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.*

**Key to sections of the Official Information Act 1982 under which information has been withheld.**

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

Date: Friday 26 October 2018

Location: Auckland Law School

Attendees: Sir Michael Cullen (Chair), Geof Nightingale, Kirk Hope, Michelle Redington, Nick Malarao, Robin Oliver, Craig Elliffe, Bill Rosenberg, Joanne Hodge
Apologies: Hinerangi Raumati-Tu'ua, Marjan van den Belt, Nick Malarao,
Independent Advisor: Andrea Black
Secretariat: Matt Cowan, Samantha Aldridge, Paul Kilford, Steve Mack, Matt Benge, Shane Domican (Note taker), Emma Grigg, Phil Whittington, Bary Hollow, Oscar Parkyn, Sam Rowe, Casey Plunket
Other attendees: Matt Whineray (NZSF), John Payne (NZSF), Francine Corbett (NZSF)

## 1. Administration

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| **Noted** | • Minutes for previous meeting.<br>• Feedback from CAANZ conference. Key issue raised during conference is concern regarding 1 April 2021 application date for taxing more capital gains. Feedback was that more time is required for many issues such as the treatment of managed funds. |
| **Actions for the Secretariat** | • Update minutes to reflect that Group will consider further the detail on rollover relief and that work is still in progress, and note that Joanne's absence was due to technology issues<br>• Provide paper on process for implementing Tax Working Group recommendations with alternative timetables and potential staging of implementation |

## 2. New Zealand Superannuation Fund Submission

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| **Noted** | • Submission from New Zealand Superannuation Fund and Secretariat advice |
| **Agreed** | • Recommend income tax exemption for New Zealand Superannuation Fund<br>• Recommend that the Government consider developing a carefully structured regime for tax concessions for nationally significant infrastructure<br>• Recommend that a regime should have clear safeguards, a high threshold to apply, and national interest criteria |

## 3. Retirement savings and managed funds

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| **Noted** | • Secretariat paper on retirement savings and managed funds |
| **Agreed** | **Shares held by multi-rate PIEs**<br>• Recommend FDR to continue to apply to foreign shares held by managed funds (other than Australian listed shares)<br>• Recommend accruals-based tax on domestic shares and Australian listed shares held by managed funds<br>• Not to recommend exemption of shares held by managed funds<br>• Include discount to address impact of accruals based tax on Australasian shares, including:<br>  o A discounted rate for KiwiSaver funds (e.g. 2-3%), with potentially associated caps on contributions;<br>  o A discount the amount of taxable gains from Australasian shares for all PIEs<br><br>**Other PIEs**<br>• Recommend that other PIEs (except Property PIEs), life insurance funds with a policyholder base, and other similar funds be taxed on the same basis as multi-rate PIEs. Have a de minimis for small super funds so they can use realisation basis.<br><br>**Property PIEs**<br>• Recommend that for listed property PIEs<br>  o These are treated similarly as ordinary companies, but<br>  o If the listed PIE distributes untaxed income, the investor has the choice to treat the income as exempt and reduce the cost base of their shares by the amount of exempt income<br>  o Recommend that Government or Inland Revenue look at administrative requirements to help investors manage this such as through disclosure requirements or withholding taxes<br>• Recommend for multi-rate PIEs to treat them similar to partnerships, with an option to use the listed property PIE tax treatment in case this is not feasible. |
| **Actions for the Secretariat** | • Provide further information on potential discounts for KiwiSaver and PIEs generally to account for the increased tax on shares |

## 4. Expenditure

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| **Noted** | • Secretariat paper on Expenditure |
| **Agreed** | **Black hole expenditure**<br>• Recommend black hole expenditure be deductible using a five year spreading method<br>• In final report, to recommend proposal at a high level and leave detail of proposal for Government and officials<br>• Recommend immediate deductibility for small amounts of expenditure with threshold aligned with threshold for other expenditure considered in compliance cost reductions<br><br>**Seismic strengthening and depreciation** |

