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# New Zealand rules out capital gains tax but will push ahead on digital services tax consultation and other tax reforms

The New Zealand Government has rejected the recommendation of its Tax Working Group that New Zealand introduce a capital gains tax (CGT). Announcing the Government's decision, Prime Minister Jacinda Ardern acknowledged that while she personally saw merit in introducing a CGT, there was not a mandate from the public, or a consensus within the coalition Government, to do so.

The Tax Working Group was set up by the Government shortly after it took office in late 2017, to make recommendations on the fairness, balance and structure of the tax system. While the CGT was the most significant of the Tax Working Group's recommendations, the Group's final report included numerous other recommended changes to the tax system, and the Government has indicated it will consider including a number of those other recommendations on its tax policy work programme. The Prime Minister also reiterated that the Government will soon release a consultation paper on a digital services tax.

## Capital gains tax rejected

The decision not to implement a comprehensive CGT is not unexpected. The junior coalition partner in the Government (the New Zealand First Party), whose support would have been required to implement a CGT, has previously voiced its opposition to a CGT, and the Prime Minister and other Senior Ministers within the Labour Party have been lukewarm in their attempts to sell the idea to the public. The opposition National Party had also vowed to repeal a CGT if one were enacted.

In rejecting the CGT recommendations, the Prime Minister stated "[i]t's time to accept that not only has a government that reflects the majority of New Zealanders not been able to find support for this proposal, feedback suggests there is also a lack of mandate among New Zealanders for such a tax also." She also ruled out a CGT under her leadership in future.

## Refreshed tax policy work programme

A refreshed tax policy work programme will be released mid-year. The Government is considering as a high priority for inclusion in this work programme:

- the Tax Working Group's recommendations regarding a regime that encourages investment in nationally-significant infrastructure projects;
- allowing depreciation for the costs of seismic strengthening of buildings;
- a review of tax loss trading (potentially in tandem with a review of the loss carry-forward rules for companies); and
- strengthening the enforcement of the rules for closely-held companies – an apparent reference to dividend stripping and other arrangements that result in what would otherwise be taxable dividends being received by shareholders as non-taxable capital gains.

The Prime Minister also stated that following the Group's recommendations "the coalition government has agreed to tighten rules around land speculation and work on ways to counter land banking". New Zealand has a benign tax regime for property investors and speculators that is perceived to have contributed to increasing house prices; such investments are not subject to stamp duty or similar transaction taxes and in many cases, gains on disposal are non-taxable capital gains. As a starting point, the Government has directed the Productivity Commission to consider vacant land taxes as part of its review of local government body financing.

## Digital services tax consultation expected soon

While the Tax Working Group did not recommend specific international tax changes, it did note its support for "New Zealand's continued participation at the OECD" and recommended that "the Government stand ready to implement a digital services tax (DST) if a critical mass of other countries move in that direction". The Government had already acted on that recommendation by announcing, prior to the release of the Group's recommendations that New Zealand will proceed with a DST, with public consultation on "options for introducing a digital services tax" expected to start soon.

Although the Prime Minister's announcement in February that New Zealand would consult on a DST referred to Australia's (then) proposals to likewise introduce a DST, Australia's recent announcement that it will not proceed with a DST is understood not to have affected New Zealand's planned consultation. A consultation paper is expected to be released within the next few weeks, outlining the design features of a (unilateral) DST as well as discussing the OECD's initial work on possible revisions to the international tax framework.

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