



**International treaty examination
of the Agreement between the
Government of New Zealand
and the Government of the
Cook Islands on the Exchange
of Information with Respect to
Taxes and of the Agreement
between the Government of
New Zealand and the
Government of the Cook Islands
on the Allocation of Taxing
Rights with Respect to Certain
Income of Individuals and to
Establish a Mutual Agreement
Procedure in Respect of Transfer
Pricing Adjustments**

Report of the Finance and Expenditure
Committee

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International treaty examination of the Agreement between the Government of New Zealand and the Government of the Cook Islands on the Exchange of Information with Respect to Taxes and of the Agreement between the Government of New Zealand and the Government of the Cook Islands on the Allocation of Taxing Rights with Respect to Certain Income of Individuals and to Establish a Mutual Agreement Procedure in Respect of Transfer Pricing Adjustments

Recommendation

The Finance and Expenditure Committee recommends that the House take note of its report.

The Finance and Expenditure Committee has conducted an international treaty examination of the Agreement between the Government of New Zealand and the Government of the Cook Islands on the Exchange of Information with Respect to Taxes and of the Agreement between the Government of New Zealand and the Government of the Cook Islands on the Allocation of Taxing Rights with Respect to Certain Income of Individuals and to Establish a Mutual Agreement Procedure in Respect of Transfer Pricing Adjustments and has no matters to bring to the attention of the House.

The national interest analysis for the treaties is appended to this report.

Appendix A

Committee procedure

The committee met on 21 and 28 April 2010 to consider the agreements.

Committee members

Craig Foss (Chairperson)

Amy Adams

David Bennett

John Boscawen

Brendon Burns

Hon David Cunliffe

Aaron Gilmore

Raymond Huo

Rahui Katene

Peseta Sam Lotu-Iiga

Stuart Nash

Dr Russel Norman

Appendix B

Agreement between the Government of New Zealand and the Government of the Cook Islands on the Exchange of Information with Respect to Taxes

Agreement between the Government of New Zealand and the Government of the Cook Islands on the Allocation of Taxing Rights with Respect to Certain Income of Individuals and to Establish a Mutual Agreement Procedure in Respect of Transfer Pricing Adjustments

National Interest Analysis

Executive Summary

1 On 9 July 2009, New Zealand signed two tax-related agreements with the Cook Islands. The two agreements are, respectively, the Agreement Between The Government Of The Cook Islands And The Government Of New Zealand On The Exchange Of Information With Respect To Taxes (“the TIEA”) and the Agreement Between The Government Of The Cook Islands And The Government Of New Zealand On The Allocation Of Taxing Rights With Respect To Certain Income Of Individuals And To Establish A Mutual Agreement Procedure In Respect Of Transfer Pricing Adjustments (“the Supplementary Agreement”).

2 The TIEA establishes a mechanism by which tax officials from New Zealand and the Cook Islands (“the Parties”) can request information from each other (such as business books and accounts, bank information, and information on the ownership of legal entities) for the purpose of detecting and preventing tax avoidance and evasion. Access to this previously unobtainable information will enhance the New Zealand Inland Revenue Department’s ability to detect and prevent tax avoidance and tax evasion. Any reduction in tax avoidance or tax evasion will be beneficial to New Zealand in financial, fiscal and economic terms. New Zealand already has a network of 35 exchange of information arrangements in place through its double tax agreements (“DTAs”) with key trading and investment partners. TIEAs are designed to be used to establish exchange of information arrangements with jurisdictions where DTAs may not be appropriate, such as low-tax jurisdictions. The Cook Islands is a low-tax jurisdiction, and is also an important international finance centre. New Zealand, to date, has signed two other TIEAs – with the Netherlands Antilles, in 2007, and with Bermuda, earlier this year.

