

Regulatory Impact Statement: Disposals of trading stock at below market value

Coversheet

Purpose of Document	
Decision sought:	<i>Analysis produced for the purpose of informing final Cabinet decisions.</i>
Advising agencies:	<i>Inland Revenue</i>
Proposing Ministers:	<i>Revenue portfolio</i>
Date finalised:	<i>20 December 2023</i>
Problem Definition	
<p>A long-standing rule in the Income Tax Act 2007 deems a person who disposes of trading stock at below market value to derive as income the market value of the trading stock on the date of disposal (the “valuation rule”). Under this rule, the recipient is also deemed to acquire the trading stock at market value for tax purposes. We consider the valuation rule is appropriate in relation to some disposals (for example, where the parties to the disposal are associated, and where goods are taken by a business owner for their own use or consumption). However, we also consider it over-reaches in relation to ordinary business disposals between non-associated parties, and it acts as a significant disincentive to donate trading stock which distorts donation behaviour.</p>	
Executive Summary	
<p>Problem definition</p> <p>Under the Income Tax Act 2007 a business that holds trading stock is entitled to a deduction for the opening value of that trading stock in the year of disposal. The business must also return as income the proceeds from the sale of that trading stock in the year of disposal. Where a business disposes of their trading stock for less than market value, there is a special valuation rule which treats the business as having derived as income the market value of the trading stock on the date of disposal. If the market value of the trading stock is greater than its opening value, the business will have a net tax liability in relation to the disposal of trading stock (because the deemed income is greater than the available deduction). This means a business may have to pay tax on income it never actually derives.</p> <p>We consider the valuation rule is appropriate in relation to disposals of trading stock between associated persons and where goods are taken by a business owner for their own use or consumption. In relation to these disposals, the rule is an important integrity measure that reflects commercial arm’s-length principles. For example, it was intended to counter situations such as where a retiring farmer transfers livestock to a relative who is also a farmer for no or minimal consideration. Without this rule in place, income tax on the transfer would be avoided by the retiring farmer.</p> <p>We also consider the valuation rule is appropriate when the disposal has no nexus with business income. However, in the case where there is no nexus with business income and the disposal is a donation, the valuation rule acts as a significant disincentive to</p>	

donate, distorts donation behaviour and is widely perceived to be unfair. Businesses may delay donating their trading stock until it has a low or nil market value. In the case of perishable goods such as food, this means the donations are typically not accepted by charities and ultimately add to food wastage. Alternatively, businesses may incur costs by entering sponsorship agreements with recipients so they effectively receive a market value in advertising, which is not something all charities are prepared to do. In many other cases, the valuation rule is simply not complied with when goods are donated.

We consider the valuation rule has two issues which justify legislative reform.

- Issue one: in relation to disposals that are made in the ordinary course of business, the valuation rule over-reaches where the disposal is between non-associated parties. It imposes income tax where there is unlikely to be an integrity concern to address.
- Issue two: in relation to disposals that are not made in the ordinary course of business and which are donations, the valuation rule also over-reaches. However, there are also integrity concerns if the valuation rule is not applied to certain donations, such as donations made to individuals or overseas organisations. The compromise that we think balances these concerns is to not apply the valuation rule where the donations are made to approved donee organisations, Donee organisations are generally registered charities that apply their funds wholly or mainly to charitable purposes in New Zealand, or charities that carry out their charitable purposes overseas and have been specifically approved to be donee organisations by Parliament. Removing the valuation rule for donations made to donee organisations would resolve the over-reach for most donations, ensure the tax concessions for donated trading stock and donations of money are consistently targeted, and minimise integrity risks.

