Hon Simon Watts, Minister of Revenue

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/2024/ir-budget-2025

Documents in this information release

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2.	IR2025/203	Taxation (Budget Measures) Bill: detailed design and introduction of Bill	05/05/2025
3.	BN2024/388	Follow up to the Publishing the Tax and Social Policy Work Programme report	20/09/2024
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4.	BN2025/224	Tax Expenditure Statement for Budget 2025	08/05/2025
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5.	IR2025/023	Preliminary Tax forecasts for the 2025 Budget Economic and Fiscal Update	25/02/2025
6.	IR2025/088	Final tax forecasts for the 2025 Budget Economic and Fiscal Update	16/04/2025
Investment Boost			
7.	BN2025/084	Briefing note on Investment Boost and a comparison between the preferred option and a company tax rate cut	28/02/2025
8.	BN2025/151	Previous depreciation loading regimes in New Zealand	03/04/2025
9.	IR2025/168	Dual effects of Investment Boost and KiwiSaver changes on businesses	16/04/2025
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14.	BN2025/063	Further information on a KiwiSaver switch as part of Budget 2025	18/02/2025
15.	BN2025/156	Allowing members to select a lower KiwiSaver contribution rate as part of Budget 2025	01/04/2025
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24.	IR2024/413	Thin capitalisation settings for infrastructure	13/01/2025
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31.	IR2024/406	Performance Plan and the potential to increase compliance activity	03/10/2024
32.	IR2024/450	Performance Plan and the potential to increase compliance activity	06/11/2024
33.	IR2024/422	Compliance funding bid for Budget 2025	28/11/2024
34.	IR2024/479	Inland Revenue Performance Plan: Performance Impacts - response to questions	29/11/2024
35.	IR2024/496	Budget 2025 submission for Vote Revenue	13/12/2024
36.	IR2025/011	Vote Revenue Ministerial Certification of Contingent Liabilities and Contingent Assets as at 31 December 2024	13/02/2025
37.	BN2025/074	Compliance bids note	20/02/2025
38.	IR2025/012	2025 March Baseline Update submission for Vote Revenue	21/02/2025
39.	IR2025/071	Vote Revenue: 2025 March Baseline Update submission for the Research and Development Tax Incentive appropriation	21/02/2025
40.	BN2025/116	Budget 25 - Proposed Technical Initiatives	17/03/2025
41.	IR2025/092	Vote Revenue: 2025 Budget Economic and Fiscal Update for non-departmental expenditure appropriations	17/04/2025
42.	IR2025/093	Vote Revenue: 2025 Budget Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation	17/04/2025
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44.	BN2025/196	Overview of compliance funding bid for Budget 2025	02/05/2025

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45.	BN2025/206	Tactical communications plan for Budget 25	02/05/2025
46.	IR2025/271	Performance Plan - final approval	12/06/2025

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld or refused under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

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9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Minister of the Crown and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation in the course of their duty
9(2)(i)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities

Where a document included in this information release attached a draft version of a later published document (such as a consultation document) the draft document has been withheld under section 9(2)(g)(i). The final published documents are available on Inland Revenue or the Treasury's website (as applicable).

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POLICY

Tax policy report: Draft Cabinet paper – Taxation (Budget Measures) Bill: Approval for introduction

Date:	28 April 2025	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2025/174

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Authorise** the lodgement of the attached Cabinet paper **Refer** a copy of this report to the Minister of Finance	10 am Thursday 8 May

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Maraina Hak	Policy Lead	s 9(2)(a)
Pamela Law	Principal Policy Advisor	s 9(2)(a)
Samantha Putt	Policy Advisor	s 9(2)(a)

28 April 2025

Minister of Revenue

Draft Cabinet paper – Taxation (Budget Measures) Bill: Approval for introduction

Summary

1. This report asks you to approve and lodge the attached Cabinet Legislation Committee paper (LEG paper), draft Taxation (Budget Measures) Bill (the Bill) and accompanying draft disclosure statement with the Cabinet Office by 10am Thursday 8 May 2025 for consideration at the Cabinet Legislation Committee meeting on Thursday 15 May 2025. Ministerial consultation will need to be undertaken before lodgement.

2. The LEG paper seeks approval to introduce the Bill on 22 May 2025 and recommends that the Bill is passed under urgency. The Bill contains the tax measures that Cabinet agreed to as part of Budget 2025.

3. Attached to this report is an early draft of the Bill for Ministerial consultation. We will send up a further draft of the Bill in the week of 5 May ahead of lodgement together with a short report outlining detailed design features of the policies reflected in the Bill. Please note that although the lodgement version of Bill will be complete, minor and technical changes to the Bill may need to be made until introduction to give effect to the policy items. These would concern detailed design identified during the drafting process.

4. A draft disclosure statement will be sent to accompany the LEG Paper in accordance with Cabinet guidelines on 5 May. The draft disclosure statement is referred to the Cabinet Legislation Committee along with the LEG paper. The draft statement is finalised by Inland Revenue with the Parliamentary Counsel Office three days before the introduction of the Bill and is made public when the Bill is introduced.

Policy items approved by Cabinet

5. The Bill gives effect to the tax measures Cabinet agreed to as part of the Budget 2025 package on 14 April 2025 (CAB-25-MIN-0126). These are the introduction of Investment Boost, changes to the KiwiSaver scheme and changes to Working for Families regime as described below.

6. The Investment Boost partial expensing regime is designed to lift capital intensity and increase productivity. Investment Boost will achieve this by allowing businesses to immediately deduct 20 percent of the cost of new assets in the year that an asset is purchased. This change will apply from 22 May 2025.

7. KiwiSaver scheme reforms include:

    7.1 Increasing contribution rates for both employers and employees from 3% to 3.5% from 1 April 2026, and then to 4% from 1 April 2028.

    7.2 Allowing KiwiSaver members to apply to Inland Revenue for a temporary reduction in their contribution rate to 3%. The contribution rate would be reduced for a maximum period of 12 months, after which the KiwiSaver

member would need to apply for another savings rate reduction from 1 April 2026.

7.3 Extending eligibility for employer contributions (from 1 April 2026) and the government contribution (from 1 July 2025) to 16 and 17 year olds.

7.4 Removing eligibility to the government contribution for all individuals with a taxable annual income of over $180,000 from 1 July 2025.

7.5 Halving the contribution rate of the government contribution for all other KiwiSaver members to 25 cents per dollar contributed from 1 July 2025.

8. The Working for Families abatement threshold will increase from $42,700 to $44,900. The cost of this increase will be met by income testing the first year of the Best Start Payment (currently this only occurs from the second year) and increasing the Working for Families abatement rate from 27% to 27.5%. These changes apply from 1 April 2026.

New Zealand Bill of Rights Act 1990

9. We consider the provisions in the Bill are consistent with the rights and freedoms affirmed by the New Zealand Bill of Rights Act 1990 (BORA). The Ministry of Justice will undertake the required BORA vetting. Although not expected, we will advise if any issues arise from this process.

Support party and caucus consultation

10. The Minister of Finance and the Leader of the House have been authorised to agree which legislation will progress under urgency on Budget Day as Budget night legislation (CAB-25-MIN-0126).

11. We recommend that the Bill is introduced under urgency and passed on Budget Day. To achieve this, support party and caucus consultation will need to occur in advance of Cabinet's final decision to introduce the Bill.

Proactive release

12. We propose to proactively release the Cabinet paper, Cabinet minutes and key advice papers with appropriate redactions at the same time as all other Budget 2025 material is released.

Consultation

13. The Treasury and the Department of the Prime Minister and Cabinet were informed of the contents of this paper.

Next steps

14. Subject to your agreement, the attached draft LEG paper should be circulated for Ministerial consultation.

15. Following this consultation, the LEG paper will be finalised and lodged with the Cabinet Office for the Cabinet Legislation Committee meeting on 15 May 2025. Your authorisation is required before 10am on Thursday 8 May 2025 to meet this timeframe.

16. We will provide your office with an updated Bill and departmental disclosure statement before Thursday 8 May 2025. Attached to the updated Bill will be a report confirming final design decisions. The Bill and department disclosure statement need to be lodged alongside the LEG paper. You have already received the regulatory impact statements for the Revenue Portfolio.[1] These statements can be lodged alongside the LEG paper.

17. We will also work with your office to ensure the appropriate publicity for the introduction of the Bill, as part of Budget 2025 announcements.

Recommended action

We recommend that you:

1. **note** the contents of this report, the attached draft Cabinet Legislation Committee paper, and the attached draft Taxation (Budget Measures) Bill.

   Noted

2. **note** that you will receive a detailed design report together with an updated version of the Taxation (Budget Measures) Bill and department disclosure statement before lodgement on 8 May 2025.

   Noted

3. **agree** to refer the draft Cabinet Legislation Committee paper and draft Taxation (Budget Measures) Bill for Ministerial consultation.

   Agreed / Not agreed

4. **authorise**, subject to Ministerial consultation, lodgement of the finalised Cabinet paper with the Cabinet Office before 10am on Thursday 8 May 2025 for consideration by the Cabinet Legislation Committee on Thursday 15 May 2025.

   Authorised/Not authorised

5. **refer** a copy of this report to the Minister of Finance for her information.

   Referred/Not referred

s 9(2)(a)

Pamela Law
Principal Policy Advisor
Policy

Hon Simon Watts
Minister of Revenue
/ /2025

[1] IR2025/152;T2025/917, IR2025/164;T2025-959 refers.

POLICY

Tax policy report: **Taxation (Budget Measures) Bill: detailed design and introduction of Bill**

Date:	5 May 2025	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2025/203

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Agree** to recommendations	10am Thursday 8 May 2025
Minister of Finance	**Agree** to recommendations	10am Thursday 8 May 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Maraina Hak	Policy Lead	s 9(2)(a)	
Pamela Law	Principal Policy Advisor	s 9(2)(a)	☒
Samantha Putt	Policy Advisor	s 9(2)(a)	

5 May 2024

Minister of Finance
Minister of Revenue

Taxation (Budget Measures) Bill: detailed design and introduction of Bill

Purpose

1. This report seeks your agreement to the detailed design features of the Taxation (Budget Measures) Bill (the Bill).

2. This report also provides the draft Bill and accompanying draft disclosure statement for lodgement with the Cabinet Office by 10am Thursday 8 May 2025.

Background

3. On 28 April 2025, the Minister of Revenue was provided with a draft Bill and draft Cabinet Legislation Committee paper (LEG paper) for Ministerial consultation (IR2025/174 refers).

4. Following consultation, the LEG paper will be finalised for lodgement (IR2025/174 refers). The regulatory impact statements were provided to your offices on 4 April and 8 April 2025 (IR2025/152, T2025/917; IR2025/164, T2025/959 refer).

5. The lodgement version of the Bill is materially complete. However, as drafting is an iterative process and given the short timeframe, the LEG paper contains a recommendation that enables us to continue refining the Bill until introduction on Budget Day.

Detailed design features of the Bill

6. The Bill implements the tax measures Cabinet agreed to give effect to as part of the Budget 2025 package on 14 April 2025 (CAB-25-MIN-0126). These are the introduction of Investment Boost, changes to the KiwiSaver scheme and changes to Working for Families regime.

7. We seek your approval of detailed design features of the Bill that support the implementation of these initiatives.

Investment Boost

8. We seek your agreement on two matters related to Investment Boost. The first relates to the definition of a residential building, which is excluded from Investment Boost. The second relates to integrity concerns around mixed-use assets.

Defining residential buildings

9. Ministers have agreed that commercial and industrial buildings, but not residential buildings, will be eligible for Investment Boost. We need to draw a distinction between residential and non-residential buildings. We also need rules for dealing with mixed-use buildings.

10. The closest definition to residential buildings currently in the Income Tax Act 2007 is the definition of dwelling. A dwelling is generally considered to be a place where

a person can be expected to live with a degree of permanence. Dwellings exclude hotels, motels, hospitals, rest homes, and other forms of commercial accommodation that are generally not substitutable with residential accommodation. We recommend dwellings not be eligible for Investment Boost. The definition of dwelling is reasonably tried and tested.

11. The definition of dwelling contains two different tests that could be used for Investment Boost:

    (a) For determining the depreciation of commercial fit-out: this test looks at whether the building is used as a dwelling. If the building is used predominantly as a dwelling, then it is a dwelling. ("the use test")

    (b) For other land-related rules (e.g. bright-line test, interest limitation, residential rental ring-fencing rules): this test looks at whether the asset is configured as a residence or abode ("the configuration test"). The definition also includes appurtenances such as garages, decks and fences.[1]

12. We recommend that Investment Boost uses the configuration test. The configuration test is more robust in response to integrity concerns arising from changes in use. It reduces the risk of a taxpayer temporarily using a building for commercial purposes in order to claim Investment Boost. For example, the use test could mean that a taxpayer could build a townhouse to supply short-term accommodation and then transition it to a residential rental property. Generally, this transition would trigger the clawback of at least some of the deduction, however, it does not completely remove the integrity risks. Using the configuration test makes it clear that a townhouse used to provide short-term accommodation would not be eligible for Investment Boost.

Mixed-use buildings

13. For mixed-use buildings, we recommend that buildings are excluded from Investment Boost *to the extent* that they are a dwelling. This will require the owner of a mixed-use building to apportion the building using a "dwelling: non-dwelling" ratio.

14. An alternative is to have an all-or-nothing test, which can have varying levels of strictness depending on policy design:

    (a) Predominant use/configuration: If the building is predominantly configured for commercial purposes, then it could get the Investment Boost deduction (for example, a three-story building where the first two floors are used for retail). This test is closest to the test used for non-residential building deprecation repealed in 2024.

    (b) Minor use/configuration: A tighter test would say that a building is eligible for Investment Boost if the dwelling component of the building is only minor or secondary (for example, a penthouse suite on the top of a 10-story commercial building).

15. An all or nothing test aligns more closely with the principle that buildings with minor residential use depreciate at a similar rate to other commercial buildings (and so have a similar cost of capital). However, these tests (especially the predominant use test) have a cliff-edge effect and can create strong incentives to reconfigure a building in a particular way in order to get Investment Boost. For this reason, we recommend against either of the approaches that could be used under an all-or-nothing test. Instead we recommend an apportionment approach.

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[1] The configuration test was adopted in 2022 due to an interpretation that a vacant property or a short-term accommodation rental is not used as a residence or abode and therefore was not subject to the bright-line test, which was contrary to the policy intent.

Other mixed-use assets

16. In previous advice we discussed some of the challenges of applying Investment Boost to assets that are partly used for business purposes and partly used for private purposes. 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. In that advice, we recommended that owners of a mixed-use asset should take the Investment Boost deduction in proportion to the business use in the first 12 months of use. We now think that an even tighter rule is needed. If a taxpayer claims Investment Boost for a mixed-use asset and subsequently reduces the use of the asset in their business, we recommend there is a mechanism to claw some of the initial deduction back.

Example 1: mixed-use asset

Suppose a taxpayer buys a new yacht for use near the end of the 2025-26 income year. They expect to use the yacht 80 percent of the time for business purposes. They can claim 80 percent of the Investment Boost deduction (i.e., 80 percent of 20 percent of the cost of the yacht). In the 2026-27 income year, they only use the yacht 40 percent of the time for business. This is a significant reduction in business use and would have entitled them to a much lower Investment Boost deduction. The taxpayer has income to the extent that there has been a reduction in use.

Recommendations

We recommend that you:

Agree that residential buildings (which are not eligible for Investment Boost) are buildings configured (rather than used) as a dwelling.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Agree that mixed-use buildings are not eligible for Investment Boost to the extent that they are a dwelling.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Agree that Investment Boost deductions are clawed-back for mixed-use asset where there is a significant reduction in business use.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

KiwiSaver reforms

Income testing of GVC eligibility

17. Cabinet has agreed to limit eligibility for the government contribution to those earning $180,000 or less in a year. This change would take effect from 1 July 2025, thereby first affecting government contribution payments made for the 1 July 2025 – 30 June 2026 government contribution year.

18. We recommend the assessment of a KiwiSaver member's income be based on either the most recent tax year if the taxpayer has already filed a return for that year, or the most recent tax year for which the taxpayer is required to have filed a return.

Under this approach, eligibility for the government contribution associated with the period 1 July 2025 – 30 June 2026 would be based on:

(a) The member's income for the period 1 April 2025 – 31 March 2026 if they have already filed their return for this year on or before 30 June 2026; or

(b) The member's income for the period 1 April 2024 – 31 March 2025, being the most recent tax year for which the taxpayer is required to have filed a tax return.

19. For many taxpayers, their eligibility for their wage and salary earnings will be assessed based on the most recent tax year (ie 18(b).1, above).

Reassessments of taxpayer income

20. As an integrity measure, we recommend that a KiwiSaver member's eligibility for the government contribution be revised where the member's income for the tax year which determines their eligibility is reassessed.

21. In practice, this would involve Inland Revenue either paying the government contribution or clawing back amounts of the government contribution previously paid where the reassessment of a member's income alters the member's eligibility.

Payment of claims

22. 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 introduction of the income test means this requirement will no longer provide sufficient flexibility as it will take Inland Revenue additional time relative to the status quo to assess a member's eligibility before paying the government contribution.

23. We recommend amending this requirement to require the Commissioner to pay the government contribution to the fund provider within 30 working days of being satisfied that the member meets the income eligibility requirements discussed above.

Temporary Rate Reduction

24. Cabinet has agreed that employer and employee contribution rate will rise to 3.5% from 1 April 2026, followed by a further increase to 4% from 1 April 2028.

25. As some members may find an increase in contribution rates unaffordable, Cabinet has also agreed to introduce a temporary rate reduction mechanism that would allow members who do not wish to increase their contribution rate to continue contributing at 3%. This would be available for a minimum of 92 days and a maximum of 12 months at a time. However, a member would be able to withdraw from a rate reduction before 92 days had passed if their employer agrees.

26. Once 12 months had elapsed, the member would need to reapply for a further rate reduction. There would be no limitation on the number of rate reductions a member could apply for.

27. To ensure the ability to apply for a rate reduction is available ahead of the increases to contribution rates taking effect, we recommend this facility be available from 1 February 2026.

Protection for non-compliance for KiwiSaver providers

28. We anticipate that KiwiSaver providers may require time to update their systems and published materials once the proposals have been enacted. In the past, non-

compliance with financial markets legislation arising from recent budget proposals has received a time limited exemption.[2]

29. We recommend the proposals include a limited protection for non-compliance with financial markets legislation. We recommend this apply in connection with non-compliance relating to:

    (a) the changes contained in the relevant provisions themselves, provided it does not continue on or after 1 November 2025; and

    (b) a disclosure statement, provided it does not continue on or after 1 January 2026.

Impact on existing paid parental leave initiatives

30. Under current settings, KiwiSaver members who contribute to their KiwiSaver accounts while on paid parental leave (PPL) are paid an "employer contribution" on top of their PPL payments by the government. The increase in employer contributions proposed as part of Budget 2025 will automatically be applied to these members. The impact of this increase was incorporated in the costing for the Budget policies.

Recommendations

We recommend that you:

Agree the assessment of eligibility for the government contribution be determined based on either:

(a) the most recent tax year if the taxpayer has already filed a return for that year, or

(b) the most recent tax year for which the taxpayer is required to have filed a return.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Agree that eligibility for the GVC be revised where a taxpayer's income is reassessed.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Agree the Commissioner will pay the government contribution to KiwiSaver scheme provider within 30 days of being satisfied the member is eligible for the government contribution.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Agree to make the rate reduction facility available from 1 February 2025 (i.e. in advance of the contribution rate increases taking effect).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Agree to provide a limited protection for non-compliance with financial markets legislation in respect of:

(c) the changes contained in the relevant provisions themselves, provided it does not continue on or after 1 November 2025; and

[2] This occurred, for example, as part of 2015 Budget proposals.

(d) a disclosure statement, provided it does not continue on or after 1 January 2026.

Agreed/Not agreed | Agreed/Not agreed

Minister of Finance | *Minister of Revenue*

Working for Families changes

31. Cabinet has agreed to start income-testing the first year of the Best Start tax credit under the same settings used for the second and third years of the payment (abatement of 21% for income over $79,000) (CAB-25-MIN-0126 refers). This change will apply from 1 April 2026.

32. Best Start applicants and recipients with children aged 1–3 years old are already required to provide family scheme income information. 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. This is because Best Start is a universal payment available to all families for the first year of their child's life. Similarly, families who only receive Best Start in respect of a child who will be less than 1 year old on the last day of the tax year do not need to include a statement of their family scheme income if they are required to file an annual income return.

33. In order to income test the first year of Best Start, we will need to start requiring all Best Start applicants and recipients with a child aged 0–1 to provide family scheme information in their applications and income returns. We recommend making this change through Budget 2025 legislation.

Recommendations

We recommend that you:

Agree to require all Best Start applicants and recipients to provide family scheme income information if they have children born on or after 1 April 2026.

Agreed/Not agreed | Agreed/Not agreed

Minister of Finance | *Minister of Revenue*

Consultation

34. The Treasury has been informed of this report.

Next steps

35. Feedback from Ministerial consultation (if any) will be incorporated in the finalised LEG paper and provided to the office of the Minister of Revenue.

36. The Minister of Revenue should authorise lodgement of the finalised LEG paper with the Cabinet Office before 10am on Thursday 8 May 2025.

37. The draft Bill and departmental disclosure statement need to be lodged alongside the LEG paper. We have also provided the regulatory impact statements for Investment Boost, KiwiSaver reforms, and the Working for Families changes. These statements should be lodged alongside the Cabinet paper.

38. The Cabinet Legislation Committee meeting is on 15 May 2025 (IR2025/174 refers). Officials are available to pre-brief the Minister, if required.

39. We will provide a Bill pack containing the finalised Bill and the necessary supporting documents for the passage of the Bill through the House in the week commencing 19 May.

40. We will work with Ministers' offices to ensure the appropriate publicity for the introduction of the Bill.

Recommended action

We recommend that you:

1. **Indicate** in the body of this report where you agree or do not agree with a recommendation.

Yes/No	Yes/No
Minister of Finance	*Minister of Revenue*

s 9(2)(a)

Pamela Law
Principal Policy Advisor
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

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Briefing note

Reference: BN2024/388

Date: 20 September 2024

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Graeme Morrison, Programme Lead, Policy

Subject: **Follow up to the *Publishing the Tax and Social Policy Work Programme* report**

Purpose

1. This briefing note follows up on the recent tax policy report: *Publishing the Tax and Social Policy Work Programme* (IR2024/362; T2024/2482 refers), to provide clarity on several issues raised by the Minister of Revenue and his office to assist with decision making on publishing the Government's Tax and Social Policy Work Programme (TSPWP).

2. This briefing note aims to:

   2.1. identify which of the upcoming key decisions on Ministers' strategic priorities will materially influence the availability of additional policy resource to work on non-strategic items;

   2.2. provide a high-level initial indication of the fiscal implications, individually and collectively, of those non-strategic items recommended for inclusion on the published work programme; and

   2.3. clarify the wider Inland Revenue delivery and funding impacts of both the strategic items identified for progression to Budget 2025, and other non-strategic and remedial TSPWP items.

Factors affecting the scale of non-strategic items to be included on the TSPWP

3. The level of non-strategic items that can be included on the TSPWP are potentially limited by the following factors:

   3.1. tax policy resource available to progress issues;

   3.2. the ability to fund any issues that are likely to have a fiscal cost; and

   3.3. operational and funding implications for Inland Revenue to deliver any changes.

4. The information in this report therefore provides some further context and clarity on each of these factors to help decision making on the scale (and timing) of items to be included on the published TSPWP.

Policy resource dedicated to strategic priorities

5. At the 15 August Joint Ministers' meeting, Ministers asked officials to progress policy work on a number of strategic items.

6. As previously identified (and outlined in Appendix A), several reports on these strategic items are due to be provided to Ministers in the coming months, with a material number of these scheduled to be delivered between now and the end of October. It is expected that Ministers' decisions on continuing to advance these issues for potential inclusion in Budget 2025 will be made based on information provided in these reports and on discussions undertaken at both Joint Ministers' and Budget Ministers' meetings.

7. Officials have identified that decisions taken on the following strategic issues will likely have the biggest impact on policy resource availability for other non-strategic TSPWP items in the short to medium term:

   7.1. business tax – partial expensing;
   7.2. s 9(2)(f)(iv) ;
   7.3. charities;
   7.4. social policy (Best Start tax credit and Working for Families improvements);
   7.5. s 9(2)(f)(iv)

Fiscal implications of recommended non-strategic items to be included on the TSPWP

8. As advised in our previous report (IR2024/362; T2024/2482 refers), officials recommended that the non-strategic items highlighted in Appendix B be included on the published TSPWP.

9. To help Ministers assess the funding implications of these items, we have indicated, at a high-level, initial estimates of the likely fiscal implications of the items in Appendix B. Our initial assessment of the cumulative fiscal impact is that these items are expected (depending on design) to be broadly revenue neutral. So, although they are unlikely to generate enough revenue to increase the scorecard balance in a material sense, they should be able to be advanced as a package of initiatives.

10. The other options for potential inclusion on the published TSPWP are also included in Appendix B, together with an initial indication of whether these items are likely to be revenue positive, negative, neutral or unknown (at this stage). If Ministers want to specifically include any of these items on the published TSPWP at this time, this should be indicated at recommendation h in the *Publishing the Tax and Social Policy Work Programme* report (IR2024/362; T2024/2482 refers).

