Inland Revenue
Te Tari Taake

BILL COMMENTARY

Taxation (Budget Measures) Bill (No 2)

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Minister of Finance

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Table of Contents

Investment Boost **3**

Investment Boost: Deduction for new investment assets 4

KiwiSaver **13**

Reforms to KiwiSaver scheme settings 14

Working for Families **22**

Working for Families abatement: Threshold and rate changes 23

Best Start tax credit 25

Investment Boost

Investment Boost: Deduction for new investment assets

Clauses 4, 5, 6, 14(3) and (4), and 15

Summary of proposed amendments

The proposed amendments would give effect to the Government's "Investment Boost" policy, which would create a deduction for new investment assets. The deduction would be equal to 20% of the new investment asset's cost.

Effective date

The proposed amendments would take effect for new investment assets that are depreciable property if they are first available for use on or after 22 May 2025. For other new investment assets, the amendment would take effect for expenditure incurred on or after 22 May 2025.

Background

The objective of Investment Boost is to encourage capital investment and raise productivity in New Zealand. Investment Boost is a partial expensing regime and has similarities to other forms of accelerated depreciation. For new investment assets that are depreciable property, the amendments would allow a deduction of 20% of the cost of the asset in the income year the asset is first available for use.

New investment assets would include all depreciable property except residential buildings and fixed life intangible property (FLIP).[1] They would also include improvements to depreciable property and a number of assets that are allowed depreciation-like deductions.

New investment assets that are depreciable property must first be available for use on or after 22 May 2025. New investment assets must not have previously been used in New Zealand for any purpose, other than as trading stock.

The deduction would reduce the base from which future depreciation deductions are taken. The amount a person could deduct in the income year the asset is acquired would generally be:

- 20% of the cost of the asset, plus
- the amount of the usual depreciation deduction (or depreciation-like deduction) that would otherwise apply but calculated as if the cost of the asset were reduced by 20%.

[1] Intangible property where the property's useful economic life is equal to its legal life.

For depreciable property, the deduction would be recoverable if the asset is disposed of above its adjusted tax value.

For new investment assets that are not depreciable property, the deduction would only be available for expenditure incurred in acquiring the asset on or after 22 May 2025.

Key features

The key features of the proposed amendments are:

- Businesses would be eligible for a deduction of 20% of the cost of a new investment asset. Any additional depreciation deductions would be quantified as if the cost of the asset were reduced by 20%.
- New investment assets that are depreciable property must be used (or available for use) for the first time on or after 22 May 2025. For new investment assets that are not depreciable property, the deduction would only be available for expenditure incurred from 22 May 2025 in acquiring the asset. New investment assets must not have previously been used in New Zealand for any purpose, other than as trading stock.
- New investment assets would include:
    - all depreciable property except residential buildings and FLIP
    - improvements to depreciable property (other than to residential buildings and FLIP)
    - primary sector land improvements
    - assets acquired as petroleum development expenditure and mineral mining development expenditure (except rights, permits or privileges).
- New investment assets would include assets (such as certain commercial and industrial buildings) that would otherwise have a depreciation rate of 0%.
- The deduction for new investment assets would reduce an asset's adjusted tax value. Some or all of the deduction may be recoverable if the asset is disposed of (or deemed to be disposed of) and the consideration is more than the asset's adjusted tax value. Deductions for primary sector land improvements would not be recoverable.
- Assets used partly for business could be eligible for Investment Boost, but the deduction would need to be apportioned. A special rule has been developed to support revenue integrity when new investment assets are only partly used for business. This rule would ensure that some of the deduction is clawed back when a mixed-use asset undergoes a significant reduction in business use.

- Taxpayers would elect to take the deduction by returning income in the year the asset is first available for use (or when expenditure has been incurred if not depreciable property).

Detailed analysis

The following sections discuss new investment assets that are depreciable property. New investment assets that are not depreciable property are discussed later. Their treatment is similar to depreciable property but there are several important differences.

New investment assets that are depreciable property

Eligibility for 20% deduction of cost in income year asset first available for use

The owner of a new investment asset that is depreciable property would be able to take a deduction of 20% of the cost of acquiring the asset in the income year for which a person is first entitled to claim a deduction for an amount of depreciation loss on the asset. The link to depreciation loss means the taxpayer has chosen to treat the asset as depreciable property (and not elected to treat the asset as non-depreciable). In addition, there would be no depreciation deduction and therefore no deduction for a new investment asset if the asset is acquired and disposed of in the same income year.