Government intervention is required to address these two issues

In 2021, the Government enacted emergency provisions as part of the COVID-19 response to temporarily support businesses to donate their trading stock and to temporarily remove the application of the rule to non-associated person transactions.¹ This relief meant that during COVID-19 as well as future emergency events agreed by the Minister of Revenue, donations to donee organisations and public authorities would be excluded from the valuation rule, as would be disposals to non-associated parties. Other donations would be removed from the valuation rule and subject to a valuation rule equivalent to cost or opening book value. This relief addresses the two issues outlined above for times of emergency; however, it is due to expire on 31 March 2024. We consider that providing this relief solely in emergency times does not provide a comprehensive answer to the long-standing issues with the application and effect of the rule, which, although they may be more pronounced in an emergency context, exist at all times.

We have considered nine different options to address these two issues

In relation to issue one, we considered three different options to address the over-reach where there is a disposal between non-associated parties including the status quo option.

In relation to issue two, we considered six different options to address the disincentive to donate trading stock including the status quo option.

¹ The changes were included in the Taxation (Annual Rates for 2021–22, Feasibility Expenditure, and Remedial Matters) Act. The relief was effective from 17 March 2020.

All options we considered other than the status quo option are regulatory options. Non-regulatory options could not address either issue given the problems stem from unclear legislation and inappropriate policy settings.

To address both issues, our preferred option is to (in effect) make the temporary emergency relief permanent for disposals of trading stock to non-associated persons (option two), and to remove the valuation rule for donations of trading stock to donee organisations (option six).

We consider this combination of options best reflects general income tax principles while protecting against integrity risks and minimising compliance costs for taxpayers. This approach also aligns, to a large extent, with the current concessionary framework for donations of money, which limits donation deductions to donee organisations.

We have consulted with the public on the problem and possible solutions

We initially undertook targeted consultation on the problem in 2020 ahead of the enactment of the temporary emergency response provisions.

In July 2023 we publicly released an Officials' Issues Paper outlining our view of the problem and the possible options to address the issues.² We received fifteen submissions on the paper and met with submitters to discuss their submissions and our proposed approach to address them between September and December 2023.

All submissions supported reform in this area to better reflect taxpayer practice and general income tax principles, although there were some differing views on the best way to achieve this objective.

There were differing views on the problem definition. A number of submitters agreed with officials' view (communicated in the issues paper) that the valuation rule can result in an over-reach in relation to disposals of trading stock that are not donations between non-associated persons (issue one). Others thought that the current valuation rule did not over-reach, because they did not consider the provision would apply to general business disposals of trading stock. We consider these opposing views reflect general uncertainty as to how and when the valuation rule should apply, and point to the need for legislative reform.

Some submitters preferred an additional concession for associated person disposals where a disposal to an associated person is also subject to FBT or deemed dividend rules, because they were concerned a "double tax" can arise. We believe the complex interaction with these rules could raise integrity issues if the valuation rule does not apply to these associated party transactions. In addition, double tax concerns for deemed dividends can be addressed by affected businesses through the use of the imputation rules. However, it is an issue we will continue to monitor and will consider in future reviews of the FBT and deemed dividend rules.

Several submitters who represent large businesses noted that a legislative response involving donations could be problematic without an appropriate "gift" definition. They took the view all disposals of their trading stock were business transactions, with some being both altruistic as well as good for business. We agree that the tax status of some disposals

² Disposals of trading stock at below market value – an officials' issues paper, July 2023, Inland Revenue, available at: <https://www.taxpolicy.ird.govt.nz/consultation/2023/2023-ip-disposal-tradingstock-below-mktvalue>

will be subject to the facts of each case and the interpretation is not always clear. Legislative reform should focus on whether the disposal has a nexus with business income, rather than whether there is a donation.

Submitters who represented small businesses, such as farmers who donate livestock to charities such as foodbanks, supported the removal of the valuation rule for donations of trading stock. They were primarily concerned with compliance costs if a legislation change still required them to calculate and report the market value of the donated trading stock.

Several submitters requested that a permanent concession be extended to donations made to public authorities such as hospitals. While the temporary COVID-19 measure did allow a deduction for donations made to public authorities, this was targeted at the specific needs at the time, such as the donation of sanitizers to hospitals. We do not support a permanent concession for donations of trading stock made to public authorities as it would be inconsistent with the donations framework, which targets donations made to donee organisations.

