

The Treasury

Budget 2023 Tax Initiatives Information Release

July 2023

This document has been proactively released by the Treasury, Inland Revenue, Minister of Finance (Hon Grant Robertson) and Minister of Revenue (Hon David Parker) on the Treasury website at:

<https://www.treasury.govt.nz/publications/information-release/budget-2023-tax-initiatives>

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [33] appearing where information has been withheld in a release document refers to section 9(2)(f)(iv).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Taxation of the platform economy – financial impacts of legislative changes

Date:	16 September 2022	Priority:	High
Security level:		Report number:	IR2022/366

Action sought

	Action sought	Deadline
Minister of Finance	Agree to recommendations	Monday, 3 October 2022
Minister of Revenue	Agree to recommendations and forward to the Minister of Finance	Monday, 26 September 2022

Contact for telephone discussion (if required)

Name	Position	Telephone
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	[35]
James Grayson	Enterprise Leader Planning, Design and Delivery	
Darren Cheevers	Domain Lead Finance Services	
Graeme Morrison	Policy Lead	[39]

16 September 2022

Minister of Finance
Minister of Revenue

Taxation of the platform economy – financial impacts of legislative changes

Purpose and background

1. This report seeks your joint approval of departmental funding for the implementation of the taxation of the platform economy legislative changes, previously referred to as the taxation of the gig and sharing economy (CBC-22-MIN-0037 refers).
2. Cabinet has authorised the Minister of Finance and Minister of Revenue to agree up to \$28.400 million of additional funding for this change. We have updated the original costing based on further detailed analysis of the changes. We now estimate the implementation cost to be \$19.720 million.
3. As part of the Budget 2023 process we have continued work to identify cost pressures, savings and reprioritisation opportunities within our Vote. Based on our current analysis we propose self-funding \$11.610 million (\$3.290 million operating and \$8.320 million capital) of the estimated implementation costs for this initiative and are requesting funding for \$8.110 million.

\$million	Original cost	Revised cost		
	Total	Total	Self-fund	Requested
Operating	14.400	11.400	3.290	8.110
Capital	14.000	8.320	8.320	-
Total	28.400	19.720	11.610	8.110

4. As we progress through the Budget 2023 process, we will further refine our analysis of our multi-year funding position. Our financial position will reflect a post transformation organisation that has reduced in staff numbers, has a greater cost reliance on technology and has a level of sustainable funding capacity to leverage the transformation investment for future initiatives. Our analysis will also examine our capacity to self-fund some initiatives whilst retaining capital reserves for replacing significant assets in the future (e.g. our START system).
5. Our new START system is agile and enables system changes to be implemented in a more cost-effective way compared to our previous FIRST system. Some system changes will be relatively low in cost to implement. However, some changes such as further OECD information reporting and exchange frameworks (e.g. cryptocurrency and Pillar 1 and Pillar 2) have different disclosure contents (i.e. XML schemas) that limit the opportunity to scale existing capabilities to gain large up-front build cost efficiencies. We will continue to explore potential efficiencies with FAST Enterprises and other international revenue agencies who also use the same software (START). Separate reports, including financials, will be submitted on these and other policy initiatives that are currently being considered.

Background to the proposed legislative changes

6. The platform economy, or gig and sharing economy, refers to economic activity facilitated by digital platforms (commonly referred to as “apps”) which connect buyers with those who share their assets, skills, and labour. Common examples include short stay accommodation, ridesharing, and food and beverage delivery services.
7. In March 2022 a discussion document on the role of digital platforms in the taxation of the gig and sharing economy was released, with public consultation closing in late April 2022. Feedback was sought on proposals aimed at making it easier for people who earn income through digital platforms in the gig and sharing economy to comply with their tax obligations in New Zealand. Feedback was also sought on how GST should apply to these activities and whether there were opportunities to leverage digital platforms in the collection of GST on behalf of sellers on platforms.
8. On 4 July 2022, the Cabinet Business Committee (CBC) agreed final policy decisions on the taxation of the gig and sharing economy (CBC-22-MIN-0037 refers). The CBC decisions were confirmed by Cabinet on 25 July 2022 (CAB-22-MIN-0266 refers).
9. The legislative impacts of the policy decisions have been included in the Omnibus Tax Bill that was introduced into the house on 8 September 2022. As the Bill contains the annual income tax rates, it is expected this will pass before 31 March 2023.
10. The proposed legislative changes cover two main areas:
 - information reporting and exchange (an OECD framework), and
 - extending the current electronic marketplace rules for GST to also apply to taxable accommodation, ridesharing, and food and beverage delivery services.
11. Cabinet authorised the Minister of Finance and Minister of Revenue to agree:
 - up to \$28.400 million of additional departmental funding to Vote Revenue to meet the up-front and/or ongoing costs arising as a result of the above legislative changes.
 - how to manage the fiscal impacts (i.e. revenue increases) of the legislative changes.

