Regulatory Impact Statement

Specified Mineral Mining – Tax Review

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by Inland Revenue.

It provides an analysis of:

- whether the current tax rules for specified mineral mining are appropriate; and
- if they are not appropriate, the options to more closely align the rules that operate in respect of specified mineral mining to those that apply to the majority of other taxpayers.

There are approximately 200 specified mineral mining operators in the industry. Most of these are relatively small, with a few major operators being responsible for the bulk of production levels.

Consultation on these issues took place via an officials' issues paper, *Taxation of specified mineral mining*, released in September 2012, which sought feedback on various features of a proposed set of tax rules that would replace the existing concessionary rules. Following review of written submissions, officials from Inland Revenue and Treasury met with a number of interested parties. Submissions were received from accounting firms representing clients, mining firms, and mining industry representatives and were overwhelmingly in favour of the retention of the current rules. In addition to their opposition to any general reform in this area, submissions also raised issues with some of the more detailed proposals in the issues paper. Of particular interest to submitters were, the proposed "claw-back" rule, the concept of the "life of the mine", the proposal to make specified mineral mining companies subject to the general tax rules for grouping and shareholder continuity, and rehabilitation expenditure.

The preferred option would largely replace the existing concessionary tax rules for specified mineral miners, and Inland Revenue recognises this is contrary to the preference of submitters. However, the reasons for replacing them (and removing most of the current concessions) are considered more compelling when broad principles such as minimising economic distortions, fairness across taxpayer groups and the coherence of the tax system are considered. Submissions have been taken into account on the details of the proposals, such as the proposal to allow specified mineral mining company losses to be carried through a breach in shareholder continuity.

There are no other significant gaps, dependencies, constraints or caveats concerning the regulatory analysis undertaken. We do however note that the estimated revenue gain of approximately $30 million per annum associated with these changes is relatively uncertain as it is highly contingent on matters such as relative consistency of production levels and the international price of minerals.

The proposed option does not impair private property rights, reduce market competition, or override common law principles. It does arguably provide less incentive to innovate and

invest in the specified mineral mining sector than currently, but only to the extent that it proposes the removal of most of the existing concessionary rules.

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STATUS QUO AND PROBLEM DEFINITION

1) At present there is a separate set of tax rules that apply to "specified mineral miners". There are approximately 200 specified mineral mining operators in the industry. Most of these are relatively small, with a few major operators being responsible for the bulk of production levels.

2) There are 50 specified minerals, of which gold, silver and iron sands are the most commonly mined. The current tax rules that apply to this group effectively allow a tax deduction for capital expenditure in the year the expenditure is incurred, and, in certain circumstances, allow expenditure to be deducted in anticipation of it being incurred.

3) These immediate deductions for capital expenditure and expenditure yet to be incurred make the tax rules for specified mining very concessionary compared to most sectors, including petroleum mining, which also has concessionary rules.[1]

Example:

Current tax rules for specified mineral mining	Orthodox tax rules
An immediate deduction is available for expenditure that is defined in the Income Tax Act as either "mining exploration expenditure" or "mining development expenditure". These terms effectively cover expenditure incurred in searching for mineral deposits and preparing an area for mining. They include significant items of capital expenditure such as land, buildings and machinery.	Deductions for the same expenditure would either not be permitted or deferred and allowed over the economic life of the asset.

4) Tax concessions to particular industries can have the following effects:
   i) They potentially distort investment decisions and the allocation of capital;
   ii) They can be perceived as being unfair on other taxpayers that do not have concessions.
   iii) They reduce the coherence of tax policy.
   iv) They are also contrary to the Government's objective of a broad-base, low-rate tax system.

5) The benefit of the existing tax rules rests almost entirely with the specified mineral mining sector. Although that sector forms an important part of the New Zealand economy, given the Government's focus on a broad-base, low rate tax policy, it is timely to review whether tax concessions are appropriate given the relative lack of concessions provided to similarly capital-intensive industries.