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| | • Final report to outline three potential options that the Government can choose from depending on their priorities<br>  o The first option is to allow deductions for depreciation on industrial, commercial and multi-unit residential buildings<br>  o The second option is to allow deductions for depreciation on industrial, commercial and multi-unit residential buildings and with a higher depreciation rate for seismic strengthening<br>  o Third option is not to allow deductions for depreciation for buildings generally, but provide (non-immediate) deductions for some seismic strengthening expenditure outlined in the Secretariat paper<br>• Not to recommend immediate deductibility for seismic expenditure<br>• In final report:<br>  o When setting out arguments for a 1% depreciation rate, outline that Government is revenue constrained and provide arguments for why a 1% rate is potentially correct. However, not to provide strong statement that 1% rate is correct<br>  o Set out at a high level what multi-unit residential means and for Government to consult on specific definition through generic tax policy process |
| **Actions for the Secretariat** | • Check documentation regarding Budget 2010 and whether removing building depreciation was explicitly considered the tradeoff for a company tax rate reduction |

## 5. Reducing compliance costs for business

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| **Noted** | • Secretariat paper on reducing compliance costs for businesses |
| **Agreed** | • To recommend measures previously recommended in interim report including:<br>  o Increasing threshold for paying provisional tax from $2,500 to $5,000<br>  o Increase threshold for undertaking a closing stocktake from $10,000 to $20,000<br>  o Increase automatic deduction for legal fees from $10,000 to a higher value<br>  o Expand the automatic deduction for legal fees to other forms of professional fees, such as accounting fees<br>• Recommend the following further compliance cost measures in the final report:<br>  o Review of fringe-benefit tax with a view to reducing compliance costs<br>  o Review of entertainment regime<br>  o Review of thresholds for unexpired expenditure<br>  o Optional removal of resident withholding tax on close company dividends and interest<br>    ▪ Deductions for these expenditure should only be allowed if the other party has returned the income<br>    ▪ The removal should be optional as some may wish to withhold resident withholding tax to reduce compliance costs for shareholders<br>  o Small business council should review tax compliance costs<br>  o Assistance and education of small businesses to use digital technology. This to include partnership with other agencies to provide this assistance |

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| | o Review number of depreciation rates with view to reducing number of rates<br>o Increase low value asset write-off threshold if fiscal costs are manageable<br>o Review excise tax on LPG<br>• Not to recommend financial incentives for software use by small businesses<br><br>**Small value disputes**<br>• Group consider that taxpayer advocate is best interim step towards solution for small value disputes<br>• Group consider that there is a need for a truncated disputes process but the taxpayer advocate service is the best option for designing this<br><br>**Separate tax system for small business**<br>• Group consider that a separate tax system is not the best solution for helping with compliance cost for small business.<br>• Group consider that simpler rules, including those recommended by Group, alongside use of technology is better solution<br>• To outline this in final report |

## 6. Personal income taxes

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| **Noted** | • Secretariat paper on personal income taxes |
| **Agreed** | • Recommend that if Government wants to provide income tax reductions targeted at low income households that increasing the $14,000 threshold is the best option as it mitigates effective marginal tax rates for those transitioning into work<br>• Recommend that if Government wants to provide this increase in threshold that they consider increasing the 17.5% tax rate to provide revenue to allow threshold to be increased further.<br>• Recommend that if Government wants to increase the 17.5% rate that for higher income individuals should be overall better off from the income tax changes (i.e. the benefit of increasing the threshold is not fully clawed back by increasing the 17.5% rate)<br>• Recommend that if Government provides income tax reductions that benefits should also be increased so that all households benefit from the tax reduction<br>• Final report to outline that Government may wish to use other expenditure measures to achieve objectives rather than income tax reductions |
| **Actions for the Secretariat** | • Provide further advice on options for increasing the $14,000 threshold alongside increasing 17.5% tax rate |

## 7. Overview paper: potential packages and broad effects

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| **Noted** | • Secretariat paper on potential revenue neutral packages |

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| **Agreed** | • To outline multiple potential packages in final report each with different focus that Government can choose from depending on their priorities<br>• Consider further additional options for savings including:<br>  ○ Bringing back $1,000 Kickstart – but not for those under 18<br>  ○ A mechanism to enable greater KiwiSaver incentives during maternity leave<br>  ○ Abatement rates for $48,000 ESCT exemption |
| **Actions for the Secretariat** | • Review chart on forecast historic revenue on accruals based tax on capital gains |