Tax Working Group
Te Awheawhe Tāke

**Tax Working Group Information Release**

**Release Document**

**February 2019**

**taxworkinggroup.govt.nz/key-documents**

*This paper has been prepared by the Secretariat to the Tax Working Group 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 whole Group or the Government.*

*Some papers contain draft suggested text for the Final Report. This text does not constitute the considered views of the Group. Please see the Final Report for the agreed position of the Group.*

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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# Tax Working Group

Te Awheawhe Tāke

FUTURE OF TAX.

# WHAT IS THE TAX WORKING GROUP?

## Nāu te rourou, nāku te rourou, ka ora ai te iwi

***With your contribution and mine, the people will prosper***

- The Government established the Tax Working Group (TWG) to find ways of **improving** the **structure**, **fairness** and **balance** of the tax system.

- The TWG provided the Government with its Interim Report on 20 September 2018.

# OBJECTIVES FOR THIS HUI

**Understanding** – to ensure that the findings and recommendations in the Interim Report, particularly those of most interest to Māori, are well understood

**Your whakaaro** – take feedback on what the implications might be for Māori, particularly in relation to collectively-owned assets

**Note** – these insights will in form the TWG's Final Report

# WHAT WE'LL COVER TODAY

| Kaupapa: | Presenting: | Duration: |
|---|---|---|
| Mihi whakatau and introductions | Trevor Moeke / Hinerangi Raumati | 15 mins |
| Our approach to thinking about tax:<br>He Ara Waiora – A Pathway Towards Wellbeing | Emily O'Connell | 10 mins |
| About the Tax Working Group, its interim findings & recommendations | Tia Greenaway | 20 mins |
| Feedback on:<br>• Māori authorities<br>• Charities<br>• Environment | Tia Greenaway | 45 mins |
| Exploring implications of extending taxation of capital income<br>• scenarios for feedback | Tia Greenaway/ Emily O'Connell | 45 mins |
| **Kapu tī** | | **15 mins** |
| Discuss insights we can draw from He Ara Waiora | Tia Greenaway | 20 mins |
| Next steps | Emily O'Connell | 10 mins |
| Karakia whakamutunga | Trevor Moeke | |

# TIMELINE

**1 March - 30 April 2018**

'Future of Tax' public consultation

**September 2018**

TWG issue Interim report

**February 2019**

TWG issue final recommendations to Government

Any significant changes adopted by the Government will **NOT** take effect until after the 2020 election

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# Terms of reference

The Tax Working Group should report to the Government on:

- Whether the tax system operates **fairly** in relation to taxpayers, income, assets and wealth;
- Whether the tax system promotes the right **balance** between supporting the productive economy and the speculative economy;
- Whether there are changes to the tax system which would make it more **fair, balanced and efficient**; and,
- Whether there are **other changes which would support the integrity of the income tax system**, having regard to the interaction of the systems for taxing companies, trusts, and individuals.

# SCOPE OF THE INTERIM REPORT

**Frameworks for tax policy**

**Capital income and wealth**

Retirement savings

Housing affordability

The integrity of the tax system

The taxation of business

**Māori authorities**

**Charities**

Tax administration

Corrective taxes

International income taxes

Personal income and future of work

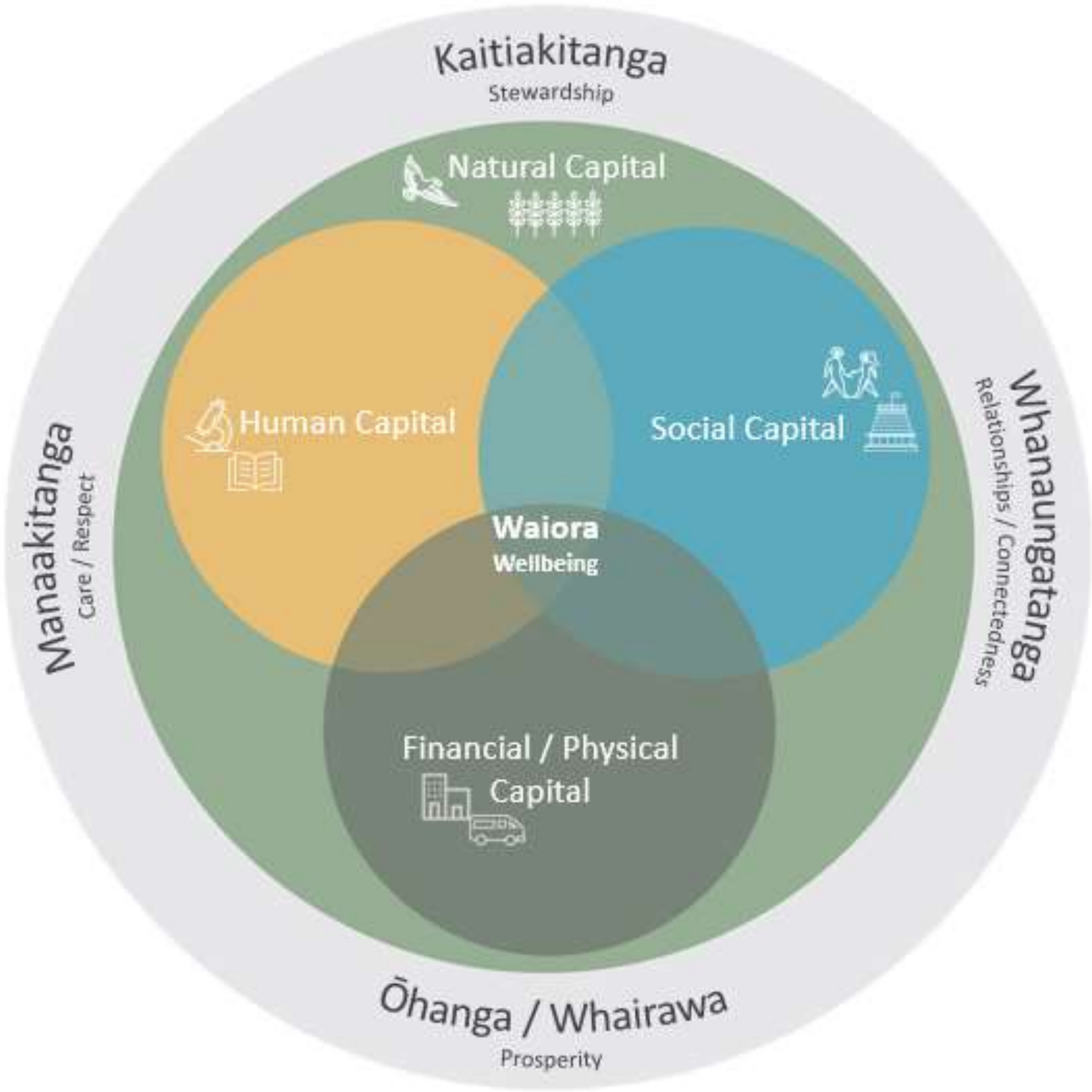
**Environmental and ecological outcomes**

