Tax Working Group
Te Awheawhe Tāke

Tax Working Group Information Release

Release Document

February 2019

taxworkingroup.govt.nz/key-documents

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The advice represents the preliminary views of the member/s who prepared the paper 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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Companion note to Secretariat's Tax Concessions paper

Marjan van den Belt on 6/11/2018

The concessions paper hinges on 'fair treatment, which means 'a consistent treatment between actors within the current economic system'.

However, the current system could be broadened, especially in light of the acknowledged foundational importance of Natural Capital, per figure 2.1 in the interim report.

The tax system allows deduction for activities that are legal but environmentally destructive.

The concessions paper does not consider disallowing deductability for environmentally harmful expenditure. For example, the RMA empowers regional councils to manage natural capital (e.g. wetlands) at a regional level. However, the result is that 90% of wetlands have been destroyed nationally and 98% of wetlands in the Manawatu have been destroyed by draining wetlands.

- The taxation system allows drainage of wetlands under Schedule 20, which allows you deduct 5% per year on capital investments. There is an opportunity to use (or flag at national level or reinforce other policy objectives and tools) that the tax system dis-incentivices systemic environmental behaviour by not allowing them to be deductable: i.e. phasing out deductability for environmentally and ecologically harmful activities. See item 2.2 agricultural measures point 3.
- The same could be said for deductability of oil exploration, which has becomes deductable immediately for on shore as well as off shore; a recent change.
- It is currently deductable to destruct weeds with knowns carcinogenics; e.g. Roundup and various neonicotinoids.
- The focus group in Dunedin mentioned a concern that the clearing of a forest to build a farm is tax deductable, while planting non-native trees receives subsidy.

What can the taxation system do to reconsider and broaden 'fair treatment' on business expenses to include natural capital and fairness to future generations (intergenerational fairness) and other species (intertemporal fairness)?

Recommend that the potential for how the taxation system contributes to positive environmental and ecological outcomes could – with regard to deductable business expenses - be considered by the Ministry for the Environment.

Starting with the short term, without systemic changes, the 'Approach taken' under 1.2 is perfectly valid. However, in the long term, if a systemic, outcome-oriented perspective is taken, the opposite order of items considered could give a broader scope for finding systemic opportunities. Various agencies could think about if the order should change.

R**ecommend** on 2.2. Measures not further analysed that the government reviews other support measures (e.g. user fee, promotion activities) or subsidies. The Commission on Climate Change could review if support measures are consistent with the government's policy direction.

Under 3.3 Section DO 1-11, the Income Tax Act allows for deductions for enhancements of the land. Some seem to enhance natural capital, but the some may erode natural capital. For example, aiming to ‘increase the productive capacity of existing farms’ requires a definition of ‘productivity’. It is important to broaden the definition of ‘productivity’ from conventional economic measures of e.g. ‘milk solids per cow’ to the ‘productivity of natural capital, measured in the production of ecosystem services. This has been mentioned several times in the TWG and this is but one example.

Recommend inclusion of a broader definition of productivity to include ecosystem services from natural capital.

3.5 Motor-spirits excise duty refund. The fact that fuel excise is hypothecated into road maintenance and construction shouldn’t exempt off road fuel excise duties. The reasons for abandoning this refund includes at first sight: 1) Most other countries don’t [JW thinks but would need to be reviewed]; 2) Carbon based fuel consumption in zero carbon trajectory should not be encouraged in any way. In the absence of an adequate carbon price, fuel price acts as a proxy in lieu and exemptions should be removed; and, 3) Off road vehicle use often cause a disproportional negative impact on ecosystems whether on private or public land; it could be argued that he excise duty on off road vehicles is hypothecated to the department of conservation, if hypothecation is the main argument.

Recommend to review the excise duty refund.