3 The TIEA is based on a model produced in 2002 by the Organisation for Economic Cooperation and Development (“the OECD”). The TIEA provides a comprehensive set of rules that support the exchange of information. These rules ensure that requested information will be obtained and provided in a timely and effective manner. However, the rules also ensure that information may not be requested or used indiscriminately. Information requests may only be made in prescribed circumstances, and information

received pursuant to a request may only be disclosed to authorised persons and used by those persons for authorised purposes (principally, the administration and enforcement of the domestic tax laws of the Party to which it is given.) The text of the TIEA is attached as Annex A.

4 The Supplementary Agreement contains articles that allocate taxing rights in respect of pensions, government service and students, following the approach adopted for such articles in our DTAs. The TIEA and the Supplementary Agreement collectively constitute a “package deal”. Although the TIEA applies on a reciprocal basis, the limited nature of the Cook Islands’ tax system means that it will derive little benefit from the TIEA whereas New Zealand stands to gain considerable benefit. The Supplementary Agreement was therefore offered by New Zealand as part of a number of measures intended to ensure that the Cook Islands also receives some benefit from entering into exchange of information arrangements with New Zealand. (It is not appropriate to enter into a full DTA with the Cook Islands, given the mismatch in tax systems. However, the pension, government service and students articles are three DTA articles that can be agreed with the Cook Islands as they will not give rise to any significant financial, fiscal or economic costs.) The Supplementary Agreement also includes an article that will establish a “best endeavours” mutual agreement procedure that can be invoked in respect of transfer pricing adjustments. New Zealand will not gain any direct benefit from entering into the Supplementary Agreement. The Supplementary Agreement, however, supports the conclusion of the TIEA, and New Zealand will therefore benefit indirectly. The text of the Supplementary Agreement is attached as Annex B.

5 A second key measure offered by New Zealand as encouragement to the Cook Islands to enter into the TIEA is found in article 11 of the TIEA. This article constitutes an obligation on the Parties not to impose “prejudicial or restrictive measures based on harmful tax practices” on each other. This obligation relates to the OECD Harmful Tax Practices initiative, in which the prospect of OECD member countries imposing sanctions on or taking other defensive measures against jurisdictions identified as having harmful tax practices has previously been raised. The key identifier of harmful tax practices is whether a jurisdiction engages in effective exchange of information on tax matters. Given that the TIEA provides for full exchange of information on tax matters with the Cook Islands, it would be inappropriate for New Zealand to impose any such measures on the Cook Islands while the TIEA is in force. The provision was included in recognition of this, but was expressed as a reciprocal obligation on both Parties.

6 The TIEA and Supplementary Agreement will be supported by a less-than-treaty status instrument. The instrument is an Understanding between the Cayman Islands and New Zealand Inland Revenue Department and the Cook Islands’ Revenue Management that contains additional clarification on technical issues such as the meaning of terms used in the agreements.

Date and nature of proposed binding treaty action

7 Before the TIEA and Supplementary Agreement are brought into force for New Zealand, the two agreements must first be submitted to the House of Representatives to undergo Parliamentary treaty examination, in accordance with Standing Orders 388 to 391.

(The less-than-treaty status Understanding does not create legally binding commitments for New Zealand and is not required to undergo treaty examination.)

8 Subsequent to satisfactory completion of the Parliamentary treaty examination process, the two agreements can then be incorporated into domestic legislation by Orders in Council pursuant to section BH 1 of the Income Tax Act 2007.

9 Upon the promulgation of the Orders in Council, the agreements can then each be brought into force, in accordance with article 13 of the TIEA and article 10 of the Supplementary Agreement, through an exchange of diplomatic notes that confirms the completion of the respective constitutional and legal requirements for entry into force by each Party.

10 Each agreement will enter into force on completion of the exchange of diplomatic notes. New Zealand officials will manage the process to ensure that both agreements enter into force on the same date. Upon entry into force, the TIEA will apply prospectively to all taxable periods beginning on or after that date (or, where there is no taxable period, to all charges to tax arising on or after that date). The Supplementary Agreement will similarly apply, in New Zealand, to income years beginning on or after 1 April following the date of entry into force.