GST and financial transaction taxes

# ISSUE 1: FRAMEWORKS FOR ASSESSING TAX POLICY

## *He Ara Waiora – A Pathway to Wellbeing*

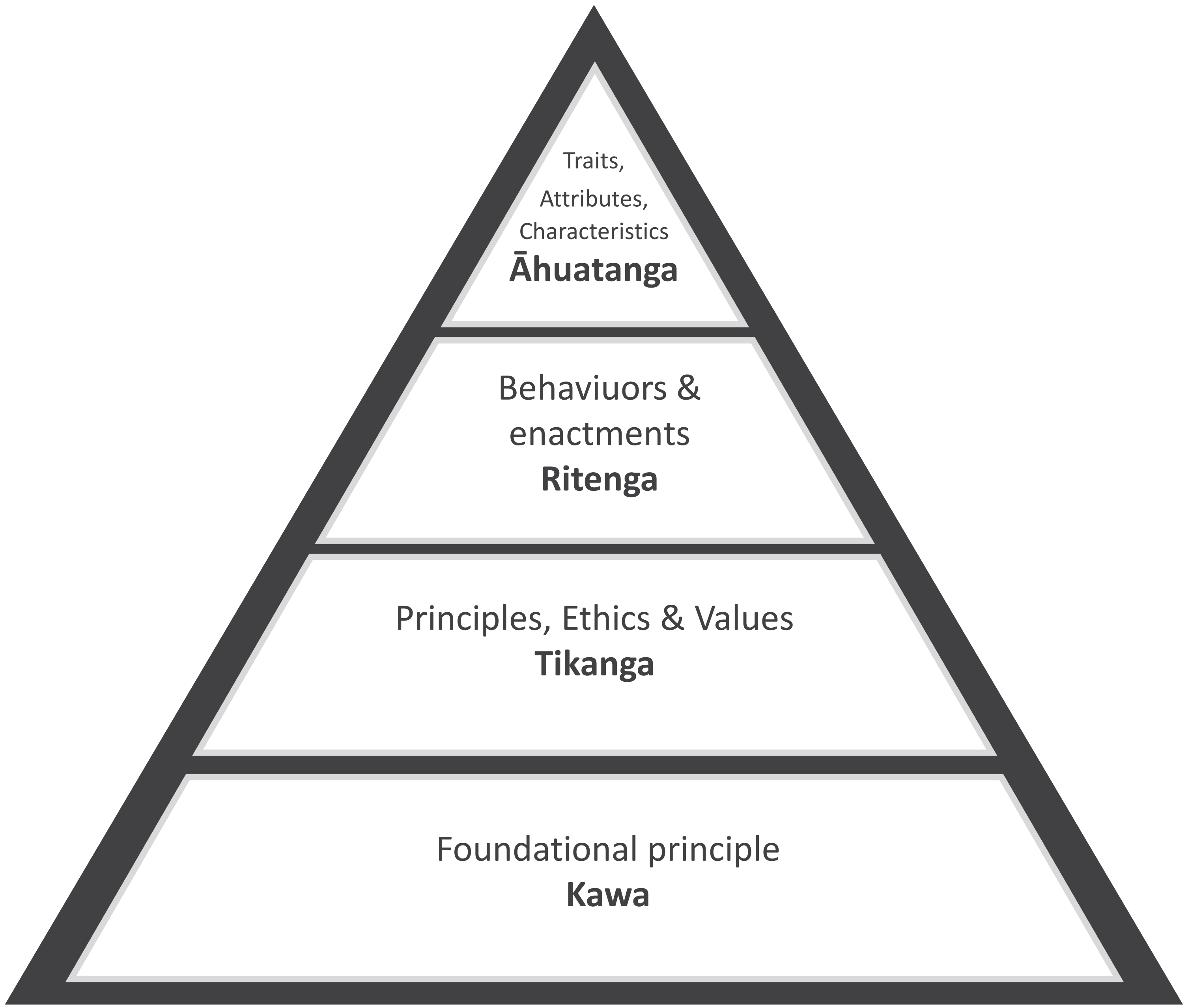
- March 2018: TWG sought feedback on ***how tikanga Māori could support a future-focused tax system.***
- Submissions and small hui April-July – general support.
- Concepts of *manaakitanga*, *kaitiakitanga*, *whanaungatanga* resonated
- A range of kupu around *wellbeing* and *prosperity*




