

The Government's response to the recommendations of the Tax Working Group – 17 April 2019

The table below lists all 99 recommendations in the Tax Working Group's (TWG) Final Report and the Government's response.

Table key:

Endorse the TWG recommendation	The TWG recommended retaining the current tax settings and the Government agrees with this recommendation.
Agree no further work	The Government considers no further work is necessary.
Note work already underway	Work is already underway within Government to consider the recommendation.
Consider for work programme	The recommendation should be considered for inclusion in the 2019/20 tax policy work programme (TPWP) and/or other agency work programme.
Consider as a high priority for work programme	The recommendation should be considered as a high priority for progression in the 2019/20 tax policy work programme (TPWP) and/or other agency work programme.

Rec #	Tax Working Group Final Report recommendation	Government's response
Capital gains taxation		
1, 2	The majority of the TWG recommends a broad extension of the taxation of capital gains. If a broad extension of capital gains taxation was adopted, the TWG recommends that it have the characteristics detailed in Volume II of the TWG report.	Agree no further work required on these recommendations.
		The Government intends to explore options for taxing vacant land including as recommended by the TWG, directing the Productivity Commission to include vacant land taxes within its inquiry into local government funding and financing and seek a review of the current rules of taxing land speculators as a high priority for the work programme (TPWP). (see response to recommendations 96 and 97).
Capital and wealth		
3	Do not introduce a wealth tax.	Endorse the TWG recommendation
4	Do not introduce a land tax.	Endorse the TWG recommendation

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Environmental and ecological outcomes		
5	Adopt the TWG's framework for taxing negative environmental externalities.	<p>Consider for inclusion on work programme (TPWP and Ministry for the Environment)</p> <p>Agree that the Government will not be advancing new environmental tax proposals beyond the current work programme.</p>
6-8	<p>Greenhouse gases</p> <p>a) Support for a reformed Emissions Trading Scheme (ETS) as the centrepiece of emissions reduction efforts, but there should be greater guidance on price and auctioning emissions units to raise revenue.</p> <p>b) Periodic reviews of the ETS to ensure it is fit for purpose.</p> <p>c) Emissions should face a price, including from agriculture, either from ETS or a complementary system.</p>	<p>Note work already underway – considered as part of the Climate Change Response Act Amendment Bill. The Interim Committee on Climate Change is also considering the treatment of agricultural emissions.</p>
9-11	<p>Water abstraction and water pollution</p> <p>a) Tax instruments could be considered to address water pollution and water abstraction challenges.</p> <p>b) Further develop tools to estimate diffuse water pollution.</p> <p>c) Introduce input-based tax instruments, including on fertiliser, if significant progress is not made in the near term on output-based approaches.</p>	<p>Note work already underway – The Water Taskforce is working to achieve improvements in water quality. There will be no resource rentals for water in this term of Parliament as per the Coalition Agreement. These are no plans in this term of Parliament to introduce input-based instruments, including on fertiliser (i.e., a fertiliser tax).</p>
12-15	<p>Solid waste</p> <p>a) Supports the Ministry for the Environment's review of the rate and coverage of the Waste Disposal Levy.</p> <p>b) Expand the coverage of the Waste Disposal Levy.</p> <p>c) Reassess the negative externalities associated with landfill disposal in New Zealand to ascertain if a higher levy is appropriate.</p> <p>d) Review hypothecation of the Waste Disposal Levy to ensure funds are being used in the most effective way to move towards a more circular economy.</p>	<p>Note work already underway – The Ministry for the Environment is currently reviewing the scope and rate of the Waste Disposal Levy.</p>
16	<p>Transport</p> <p>Supports current reviews by the Government and Auckland Council into introducing congestion pricing.</p>	<p>Note work already underway – There is a project ("The Congestion Question") between Government and Auckland Council to investigate whether or not to introduce congestion pricing in Auckland.</p>

