

# Inland Revenue Regulatory Management

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## 1. Introduction

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Inland Revenue intends to deliver tax and social policy systems that will achieve the following outcomes:

- Revenue is available to fund government programmes through people meeting payment obligations of their own accord.
- People receive payments they are entitled to, enabling them to participate in society.
- New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment.

Achieving these outcomes requires a focus on developing regulatory processes that will:

- maintain and enhance tax policy within our coherent broad-base, low-rate tax policy settings;
- fulfil our international tax obligations and address base erosion and profit shifting; and
- through the transformation of Inland Revenue's business, increase customer centricity and the ease with which individuals and businesses can engage with the tax system.

Good progress has been made on these areas of focus. For example:

- The Business transformation of Inland Revenue is on track to make significant savings in time for customers. For example, from April 2016, MYOB and Xero customers have been able to file GST returns online.
- New Zealand's tax system is considered coherent<sup>1</sup> and is well regarded.
- We are active participants in the international tax community and are implementing measures developed with OECD to address base erosion and profit shifting – for example, we are on track to implement the international information sharing platform (AEOI<sup>2</sup>) by 2018.

The following information provides an overview of Inland Revenue's role and approach to regulatory management in terms of:

- the scope of Inland Revenue's activities and our regulatory regimes; and
- the tax policy work programme.

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<sup>1</sup> Reviewed in 2012 – the *Savings and Investment Taxation Review*.

<sup>2</sup> OECD initiative on Automatic Exchange of Information

## 2. Scope of activities

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Inland Revenue's three main responsibilities are:

- revenue raising and collection;
- administering social policy programmes – child support, student loans, paid parental leave, Working for Families tax credits and KiwiSaver; and
- providing policy advice—we provide advice to the Government (with the Treasury) on all aspects of tax policy and social policy measures that interact with the tax system, including drafting legislation.

### **Regulatory regimes**

The following sections outline the regimes for which Inland Revenue is responsible or delivers a significant policy and operational function.

#### ***Revenue raising and collection***

Inland Revenue designs and collects taxes on the consumption of goods and services in New Zealand and income from employment, investment and business conducted in New Zealand. This revenue of around \$60 billion per annum resources approximately 80 percent of government activity each year.

All New Zealanders directly or indirectly interact with the tax system throughout their lives. For most this is a minimal interaction through the deduction of Pay As You Earn (PAYE) withholding tax from salary or wages, resident withholding tax (RWT) from interest, or as GST is collected by a vendor at the point of sale of a good or service.

More complex interactions with the tax system are experienced by businesses that may be subject to provisional tax, fringe benefit tax or company tax. This latter group of taxpayers are represented by sophisticated stakeholder advocates, including:

- Chartered Accountants Australia and New Zealand;
- New Zealand Law Society;
- Corporate Taxpayers Group;
- New Zealand Bankers Association; and
- Financial Services Council.

Key legislation:       Income Tax Act 2007  
                              Tax Administration Act 1994  
                              Goods and Services Tax Act 1985

### ***Working for Families tax credits***

Working for Families is a package designed to help make it easier to work and raise a family. It pays extra money to many thousands of New Zealand families. Greater financial support is available for:

- almost all families with children, earning under \$70,000 a year;
- many families with children, earning up to \$100,000 a year; and
- some larger families earning more.

There are four types of tax credits:

- family tax credit;
- in-work tax credit;
- minimum family tax credit; and
- parental tax credit.

Inland Revenue administers the programme jointly with the Ministry of Social Development, distributing \$2.5 billion in entitlements to support families.

Key legislation:      Income Tax Act 2007

### ***Child support***

The child support scheme makes sure that:

- parents take financial responsibility for their children; and
- financial contributions from liable parents help to offset the cost of benefits that support their children.

Inland Revenue collects child support payments. In 2013–14 we collected \$450 million from 175,000 paying parents and distributed \$240 million to custodial parents. The balance goes to the Crown to offset sole parent benefits paid to custodial parents by the Ministry of Social Development.