We want to hear what you think about what these concepts in respect to the the policy issues we discuss today

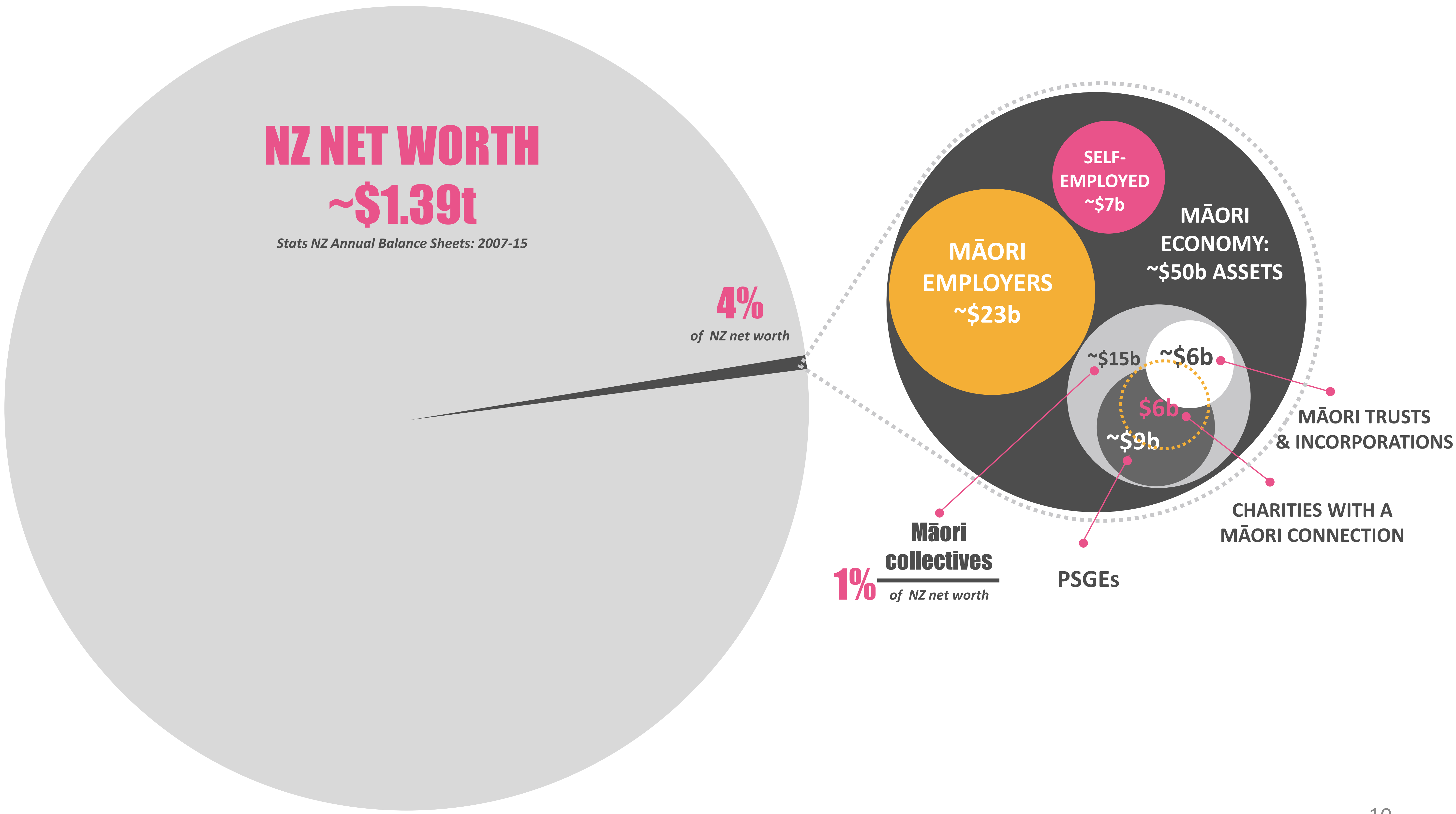
# HE ARA WAIORA – NEXT STEPS?

