



The new Government has indicated it will hit the ground running

We expect the reversal of the previous Government's 1 April 2018 tax changes and extending the bright-line rule for residential rentals will be priorities

Post-election taxmail

Snapshot

New Zealand has a new Government, led by the New Zealand Labour Party with New Zealand First and the Green Party as support partners.

The new Government has put forward an ambitious agenda.

Our [pre-election taxmail](#) summarised the different parties' tax (and some key economic) policies. Our post-election taxmail attempts to sketch out the new Government's policy positions (or what they are likely to be). This is based on the coalition and support agreements and public statements on policies to date.

There will be much interest in the Tax Working Group, which is expected to be set up by December, as well as the progress of other tax policy changes in Labour's election manifesto. In particular, the new Government's tax policy priorities vis-à-vis the previous Government's Base Erosion and Profit Shifting ("BEPS") changes and Inland Revenue's ongoing Business Transformation.

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Post-election wrap-up

The new Government

Following the 23 September result, New Zealand's new Government will be a coalition of the NZ Labour Party and NZ First with support from the Green Party. It will command 63 of the 120 votes in the new Parliament. The previous National-led Government will move to the opposition benches after nine years.

New Zealand's third female Prime Minister, Jacinda Ardern, will lead a team including Winston Peters (Leader, NZ First) as Deputy PM and Grant Robertson in the key role of Finance Minister. We welcome the new Minister of Revenue, Stuart Nash, and farewell the previous Minister, Judith Collins.

"Coalition" policies

The coalition agreement between **Labour and NZ First** and the supply and confidence agreement between **Labour and the Greens** set out some specific commitments. For the economy, these include:

- A \$1 billion per annum regional development fund.
- Progressively increasing the minimum wage to \$20 per hour by 2020.
- A \$100m Government-backed Green Investment Fund to stimulate investment in new low carbon industries.

Tax policy

This was a focal point of the election campaign. Our pre-election taxmail contained a table with each party's policies. As best we are able to apply the coalition and support agreements and some subsequent announcements, we have summarised the current status of the new Government's tax (and selected other economic) policies.

Largely, they reflect Labour's position. We have assumed that if a NZ First or Greens policy is not specifically mentioned in either agreement, then Labour's policy applies. The pre-election policies of the three Government parties is included for comparison.

Labour's election tax policies included:

- Reversing the previous Government's 1 April 2018 tax changes, to be replaced with Labour's Families Package from 1 July 2018.
- A Working Group to consider possible options for further improvement in the structure, fairness and balance of the tax system. Implementation of any recommendations will be deferred until after the 2020 election.
- Extending the bright-line test period for taxing gains on sale of residential investment properties from 2 to 5 years and ring fencing rental losses.
- Reintroducing the R&D tax credit regime at 12.5%.
- Additional IRD funding to combat multinational tax avoidance.
- Support for a regional fuel tax for Auckland.

Added to these are a potential small business tax cut (to help offset the proposed minimum wage increase) and possible consideration of environmental taxes as part of broader climate change objectives.

In terms of timing, legislation of the Families Package and establishment of the Tax Working Group are part of Labour's "100 day" **action plan**. The new Minister of Finance has also indicated that the extension of the bright-line test period will be a priority.

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BEPS and Inland Revenue's Business transformation

In our [taxmail](#) welcoming 2017, we said that BEPS and Business Transformation would keep Government and Officials busy and challenged. Nearly a year on, little has changed. These two remain big tax policy issues for the new Government to manage.

BEPS is nearing the pointy end – legislation. Drafting of a Tax Bill to implement the prior Government's policy decisions has started. The new Minister will, we expect, find that much has progressed to align New Zealand with the international recommendations.

However, in some cases, the policy is well ahead of the international consensus. That creates potential double tax problems.

Further, the breadth of the proposals and their complexity will make it difficult to be confident that the Bill affects only what it should. Standard commercial arrangements may be adversely affected.

By contrast, Business Transformation is intended to affect how all New Zealand taxpayers interact with Inland Revenue. Although the day-to-day of changing systems appears to be progressing reasonably well, there remain tensions between the goal of an automated tax system and the provision of data on a timely and efficient basis.