Limitations and Constraints on Analysis

Our analysis was informed by relatively extensive consultation with taxpayers over a number of years. Despite this, we did have to make assumptions about current taxpayer behaviours in order to cost the policies and understand their impacts on taxpayers from a compliance perspective. In particular, we did not have any data to show the extent to which taxpayers were complying with the valuation rule. We therefore relied on anecdotal evidence that suggested that compliance with the rule was low in respect of some disposals (particularly donations).

Responsible Manager(s) (completed by relevant manager)

Peter Frawley

Policy Lead

Policy and Regulatory Stewardship

Inland Revenue

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20 December 2023

Quality Assurance (completed by QA panel)

Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	The Quality Assurance panel at Inland Revenue has reviewed this “Disposals of trading stock at below market value” Regulatory Impact Statement (RIS) and considers that the information and analysis summarised in this RIS meets the quality assurance criteria

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. When a person disposes of trading stock at below market value a special rule in the Income Tax Act 2007 (the ITA) deems them to derive the market value of the trading stock on the date of the disposal (the valuation rule). Further, an amount equal to the market value of the trading stock at the time of disposal is treated as expenditure incurred by the transferee in acquiring the trading stock.
2. The valuation rule has been a long-standing feature of the ITA. A key rationale for the rule is the potential for tax minimisation arrangements to take place in its absence. Without the rule, trading stock could be sold at a deep discount to an associated person for example, allowing the transferor and transferee to benefit from the transferee's lower rate when they in turn dispose of the property. However, we consider the rule is unnecessarily wide, resulting in unprincipled tax outcomes in relation to disposals of trading stock between non-associated parties.
3. Since before the COVID-19 pandemic, taxpayer representatives have sought revisions to the valuation rule, citing unfairness and concerns that the rule acts as a disincentive to businesses wanting to donate their trading stock.
4. Over the past two decades three separate legislative overrides to the valuation rule have been enacted to address some of these concerns. The overrides mean that a full deduction of the cost of the trading stock was recognised without any deemed income. Most recently, a temporary override was put in place from 2020 for a four-year period to support businesses as part of the Government's COVID-19 response. This override ends on 31 March 2024. As part of this reform, provision was also made for the temporary relief to be switched on in relation to future emergencies.
5. Although the temporary measures put in place for the COVID-19 response and potential future emergencies did alleviate some of the more immediate concerns of taxpayers, we consider a more permanent solution that also applies in non-emergency times is necessary.
6. In August 2023 we released a public issues paper on the problem and possible solutions to the valuation rule. We received fifteen submissions – the majority from taxpayer representatives, three from large businesses and two from not-for-profit organisations. This, as well as our targeted consultation in 2020 with six taxpayer representatives and one large not-for-profit, has informed our understanding of the problem definition and our analysis of the options.

What is the policy problem or opportunity?

7. We have identified two related issues with the valuation rule:
 - Issue one: in relation to disposals that are made in the ordinary course of business, the valuation rule over-reaches where the disposal is between non-associated parties. It imposes income tax where there is unlikely to be an integrity concern to address.
 - Issue two: in relation to disposals that are not made in the ordinary course of business and which are donations, the valuation rule also over-reaches. However, there are also integrity concerns if the valuation rule is not applied to certain donations, such as donations made to individuals or overseas organisations. The compromise that we think balances these concerns is to not apply the valuation rule where the donations are made to approved donee organisations, Donee organisations are generally registered charities that apply their funds wholly or mainly to charitable purposes in New Zealand, or charities that carry out their

charitable purposes overseas and have been specifically approved to be donee organisations by Parliament. Removing the valuation rule for donations made to donee organisations would resolve the over-reach for most donations, ensure the tax concessions for donated trading stock and donations of money are consistently targeted, and minimise integrity risks.