6) It is also noted that this review is occurring largely simultaneously with a Ministry of Business, Innovation and Employment (MBIE) review of the royalty rates that apply to new

[1] A person's taxable income is determined after taking deductions off assessable income. The ability to access deductions can therefore reduce the person's tax liability.

high-value mineral developments.[2] This review complements the work undertaken by MBIE. Both seek a fair return on the Government's mineral resources consistent with the Government's Business Growth Agenda, by better ensuring that scarce capital and labour is allocated to the most productive areas of the economy.

OBJECTIVES

7) The objective of the current review is to ensure the tax rules that apply to specified mineral miners:

i) Are efficient (that is, they do not distort investment decisions);
ii) Promote equity and fairness across the taxpaying community;
iii) Are coherent in terms of the overall tax system;
iv) Promote revenue integrity;
v) Provide certainty;
vi) Do not impose undue compliance costs on business.

REGULATORY IMPACT ANALYSIS

8) We consider there are three main options for dealing with the over-arching issue of the current concessionary rules:

i) *Status quo:* The current rules be retained.
ii) *Revised rules:* A revised set of rules for specified mineral miners be introduced that brings their tax treatment more closely into alignment with other taxpayers.
iii) *No mining rules:* The current rules could be repealed and not replaced so the general tax rules applied to specified mineral miners.

9) Although options 2 and 3 would arguably be similar in effect, option 2 is based on the assumption that some specific rules would be desirable to perform the following functions:

i) Clarify areas of uncertainty for types of expenditure relatively unique to specified mineral mining.
ii) Provide rules that deviated from the standard tax treatment to cater for relatively unique aspects of mining operations.

10) Officials consider there are strong economic arguments for removing concessions and these apply equally to options 2 and 3. These arguments are summarised below. However, we also consider that, because of its potential to result in higher compliance costs and create greater uncertainty for no discernible benefits over and above those provided by option 2, option 3 is not viable. This option was therefore not consulted on, nor was it raised as a realistic possibility by submitters.

11) "In designing option 2 officials were conscious that there are some unique features to specified mineral mining that may justify special rules. These are:

i) The fact that the costs of mining are generally divided into specific definable phases "prospecting expenditure", "exploration expenditure", "development expenditure", "mining expenditure" and "rehabilitation expenditure". It is arguably unfair to treat all of these expenditure types under ordinary principles because the nature of mining operations means that some items that may generally

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[2] http://www.med.govt.nz/sectors-industries/natural-resources/pdf-docs-library/oil-and-gas/crown-minerals-act-review/consultation-on-the-royalty-regime-for-minerals/discussion-paper.pdf

be regarded as capital warrant different tax treatment. There is also scope in mining to incur significant expenditure after all income-earning activity has ceased (such as "rehabilitation costs" of restoring land to the condition required).

ii) It is not always clear at the outset how long a mine will last. Under general principles of depreciation, capital assets that decline in value should be depreciated over their useful life. To be consistent with this principle, assets with a useful life contingent on the operation of the mine would need to be depreciated over the "life of the mine". However, a fixed life would arguably produce uneconomic outcomes because the life of a mine can be a variable figure depending on mineral reserves and levels of production. It is therefore necessary to define the "life of mine" concept and incorporate the necessary flexibility.

iii) It may be possible for a miner to access tax-free capital gains by disposing of land with the minerals still in place, whereas income from the extraction and sale of those same reserves would be subject to tax. The tax treatment of land should therefore be considered.

iv) There are currently rules allow mining companies to carry losses through a change in shareholding (an option not open to most other companies), but restrictions on who mining companies can group with for tax purposes (effectively they can only group with other mining companies). It is important to consider if there is something sufficiently different about the specified mineral mining sector that justify these rules being retained or whether the standard loss and grouping rules should apply.

v) How "farm-out" arrangements, insurance receipts and bad debts should be treated. There are currently special rules for insurance receipts and writing off of debt by mining holding companies. Again, it is important to consider if these are still appropriate.