The 20% deduction would reduce the cost base used for quantifying the depreciation loss that the owner could deduct in any given year. This includes when the owner elects to use straight-line (SL), diminishing value (DV) and other spreading methods outlined in subpart EE of the Income Tax Act 2007 (ITA).

One difference between the deduction for new investment assets and depreciation loss would be that the entire deduction for new investment assets could be claimed in the income year the asset has a depreciation loss (even if the asset is first used or available for use near the end of the income year). In contrast, depreciation deductions are pro-rated to the number of months in the income year that the asset is used or available for use.

The amount a person can deduct in the income year the asset is first available for use would generally be:

- 20% of the cost of the asset, plus
- the amount of the usual depreciation deduction that would otherwise apply but calculated as if the cost of the asset were reduced by 20%.

Example 1: Investment Boost and depreciable property

ABC company purchases a new investment asset for $10,000 on 1 October 2025. The new investment asset has a depreciation rate of 10% (DV). The asset is used for six months in the income year ended 31 March 2026. The amount ABC company can deduct in the 2025–26 income year is:

- 20% x $10,000 = $2,000, plus
- 10% x ($10,000 - $2,000) x 6/12 = $400.

The total deductions for the new investment asset in the 2025–26 income year is $2,400.

First available for use on or after 22 May 2025

To be eligible for the deduction, the first time that an asset that is depreciable property can be used or available for use must be on or after 22 May 2025. Assets already owned by a taxpayer that only become available for use on or after 22 May 2025 may be eligible for Investment Boost.

Example 2: Investment Boost and acquisition date

Dharmesh owns a building business. He acquires the following assets for his business in the income year ended 31 March 2026:

- a brand-new van that is available for use from 6 July
- a carport for work vehicles – Dharmesh begins constructing the car port on 1 January 2025, but it is only available for use from 6 July 2025, and
- a brand-new drop saw purchased on 8 May 2025 – Dharmesh started using the drop saw on the day he purchased it.

Dharmesh may be able to take an Investment Boost deduction for the van and the carport. He cannot take a deduction for the drop saw.

No previous use in New Zealand other than as trading stock

The policy proposes to encourage capital investment in a cost-effective way by targeting capital stock that is new to New Zealand. Assets that have previously been used in New Zealand would not be eligible for the deduction. The exception is when the asset has only been used as trading stock.

An asset would generally not be eligible for Investment Boost if it has been used by another taxpayer as depreciable property or has been used for non-business purposes in New Zealand.

Secondhand assets imported from overseas could be new investment assets. Assets that are created or constructed in New Zealand (including from secondhand materials) could also be new investment assets.

Used or available for use in New Zealand

Assets would also need to be used or available for use in New Zealand. Assets used overseas by a New Zealand business would not be eligible for the deduction. This restriction reflects the policy intent to increase capital stock in New Zealand.

Depreciable property except residential buildings and FLIP

New investment assets would include all depreciable property except residential buildings and FLIP. Capital improvements to depreciable property (other than to residential buildings and FLIP) would be included in the definition of new investment assets. For determining the deduction, the improvement would be treated as a separate item of depreciable property in the year the improvement is made.

Buildings

New investment assets would include most commercial and industrial buildings. Buildings would not be eligible for Investment Boost to the extent that they are configured as a dwelling. A dwelling includes appurtenances such as garages, decks and fences. The definition of dwelling excludes hotels, motels, hospitals and certain other commercial-scale providers of accommodation. The policy intention is that assets configured as a dwelling would not be eligible for Investment Boost, even if they are used for a commercial purpose.

For a mixed-use building, owners would be able to take a deduction only for the part of a building that is not configured as a dwelling. If part of a house is configured as a dwelling but is being used for commercial purposes, it is still a dwelling and would not be eligible for Investment Boost.

Example 3: Mixed-use building

Ella owns a newly constructed three-storey building with mixed residential and commercial use, which she acquired and is available for use on 1 April 2026. The ground floor is a surf wear store, the middle floor is a carpark, and the top floor is rented out as short-stay accommodation. The top floor is configured as a dwelling, the bottom floor is not. If the carpark in the building serviced the accommodation, it could be an appurtenance to a dwelling. In this scenario, the carpark is a separate unit and primarily serves the surf wear store, rather than being used by the short-stay accommodation, and is consequently not an appurtenance to a dwelling.

The cost of the building was $1.8 million. The Investment Boost deduction is $360,000. Following standard principles for apportionment, Ella calculates that she can claim two thirds of the Investment Boost deduction.

FLIP

FLIP is intangible property where the property's useful economic life is equal to its legal life. These assets have been excluded for integrity reasons.