Scorecard implications

11. The Minister of Revenue has just been provided with a report (IR2024/372; T2024/1960) and a briefing note (BN2024/385) on the scorecard. This has important implications for the inclusion of non-strategic items on the TSPWP. As noted above, our initial assessment is that the seven items recommended for initial inclusion on the non-strategic TSPWP are expected (depending on design) to be broadly revenue neutral.

Operational delivery and funding implications for Inland Revenue to progress strategic and non-strategic items on the TSPWP

12. As part of the Budget 2024 baseline savings process, Inland Revenue committed to a reduction of $15 million in its systems maintenance and operational change capacity.

13. This means that Inland Revenue can only self-fund the delivery of a relatively small number of non-strategic TSPWP items going forward. This would, however, include items in the Taxation (Annual Rates for 2024–25, Emergency Response and Remedial Measures) Bill and other non-strategic and remedial items identified as future priorities for Ministers that do not materially impact the department's change capacity.

14. On the question of the delivery of strategic items identified for potential inclusion in Budget 2025, Inland Revenue has confirmed it would be able to deliver this work within the proposed timelines, based on the high-level of detail provided to date. It would, however, expect to seek funding for implementation of any Budget 2025 initiatives progressed, as the department has no capacity to partially-fund or fully-fund such Budget 2025 initiatives without directly impacting service delivery, tax revenue, debt or system change, and maintenance capacity.

Consultation with the Treasury

15. The Treasury was consulted on this briefing note.

Graeme Morrison
Programme Lead, Policy
s 9(2)(a)

KEY
Noting report
Seeking decisions on whether to progress for B25
Seeking direction, or decisions on detailed design

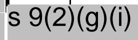
Appendix A: Indicative timetable of upcoming advice on strategic and other priorities

	Item	September	October	November	December and beyond
STRATEGIC PRIORITIES	**Overarching advice**	Work programme report seeking direction on: • whether the TSPWP is noted by Cabinet, • the prioritisation of remaining resources, and • publication of the TSPWP (timing and format).		*Possible publication of TSPWP*	
	Business tax – partial expensing	Background information note on partial expensing		More detailed advice on partial expensing, seeking decisions on whether to progress for B25	Further advice to finalise the detailed design (incl. modelling etc.)
	Lifting the thin cap threshold for thin cap rules		Initial advice – further reporting dependent on decisions taken		
	9(2)(f)(iv)				
	Adjusting Foreign Investment Fund rules	Initial advice – further reporting dependent on decisions taken		*Consultation*	Reporting on outcome of consultation
	Fringe Benefit Tax review		Report on FBT review with potential options to progress		
	9(2)(f)(iv)				
	Improved compliance enforcement	Tax gap note (IR2024/321 refers)	Early advice on compliance bid		
	Social policy (Best Start tax credit and Working for Families improvements)	Advice on options for improving social policy settings			Report seeking final decisions for B25
	9(2)(f)(iv)				
	KiwiSaver switch (Reduce GVC and increase employer contribution)		Initial advice – further reporting dependent on decisions taken		
OTHER PRIORITIES	**International** (DST Bill, DTA work programme, OECD work)	BAU reporting. The non-structural reform items to be prioritised as part of the September report on the TSPWP.			
	Non-structural reform (Improvements to the tax system that do not require structural reform, including minor amendments through the remedial work programme)				
	Cross government (Other agency work with tax implications)				
	Stewardship (LTIB, Working for Families review)				

Appendix B: Non-strategic items for potential inclusion on the TSPWP

		Item	Comments	Indicative Fiscal Impact
LARGE POLICY RESOURCE	1	Exploring tax compliance improvements for small businesses **[recommended]**	This item aims to explore and consider various measures to improve tax compliance for small businesses. It will look at compliance costs and other factors that influence tax compliance.	Neutral
	2	Income tax treatment of not-for-profit member transactions and options for simplification	Not progressing policy work on this issue will result in Inland Revenue confirming that transactions between some not-for-profits (such as cosmopolitan clubs and professional associations) and their members are taxable *(IR2024/238 refers)*.	Unknown
MEDIUM POLICY RESOURCE	3	Supporting wider Inland Revenue compliance work **[recommended]**	This includes considering any policy options to support Inland Revenue's operations to improve tax compliance and reduce debt. We recommend progressing this work to enhance the integrity of the tax system. The fiscal impact depends on the design of the policy but it likely positive. This piece of work could also include looking at increasing thresholds but note that this element would have a negative fiscal impact.	Positive
	4	Regulatory framework for tax intermediaries **[recommended]**	This would involve developing options for changing the regulation for how tax intermediaries engage with the tax system. We recommend progressing this work because it will improve the digital ecosystem for tax administration – potentially resulting in reduced compliance costs for taxpayers and improved tax compliance.	Neutral
	5	Overseas based student loan borrower settings **[recommended]**	Policy work to consider options to improve compliance. This work will be of interest to the Minister Simmonds (Tertiary Education and Skills) *(IR2024/143 refers)*. The fiscal impact is likely positive but there is significant uncertainty as it depends on which options are progressed and because the policy involves forecasting behavioural impacts of the student loan valuation.	Positive (up to $5m pa)
	6	Removing out-dated income tax exemptions **[recommended]**	There are several tax concessions available to not-for-profits which have become out-of-date and/or are difficult to justify today. There will be a fiscal gain if the concessions are narrowed or removed, however potential changes have not been costed at this stage *(IR2024/237 refers)*. Note that this does not include any work on the business income tax exemption for charities.	Positive ($5m - $50m pa)
	7	2025 GST Issues Paper	Officials' issues paper to consult on GST proposals aimed at reducing compliance costs and to ensure the law is fit for purpose.	Unknown
	8	Determine the permanent treatment for the deductibility of co-operative company distributions	This work would determine a permanent treatment (assuming one is required) beyond the expiry of the planned temporary extension in 2024–25 *(IR2024/273 refers)*.	Negative
	9	Improvements to controlled foreign company and FIF tax rules that relate to outbound foreign investment	Stakeholders have identified several technical issues relating to the CFC and FIF rules. Work is required to determine what issues should be progressed and are feasible in a 2025 or 2026 omnibus tax bill *(IR2024/127 refers)*.	Negative
	10	Simplifying and modernising the non-	The current rules are not fit for purpose for a modern business environment and can create uncertainty for	Unknown

		resident contractors' tax rules	taxpayers. This issue is a Corporate Taxpayer Group priority *(IR2024/127 refers).*	
	11	Reviewing the tax rules for Māori authorities	A review of the rules that apply to Māori authorities to potentially remove tax impediments and reduce compliance costs for these organisations *(IR2024/127 refers).*	Neutral
	12	Scoping issues for a review of the land sale rules	The land sale rules are complex and have not been comprehensively reviewed since the core provisions were introduced in 1973. This work would involve undertaking consultation to compile a list of issues to form the basis for a later substantive review of the land sale rules.	Neutral
SMALL POLICY RESOURCE	13	The Commissioner's power to collect information for policy purposes (s 17GB) **[recommended]**	Policy work and consultation on options to amend this power *(IR2024/213 refers).*	Neutral
	14	Trust disclosures post-implementation review **[recommended]**	The review is focused on determining whether changes can be made to improve future disclosures for trustees and reduce compliance costs. This is a priority for many stakeholders.	Neutral
	15	Software development expenditure	Without a policy response, an interpretation by Inland Revenue's Tax Counsel Office will change immediate deductibility for certain software development expenditure to depreciable over 4 years. This will have a cashflow impact on the development sector and will be unpopular with the sector and of interest to the Government and in particular Minister Collins (Science, Innovation and Technology). This issue is a Corporate Taxpayer Group priority *(IR2024/124 refers).*	Negative
	16	Clarifying the tax treatment of expenditure incurred due to flood events and land improvements	This work clarifies the tax treatment of expenditure spent on replacing land improvements, including fruit trees and vines, that have been destroyed by a flooding or erosion event. These emergency events have become more prevalent in the recent years, increasing the scale and fiscal impact of this item *(IR2024/310 refers).*	Unknown
	17	GST deductions for members of unregistered unincorporated bodies	Current law does not allow members of an unincorporated body to register individually for GST. This differs from current practice in the thoroughbred and oil and gas industries. s 9(2)(g)(i)	Negative
	18	GST treatment of securities supplied to non-residents	This work would address whether managed funds selling securities to non-residents should be able or required to register for GST.	Negative
	19	Residence rule for individuals performing Government services overseas	This work would consider whether the rule that deems New Zealand tax residence for NZ Government servants living overseas should be limited to resolve some practical issues.	Negative
	20	FBT exemption for bikes and scooters	Setting a maximum allowable cost for bikes and scooters, and defining which scooters are covered by the FBT exemption. This would have a neutral or minimal positive fiscal impact. Alternatively, this project could involve removing the FBT exemption for bikes and scooters and/or public transport, which would increase the fiscal gain up to $10m.	Positive (up to $10m)
	21	Simplification of tax rules relating to volunteers	Minister Upston (Community and Voluntary Sector) has expressed interest in growing philanthropy by reducing compliance costs and has specifically requested simplifications for volunteers.	Unknown
	22	Simplification of Approved Issuer Levy reporting	The AIL regime is considered by some stakeholders to have high compliance costs, particularly for individuals	Negative

			who may have a foreign loan e.g., a mortgage over property they acquired when living overseas *(IR2024/127 refers).*	

s 9(2)(g)(i)

[IN CONFIDENCE]

Policy
Taukaea
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Wellington 6140
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T. 04 890 1500

Briefing note

Reference: BN2025/224

Date: 8 May 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Samantha Putt

Subject: **Tax Expenditure Statement for Budget 2025**

Purpose

1. This briefing note attaches the Tax Expenditure Statement for Budget 2025.

Tax Expenditure Statement

2. The Tax Expenditure Statement (the Statement) is a Budget document that provides transparency around policy-motivated 'expenditures' made through the tax system. Tax expenditures take the form of an exemption, allowance, preferential tax rate, deferral, or offset that reduces a tax obligation to achieve a specific policy objective. Cash payments made through the tax system do not formally meet a tax expenditure definition but have been included for transparency purposes.

3. The Statement will be available on the Treasury website once the Budget 2025 documents are released. This will be following the delivery of Budget 2025 on Thursday 22 May.

Changes from the 2024 Statement

4. The 2025 Statement is very similar to the 2024 Statement. This year, two new tax expenditures have been included which are explained below.

FamilyBoost Tax Credit

5. Families with children in licenced early childhood education services are entitled to an income tested tax credit ("FamilyBoost") based on invoiced fees. FamilyBoost tax credits are formally forecast as part of the Government's Budget process, and the values reported in the Tax Expenditure statement are taken from these forecasts.

FBT on ebikes, scooters and public transport

6. The provision of self-powered or low-powered vehicles (i.e. ebikes or scooters) and certain employer-provided public transport benefits mainly used for the purpose of travelling between home and work were exempted from fringe benefit tax from 1 April 2023.

Consultation with the Treasury

7. The Treasury was informed about this briefing note.

Samantha Putt
Policy Advisor
s 9(2)(a)

POLICY

Tax policy report: **Preliminary Tax forecasts for the 2025 Budget Economic and Fiscal Update**

Date:	25 February 2025	**Priority:**	Low
Security level:	Sensitive - Budget	**Report number:**	IR2025/023

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Note** the contents of this report **Refer** report to the Minister of Finance	4 March 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Sandra Watson	Policy Lead (Forecasting and Analysis)	s 9(2)(a) s 9(2)(a)	☒

25 February 2025

Minister of Revenue

Preliminary tax forecasts for the 2025 Budget Economic and Fiscal Update

Executive summary

Purpose

1. The Treasury have prepared preliminary tax forecasts for the 2025 Budget Economic and Fiscal Update (BEFU 2025). These forecasts were finalised on 19 February 2025. The purpose of this report is to provide a summary of the updated forecasts, with a focus on changes since the Half Year Economic and Fiscal Update (HYEFU 2024).

Changes to the forecasts since HYEFU 2024

2. For the five years from 2024/25 to 2028/29 inclusive, the Treasury have revised their unconsolidated tax forecasts down by $5.2 billion. The revisions range from -$1.6 billion in the current 2024/25 year, easing to -$0.7 billion in 2028/29.

3. These revisions come largely from company tax, with forecast revisions ranging from -$1.9 billion (2024/25) to -$1.6 billion (2028/29). Net other persons tax also contributes to the downward revisions, albeit to a much lesser extent. These are offset somewhat by upward revisions to forecasts for source deductions and total net GST.

4. The downward revisions to company tax and other persons tax are primarily the result of a much softer growth outlook for net operating surplus and, for company tax, a weaker outlook for the consolidation[1] adjustment.

5. Tax policy changes decided since HYEFU add $37.3 million across the five-year period. Forecasts do not yet include any proposals intended for Budget 2025.

6. A forecasting adjustment to capture a changed accounting treatment of a pending loss of time limited funding for Inland Revenue reduces forecast tax by ($150 million) per year from 2025/26, or ($600 million) across the forecast period. A second forecasting adjustment defers by one year the expected fiscal impact from the July 2024 reduction in excise on heated tobacco products, reflecting that data is yet to evidence an increase in demand for these products. This adjustment adds $82 million across the forecast period.

[1] Consolidation is layered on top of these forecasts and removes the impact of the government paying tax to itself.

Recommended action

We recommend that you:

7. **note** the contents of this report, and

   Noted

8. **refer** a copy of this report to the Minister Finance for their information.

   Referred/Not referred

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Sandra Watson
Policy Lead (Forecasting and Analysis)
Policy

Hon Simon Watts
Minister of Revenue
/ /2025

Background

9. This report informs you of changes since HYEFU 2024 in the Treasury's preliminary tax forecasts for the 2025 Budget Economic and Fiscal update (BEFU 2025). These updated forecasts were completed on 19 February 2025 with the following inputs:

   9.1 tax results to December 2024, and unfinalised information for January 2025;

   9.2 macroeconomic forecasts produced by the Treasury, which were finalised on 12 February 2025; and

   9.3 policy changes decided since HYEFU 2024, up to and including 19 February 2025 – these do not yet include Budget 2025 proposals.

10. The figures discussed in this report are for the revenue measure of tax (accrual-based). The forecasts cover a five-year fiscal outlook extending to the year to 30 June 2029. Figures are unconsolidated, which includes the government paying tax to itself.

Changes to the Treasury's unconsolidated tax forecasts since HYEFU 2024

Table one – Changes in the Treasury's unconsolidated tax revenue forecasts since HYEFU 2024

June years, $ millions	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
The Treasury					
HYEFU 2024 Treasury forecast	*136,636*	*143,609*	*152,217*	*160,103*	*167,770*
Changes for HYEFU forecasts:					
Source deductions[2]	48	599	645	733	845
Other persons[3]	-10	-96	-259	-227	-236
Corporate taxes[4]	-1,887	-1,569	-1,784	-1,523	-1,487
GST (including Customs GST)	271	-18	-1	-29	47
Resident withholding tax (RWT) on interest	8	168	173	158	144
Other taxes[5]	5	12	20	5	-2
Total change since HYEFU 2024	**-1,565**	**-904**	**-1,206**	**-883**	**-689**
Preliminary BEFU 2025 Treasury forecast	**135,071**	**142,705**	**151,011**	**159,220**	**167,081**

[2] PAYE and employer superannuation contributions tax (ESCT)
[3] "Other persons" is income tax from individuals, trusts, and Māori authorities less any credits for tax withheld by others such as PAYE or RWT. It is mainly provisional tax, but also includes annual square-ups for wage and salary earners.
[4] Company tax, residents withholding tax on dividends, and non-resident's withholding tax (on interest, dividends, and royalties).
[5] Mainly customs and excise, road user charges, and motor vehicle licensing fees. Also includes FBT.

11. For the five-year forecast period from 2024/25 to 2028/29 inclusive, the Treasury have revised down their unconsolidated tax forecasts by $5.2 billion. Downward revisions are recorded in all years, and range in size from -$0.7 billion (2028/29) to -$1.6 billion in the current year (2024/25).

12. Company tax (included in corporate tax in the table above) is the largest contributor to the downward revision. The current 2024/25-year forecast has been revised down by -$1.92 billion, reflecting a softer outlook for the consolidation adjustment and revisions to the macroeconomic driver (discussed below). The size of this downward revision narrows slightly to $1.57 billion by the end of the forecast period.

13. Net Other Persons tax forecasts have also revised down across the entire forecast period, but to a much lesser extent than the company tax forecasts. While net operating surplus is a driver of the other persons forecasts there are other factors[6], and the starting point for this tax type is not as soft relative to HYEFU 2024.

14. Offsetting these downward revisions, forecasts for Source Deductions have been revised upwards across the forecast period. These upward revisions reflect a stronger outlook than indicated at HYEFU 2024 for growth in wages and salaries over the next two years.

15. Forecasts for GST have also been revised up, largely reflecting the stronger than expected outturns that we are seeing at present.

16. Factors contributing to the forecast revisions are discussed below.

Unconsolidated tax results since HYEFU 2024 – Inland Revenue administered tax types plus Customs GST

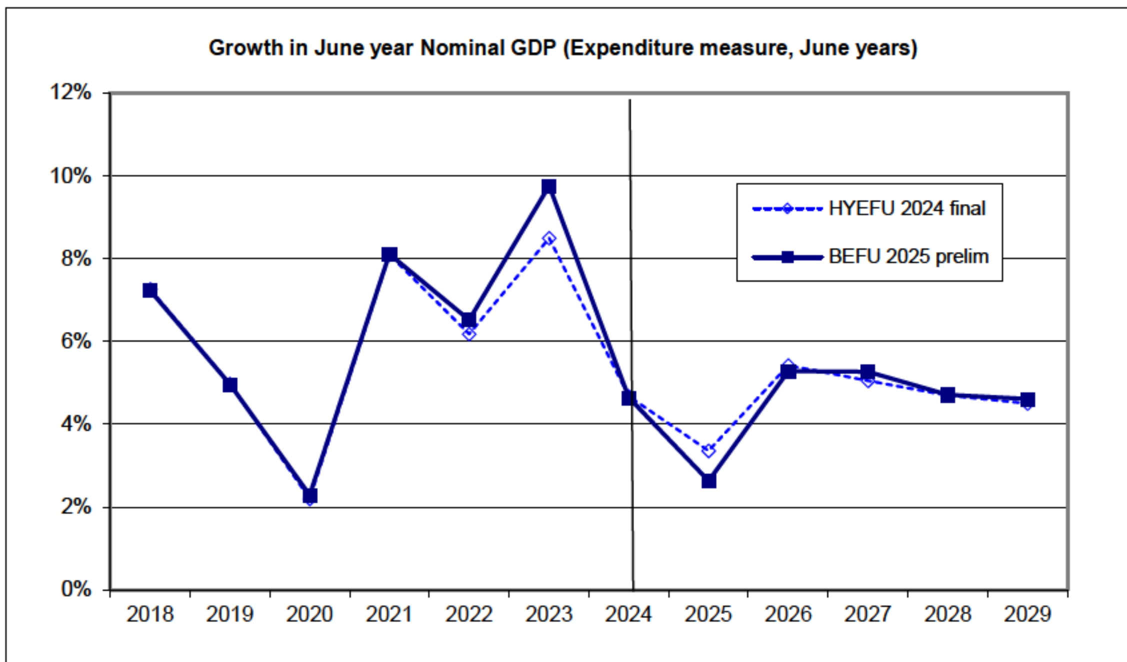
17. Results for October 2024 were available at the time HYEFU 2024 tax forecasts were finalised. Variances since HYEFU 2024 reflect finalised results the months of November and December 2024 only. These variances for unconsolidated tax revenue were reported to you on 28 January 2025 (IRD2025/010 refers).

18. They key message was that variances were small across most tax types with the exception of company tax which was $1,041 million below forecast before consolidation but which was reasonably on track after consolidation. There was a positive variance for Total Net GST ($219m above forecast) and Other Persons tax ($88 million above forecast).

Revisions to the macroeconomic outlook

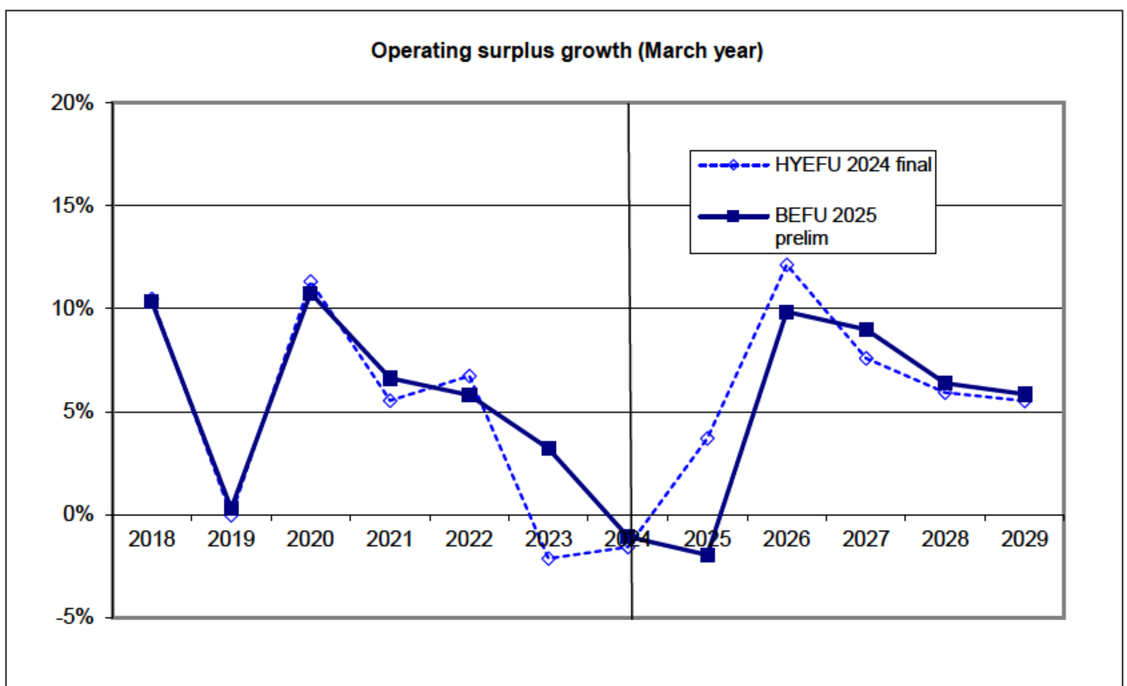
19. In aggregate, there has been very little change to the macroeconomic forecasts since HYEFU 2024. Growth in nominal GDP is forecast to be softer in 2024/25 (2.6% vs 3.4%) before returning to a similar profile over the remainder of the forecast period.

[6] Examples are trust taxation and tax on investments such as housing and overseas shareholdings.



20. The component of GDP which has had the largest revision in this forecast update is net operating surplus, which is the measure used to forecast business income tax. Statistics New Zealand have made some large revisions to the recent history of the net operating surplus series. From a tax results perspective, tax returns for 2022-23 have already been filed and the upwards revision to 2022-23 has no impact, but the revised outlook for operating surplus is indicating little to no growth in profitability for the subsequent two years[7].

21. These changes have had a material impact on the forecasts for the measure and the Treasury have dampened their near-term forecast for growth in net operating surplus (-2.0% vs 3.7% in 2025 and 9.8% vs 12.1% in 2026). Growth in subsequent years is slightly higher that forecast at HYEFU 2024, but this is growth from a weaker starting point.



[7] Tax returns for 2023-24 for the largest corporates (filing via tax agents) will arrive in late March 2025.

22. Changes in key macroeconomic forecasts are presented in the table below.

Table two: Key macroeconomic series underpinning the BEFU 2025 preliminary tax forecasts

The Treasury's HYEFU 2024 and BEFU 2025 forecast macroeconomic indicators	2024/25	2025/26	2026/27	2027/28	2028/29
Nominal GDP (Annual growth - June years)					
HYEFU 2024	3.4%	5.4%	5.0%	4.7%	4.5%
BEFU 2025 preliminary	2.6%	5.3%	5.3%	4.7%	4.6%
Net Operating Surplus (Annual growth - March years)					
HYEFU 2024	3.7	12.1%	7.6%	5.9%	5.5%
BEFU 2025 preliminary	-2.0%	9.8%	9.0%	6.4%	5.8%
Compensation of Employees (Annual growth - June years)					
HYEFU 2024	1.8%	3.2%	4.7%	4.6%	4.4%
BEFU 2025 preliminary	2.1%	3.7%	4.7%	4.6%	4.6%
Nominal Consumption (Annual growth - June years)					
HYEFU 2024	2.4%	4.0%	4.3%	4.2%	4.2%
BEFU 2025 preliminary	2.5%	3.8%	4.1%	4.1%	4.2%
90-day bank bills (Levels - March year averages)					
HYEFU 2024	4.88%	3.33%	2.95%	2.90%	2.90%
BEFU 2025 preliminary	4.83%	3.33%	2.95%	2.83%	2.80%
Residential investment (Annual growth- June years)					
HYEFU 2024	-7.4%	7.4%	7.1%	5.8%	5.1%
BEFU 2025 preliminary	-7.1%	6.3%	8.9%	6.2%	6.0%

Tax Policy changes since HYEFU 2024

23. These updated forecasts incorporate policy decisions since HYEFU 2024 up to and including 19 February. They do not include any policies which are awaiting Budget 2025 decisions.

