

# 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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[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 [the Tax Administration Act 1994]	
[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.

## **Small business tax package**

### **Proposal**

1. We seek the agreement of Cabinet to the introduction of a business tax package that particularly addresses the concerns of small business and lets them spend more time running their business and less time paying tax. The package would:

- reduce uncertainty by improving the provisional tax regime;
- give contractors more options through better self-management tools;
- make the system fairer by eliminating some late payment penalties;
- lift market efficiency through better information sharing; and
- lower compliance costs by simplifying tax rules.

2. This package could be announced in March, ahead of the Budget, and legislated in a bill introduced in July 2016 and passed before the end of the year. It has a total fiscal cost of \$180 million over four years.

### **Executive summary**

3. We are proposing a package of tax reforms that supports small businesses, will be well received by large businesses and maintains New Zealand's strong broad base, low rate tax framework. The package comprises 16 discrete measures which would take effect from 1 April 2017, unless otherwise noted, and would have the following impacts:

- 67,000 provisional taxpayers will no longer be liable for use of money interest (UOMI) on provisional tax (this makes up 78% of all taxpayers currently exposed to UOMI).
- 19,000 additional provisional taxpayers will only be liable for UOMI from the last instalment date as long as they pay their provisional tax instalments (this allows the remaining 22% of taxpayers to reduce the impact of UOMI).
- Small businesses will be able to use their accounting results to ensure their provisional tax payments more accurately match income as it is earned (effective 1 April 2018).
- Shareholder-employees of 300,000 companies who receive salaries without deduction of tax at source will be able to meet their tax obligations without being subject to provisional tax (effective 1 April 2018).
- 130,000 businesses currently subject to withholding for contract work will have greater flexibility to self-manage.
- More than 4,200 labour-hire contractors will be bought into withholding, thereby addressing an existing compliance risk and providing contractors with the means to manage their obligations without having to pay provisional tax.

- Incremental late payment penalties will no longer be charged on some tax debt, affecting:
    - 65,000 taxpayers with income tax debt;
    - 67,000 taxpayers with GST debt; and
    - 23,000 families with working for families tax credit debt.
  - Businesses will be able to make better lending and credit decisions as credit reporting agencies will be provided information about those with significant tax debt.
  - The Companies Office will receive better information to support prosecutions of individuals acting outside of the Companies Act and committing serious offences.
  - 1,500 businesses will be able to more easily manage their filing obligations by filing Fringe Benefit Tax (FBT) returns annually rather than quarterly.
  - Compliance costs will be reduced through simpler methods for small businesses to calculate their deductions for vehicles and premises.
  - Further compliance cost reductions will accrue from relaxing the rules for adjusting errors, Resident Withholding Tax (RWT) exemptions, and the calculation of employee remuneration.
4. We propose announcing this package in March so that Inland Revenue can issue a technical paper seeking feedback on the best way to legislate these measures ahead of a July bill. This consultation would be supported by an online forum for the most technical and complex change.

## **Background**

5. Building a more competitive and productive economy is one of the Government's main priorities in its plan to create more and better paying jobs and higher standards of living. The Business Growth Agenda drives this by ensuring Government stays focused on what matters to business. Through the Business Growth Agenda, the Government is working to create a competitive and productive economic environment which supports both export and domestically focused businesses. One way Government can help businesses is by reducing their compliance costs, saving them time, and providing more opportunities to focus on running and growing their business.

6. The Government's objective for the tax system is that it should be simple to comply with, making it easy for customers to get things right, but difficult to get wrong. It should serve the needs of all New Zealanders, put the customers at the centre and help them from the start, rather than when things go wrong.

7. Inland Revenue's business transformation is a long-term programme to modernise New Zealand's revenue system. Transformation will simplify how services are delivered, by changing how customers interact with a digitally-based revenue system, simplifying policies, and making better use of data and intelligence to better understand taxpayers. Inland Revenue will facilitate compliance by moving interactions to the front end so customers get it right from the start.

8. However, business transformation is far more than just a new computer system. It is re-shaping the way Inland Revenue works with customers, including improvements to policy and legislative settings and enabling more timely policy changes.

9. Clear and coherent frameworks are very important for good tax policy. International tax reviews have cited the importance of deciding what it is a nation wants to tax and then doing so consistently.

10. New Zealand is very fortunate to have a clear and coherent broad-base, low-rate (BBLR) framework for taxation. Broad bases help ensure that taxes are fair and efficient and do as little as possible to impede economic growth. Broad bases also allow the government to collect the revenue that is necessary to fund its spending at as low rates as possible. This, in turn, provides a second-round benefit in promoting fairness, efficiency and growth.

11. Tax concessions for small businesses have the potential to undermine efficiency and growth by encouraging business activities to be undertaken by firms getting the biggest tax break rather than the firms which are intrinsically most efficient.

12. In New Zealand we have been fortunate that tax reform has not been about giving a set of tax breaks to one group and then attempting to match these with a similar set of tax breaks to another. Countries that do so can find that their tax systems quickly become incoherent and this promotes self-interested lobbying. Instead tax reform has been about applying a set of coherent tax principles as consistently as possible.

13. At the same time, research shows that tax compliance costs are relatively high for small businesses. It is important to consistently ask whether these costs are excessive. In particular, for small businesses there is the question of whether ‘close enough is good enough’ and whether there are ways of reducing compliance costs without providing tax concessions. Of course, it is important where possible to reduce compliance costs for all businesses rather than solely small businesses.

14. In March 2015 the Government released a discussion document *Making tax simpler: A Government green paper on tax administration*. Feedback on that paper, and from earlier consultation on small business tax settings, highlighted a number of pain points:

- Provisional tax is hard to get right and expensive to get wrong.
- The withholding tax regime for contractors is inflexible, out of date and open to abuse.
- 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).
- Compliant businesses would be better protected if data held by Inland Revenue indicating serious debt or malpractice was shared appropriately.
- Rules that try to get to a “perfect” tax answer impose undue costs when close enough should be good enough.

## **Comment**

15. The measures proposed in this paper collectively form a sensible tax package that would provide significant compliance cost reductions, while maintaining New Zealand’s BBLR framework. Such a package would likely be well received by both small and large businesses. The package would be delivered over two years as some of the more complex measures will rely on Inland Revenue’s new IT system which is expected to be operational from February 2018.

16. Further information on each measure is provided in summary below and in more detail in the appendix to this paper.

***Stage 1: Measures coming into force on 1 April 2017***

*Changes to provisional tax to increase certainty*

- Increasing the current \$50,000 residual income tax limit for use-of-money interest to \$60,000 (for individuals and non-individuals)
- Removing use-of-money interest for the first two provisional tax payments for all taxpayers who use the uplift method

*Self-management and integrity*

- Allowing contractors to elect their own withholding rate
- Permitting voluntary withholding agreements
- Extending withholding tax to labour-hire firms

*Making the system fairer*

- Changes to late payment penalties<sup>1</sup>

*Making markets work better through tax transparency*

- Credit reporting of tax debt
- Information sharing with the Registrar of Companies

*Supplementary tax simplifications*

- Simplifying FBT for close companies
- Simplifying deduction calculations for dual use vehicles and premises
- Increasing the threshold for self-adjustments in subsequent returns
- Removing the requirement to renew RWT exemption certificates annually
- Increasing the threshold for annual FBT returns from \$500k to \$1m of PAYE/ESCT
- Modifying the 63 day rule on employee remuneration

***Stage 2: Measures coming into force on 1 April 2018***

*More timely payment of provisional tax*

- Adopting an Accounting Income Method for paying provisional tax
- Paying tax as agent for shareholder-employees

***Stage 1: Measures coming into force on 1 April 2017***

*Changes in provisional tax to increase certainty*

17. These measures address concerns raised by small and large businesses that they are required to calculate their provisional tax payments in advance and are being charged use-of-money interest (UOMI) when they get their calculation wrong even though they have taken due diligence in undertaking that calculation. While having periodic payments throughout the

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<sup>1</sup> Changes to GST late payment penalties may take effect from 1 February 2017 depending on when GST return filing is migrated to the new system.

year is consistent with the principle that taxpayers should pay tax as they earn income, interest can adversely affect taxpayers for unforeseen events.