Deduction recoverable if asset disposed of above adjusted tax value

For depreciable property, the deduction would be treated like an additional depreciation loss. If an asset is sold above its adjusted tax value, there will be depreciation recovery income.

Example 4: Depreciation recovery income

Assume the same facts as Example 1 where a new investment asset is purchased for $10,000. ABC company sells the new investment asset during the 2027–28 income year for $9,000. The asset has an adjusted tax value of $7,600 because the company has claimed $2,400 of deductions.

Depreciation recovery income is the lesser of the gain ($1,400) and the deductions ($2,400). Therefore, $1,400 is recognised as income in the year of sale.

Under the current law, there are a few situations where a new person is deemed to have claimed the depreciation claimed by the original owner (for example, transfers between consolidated group members). When an asset is disposed of, the depreciation deductions of the original owner are relevant to the amount of depreciation recovery income. The Investment Boost deduction is treated in the same way. This means that in certain situations, depreciation recovery income includes the inherited Investment Boost deduction.

General permission determines apportionment for mixed-use assets

New investment assets that are only partly used for business purposes could be eligible for the deduction. The deduction would need to be apportioned to the extent the asset is used for business purposes. If there is a change in use of an asset that received the deduction, then there could be recovery income.

Example 5: Mixed-use assets

Ella purchases a car for use near the end of the 2025–26 income year. She determines that over the next 90 days that half the milage can be attributed to her taxi business and half the milage can be attributed to personal use. Only half of the expenses associated with running the car would be deductible expenses. Ella intends to use the car in a similar way for the next several years. Ella would like to take the Investment Boost deduction. She considers that the apportionment used for expenses in the first 90 days is a reasonable basis for apportioning the Investment Boost deduction. She reduces the cost base of the car by 20% and claims half as an Investment Boost deduction.

Changes to business-use portion of asset

If a new investment asset is used wholly for the purposes of deriving assessable income, then the owner could claim the entire Investment Boost deduction. If there is a subsequent change in use, then there is a deemed disposal, and the Investment Boost deduction could be clawed back if the adjusted tax value is lower than the asset's market value.

An integrity rule has been developed for mixed-use assets that undergo a change in use over time to ensure taxpayers are not unfairly benefiting from Investment Boost. Investment Boost is a one-off deduction and cannot easily be apportioned on a year-by-year basis in the same way as usual depreciation deductions. Instead, when there is reduction in use of 25% or more, the taxpayer may have to return some of the Investment Boost deduction as income.

Example 6: Integrity rule for mixed-use assets

Thomas buys a new yacht for $100,000 that he begins using in the 2025–26 income year. He reduces the base used for determining depreciation by $20,000. He determines that 90% business use is a reasonable basis for apportionment. He claims $18,000 as a deduction, which is 90% of $20,000. In the 2026–27 income year, he only uses the yacht 40% of the time for business. This is a reduction in business use from 90% to 40%. Had Thomas taken the Investment Boost deduction using the apportionment in the 2026–27 income year, he would have been entitled to claim just $8,000. Thomas must return income of $10,000 ($18,000 – $8,000) in the 2026–27 income year. The asset's adjusted tax value is increased by $10,000 accordingly.

Taxpayers elect to take deduction by returning income

Taxpayers would be able to elect to take the deduction by including the deduction in a return of income in the year that they acquire the asset. If the owner does not take the deduction for an asset, they could depreciate the asset under the standard depreciation rules (including to elect to treat the asset as non-depreciable).

Capital contribution and grant amounts

When a taxpayer receives a capital contribution or government grant, the Investment Boost deduction would be determined net of this amount.

> **Example 7: Contributions**
>
> XYZ company purchases a new investment asset for $10,000. The company receives a capital contribution of $1,000. Rather than recognise the capital contribution as income, the company chooses to reduce the cost of the asset by the amount of the capital contribution.
>
> The Investment Boost deduction is: 20% x ($10,000 − $1,000) = $1,800.
>
> Depreciation deductions would be quantified from a starting base of $7,200 ($10,000 − $1,000 − $1,800).

Deduction eligible expenditure for research and development tax credit

The deduction for a new investment asset would be an eligible amount for the purposes of the Research and Development Tax Incentive. The deduction would effectively be treated as a depreciation loss for determining the amount of credit in the year the asset has a depreciation loss.

New investment assets that are not depreciable property

For new investment assets that are not depreciable property, but are allowed depreciation-like deductions, the new investment asset deduction would similarly reduce the value used for quantifying the deduction the asset is otherwise entitled to. The following sections discuss assets that would be eligible for Investment Boost and are not depreciable property. It discusses when the rules differ from the rules outlined above.

