BRIEFING

Options for implementing an International Visitor Levy

Date:	20 February 2018	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	1952 17-18

Action sought		
	Action sought	**Deadline**
Rt Hon Winston Peters **Minister of Foreign Affairs**	**Note** contents of this report, in Section 6(a)	None
Hon Kelvin Davis **Minister of Tourism**	**Approve** this briefing for release to the listed Ministers	23 February 2018
	Discuss preferred approach with Ministers **Direct** officials on options for further development	None
Hon Grant Robertson **Minister of Finance**	**Note** contents of this report	None
Hon Phil Twyford **Minister of Transport**	**Note** contents of this report, Section 6(a)	None
Hon David Parker **Minister for Trade and Export Growth**	**Note** contents of this report, Section 6(a)	None
Hon Nanaia Mahuta **Minister of Local Government**	**Note** contents of this report, in particular analysis of a national bed tax implemented by local government	None
Hon Stuart Nash **Minister of Revenue**	**Note** contents of this report, Section 6(a)	None
Hon Iain Lees-Galloway **Minister of Immigration**	**Note** contents of this report, in particular assessment of collection options that involve the immigration system	None
Hon Meka Whaitiri **Minister of Customs**	**Note** contents of this report, in particular assessment of collection options at the border	None

Action sought		
	Action sought	**Deadline**
Hon Eugenie Sage **Minister of Conservation**	**Note** contents of this report	None
Hon Aupito William Sio, **Minister for Pacific Peoples**	**Note** contents of this report, Section 6(a)	None

Contact for telephone discussion (if required)				
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The following departments/agencies have been consulted
Department of Prime Minister and Cabinet

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

BRIEFING

Options for implementing an International Visitor Levy

Date:	20 February 2018	Priority:	High
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Purpose

The Ministers of Tourism and Finance have requested advice on the range of options for implementing an International Visitor Levy (IVL).

Executive summary

1. The growth in the tourism sector, coupled with limitations on the ability to charge for some services has resulted in significant pressure on conservation and tourism infrastructure in hot-spots around New Zealand. Previous advice outlined a range of options for generating revenue to address these pressures (MBIE Briefing 1413 17-18 refers), including an IVL. The IVL is an opportunity for visitors to contribute to New Zealand's conservation and infrastructure needs. As a tool it offers scale and supports investment from a national perspective.

2. Following discussions, the Ministers of Finance and Tourism have asked for advice on how an IVL could be implemented, including the trade-offs involved for different options. The Government is looking to implement a levy that will deliver on the following objectives:

   a. target all international visitors, and only international visitors

   b. generate $75 million per annum at a reasonable price point

   c. minimise costs of collection including ease of payment for travellers

   d. minimise the impact on, or risk to international relationships and agreements, and

   e. be implemented as soon as possible, but no later than July 2019.

Key choices for Ministers

3. The two key choices for Ministers are:

   a. **How to target the levy** - considerations influencing this choice are New Zealand's international interests and compliance with legal obligations. The risk level varies depends on how the levy is targeted.

   b. **How to collect the levy** - The key considerations are the complexity of the method and the associated costs and impacts on travellers and other stakeholders.

Options Shortlist

4. A cross-agency working group has looked at a range of implementation options against the above criteria. While no single option stands out, we have identified a short-list that combines

targeting decisions with workable collection options. Annex 1 outlines the full suite of implementation options.

A. Target on the basis of immigration status, and collect pre-travel at the point of application for a Visa/Electronic Travel Authority (ETA) or at the border

5. The levy would be payable by all travellers who are neither New Zealand citizens nor holders of a resident class visa. Targeting on the basis of immigration status would offer the benefit of being readily understood, and accurately capture the Government's proposed target group excluding Australian citizens and residents. However, while this approach is consistent with the Trans-Tasman Travel Arrangement Section 6(a)

6. The levy could be collected alongside charges for visas and ETAs. This has the advantage of using immigration systems, and so reducing the number of touch points and administration costs.

7. Australian citizens and permanent residents who are not ordinarily resident in New Zealand are currently granted resident visas on arrival, and so would not require an ETA or visa under current policy settings either. Therefore under current settings, they would be exempt from the IVL.

8. Should the Government opt to implement an ETA for border security and improved passenger entry (decisions likely in March/April 2018), then this option offers the most administratively simple and flexible mechanism for implementing an IVL. In terms of timing, initial planning suggests a collection mechanism for an IVL via the immigration system could be implemented in the first quarter of 2019/20.

9. If an immigration status-based IVL were collected at the border (arrival or departure) it would accurately capture the target group, but would not align well with the move towards seamless processing at airports and would create an extra 'touch point' for travellers. It would be likely to increase queues/processing time and cost. Auckland Airport in particular is running at capacity, in terms of border processing. Encouraging payment in advance of crossing the border would reduce, but not eliminate the impact.

B. Target on the basis of tax residency, collected at the border or via ticketing

10. Under this option all travellers who are not NZ tax residents (i.e. they do not usually live in NZ) would be liable to pay. Targeting the levy in this way has the benefit of capturing a group who do not contribute to the conservation estate or national infrastructure through the payment of income tax. Section 6(a)

12. It would also be possible to use the ticketing collection method though we consider this option is harder to implement and may not achieve the targeting objective. Initial discussions with airlines indicate that they would be likely to charge all passengers and offer a refund. Inland Revenue, Customs and MBIE will undertake practical engagement with industry to identify potential solutions on how to target the IVL at the point of ticket sale, should Ministers wish to pursue this option further.

Next Steps

13. Further work is required to refine preferred option(s), including design detail, administration costs and agency roles and responsibilities. Officials also recommend consultation with international partners (required under some agreements) and domestic stakeholders (particularly where they may be involved in collection).

Recommended action

Officials recommend that you:

a **Note** the range of policy settings and collection options that are available for implementing a levy

Noted

b **Direct** officials as to which options should be progressed

Yes / No

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20 / 2 / 2018

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Rt Hon Winston Peters
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Hon Kelvin Davis
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Minister of Customs

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Hon Eugenie Sage
Minister of Conservation

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Background

Visitor numbers are putting pressure on conservation and tourism infrastructure and the market is not well placed to respond

14. New Zealand has experienced significant growth in its tourism sector, as illustrated in the table below. Growth has been primarily driven by increasing numbers of visitors (both international and domestic). Growth is forecast to continue to an estimated 4.8 million international visitors in 2023.

	2007	2017
Total Tourism Expenditure	$24.8 billion	$36.0 billion
International Tourism Expenditure	$10.6 billion	$14.5 billion
International visitor numbers	2.5 million	3.6 million
Estimated international visitor GST	$926 million	$1.5 billion

15. As a result, New Zealand has enjoyed a range of benefits including employment and small business opportunities. However, increasing volumes have put pressure on visitor-related infrastructure in ‘hot-spots’ around the country.

16. Across the tourism system, costs and benefits are not well aligned, resulting in ‘free rider’ problems. This is further aggravated by limitations on the ability to charge visitors for public amenities. Specifically, ratepayers and taxpayers are funding services and infrastructure that are difficult to charge for, and visitors (and tourism businesses) often enjoy these amenities at zero or low costs. International visitors do, however, make a contribution to the tax base (MBIE estimates that $1.5 billion in GST comes from international visitors, plus the wider contribution to business and income tax through employment in the tourism industry).

17. Overall, there is a deterioration in visitor experience, and a sense from locals that they are both bearing the burden of cost and being crowded out.

18. Central government has put some funding in place, for example, through the Tourism Infrastructure Fund which is $100 million over four years.

Request for advice on implementing a levy

19. Officials have previously provided advice to the Ministers of Tourism and Finance on the range of revenue options available, including for local councils, DOC, and nationally (most recently MBIE briefing 1413 17-18 refers).

20. On 31 January, the Ministers of Tourism and Finance directed officials to provide advice on options for implementing an International Visitor Levy (IVL).

Other revenue options are being considered

21. While not the subject of this paper, it is worth noting that officials are working on a range of funding tools, to support a system response. A system response will offer scale, support regional and seasonal dispersal, support long term planning (revenue certainty) and distribute costs fairly. The proposed IVL would offer scale, and potentially revenue certainty for DOC.

22. Related workstreams include:

    a. DOC has provided advice to the Minister of Conservation on revenue options within her portfolio.

b. The Minister of Local Government is undertaking an Inquiry into the costs and revenue of local government. The Inquiry's terms of reference are yet to be confirmed but it is intended to examine the ability of Local Government to generate revenue to meet the needs of their communities including provision of local tourist infrastructure (an area we think it is likely that there is a particularly strong mis-match between who pays and the beneficiaries of tourism-related infrastructure and services).

c. Officials have taken an initial look at a *local* government bed tax. Administrative costs relative to income generated mean this option is only likely to be attractive for high-volume jurisdictions, such as Queenstown Lakes District Council, who has expressed an interest in this option to fund planned infrastructure investment.

Objectives for an IVL

23. The options for implementing an IVL have been assessed against the following objectives:

    a. target all international visitors, and only international visitors

    b. generate $75 million per annum at a reasonable price point

    c. minimise costs of collection including ease of payment for travellers

    d. minimise the impact on, or risk to international relationships and agreements, and

    e. be implemented as soon as possible, but no later than July 2019

24. No single option meets all criteria, but officials have provided risk assessments and/or mitigations wherever possible. This report also outlines likely impacts on New Zealand stakeholders.

IVL implementation options

25. Broadly speaking there are four policy options for charging a levy, and five collection mechanisms. The combination of policy setting and collection mechanism determines how well an option measures up against the criteria.

Policy settings for charging

Target on the basis of immigration status

26. Payment of the IVL would be required by all people who are neither New Zealand citizens nor holders of resident-class visas. This is similar to Mexico's levy (which is described further in annex 2).

27. Australians would be exempt, as all Australians are granted resident class visas on arrival. Section 6(a)

28. Residents of Realm countries, (Niue, Tokelau and the Cook Islands) are New Zealand citizens, and so would be exempt under this option; however other Pacific Island countries such as Samoa would not. In addition, around a million people who hold New Zealand citizenship or who are permanent residents (able to return and reside at any time) usually live overseas, and would be exempt.

29. The major advantage of using immigration status as the basis of targeting is that the information is held in government systems (Immigration New Zealand (INZ) and Department of Internal Affairs (DIA)), and it is therefore possible to automate targeted charging.

Target all people who don't live in New Zealand (as a proxy for tax residency)

30. Under this option, payment information such as billing addresses would be used to assess whether the passenger is likely to be a tax resident of New Zealand, in which case they would be exempt from the IVL. This option aligns with the idea that New Zealand tax residents already pay income taxes and local body rates which contribute to the funding of New Zealand's tourism infrastructure, whereas international visitors do not.

31. Using tax residency would target anyone who does not live in New Zealand, which means the levy would also be collected from New Zealand citizens who live overseas (including residents of Realm countries above). Section 6(a)

32. Impacts on working holiday visitors, international students, and the Recognised Seasonal Employers scheme (or any future pacific work schemes) will depend on design decisions.

33. Section 6(a)

34. Many countries, including New Zealand, already use proxy tests for determining tax residency in the context of applying GST to digital services. These tests use commercial information that payment websites routinely collect.

35. As the information required is used for commercial transactions, it is possible to automate, although new mechanisms would need to be established, including how to enable verification.

Universal levy

36. A universal levy would be payable by all travellers, including New Zealanders. This option has the advantage of being simple to implement (an additional levy, included in the ticketed purchase price, could be administered alongside the Border Clearance Levy (BCL)) meaning a lower per arrival rate ($12) would raise the required revenue. Section 6(a)

It does not, however, target international visitors.

Guest nights (bed tax)

37. Payment of a 'bed tax' by anyone using commercial accommodation (including accommodation available via the sharing economy). A bed tax can be charged per guest, per night, and/or per room. Overseas it is also varied by accommodation type and location. A bed tax would be payable by all visitors to a location (international and domestic).

38. Inland Revenue could implement a bed tax that applied to GST registered accommodation providers including booking websites, and administer it alongside GST. Collection would largely rely on voluntary compliance as audit would be difficult, due to the large number of small providers owing relatively small amounts.

39. Alternatively, local government could collect on behalf of central government (which would be an extension of local government functions and powers). Focussing on high volume destinations for a national bed tax would likely be the most administratively efficient option.

    a. A bed tax would have a more significant impact on demand in low volume locations; and would incur high administrative costs relative to the revenue collected (based on a $2 per guest per night levy, over 30 councils would collect less than $0.5 million)

    b. A $5 rate applied to all accommodation providers in the four 'gateway cities' (Queenstown, Christchurch, Wellington and Auckland) would generate $85 million in revenue, for less administrative cost. Further work would be required to test the impact of price distortions.

40. Under either scenario, local government may expect to be able to add their own bed tax onto any national charge. Queenstown Lakes District has already indicated that it considers a $10-15 charge would have limited impact on demand.

Collection mechanisms

41. The following collection mechanisms could be used to collect funds under any of the above policy settings, except a bed tax.

Ticketing

42. Inclusion of an IVL in the purchase of tickets (airline and cruise). This would be a straightforward mechanism for a universal levy (potentially administered by Customs, and managed alongside the BCL). The mechanism would require some additional IT systems to be developed by government, airlines and cruise companies (data matching with INZ and DIA) if the IVL is targeted.

43. We understand from discussions with airlines that some companies would build the necessary systems, but others are likely to charge all passengers and offer a refund (this has been the experience with the Mexican IVL). The Ministry of Transport advises that legislating to require targeting of foreign visitors only would be difficult. Tickets are purchased overseas (where we do have not jurisdiction); and effective monitoring is difficult given the wide range of pricing strategies employed by airlines. Further engagement with key carriers by Inland Revenue, Customs and MBIE may offer some solutions.

44. The significant advantage of charging via ticketing is that compliance by travellers is straight forward – the only additional step involved might be providing information on residency status to the airline or cruise company at the time of booking.

Arrival tax

45. Arrival taxes would be payable at the border. This would add additional processing time, and cost; and does not align with the move towards seamless processing at airports (for example, smart gates, and work currently underway considering the removal of arrival and departure cards).

46. An arrival tax would also need additional infrastructure for collection points and queues. These could be mitigated by enabling pre-payment and electronic “pay and go” technology at the border (so that less activity/contact occurs physically at the border).

47. There are systems issues which would need to be worked through, to enable payment to be attached to a person or travel movement. For example, if the targeting was based on immigration status, a connection with immigration systems would be required to identify who was liable to pay the levy. Enforcing compliance, unless attached to airline boarding (i.e. an ability to deny boarding), could have challenges; with additional complexities if New Zealanders were inadvertently identified as liable to pay.

Departure tax

48. Payment by passengers on departing New Zealand has similar issues as for an arrival tax, but with a greater ability to mitigate through pre-payment (on-line, via booking agents, and booths in the airport). A departure tax would require a check for compliance; either at security, or the boarding gate, meaning that the checking authority would again need to know for each traveller whether they were liable to pay, as well as whether they had paid. Enforcement issues would also need to be considered.

Refund scheme

49. A refund scheme could be implemented either if the IVL is applied universally (with exempt persons able to apply for refund), or to manage exemptions of certain groups. For example, if the IVL is levied based on citizenship and residence status, but a refund is made available if a traveller can demonstrate tax residency.

50. There are two issues with refunds:

    a. They are relatively complex and costly for authorities to administer, relative to the size of the refund (in this instance, costs could exceed the value of the refund)

    b. Customers may also consider that the costs of applying outweigh the benefits, leading to both a low uptake (particularly where the amounts are small) and a risk of ongoing negative publicity.

51. Both of these issues could be mitigated to some extent if the refund system is digitised and/or tax refund businesses were to extend their services to include the IVL.