**Increasing the current \$50,000 residual income tax limit for interest to \$60,000 (for individuals and non-individuals)** would mean 67,000 taxpayers, most of them non-individuals, would no longer be subject to UOMI on their provisional tax assessments. The current threshold of \$50,000 only applies to individuals – small companies and other non-individual entities are fully exposed to UOMI. Lifting the threshold and extending the rule to non-individuals recognises both that income levels have increased since the threshold was set in 2009 and that an increasing number of small businesses are now incorporating.

**Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method** removes approximately 19,000 additional taxpayers from UOMI during the income year. As the final instalment of provisional tax occurs after the end of the income year, taxpayers will have reasonable certainty as to how much income they have earned before they make their final payment and become liable for UOMI.

### *Self-management and integrity*

18. These measures address concerns raised by some businesses about difficulties with provisional tax and the appeal of a more ‘pay as you go’ approach to income tax. The proposals give some businesses greater flexibility to use the existing schedular payment withholding tax rules to self-manage their tax payments throughout the year. The last proposal also addresses integrity concerns arising from recent audits of labour hire firms and responds to identified concerns that there can be poor compliance in this area.

Allowing some businesses to **elect their own withholding rate** (with a 10% minimum) would give 130,000 taxpayers the option to pick a rate that reflects their circumstances. This allows those businesses to better match their tax payments to when they earn their income, which can help them remove themselves from provisional tax obligations, and lets them select a rate that takes into account losses, expenses and other income.

Permitting **voluntary withholding arrangements** gives taxpayers who are currently not subject to withholding tax, but who do not want to pay provisional tax or have terminal tax bills, the option to pay tax as they go. Such an arrangement would have to be agreed to by both the payer and the contractor.

Extending withholding tax rules to contractors engaged through **labour hire firms** will mean these firms will be required to deduct tax from payments made to those contractors. Currently the largest 11 labour hire firms engage approximately 4,200 contractors although the total number of taxpayers affected by this change would be greater. Recent Inland Revenue audits have uncovered that many contractors in this sector are not paying their fair share of tax and are claiming social policy benefits they are not entitled to. This non-compliance undermines the tax base and gives those contractors an unfair advantage against competitors.

19. These proposals provide a foundation for reform to the withholding rules that could subsequently be expanded further. It should be noted that although the proposals reduce overall compliance costs, they may increase compliance costs for some businesses and as a result may be seen as business unfriendly by some.

*Making the system fairer*

20. Over the course of their lives, many businesses find themselves in debt with Inland Revenue. The late payment penalty proposal is to allow those businesses a chance to trade their way out of the debt, without having onerous financial penalties being continually imposed. This will shift the focus away from repaying penalties and towards repaying overdue tax.

**Changes to late payment penalties** will mean in the future 65,000 taxpayers with income tax debt, 67,000 taxpayers with GST debt and 23,000 families with working for families tax credit debts will not be charged an incremental late payment penalty when they fall behind. In the first year, the combined penalty and interest rate is currently approximately 27% per annum. Under this measure the recurring monthly 1% penalties would not apply.

*Making markets work better through tax transparency*

21. Traditionally Inland Revenue has kept tax information secret and with good reason. Taxpayers need to have confidence that their commercially sensitive information will be treated confidentially when supplied to the tax administration. However, this secrecy can impose costs on society when it masks serious wrongdoing. Inland Revenue is aware of certain businesses and company directors that are operating well outside the law. The harm they cause to other businesses and the New Zealand community is significant.

**Sharing tax information for significant debts with credit reporting agencies** will mean that other businesses will be able to identify when they are dealing with firms that are in a precarious financial position due to tax debt the firm is failing to address. They will be able to take a more pro-active approach to their lending and credit decisions, and have greater confidence that they are making the right decision.

**Sharing information with the Companies Office** will mean company directors who are operating outside of the Companies Act can be more easily prosecuted as Inland Revenue will no longer be required to keep their offending secret. Information will only be shared with the Companies Office if it relates to an offence punishable by five or more years imprisonment.

*Supplementary tax simplification measures*

22. A number of tax rules are being simplified in this package in order to reduce compliance costs.

**Simplifying FBT for close companies** will mean that certain small companies will be able to make a single annual adjustment for private use of a motor vehicle instead of having an FBT obligation.

**Simplifying deduction calculations for dual use vehicles and premises** will mean that around 3,100 businesses will enjoy reduced compliance costs through easier apportionment rules.

**Increasing thresholds for adjustments in subsequent returns** will mean more businesses can self-correct when they identify a minor error instead of having to contact Inland Revenue.

**Removing the requirement to renew RWT exemption certificates annually** will mean businesses seeking an RWT exemption will only have to apply once.

**Increasing the threshold for annual FBT returns from \$500k to \$1m of PAYE/ESCT** will mean around 1,500 businesses will be able to file FBT returns annually instead of quarterly.

**Modifying the 63 day rule on employee remuneration** will give businesses the option to avoid the compliance costs of tracking and determining employee remuneration amounts incurred at year end and paid within 63 days after year end. For some taxpayers this would result in a higher tax bill, so the measure would be optional rather than mandatory.

## *Stage 2: Measures coming into force on 1 April 2018*

### *More timely payment of provisional tax*

23. In general, Inland Revenue attempts to ensure that taxpayers pay tax as they earn their income. PAYE, RWT and schedular payments are examples of this principle. Provisional tax aims to have those who don't have tax deducted at source also pay tax as income is earned, although it starts with the presumption that income is earned evenly over the year.

24. This doesn't work, however, for those who have seasonal or volatile incomes. These two proposals attempt to deal with seasonality and volatility by allowing their income tax to be paid on a more pay as you earn basis.

25. These measures cannot apply prior to 1 April 2018 as they cannot be implemented until Inland Revenue's new system (START) is operational and until third party software providers have made changes to their products.

The new **Accounting Income Method (AIM) for paying provisional tax** will give up to 277,000 small business a way to pay their tax through their accounting software. AIM will particularly suit businesses with seasonal or volatile incomes as they will only be required to pay tax when they have earned income. UOMI will not apply to taxpayers under this method.

Allowing companies to **pay tax on behalf of shareholders** will mean that shareholders of up to 300,000 companies will no longer be subject to provisional tax. Under this measure a company would be able to pay the tax, via one of the provisional tax methods, on behalf of its shareholders instead of each individual shareholder paying provisional tax themselves.

## Consultation

26. In June 2014, Inland Revenue, the Treasury and Victoria University hosted a conference entitled *Tax Administration for the 21st Century*. The conference explored options for making tax easier through reducing both compliance and administration costs, while balancing increased voluntary compliance against the core tax policy objectives of raising sufficient revenue and ensuring fairness and efficiency. The main points made by attendees were to give people the ability to self-manage their tax affairs through improved services and more flexible legislative frameworks, the importance of involving businesses and others in the design of the rules and processes, the need to ensure that there is an overall net benefit to society of the changes not just a cost shift from Inland Revenue to businesses, and to ensure the continued maintenance of the current tax system whilst the reforms occur.

27. Following this conference the Government issued *Making tax simpler – a Government green paper on tax administration* which outlined the scope and direction of the review of the tax administration, and sought feedback on the future for business tax and the problems taxpayers face with the current system. The measures proposed in this paper address the five main issues identified as part of the consultation with taxpayers and feedback on the green paper.