12) Officials consider the following sector-specific rules will provide a more orthodox tax treatment to the sector (by removing the concessionary treatment), while still providing certainty and catering for some distinctive features of the sector, as explained above

i) "Prospecting expenditure" and "exploration expenditure" should be immediately deductible, subject to the claw-back rule discussed in point iii), below.

ii) "Development expenditure" should be capitalised and deducted over the life of the mine. [3]

iii) "Exploration expenditure" on items later used for the extraction of minerals should be added back as income in the year the mine becomes operational and deducted over the life of the mine as if it were development expenditure.

iv) The "life of the mine" should be self-assessed by taxpayers based on their expected activities in a particular permit area, but should not be less than the expected life of the mine used for accounting purposes. A mine would have a maximum life for tax purposes of 25 years.

v) "Mining expenditure" should be subject to the ordinary capital/revenue distinction that applies to other businesses.[4]

vi) "Rehabilitation expenditure" should be deductible in the year it is spent, but a refundable credit should be generated if a loss is incurred in that year to provide

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[3] Capitalised expenditure is not immediately deductible. Instead, deductions are generally spread over the estimated useful life of the asset created.

[4] Taxpayers are able to immediately deduct revenue items, while capital items are either non-deductible or deductible over time through depreciation.

for the fact that the expenditure may occur after income-earning activity has ceased.

vii) Land should be treated as revenue account property of a mining company, meaning income or a deduction is accounted for in the year of disposal.[5] As with rehabilitation expenditure, if a loss is incurred in the year of a land sale, a refundable credit should be generated.

viii) The existing loss rules for mining companies should remain. That is they should continue to be able to carry losses forward through a continuity breach, but only be able to offset those losses against income from the same permit area. To prevent this loss continuity rule being manipulated, mineral mining companies should still only be allowed to form tax groups with other mining companies. This is consistent with the current mineral mining rules, but differs from the rules that apply more generally.

ix) The rules that allow mineral miners to appropriate income for future expenditure should be repealed. To account for the fact that the repeal of this rule may result in unexpected tax liabilities for miners, they should be allowed to spread any income tax liability over the two years following effective date.

x) When a "farm-out" of mining rights takes place, the consideration received should be treated as income in the year the rights pass and the consideration paid should be deducted over the expected life of the mine (or be immediately deductible if the mine is still in the prospecting or explorations phases).

xi) The normal tax rules should apply in respect of insurance receipts and bad debt/bad debt recovery.

13) The table on the following pages analyses the 3 options discussed above against the objectives of the review:

[5] Revenue account property is taxable or deductible in the year of sale, meaning that if it is sold for less than it was bought for, a deduction is available. Conversely, if a profit is made, that profit is taxable.

	Objectives (Met/Not met)						Impacts		
	Efficiency	Equity	Coherence	Revenue	Certainty	Compliance	Costs	Benefits	Net economic Impact
Option 1: Status quo – Not preferred	Not met – Industry concessions distort investment decisions and productivity of capital	Not met – By lowering the tax obligations of one sector you must invariably increase the relative burden on others.	Not met – Industry concessions are contrary to the Government's overall broad-base, low-rate tax policy framework.	Not met – Lowering the tax obligations for certain taxpayers not only reduces the revenue from that particular source but also puts the overall tax base at risk.	Met – The rules in their current form have been in place for a number of years and are well understood by industry.	Met – Taxpayers are familiar with the current rules and have systems designed for them.	**Government:** Lower revenue collection and issues associated with concessionary rules, such as lobbying from comparable industries for similar concessions. **Taxpayers:** None for the particular sector, but concessions result in relatively higher burden on other taxpayers and lower levels of investment in other industries.	**Government:** A specified mineral mining sector that is more profitable than it otherwise would be. **Taxpayers:** Higher after-tax profits for the sector.	Negative – the benefits to the industry are outweighed by broader considerations of a lack of efficiency, equity, coherence and revenue gains.