8. While submitters all agreed that there were issues with the valuation rule, there were differing views on the exact nature of those issues. For example, some submitters did not consider that the valuation rule would apply to arm's-length business transactions, and therefore did not consider that the rule could be said to 'over-reach' by deeming someone to derive income above the amount economically derived by them. However, other submitters considered the valuation rule did result in over-reach (described as 'issue one' in this paper). We consider this uncertainty points to the need for a permanent legislative solution. The Tax Counsel Office is considering the need for guidance to assist with the interpretation of these changes.
9. In general, our consultation in 2020 and 2023 highlighted that to many businesses the valuation rule is unintuitive and unfair and, perhaps as a result, anecdotal evidence suggests that compliance with the rule may be low.

What objectives are sought in relation to the policy problem?

10. The main objective of this work is to determine a fair and principled approach to the taxation of trading stock disposed of at below market value and the taxation of donated trading stock.
11. A fair and principled approach should protect the revenue base, support taxpayer compliance and withstand the test of time, removing the need for ad-hoc changes to respond to specific emergencies.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

12. We have used the following criteria to assess the options against our objectives:
 - Revenue integrity. Does the option minimise opportunities for tax avoidance and tax evasion?
 - Efficiency. Does the option raise tax revenue in a way that minimises distortions and costs to the economy?
 - Compliance costs: Does the option minimise costs for taxpayers?
 - Coherence: Does the option make sense within the entire tax system?
13. To the extent that there are trade-offs between these criteria their weighting will be determined in light of the overarching objective of determining a 'fair and principled approach' to the taxation of disposals of trading stock at below market value and donations of trading stock.

What scope will options be considered within?

14. The scope of feasible options is limited to some extent by New Zealand's long-standing tax policy settings. These settings have been established in line with a broad-base low-rate framework. This framework supports the consistent application of tax across the economy in a non-distortive manner, and thus any departure, including the provision of concessionary treatment, requires strong justification.
15. These settings rule out any options that significantly deviate from the framework in a manner that is unjustified. What is justifiable in this context is informed by the scope and nature of any current concessions, and the connection between the deviation and the pursuit of wider societal imperatives.

What options are being considered?

16. We have separated out the options as they relate to the two issues with the valuation rule. These options were included in the public issues paper published in August 2023 and our analysis is informed by feedback from submitters on the options.
17. Other than the status quo option, the options are all regulatory in nature. We did not consider any non-regulatory options because the identified issues arise from unclear legislation and policy settings.

The following options relate to disposals that are made in the ordinary course of business:

Option One – *Status quo*

18. Option one would maintain the status quo. When the emergency relief ceases in March 2024, businesses would be required to return deemed income at market value when they dispose of their trading stock at below market value to both associated and non-associated parties (outside of limited emergency times).
19. This option ensures there is a backstop principle for goods exchanges. It promotes revenue integrity by protecting the revenue base from the artificial reduction of business profits through transfers of trading stock in ways that result in an incorrect reflection of the real income generated by the business.
20. However, it does not address the identified over-reach in relation to non-associated transactions. Where parties are not associated, we do not consider a valuation rule is necessary; businesses transacting at an arm's-length are free to set prices as they see fit and not have these interfered with, unless there is something in the nature of tax avoidance which can be dealt with separately under other provisions in the ITA.

Option Two – *Limit the valuation rule to associated person transactions (officials' preferred option)*

21. To address the identified over-reach, option two would limit the valuation rule to cases where trading stock is disposed at below market value to an associated person.
22. This option recognises that transfers of trading stock between non-associated persons that are below market value and are not donations are nonetheless made by the business for a valid business purpose and therefore the price set by the parties should stand. Any revenue integrity concerns arising from transactions between non-associated persons can be dealt with by the general anti-avoidance rule in the ITA. This option also aligns with some taxpayers' current view of the operation of the valuation rule.
23. It would reduce compliance costs for businesses not dealing with associated persons who would no longer have to apply the valuation rule.

