

Land

The current land rules will be reviewed, particularly in relation to investment property and speculators, land banking, and vacant land. The objective would be to recommend ways to improve the efficient use of land, and ensure that the current tax settings are fair, balanced, and encourages and supports productive investment. The review will also look at whether we can do anything more around enforcement of the current rules. It is unlikely that any significant reforms relating to vacant land and property would be feasible in the short term. However, in the short-term the Government could consider a number of measures aimed at improving the fairness and balance of the tax rules for land.

Possible items that could be included in a short-term package

Measures to support efficient land use:

- clarifying and tightening the rules for the deductibility of holding costs (e.g. rates and insurance) for land that is taxable on sale; and
- consider ways to encourage seismic strengthening of residential property.

Measures to improve the integrity of the rules:

- review the exemptions in the land rules, in particular the exceptions for developers and habitual renovators; and
- review whether the apportionment rules for GST are working appropriately for mixed use land.

Measures to improve collection:

- consider whether applying withholding tax on transactions involving New Zealand resident vendors is a better approach to collecting this revenue; and
- improving information flows (including from LINZ) to assist compliance with the current land tax rules.

Possible items that could be considered in a longer-run review

- the Productivity Commission's advice on the use of vacant land and property taxes to discourage land banking;
- review whether the land rules, in particular the "10-year" rules, negatively impact the supply of land or create inefficient "lock-in effects";
- consider whether other tax measures could reduce speculation and improve the supply of land. This could include reviewing the scope of existing rules such as the bright-line test and ring-fencing, as well as looking at potential new taxes to help improve the supply of available housing;
- consider whether withholding taxes might be appropriate for other taxable land transactions;
- consider whether allowing losses on building disposals might improve the fairness and efficiency of the current land tax rules. This option may remove a potential distortion discouraging transactions that may result in capital losses – for example, the acquisition of earthquake prone buildings; and
- review the provisional tax rules in light of bright-line income from land sales.

Business

Enhancing economic performance and minimising the tax system's impact on businesses are priorities for the Government. Reducing compliance costs directly impacts on productivity (particularly of smaller firms) leaving them more time to focus on running their business, as well as continue to innovate and develop new opportunities. Increasing neutrality will also be a focus, ensuring that commercial decisions are not driven by tax whilst protecting the integrity of the tax base.

This workstream will focus on:

- increasing integrity, fairness and the neutrality of the system;
- lifting the economic performance of all businesses, especially smaller firms; and
- ensuring compliance at a low cost to businesses.

This includes working with other Government agencies to ensure that items in this workstream support wider Government work on business.

Examples of items that could be considered for inclusion relating to businesses

TWG recommendations including:

- seismic strengthening (note this also includes consideration of residential property);
- loss carry forwards and trading when ownership changes; and
- tax treatment of innovative spending (feasibility and blackhole expenditure).

Items already underway such as:

- R&D;
- purchase price allocation;
- cross-border employment;
- financial arrangement issues; and
- other integrity issues.

Examples of items that could be considered for inclusion relating to small businesses

TWG recommendations including:

- closely-held company issues;
- compliance and enforcement issues;
- simplifying FBT; and
- tax disputes for small taxpayers.

Items already underway such as:

- tax compliance for self-employed (accounts payable reporting);
- considering issues around the sharing economy/platforms;
- options for assisting businesses to become more digital; and
- AIM review.

Infrastructure

Infrastructure is a key area of interest for the Government. It contributes to economic performance, and the Government is focussed on achieving better outcomes for infrastructure investment in New Zealand. Many of the changes being looked at are outside of the tax system, but the tax system may have to adapt to new arrangements. This project will consider whether the tax system should have a role in driving infrastructure investment.

The infrastructure project will:

- respond to the Tax Working Group's recommendation to consider developing a regime that encourages investment into nationally-significant infrastructure projects;
- ensure that the tax system treats new institutional arrangements for infrastructure appropriately; and
- consider consistency of revenue collection for infrastructure across Government.

Information collection and use

The effective use of information by Government is critical to the efficient delivery of Government services. The efficient and effective collection and use of information helps to ensure the tax system minimises compliance and administration costs, while also supporting and contributing to wider Government priorities. Better information also contributes to the integrity and fairness of the tax system and helps to ensure that the tax system can respond well to future challenges.

This package will consider:

- overall data strategy for the collection and use of information;
- information sharing agreements and development of more efficient ways to allow the sharing of information;
- automatic exchange of information and country-by-country reporting consequential matters;
- repeat collection of large datasets – reporting, consultation and regulation making processes; and
- the collection and public release of information to support policy advice, evaluation and public debate on policy issues.

Business Transformation (BT)

We will continue to support Inland Revenue's BT programme. Over the next 18 months, Inland Revenue will implement Release 4 of its BT programme (Student Loans and KiwiSaver) and commence design on Release 5 (Child Support).

Further, we envisage the BT policy work stream as identifying and developing policy proposals that leverage off and support the new tax and social policy system. This would include work on:

- potential review of the prescribed investor rate (PIR);
- taxation of lump sum payments such as ACC weekly compensation; and
- other possible changes to:
 - withholding tax such as PAYE and RWT to minimise where possible any over- or under-withholding, and ensure that the amount of tax is about right; and
 - the tax products that have been deployed into START such as WfFTC to improve administration.

