

The Treasury

Budget 2016 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	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.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
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[26]	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	9(2)(ba)(i)
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29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

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 [23] 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) and section 18 of the Official Information Act.



Cabinet Economic Growth and Infrastructure Committee

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.

Small Business Tax Package

Portfolios **Finance / Revenue**

On 9 March 2016, the Cabinet Economic Growth and Infrastructure Committee:

Background

- 1 **noted** that the government's objective to build a more competitive and productive economy through the Business Growth Agenda is furthered by reducing compliance costs, improving certainty, and enabling businesses to spend more time making profit and less time paying tax;
- 2 **noted** that the measures proposed in the paper under EGI-16-SUB-0026 are in direct response to the following concerns raised by businesses:
 - 2.1 provisional tax is hard to get right and expensive to get wrong;
 - 2.2 the withholding tax regime for contractors is inflexible, out of date, and open to abuse;
 - 2.3 incremental late payment penalties are punitive and frequently levied against debtors who can't pay (so a financial penalty is ineffective) or won't pay (so their behaviour remains unchanged);
 - 2.4 compliant businesses would be better protected if data held by Inland Revenue indicating serious debt or malpractice was shared appropriately;
 - 2.5 rules that try to get to a "perfect" tax answer impose undue costs, when close enough should be good enough;

Proposed business tax package: measures coming in to force on 1 April 2017

Changes to provisional tax to increase certainty

- 3 **agreed** that the current \$50,000 residual income tax limit for use-of money interest be increased to \$60,000 and extended to apply to non-individuals as well as individuals;
- 4 **noted** that the change referred to in paragraph 3 above is expected to have a fiscal cost of approximately \$47 million over four years;

- 5 **agreed** that use-of-money interest not apply to the first two provisional tax payments for all taxpayers who use the uplift method;
- 6 **noted** that the change referred to in paragraph 5 above is expected to have a fiscal cost of approximately \$7.5 million over four years;

Self-management and integrity

- 7 **agreed** that contractors subject to the schedular payment rules be allowed to elect their own withholding rate (subject to a minimum rate of 10 percent);
- 8 **noted** that the change referred to in paragraph 7 above is expected to have a net fiscal cost of approximately \$54 million over four years;
- 9 **agreed** to allow contractors not subject to the schedular payment rules to elect into withholding with the consent of their payer;
- 10 **noted** that the change referred to in paragraph 9 above is expected to have a marginal positive fiscal impact;
- 11 **agreed** to extend the withholding tax rules to contractors engaged through labour-hire firms;
- 12 **noted** that the change referred to in paragraph 11 above is expected to have a positive fiscal impact of approximately \$20 million over four years;

Making the system fairer

- 13 **agreed** to no longer impose incremental late payment penalties on future GST, provisional tax, income tax, and working for families tax credit overpayment debt;
- 14 **noted** that the change referred to in paragraph 13 above will apply to GST periods that begin after February 2017, whereas it will apply to provisional tax, income tax, and working for families debt for the income years beginning 1 April 2017;
- 15 **noted** that the change referred to in paragraph 13 above will have a negative fiscal impact of approximately \$87 million over four years;
- 16 **noted** that officials will continue to work on further potential changes to the late payment penalty framework;

Making markets work better through tax transparency

- 17 **agreed** that Inland Revenue be able to disclose taxpayers' significant income tax, GST and PAYE debt (including KiwiSaver, student loan, and child support deductions from wages) to credit reporting agencies;
- 18 **noted** that the change referred to in paragraph 17 above is not expected to have any fiscal impact;
- 19 **agreed** that Inland Revenue be able to provide information to the Registrar of Companies to support the enforcement of the Companies Act 1993 about serious offences punishable by up to five years' imprisonment;
- 20 **noted** that the change referred to in paragraph 19 above is not expected to have any fiscal impact;

Supplementary tax simplifications

- 21 **agreed** that the requirement for close companies to register and pay fringe benefit tax be removed when the only benefit the company provides is a motor vehicle for shareholder-employee private use, and instead allow the company to make a private use adjustment instead;
- 22 **noted** that the change referred to in paragraph 21 above is expected to have a marginal fiscal cost;
- 23 **agreed** that the current option to allow small businesses to deduct vehicle expenses based on the number of kilometres be extended;
- 24 **agreed** that small businesses be able to deduct expenses for premises at a fixed rate for all expenses other than mortgage interest, rates, and rent based on the area of the premises used primarily for business purposes;
- 25 **noted** that the changes referred to in paragraphs 23 and 24 above are expected to have a fiscal cost of approximately \$2.3 million over four years;
- 26 **agreed** that the self-adjustment threshold for taxpayers to correct simple errors in returns be increased from \$500 to \$1,000;
- 27 **noted** that the change referred to in paragraph 26 above is not expected to have any fiscal impact;
- 28 **agreed** that RWT exemption certificates be legislatively required to be issued for an unlimited period;
- 29 **noted** that the change referred to in paragraph 28 above is not expected to have any fiscal impact;
- 30 **agreed** that the threshold to file annual FBT returns be increased from \$500,000 of PAYE/ESCT to \$1,000,000 of PAYE/ESCT;
- 31 **noted** that the change referred to in paragraph 30 above is expected to have a fiscal cost of approximately \$2.1 million over four years;
- 32 **agreed** that taxpayers be allowed to choose whether to apply the existing rule for deductions for employee remuneration paid within 63 days after the income year;
- 33 **noted** that the change referred to in paragraph 32 above is expected to have a small positive fiscal impact;