Reasons for New Zealand taking the treaty action

The TIEA

11 New Zealand domestic law specifically prohibits Inland Revenue from divulging information it holds to foreign jurisdictions, except when authorised by a tax treaty.¹ Other countries generally follow the same principle. Therefore, to assist in the detection and prevention of tax avoidance and tax evasion, most developed countries are building networks of treaties that allow for the exchange of information on tax matters.

12 The most common type of tax treaty in which exchange of information provisions feature are DTAs. New Zealand currently has 35 DTAs in force. However, DTAs are typically only concluded between trading and investment partners with broadly similar tax systems. To cater for other situations in 2000 the OECD produced a model TIEA (with a comprehensive commentary) that provides solely for the exchange of information on tax matters. The OECD also, in 2000, published a list of low-tax international finance centres with which member countries are encouraged to negotiate TIEAs, based on the OECD model TIEA.² The 2000 list includes the Cook Islands.

13 New Zealand signed its first TIEA, with the Netherlands Antilles, on 1 March 2007. A second TIEA, with Bermuda, was signed on 16 April 2009. Each new TIEA concluded further expands New Zealand's network of exchange of information arrangements and reduces the tax evasion and avoidance options available to New Zealand residents.

¹ Sections 81 and 88 of Tax Administration Act 1994 refer. The term “double tax agreement”, as used in section 88, has (by virtue of its legislative definition) the same meaning as that outlined in paragraph 8 above. Section 88 is therefore also applicable to TIEAs.

² The 2000 OECD report “Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices” refers.

14 The TIEA with the Cook Islands provides a comprehensive set of rules to support the exchange of information. These rules are designed to ensure that requested information is obtained and provided in a timely and effective manner. The TIEA, however, also ensures that information is not to be requested or used indiscriminately. Requested information must be “foreseeably relevant” to the tax affairs of a particular person or entity. (The OECD commentary clarifies that this means the Parties are not at liberty to engage in “fishing expeditions”.) In addition, information received pursuant to a request may only be disclosed to authorised persons and may only be used by those persons for authorised purposes (principally, the administration and enforcement of the domestic tax laws of the respective Party.)

15 Interference from bank secrecy and domestic tax interest rules is specifically prohibited as an obstacle to effective information exchange.³ Otherwise, rights and safeguards secured to residents of either jurisdiction by domestic law or administrative practice remain in effect. In particular, as noted above, the Parties are required to maintain strict confidentiality in relation to any information received pursuant to a request.

16 The text of the TIEA is attached as Annex A.

The Supplementary Agreement

17 Although the TIEA applies on a reciprocal basis, the Cook Islands only has a limited tax system. The Cook Islands will therefore only rarely have any need to request information on tax matters from other countries. New Zealand, by contrast, has a comprehensive tax system and imposes income tax on the worldwide income of its tax residents. New Zealand therefore has a keen interest in ensuring that it can obtain information on the income earning activities of those tax residents in foreign jurisdictions. Accordingly, New Zealand has a much greater interest in concluding a TIEA than the Cook Islands, and can expect to derive greater benefits from the TIEA than will the Cook Islands.

18 To redress this imbalance, New Zealand has adopted the approach of other OECD member countries in TIEA negotiations and offered the Cook Islands a “benefits” package. The Supplementary Agreement is a key element of that package. The Supplementary Agreement allocates taxing rights in respect of pensions, government service and students, and is based on articles that appear in New Zealand’s DTAs. New Zealand also offered to establish a mutual agreement procedure that can be invoked in respect of transfer pricing adjustments as part of the package.⁴

19 New Zealand generally only enters into arrangements for the allocation of taxing rights in its DTAs. However, as noted above, DTAs are typically concluded between

³ This is a key aspect of the TIEA. Access to bank information on transactions and savings assists tax administrations in determining whether a person has correctly declared their income. Bank secrecy rules prevent the disclosure of bank information, and therefore facilitate tax evasion. TIEAs override any such domestic bank secrecy rules with an explicit treaty obligation to provide bank information. Domestic Tax Interest rules prohibit a jurisdiction from complying with a request for information if that jurisdiction itself does not itself need that information for tax purposes. TIEAs therefore also override any domestic tax interest rules with an explicit treaty obligation to provide information regardless of whether or not there is a domestic interest.

