



TE TAI ŌHANGA  
**THE TREASURY**

# Briefing to the Incoming Minister of Revenue

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# 1 Your responsibilities, and how the Treasury assists you

This briefing outlines the role of the Treasury in supporting you in the Revenue portfolio. It supplements the briefings Inland Revenue will provide you, which will give more detail on your role and responsibilities as Minister of Revenue.

The Treasury advises the Government on all aspects of the Crown's finances, including revenue. The vast majority of the Crown's revenue is raised by taxes administered by Inland Revenue, in particular, individual income tax, corporate income tax and GST. Inland Revenue also administers significant social policy programmes, including KiwiSaver and Working for Families.

Currently, the Treasury and Inland Revenue jointly advise the Ministers of Finance and Revenue on tax policy within the Revenue portfolio.

This ensures policy is well informed by:

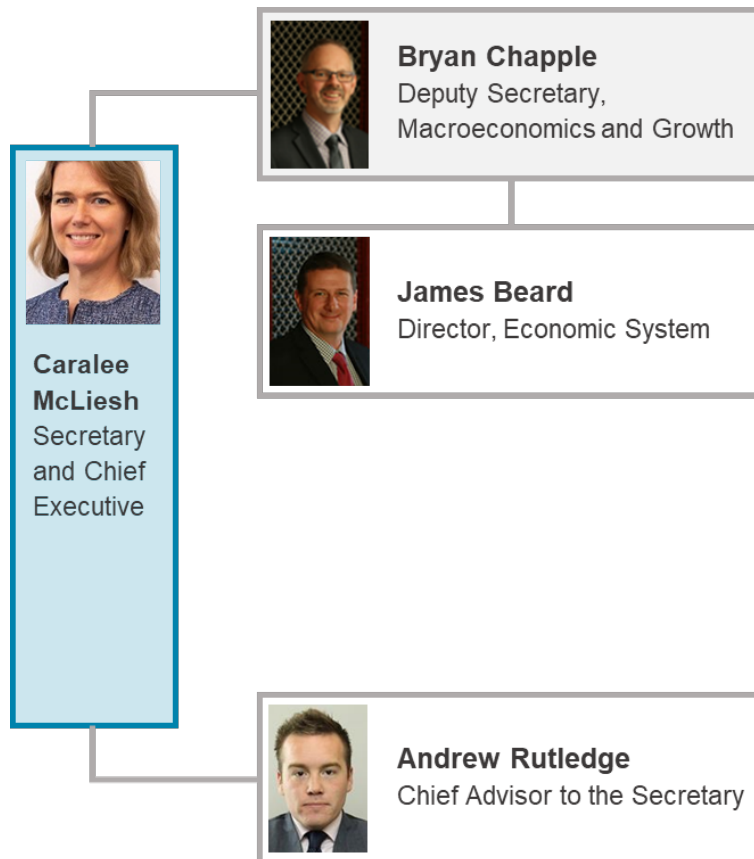
- implementation considerations – given the closeness of policy and administration functions within Inland Revenue
- wider economic and fiscal considerations – given the Treasury's role as the Government's lead advisor on economic, financial and regulatory policy, and our role in the preparation of the Government's annual Budget.

While policy is developed jointly, the Treasury's focus is more on strategic and broader economic aspects. The current Memorandum of Understanding between the Treasury and Inland Revenue on tax policy advice is provided as Annex One. This document sets out the respective roles and responsibilities of the two departments.

Officials from both the Treasury and Inland Revenue have previously attended regular tax policy meetings between the Ministers of Finance and Revenue. Given the fiscal implications of tax revenue changes, tax policy meetings between the Minister of Revenue and Inland Revenue officials have also been attended by members of the Treasury's Tax Strategy team.

The Treasury also advises the Minister of Finance and other Ministers on taxes outside the Revenue portfolio, such as excise duties, which are administered by Customs, and proposals for levies in areas such as water and tourism.

## 1.1 Key Treasury contacts



## 2 Matters of current interest

### 2.1 Revenue strategy

At the beginning of each new parliamentary term, we support the Government in developing a revenue strategy, which details the Government's objectives for the tax system and tax policy. The revenue strategy forms part of the Fiscal Strategy Report that will be presented with Budget 2021.

The revenue strategy also guides the setting of priorities for the Tax Policy Work Programme (TPWP), which will help us to prioritise work on specific tax policy changes over the next three years. The TPWP is agreed by the Ministers of Finance and Revenue and reflects your priorities. As part of the Treasury's focus on strategic tax policy issues, we have a particular role in helping to ensure that the TPWP is linked into and consistent with the Government's broader economic and fiscal strategy. The TPWP is reviewed regularly to ensure the Government's expectations across the work programme continue to be met.