Key legislation:      Child Support Act 1991

### ***KiwiSaver***

KiwiSaver helps individuals save for retirement. Most members build up their savings through regular contributions from their pay. Inland Revenue jointly administers KiwiSaver by collecting contributions and transferring them to scheme providers for investment. In 2013–14 Inland Revenue transferred \$4.1 billion to scheme providers on behalf of 2.4 million members.

Key legislation:       KiwiSaver Act 2006

### ***Student loans***

Student loans make tertiary study more accessible for New Zealanders to gain skills for employment. Inland Revenue jointly administers the Student Loan Scheme through a programme with the Ministries of Education and Social Development (StudyLink). The Ministry of Education is the lead agency for student loans. StudyLink determines loan eligibility and entitlement and disburses borrowed money. Inland Revenue collects student loan repayments from borrowers.

Key legislation:       Student Loan Scheme Act 2011

### ***Paid parental leave***

Paid parental leave replaces a proportion of an employee's income from employment when they take parental leave. Paid parental leave is treated as gross income and is subject to deductions for PAYE income tax, student loan repayments and child support.

Key legislation:       Parental Leave and Employment Protection Act 1987

### **3. Fit-for-purpose regulatory regimes**

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Overall, Inland Revenue believes that its revenue collection and social policy regulatory regimes are fit for purpose. We have made significant improvements by reducing the time it takes business to comply with our requirements. Across all of our regimes there is the potential to improve the clarity and intent of some rules. The highest priority improvements are reflected in the tax policy work programme and include remedial changes and the routine regulatory updates we manage.

Inland Revenue's Business transformation programme is currently underway and reflects Inland Revenue's acknowledgement that its processes and systems, and in some cases the legislation, limit its capability to meet the future requirements the Government may have of the tax system and the social policies Inland Revenue administers. Business transformation is about designing Inland Revenue's services around the needs of the customer and reducing the costs of interacting with the tax and benefit system. The programme will improve the agility of Inland Revenue to develop and implement the regulatory changes required by Government.

## **4. The tax policy work programme**

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The laws for imposing and administering tax in New Zealand are contained in a number of Acts of Parliament. In broad terms the laws that impose taxes are contained in the Income Tax Act 2007 and the Goods and Services Tax Act 1985. The Tax Administration Act 1994 contains the rules for how obligations are to be satisfied. Changes to the regimes delivered by Inland Revenue therefore need to be initiated in legislation. The tax policy work programme is the plan Inland Revenue is working to for the development, management and delivery of legislative change.

### **How is the tax policy work programme developed?**

The Generic Tax Policy Process (GTPP) has operated since 1994 to ensure better, more effective tax policy development through early consideration of key policy elements and trade-offs of proposals, such as their revenue impact, compliance and administrative costs, and economic and social objectives. Another feature of the process is that it builds external consultation and feedback into the policy development process, providing opportunities for public comment at several stages.

Consultation throughout the policy process contributes to greater transparency of policy-making, allowing the Government to set out the policy objectives of proposals and the trade-offs it has made in developing them. The process therefore helps the public to understand the rationale behind Government policy proposals. It also helps to ensure that when Ministers are making policy decisions, they are fully informed of different views and can judge them on their merits. This improves the quality of tax policy.

The consultative process cannot be used for changes that require immediate action to protect the revenue base. It would not be possible to move quickly and, at the same time, to engage in wide consultation on changes to close a recently identified loophole, for example to block a scheme that is losing the country hundreds of millions of dollars in revenue.

The GTPP is widely accepted as the way to make tax policy, and tax professionals and professional associations expect it to be used. It leads to co-operation, assistance and frank dialogue.

New Zealand's private sector is particularly well informed on tax policy issues. In large part this is a legacy of the open and constructive policy debates that started 30 years ago and were consolidated into the GTPP 20 years ago. In recent years there has also been growing engagement with the academic community on tax reform. This is helping us embark on an open process of engaging with the wider community on the opportunities that are opened up as part of Inland Revenue's Business transformation programme.