52. Adding a refund scheme to any system will have implications either for the rate charged, or total revenue collected.

Adding IVL to application fees for visas/ETAs

53. The IVL could be added to immigration charges already imposed by INZ. This would leverage existing systems. However, adding the IVL to visas would not currently capture all visitors to New Zealand, as we have visa waivers with many countries (2.4 million visitors would not have paid, out of the 3.6 million visitors last year[1]).

54. The Minister of Immigration intends to present advice on developing an ETA[2] to Cabinet in March/April 2018. The policy decision on whether or not to implement an ETA will be primarily based on the benefits for border security, including for marine travel, and for border automation and passenger facilitation. However, if implemented ETAs could also be a charging point both for the IVL and other services provided by the immigration system.

55. Should ETAs be implemented, adding an IVL to application fees for visas and ETAs could provide the lowest cost and most accurate vehicle for charging an IVL. However, as ETAs would enable multiple entries to New Zealand (like visas) the price point would need to be set higher (likely between $26 and $40 depending on targeting).

56. Decisions on ETAs are still pending, including whether Australians would be required to obtain ETAs Section 6(a)

57. Should Cabinet approve the ETA proposal, MBIE project planning suggests that the IVL charging platform could be in place as early as the first quarter of 2019/20.

Considerations in selecting a preferred option

58. Annex One contains the full suite of options considered by officials (the combination of four policy settings, set against up to five different collection mechanisms), rated against each of the criteria. This section explores the implications of the criteria.

[1] 1.3 million visa waiver visitors and 1.1 million Australian arrivals

[2] ETAs are a border security and passenger facilitation measure. They are required for foreign travellers to a country who are not otherwise required to hold a visa. This enables the host country to know who is arriving. They are currently in place in Australia, Canada, Hong Kong, India, Sri Lanka, and the United States and are proposed by the European Union and the United Kingdom, among others.

Targeting

59. Both the policy setting and the collection mechanism will affect how the IVL is targeted.

Generating a $75m fund

60. The rates per arrival indicated in Annex One will generate a total revenue of $75 million based on 2017 visitor numbers, but do not take into account administration costs associated with administering a levy, likely growth in visitor numbers, or the possible negative impact on GST.

Possible impact on GST

61. Estimating change in demand in response to price increases is difficult. Work undertaken by Sapere for the BCL suggested that there could be a 0.9% reduction in visitor spend. This would reduce GST by $13 million per annum.

62. Actual figures (numbers of tourists and spend) both rose following introduction of the BCL, which could suggest the BCL did not reduce GST take but it is difficult to know. The presence of other factors, including increases in demand from some tourism markets, and changes in the exchange rate may have compensated for any impact on behaviour, or there may have been a lesser impact on behaviour than predicted. A shift in the exchange rate will have a much larger impact on visitor's budgets than the proposed IVL.

Costs of collection

63. Customs has advised that establishment costs for the BCL were just under $250k (plus in-house resources). Ongoing costs of operating and reporting are estimated at $150k. The BCL is a very flat tax and therefore administratively very efficient; the proposed IVL could have similar costs, depending on design. Costs would reduce to the extent that existing systems are used i.e. that a relatively flat charge is placed on tickets. Costs would be likely to be higher for other options driven by complexity and the extent that new systems are required.

64. Option design may also have cost implications for airlines, cruise companies, travel agents, accommodation providers and booking intermediaries. The scale of costs will depend on the design of the levy.

Section 6(a)

Implementation timeframes

79. For all options, legislation will be required (usually 9-18 months depending on priority in the House), plus lead time for implementation (both for agencies and third parties) where third parties are involved in collection. The BCL was implemented through Budget night legislation, and allowed for implementation on 1 January of the following year. Customs and MPI experience suggests that the airlines and cruise companies would look for at least this period of time to allow for their system changes to be given effect, and to allow for management of their cash flows for any options that impact on them.

80. Decisions on ETAs are still pending. MBIE project planning suggests that ETAs (or at least an IVL charging platform) could be in place as early as the first quarter of 2019/20.

Stakeholder impacts

Tourism Sector

81. The use of a visitor levy has been well canvassed by the sector, with a spread of views even within particular groups of operators. Some oppose it on the basis that the sector generates around $1.5 billion in GST from international visitors each year and consider a share of this should be used for conservation and infrastructure. However, others consider that some form of levy is an appropriate way for the sector to contribute to much needed infrastructure, and mitigate unwanted impacts. For example, the Sector Leaders Infrastructure Report[3] (Dec 2016) recommended a $5 universal levy combined with a bed tax and central government funding. This mixed approach was intended to minimise impacts on any one group.

82. Any additional charges, such as the IVL have the potential to reduce revenue in the sector. However, there are risks in not investing in the infrastructure that supports the sector as well. Poor visitor experiences will reduce visitor expenditure.

83. The sector will also have strong views on how the revenue should be spent.

<u>Accommodation sector</u>

84. A bed tax is likely to meet significant opposition from accommodation providers. Representatives have already expressed concern that a bed tax would disproportionately affect them over other parts of the tourism sector, and that there could be implications for small operators.

<u>Travel sector (and implications for the regions)</u>

85. Three airline bodies have previously written to the Minister of Tourism expressing their concern about the IVL proposal (particularly a ticketing option).

86. There would be cost implications for both air and cruise lines for any ticketing option, and potential impacts on demand for travel resulting from any options.

87. The impacts of a levy are likely to have a disproportionate effect on trans-Tasman flights (as tax is making up a large proportion of ticket prices). Section 9(2)(b)(ii)

[3] Air New Zealand, Auckland Airport, Christchurch Airport and Tourism Holdings.

Regional tourism

88. Regional airports receive a greater proportion of Australian domiciled aircraft than the main centres, and it is these which are most likely to be re-deployed in the event of increase costs and/or reduced passenger numbers. This not only reduces connections for the regions, but also has impacts on visitor access to regional destinations (with flow-ons to regional tourism expenditure).

Local Government

89. Local Government New Zealand has already signalled its support for an IVL. Interest is likely to centre around decisions about expenditure. There is also strong support for a local bed tax amongst councils with high volumes of visitors. Interest in both options appears to stem from a desire for greater infrastructure funding generally (and so, other mechanisms may be equally appealing).

Wider public

90. Media coverage and letters to the Minister show significant support for some form of targeted charge to international visitors. This is likely to be contingent on how well it is targeted.

International visitors

91. International visitors include a wide group, from tourists to business people to people visiting friends and family. Length of stay will vary, as will frequency of visit, though charges will not. The IVL (however designed) will be a relatively blunt tool, though one that is used by many other countries as well. Changes in other parts of the tourism system (such as local government funding and DOC pricing) will need to take into account the IVL.

92. New Zealand ex-pats, Australians living in New Zealand, and Pacific Island communities are affected differently depending on the option selected.

93. The Minister of Tourism has committed to consultation with stakeholders.

Treasury comment

94. While the nature of the problem has been described at a qualitative level (i.e. increased pressures on funding tourism infrastructure and conservation) the magnitude of the issue is not yet well-understood at a quantitative level.

95. To address this lack of information, MBIE commissioned Deloitte to assess the costs and revenues from tourism on national and local government in late 2017. This report will not be completed until the end of this month. The Treasury considers that it would be prudent to have regard to the data and analysis from this report (when it is available) to inform Ministerial decision-making on the design and implementation of the IVL.

Section 9(2)(g)(i)

Section 9(2)(f)(iv)

Short listed options

Targeting options

Targeting on the basis of immigration status (NZ citizen/resident test)

99. Payment of the IVL would be required by all people who are not New Zealand citizens or holders of resident-class visas. Australians would be exempt as all Australians are granted resident visas on arrival. Residents of Realm countries (Niue, Tokelau and the Cook Islands) are New Zealand citizens, and so would be exempt under this option.

100. The major advantage of using immigration status as the basis of targeting is that the information is held in government systems (INZ and DIA), meaning it is possible to automate targeted charging.

101. Section 6(a)

Tax residency test

102. Using tax residency would target anyone who does not live in New Zealand, which means the levy would also be collected from New Zealand citizens who live overseas (including residents of Realm countries).

103. Section 6(a)

Collection Options

Visa/Electronic Travel Authority

104. Should the Government decide to implement an ETA for border security and improved passenger entry, then this option offers the most administratively simple and flexible mechanism for implementing an IVL for targeting based on immigration status.

105. Decisions on implementing an ETA have yet to be taken. However, MBIE considers there are strong border security reasons for implementing the ETA and the Minister of Immigration has requested advice on this. In terms of timing, initial planning suggests a collection mechanism for an IVL via the immigration system could be implemented in the first quarter of 2019/20.

Collect at the Border (Departure Tax)

106. This collection option is effective at capturing any target group. Section 9(2)(f)(iv)

107. The main downside is it does not align well with the move towards seamless processing at airports and would create an extra 'touch point' for travellers. It would be likely to increase queues/processing time and cost. Auckland Airport in particular is running at capacity, in terms of border processing. Encouraging payment in advance of crossing the border would reduce, but not eliminate the impact.

Next steps

108. Following discussions between Ministers, officials will develop:

    a. further advice on preferred option(s)

    b. consultation options, including overseas governments (where relevant)

    c. a Cabinet paper and Regulatory Impact Assessment on the preferred IVL mechanism

    d. key messages to support any announcement, and/or ministerial meetings and engagements.

109. To progress the IVL, the Government will also need to pass legislation, and provide for any establishment costs (which can be cost-recovered).

Annexes

Annex One: Implementation options

Annex Two: Mexico's International Visitor Levy

Section 6(a)

Annex One: Implementation options

Meets criteria 🟢 Low risk/impact on criteria 🟡 Substantial risk/impact on criteria 🟠 Significant impediment to delivery 🔴

Section 6(a)

Policy option	Collection mechanism	$75 million pa revenue Estimated rate per person (cost recovery additional)	Targeting	Collection costs Estimated costs will need further work		Implementation by July 2019
Universal levy All people crossing the NZ border are liable (including New Zealand citizens and residents)	Ticketing (administered alongside BCL)	$12	Everyone pays	🟢		🟢
NZ citizen/resident test All people holding NZ citizenship or residency are exempt from paying (short-stay Australians will be liable)	Ticketing	$21	🟠	🟡		🟢
	Arrival Tax		🟢	🟠		🟢
	Departure Tax		🟢	🟠		🟢
	Visa/Electronic Travel Authority[4]	$26	🟢	🟢		🟡
	Refund (for Australians living in NZ)	$21	🟡	🟠		🟢
NZ and Australian citizen/resident test All people holding NZ or Australian citizenship/residency are exempt from paying	Ticketing	$29	🟠	🟡		🟢
	Arrival Tax		🟡	🟠		🟢
	Departure Tax		🟡	🟠		🟢
	Visa/Electronic Travel Authority4	Visa/ETA $33	🟡	🟢		🟡
Tax residency test All NZ tax residents are exempt from paying.	Ticketing	Range: $21 – 23	🟠	🟡		🟢
	Arrival Tax		🟡	🟠		🟢
	Departure Tax		🟡	🟠		🟡
	Refund (refund for internationals with tax residency)		🟡	🟠		🟢

In addition to a border levy, we also considered a national bed tax

National bed tax A charge paid by all visitors (domestic and international) when booking commercial accommodation (can either be collected centrally or at the local-government level)	Inland Revenue (central collection)	$2 per night per guest ($78m) [5]	🟡	🟠		🟢
	Local Government		🟡	🔴		🟠
	Gateway city councils (Auckland, Wellington, Christchurch and Queenstown)	$5 per night per guest ($85m)	🟡	🟡		🟠

[4] Higher rate required to raise $75 million total revenue as Visa/ETA provides for multiple entries (as opposed to payment at each border crossing).
[5] Modelled on the Commercial Accommodation Survey, which includes Hotels, Motels, Backpackers, and Holiday Parks. It does not include sharing economy or freedom camping. It would be possible to include sharing economy accommodation.

Annex Two: Mexico's International Visitor Levy

110. Mexico imposes an international visitor levy of 390 pesos (about NZD $29). Mexican passport holders, permanent residents, and foreigners with a visa that allows them to work in Mexico are exempt from the levy as are children under 2 years and foreign diplomats. Foreigners that enter by land and stay in Mexico for less than 7 days are also exempt from paying the levy.

111. For air passengers the levy is included in the ticket price charged by airlines. In practice, the non-Mexican airlines increase the fares of all of their passengers to recover the costs of the levy, and allow exempt passengers to apply to the airline for a refund within a certain time period. This may be due to the compliance costs associated with differentiating between Mexican and non-Mexican passengers. As few people will bother applying for a refund, the levy effectively applies to all air passengers.

112. An unsuccessful class action was taken against some airlines on behalf of Mexican passengers who were charged (and not refunded) the levy. The plaintiffs in this case alleged that the airlines retained some of the funds from incorrectly collected levies. It appears that the legal obligation to pay the levy applies to the air passenger (rather than the airline) as there have been cases where a passenger was not charged the levy as part of their ticket and had to subsequently pay the levy when they left the country.

113. For land and sea passengers, the levy will usually be paid to a Federal Immigration Agent at the place they enter the country. In some cases it can be subsequently paid at any bank branch in Mexico which will issue a receipt which the person provides to the National Migration Institute.

Section 6(a)

BRIEFING

International Visitor Levy – implementation, expenditure, consultation and other matters

Date:	9 April 2018	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2522 17-18

	Action sought	Deadline
Rt Hon Winston Peters **Minister of Foreign Affairs**	**Note** contents of this report, Section 6(a) **Discuss** preferred approach with Ministers	None
Hon Kelvin Davis **Minister of Tourism**	**Discuss** preferred approach with Ministers **Direct** officials to draft a cabinet paper and develop public consultation on: • preferred options for collection and expenditure of the international visitor levy • complementary funding options	13 April 2018
Hon Grant Robertson **Minister of Finance**	**Note** contents of this report **Discuss** preferred approach with Ministers	None
Hon Phil Twyford **Minister of Transport**	**Note** contents of this report **Discuss** preferred approach with Ministers	None
Hon David Parker **Minister for Trade and Export Growth**	**Note** contents of this report, Section 6(a) **Discuss** preferred approach with Ministers	None
Hon Nanaia Mahuta **Minister of Local Government**	**Note** contents of this report, in particular proposed inclusion of local government funding in the consultation, and local government interest in expenditure of the levy **Discuss** preferred approach with Ministers	None
Hon Stuart Nash **Minister of Revenue**	**Note** contents of this report, Section 6(a) **Discuss** preferred approach with Ministers	None

	Action sought	Deadline
Hon Iain Lees-Galloway **Minister of Immigration**	**Note** contents of this report, in particular assessment of collection options at the border **Discuss** preferred approach with Ministers	None
Hon Aupito William Sio **Minister for Pacific Peoples**	**Note** contents of this report, Section 6(a) **Discuss** preferred approach with Ministers	None
Hon Meka Whaitiri **Minister of Customs**	**Note** contents of this report, in particular assessment of collection options at the border **Discuss** preferred approach with Ministers	None
Hon Eugenie Sage **Minister of Conservation**	**Note** contents of this report **Discuss** preferred approach with Ministers	None

Contact for telephone discussion (if required)

Name	Position	Telephone	Section 9(2)(a)	1st contact
Richard Davies	Manager, Tourism Policy, MBIE	04 901 2059		✓
Siân Roguski	Manager, Immigration Policy, MBIE	04 901 3855		
Antonia Anisy	Analyst, Tax Strategy, The Treasury	04 917 6979		
Graham Hunt	Senior Policy Analyst, Inland Revenue	04 890 6131		
Bill Dobbie	Unit Manager, Economic Division, MFAT	04 439 8065		
Tom Forster	Manager, International Connections, MOT	-		
Rachel Grove	Director, Policy Services, DIA	04 495 6065		
Anna Cook	Director Policy, Policy Legal and Governance, Customs	04 901 7576		
Tim Bamford	Acting Manager, Tourism and Economic Development Policy, DOC	-		

The following departments/agencies have been consulted
Border sector agencies have been consulted including those listed above and the Ministry for Primary Industries. The International Visitor Levy is included in co-ordination of policy development for changes in border charges and fees. The Department of Prime Minister and Cabinet has been informed.