Reforms and remedials

Many of the specific provisions in the Taxation Acts need to be regularly maintained or updated in response to changing technology, business practices, jurisprudence or other factors. In addition, as Inland Revenue and taxpayers begin to apply new tax legislation we may identify legislative errors or unintended consequences which require remedial amendments.

These issues can create high compliance costs or inadvertent non-compliance so need to be addressed promptly to maintain the certainty, efficiency and fairness of the tax system.

Some examples of items include:

- a GST issues paper to consult on various changes to ensure GST aligns with business practices and modern technology and to maintain the GST Act more generally;
- review of donee status applications under schedule 32 (charities with activities outside New Zealand);
- BEPS remedials; and
- general maintenance and remedial work as issues arise. This includes an important stewardship role, looking ahead to issues that might arise and working with other agencies on Government measures that have tax or social policy implications.

Social policy including Government response to Welfare Overhaul

This work stream includes policy work on:

- the Government's welfare overhaul work programme including:
 - reform of Working for Families;
 - child support pass-on; and
 - debt;
- student loan scheme (non-BT work);
- KiwiSaver – enhancing Trans-Tasman superannuation portability; and
- other agency initiatives that impact on the tax or social policy system.

On the Government response to the welfare overhaul, officials are working closely with MSD and other agencies to develop a welfare package. This will take a phased approach given the complexity of the welfare system and the need to balance fiscal prudence with improving wellbeing and other high priority government objectives.

Environment/Sustainable economy

The Tax Working Group noted a range of areas where greater environmental taxation could be used to change behaviour and raise revenue. In response, this project will consider the Group's framework for taxing negative environmental externalities. The Government decided not to advance specific environmental proposals raised by the Group beyond what is already on its work programme. However, this leaves scope for tax reforms for greenhouse gases, solid waste, water pollution, and congestion.

Tax policy officials will work with other agencies on environmental issues to provide environmental tax analysis and advise on tax implications of environmental policy. Key areas are:

- Emissions Trading Scheme (ETS) reform – specific issues include:
 - auctioning of units and hypothecation of revenue from the ETS;
 - options for including agricultural emissions in the ETS;
 - changes to the way that the ETS will apply to new forests; and
 - the introduction of an international scheme for air travel similar to the ETS;
- the Water Taskforce is working to improve water quality and nutrient run-off;
- the Ministry for the Environment is reviewing the Waste Disposal Levy to see how it can be increased and its coverage extended; and
- the Auckland Council is working on congestion charging for the use of key roads in Auckland.

This project will include two further areas of work:

- As part of the work on the environmental tax framework, consider how specific tax regimes, such as FBT, might be used to achieve positive environment outcomes (for example, FBT treatment of employer-provided public transport).
- Review of industry-specific tax provisions impacting on natural capital. Petroleum mining will be the initial focus-industry in a series of reviews. We are currently considering issues relating to the timing of deductions for petroleum development expenditure and have completed the legislative changes for the time-limited non-resident oil-rig exemption.

Tax exemptions

The income tax legislation contains various exemptions from income tax, including income earned by charities and businesses run for charitable purposes, Local Authorities, Government entities often as public authorities, and Crown-controlled companies (in certain circumstances). In contrast state enterprises are subject to income tax and local council-controlled companies are also taxable. The overall treatment of these different entities is not completely consistent. There are an increasing number of requests for income tax exemptions, and a need to adopt a coherent framework to consider these requests.

The review will consider entity tax exemptions with a view to providing more consistency. It will consider:

- how different entities fit within the Government's public policy purposes;
- the compliance costs and benefits;
- fiscal implications; and
- the impact of particular exemptions on competitive neutrality with the private sector.

Charities

Government periodically reviews the charitable sector's use of what would otherwise be tax revenue, to verify that intended social outcomes are being achieved.

This project will include a report to Ministers before the end of 2019 to address recommendations of the TWG. It will take into account DIA's modernisation review of the Charities Act. On current timeframes, it is anticipated that high level policy decisions arising from DIA's review will be made by Cabinet before the end of 2019, with detailed policy decisions to follow in the first half of 2020. The specific tax policy issues are:

- accumulation (will require coordination with DIA);
- business activity for significant charities (coordination with DIA);
- deregistration tax; and
- GST and not-for-profits (NFP).

A second report to Ministers will outline other sector tax matters that could potentially be subject to policy change and sector consultation. For example:

- imputation credit refundability;
- tax rules for mutuals/the \$1,000 NFP deduction threshold;
- rules for donating trading stock;
- removing out-of-date concessions; and
- resetting donee concessions and clarifying the approach to social enterprises.

Inland Revenue has consulted with DIA on these proposals and will be working with DIA on any policy or regulatory impacts associated with these initiatives. This work is on-going.

NFP/charity concessions interact with both local government settings and the Māori sector.

International

There has been recent and growing concern from Governments and the public about the low levels of income tax paid by digital companies (that is, companies operating through highly digitalised business models). Pressure has been building on the long-standing international income tax framework; and the OECD (including New Zealand) have undertaken to review the framework.

This workstream will include:

- reporting back on the digital service tax discussion document;
- double tax agreement negotiations and assisting with free trade agreements;
- multi-lateral work (including the OECD working parties); and
- follow-on work to monitor and adjust the BEPS measures enacted last year.