### **Developing a new tax policy work programme**

The tax policy work programme follows the development of Government's revenue strategy and economic strategy. Developing the work programme involves

identifying and scoping broad policy proposals and prioritising and sequencing the development of initiatives. Stakeholders are invited to suggest how the work programme may be developed. We also look at budgeted resource requirements, the time needed to develop, legislate for and implement initiatives, and the methods of consultation and communication to be employed throughout the process.

This stage of the GTPP culminates in a joint report by Inland Revenue and the Treasury to the Minister of Finance and the Minister of Revenue, proposing a tax policy work programme. Once approved, the work programme becomes a detailed tax policy agreement between the Government and the two departments.

The work programme is generally made public, attracting strong interest from the tax and business communities, to whom it provides greater certainty and an understanding of the Government's direction in tax policy.

As time passes, and the work programme is updated and new policy initiatives are added to it, there is a risk that there will be more items on the programme than can be reasonably progressed. It is therefore important that when items are added to the work programme, existing priorities are reviewed to ensure that the Government's expectations across the work programme are met.

### **Prioritising the contents of the tax policy work programme**

The items on the work programme are prioritised using the following criteria:

- efficiency (to what extent will the policy help the tax system to minimise impediments to economic efficiency and growth);
- equity and fairness (the degree to which the proposal will support the Government's goals for vertical and horizontal equity);
- compliance costs for the taxpayer or "customer" are minimised;
- administration and system costs are minimised; and
- integrity and coherence of the tax system is maintained and enhanced.

Prioritisation is undertaken by Inland Revenue tax policy specialists and is endorsed by the Project Prioritisation and Allocation Committee which includes Treasury officials.

### **The tax policy work programme in recent years**

The work programme over the last three years has been aimed at supporting the Government's priorities of responsibly managing the Government's finances and tax system, building a more competitive and productive economy, delivering better public services and rebuilding Canterbury.

In line with the focus on building a more competitive and productive economy, Treasury and Inland Revenue conducted a Taxation of Savings and Investment Review (reported on in 2012). The aim was to find whether changing fundamental tax settings would have been likely to lead to a material improvement in economic

performance. The conclusion was that the more radical departures from current settings that were investigated were likely to lower economic welfare and that our current broad-base, low-rate tax settings remain fit for purpose.

### **The tax policy work programme for 2016–17**

Each tax policy work programme covers three years. The 2016 update takes account of recent developments and ensures that tax policy officials are working on the highest priority items for the remaining period of the programme to the end of 2017.

The tax policy work programme consists of:

- sub-programmes, which identify the key broad areas of focus;
- projects, within those sub-programmes, which focus on specific issues and changes;
- remedials – smaller changes, which while important for accuracy and clarity, typically do not change the policy intent; for example, correcting an earlier drafting error;
- watching briefs which are the developing issues being monitored or researched and for which there is not yet a clear or overwhelming need to make changes;
- regulatory updates – Inland Revenue maintains a regulations register, which identifies the routine updates and reviews that are undertaken to maintain the currency of the tax and social policies it administers, such as a routine rate adjustment; and
- research – this includes staying up to date with economic literature and developments overseas.

The sub-programmes of the tax policy work programme reflect the strategic context of Inland Revenue as well as the challenges facing Inland Revenue’s regulatory management. These are:

- policies to support Inland Revenue’s Business transformation;
- policies to address international taxation concerns and implement necessary measures to address base erosion and profit shifting;
- policies to enhance and maintain the broad-base, low-rate tax system; and
- social policies.

### ***Business transformation and Better Public Services***

#### ***Business transformation***

A significant part of the tax policy work programme will frame and support the design and implementation of Inland Revenue’s Business transformation programme. This will be achieved by simplifying and modernising the current policy and legislative tax administration settings. Overall this should reduce compliance costs for taxpayers, reduce administration costs for government and improve the overall efficiency of tax administration, including increased voluntary compliance. It will also create

opportunities to improve Inland Revenue's contribution to cross-agency initiatives for the delivery of better public services.

