

# GOVERNMENT TAX POLICY WORK PROGRAMME 2010-11

## BUDGET 2010

**General post-Budget 2010 issues** – Address post-Budget issues, such as tax rates for Māori authorities and tax rates for non-resident seasonal worker schedular payments.

**GST rate change** – Provide support to the GST Advisory Panel and address the transitional issues that arise.

**Social assistance integrity** – Review the rules determining entitlements for social assistance, especially arrangements that have the effect of increasing entitlements beyond what people's true economic circumstances justify such as income from trusts (covers Working for Families tax credits, student allowances and community services cards).

**Qualifying companies** – Introduce flow-through tax treatment for electing closely held companies. Review the dividend rules for all closely held companies and in the interim allow existing qualifying companies and loss attributing qualifying companies to continue to use the current qualifying company rules without the ability to attribute losses.

**Depreciation – fit-out review** – Review what items can be depreciated separately from a building for non-residential properties.

**GST – phoenix schemes** – Proposals aimed at protecting the tax base from phoenix schemes and improve the GST rules.

## INTERNATIONAL TAX REVIEW

**Non-portfolio foreign investment funds (FIFs)** – Finalise and implement the extension of the active income exemption to non-portfolio FIFs.

**Approved Issuer Levy (AIL) and widely held bonds** – Finalise and implement an exemption from AIL and non-resident withholding tax for New Zealand bonds issued to non-residents.

**Double tax agreements** – Negotiate new agreements.

**Tax Information Exchange Agreements (TIEAs), including the Global Forum** – Negotiate new TIEAs and support the Global Forum on the transparency and exchange of information for tax purposes.

**Non-resident investment in New Zealand entities** – A wide review of the tax rules affecting non-residents investing in or through New Zealand entities (including the taxation of foreign hybrid entities and limited partnerships).

**Active income exemption for branches** – Extend the existing active income exemption for non-portfolio FIFs and controlled foreign companies (CFCs) to include foreign branches.

**Active income exemption for financial institutions** – Extend the existing active income exemption for non-portfolio FIFs and CFCs to include active financial institutions.

## **TAXATION OF SAVINGS AND INVESTMENT**

**Savings Working Group** – Support the Group’s process and provide advice on any recommendations.

## **TRANSFORM IR**

**Secrecy review** – Develop a more coherent approach to the maintenance of secrecy and clarify the circumstances where taxpayer information may be supplied.

**Student loans – policy** – Allow for greater use of electronic communications, calculating repayment obligations on a pay-period basis and replacing penalties with late payment interest at significantly reduced rates.

**Student loans – governance** – Review the student loan scheme with a focus on overseas-based borrower debt.

**PAYE/Personal Tax Summary review (Making Tax Easier discussion document)** – Operational projects in the areas of PAYE and the Employer Monthly Schedule.

**e-Payments** – Allow Inland Revenue to accept payments via credit card over the internet.

**Legislative changes to improve debt collection** – Funding was received through Budget 2010 to improve the collection of debt and this will require policy changes to make operational.

## **OTHER KEY INITIATIVES**

**Child Support** – Continue work on the better recognition of shared care in the child support formula and improving payment of child support.

**Disputes** – Administrative and legislative changes to improve the disputes process and ensure that the process works more efficiently. These changes are aimed at addressing a submission from the New Zealand Institute of Chartered Accountants and the New Zealand Law Society that set out a wide range of concerns with the dispute resolution and challenge procedures.

**Gift Duty** – Abolish Gift Duty if concerns about creditor protection and social assistance targeting can be addressed.

**GST measures – various** – This includes items in the Taxation (GST and Remedial Matters) Bill 2010, such as nominations, accommodation and apportionment rules. The GST phoenix schemes (zero rating of land) are also part of this bill but are separately dealt with above.

**Income-sharing Tax Credit Bill** – The confidence and supply agreement between National and UnitedFuture included supporting legislation to the first reading stage.

**Mutual recognition (should it be advanced)** – Mutual recognition of trans-Tasman imputation credits with both New Zealand and Australia recognising for imputation purposes company tax paid in the other jurisdiction.

## **NON-DISCRETIONARY WORK**

**Servicing Ministers** – Dealing with issues as they are raised by Ministers.

**Support for other policy areas and agencies** – This work involves input on tax issues that arise out of non-tax government priorities (for example, tax issues arising from private/public partnerships, review of the Charities Act 2005 and potential tax incentives for the arts sector arising out of the Philanthropy and Arts Taskforce).

**Remedial work** – There are a number of areas that require remedial changes to effectively implement existing policy. The areas include GST, provisional tax pooling, IFRS, UOMI deductibility (to reflect current practice) and life insurance (transition from old life rules to new rules – enacted October 2009).

**Managing bills in Parliament**, including in 2010 –

Taxation (GST and Remedial Matters) Bill 2010

Taxation (Income-sharing Tax Credit) Bill 2010

Student Loan Scheme Bill 2010

Taxation (International Investment and Remedial Matters) Bill 2010

Taxation (Tax Administration and Remedial Matters) Bill 2010

## **OTHER WORK**

**Amortisation of capital raising costs** – This project would allow deductibility over time for the costs of a business raising capital. It was a recommendation of the Capital Markets Development Taskforce to allow deductibility for equity-raising expenses over the lesser of the life of the instrument or twenty years.

**GST cross-border issues** – The project reviews the GST treatment of business activities that are in substance exports but do not qualify for zero-rating since there is no tangible export.

**Hybrids and thin capitalisation** – Hybrid instruments are partly debt and partly equity. The project provides a framework for the tax treatment of hybrids, exploring trade-offs between integrity, protecting the revenue base, and reducing the cost of capital for non-resident investment. The project will also examine the ordinary thin capitalisation limits in order to maintain the New Zealand tax base.

**Imputation (subject to Australian response on mutual recognition)** – This project is to review the current rules on the use of imputation credits and whether companies should be able to stream imputation credits. The review also covers refundability of unused imputation credits, particularly to charities.

**Valuation of livestock** – Review of the ability to move from one livestock valuation method to another and, in particular, exits from the herd scheme.

**Profit distribution plans (PDPs)** – The Government announced on 16 April 2009 that it intends to clarify the law to ensure that bonus issues of shares distributed under PDPs are taxed in the same way as shares issued under other dividend reinvestment plans. A consultative document was issued on 25 June 2009.

**Non-resident investors in portfolio investment entities (PIEs)** – This project considers tax relief for non-resident PIE investors on foreign-sourced PIE income. It is considered that the imposition of tax in this situation is potentially acting as a barrier to the development of New Zealand’s fund management industry since it discourages non-residents from investing outside New Zealand via PIEs.

**Charities – Schedule 32: Donee status for overseas-based organisations** – This project includes reviewing the current Cabinet criteria and processes concerning legislating for an overseas-based organisation to be a donee organisation.

**Further charitable work** – There are a number of additional issues under consideration in the charitable sector area, including gift aid, payroll giving intermediaries and cultural giving.