Information reporting and exchange

12. Cabinet agreed to give legislative effect to the Organisation for Economic Co-operation and Development’s (OECD) “Model Rules for Reporting by Platform Operators with respect to Sellers in the Gig and Sharing Economy” and the optional module that includes the sale of goods (together, “the OECD’s rules”).
13. The legislative proposals include a penalty regime for New Zealand based digital platforms and sellers on those platforms that fail to comply with their obligations under the OECD’s rules.
14. It was agreed that the OECD’s rules should be implemented for the 2024 calendar year, with the first information exchange occurring in 2025.

Extending the electronic marketplace rules for GST to digital platforms facilitating accommodation and transportation services

15. Cabinet agreed to extend the rules that currently require electronic marketplaces to collect and return GST on behalf of suppliers of imported digital services and low value imported goods. Under the proposed legislation, those rules would also apply to supplies of taxable accommodation, transportation services (ridesharing and food and beverage delivery), and services closely connected with these services.
16. It was agreed that these changes would apply from 1 April 2024.

Financial implications – additional tax revenue

17. As previously noted, both policy proposals are expected to raise revenue: the information reporting and exchange framework is likely to raise an additional \$11 million each year, while the proposal to implement extended electronic marketplace rules for GST and digital platforms in the gig and sharing economy will likely raise \$47 million each year (CBC-22-MIN-0037 and CAB-22-MIN-0266 refer).

	\$million			
Crown revenue and receipts: Tax revenue	2022/23	2023/24	2024/25	2025/26 & Outyears
Information reporting and exchange	-	5.500	11.000	11.000
Extending the electronic marketplace rules for GST to digital platforms	-	11.750	47.000	47.000
Total operating	-	(17.250)	(58.000)	(58.000)

18. Cabinet has delegated the authority to joint Ministers to determine whether to recognise this additional revenue against the Tax Policy Scorecard (T2021/1273 refers) or as a pre-commitment against the Budget 2023 allowance. This decision will be confirmed at a later date as part of developing the Budget Policy Statement.

Financial implications – up-front build costs and ongoing administration costs

19. Cabinet noted the initial contingency-inclusive estimate of \$28.400 million for the up-front build costs and the ongoing administration costs (including depreciation and capital charge) for Vote Revenue from 2022/23 to 2025/26.
20. Cabinet authorised the Minister of Finance and Minister of Revenue to agree the final allocation of funding, up to this amount (recommendation 29 of CBC-22-MIN-0037 refers).
21. Cabinet has previously agreed that these additional departmental costs would be a pre-commitment against the Budget 2023 allowance (CBC-22-MIN-037 refers).
22. We have revised the costings to reflect the proposed legislative changes and further discussions with FAST enterprise who supply the software for our tax system (START).
23. The estimated administrative cost of the proposed changes over the 2022/23 to 2025/26 period are \$19.720 million, which is a reduction of \$8.680 million from our initial estimate in July 2022. This includes \$8.320 million for the capital system build, \$8.370 million for upfront and on-going administration costs, and \$3.030 million for depreciation and capital charge.

\$million	2022/23	2023/24	2024/25	2025/26 & Outyears	Total
Operating					
Upfront build	0.260	1.700	0.240	-	2.200
Ongoing	-	1.360	2.320	2.490	6.170
Depreciation	-	0.040	0.880	1.270	2.190
Capital charge		0.050	0.370	0.420	0.840
Total operating	0.260	3.150	3.810	4.180	11.400
Capital					
Upfront build	-	6.350	1.970	-	8.320
Total	0.260	9.500	5.780	4.180	19.720

24. The upfront build (capital and operating) costs of the legislative changes are \$10.520 million. The largest costs, of \$7.480 million in capital and \$2.170 million in operating, are for the system build (capital) of the information reporting and exchange capability. The build costs extend into 2024/25 with the development and testing occurring up until the first data exchange.
25. The ongoing administration (operating) costs associated with these changes are \$6.170 million for 2023/24 to 2025/26, exclusive of depreciation and capital charge.
26. For the extension to the electronic marketplace rules for GST, the most significant costs are ongoing: less than \$0.900 million is required to cover one-off build costs, but up to \$2.730 million will be required for the ongoing costs up to and including 2025/26. The ongoing cost is for 6 FTEs per annum over the period that covers the administrative effort such as customer contact, engagement with international and domestic platforms as well as downstream investigations and data collection.
27. Having carried-out further estimation work, the contingency for the upfront build cost has been marginally reduced from about 60% to 50%. The contingency reflects the level of risk and uncertainty at the present time, given that detailed design work is yet to be undertaken. Given the additional estimation work, the contingency applied to the on-going costs is also somewhat lower at 20%, rather than 30% applied to the original estimates.
28. The table below shows the breakdown of the revised costing of \$19.720 million compared to the initial cost estimate of \$28.400 million, a reduction of \$8.680 million. The majority of the reduction relates to capital build costs.