Proposed business tax package: measures coming in to force on 1 April 2018

More timely payment of provisional tax

- 34 **noted** that the following measures will take effect from 1 April 2018 because they cannot be implemented until Inland Revenue's START income tax module is operational and until third party software providers have made changes to their systems;
- 35 **agreed** that taxpayers be able to use their accounting results to calculate their provisional tax and pay more regularly during the year;
- 36 **noted** that the change referred to in paragraph 35 is not expected to have a fiscal impact;

- 37 **agreed** that companies be able to make tax payments on behalf of shareholder-employees;
- 38 **noted** that the change referred to in paragraph 37 above is not expected to have a fiscal impact;

Progression of package

- 39 **noted** that the package outlined in the paper under EGI-16-SUB-0026 is expected to have a total fiscal cost over four years of up to \$187.4 million, made up of:
- 39.1 uncertain implementation costs totalling up to \$7.4 million; and
- 39.2 a reduction in revenue, partially offset by reduced impairment, totalling \$180 million over four years (with these costs increasing until 2023/24), as outlined in the table below:

	\$m – increase/(decrease)				
	2015/16	2016/17	2017/18	2018/19	2019/20
Total decrease in revenue	-	68.400	109.400	61.900	112.300
Total operating	-	(14.000)	(27.000)	(53.000)	(78.000)
Total impact on operating balance	-	54.400	82.400	8.900	34.3
	2020/21	2021/22	2022/23	2023/24 & Outyears	
Total decrease in revenue	145.280	169.290	184.560	198.100	
Total operating	(100.280)	(119.590)	(132.010)	(143.520)	
Total impact on operating balance	45.000	49.700	52.550	54.580	

- 40 **agreed** to the following changes to appropriations to give effect to the decision in paragraph 13 above, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2015/16	2016/17	2017/18	2018/19	2019/20
Non-Departmental Other Expense:					
Impairment of debt and debt write-offs	-	(14.000)	(27.000)	(53.000)	(78.000)
	2020/21	2021/22	2022/23	2023/24 & Outyears	
Non-Departmental Other Expense:					
Impairment of debt and debt write-offs	(100.280)	(119.590)	(132.010)	(143.520)	

- 41 **noted** the following reduction in revenue as a result of the decisions in paragraphs 3, 5, 7, 9, 11, 13, 21, 23, 24 and 30 above, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2015/16	2016/17	2017/18	2018/19	2019/20
Tax Revenue	-	(68.400)	(109.400)	(61.900)	(112.300)
Total Operating	-	68.400	109.400	61.900	112.300
	2020/21	2021/22	2022/23	2023/24 & Outyears	
Tax Revenue	(145.280)	(169.290)	(184.560)	(198.100)	
Total Operating	145.280	169.290	184.560	198.100	

- 42 **noted** that there is further work to do to finalise the final implementation costs of the package;
- 43 **agreed** to establish tagged contingencies as outlined in the table below to provide for the final implementation costs:

	\$m – increase/(decrease)				
	2015/16	2016/17	2017/18	2018/19	2019/20 & Outyears
“Business Tax” Operating Tagged Contingency	-	2.000	2.000	1.400	-
“Business Tax” Capital Tagged Contingency	-	2.000	-	-	-

- 44 **authorised** the Minister of Finance and the Minister of Revenue jointly to approve requests of up to the maximum amounts in paragraph 41 above, subject to the submission of a report covering impacts of the package on Inland Revenue, options for service delivery, and procurement activity if any;
- 45 **agreed** that the impact on the operating balance noted in paragraph 41 above and the operating contingency established in paragraph 41 above be a pre-commitment against the Budget 2016 operating allowance, and commensurately reduce funding available for other priorities;
- 46 **agreed** that the capital contingency established in paragraph 41 above be a pre-commitment against the Budget 2016 capital allowance, and commensurately reduce funding available for other priorities;
- 47 **noted** that the fiscal implications provided in the paper under EGI-16-SUB-0026 represent officials’ best estimate of the fiscal impact of the package within the time and information available, and that many of the figures rely on assumptions about taxpayer’s behaviour which are difficult to forecast;
- 48 **agreed** that the items in the package be included in a taxation bill to be enacted before the end of 2016;

- 49 **authorised** Budget Ministers to agree how this package should be launched and what, if any, consultation should be undertaken;
- 50 **authorised** the Minister of Finance and the Minister of Revenue to approve minor amendments of a technical nature to the measures recommended in the paper under EGI-16-SUB-0026 without further reference to Cabinet.

Janine Harvey
Committee Secretary