### 2.2 Tax stewardship work and strategic issues

Consistent with our focus on strategic tax policy issues, and links to broader economic and fiscal considerations, the Treasury works with Inland Revenue to assess the overall design of the tax system (tax stewardship). The Treasury and Inland Revenue currently have the following notable projects under way:

- *Business taxation*: understanding the impacts of tax settings on investment and capital investment. This work can assist the medium-term economic recovery post COVID-19.
- *Environmental taxes*: developing a cross-agency framework for environmental taxes. New Zealand currently collects a relatively low share of revenue from environmental taxes.
- *Economic analysis*: understanding the impacts of tax settings, such as personal tax settings, on individuals' incentives to work and save, and also understanding the impacts of tax settings on the integrity of the tax system.

We propose to provide you with further advice on these projects and welcome a discussion on your priorities for medium-term tax strategy.

In the near term, there are choices for how the tax system could support economic recovery, while balancing the Government's fiscal and other objectives. Over the longer term, the revenue system faces challenges related to long-term fiscal sustainability (including demographic change), and from international mobility of capital and businesses.

Against that background, strategic issues for the tax system include ensuring revenue sufficiency and ensuring business tax settings support economic recovery. Other strategic priorities are likely to include ensuring the integrity and fairness of the tax system, including minimising opportunities for tax avoidance, understanding how the tax and transfer systems impacts inequality; and ensuring that international tax settings remain robust to the digitalisation of the economy.

## 2.3 Vote Revenue

For the 2019/20 financial year, Vote Revenue comprises annual and permanent appropriations totalling \$1 billion in departmental expenditure and \$17.1 billion in non-departmental expenditure. The Vote also covers Crown revenue and receipts totalling \$78.5 billion. The Minister of Revenue is responsible for all appropriations, revenue and receipts in the Vote.

The Treasury's Tax Strategy team advises the Minister of Finance on value for money within the Vote, in particular through the annual Budget process.

## 2.4 Business Transformation

Inland Revenue's Business Transformation programme is a multi-year, multi-stage change programme. It aims to modernise New Zealand's tax system by simplifying Inland Revenue's business processes and customer services, and increasing the flexibility to implement future changes to tax and social policies.

Inland Revenue has migrated most of its tax and social products into its new systems. The final stage of Business Transformation (Stage 4) is scheduled to run from July 2020 to the end of June 2022. Stage 4 includes migrating Child Support to new systems and processes.

This programme is complex, high-risk and fiscally significant (costing \$1.8 billion). It is one of the major projects monitored by the Treasury. Through the Minister of Finance, the Treasury advises the Government on the status of Business Transformation and provides support and guidance to help the programme succeed.

Along with other central agencies, the Treasury also provides independent advice to Ministers on programme delivery confidence. Our assessment is informed by a set of key performance indicators, considerations such as the quality of governance, and independent assurance reviews. The next Gateway review of the programme is scheduled for October/November 2020, and the next Independent Quality Assurance is scheduled for June/July 2021.

Inland Revenue proposes to provide a substantive update on the status of Business Transformation, which will incorporate comments from the Treasury, in a Cabinet Paper in November 2020.

## 3 Upcoming key decisions and issues

We would like to engage with you on a range of key decisions and critical issues before the end of 2020. These relate to legislative requirements, your manifesto priorities, and other priority issues. We will provide you with a list of these issues and proposed timeframes for engaging with you ahead of our first meeting.

# Annex One: Memorandum of Understanding between Inland Revenue and the Treasury on Tax Policy Advice

Set out below is the understanding between Inland Revenue and the Treasury of the processes and responsibilities for the preparation and presentation of tax policy advice by officials.<sup>1</sup> This understanding is underpinned by a strong and open working relationship between the two departments.

## 1 Significant tax policy matters

- On all matters of significant policy content, officials' advice should be presented to the Minister of Finance (MOF) and the Minister of Revenue (MOR) at the same time and in a joint paper, normally prepared jointly by Inland Revenue and the Treasury.<sup>2</sup>
- Such papers should contain all relevant information and options relating to the particular issue, officials' analysis of that information and those options, and officials' advice.
- Where officials wish to offer differing advice on a significant issue, the reasons for the differences should be clearly identified.
- The MOF may wish to meet with officials from the Treasury, or the MOR with officials from the Inland Revenue, without the other department being present. Subject to clear direction from their Minister of what information can be shared with the other Minister or department, the onus is on each department to promptly and accurately summarise discussions for the other and indicate what advice, if any, is required from them.

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<sup>1</sup> Tax policy advice includes advice on social policy programmes administered by Inland Revenue.

<sup>2</sup> Practical implementation of this principle will be in accordance with instructions given from time to time by the Revenue Advisers to the Minister of Finance and Minister of Revenue.



