Inland Revenue
Te Tari Taake

8 June 2023

[redacted]

Dear [redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 14 May 2023. You requested the following:

> 1) *As per the news article from Stuff (https://www.stuff.co.nz/business/105036665/bill-to-end-multinational-tax-avoidance-passes-in-parliament-) The Taxation (Neutralising Base Erosion and Profit Shifting) Bill, was estimated to bring in an extra $200 Mn a year. I would appreciate it if you could let me know the actual amounts collected. The total amounts collected pre and post-the effective date of legislation would be fine. I believe this information would be of public interest.*
>
> 2) *According to the attached IRD report, New Zealand collects 10% of the GDP as GST, but this becomes 8.5% if govt departments are exempt from GST. Does this mean some government department budgets include GST as a cost? Something different to most commercial organisations?*

Inland Revenue's 2017 report, *The New Zealand tax system and how it compares internationally*, was attached with your request.

Question 1: The total amounts collected before and after the 2017 Taxation (Neutralising Base Erosion and Profit Shifting) Bill was enacted

The changes in the 2017 Taxation (Neutralising Base Erosion and Profit Shifting) Bill addressed a number of international tax issues that are collectively described as Base Erosion and Profit Shifting (BEPS). The Bill passed its third reading on 26 June 2018 and came into force on 1 July 2018 as the Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018 (the Act).

The changes in the Act focused on:

- transfer pricing and permanent establishment avoidance
- strengthening our interest limitation rules, and
- addressing hybrid mismatch arrangements.

Inland Revenue does not hold the total amounts paid by multinational enterprises before or after the changes in the Act took effect. It is not possible to work out exactly how much was raised by the changes.

This part of your request is therefore refused under section 18(e) of the OIA, as the document containing the information does not exist.

The objective of the anti-BEPS measures was to change the behaviour of multinationals. For example, rather than funding New Zealand operations with debt, which would produce interest deductions that would be limited under new rules, multinationals would instead use equity funding, which would result in non-deductible dividends.

We cannot say with certainty that this restructuring of financing arrangements was a direct result of the anti-BEPS measures. However, there is a strong inference to be drawn that the measures did produce this overall result.

Inland Revenue monitored the tax behaviour of multinationals before and after the Act came into force. We are confident that the measures have raised a minimum of the additional $200 million of tax per year. This would be due to reduced related-party debt and increased equity being provided by multinational enterprises, as well as the unwinding of hybrid instruments and structures.

More information about the Act, including the relevant Cabinet papers, is published on our tax policy website (www.taxpolicy.ird.govt.nz) by searching for "13 - Cabinet paper: Tax measures to prevent base erosion and profit shifting".

Question 2: According to the attached IRD report, New Zealand collects 10% of the GDP as GST, but this becomes 8.5% if government departments are exempt from GST. Do some government department budgets include GST as a cost?

Government departments in New Zealand are required to account for and file GST in the same manner as other organisations that are subject to the Goods and Services Act 1985.

The reduction from 10% to 8.5% mentioned in Inland Revenue's 2017 report, *The New Zealand tax system and how it compares internationally*, reflects the net impact on the GST share of total tax revenue of excluding the GST paid by New Zealand government departments.

Data on the GST of departmental expenses, and other Crown GST, is published monthly by the Treasury in their *Tax Outturn Data Monthly History* spreadsheet. The spreadsheet is available on the Treasury's website (www.treasury.govt.nz) by searching for "tax outturn data".

Section three of the *Tax Outturn Data - March 2023* spreadsheet, *Eliminations*, shows GST on departmental expenses and other Crown GST. GST and other eliminations allow the government to report consolidated Crown accounts, which removes the impact of the Crown paying tax to itself.

As noted in the report, different countries take different approaches to government taxation, which can affect international comparisons.

Rights of review

If you disagree with my decision on your OIA request, you can ask an Inland Revenue review officer to review my decision. To ask for an internal review, please email CommissionersCorrespondence@ird.govt.nz.

Alternatively, under section 28(3) of the OIA, you have the right to ask the Ombudsman to investigate and review my decision. You can contact the office of the Ombudsman at info@ombudsman.parliament.nz.

If you choose to have an internal review, you can still ask the Ombudsman for a review.

Publishing of OIA response

Please note that Inland Revenue regularly publishes responses to requests that may be of interest to the wider public on its website. We consider that this response is of public interest so will publish this response in due course. Your personal details, or any information that would identify you, will be removed before it is published.

Thank you for your request.

Yours sincerely

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