Primary sector land improvements

There are special rules for deducting capital expenditure incurred in acquiring primary sector land improvements. These include improvements to farmland, planting of listed horticultural plants, improvements to aquacultural business and improvements to forestry land. Deductions for these assets are found in sections DO 4, DO 5, DO 12, and DP 3 of the ITA respectively.

For these assets, the Investment Boost deduction would only be available for expenditure incurred on or after 22 May 2025 in acquiring a new investment asset. This means that if expenditure crosses over the application date, only part of the expenditure would be eligible for the Investment Boost deduction.

Example 8: New investment assets that are not depreciable property

Tony drains a swamp on their land for the purposes of expanding their sheep grazing pastures. Tony begins draining the swamp in February 2025 and completes the draining in August 2025. Their income year ends 31 October 2025.

The percentage of diminished value allowed as deduction for draining a swamp is 5%.

$20,000 of expenditure was incurred in draining the swamp before 22 May 2025, and $15,000 of expenditure was incurred on or after this date.

The Investment Boost deduction is: 20% x $15,000 = $3,000.

The basis from which future diminished value deductions is taken is $32,000 ($20,000 + $12,000).

The diminished value deduction in the income year ended 31 October 2025 is: $1,600 (5% x $32,000).

The Investment Boost deduction would not be recoverable for primary sector land improvements. This mirrors the treatment of these assets under the existing amortisation rules.

Petroleum development expenditure and mineral mining development expenditure

Petroleum and mining development expenditure would be included as new investment assets to ensure that most mining assets are eligible for the deduction. Costs of petroleum mining assets and the mining development expenditure can be spread in accordance with special rules. The provision would allow a deduction for 20% of the cost in the year that the expenditure is incurred prior to applying the special spreading rules. Because mining assets are held on revenue account no specific recovery income applies.

Consistent with the policy to exclude FLIP, petroleum and mining privileges, permit and rights would not be eligible for the deduction.

KiwiSaver

Reforms to KiwiSaver scheme settings

Clauses 9 to 13, 14(2) and (5), 17 to 26, and 28

Summary of proposed amendments

The amendments propose to increase the rate of employer and employee KiwiSaver contributions. The matching rate for the KiwiSaver government contribution (or "tax credit") would be reduced from 50% to 25% up to a new annual maximum of $260.72. Eligibility for the government contribution would be restricted to those with an annual taxable income of $180,000 or less with effect from 1 July 2025 but would also be extended to those aged 16 and 17 years. Eligibility for compulsory employer contributions would also be extended to those aged 16 and 17 years. The amendments would also introduce the ability for KiwiSaver members to take a temporary rate reduction, which would allow them to continue contributing at a rate of 3% if they wish.

Effective date

The proposed amendments would be effective from the following dates:

- 1 July 2025:
  - extending eligibility for the KiwiSaver government contribution to those aged 16 and 17 (clause 10(2))
  - introducing a taxable income threshold for eligibility for the KiwiSaver government contribution (clauses 9, 10, 11, 12, 14(2) and (5), and 28)
  - halving the KiwiSaver government contribution (clause 13)
  - providing limited protection for non-compliance with financial markets legislation (clause 25).
- 1 February 2026:
  - enabling KiwiSaver members to apply for a temporary rate reduction to 3% to take effect from 1 April 2026 (clauses 18, 19, 20(3), 23, and 26).
- 1 April 2026:
  - extending eligibility for compulsory employer KiwiSaver contributions to those aged 16 and 17 (clause 21)

  - increasing the rate of employee and employer KiwiSaver contributions to 3.5% (clauses 20(1) and 22(1)).
- 1 April 2028:
  - increasing the rate of employee and employer KiwiSaver contributions to 4% (clauses 20(2) and (4) and 22(2)).

Background

The Bill proposes changes to the employer and employee contribution rates and to the eligibility requirements for those contributions. The Bill also proposes changes to the amount of the government contribution and the eligibility requirements for recipients.

Currently, the employee contribution rate is generally 3% for employees who do not provide notice to their employer of an alternative rate. The lowest contribution rate an employee may choose is also 3%. The compulsory employer contribution rate is 3%. This is the rate an employer must contribute at, providing their employee meets requirements set out in section 101C of the KiwiSaver Act 2006. One of these requirements is that an employee is aged 18 to 64.

Under current settings, KiwiSaver members are eligible for a government contribution in the form of a tax credit to their KiwiSaver account. The government contribution is 50 cents per dollar a member contributes each year, up to a maximum available amount of $521.43. Eligibility for the government contribution is restricted to members aged 18 to 64.