⁴ Transfer pricing rules enable a tax authority to adjust profits where transactions between associated enterprises have been entered into on other than “arm’s length” terms (i.e. where prices have been artificially set to derive a tax advantage).

trading and investment partners with broadly similar tax systems. In such cases the concession of taxing rights is reciprocal. That is, New Zealand may give up a taxing right but the other country will also give up a taxing right in reciprocal circumstances. In financial terms, these reciprocal reductions tend to offset each other (for example, reduced tax in the other jurisdiction generally results in a reduced foreign tax credit against the New Zealand tax base). However, given the Cook Islands' limited tax system, entering into a DTA with the Cook Islands would mean New Zealand giving up taxing rights with little if any reciprocity.

20 For this reason, New Zealand's proposal for a Supplementary Agreement was limited to those DTA articles that will not give rise to any significant financial, fiscal or economic costs. Nor will they provide a commercial advantage to individuals or entities operating in the Cook Islands. In the negotiations, the Supplementary Agreement was ultimately limited to the following:

- Pursuant to article 5 of the Supplementary Agreement, pensions paid to an individual will be taxable only in the jurisdiction of which that individual is a tax resident. The Cook Islands will gain a sole taxing right over the pension of any New Zealander who retires to the Cook Islands. (However, the article applies reciprocally to both countries. Therefore, New Zealand will also gain a sole taxing right over the pension of any person from the Cook Islands who retires to New Zealand.)
- Pursuant to article 6 of the Supplementary Agreement, remuneration paid by the Government of one jurisdiction to an individual in respect of services rendered to that Government will be exempt from income tax in the other jurisdiction. However, this rule does not apply if the individual is a tax resident of that other jurisdiction (unless the individual became resident solely by reason of the rendering of those services). The article will therefore only apply when a Cook Islands Government official comes to New Zealand in an official capacity. Such visits are likely to be minimal. In any case, New Zealand generally does not tax salaries and wages earned in New Zealand where the visit is for less than 90 days.
- Pursuant to article 7 of the Supplementary Agreement, where a student or business apprentice who is a tax resident of one jurisdiction is temporarily present in the other jurisdiction solely for the purpose of their education or training, payments which they receive from outside that other jurisdiction for their maintenance, education or training will be exempt from income tax in that other jurisdiction. As New Zealand generally does not tax payments of this type, the article will have few implications.
- Pursuant to article 8 of the Supplementary Agreement, a mutual agreement procedure can be invoked by a resident of one jurisdiction if they consider that the other jurisdiction has made an inappropriate transfer pricing adjustment. Although the Supplementary Agreement provides that the Parties must endeavour to resolve the issue, there is no obligation on New Zealand to change its position in any case where it considers that the transfer pricing rules have been applied correctly. (This is consistent with the outcome that arises under the mutual agreement procedure of New Zealand's existing DTAs.)

21 Article 9 of the Supplementary Agreement provides that information may be exchanged for the purposes of carrying out the provisions of the Supplementary Agreement using the mechanism established by the TIEA. This is an important

clarification to ensure that if the respective tax authorities need to communicate with each other for any purpose of the Supplementary Agreement, they can do so without violating their domestic secrecy laws that otherwise protect tax matters.

22 Given that the Supplementary Agreement has been negotiated primarily for the purposes of securing and supporting the TIEA, article 10 of the Supplementary Agreement explicitly provides that the provisions of the Supplementary Agreement will only have effect while the TIEA is in force.

23 The text of the Supplementary Agreement is attached as Annex B.

The less-than-treaty status instruments

24 The TIEA and Supplementary Agreement will be supported by a less-than-treaty status instrument. The instrument is an Understanding between the New Zealand Inland Revenue Department and the Cook Islands' Revenue Management that contains additional clarification on technical issues such as the meaning of terms used in the agreements.

