



## Election 2017 tax policies

### Snapshot

New Zealand goes to the polls on 23 September. With a close race predicted, one of the key areas of interest has been the parties' tax policies.

Capital gains tax has again been thrust into the spotlight, with the new leader of the Labour Party not ruling out such a tax (other than on the family home) if elected. This may form part of Labour's proposed Tax Working Group's considerations.

Taxmail summarises the parties' tax policies in the attached table. *(Note: the policies are based on publicly available information as at 13 September 2017).*

We do not provide a view on what is the best policy or policy set. Our aim is to ensure readers are informed so they can make their own judgements on the policies.

KPMG's position is not readily reduced to a sound bite – the detail is in our submissions on past tax proposals. However, we support a "broad base, low rate" objective. We acknowledge that still requires trade-offs but it is the most likely to produce an efficient tax system.

**The parties' tax policies are in the spotlight**

**Taxmail summarises the key tax policies so you can see areas of commonality and disagreement**

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## What should you be thinking about?

### The economic environment

On 23 August, the Treasury as is required released its Pre-election Economic and Fiscal Update 2017 ("PREFU"). The PREFU predicts the NZ economy to continue its growth trajectory. The Government's operating balance is expected to be stronger in 2017, but lower in the out-years, compared to what was forecast in the May Budget. This has left less room for expanding Government spending.

### A framework for evaluating the parties' tax policies

Having a framework for evaluating the parties' tax policies helps. The following observations may assist.

#### ***Taxation is not an end of itself***

It is a means of funding the government's expenditure. There is an old saying that the art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing. This applies to both the amount of tax and the cost imposed to collect it. Taxing to the last dollar can be counter-productive.

#### ***What is a particular tax policy trying to achieve?***

Take a capital gains tax ("CGT"). Is the objective of such a tax to address equity concerns (e.g. by taxing the owners of capital assets and wage and salary earners equally)? Or is it to address other objectives – e.g. to try to cool house prices – or simply to raise additional revenue (i.e. broaden the tax base)? The answer will impact the type and the design of the proposed tax and ultimately its effectiveness.

#### ***What is the impact of a party's policies overall?***

It can be tempting to look at each policy in isolation. However, the policies overall should form a coherent set. If the mix is incoherent, then the effect of one policy may blunt that of another, or add costs to the system.

#### ***Don't underestimate the impact of BEPS and BT on the parties' policies.***

Combatting BEPS – tax "base erosion and profit shifting" – is a global focus. Both the Government and Opposition parties are promising to crack down on foreign multinationals not paying their "fair share" of NZ tax. Although "fair share" remains largely undefined, what should not be lost sight of is that NZ is part of the global community. The NZ BEPS response will not only affect investment into New Zealand, but also our trading partners' responses to NZ multinationals trading in their countries. Care therefore needs to be taken that NZ's BEPS policies work in favour of "NZ Inc" overall.

BT, Inland Revenue's Business Transformation, is a multi-year programme aimed at modernising Inland Revenue's systems, processes and approach. Regardless of the outcome on 23 September, BT will continue. However, the election result may test the flexibility of the new system to implement any tax reform, sooner rather than later.

### For further information

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**Election 2017 - Summary of parties' tax policies**