	Objectives (Met/Not met)						Impacts		
	Efficiency	Equity	Coherence	Revenue	Certainty	Compliance	Costs	Benefits	Net economic Impact
Option 2: Revised rules (removing most of the concessions whilst retaining some special rules) – Preferred option	Met – Neutral tax treatment promotes investment decisions based on pre-tax returns	Met – Providing broadly consistent tax treatment across industries, allows different industries to compete on a level footing.	Met – Consistent tax treatment across comparable sectors promotes the overall coherence of the tax system.	Met – Removing tax concessions broadens the tax base and ensures that an appropriate amount of tax is paid by all taxpayers.	Not met – A revised set of rules will create some uncertainty while they are 'bedded in' and both taxpayers and Inland Revenue start applying them in practice.	Not met – A new set of rules would necessarily result in compliance costs being incurred while the new rules were established and systems put in place to ensure the revised obligations could be accurately met.	**Government:** Industry dissatisfaction with change. It is not clear how this dissatisfaction would manifest at a practical level. **Taxpayers:** Higher tax obligations and some compliance costs while new systems were established.	**Government:** Promotes efficiency, equity and coherence across the tax system and raises revenue of approximately $30 million per annum. **Taxpayers:** None for the particular sector, but fairer on broader taxpaying community.	Positive – provides efficiency, equity and coherence across the tax system and raises revenue. Compliance costs will be incurred, but are largely expected to be of a one-off nature.

		Objectives (Met/Not met)					Impacts		
	Efficiency	Equity	Coherence	Revenue	Certainty	Compliance	Costs	Benefits	Net economic impacts
Option 3: No mining rules (general tax rules that apply to other businesses applying to miners) – Not preferred	Met – Neutral tax treatment promotes investment decisions based on pre-tax returns	Met – Providing broadly consistent tax treatment across industries, allows different industries to compete on a level footing.	Met – Consistent tax treatment across comparable sectors promotes the overall coherence of the tax system.	Met – Removing tax concessions broadens the tax base and ensures that an appropriate amount of tax is paid by all taxpayers.	Not met – Not having any special rules would promote considerable uncertainty while the industry and Inland Revenue established which of the 'regular' rules apply to which part of a mining operation.	Not met – Not having special rules would necessarily result in compliance costs being incurred while the application of the general rules was established and systems put in place to ensure the revised obligations could be accurately met.	**Government:** Industry dissatisfaction with change arguably higher under this option because of anticipated higher compliance costs. **Taxpayers:** Higher tax obligations and possibly significant compliance costs while new systems were established.	**Government:** Promotes efficiency, equity and coherence across the tax system and raises revenue of approximately $30 million per annum. **Taxpayers:** None	Probably positive, but expected to result in higher compliance costs and greater industry uncertainty for no benefits over and above those provided by option 2.

Recommended option

14) Inland Revenue considers that option 2 is preferable. At a simplistic level, the choice is between keeping a concessionary set of rules (option 1) or applying more orthodox principles to the sector (options 2 and 3).

15) Tax concessions that favour one particular industry distort investment decisions and the productivity of capital. Distortions arise in this context if a tax concession induces people to invest in a particular sector that, in the absence of the tax, they would not invest in. If businesses are effectively subsidised through the tax system, it also has the potential to distort the domestic labour market through that industry being in a position to offer remuneration that a non-subsidised business could not match.

16) New Zealand's framework for taxing inbound capital is based around applying broadly the same tax rules no matter which area of the economy the capital is invested. This is consistent with our broad-base, low rate tax framework. This is why, for example, the same company tax rate applies to companies across the New Zealand economy. The logical extension of option 1 would be to abandon this framework and apply lower effective tax rates on foreign investment into certain areas of the economy. Not only would such an approach put the company tax base at extreme risk, it would likely result in unfair and inefficient outcomes. In addition, it would strongly encourage industries to lobby Government for industry-specific tax concessions.