Minister's office to complete:	☐ Seen	☐ Declined
☐ Approved	☐ See Minister's Notes	☐ Overtaken by Events
☐ Noted	☐ Needs change	☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

International Visitor Levy – implementation, expenditure, consultation and other matters

Date:	9 April 2018	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2522 17-18

Purpose

On 27 February, Ministers considered a long-list of implementation options for an International Visitor Levy (IVL) and asked for further advice on a shortlist.

This briefing provides advice on the shortlist and seeks your direction on:

- which options for collection of the IVL should be progressed
- how Ministers want to make decisions about spending the IVL revenue, and
- confirmation of next steps, including consultation.

Executive summary

The IVL could be part of a package of options that better aligns who pays and who benefits

1. Current funding arrangements for some publicly-provided infrastructure[1] have not been able to cope with the rapid growth in tourism volumes and the consequent demand for them. Private providers have been better able to meet growth as revenue has grown alongside visitor numbers (domestic and international). However, even the private sector has experienced some lags in investment, for example in hotel accommodation.

2. MBIE[2] considers that a range of tools will be required to ensure visitors pay for the costs of publicly provided facilities, and any externalities visitors generate. A package approach needs to support appropriate scale of investment, and provide revenue for affected parties to re-invest in infrastructure and mitigation efforts. An IVL could be an important component of such a package.

3. Work is underway across transport, local government, conservation and the tourism portfolios which supports this package approach. The proposed IVL would provide scale for strategic investment, and (potentially) a revenue stream to support conservation activity.

Collection via a departure levy or Visa/ETA system

4. Ministers have requested advice on two collection options for an IVL; a departure levy, and a charge added to visas and electronic travel authorities (ETAs). This advice (and the questions asked) is summarised in **Annex Three**.

[1] Publically provided infrastructure includes NZTA, DOC, and LINZ facilities; as well as local government infrastructure.
[2] MBIE is providing lead advice on tourism policy issues. Other agencies either do not have a view, or support MBIE's position.

Section 6(a)

Exemptions

6. Section 6(a)

7. The equity of excluding particular groups should also be considered: visitors from any given origin will generally have an impact on publicly-provided infrastructure, and exemptions may also result in higher charges for other visitors in order to maintain revenue/cover costs.

Economic implications

8. The IVL, like any other charge, may have impacts on commercial activity. This could include some administrative costs (financial and/or compliance) on airlines, airports, and travellers.

9. In addition, the IVL has the potential to impact demand. The Australian visitor market is a more price-sensitive visitor market than those that require long-haul travel to visit New Zealand. Aviation stakeholders[3] have stated that relatively small price differentials in holiday package costs (ticket, hotel, exchange rate etc) will result in Australian consumers changing their holiday plans. Reduced demand for trans-Tasman flights has implications for commercial operations:

   a. Small changes in demand for trans-Tasman flights could have significant impacts on services, as many operate on low-margin, high-volume models.

   b. Regional airports will be disproportionately affected, as their international flights are mostly trans-Tasman. Over half of the flights into Christchurch International Airport are trans-Tasman.

   c. Similarly, those airlines relying on trans-Tasman flights will be more affected than other airlines.

   d. Reductions in regional trans-Tasman services would have implications for regional connectivity affecting the wider business sector, New Zealand out-bound visitors, and regional tourism flows

10. The impacts on the trans-Tasman market are likely to be negligible if Australians are exempted from the IVL.

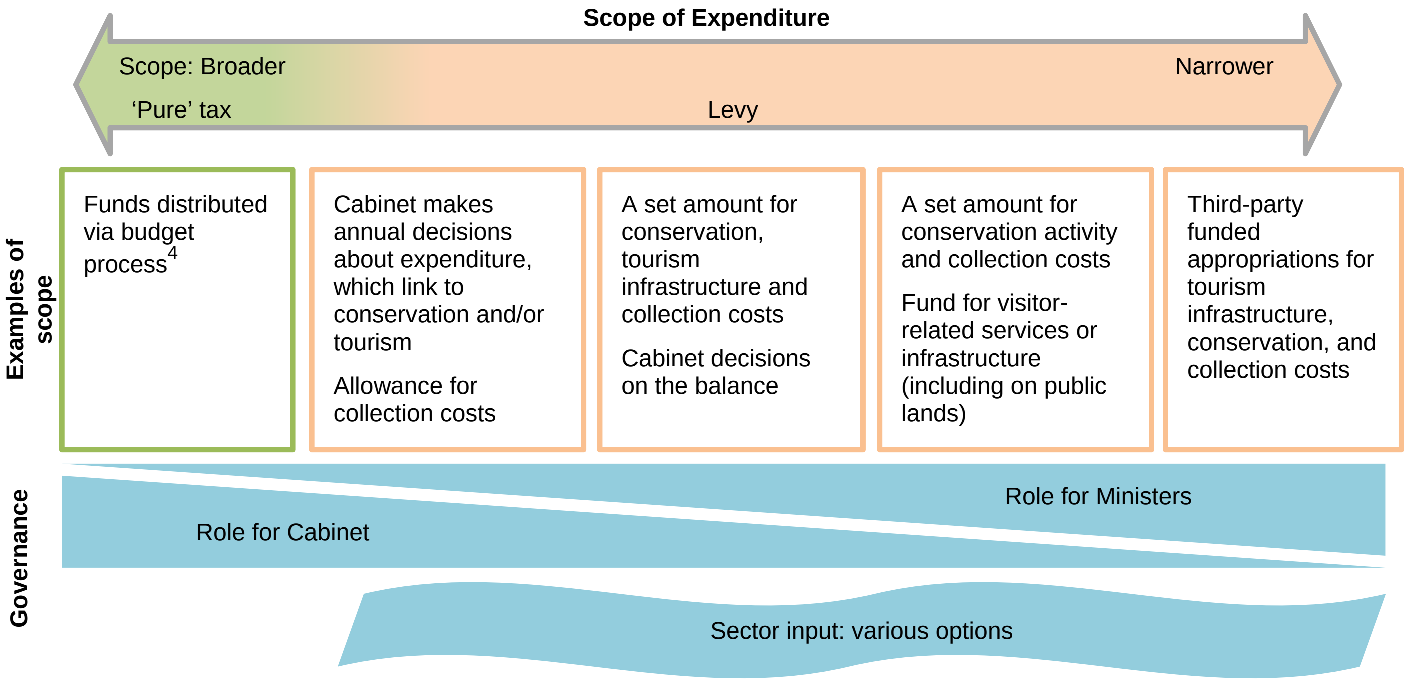
Section 9(2)(f)(iv) – stakeholder feedback is summarised in **Annex One**

11. The IVL is also being considered alongside other changes to charges at the border, including the Border Clearance Levy (BCL) and immigration fees and levies. The cumulative impact of increases may have an impact on demand, but estimating that impact is difficult, and is unlikely to be significant. It is also worth noting that Australians will not be affected by changes to immigration fees and levies, as they have residence on arrival ie they do not require a visa to enter New Zealand.

IVL expenditure

12. The IVL could be a component of a package aiming to better align those who benefit from publicly provided infrastructure with who pays. This, combined with the fact the levy is being collected from international visitors should be taken into consideration when deciding how to spend the IVL revenue. MBIE recommends some form of ring-fence for the scope of expenditure. Treasury recommends distribution through the Budget process to ensure funds are directed towards initiatives that provide the best value for money.

13. The extent to which Ministers wish to ring-fence funding will have implications for governance arrangements, including the relative roles in decision-making for Cabinet and Ministers. The sector and local government have also expressed strong interest in having a role, which could range from high level input on priorities, through to providing recommendations for Ministers. The following diagram illustrates potential options.



[4] *Treasury comment*: Under this option, all revenue from the IVL would go to the Consolidated Fund (and be pooled in with revenue from other taxes). Funds from this general pool are then appropriated to spending programmes, via the standard Budget process.

Consultation proposal

14. The Government will need to consult with international partners on the IVL proposal, and officials also recommend a public consultation process. Stakeholders[5] are seeking a broad consultation covering a range of funding mechanisms, to ensure that visitor-related infrastructure is provided in a cost effective, transparent, and financially sustainable way.

15. We recommend that the consultation focus on the IVL proposal (collection and expenditure options), and enable wider feedback that can inform other workstreams, including the Local Government Funding Inquiry, and Conservation pricing. A wider consultation will also help inform stakeholders about the broader work programme underway to support sustainable tourism.

Proposed timeline for IVL development and implementation

16. Officials have developed a timeframe that would see the IVL implemented in the second half of 2019. This would involve consultation in May/June 2018, and introduction of legislation in December 2018. The timeframe is very tight, and includes a Select Committee process of just five months (allowing for the summer break).

Recommended action

Agencies recommend that you:

a **Note** that while there are significant economic benefits from tourism, growth has created pressure on some publicly-provided infrastructure that no single initiative is likely to fully resolve

Noted

b **Note** that a package of measures is required to better align those who benefit from publicly-provided infrastructure and those who are paying for it, and that the IVL could be an important component of that package

Noted

c **Note** the feedback to date from targeted engagement with stakeholders, in particular:

i. There is wide interest from the sector and local government in a local 'bed tax'
ii. The sector supports a package approach to sustainable funding for conservation and tourism infrastructure (rather than a single mechanism)
iii. The sector would like a role in making decisions about how the IVL revenue is spent
iv. There is concern about any impacts on border processing – both for customer experience, and additional costs on airlines/airports and the cruise industry

Noted

[5] MBIE has met with Tourism Industry Aotearoa; Local Government New Zealand; airlines including Qantas, Jetstar, and Air New Zealand; airports including Christchurch International and Auckland International; and accommodation providers including Accor Hotels. In addition, the Minister of Tourism has received a significant amount of correspondence from stakeholders, and MBIE monitors public statements by stakeholders. Stakeholder views are noted throughout this paper, and a summary provided as **Annex One**.

Section 6(a)

e **Note** that a proposal to implement an Electronic Travel Authority is likely to go to Cabinet in early May and, given that an ETA offers a number of other benefits (traveller facilitation and border security), the ETA is recommended by officials regardless of whether the IVL is collected

Noted

f **Note** that ETA/Visa collection cannot collect an IVL from all non-tax-residents, as New Zealand passport-holding non-tax-residents are not Visa- or ETA-required (a relatively small group)

Noted

g **Note** that while a departure levy will have higher costs and processing impacts than an ETA/Visa collection mechanism, it would be able to collect on the basis of a proxy for tax residency (with an estimated 10% data error rate)

Noted

h **Note** *indicative* costs for a departure levy include $5 million to establish an IT system, additional infrastructure in airports (not costed), and $3 - $4 million per annum in operating costs, however, further costing work is required

Noted

i **Note** *indicative* costs for charging via visas and ETA applications requires an add-on to the existing visa IT system and proposed ETA system; and that add-on is estimated to cost $1 million, with no additional operating costs, and further costing work is required

Noted

j **Note** that additional targeting of the IVL will increase the system costs in recs (h) and (i)

Noted

Agencies recommend that, in consultation with other Ministers, the Minister of Tourism:

k **Indicate** which of the following IVL options should be developed further for consideration by Cabinet:

i.	Collection via an ETA/Visa on the basis of immigration status	*Yes/No*
ii.	Collection via a departure tax on the basis of a proxy for tax residency	*Yes/No*

l **Agree** that officials will provide further advice on possible exemptions to the levy in the Cabinet paper

Agree/Disagree

m **Indicate** which of the options for spending IVL revenue should be included in the Cabinet paper:

i.	Decisions made via budget process	*Yes/No*
ii.	Cabinet makes annual decisions about expenditure, which link to conservation and/or tourism (and fund collection costs)	*Yes/No*
iii.	A set amount for: conservation, tourism infrastructure, and collection costs; and Cabinet decisions on the balance	*Yes/No*
iv.	A set amount for: conservation activity; a Fund for visitor-related services or infrastructure (including on public lands); and collection costs	*Yes/No*
v.	Third-party funded appropriations for tourism infrastructure, conservation, and collection costs	*Yes/No*

n **Agree** to a public consultation process in May/June 2018 to cover the:

i. IVL implementation options (as indicated above)
ii. Expenditure options (as indicated above)

Agree / Disagree

o **Agree** that the public consultation should also canvass a wider suite of initiatives including:

i. Enabling a range of local government revenue options that better align those who benefit from publicly-provided infrastructure and those who are paying for it
ii. Noting related work including Government Policy Statement on Land Transport (GPS), conservation pricing and local government funding inquiry

Agree / Disagree

p **Note** consultation with international partners will also be required

Noted

q **Note** that officials are co-ordinating the development of the IVL with other border policy changes (such as a proposal for an ETA) and other border charging changes (such as the Border Clearance Levy and immigration fees and levies)

Noted

Richard Davies
Manager, Tourism Policy
Ministry of Business, Innovation, and Employment

9 / 4 / 2018

Matt Cowan
Team Leader, Tax Strategy
The Treasury

9 / 4 / 2018

Vangelis Vitalis
Deputy Secretary Trade and Economics Group
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Tom Forster
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9 / 4 / 2018

Tim Bamford
Acting Manager, Tourism and Economic Development Policy
Department of Conservation

9 / 4 / 2018

Rt Hon Winston Peters
Minister of Foreign Affairs

..... / ...... / ......

Hon Kelvin Davis
Minister of Tourism

..... / ...... / ......

Hon Grant Robertson
Minister of Finance

..... / ...... / ......

Hon Phil Twyford
Minister of Transport

..... / ...... / ......

Hon David Parker
Minister for Trade & Export Growth

..... / ...... / ......

Hon Nanaia Mahuta
Minister of Local Government

..... / ...... / ......

Hon Stuart Nash
Minister of Revenue

..... / ...... / ......

Hon Iain Lees-Galloway
Minister of Immigration

..... / ...... / ......

Hon Aupito William Sio
Minister for Pacific Peoples

..... / ...... / ......

Hon Meka Whaitiri
Minister of Customs

..... / ...... / ......

Hon Eugenie Sage
Minister of Conservation

..... / ...... / ......

Background

Ensuring financially sustainable tourism infrastructure

17. Current funding arrangements have not been able to cope with the rapid growth in tourism volumes and the consequent demand on some publicly-provided infrastructure. They do not ensure visitors pay for what they use, nor meet the costs of externalities visitors generate. Private providers have been better able to meet growth, as revenue has grown alongside volume. However, even the private sector has experienced some lags in investment, for example in hotel accommodation.

18. MBIE considers that a range of measures is required to align those who benefit from publicly-provided infrastructure and those who are paying for it. Those measures need to offer scale that is proportionate to the costs, and ensure that revenue is readily available for reinvestment by those affected. MBIE has identified four criteria for sustainable tourism infrastructure funding:

    a. Scale of revenue to enable strategic investment, such as:

        i. providing access to and protecting our public lands and waters, as these are a key attractor of visitors to New Zealand, and

        ii. investment in other key areas to maintain or enhance New Zealand's reputation and offering.

    b. Create revenue certainty for asset owners and affected communities, to enable long term planning of visitor infrastructure and mitigation of local externalities (eg. congestion).

    c. Ensure a fair distribution of costs, generally by aligning those who benefit from publicly-provided infrastructure and those who are paying for it as closely as possible.

    d. Support regions to realise their tourism potential, and enjoy the social and economic benefits.