- Some Māori academics suggeted a Te Ao Māori framework to contextualise tikanga.
- *Kawa* requires clarity about the 'moral imperative'
- Practical application is important
- Needs to result in measurable improvements in outcomes for Māori



# A VIEW OF MĀORI IN THE ECONOMY

## ESTIMATED VALUE OF MĀORI ASSETS & HOW THEY ARE HELD



# ISSUE 2: MĀORI AUTHORITIES

## What is the issue?

Māori authorities can access 17.5% tax rate because of:

- Legislative or other legal restrictions on transferring assets
- Members are generally on lower marginal income tax rates

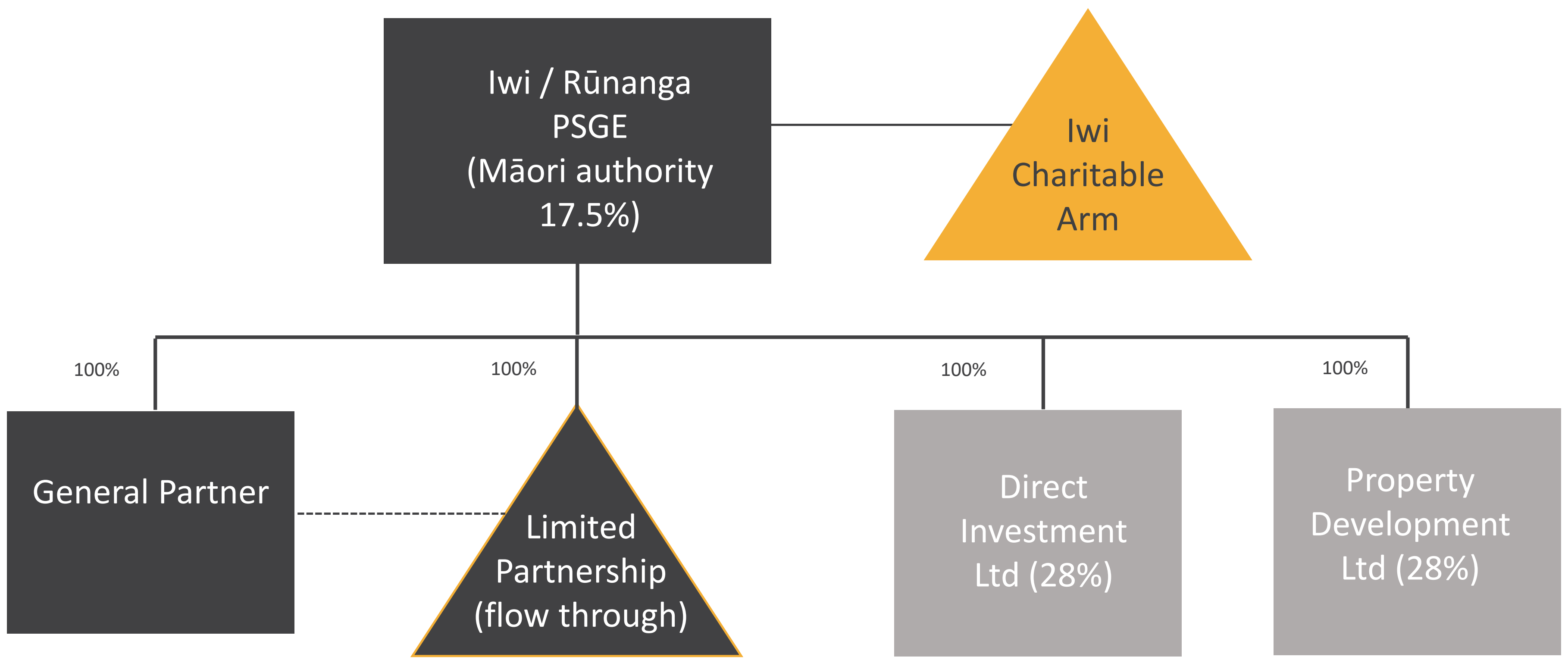
Generally, tax paid by a Māori authority is passed on to members as tax credits when distributed.

Subsidiaries of Māori authorities are not eligible for the 17.5% tax rate.

# ISSUE 2: MĀORI AUTHORITIES CONTINUED

## TWG thinking...

- Support the underlying basis for the 17.5% rate for Māori authorities
- Extend the 17.5% rate to the **wholly-owned subsidiaries** of Māori authorities
- Consider technical refinements to the Māori authority rules

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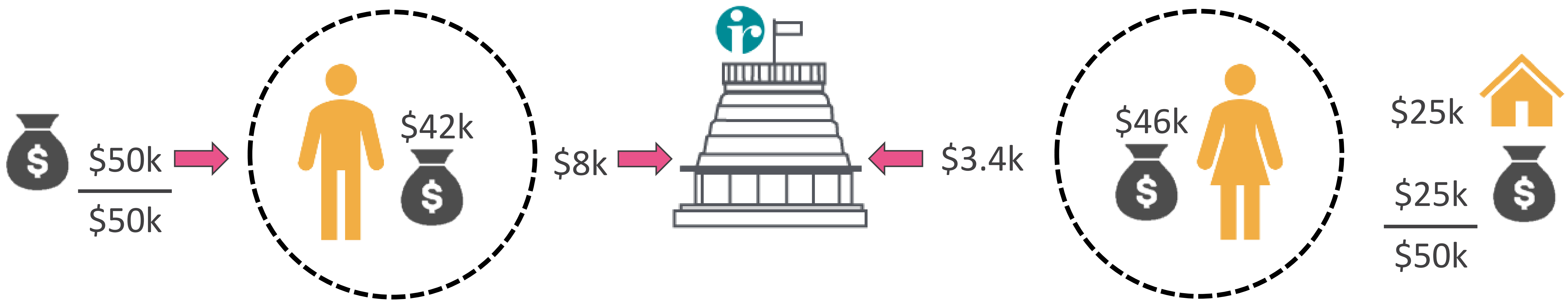
# ISSUE 3: CAPITAL INCOME AND WEALTH

## What is the issue?

Some types of capital income (some capital gains) are untaxed in New Zealand.