Option Three - *Retain the deemed market value adjustment and deem the adjustment to be an expense of the taxpayer for non-associated disposals*

24. Under this option, the valuation rule would continue to apply as in option two for associated person disposals. For disposals to non-associated persons, the valuation rule would also continue to apply, however, the market value adjustment would be deductible to the transferor provided the disposal met the general permission. The effect of this would be to allow a net deduction for the opening value of the trading stock disposed of at below market value where the disposal was connected with the derivation of business income.
25. Officials considered this option could support revenue integrity by ensuring any deductions have a connection with the derivation of income. However, submitters pointed out that a disposal that was not a donation, and was not to an associated person, would generally have a connection with income (and thus meet the general permission). Hence they did not support this option as it would increase their compliance costs for no real gain in terms of revenue integrity.

The following options relate to disposals of trading stock that are not made in the ordinary course of business and are donations

Option Four – *Status quo*

26. Option four would retain the status quo in relation to donations. A person making a donation of trading stock would be treated as deriving the market value of the trading stock, apart from in limited emergency times when the concessionary relief may be switched on.
27. The relief turns off the valuation rule for donations. For businesses donating trading stock to approved donee organisations and public authorities, a concessionary (compared to a cash donation requirement) net deduction is allowed during the emergency period. For businesses donating trading stock to other persons that are not associated, the business is instead deemed to derive income equal to the cost of the trading stock, resulting in neither a net deduction nor net income for tax purposes.
28. This option recognises that during times of emergency there may be a more pressing need for donations of trading stock and a greater desire on the part of businesses to donate. This targets the relief to short periods of time and so generally maintains the broad base low-rate system.
29. However, the option does not address the disincentive to donate outside of limited emergency times. It also results in administration and compliance costs as the relief must be turned on and off and treatment adjusted accordingly.

Option Five – *Make the temporary relief permanent*

30. Option five would make the temporary relief apply at all times (i.e. outside of emergencies such as floods, earthquakes, and pandemics).
31. This option removes the disincentive to donate by introducing a permanent broad concession. However, it lacks coherence with current settings as it is more concessionary than current concessions for donations of money, which are limited in several ways for integrity and fiscal reasons. This is because the temporary relief was mainly developed with the COVID-19 emergency context in mind and with the understanding that it would apply for limited periods only. A sustainable permanent option should more closely align with the current concessionary regime for donations of money.

Option Six – *Make the temporary relief permanent for donations to donee organisations only (officials’ preferred option)*

32. Option six would align the temporary relief with the current donation deduction framework to a large extent, by limiting the relief so that it is only available in relation to donations of trading stock to donee organisations. The concession would be available for all types of trading stock, in contrast to the temporary relief which excluded land and timber. This would remove the current disincentive to donate trading stock to donee organisations whilst utilising an existing integrity measure (the requirements for becoming a donee organisation) to protect the revenue base. The rationale for this relief is the same as the rationale for providing relief for donations of money, which is to encourage and reinforce giving by lowering the cost of giving.
33. Unlike the rules for donations of money made by companies and Māori authorities, this option does not require the net donation deduction to be capped to the donor’s net income. While a cap would align this option more closely with the donation rules, the compliance and administrative costs and complexity of applying a cap to all businesses subject to the valuation rule, including trustees and sole traders, would outweigh the benefits of alignment. We consider that a restriction of the concession to donee organisations is sufficient to address integrity concerns in the case of trading stock disposals.
34. We do not consider that a permanent concession should be extended to include donations to public authorities, as is available under the temporary relief. This would create an inconsistency with the existing donation framework and was only introduced as a temporary measure due to COVID-19 and the donations being made to hospitals.