Key features

The key features of the proposed amendments are:

- The employee and employer contribution rates would be increased from 3% to 3.5% on 1 April 2026. These rates would then be further increased from 3.5% to 4% on 1 April 2028.
- Eligibility criteria for the employer contribution would be changed to include those aged 16 and 17 from 1 April 2026.
- From 1 February 2026, KiwiSaver members would be able to apply for a temporary rate reduction. This would enable them to adopt a contribution rate of 3% on or after 1 April 2026. Employers would be able to match this reduced rate when it applies.
- Eligibility criteria for the government contribution would be changed to include those aged 16 and 17 from 1 July 2025.

- Eligibility criteria for the government contribution would be changed to require a KiwiSaver member to have taxable income of $180,000 or less for the relevant tax year, with effect from the tax credit year beginning on 1 July 2025.
- The matching rate for the government contribution would be reduced to 25% of a member's total KiwiSaver contributions for the year, up to a maximum government contribution of $260.72, with effect from the tax credit year beginning on 1 July 2025.

Detailed analysis

Different reporting periods

Different annual calendars govern the determination of taxable income and eligibility for the government contribution. In most cases, a member's taxable income period runs from 1 April to 31 March of the following year. Eligibility for the government contribution, however, is determined according to the value of a KiwiSaver member's contributions over the tax credit year, which runs from 1 July to 30 June of the following year.

The effective dates of the proposals have been designed to align with the beginning of their relevant calendars. Proposals affecting KiwiSaver contribution rates would take effect on 1 April in a given year, while proposals affecting eligibility for, and the amount of, the government contribution would take effect from 1 July.

Contribution rates

The proposals would increase the employer and employee KiwiSaver contribution rates from 3% to 3.5% with effect from 1 April 2026, followed by a further increase in employer and employee contribution rates from 3.5% to 4% from 1 April 2028.

Extension of eligibility for employer contributions to 16- and 17-year-olds

The proposals would also extend eligibility for employer contributions to those aged 16 and 17. Under current KiwiSaver settings, employers are only required to contribute to their employees' KiwiSaver accounts when their employees are aged 18 to 64. Under the proposed changes, employers would be required to contribute to the KiwiSaver accounts of their employees aged 16 and 17 with effect from 1 April 2026.

Temporary rate reduction

The proposals include the ability for members to take a temporary rate reduction and continue contributing at a rate of 3% of their income. This recognises that some members may not be immediately able to increase their KiwiSaver contributions or may wish to save in other ways outside KiwiSaver. Members would be able to apply for a rate reduction from 1 February 2026 (that is, in advance of the contribution rate increases coming into effect). There would be no limit on the number of rate reductions a member would be able to receive.

Process for obtaining temporary rate reduction

Members would be able to apply to Inland Revenue for a rate reduction and continue contributing to their accounts at the current minimum rate of 3% for a period of between 92 days and 12 months. The minimum period of 92 days is designed to avoid creating undue compliance costs for employers.

Employers and KiwiSaver members would be notified by the Commissioner that the KiwiSaver member's rate reduction had been granted and the date the rate reduction would end. The employer would be required to make deductions at the rate of 3% with effect from the next payment of salary or wages that the employer calculates.

A rate reduction to 3% would be available to KiwiSaver members with effect from 1 April 2026, the date the contribution rates increase to 3.5%. However, the provision allowing members to apply for a rate reduction would come into force on 1 February 2026. This would allow time for those members who wish to remain at a contribution rate of 3% from 1 April 2026 to apply and secure a rate reduction before the increases to contribution rates take effect.

Notification of rate reduction ending

Before a member's rate reduction was due to end, the Commissioner would notify the KiwiSaver member that the end date of the rate reduction was approaching. Once the rate reduction had ended, the Commissioner would notify the member's employer, requiring the member's employer to increase the member's contribution rate to the new default rate (unless an alternative higher rate is chosen by the member). The employer would be required to apply the increased contribution rate to the next payment of salary or wages.

Revocation of rate reduction

A member would be able to revoke (ie, discontinue) a rate reduction by notifying their employer that they wish the employer to cease making deductions at the 3% rate and instead make deductions at either the new default rate or a chosen higher rate. As frequent rate reductions would create undue compliance costs for employers, a member would only be able to revoke a rate reduction after 92 days had passed (unless otherwise agreed with their employer).

Members would be able to apply for a further temporary rate reduction when their current rate reduction was due to expire, and there would be no limit to the number of rate reductions a member could be granted by the Commissioner.