- Impacts on the fairness and integrity of the tax system; creates an uneven playing field between different types of investment




Rāwiri earns $50k p/a in salary/wages. He pays about $8k in tax and retains $42k for himself.

Mīria earns $25k p/a in salary and wages, and bought and sold a rental property in the course of the year and made a capital gain of $25k. She pays about $3.4k in tax on her salary/wages and retains $46k for herself.

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# ISSUE 3: CAPITAL INCOME AND WEALTH

## TWG thinking...

Considering **extending the taxation of capital income:**

Tax Working Group Interim Report: “In broad terms, will the **fairness, integrity, revenue and efficiency benefits** from reform outweigh the **administrative complexity, compliance costs, and efficiency costs** that arise from the proposed additional capital income taxation?”

→ Ruled out the introduction of a land tax, or a wealth tax.

*The Group will make a recommendation on extending the taxation of capital income in its final report in February 2019.*

# ISSUE 3: FURTHER EXPLORING TAXATION OF CAPITAL INCOME

## TWG is still forming views on best approach

### Option 1: Taxing more capital gains

| How it works |
| --- |
| • When an asset is sold or disposed a taxpayer would be taxed on the gain in value of the asset |

### Option 2: Risk-free return method (RFRM)

| How it works |
| --- |
| • Taxpayers are deemed to have received certain amount of income each year based on equity held (asset value minus debt) |

# ISSUE 4: CHARITIES

## What is the issue?

Does the tax exemption for charitable business income confer an unfair advantage?

- the underlying issue is the extent to which charitable entities are accumulating surpluses instead of distributing their funds for charitable purposes.

## TWG thinking...

A review of the Charities Act 2005 is underway which may address the issue of accumulation by charities; consider whether the tax issues remain after the review is complete

# ISSUE 5: ENVIRONMENTAL TAXES

## What is the issue?

There is a broad range of environmental challenges for New Zealand, including:

- Greenhouse gas emissions, biodiversity risks, water resources (extraction and discharge issues), solid waste, and transport.

## TWG thinking...

The Group:

- Believes there is significant scope for the tax system to play a greater role in sustaining and enhancing New Zealand's natural capital
- Have proposed a draft framework for when to use tax instruments instead of other policy tools (e.g., regulation, subsidies etc.), as well as design principles for potential environmental tax instruments which includes consideration of Māori rights and interests

The Interim report does not recommend specific new taxes

- It does identify areas where there is potential scope for greater use

# HOW EXTENDING TAXATION OF CAPITAL INCOME COULD WORK...

## Tax Working Group’s thinking on option 1 (taxing more capital gains):

### Tax on what?

Tax would be on gains from disposing:

- Land
- Intangible property
- Assets held by a business
- Shares

Exceptions:

- Selling the family home (Terms of Reference)
- Personal assets (cars, jewellery etc.)

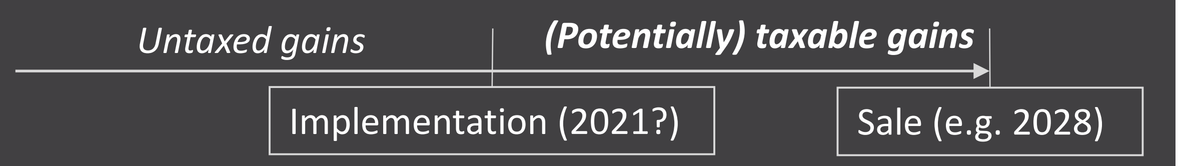
### How would it apply?

Tax would apply at ordinary marginal rates, e.g.

- 33% for an individual in the top tax bracket
- 28% for a company
- 17.5% for a Māori authority

Tax will only apply to changes in asset value after implementation date

- E.g. For an asset currently held and sold in 2028:



# HOW EXTENDING TAXATION OF CAPITAL INCOME COULD WORK...

**Tax could be on REALISATION, but what does that mean?**

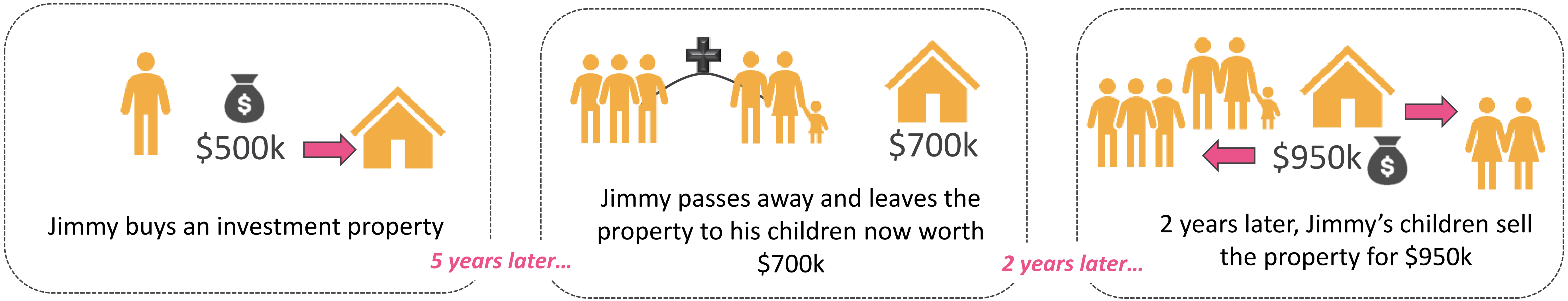
The Group is still working through these issues, but has discussed the following as possible realisation events in its Interim Report:

- Sale of assets for market value
- Destruction/scrapping of assets (realisation of a loss)
- Deemed realisation events, including death, gifts, settlements on a trust, distributions from a trust or company to a beneficiary or shareholder

# …AND SOMETIMES THE TAX MIGHT BE DEFERRED

## Roll-over relief

When an asset is transferred, roll-over relief allows a taxpayer to delay their tax obligation, for example:




- If roll-over relief is not provided when the property is transferred to Jimmy's children, Jimmy's estate would have taxable income of $200,000 and his children would have taxable income of $250,000.
- If roll-over relief is provided, the $200,000 "gain" is not taxed, but when the property is sold by the children they will be taxed on $450,000.

## Possible approaches to roll-over relief

**No roll-over relief:**

- Less complicated
- Preserves integrity of the tax

**Limited roll-over relief:**

- *Same economic owner*: when asset technically is transferred, but still belongs to the same owner/group in practice
- *Involuntary events*: situations where transfer is forced, eg., a compulsory acquisition of land under the Public Works Act

**Broader roll-over relief:**

- Same asset class, e.g. for a person selling a farm to buy a larger farm, or selling a business to buy another business in the same industry

# HOW WOULD THESE IDEAS IMPACT HOW YOU MANAGE COLLECTIVELY-OWNED ASSETS?

For example, how you:

- **hold and manage** assets
- **transfer** ownership / shares
- **sell and acquire** capital assets in business-as-usual operations
- **achieve** your strategic objectives in alignment with iwi/hapū/whānau aspirations

*IF...* **NO ROLL-OVER RELIEF**

No roll-over relief is available, almost all sales will be taxable

*IF...* **ONLY ROLL-OVER RELIEF FOR SAME ECONOMIC OWNER**

Roll-over relief is available for transactions where there has been no overall change in ownership e.g., sales within a wholly-owned group.

*IF...* **BROADER ROLL-OVER RELIEF**

Roll-over relief is available for disposals where proceeds are used to buy other business assets.

**What will this mean for you?**

**How would it apply in practice?**

**What transactions WOULD be captured?**

**What transactions WOULDN'T be captured?**

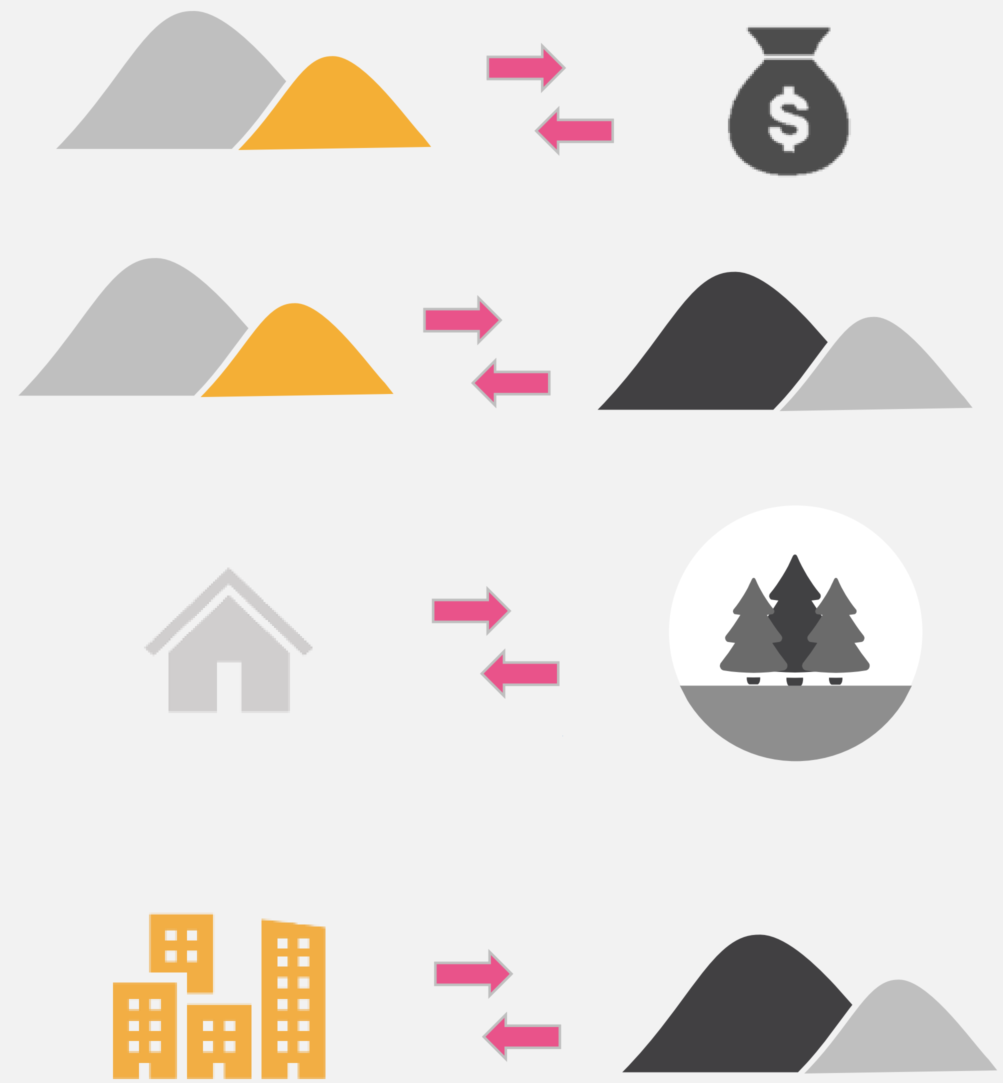
# WHAT WOULD THESE IDEAS MEAN FOR MĀORI COLLECTIVELY-OWNED ASSETS?