\$million	2022/23	2023/24	2024/25	2025/26 & Outyears	Total
Operating					
Initial cost estimate	-	4.820	4.840	4.740	14.400
Revised cost estimate	0.260	3.150	3.810	4.180	11.400
Change inc/(dec)	0.260	(1.670)	(1.030)	(0.560)	(3.000)
Capital					
Initial cost estimate	-	14.000	-	-	14.000
Revised cost estimate	-	6.350	1.970	-	8.320
Change inc/(dec)	-	(7.650)	1.970	-	(5.680)
Total change inc/(dec)	0.260	(9.320)	0.940	(0.560)	(8.680)

Financial implications – funding sources

29. As part of the Budget 2023 process we have continued work to identify cost pressures, savings and reprioritisation opportunities within our Vote. Our financial position has become clearer as we have closed our transformation programme, delivered the financial benefits and embedded our new operating model.
30. As we progress through the Budget 2023 process, we will further refine our analysis of our multi-year funding position. Our financial position will reflect a post transformation organisation that has reduced in staff numbers, has a greater cost reliance on technology and has a level of sustainable funding capacity to leverage the transformation investment for future initiatives. At this stage of our analysis we have identified that we will have a level of capital reserves and associated depreciation funding that can be reprioritised to fund some initiatives.
31. However, our analysis also indicates that in relation to our overall budget we will continue to have operating pressures relating to remuneration and inflationary pressures on our other operating costs, in particular our technology costs in outyears.
32. Our Budget 2023 cost pressures work will therefore focus on operating rather than capital funding. In assessing these pressures we will need to reprioritise existing funding towards compliance activities that were deferred through the COVID 19 response.
33. We will provide additional analysis on our capital and operating position as part of the Budget 2023 process. At this stage of the process our current analysis indicates we are in a position to self-fund \$11.610 million for capital, depreciation and capital charge costs. We are consequently seeking your joint approval for funding of \$8.110 million for operating costs.

Funding requested \$million	2022/23	2023/24	2024/25	2025/26 & Outyears	Total
Operating					
Ongoing	-	3.060	2.560	2.490	8.110
Total operating	-	3.060	2.560	2.490	8.110

Self-funded \$million	2022/23	2023/24	2024/25	2025/26 & Outyears	Total
Operating					
Operating	0.260	-	-	-	0.260
Depreciation	-	0.040	0.880	1.270	2.190
Capital charge	-	0.050	0.370	0.420	0.840
Total operating	0.260	0.090	1.250	1.690	3.290
Capital					
Upfront build	-	6.350	1.970	-	8.320
Total capital	-	6.350	1.970	-	8.320
Total	0.260	6.440	3.220	1.690	11.610

34. The table below shows the net impact of the additional tax revenue, previously approved by Cabinet, and the revised upfront build and ongoing costs. There is a net positive impact of \$113.530 million over four financial years for the full cost and a net positive impact of \$124.800 million based on additional costs only.

\$million	2022/23	2023/24	2024/25	2025/26 & Outyears	Total
Full cost					
Costs - total	0.260	9.500	5.780	4.180	19.720
Tax revenue	-	(17.250)	(58.000)	(58.000)	(133.250)
Net operating cost	0.260	(7.750)	(52.220)	(53.820)	(113.530)
Additional cost only					
Costs - additional	-	3.060	2.560	2.490	8.110
Tax revenue	-	(17.250)	(58.000)	(58.000)	(133.250)
Net operating cost	-	(15.190)	(55.440)	(55.510)	(124.880)

35. The table below shows the impacts on the operating balance and net debt.

	\$m - increase / (decrease)			
Vote Revenue	2022/23	2023/24	2024/25	2025/26 & Outyears
Operating balance and net debt impact	-	(14.190)	(55.440)	(55.510)
No impact	-	-	-	-
Total	-	(14.190)	(55.440)	(55.510)