Refund of contributions when starting new employment

The proposals would also recognise that members may change employment while subject to a rate reduction. When a member changes employer but is unable to provide notice of the current rate reduction to their new employer immediately, the proposals would allow the employer, once evidence has been provided, to refund the difference between the amount of the contributions deducted and the amount that would have been deducted had the rate reduction been applied from the start of the new employment. Alternatively, if the funds have transferred to the Commissioner and are no longer held by the employer, the funds may be returned to the member by the Commissioner.

Government contribution

Extension of eligibility for government contribution to those aged 16 and 17

The proposals would also extend eligibility for the government contribution to those aged 16 and 17. Under current KiwiSaver settings, only those aged 18 to 64 are eligible for the government contribution. The proposed changes would extend the existing eligibility threshold to those aged 16 and 17 with effect from 1 July 2025.

Income testing a KiwiSaver member's eligibility for government contribution

The Bill proposes limiting eligibility to the government contribution to those with taxable income of $180,000 or less per annum. This means that KiwiSaver members who have taxable income of $180,001 or more would no longer be eligible for the government contribution.

The assessment of a KiwiSaver member's eligibility for the government contribution (or "tax credit") would occur with reference to the person's taxable income for the corresponding tax year, which is defined as either:

- *Case 1:* the tax year (the **current year**) that ends during the tax credit year if the member:
  - has filed their tax return for that tax year on or before the end of the tax credit year, or
  - is not required to file a tax return for that tax year, or
- *Case 2:* in any other case, the tax year preceding the current year.

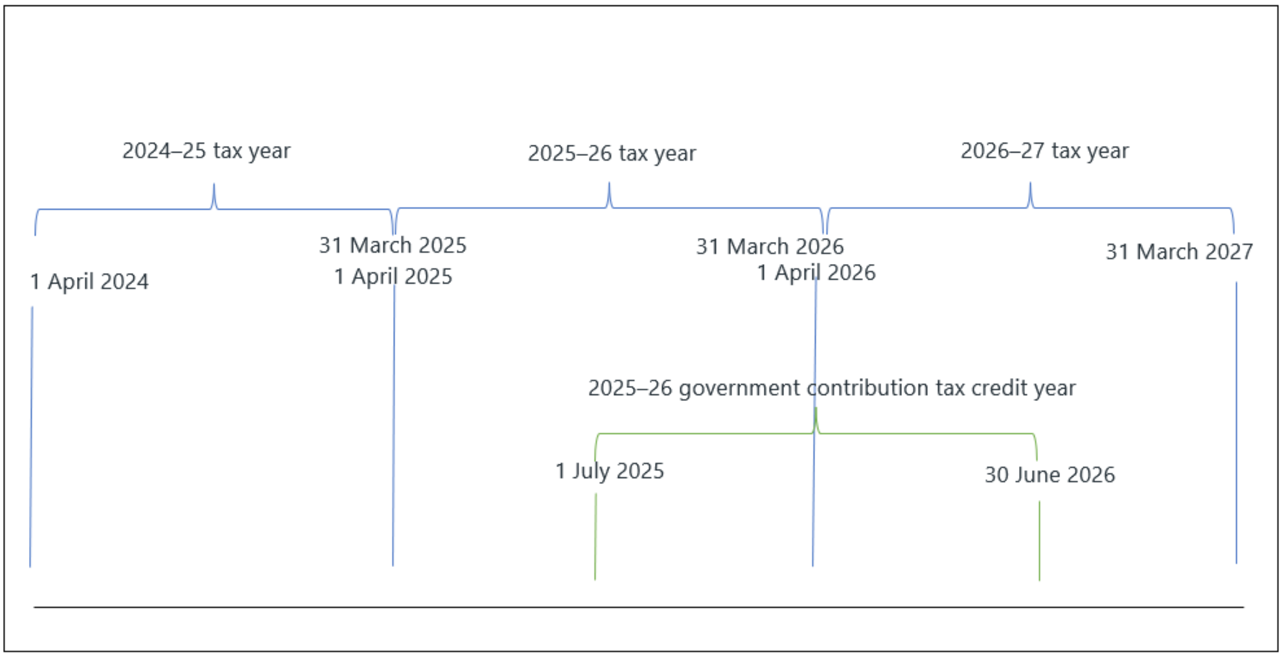
How income testing would operate

Taxpayers falling within Case 1 above would have their eligibility for the tax credit associated with the 1 July 2025 to 30 June 2026 tax credit year determined according to their return of income for the 1 April 2025 to 31 March 2026 tax year. This would include members whose income is automatically determined as part of the annual income assessment process and members who file an IR3 tax return on or before 30 June 2026. It also includes members who are not required to file a return for that tax year.