Table three: Tax policy changes since HYEFU 2024

	$m – increase/(decrease)				
Vote Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 and outyears**
Le Quesnoy – permanent schedule 32 status	-	-	($0.330)	($0.330)	($0.330)
Use of money interest rates[8] reduction effective 16 January 2025	3.600	8.000	8.000	8.000	8.000
Agreed amendments[9] for the Emergency response Bill	(0.686)	0.843	0.843	0.843	0.843
Total change in tax Revenue	2.914	8.843	8.513	8.513	8.513

Other tax changes

Heated tobacco

24. Earlier tax forecasts included a negative impact from heated tobacco excise rate reductions which applied from July 2024. In the six months to December 2024 there is no evidence of the anticipated switch from smoked tobacco to heated tobacco. The forecasts have been adjusted to defer the expected impact by one year and this adjustment adds $82 million to tax revenue across the forecast period.

Time Limited Funding

25. Inland Revenue has time-limited funding of $26.5 million which expires on 30 June 2025. This funding was introduced in Budget 2022 to 'maintain capability, integrity and to respond to demand' and was used to maintain compliance activities in the post-COVID economy. These forecasts have been updated to reflect the impact on tax revenue and cash collections of this reduction in funding and associated full-time equivalent employees. The impact over the forecast period is a $600 million decrease in tax revenue and a $216 million increase in impairment.

26. Inland Revenue has been invited to submit a cost pressure bid to maintain this funding over the forecast period and outyears. If this bid is successful, this reduction in tax revenue and cash collections will be reversed.

[8] In addition to the net revenue increase in the table there is also a reduction in impairment expense of $1.3m per annum

[9] Amendments agreed by joint ministers relate to proposed changes during FEC consideration of the Taxation (Annual Rates for 2024-25, Emergency Response, and Remedial Measures) Bill and cover a range of topics. The largest revenue positive item is a remedial change to ensure the platform economy flat rate credit does not go to GST-registered taxpayers. None of the other five topics exceed +/- $0.2m per year.

Table four: Time limited funding expiry – effect on tax revenue

	$m – increase/(decrease)				
Vote Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & outyears**
Tax Revenue: Expiry of time-limited funding from 1 July 2025.	-	(150.000)	(150.000)	(150.000)	(150.000)
Total change in tax Revenue[10].	**-**	(150.000)	(150.000)	(150.000)	(150.000)

Risks and ongoing uncertainties

27. Uncertainty remains on the timing and strength of recovery in income and consumption taxes from the current softness, and income tax return filing for 2023-24 is not yet complete. When these returns eventually arrive they can significantly alter tax results as they replace earlier estimations. The forecasts continue to include a pro-cyclical recovery - particularly boosting growth in company tax over the next two years, and with a return to rates of growth more in line with the underlying economic parameters thereafter.

28. Dividend payments usually peak in April following a March declaration. Last year had unusually high dividends declared in advance of the 39% trustee tax rate taking effect. It is still unclear what impact last year's surge will have on dividend flows in the current and subsequent years. It could emerge that the current year is abnormally low in dividend flows, and it may take another year, or more, for a "new normal" to be established.

29. The impact of the trustee tax rate change (to 39%) more generally remains uncertain as the ongoing behavioural response to these new settings is yet to be determined.

30. Portfolio investment entities (PIEs) are an increasingly important tax base, primarily due to ongoing growth in KiwiSaver funds under management. PIE taxation was significantly above forecast in the 2023/24 fiscal year, but returns on investment are volatile and return-on-investment swings add risk to the company tax forecasts. Most PIE taxation arrives annually, in April.

Consultation

31. The Treasury have been consulted on this report. The Treasury reported their preliminary forecasts to the Minister of Finance on 21 February.

Next steps

32. Tax forecasts for Budget 2025 will be finalised on Monday 14 April 2025 and will incorporate the Budget package to the extent that the chosen package affects tax. Finalised tax forecasts will be reported to you on 17 April.

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[10] The receipts (cash) measure has a larger reduction of $240 million per year. The difference between the two measures represents an increase in the debt book for which there will also be an associated increase in impairment expenditure of $54 million per annum, totalling $216 million across the forecast period.

33. Budget 2025 is scheduled for release on 22 May.

34. Tax results for January, February, and March will continue to be reported against the earlier HYEFU 2024 forecasts. Results for January will be reported to you on 26 February. April results, which will contain some once-per-year activity[11], will be reported against the final Budget 2025 forecasts.

[11] Dividend flows, and taxation of PIES both have significant peaks in April. Larger corporate tax returns for the prior year (in this case 2023-24) also tend to be filed in the last week of March or early April and are often not in time to inform Budget forecasts. These lagged, but large, tax returns have the potential to significantly alter year-to-date results for income tax revenue, as they both replace 2023-24 estimations with "actuals", and also update existing 2024-25 (and part of 2025-26) estimations.

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: **Final tax forecasts for the 2025 Budget Economic and Fiscal Update**

Date:	16 April 2025	**Priority:**	Low
Security level:	Sensitive - Budget	**Report number:**	IR2025/088

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Note** the contents of this report **Refer** report to the Minister of Finance	1 May 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Sandra Watson	Policy Lead (Forecasting and Analysis)	s 9(2)(a) s 9(2)(a)	☒

16 April 2025

Minister of Revenue

Final tax forecasts for the 2025 Budget Economic and Fiscal Update

Executive summary

Purpose

1. On 15 April 2025 the Treasury finalised tax forecasts for the 2025 Budget Economic and Fiscal Update (BEFU 2025). The purpose of this report is to provide a summary of the updated forecasts, with a focus on changes since the last published forecasts of the Half Year Economic and Fiscal Update (HYEFU 2024).

Changes to forecasts since HYEFU 2024

2. For the five years from 2024/25 to 2028/29 inclusive, and relative to HYEFU 2024, the Treasury has revised its unconsolidated tax forecasts down by $15.2 billion. The revisions range from -$1.2 billion in the current 2024/25 year, to -$3.8 billion in 2027/28.

3. These revisions come largely from company tax, with forecast revisions ranging from -$1.6 billion (2024/25) to -$3.7 billion (2027/28). Net other persons tax also contributes to the downward revisions from 2025/26 onwards, albeit to a much lesser extent. These changes are partially offset by upward revisions to forecasts for source deductions.

4. Tax policy changes decided between HYEFU 2024 and preliminary Budget forecasts reported to you in February[1] added $0.04 billion across the five-year period. Subsequent policy changes, including Budget 2025 policy announcements, lower tax forecasts by $6.0 billion over the forecast period.

5. Aside from policy changes, the key factor affecting the downwards revision since HYEFU 2024 is a weaker outlook for business profitability (net operating surplus), growing from a weaker starting point of 2023-24 profits.

[1] Refer IR2025/023 Preliminary Tax forecasts for the 2025 Budget Economic and Fiscal Update

Recommended action

We recommend that you:

6. **note** the contents of this report, and

   Noted

7. **refer** a copy of this report to the Minister Finance for their information.

   Referred/Not referred

Sandra Watson
Policy Lead (Forecasting and Analysis)
Policy

Hon Simon Watts
Minister of Revenue
/ /2025

Background

8. This report informs you of changes since HYEFU 2024 in the Treasury's tax forecasts prepared for the BEFU 2025. These updated forecasts were completed on 15 April 2025 with the following inputs:

   8.1 tax results to March 2025;

   8.2 macroeconomic forecasts produced by the Treasury, which were finalised on 7 April 2025; and

   8.3 policy changes decided since HYEFU 2024, up to and including 14 April 2025 – including Budget 2025 proposals.

9. The figures discussed in this report are for the revenue measure of tax (accrual-based). The forecasts cover a five-year fiscal outlook extending to the year to 30 June 2029. Figures are unconsolidated, which includes the Government paying tax to itself.

10. Preliminary tax forecasts for Budget 2025 were reported to you on 25 February 2025 (IR2025/023 refers). At that stage the revision to forecasts since HYEFU 2024 was a reduction of $5.2 billion across the forecast period, with policy changes contributing +$37 million, a timing adjustment of +$82 million, a forecast adjustment to reflect time-limited Inland Revenue funding of -$0.6 billion, and an underlying forecast change of -$4.6 billion, largely reflecting outturns to January 2025 and the updated economic outlook. These preliminary forecasts did not incorporate Budget 2025 policy decisions, and the macroeconomic outlook was still preliminary.

11. The framework of this report remains changes since HYEFU 2024, with that being the most recent published forecasts against which monthly results (to March 2024) are still reported. The changes described in this report also incorporate those of paragraph 10.

Changes to the Treasury's unconsolidated tax forecasts since HYEFU 2024

Table 1 – Changes in the Treasury's unconsolidated tax revenue forecasts since HYEFU 2024

June years, $ millions	2024/25	2025/26	2026/27	2027/28	2028/29
The Treasury					
HYEFU 2024 Treasury forecast	*136,636*	*143,609*	*152,217*	*160,103*	*167,770*
Net changes at Preliminary BEFU	*(1,565)*	*(904)*	*(1,206)*	*(883)*	*(689)*
BEFU 2025 preliminary forecasts	**135,071**	**142,705**	**151,011**	**159,220**	**167,081**
Changes for BEFU final forecasts:					
Source deductions[2]	(521)	(364)	(323)	(364)	(235)
Other persons[3]	412	(267)	(166)	(221)	(211)
Corporate taxes[4]	350	(1,562)	(1,591)	(2,108)	(1,768)
GST (including Customs GST)	180	(165)	(142)	28	(26)
Resident withholding tax (RWT) on interest	(29)	(27)	(76)	(161)	(167)
Other taxes[5]	19	7	(193)	(133)	(129)
Total change since Preliminary BEFU 2025	**411**	**(2,378)**	**(2,491)**	**(2,959)**	**(2,536)**
Total change since HYEFU 2024	*(1,154)*	*(3,282)*	*(3,967)*	*(3,842)*	*(3,225)*
Final BEFU 2025 Treasury forecast	**135,482**	**140,327**	**148,521**	**156,261**	**164,545**

12. For the five-year forecast period from 2024/25 to 2028/29 inclusive, the Treasury has revised down its unconsolidated tax forecasts by $15.2 billion since HYEFU 2024 ($5.2 billion in the Preliminary BEFU 2025 forecasts, and a further $10.0 billion in this update). Policy changes contribute -$6.0 billion to the revision since HYEFU 2024 and are detailed in Table 4 below.

13. Focussing specifically on the revisions since the preliminary Budget 2025 forecasts, the current year has been revised upwards, but downward revisions are recorded in all subsequent years, and range in size from -$2.378 billion in 2025/26 to -$2.959 billion in 2027/28.

14. Unconsolidated company tax, included in corporate tax in Table 1 above, is the largest contributor to the downward revision. This tax type is impacted by both a softening since HYEFU 2024 of the main growth rate indicator (firms' net operating surplus), and a now-weaker starting point as 2023-24 tax returns have now largely materialised and are not as strong as their predecessor 2022-23 returns. Moreover,

[2] PAYE and employer superannuation contributions tax (ESCT).
[3] "Other persons" is income tax from individuals, trusts, and Māori authorities less any credits for tax withheld by others such as PAYE or RWT. It is mainly provisional tax, but also includes annual square-ups for wage and salary earners.
[4] Company tax, residents withholding tax on dividends, and non-resident withholding tax (on interest, dividends, and royalties).
[5] Mainly customs and excise, road user charges, and motor vehicle licensing fees. Also includes FBT.

company tax is heavily impacted by Budget 2025 policy changes, which increase deductions for investment.

15. Apart from the current year, net other persons tax forecasts have also been revised down across the forecast period, but to a much lesser extent than the company tax forecasts. While net operating surplus is a driver of the other persons forecasts there are other factors,[6] and the starting point for this tax type is not as soft relative to HYEFU 2024. This tax type is also affected by increased deductions on investment, which is the primary factor for the downwards revisions since the preliminary BEFU 2025 forecasts.

16. The forecasts for source deductions were revised upwards across the forecast period for the preliminary BEFU 2025 forecasts, but this has since been softened reflecting recent monthly variances and a now slightly softer outlook for employee compensation from 2026/27 onwards.

17. Forecasts for GST have also been revised up in the current year, largely reflecting the stronger than expected outturns that we are seeing at present.

18. The revision to other taxes primarily reflects the removal of the digital services tax.

19. Factors contributing to the forecast revisions are detailed below.

Unconsolidated tax results since HYEFU 2024 to March 2024 – Inland Revenue administered tax types plus Customs GST

20. This section deals only with those tax types administered by, and hence monitored by, Inland Revenue. Results for October 2024 were available at the time HYEFU 2024 tax forecasts were finalised. Variances since HYEFU 2024 reflect results for November 2024 to February 2025 and preliminary results for March 2025. Finalised March variances for unconsolidated tax revenue will be reported to you on 29 April 2025.

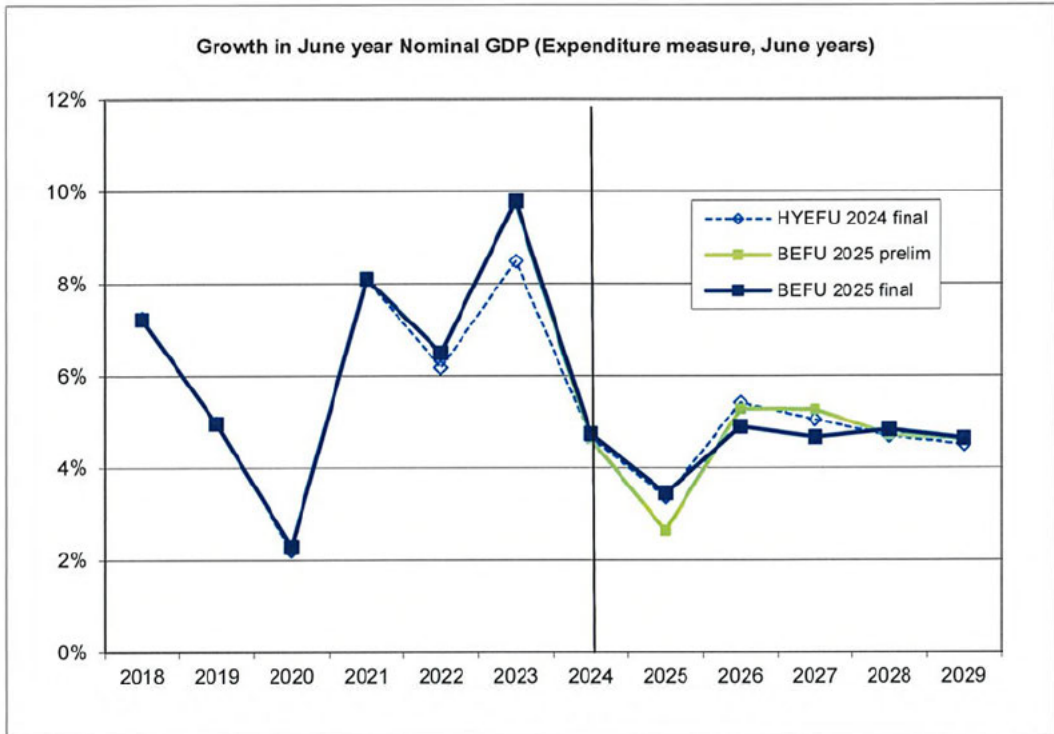
21. The key messages from variances to March are that PAYE is trending below HYEFU 2024 forecast (year to date -$0.5 billion) and that GST and other persons are trending above forecast (+$0.3 billion and +$0.5 billion respectively). Unconsolidated company tax has a significant negative variance, but this reduces to a smaller negative figure of around -$0.3 billion after consolidation.

22. Overall, the consolidated variances largely cancel out and results for these tax types to March 2025 look to be very close to the HYEFU 2024 forecast.

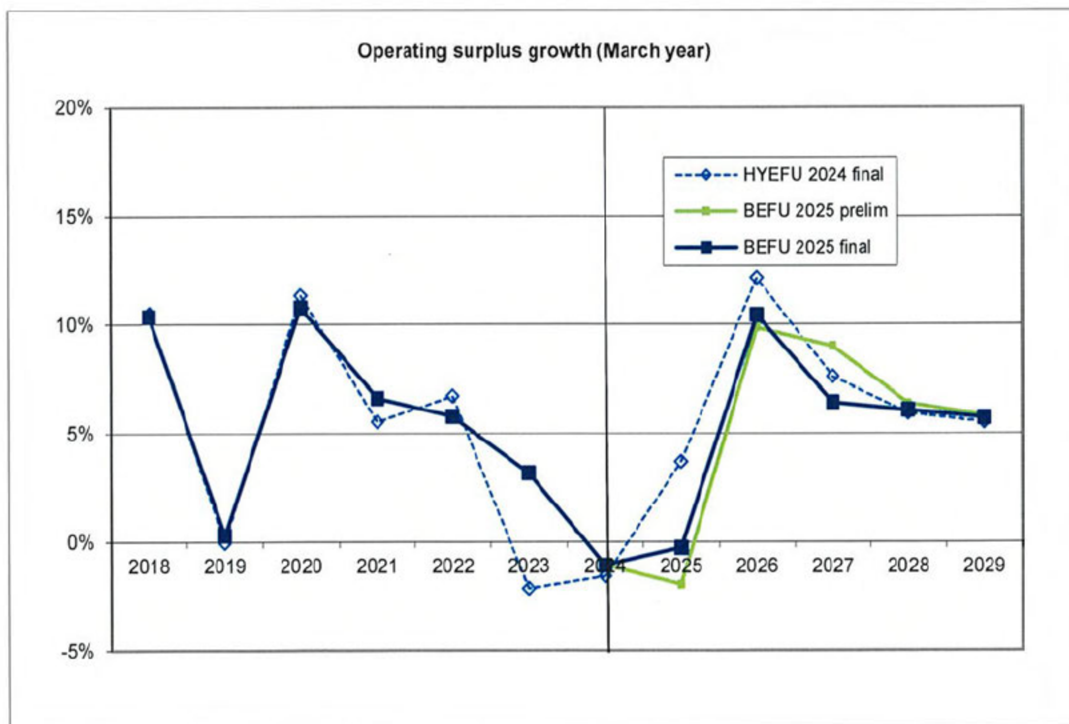
Revisions to the macroeconomic outlook

23. Growth in nominal GDP is forecast to be very similar to HYEFU 2024, and stronger than preliminary Budget 2025 forecasts, in the current year but is softer for the coming two years.

[6] Examples are trust taxation and tax on investments, such as housing and overseas shareholdings.



24. For net operating surplus, which is the measure used to forecast business income tax, the Treasury has dampened its near-term forecast for growth in the current and subsequent two years. Operating surplus is now expected to decline -0.3% in 2024-25 (the HYEFU 2024 forecast was +3.7%) and the return to growth in 2025-26 is now at a softer rate of 10.4% (the HYEFU 2024 forecast was +12.1%). Growth in the final two years is similar to HYEFU 2024 but is from a weaker starting point.



25. Changes in key macroeconomic forecasts are presented in Table 2, with the most significant impact being from the changes to net operating surplus.

Table 2: Key macroeconomic series underpinning BEFU 2025 final tax forecasts

The Treasury's HYEFU 2024 and BEFU 2025 forecast macroeconomic indicators	2024/25	2025/26	2026/27	2027/28	2028/29
Nominal GDP expenditure measure (annual growth - June years)					
HYEFU 2024	3.4%	5.4%	5.0%	4.7%	4.5%
BEFU 2025	3.5%	4.9%	4.7%	4.8%	4.6%
Net operating surplus (annual growth - March years)					
HYEFU 2024	3.7%	12.1%	7.6%	5.9%	5.5%
BEFU 2025	-0.3%	10.4%	6.4%	6.1%	5.7%
Compensation of employees (annual growth - June years)					
HYEFU 2024	1.8%	3.2%	4.7%	4.6%	4.4%
BEFU 2025	2.0%	3.6%	4.3%	4.5%	4.4%
Nominal consumption (annual growth - June years)					
HYEFU 2024	2.4%	4.0%	4.3%	4.2%	4.2%
BEFU 2025	2.5%	3.1%	4.1%	4.3%	4.1%
90-day bank bills (levels - March year averages)					
HYEFU 2024	4.88%	3.33%	2.95%	2.90%	2.90%
BEFU 2025	4.78%	3.30%	2.80%	2.60%	2.60%
Residential investment (annual growth- June years)					
HYEFU 2024	-7.4%	7.4%	7.1%	5.8%	5.1%
BEFU 2025	-9.6%	4.7%	9.7%	8.9%	7.3%

Accounting change since HYEFU 2024 and update to previously booked costing

26. The accounting policy for the recognition of revenue has changed and will impact the 2024/25 fiscal year onwards. Tax revenue measurement involves estimation for periods not yet filed. All estimates are later replaced with actual information once returns are filed. In the interim, the estimates are generally based on prior information, such as tax returns from a prior period.

27. In the case of tax policy changes, the older tax returns used for estimation will not contain the change. A consequence is that system-based estimates for the first period of any change will not record that change until the first wave of affected tax returns also arrives. When they do, as well as correcting the first-year system estimate, the lagged tax returns are additionally used to produce system estimates for the second period. This creates a "lag-one-then-double-up" pattern for recognising tax policy changes that crosses fiscal years for returns filed annually.

28. The accounting change from 2024/25 introduces manual (and aggregate) accruals for income tax policy changes, allowing earlier recognition of the change in tax outturns. The accruals are progressively backed out as the first year of tax returns arrive and system-based-estimation takes over. Several past policy changes previously picked up in baseline tax forecasts to a lagged pattern have been

adjusted in the BEFU 2025 forecasts to reflect the new accounting approach. These adjustments are shown in Table 3.

29. In addition, the commercial and industrial building depreciation costing has been updated to reflect new information arising from a data request to Statistics New Zealand. The new information had the impact of reducing the assumed proportion of such buildings included in the tax base, reducing the estimated fiscal gain.

Table 3: Changes to previously booked policies, reflecting accounting change and one costing update

	$m – increase/(decrease)				
Vote Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & outyears**
Removal of depreciation on commercial and industrial buildings	546.0	(637.0)	(86.0)	(82.0)	(78.0)
Personal tax threshold changes of 31 July, component impacting on "other persons" tax type	(295.0)	335.0	(2.0)	(3.0)	(13.0)
Trustee tax rate	414.0	(408.0)	-	-	-
Total adjustment to previous policies	**665.0**	**(710.0)**	**(88.0)**	**(85.0)**	**(91.0)**

Tax policy changes since HYEFU 2024

30. These updated forecasts incorporate policy decisions since HYEFU 2024 up to and including 14 April 2025. Amounts shown in Table 4 on the following page in italics were also included in the preliminary tax forecasts reported on 25 February 2025.

Table 4: Tax policy[7] changes since HYEFU 2024

	$m – increase/(decrease)				
Vote Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & outyears**
Le Quesnoy – permanent schedule 32 status	*-*	*-*	*(0.3)*	*(0.3)*	*(0.3)*
Use of money interest rates[8] reduction effective 16 January 2025	*3.6*	*8.0*	*8.0*	*8.0*	*8.0*
Agreed amendments[9] for the Emergency Response Bill	*(0.7)*	*0.8*	*0.8*	*0.8*	*0.8*
Subtotal – policy changes for preliminary BEFU 2025 tax forecasts	***2.9***	***8.8***	***8.5***	***8.5***	***8.5***
Digital services tax	-	-	(194.0)	(139.0)	(146.0)
Platform economy – base maintenance	0.2	0.2	0.2	0.2	0.2
FBT prescribed rate of interest from 1 April 2025	(0.5)	(2.0)	(2.0)	(2.0)	(2.0)
Use of money interest rates[10] reduction from 8 May 2025	(5.2)	(35.0)	(35.0)	(35.0)	(35.0)
Investment Boost[11]	(208.0)	(1,830.2)	(1,611.3)	(1,714.3)	(1,278.3)
KiwiSaver changes – impact on ESCT[12] and income tax	-	20.9	102.6	156.5	255.4
Employee share schemes taxing date	-	(0.9)	(3.0)	(3.0)	(3.0)
Inland Revenue additional compliance funding[13]	-	106.0	212.0	212.0	212.0
Subtotal – policy and funding changes between preliminary and final BEFU 2025 tax forecasts	**(213.5)**	**(1,741.0)**	**(1,530.5)**	**(1,524.6)**	**(996.7)**
Total – policy and funding changes since HYEFU 2024 affecting tax forecasts	**(210.6)**	**(1,732.2)**	**(1,522.0)**	**(1,516.1)**	**(988.2)**

[7] Also includes Budget 2025 decisions on Inland Revenue administrative funding that impact tax revenue.
[8] There is also a reduction in impairment expense of $1.3m per annum.
[9] Amendments agreed by joint Ministers relate to proposed changes during FEC consideration of the Taxation (Annual Rates for 2024-25, Emergency Response, and Remedial Measures) Bill and cover a range of topics. The largest revenue positive item is a remedial change to ensure the platform economy flat rate credit does not go to GST-registered taxpayers. None of the other five topics exceed +/- $0.2m per year.
[10] There is also a reduction in impairment expense of $41.1m per annum.
[11] Includes a consequential impact on R&D tax credit claims.
[12] ESCT is employer superannuation contributions tax.
[13] The table shows compliance funding. In Budget 2025 Inland Revenue also received a permanent replacement of previous time-limited funding that was otherwise due to expire on 30 June 2025. The revenue associated with this funding, if foregone, was -$150m per annum, or -$600m across the forecast period.

Risks and ongoing uncertainties

31. Uncertainty remains on the timing and strength of recovery in income and consumption taxes from the current softness. There is significant uncertainty in this area.