28. Ministers have decided not to issue a discussion document on the measures in this paper, which would normally occur as part of the Generic Tax Policy Process. However, in developing these options, Ministers have asked officials to undertake selected consultation with key players, including the Chartered Accountants of Australia and New Zealand, Corporate Taxpayer Group, Business New Zealand, selected labour hire firms, selected credit reporting agencies, and a small group of accountants. Feedback from these consultations has informed the development of the options.

## Financial implications

29. The table below provides a summary of the revenue impact of the measures recommended in this package.

<b>Fiscal impact of measures (\$m)</b>				
<b>Changes in provisional tax to increase certainty</b>				
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<i>Increasing the current \$50,000 residual income tax limit for interest to \$60,000 (for individuals and non-individuals)</i>	-45.6	-0.6	-0.6	-0.6
<i>Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method<sup>2</sup></i>	-1.8	-1.8	-1.8	-1.8
<b>Self-management and integrity</b>				
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>

<sup>2</sup> There is also a \$334 million cashflow cost over this period.

<i>Allowing contractors to elect their own withholding rate</i>	-4	-69	17	2
<i>Extending withholding tax to labour-hire firms</i>	5	5	5	5
<b>Making system fairer</b>				
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<i>Changes to late payment penalties<sup>3</sup></i>	-7.8	-13.2	-27.8	-38.2
<b>Supplementary tax simplifications</b>				
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<i>Simplified calculation of deductions for dual use vehicles and premises</i>	-0.2	-0.7	-0.7	-0.7
<i>Increase the threshold for annual FBT returns from \$500k to \$1m of PAYE/ESCT</i>	0	-2.1	0	0
<b>Total</b>	<b>-54.4</b>	<b>-82.4</b>	<b>-8.9</b>	<b>-34.3</b>

30. The remaining measures either have no fiscal impact, or have an impact that is difficult to quantify but expected to be low or neutral:

	<b><i>Fiscal impact</i></b>
Permitting voluntary withholding agreements	Marginal upfront gain, but difficult to quantify
Credit reporting of tax debt	Potential on-going gain from improved compliance, but difficult to quantify
Information sharing with the Registrar of Companies	Potential on-going gain from improved compliance, but difficult to quantify
FBT simplification for closely-held companies	Marginal on-going cost from reduced FBT payment, but difficult to quantify
Increasing threshold for self-adjustments in subsequent returns	No impact
Remove requirement to renew RWT exemption certificates annually	No impact
Modify the 63 day rule on employee remuneration	Small upfront gain from deductions being taken later, but difficult to quantify

<sup>3</sup> The changes to the late payment penalty measure has an estimated fiscal cost of \$87 million, over four years. However, over eight years, this increases to \$289 million. The negative impact on revenue receipts is \$74 million over four years, increasing to \$265 million over eight years.

Accounting income method	Not expected to have a fiscal impact
Paying provisional tax on behalf of related parties	Not expected to have a fiscal impact, subject to implementation design

31. As stated above, the changes to the late payment penalty measure has an estimated negative fiscal impact of \$87 million, over four years. However, over eight years, this measure has a potential negative fiscal impact of \$289 million.

32. Announcing the package in March will make its cost a pre-commitment against the Budget. The consultation on the package would close after Budget moratorium, so any change to the cost following consultation would feed into the forecast at HYEUFU.

33. These figures represent officials' best estimate of the fiscal impact of the package within the time and information available. Many of the figures rely on assumptions about taxpayer's behaviour which are difficult to forecast.

### **Human rights**

34. There are no human rights implications.

### **Legislative implications**

35. The proposals contained in this package would require legislative amendments to the Income Tax Act 2007 and the Tax Administration Act 1994. We propose including these amendments in a bill that would be introduced in July and enacted before the end of the year. This timeline is necessary as some of the measures require a lead-in time for businesses to implement.

### **Regulatory impact analysis**

36. The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.

37. The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by Inland Revenue and associated supporting material, and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.

### **Publicity**

38. We propose that decisions on the detailed approach to the launch of the package and any subsequent consultation on the technical design of the measures be delegated to Budget Ministers. Officials are currently preparing an issues paper on how the measures could best be legislated and are also developing an online forum specifically about AIM.

### **Recommendations**

1. **Note** 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 business to spend more time making profit and less time paying tax.

2. **Note** that the measures proposed in this paper are in direct response to the following concerns raised by businesses:
  - Provisional tax is hard to get right and expensive to get wrong.
  - The withholding tax regime for contractors is inflexible, out of date and open to abuse.
  - 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).
  - Compliant businesses would be better protected if data held by Inland Revenue indicating serious debt or malpractice was shared appropriately.
  - 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. **Agree** 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. **Note** that the change recommended in (3) is expected to have a fiscal cost of approximately \$47 million over four years:
5. **Agree** that use-of money interest not apply to the first two provisional tax payments for all taxpayers who use the uplift method
6. **Note** that the change recommended in (5) is expected to have a fiscal cost of approximately \$7.5 million over four years:

#### *Self-management and integrity*

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

#### *Making the system fairer*

13. **Agree** to no longer impose incremental late payment penalties on future GST, provisional tax, income tax and working for families tax credit overpayment debt.
14. **Note** that the change recommended in (13) 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. **Note** that the change recommended in (13) will have a negative fiscal impact of approximately \$87 million over four years.
16. **Note** that officials will continue to work on further potential changes to the late payment penalty framework.

*Making markets work better through tax transparency*

17. **Agree** 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. **Note** that the change recommended in (17) is not expected to have any fiscal impact.
19. **Agree** that Inland Revenue be able to provide information to the Registrar of Companies to support the enforcement of the Companies Act about serious offences punishable by up to 5 years imprisonment
20. **Note** that the change recommended in (19) is not expected to have any fiscal impact.

*Supplementary tax simplifications*

21. **Agree** 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. **Note** that the change recommended in (21) is expected to have a marginal fiscal cost.
23. **Agree** that the current option to allow small businesses to deduct vehicle expenses based on the number of kilometres be extended.
24. **Agree** 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. **Note** that the changes recommended in (23) and (24) are expected to have a fiscal cost of approximately \$2.3 million over four years.
26. **Agree** that the self-adjustment threshold for taxpayers to correct simple errors in returns be increased from \$500 to \$1,000.
27. **Note** that the change recommended in (26) is not expected to have any fiscal impact.

28. **Agree** that RWT exemption certificates be legislatively required to be issued for an unlimited period.
29. **Note** that the change recommended in (28) is not expected to have any fiscal impact.
30. **Agree** that the threshold to file annual FBT returns be increased from \$500,000 of PAYE/ESCT to \$1,000,000 of PAYE/ESCT
31. **Note** that the change recommended in (30) is expected to have a fiscal cost of approximately \$2.1 million over four years
32. **Agree** 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. **Note** that the change recommended in (32) 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. **Note** that the following measures 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. **Agree** that taxpayers be able to use their accounting results to calculate their provisional tax and pay more regularly during the year.
36. **Note** that the change recommended in (35) is not expected to have a fiscal impact.
37. **Agree** that companies be able to make tax payments on behalf of shareholder-employees.
38. **Note** that the change recommended in (37) is not expected to have a fiscal impact.