25 The less-than-treaty status Understanding does not create legally binding commitments for New Zealand. It is therefore not required to undergo treaty examination.

Consideration of other options

26 New Zealand's objective in negotiations was to secure effective exchange of information arrangements with the Cook Islands. The only other possible treaty mechanism for entering into such arrangements with the Cook Islands would be as part of a DTA. However, DTAs are designed to be concluded between trading and investment partners with broadly similar tax systems. As noted above, the fact that DTAs allocate taxing rights means that New Zealand would stand to lose tax revenue if it were to enter into a DTA with the Cook Islands.

27 New Zealand's offer of "benefits" to the Cook Islands was made at a time when the Cook Islands had little interest in entering into exchange of information arrangements with New Zealand. It followed the precedent established by other OECD countries in offering benefits. Recent developments, such as the 2 April 2009 G20 Leaders Summit in London, have increased international pressure on international finance centres to enter into effective exchange of information arrangements. This increased pressure may to some extent lessen the need to provide benefits to induce those international finance centres to enter into exchange of information arrangements. However, it would be inappropriate for New Zealand to consider withdrawing its offer of benefits.

Advantages and disadvantages to New Zealand of the treaty action

28 The TIEA will enable New Zealand tax officials to request tax records, business books and accounts, bank information, and ownership information from the Cook Islands. Access to this previously unobtainable information will enhance the New Zealand Inland Revenue Department's ability to detect and prevent tax avoidance and tax evasion. (The TIEA permits New Zealand to request information in relation to "taxes of every kind and description". Its likely principal application, however, will be in respect of income taxes.) Any reduction in tax avoidance or tax evasion will be beneficial to New Zealand in financial, fiscal and economic terms.

29 The Cook Islands is unlikely to raise many requests for information from New Zealand. If requests for information are received from the Cook Islands, New Zealand will incur administrative costs in obtaining and providing the requested information. However, streamlined and effective mechanisms for dealing with exchange of information requests have already been established in relation to New Zealand's existing DTAs and TIEAs. The administrative costs of responding to requests from the Cook Islands will therefore only be marginal. Experience gained from administering the exchange of information arrangements already in place under New Zealand's existing tax treaties indicates that the benefits arising from the enhanced ability to reduce tax avoidance and evasion outweigh any of the costs that arise.

30 New Zealand may be required to bear some costs in relation to requests for information that it makes to the Cook Islands. The less-than-treaty status Understanding referred to in paragraph 24 sets out the shared understanding of the Parties with respect to costs, as is required by article 9 of the TIEA. "Ordinary" costs of complying with a request will be borne by the requested Party, but "extraordinary costs" (such as the cost of hiring translators or interpreters) will be reimbursed by the requesting Party. However, prior consultation will be required if extraordinary costs appear likely to exceed NZ\$2000. This will ensure that New Zealand will only progress information requests giving rise to significant reimbursement costs if the need to obtain the information justifies the expenditure.⁵

31 The TIEA contains one article, article 11, not found in the OECD model TIEA. This Article constitutes the second key element of the New Zealand benefits package. Article 11 imposes an obligation on the Parties not to impose "prejudicial or restrictive measures based on harmful tax practices" against each other. This obligation relates to the OECD Harmful Tax Practices initiative, in which the prospect of OECD member countries taking defensive measures to restrain the harmful tax practices of other countries has previously been raised.⁶ The key identifier of harmful tax practices is whether a jurisdiction engages in effective exchange of information on tax matters. Given that the TIEA provides for full exchange of information on tax matters with the Cook Islands, it would be inappropriate for New Zealand to impose any such measures on the Cook Islands while the TIEA is in force. The provision was included in recognition of this, but was expressed as a reciprocal obligation on both Parties.