Future information sharing changes

36. The OECD are also developing further information reporting and exchange frameworks. This includes one for cryptocurrency, which is a minimum standard (meaning it must be implemented) and potential reporting and exchange frameworks for Pillar 1 and Pillar 2.
37. Our new START system is agile and enables system changes to be implemented in a more cost-effective way compared to our previous FIRST system. Some system changes will be relatively low in cost to implement. However, some changes such as further OECD information reporting and exchange frameworks have different disclosure contents (i.e. XML schemas) that limit the opportunity to scale existing capabilities to gain large up-front build cost efficiencies. We will continue to explore potential efficiencies with FAST Enterprises and other international revenue agencies who also use the same software (START).
38. We will look for efficiencies in internal testing procedures and via increased use of automation. This however will not remove the requirement to test each exchange with other domestic or international entities as well as foreign jurisdictions, which constitutes a large portion of the required effort. It's worth noting that, the costing for the platform economy reflects an approximate reduction of about a third in the effort (workdays) required to deliver compared to what it took to deliver AEOI.
39. Separate reports, including financials, will be submitted on these and other policy initiatives that are currently being considered.

Consultation

40. The Treasury has been consulted on this report.

Recommended actions

We recommend that you:

- a) **note** that on 25 July 2022 Cabinet agreed the legislative changes for the taxation of the gig and sharing economy (platform economy), with these changes having been subsequently included in the Omnibus Tax Bill was introduced into the house on 8 September 2022, with the Bill expected to be enacted before 31 March 2023 (CBC-22-MIN-0037 refers).

Noted

Noted

- b) **note** that Cabinet authorised the Minister of Finance and Minister of Revenue to agree up to \$28.400 million of additional funding to Vote Revenue to meet the up-front and ongoing costs arising as a result of the above legislative changes.

Noted

Noted

- c) **note** that the revised cost to implement the taxation of the platform economy legislative changes are estimated to be \$19.720 million, a reduction of \$8.680 million compared to the original cost estimate.

Noted

Noted

- d) **agree** to increase spending to provide for the up-front build costs, ongoing implementation costs and increase in tax revenue associated with the legislation changes for the taxation of the platform economy noted in recommendation (a) above, with the following impacts on the operating balance and net debt:

Vote Revenue	\$m – increase / (decrease)			
	2022/23	2023/24	2024/25	2025/26 & Outyears
Operating balance and net debt impact	-	(14.190)	(55.440)	(55.510)
No impact	-	-	-	-
Total	-	(14.190)	(55.440)	(55.510)

Agreed/Not agreed

Agreed/Not agreed

Tax revenue impacts

- e) **note** that you have previously noted the following changes to tax revenue, with a corresponding impact on the operating balance and net debt, to introduce legislative changes for the taxation of the platform economy:

Vote Revenue Minister of Revenue	\$m – increase / (decrease)			
	2022/23	2023/24	2024/25	2025/26 & Outyears
Tax revenue	-	17.250	58.000	58.000
Total Operating	-	(17.250)	(58.000)	(58.000)

Noted

Noted

- f) **note** that Cabinet has delegated authority to joint Ministers to determine whether to recognise this additional revenue against the Tax Policy Scorecard or as a pre-commitment against the Budget 2023 allowance and that this decision will be confirmed at a later date as part of developing the Budget Policy Statement.

Noted

Noted

Appropriation impacts

- g) **note** that the revised cost to implement the taxation of the platform economy legislative changes of \$19.720 million includes \$8.320 million for the capital system build, \$8.370 million for upfront and on-going administration costs, and \$3.030 million for depreciation and capital charge.

Noted

Noted

- h) **note** that Inland Revenue will self-fund \$11.610 million for this initiative and are requesting funding of \$8.110 million.

Noted

Noted

- i) **approve** the following changes to appropriations to give effect to the decisions at recommendations (a) to (h) above:

Vote Revenue Minister of Revenue	\$m – increase / (decrease)			
	2022/23	2023/24	2024/25	2025/26 & Outyears
Multi-Category Expenses and Capital Expenditure (MCA): Services for customers				
Services to Ministers and to inform the public about entitlements and meeting obligations	-	0.890	0.600	0.800
Services to process obligations and entitlements	-	1.950	1.260	0.780
Management of debt and unfiled returns	-	0.030	0.470	0.650
Investigations	-	0.190	0.230	0.260
Total MCA	-	3.060	2.560	2.490
Total Operating	-	3.060	2.560	2.490

Approved/Not approved

Approved/Not approved

- j) **note** that Cabinet has previously agreed that departmental capital and operating costs would be a pre-commitment against the Budget 2023 allowance (CBC-22-MIN-0037 refers).

Noted

Noted

Nick Bradley

Enterprise Lead Finance Service
(Chief Financial Officer)
Inland Revenue

James Grayson

Enterprise Lead Planning, Design and Delivery
Inland Revenue

Hon Grant Robertson

Minister of Finance
/ /2022

Hon David Parker

Minister of Revenue
/ /2022