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Concessions		
17	Costs associated with the care of land subject to a QEII covenant or Ngā Whenua Rāhui be tax deductible.	Consider for inclusion on work programme (TPWP)
18	Consider a fringe benefit tax exemption for public transport.	Consider for inclusion on work programme (TPWP)
19	Review various tax provisions specific to farming, forestry and petroleum mining with a view to removing concessions harmful to natural capital, while also considering new concessions that could enhance natural capital.	Consider for inclusion on work programme (TPWP)
Other environmental recommendations		
20	Recycle some or all of the revenue raised by environmental taxes into measures that support the transition to a more sustainable economy.	Consider for inclusion on work programme (TPWP and Ministry for the Environment)
21	Over the longer term, consider an environmental footprint tax or a natural capital enhancement tax.	Defer for now, but consider for inclusion on work programme in the longer term (TPWP and Ministry for the Environment)
22	The Government should strengthen its environmental tax capabilities, including with the Parliamentary Commissioner for the Environment.	Consider for inclusion on work programme (TPWP, Parliamentary Commissioner for the Environment, and Ministry for the Environment)
23	Commission incidence studies on environmental taxes.	Consider for inclusion on work programme (TPWP and Ministry for the Environment)
24	Undertake further work to assess how taxes can complement other environmental policy measures and to work through the design principles in the TWG's framework for taxing negative environmental externalities.	Consider for inclusion on work programme (TPWP and Ministry for the Environment)
The taxation of business		
25	Retain the imputation system.	Endorse the TWG recommendation
26	Do not reduce the company tax rate at the present time.	Endorse the TWG recommendation
27	Do not introduce a progressive company tax.	Endorse the TWG recommendation
28	Do not introduce an alternative basis of taxation for smaller businesses, such as a cash flow or turnover taxes.	Endorse the TWG recommendation
29	Retain the 17.5% rate for Māori authorities.	Endorse the TWG recommendation
30	Extend the 17.5% rate to the subsidiaries of Māori authorities.	Consider for inclusion on work programme (TPWP)
31	Consider technical refinements to the Māori authority rules, as suggested by submitters, in the Tax Policy Work Programme.	Consider for inclusion on work programme (TPWP)

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32	Change the loss continuity rules to support the growth of innovative start-up firms.	Consider for inclusion on work programme (TPWP)
33	Reform the treatment of black-hole expenditure by spreading such expenditure over five years with a \$10,000 safe-harbour threshold of upfront deductions for feasibility expenditure.	Consider for inclusion on work programme (TPWP)
34	Consider restoring depreciation deductions for buildings if there is an extension of the taxation of capital gains (subject to fiscal constraints). To manage the fiscal costs, the Government could reinstate building depreciation on a partial basis for: a) seismic strengthening only; b) multi-unit residential buildings; or c) industrial, commercial, and multi-unit residential buildings.	Consider for inclusion on work programme (TPWP)
		Consider seismic strengthening work as a high priority for inclusion on work programme (TPWP)
35	Consider tax measures that encourage building to higher environmental standards.	Consider for inclusion on work programme (TPWP, MBIE, and Ministry for the Environment)
36	Consider developing a regime that encourages investment into nationally-significant infrastructure projects.	Consider as a high priority for inclusion on work programme (TPWP)
37	Examine the following options to reduce compliance costs: <i>For immediate action:</i> a) Increase the threshold for provisional tax from \$2,500 to \$5,000 of residual income tax. b) Increase the closing stock adjustment from \$10,000 to \$20,000 - \$30,000. c) Increasing the \$10,000 automatic deduction for legal fees, and a potential expansion of the automatic deduction to other types of professional fees. d) Reduce the number of depreciation rates, and simplifying the process for using default rates.	Consider for inclusion on work programme (TPWP)
	<i>Subject to fiscal constraints:</i> e) Simplify the fringe benefit tax, and simplifying (or even remove) the entertainment adjustment. f) Remove resident withholding tax on close company-related party interest and dividend payments, subject to integrity concerns. g) Remove the requirement for taxpayers to seek the approval of the Commissioner of Inland Revenue to issue GST Buyer Created Tax Invoices. h) Allow special rate certificates and certificates of exemption to be granted retrospectively. i) Increase the period of validity for a certificate of exemption or special rate certificate. j) Remove the requirement to file a change of imputation ratio notice with Inland Revenue. k) Extend the threshold of 'cash basis person' in the financial arrangement rules which would better allow for the current levels of personal debt. m) Increase the threshold for not requiring a GST change of use adjustment.	

