# Hon Nicola Willis, Minister of Finance

## Information Release

## Budget 2025

## September 2025

### Availability

This information release is available on Inland Revenue's tax policy website at https://www.taxpolicy.ird.govt.nz/publications/2025/ir-budget-2025.

### Documents in this information release

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**Budget 2025  - Inland Revenue bids for funding**

Two invited funding bids:

1. A bid for funding compliance activities ceasing in 2024/25
2. A bid to fund further compliance activity to raise more revenue

**A bid for funding compliance activities ceasing in 2024/25**

What is the bid?

- IR was provided with funding of $26.5m in 2020/21 which ceases at the end of 2024/25.
- This funding was used for compliance activities.
- The bid is for an equivalent level of funding on a permanent basis.
- It equates to the retention of approximately 200 FTEs.

Reason for bid

- This funding, which originally began in 2020/21 at the onset of the COVID-19 pandemic, will ensure that the current tax revenue and cash receipts resulting from the compliance activities are maintained.
- Continuation of this funding would ensure further revenue and debt reduction of **$816m** over the forecast period 2025/26 to 2028/29. This equates to an **$8 to $1** return on investment over the forecast period.
- It equates to the retention of approximately 200 FTEs.
- The below bid for further compliance activities is premised on the basis that this funding bid is approved. The continuation of this funding will ensure that any additional investment in compliance activities will be applied to additional compliance activities and not be used to substitute the compliance activities that the previous time limited funding is currently being applied to.

**Further funding for compliance activities**

What is the bid?

- Scaling up the Budget 2024 bid for funding of compliance activities to raise revenue.
- $35m per annum - **$140m** over the 2025/26 to 2028/29 forecast period - for investing in more compliance interventions and debt activities to collect more revenue
- Raise **$833m** over the forecast period which is a rate of return of **$4 to $1** in the first year and **$8 to $1** in subsequent years.
- Will require approximately 200 additional FTEs.
- Areas of focus will be: increasing audits in all areas, target specific industries (property, organised crime, hidden economy), high-value tax returns and better use of intelligence to target discrepancies.

Reason for bid

- Budget 2024 gave funding of $29m per annum over the forecast period with a commitment of a rate of return of $4 to $1 in the first year and $8 to $1 in subsequent years.
- Budget 2024 funding is exceeding expectations, returning $13 for every $1 invested in the first quarter of 2024/25
- International comparisons suggest there is room for further investment in NZ to raise more revenue. NZ IR has 13% of its workforce on audit and investigations, UK has 27% and Australia has 23% and they raise proportionately much more revenue through these types of compliance activities.
- IR can cope with additional effort/recruitment.

Key risk: the additional revenue will not be raised if the first bid to continue funding above is not approved.

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# Briefing note

Reference: BN2025/243

Date: 21 May 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg

From: Felicity Barker

Subject: Costs of 100% expensing

## Purpose

1. I understand you would like some information on the costs of 100% expensing.

## Fiscal cost

2. The costs of expensing increase with the rate. We estimate that 100% expensing would cost around $34 billion over the forecast period (an average of $8.5 billion per annum). This forecast is subject to uncertainty and represents a reasonable estimate.

3. This costing is provided in paragraph 6 of T2025:278/IR2025:034 Partial Expensing: Further information on impacts and design.

## Advice on rate for partial expensing

4. In T2025:278/IR2025:034 officials provided the following advice on the rate for partial expensing (paragraph 15):

   - We recommend setting the partial expensing rate at or below 20%. At this level, the policy maximises its value relative to its cost, providing clear economic benefits. At rates above 20%, PE will introduce some investment distortions.
   - At rates between 20% to 40%, the economic costs from these distortions begin to rise. While we would still recommend a rate at or below 40% as having net benefits, the relative advantage of PE over other potential tax policies begins to decline past a rate of 20%.
   - We do not recommend a rate above 40%. At this level, the benefits of the policy diminish, and the costs increase due to more pervasive subsidies.

5. A key issue is that at higher rates partial expensing may effectively begin to subsidise investments. While this will still increase capital stock, it may result in investments being profitable to firms even if the return from the investment is less than the cost to New Zealand. This would have negative effects on national income.

6. In the Regulatory Impact Statement, we note that partial expensing at rates of up to 40% provides minimal subsidisation at commercial debt levels (paragraph 43).

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# Briefing note

Reference: BN2025/244

Date: 21 May 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg

From: Felicity Barker

Subject: Partial expensing costing assumptions

**Purpose**

1. I understand you would like information on the main assumptions behind the fiscal costing of partial expensing.

**Fiscal cost**

2. The RIS: Partial expensing (Investment Boost) notes a fiscal cost of $6.641bn over the forecast period at paragraph 55. This is the number included in the Budget estimates.

3. The economic benefits of Investment Boost mean the fiscal cost will be partially offset by higher levels of economic activity and the increased tax revenue resulting from this. The Treasury estimates that, when considering Investment Boost in isolation, the policy is likely to increase tax revenue by as much as $2.6 billion over the forecast period.

4. The model shows that the costing is scalable to the partial expensing rate so 100% partial expensing is approximately $33bn. Note there are large error bounds around the costing. The Treasury has not estimated the revenue offset from a 100% expensing regime and this may not increase linearly.

**Key assumptions used in the model**

5. The model takes data on capital formation (flow) from Stats New Zealand. Assets are categorised by broad types. Private, Local and central government non-market assets were excluded from the costing.

6. Growth rates for capital formation are based on the Treasury's forecast of business investment growth within the forecast period and the long-term average going forward. The model is static, so no increase of investment over the current trend is included for the gross fiscal cost. The impact of Investment Boost on capital investment is not included in the gross cost.

7. Asset categories include:
   - Transport equipment
   - Plant, machinery and equipment
   - Other construction
   - Land improvements
   - Non-residential buildings and
   - Some intangibles.

8. Capital formation data is the best estimate for new assets. There is not an exact match of the investment flow data and how the policy operates however we consider this is the best data available to estimate the size of the base. Inland Revenue does not hold complete information on depreciation, and this would include existing assets as well as new assets.

9. At the highest level, the model takes the asset base for each asset class, works out the current tax value of depreciation for that asset class and then works out the tax value of Investment Boost plus lower depreciation. The difference is the cost.

10. Different assumptions are made for different asset classes. Each category has an estimated depreciation rate applied which has been based on work done for the Long-Term Insights Briefing in 2022. The depreciation rate is used both for the counterfactual (the current state) and for the lower annual depreciation under Investment Boost.

11. A proportion of the asset base is assumed to be sold each year which gives an estimate of the clawback when assets are sold above their depreciated value. Non-residential buildings are assumed to be held long term.

12. The average corporate tax rate included is below the statutory rate to take account of companies in loss and that some businesses are undertaken at a lower personal tax rate.

13. Finally, the fiscal cost is recognised on an accrual basis consistent with fiscal reporting requirements.

**Quality assurance of the model**

14. The model was QA'd through an external review process. This process entailed building a new model as a check on the initial model.

15. The model is sensitive to assumptions on the asset base, depreciation rate and tax rate.

16. The Budget Economic and Fiscal Update includes a specific fiscal risk to account for uncertainty around the costing.

**Evolution of the model**

17. In November 2024 we received updated data from Stats New Zealand which allowed us to improve the accuracy of the model through a more refined estimate of the government sector.

18. Some minor changes occurred to the model over time due to the policy design such as the start date and scope of assets. For example, earlier reporting had an April 2025 start date. This was the basis for the $34b cost of 100% expensing.