The areas on which we will focus include:

- progression of the two phases of the business tax package. The first phase announced in Budget 2016 is part of the Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill introduced in August 2016. The second phase is being scoped and analysed.
- legislative proposals on better administration of PAYE and GST to be included in an early 2017 tax bill.
- the release of the next suite of consultation documents covering:
  - pre-population and filing obligations for individuals; and
  - further proposals to modernise the Tax Administration Act 1994;
- modernising and simplifying the administration of social policies is being scoped. This is a potentially far-reaching project and is complicated by the multi-agency involvement of many of the social policy regimes Inland Revenue administers. A consultation document arising from this work is expected to be released mid-2017.

### *Better Public Services*

Inland Revenue is committed to working collaboratively across government to deliver outcomes for New Zealanders. It plays a key role in the Better Public Services (BPS) programme through Results 1, 7, 9 and 10, as follows:

- **BPS Result 1** (Reducing long-term welfare dependence). Inland Revenue shares a significant amount of information with the Ministry of Social Development. Current work includes reviewing the information sharing programme in collaboration with the Ministry of Social Development (and the Accident Compensation Corporation) with a view to improving efficiency and enabling better outcomes for customers.
- **BPS Result 7** (Reduce the rates of total crime, violent crime and youth crime). The Gang Intelligence Centre was launched on 14 December 2015 with Police Commissioner Mike Bush acknowledging Inland Revenue for its support and assistance in getting the centre up and running. Our focus is now on getting certainty on the legislative path required for Inland Revenue to fully participate in the Centre by the Cabinet deadline of December 2016.
- **BPS Result 9** (New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business). Inland Revenue is working closely with the Ministry of Business, Innovation and Enterprise on the design and implementation of the New Zealand Business Number, which, as part of Business transformation, is on schedule for businesses to be recognised by their New Zealand Business Number by 2017. In addition, there are other transformation policy projects that will simplify business tax rules, including making provisional tax easier, particularly for small business.

- **BPS Result 10** (New Zealanders can complete their transactions with the Government easily in a digital environment). Inland Revenue has made a substantial commitment to the ICT Partnership. This framework has been set up to “support the goal of a single, coherent ICT ecosystem supporting radically transformed public services”.

Inland Revenue is also contributing to key initiatives including:

- **The Birth of a Child Life Event** (a project led by Department of Internal Affairs). This initiative focuses on how to best deliver an easy and seamless experience for parents interacting with government, including setting up a digital identity for the baby.
- **Turning 65**. Turning 65 workshops have been co-hosted by Department of Internal Affairs and the Ministry of Social Development to better understand the interactions agencies have with those who have or are turning 65, with a view to understanding how government can proactively deliver age-related entitlements to this group.

### *International tax and base erosion and profit shifting (BEPS)*

BEPS describes techniques used by multinational companies to avoid paying tax anywhere in the world. BEPS tax planning strategies may exploit gaps and mismatches in countries’ domestic tax rules or they may take advantage of tax rules that are grounded in a “bricks and mortar” economic environment which may not address less tangible forms of commerce – such as digital services. Addressing BEPS issues requires international co-ordination. International concern around BEPS remains high and is prominent in the news media. The G20 and OECD have emphasised the need for a co-ordinated multilateral solution by developing a 15-point action plan which covers three themes:

- greater transparency and exchange of information;
- more robust domestic tax laws; and
- international agreements and co-operation.

#### *Greater transparency and exchange of information*

The proposed work programme includes the work we need to continue to meet OECD timelines to implement the Automatic Exchange of Information (AEOI) initiative. Following recommendations made by the Government Inquiry into Foreign Trust Disclosure Rules, we are changing the disclosure requirements for foreign trusts.

