



Tax Working Group
Te Awheawhe Tāke

Tax Working Group Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

This paper contains advice that has been prepared by the Tax Working Group Secretariat for consideration by the Tax Working Group.

The advice represents the preliminary views of the Secretariat and does not necessarily represent the views of the Group or the Government.

Coversheet: **Government reviews that could impact the TWG**

Briefing Note for Session 7 of the Tax Working Group

April 2018

Purpose of briefing note

This note outlines Government reviews, inquiries and policy work that could significantly intersect with the work of the Tax Working Group (TWG).

Key points for discussion

- How would the Group like to interact with the different reviews?
- Does the Group want further information on any of the reviews in this note? Are there other reviews of interest?

Recommended actions

We recommend that you:

- note** there are a number of active and planned Government reviews that could touch on areas of concern to the TWG, most notably, the Welfare Expert Advisory Group, and the local authority funding review;
- note** that these reviews are generally at their early stages and are yet to release terms of reference;
- note** that the Secretariat is actively monitoring relevant Government reviews, and will keep the TWG informed of significant developments; and
- indicate** whether the Group wishes to interact with any particular reviews.

Government reviews that could impact the TWG

*Briefing Note for Session 7
of the Tax Working Group*

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The Tax Working Group will release its interim report containing its recommendations in September and the views of the Group will be informed by public submissions alongside Secretariat advice.

April 2018

Prepared by the Inland Revenue Department and the New Zealand Treasury

Summary

1. This note outlines Government reviews, inquiries and policy work that could significantly intersect with the work of the Tax Working Group (TWG). It considers both active reviews, and reviews that are anticipated to begin before the TWG reports in February 2019.
2. We have identified the following reviews, inquiries and policy work that could intersect with the TWG:
 - Welfare review (Welfare Expert Advisory Group)
 - Local authority funding review
 - Urban growth agenda
 - Charities Act review
 - Environmental reviews
 - Interim Climate Change Committee
 - Climate Change Commission
 - Productivity Commission inquiry: Low-emissions economy
 - Emissions Trading Scheme (ETS) review
 - Land and Water Forum
 - Three waters review
 - Waste levy review
 - Other tax policy work
3. The welfare review and local authority funding review are likely to be most relevant to the work of the TWG. Terms of reference are yet to be released for either of these reviews.

Details of specific reviews

Welfare review (Welfare Expert Advisory Group)

4. A Welfare Expert Advisory Group is being established to make recommendations on improvements to the welfare system. The Ministry of Social Development is leading this work.
5. The final terms of reference for the welfare review are yet to be announced. However, the draft terms of reference provide an indication of tax issues that might be in scope, and the review's potential interaction with the Tax Working Group:
 - *The welfare overhaul scope will cover the breadth of the welfare system for working-age people, including main benefits, second and third tier financial support, Working for Families, and non-financial support provided through the welfare system.*
 - *The [welfare review] should give due consideration to interactions between the welfare overhaul and related Government work programmes and systems such as the Tax Working Group, Child Wellbeing Strategy (including the Child Poverty Strategy), the Housing Strategy, and the Student Support System.*

6. We understand the review is likely to take a phased approach, with the first phase being completed in 2018, and second phase continuing through 2019.
7. We understand the Chair of the Welfare Expert Advisory Group is keen to meet Sir Michael to discuss the two reviews and to set up regular meetings to discuss any cross over. Note, the Chair is yet to be announced.

Local authority funding review

8. The Department of Internal Affairs (DIA) is planning to lead a review on the funding of local authorities. This comes a decade after the 2007 Shand Review on local government funding.
9. Terms of reference have not yet been announced. However, there are significant funding pressures on local authorities and the review may be interested in new revenue streams and models. For example, it could potentially consider environmental taxes such as regional fuel taxes or congestion charging. It might also consider greater transfers from central government to local government, which could have significant implications for the national tax system.
10. There have been no announcements on a timeline for the review.

Urban growth agenda

11. In November 2017 the Government launched the urban growth agenda – an umbrella initiative for addressing urban growth challenges, such as housing affordability. This is not an independent review, but it is driving work programmes across Government, some of which touch on tax issues. We do not anticipate any major tax announcements coming out of the urban growth agenda before the TWG issues its interim report.
12. There are five pillars to the agenda:
 - Infrastructure funding and financing
 - Transport pricing
 - A pro-growth planning system
 - Spatial planning by central and local government
 - Legislative reform of the Resource Management Act (RMA)
13. Most of the tax issues raised by the urban growth agenda are local – for example, value capture taxes and targeted rates. However, these can impact taxes that the TWG are considering – for example, a value capture tax could overlap with a capital gains tax.
14. The urban growth agenda also includes work on environmental and transportation taxation tools which might more directly overlap with TWG’s work programme. In particular:
 - The Ministry of Transport is leading ongoing work on transportation funding models and congestion pricing.

- There are proposals for work on making greater use of economic instruments in place of regulation within the RMA.

15. The Secretariat is liaising with officials working on relevant parts of the urban growth agenda, especially on environment and transport issues.

Charities Act review

16. DIA is planning to lead a review of the Charities Act. The tax treatment of charities and charitable giving is a significant tax issue currently on the agenda of the TWG.

17. The terms of reference for the Charities Act review are yet to be announced. However, they may be relatively broad, and the tax treatment of charities will not necessarily be a significant focus. This will be the first significant review of the Charities Act since major reforms in 2005.