17) Further, we consider that, even if tax settings are a consideration when investing into a certain jurisdiction, they will - provided the rules are not actively discriminatory - be relatively insignificant compared to other factors, such as a country's infrastructure, the skill of its labour force and the market price of the mineral in question.

18) However, officials recognise that some unique features of the specified mineral mining sector justify departure from the standard rules. As a result some special rules should still be in place for the sector. It is therefore considered that option 2 is preferable.

CONSULTATION – POLICY FRAMEWORK

19) An officials' issues paper was released by The Treasury and Inland Revenue entitled: *Taxation of specified mineral mining* in October 2012.

20) A total of 39 submissions were received from a mix of accounting firms representing clients, mining firms, and mining industry representatives. Twenty-six of the submissions received were standard form submissions from West Coast alluvial gold miners.

Submissions

21) Submissions were overwhelmingly in favour of retaining the status quo. Most submissions agreed that the current rules were concessionary, but that opposed change on the basis of efficiency. Submitters argued that it is incorrect to look at the distortion of local capital markets in isolation. They consider that there is only a limited capital pool available worldwide for mineral mining and, to the extent that rules in New Zealand change to make it less profitable to operate here, that capital will migrate to a more favourable jurisdiction.

Therefore, they suggest, it is more a question of whether the capital comes to New Zealand at all, rather than its efficient allocation once it is here.

22) Submitters also suggested that adverse changes to the tax rules for specified mineral miners could have particularly detrimental effects on rural areas where mining is prevalent – the West Coast of the South Island in particular.

23) Officials do not agree with submitters on the efficiency point for the reasons set out in the analysis section (recommended option), above.

24) Officials understand submitters' concerns about the impact on rural areas. However, as stated above, the tax system is based on the fundamental premises of a broad base and low rate. To the extent that Government support is provided to particular communities, it is more efficient to have this take place through a targeted system, rather than tax concessions to a particular industry.

CONSULTATION – POLICY DETAIL

25) As mentioned above, submitters disagreed with the overall objectives of the proposals as described in option 2. However, written submissions on the issues paper and later meetings and conversations between submitters and Inland Revenue and Treasury officials also focussed on the detailed policy proposals put forward in the issues paper.

26) Although many of the features of the final proposal are consistent with the issues paper, the following table sets out the specific proposals that attracted the most submissions. For each issue it then restates the final policy proposal and, if the final policy proposals have been altered as a result of consultation, what has changed and why. Where key submission points were not advanced as part of the final proposals, it explains the reasons why they were not considered appropriate:

Issue and proposed rules	Submissions and response
Claw-back rule: Given that exploration expenditure would be immediately deductible and development expenditure would have to be capitalised, there are incentives to recharacterise development expenditure as exploration expenditure in order to access those deductions. The proposal is that any item treated as exploration expenditure that is used for mineral extraction is clawed back and then depreciated over the life of the mine (effectively treating it as development expenditure).	The proposal is consistent with the issues paper. Submissions suggested that the boundary between exploration and development expenditure are almost always clear, so the claw-back rule is unnecessary. However, we consider that this will not always be the case as, for example, a tunnel used for exploration purposes may later be used to extract minerals from the functioning mine. In these cases, the claw-back rule will provide a useful buttress between the two types of expenditure. To the extent that the boundary is clear then taxpayers will be able to account for expenditure in a way that ensures the claw-back rule never operates in practice.

<table>
<tr><th>Issue and proposed rules</th><th>Submissions and response</th></tr>
<tr><td>Rehabilitation/restoration expenditure: Expenditure necessary to restore the mined land to the condition required by the relevant mining permit.

The proposal is that deductions should be allowed in the year that rehabilitation expenditure is actually spent.

To recognise the fact that this expenditure may be incurred after income earning activities have ceased, to the extent that such expenditure results in a tax loss, a refundable credit should be generated in the relevant period. This credit would be limited in value to the amount of tax that the miner has paid in respect of mining operations in the relevant permit area.