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	<p><i>The Government should also review and explore opportunities to:</i></p> <ul style="list-style-type: none"> n) Adjust the thresholds for unexpired expenditure, and for the write-off of low value assets. o) Help small businesses reduce compliance costs through the use of cloud-based accounting software. p) Consider compensation for withholding agents if additional withholding tax obligations are imposed. q) Review the taxation of non-resident employees. r) Review whether the rules for hybrid mismatches should apply to small businesses or simple business transactions. 	
38	Give favourable consideration to exempting the New Zealand Superannuation Fund from New Zealand tax obligations.	Consider for inclusion on work programme (TPWP) – noting the significant economic and fiscal implications associated with this proposal.
International income taxation		
39	New Zealand should continue to participate in the OECD discussions on the future of the international tax framework.	Note work already underway – New Zealand is currently participating in discussions at the OECD on the future of the international tax framework
40	The Government should stand ready to implement a digital services tax if a critical mass of other countries move in that direction, and if it is reasonably certain that New Zealand's export industries will not be materially impacted by any retaliatory measures.	Note work already underway – Officials have been directed to draft a discussion document on the options for taxing the digital economy that will come to Cabinet in May.
41	New Zealand should actively monitor developments and collaborate with other countries with respect to equalisation taxes.	Note work already underway – as above
42	Ensure, to the extent possible, that our double tax agreements and trade agreements do not restrict our taxation options in these matters.	Note work already underway – as above

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Retirement savings		
43	<p>Consider encouraging the savings of low-income earners by carrying out one or more of the following:</p> <ul style="list-style-type: none"> a) Refund the Employer Superannuation Contribution Tax (ESCT) for KiwiSaver members earning up to \$48,000 per annum. This refund would be clawed back for KiwiSaver members earning more than \$48,000 per annum, such that members earning over \$70,000 would receive no benefit. b) Ensure that a KiwiSaver member on parental leave would receive the maximum member tax credit regardless of their level of contributions. c) Increase the member tax credit from \$0.50 per \$1 of contribution to \$0.75 per \$1 of contribution. The contribution cap should remain unchanged. d) Reduce the lower PIE rates for KiwiSaver funds (10.5% and 17.5%) by five percentage points each. 	<p>Consider for inclusion on work programme (TPWP)</p> <p>This work would sit alongside the Government's broader work on KiwiSaver, which includes the default provider review and a consideration of options to increase KiwiSaver uptake and contributions.</p>
44	Consider ways to simplify the determination of the PIE rates (which would apply to KiwiSaver).	Consider for inclusion on work programme (TPWP)
Personal income tax		
45	<p>Recommendations on personal tax are dependent on the objectives of the Government:</p> <ul style="list-style-type: none"> a) If the Government wishes to improve incomes for very low income households, the best means of doing so will be through welfare transfers. b) If the Government wishes to improve incomes for certain groups of low to middle income earners, such as full-time workers on the minimum wage, then changes to personal income taxation may be a better option. 	<p>It is proposed to not adopt any of the recommendations on capital gains taxation. As a result there is no revenue to recycle. Consequently it is agreed no further work is necessary.</p>
46	Consider increases in the bottom threshold of personal tax to increase the progressivity of the personal tax system.	
47	Consider combining increases in the bottom threshold with an increase in the second marginal tax rate.	
48	If (47) is adopted, consider a reduction of the abatement rate of Working for Families tax credits to offset the impact of the increase.	
49	Prefer increasing the bottom threshold to introducing a tax-free threshold.	
50	Consider an increase in net benefit payments to ensure beneficiaries receive the same post-tax increase as other people on the same income.	
51	Consider changes to tax rates and thresholds alongside any recommendations made by WEAG.	

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52	Do not reduce the top marginal tax rate because it is already low by international standards and it would not increase progressivity of the tax system.	Endorse the TWG recommendation
53	The TWG notes that many submissions called for increasing tax personal tax rates to make a material reduction in income equality through the personal tax system. These increases are precluded by the TWG's Terms of reference and the TWG did not undertake an analysis of the options (and their effectiveness).	Endorse the TWG recommendation
Future of work		
54	Support Inland Revenue's efforts to increase the compliance of the self-employed, particularly expanding the use of withholding tax as far as practicable, including to platform providers.	Note work already underway – additional operational funding for Inland Revenue is being put towards increasing investigations capability, public awareness campaigns, and new policy initiatives. Inland Revenue officials are undertaking targeted consultation on a number of proposals to expand the scope of the Scheduling Payments rules and address non-compliance of self-employed workers. An update on this work will be provided in the second half of 2019.
55	Support the facilitation of technology platforms to assist the self-employed meet their tax obligations through the use of 'smart accounts' or other technology based solutions.	Note work already underway – as above
56	Continue (through Inland Revenue's current work) to use data analytics and matching information for specific taxpayers to identify underreporting of income.	Note work already underway – as above
57	Review the current GST requirements for contractors who are akin to employees.	Consider for inclusion on work programme (TPWP)
58	Align the definition of employee and dependent contractor for tax and employment purposes.	Note work already underway – MBIE
59	Provide more support for childcare costs, with this support best provided outside the tax system.	Cross-agency advice should be sought.