#### **Progression of package**

39. **Note** that the package outlined in this Cabinet paper is expected to have a total fiscal cost over 4 years of up to \$187.4 million, made up of:
- Uncertain implementation costs totalling up to \$7.4 million; and
  - A reduction in revenue, partially offset by reduced impairment, totalling \$180 million over 4 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	-	68.400	109.400	61.900	112.300

revenue					
Total operating	-	(14.000)	(27.000)	(53.000)	(78.000)
<b>Total impact on operating balance</b>	-	<b>54.400</b>	<b>82.400</b>	<b>8.900</b>	<b>34.3</b>
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; Outyears</b>	
Total decrease in revenue	145.280	169.290	184.560	198.100	
Total operating	(100.280)	(119.590)	(132.010)	(143.520)	
<b>Total impact on operating balance</b>	<b>45.000</b>	<b>49.700</b>	<b>52.550</b>	<b>54.580</b>	

40. **Agree** the following changes to appropriations to give effect to the decision in recommendation 13 above, with a corresponding impact on the operating balance:

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

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

	\$m – increase/(decrease)				
<b>Vote Revenue</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Minister of Revenue</b>					
Tax Revenue	-	(68.400)	(109.400)	(61.900)	(112.300)

<b>Total Operating</b>	-	68.400	109.400	61.900	112.300
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; Outyears</b>	
Tax Revenue	(145.280)	(169.290)	(184.560)	(198.100)	
<b>Total Operating</b>	<b>145.280</b>	<b>169.290</b>	<b>184.560</b>	<b>198.100</b>	

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

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

44. **Authorise** the Minister of Finance and Minister of Revenue jointly to approve requests of up to the maximum amounts in recommendation 41 above, subject to submission of a report covering impacts of the package on Inland Revenue, options for service delivery, and procurement activity if any.
45. **Agree** that the impact on the operating balance noted in recommendation 41 above and the operating contingency established in recommendation 41 above be a pre-commitment against the Budget 2016 operating allowance, and commensurately reduce funding available for other priorities.
46. **Agree** that the capital contingency established in recommendation 41 above be a pre-commitment against the Budget 2016 capital allowance, commensurately reduce funding available for other priorities.
47. **Note** that the fiscal implications provided in this Cabinet paper represent officials’ best estimate of the fiscal impact of the package within the time and information available. Many of the figures rely on assumptions about taxpayer’s behaviour which are difficult to forecast.
48. **Agree** that the items in the package are included in a taxation bill to be enacted before the end of 2016.
49. **Authorise** Budget Ministers to agree how this package should be launched and what, if any, consultation should be undertaken.

50. **Authorise** the Minister of Finance and Minister of Revenue to approve minor amendments of a technical nature to the measures recommended in this Cabinet paper without further reference to Cabinet.

**Hon Bill English**  
Minister of Finance

\_\_\_\_ / \_\_\_\_ / \_\_\_\_  
Date

**Hon Michael Woodhouse**  
Minister of Revenue

\_\_\_\_ / \_\_\_\_ / \_\_\_\_  
Date

## APPENDIX – Further information on measures

### Changes to provisional tax to increase certainty

#### Increasing the current \$50,000 residual income tax limit for interest to \$60,000 (for individuals and non-individuals)

<b><i>Proposal</i></b>	Increase the safe-harbour threshold of \$50,000 residual income tax before UOMI applies to \$60,000 residual income tax and extend this so that it applies not only to individuals but also to non-individuals.			
<b><i>Problem</i></b>	<p>Too many taxpayers are exposed to UOMI and therefore incur costs and stress disproportionate to the benefits of more accurate tax payment.</p> <p>Currently individuals with residual income tax of less than \$50k are “safe-harboured” and are not exposed to UOMI until the terminal tax due date. Small companies and other non-individuals cannot obtain this safe-harbour. This means these small companies incur costs that appears disproportionate to the benefits of more accurate tax payment.</p> <p>In addition, this \$50,000 limit represents an income level of approximately \$180,000 for a small business taxpayer. This level may now be too low given the movement in incomes since the value was originally set in 2009.</p>			
<b><i>Who does this affect?</i></b>	<p>Provisional taxpayers with an income level of around \$180,000, for an individual or trust and \$214,000 for a company.</p> <p>This option should remove 67,000 taxpayers from UOMI with the bulk of these being non-individuals.</p>			
<b><i>Pros</i></b>	Provides certainty to taxpayers who earn relatively small amounts of income over the application of UOMI.			
<b><i>Fiscal impact</i></b>		<b><i>2016-17</i></b>	<b><i>2017-18</i></b>	<b><i>2018-19</i></b>
	Tax Revenue	-45.6m	-0.6m	-0.6m
<b><i>Application date</i></b>	1 April 2017			

**Removing use-of money interest for the first two provisional tax payments for all taxpayers who use the uplift method**

<b><i>Proposal</i></b>	<p>Remove the application of UOMI from all taxpayers who use the uplift method with UOMI only applying from the last instalment date until the terminal tax is paid.</p> <p>This proposal differs from the safe harbour increase in that UOMI would apply from the last instalment date (which occurs after a business' year end) whereas under that measure UOMI would only apply from the terminal tax date..</p>										
<b><i>Problem</i></b>	<p>Taxpayers who use the uplift method base their provisional tax payments on the previous year's tax liability. This provides the Government with a certain level of tax payments throughout the year. Removing these taxpayers from the risk of UOMI when that uplift amount is different from their actual liability reduces both the stress of attempting to estimate their income and also increases certainty of tax payments for the year.</p>										
<b><i>Who does this affect?</i></b>	<p>All taxpayers who pay provisional tax by way of tax uplift, not estimation. Will affect both large and small taxpayers with most smaller taxpayers also being taken out of the application of UOMI through the increase in the safe harbour thresholds.</p>										
<b><i>Pros</i></b>	<p>Provides certainty to taxpayers over the application of UOMI.</p> <p>Removes approximately 19,000 additional taxpayers from UOMI up to the last instalment date by increasing the current safe harbour to all taxpayers who use the uplift method.</p>										
<b><i>Fiscal impact</i></b>	<table border="1" data-bbox="400 1104 1361 1279"> <thead> <tr> <th></th> <th><i>2016-17</i></th> <th><i>2017-18</i></th> <th><i>2018-19</i></th> <th><i>2019-20</i></th> </tr> </thead> <tbody> <tr> <td>Tax Revenue</td> <td align="center">-1.8m</td> <td align="center">-1.8m</td> <td align="center">-1.8m</td> <td align="center">-1.8m</td> </tr> </tbody> </table> <p>There is also a \$334 million cashflow cost over this period.</p>		<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>	Tax Revenue	-1.8m	-1.8m	-1.8m	-1.8m
	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>							
Tax Revenue	-1.8m	-1.8m	-1.8m	-1.8m							
<b><i>Application date</i></b>	1 April 2017										

## Self-management and integrity

### Allowing contractors to elect their own withholding rate

<b><i>Proposal</i></b>	Allowing contractors subject to the schedular payment withholding rules to choose their own rate of withholding (with a minimum rate of 10%).				
<b><i>Problem</i></b>	<p>When a contractor is subject to withholding they have a flat rate of withholding apply to payments made to them.</p> <p>In many cases this rate will not accurately match the taxpayer's actual income tax liability.</p> <p>Taxpayers can apply for a special tax code to alter their rate; however, this process can be cumbersome and requires submitting an application and information to Inland Revenue to demonstrate why a different rate is appropriate.</p>				
<b><i>Who does this affect?</i></b>	<p>Small businesses and contractors subject to the schedular payment withholding rules (there are 130,000 taxpayers currently subject to the schedular payment withholding rules). These businesses and contractors will have an easier means to choose a more accurate withholding rate.</p> <p>Payers of these contractors will have to apply the specific rates received from contractors – this may have a compliance cost.</p>				
<b><i>Pros</i></b>	This proposal enables contractors to select a withholding rate that better matches their income tax liability for the year. This is more consistent with a self-management system and a “pay as you go” principle. As a result, we expect the proposal to reduce overall compliance costs.				
<b><i>Cons</i></b>	<p>Increases compliance costs for some payers (however, this is expected to be less than the decrease in compliance costs for contractors).</p> <p>Some contractors may deliberately pick an artificially low rate in order to avoid their obligations. To mitigate this risk there would be a minimum rate of 10% and Inland Revenue will be able to override the rate a contractor has provided if they are non-compliant.</p>				
<b><i>Fiscal impact</i></b>		<b><i>2016-17</i></b>	<b><i>2017-18</i></b>	<b><i>2018-19</i></b>	<b><i>2019-20</i></b>
	Tax Revenue	-4m	-69m	17m	2m
<b><i>Application date</i></b>	1 April 2017				