This is the treatment given to similar expenditure under the petroleum mining rules. Under the petroleum rules, such losses can be carried back and offset against previous years’ income. The refundable credit is considered to be preferable because it eliminates much of the compliance and administration costs involved in reopening and adjusting prior years’ returns.</td><td>The issues paper suggested that deductions should be given for rehabilitation expenditure to the extent that a grossed-up sum of money was paid into special Inland Revenue account – similar to environmental restoration account rules in subpart EK of the Income Tax Act 2007. So, for example, if a taxpayer wished to obtain a $100 deduction, they would put $28 into an Inland Revenue account (effectively a pre-payment of tax).

Submitters suggested the issues paper proposal would generate real cash-flow concerns for them.

Submitters have also argued that mineral miners should be able to use the provisioning allowed by IFRS accounting as a basis for deductions. This would result in deductions being available in the year that the miner committed to incurring the expenditure (being the period when the relevant damage to land took place), discounted and then claimed over the period between that date and actual expenditure. Deductions would therefore be able to be taken earlier than under the proposed rules.

Although we can see the force in this argument, we do not consider this is something that should be addressed solely in the mineral mining context, as many industries have expected expenditure that they are able to create reserves for in their accounts. A broad review of the tax treatment of future expenditure would seem more appropriate. In the meantime, we do not consider it would be preferable to introduce a regime more favourable than the one that currently applies to petroleum mining.</td></tr>
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Issue and proposed rules	Submissions and response
Land expenditure: Land purchased by a miner for the purposes of their mining operations. Currently these expenses are fully deductible. The proposal is to treat land as revenue account property, with gains being taxable and losses deductible in the year of sale. As with rehabilitation expenditure, to recognise the fact that selling of the land will likely be the final act of a mining project, losses attributable to the sale of land should also be available as a refundable credit, up to the value of tax paid in respect of the relevant permit area.	The issues paper suggested treating land as revenue account property, but not that a refundable credit be generated. Submissions suggested a regime similar to that which exists for forestry should be considered. Under the forestry rules, the land is separated from the standing timber, with the latter being given revenue account treatment. Again, we can see the force in this argument, but consider such a solution unworkable in the mineral mining context. Unlike timber, which is easily identifiable, mineral deposits under the surface are extremely difficult to accurately estimate in advance. In any event, the 'revenue account' rule is designed to be concessionary in that it recognises that mineral miners will likely be paying a substantial premium for land when the existing landowner realises that they have commercially viable mineral deposits. The land being sold at the end of the mining project will have been devalued by the extraction of the minerals, so a deduction for the loss in value should be available to the miner.

Issue and proposed rules	Submissions and response
Life of the mine: The life of the mine is an important concept, because it sets the timeframe for depreciation of all assets that are tied to the life of the mine, including development expenditure. It is proposed that the “life of mine” should be self-assessed, provided the timeframe used for tax purposes is not less than the one used for the purposes of the company’s accounts. Some mines, particularly iron sand mines, have very long estimated lives. To create some certainty for these long-life mines, it is proposed that there be a cap on the “life of mine” concept of 25 years. The “mine” in question should be the permit area.	The issues paper suggested that depreciation should be calculated using “proven” plus “probable” reserves, with deductions being based on the proportion of those reserves extracted in any given year. Submissions suggested that the “proven” plus “probable” method would be difficult to operate in practice, particularly for smaller mining operators that may not be required to produce such information for the purposes of their accounts. The proposal therefore aims to simplify the issue for smaller operators while still maintaining some robustness around the life of mine figure actually produced. With regard to what a “mine” is for these purposes, submissions suggested that sometimes several mines exist in one permit area. However, the ability to split permit areas into discrete operations could be used to manipulate the proposed self-assessment regime, and using the entire permit area as a proxy for a “mine” would provide greater certainty.

