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TaxMail

Tax Working Group edition

17 April 2019

## Government response to Tax Working Group - One out!

The Government has today [responded](#) to the Tax Working Group (TWG) Final Report recommendations.

The headline - no capital gains tax (CGT). The Government has rejected both the TWG majority's recommendation to tax most assets (except the family home) and the minority's recommendation for just residential rental properties to be taxed.

The Prime Minister, Jacinda Ardern, said that there was no mandate or consensus for a CGT from the parties comprising her Government or the general public. She also said that the Labour Party would not campaign in future on a CGT, under her leadership. Instead the Government will look at other ways to increase fairness in the tax system.

However, Officials have been directed to look at "land banking" and "land speculators" as a high priority. This follows the TWG's recommendation that a tax on vacant land should be considered by the Productivity Commission. The Prime Minister has also indicated that there will be a renewed focus on NZ tax paid by foreign multinationals. A discussion document on a possible Digital Services Tax is scheduled for a May release.

As a result of this decision, the packages to recycle CGT revenue (including personal and savings tax cuts) suggested by the TWG will not be implemented. However, the Prime Minister has stated that Labour's election tax policy has not yet been decided.

The Government has also responded to the other 98 recommendations in the TWG Final Report – the full details are available [here](#).

Broadly, most will continue to be worked on through the “business as usual” Tax Policy Work Programme. An update to that Programme will be released in June. That most of these have not been confirmed at this stage is no doubt a result of the focus on the CGT.

## Our view

The TWG has been a valuable exercise. It has put the tax system under the spotlight and brought different perspectives to bear. Many of its recommendations are likely to become law in the short-to-medium term.

Ideally, we would have liked to see further work done on the CGT recommendations to see if design and behavioural concerns could be addressed. That would have been better tax policy. Instead, we are likely to see the continued extension of the tax base on an item by item (piecemeal) basis. There is already a long list of capital gains taxed as income under current law. The TWG minority noted that this approach has served New Zealand well. However, the result of such extensions is generally complexity and potential incoherence. Further, the cost of those incremental changes tends to be lost.

The Government’s Budget will be delivered on 30 May 2019. Its TWG response means there will be a close watch on any tax measures. Will there be alternatives to the TWG recommendations put forward?



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