Taxpayers who fall within Case 2 above would have their eligibility for the tax credit assessed based on their taxable income in the preceding tax year, 1 April 2024 to 31 March 2025. Members whose eligibility for the tax credit would be assessed in this way include those who:

- *File their tax returns after 30 June 2026:* Under existing settings, taxpayers' returns for the 1 April 2025 to 31 March 2026 tax year are not required to be filed until at least 7 July 2026. Because this is after the end of the 1 July 2025 to 30 June 2026 tax credit year, these members' eligibility would be assessed according to the 1 April 2024 to 31 March 2025 tax year.
- *Have an extension of time to file their tax returns (for example, due to having a tax agent):* Some KiwiSaver members may also have additional time to file their income tax returns, particularly if they have a tax agent. Members with an extension of time would not be required to file their income tax return for the 1 April 2025 to 31 March 2026 tax year until 31 March 2027. Accordingly, these members' eligibility for the tax credit would also be assessed according to the 1 April 2024 to 31 March 2025 tax year.

Figure 1: Interaction between tax year and government contribution year



Example 9: Will's eligibility for government contribution

Will is an employee of BenCo and a KiwiSaver member. In the government contribution year 1 July 2025 to 30 June 2026, Will contributes more than $1,042.86 into his KiwiSaver account to receive the new maximum amount of the government contribution of $260.72.

In the tax year 1 April 2025 to 31 March 2026, Will has a taxable income of $175,000. As Will only has reportable income, he receives a pre-populated account from the Commissioner for the tax year. Will's account is finalised on 20 June 2026, and he therefore falls within Case 1 above. His eligibility for the government contribution will be assessed based on his taxable income for the 1 April 2025 to 31 March 2026 tax year. Because his income for that year is beneath the $180,000 or less threshold, Will is eligible for the government contribution for the 1 July 2025 to 30 June 2026 government contribution year.

Example 10: Kelvin's eligibility for government contribution

Kelvin is a small business owner who uses a tax agent to assist him in completing his tax returns. He has an extension of time to file his tax return for the tax year 1 April 2025 to 31 March 2026 until 31 March 2027 and so does not file his return for that year before 30 June 2026.

Therefore, Kelvin's eligibility for the government contribution for the period 1 July 2025 to 30 June 2026 will be assessed according to the previous tax year, that is, the 1 April 2024 to 31 March 2025 tax year (as in Case 2 above).

Kelvin files his return for the 1 April 2024 to 31 March 2025 tax year on 14 March 2026. Because he had taxable income of $178,000 for the 1 April 2024 to 31 March 2025 tax year, he will be eligible for the government contribution.

The Commissioner must be satisfied that the member's taxable income for the tax year is $180,000 or less. This means that when a member has an outstanding return for the relevant tax year, the Commissioner will be unable to assess their eligibility for the government contribution. A member's eligibility will be assessed once the Commissioner has received sufficient information to establish the member's taxable income for the tax year.

Payment of government contribution

Under current settings, the Commissioner is required to pay the government contribution to a member's KiwiSaver fund provider within 30 working days of the provider filing a claim. The proposals would amend this setting by requiring the Commissioner to pay the government contribution to the fund provider within 30 working days of the Commissioner being satisfied that the member meets the income eligibility requirement discussed above.

Reduction in maximum government contribution

The proposals would halve the government contribution from 50 cents per dollar a member contributes each year to 25 cents per dollar, reducing the maximum government contribution from $521.43 to $260.72. This proposal would take effect from 1 July 2025.

Protection for non-compliance for KiwiSaver providers

The proposals also include a limited protection for non-compliance with financial markets legislation when the non-compliance results from the provisions in the Bill containing the changes discussed above. This recognises that KiwiSaver providers may require time to comply with the proposals and update their product disclosure statements to reflect the changes to contribution rates and eligibility for the government contribution.

Under the proposals, non-compliance relating to the relevant provisions of the Bill would be ignored provided it did not continue on or after 1 November 2025 or, if it related to a disclosure document under the Financial Markets Conduct Act 2013, on or after 1 January 2026.

Working for Families

Working for Families abatement: Threshold and rate changes

Clause 7 and 16

Summary of proposed amendments

The proposed changes would increase the abatement threshold for the family tax credit and the in-work tax credit (the Working for Families abatement threshold) by $2,200 to $44,900, and would increase the Working for Families abatement rate by 0.5 percentage points from 27% to 27.5%. The first income band in schedule 31 of the Income Tax Act 2007 would also be adjusted to align with the new abatement threshold.