### Permitting voluntary withholding agreements

<b><i>Proposal</i></b>	Allowing contractors not subject to the schedular payment withholding rules to elect into withholding (if the payer agrees). If an accurate rate is selected the contractor may no longer be subject to the provisional tax rules. This model is used in Australia.
<b><i>Problem</i></b>	Withholding tax may be a preferred payment channel for some contractors, especially coupled with an option to choose the withholding rate applied.
<b><i>Who does this affect?</i></b>	Those not covered by the withholding rules that would prefer withholding to provisional tax (in Australia at least 4,500 contractors have voluntary withholding agreements).  Payers who may have to withhold when they currently do not – however the proposal is for mutual agreement for withholding to apply.
<b><i>Pros</i></b>	This proposal provides an option for contractors to elect into a “pay as you go” approach to paying their income tax and is consistent with self-management. If an accurate rate is chosen the contractor may no longer fall within the provisional tax rules.
<b><i>Cons</i></b>	This proposal is voluntary for both the contractor and payer. The voluntary nature reduces the impact on payers (as where they are concerned about compliance costs they can choose not to agree). However, this may mean that there will be situations where a contractor would like withholding but the payer refuses.
<b><i>Fiscal impact</i></b>	Marginal upfront gain, but difficult to quantify.
<b><i>Application date</i></b>	1 April 2017

### Extending withholding tax to labour hire firms

<b><i>Proposal</i></b>	Extend withholding tax rules to contractors engaged through labour hire firms. This will mean labour hire firms are required to deduct tax from payments to the contractor.
<b><i>Problem</i></b>	<p>A labour hire firm is in the business of arranging workers to perform work or services directly for the clients of the labour hire firm. They are not required to withhold tax from the payments they make to their contractors.</p> <p>As a result there are many contractors, not subject to the withholding rules who must manage their own tax obligations (including provisional tax). This means their compliance costs are higher than if they were subject to withholding.</p> <p>Inland Revenue investigations have also revealed that there are a number of contractors not subject to the withholding rules who are non-compliant with their tax obligations.</p> <p>These contractors can unfairly compete against other businesses. Their non-compliance also damages the integrity of the tax system and reduces tax revenue which forces other taxpayers to pay more to fund government services.</p> <p>[34, s18(c)(i)]</p>
<b><i>Who does this affect?</i></b>	<p>Contractors engaged through labour hire firms would be affected. From an Inland Revenue audit project we know that the largest 11 labour-hire firms in New Zealand engage 4,200 contractors. The total number of contractors affected by this change would be greater than this.</p> <p>Labour hire firms will be required to deduct withholding tax and pay it to Inland Revenue along with reporting of the amounts paid and deducted.</p>
<b><i>Pros</i></b>	<p>A reduced number of contractors falling within the provisional tax rules (if they select an accurate rate). This would reduce the compliance costs of these contractors.</p> <p>Inland Revenue will have better information on the income of contractors operating through labour hire firms.</p> <p>Withholding and the accompanying better information will improve compliance.</p> <p>In addition there is an equity issue arising from the fact that many of these contractors appear very much like employees but because of the non-standard structure of the hiring relationship they are not subject to source deductions as their income is earned.</p> <p>The proposed change is similar to the treatment of labour hire arrangements in Australia, where the payments are subject to the equivalent of PAYE.</p>
<b><i>Cons</i></b>	<p>Labour hire firms will incur compliance costs. These costs could be significant for small and medium size labour hire firms.</p> <p>The withholding rules would be extended to a greater range of contractors but only those engaged through labour hire firms. It is possible that this measure could be avoided by some people through choosing to contract directly rather than through labour-hire firms. After consultation with labour-hire firms we do not consider that this risk is significant, however in the long term we recommend</p>

	consideration of a wider expansion of the withholding rules to capture more contractors regardless of how they are engaged.
<b><i>Fiscal impact</i></b>	The fiscal impact of this measure relies on estimations of the hidden economy, and as a result is difficult to estimate. A conservative estimate shows a revenue benefit of \$20m-\$40m over four years.
<b><i>Application date</i></b>	1 April 2017

## Making the system fairer

### Changes to late payment penalties

<b><i>Proposal</i></b>	<p>The removal of the monthly one per cent incremental late payment penalty, for future provisional tax, income tax, GST and working for families debt.</p> <p>Use-of-money-interest will still apply to late payments.</p>
<b><i>Problem</i></b>	<p>In the first year, the combined penalty and interest rate is currently approximately 27% per annum. This is high by international comparison and may deter some businesses from proactively resolving their tax debt. The significant growth of financial penalties on tax debt can frustrate indebted businesses' attempts to address their tax debt and in some cases, the accumulative penalties can place the taxpayer into insolvency.</p> <p>Many businesses and media commentators have commented on Inland Revenue's penalty and interest regime, and how it does not effectively encourage compliance once a business has fallen into debt.</p>
<b><i>Who does this affect?</i></b>	<p>Those who do not pay their tax on time.</p> <p>Incremental late payment penalties will no longer be charged on future tax debt, affecting:</p> <ul style="list-style-type: none"> <li>• 65,000 taxpayers with income tax debt;</li> <li>• 67,000 taxpayers with GST debt; and</li> <li>• 23,000 families with working for families tax credit debt.</li> </ul>
<b><i>Pros</i></b>	<p>Significant reduction in financial penalties imposed on businesses by reducing the combined penalty and interest rate to approximately 15% per annum, in the first year.</p> <p>By removing the continuous monthly financial penalties, the debt's growth rate is reduced, resulting in businesses being given more opportunity to repay their tax debt before it becomes too big to resolve. Also, with less financial penalties being imposed, less uncollectible penalties will be required to be written off by Inland Revenue.</p>
<b><i>Cons</i></b>	<p>Removes an incentive for taxpayers to pay their tax debts as soon as possible.</p> <p>Increases the likelihood of taxpayers using Inland Revenue as an unwilling lender.</p>
<b><i>Fiscal impact</i></b>	<p>There would be a negative revenue impact of approximately \$87 million over four years. Over a eight year period the revenue impact would increase to \$289 million. While Inland Revenue imposes additional financial penalties, these are uncollected and are reversed, remitted or written off. After eight years, the penalties are forecasted to be either paid or fully impaired. The negative impact on revenue receipts is \$74 million over four years, increasing to \$265 million over eight years. The reasons for the difference between revenue and receipts is</p>

	<p>because tax debt due in future fiscal periods will have penalties imposed then, and those penalties are not expected to be paid or fully impaired until after the following eight years.</p> <p>Officials are unable to measure the expected change in compliance behaviour as a result of the reduced financial penalties but it is expected that some taxpayers may decide to delay their tax payments. However, analysis of jurisdictions with penal rates and interest charges similar to those being proposed suggest that there will not be a meaningful drop in compliance.</p> <p>Officials will continue to work on further changes to the late payment penalty framework that could be progresses in a later package.</p>
<b><i>Application date</i></b>	<p>GST periods that begin to be administered from START (estimated to be 1 February 2017).</p> <p>1 April 2017 for new income tax and working for families debt.</p>

