

Hon Grant Robertson



MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Associate Minister for Arts, Culture and Heritage

20 September 2018

Hon Sir Michael Cullen
Chair of the Tax Working Group
PO Box 3724
Wellington 6140

Dear Sir Michael

Thank you for providing the Tax Working Group's (the Group) Interim Report on Friday 7 September, which Cabinet has now had the opportunity to consider. This letter outlines our response to the interim findings as the Group works on the Final Report and recommendations to be provided in February 2019.

The Government notes that the Interim Report finds that:

- New Zealand continues to have a relatively narrow tax base when compared to our OECD peers
- And;
- New Zealand's taxation system reduces income inequality by less than the OECD average.

The Government tasked the Group with recommending improvements to the structure, fairness and balance of New Zealand's tax system.

The Government reaffirms the areas that are out of scope of the Review:

- Increasing any income tax rate or the rate of GST
- Inheritance tax
- Any other changes that would apply to the taxation of the family home or the land under it; and
- The adequacy of the personal tax system and its interaction with the transfer system as this is being considered as part of a separate review of Working for Families.

The Government understands the Group is currently considering its work schedule and capacity as it works towards the Final Report. With this in mind, the Government notes the Interim Report has recommended not continuing work in a number of areas and can confirm it is comfortable about the Group not carrying out further work on those areas. These include:

- Wealth tax, land tax, changes to New Zealand's petroleum and minerals royalty regimes, GST coverage, and a financial transactions tax.

Final report

The Government requests that the Group in its Final Report:

- Considers and recommends an overall package of measures. This should include measures that could result in a revenue-neutral package.
- Considers a package or packages which reduces inequality, so that New Zealand better reflects the OECD average whilst increasing both fairness across the tax system and housing affordability.
- Examines whether a tax on realised gains, or the risk-free rate of return method of taxation (or a mix of both) is the best method for extending a potential capital income tax on specific assets – with the goal of ensuring New Zealand's tax system is fair and balanced.

Below are a number of comments and requests regarding areas of the Interim Report that the Government would welcome further work on as the Group works on its Final Report and recommendations.

The Government welcomes the work of the Group in developing a Te Ao Māori framework and looks forward to seeing how this work has progressed in the Final Report.

Capital, Wealth and Savings

The Government notes the Group's findings on the inconsistent tax treatment of income in New Zealand, in particular, that profits from the sale of some capital assets are not taxed on a consistent basis.

The Government recognises the limitation of current data on wealth distribution and capital income, especially within the top decile. We would like the Group to consider whether there are better approaches to understanding the wealth, capital income, and effective tax rates of individuals particular those in the top decile.

We note in other jurisdictions that there is a tax-free threshold for the application of any potential taxation on the sale of businesses. We invite the Group to consider whether such a threshold would be appropriate in any potential regime.

As part of any package of recommendations, the Government requests the Group considers measures that will promote a more balanced savings culture and deeper capital markets.

Taxation of Business and the Future of Work

The Government is interested in the Group's finding that reducing compliance costs through the tax system would provide a better approach than a progressive company tax rate for small businesses. We would welcome the Group expanding in the Final Report on what compliance-reduction options would be beneficial.

The Government notes the Group's findings that there are a number of measures required to ensure that the tax system is able to accommodate likely changes in the future of work.

International Income Tax

The Government accepts the Group's recommendations that New Zealand should be ready to act in its own best interests on the taxation of multinationals. We have directed officials as part of Inland Revenue's Tax Policy Work Programme to consider options, including an equalisation tax, and that they continue to monitor OECD developments.

Environmental and Ecological Outcomes

The Government notes the Group's comments that its work on environmental and ecological outcomes is focussed on devising a framework for working through medium and long-term actions. The Government would welcome the Group continuing to consider what role the tax system can play in the delivery of positive environmental and ecological outcomes over the medium and longer term.

We view the Government's current environmental work programme as providing opportunities to discuss and develop some of the issues raised by the Group in the Interim Report. The Government has actions underway including the Waste Work Programme and the Congestion Question project.

The Government is also introducing a Zero Carbon Act and will be establishing an Independent Climate Commission, which will determine whether and how agriculture will be incorporated into the Emissions Trading Scheme, as per the Coalition Agreement. The Government also confirms that there will be no resource rentals for water in this term of Parliament, as also agreed to in the Coalition Agreement.

Integrity and Administration of the Tax System

The Government is interested in the Group's recommendation that a taxpayer advocate service be established to assist New Zealanders and companies with the resolution of tax disputes with the Inland Revenue, and will discuss this with officials.

Corrective taxes

The Government acknowledges the Group's findings and comments regarding corrective taxes (including tobacco, alcohol, sugar and gambling taxes) and requests the Group provides relevant agencies with its work on these.

Charities

As the Group is aware, the Minister for the Community and Voluntary Sector is currently reviewing the Charities Act. The Government recommends that the Group provides its work and recommendations to the Inland Revenue and the Department of Internal Affairs for further consideration as part of the Charities review and the Tax Policy Work Programme.

Other Issues

The Government welcomes the Group continuing to review the issue of the tax treatment of seismic strengthening of buildings that are in the tax base, particularly residential and heritage buildings as part of its consideration in recommending a package of measures.

Next steps

We understand that there will be a six-week period for feedback and engagement with the public on the findings and recommendations contained in the Interim Report.

Following receipt of the Final Report in February 2019, Cabinet will consider the recommendations of the Final Report. The Government confirms that no changes from any legislation arising from this will come into force until 1 April 2021.

Yours sincerely



Hon Grant Robertson
Minister of Finance



Hon Stuart Nash
Minister of Revenue