32. Portfolio investment entities (PIEs) are also an increasingly important tax base, primarily due to ongoing growth in KiwiSaver funds under management. PIE taxation was significantly above forecast in the 2023/24 fiscal year, but returns on investment are volatile and return-on-investment swings, which can be rapid, add risk to the company tax forecasts. Most PIE taxation arrives annually, in April.

33. A key policy change for Budget 2025 is Investment Boost, which could change the timing of investment flows.

34. Dividend payments usually peak in April following a March declaration. Last year had unusually high dividends declared in advance of the 39% trustee tax rate taking effect. It is still unclear what impact last year's surge will have on dividend flows in the current and subsequent years. It could emerge that the current year is abnormally low in dividend flows, and it may take another year, or more, for a "new normal" to be established.

Consultation

35. The Treasury have been consulted on this report. The Treasury reported its preliminary forecasts to the Minister of Finance on 16 April.

Next steps

36. Budget 2025 is scheduled for release on 22 May 2025.

37. Tax results for March 2025 will continue to be reported against the earlier HYEFU 2024 forecasts. Results for March will be reported to you on 29 April 2025. April results, which will contain some once-per-year activity,[14] will be reported against these final Budget 2025 forecasts.

[14] Dividend flows, and taxation of PIEs both have significant peaks in April. Moreover, larger corporate tax returns for the prior year (in this case 2023-24) also tend to be filed in the last week of March or early April and are often not available in time to inform Budget forecasts. These lagged, but large, tax returns have the potential to significantly alter year-to-date results for income tax revenue because they both replace 2023-24 estimations with "actuals", and simultaneously update existing 2024-25 (and part of 2025-26) estimations.

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Briefing note

Reference: BN2025/084

Date: 28/02/2025

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy
Revenue Advisor, Minister of Finance – Emma Grigg

From: Thomas McKay

Subject: **Briefing note on Investment Boost and a comparison between the preferred option and a company tax rate cut**

Purpose

1. This briefing note provides a comparison between Investment Boost and a company tax rate cut. Investment Boost is currently under budget consideration (we attach previous advice IR2024/361, TSY2024/2360 and IR2024/418, TSY2024/2674).

2. This note was requested by the Minister of Finance's office to aid Ministers' decision making for upcoming Budget meetings.

3. Investment Boost is a partial expensing regime aimed at increasing capital investment and capital intensity. It would allow businesses to immediately expense a portion of new capital investments, lowering their taxable income immediately. This reduces tax paid for new investments and will incentivise greater investment. Officials recommend that Investment Boost be available for a broad base of assets, consistent with New Zealand's broad-base low-rate approach.

4. Investment Boost is currently the preferred policy being advanced, in particular over a reduction in the company tax rate. This is because of the higher investment impact per dollar of fiscal cost, and the relatively lower integrity risks incentives. Both policies aim to reduce the marginal tax rate for foreign investment, but Investment Boost has greater benefits with fewer drawbacks.

Investment Impact per Dollar of Revenue Forgone

New vs. Existing Investments

5. Compared to a cut in the company rate, Investment Boost is more effective in directing the reduction in tax towards new investments, thereby increasing the after-tax return specifically for new capital formation. Lowering taxes on existing investments gives up significant revenue without any investment impact. Investment Boost only allows partial expensing on new assets. This is a targeted approach that means fiscal resources are used efficiently to stimulate new investments, rather than providing windfall gains to existing investors. In contrast, a reduction in the company tax rate benefits both new and existing investments, leading to a higher fiscal cost without necessarily increasing new investment.

Treatment of Economic Rents

6. Investment Boost continues to tax economic rents (returns in excess of the minimum required for investment) whereas a reduction in the company tax rate would not.

7. Consider an example of a company that invests $1 million and generates $10 million in revenue, resulting in a $9 million profit. We would describe this as an economic rent, because the revenue is far in excess what would be required to incentivise the investment. With partial expensing, the company can accelerate deductions for a portion of the $1 million investment, leading to a small tax revenue loss for the government. In contrast, a company tax rate reduction lowers the tax on the entire $9 million profit, resulting in a larger tax revenue loss. Thus, partial expensing is more efficient as it targets the initial investment cost without significantly affecting the substantial profits.

Integrity Risks

8. Investment Boost maintains the integrity of the tax system by not widening the gap between the top individual tax rate and the company tax rate. This avoids exacerbating integrity issues related to income sheltering, where individuals might otherwise shift personal income into companies to benefit from lower tax rates. In contrast, a reduction in the company tax rate could reduce the integrity of the personal income tax system unless accompanied by higher taxes at the shareholder level. This is because it increases the benefits of sheltering personal income in companies, potentially leading to greater tax avoidance.

Other options

9. Investment Boost is a partial expensing regime that allows a larger deduction in the year an investment is acquired. A similar policy is depreciation loading which increases the value of annual depreciation deductions. These policies are similar, and both are a form of accelerated depreciation. An advantage of Investment Boost (PE) over depreciation loading is it can be applied to assets that are not subject to tax depreciation (such as non-residential buildings). Further, PE will tend to benefit longer-lived assets more than loading does which may be desirable if the goal is to increase long run capital stock.

10. Other than Investment Boost or reducing the company tax rate, Inland Revenue's 2022 Long-term insights briefing[1] looked at:

    - Indexation of the tax base for inflation (that is, only taxing real returns)
    - Changing thin capitalisation rules (rules that govern the amount of interest deductions allowed for highly leveraged foreign investment into New Zealand). There is a current item of the Tax and Social Policy Work Programme looking at the thin cap rules.
    - Introducing an allowance for corporate equity (a deemed deduction for equity invested in New Zealand similar to current interest deductions). A challenge with this option is that it may not integrate well with a personal income tax which is aimed at taxing income comprehensively.
    - Introducing incentives for specific businesses or industries.
    - Developing a dual income tax system that lowers the corporate rate and taxation of normal returns while maintaining higher taxes on labour income and economic rents. This would be a significant system change that could not be implemented in the short term.

[1] Tax, foreign investment and productivity – long-term insights briefing

11. Of the options looked at in the LTIB, the most promising options that are able to be progressed quickly are reducing the company tax rate or an accelerated depreciation measure like Investment Boost noting that work on thin capitalisation rules is already occurring.

Conclusion

12. Investment Boost is favoured over a reduction in the company tax rate due to its targeted approach, fiscal efficiency, and minimal impact on tax system integrity. While both policies have their merits, Investment Boost offers a more effectively increases productivity and investment per dollar of fiscal cost, without the drawbacks associated with a company tax rate reduction.

Consultation with the Treasury

13. The Treasury was consulted on this briefing note.

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Briefing note

Reference: BN2025/151

Date: 3 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Adam Carter, Senior Policy Advisor

Subject: Previous depreciation loading regime

Purpose

1. This briefing responds to the Minister of Finance's request for more information on the former depreciation loading regime and on the depreciation rate applying to international aircraft.

Transition to new depreciation regime

2. Following the Valabh Committee's comprehensive review of the tax system in the late 1980s, the New Zealand Government decided to transition to a new depreciation regime where rates were set by following more robust criteria set out in legislation. The reforms were intended to ensure that depreciation rates more closely mirrored an assets actual decline in economic value.

3. There was a significant transition period to minimise uncertainty for businesses and allow new rules to be created. From the 1991 to 1993 income year, businesses continued to use the old rates. From the 1993 to 1996 income year businesses had the choice between using the old rates or the new economic rates. Most new investments during this period could also access a 25% depreciation loading.

Depreciation regime based on economic rates

4. From 1996, businesses had to use the new economic rates. Most new investments could also access 20% depreciation loading. 20% loading means that rather than depreciating an asset at 10% each year, for example, the asset can be depreciated at 12% each year. The 20% loading was intended to be permanent and was set so that New Zealand tax settings remained internationally competitive (particularly in relation to Australia). The 20% loading was broad-based but excluded the following assets:

   - Buildings (residential and non-residential). These were excluded because the rate for buildings had already been significantly increased to 4% Diminishing Value (DV) (previously 1 or 2% Straight Line (SL)). The Government excluded these assets to manage the fiscal cost.

- Imported second-hand motor vehicles. This exclusion was likely for political reasons.
- Fixed-life intangible property. These assets were required to be depreciated on a straight-line basis over the legal life of the asset for anti-avoidance purposes.
- International aircraft (discussed below)

5. Assets previously used in New Zealand as depreciable property were also excluded. It was considered that trading in these assets did not add to the productive capacity of New Zealand; it just changed their ownership.

6. A major review of depreciation was conducted by Inland Revenue in 2004. This resulted in several changes intended to better align the tax depreciation rates for machinery and equipment with their economic decline in value. Building depreciation was also reduced from 4% DV to 3% DV.

Removal of depreciation loading in 2010

7. In 2010, the Victoria University Tax Working Group recommended the removal of depreciation loading. The key reason for removing loading was to align depreciation rates on assets to more closely to their economic lives, increasing the neutrality of the tax system. Officials from Inland Revenue and the Treasury supported the removal at the time.[1] The removal was part of a package of changes used to fund a reduction in personal income tax rates. Building depreciation was first set to 0% as part of these reforms.

Differences between depreciation loading and Investment Boost

8. Depreciation loading and partial expensing ("Investment Boost") are very similar policies. They both increase the present value of depreciation deductions, reducing the cost of capital, and making foreign investment more attractive. Some key differences are:

   - Investment Boost benefits depreciable assets that have a depreciation rate of 0% (i.e., buildings) whereas depreciation loading does not benefit these assets.
   - Investment Boost provides a large deduction in the first year an asset is acquired whereas depreciation loading spreads the faster deductions over a longer period of time.
   - Investment Boost tends to provide a slightly larger benefit to longer-lived assets relative to depreciation loading which provides a slightly larger benefit to shorter-lived assets.

International passenger aircraft

9. The Minister of Finance has also asked for some more advice on the depreciation rate of international aircraft. We have collated the following information.

10. International passenger aircraft have a statutory depreciation rate of 15% diminishing value (DV) and 10% straight-line (SL). The depreciation rate for international aircraft has not changed since it was set in 1993. As part of the transition to the new depreciation regime, the Government at the time had proposed that the depreciation rate for international aircraft be decreased from 25% to 6% (or 7.2% with loading) based on their estimated useful life. The airline industry requested the Government provide a more generous rate and expressed

[1] Accelerated depreciation has always been a finely balanced issue involving a trade-off between neutrality, revenue sufficiency and attracting foreign investment. The 2010 changes were driven by:
- Pressure to fund changes to personal income tax rates, particularly lowering the top marginal rate
- Some modelling suggesting NZ had comparatively low EMTRs

Since then, there has been increasing international trends to reduce EMTRs on foreign investment. There has also been more sophisticated modelling from OECD (and extended in last LTIB) that New Zealand has high EMTRs.

concerns that the proposed 6% rate would make the New Zealand airline industry uncompetitive. As a result of this, the 15% DV and 10% SL rates were agreed. Depreciation loading was denied for international aircraft on the basis that they received this more generous statutory concession.

11. Domestic passenger aircraft in New Zealand have a lower statutory depreciation rate of 10% DV and 7% SL. Standard accounting treatment of aircraft also suggests that aircraft depreciate at a rate closer to that used for domestic aircraft than international aircraft.

12. However, it is common for countries to provide concessionary tax treatment for aircraft. For example, the DV rate for general aircraft in Australia is even higher than New Zealand at 20% DV.[2] The rate in Singapore is more generous again.

13. International aircraft are depreciable property and will be eligible for Investment Boost. We have estimated that international aircraft would be no worse off than they are currently if they are eligible for Investment Boost and the depreciation rate is reduced from 15% DV to 11% DV. Grandfathering provisions for existing stock would need to be considered.

Consultation with the Treasury

14. The Treasury was informed about this briefing note.

Adam Carter
Senior Policy Advisor, Inland Revenue
s 9(2)(a)

[2] Like New Zealand, this rate is set in legislation and overrides the ATO prior determination that the DV rate is 10%.

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Briefing note

Reference: BN2025/168

Date: 16 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Thomas McKay

Subject: **Dual effects of Investment Boost and KiwiSaver changes on businesses**

Background

1. The Minister of Finance has asked for examples of the net effect of two budget items on businesses, being Investment Boost and increased KiwiSaver employer contributions. Investment Boost allows businesses to immediately expense 20% of the cost of qualifying capital assets, reducing taxable income in the year of purchase. KiwiSaver employer contributions are increasing from 3% to 3.5% on 1 April 2026 and to 4% on 1 April 2028 (ref IR2025/125).

2. This briefing note gives a simple example of the two effects on a business with eight employees. The example is illustrative; a key caveat is that the combined effect will differ substantially across different types of businesses and, as Investment Boost only applies when new capital expenditure is undertaken, can differ from year to year for a given business. This means the combined impact will be situation specific.

3. There are many factors which may affect the cost and benefits of each policy to businesses. KiwiSaver contributions may be offset by lower wage growth which will lower their cost over time. Additionally, firms in loss or that do not invest in eligible capital assets will not see immediate cash flow benefit from Investment Boost.

Example 1

4. A building company has 8 employees, all of whom have salaries of $80,000. Assume that all 8 employees increase their personal KiwiSaver contribution up to the maximum matching level. The increase of KiwiSaver will require the employer to initially contribute an additional $400 per worker for a total additional cost of $3,200. From 2028/2029 the employer will need to contribute an additional $800 per worker for a total additional cost of $6,400. However, these additional wages also lower the taxable income of the company reducing the net cost to the business.

Table 1: Additional costs due to KiwiSaver over a 5-year period

Year	Additional cost ($)	Cash flow cost to business ($)
2026-2027	-3200	-2304
2027-2028	-3200	-2304
2028-2029	-6400	-4608
2029-2030	-6400	-4608
2030-2031	-6400	-4608

5. Suppose the company has a fleet of vans, specialist tools and scaffolding which are depreciable property. The company renews this capital by spending $100,000 per year replacing these assets. These new capital assets all qualify for Investment Boost. Assume that the weighted average depreciation rate is 20% (diminishing value) for these investments. Investment Boost reduces the tax paid in the following way.

Table 2: Additional tax deductions due to Investment Boost (IB) over a 5-year period

Year	Additional deductions due to new IB investment	Reduced deductions due to previous IB investment	Net deductions due to IB ($)	Cash flow value of net deductions ($)
2026-2027	16000	-0	16000	4480
2027-2028	16000	-3200	12800	3584
2028-2029	16000	-5760	10240	2867
2029-2030	16000	-7808	8192	2294
2030-2031	16000	-9446	6554	1835

6. The additional deductions due to IB reduce over time as you increase deductions in year one of a new asset but lower the deductions for following years. A single investment of $100,000 gives additional deduction of $16,000 in year 1 of the asset's life, but reduces deductions in years 2-5 by $3,200, $2,560, $2,048 and $1,638 respectively. This is why the deductions fall from $16,000 in 2026-2027 to $6,554 in 2030-2031.

7. The combined effect of the policies would then be the following.

Table 3: Net effect of IB and KiwiSaver changes over a 5-year period

Year	Effect of KiwiSaver ($)	Effect of IB ($)	Net effect ($)
2026-2027	-2304	4480	2176
2027-2028	-2304	3584	1280
2028-2029	-4608	2867	-1741
2029-2030	-4608	2294	-2314
2030-2031	-4608	1835	-2773

8. In this example, IB fully offsets the cost in the first year two years but only partially offsets after that. This means that the example business can address potential cashflow issues and offset the unexpected costs of the KiwiSaver contribution changes with increased IB deductions.

9. However, the net effects of the two policies will vary from company to company and are dependent on several factors discussed below.

Example 2

10. IB benefits are tied to the timing of new capital investments. In example 1 the business invests in $100,000 of new capital each year. If instead the business were to only invest $100,000 in 2028-2029 and make no investments in subsequent years, then this would have the following impact.

Table 4: Net effect of IB and KiwiSaver changes over a 5-year period when only investing 100,000 in 2028-2029

Year	Effect of KiwiSaver ($)	Effect of IB ($)	Net effect ($)
2026-2027	-2304	0	-2304
2027-2028	-2304	0	-2304
2028-2029	-4608	4480	-128
2029-2030	-4608	-896	-5504
2030-2031	-4608	-717	-5325

11. In example 2, IB has no effect in 2027-2027 and 2027-2028 as there is no capital investment in those years. In 2028-2029 it partially offsets the cost of KiwiSaver changes. However, from 2030 onwards IB has a negative effect on cashflow because the depreciation deductions that would have been available have been reduced.

Additional factors

12. The examples assume that the increase in KiwiSaver contribution is borne by the employer, although there is uncertainty about the incidence of this cost. Initially employers may bear the cost, however over time this would likely be offset by a commensurate decrease in wage growth due to increased employer contributions to KiwiSaver.

13. The examples use a building company with a mix of employees and capital expenditure. Different types of businesses use different amounts of labour and capital expenditure. In particular;

    a. The more capital intensive the firm, i.e. the more capital expenditure the firm spends per year, the greater the tax reduction from Investment Boost.

    b. The higher the total salary that employers payout, the larger the cost of additional KiwiSaver contributions.

14. Each business's mix of these two will determine the net effect of the two policies on their cost.

15. The effect of Investment Boost also depends on the business acquiring qualifying assets. If they were to buy ineligible assets, then they would not gain the benefits of Investment Boost. This may be particularly likely for some small businesses who acquire second-hand capital assets (i.e., large businesses will often upgrade capital assets creating a secondary market for second-hand capital assets).

16. Businesses in loss pay no company tax in that year, so if the company in the example above was in loss they would have an additional $6,400 in costs with no

cashflow benefit in that year. These businesses will be able to carry forward their tax deductions to offset taxable income in future years.

17. Investment Boost is primarily a timing advantage to businesses, it allows larger deductions in early years and lower deductions in later years. The actual benefit to a given business depends on the discount rate they are using i.e., the value of deferring $1 of tax.

Consultation with the Treasury

The Treasury was informed about this briefing note.

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Briefing note

Reference: BN2025/195

Date: 23 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Eleanor Ward

Subject: **Addendum to BN2025/168**

As discussed, please find attached further detail on Table 2 in BN2025/168.

This example used a depreciation rate of 20% and asset values of $100,000, as per BN

Single Asset example					
Investment Boost	Year 1	Year 2	Year 3	Year 4	Year 5
Yearly deductions for a $100,000 asset	36000	12800	10240	8192	6554
Tax effect at 28% of deduction (cash flow benefit)	10080	3584	2867	2294	1835
Status quo					
Yearly deductions for a $100,000 asset	20000	16000	12800	10240	8192
Tax effect at 28% of deduction (cash flow benefit)	5600	4480	3584	2867	2294
Difference between PE and the status quo					
Difference in the yearly deductions for a single asset	16000	-3200	-2560	-2048	-1638
Difference in the tax effect	4480	-896	-717	-573	-459

Multi year multi asset example					
Difference in tax effects for yearly purchases of $100,000 asset					
	Year 1	Year 2	Year 3	Year 4	Year 5
Year 1 asset purchase	4480	-896	-717	-573	-459
Year 2 asset purchase		4480	-896	-717	-573
Year 3 asset purchase			4480	-896	-717
Year 4 asset purchase				4480	-896
Year 5 asset purchase					4480
Tax foregone due to Investment Boost per year	4480	3584	2867	2294	1835

Consultation with the Treasury

The Treasury was informed about this briefing note.

Elly Ward
Principal policy advisor
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[IN CONFIDENCE]

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Briefing note

Reference: BN2025/222

Date: 8 May 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Paul Young

Subject: Budget Sensitive - Treatment of assets under construction

Assets under construction as at 22 May 2025

1. This briefing note is intended to ensure that the way that Investment Boost would apply where assets are under construction on 22 May 2025 is clearly understood.

2. Investment Boost deductions will be available for assets which become available for use on or after 22 May 2025. Some assets that are constructed may have had a smaller or larger proportion of their expenditure occur prior to 22 May 2025 but because they are not available for use until after 22 May 2025, they will be eligible for Investment Boost. This is consistent with the costing of the policy that has been prepared for the Budget.

3. One widely known example of this is likely to be the IKEA store that is expected to open in Auckland in late 2025. Construction of the store is well underway and as it is a commercial building they would be entitled to Investment Boost based on the full cost of the store when the store becomes available for use.

4. This treatment of assets under construction is consistent with the treatment that those assets would have under the depreciation regime. Where assets are under construction but are not complete, they are not yet able to be depreciated or be eligible for an Investment Boost deduction. Once they have been completed and become available for use these deductions will be available.

Consultation with the Treasury

5. The Treasury was informed about this briefing note.

Paul Young
Acting Policy Lead
s 9(2)(a)

POLICY

Tax policy report: Considering a KiwiSaver switch as part of Budget 2025

Date:	31 October 2024	**Priority:**	Medium
Security level:	Sensitive - Budget	**Report number:**	IR2024/428

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Note** the contents of this report **Agree** to recommendations	14 November 2024
Minister of Finance	**Note** the contents of this report **Agree** to recommendations	14 November 2024

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Carolyn Elliott	Policy Lead	s 9(2)(a)
Joshua Fowler	Senior Policy Analyst	s 9(2)(a)
Ella Patterson	Policy Analyst	

31 October 2024

Minister of Finance
Minister of Revenue

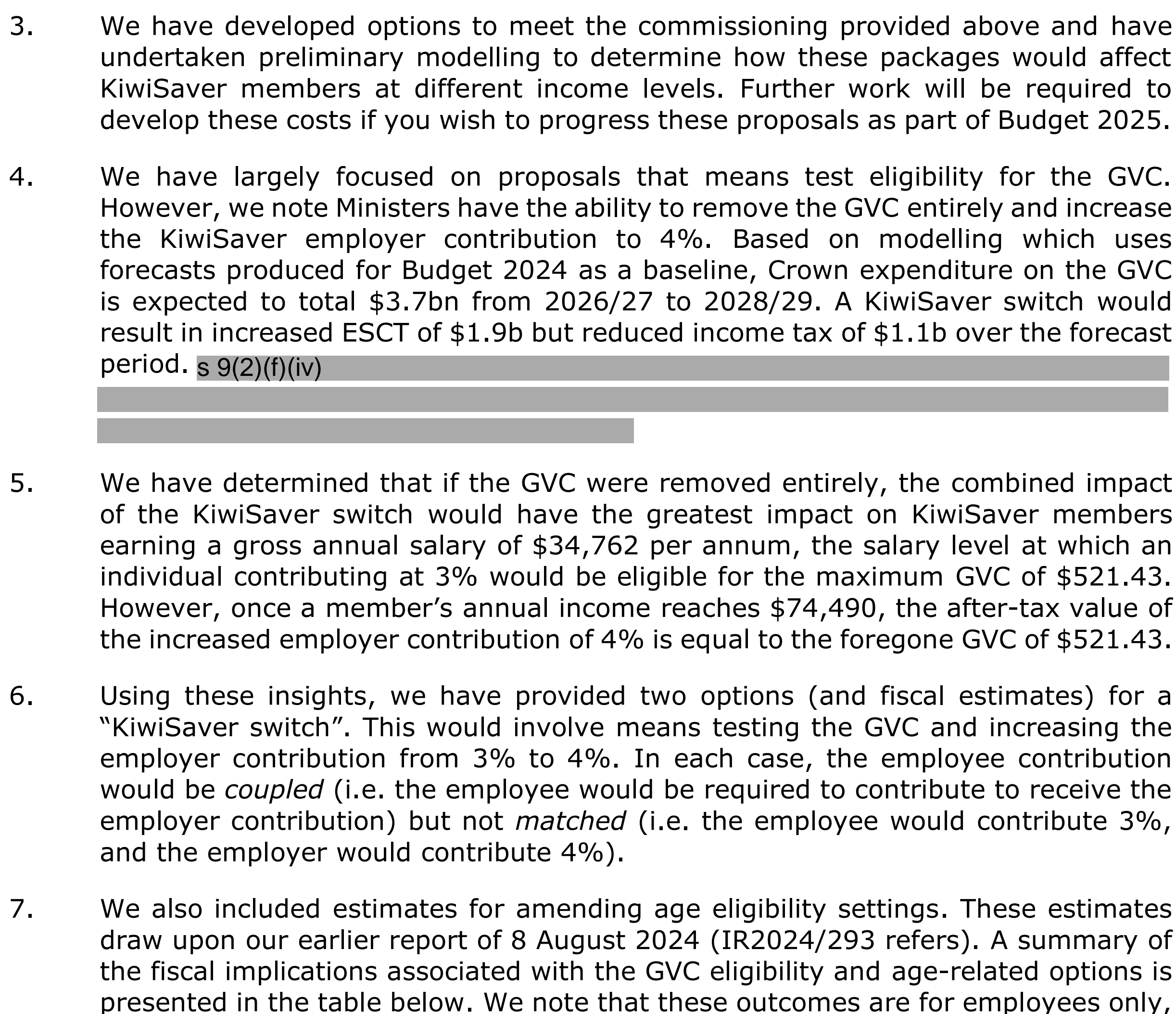
Considering a KiwiSaver switch as part of Budget 2025

Purpose

1. As part of Tax and Social Policy Work Programme discussions, Ministers commissioned advice on increasing the minimum KiwiSaver employer contribution from 3% to 4% and amending the government KiwiSaver contribution ("GVC") as a KiwiSaver switch. The Minister of Revenue also expressed interest in amending the age eligibility settings for particular KiwiSaver incentives.