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Integrity of the tax system		
60	A review of loss-trading, potentially in tandem with a review of the loss continuity rules for companies.	Consider as a high priority for inclusion on work programme (TPWP)
61	Inland Revenue should have the ability to require a shareholder in a closely-held company to provide security to Inland Revenue if: a) The company owes a debt to Inland Revenue; and b) The company is owed a debt by the shareholder; and c) There is doubt as to the ability/and or the intention of the shareholder to repay the debt.	Consider as a high priority for inclusion on work programme (TPWP)
62	Further action in relation to the hidden economy, including: a) An increase in the reporting of labour income (subject to not unreasonably increasing compliance costs on business). b) A review of the measures recently adopted by Australia in relation to the hidden economy, with a view to applying them in New Zealand. c) The removal of tax deductibility if a taxpayer has not followed labour income withholding or reporting rules.	Note work already underway – see recommendation 54.
63	That Inland Revenue continue to invest in the technical and investigatory skills of its staff.	Note work already underway – see recommendation 54.
64	Further measures to improve collection and encourage compliance, including: a) Making directors who have an economic ownership in the company personally liable for arrears on GST and PAYE obligations (as long as there is an appropriate warning system). b) Departure prohibition orders. c) Aligning the standard of proof for PAYE and GST offences.	Consider as a high priority for inclusion on work programme (TPWP)
65	The establishment of a single centralised Crown debt collection agency to achieve economies of scale and more equitable outcomes across all Crown debtors.	Objectives may be better achieved through greater alignment of agency policies on debt prevention and collection. Cross-agency advice should be sought.
66	That Inland Revenue strengthens enforcement of rules for closely-held companies.	Consider as a high priority for inclusion on work programme (TPWP)
67	Explore options to enable the flexibility of a wider gap between the company and top personal tax rates without a reduction in the integrity of the tax system.	Consider for inclusion on work programme (TPWP)

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Administration of the tax system		
<i>Tax secrecy and tax transparency</i>		
68	<p>The Government should:</p> <ul style="list-style-type: none"> a) Fund oversampling of the wealthy in existing wealth surveys. b) Include a question on wealth in the census. c) Request Inland Revenue regularly repeat its analysis of the tax paid by high wealth individuals. d) Commission research on using a variety of sources of data on capital income, including administrative data, to estimate the wealth of individuals. 	Consider for inclusion on work programme (TPWP)
69	<p>The TWG strongly encourages the Government to release more statistical and aggregated information about the tax system (so long as it does not reveal data about specific individuals or corporates that is not otherwise publicly available). The Government could consider further measures to increase transparency as public attitudes change over time.</p>	Consider for inclusion on work programme (TPWP)
70	<p>The TWG encourages Inland Revenue to publish or make available a broader range of statistics, in consultation with potential users, either directly or (preferably) through Statistics New Zealand.</p>	Consider for inclusion on work programme (TPWP)
71	<p>The TWG encourages Inland Revenue to collect information on income and expenditure associated with environmental outcomes that are part of the tax calculation.</p>	Consider for inclusion on work programme (TPWP)
<i>Ombudsman</i>		
72	<p>Any further expansion of the resources available to the Ombudsman should include consideration of provision for additional tax expertise, and possibly support to manage any increase in the volume of complaints relating to the new Crown debt collection agency proposed by the TWG.</p>	Agree no further work required at this stage unless there is an unsustainable increase in complaints.
<i>Taxpayer advocate service</i>		
73	<p>Establish a taxpayer advocacy service to assist with the resolution of tax disputes.</p>	Agree no further work required.
74	<p>Consider a truncated tax disputes process for small taxpayers.</p>	Consider for inclusion on work programme (TPWP)