## Making markets work better through tax transparency

### Credit reporting of tax debt

<p><b>Proposal</b></p>	<p>Inland Revenue would disclose some taxpayers' significant income tax, GST and PAYE debt to credit reporting agencies. These measures would help to protect small businesses who are suppliers to businesses which are having problems paying tax.</p> <p>Before sharing this information Inland Revenue would need to meet comprehensive criteria, set out in legislation. These criteria would be designed to ensure the action of credit reporting the debt would be proportionate given the risk the debt represented to creditors and Inland Revenue. The detail of the criteria would be set to ensure the debt was significant in terms of age and amount, was not in dispute and that the taxpayer did not qualify for financial relief. Inland Revenue would also need to demonstrate that reasonable efforts had been already taken to resolve the debt with the taxpayer.</p> <p>This proposal requires robust checks and balances to ensure its appropriate use. Affected taxpayers would be given a period of notice (for example, 30 days) to resolve their debt and this notice would be served personally. Credit reporting agencies also have existing safeguards in place.</p>
<p><b>Problem</b></p>	<p>The existence of tax debt is protected by tax secrecy. Unlike commercial lenders and other government agencies, Inland Revenue does not disclose the identity of indebted taxpayers until legal proceedings are well under way.</p> <p>The lack of visibility means other businesses are completing their due diligence, including credit checks, and entering into commercial agreements based on incomplete information. These businesses tend to be unsecured creditors if the indebted business subsequently fails.</p> <p>In recent years, the business community has commented that they have been frustrated that they are unaware of any tax debt until Inland Revenue winds up the taxpayer, despite the business completing all the necessary credit checks.</p> <p>Credit reporting agencies have also indicated that visibility of tax debt will likely result in improved market efficiency, as businesses will have better visibility of the commercial risk, and will incorporate it into their commercial decision making and therefore make better business decisions, such as trade lending or other commercial arrangements.</p>
<p><b>Who does this affect?</b></p>	<p>Primarily those who supply labour, goods or services to failing businesses.</p> <p>In order to ensure the robustness of the information sharing infrastructure and to measure the impact of disclosing tax debt, officials only expect to share information of approximately 500 cases in the first year of operation.</p>
<p><b>Pros</b></p>	<p>A small business will know when a key customer or a key business partner is accruing significant tax debt or has stopped filing tax returns. This will allow the business to make decisions that are in its best interests, rather than being unaware until the indebted business is wound up.</p> <p>By providing this information, via credit reporting agencies, businesses are able to incorporate the information into their commercial decision making and make</p>

	<p>better business decisions, such as lending or other commercial arrangements, resulting in increased market efficiency.</p> <p>Businesses will be encouraged to file and pay their tax obligations.</p>
<b><i>Cons</i></b>	<p>Due to the nature of information exchanges, there is risk that Inland Revenue may inadvertently disclose a compliant business to a credit reporting agency, as a non-compliant business. This information may be subsequently released to other businesses, resulting in the business gaining a negative reputation.</p> <p>Various safeguards will be put in place to mitigate this risk, including personally serving the affected taxpayers with a notice advising them that they will be reported to a credit agency in a set period of time. Inland Revenue will also require the credit reporting agencies, who have significant experience and existing policies and practices relating to indebted clients, to apply a “common sense check” to any tax debt information supplied. It is envisaged that this would involve reviewing the tax debt information against the rest of the taxpayer’s debt profile to see if it appeared anomalous.</p>
<b><i>Fiscal impact</i></b>	The fiscal impact of this measure is difficult to quantify but expected to be positive.
<b><i>Application date</i></b>	1 April 2017

### Information Sharing with the Registrar of Companies

<p><b>Proposal</b></p>	<p>Provide information to the Registrar of Companies to support the enforcement of certain provisions of the Companies Act, including the following serious offences punishable by up to five years imprisonment:</p> <ul style="list-style-type: none"> <li>• Serious breach of director’s duty to act in good faith and in the best interests of the company;</li> <li>• Making false statements;</li> <li>• Breach of statutory prohibition from managing a company;</li> <li>• Breach of court ordered disqualification from managing a company; and</li> <li>• Breach of prohibition on directing or managing a phoenix company.</li> </ul> <p>The arrangement would be closely modelled on Inland Revenue’s information sharing agreement with New Zealand Police, which allows sharing of information relating to serious crime.</p>
<p><b>Problem</b></p>	<p>Inland Revenue holds information about serious offending being committed by directors. However, Inland Revenue must keep this information secret due to its tax secrecy rules. This means that these non-compliant directors are able to continue to trade and continue to receive a commercial advantage over other compliant businesses. This offending causes serious harm to businesses and the New Zealand economy.</p> <p>This issue was raised by the Companies Office and some insolvency industry members.</p>
<p><b>Who does this affect?</b></p>	<p>This enforcement measure is targeted at directors and companies that engage in unlawful conduct. As the provision of information will only be available for serious cases of non-compliance, officials only expect to share information in s18(c)(i) in the first year of operation.</p> <p>This proposal will benefit those businesses that are currently negatively affected by a director’s or a company’s conduct.</p>
<p><b>Pros</b></p>	<p>These measures will help protect New Zealand’s business community against directors that seek to do harm. The sharing of this information would likely lead to an increase in non-compliant directors being charged and prosecuted, and the harm they cause being reduced.</p> <p>In addition, these non-compliant directors pose a risk to New Zealand’s business community and New Zealand’s reputation as a safe and renowned country in which to invest and do business.</p> <p>Finally, improved enforcement of the provisions above has potential benefits to the tax system. Directors and other persons with a history of not meeting their legal obligations to government and the business community are more likely to be habitually non-compliant in meeting their tax obligations.</p>
<p><b>Cons</b></p>	<p>Due to the information being released likely forming an important part of a criminal case against a director, the information will need to be true and correct, to the best of Inland Revenue’s knowledge. There is a significant reputation risk to Inland Revenue if the accuracy of the information changes over time.</p> <p>The disclosure of taxpayer specific information is based on an existing list of offences. This list may change in the future and Inland Revenue may be bound to release further information, in accordance with the law.</p>
<p><b>Fiscal impact</b></p>	<p>The fiscal impact of this measure is difficult to quantify but expected to be positive.</p>

<i>Application date</i>	1 April 2017
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**FBT simplification for close companies**

<b><i>Proposal</i></b>	Remove the requirement for close companies to register and pay FBT when the only benefit they provide is a motor vehicle for shareholder-employee private use and allow them to make a private use adjustment instead. This would be optional.
<b><i>Problem</i></b>	Currently small companies who provide a single fringe benefit (the private use of a motor vehicle) to a shareholder-employees are required to register and pay FBT on that benefit. If the business were a sole trader or partnership, a private use adjustment would be made to reduce deductions to the extent the vehicle was used for private use. There is a difference in tax treatment for effectively the same benefit.
<b><i>Who does this affect?</i></b>	Close companies who pay fringe benefit tax annually and the only fringe benefit they provide is to their shareholder-employees where that benefit is a motor vehicle for private use.
<b><i>Pros</i></b>	Reduction in compliance costs to smaller businesses that fit the target group.
<b><i>Cons</i></b>	Definitional issues will be important to work through to ensure the proposal is not open for abuse.
<b><i>Fiscal impact</i></b>	The fiscal impact of this measure is difficult to quantify but there is expected to be a marginal on-going cost from reduced FBT payment.
<b><i>Application date</i></b>	1 April 2017