2. This report provides analysis and preliminary estimates of fiscal savings associated with the options for carrying out a KiwiSaver switch. We have also provided a summary of previous advice on enhancing wider KiwiSaver settings, such as changing the age-based eligibility for particular KiwiSaver incentives.

KiwiSaver "switch" and age eligibility settings



3. We have developed options to meet the commissioning provided above and have undertaken preliminary modelling to determine how these packages would affect KiwiSaver members at different income levels. Further work will be required to develop these costs if you wish to progress these proposals as part of Budget 2025.

4. We have largely focused on proposals that means test eligibility for the GVC. However, we note Ministers have the ability to remove the GVC entirely and increase the KiwiSaver employer contribution to 4%. Based on modelling which uses forecasts produced for Budget 2024 as a baseline, Crown expenditure on the GVC is expected to total $3.7bn from 2026/27 to 2028/29. A KiwiSaver switch would result in increased ESCT of $1.9b but reduced income tax of $1.1b over the forecast period. s 9(2)(f)(iv)

5. We have determined that if the GVC were removed entirely, the combined impact of the KiwiSaver switch would have the greatest impact on KiwiSaver members earning a gross annual salary of $34,762 per annum, the salary level at which an individual contributing at 3% would be eligible for the maximum GVC of $521.43. However, once a member's annual income reaches $74,490, the after-tax value of the increased employer contribution of 4% is equal to the foregone GVC of $521.43.

6. Using these insights, we have provided two options (and fiscal estimates) for a "KiwiSaver switch". This would involve means testing the GVC and increasing the employer contribution from 3% to 4%. In each case, the employee contribution would be *coupled* (i.e. the employee would be required to contribute to receive the employer contribution) but not *matched* (i.e. the employee would contribute 3%, and the employer would contribute 4%).

7. We also included estimates for amending age eligibility settings. These estimates draw upon our earlier report of 8 August 2024 (IR2024/293 refers). A summary of the fiscal implications associated with the GVC eligibility and age-related options is presented in the table below. We note that these outcomes are for employees only,

and those with some form of mixed types of income and those who are self-employed could be made worse off by the "switch" options, below.

Option	Employer contribution	GVC eligibility	Crown savings	Impact on KiwiSaver accounts[1]
Option 1: In/Out eligibility for GVC	4%	Retain for members earning <$74,490	s 9(2)(f)(iv)	Members earning ≤$74,490 better off; those earning ≥ $74,490 as well off or better off
Option 2: Abating Eligibility for GVC	4%	Retain for members earning <$34,762, Decreases for incomes $34,762 - $74,490, No GVC for incomes above		Members earning ≤ $34,762 better off; those earning $34,762 - $74,490 no worse off; those earning ≥ $74,490 as well or better off
Extending eligibility for employer contributions to age 70	3%	No GVC extension[2]		Improves financial support for older members
Extending eligibility for employer contributions and GVC to ages 16-17	3%	Include those aged 16-17	Increase costs by $36m (GVC only) or $48m (GVC + employer contributions) over forecast period	Improves financial support for younger members

Discussion

8. Other impacts which we could provide further advice on include:

   8.1 *Self-employed members:* Those self-employed members who no longer qualify for the GVC would not receive an increased employer contribution to compensate for the reduction in the GVC.

   8.2 *Members on total remuneration contracts:* While the increase in employer contributions will ensure that members on a total remuneration contract will not be worse off in terms of contributions to their KiwiSaver balance, this increase will reduce their "take home" pay.

   8.3 *Alignment of minimum contribution rates:* Increasing the employer contribution to 4% while retaining the employee contribution at 3% would produce a mismatch between employer and employee contributions, which are currently identical. This "match" in contribution rates has been a longstanding feature of KiwiSaver and reflects the simplicity of the scheme's design.

Economic impacts

9. In the short term, we anticipate that the economic impacts of a KiwiSaver switch could include increased labour costs and reduced profitability for firms due to the flow on effect of increasing the employer KiwiSaver contribution. In the long term,

[1] Note that this is solely focused on KiwiSaver balances. If (as we expect), total compensation to employees does not change over the long run, it will reduce other savings or current consumption. As such, it is not a measure of whether employees are better off overall.
[2] Note that because there are no KiwiSaver withdrawal restrictions to those aged 65 and over, if the GVC was extended it would be similar to a welfare payment that can be spent at any time.

we would expect the economic cost (or “incidence”) of the higher employer contributions to mostly fall on employees through slower wage growth.

10. The KiwiSaver switch options are expected to impact savings incentives. While the impact will vary according to the option chosen, most evidence suggests the options in this report are unlikely to significantly impact the level or rate of saving in New Zealand. We would expect that change in the level of saving could impact the level of investment, but this impact would likely be small. This is because New Zealand is a small, open economy and so any change in domestic savings is likely to be offset by an change in foreign investment.

Administrative implications

11. We estimate the administrative impacts of means testing the GVC as extra-large and increasing the employer contribution rate as small. Inland Revenue would expect to seek funding for implementation of any Budget 2025 initiatives progressed as the department has no capacity to partially-fund or fully-fund such Budget 2025 initiatives without directly impacting service delivery, tax revenue, debt or system change, and maintenance capacity.

12. An implementation challenge arises from the misalignment between the period of assessment for the GVC and the period of assessment for income tax purposes. Eligibility for the GVC is determined according to the year ended 30 June, while income is taxed on a year ended 31 March basis. Additionally, the employer contribution rate is set according to employer information provided by Inland Revenue to software providers six months in advance of the beginning of an income tax year.

13. In our view, the most viable options for implementing the changes would be to bring them into effect on the following dates:

    13.1 *Employer contribution rate:* The employer contribution rate could be increased from 1 April 2026. This would give employers and payroll providers (who usually require six months’ notice of a change) sufficient time to integrate the change.

    13.2 *GVC means testing:* The means testing of the GVC could be introduced from 1 July 2026. This would apply to the GVC accrued over the 2026/27 fiscal year and affect the amount credited to KiwiSaver members in July 2027.

Conclusion

14. Overall, we consider that means testing eligibility for the GVC would represent an improvement on the status quo and recommend Ministers consider these options. Of the two options discussed in this report, we would recommend Option 1 for its relative simplicity and greater ease of implementation. We would also recommend any change to GVC eligibility be applied beginning or after the 2026/2027 entitlement year.

Next steps

15. The next step is for Ministers to advise if any of the proposals in this report should be developed further for potential inclusion in Budget 2025.

Recommended action

We recommend that you:		Minister of Finance	Minister of Revenue
16.	**Indicate** which KiwiSaver switch option you wish to develop for potential inclusion in Budget 2025:	Indicate	Indicate
	a) **Option 1:** Retain GVC eligibility for members earning up to $74,490 per annum. Increase the employer contribution to 4% (recommended).		
	b) **Option 2:** Retain GVC eligibility for members earning less than $34,762, while abating the GVC for members earning between $34,762 - $74,490. Members earning $74,490 and over would not receive any amount of GVC. Increase the employer contribution to 4%.		
17.	**Indicate** which, if any, of the following age-related options you wish to develop and progress for potential inclusion in Budget 2025:	Indicate	Indicate
	a) Extend auto enrolment to first paid employment for those aged 16 and 17.		
	b) Expand eligibility for compulsory employer contributions for those aged 16 and 17.		
	c) Extend eligibility for the GVC for those aged 16 and 17.		
	d) Extend the ceiling for compulsory employer contributions to 70.		
18.	**Indicate** if you wish to receive further advice on any of the other matters discussed in this report or our report of 8 August 2024 (IR2024/293 refers), including total remuneration contracts, impacts on the self-employed and/or increasing the employee contribution.	Indicate	Indicate
19.	**Note** that, if you wish to progress the KiwiSaver switch, we recommend implementing changes beginning or after the 2026/2027 year.	Noted	Noted
20.	**Refer** a copy of this report to the Minister of Commerce and Consumer Affairs for their information.		Referred /not referred

s 9(2)(a)

Carolyn Elliott
Policy Lead
Policy

Hon Nicola Willis
Minister of Finance
/ /2024

Hon Simon Watts
Minister of Revenue
/ /2024

Purpose

21. On 8 August 2024 (IR2024/293 refers) we provided you with a report on a fiscally neutral package of KiwiSaver policy initiatives. Following Tax and Social Policy Work Programme discussions, you asked for further advice on developing a "KiwiSaver switch".

22. We have developed proposals which would increase the minimum KiwiSaver employer contribution from 3% to 4%, alongside a reduction in the government KiwiSaver contribution (GVC). Where the impact of the increased employer KiwiSaver contribution does not offset the reduction in the GVC, we have assumed a member would remain eligible for some amount of the GVC. The KiwiSaver employee contribution would be kept unchanged at 3%, resulting in a mismatch in the contributions of employers and employees (which are currently both 3%).

23. This report provides two options for carrying out a "KiwiSaver switch" along with an analysis of these options. Preliminary fiscal estimates have also been provided to offer an indication of the likely savings associated with each option. Appendix 1 contains a timeline for the possible implementation of the KiwiSaver switch.

24. We have also incorporated options for enhancing wider KiwiSaver settings, such as considering the age eligibility for key KiwiSaver incentives as covered in our report of 8 August 2024 (IR2023/293 refers). Appendix 2 includes detailed costings for these options, as contained in previous advice.

Background and the objectives of KiwiSaver

25. KiwiSaver is a work-based retirement savings scheme intended to encourage savings and asset accumulation, support financial independence in retirement and facilitate private savings through the workplace (IR2024/236 and IR2024/293 refer). KiwiSaver is designed to assist individuals who are not able to enjoy standards of living in retirement similar to those in pre-retirement.

26. A strength of the scheme lies in the simplicity of its settings, which is well understood by members. Members who contribute a minimum of 3% of their gross salary or wages are eligible for a matching 3% contribution from their employers.

Government contribution

27. KiwiSaver members are eligible for a maximum GVC of $521.43 in a given financial year. Total Crown expenditure on the GVC for the year ended 30 June 2023 reached almost NZ $1 billion.[3] Whilst the GVC is progressive since it is a fixed payment, it is relatively less progressive than other social payments because it is untargeted. We note past Treasury advice has suggested that expenditure on the GVC may represent limited value for money as a savings incentive[4].

28. The most recent reforms to the GVC occurred as part of a package of measures in Budget 2011. In 2011, the Government ended the tax-free status of KiwiSaver employer contributions, halved the GVC rate and increased both the minimum employee and employer contribution rates from 2% to 3%. These changes were spread over the 2012-2013 calendar years.[5]

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[3] Past Treasury advice has expressed doubt on whether expenditure on the GVC is well targeted toward general retirement savings objectives and suggested expenditure on the GVC may represent limited value for money.
[4] Repeal of the KiwiSaver kick-start payment - 21 May 2015 - Regulatory Impact Statement - The Treasury
[5] https://www.beehive.govt.nz/release/fact-sheet-%E2%80%93-kiwisaver-changes

Managing trade-offs and objectives

29. An ongoing challenge with KiwiSaver has been ensuring the scheme continues to support New Zealanders in achieving adequate retirement savings, whilst managing the expenditure spent on the scheme in response to ongoing fiscal pressures.

30. Emerging trends such as declining rates of home ownership and the rising cost of New Zealand superannuation are likely to place pressure on current retirement policy settings. These trends suggest that private savings, such as KiwiSaver, will play an increasingly important role in supplementing the basic level of income provided by New Zealand superannuation.

31. On this basis, you may wish to consider expanding the existing incentives of the KiwiSaver scheme to a wider age group or adjusting the default settings[6]. By considering such policy initiatives alongside better improving the efficiency of KiwiSaver expenditure, KiwiSaver members can be better supported in achieving an adequate level of retirement savings.

Options for carrying out a KiwiSaver switch

32. Based on modelling which uses forecasts produced for Budget 2024 as a baseline, Crown expenditure on the GVC is expected to total $3.7bn from 2026/27 to 2028/29. If GVC was to be removed entirely, and the employer contribution was to rise to 4% (increasing the amount of ESCT collected, and reducing income tax from employers), there would be saving of $4.5b over the forecast period. 9(2)(f)(iv)

33. Based on Ministers' initial commissioning, we have produced preliminary modelling to illustrate how a KiwiSaver switch which retains an element of GVC would affect KiwiSaver members under typical employment contracts at different income levels in the short term.[7] This modelling assumes that the minimum employer contribution rate would increase to 4%, while the employee contribution rate would remain at 3%. Further work will be required to develop these costs if you wish to progress these proposals as part of Budget 2025.

Modelling the impact on members

34. If the employer contribution rate were to be increased from 3% to 4%, and the GVC removed entirely, members earning a gross (i.e. before tax) salary of $34,762 per annum would be most affected. This is because $34,762 is the annual income level at which a member's employee contributions would ordinarily start to qualify for the maximum GVC of $521.43. As the after-tax value of the additional 1% employer contribution is only $286.79, members earning $34,762 per annum would experience a net loss of $234.64 in direct contributions to their KiwiSaver balances.

35. However, as a member's salary rises, so too does the value of the additional 1% employer contribution in absolute terms. Once a member's income reached $74,490, the value of the additional 1% employer contribution would exactly offset the loss of the GVC. Above an annual income of $74,490, the additional 1% employer contribution exceeds the value of the GVC. These insights inform the distributional analysis below.

[6] For example, the Retirement Commissioner's recent review of opportunities for KiwiSaver proposed that increasing employee and employer contribution rates to 4% each would enable median income earners to achieve a 70% replacement rate for 20 to 30 years.

[7] This modelling assumes a member's KiwiSaver contributions are comprised of employee and employer contributions only (e.g. does not include voluntary contributions).

Options and distributional impacts

36. The proposals for amending the GVC and the impact on wage and salary earners compared to the status quo can be broadly described as follows:

37. *Option 1:* In/out eligibility for the GVC in which the current GVC is retained for members earning a gross annual salary of $74,490 or less.

    37.1 *Impacts:* Those earning less than $74,490 would be better off than under the status quo due to the combined impact of the additional 1% employer contribution *and* continued access to the full amount of the GVC. Those earning $74,490 or more would be as well off, or better off than they are currently due to the increased employer contribution being higher than the previously received GVC.

    37.2 s 9(2)(f)(iv)

38. *Option 2:* Abating eligibility for the GVC. Members would retain full eligibility for the GVC up to an annual income of $34,762 before abating the GVC up to $74,490 and removing eligibility entirely thereafter.

    38.1 *Impacts:* Those earning $34,762 and under would be better off than under the status quo due to the combined impact of the additional 1% employer contribution and continued access to the full amount of the GVC. Those earning between $34,762 and $74,490 would be no worse off than under the status quo because of the abating GVC. Those earning above $74,490 would be better off than under the status quo due to the additional 1% employer contribution exceeding the full value of the GVC.

    38.2 However, there are a group of members who would be worse off. These are members who have annual income between $61,731 and $62,330 and are pushed into a higher ESCT rate by the increased employer contribution. The ESCT rate is a flat rate so, applies to all of the employer contribution. Because of this, those members pay more tax than previously, and the higher tax exceeds the increased employer contribution in this small income range.

    38.3 s 9(2)(f)(iv)

Extending eligibility for KiwiSaver incentives

39. The Minister of Revenue has indicated interest in expanding the age-based eligibility for particular KiwiSaver incentives such as the GVC and employer contributions. Making such enhancements to KiwiSaver settings would improve the equity of the scheme, and support savings habits among those who enter the workforce early or remain in the workforce after reaching the retirement age. In our advice of 8 August 2024 (IR2023/293 refers) we provided estimated costs for the following:

s 9(2)(f)(iv)

40. Further information on these costs, and other policy options with no associated fiscal costs that were explored in previous KiwiSaver advice, are contained in Appendix 2 below. If you wish to consider including these items for a Budget 2025 package, we will need to update our earlier costs and combine them with revised costs for the KiwiSaver switch.

Distributional and economic impacts of a KiwiSaver switch

41. There are at least two groups of KiwiSaver members who would not benefit from an increased 4% employer contribution. These are:

Employees with total remuneration contracts

42. Some KiwiSaver members are employed under what are known as "total remuneration" contracts. These KiwiSaver members fund their employer contribution out of their total wage or salary package. Increasing the employer contribution from 3% to 4% would reduce these employees' take-home pay due to a greater proportion of their earnings being transferred to their KiwiSaver balances.

43. According to research carried in 2022 by the Retirement Commissioner, almost half of employers use a total remuneration approach for at least some of their employees. This research also found that where an employer uses both approaches, general staff are more likely than senior staff to be paid under a total remuneration approach. The Retirement Commissioner has recommended the removal of the ability to take a total remuneration approach in both the 2022 Review of Retirement Income Policies and the recent KiwiSaver Opportunities for Improvement paper.

Self-employed members

44. KiwiSaver members who are self-employed would be worse off compared to the status quo because they would not receive an additional 1% employer contribution to offset any reduction in the GVC. Many self-employed KiwiSaver members contribute an amount necessary to ensure they qualify for the maximum amount of GVC. If these members are no longer eligible for any amount of the GVC their retirement savings accounts will be adversely affected.

Economic impacts

45. In the short to medium term, we would expect the following effects:

 45.1 *Increased labour costs:* Increasing the employer KiwiSaver contribution would raise the cost of labour, thereby increasing overheads and reducing profitability, especially in low-margin, labour-intensive industries (e.g., hospitality and aged care). For marginal firms this could impact hiring decisions.

45.2 *Profitability and hiring:* Firms may struggle to pass on these increased costs or offset them through productivity gains, leading to potential reductions in profitability.

46. In the long term, we would expect the economic incidence of the higher employer contributions is likely to fall on employees, potentially through lower wage growth or adjustments in other benefits[8]. Accordingly, a reduction in the GVC with a compensatory increase in the employer contribution will ultimately shift the burden (or "incidence") of the GVC from the Crown to some combination of employees and shareholders, making one or both parties worse off.

47. The design of KiwiSaver switch and the age-related options will impact incentives to save. However, most evidence suggests that the options in this report are unlikely to significantly impact the level or rate of saving in NZ

48. Any increase or decrease in saving could potentially impact the level of investment in New Zealand. However, we also expect this impact to be small. This is because New Zealand is a small open economy and so any change in domestic savings will likely be offset by an change in foreign investment.

Potential for public interest

49. Due to these varying distributional impacts and the interest which proposals which impact KiwiSaver balances in the past have received, we think there is potential for significant public interest in the KiwiSaver switch proposal. If you wished to progress work on a KiwiSaver switch, we recommend early consultation with groups such as the Financial Markets Authority, the Financial Services Council and the Retirement Commissioner.

Administrative implications

50. We estimate the administrative impacts of a KiwiSaver switch as follows:

50.1 *Means testing the GVC:* Extra-large, with medium ongoing administrative impacts. Our preliminary view is that abating the GVC is unlikely to materially affect this impact analysis.

50.2 *Increasing the employer contribution rate:* Small, both in terms of the upfront, and ongoing impact. However, the impact of this change will largely be felt by employers and payroll providers who would need to carry out software changes.

51. Inland Revenue would expect to seek funding for implementation of any Budget 2025 initiatives progressed as the department has no capacity to partially fund or fully fund such Budget 2025 initiatives without directly impacting service delivery, tax revenue, debt or system change, and maintenance capacity. Further information about the scale of these administrative costs is outlined in Appendix 2, below.

Timing the implementation of a KiwiSaver switch

52. Key factors in determining the implementation of a KiwiSaver switch are the different calendars governing the assessment and payment of the GVC and the reporting of income. These two calendars are:

52.1 *GVC assessment:* The GVC is assessed over the course of a fiscal year (i.e. 1 July to 30 June in each calendar year) and credited to KiwiSaver providers

[8] Summers, Lawrence H. 1989. 'Some Simple Economics of Mandated Benefits'. The American Economic Review 79 (2): 177–83

in the months of July and August immediately following the conclusion of the most recent fiscal year.

52.2 *Income assessment:* The income which would form the basis of the means testing of the GVC is assessed over an income tax year (i.e. 1 April to 31 March). Wage and salary earners will have their income assessments processed between 25 May and 7 June. Taxpayers who need to file an income tax return must file by 7 July. However, taxpayers with a tax agent have an additional year to file their income tax returns.

53. The misalignment between fiscal and income years means that in at least some cases, the assessment of GVC eligibility will need to be postponed by a month or more to ensure that the information relevant to the income tax year which has just passed is available and can be acted on. Those taxpayers with an additional year to file their returns may need to wait until that information is available before their GVC eligibility can be assessed. Appendix 1 contains a timeline to advise you of key dates in the implementation of a KiwiSaver switch.

Implementation timelines

54. The employer information which is provided by Inland Revenue to payroll service providers, and which governs the payment of the employer contribution, applies at the start of an income year (i.e. from 1 April). In our view, the most viable options for implementing the changes would be to bring them into effect on the following dates:

54.1 *Employer contribution rate:* The employer contribution rate could be increased from 1 April 2026. This would give employers and payroll providers (who traditionally require six months' notice of a change) sufficient time to integrate the change.

54.2 *GVC means testing:* The means testing of the GVC could be implemented from 30 June 2026, applying to the GVC accrued over the 2026/2027 fiscal year. This is based on the feasibility of implementation from a systems perspective, and the possible impact on members.

55. We have not considered applying the change to the GVC for the current fiscal year ending 30 June 2025 as this would be a retroactive change which would affect GVC entitlements already established within the current year. Neither have we considered means testing the GVC accrued over the 2025/26 June year as this approach would only afford members three months at the increased 1% contribution rate, meaning that some members may be financially worse off in that year. We can provide you with further advice on the complexities of the implementation timeframes.

Financial implications

56. The fiscal implications for a KiwiSaver switch depend on the design of the option selected. Option 1 would save between $2.9bn and $2.3bn over the forecast period, while Option 2 would save between $3.0bn and 3.6bn over the same period. Based on our previous advice, introducing a package of KiwiSaver items to incentivise participation and raise contributions as indicated in Appendix 2 would have a fiscal cost of $62.4m to $74.4m over the forecast period.

Consultation

57. The Treasury and the Ministry for Business, Innovation and Employment were consulted in the preparation of this report.

Conclusion

58. Overall, we consider that means testing eligibility for the GVC would represent an improvement on the status quo. The current universal eligibility for the GVC is untargeted, more expensive and less progressive than the alternatives discussed in this report. We would therefore recommend that you consider means testing eligibility for the GVC.

59. Of the two options discussed in this report, we would recommend Option 1 for its relative simplicity and greater ease of implementation. We would also recommend any change to GVC eligibility be adopted and applied to June years beginning or after the 2026/27 June year.

Next steps

The next step is for Ministers to determine which, if any of the options, they wish to progress as part of Budget 2025 and if they wish to receive advice on any of the issues raised in this report and previous advice on KiwiSaver enhancement.

Appendix 1 – Timeline for the possible implementation of a KiwiSaver switch

2025 Q2			2025 Q3			2025 Q4		
April	May	June	July	August	September	October	November	December
	Budget 2025/2026		Members begin to receive GVC accrued over June year 2024/2025	Introduction of 2025/2026 Omnibus Bill				

2026 Q1			2026 Q2			2026 Q3		
January	February	March	April	May	June	July	August	September
		Enactment of 2025/2026 Omnibus Bill	Possible date for employer contribution change	Budget 2026/2027		Possible date for GVC reduction // Members begin to receive GVC accrued over 2025/2026	Introduction of 2026/2027 Omnibus Bill	

2026 Q4			2027 Q1			2027 Q2		
October	November	December	January	February	March	April	May	June
					Enactment of 2026/2027 Omnibus Bill		Budget 2027/2028	

2027 Q3			2027 Q4			2028 Q1		
July	August	September	October	November	December	January	February	March
Members begin to receive 2026/2027 reduced GVC	2027/2028 Omnibus Bill							Enactment of 2027/2028 Omnibus Bill

Appendix 2 – Previous advice on possible KiwiSaver initiatives

78. This advice was provided in the context of previous KiwiSaver reports (IR2024/293 and IR2024/236 refers). The key themes of the items in these two packages were improving the default settings of KiwiSaver to support higher contributions and widening the age-related eligibility for KiwiSaver incentives to encourage participation.

79. As noted in the body of the report, these costings were carried out prior to the analysis and forecasting of a KiwiSaver switch. If you wished to progress considering these items alongside a KiwiSaver switch, the costings would need to be updated.

Package 1 - no fiscal costs	Admin impact
Add higher rates e.g. 12%	Small
Increase the minimum employee contribution rate **/ or** increase default rate and leave the minimum contribution rate at 3%	Small
Introduce ability for employees to apply for a lower contribution rate e.g. 2%.	Medium

Package 2 - all measures	Admin impact	Govt Payroll	Vote Revenue	Total cost
Extend auto-enrolment to first paid employment for those aged 16 and 17	Small	None	None	None
Expand employer contributions to those aged 16 and 17	Small	$1m	$1.2m	Small, $2.2m
Widen eligibility for government contribution to those aged 16 and 17	Medium	None	$36m to $48m	Medium, $36m to $48m
Change ceiling for compulsory employer contributions to different, later age.	Medium	$27.4m	Positive increase of $3.2m	Medium, $24.2m
				$62.4m to $74.4m

Sizing Scale	Small	Medium	Large	X Large
Admin	$0.5m	$1m	$2m	$5m
Fiscal	Under $10m	$10m to $50m	$50m to $100m	Over $100m

POLICY

Tax policy report: **Additional information on a possible KiwiSaver switch as part of Budget 2025**

Date:	7 November 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/448

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Note** the contents of this report	14 November 2024

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Carolyn Elliott	Policy Lead	s 9(2)(a)
Joshua Fowler	Senior Policy Advisor	s 9(2)(a)
Ella Patterson	Policy Advisor	

7 November 2024

Minister of Revenue

Additional information on a possible KiwiSaver switch as part of Budget 2025

Purpose

1. This report provides preliminary estimates of the fiscal implications of your three additional proposals and is intended to assist you in your discussions with the Minister of Finance in preparation for Budget 2025.