Effective date

The proposed amendments would take effect on 1 April 2026, applying for the 2026–27 and later tax years.

Background

The Working for Families abatement threshold is currently set at $42,700 and the abatement rate is 27%. There is no requirement to regularly increase the abatement threshold, and it has not changed since 2018. The abatement rate was last amended in 2022, when it was increased from 25% to 27%.

Due to the combined effect of wage growth over time and the Working for Families abatement threshold remaining at the same level it was set at in 2018, Working for Families has become increasingly targeted at lower-income families and more families are receiving less than full entitlements. As a result, Working for Families is becoming less effective in assisting low- to middle-income families with rising household living costs.

The schedule 31 income bands provide Working for Families recipients with a buffer against overpayments and debt resulting from annual income estimations that are too low. Because recipients are most at risk of debt when their entitlements start abating, the first schedule 31 income band starts at the Working for Families abatement threshold (currently, $42,700).

Key features

The key features of the proposed changes are:

- Working for Families abatement threshold would be increased by $2,200 from $42,700 to $44,900
- Working for Families abatement rate would be increased by 0.5 percentage points, from 27% to 27.5%
- schedule 31 income bands would be changed to start at $44,900.

Best Start tax credit

Clauses 8, 29, and 30

Summary of proposed amendments

The proposed amendments would income test the first year of the Best Start tax credit (BSTC) in line with the second and third years of the payment. In line with this change, Best Start applicants and recipients would also be required to provide family scheme income information to determine their entitlements, even if their child is less than 1 year old.

Effective date

Income testing the first year of the BSTC would apply for children born on or after 1 April 2026.

All Best Start applicants and recipients would be required to provide family scheme income information for the 2026–27 and later tax years, regardless of when the child was born.

Background

Best Start helps families with the cost of raising children, ensuring children get the best start in life. Families with children aged 0 to 3 years old are eligible for the BSTC. The base rate is $73 per week or $3,838 per year. The payment is universally available to all families with children aged 0 to 1 year old, regardless of the level of income they earn. However, the BSTC cannot be received at the same time as paid parental leave.

The BSTC is then targeted at low- to middle-income families in the second and third years of the child's life. This targeting is achieved through income testing, so that entitlements reduce by 21 cents for every dollar a family earns over $79,000 a year.

Best Start applicants and recipients with children aged 1 to 3 years old are required to provide family scheme income information to determine their entitlements (at the time of application and at the time they file an annual income tax return, if they are required to file one). This requirement does not apply for families if their only child will be less than 1 year old on the last day of the tax year, and they do not receive other Working for Families tax credits. This is due to universal entitlement to Best Start for the first year of a child's life.

If a child turns 1 year old during the tax year (or on the last day of the tax year), family scheme income needs to be provided because Best Start would be income tested for the day(s) of that year when that child is 1 year old.

Key features

The key features of the proposed changes are:

- Entitlements for the first year of the BSTC would be reduced by 21 cents for every dollar a family earns over $79,000, in line with how the second and third years of the payment are currently abated.
- Families receiving the first year of the BSTC would be income tested in respect of children born on or after 1 April 2026.
- Families receiving the first year of the BSTC in respect of children born before 1 April 2026 would receive BSTC entitlements unabated. This is regardless of whether they apply before or after 1 April 2026.
- For tax years before the 2026–27 tax year:
    - Best Start applicants would be required to provide family scheme income information for a tax year, unless their only dependent child is less than 1 year old on the last day of that tax year.
    - Best Start recipients would be required to include family scheme income information for a tax year if they are required to file an annual income return, unless their only dependent child is less than 1 year old on the last day of that tax year.
- For the 2026–27 and later tax years:
    - All Best Start applicants would be required to provide family scheme income information at the time of application.
    - All Best Start recipients would be required to include family scheme income information if they are required to file an annual income tax return.

Example 11: When would a family be required to provide family scheme income information for Best Start purposes?

Ella and Libby receive universal Best Start entitlements for their child Jacob, who was born 1 October 2025. Because Jacob will be less than 1 year old on 31 March 2026 (the end of the 2025–26 tax year), Ella and Libby would not need to provide family scheme income for the 2025–26 tax year. However, because Jacob will turn 1 year old on 1 October 2026 (and therefore be 1 year old at the end of the 2026–27 tax year), family scheme income would need to be provided for the 2026–27 tax year.