#### *More robust domestic tax laws*

New Zealand’s domestic cross-border tax laws need to be robust. This is to ensure that our domestic tax settings protect our tax base and do not facilitate double non-taxation, tax avoidance or evasion. New Zealand already has strong controlled foreign company rules; and does not have harmful tax practices (as confirmed by the OECD in its last review in 2012). Furthermore we have introduced GST on online services consumed in New Zealand – this legislation will apply to transactions from

1 October 2016, and we are introducing measures to prevent the avoidance of non-resident withholding tax on interest paid to related parties. We will:

- undertake further work on a package of BEPS initiatives which will include hybrid mismatch rules to prevent companies structuring their business entities or financing arrangements to take advantage of differences in how countries' tax these arrangements and interest limitation rules which would prevent companies stripping excessive profits out of New Zealand by way of deductible interest payments; and
- consider whether other measures to help address BEPS concerns may be appropriate for New Zealand (for example, a diverted profits tax like that adopted by the United Kingdom and Australia, and possibly proposals on increased public transparency of information about the tax paid by multinationals in New Zealand).

#### *International agreements and co-operation*

The proposed tax policy work programme reflects the need to work with the OECD and treaty partners to ensure international agreements are fit for purpose. We will be working to ensure that New Zealand:

- signs up to the OECD's multilateral instrument, which will amend our network of tax treaties to insert a new anti-treaty abuse article, a new permanent establishment definition, anti-hybrid entity rules and dispute resolution articles (OECD has indicated the signing ceremony will take place in the first half of 2017);
- maintains the tax treaties we have with 40 other countries and applies these to New Zealand income. We will propose prioritising the tax treaty work in this next work programme period in order to progress the treaties with Korea and Fiji; and
- applies revised OECD Transfer Pricing Guidelines to address misallocation of profits to low tax jurisdictions. Legislation could be introduced to facilitate this (if needed).

#### *International co-operation*

New Zealand is a committed and active member of the international tax community, which is important for improving the effective functioning of the world economy. Our OECD commitments account for the majority of our resources committed to our international obligations. The OECD is a rule-making body. As an OECD member, decisions made by the OECD have a direct impact on New Zealand's international tax policy settings and this has given rise to much of the domestic and BEPS tax policy work programme.

Our contributions, in addition to the projects we have listed, will include:

- New Zealand's trans-Tasman relationship and the Single Economic Market – which includes considering mutual recognition of imputation credits;
- support for the Ministry of Foreign Affairs and Free Trade Agreement programme;

- supporting New Zealand’s participation at the OECD Centre of Tax Policy and Administration;
- support and guidance for the New Zealand delegation at the United Nations on tax matters; and
- the Study Group on Asian Tax Administration and Research (SGATAR). New Zealand supports this group and will be chairing it in Wellington in late 2016.

***Enhancements to tax policy within broad-base, low-rate (BBLR) tax settings***

There is high public support for New Zealand’s general tax structure, with its BBLR tax settings. BBLR settings involve taxing a very broad range of consumption through GST and a very broad range of business and personal income through income tax at low or moderate tax rates. Keeping bases broad minimises distortionary costs of taxes. Moreover, this allows tax rates to be kept as low as possible which also helps minimise distortions. Our BBLR tax system also helps keep compliance costs relatively low.

It is impossible to maintain a good tax system through a set of static rules. An effective approach necessitates on-going modification and refinement of legislation as new situations, behaviours, related legislation and judicial rulings emerge. We will not serve Government or our customers well if we do not put sufficient resource into the repair and maintenance of existing tax law. There is capacity reserved within the tax policy work programme to ensure there is a balance of enhancements to tax settings within the BBLR framework that will go some way to meeting stakeholders’ need for clarity and certainty in the tax system while ensuring expected Government revenue is maintained.

This includes dealing with important remedial issues as they arise, which ensures that current tax law is operating as intended. This is essential in maintaining public support for the tax system.