Background

2. On 31 October 2024 we provided you with advice on options for developing a KiwiSaver "switch" for potential inclusion in Budget 2025 (IR2024/428 refers). This followed earlier advice on the development of a KiwiSaver package for consideration as part of setting the Tax and Social Policy Work Programme (IR2024/236 and IR2024/293 refer).

3. At your meeting with officials on 6 November 2024, you requested additional information on the fiscal implications of using savings from restricting eligibility for the GVC to fund three additional options, which would increase contribution rates and expand access to KiwiSaver. We understand your intent is to create a fiscally neutral package which would improve the sufficiency of retirement savings.

Discussion

4. Details of the proposals which you have sought further advice on, and the estimated fiscal costs are contained in the paragraphs below. We have first outlined the savings or costs associated with each aspect of the proposals, and then combined them into three alternative packages.

5. These high-level estimates have been prepared at pace. Accordingly, further analysis would be required if you wish to potentially progress any of these options through Budget 2025. These estimates do not include administrative costs.

Changes to contribution rates

6. In all cases below, we have assumed that eligibility for the GVC would be restricted to those earning up to $180,000 per annum. While setting the GVC cut-off at this level results in the packages generates some savings rather than being fiscally neutral, we consider that this is a sensible cut-off for the GVC as it aligns with the threshold for the top-tax rate. We can provide further estimates if you wish to create a perfectly neutral package.

Option 1: Increase employer and employee contributions by 0.25% per annum for four years from 2026/27 (i.e. with phasing)

7. s 9(2)(f)(iv)

8. s 9(2)(f)(iv)

Option 2: Increase both employer and employee contributions to 4% with effect from 2026/27 (i.e. without phasing)

9. s 9(2)(f)(iv)

10. s 9(2)(f)(iv)

Option 3: Increase employer contributions to 4% (without phasing), retain employee contributions at 3%, from 2026/27

11. s 9(2)(f)(iv)

12. s 9(2)(f)(iv)

Changes to age eligibility settings

Extending eligibility for compulsory employer contributions to members aged under 18 and GVC eligibility for members aged 16 to 17

13. You have indicated interest in extending eligibility for compulsory employer contributions to members aged under 18, and extending eligibility for the GVC to members aged 16-17.

14. We have prepared three fiscal estimates for this policy change, depending on which of the three options outlined above is selected. In detail, these estimates are:

    14.1 _Both employer and employee contributions rising to 4% over a period of four years (i.e. with phasing) from 1 April 2026:_ s 9(2)(f)(iv)

    14.2 _Both employer and employee contributions increase to 4% (i.e. without phasing) from 1 April 2026:_ s 9(2)(f)(iv)

    14.3 _Employer contributions rising to 4% percent (without phasing), retaining employee contributions at 3% from 1 April 2026:_ s 9(2)(f)(iv)

Removing age limit on employer contributions for over 65s

15. You have also indicated interest in removing the current upper age limit on eligibility for compulsory employer contributions, ensuring KiwiSaver members aged over 65 receive employer contributions if they remain in the workforce.

16. We have prepared two fiscal estimates for this option, depending on if you chose to increase employer and employee contributions to 4% with phasing as outlined in Option 1, or without phasing as outlined in Option 2. These options are:

    16.1 *Setting the employer contribution rate at 4% (with phasing) from 1 April 2026:* s 9(2)(f)(iv)

    16.2 *Setting the employer contribution rate at 4% (without phasing) from 1 April 2026* s 9(2)(f)(iv)

17. The costs in para 16.2, above, also apply to option 3.

Summary

18. Overall, the fiscal implications of the proposals canvassed above can be summarised as follows (noting the components of these packages are further itemised in the appendix, below).

Package One – Phased increase

19. Package one would involve pairing Option 1 (increasing the employee and employer contribution to 4% gradually over 4 years) with the extensions in eligibility for young people and over 65s described above.

20. s 9(2)(f)(iv)

Package Two – Unphased increase

21. Package two would involve pairing Option 2 (increasing the employee and employer contribution to 4% with immediate effect from 2026/27) with the extensions in eligibility for young people and over 65s described above.

22. s 9(2)(f)(iv)

Package Three – Unphased increase to employer contribution only

23. Package three would involve pairing Option 3 (increasing the employer contribution to 4% from 2026/27 and leaving the employee contribution at 3%) with the extensions in eligibility for young people and over 65s described above.

24. s 9(2)(f)(iv)

Administrative implications

25. As set out in our previous report (IR2024/428 refers), we estimate that the administrative impacts of means testing the GVC to be extra-large, with medium ongoing costs. The remainder of the proposals have been initially assessed as having small upfront and ongoing costs. Inland Revenue would expect to seek funding for implementation of any Budget 2025 initiatives progressed as the department has no capacity to partially or fully fund such Budget 2025 initiatives without directly impacting service delivery, tax revenue, debt or system change, and maintenance capacity.

26. We also note our comments in the prior report (IR2024/428) about the administrative and implementation timelines associated with implementing changes to GVC eligibility and employer contributions. As we set out in that report, the assessment of the GVC and the assessment of income are determined according to two different calendars, with the fiscal year (i.e. 1 July to 30 June) governing the assessment of the GVC, and the income year (i.e. 1 April to 31 March) governing the assessment of income.

27. This misalignment between fiscal and income years can present complications for some taxpayers and may require changes in the assessment of GVC eligibility. Our previous report set out these issues and a proposed implementation timeline in more detail (IR2024/428 refers).

Next steps

28. The next step is for Ministers to advise which, if any of the proposals in this report should be developed further for potential inclusion in Budget 2025.

Recommended action

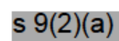
We recommend that you:

29. **Note** the contents of this report.

    Noted

30. **Refer** a copy of this report to the Minister of Finance for their information.

    Referred/Not referred



s 9(2)(a)

Carolyn Elliott
Policy Lead
Policy

Hon Simon Watts
Minister of Revenue
/ /2024

Appendix 1: Summary of fiscal implications over the forecast period[1]

Package One

Option One (with phasing)	s 9(2)(f)(iv)
Restrict GVC eligibility to those earning up $180k per annum. Increase employer and employee contributions by 0.25% per annum for four years from 2026/27 (i.e. with phasing).	
Less	
Extending eligibility for compulsory employer contributions to members aged under 18, and extending eligibility for the GVC to members aged 16-17.	
Removing the current upper age limit on eligibility for compulsory employer contributions.	
Net fiscal impact	

Package Two

Option Two (without phasing)	s 9(2)(f)(iv)
Restrict GVC eligibility to those earning up $180k per annum. Increase both employer and employee contributions to 4% with effect from 2026/27 (i.e. without phasing).	
Less	
Extending eligibility for compulsory employer contributions to members aged under 18, and extending eligibility for the GVC to members aged 16-17.	
Removing the current upper age limit on eligibility for compulsory employer contributions.	
Net fiscal impact	

Package Three

Option Three (unphased)	s 9(2)(f)(iv)
Restrict GVC eligibility to those earning up $180k per annum. Increase employer contributions to 4% percent (without phasing), and retaining employee contributions at 3%, from 2026/27.	
Less	
Extending eligibility for compulsory employer contributions to members aged under 18, and extending eligibility for the GVC to members aged 16-17.	
Removing the current upper age limit on eligibility for compulsory employer contributions.	
Net fiscal impact	

[1] Components may not sum to totals due to rounding.

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Briefing note

Reference:	BN2025/063
Date:	18 February 2025
To:	Revenue Advisor, Minister of Revenue – Angela Graham Private Secretary, Minister of Revenue – Helen Kuy
cc:	Peter Mersi, Commissioner David Carrigan, Deputy Commissioner Phil Whittington, Policy Director
From:	Sean Comber, Principal Policy Advisor Joshua Fowler, Senior Policy Advisor Ella Patterson, Policy Advisor
Subject:	**Further information on a KiwiSaver switch as part of Budget 2025**

Purpose

1. Following our report of 14 February (IR2025/046 refers), the Minister of Revenue requested additional information on the implications of a KiwiSaver switch as part of Budget 2025. This would involve removing or restricting GVC eligibility while increasing KiwiSaver contributions.

2. In particular, he asked about:

   - The fiscal effect of limiting GVC eligibility to various annual income levels; and
   - The minimum contribution rates required to offset the reduction in savings from the removal of the GVC and maintain the aggregate amount saved though KiwiSaver.

3. We have additionally included information about the distributional impacts of restricting the GVC.

Fiscal impact of restricting GVC eligibility at various income levels.

4. Table 1, contained within the appendix below, shows the overall net fiscal impact (across the forecast period to 2028/29) of limiting the GVC eligibility to different income levels. This table assumes changes to GVC eligibility would take effect from 1 July 2026 and that employer and employee contribution rates would rise to 4% from 1 April 2026. Income thresholds shown in the table reflect the income above which GVC eligibility would be removed.

Offsetting the removal of the GVC and maintaining aggregate savings

5. The Minister of Revenue also asked about the increase in minimum contribution rates required to offset the impact of removing the GVC on aggregate savings. The impact over the forecast period is shown in Table 2 in the Appendix.

6. We estimate that the minimum contribution rate for employees and employers would need to rise by around 0.5% (i.e. from its current level of 3% to 3.5%). This analysis assumes the GVC would be removed entirely from 1 July 2026, and that the contribution rates would increase from 1 April 2026. This analysis considers the impact on overall savings from period 2025/26 to 2028/29 and is based on the HYEFU24 forecasts.

7. This estimate is indicative only, and we might need to revise our estimates if the Minister wished to amend GVC eligibility and contribution settings starting at a different year within the forecast period.

Distributional impacts

8. Because KiwiSaver contributions are a fixed percentage of a member's salary, members need to reach a certain annual income threshold before the increase in contribution rate offsets the removal of the GVC. Whilst the aggregate amount saved can be maintained through increased contributions to KiwiSaver, there will be a cohort of lower income members that will be worse off as the increase in contributions would not fully offset the loss of GVC.

9. We estimate that if both KiwiSaver employer and employee contributions were increased by 0.4% (i.e., to a minimum rate of 3.4%), members earning less than approximately $77,000 per annum would be worse off.

10. Increasing contributions by 0.5% (i.e. to 3.5%) would reduce this annual income threshold to approximately $57,500 per annum. This means that those earning less than $57,500 per annum would be worse off.

Administrative implications

11. Inland Revenue is able to implement these proposals. However, as noted in prior advice (IR2024/428 refers) we estimate the administrative and systems impacts of a KiwiSaver switch to be as follows:

    11.1 *Increasing the employer contribution rate:* Approximately $0.5m in upfront costs and an additional $0.5m per annum in ongoing costs.

    11.2 *Means testing the GVC:* Approximately $5m in upfront systems capital costs, $2m upfront operating costs and an additional $2m per annum in ongoing costs.

12. The implementation of means testing is complex in part because it will require data on income that is assessed over an income tax year (i.e. 1 April to 31 March). Taxpayers have different income assessment dates depending on if they earn salary, wage and/or reportable investment income, earn self-employed income that is not taxed at source or have a tax agent who gets an extension of time to file clients' tax returns. In some cases, the assessment of GVC eligibility will need to be postponed by a month or more to ensure that the relevant income information is available. The complexity of means testing the GVC by income will also likely also lead to increased customer contacts.

13. Inland Revenue has advised that it has no capacity to partially fund or fully fund the cumulative impact of this proposed change and other proposed Budget 2025 initiatives without directly impacting service delivery, tax revenue, debt or system change and maintenance capacity.

Joshua Fowler
Senior Policy Advisor
s 9(2)(a)

Appendix

Table 1 – Total fiscal savings across the forecast period to 2028/29 from restricting GVC eligibility by income levels from 1 July 2026, and increasing the minimum contribution rate to 4% from 1 April 2026

		Net Fiscal impact, excluding cost to Govt as employer ($m)	Net fiscal impact, including cost to Govt as employer ($m)
Income above which GVC is removed	Full removal	4,272	3,705
	10,000	4,158	3,591
	20,000	4,049	3,482
	30,000	3,860	3,293
	40,000	3,628	3,061
	50,000	3,368	2,801
	60,000	3,035	2,468
	70,000	2,646	2,079
	80,000	2,271	1,704
	90,000	1,940	1,373
	100,000	1,678	1,111
	110,000	1,463	896
	120,000	1,293	726
	130,000	1,162	595
	140,000	1,062	495
	150,000	982	415
	160,000	918	351
	170,000	866	299
	180,000	823	256

Table 2 – Increase in minimum contribution rate required to offset removal of the GVC and maintain aggregate savings

	2025/26	2026/27	2027/28	2028/29	Total over forecast period
GVC		1,133	1,179	1,228	3,540
0.4% increase	223	949	1,012	1,078	3,262
0.5% increase	278	1,181	1,259	1,342	4,061

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Briefing note

Reference: BN2025/156

Date: 1 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Joshua Fowler, Ella Patterson

Subject: **Allowing members to select a lower KiwiSaver contribution rate as part of Budget 2025**

Purpose

1. The Minister of Finance has asked for information on the practicality of allowing KiwiSaver members to select a lower KiwiSaver contribution rate. The Minister has asked whether this could be achieved as part of the Budget 2025 package (i.e. by 1 April 2026 when the first increase to employee and employer contributions is proposed to take place). Inland Revenue can deliver a solution which allows KiwiSaver members to select a lower minimum rate by 1 April 2026.

Background

2. As part of the proposed KiwiSaver package for Budget 2025, Ministers have indicated a preference for a phased increase in the minimum employee and employer contribution rates from 3% to 3.5% from 1 April 2026, before rising to 4% from 1 April 2028. [1]

3. Due to the risk that those on total remuneration contracts and lower incomes may find this higher contribution rate unaffordable, it has been suggested that the ability to maintain a 3% contribution rate be retained. To be effective, this would need to be implemented by 1 April 2026.

Discussion

4. Inland Revenue can deliver a solution which allows KiwiSaver members to select a lower minimum rate by 1 April 2026 (i.e. a "savings reduction"). We envisage this as operating similarly to the existing savings suspension model which allows KiwiSaver members to pause their KiwiSaver contributions for up to 12 months at a time. Administratively, this would involve the following process:

    - Members would notify Inland Revenue via MyIR (Inland Revenue's web portal) that they would like to opt down to 3%. Inland Revenue would automatically approve those that chose to apply.

[1] As part of prior advice on Budget 2025 initiatives, officials offered initial advice on increasing the default KiwiSaver contribution rate while allowing employees to opt-down to a 3% KiwiSaver contribution rate (IR2025/046 T2025/245 refers). This suggested that such a change would be best progressed as part of a wider review of KiwiSaver settings.

- Inland Revenue would notify the member's employer that a member has chosen a reduced rate of 3%. Employers would be able to drop down to match contributions at the lower rate.
- The decrease to a 3% contribution rate would apply for 12 months, before a member and their employer would automatically begin contributing at the higher rate (i.e. 3.5% from 1 April 2026 or 4% from 1 April 2028).
- Members could apply for additional savings reductions to 3% after the first 12 months expired, but an application would be required every 12 months. [2]
- Any period of time could apply but we have suggested 12 months to align with the existing savings suspension model.

5. Requiring members to apply for a savings reduction would maximise the number of employees who contribute at the higher rate through inertia, while still allowing choice for those who need to contribute at a lower rate. Requiring members to apply at least every 12 months in order to remain contributing at the lower rate will also minimise the risk of some members staying at the lower rate for longer than is necessary.

Fiscal and behavioural implications

6. We do not anticipate a significant fiscal impact from this option, as any effects are likely to be minimal and offsetting. While some members may opt down to a 3% contribution rate, reducing Employer Superannuation Contribution Tax (ESCT), others may choose 3% instead of suspending contributions entirely, increasing ESCT.

7. It is possible a savings reduction option could incentivise employers to encourage their employees to contribute at the lower rate, as this would enable the employer to also contribute at the lower rate. However, this incentive already exists in so far as the savings suspension facility is also accessible.

Administrative implications

8. We expect that the marginal cost of administering this would be relatively low, and we would self-fund the administration costs of this proposal.

Consultation with the Treasury

9. The Treasury was informed about this briefing note.

Joshua Fowler
Senior Policy Advisor
s 9(2)(a)

Ella Patterson
Policy Advisor
s 9(2)(a)

[2] The length of the savings reduction before a reapplication is required could be any amount of time (e.g. 3 years), but we have selected 12 months to align with the existing savings suspension model.

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Briefing note

Reference: BN2025/142

1Date: April 2025

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Ella Patterson, Joshua Fowler

Subject: **Additional modelling of KiwiSaver impact as part of Budget 2025**

Purpose

1. This briefing note provides you projected retirement savings outcomes for different saving profiles under current settings and under Budget 2025 proposals. This briefing note also provides you with a summary of groups and individuals who have called for an increase in KiwiSaver contributions.

2. A summary of our findings is set out in the tables below. The parameters and assumptions underlying our modelling is explained in the paragraphs which follow. Where appropriate, these assumptions have been sourced from the Financial Markets Conduct Regulations 2014, which prescribes assumptions for retirement savings and income projections.[1]

Table 1: Final retirement balance at age 65 is higher in all 3 scenarios, assuming a first home withdrawal at age 30

	Status quo	**Budget 2025 proposals**	**$ increase**	**% increase**
Working mother	$397,250	$500,167	$102,917	26%
High-income earner	$644,963	$824,420	$179,457	28%
Low-income or part-time earner	$231,239	$280,383	$ 49,144	21%

Table 2: Final retirement balance at age 65 is higher in all 3 scenarios, assuming no first home withdrawal

	Status quo	**Budget 2025 proposals**	**$ increase**	**% increase**
Working mother	$444,175	$551,473	$107,298	24%
High-income earner	$735,513	$928,951	$193,438	26%
Low-income or part-time earner	$262,829	$314,800	$51,972	20%

[1] Investment returns are assumed in line with the life cycle investment option set out in schedule 7A, i.e. 3.5% if under 50 years of age, or 2.5% if aged 50 or over. All figures are nominal.

Table 3: Available balance for a first home withdrawal at age 30 is higher in all 3 scenarios

	Status quo	Budget 2025 proposals	$ increase	% increase
Working mother	$15,805	$17,281	$1,476	9%
High-income earner	$30,499	$35,208	$4,709	15%
Low-income or part-time earner	$10,640	$11,592	$952	9%

Introduction

3. Officials earlier provided advice on the fiscal impact of removing the Government KiwiSaver contribution (GVC) and increasing the minimum employer and employee contribution rate (IR2025/069 T2025/494 refers).

4. Following our report, the Minister of Finance requested that we:

- Model the impact of the Budget 2025 proposals on savers over the course of their working life and compare this to expected outcomes under current settings (i.e. the status quo); and
- Compile a summary of recent public commentary on increasing KiwiSaver contribution rates.

Impact of the proposal on retirement savings for three nominal savers

5. To compare expected retirement savings outcomes under the proposals with those anticipated under the status quo, we have focused on three nominal saver profiles. These are:

- A working mother;
- A high-income earner; and
- Low-income or part-time earner.

Modelling assumptions

Common assumptions

6. Under both the status quo and Budget 2025 proposals, we have assumed an income growth rate of 3.5% per year. We have also assumed that savers will tend to favour less risky assets as they age, resulting in lower returns in the later years of working life. We have therefore assumed a scheme return of 3.5% per annum before the age of 50, and 2.5% once the saver reaches 50 (and thereafter).

7. In all cases, we have assumed that savers retire at age 65 and have identified the amount available for a first home withdrawal at age 30, and what their balance would be at retirement (depending on if they make a first home withdrawal or not).

Status quo

8. In modelling the status quo, we have assumed the current maximum GVC of $521.43 would be maintained, and that both employer and employee KiwiSaver contributions would continue at 3% each.

Budget 2025 proposals

9. In modelling the impact of Budget 2025 proposals, we have assumed the matching GVC rate would be halved to 25% from 1 July 2025. This would reduce the current

maximum amount of the GVC to $260.72, down from its current maximum of $512.43.

10. Employer and employee KiwiSaver contribution rates would be increased from their current level of 3% to 3.5% from 1 April 2026, followed by a further increase to 4% from 1 April 2028.

Profile 1: Working mother

11. For our first profile, we have assumed a woman who joins KiwiSaver at age 25, has her first child at age 28, followed by a second child at age 31. We have assumed a starting salary of $60,000 per annum, and that she takes parental leave and ceases contributions for a year following the birth of each child. Applying these assumptions, the outcomes are as follows:

   - *Status quo:* Under the status quo, the working mother could withdraw $15,085 for a first home at 30 and retire with $397,250 in her KiwiSaver account. If she did not withdraw for a first home, she would then retire with $444,175 in her KiwiSaver account.

   - *Budget 2025 proposals:* Under the proposed changes, the working mother would withdraw $17,281 for a first home at 30 and retire with $500,167 in her KiwiSaver account. If she did not withdraw for a first home, she would then retire with $551,473 in her KiwiSaver account.

12. Overall, assuming a first home withdrawal, the working mother would have $102,917 (or 26%) more in retirement under the Budget 2025 proposals compared to the status quo. Without the first home withdrawal, the increase in her retirement savings would be $107,298 (24%).

Profile 2: High-income earner

13. Our second profile reflects a high-income earner. We have assumed a starting salary of $100,000 per annum. We have not assumed any time away from work caring for children. Applying these assumptions, the outcomes are as follows:

   - *Status-quo:* Under the status quo, the high-income earner would withdraw $30,499 for a first home at 30 and would retire with $644,963 in their KiwiSaver account. If they did not withdraw for a first home, they would then retire with $735,513 in their KiwiSaver account.

   - *Budget 2025 proposals:* Under the proposed changes, the high-income earner would withdraw $35,208 for a first home at 30 and would retire with $824,420 in their KiwiSaver account. If they did not withdraw for a first home, they would then retire with $928,951 in their KiwiSaver account.

14. Overall, assuming a first home withdrawal, the high-income earner would have $179,457 (or 28%) more in retirement savings under the Budget 2025 proposals compared to the status quo. Without the first home withdrawal, the increase in their retirement savings would be $193,438 (26%).

Profile 3: low-income or part-time earner

15. Our third profile reflects a low-income or part-time earner. We have assumed a starting salary of $30,000 per annum. We have not assumed any time away from work caring for children. Applying these assumptions, the outcomes are as follows:

   - *Status quo:* Under the status quo, the low or part time income earner would withdraw $10,640 for a first home at 30 and would retire with $231,239 in their

KiwiSaver account. If they did not withdraw for a first home, they would then retire with $262,829 in their KiwiSaver account.

- *Budget 2025:* Under the proposed changes, the low or part time income would withdraw $11,592 for a first home at 30 and would retire with $280,383 in their KiwiSaver account. If they did not withdraw for a first home, they would then retire with $314,800 in their KiwiSaver account.

16. Overall, assuming a first home withdrawal, the low-income or part-time earner would have $49,144 (or 21%) more in retirement savings under the Budget 2025 proposals compared to the status quo. Without the first home withdrawal, the increase in their retirement savings would be $51,972 (20%).

Literature review

17. The Minister of Finance also asked us to identify any public commentary on an increase in KiwiSaver contribution rates. We have produced a summary of this in the appendix below.

Consultation with the Treasury

18. The Treasury was informed about this briefing note.

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s 9(2)(a)

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Appendix I – Recent commentary on KiwiSaver contribution rates		
Author	**Source**	**Summary**
Pushpa Wood, Massey University Financial Education and Research Centre director	Calls to lift default KiwiSaver employer contributions to narrow gender gap (The Post, March 2025)	Wood supports calls to raise employer contributions. "The more we can save at an earlier age, the better it's going to look for our retirement."
Sarah Whitelock, Mercer consumer wealth lead	Don't wait to increase KiwiSaver contributions to 10 percent, providers say (RNZ News, March 2025)	Whitelock's view is that lifting the contribution rate will lift the ability for New Zealanders to retire well, with a phased approach being the best option to allow individuals and employers time to plan. "There are already employers contributing more than the 3 percent, if their employees contribute more than 3 percent… There are some people who are concerned about the cost of living but let's begin the conversation and start to see what implementation could look like."
Ana-Marie Lockyer, Pie Funds chief executive	Don't wait to increase KiwiSaver contributions to 10 percent, providers say (RNZ News, March 2025)	Lockyer supports a 5%/5% contribution rate as an appropriate place to start. Implementation would involve a review of KiwiSaver settings, a long-term goal with political consensus, and staggered increases with advance notice. "KiwiSaver is only 18 years old so now feels like the time to signal the change and make a plan to move there. That will make a big difference to the retirement outcomes of New Zealanders."
Murray Harris, Milford Asset Management head of KiwiSaver & Retail	Milford KiwiSaver boss on what 'KiwiSaver 2.0' should look like (interest.co.nz, August 2023)	In Harris' view, increasing contributions is the most important change that could be made to the scheme. "We know in the most successful superannuation systems around the world, most people are contributing around 10% of their income over the working life."
Simon Power, Fisher Funds chief executive	Money Talks: Simon Power - it is time to talk about changing KiwiSaver rules (NZ Herald, September 2024)	Power supports a nationwide discussion on KiwiSaver settings, with consideration for the appropriate contribution rates. "We're early in the life cycle of KiwiSaver, we haven't had anybody go right through from 18 to 65 yet. There becomes, I think, an opportunity to have a conversation about: how much is enough?"
Shane Te Pou, commentator	Supercharge KiwiSaver and create a more equitable and secure financial future (NZ Herald, March 2025)	Te Pou supports considering raising the contribution rates for KiwiSaver, especially on the employer side, highlighting that the contribution rates were cut back during the global financial crisis and were meant to be 4%/4% from 2011 onwards.
Financial Services Council, organisation that includes KiwiSaver fund managers	FSC KiwiSaver Policy Priorities (Financial Services Council, June 2024)	The Financial Services Council have identified the following as a goal: Increase contributions to KiwiSaver and retirement investment schemes, through increases in small increments of an agreed amount on an annual or bi-annual basis to at least 10%

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Briefing note

Reference: BN2025/148

Date: 2 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Carolyn Elliott

Subject: **Wider KiwiSaver policy issues currently under consideration**

Purpose

1. This briefing note outlines the various areas where we are aware advice that affects KiwiSaver settings has either been provided or sought across several agencies. This was raised by the Minister of Revenue in a recent meeting with officials.