## MĀORI TRUSTS / MĀORI INCORPORATIONS

**collectively-owned assets**

## IWI / HAPŪ / PSGEs

**collectively-owned assets**



What have we missed?

**WHAT TRANSACTIONS WOULD BE CAPTURED?**

**WHAT TRANSACTIONS WOULDN'T BE CAPTURED?**

# WHAT TYPES OF TRANSACTIONS WILL BE IMPACTED?

## If this ... then what?

- Sale of Maori Freehold Land
- Transfer of shares in Māori Freehold Land
- Transfer of assets between legal entities with the same economic owner
- Transfer of assets between legal entities between iwi and related hapū
- Sale of assets to exercise a Rights of First Refusal option
- Sale of assets to purchase culturally significant sites
- Sale of assets in general

**HOW OFTEN DOES THIS HAPPEN IN PRACTICE?**

**WHAT IS THE IMPACT LIKELY TO BE?**

## Korero mai,

## how will this impact:

Iwi?

Hapū?

Settlement entities?

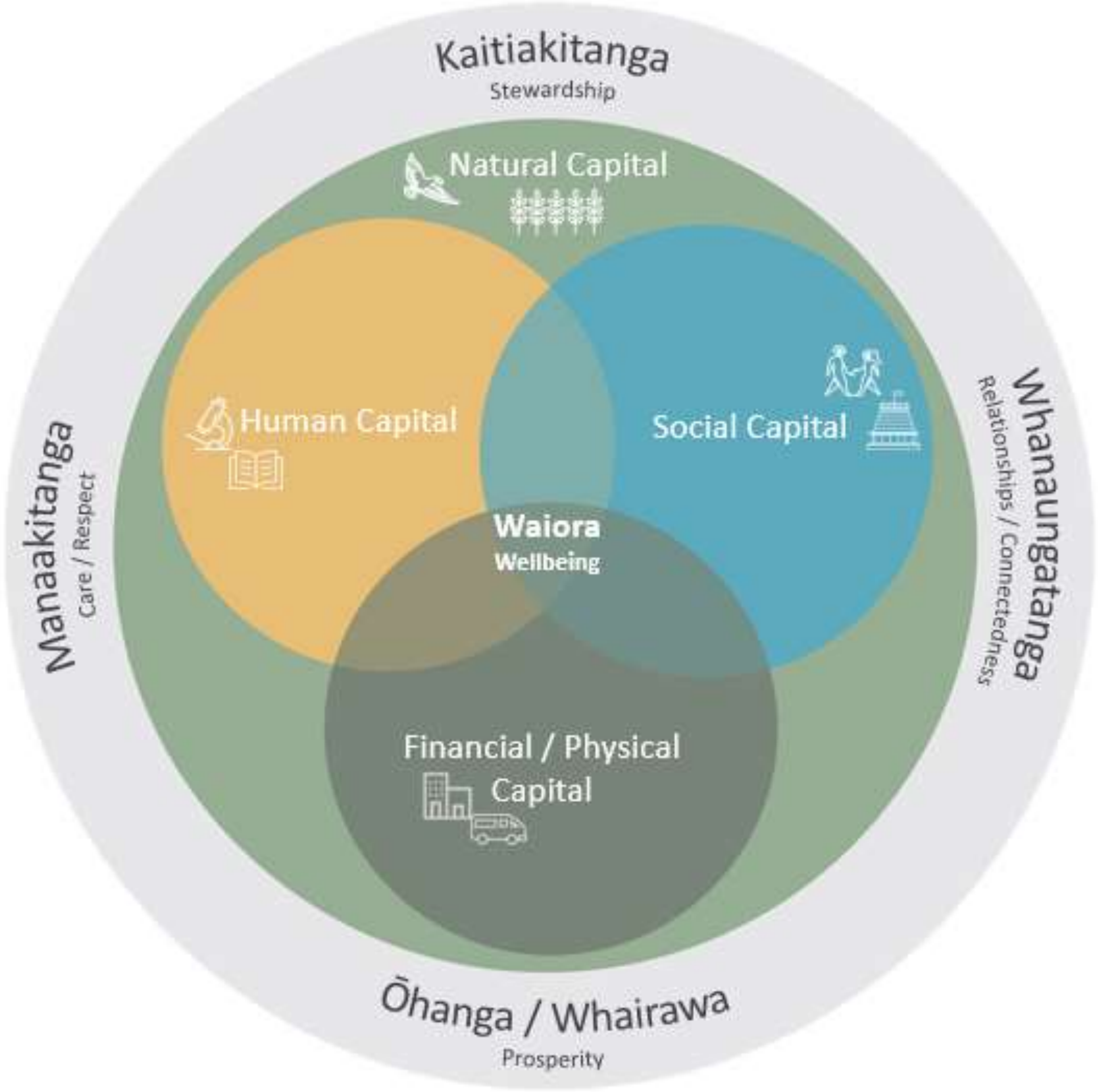
Pre-settlement entities?