A package of funding tools is required to meet these criteria

19. No single funding tool meets all criteria. For example, user charges, concessions, and targeted rates best support revenue certainty, and alignment of costs and benefits. In some cases they can also enable strategic investment.

20. Central government funding enables strategic investment, and can accelerate the development of regions that are in the early stages of developing their offering. It also offers revenue certainty for Department of Conservation (DOC).

Previous advice on sustainable funding and the IVL

21. MBIE has previously provided Ministers with advice on a broad suite of initiatives to support sustainable funding for conservation and tourism infrastructure (MBIE 0796 17-18 and MBIE 1413 17-18 refer). MBIE recommended a multi-pronged approach to support tourism infrastructure development. Following that advice, the Ministers of Finance and Tourism requested a briefing covering the suite of options available for implementing a levy. This was joint advice provided to all relevant portfolio Ministers (MBIE 1952 17-18 refers). Following discussions with this wider group, officials were directed to provide further advice on a short-list of IVL implementation options.

22. This paper sets out the advice on the shortlist of collection options and other matters including expenditure options. It also outlines the steps and timing required to deliver an IVL in early 2019/20.

International Visitor Levy implementation options

23. This section provides advice on how levy collection via an ETA/Visa or a Departure Levy could be implemented and the implications of targeting choices (immigration status and tax residency) for service design and delivery.

Section 6(a)

Design and delivery of an IVL

25. The design and indicative costings are based on a minimum viable design solution. More work is required on design details and required resourcing. A decision will also be required on which agency is best placed to deliver the service.

26. In summary, the Departure Levy and the Visa/ETA collection methods both incur new administrative costs and new processes for the delivery agency, the customer, and potentially other stakeholders such as airports and airlines (though the implications of a Departure Levy are more substantial).

27. The indicative design proposal and costings assume a database can be established to verify liability for the IVL in real time. This would be required to verify a travellers liability under either:

    a. tax residency,or the proxy thereof (no such database exists currently), or

    b. immigration status (already exists).

28. Finally, revenue will be affected by the type of targeting and any exemptions. **Annex Three** sets our revenue forecasts for each option.

Section 6(a)

Departure Levy

Costs[7]	$5 million to establish; $3 - $4 million to operate per annum In addition to paying the levy, there are indirect costs/impacts on travellers, airlines, and airports
Revenue[8]	$48 - $127 million in 2020, depending on options
Ability to target	Able to target by tax residency or immigration status
Other key points	Would cause delays at the border, and has limited enforceability Collecting on the basis of tax residency means those who have not been paying income tax are making a contribution to New Zealand's conservation and infrastructure; Section 6(a)

29. The proposed design for a Departure levy entails:

    a. payment and liability verification processes in advance of people arriving at the airport via a website

    b. payment options at point of departure (Customs estimate this could be required for up to 60 percent of travellers)

    c. verification of payment/liability at the airport as part of Customs processing

    d. whether any enforcement activity is possible (advice to be further developed).

30. The Departure Levy is the more costly option to administer, and enforcement options are limited. It is also contrary to the initiatives that are underway to speed up border process and improve the traveller experience. However, the Departure Levy facilitates collection based on tax-residency. Tax residency aligns with the idea of fairness, that people who have lived in New Zealand and paid taxes over time have contributed to the costs of conservation and infrastructure; and that visitors who have not paid tax over a long period are benefiting from that historical investment. Section 6(a)

31. Verfication of (proxy) tax residency would likely require travellers to prove that they have a New Zealand bank account and/or permanent New Zealand fixed address. Verification of this would require real-time data exchange at the border between relevant agencies and/or physical proof by the traveller (which would need to be included in the IVL legislation).

32. Adding additional process at the border will cause delays in passenger processing, and does not align with the Government priority to streamline border processing. This includes initiatives that border agencies and industry[9] are introducing to speed up border processing and improve the traveller experience. These initiatives include SmartGate (around half of all departing air-travellers), mobile check in, and the removal of paper-based departure cards. Future initiatives such as 'face on the fly' border processing technology are likely to further reduce human interactions at the border.

33. Enforcement options and costs have not been developed in detail at this stage.
Section 9(2)(h)

[7] Detailed costs are in **Annex Four**.
[8] Detailed revenue forecasts are in **Annex Three**.
[9] Stakeholders raised concerns about any additional processes at the border. A summary of feedback is in **Annex One**.

Section 9(2)(h)

34. Separate payment and verification processes will be needed for cruise and private craft travellers. Further work is required to develop potential design options for these groups.

Visa / ETA collection

Costs[10]	$1 million to establish; minimal operating costs (assumes an ETA is agreed by Cabinet) Travellers will pay the levy; limited impact on airlines or airports over and above standard immigration processes.
Revenue[11]	$62 - $123 million in 2020, depending on options
Ability to target	Able to target by immigration status, but not tax residency (unless some supplementary system is in place)
Other key points	Aligns with border processing initiatives Section 6(a) Collection may be limited by decisions about who is ETA-required

35. The Visa/ETA is the simplest collection mechanism, and easiest to enforce as processing occurs at a point where the traveller has the greatest incentive to pay i.e. before checking in to travel to New Zealand. The establishment of an ETA is recommended by officials *regardless* of whether the IVL is collected, due to the traveller facilitation and enhanced border security benefits it offers.

36. Collecting via Visas and ETAs involves adding an additional charge to application fees. As an inbound traveller must have a Visa or ETA prior to check-in anyway, there is a low impact on border activities over and above the standard immigration process.

37. If a traveller does not have a Visa or ETA they will not be able to check in, because of immigration requirements. In the case of ETA-required travellers who have failed to register, they could go online just prior to check in and apply/pay, but this will depend on processing times and availability of internet.

38. A further benefit of the Visa/ETA option is that the IVL can be easily adjusted for different classes of Visa/ETA (by rate, or exemption).

39. There are two drawbacks in using the ETA/Visa collection option. Firstly, collection is limited to those who are Visa or ETA required. This does not include New Zealand citizens or residents who live overseas (and may not be tax resident, for example). It may also not include Australians (depending on final decisions by Cabinet regarding who will be ETA-required).

40. Section 6(a)

[10] Detailed costs are in **Annex Four**
[11] Detailed revenue forecasts are in **Annex Three**

Implementation

41. As with any regulatory change, officials recommend consultation on design prior to final decisions. As outlined under Next Steps below, we would look to align this consultation with other changes at the border, including the proposed ETA and immigration fees and levies consultation.

42. To maximise compliance with the IVL, an ongoing information campaign would also be required for both options. Travel agents and airlines would also likely need to prompt customers to pay via usual journey reminders. A number of other countries require ETAs so, for some travellers, this could be a familiar experience associated with travel.

43. Initially the high volumes of people requiring support or failing to comply will have resource implications that will need to be managed. Both of these have been costed into the ETA project and would therefore not add costs if the Visa/ETA collection option was selected.

Section 6(a)

Australia

The visitor market

48. Australia makes up around a third of visitors to New Zealand, and so exempting this group from the IVL would have a significant impact on the revenue collected (or the rate charged).

49. It is also the more price-sensitive visitor market. Aviation stakeholders[12] have stated that relatively small price differentials in holiday package costs (ticket, hotel, exchange rate etc) between New Zealand and, for example, Bali will result in Australian consumers changing their holiday plans. Section 9(2)(b)(ii)

   a. Small changes in demand for trans-Tasman flights could have significant impacts on services, as many operate on low-margin, high-volume models.

   b. Regional airports will be disproportionately affected, as their international flights are mostly trans-Tasman. Over half of the flights into Christchurch International are trans-Tasman.

   c. Reductions in regional trans-Tasman services would have implications for regional connectivity affecting the wider business sector, New Zealand out-bound visitors, and regional tourism flows.

Section 6(a)

Section 9(2)(b)(ii)

Section 6(a)

General consideration of exemptions

55. Section 6(a)

56. The equity of excluding particular groups should also be considered: visitors from any given destination will generally have a similar impact on publicly-provided infrastructure, and may also result in higher charges for other visitors in order to maintain revenue/cover costs.

Framing expenditure of the International Visitor Levy

57. We are seeking your direction on how the levy will be spent. The IVL would be part of a package aiming to better align those who benefit from publicly provided infrastructure with who pays. This, combined with the fact the levy is being collected from international visitors should be taken into consideration when deciding how to spend the IVL revenue. MBIE recommends some form of ring-fence for the revenue. The extent to which Ministers wish to ring-fence funding will have implications for the relative roles in decision-making for Cabinet and Ministers.

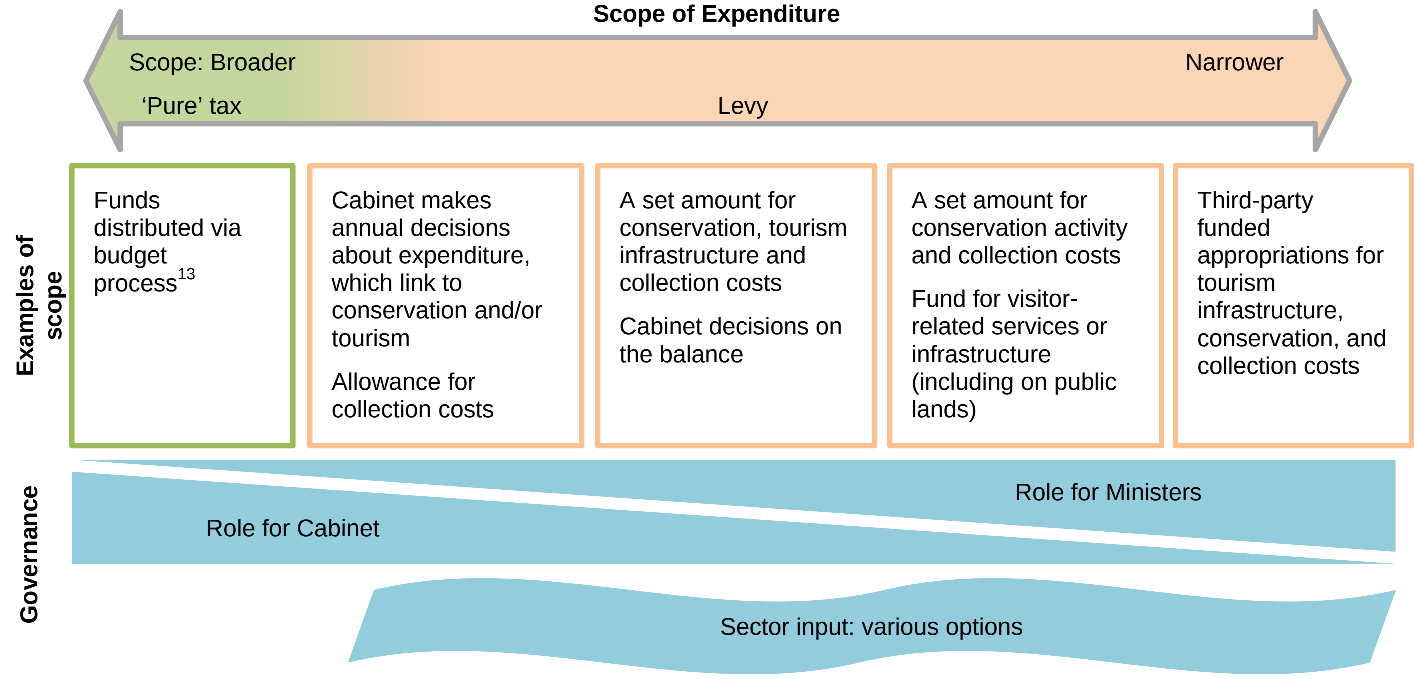
Scope of expenditure

58. There are two key decisions to be made about how the revenue from the IVL will be managed:

    a. what the levy can be spent on (scope)

    b. who are the decision-makers (governance).

59. The following diagram illustrates potential options. Some form of ring-fencing of IVL expenditure is required to establish it as a levy, and therefore whether the rate should be set in legislation or regulation (refer **Annex Five** for technical discussion).



60. At the broadest end of the spectrum, revenue would be collected from travellers, and absorbed into the consolidated fund. This would mean the primary decision-maker would be Cabinet, and there would be little if any role for the sector or local government.

61. There are a number of options that would ring-fence funding for tourism and conservation. These create different roles for Ministers and Cabinet (as indicated).

62. The sector and local government have also expressed strong interest in having a role. There are a range of options for any of the ring-fenced arrangements, from a formal recommendation process, such as an Advisory Panel (similar to the Tourism Infrastructure Fund), through to periodic consultation. Some stakeholders have suggested an independent governance model that includes sector representatives[14]. Officials note that this could be costly to administer, relative to the available funds.

Consultation Proposal

63. Officials recommend that you consult on a selection of preferred options with international partners, the sector, local government, and the wider public. This will meet international obligations, as well as Ministerial commitments.

64. We recommend that the consultation include:

a. Up to two implementation options:

i. Departure Levy – tax residency, as tax residency aligns with the idea that visitors who have not paid tax previously make some contribution towards infrastructure and conservation; Section 6(a)

ii. Additional charge on Visa/ETA applications, as it is simplest to implement with least impact on systems, travellers, and aviation sector

[13] *Treasury comment*: Under this option, all revenue from the IVL would go to the Consolidated Fund (and be pooled in with revenue from other taxes). Funds from this general pool are then appropriated to spending programmes, via the standard Budget process.
[14] **Annex One** sets out a summary of stakeholder feedback from targeted engagement.

b. Preferred suite of expenditure options

c. Views on complementary and/or alternate proposals to achieve a financially sustainable tourism sector across local government, conservation, and transport.

d. Relationship to other work currently underway, including the Land Transport Government Policy Statement, Conservation pricing, and the upcoming Local Government Funding Inquiry.

65. We also recommend that IVL consultation be developed to align with consultation on immigration fees and levies, and the introduction of an ETA (if consultation on the latter is required).

Treasury Comment

66. The first option on the expenditure spectrum (i.e. that revenue is absorbed into a consolidated fund – and collection costs form part of the relevant appropriations) is the Treasury's preferred option. This reflects the Treasury's general position that hypothecation is typically not recommended because it interferes with the process of global optimisation (which is an integral part of the Budget process) which helps to ensure funds are directed towards initiatives that provide the best value for money.

Next steps

67. Following direction from Ministers, officials will develop a Cabinet paper and discussion document. Officials are aiming to have the proposed discussion document ready in May, so that consultation can be aligned with other border sector engagements (as noted above).

Work related to the IVL currently underway

68. The development of the IVL proposal is reliant on, or potentially affected by other work underway.

Fees and charges at the Border

69. The Border Sector Governance Group is co-ordinating all work relating to cost recovery at the border, and has included the IVL in its assessment of cumulative impacts.

70. Of particular note for the IVL, a review of immigration fees and levies is underway, and likely to be consulted on publicly from mid-May. This will affect some of the people who will also be liable for the IVL. The following table shows the proposed increase for visitor visas (affecting around a sixth of international visitors, visa charges do not affect visitor visa waiver countries or Australia).

	Current	Proposed	Increase
Visitor visa fee	$151-$170	$200	$30-$49
Visitor visa levy	$14	$21	$7
IVL	n/a	$25-$40	$25-$40
Combined	**$165 - $184**	**$246-$261**	**$62-$96**

71. As noted above, the Minister of Immigration plans to take a proposal to Cabinet for the introduction of an ETA to support improved border security and passenger facilitation. It is also one of the collection options for the IVL. Cabinet decisions on the ETA are planned for May.

Local Government Funding Inquiry

72. Separately, the Minister of Local Government is considering options for a local government funding inquiry. The terms of reference are still being developed, but will likely include looking at infrastructure funding issues. The Minister intends to announce the Terms of Reference for the Inquiry on 10 May 2018.