2. There appears to be considerable interest in KiwiSaver currently and there are three key areas we have identified below, namely the Budget 2025 proposals, s 9(2)(f)(iv), and the Retirement Commissioner's three-yearly review. We have noted some additional areas where KiwiSaver issues have been raised but we do not consider these likely to result in any policy changes at this time.

Key areas of advice

Budget 2025

3. Budget Ministers are considering a package for Budget 2025 that comprises:

   - Reduce the matching rate for the KiwiSaver government contribution from 50 cents on the dollar to 25 cents on the dollar with effect from 1 July 2025;
   - Restrict eligibility for the KiwiSaver government contribution to those earning $180,000 per annum and under with effect from 1 July 2025;
   - Treat eligibility for the government contribution as an "in/out" (i.e. "cliff edge") criteria rather than an abating entitlement;
   - Increase the rate of employer and employee KiwiSaver contributions from:
     - 3% to 3.5% with effect from 1 April 2026; and
     - 3.5% to 4% with effect from 1 April 2028;
   - Extend eligibility for employer contributions to those aged 16-17 with effect from 1 April 2026;
   - Extend eligibility for the government contribution to those aged 16-17 with effect from 1 July 2025.

4. We understand this package will be announced on Budget day and will be legislated immediately via Budget night legislation.

s 9(2)(f)(iv)

DIA – KiwiSaver contributions for elected members

10. DIA have recently provided the Minister with advice in his capacity as Minister for Local Government, on a Local Government New Zealand (LGNZ) proposal to give employer contributions to elected members of local bodies. Elected members are considered self-employed, rather than employees of councils and are therefore not eligible for KiwiSaver employer contributions.

11. While supportive of access to KiwiSaver, Inland Revenue had some concerns with the proposal, particularly how it fits in the wider scheme of KiwiSaver. In our view consideration of the self-employed should be taken as a wider question, rather than in an ad hoc manner for certain groups.

12. We understand the Minister has indicated he does not wish to take this matter any further.

9(2)(f)(iv)

Review of Retirement Income Policies

13. The Retirement Commission is currently conducting their three-yearly Review of Retirement Income Policies (RRIP). The Terms of Reference for the RRIP cover a range of areas. In respect of KiwiSaver the RRIP will look at:

    - The performance of the KiwiSaver scheme, with a focus on default settings, opportunities to improve contribution rates, use of different KiwiSaver fund types, participation by the self-employed, and whether KiwiSaver has been effective in increasing the net national savings rate.
    - Government contributions to KiwiSaver, particularly the costs and benefits of government contributions, and which groups benefit the most from receiving these contributions.
    - Whether any market distortions arise from the KiwiSaver model.
    - The role of (non-KiwiSaver) private saving in providing retirement income.
    - Opportunities for innovation and improvement of provider and industry guidance/products supporting the decumulation/drawdown of retirement savings and other assets.

14. We note that the first two items in particular have considerable cross-over with the proposed Budget 2025 reforms. We understand that, as part of the RRIP work, a paper is likely to be released shortly covering distributional analysis of the GVC.

s 9(2)(f)(iv)

Other matters

16. We recently reported to the Minister of Revenue about a petition we were jointly asked to respond to alongside MBIE and the Ministry for Housing and Urban Development. This related to a petition arguing that houses on wheels should be eligible for first home withdrawals from KiwiSaver. The joint agency view was that the current settings were appropriate.

17. We are aware a further petition has been presented regarding KiwiSaver contributions for under 18s. Inland Revenue has not been asked to provide anything on this petition as yet.

18. We have also received an enquiry from the Ministry for Regulation regarding auto-enrolment settings for KiwiSaver, following a submission to their red-tape portal. We are working with the Ministry for Regulation, but it appears the concern raised by the submitter (a continued requirement to make KiwiSaver deductions for a period even after an employee had opted out) may have been resolved by a legislative change in 2022.

19. Finally, we note there have been several items of Ministerial correspondence and a media enquiry following some public statements by the Minister of Finance regarding looking at KiwiSaver contributions. We anticipate that the level of this type of correspondence and enquiry may increase.

Consultation with the Treasury

20. The Treasury was informed about this briefing note.

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Briefing note

Reference: BN2025/166

Date: 8 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Ella Patterson, Joshua Fowler

Subject: **Implications of KS reforms for self-employed and other matters**

Purpose

1. This briefing note responds to Ministers' questions following recent Budget advice.

Self-employed KiwiSaver members

2. Ministers have asked about the expected impact of the proposed KiwiSaver changes on self-employed KiwiSaver members.

3. Currently, KiwiSaver members who contribute to their KiwiSaver accounts will receive a matching government contribution (GVC) of 50 cents on the dollar up to a total of $521.43. For the self-employed, the GVC is the only financial incentive for members to contribute to their KiwiSaver accounts, resulting in some self-employed members contributing only the minimum amount necessary ($1,042.86) to ensure they qualify for the maximum amount of GVC ($521.43). This minimum contribution amount will remain the same for the reduced GVC.

Definition of self-employed

4. Under current reporting requirements, taxpayers are not required to disclose that they are self-employed. We have therefore estimated the proportion of GVC recipients who are self-employed based on the type of income they receive. We have assumed that self-employment income is reported in the annual income tax return (IR3) as self-employment income, partnership income and/or shareholder employee salary.

Proportion of self-employed GVC recipients

5. For the 2023 KiwiSaver year (year ending 30 June) and income year (year ending 31 March), we estimate there were approximately 2.24 million members who earned income and received some GVC. Of this group, 243,000 (or 11%) received one or more of the three income types above, suggesting approximately, 11% of GVC recipients could be classed as self-employed.

6. If the definition of self-employed was widened to contributing members who do not earn PAYE income, this proportion rises to 13.5%[1]. However, this measure is likely to be less accurate as it would capture people who contribute to their KiwiSaver accounts while not necessarily working, for example, those on parental leave.

Distribution of self-employed KiwiSaver contributions

7. Ministers have asked about the distribution of KiwiSaver contributions among the self-employed, and particularly, the proportion of self-employed KiwiSaver members who contribute only enough to qualify for the maximum amount of the GVC.

Contribution	No. of self-employed KiwiSaver members	Proportion	No. of non self-employed KiwiSaver members	Proportion
$900 or less	47,400	19.5%	421,435	21.1%
Between $900 and $1,200	63,400	26.1%	177,015	8.9%
More than $1,200	132,400	54.4%	1,1399,590	70.0%
Total	243,200	100.0%	1,998,040	100%

8. Members are required to contribute between $900 and $1,200 to their KiwiSaver accounts annually in order to receive the maximum amount of the GVC. The proportion of self-employed KiwiSaver members who contribute between $900 and $1,200 is approximately 26%. This is significantly higher than the proportion of non self-employed KiwiSaver (approximately 9%) members contributing within this range.

9. Further information about this distribution is available in the appendix to this document.

Proposed savings reduction design settings

10. Ministers have asked whether the capacity to apply for a savings reduction could be retained as a permanent feature.

11. As currently envisaged, this would operate in a manner similar to the existing savings suspension model which allows KiwiSaver members to pause their KiwiSaver contributions for up to 12 months at a time. Typically, eligibility for a savings suspension would require a member to have first been a member for 12 months.

12. However, we understand Ministers would like KiwiSaver members to be able to continue contributing at a 3% rate as soon as Budget 2025 proposals are implemented. Accordingly, we envisage members' eligibility for a savings reduction (i.e. continuing to contribute at a 3% rate) as being immediate, not requiring members to contribute at a higher rate for 12 months.

13. Administratively, this would involve the following process (BN2025/156 refers):

[1] We should acknowledge that some "self-employed" members will be an employee of a company they own. However, where these members receive KiwiSaver contributions from the employer company, their circumstances will be indistinguishable from members employed by a company in which they have no shareholding.

- Members would notify Inland Revenue via MyIR (Inland Revenue's web portal) that they would like to opt down to 3%. Inland Revenue would automatically approve those that chose to apply.
- Inland Revenue would notify the member's employer that a member has chosen a reduced rate of 3%. Employers would be able to drop down to match contributions at the lower rate.
- The decrease to a 3% contribution rate would apply for 12 months, before a member and their employer would automatically begin contributing at the higher rate (i.e. 3.5% from 1 April 2026 or 4% from 1 April 2028).
- Members could apply for additional savings reductions to 3% after the first 12 months expired, but an application would be required every 12 months.
- Any period of time could apply but we have suggested 12 months to align with the existing savings suspension model.

14. We confirm that this could be retained as a permanent feature once it is implemented (much as the savings suspension process has continued to exist).

Upcoming KiwiSaver advice from the Ministry of Business, Innovation and Employment

15. We understand the Ministry of Business, Innovation and Employment will be providing advice on investing KiwiSaver funds in private assets later this week.

Consultation with the Treasury

16. The Treasury was informed about this briefing note.

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s 9(2)(a)

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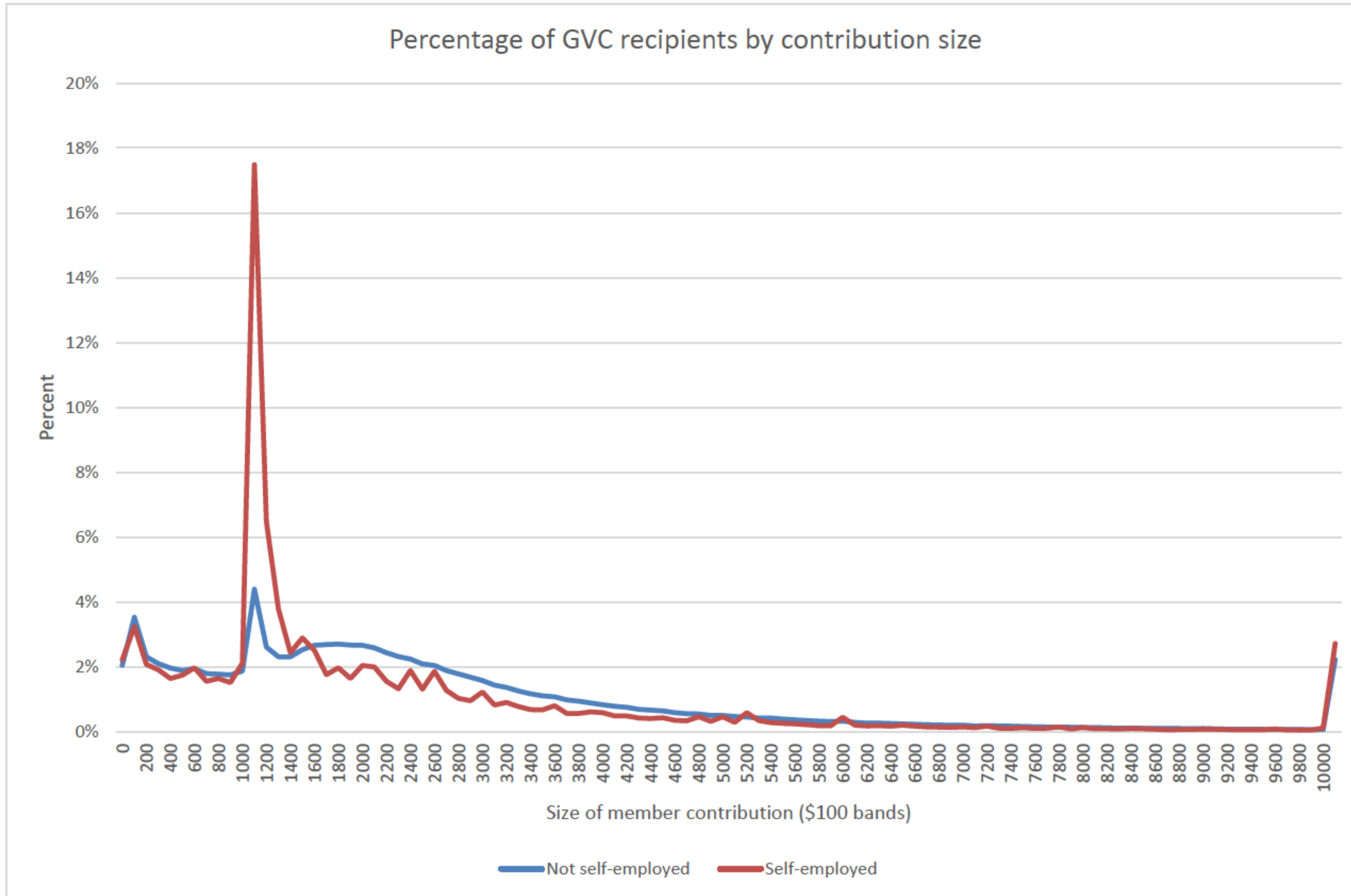
Appendix I



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Briefing note

Reference: BN2025/183

Date: 22 April 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Carolyn Elliott

Subject: **KiwiSaver and Total Remuneration**

Purpose

1. You have asked for further information about total renumeration contracts, specifically:

   - When and why they were originally introduced, including the legislative history of total remuneration contracts being allowed;
   - How prevalent they are;
   - Any previous attempts to remove them (e.g. recommendations from the Retirement Commission or other entities, recent Members' bill etc.);
   - s 9(2)(f)(iv)

History of total remuneration and KiwiSaver

2. KiwiSaver commenced on 1 July 2007 and initially required contributions from employees only. Employers were required to facilitate staff enrolment and the collection of payments through payroll but were not required to make any contributions.

3. From 1 April 2008 employer contributions, at a rate of 1%, were made compulsory. The permissibility of total remuneration was unclear at first, but the KiwiSaver Act 2006 was then amended to allow for a total remuneration approach so long as this was negotiated in good faith after 13 December 2007 (section 101B).

4. This option was removed in September 2008 when the then Labour Government amended the Employment Relations Act 2000 (ERA) to make it illegal to treat or pay otherwise comparable KiwiSaver and non-KiwiSaver employees differently.

5. Then, in December 2008, the newly elected National Government repealed the 2008 ERA amendments, effectively re-legalising total remuneration.

6. Employers cannot however build their KiwiSaver contributions into the total remuneration of a worker on the minimum wage, where the effect is to take that

wage below the statutory minimum. This was confirmed in a Court of Appeal case in 2013.[1]

Prevalence of total remuneration contracts

7. Information about the prevalence of total remuneration clauses in contracts is limited. The Retirement Commission carried out survey research in 2023 (covering 306 small, medium and large employers)[2]. Key takeouts from this report include:

- 45% of surveyed employers used total remuneration clauses for at least some employees;
- 23% of employers always use total remuneration clauses and a further 20% use total remuneration for some employees;
- Where a mixed approach was taken, general staff were more likely to be on total remuneration than management staff (i.e. likely to be those employees on lower salaries).

8. The Retirement Commission report also referenced two prior studies: a small study from 2009 where the prevalence of a total remuneration model among SMEs was 11%, and a subsequent study in 2015 revealed 28% of employers paid senior managers using a total rem approach.

9. Statistics for 1 Jan 2020 to 29 September 2021 from the business.govt.nz Employment Agreement Builder tool[3] show that 21,955 selections were made for total remuneration and 34,451 for contributions above pay. This means 38.9% of those that used the tool used a total remuneration approach (note that not every use of the tool will result in a completed employment arrangement). While we can't extrapolate this to the broader labour market, it indicates that total remuneration approaches could actually be reasonably prevalent. Note, this is a roughly similar proportion to the Retirement Commission finding. We can also ask MBIE if there are more recent numbers available to see if this proportion has remained consistent.

Attempts to alter total remuneration availability

Calls for change

10. The Retirement Commission, in both the 2019 Review of Retirement Income Policies (RRIP)[4], and subsequently in a 2024 report[5] has called for the partial or total removal of total remuneration.

11. In the 2019 RRIP, the Retirement Commission recommended phasing out total remuneration noting that the employer contribution was probably the strongest incentive to be a member of Kiwisaver, however in a total remuneration situation the employee was essentially paying for the employer contributions themselves. The Commission considered this weakened the effectiveness of the KiwiSaver scheme and was unfair when compared with workplaces that funded the contribution on top of wages. They noted that employers that used a total remuneration approach often cited equal treatment between employees in and out of KiwiSaver, but argued that in fact the design of KiwiSaver was intended to make employees in the scheme better off, in order to encourage membership.

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[1] Terranova Homes and Care Ltd v Vasivasi Faitala and Dalrene Goff CA175/2013
[2] https://retirement.govt.nz/news/latest-news/new-research-reveals-prevalance-of-employers-not-paying-kiwisaver-on-top-of-earnings
[3] https://eab.business.govt.nz/employmentagreementbuilder/startscreen
[4] https://retirement.govt.nz/policy-and-research/retirement-income-policy-review/2019-review-of-retirement-income-policies
[5] https://assets.retirement.govt.nz/public/Uploads/Research/2024/KiwiSaver-Opportunities-for-Improvement.pdf

12. In its 2024 report, *KiwiSaver – Opportunities for Improvement*, the Commission again recommended the removal of total remuneration, noting their research (referred above) found almost half of the employers surveyed used a total remuneration approach for at least some employees. The Commission expressed support for the members' bill referred to below.

Members' bill from previous Parliament

13. In the 53rd Parliament a members' bill in the name of Dr Tracey McLellan was introduced seeking to address total remuneration contracts. The Employment Relations (Protection for KiwiSaver Members) Amendment Bill (the Bill) was referred to the Finance and Expenditure Committee of the 53rd Parliament on 30 August 2023. The Bill was reinstated for the 54th Parliament and reported back by the Finance and Expenditure Committee, then subsequently defeated on 21 August 2024.

14. The Bill sought to amend both the Employment Relations Act and the KiwiSaver Act to allow an employee to raise a personal grievance where their employment has been adversely impacted due to their participation in KiwiSaver. The Finance and Expenditure Committee observed the Bill therefore did not prohibit parties from agreeing to a total remuneration approach, but it did limit the situations in which it would be possible to use the approach.[6] Some commentators however were of the view that this would, in practice, prevent employers from using a total remuneration approach.[7]

15. The Finance and Expenditure Committee report back on the Bill recommended that it did not proceed. In addition, it contained differing views from the National, Act and New Zealand First parties. All three parties consider the Bill would create additional hoops, or hurdles, for business and:

- The National Party view was that the Bill introduced uncertainty for employers by adding new grounds for personal grievances, potentially complicating existing employment relationships;

- The Act party considered that the Bill would negatively impact the relationship between employee and employer. It considered that flexibility should be retained in respect of the total remuneration approach.

- New Zealand First did not consider sufficient evidence of a problem had been presented.

s 9(2)(f)(iv)

[6] https://legislation.govt.nz/bill/member/2023/0260/latest/whole.html

[7] http://www.laneneave.co.nz/news-events/new-bill-proposes-reintroducing-grounds-of-kiwisaver-based-personal-grievances/

18. s 9(2)(f)(iv)

Consultation with the Treasury

20. The Treasury was informed about this briefing note.

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Briefing note

Reference: BN2025/215

Date: 8 May 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Carolyn Elliott, Policy Lead

Subject: **KiwiSaver – additional information requested**

Purpose

1. To support development of Budget announcements on KiwiSaver, the Minister of Finance's office has requested the following additional information:

   - Data on prevalence of first home buyers accessing KiwiSaver;
   - More information on evidence around the impact of the government contribution (GVC) on incentivising retirement savings;
   - Amount of KiwiSaver funds invested in New Zealand;
   - Impact of the Budget changes on estimated overall size of funds invested in KiwiSaver – this work is being addressed by The Treasury in an Aide Memoire to also be provided today;
   - Comparison between Australia and NZ retirement income systems – we have provided links to recent NZIER research on this topic and a previously provided briefing note summary of that research is appended to this note for ease of reference (see Appendix 2);
   - Status of work on interaction between KiwiSaver change and collective bargaining (this is being reported separately by The Treasury);
   - Total remuneration contracts (this information has been provided ahead of this note in BN2025/183);
   - Material on retirement income adequacy under existing settings – this is contained in a separate report TSY2025/1242; IR2025/204 also provided today.

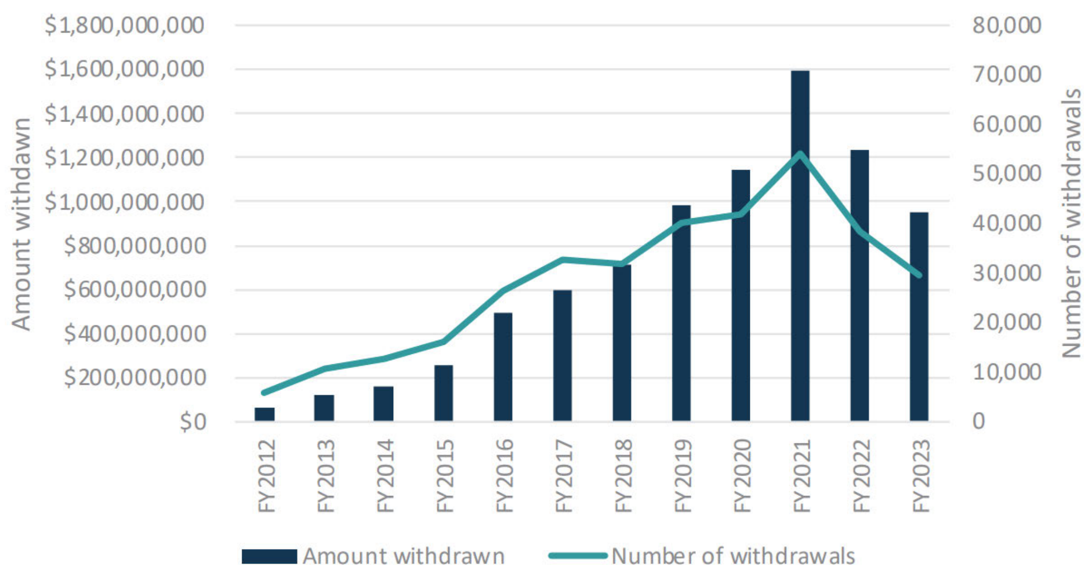
Data on first home withdrawals

2. Inland Revenue does not have a role in first home (or other) withdrawals, however we do maintain aggregate statistics on these withdrawals (supplied to us by KiwiSaver providers).

3. For the year ended March 2025 (the most recent published data available), KiwiSaver members withdrew approximately $1.78 billion in first home withdrawals, with an average withdrawal amount of $42,590. Overall, this is a 42% increase on the same period ending March 2024, in which approximately $1.26 billion was withdrawn.

4. In 2023 the Retirement Commission looked at withdrawals and savings suspensions over the previous 12 years. That data showed that from 2012 to 2023 (June years) a total of $8.3 billion had been withdrawn for first home purchases.[1] As illustrated in the graph below (taken from the Retirement Commission paper), the amount has trended up over time, however this trend reversed in the last two years shown in this graph, coinciding with declining property prices and increasing interest rates in New Zealand.

Figure 1 Trends in first home purchase withdrawals 2012 - 2023



Source: Data from IRD

5. The 2023 annual amount of withdrawals was at $952 million versus a peak of almost $1.6 billion in 2021. This fall appeared to be related to a decline in the number of withdrawals rather than the amount withdrawn. As noted above, Inland Revenue data for the year to March 2025 (noting this is a March rather than June year to account for the most recent data available) suggests this trend has now reversed and withdrawals are trending up again.

Evidence on the impact of GVC on incentivising retirement savings

6. You requested the evidence officials relied on when advising on the impact of the GVC to KiwiSaver.

7. Treasury and Inland Revenue advised that the GVC is unlikely to be significantly boosting household retirement savings (T2025/245; IR2025/04 refers). The available evidence suggests it mainly shifts where people save rather than increasing total savings.

New Zealand evidence

8. The two main New Zealand studies we relied on were undertaken in 2011 and 2014:

- A 2011 Treasury working paper[2] found that only a third of contributions to KiwiSaver accounts represented additional saving. This was based on the findings of a national survey of 825 individuals conducted in 2010. The survey asked respondents how the contributions they were making to KiwiSaver would

[1] https://assets.retirement.govt.nz/public/Uploads/TAAO-RC-Policy-Paper-KiwiSaver-pre-age-65-withdrawals-and-suspensions.pdf

[2] Law, D., G. Scobie and L. Meehan (2011). KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving.

have been used in the absence of the scheme. On average, KiwiSaver members reported that they would have used 64% of the money to save in other vehicles or to reduce their debt had they not joined KiwiSaver.