## 2 General Treasury and Inland Revenue responsibilities

- Inland Revenue and the Treasury are jointly responsible for first opinion policy advice on tax policy issues. Both departments are accountable to the MOF and the MOR in this respect.
- Inland Revenue and the Treasury jointly prepare the Government's revenue strategy, which sets out the Government's broad objectives for the tax system. This is published as an Annex to the annual Fiscal Strategy Report. To deliver on this strategy, Inland Revenue and the Treasury jointly manage the tax policy work programme, which is updated every 18 months and published on the Inland Revenue website. Individual tax policy items are prioritised and managed within the overall tax policy work programme.
  - *Lead and support allocations* – The responsibility of the departments for leading or supporting phases of particular policy projects will be allocated by discussion between the departments according to the comparative advantages of each.
  - On matters which departments agree and are of administrative or minor detail, the department with the lead responsibility may report directly to Ministers but, in doing so, will ensure the other department has adequate opportunity to consider the issue and provide comment.
  - *Generic Tax Policy Process (GTPP)* – Officials' processes will be based on the GTPP, adapted as appropriate to meet the circumstances of a particular issue. This will ensure that all departments are aware of, and working to, the same work programme timetable.
  - *Free and frank advice* – Officials' primary duty is to provide Ministers with free and frank advice and not to represent the view of any particular Minister. In dealing with parties outside Government, for instance in the course of consultative processes, the duty of officials is to describe accurately the views of the Government and the rationale for Government policy.
  - *Departmental consultation* – On all tax policy issues, Ministers should have available to them the information and perspectives of both the Inland Revenue and the Treasury. In providing its perspective, each department will ensure that other departments with an interest in the policy issue, in particular the Department of the Prime Minister and Cabinet, are consulted.

### 3 Specific Treasury and Inland Revenue responsibilities

- The aim is to ensure that accountabilities are clearly defined and that Ministers can be assured of contestable advice throughout the process.

#### ‘Treasury specific’ responsibilities

- Treasury involvement will principally be for policy issues with large economic and fiscal impacts, where economic analysis is a significant component of the advice to Ministers, the advice concerns a significant government priority and that there is large potential value add by Treasury.
- The Treasury will be responsible for providing input from a revenue perspective into the annual budget strategy phase, in consultation with Inland Revenue. The Treasury and Inland Revenue will jointly develop the revenue strategy (usually at the beginning of a parliamentary term), which will provide a basis for developing the Tax Policy Work Programme.
- The Treasury also has responsibility for Financial Vetoes.

#### ‘Inland Revenue specific’ responsibilities

- Inland Revenue is responsible for preparing the annual Vote Revenue Budget submission.
- Inland Revenue is responsible for drafting tax legislation.
- While both departments are responsible for supporting the legislative phase of GTPP, for example by advising select committees, it is expected that Inland Revenue will lead this work.
- Inland Revenue is responsible for undertaking costings of tax policy proposals, including administrative implications. Inland Revenue will complete a standard checklist that provides a sufficient level of costings information to the Treasury to allow an assessment of the robustness of the costings. On occasions (eg, with costings on the income tax scale), it may be jointly agreed that the Treasury provides the costing and sufficient information to Inland Revenue for it to be able to check the robustness of the costings.

## 4 For all tax policy issues with fiscal impacts

- Tax policy proposals often impact on the government's fiscal position and forecasts. They therefore need to be managed within the government's overall fiscal management approach.
- The revenue impacts of tax policy changes will generally be managed through the Tax Policy Work Programme Scorecard in the first instance and where appropriate. Other fiscal impacts of tax policy changes (eg, fiscal impacts of social policy changes and departmental administrative costs) will be managed through the general budget process or the between-budget contingency, as appropriate.

## 5 Communication

- *Regular meetings between the departments:* The Manager, Tax Strategy at the Treasury and the Policy Directors, Policy and Strategy at Inland Revenue should meet regularly (usually weekly) to discuss matters including tax policy issues and Vote Revenue issues. The Director, Economic System and the Manager, Tax Strategy at the Treasury and the Deputy Commissioner, Policy and Strategy should meet quarterly to discuss matters relating to regulatory stewardship of the tax system. The workings of this Memorandum of Understanding and the associated relationships will be reviewed when the need arises or suggested by either party.
- *No surprises approach:* Inland Revenue and Treasury should abide by a 'no surprises' policy. Each department will keep the other informed on work for which it has primary responsibility. This should be advised to Inland Revenue's Project Prioritisation and Allocation Group and to the Manager, Tax Strategy at the Treasury.
- *Ministers:* At the start of a new parliamentary term, and/or when the Minister of Finance or Minister of Revenue changes, the Treasury and Inland Revenue will bring the existence of this Memorandum of Understanding to the attention of their Ministers.

## 6 Dispute resolution

- Day to day responsibility for the operation of the Memorandum of Understanding rests with the Deputy Commissioner, Policy and Strategy at Inland Revenue and the Manager, Tax Strategy at the Treasury.
- In the event of any disagreement arising between the departments concerning the way this Memorandum of Understanding is working, which cannot be resolved by the Deputy Commissioner, Policy Advice Division at Inland Revenue and the Manager, Tax Strategy at the Treasury, the two Chief Executives will take action to ensure that the disagreement is resolved.