Conservation pricing

73. The Minister of Conservation has asked DOC to do a first principles review of generating revenue and recovering costs from visitors. This review will ensure that DOC's approach to collecting revenue fits with its core functions and government objectives, has fair and appropriate settings, and is based on evidence of the relevant costs and benefits. The revenue review will consider options under current policy and legislative settings, and options that may require changes.

Key dates

74. The following table sets out the key dates for the IVL, aiming for implementation in the second quarter of 2019/20.

Month	Milestone	Linkages
Early May 2018	Cabinet paper with consultation proposal	Needs to follow after the ETA Cabinet paper
May/June 2018	Consultation on proposals	Immigration fees and levies, and (potentially) the ETA will also be consulted on in May/June.
July 2018	Cabinet paper seeking final policy decisions	
July – November 2018	Develop legislation and regulations	
November 2018	LEG paper with draft legislation	
December 2018	Legislation introduced	
Early 2019	Final detailed implementation decisions	
May 2019	Legislation reported back to the House	
Second half 2019	IVL implemented	

Annexes

Annex One: Stakeholder feedback from targeted engagement

Annex Two: Summary of advice on Visa/ETA and Departure Tax

Annex Three: IVL revenue tables

Annex Four: Breakdown of indicative costs

Annex Five: What is a levy, and how does it differ from a 'pure' tax?

Annex One: Stakeholder feedback from targeted engagement

75. As directed, MBIE has undertaken targeted engagement with the sector and local government. Feedback has informed the advice in this paper, and the key points are summarised in this section.

Tourism sector needs to make a contribution to infrastructure

76. The tourism sector has come to the conclusion that it should make some form of contribution towards conservation and tourism infrastructure, as indicated in a recent letter to Ministers from Tourism Industry Aotearoa (TIA). However, the sector is not in favour of a $25 IVL, and is seeking a wider conversation about how to raise funds.

Bed tax

77. Both local government and the sector are in favour of a local bed tax. They argue that a local bed tax provides certainty of revenue for local infrastructure (rather than relying on handouts) and that a local bed tax is readily understood by travellers.

78. Officials did raise the administrative costs of a bed tax (likely to be higher than for targeted rates). This merits further exploration, but councils with high volumes of accommodation seem to consider the benefits outweigh the costs.

79. Some local councils already have targeted rates on accommodation in place. Accommodation providers state that this is more difficult to ‘pass on’ to visitors and unfairly targets one part of the tourism sector. However, they were in favour of a bed tax over a targeted rate, as a second-best solution (relative to targeted rates).

80. The impact of a system with a high degree of variation nationally on national accommodation providers has not been considered in detail. However, these are not unusual overseas, and two national providers have indicated they could accommodate a variable system. Local Government New Zealand has also indicated that it considers the market impacts could even be beneficial, as councils could use bed taxes as a way to encourage regional dispersal.

Concerns about impacts of collection on border processing

81. Airlines and airports are concerned about the impact that processing the IVL at the border would have. They identified the potential for delays, which would in turn affect costs to the airline; additional infrastructure and footprint that may be required (which would ultimately increase fees for airlines); and the impacts on travellers. The aviation sector was strongly in favour of a seamless border solution, should the Government decide to implement the IVL. TIA also noted the importance of a ‘smart’ IT solution.

Expenditure and decision-making

82. All parties were interested in the expenditure framework, and what the role for the sector (including local government) would be in decision-making. Some indicated an interest in an independent entity to administer funds. Stakeholders also emphasised the need for expenditure to be ring-fenced and for transparency around expenditure.

Annex Two: Summary of advice on Visa/ETA and Departure Tax

Parameters	Departure Levy	Collecting the levy via Visas and ETA applications
Implementation	The IVL would be established as a new, stand-alone system. It would include online payment, as well as at the airport/port.	The IVL would be an additional charge to the application fee. Implementation of the IVL is dependent on a decision about whether to go ahead with ETAs, and who will be ETA-required.
Administrative costs	*$5 million to establish, and $3 - $4 million per annum to operate* Additional costs have yet to be quantified for enforcement; cruise passengers; and other government agencies who may need to connect to the system for verification purposes.	*$1million to establish, and minimal operating costs*. It would use the existing Visa and ETA systems. Assumes an ETA is agreed to by Cabinet.
Timeline for implementation	To be confirmed, will require some time after enactment to put infrastructure in place.	Q1 or Q2 of 2019/20.
Legislative requirements	A new piece of legislation required, establishing the authority to collect the levy, and enabling regulations to set the rate, collection agency, and define who is liable.	
Benefits	Enables collection on the basis of tax residence (or a proxy thereof), Section 6(a)	As the IVL would be piggy-backing on an existing system, the impact on travellers would be minimal and enforcement is straightforward. ETAs and some Visas are multi-entry, which will benefit frequent travellers. Enforcement costs are minimised as everyone who is liable would need to pay or they would not be able to travel. The system is flexible (relatively easy to exempt particular groups), and likely to endure.
Risks	Potential for impact on processing time, with impacts for travellers, and flow-ons to airline and cruise costs. Runs counter to Government priorities to streamline border processing and reduce delays. Section 9(2)(h) Scope for errors that could deem travellers non-compliant, with impacts on traveller experience and additional delays in border processing.	Section 6(a)

Parameters	Departure Levy	Collecting the levy via Visas and ETA applications
Targeting options and revenue	Section 9(2)(h) Analysis is gross revenue, and allowance should be made for costs (above) and GST of up to $11 million (depending on proportion of payments made onshore). No allowance has been made for changes in demand (neither drop due to price sensitivity, or increase due to improvements in New Zealand's tourism offering).	ETAs and many Visas are multi-entry, which impacts revenue and/or rate. Analysis is gross revenue, and allowance should be made for costs and GST (low as mostly paid offshore). No allowance has been made for changes in demand (neither drop due to price sensitivity, or increase due to improvements in New Zealand's tourism offering).
Tax residency	Given the significant impact on border processing and the costs involved, officials consider that a departure tax should only be considered if Ministers opt for tax residency.	This mechanism is not able to capture all non-tax-residents, as New Zealanders living overseas (non-tax-resident) will not be required to apply for a visa or register for an ETA. While some form of supplementary system could be put in place, it would be expensive to administer and difficult to enforce.
	In 2020: $25 IVL: $73 - $91 million $35 IVL: $102 - $127 million	In 2020: $25 IVL: $88 million $35 IVL: $123 million
NZ and Australian Citizen / Resident exempt	Targeting based on immigration status for a Departure Levy can be done but is not recommended, as Visa/ETA collection would be more cost effective. Additional exemptions will add cost and complexity to the system.	This collection method lends itself well to any immigration status test (you could exempt any group, or visa type relatively easily).
	In 2020: $25 IVL: $48 - $61 million $35 IVL: $68 - $85 million.	In 2020: $25 IVL: $62 million $35 IVL: $86 million.
NZ Citizen / Resident exempt	Under current settings, it is not possible to differentiate between Australian short-term visitors and long-term residents of New Zealand. This option would only be better than the ETA/Visa option if Australians are not ETA required, and will be liable for IVL.	Under current settings, it is not possible to differentiate between Australian short-term visitors and long-term residents of New Zealand. Australians may not be ETA required.
	In 2020: $25 IVL: $73 - $91 million $35 IVL: $102 - $127 million	In 2020: $25 IVL: $88 million $35 IVL: $123 million

Annex Three: IVL revenue tables

The following table sets out revenue for an IVL, based on current forecasts. In addition to the usual caveats on any forecasts, there are some gaps in information for an IVL:

- revenue forecasts assume the IVL is in place for the full 12 months (year ended December 2019 will only be a partial collection)
- the ranges indicated include variation for departure levy compliance, and New Zealand passport holders who may not be tax resident
- there are gaps in our information about arrivals from Australia. We have assumed all international visitors from Australia to hold either Australian citizenship or residency; however, a portion are likely to hold New Zealand passports, reducing the forecast levels of revenue
- ETAs and Visas permit multiple entries. We have built this into our forecasts, but less is known about repeat visitors who are not visa-required than for visa-required, and there may be different travel patterns.

	Revenue generated at $25 rate ($m)					Revenue generated at $35 rate ($m)			
Departure levy	**2019**	**2020**	**2021**	**2022**		**2019**	**2020**	**2021**	**2022**
All international visitors	70-87	73-91	76-95	79-99		98-122	102-127	106-133	111-139
- exempting under 18 years old	63-78	65-82	68-85	71-89		88-109	91-114	95-119	99-124
- exempting under 2 years old	69-86	72-90	75-94	78-98		96-120	101-126	105-131	109-137
All international visitors except Australian citizens / residents	46-57	48-61	51-64	54-67		64-80	68-85	71-89	75-94
- exempting under 18 years old	42-52	44-55	46-58	49-61		58-73	61-77	65-81	69-86
- exempting under 2 years old	45-57	48-60	50-63	53-66		64-80	67-84	71-88	74-93
ETA and Visa charge									
All international visitors	83	88				117	123		
All international visitors except Australian citizens / residents	58	62				81	86		

Revenue from Pacific Island countries (based on year-ended 2017 figures)		
	$25 levy rate	**$35 levy rate**
Pacific Realm countries (Tokelau, Niue, Cook Islands)	$0.36m	$0.50m
Pacific Island countries excluding Realm countries	$3.23m	$4.52m
Total	**$3.59m**	**$5.02m**

Annex Four: Breakdown of indicative costs

Indicative costs for implementing an IVL are set out in the table below. These costs are separated into two main areas: the development and implementation of information systems; and staffing. Other operational costs and enforcement costs are yet to be assessed. There will also be compliance costs for travellers, airports, and airlines which will also need to be considered.

Costs will need to be revisited as final decisions are made on the IVL proposal, any exemptions are confirmed, and service design is completed, including allocating responsibility for the service.

	Departure Levy Indicative Total: $5 million capital and up to $4 million operating	**ETAs and Visas** Indicative Total: $1 million capital (assuming an ETA is agreed to by Cabinet)
Information systems	IVL payment and verification systems. This includes: website, modifying SmartGate machines, integration with other data systems, electronic payment points	Visa System changes Cost will increase if more exemptions/verification required
	Costs $5 million in year one for the responsible agency, plus any additional costs for other agencies involved in data verification Ongoing costs approximately $600k per year	**Costs** $1 million establishment costs (assuming an ETA is agreed to by Cabinet)
Staff (costed for airports only)	Additional staff required to manage payment points and undertake verification at the border Indicative work suggests that a total of 22-32 FTEs would be required at airports ($100,000 per FTE). Additional staff required for cruise travellers	Nil
	Costs $2.2 – 3.2 million	
Enforcement	There are limited responses that can be undertaken against those unwilling or unable to pay the IVL	Nil Any non-payment will mean that the traveller does not have a Visa or ETA, and therefore normal immigration procedures will apply
	Costs Not costed at this stage	
Other operational costs	May need to lease airport space for the installation and management of electronic payment points Maritime system (cruise ships) has not yet been designed	Immigration NZ can exercise discretion on a case by case basis to reduce charges to individuals. Where exercised, these could reduce IVL revenue (but this would be on a very small scale)
	Costs Not costed at this stage	**Costs** Not costed at this stage
Other costs on stakeholder	Costs resulting from additional airport/cruise terminal footprint and any delays will flow-on to charges for airlines and cruise companies	Low Airlines already have an obligation to comply with the Advance Passenger Processing system

Annex Five: What is a levy, and how does it differ from a 'pure' tax?

Strictly speaking, all levies are a form of taxation. However, a levy can be differentiated from a 'pure' tax, as it is

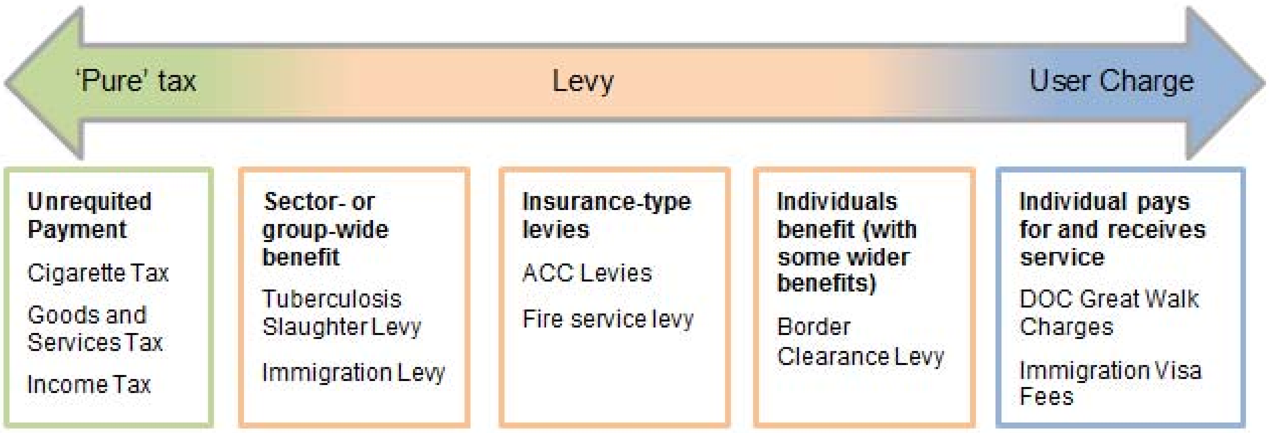
- collected from a targeted group and
- spent for the benefit of that group.

The OECD suggests that where a payment is unrequited, i.e the payer does not get a benefit in return, it is a tax.

The targeting can be narrow/specific, for example, the Border Clearance Levy is paid by travellers crossing New Zealand's borders for border services (it is almost a user charge or fee for service). But there are also examples where targeting is broad/blunt, and the benefits to individuals within the group may vary. Many of these broad/blunt levies are similar to compulsory insurance.

One example of a broader/blunt levy is the TB Slaughter Levy. The TB Slaughter Levy is collected to support funding of the TBfree programme on behalf of beef and dairy industries. The TB Slaughter Levy benefits those in regions with TB the most, but also protects the reputation of the sector overall.

The IVL, if spending is ring-fenced, would be at the broader end of the spectrum, as the targeting of the group paying is blunt (for example, it will include business people who may benefit less), but overall most international visitors will benefit from expenditure being ring-fenced for publicly provided infrastructure. If the levy is not ring-fenced, then it is an unrequited payment, and would be considered a 'pure' tax.



Whether the IVL is a tax or a levy will determine whether the rate is set in legislation (tax) or regulation (levy). It might also be considered by the Government's Tax Working Group, although we note the IVL is very unlikely to play a significant role in the tax system, and it is not specifically identified in the Group's Terms of Reference.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

International Visitor Levy

Cabinet paper, discussion document, and remaining decisions

Date:	7 May 2018	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2360 17-18

Action sought		
	Action sought	**Deadline**
Hon Kelvin Davis **Minister of Tourism**	**Agree** remaining detailed decisions on IVL design **Forward** this briefing and **consult** with relevant Ministers on draft Cabinet paper and discussion document: • Hon Grant Robertson, Minister of Finance • Hon Phil Twyford, Minister of Transport • Hon David Parker, Minister for Trade and Export Growth • Hon Nanaia Mahuta, Minister of Local Government • Hon Stuart Nash, Minister of Revenue • Hon Iain Lees-Galloway, Minister of Immigration • Hon Damien O'Connor, Minister of Biosecurity, and Minister of State for Trade and Export Growth • Hon Aupito William Sio, Minister for Pacific Peoples • Hon Meka Whaitiri, Minister of Customs • Hon James Shaw • Hon Eugenie Sage, Minister of Conservation • Hon Fletcher Tabateau, Parliamentary Under-Secretary to the Minister of Foreign Affairs and the Minister for Regional Economic Development	
	Lodge Cabinet paper and discussion document	17 May 2018

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Richard Davies	Manager, Tourism Policy	04 901 2059	Section 9(2)(a)	✓
Rebecca Heerdegen	Principal Policy Advisor	04 901 1564	Section 9(2)(a)	

The following departments/agencies have been involved in the IVL project, including development of the Cabinet paper
Ministry of Foreign Affairs, The Treasury, Ministry of Transport, New Zealand Transport Agency, Department of Internal Affairs, Inland Revenue, New Zealand Customs, and Department of Conservation, Ministry of Primary Industries. In addition, within MBIE, Immigration Policy and Immigration New Zealand have contributed. The Department of Prime Minister and Cabinet has been informed.