Issue and proposed rules	Submissions and response
Loss continuity and grouping: Under the current regime, a mining company can carry losses through a breach in shareholder continuity (subject to losses from one permit area being ring-fenced to future profits from the same area), but cannot belong to a group of companies unless all group members are also mining companies. The proposal is that the existing rules remain in place. However, the claw-back rule mentioned above should apply to all relevant expenditure irrespective of whether it was incurred before or after a continuity breach. This is because the benefit of any losses will pass to the new owner, so that owner should account for any resulting income.	The issues paper suggested that the normal tax rules for losses and grouping should apply to specified mineral miners. Although the proposal to retain the current system depart from the general tax principles regarding losses and grouping, we consider they are justified in this instance. Submissions suggested that mineral mining companies were more susceptible to continuity breaches because of the nature of their business. Mining is a capital intensive industry that requires significant upfront investment. This is a level of investment that can be beyond the means of founding shareholders. However, unlike other industries, mining companies do not have the option of debt financing because of the high-risk nature of the business. Therefore, with additional equity financing and the associated change in shareholding, they are more at risk of continuity breaches than companies in other industries. We agree that the nature of the business means that mineral mining is somewhat unique in this regard, which is the primary reason that the existing loss-continuity rules should remain in place. This would mean that losses from a permit area can be carried though a continuity breach, but will always be to be ring-fenced to income derived from the same permit area. It also means that mining companies should only be allowed to form tax groups with other mining companies.

Issue and proposed rules	Submissions and response
Appropriation of income: Under the current rules, a specified mining company can deduct an amount of income appropriated towards mining exploration or development expenditure. The deduction is allowed in the year that the appropriation is made. The proposal is that the normal rules apply and no special appropriation be permitted. Any tax liability that arises as a result of the removal of these rules in the 2014/15 income year should be able to spread evenly over that year and the 2015/16 year.	The issues paper suggested that no appropriation be permitted, but did not allow for any resulting tax liability to be spread. The ability to spread the liability over two years follows submissions that the removal of the appropriation rules would result in a significant “income spike” for affected companies, with adverse cash-flow consequences.

CONCLUSIONS AND RECOMMENDATIONS

27) For the reasons set out in the “Regulatory Impact Analysis” section of this statement, we recommend that a revised set of tax rules for specified mineral mining be enacted that more closely aligns the tax treatment of this sector with orthodox tax principals.

28) We also recommend that the revised rules have the key features set out in paragraph 12 of the “Regulatory Impact Analysis” section.

IMPLEMENTATION

29) It is proposed that the revised rules apply to specified mineral miners from the 2014/15 income year. Given that the rules will largely remove existing concessions, no significant transitional issues are expected. The only transitional rule proposed is to allow the payment of any tax attributable to the removal of the income attribution rule to be spread over two years.

30) It is anticipated that there will be some one-off compliance costs for the relevant taxpayers once the revised rules take effect. These costs are expected to largely be associated with ensuring that taxpayers understand the implications of the rules and changes to accounting/software systems necessary to accommodate them.

31) It is not anticipated the introduction of these rules will have significant systems implications for Inland Revenue as most of the changes will simply alter the self-assessment position adopted by taxpayers. The changes will be communicated to taxpayers though the usual legislative means, including a detailed commentary to the bill when introduced and a summary of the final rules in a Tax Information Bulletin once the enacting legislation has received Royal Assent. We will also consult with the industry as to whether more detailed communication on the changes is required – for example, seminars for effected parties and their advisors.

MONITORING, EVALUATION AND REVIEW

32) Monitoring the effect of these changes will fall under Inland Revenue's responsibilities under the generic tax policy process (GTTP). The GTTP is a multi-stage process that has been used to design tax policy in New Zealand since 1995. The final stage of this process is the implementation and review stage, which involves Inland Revenue conducting a post-implementation review and identifying any remedial issues. Opportunities for external consultation are built into this stage.