



Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

Tax policy report: **COVID-19: Inland Revenue's tax relief package in response to the 2016 Gastroenteritis outbreak in Havelock North – a comparison**

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|------------------------|---------------|-----------------------|------------|
| Date: | 6 March 2020 | Priority: | High |
| Security level: | In Confidence | Report number: | IR2020/134 |

Action sought

| | Action sought | Deadline |
|---------------------|---|-----------------|
| Minister of Finance | Note the contents of this report | 10 March 2020 |
| Minister of Revenue | Note the contents of this report Refer a copy of this report to the Office of the Prime Minister | 10 March 2020 |

Contact for telephone discussion (if required)

| Name | Position | Telephone |
|-------------|--------------------------|------------------|
| s9(2)(a) | Strategic Policy Advisor | s9(2)(a) |
| | Principal Policy Advisor | |

6 March 2020

Minister of Finance
Minister of Revenue

COVID-19: Inland Revenue's tax relief package in response to the 2016 Gastroenteritis outbreak in Havelock North – a comparison

Purpose

1. This report specifically provides information on Inland Revenue's response to the Hawke's Bay gastro outbreak in 2016 (the Hawke's Bay emergency event) and how this compares to Inland Revenue's current COVID-19 outbreak response.
2. Officials have been directed to look at a provisional tax relief package for COVID-19 based on the Hawke's Bay gastroenteritis outbreak and how this response would work on a nationwide basis. This direction has been given by the PMBAC, at a meeting held on 5 March 2020, and advised to officials by email.
3. This report follows our earlier reports IR2020/088, dated 17 February 2020; and IR2020/123 dated 5 March 2020.

Hawke's Bay emergency event (2016)

4. In August 2016, approximately 28 percent of the population in Havelock North was affected by gastroenteritis through the contamination of its water supply. Given the number of individuals affected, Inland Revenue considered the event was an emergency event under the Civil Defence Emergency Management Act 2002. This was based on Ministry of Health advice that the level of infection would have an impact on the ability of small businesses to meet their upcoming tax obligations.
5. The table on page illustrates Inland Revenue's response to the Hawke's Bay emergency event and how Inland Revenue's current response to the coronavirus COVID-19 outbreak compares. The main difference is relief from use of money interest (UOMI) has not been actioned as the current state for COVID-19 is not yet, in our assessment as at 6 March 2020, an emergency event.

Overview of taxpayer relief responses to the Hawke's Bay gastro outbreak and COVID-19

6. The range of tax relief options deployed for the Hawke's Bay event included remission of late payment and late filing penalties, instalment arrangements, and remission of use of money interest. An Order in Council was approved and authorised Inland Revenue to remit use of money interest in this case.
7. The tax relief provided for that emergency event did not remove the obligation on taxpayers to pay tax or alter payment dates, but reduced the tax penalties and interest costs if the tax was not paid on time. The relief applied for a period of about six weeks (from late August 2016 to 30 September 2016). As such the response did not directly affect the operation of the provisional tax rules.
8. The range of tax relief options used for the Hawke's Bay emergency event, with the exception of use of money interest relief, have already been deployed for COVID-19 and includes remission of late payment and late filing penalties, and instalment arrangements for tax debts. These have been made available to taxpayers from 14 February 2020 under Inland Revenue discretionary hardship relief rules.

Table: Summary of relief package content deployed by Inland Revenue for Hawke's Bay gastro outbreak and COVID-19 outbreak

| Relief package | Hawke's Bay gastro outbreak (2016) | COVID-19 (nationwide) (2020) |
|--|------------------------------------|--|
| Remission of late payment and late filing penalties (provides taxpayers who cannot pay with relief to allow them to manage debt) | Deployed for six weeks | Deployed from 14 February 2020 No time limit |
| Instalment arrangements (provides taxpayers with a tool to management payment of tax debts, including giving Inland Revenue the ability to remove interest charges) | Deployed for six weeks | Deployed from 14 February 2020 No time limit |
| Use of Money Interest (reduces the carrying cost of tax debt and reduces the financial penalty associated with under-estimating provisional tax liabilities) | Deployed for six weeks | Not deployed as it does not meet statutory criteria for an "emergency event" as individuals are not physically prevented from paying tax |