Minister's office to complete:

☐ Approved ☐ Declined

☐ Noted ☐ Needs change

☐ Seen ☐ Overtaken by Events

☐ See Minister's Notes ☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

IVL – Cabinet paper, discussion document, and remaining decisions

Date:	7 May 2018	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2360 17-18

Purpose

Following the Ministers' meeting on Tuesday 1 May on the International Visitor Levy (IVL), officials have prepared a draft cabinet paper and discussion document (attached) for ministerial consultation.

This briefing also makes recommendations on some remaining design details. You may wish to highlight these areas in ministerial consultation prior to lodging the Cabinet paper (due to be lodged on Thursday, 17 May).

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Consult** on the attached draft Cabinet paper and discussion document with your ministerial colleagues

Yes / No

b **Forward** this briefing and the attached Cabinet paper and discussion document to your Ministerial colleagues

Yes / No

c **Note** that the Cabinet paper needs to be lodged by 17 May, in order to align with consultation on the Electronic Travel Registration proposal and proposed amendments to immigration fees and levies

Noted

d **Note** that there are some detailed design decisions still to be made

Noted

Option to charge Australian residents

e **Note** that it is possible to charge the IVL on Australian permanent residents, and this option is noted in the Cabinet paper

Noted

Revised proposal for exempting Pacific Islanders

f **Note** that there are five Pacific Island countries whose citizens travel on French, USA, or British passports and these citizens will be liable for the IVL

Noted

g **Agree** that Pacific Islanders should be charged the IVL as follows:

Pacific Island Countries	**Proposed IVL status**
Pacific Realm Countries: Cook Islands, Niue, Tokelau	**Exempt** as these nationals are NZ citizens
Pacific Forum Island countries: (Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu)	**Exempt** as charging an IVL would run counter to New Zealand's close and inclusive ties with Forum Island members, and economic development settings with member countries.
French Polynesia and New Caledonia	**Exempt in principle** as PIF members but officials will investigate further options for distinguishing residents in these territories as opposed to those from France.
Other Pacific countries and territories Guam, American Samoa, Pitcairn Island, Rapa Nui (Easter Island) the Northern Marianas Islands, and Wallis and Futuna.	**Liable.** These are not Forum Island members, and residents travel on US, British, or Chilean passports.

Agree / Disagree

Proposal to exempt certain business travellers

Section 6(a)

Section 6(a)

Noted

j **Note** that we are unable to charge the IVL on APEC business travel card holders, and that these totalled 35,000 arrivals in 2016/17

Noted

k **Note** a further 15,000 Business Visitor Visas were issued in 2016/17

Noted

l **Note** that travellers entering New Zealand under visa waiver

i. may do so multiple times for business and/or recreational purposes

ii. their total cost of entry is substantially less than those entering under Business Visitor Visas

Noted

m **Agree** that Business Visitor Visas and APEC business travel cards be exempted from the IVL, with no exemptions for visa waiver business travellers

Agree / Disagree

Section 6(a)

Other 'standard' exemptions

o **Agree** the following exemptions, as aligning with the Vienna convention and other standard practices:

i. Humanitarian visas and Medical Treatment visas

ii. Military and Diplomatic visas

iii. Transit visas, including the Antarctic Traveller Transit Visa

iv. Children under the age of two

Agree / Disagree

Expenditure proposal

p **Note** that there are some outstanding decisions on expenditure

Noted

q **Note** that the Cabinet paper and discussion document have been drafted to seek input on the:

i. share of funding between tourism infrastructure and conservation

ii. scope of the expenditure

iii. form of tourism sector, local government, and conservation stakeholder input to decision-making

Noted

Other matters

r **Note** that officials have updated the revenue forecasts for the above changes

IVL Rate	Expected revenue in 2020
$25	$57 million
$30	$69 million
$35	$80 million

Noted

s **Note** that officials are proposing a standard consultation, that will be aligned with consultation on the ETR and immigration fees and levies

Noted

t **Note** that officials will provide you with a briefing on estimates of the scale of visitor-related infrastructure investment required, and the various levers government has in this space

Noted

Richard Davies
Manager, Tourism
Labour, Science and Enterprise, MBIE

….. / …... / …...

Hon Kelvin Davis
Minister of Tourism

….. / …... / …...

Decisions taken on the IVL

1. At the Ministers' meeting on Tuesday 1 May, Ministers agreed the broad parameters for the IVL, as follows:

- The levy will be collected via applications for Visas and Electronic Travel Registrations (ETR), as having a low impact on travellers, carriers, and the border
- Australians and Pacific Islanders will be exempt from the IVL
- The rate charged will be between $25 and $35
- The revenue will be ring-fenced for conservation (visitor-related facilities and conservation/biodiversity activity) and tourism infrastructure
- The split between conservation and tourism to be set in order to provide certainty for expenditure
- The IVL will be included in Budget 2019, and be chargeable as soon as possible in the first quarter of 2019/20

Remaining design decisions for your consideration

2. There were some queries raised at the meeting, as well as points of detail design that were not covered. This paper highlights those, and recommends an approach. The Cabinet paper and discussion document have been drafted on the basis of the recommendations.

Exempting Australians

3. Ministers explored the potential for including Australians in the IVL. The Government does have the option to include permanent residents of Australia in the IVL, and only exempt Australian citizens.

4. The current ETR proposal is that permanent residents of Australia will be ETR-required. The proposed ETR requirements mirror Australia's immigration settings, Section 6(a)

5. Including permanent residents of Australian:

   a. could have impacts on the demand side, as outlined previously, but on a smaller scale

   b. would align with the policy intent for international visitors to make a contribution to the costs of infrastructure and conservation

   c. would increase the number of people paying the IVL, either increasing revenue, or reducing the rate charged.

6. We have drafted the Cabinet paper and discussion document on the basis that both citizens and residents are exempt, but noted that the option to charge residents is feasible.

Exempting Pacific Islanders

7. Ministers were broadly comfortable with exempting Pacific Islanders from the IVL.

8. We have developed the following proposal for your consideration, based on exemption Realm countries and Pacific Forum Island countries and territories. The latter is the grouping New Zealand has close and inclusive ties with, and supports economic development initiatives:

Pacific Island Countries	**Proposed IVL status**
Pacific Realm Countries: Cook Islands, Niue, Tokelau	**Exempt** as these nationals are NZ citizens
Pacific Forum Island countries: (Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu)	**Exempt** as charging an IVL would run counter to New Zealand's close and inclusive ties with Forum Island members, and economic development settings with member countries.
French Polynesia and New Caledonia	**Exempt in principle** as PIF members but officials will investigate further options for distinguishing residents in these territories as opposed to those from France.
Other Pacific countries and territories Guam, American Samoa, Pitcairn Island, Rapa Nui (Easter Island) the Northern Marianas Islands, and Wallis and Futuna.	**Liable.** These are not Forum Island members, and residents travel on US, British, or Chilean passports.

Business travellers

9. Ministers discussed the potential issues around charging the IVL on business travel. Reasons for not charging business travellers include:

   a. Section 6(a)

   b. Business travellers are less likely to use conservation estate facilities.

   c. Average length of stay for business travellers is shorter than for tourists, and therefore they have less impact on infrastructure.

   d. It is consistent with the policy objective of targeting the levy at visiting tourists. Section 6(a)

10. We have undertaken further analysis on business travellers. There are three ways visiting business travellers enter New Zealand (entry permitted for up to three months):

Traveller	**Arrivals (2016/17)**	**Fees**	**Other conditions**
APEC Business Traveller Card (APEC Card)	35,000	Issued by home country government. NZ charges $150	Entry to all APEC countries for 5 years
Business Visitor Visa (without APEC Card)	15,000	$190	Single entry to NZ only
Visa Waiver	250,000 (approx.)	$8-9 (ETR)	Multiple entry to NZ only for 2 years

11. APEC Cards are a form of business travel facilitation. It is not possible to make them ETR-required without significant change in policy settings. In addition, Immigration New Zealand does not collect fees for APEC Cards as they are issued by the home country government. Therefore, they will also need to be IVL-exempt. This raises the question of whether Business Visitor Visas should also be made exempt.

12. With regard to visa waiver visitors:

    a. The same traveller can enter multiple times, for either business or recreational purposes (or both), and it is therefore not possible to simply and accurately distinguish between business and recreational travellers.

    b. Given the substantive differences in total cost of entry, visa waiver visitors will still arguably have preferential access compared to citizens of other countries.

    c. Section 6(a)

13. On balance, we recommend that business visitor visas be exempted (including APEC Cards), but visa waivers be charged.

Other 'standard' exemptions

14. The Cabinet paper and discussion document also include the usual sorts of exemptions.

    a. Travellers entering with humanitarian visas, medical treatment visas, military visas, and diplomatic visas.

    b. Transiting travellers, including those transiting to Antartica (part of our Treaty obligations).

    c. Children under the age of two.

15. The age of children exempted could be raised. For example Department of Conservation exempts under 12 year olds from charges, and the Stewart Island Visitor Levy exempts under 18 year olds. However, the higher the age, the greater the impact on revenue. We consider that under 2 year olds have minimal additional impact on infrastructure.

Updated revenue forecasts

16. The following table contains revised revenue estimates, which incorporate the changes above:

IVL Rate	Expected revenue in 2020
$25	$57 million
$30	$69 million
$35	$80 million

Decisions on expenditure

17. At the Ministers meeting, there was general agreement that the revenue from the IVL should be split between tourism infrastructure and conservation. Decisions have not been made on:

    a. the split between tourism infrastructure and conservation

    b. a more detailed scope of expenditure

c. how decisions on expenditure would be made (by Ministers and/or with input from the sector).

18. We have drafted the Cabinet paper and discussion document to seek feedback on these points, and will provide further advice following the consultation period.

Consultation proposal

19. We are proposing to use a standard public consultation approach, including:

a. public release of a discussion document

b. proactive OIA release of the Cabinet paper and relevant briefings

c. meetings with key stakeholders, some of which will include the IVL, ETR, and immigration fees and levies on the agenda.

Further work on tourism funding

20. Ministers also discussed various estimates of the size of visitor-related infrastructure investment required, and how different government levers (including the Provincial Growth Fund, Tourism Infrastructure Fund, and Department of Conservation pricing) might align with the IVL. Section 9(2)(f)(iv)

Next Steps

21. The following table sets out the key dates for the IVL, aiming for implementation in the first quarter of 2019/20.

Date	**Milestone**
Now	Ministerial consultation on Cabinet paper and consultation document
17 May 2018	Cabinet paper lodged
23 May 2018	DEV Cabinet Committee
28 May 2018	Cabinet
June 2018	Consultation on proposals
July 2018	Cabinet paper seeking final policy decisions
July – November 2018	Develop legislation and regulations
November / December 2018	LEG paper with draft legislation
December 2018 or February 2019	Legislation introduced
Early 2019	Final detailed implementation decisions
May 2019	IVL included in Budget 2019
May / June 2019	Legislation reported back to the House
Q1 2019/20	IVL implemented

In Confidence

Office of the Minister of Tourism

Chair, Cabinet Economic Development Committee

International Visitor Conservation and Tourism Levy Proposal

Proposal

1 Consultation on an International Visitor Conservation and Tourism Levy (IVL) to fund tourism infrastructure and conservation. The IVL will support the ongoing growth of New Zealand's tourism sector, mitigate financial and environmental impacts of the sector on communities, and continue to invest in the conservation and protection of our public lands and waters that are key attractions for visitors.

Executive Summary

2 Tourism is a significant and growing part of the economy. It brings many benefits to communities, including employment, additional amenities (retail, restaurants), and recreational opportunities.

3 However, current funding models for visitor-related infrastructure are not keeping up. The core of the problem is that it is often difficult to derive a revenue stream from these types of facilities, and therefore operating and investment costs fall on local or central government. In the case of local government, this can become unaffordable where there are high numbers of visitors relative to the number of ratepayers.

4 To address the issue, a package of initiatives is required. The package needs to provide scale and certainty of revenue, support regional development, and align who pays with who benefits. Across government, we are looking at options in transport, local government, and conservation; as well as central funding options.

Proposal for an International Visitor: Conservation and Tourism Levy

5 This paper proposes that the Government consult on an IVL, as one component of that package. It will enable visitors (and the tourism sector) to contribute to tourism infrastructure and conservation. In developing the IVL I have considered the following criteria:

- 5.1 Able to accurately charge international visitors, and not New Zealanders
- 5.2 Minimises impacts on border passenger processing and Crown collection costs
- 5.3 Minimises impacts on travellers and carriers
- 5.4 Aligns with New Zealand's international interests and agreements
- 5.5 Generates around $75 million in the first year, rising over time in line with increasing visitor numbers.

6 Having looked at a range of targeting and collection options, the following option best meets the criteria:

Collection mechanism	Additional charge included in application fees for Visas and (proposed) Electronic Travel Authorities (ETA)
Targeting	Charge applied based on immigration status: • All ETA applications (visa waiver travellers) • All visas for short term entry (12 months or less) Exemptions for: • Diplomatic, military, medical, and humanitarian visas • Transit visas, including the Antarctic Traveller Transit Visa • Australian citizens and permanent residents (who receive residence visas on arrival) • Pacific Island Forum countries • Business Visitor Visas (including APEC business travel cards) • Children under the age of 2
Rate	Propose consulting on options of $25, $30, and $35.

7 I have proposed a number of exemptions in order to support our international interests and obligations including the Vienna Convention, APEC, and our relationships with Australia and Pacific Island Countries.

Section 6(a)

Options for spending the International Visitor Conservation and Tourism Levy

11 The IVL is intended to fund tourism infrastructure and conservation. I propose we consult on the scope of that expenditure, and the roles of key stakeholders in making those decisions.

Background

Tourism is a significant and growing part of the economy

12 Tourism contributes greatly to the New Zealand economy in terms of the revenue it generates for local businesses and the impact it has on creating employment opportunities. It also generates scale in smaller communities, supporting amenities and recreation that would not otherwise be available. The following table illustrates the growth of the sector:

	Actual 2007	**Actual 2017**	**Forecast 2024**
Employment (directly and indirectly)	345,000 (15.1% of employment)	400,000 (14.5% of employment)	-
GDP (directly and indirectly)	$16 billion (10.3% of total GDP)	$26 billion (10.5% of total GDP)	-
International visitor spending[1]	$8 billion	$11 billion	$15 billion
International visitors	2.5 million	3.7 million	5.1 million

Current funding models for visitor-related infrastructure are not keeping up

13 The growth of the sector requires supporting infrastructure. Sector reports suggest that the total visitor-related infrastructure[2] investment required could be in the order of $100 - $150 million per annum[3], though there are some limitations in the analysis. Much of this is funded through local government, Department of Conservation (DOC), New Zealand Transport Agency (NZTA), with contributions from other funds such as the Tourism Infrastructure Fund (TIF) and Provincial Growth Fund (PGF).

14 Current funding arrangements for some publicly-provided infrastructure (including DOC facilities and experiences) have not been able to cope with the rapid growth in tourism volumes. Many funding arrangements do not ensure that visitors pay for what they use, nor meet the wider costs they generate. This can arise from the practical difficulties of charging, or expectations (often domestic) that certain services should be free. There are also limitations in how the sector could be levied. In the case of local facilities, this has meant that ratepayers fund any shortfall, and this is not always affordable. The TIF is a first step in addressing this issue.