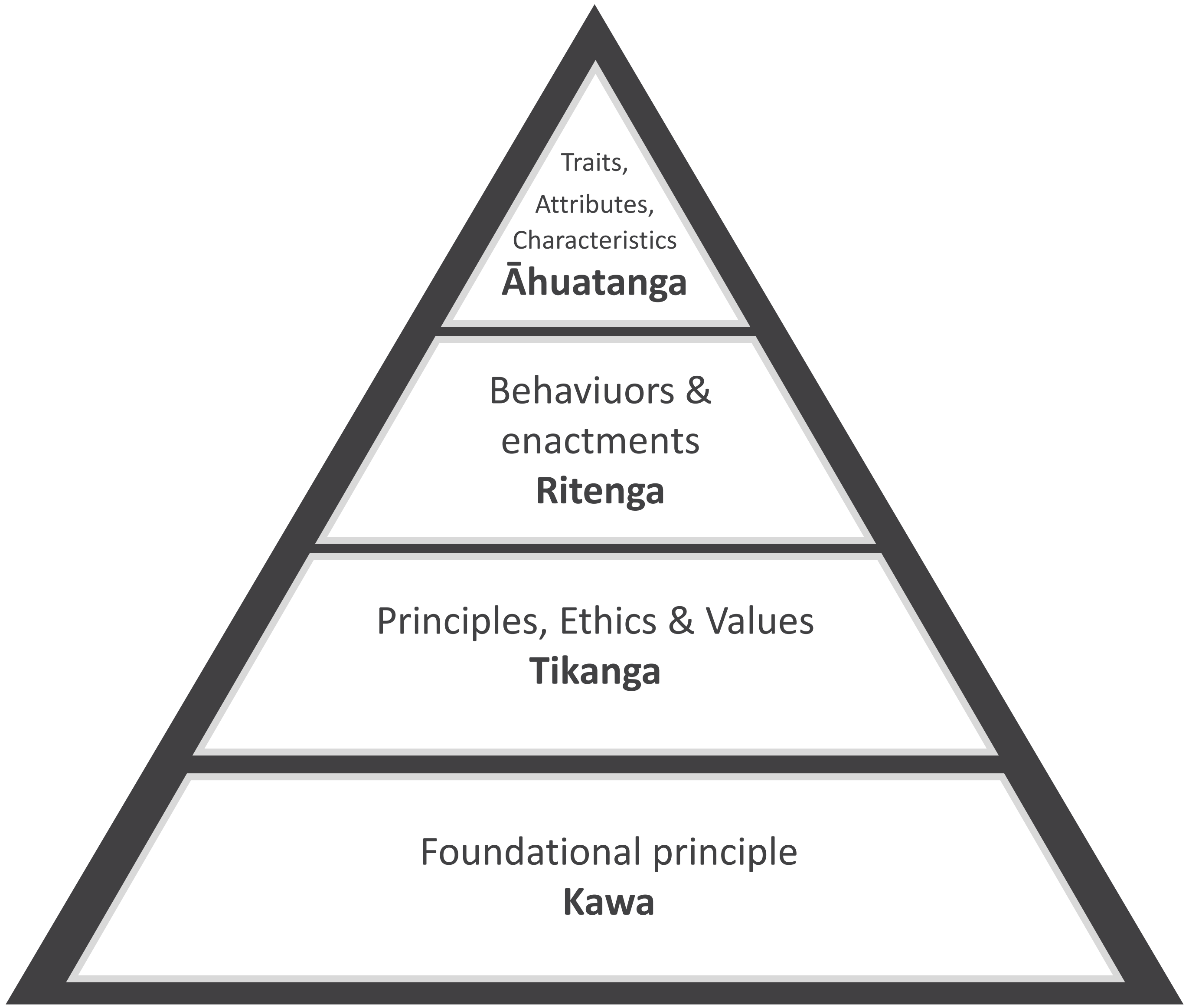
Te Ture Whenua entities such as:
Ahu Whenua Trusts, Māori incorporations?

Other Māori Trusts and collectives?

# HE ARA WAIORA – A PATHWAY TO WELLBEING

## What insights can we draw?

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# WHERE TO FROM HERE?

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# HE PATAI?

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