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The development of tax policy		
75	<p>The following principles should be applied in public engagement on tax policy:</p> <ul style="list-style-type: none"> a) Good faith engagement by all participants. b) Engagement with a wider range of stakeholders, particularly including greater engagement with Māori (guided by the Government's Māori/Crown engagement framework). c) Earlier and more frequent engagement. d) The use of a greater variety of engagement methods. e) Greater transparency and accountability on the part of the Government. 	Note work already underway – officials have provided Ministers with a public engagement framework which incorporates the principles recommended by the TWG. Ministers are considering releasing this framework for public feedback.
76	The TWG notes the need for the Treasury to play a strong role in tax policy development, and the importance of Inland Revenue maintaining deep technical expertise and strategic policy capability.	Note work already underway – Inland Revenue continues to be committed to investing in the technical skills and capability of their investigation staff.
Legislative frameworks		
77a	The TWG encourages the continuing use of purpose clauses where appropriate.	Agree no further work required
77b	Include an overriding purpose clause in the Tax Administration Act 1994 to specify Parliament's purpose in levying taxation.	Agree no further work required
Charities		
78	Periodically review the charitable sector's use of what would otherwise be tax revenue to verify that intended social outcomes are being achieved.	Note work already underway – the Government added a review of charities and non-profit organisations to the TPWP in 2018. Department of Internal Affairs (on behalf of the Minister for the Community and Voluntary Sector), is currently modernising the Charities Act 2005.
79	The TWG supports the Government's inclusion of a review of the tax treatment of the charitable sector on its Tax Policy Work Programme, as announced in May 2018.	Note work already underway – on the TPWP
80-81	The TWG notes the income tax exemption for charitable entities' trading operations was perceived by some submitters to provide an unfair advantage over commercial entities' trading operations. The TWG notes, however, that the underlying issue is the extent to which charitable entities are accumulating surpluses rather than distributing or applying those surpluses for the benefit of their charitable activities.	Note work already underway – see rec 78
82	Consider whether New Zealand should apply a distinction between privately-controlled foundations and other charitable organisations	Consider for inclusion on work programme (DIA)

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83	Consider whether the deregistration tax rules could be amended to more effectively keep assets in the sector, or ensure that there is no deferral benefit through the application of these rules.	Note work already underway – on the TPWP
84	Review whether it is appropriate to treat some not-for-profit organisations as if they were final consumers, or, alternatively, whether it is appropriate to limit GST concessions to a smaller group of non-profit bodies such as registered charities.	Consider for inclusion on work programme (TPWP)
85	Consider whether the issues identified by the TWG in relation to charities have been fully addressed or whether further action is required, following the conclusion of the review of the Charities Act 2005.	Consider for inclusion on work programme (TPWP)
GST and financial transactions tax		
86	No reduction in the GST rate.	Endorse the TWG recommendation
87	No introduction of exemptions to GST.	Endorse the TWG recommendation
88	The Government should monitor international developments in the area of applying GST to financial services.	Endorse the TWG recommendation
89	No application of GST to explicit fees charged for financial services.	Endorse the TWG recommendation
90	No financial transactions tax at this point in time.	Endorse the TWG recommendation
91	The TWG has already reported to Ministers on the issue of GST on low-value imported goods, and the Government recently introduced legislation in December 2018 advancing proposals to address the issue.	Note work already underway – the Taxation (Annual Rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters) Bill was introduced in December 2018.
Corrective taxes		
92	The TWG supports developing a framework for deciding when to apply corrective taxes.	Agree no further work required
93	Review the rate structure of the alcohol excise with the intention of rationalising and simplifying it.	Agree no further work required
94	Prioritise other measures to help people stop smoking before considering further large increases in the tobacco excise rate beyond the increases currently scheduled.	Note work already underway – The Ministry of Health is leading cross-agency work on tobacco policy, looking at both tax and non-tax measures to support Smokefree Aotearoa 2025.
95	Develop a clearer articulation of the Government's goals regarding sugar consumption and gambling activity.	Agree no further work required

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Housing		
96	The Productivity Commission should include vacant land taxes within its review of local government body financing.	Consider taxing vacant land held by land-bankers as a high priority for inclusion on work programme (TPWP).
97	Consider that vacant land taxes are best levied at the local rather than the national level.	The Government intends to direct the Productivity Commission to include vacant land taxes in its inquiry into local government funding and financing.
98	Repeal the ten-year rule regarding selling property for a gain caused by changes in land use regulation.	Consider as a high priority for inclusion on work programme (TPWP)
99	Require disclosure of IRD numbers on the Land Transfer Tax Statement when transferring a main home.	Consider as a high priority for inclusion on work programme (TPWP)