A package of initiatives is required to address the problem

15 A sustainable funding model for visitor-related infrastructure would meet the following criteria:

15.1 Scale of revenue to enable strategic investment in New Zealand's key attractions, networks, and/or seed funding for other revenue-generating initiatives.

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[1] This measure refers to spend by travellers, excluding international airfares and foreign fee-paying students. It therefore differs from the Tourism Satellite Account estimate.

[2] Visitor-related infrastructure ranges from basic infrastructure (toilets, car parks, water supply, rubbish), to basic attractions/amenities (viewing platforms, playgrounds, walking tracks), or more elaborate infrastructure projects (conference facilities, tree-walks, urban landscaping/public spaces).

[3] *Addressing New Zealand's most pressing local tourism infrastructure needs*, released by Tourism Leaders in November 2016; and *National Tourism Infrastructure and Investment Assessment*, commissioned by TIA, produced by Deloitte, April 2017

15.2 Certainty of revenue for asset owners/affected communities, to enable long term planning for visitor-related infrastructure and mitigation of externalities.

15.3 Fair distribution of costs, aligning those who benefit from publicly-provided infrastructure with those who are paying (including visitors and businesses).

15.4 Support for regions to realise their tourism potential, and enjoy the social and economic benefits.

15.5 Cost effective revenue collection.

16 No single initiative will meet all of these criteria, and therefore a package is required. Work is underway across transport, local government, and conservation, as well as the tourism portfolio. Related work includes:

16.1 Revenue options are being considered within the Conservation portfolio, including concessions and user-charges.

16.2 The Minister of Local Government is initiating a Local Government Funding Inquiry into local government costs and revenue.

16.3 The Government Policy Statement on Land Transport, currently under development, recognises the importance of transport connections that enable tourists to access destinations throughout New Zealand safely. NZTA is also developing tools that will incorporate a wider range of economic benefits in project appraisals, including tourism.

Proposal for an International Visitor Conservation and Tourism Levy

An IVL could be an important component of a visitor-related infrastructure package

17 The work identified above has the potential to better align those who pay for and those who benefit from visitor-related infrastructure. However, I consider there is a gap, and that central funding is required to support strategic investment, and regions realising their tourism potential.

18 I recommend that funding should be raised from a charge on international visitors. In coming to this recommendation, I have considered stakeholder views. Some of the points raised against a levy include that:

18.1 a visitor charge is a blunt tool

18.2 tourism already generates substantial Crown revenue and that cumulative costs could impact on demand

18.3 Section 6(a)

An IVL is an important component of a wider package or measures needed to sustainably fund visitor-related infrastructure

19 Targeting all international visitors with a flat rate charge is a blunt tool, with individual visitors having a variety of itineraries and reasons for visiting. For this reason, the IVL should only be one component of a sustainable funding package for tourism

infrastructure. Specific costs should be captured through other mechanisms, such as user charges.

A levy on tourism is an appropriate response to growing demand for infrastructure

20 Tourism generates significant Crown revenue. A recent report by Deloitte[4] suggests the Crown collects $3.2 billion and spends $640 million directly on international tourists[5]. However, tax is not about recovery of costs, rather it funds the functions of Government, such as health, welfare, education, and justice (these functions alone make up 76% of Crown expenditure).

21 International visitors enjoy the wider benefits of such expenditure. Analysis of the Deloitte report suggests international visitors contributed 3% of the general tax[6] take in 2017; and stayed 4% of the total population nights[7]. This suggests the tourism sector is making a proportionate contribution to these functions of Government, on a population basis.

22 Other sectors also pay taxes and are levied:

22.1 Sectors may pay a levy where they generate externalities, for example the waste minimisation levy, and levies on oil and gas exploration (which are effectively an insurance payment for clean ups in the event of spills)

22.2 Goods and services provided primarily for the benefit of the sector may also be levied for. There are a range of sector levies for research, marketing, and insurance for example.

23 The tourism sector relies on publicly-provided infrastructure (including conservation lands and waters) that is difficult to charge for directly. The IVL is an opportunity for the tourism sector to contribute to these costs. A financial contribution from the sector will also help to address growing concerns from communities about tourism, and therefore help maintain the 'social licence' for the sector to operate.

Any impact on tourism demand is unclear, though the Australian market is the most price sensitive

24 It is difficult to assess the likely impact on demand. Previous work[8] undertaken before the introduction of the Border Clearance Levy suggests that the additional charge (all other things equal) could be a one-off drop in growth of visitor expenditure of between $37 and $185 million[9] in the first year. This one-off drop is unlikely to affect the growth trend in subsequent years (forecast at 4.6 percent per annum)

25 Other factors also impact on prices including changes to other government charges, flight costs (in particular changes in fuel costs), exchange rate movements, and other holiday package costs. Global economic conditions are also a significant factor. Changes in border charges to date have not resulted in observable changes in demand.

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[4] MBIE commissioned Deloitte to model revenue and expenditure from international tourists at both central and local government level. These are not official statistics, but are modelled using available data

[5] Expenditure includes a share of transport costs, ACC, immigration and border costs, Tourism NZ, and MBIE tourism functions

[6] Includes GST, income tax, and corporate tax from the tourism sector

[7] Calculated as (*number of international visitors x average length of stay*) ÷ (*NZ population x 365 days*).

[8] *Effects of an increase in travel ticket price on New Zealand tourism,* Sapere,

[9] Estimated 1% drop with a range of 0.3% - 1.5% reduction at 90% confidence interval

26 Australia makes up around a third of visitors to New Zealand, and is the most price sensitive market. Potential impacts are discussed below.

Considerations in designing the IVL

27 My officials and I have worked with portfolio Ministers and relevant agencies to design an IVL that meets the following criteria, as far as possible:

27.1 Able to accurately charge international visitors, and not New Zealanders

27.2 Minimises impacts on border passenger processing and Crown collection costs

27.3 Minimises impacts on travellers and carriers

27.4 Aligns with New Zealand's international interests and agreements

27.5 Generates around $75 million per annum, in the first year, rising over time in line with increasing visitor numbers.

28 The proposal has also been developed taking into consideration the cumulative impact of changes at the border, and other user charges.

Proposed IVL

29 I have considered four different collection mechanisms: ticketing, charging at the border, national bed tax, and adding charges to Visa and (proposed) ETA applications (i.e. via the immigration system). I have also considered a range of targeting options. A summary assessment is set out in Annex One.

30 No single option meets all of the criteria. In particular, there is a trade-off between our international interests and negative impacts on travellers, carriers, and border processing. However, the following proposal will best meet the criteria:

	Proposal
Collection mechanism	Additional charge included in application fees for Visas and ETAs
Targeting	**Charge applied based on immigration status:** • All ETA applications (visa waiver travellers) • All visas for short term entry (12 months or less) Exemptions for: • Diplomatic, military, medical, and humanitarian visas • Transit visas, including the Antarctic Traveller Transit Visa • Australian citizens and permanent residents (who receive residence visas on arrival) • Pacific Island Forum countries • Business Visitor Visas (including APEC business travel cards) • Children under the age of 2
Rate	Propose consulting on options of $25, $30, and $35.

31 This proposal meets most of the criteria:

31.1 It is able to accurately charge international visitors, and not New Zealanders, as it relies on existing, well tested systems. This option also offers the highest degree of flexibility in targeting, as exemptions are relatively straightforward to implement and can be adapted over time, if required.

31.2 There is no additional border passenger processing, and is low cost to administer with estimated set up costs of $1 million (in addition to establishing an ETA), and minimal ongoing expenses (all other collection options are quite costly to administer).

31.3 There are no additional steps for travellers or carriers required over and above existing border checks and transactions, and can include cruise passengers in a straight forward manner.

31.4 It can be delivered early in the 2019/20 financial year, while other options would require longer to implement as they would require lead times for third parties.

31.5 It protects New Zealand's interests Section 6(a) and in the Pacific (acknowledging New Zealand's special relationships with certain Pacific partners).

32 Section 6(a)

33 In addition, this assessment relies on Cabinet approval of the introduction of an ETA (being considered in parallel with the IVL proposal by Cabinet). If both proposals are agreed, implementation of the ETA would be in two phases:

33.1 ETA phase one would enable the charging of the IVL, and some screening of travellers (via self-declarations). This will reduce the number of passengers 'turned around' on arrival.

33.2 ETA phase two would build in the ETA's security and facilitation features.

Section 6(a)

Section 6(a)

36 I have considered targeting by tax residency as an alternative Section 6(a) However, tax residency would:

36.1 be costly to implement (requiring a new system) and administer

36.2 create significant delays at the border, affecting travellers, and carriers

36.3 be likely to result in some data matching errors, resulting in charging (or delaying) people who should not be charged and/or not charging those who should pay.

Section 6(a)

business travellers

37 I have also considered exempting business travellers Section 6(a)

39 There are three ways visiting business travellers enter New Zealand (entry permitted for up to three months):

Traveller	**Arrivals (2016/17)**	**Fees**	**Other conditions**
APEC Business Traveller Card (APEC Card)	35,000	Issued by home country government. NZ charges $150	Entry to all APEC countries. Card valid for 5 years
Business Visitor Visa (without APEC Card)	15,000	$190	Single entry to NZ only
Visa Waiver	250,000 (approx.)	$8-9 (ETA)	Multiple entry to NZ only. Valid for 2 years

40 It is not possible to make APEC Cards ETA-required without significant change in policy settings. In addition, Immigration New Zealand does not collect fees for APEC Cards as they are issued by the home country government. Therefore, they will need to be IVL-exempt.

41 Given Section 6(a) IVL-exempt APEC Card traveller, I also propose to exempt Business Visitor Visas.

42 However, I do not propose to exempt business travellers entering on a visa waiver:

42.1 The same traveller can enter multiple times, for either business or recreational purposes (or both), and it is therefore not possible to simply and accurately distinguish between business and recreational travellers.

Section 6(a)

42.2 Given the substantive differences in total cost of entry, visa waiver visitors will still arguably have preferential access compared to citizens of other countries.

Section 6(a)

Section 6(a)

Exempting Australia

51 Australia makes up around a third of visitors to New Zealand, and so exempting this group from the IVL would have a significant impact on the revenue collected (around $25 million if the rate were set at $25), or the rate charged.

52 However, the IVL would also be more significant relative to travel costs, and it's worth noting that Australians typically have shorter stays (averaging 10 nights, compared to 18 for all visitors).

Section 6(a)

Demand from trans-Tasman visitors could have wider economic impacts

56 As noted above, Australia is our most price-sensitive visitor market. Aviation stakeholders have stated that relatively small price differentials in holiday package costs will result in Australian customers opting for other destinations. This is supported by the work undertaken in assessing the impacts of introducing the Border Clearance Levy, which estimated a one-off $13 - $61 million drop in growth of expenditure by Australians[12] in year one. This one-off drop is unlikely to affect the growth trend in subsequent years.

57 There are flow-on effects from lower growth in Australian visitor demand:

57.1 Small changes in demand for trans-Tasman flights could have significant impacts on services, as many operate on low-margin, high-volume models.

[12] Estimated 1.4% drop with a range of 0.5% - 2.4% reduction at 90% confidence interval

57.2 Regional airports with international capacity would be disproportionately affected, as their international flights are mostly trans-Tasman. Over half of the flights into Christchurch International Airport are trans-Tasman, while smaller international airports only have trans-Tasman connections.

57.3 Reductions in regional trans-Tasman services would have implications for regional connectivity; affecting the wider business sector, New Zealand out-bound visitors, and regional tourism flows.

Recommend exempting Australian citizens and permanent residents

58 Given these factors, I recommend that we exempt Australian citizens and permanent residents, noting that there is the potential for the levy to evolve in line with other objectives and border developments.

Exempting Pacific Island Forum countries in line with Government's economic objectives in the region

59 New Zealand's Pacific foreign policy objectives aim to ensure our Pacific neighbours are protected and prosperous. For example, we enable labour mobility with the Pacific. A levy on Pacific nations would remove an estimated $3.6 million annually from the Pacific economy.

60 The New Zealand Government takes a number of steps to enable necessary travel from the Pacific. Pacific Island citizens also travel for family, medical, educational and employment reasons over and above these programmes, and the IVL is likely to have a more significant financial impact on this group than others.

61 I therefore propose that we exempt Pacific Island Forum Countries:

Pacific Island Countries	Proposed IVL status
Pacific Realm Countries: Cook Islands, Niue, Tokelau	**Exempt** as these nationals are NZ citizens
Pacific Island Forum countries: (Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu)	**Exempt** as charging an IVL would run counter to New Zealand's close and inclusive ties with Forum Island members, and economic development settings with member countries.
French Polynesia and New Caledonia	**Exempt in principle** as Pacific Island Forum members but officials will investigate further options for distinguishing residents in these territories as opposed to those from France.
Other Pacific countries and territories Guam, American Samoa, Pitcairn Island, Rapa Nui (Easter Island) the Northern Marianas Islands, and Wallis and Futuna.	**Liable.** These are not Forum members, and citizens travel on US, British, or Chilean passports.

General consideration of exemptions

Section 6(a)

63 The equity of excluding particular groups should also be considered. Tourists from any given destination will generally have a similar impact on publicly-provided infrastructure. Exempting special partner countries may also result in higher charges for other visitors in order to maintain revenue.

64 As the collection of the IVL relies on the Visa and ETA system, at a minimum, exemptions will need to align with who is Visa- or ETA-required.

Setting the rate for the IVL

65 I recommend we consult on rates of $25 (generating $57 million in 2020), $30 ($69 million in 2020), and $35 ($80 million in 2020). This would increase with visitor growth, at around 5% per annum.

Options for spending the IVL revenue

66 I propose that the IVL revenue raised from the IVL be spent on conservation and tourism infrastructure including:

66.1 visitor-related facilities and infrastructure on conservation land

66.2 conservation and biodiversity activity

66.3 other tourism-related infrastructure.

67 I intend to consult on the scope of what would be appropriate for the IVL revenue to be spent on, and the split between the conservation and tourism portfolios. I do not propose to include strictly commercial projects, such as accommodation or commercial attractions/experiences. These may fit other government funds but will need to be tested as to their level of public benefit.

68 I also intend to consult on the appropriate split between tourism infrastructure and conservation, and how decisions should be made (including input from the tourism sector, conservation stakeholders, and local government).

Consultation

69 My officials and I have met with a range of key stakeholders from the tourism sector which has helped inform my proposal, including Local Government New Zealand, Tourism Industry Aotearoa, and representatives from the aviation sector. I have also received correspondence from stakeholders and members of the public on the merits of an IVL.

70 I propose to put the IVL proposal out for public consultation (Publicity section refers).

71 The following agencies were involved in the development of the IVL proposal: Ministry of Foreign Affairs and Trade, The Treasury, Ministry of Transport, New Zealand Transport Agency, Department of Internal Affairs, Inland Revenue, New Zealand Customs, and Department of Conservation, and the Ministry of Primary Industries. In addition, within MBIE, Immigration Policy and Immigration New Zealand have contributed. The Department of Prime Minister and Cabinet has been informed.

Alignment with other changes at the border

72 There are a number of changes underway or proposed at the border. These include changes to immigration settings, charges for passenger movements, charges for goods movements, and border security measures. Officials from all border agencies are co-ordinating across these areas to consider cumulative impacts and align consultation where possible. Annex Two indicates the potential cumulative impacts on passengers.

Financial Implications

73 There are no financial implications resulting from this paper. However, should Cabinet support consultation on the IVL, and subsequently approve it, the IVL could generate revenue of $59 - $83 million in 2020, increasing at around 5 percent per annum thereafter. Any costs associated with its implementation will be cost recovered.

