

# The Treasury

## Budget 2016 Information Release

### Release Document July 2016

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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)
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[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	

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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.



**Tax policy report: Summary of proposed *Making Tax Simpler* business tax measures for Budget 2016**

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<b>Date:</b>	14 December 2015	<b>Priority:</b>	<b>Ministerial Deadline</b>
<b>Security Level:</b>		<b>Report No:</b>	T2015/2927 IR2015/706

**Action sought**

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the contents of this report	20 January 2016
Minister of Revenue	<b>Note</b> the contents of this report	20 January 2016

**Contact for telephone discussion (if required)**

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14 December 2015

Minister of Finance  
Minister of Revenue

## **Summary of proposed *Making Tax Simpler* business tax measures for Budget 2016**

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Officials provided you with a range of business tax measures that could be included in a package for Budget 2016 (IR2015/661, T2015/2800 refers). In that report we indicated that we would provide further information on the detail of some of the proposals. Five reports have been prepared in response; this report summarises the proposals in those reports.

Some of the more straightforward measures in the earlier report have not been expanded on as they have already been sufficiently covered. These measures include:

- A2. Increasing the current \$50,000 residual income tax limit for use-of-money interest to \$60,000 (for individuals and non-individuals)
- A3. Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method
- B2. FBT simplification for closely-held companies
- B3. Simplified calculation of deductions for vehicles and premises
- B6. Increasing threshold for adjustments in subsequent returns
- B7. Remove requirement to renew RWT exemption certificates annually
- B8. Increase the threshold for annual FBT returns from \$500k to \$1m of PAYE/ESCT
- B9. Modify the 63 day rule on employee remuneration

The above proposals, as well as those discussed in further detail in this set of reports, are expected, in whole or in part, to form the basis of a business tax package.

Early next year we would like to discuss with Ministers the timing of announcements and the consultation plan. In the meantime, officials will be doing informal high level consultation with trusted stakeholders on the proposals to ensure they address the key issues raised by the private sector. We will also be preparing material to support consultation in the future, if needed.

Officials would prefer some kind of formal consultation on the detail of how these proposals might work, following any Government announcement. This reduces risk as some proposals are highly technical.

## Proposals

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### **A5. Accounting Income Method for payment of provisional tax**

Smaller businesses often find provisional tax difficult. The Accounting Income Method, a proposed alternative to the current provisional tax methods, would allow taxpayers to meet their provisional tax obligations based on their accounting income, and make tax payments using their accounting software. Inland Revenue is developing this proposal with assistance from [25, 26] This could reduce compliance costs significantly for small businesses.

### **A6. Removing some shareholders and partners from provisional tax**

Some entities and related parties, for example a family company with shareholder-employees, may have multiple taxing points for a single stream of income. It is proposed that a company or partnership could pay tax on behalf of its shareholder-employees or partners. This could remove the shareholder-employees or partners from provisional tax if they do not have any other non-source deducted income, reducing their compliance costs.

### **A7 - A9. Self-management and integrity: strengthening the withholding rules for contractors**

The current withholding tax rules require updating to reduce overall compliance costs and remove opportunities for non-compliance. Three initial steps are proposed to improve the withholding tax rules for contractors:

- Allowing contractors to choose their own withholding rate (with some restrictions on the rate they can choose);
- Extending withholding to contractors operating through labour-hire firms; and
- Allowing contractors to elect into withholding if the person paying them agrees.

While we expect to see gains from increased revenue and decreased compliance costs overall, these proposals do come with downsides, for example increasing compliance costs for some payers, especially labour-hire firms. Some contractors who would like to elect into withholding may not be able to get agreement from the payer.

### **A10. Improving the late payment penalty for small businesses and families**

The current late payment penalty rules are perceived as excessively harsh, which may discourage indebted taxpayers from repaying their tax debt. The penalty is incremental and can quickly accumulate. For example, after two years the penalty amount can be more than 50% of the original tax owed.

We propose removing the incremental late payment penalty for:

- Income tax, including provisional tax payments for income tax;
- GST; and
- Working for Families Tax Credit overpayments.

Instead, a [33] initial late payment penalty can be applied. This will provide a greater opportunity for businesses in debt to trade their way out.

### **A11 - A12. Making markets work better through tax transparency**

Secrecy provisions in the Tax Administration Act 1994 preclude Inland Revenue from sharing taxpayer information, unless an exception applies. However, in certain situations the information asymmetry created by tax secrecy can hinder markets from working efficiently.

Two exceptions to tax secrecy are proposed allowing disclosure of information to:

- The three major credit reporting agencies [25], to allow solvent businesses trading, or about to trade, with businesses in significant tax debt to make more informed decisions on trading with such businesses; and
- The Companies Office, to improve its ability to identify serious offending by company directors.

## Summary of impacts table

<b>Proposals</b>	<b>Compliance costs</b>	<b>Administration costs</b>	<b>Revenue</b>	<b>Efficiency</b>
<i>Accounting Income Method for payment of provisional tax</i>	Reduced. Taxpayers will be able to make provisional tax payments as part of their normal business processes using their accounting software.	Large system changes required, restricting implementation to within the new IT system for 1 April 2018.	Broadly neutral.	No impact expected.
<i>Removing some shareholders and partners from provisional tax</i>	Reduced. Fewer taxpayers in provisional tax and fewer taxing points.	Large system changes required, restricting implementation to within the new IT system for 1 April 2018.	Broadly neutral.	No impact expected.
<i>Self-management and integrity: strengthening the withholding rules for contractors</i>	Reduced overall, but an increase in compliance costs for labour-hire firms and some contractors.	Can be implemented in the heritage IT system for 1 April 2017.	Expected gain of at least \$20m over four years.	Increase, the current rules may incentivise taxpayers to operate as contractors rather than employees.
<i>Improving the late payment penalty for small businesses and families</i>	Reduced, the new penalties regime will be simpler for most taxpayers to understand.	Requires a small change to heritage systems but can be implemented for 1 April 2017.	Expected cost of \$65m over four years.	Increase, taxpayers are less likely to be discouraged from repaying debt.
<i>Making markets work better through tax transparency</i>	No impact expected.	Can be implemented in the heritage IT system for 1 April 2017.	Difficult to quantify but likely to be positive.	Increase, businesses can make better lending and commercial decisions.

## Next steps

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We will continue with targeted consultation with key stakeholders as we further develop these proposals.

## Recommended action

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We recommend that you:

- a) **Note** this report summarises the proposals discussed in the following five reports:
- *Accounting income method for payment of provisional tax* (IR2015/694, T2015/2861);
  - *Removing some shareholders and partners from provisional tax* (IR2015/695, T2015/2893);
  - *Self-management and integrity: strengthening the withholding rules for contractors* (IR2015/693, T2015/2860);
  - *Improving the late payment penalty for small businesses and families* (IR2015/691, T2015/2888); and
  - *Making markets work better through tax transparency* (IR2015/692, T2015/2867).

Noted

Noted

- b) **Note** that early next year officials would like to discuss with Ministers the timing of announcements and any consultation plans.

Noted

Noted

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