Tax Policy	National	Labour	Green	NZ First	Maori Party	Act	United Future	The Opportunities Party	Mana
<b>Personal tax</b>	<b>Budget 2017</b> tax threshold changes and independent earner tax credit repeal (from 1 April 2018)	Reverse the Budget 2017 tax changes (replaced by higher <i>Working for Families</i> and other payments)  Abolish secondary tax	Reduce 10.5% tax rate to 9%  Increase top rate to 40% for income above \$150,000	Tax only activities appropriate for income tax having regard to the wider social ramifications	Lower the tax bracket for low and middle income earners	Reduce rates to 10% (\$0 to \$14,000), 15% (\$14,001 to \$48,000) and 25% (\$48,001+)  Regular indexation of thresholds	Income sharing for families – combined income of both parents divided equally for tax	Reduce tax rates (as offset to Asset Tax Policy)?	No tax on income under \$30,000  Progressive tax rates above \$100,000
<b>Company tax</b>	No change to rate  Base Erosion and Profit Shifting (BEPS) <b>tax changes</b>	No change to rate  Diverted Profits Tax  \$30m additional IRD funding to collect \$200m in tax from multinationals (each yr)	No change to rate?	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  Target multinational tax avoidance	Reduce rate to 25%	No change to rate?	Reduce rate (as offset to Asset Tax Policy)?	Eliminate corporate tax loopholes and make tax avoidance a prison offence
<b>Capital gains tax (CGT)</b>	No	Other than no CGT on family home, not ruled out (tbc by Working Group?)	Yes – inflation adjusted, excluding the family home	No	Yes – on sale of third and subsequent rental properties	No	No?	Asset tax policy is arguably a form of CGT	Yes – other than on the family home and Maori land
<b>Other business tax</b>	Miscellaneous <b>Business tax changes</b> already enacted, including:  Accounting Income provisional tax calculation method (from 2018)  Changes to application of use-of-money interest on provisional tax payments	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	Fringe Benefit Tax exemption for electric vehicles and public transport passes	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	Support Maori SMEs including through use of tax policies	Reduce tax regulations to lower compliance costs  Cut corporate welfare	-	See Asset Tax Policy	-
<b>GST</b>	No change	No change	No change?	Remove GST on food and residential rates	Remove GST on fresh fruit, vegetables and milk	No change?	No change?	No change?	Abolish GST
<b>Housing, asset and savings tax policies</b>	<b>Budget 2015</b> tax changes enacted include:  A 2 yr bright-line test for taxing gains on sale of residential investment properties  Residential land withholding tax on foreign sellers	Ring fence rental losses (phased in over 5 years)  Extend bright-line test period to 5 yrs  Ban foreign speculators buying existing residential property	See CGT policy	Use the tax system to encourage savings, especially for people saving for a deposit for a first home  Tax favoured approved savings schemes	Tax credit for landlords that meet minimum rental WOF requirements  Explore subsidies / tax breaks for landlords who install insulation and heating where property is rented to holders of community services cards	Incentivise Councils to consent more land for development and build more infrastructure by sharing a portion of GST on construction	-	<b>Asset Tax Policy:</b> tax a minimum deemed rate of return on all assets (includes all housing, land and business assets)	Tax all sources of income (shares, bonds, property, and investments) at individuals' tax rates
<b>Other policies</b>	Raise NZ Super age to 67 by July 2040 and double residency requirements for NZ Super  Restart NZ Super Fund (NZSF) contributions in 2020	Working Group to review the NZ tax system  Royalties on commercial water use  \$25 tourist levy  Keep NZ Super age at 65  Restart NZSF contributions immediately	Nitrate pollution levy  \$20 tourism levy  Green Infrastructure Fund  Budget Responsibility Rules – build a fairer tax system	Kiwi Fund – Government run KiwiSaver scheme  New Zealand Fund for infrastructure investment  NZSF to prioritise investment in NZ infrastructure companies and growth industries	Tourism tax to preserve Maori heritage, language and culture  Tax on sugary drinks  Tax breaks for renewable energy research and projects	Raise NZ Super age to 67 by 2032	Flexi super – option to receive superannuation at reduced rates from age 60-64 or at higher rates from 66-70  Make KiwiSaver compulsory	Universal Basic Income of \$200 per week for:  - 18-23 year olds  - Families with young children  - Super annuitants  (Largely replaces existing social assistance and NZ Super payments)	1% Financial Transactions Tax  Progressive tax rate for inheritances over \$500,000 (other than Maori land)

## Sources:

### National

Tax and families package: <https://www.budget.govt.nz/budget/2017/family-incomes-package/index.htm>

### Labour

Housing and tax: [http://www.labour.org.nz/cracking\\_down\\_on\\_speculators](http://www.labour.org.nz/cracking_down_on_speculators)

Business tax and R&D: <http://www.labour.org.nz/jobs>

Abolish secondary tax: <http://www.labour.org.nz/secondarytax>

Commercial water use royalty: <http://www.labour.org.nz/water>

Tax Working Group / Superannuation commitments: <http://www.labour.org.nz/100days>

### Green

FBT exemptions: <https://www.greens.org.nz/policy/smarter-economy/business-tax-breaks-clean-transport-options>

Tourism levy: <https://www.greens.org.nz/policy/cleaner-environment/taonga-levy>

Nitrate pollution levy: <https://www.greens.org.nz/great-farming-cleaner-water>

Green Fund: <https://www.greens.org.nz/policy/economic-policies/green-infrastructure-fund>

Budget Responsibility Rules: <https://www.greens.org.nz/policy/smarter-economy/budget-responsibility-rules>

Tax policy: [https://www.greens.org.nz/sites/default/files/policy-pdfs/Mending%20the%20Safety%20Net%20policy%20paper%20FINAL\\_0.pdf](https://www.greens.org.nz/sites/default/files/policy-pdfs/Mending%20the%20Safety%20Net%20policy%20paper%20FINAL_0.pdf)

### NZ First

Finance and tax: [http://www.nzfirst.org.nz/finance\\_and\\_tax](http://www.nzfirst.org.nz/finance_and_tax)

Business tax policies as reported in NZ Herald:

— [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11909503](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11909503)

— [http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=11849496](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11849496)

### Maori Party

Tax policies as communicated by the Maori Party to KPMG

### Act

Tax: <http://act.org.nz/tax/>

Housing: <http://act.org.nz/housing/>

Superannuation: <http://act.org.nz/superannuation/>

### United Future

Economy (and tax) policy: <http://unitedfuture.org.nz/buildingopportunity-2/>

Superannuation policy: <http://unitedfuture.org.nz/flexi-super/>

### The Opportunities Party

Tax reform policy: <http://www.top.org.nz/top1>

UBI – families and super annuitants: <http://www.top.org.nz/top7>

UBI – youth: <http://www.top.org.nz/top11>

### Mana

Tax Policy: <http://www.mana.org.nz/taxation>