18. Officials working on the Charities Act review have expressed an interest in TWG submissions relating to charities being shared. The TWG Secretariat plan to share relevant feedback from TWG hui with Charities Act officials.

19. There are other charity sector reviews in train, but they are likely to be less relevant to the TWG. These include the planned Charitable Trust Act review (terms of reference yet to be announced), and an update to the Incorporated Societies Act 1908 (draft legislation currently under review).¹

Interim Climate Change Committee

20. In December 2017 the Government announced the Interim Climate Change Committee, as an interim body to progress climate change policy before the establishment of the Climate Change Commission. In particular, it will prepare analysis and evidence on the role of agriculture in climate change policy and the transition to 100 percent renewable electricity.

21. The Interim Committee will officially convene in May. The Committee will determine its own work programme, and will provide its analysis to the Climate Change Commission when it is established in mid-2019.

Climate Change Commission

22. The Government will establish the Climate Change Commission as an independent body to keep future governments on track to meeting the long-term emissions reduction commitments. The Commission is also expected to have a role in helping New Zealand better adapt to the impacts of unavoidable climate change.

23. In 2018, officials will undertake public consultation on the role of the Commission as part of the wider consultation on the Zero Carbon Bill. The Bill establishing the Commission is expected to be introduced to the House of Representatives in late 2018.

¹ <http://www.mbie.govt.nz/info-services/business/business-law/incorporated-societies>

Productivity commission inquiry: Low-emissions economy

24. In May 2017, the Productivity Commission was asked to conduct an inquiry into the transition to a lower net-emissions economy. The inquiry is framed around two central questions set out in the terms of reference:
- What opportunities exist for the New Zealand economy to maximise the benefits and minimise the cost that a transition to a lower net emissions economy offers, while continuing to grow incomes and wellbeing?
 - How could New Zealand's regulatory, technological, financial and institutional systems, processes and practices help realise the benefits and minimise the costs and risks of a transition to a lower net emissions economy?
25. The Commission is considering the economic institutions and policy tools that would best encourage and incentivise businesses, households, consumers and government agencies to move to a low-emissions future. These could include tax and other revenue raising economic instruments.
26. A draft report is expected by the end of April 2018. A final report is due in June 2018. The Government is expected to respond to the Commission's recommendations.²

Emissions Trading Scheme (ETS) review

27. The Ministry for the Environment (MfE) are in the implementation phase of a multi-year review of the ETS. The review made a number of recommendations to improve the management and operation of the ETS. Active workstreams include: limits on international units, auctioning, replacing the price ceiling, forestry accounting, and free allocation phase out.
28. Advice is expected to go to Cabinet in mid-2018, with public consultation in August/September 2018, and final policy decisions in December 2018.

Land and Water Forum

29. The Land and Water Forum (LAWF) brings together a range of industry groups, environmental and recreational NGOs, iwi, scientists, and other organisations with a stake in freshwater and land management. In January 2018 the Ministers for the Environment and Agriculture asked LAWF to provide further advice by the end of May 2018 on whether there is a consensus view on how best to:
- Allocate nutrient and sediment loads by catchment, in order to achieve fairness between existing capital investment and undeveloped land, while meeting science based bottom lines
 - How to implement this without repetition of the same underlying policy debate in each regional council area.

² <https://www.productivity.govt.nz/sites/default/files/LEE%20TOR.pdf>

30. There are potential crossovers between nutrient/sediment load allocation and environmental taxes. For instance, emissions permits could be auctioned by the Government. This would be both an environmental tax, and an approach to allocation.
31. Given the consensus nature of the Forum, and the strongly opposing positions of its members, it is unlikely that they will be in a position to comment on charging/taxing of water.

Three waters review

32. There is an active review on management of drinking water, storm water and waste water (three waters). The review is focusing on understanding the challenges associated with managing finances, compliance and monitoring systems and asset management. Three waters services are a core responsibility of local councils, and the review is being led out of DIA, with involvement from MfE, Ministry of Business, Innovation and Employment (MBIE) and the Ministry of Health (MoH). The review could be relevant to environmental taxes relating to water.
33. The review is ongoing, and is expected to report back to Cabinet in October with options for improving three waters services.
34. The review is closely linked with the Government response to the Havelock North Inquiry. Advice on public health issues relating to water is being developed as part of the Havelock North response.

Waste levy review

35. In 2017, the Ministry for the Environment completed a review of the effectiveness of the waste disposal levy.³ Waste disposal levies are a type of environmental tax.
36. The review's recommendations include an expansion of the scope of waste that attracts the levy, an increase in its rate, and exploration of a differential rating system for different types of waste.⁴ There has been in-principle Ministerial agreement that the recommendations should be implemented. Timelines and funding arrangements are yet to be decided.

³ The Waste Disposal Levy is a \$10/tonne levy established in 2008 on waste sent to landfill. Revenue raised is hypothecated to waste minimisation initiatives.

⁴ <http://www.mfe.govt.nz/waste/waste-disposal-levy/reviewing-waste-disposal-levy>

Other tax policy work

37. There is ongoing tax policy work across Government. Officials expect Ministers will shortly announce the tax policy work programme for 2018/19. Current areas of tax policy work include:

- R&D tax credits;
- International Visitor Levy;
- IR's Business Transformation programme;
- Monitoring OECD work on international tax issues;
- Base Erosion and Profit Shifting (BEPS) measures; and
- Continuous improvement activities (BBLR issues).