### Simplified calculation of deductions for dual use vehicles and premises

<b>Proposal</b>	<p>Allow small businesses to use a simple method for calculating their deductions for premises or vehicles they use for both private and business purposes.</p> <p>For vehicles this would enable businesses to deduct a fixed amount for their vehicle based on the number of kilometres travelled for business purposes. This calculation method is currently allowed for small business taxpayers who travel less than 5,000km for business purposes. This proposal would remove this 5,000km limit and split the rate into two tiers (so fixed costs are not over-recovered). This method would be optional.</p> <p>For premises, this would be a new regime allowing a deduction 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. This would be independent of actual expenses such as electricity bills incurred. Interest, rates and rent would continue to be claimed based on their actual costs. This method would be optional.</p>													
<b>Problem</b>	<p>To work out the allowable deductions for vehicles and premises, a business must calculate the actual expenses incurred (which may be numerous) and then apportion them according to their private and business use of the asset. This can be a time consuming exercise and impose large compliance costs compared with the amount of tax at stake.</p>													
<b>Who does this affect?</b>	<p>We estimate that 3,100 small businesses would have reduced compliance costs as a result of this measure.</p>													
<b>Pros</b>	<p>Reduces the compliance costs for small businesses without significantly lowering the average tax paid by small businesses. As a result, it is arguably consistent with New Zealand's broad-base, low-rate framework.</p>													
<b>Cons</b>	<p>Decreases the accuracy of deductions for vehicles and premises. This could blur the distinction between private and business expenditure and could result in people being able to deduct expenditure that is primarily private.</p> <p>Optional methods allow taxpayers to calculate their deductions under multiple methods and use the method which provides the best result.</p>													
<b>Fiscal impact</b>	<table border="1" data-bbox="400 1576 1358 1744"> <thead> <tr> <th></th> <th><b>2016-17</b></th> <th><b>2017-18</b></th> <th><b>2018-19</b></th> <th><b>2019-20</b></th> </tr> </thead> <tbody> <tr> <td>Tax Revenue</td> <td>-0.18m</td> <td>-0.7m</td> <td>-0.7m</td> <td>-0.7m</td> </tr> </tbody> </table>					<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	Tax Revenue	-0.18m	-0.7m	-0.7m	-0.7m
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>										
Tax Revenue	-0.18m	-0.7m	-0.7m	-0.7m										
<b>Application date</b>	<p>1 April 2017</p>													

### Increase threshold for self-adjustments in subsequent returns

<b><i>Proposal</i></b>	Increase the self-adjustment threshold to allow taxpayers to correct simple errors of up to \$1,000 in their next return. This would represent maximum gross adjustments of \$3,572 for a company, \$3,030 for an individual and \$7,667 for GST.
<b><i>Problem</i></b>	<p>If a taxpayer makes a small error in their tax return of less than \$500 they can self-adjust this error in their next tax return. If an error is greater than \$500 the taxpayer must make a request to the Commissioner to correct the error. Interest and penalties will usually be payable on the shortfall corrected by the Commissioner.</p> <p>This \$500 limit represents gross adjustments of \$1,785 for a company, \$1,515 for an individual on the top marginal rate or \$3,833 in GST. These are relatively low values.</p>
<b><i>Who does this affect?</i></b>	<p>Those who make simple low value errors in their returns. It will remove a level of compliance cost from having to apply to the Commissioner for a small adjustment. It will also reduce administration costs as Inland Revenue will not have to manage these low value items.</p> <p>This proposal fits with the self-assessment basis that our tax system relies on as well as the self-management proposals elsewhere in this package.</p>
<b><i>Pros</i></b>	Remove compliance costs from taxpayers through not having to make an application to Inland Revenue for small value errors discovered in returns.
<b><i>Cons</i></b>	A \$1,000 limit represents a relatively low amount for large businesses. As a result, the measure may not be as well received by large businesses (although even larger businesses are likely to see the higher limit as being better than the status quo).
<b><i>Fiscal impact</i></b>	No fiscal impact.
<b><i>Application date</i></b>	1 April 2017

**Remove the requirement to renew RWT exemption certificates annually**

<b><i>Proposal</i></b>	<p>Legislatively require RWT exemption certificates to be issued for an unlimited period. This would apply for all the available grounds of exemption, except for the taxpayer income estimation option. Inland Revenue would have the discretion to issue exemption certificates for a shorter period in exceptional circumstances. There will still be a requirement for taxpayers to surrender their exemption certificates when they fail to meet the requirements of holding it. Inland Revenue may also cancel an exemption certificate at any time.</p> <p>To address any integrity concerns, there could be a simple “tick the box” requirement that a taxpayer provides every year where they state that they continue to meet the requirements for their exemption certificate.</p>
<b><i>Problem</i></b>	<p>Currently some taxpayers who hold RWT exemption certificates need to renew these annually. This is because of an operational decision made by Inland Revenue. Taxpayers have argued that this is creating relatively large compliance costs for those who are required to renew for relatively little value.</p>
<b><i>Who does this affect?</i></b>	<p>Taxpayers who are issued annually renewable RWT exemption certificates<sup>4</sup>, excluding those issued under the income estimation grounds. There are 462 such taxpayers.</p>
<b><i>Pros</i></b>	<p>Remove compliance costs from some taxpayers through not having to make application to Inland Revenue to renew RWT certificates annually. Reduces administration costs for Inland Revenue.</p>
<b><i>Cons</i></b>	<p>There could be integrity concerns where a taxpayer no longer meets the requirements to hold an RWT certificate, but because they are not required to renew this is not known to Inland Revenue. However, we consider that the impact of this would be minor and is able to be mitigated by the “tick the box” requirement mentioned above.</p>
<b><i>Fiscal impact</i></b>	<p>No fiscal cost.</p>
<b><i>Application date</i></b>	<p>1 April 2017</p>

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<sup>4</sup> Annual renewal is currently required by Inland Revenue if the applicant is applying for a RWT exemption certificate on the grounds that it has tax losses, a refund of over \$500 RWT or estimated annual gross income of over \$2 million. Applications on other grounds (such as annual gross income over \$2 million in the prior year) do not require annual renewal.

**Increase the threshold for annual FBT returns from \$500k to \$1M of PAYE/ESCT**

<b><i>Proposal</i></b>	Increase the threshold to file annual FBT returns from \$500k to \$1m of PAYE/ESCT																		
<b><i>Problem</i></b>	<p>Current rules allow businesses who have combined PAYE and ESCT deductions of less than \$500k to account for FBT on an annual basis rather than a quarterly basis.</p> <p>This value was last increased in 2009. As smaller businesses become bigger businesses that employ more staff this threshold may be imposing undue compliance costs.</p>																		
<b><i>Who does this affect?</i></b>	Approximately 1,500 taxpayers currently fit within the current and proposed threshold and file fringe benefit returns.																		
<b><i>Pros</i></b>	Remove compliance costs from smaller taxpayers from having to deal with FBT quarterly and instead permitting this to be done on an annual basis.																		
<b><i>Fiscal impact</i></b>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th><i>2016-17</i></th> <th><i>2017-18</i></th> <th><i>2018-19</i></th> <th><i>2019-20</i></th> </tr> </thead> <tbody> <tr> <td>Tax</td> <td>0</td> <td>-2.1m</td> <td>0</td> <td>0</td> </tr> <tr> <td>Revenue</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>For close companies that provide fringe benefits to shareholders employees, the proposal would result in approximately \$2.1m of revenue being deferred for 1 to 2 years.</p> <p>For other businesses, the FBT would still be payable in the same fiscal year, although it would be payable in one lump sum in May rather than in four instalments throughout the year.</p>					<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>	Tax	0	-2.1m	0	0	Revenue				
	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>															
Tax	0	-2.1m	0	0															
Revenue																			
<b><i>Application date</i></b>	1 April 2017																		