Human Rights

74 The proposal could be considered to discriminate based on nationality. However, the proposal does exempt anyone entering New Zealand as a permanent resident. So far as there is any infringement on human rights, I consider it to be justified as visitors are contributing towards costs they impose, and the upkeep of the attractions and amenities that they enjoy.

75 I will report back to Cabinet with a full assessment of human rights implications, following consultation.

Legislative Implications

76 The proposals in this paper will require enabling legislation, and supporting regulations. It has been included in the legislative programme. The Bill is a Priority Five, to be referred to Select Committee within this calendar year. This will enable the Bill to be passed in 2019. Parliamentary Counsel Office has been consulted on the legislative bid.

Regulatory Impact Analysis

77 The Regulatory Quality Team at the Treasury considers that no separate Regulatory Impact Assessment is required at this stage, since the relevant analysis is contained in the draft discussion document and will be included in a RIA when policy proposals are finalised.

Publicity

78 I propose to consult on the IVL proposal, and that consultation be aligned with consultation on immigration fees and levies, and an ETA. It is likely to be of particular interest to stakeholders within the tourism sector.

79 Introducing a targeted levy is likely to raise significant debate. I have already had input from many sources on how to respond to growth in the sector.

79.1 The aviation sector will likely be against the introduction of a levy, and particularly any mechanism that relies on collection and verification activity at the border or by carriers. Some members of the sector, however, have advocated for a smaller universal levy as part of a funding package.

79.2 The tourism sector as a whole will likely have mixed views. Some will accept the levy as necessary to support conservation and infrastructure; others will point to the revenue received by the Crown from international visitors already.

79.3 Local government, ratepayers in ‘hot spots’, and those with strong interests in our public lands and waters are likely to be in favour.

80 I have aligned the proposed consultation period with consultation on the ETA and changes to immigration fees and levies.

81 To support consultation, I intend to release the attached discussion document, and proactively release this Cabinet paper, and relevant briefings on the IVL, removing material consistent with the Official Information Act, including material that could affect New Zealand’s international relations or is legally privileged.

Recommendations

The Minister of Tourism recommends that the Committee:

1 note that tourism is an important sector of the economy, that offers employment and business opportunities for the regions; as well as scale to support amenities that locals would not otherwise enjoy

2 note that some funding arrangements do not ensure that visitors pay for what they use, nor meet the costs of externalities they generate

International Visitor Conservation and Tourism Levy Proposal

3 agree to consult on an International Visitor Conservation and Tourism Levy (IVL), to be paid by all visitors to New Zealand who are here for 12 months or less, with exemptions in line with our international obligations and objectives:

Visitors liable for the IVL	**Exemptions from the IVL**
• All tourists • Business travellers entering NZ through the visa waiver programme • All family visitors • Students with visas for 12 months or less • Working Holiday Visa holders • Work visas for 12 months or less (for example events and media)	• New Zealand citizens or permanent residents (includes Pacific Realm citizens) • Australian citizens and permanent residents (receive NZ residency upon arrival) • Transit visas, including the Antarctic Traveller Transit Visa • Diplomatic, military, medical or humanitarian visas • Business Visitor visas, including APEC Business Travel Cards • Pacific Island Forum countries • Children under the age of 2

4 agree to consult on a rate between $25 and $35 per visa or ETA application

5 note the above proposal relies on Cabinet’s support for the introduction of an ETA, being considered in parallel by DEV and Cabinet

Pacific Island Forum exemption

6 note that Pacific Island Forum countries include Cook Islands, Niue, Tokelau, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

7 note that officials will investigate technical options for applying the Pacific Island Forum exemption to French Polynesia and New Caledonia, who are Pacific Island Forum members, but travel on French passports

Section 6(a)

Expenditure

12 agree the IVL revenue should be spent on tourism infrastructure and conservation

Consultation and report back

13 agree to consult on how the IVL should be spent, including the split between tourism infrastructure and conservation, scope of expenditure, and how decisions on expenditure would be made (by ministers and/or with input from the sector)

14 agree to release the attached discussion document

15 direct the Ministry of Business, Innovation, and Employment to

15.1 consult on the IVL proposal through June 2018

15.2 proactively release this Cabinet paper and relevant briefings to support consultation, removing material consistent with the Official Information Act, including anything that could affect New Zealand's international relations or is legally privileged

15.3 report back to Cabinet by August 2018 with a final proposal.

Authorised for lodgement

Hon Kelvin Davis

Minister of Tourism

Annex One - summary assessment of International Visitor Conservation and Tourism Levy options

Collection options considered

Ticketing	Ticketing is not amenable to targeted collection, as carriers do not always have the necessary information to accurately identify different types of passengers. In addition, there is potential for carriers to simply absorb the cost of the IVL and allocate it across tickets (similar to any other overhead).
Departure Tax	Departure tax could facilitate a targeting based on tax residency. However, even with some form of online pre-pay system, it is likely that significant numbers of travellers would still pay at departure (requiring investment in systems at airports), and travellers would still need to be individually checked for compliance. This has significant impact on border processing, and runs counter to government and private sector efforts to streamline. Costings also indicated that this option would be expensive to set up (in excess of $5 million) and operate (initial estimate of $1 million per annum, with further costings required). In addition, operating costs and delays would translate into additional costs for airports, airlines, and cruise services.
Arrival Tax	Arrival tax is likely to have even greater impacts at the border than a departure tax, as large groups disembark simultaneously, amplifying delays.
Immigration system (Visa/ETA)	Most cost-effective option identified, assuming that an ETA is put in place (ETA is a desirable immigration tool, as it enhances border security, and enables further passenger facilitation). It is only able to target based on immigration status, however.
Refunds	Various options for refund schemes were considered, including as a means to supplement deficiencies in other systems. However, refunds are expensive to administer, relative to the size of the IVL rate. They also rely on people applying for them, which could create equity issues.

Targeting options considered

Immigration status	Simple to implement (assuming an ETA is in place). Amenable to exemptions, which can be used to improve how this system aligns with New Zealand's international interests.
Tax residency	Section 6(a) However, it could not be implemented using the immigration system, as non-tax-resident New Zealanders don't have to apply for entry to New Zealand. This targeting method was not supported on the basis that it could only be implemented through a departure tax.
Universal levy	Simple to implement, Section 6(a) however, it does not meet the policy intent that only international visitors should pay the levy.

Annex 2 - Personas for combined impacts of Immigration Fees and Levy review, Electronic Travel Registration and International Visitor Conservation and Tourism Levy proposals

Key: BCL = Border Clearance Levy ETA = Electronic Travel Registration IVL = International Visitor Conservation and Tourism Levy

Persona 1: Single traveller (visitor – tourist), visa required

Charge type	Current	Proposed	Increase
Visa fee	$151-$170	$190	$20-$39
Immigration levy	$14	$21	$7
BCL	$21.58	$18.73	-$2.85
ETA fee	n/a	n/a	n/a
IVL	n/a	$30	$30
Combined	**$186.58 - $205.58**	**$259.73**	**$54.15 - $73.15**

Persona 2: Single traveller (visitor – tourist or business), visa waiver

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$21.58	$18.73	-$2.85
ETA fee	n/a	$8	$8
IVL	n/a	$30	$30
Combined	**$21.58**	**$56.73**	**$35.15**

Persona 3: Single traveller (visitor– tourist or business), Australian citizen

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$21.58	$18.73	-$2.85
ETA fee	n/a	n/a	n/a
IVL	n/a	n/a	n/a
Combined	**$21.58**	**$18.73**	**-$2.85**

Persona 4: Family group of four travellers (visitor), visa required

Charge type	Current	Proposed	Increase
Visa fee	$151-$170	$190	$20-$39
Immigration levy	$14	$21	$7
BCL	$86.32	$74.92	-$11.40
ETA fee	n/a	n/a	n/a
IVL	n/a	$120	$120
Combined	**$251.32 - $270.32**	**$405.92**	**$135.60 - $154.60**

Persona 5: Family group of four travellers (visitor), visa waiver

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$86.32	$74.92	-$11.40
ETA fee	n/a	$32	$32
IVL	n/a	$120	$120
Combined	**$86.32**	**$226.92**	**$140.60**

Persona 6: Family group of four travellers (visitor), Australian citizens

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$86.32	$74.92	-$11.40
ETA fee	n/a	n/a	n/a
IVL	n/a	n/a	n/a
Combined	**$86.32**	**$74.92**	**-$11.40**

Persona 7: Single traveller (visitor - tourist or business), visa required, Pacific

Charge type	Current	Proposed	Increase
Visa fee	$116-$135	$150	$15-$34
Immigration levy	$14	$21	$7
BCL	$21.58	$18.73	-$2.85
ETA fee	n/a	n/a	n/a
IVL	n/a	n/a	n/a
Combined	**$151.58 - $170.58**	**$189.73**	**$19.15-$38.15**

Persona 8: Family group of four travellers (visitor), visa required, Pacific

Charge type	Current	Proposed	Increase
Visa fee	$116-135	$150	$15-$34
Immigration levy	$14	$21	$7
BCL	$86.32	$74.92	-$11.40
ETA fee	n/a	n/a	n/a
IVL	n/a	n/a	n/a
Combined	**$216.32 - $235.32**	**$245.92**	**$10.60 - $29.60**

Persona 9: Single traveller (visitor – tourist or business), Australian permanent resident

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$21.58	$18.73	-$2.85
ETA fee	n/a	$8	$8
IVL	n/a	n/a	n/a
Combined	**$21.58**	**$26.73**	**$5.15**

Persona 10: Family group of four travellers (visitor), Australian permanent residents

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$86.32	$74.92	-$11.40
ETA fee	n/a	$32	$32
IVL	n/a	n/a	n/a
Combined	**$86.32**	**$106.92**	**$20.60**

Persona 11: Single person visiting NZ on cruise vessel – deemed visa, not Australian

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$26.23	$22.82	-$3.41
ETA fee	n/a	$8	$8
IVL	n/a	$30	$30
Combined	**$26.23**	**$60.82**	**$34.59**

Persona 12: Family group visiting NZ on cruise vessel – deemed visa, not Australian

Charge type	Current	Proposed	Increase
Visa fee	n/a	n/a	n/a
Immigration levy	n/a	n/a	n/a
BCL	$104.92	$91.28	-$13.64
ETA fee	n/a	$32	$32
IVL	n/a	$120	$120
Combined	**$104.92**	**$243.28**	**$138.36**

Notes:

- Offshore visa application fees, ETA fee and IVL are GST zero-rated (based on services being provided off-shore). BCL rates shown above are GST inclusive.
- Visa fees shown are for visas applied offshore, with rates for personas 7 and 8 reflecting the lower rate for applications made from the Pacific. The lower rate in ranges reflects the current on-line discount, which is proposed to be removed.
- Current BCL rates (GST inclusive) are $8.57 for an arriving traveller other than an arriving cruise ship traveller and $3.37 for a departing traveller other than a departing cruise ship traveller under the Customs and Excise (Border Processing Levy) Order 2015, and $9.64 for a traveller other than a cruise ship traveller under the Biosecurity (Border Processing Levy) Order 2015 (rates effective until 30 June 2018). For a traveller on a cruise ship the rates are $8.63, $3.57 and $14.03 respectively.
- BCL rates (GST inclusive) effective from 1 July 2018 are $7.39 for an arriving traveller other than an arriving cruise ship traveller and $2.94 for a departing traveller other than a departing cruise ship traveller as per updated rates under the Notification of Rates of Levy Under the Customs and Excise (Border Processing Levy) Order 2015, and $8.40 for a traveller other than a cruise ship traveller under the Notification of Rates of Levy Under the Biosecurity (Border Processing Levy) Order 2015. For a traveller on a cruise ship the rates are $11.96, $4.72 and $6.14 respectively.
- BCL rates do not reflect the inclusion of INZ border clearance costs (proposal being consulted on in the Immigration Fee and Levy review).
- ETA and IVL rates show indicative level of charge pending Ministerial / Cabinet decisions. For illustrative purposes the lower rate of $8 for the ETA and the mid-point rate of $30 for the IVL have been used.
- Family group visa fees and Immigration levy rates are for a family of four (two adults and two dependent children aged under 18 years old) eligible to apply for all four travellers under one visa application.
- BCL, ETA fee and IVL for Family group of four travellers are calculated based on four payments of each levy and fee.

Cabinet Business Committee

Minute of Decision

International Visitor Conservation and Tourism Levy: Release of Discussion Document

Portfolio **Tourism**

On 28 May 2018, the Cabinet Business Committee:

Background

1 **noted** that tourism is an important sector of the economy, that offers employment and business opportunities for the regions, as well as scale to support amenities that locals would not otherwise enjoy;

2 **noted** that some funding arrangements do not ensure that visitors pay for what they use, nor meet the costs of externalities they generate;

International Visitor Conservation and Tourism Levy proposal

3 **agreed** to consult on an International Visitor Conservation and Tourism Levy (the levy), to be paid by all visitors to New Zealand who are in New Zealand for 12 months or less, with exemptions in line with international obligations and objectives:

Visitors liable for the levy	Exemptions from the levy
• All tourists • Business travellers entering New Zealand through the visa waiver programme • All family visitors • Students with visas for 12 months or less • Working Holiday Visa holders • Work visas for 12 months or less (for example events and media)	• New Zealand citizens or permanent residents (includes Pacific Realm citizens) • Australian citizens and permanent residents (receive New Zealand residency upon arrival) • Transit visas, including the Antarctic Traveller Transit Visa • Diplomatic, military, medical or humanitarian visas • Business Visitor visas, including APEC Business Travel Cards • Pacific Island Forum countries • Children under the age of two

4 **agreed** to consult on a rate between $25 and $35 per visa or Electronic Travel Authority application;

5 **noted** that the above proposal relies on Cabinet's support for the introduction of an Electronic Travel Authority, being considered in parallel by the Cabinet Business Committee under CBC-18-SUB-0057;

Pacific Island Forum exemption

6 **noted** that Pacific Island Forum countries include Cook Islands, Niue, Tokelau, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu;

7 **noted** that officials will investigate technical options for applying the Pacific Island Forum exemption to French Polynesia and New Caledonia, who are Pacific Island Forum members, but travel on French passports;

Section 6(a)

Expenditure

12 **agreed** that the levy revenue should be spent on tourism infrastructure and conservation;

Consultation and report back

13 **agreed** to consult on how the levy should be spent, including the split between tourism infrastructure and conservation, scope of expenditure, and how decisions on expenditure would be made (by Ministers and/or with input from the sector);

14 **agreed** to release the discussion document *Consultation on International Conservation and Tourism Visitor Levy: Seeking Your Views on a Proposal to Implement a Levy on International Visitors Travelling to New Zealand to Fund Tourism Infrastructure and Conservation* (the discussion document), attached to the paper under CBC-18-SUB-0054;

15 **directed** the Ministry of Business, Innovation, and Employment to:

15.1 consult on the levy proposal through June 2018;

15.2 report back to the Cabinet Economic Development Committee by August 2018 with a final proposal;

16 **noted** that the paper under CBC-18-SUB-0054 will be proactively released, along with relevant briefings, subject to any appropriate redactions.

Janine Harvey
Committee Secretary

Present:
Rt Hon Jacinda Ardern (Chair)
Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson
Hon Phil Twyford
Hon Chris Hipkins
Hon Andrew Little
Hon Carmel Sepuloni
Hon Dr David Clark
Hon Nanaia Mahuta
Hon Tracey Martin
Hon James Shaw

Officials present from:
Office of the Prime Minister
Department of the Prime Minister and Cabinet

Hard-copy distribution:
Minister of Foreign Affairs
Minister of Tourism
Minister of Immigration