For businesses, there is as yet little evidence of the rationalisation of interaction with Inland Revenue that would provide some payback for the inevitable costs of feeding the new system.

A major goal of Business Transformation is to provide a system flexible enough to cope with new tax policies. Some of the new Government's policies will provide an early test for Inland Revenue's new system.

However, they do not signal a major change from the BEPS and Business Transformation agendas.

For further information

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Tax and related policies of the new Government vs parties' election policies

Tax policy	New Government	Labour	NZ First	Green
Personal tax	Reverse the Budget 2017 tax changes (replaced by higher <i>Working for Families</i> and other payments) Abolish secondary tax Review Working for Families	Reverse the Budget 2017 tax changes (replaced by higher <i>Working for Families</i> and other payments) Abolish secondary tax	Tax only activities appropriate for income tax having regard to the wider social ramifications Abolish secondary tax	Reduce 10.5% tax rate to 9% Increase top rate to 40% for income above \$150,000
Company tax	Diverted Profits Tax if BEPS changes do not result in appropriate tax payments \$30m additional IRD funding to collect \$200m in tax from multinationals (each yr) Increase penalties for corporate fraud and tax evasion	No change to rate Diverted Profits Tax \$30m additional IRD funding to collect \$200m in tax from multinationals (each yr)	Reduce rate to 25% from 1 April 2019 (over 3 yrs) Target digital economy tax avoidance and tax evasion (the "black economy")	No change to rate
Capital gains tax	CGT on the family home ruled out See below for Working Group	Other than no CGT on family home, not ruled out (tbc by Working Group?)	No	Yes – inflation adjusted, excluding the family home
Other business tax	Provisional tax – increase threshold to \$5k and remove late payment penalties Voluntary withholding tax for business Re-introduce R&D tax credits at 12.5% Work with IRD to ensure tax compliance requirements for SMEs are fit for purpose Investigate a lower company tax rate for small business (Working Group)	Provisional tax – increase threshold to \$5k and remove late payment penalties Voluntary withholding tax for business Re-introduce R&D tax credits at 12.5% Work with IRD to ensure tax compliance requirements for SMEs are fit for purpose	20% tax rate on export generated income Immediate deductibility for SME assets < \$20k Work with IRD on simpler tax system for SMEs R&D tax credits Earthquake strengthening costs tax deductible	Fringe Benefit Tax exemption for electric vehicles and public transport passes
GST	No change to rate	No change to rate	Remove GST on "basic" food items and residential rates	No change



Tax policy	New Government	Labour	NZ First	Green
Housing, assets and savings tax policies	<p>Ring fence rental losses (phased in over 5 years)</p> <p>Extend bright-line test period to 5 yrs</p> <p>Ban foreign speculators buying existing residential property</p>	<p>Ring fence rental losses (phased in over 5 years)</p> <p>Extend bright-line test period to 5 yrs</p> <p>Ban foreign speculators buying existing residential property</p>	<p>Use the tax system to encourage savings, especially for people saving for a deposit for a first home</p> <p>Tax favoured approved savings schemes</p>	See CGT policy
Other policies	<p>Establish Working Group to review the NZ tax system but no implementation until post the 2020 election</p> <p>Keep NZ Super age at 65</p> <p>Restart NZSF contributions immediately</p> <p>No royalties on commercial water use except for exported bottled water</p> <p>Regional development fund (\$1b per annum)</p> <p>\$25 tourist levy</p> <p>Green Investment Fund (\$100m)</p> <p>Support a regional fuel tax for Auckland</p> <p>Review and reform the RBNZ Act</p> <p>Increase minimum wage to \$20 per hour by 2020</p>	<p>Working Group to review the NZ tax system</p> <p>Royalties on commercial water use</p> <p>\$25 tourist levy</p> <p>Keep NZ Super age at 65</p> <p>Restart NZSF contributions immediately</p>	<p>Kiwi Fund – Government run KiwiSaver scheme</p> <p>New Zealand Fund for infrastructure investment</p> <p>NZSF to prioritise investment in NZ infrastructure companies and growth industries</p>	<p>Nitrate pollution levy</p> <p>\$20 tourism levy</p> <p>Green Infrastructure Fund</p> <p>Budget Responsibility Rules – build a fairer tax system</p>

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