### Modify the 63 day rule on employee remuneration

<b><i>Proposal</i></b>	<p>Allow taxpayers to choose whether to apply the existing rule for deductions for employee remuneration paid within 63 days after the income year.</p> <p>This would apply to both smaller and larger employers.</p>
<b><i>Problem</i></b>	<p>Taxpayers who incur the cost of monetary remuneration within an income year and pay it out within 63 days after the income year must take the deduction for the remuneration in the income year it is incurred.</p> <p>This rule increases compliance costs for taxpayers as they must track payments of employee remuneration that were accrued at year end and paid within 63 days.</p>
<b><i>Who does this affect?</i></b>	Taxpayers who pay monetary remuneration and want to reduce compliance costs around dealing with the 63 day rule adjustment.
<b><i>Pros</i></b>	Removes the compliance costs of tracking and determining amounts incurred at year end and paid within 63 days after year end at the taxpayer's option. If taxpayers chose not to apply the existing rule, then they will base their deduction for employee remuneration on the amount that has been incurred and paid during the income year.
<b><i>Cons</i></b>	<p>May result in additional taxable income for employers who have large annual leave balances that are taken within 63 days of the end of the income year. This is because the deduction amount for employee remuneration will be reduced.</p> <p>However, we consider this cost is minor as taxpayers may choose whether or not to make this adjustment.</p>
<b><i>Fiscal impact</i></b>	Small gain.
<b><i>Application date</i></b>	1 April 2017

## More timely payment of provisional tax

### Adopting an Accounting Income Method (AIM) for paying provisional tax

<p><b><i>Proposal</i></b></p>	<p>Taxpayers use their accounting results to calculate their provisional tax and pay more regularly during the year. This would link the payment of provisional tax to the natural business practices of small business owners.</p> <p>AIM payments would be made directly from accounting software by the taxpayer. The user will confirm the amount to pay and then activate the payment for both GST and provisional tax.</p> <p>Provisional tax payments will be made monthly, for those registered for monthly GST returns, or two monthly, for those on a two-monthly or six-monthly GST filing option or those not registered for GST.</p> <p>Adoption of AIM will remove taxpayers from exposure to UOMI. A shortfall arising under AIM would no longer attract UOMI unless the payments made were less than the amount prescribed by the software. In that instance UOMI would still apply. Late payments of tax will still attract late payment penalties.</p> <p>Overpayments of provisional tax can be refunded throughout the year or offset against upcoming provisional tax or GST payment.</p> <p>The taxpayer must have a good compliance record with Inland Revenue to be eligible for AIM. Taxpayers could be removed from AIM if there is considered to be manipulation, lack of reasonable care or consecutive payments are missed. Removal from AIM would place taxpayer back into an option subject to UOMI.</p> <p>AIM will be offered by software providers but will be able to be used by those who have the ability to meet Inland Revenue specifications for software .</p> <p>Accounting software packages do not currently offer an income tax calculation tool. The packages will have to be upgraded to offer this. Consultation with the industry will confirm the accounting standards we consider necessary to ensure a robust calculation that creates confidence in the payment.</p> <p>Taxpayers will provide Inland Revenue with a summary of information in line with the current IR 10 Financial Statements Summary with each payment.</p>
<p><b><i>Problem</i></b></p>	<p>For some taxpayers provisional tax payments are not well matched to the income stream of the business and are not integrated into the daily business practice.</p>
<p><b><i>Who does this affect?</i></b></p>	<p>Up to 110,000 small businesses could be eligible to use this method.</p> <p>It is most likely to suit smaller business with trading income under \$5 million per annum that currently use accounting software.</p> <p>The widespread use of accounting software has made an impact on the accounting profession in the way they provide advice to their clients. Accounting software encourages clients to request advice throughout the year instead of being a year-end process. AIM will likely strengthen and support this shift in behaviour away from a year end focus. This will suit those who prefer to work under a business advisory model (with set monthly fees). Consultation with CAANZ and small business accountants has generally been supportive of this move.</p>

<b><i>Pros</i></b>	<p>Provisional tax payments more accurately match income as it is earned (i.e. pay as you go).</p> <p>Government will benefit through receiving more frequent payments. The information provided with the payments will assist with the accuracy of the payments and increase analytical ability.</p> <p>Software providers will have the ability to extend their services and provide payments directly to Inland Revenue. This has been repeatedly requested by their customers.</p> <p>For taxpayers, the calculation and payment of provisional tax will be integrated into the running of the business. This will enable a better fit between when income is earned and tax paid while assisting with financial planning and budgeting.</p> <p>More natural payment opportunities will smooth out income for those in seasonal or unpredictable industries. An accounting profit is required to trigger a payment of provisional tax, however an accounting loss will not trigger a refund, instead the loss will be carried forward into the next period.</p> <p>The ability to make payments through accounting software directly to Inland Revenue will reduce compliance for taxpayers. They will be able to update their accounting records for both GST and provisional tax adjustments and payments through the same software.</p> <p>More flexible payment options will reduce stress for smaller businesses around meeting tax payments.</p> <p>Most small business owners are time poor and slow to adopt new optional methods however the integration of this method into widely used software is likely to increase its uptake through marketing, information and support available through the products themselves.</p>
<b><i>Cons</i></b>	<p>The calculation of the tax adjustments in the software is crucial. There is a risk that taxpayers move their provisional tax payments into the latter part of the year. This is minimised where GST records can be used as an auditing trail and through consultation and development with software providers to ensure checks and balances the industry build into their systems give confidence that income tax is being paid on income as it is earned and entered into software.</p> <p>There needs to be a balance between accuracy for Inland Revenue and the desire of the software providers to keep the software simple and intuitive to use.</p>
<b><i>Fiscal impact</i></b>	<p>It is not expected that the introduction of the Accounting Income Method will have a fiscal impact. There will be benefits from receiving payments of provisional tax earlier in the year and on a more regular basis but it will collect the same amount as would have been provided under another provisional tax method. There will be costs associated with removing use of money interest from taxpayers in this method. Overall we expect both of these will result in a neutral fiscal position.</p>
<b><i>Application date</i></b>	1 April 2018

### Paying tax as agent for shareholder-employees

<b><i>Proposal</i></b>	<p>Companies could make tax payments on behalf of shareholder-employees.</p> <p>It would be voluntary as it would only be practical when the same person assumes responsibility for tax compliance for the entity and the owners/partners.</p> <p>A similar rule already allows trustees to pay provisional tax on beneficiary income on behalf of a beneficiary so this proposal is new in application but not in concept.</p>
<b><i>Problem</i></b>	<p>Income may be earned in one entity but tax has to be paid by those who are then allocated the income, rather than the one head entity. This increases the numbers of entities in provisional tax.</p>
<b><i>Who does this affect?</i></b>	<p>Companies which pay salaries to shareholder-employees (legitimately) without deducting tax at source, and these shareholder-employees, are the target group. However, if this proposal is well-received, in the future it could be extended to a greater range of types of income, and to partnerships. The current rules for trusts, which are a version of this proposal, are likely to need amendment to ensure consistency.</p> <p>Approximately 300,000 companies currently make payments to shareholder-employees without deduction of tax.</p>
<b><i>Pros</i></b>	<p>This proposal will reduce compliance costs by removing a number of taxpayers from the provisional tax rules.</p>
<b><i>Cons</i></b>	<p>While shareholder-employees who elect into this proposal will no longer be subject to provisional tax, their accountants will still need to make the same calculations to ensure the company is paying the correct amount of tax on their behalf. This limits the compliance cost savings which this proposal can deliver.</p>
<b><i>Fiscal impact</i></b>	<p>Not expected to have a fiscal impact.</p>
<b><i>Application date</i></b>	<p>1 April 2018</p>