32 The Supplementary Agreement was negotiated primarily for the purpose of securing a TIEA with the Cook Islands. New Zealand is not expected to derive any direct benefit from the Supplementary Agreement. The Supplementary Agreement, however, supports the conclusion of the TIEA and will indirectly benefit New Zealand by means of the

⁵ In recognition of the possibility that capacity issues in the Cook Islands may mean that, on occasions, they may struggle to find the staff or other resources to comply with a single or multiple requests for information from New Zealand, the Understanding also provides that the two sides are to consult in such circumstances with a view to finding solutions. For example, where it is vitally important for Inland Revenue to obtain the information, New Zealand may agree to pay a larger share of the costs.

⁶ The 1998 OECD report "Harmful Tax Competition: An Emerging Global Issue" and 2000 OECD report "Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices" refer. The G20 Leaders Summit of 2 April 2009 re-raised the prospect of counter-measures against non-complying jurisdictions. The Leaders' Statement from that Summit contained the statement that "we stand ready to deploy sanctions to protect our public finances and financial systems".

TIEA. As noted above, the Supplementary Agreement is not expected to give rise to any significant negative financial, fiscal or economic implications. Any costs that do arise will be outweighed by the benefits New Zealand stands to gain from concluding the TIEA.

33 On balance, it is in New Zealand’s interests to conclude the TIEA and the Supplementary Agreement with the Cook Islands.

34 If the Cook Islands ever unilaterally terminate the TIEA, the Supplementary Agreement would cease to apply and New Zealand would likely terminate the Understanding. Similarly, if New Zealand ever unilaterally terminates the Supplementary Agreement, the Cook Islands could be expected to terminate the TIEA.

Obligations which will be imposed on New Zealand by the treaty action, the position of reservations to the treaty, and an outline of any dispute settlement mechanisms

The TIEA

35 The TIEA places a reciprocal obligation on each Party to provide, upon request, information that is relevant to the administration and enforcement of specified taxes. In the case of the Cook Islands, the specified taxes are “taxes of every kind and description”. As noted above, the Cook Islands currently has a very limited tax system, and so is unlikely to make many requests for information from New Zealand.

36 The Parties are required to maintain strict confidentiality in relation to any information received pursuant to a request. Such information may only be disclosed to authorised persons and may only be used for specified purposes (principally the administration and enforcement of the domestic tax laws of the respective Party).

37 In the Understanding, the respective tax authorities set out their shared understanding of how incidents of costs incurred in providing assistance will be addressed. The requesting Party is to reimburse the requested Party for “extraordinary costs” (such as the cost of engaging an interpreter or translator) incurred in responding to the request. Otherwise costs are to be borne by the requested Party. Prior consultation will be required if extraordinary costs appear likely to exceed NZ\$2000.

38 Both Parties are constrained from imposing “prejudicial or restrictive measures based on harmful tax practices”. New Zealand does not currently impose any such measures and, given that the TIEA provides for full exchange of information on tax matters with the Cook Islands, would not contemplate introducing such measures with respect to the Cook Islands while the TIEA is in force.

39 Reservations are not provided for under the TIEA.

40 Article 12 of the TIEA provides that any difficulties or doubts arising as to the interpretation or application of the TIEA are to be resolved, if possible, by mutual agreement between the competent authorities (for New Zealand, the Commissioner of Inland Revenue or his or her authorised representative; for the Cook Islands, the Collector of Inland Revenue or an authorised representative of the Collector). The Parties may also decide upon other forms of dispute resolution.

The Supplementary Agreement

41 The Supplementary Agreement imposes obligations on New Zealand to limit its taxing rights in certain limited circumstances. (That is, in respect of pensions, government service and students.)

42 The practical implications for New Zealand are likely to be nil. If, however, New Zealand ever commences taxing maintenance payments received from outside New Zealand by visiting students, those taxing rights will be constrained in respect of students from the Cook Islands who come to New Zealand to study.

