



## POLICY AND REGULATORY STEWARDSHIP

**Tax policy report:** **General extension of use of money interest relief during COVID-19**

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<b>Date:</b>	26 January 2022	<b>Priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2022/026

### Action sought

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations	28 January 2022
Minister of Revenue	<b>Agree</b> to recommendations	28 January 2022

### Contact for telephone discussion (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
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26 January 2022

Minister of Finance  
Minister of Revenue

## **General extension of use of money interest relief during COVID-19**

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### **Purpose**

1. This report seeks joint Ministers' agreement to a general extension of use of money interest (UOMI) relief in response to the ongoing economic impacts of COVID-19.
2. A **general extension** for all taxpayers expands on the **targeted extensions** that joint Ministers have previously agreed to. This report also notes the additional fiscal impacts of a broader extension.

### **Background**

3. One of the tax system responses to COVID-19 was to enable Inland Revenue to remit UOMI for taxpayers that are significantly adversely affected by COVID-19 and so are unable to pay their tax in full and on time. This power was originally due to expire on 24 March 2022.
4. In June 2021, and then again in November 2021, joint Ministers agreed to a series of targeted extensions of UOMI relief. These were for:
  - 4.1 Taxpayers in existing instalment arrangements as at 24 March 2022, extended to 31 March 2024 (IR2021/249 refers); and
  - 4.2 Provisional taxpayers with less than \$1 million in residual income tax, extended to 7 April 2023 (IR2021/428 refers).
5. These targeted extensions served several purposes, such as to ensure that taxpayers that are compliant with their instalment arrangements are not subject to backdated UOMI, and to deliver targeted assistance at a specific group of taxpayers in response to the impacts on businesses resulting from the Delta outbreak.
6. However, given the ongoing concerns regarding the impacts of Omicron, officials consider that a more general extension of UOMI remission is now warranted.

### **General extension of UOMI remission**

7. The ability for Inland Revenue to remit UOMI for taxpayers affected by COVID-19 expires on 24 March 2022, but this date can be extended by an Order in Council made on the recommendation of the Minister of Revenue. Joint ministers have previously agreed to the making of an Order in Council to give effect to the targeted extensions described above.
8. Officials now recommend that the Order in Council is made to instead extend the scheme generally for all taxpayers. The new expiry date for UOMI remission would be 7 April 2024.
9. This would allow for continuation of UOMI remission once the applying taxpayer has paid the core tax on which the UOMI has been charged. The extension would also allow for continuation of UOMI suppression, where a taxpayer enters into an instalment arrangement and does not have to pay UOMI so long as the arrangement is complied with.

10. **Table 1** summarises the taxpayers affected by a general extension of UOMI relief in comparison to the targeted extensions previously agreed to:

**Table 1: Taxpayers affected by a general extension of COVID-19 UOMI relief**

<b>Taxpayer</b>	<b>Tax type</b>	<b>Expiry date as previously agreed to</b>	<b>Expiry date under a general extension (current recommendation)</b>
Taxpayers in instalment arrangements entered into on or before 24 March 2022	All tax types; deferred payment due to COVID-19	Instalment arrangement must be completed by 31 March 2024 (IR2021/249 refers)	7 April 2024
Taxpayers who: <ul style="list-style-type: none"> <li>• Have a 2022 residual income tax liability of less than \$1 million; and</li> <li>• COVID-19 has affected their ability to forecast their residual income tax liability</li> </ul>	Income tax; late payment and underpayment due to COVID-19	7 April 2023, including payments for the 2021–22 income year (IR2021/428 refers)	7 April 2024
All other taxpayers	All tax types; late/deferred payment due to COVID-19	24 March 2022 (no extension previously agreed to)	7 April 2024

11. Officials expect that the impacts of Omicron will result in reduced trading for a wide range of businesses. This will be for several reasons, including changes in the way some businesses operate under the COVID-19 Protection Framework, as well as an expected increase in employees taking sick leave due to the spread of Omicron. Ensuring that affected taxpayers are not charged with UOMI (when they otherwise would have paid their tax in full and on time) has been a proportionate targeted tax response to COVID-19 to date, and it should continue to be available in response to the impacts of Omicron.
12. A general extension of COVID-19 UOMI remission will also be significantly easier for Inland Revenue to administer, and for taxpayers to understand, than the targeted extensions previously agreed to.