Examples of issues with higher priority that we propose addressing under the theme of enhancing tax settings within the BBLR framework include:

- continued work on the review of the tax framework for employee share schemes;
- demergers – initially raised by the New Zealand Shareholders’ Association, demergers by Australian-listed companies have resulted in a tax obligation that is inconsistent with policy intent;
- trust beneficiaries as settlors – recent legal analysis indicates there are instances when beneficiaries of trusts who leave their beneficiary income in a “current account” with the trust can become inadvertent settlors. There can be significant tax consequences for beneficiaries resulting from being treated as settlors – for example, they can be liable to meet the trustee’s tax liability. This is not in accordance with the policy intent and is potentially widespread – we propose to review this;
- property – this will include addressing a request from the Finance and Expenditure Committee to look into the deductibility of the holding costs for revenue account property, and review the requirement for bank accounts for

offshore persons' IRD numbers to ensure that the requirement is applied efficiently, and address concerns from stakeholders such as the New Zealand Law Society about the operation of this rule; and

- remedial items – to make remedial changes to ensure that the tax rules work as intended and remain fit for purpose.

There are also a number of areas on which we maintain a “watching brief” as we are aware that there may be developing issues that as yet have not formed to the point that we determine a remedial or policy law change is required.

### ***Social policy***

About half of Inland Revenue business is delivering social policy programmes, including the repayment of student loans, and administering Working for Families tax credits, child support and KiwiSaver. Inland Revenue has an important role in providing advice on these policies. Social policies such as Working for Families involve significant government expenditure and affect large numbers of people. Our role in these social policy areas is closely linked to other portfolios, including ACC, education, health and social development.

In 2016, as part of Business transformation, a programme will be developed to look at how our social policies can best be delivered within Inland Revenue's transformed infrastructure and processes. In addition, we need to allow for the maintenance and enhancement of existing social policy settings.

The social policy-related work programme has been planned to ensure that we have capacity to respond to emerging issues across each social policy regime and will also include:

- supporting the Minister of Revenue's commitment to the joint work of the Ministry of Education and the Ministry of Social Development on student loans, including reducing legacy student loan debt. This work is led by the Minister for Tertiary Education;
- responding to the Ministry of Health on the Financial Assistance for Live Organ Donors Bill; and
- maintaining capacity to respond to social policy initiatives passed by other Ministers.

## Appendix 1 – Tax policy work programme projects for 2016–17

### Enhancements to tax policy within broad-base, low-rate (BBLR) tax settings

Project	Description
Review of the tax framework for employee share schemes	Reforming the tax treatment of employee share schemes to ensure appropriate and balanced outcomes.
Income protection insurance: a review	The Financial Services Council is seeking a review of the income tax treatment of income protection insurance. There is a lack of clarity about the tax treatment of this form of insurance and inconsistencies across products offering similar benefits.
Deductibility of holding costs for revenue account property	Considering the deductibility of holding costs for property.
Abusive tax position penalty	Examining the application of the abusive tax position penalty in cases of tax avoidance, and whether any changes are needed to the penalty.
Demergers ( <b>new</b> )	Considering an exclusion from dividend taxation for corporate demergers.
Petroleum mining decommissioning expenditure ( <b>new</b> )	Replacing the existing ability to spread back petroleum mining decommissioning expenditure to earlier tax years with a refundable tax credit in the current year.
Review of bank account requirement for offshore persons' IRD numbers ( <b>new</b> )	The bank account requirement for an offshore person to obtain an IRD number continues to cause issues in practice. In particular, it is an obstacle in a number of cases to people being able to comply with their tax obligations.
Trust beneficiaries as settlors ( <b>new</b> )	There are instances when beneficiaries of trusts who leave their beneficiary income in the current accounts with the trust become inadvertent settlors. This is not in accordance with the policy intent.
Financial arrangement issues ( <b>new</b> )	There are a variety of financial arrangement taxation issues ranging from remedial to policy enhancements to ensure these rules work as intended.
Taxation of non-bank securitisation vehicles ( <b>new</b> )	Extending the current securitisation regime to beyond banks.
Impact of case law on the "voting interest" test for corporate trustees ( <b>new</b> )	Considering the impact of recent case law on the application of the voting interest test in the Income Tax Act 2007 and the Goods and Services Tax Act 1985 to corporate trustees.
Repeal adverse events income equalisation deposit regime ( <b>new</b> )	This regime is, in practice, little used, because the main scheme offers more flexibility. However, its existence can cause some confusion.
Review of donee status applications	Dealing with applications by organisations for donee status under schedule 32.
Treaty of Waitangi settlements	Tax implications of Treaty settlements are addressed as required.

