of hard-to-value assets only on death rather than annually.

**Question:** Do you want us to advise you further on any other options?



# Next steps

- We will provide initial policy advice before Christmas to enable decision making in early 2023
- We would look to discuss these with you at a Joint Ministers meeting in early December
- We will work with your Offices on engagement in early 2023 to enable decision making by Budget, and if further engagement would be helpful in lead up to this advice.

## **Link to analytical projects:**

Our projects to improve distributional measures of taxes, economic income and wealth may help inform estimates of the fiscal and distributional impacts of a minimum tax policy.

However, there are strong safeguards on the use of taxpayer information and these projects cannot be used for enforcement purposes.