Use of money interest (UOMI) remission

9. Relief from interest on outstanding tax debts ("use of money interest") is not yet, in our view, appropriate for the COVID-19 situation. This is because the statutory criteria under the Tax Administration Act 1994 have not yet been met.
10. UOMI is designed to compensate the government for the loss of use of money from taxpayers paying too little tax.
11. The Tax Administration Act provides for an Order in Council to allow Inland Revenue to remit this interest where:
 - 11.1 an emergency event physically prevents a taxpayer from paying tax on time;
 - 11.2 this non-payment results in the imposition of interest; and
 - 11.3 the taxpayer is a member of a class of persons eligible for remission of interest if the Order in Council declaring the emergency event describes such a class of persons.
12. The key criterion for classification as an emergency event relates to a taxpayer being physically prevented from making a payment on or before the due date under the Inland Revenue Acts.
13. An emergency event, for the purposes of the Civil Defence Emergency Act 2002, is framed in the context where the event – for example, a plague or epidemic, has the potential to cause loss of life or injury or illness that endangers the safety of the public or property in New Zealand.
14. If the consequences of the COVID-19 outbreak begin presenting an immediate risk to New Zealanders' public health, the event would be considered to meet the statutory requirement as an "emergency event". Officials would recommend preparing an Order in Council to remove interest charges from taxpayer debts for areas that are specifically affected.
15. In our view, there are tax compliance and integrity risks with applying this relief on a nationwide scale. The relief should be reserved for situations when there is a need, such as direction from the Ministry of Health, to restrict or otherwise limit the movement of individuals for public health safety reasons in a particular area. The

closest comparison we can offer is the limitations imposed under the Civil Defence Emergency Act in response to the Canterbury and Kaikoura earthquakes.

Reducing the rate of UOMI

16. In our report on 5 March 2020 we noted that officials were working on a tax policy response looking at cutting the current rate of UOMI on underpayment of tax, which is currently 8.35%.
17. A tax policy work programme project looking at the formula that is used to set the rate of UOMI has been brought forward as part of Inland Revenue's COVID-19 response. The purpose of any reduction in the interest rate applied to underpayments of tax is to reduce the carrying cost of tax debt and reduce the financial penalty associated with under-estimating provisional tax liabilities.
18. We will report to you on the outcome of this work in the week beginning 9 March 2020.

UOMI relief offered by the tax pooling companies

19. As noted in our earlier report, we are aware the tax pooling companies are assisting business taxpayers affected by cash flow constraints created by the economic effects of the COVID-19 outbreak by offering competitive interest rates for taxpayers needing to use their services to meet provisional tax payments.

Consultation

20. Due to the time constraints in preparing this report, the Treasury has been informed of this report.

Next steps

21. Further work to determine other potential tax policy options as outlined in IR2020/123 dated 5 March 2020 continues.
22. We recommend you refer a copy of this report to the Office of the Prime Minister for their information.
23. Officials are available to discuss the content of this report.

Recommended action

24. We recommend that you:

- (a) **Note** the contents of this report.

Noted

Noted

- (b) **Note** that a report is being prepared for the week beginning 9 March 2020 which will seek policy approval to changes to the way that UOMI is calculated, information sharing and provisional tax compliance cost savings measure.


Noted

Noted

(c) **Refer** a copy of this report to the Office of the Prime Minister for their information.

Referred/Not referred

s9(2)(a)



Principal Policy Advisor
Policy and Strategy

Hon Grant Robertson

Minister of Finance

/ /2020

Hon Stuart Nash

Minister of Revenue

/ /2020

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