## International tax and base erosion and profit shifting (BEPS)

Project	Description
Hybrid instruments and entities	Consideration of foreign hybrid instruments and entities in the context of BEPS.
Double tax agreement (DTA) work programme	New Zealand is seeking to establish new and updated double tax agreements with a number of countries, including Norway, China, Korea, Slovak Republic, Portugal and Fiji.
Automatic exchange of information	Domestic implementation of a new global standard on the automatic exchange of financial bank account information with treaty partners.
Interest limitation rules	Consideration of New Zealand's interest limitation rules in light of OECD recommendations. Part of the BEPS Action Plan.
Multilateral instruments	As part of the BEPS work, the OECD has proposed countries sign a multilateral instrument that will simultaneously amend the double tax agreements of participating countries. The amendments to DTAs will address certain aspects of the BEPS project that have a treaty dimension e.g. treaty shopping or permanent establishment avoidance.
Foreign trust disclosures	Policy recommendations arising from the Government Inquiry into foreign trust disclosure requirements.
Inbound investment framework	An officials' paper outlining New Zealand's approach to taxing foreign investment income has been prepared. It has been used as the basis for targeted consultation with private sector representatives, and has also been published on the tax policy website to facilitate a wide understanding of the trade-offs the Government faces in responding to BEPS.

## Business transformation and Better Public Services

### *Business transformation*

Project	Description
Better administration of GST and PAYE	Policy options to reduce compliance and administrative costs consistent with longer term business transformation thinking.
Review of the Tax Administration Act	Developing a framework for tax administration with an emphasis on the key roles of the Commissioner, taxpayers and tax agents, as well as the rules around information collection and tax secrecy which underpin their interactions.
Individuals' taxation	Improving the tax system for individuals, including comprehensive pre-population of income information, collection of information, more efficient debt collection processes and the degree of interaction with the tax system.
Business taxation	Improving the tax system for business, including the calculation of provisional tax, the collection of information and reviewing the penalties and interest rules. Includes researching additional measures that have potential to deliver further benefits to businesses, reduce compliance costs and make the tax system simpler.

<b>Project</b>	<b>Description</b>
Investment income information	Streamlining the collection of information about investment income such as interest, dividends, PIE income and Māori authority distributions.
BT social policy	Improving the social policy system for individuals and families, including alignment of definitions, reviewing assessment periods to improve accuracy and timeliness of payments, more efficient debt collection and prevention processes, and improving outcomes for customers with special or exceptional circumstances.

### ***Better Public Services***

<b>Project</b>	<b>Description</b>
Information sharing agreement between Ministry of Social Development and Inland Revenue	Information sharing with Ministry of Social Development to assist in determining entitlements to benefits, social assistance and other services.

### **Social policy**

<b>Project</b>	<b>Description</b>
Financial Assistance for Live Organ Donors Bill 2015	Inland Revenue consulted by Ministry of Health on aspects that impact on Tax Acts, e.g. child support, Working for Families, student loans, KiwiSaver, information sharing, and whether income replacement for donors proposed under the bill should be treated as income for tax purposes.
Encouraging student loan repayments and addressing debt of overseas-based borrowers in the PEN group	Overseas-based student loan borrowers known as the “Penalty (PEN) Group” have overdue amounts growing faster than the rate at which borrowers in this group are becoming compliant. This is due to the compounding effect of late payment penalties (under the 1992 Act) and late payment interest. Ministers are interested in any further measures that could be developed to address the overdue debt of this group and the wider student loan borrower population.
Student loans – interest exemption	Budget 2016 announced the “International Connections for New Zealanders” package, to extend student loan interest write-off to borrowers studying overseas who are recipients of Government-funded scholarships.

Note: This list does not include remedial items.