43 Reservations are not provided for under the Supplementary Agreement.

Measures the Government could or should adopt to implement the treaty action, including the specific reference to implementing the legislation

44 Subject to the successful completion of the Parliamentary treaty examination process, the TIEA and the Supplementary Agreement will be implemented into New Zealand domestic law by Orders in Council in accordance with section BH 1 of the Income Tax Act 2007. Section BH 1 authorises the giving of overriding effect to DTAs by Order in Council.⁷ Despite the reference to DTAs, the agreements to which the section relates are those that have been negotiated for any one or more of the purposes listed in the section. The facilitation of exchange of information is a listed purpose. Therefore, the TIEA falls within the ambit of section BH 1. Relief from double taxation and relief from tax are also listed purposes. Therefore the Supplementary Agreement also falls within the ambit of section BH 1

45 After the Orders in Council have entered into force, New Zealand will notify the Cook Islands by diplomatic note that all of its domestic constitutional and legal procedures for entry into force of the TIEA and the Supplementary Agreement are complete. The Cook Islands will likewise notify New Zealand by diplomatic note when it has completed its domestic constitutional and legal procedures for giving effect to the TIEA and the Supplementary Agreement. The two agreements will enter into force on the date of the last notification. Their provisions will apply prospectively. (For example, this means that the TIEA provisions cannot then be used to obtain information predating entry into force.)

Economic, social, cultural and environmental costs and effects of the treaty action

46 No social, cultural or environmental effects are anticipated. Any economic effects are expected to be favourable, as noted above.

The costs to New Zealand of compliance with the treaty

47 New Zealand will be required to reimburse the Cook Islands for extraordinary costs (such as the cost of hiring translators or interpreters) that may arise from a New Zealand request made under the TIEA. However, the Understanding provides for consultation if

⁷ That is, the Order in Council may specify that the provisions of the agreement will have effect notwithstanding any provision of the Inland Revenue Acts, the Official Information Act 1982 or the Privacy Act 1993 – although only in relation to tax matters.

extraordinary costs appear likely to exceed NZ\$2000. This will ensure that New Zealand will only progress information requests giving rise to significant reimbursement costs if the need to obtain the information justifies the expenditure.

48 New Zealand is likely to raise more requests for information than the Cook Islands but, if requests for information are received from the Cook Islands, New Zealand will incur administrative costs in complying with those information requests. As noted above, however, streamlined and effective mechanisms for dealing with exchange of information requests have already been established in relation to New Zealand's existing DTA and TIEA network. The administrative costs of responding to requests from the Cook Islands are therefore expected to be marginal.

49 For the reasons outlined in paragraph 19 above, New Zealand is unlikely to suffer any significant revenue loss from the limitation of taxing rights under the Supplementary Agreement. Any revenue loss that is sustained would be minimal and would be compensated by favourable financial, fiscal and economic effects of the TIEA.

50 Any costs arising to Inland Revenue as a result of the operation of either agreement will be met within existing baselines.

Completed or proposed consultation with the community and parties interested in the treaty action

51 The Ministry of Foreign Affairs and Trade and the Treasury have been consulted and agree with the proposed treaty action. Further, the concept of TIEAs in general has been canvassed in published policy work programmes.

Subsequent protocols or amendments to the treaty and their likely effects

52 No future amendments are anticipated. New Zealand will consider any proposed amendments to either agreement on a case by case basis, and any decision to accept an amendment would be subject to the usual domestic approvals and procedures.

Withdrawal or denunciation provision in the treaty

53 Article 14 of the TIEA provides that either Party may terminate the TIEA by giving six months' written notice through the diplomatic channel. The Parties will remain bound by the confidentiality provisions contained in article 8 of the TIEA even after it has been terminated.

54 Article 11 of the Supplementary Agreement provides that either Party may terminate the Supplementary Agreement by giving written notice through the diplomatic channel. Such termination will become effective, for New Zealand, in the income year beginning on or after 1 April in the calendar year next following that in which the notice of termination is given. For the Cook Islands, the termination will become effective in the income year beginning on or after 1 January in the calendar year next following that in which the notice of termination is given.

55 Any decision by New Zealand to terminate either agreement would be subject to the usual domestic approvals and procedures.

Adequacy statement

56 The Inland Revenue Department has prepared this extended national interest analysis and has assessed it as adequate and in accordance with the Code of Good Regulatory Practice.