**Financial implications**

13. A general extension of COVID-19 UOMI relief until 7 April 2024 is estimated to have a gross interest charge of \$5.82 million, which is impaired by \$4.58 million. This results in a net fiscal cost of approximately \$1.24 million over the forecast period.
14. However, the targeted extensions that were previously agreed to have a comparable net fiscal cost of \$150,000. The changes to appropriations resulting from this fiscal impact have been agreed to but have not yet been included in baselines. The general extension recommended in this report therefore has an additional cost of \$1.09 million beyond the targeted extensions previously agreed to, since the new cost of \$1.24 million replaces the previous cost of \$150,000.
15. This fiscal impact assumes that any new instalment arrangements set up from now are scheduled to finish by 7 April 2024 so that they get the benefit of UOMI remission. It also assumes reduced demand for UOMI relief due to a reduction in the likelihood of measures like lockdowns further impeding trading. The economic

effects of Omicron are also highly uncertain, which may affect the cost of this extension.

16. The Treasury has advised that, given the Omicron outbreak, there is a case for charging this cost to the COVID-19 Response and Recovery Fund (CRRF) as outlined below.

### **Consultation**

17. The Treasury has been consulted on this report and has provided the following comments.
18. In September 2021, the Treasury did not support funding to extend the power to suppress and remit UOMI for new instalment arrangements to 2024. This was because the economic impact of the COVID-19 pandemic appeared to be abating (especially as vaccination rates were improving and there was therefore less prospect of major disruptive outbreaks and the associated economic cost). The Minister of Finance had also made clear his view that the balance of the CRRF should be used only for "core economic response measures," as well as other targeted, urgent, or essential costs. In the Treasury's view, extending UOMI relief did not meet these criteria at that time.
19. Today, the criteria remain in force, but the situation has changed; given the likelihood of an Omicron outbreak and the economic harms that would result from it, the Treasury supports reconsidering the decision on UOMI relief. Extending UOMI relief is a cost-effective way to support affected taxpayers, especially smaller taxpayers. It would also usefully fill a gap in the range of support currently being considered, in that it encourages personalised instalment arrangements where these are appropriate. In short, there is now a stronger case for providing additional relief, funded through the CRRF.

### **Next steps**

20. Subject to your agreement to the general extension as recommended, officials will issue a drafting instruction to the Parliamentary Counsel Office to draft an Order in Council that gives effect to this extension.
21. Officials will report to the Minister of Revenue with a draft Cabinet paper and a copy of the draft Order in Council to be considered at the Cabinet Legislation Committee on 10 March 2022. This will allow for consideration by Cabinet on 14 March 2022 and submission to Executive Council on the same day.
22. Assuming a waiver of the 28-day rule for Orders in Council to come into force, the general extension will be given effect before the current expiry date of 24 March 2022.

**Recommended action**

We recommend that you:

23. **note** that joint Ministers have previously agreed to targeted extensions of COVID-19 UOMI relief for:

23.1 Taxpayers in existing instalment arrangements as at 24 March 2022, extended to 31 March 2024; and

23.2 Provisional taxpayers with less than \$1 million in residual income tax, extended to 7 April 2023;

Noted

Noted

24. **agree** to a general extension of UOMI remission for all taxpayers that are significantly adversely affected by COVID-19 until 7 April 2024;

Agreed/Not agreed

Agreed/Not agreed

25. **note** that, given two targeted extensions of UOMI relief have already been agreed to, the net operating balance impact of the decision in recommendation 24 is \$1.09 million over the forecast period;

Noted

Noted

26. **note** the following change to forecast tax revenue to give effect to the decision in recommendation 24, with a corresponding impact on the operating balance and net core Crown debt;

	\$m – increase/(decrease)				
<b>Vote Revenue Minister of Revenue</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26 &amp; Outyears</b>
Tax Revenue	(0.730)	(2.910)	(2.180)	-	-
<b>Operating Balance and Net Core Crown Debt Impact</b>	<b>0.730</b>	<b>2.910</b>	<b>2.180</b>	-	-

Noted

Noted

27. **agree** to the following change to appropriations to give effect to the decision in recommendation 24, with a corresponding impact on the operating balance only;

	\$m – increase/(decrease)				
<b>Vote Revenue Minister of Revenue</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26 &amp; Outyears</b>
Impairment of Debt and Debt Write-Offs	(0.570)	(2.290)	(1.720)	-	-
<b>Operating Balance Only Impact</b>	<b>(0.570)</b>	<b>(2.290)</b>	<b>(1.720)</b>	-	-

Agreed/Not agreed

Agreed/Not agreed

28. **agree** to charge the net operating balance impact described in recommendation 25 to the COVID-19 Response and Recovery Fund, established as part of Budget 2020;

Agreed/Not agreed

Agreed/Not agreed

29. **authorise** Inland Revenue to issue a drafting instruction to the Parliamentary Counsel Office to draft an Order in Council that gives effect to this extension.

Agreed/Not agreed

**Bary Hollow**

Principal Policy Advisor

Policy and Regulatory Stewardship

**Hon Grant Robertson**

Minister of Finance

/ /2022

**Hon David Parker**

Minister of Revenue

/ /2022