## Appendix 2 – Routine updates to regulations

Regulation	Description	Frequency
Taxation (Use of Money Interest Rates) Regulations 1998	Sets the rates of interest payable on underpayments and overpayments of tax.	As needed
Income Tax (Fringe Benefit Tax, Interest on Loans) Regulation 1995	Sets the prescribed interest rate that is used to determine if a fringe benefit exists in relation to an employment related loan. If the interest rate increases, the new rate applies from the commencement of the next quarter. If the interest rate decreases, the new rate applies from the commencement of the quarter in which the rate decreases.	Quarterly
Income Tax (Family Tax Credit) Regulations	Increases the amount of the family tax credit.	As needed – if the percentage movement in the CPI is 5% or more
Income Tax (Minimum Family Tax Credit) Regulations	Increases the family tax credit threshold in section ME 1(3) of the Income Tax Act 2007. The credit ensures families do not suffer a reduction of income when moving off a welfare benefit into 30 hours or more of unpaid work.	Annually
Income Tax (In-Work Tax Credit) Regulations	Increases the amount of the in-work payment amount. The amount is only increased as a result of a review of the amount by the Minister of Revenue in consultation with the Minister of Social Development. Changes are made by Order in Council if the Minister makes a policy decision to do so.	Every three years (the first review was undertaken in 2008)
Income Tax (Parental Tax Credit) Regulations	Increases the amount of the parental tax credit. The amount is only increased as a result of a review of the amount by the Minister of Revenue in consultation with the Minister of Social Development.	Every three years (the first review was undertaken in 2008)
Income Tax (Adverse Event Income Equalisation Scheme Rate of Interest) Regulation	Sets the interest rate that is to be paid on deposits to the adverse events income equalisation scheme.	As needed
Income Tax (Deemed Rate of Return, 20XX-20XX Income Year) Regulations	Sets the deemed rate of return under the foreign investment fund (FIF) rules. The deemed rate of return is based on an average of the five-year government stock rates prevailing at the end of each quarter throughout the income year and adding a margin of 4%.	Annual

<b>Regulation</b>	<b>Description</b>	<b>Frequency</b>
Income Tax (Payroll Subsidy) Regulations 2006	Provides for the amount of the subsidy and the calculation of the payroll subsidy to be paid to PAYE intermediaries.	As needed
SILNA (Conservation Payments) Regulations	Provides for payments of money made in consideration of entering into a conservation covenant over specified Māori land (SILNA land) is not gross income of the recipient.	Irregularly - as requested
Student Loan Scheme (Charitable Organisations) Regulation 2006	Allows charitable organisations to be listed for the purposes of the Student Loan Scheme Act. Under that Act, a student loan borrower who was personally absent from New Zealand because he or she was working as a volunteer or for token payment for a charitable organisation named in the regulations may be granted an exemption by the Commissioner of Inland Revenue entitling that borrower to a full interest write-off.	As needed
Student Loan Scheme (Repayment Threshold) Regulations	Sets the income threshold at which borrowers are required to commence making repayment obligations.	Annually
Student Loan Scheme (Repayment Obligations of Overseas-based Borrowers) Regulations	Sets the level of loan balance at which overseas-based borrowers must make repayments.	As needed
Student Loan Scheme (Establishment Fee) Regulations	Sets the amount of the student loan establishment fee that is charged to a borrower each time the borrower enters into a loan contract after 31 March 2012.	As needed
Student Loan Scheme (Annual Administration Fee) Regulations	Sets the amount of the annual administration fee charged if a borrower has a consolidated loan balance of \$20 or over (note: not charged if a student loan establishment fee is charged in that tax year).	As needed
Student Loan Scheme (Late Payment Interest Threshold) Regulations	Sets the threshold for when late payment interest is charged (currently \$334 and over).	As needed
The Commissioner may charge taxpayers the service fee associated with using credit or debit cards to make payments	The service fee is currently 1.42% of the amount paid, plus GST if any. The amount of the service fee can be changed by Order in Council.	As needed
Taxation (Direct Credit Refund) Regulations	Specify a tax refund type must be made by direct credit to a bank account nominated by the taxpayer entitled to a refund.	As needed