Option Seven – *Make the temporary relief permanent for donations to donee organisations subject to several limitations*

35. Option seven limits the relief provided in option six for donations to donee organisations to further align the relief with the current donation deduction framework:
 - In relation to donations of trading stock to donee organisations, the valuation rule would continue to apply; however, a deduction would also be available for the market value adjustment (provided the donation is made to a donee organisation). The net effect of this is to allow a deduction for the opening value of the donated trading stock. This deemed deduction approach would also allow Inland Revenue to monitor use of the concession to ensure businesses comply with the rules and there is no unanticipated abuse of the concession that would warrant application of the avoidance provisions and/or a policy response. However, this approach would not reduce compliance costs for businesses that want to donate their trading stock.
 - The value of the deduction available to businesses that donate their trading stock to donee organisations would be limited to the net income of the business in the income year the donation is made (if the donee is not an individual) or otherwise their taxable income.
36. This option would ensure the tax rules for donations of trading stock align with the broad donation framework, and that they do not act as a disincentive for businesses donating trading stock to donee organisations.
37. However, this option does not reduce compliance costs for businesses, who are still required to determine the market value of their trading stock upon donating it and return this as income. Compared to the status quo, they are additionally required to claim this market value amount as an expense in order to receive a net deduction.

Submitters have pointed out that, from a compliance perspective, it would be simpler for businesses to not return any income in relation to the donation, which would also remove the need to create a deemed expense.

38. The imposition of a cap on the value of deductions would also increase compliance costs for businesses compared to the temporary relief, as they would be required to keep track of the value of trading stock donated to donee organisations.

Option Eight – *Deem all donors to derive income at cost or opening value of the donated trading stock*

39. Option eight removes the direct cost of donated trading stock from the tax base entirely (rather than allowing a concession for any donation of trading stock). This is achieved by changing the valuation rule from a market value adjustment to a lower of cost or opening value adjustment. The effect of this option is that the deduction and deemed income net off so that there is minimal tax impact on the making of a donation (the donor would still deduct overhead and indirect costs relating to the trading stock). This treatment would be available for all donations of trading stock, no matter the recipient.
40. This option reduces compliance costs for businesses compared with the status quo, to the extent that it is easier to identify the cost of the trading stock compared to market value. It also maintains the broad-base low-rate framework. However, it would create a significant inconsistency between goods used for private consumption and goods subject to deemed dividend rules (which remain subject to market value calculations) compared to goods which are donated (which would be subject to a cost adjustment). This could create integrity and coherence issues. Further, the requirement to make a cost adjustment for all donation disposals will continue to impose compliance costs on businesses.

Option Nine – *Provide specific relief for donations of food only*

41. Option nine was also considered as a narrow concession for donations of food only that addresses the environmental impact of the current rules. Under the status quo, businesses that donate food may in some cases have a tax liability if the market value of the donation is greater than its opening value. Because food is perishable, this disincentive may result in increased food waste.
42. This would create a more limited concession; however, it would not address the disincentive to donate other types of trading stock with equal benefit to the community.

How do the options compare to the status quo/counterfactual?

In relation to disposals of trading stock that are made in the ordinary course of business:

	Option One – Status quo	Option Two – Limit the valuation rule to associated transactions	Option Three – Retain the deemed market value adjustment and deem the adjustment to be an expense of the taxpayer for non-associated disposals
Efficiency	0	++	++
Revenue integrity	0	+	++
Compliance costs	0	++	-
Administration costs	0	++	-
Coherence	0	+	-
Overall assessment	0	++	0

In relation to disposals of trading stock that are donations (not made in the ordinary course of business):

	Option Four – Status quo	Option Five – Make the temporary relief permanent	Option Six – Make the temporary relief permanent for donations to donee organisations only	Option Seven – Make the temporary relief permanent for donations to donee organisations subject to several limitations	Option Eight– Deem all donors to derive income at cost or opening value of the donated trading stock	Option Nine– Provide specific relief for donations of food only
Efficiency	0	0	+	+	+	0
Revenue integrity	0	-	+	++	+	0
Compliance costs	0	+	++	0	-	-
Administration costs	0	+	+	-	0	+
Coherence	0	-	0	+	+	-
Overall assessment	0	0	++	+	+	0

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

43. We consider that a combination of option two and six would best achieve the objective of a fair and principled approach to the taxation of trading stock disposed of at below market value and the taxation of donated trading stock.
44. This combination of options removes the over-reach of the current valuation rule by limiting its application to disposals of trading stock to associated persons, the taking of trading stock for private use and donated trading stock. It also addresses the disincentive to donate trading stock to donee organisations specifically, by turning off the valuation rule (allowing a net deduction for the opening value of the donation) when trading stock is donated to a donee organisation.
45. We consider this approach to donations of trading stock strikes the right balance between achieving alignment with the current rules for donations (and thus protecting the revenue base) and limiting compliance costs for businesses. Although it does not achieve complete alignment with the settings for donations of money (unlike option seven which allowed for monitoring of the deductions claimed by businesses and required the value of deductions claimed to not exceed a net income cap), we consider the requirement for the donation to be to a donee organisation for the business to access the concession sufficiently addresses any integrity concerns, whilst also appropriately limiting compliance costs for businesses.
46. In relation to disposals that are not donations, we consider this combination of options sufficiently addresses revenue integrity concerns by protecting the tax base from artificial transfers of trading stock between associated parties for their timing benefits, whilst promoting efficiency and reducing compliance costs for disposals to non-associates that we consider to be of low-to-no risk from a revenue integrity perspective.

What are the marginal costs and benefits of the option?

Affected groups <i>(identify)</i>	Comment <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i>	Impact <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i>	Evidence Certainty <i>High, medium, or low, and explain reasoning in comment column.</i>
Additional costs of the preferred option compared to taking no action			
Regulated groups (businesses)	Significantly lower compliance costs as many of the deemed income requirements will no longer be required. Impact was assessed based on consultation with the public.	Medium	Medium
Regulators	Ongoing cost in form of lost revenue (monetised). The cost of this was based on limited data and so assumptions had to be made about the extent of behaviour change in response to law change. One-off cost in issuing guidance (absorbed into baselines).	Over the forecast period, a reduction in revenue of \$13 million. Low (non-monetised costs).	Low
Donee organisations	No additional cost. We did not receive submissions from donee organisations on these proposals; however, we do not consider that there would be costs to them from these proposals given they should only encourage donating of trading stock.	-	Medium
Total monetised costs		\$13million	\$13million
Non-monetised costs		Low	Low
Additional benefits of the preferred option compared to taking no action			
Regulated groups (businesses)	On-going benefit as less tax to pay under proposals.	Over the forecast period a benefit of \$13million.	Low (assumptions had to be made about extent to which law change would

	One-off reduction in compliance costs compared to the status quo in relation to disposals that are not donations.	Medium (non-monetised benefits).	change behaviours and result in more donations or the substitution of donations of money with trading stock).
Regulators (Inland Revenue)	Greater certainty, reduction in some on-going administration costs as no longer need to consider whether to switch the temporary relief on and off.	Medium	High (self-assessment of impact on the agency)
Donee organisations	On-going potential benefit as likely to receive more donations of trading stock than previously.	Medium	Low (we did not have any data to assess this so reliant on assumptions about taxpayer behaviour based on consultation)
Total monetised benefits		\$13million	\$13million
Non-monetised benefits		Medium	Medium

Section 3: Delivering an option

How will the new arrangements be implemented?

47. The options would come into force on 1 April 2024., They would be included in the Taxation (Annual Rates for 2023 – 24, Multinational Tax, and Remedial Matters) Bill by way of an Amendment Paper at the Committee of the Whole House Stage.
48. Guidance will need to be published by Inland Revenue explaining the changes and clarifications to the valuation rule. There is existing guidance about what meets the definition of a “gift” and Inland Revenue will consider whether further guidance is needed to assist with the interpretation of these changes. The Tax Counsel Office is considering the need for guidance to assist with the interpretation of these changes.

How will the new arrangements be monitored, evaluated, and reviewed?

49. Once the rules are implemented, Inland Revenue will monitor their effectiveness through our normal stakeholder feedback channels.