- A 2014 Treasury working paper[3] by two of the same authors found KiwiSaver membership had no significant effect on net wealth accumulation. This study linked data from the Survey of Family, Income and Employment and from Inland Revenue's administrative data on KiwiSaver membership to analyse the extent to which KiwiSaver membership is associated with great accumulation of net wealth. The data analysed covered the period of 2002 to 2010. This study suggests that, at least during that time period, KiwiSaver contributions came primarily from a reallocation of other savings.

9. As we noted in our earlier advice, this evidence has limitations. In particular, the studies of the impact of KiwiSaver on incentivising additional savings primarily rely on data from early in the life of KiwiSaver. There is a chance that the behavioural response to KiwiSaver settings may not align with findings from over 10 years ago. These studies also rely heavily on self-reported survey data, which can result in measurement error and therefore limit the accuracy of the underlying data.

10. Officials have not been able to identify any other recent New Zealand studies that specifically looked at the extent to which KiwiSaver incentivises members to increase their overall retirement savings.

11. A 2025 NZIER paper[4] contained a short section considering the impact of KiwiSaver on household savings and concluded that the impact is unclear.

It is unclear whether higher KiwiSaver balances will translate into higher household and national savings. Standard economic theories predict that most households will offset an increase in retirement savings balances by reducing other forms of savings or increasing borrowing (this is known as the substitution effect). However, financially constrained households may not be able to offset savings, and behavioural biases or nudges may influence households' decisions.

There is little empirical evidence on how KiwiSaver has impacted household and national savings in the past. One study – using data from the first three years of KiwiSaver – found that KiwiSaver has a small positive effect on household savings and a marginal or even negative effect on net national savings (Law, Meehan, and Scobie 2017). However, this study is quite old, and KiwiSaver has changed significantly. More research is needed before any reasonable predictions can be made about the future.

International literature

12. In addition to relying on New Zealand studies of the impact of KiwiSaver on incentives to save, officials also considered some of the international evidence on the link between savings incentives and savings rates. A comprehensive OECD report from 2018 assessed a wide collection of the international evidence on savings incentive .[5] The report finds a wide variety of results in the literature, but concludes that "a reasonable estimate would be that new savings represent between a quarter and a third of retirement savings in tax favoured plans". It is unclear from the report how the authors arrived at this judgement.

[3] Law, D and G. Scobie (2014). KiwiSaver and the Accumulation of Net Wealth.

[4] Aotearoa New Zealand in 2050: preparing our retirement income policy for the future. This paper was prepared as part of the Retirement Commission's Review of Retirement Income Policies.

[5] OECD (2018), Financial Incentives and Retirement Savings, OECD Publishing, Paris.

13. In conversations with the Retirement Commission, they highlighted one international study from Denmark[6] that they view as highly relevant. This study was also referenced in the OECD report above and was identified as particularly striking due to its use of administrative data (with a higher quality level and lower measurement error than self-reported information) for a large panel of individuals. The analysis in this paper relies on a panel of approximately 41 million observations for 4 million individuals. The OECD report notes that this leads to very robust results.

14. The key finding from the Danish paper is set out below.

    Overall, our results imply that automatic contributions may be more effective at increasing total retirement savings than price subsidies for two reasons: (1) subsidies induce relatively few individuals to respond, and (2) they generate substantial crowdout conditional on response.

15. This is also the conclusion of the Congressional Research Service for the United States who suggest that: "In general, reducing tax rates on capital income is not likely to increase saving..." and on tax-favored retirement accounts that: "evidence does not clearly indicate that these retirement plans increase overall saving."[7]

Amount of KiwiSaver funds invested in New Zealand

16. As noted in a recent Joint Minister's meeting (24 April) on KiwiSaver and potential capital markets reforms, the current information collected by the Financial Markets Authority regarding where KiwiSaver funds are invested looks more at asset class rather than location of investment. The most recent KiwiSaver Annual report (to 30 June 2024) shows KiwiSaver assets are invested as follows:

Appendix 12: Where KiwiSaver money is invested

KiwiSaver schemes as at 31 March 2024

Cash	Commodities	Australasian Equities	International Equities	International fixed interest	NZ fixed interest	Listed Property	Unlisted Property	Other
10.0%	0.5%	15.7%	39.4%	17.3%	12.5%	2.7%	0.5%	1.5%

Note: This data is based on the quarterly fund updates that are lodged on the Disclose Register as at 31 March 2024.

17. We have asked the Financial Markets Authority whether they have any more detailed information, however we are advised they do not. We note in this context, MBIE are proposing that changes are made to the regulations specifying what data is disclosed to the Financial Markets Authority on investments, which if agreed will improve the breadth of this information.

18. The Reserve Bank of New Zealand (RBNZ) also collects and publishes information on KiwiSaver investments.[8] This information is collected by way of survey as part of the RBNZs Quarterly and Annual Managed Funds Surveys. This data shows that as at December 2024 there was a total of $127,621m in KiwiSaver funds, with $51,167m of this invested in New Zealand assets and $76,454m overseas. The New Zealand based portion of the investment in this data therefore makes up 40% of

[6] Chetty, Raj, et al. "Active vs. passive decisions and crowd-out in retirement savings accounts: Evidence from Denmark." The Quarterly Journal of Economics 129.3 (2014).

[7] Gravelle Jane G. and Marples Donald J., Congressional Research Service (2024). Can Tax Policy Increase Saving?

[8] https://www.rbnz.govt.nz/statistics/series/non-banks-and-other-financial-institutions/kiwisaver-assets-by-sector

the total KiwiSaver funds. Further detail of the breakdown is contained in Appendix 1.

Consultation with the Treasury

19. The Treasury was consulted and assisted in the preparation of this briefing note.

Carolyn Elliott
Policy Lead
s 9(2)(a)

Appendix 1 – Reserve Bank data on KiwiSaver investments

	Previous years:		Quarterly:			
	Dec 2022	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024
ASSETS						
Total assets	91,711	107,517	115,232	115,937	122,574	**127,621**
New Zealand assets [1]	41,306	44,814	47,095	48,450	50,602	**51,167**
Overseas assets [1]	50,406	62,703	68,137	67,488	71,971	**76,454**
New Zealand assets						
Total New Zealand assets [1]	41,306	44,814	47,095	48,450	50,602	**51,167**
Cash and deposits	5,372	5,873	6,233	6,880	6,630	**6,052**
Loans	94	124	132	147	158	**165**
Short-term debt securities [1]	2,995	1,995	2,423	2,321	2,489	**2,711**
Long-term debt securities [1]	10,895	13,378	13,312	13,999	15,075	**15,011**
Equities and units in trusts [1]	19,333	20,317	21,909	22,021	23,114	**24,105**
Derivatives in a net asset position	1,855	2,304	2,149	2,212	2,257	**2,281**
Other financial assets	761	822	937	870	880	**842**
Non-financial assets	1	1	1	1	1	**1**
Overseas assets						
Total overseas assets [1]	50,406	62,703	68,137	67,488	71,971	**76,454**
Cash and deposits	1,380	1,484	1,563	1,422	1,904	**1,657**
Loans	0	0	0	0	0	**0**
Debt securities [1]	12,971	16,165	16,677	16,648	16,565	**17,394**
Equities and units in trusts [1]	35,800	44,762	49,585	49,332	53,174	**57,009**
Derivatives in a net asset position	124	232	54	40	217	**29**
Other financial assets	130	61	258	46	113	**366**
Non-financial assets	0	0	0	0	0	**0**
Unallocated	-	-	-	-	-	**-**

[1] A series break occurs in June 2014 due to changes in the survey. See series description for more detail.

Appendix 2: Previous briefing note on NZIER research

Briefing note

Reference: BN2024/452

Date: 6 November 2024

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Ella Patterson

Subject: **Upcoming paper on lessons from the Australian retirement income system**

Purpose

1. On 24 October 2024, we received a draft copy of a New Zealand Institute of Economic Research (NZIER) paper prepared with support from the Retirement Commission, *Lessons from across the Tasman - Comparing the Australian and New Zealand retirement income systems*. The paper aims to compare the performance of the New Zealand and Australian retirement income systems to identify lessons for New Zealand.

2. We understand that the paper is intended to be published on 7 November 2024, along with a media release. The paper and media release are under embargo until 5am on 7 November 2024. This briefing note summarises the contents of the paper.

Background

3. Both countries have an ageing population, and it is anticipated that dependency ratios (the number of workers per dependent member of the population) will decline in years to come. Spending on pensions, health, and aged care will increase as the share of the working age population (who fund most of this spending) falls.

4. The retirement income system is shaped by the government's fiscal position. General government spending tends to be slightly higher in Australia than New Zealand relative to Gross Domestic Product (GDP). The effect of the retirement income system on government finances is likely to increase as the population ages.

The pillars of the two systems

5. Australia's system involves targeted government support:

   - the means tested 'Age Pension' which aims to address pensioner poverty,
   - the Superannuation Guarantee, where employers contribute at 11.5%[9] even if employees make no contributions of their own, and
   - tax incentives to encourage employees to make voluntary contributions to their Superannuation accounts, such as the ability to make a pre-tax salary sacrifice to a superannuation account.

[9] This mandatory contribution rate is scheduled to rise to 12% on 1 July 2025.

6. In contrast, New Zealand's system is made up of:
   - New Zealand Superannuation (NZ Super), a universal public pension, and
   - KiwiSaver, a voluntary private savings scheme to smooth incomes over the lifecycle.
7. In both countries, voluntary private savings outside of the retirement income system also supplement retirement incomes. Mortgage-free home ownership has historically played an important role in providing financial security in retirement. However, the number of retirees renting or paying off mortgages is increasing.

Key lessons for New Zealand's retirement income system

8. While the two retirement systems seem comparable, each has different goals and structures that reflect different cultural attitudes and histories. New Zealand's retirement income system has historically emphasised universal benefits and equality, while Australia has leaned more towards targeted support. This means any changes need to be adapted within the local context.

9. There are benefits to the simpler design of New Zealand's system as it avoids unintended consequences, like choice distortion of when to retire and the compliance costs associated with means testing.

10. Australia's system (largely pre-funded through private savings) places a lower burden on future generations. In contrast, New Zealand's retirement income system is more costly for the government as it is mainly funded by current taxes. Despite the partial pre-funding of NZ Super through the NZ Super Fund, the current New Zealand settings still place a greater intergenerational burden on future generations.

11. Any changes to the balance of public and private savings making up New Zealand's retirement income system will require weighing up the impact on intergenerational equity and income inequality.

12. New Zealand could increase KiwiSaver balances by raising minimum or default contribution rates gradually, taking a similar approach to how the Australian Superannuation Guarantee rate rose from 3% to 11.5% over time. However, rates as high as Australia are unlikely to be desirable, given the availability of NZ Super. Encouraging people to save too much for their future reduces their living standards today.

Adequacy of settings in enabling a reasonable standard of living in retirement

13. Two key factors that determine the level of adequacy are the proportion of the population that participate in the retirement system, and the replacement rate that different groups of earners achieve through the retirement income system.

14. 59% of Australians aged 65 and older receive the Age Pension, whereas nearly all New Zealanders aged 65 and older receive NZ Super. There is a similar proportion of Australians who hold a Superannuation account compared to New Zealanders hold a KiwiSaver account (84% vs 79%), and in both countries around 90% of those in paid employment make contributions to their accounts.

15. A worker with average earnings and a full career has a net pension rate of 62% in New Zealand and 34% in Australia. This could be interpreted to indicate earnings from retirement income are higher in New Zealand, and that the New Zealand system is more progressive.

16. However, the replacement rate estimates are extremely sensitive to modelling assumptions, such as investment returns. The figures for Australia are also impacted by the Age Pension means test, as average earners will become eligible

later in life as they draw down their assets. A different modelling approach and assumptions produces a pension replacement rate for average earners in Australia of 80%.

Impact on poverty, income inequality and gender inequity

17. While New Zealand's system reduces income inequality in retirement, Australia's system perpetuates inequalities from working years. In both countries, income poverty is lower for people aged 65 and over than the general population.

18. In Australia, income inequality among people aged 65 and over is similar to the general population. Superannuation tax concessions increase inequality, as people with higher lifetime incomes receive more benefit from concessions than those with lower lifetime incomes.

19. In New Zealand, income inequality among people 65 and over is lower than the general population, as NZ Super provides a higher proportional benefit to lower-income retirees. In addition, NZ Super is taxed as income, so those with other sources of income may receive less after-tax superannuation.

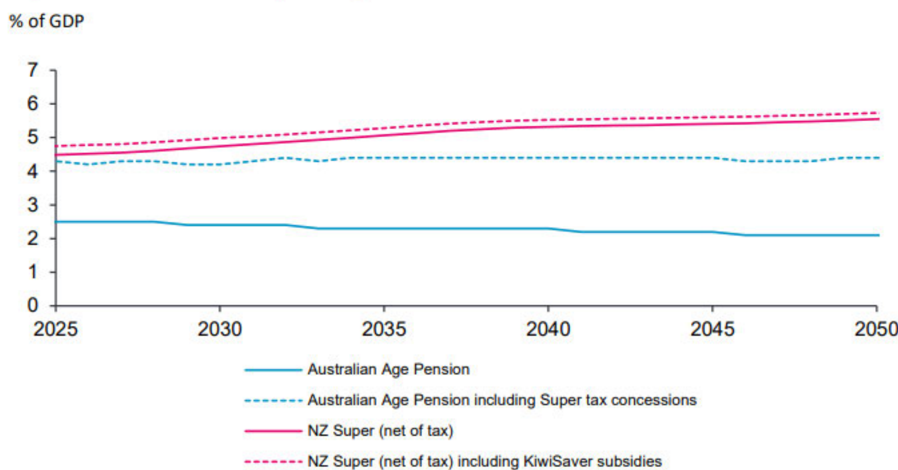
20. Both the average Australian Superannuation balance, and the average KiwiSaver balance are 25% lower for women. The gap is driven by differences in earnings in working life, with retirement income system settings having only a small effect.

Sustainability of government spending on retirement income policies over time

21. Spending on NZ Super relative to GDP is much larger than spending on the Australian Age Pension due to its universal coverage. After accounting for tax, spending on NZ Super is expected to rise over time from 4.1% of GDP in 2020 to 5.5% in 2050 as the population ages. Spending on the Age Pension is expected to decline from 2.5% of GDP to 2.1% in 2050 as growing superannuation balances mean fewer people will qualify.

22. In Australia, lost revenue from tax concessions is expected to rise from around 2.0% of GDP in 2020 to around 2.5% in 2050, exceeding the cost of Age Pension expenditure. Tax concessions reduce Age Pension expenditure by contributing to higher superannuation balances. In contrast, KiwiSaver subsidies currently account for just 0.3% of GDP.

Figure 12 Government spending



Note: Age pension spending includes service pension

Sources: Commonwealth Treasury (2023), New Zealand Treasury (2024; 2021)

23. Both countries have sovereign wealth funds with the objective of reducing the burden of the retirement income system when an ageing population is likely to place significant pressure on government revenue.

24. The Australian Future Fund was established in 2006, with a government contribution of A$60.5 billion. The government can withdraw from the fund from 2020 but does not plan to do so until at least 2026-27. The Future Fund currently has a balance of A$225 billion or 8.4% of GDP.

25. The NZ Super Fund was established in 2001, and typically receives an annual government contribution of around NZ$2 billion. The fund currently has a balance of NZ$78 billion, amounting to around 19% of GDP. Withdrawals are expected to begin in the 2030s to smooth the increase in NZ Super expenditure, but it will not fully fund it. When annual withdrawals peak in the 2080s, they are expected to reach around 0.9% of GDP.

Impact on household and national savings

26. As the Australian Age Pension and NZ Super provide income in retirement, they reduce the incentive to save. NZ Super is likely to have a larger effect due to its universal coverage. Because they are funded through taxation or borrowing, they also reduce government savings. Both factors reduce national savings.

27. Economic theories predict that an increase in contributions to retirement savings schemes do not translate to an increase in savings, as households will offset the increase by reducing other forms of savings or increasing borrowing (the substitution effect). However, financially constrained households are less likely to be able to offset savings, and households' decisions may be influenced by behavioural biases or behavioural nudges.

28. Despite the presence of the substitution effect, the Australian Superannuation scheme has a positive impact on household savings. Each additional dollar of compulsory employer contributions leads to an increase in household savings of around 60 cents on average, with a larger effect in larger in financially constrained households.

29. KiwiSaver has a smaller effect on household savings due to the relative length of time funds have had to compound, and the lower average contribution rate (7% vs 12%). The substitution effect is also much stronger as financially constrained households have the option of reducing their contributions or opting out.

30. Australia's national savings rate is much higher than New Zealand (25% of GDP vs 17%) and Australian Superannuation is often attributed as an important contributor. Australian Superannuation funds under management are over five times as large as KiwiSaver relative to GDP.

31. However, the impact of these savings schemes on national savings are likely to be less than the growth in superannuation assets indicate due to the substitution effect on household savings. The cost of tax concessions and subsidies contribute to increased government borrowing, which partially offsets any increase in household savings. Assuming that Australian Superannuation increases private savings by 70% and ignoring the effect of public savings, it is estimated to contribute to national savings by around 2.5 to 3.0% of GDP.

Impact on labour participation and wages

32. Australia's system discourages working at pension age, resulting in lower labour force participation. New Zealand has an older effective retirement age and higher labour force participation rate among people 65 years and over.

33. The means test for the Age Pension includes an assets test and an income test. While the first A$11,800 of annual income is not counted under the income test, income over this reduces the pension payment by 50 cents for every dollar. After tax, this produces an effective marginal tax rate of 69%. In contrast, NZ Super payments are not affected by income, so any income is taxed at the marginal tax rate. As a result, older New Zealanders have much stronger incentives to work.

34. Retirement age also influences choices to continue to participate in the workforce. Whilst the eligibility age for Age Pension is slightly higher than NZ Super (67 vs 65), Australians can access their Superannuation savings before New Zealanders can access their KiwiSaver (60 vs 65), giving them the ability to retire earlier.

Figure 15 Average effective age of retirement

Years, 2022

Source: OECD (2023)

35. In Australia, studies have found that 80% of the increase in the Superannuation Guarantee is passed on to workers through lower wage growth. Because the economic incidence of employee and employer contributions is similar, there is no obvious economic advantage of having solely employer contributions.

36. The labour decisions of older people also affect wage growth. Higher participation rates for older workers in New Zealand raise labour supply overall, reducing wage growth.

Consultation with the Treasury

37. The Treasury was informed about this briefing note.

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Initiatives to support the start-up and tech sector: Permission to consult**

Date:	15 March 2024	**Priority:**	High
Security level:	In Confidence	**Report number:**	IR2024/064

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Agree** to recommendations **Refer** a copy of this report to the Minister of Finance, Minister of Science, Innovation and Technology and the Minister for Economic Development	22 March 2024

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Casey Plunket	Special Policy Advisor	s 9(2)(a) s 9(2)(a)
Richard McLaughlan	Senior Policy Advisor	s 9(2)(a) s 9(2)(a)

15 March 2024

Minister of Revenue

Initiatives to support the start-up and tech sector: Permission to consult

Executive summary

1. This report seeks your decision whether to pursue possible tax initiatives to support the start-up and tech sector. Subject to that decision, the report seeks agreement to begin targeted consultation with selected stakeholders.[1]

2. The "Boosting the Tech Sector" manifesto document includes a commitment to work with the tech sector to investigate changes to tax rules that would better support start-ups to attract talent by offering future equity in the business.[2] Further to this commitment, the Minister of Science, Innovation and Technology has requested that you investigate tax initiatives that would better support start-ups.

3. You have expressed particular interest in two tax initiatives:
   - a deferred tax regime, which would allow income from employee share schemes offered by start-up companies to be deferred until there is a "liquidity event" to fund the tax on the income; and
   - changing the limits on the value of shares and related benefits that can be provided to employees on a tax-free basis.

4. You have asked for a high-level costing of a deferral regime. At this stage, the overall fiscal cost of the proposal is estimated to be $32 million over the forecast period. However, officials note that there is limited information available to make an accurate estimate, and caveats have been provided.

5. Subject to your approval, we propose to initiate targeted consultation by writing to stakeholders and offering to meet with them to obtain their input on the merits and design of the two initiatives, as well as any other tax initiatives that could support the start-up and tech sector. We will also propose to provide stakeholders with a revised officials' issues paper on the deferral regime that has been updated from 2017.[3] Consultation is likely to create an expectation in the sector that tax initiatives will be pursued.

6. This consultation would occur during March-April 2024. A draft letter containing content to send to stakeholders is attached in Appendix One to this report for your approval. In addition, the revised officials' issues paper on the deferral regime is included in Appendix Two to this report for your approval.

7. We would report to you on the outcome of targeted consultation, likely in May, and then seek final policy decisions after refining any relevant proposals. Our best-case timeline will allow for changes in this area to be included in the next available tax bill, which is the August Omnibus Taxation Bill, with changes applying from 1 April 2025. However, this timeline offers relatively limited time for detailed design decisions and a short window for consultation. If consultation exposes issues that

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[1] Association of Angel Investors, New Zealand Private Capital, UniServices, Outset Ventures, Movac, Creative HQ, Chartered Accountants Australia and New Zealand, Corporate Taxpayers Group, New Zealand Law Society, Deloitte, PWC, EY, KPMG, ATAINZ and Tax and Social Policy Māori Advisory Panel.

[2] The National Party (2023), *Boosting the Tech Sector,* J de Joux.

[3] In May 2017 officials released a paper consulting on a possible deferral regime (*Taxation of employee share schemes: start-up companies,* Inland Revenue (May 2017)). At the time there was relatively little reaction to the paper, and the proposal did not proceed.

require more detailed work than anticipated (or further consultation), we will report back to you at that time, including options for later legislative vehicles.

8. The deferral regime, and other potential tax initiatives to support the start-up and tech sector, have not been invited into the Budget 2024 process. Out-of-cycle funding would be required to progress these into the August Omnibus Taxation Bill. If this is not possible, any initiatives could be progressed through the Budget 2025 process and legislated for in the next available Taxation Bill.

Recommended action

We recommend that you:

9. **confirm** that you would like to investigate possible taxation initiatives to support the start-up and tech sector.

   Confirmed/Not confirmed

10. **agree** to officials beginning targeted consultation with selected stakeholders on possible taxation initiatives to support the start-up and tech sector.

    Agreed/Not agreed

11. **agree** to officials issuing letters to relevant stakeholders based on the draft content in Appendix One and Appendix Two.

    Agreed/Not agreed

12. **refer** a copy of this report to the Minister of Finance for their information.

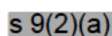
    Referred/Not referred

13. **refer** a copy of this report to the Minister of Science, Innovation and Technology for their information.

    Referred/Not referred

14. **refer** a copy of this report to the Minister of Economic Development for their information.

    Referred/Not referred


s 9(2)(a)

Casey Plunket
Special Policy Advisor
Policy and Regulatory Stewardship

Hon Simon Watts
Minister of Revenue
/ /2024

Background

Government has outlined commitments for boosting the tech sector

15. The "Boosting the Tech Sector" manifesto document states that New Zealand needs to make it easier for high-growth sectors like tech to attract the skills and talent they need to grow.[4] One of the five priorities for the Science, Innovation and Technology portfolio is to increase the value of the tech sector by $30 billion by 2030.

16. Additionally, the Government has agreed to progress a number of policies through coalition agreements. This includes a commitment to investigate changes to the tax treatment of share options issued by start-ups to their staff to make it easier to attract and retain talent in their early years.[5]

17. The Minister of Science, Innovation and Technology has written to you requesting you investigate changes to tax rules that would better support start-ups in line with this commitment. The letter recognises that these changes could prove beneficial to the growth of businesses in our start-up sector considering they are often cash poor.

Problem definition

18. The issue is whether there are any tax changes that would make it easier for companies in the start-up and tech sector to attract and retain talent. Any changes would be intended to contribute to the growth of the sector.

19. Companies in the start-up and tech sector can be small and face issues with liquidity and valuation. They are often cash constrained, and all available cash is allocated to developing the business. This is a particular reason they use employee share schemes (outlined below) because those schemes reduce the amount of cash salary they have to pay.

Proposed taxation initiatives to support the start-up and tech sector

20. You have expressed particular interest in two initiatives to support the start-up and tech sector that relate to the use of employee share schemes.

21. Employee share schemes are arrangements to issue or transfer company shares to a person who will be, is, or has been an employee of a particular company. These are an important way of remunerating employees in New Zealand and internationally.[6] Employee share schemes can align the incentives of employees with those of the firm and its non-employee shareholders and can engender greater work effort and employee engagement. A 'benefit' received under an employee share scheme is taxable income[7], unless it is an exempt scheme.

22. Employee share option plans are a type of employee share scheme. These give employees the option to buy shares at a certain price (the 'exercise price') on or after a future date or event. Employees benefit if the value of shares at a future date is higher than the exercise price.

[4] The National Party (2023), *Boosting the Tech Sector,* J de Joux.
[5] Commitment 87 of the National Party's 100-point plan.
[6] In the 2022 year, New Zealand employers reported providing $533 million of taxable employee share scheme benefits to 15,730 employees.
[7] The income is the market value of the shares that an employee share scheme beneficiary acquires on the taxing date less any consideration provided by them.

Tax deferral for start-up companies

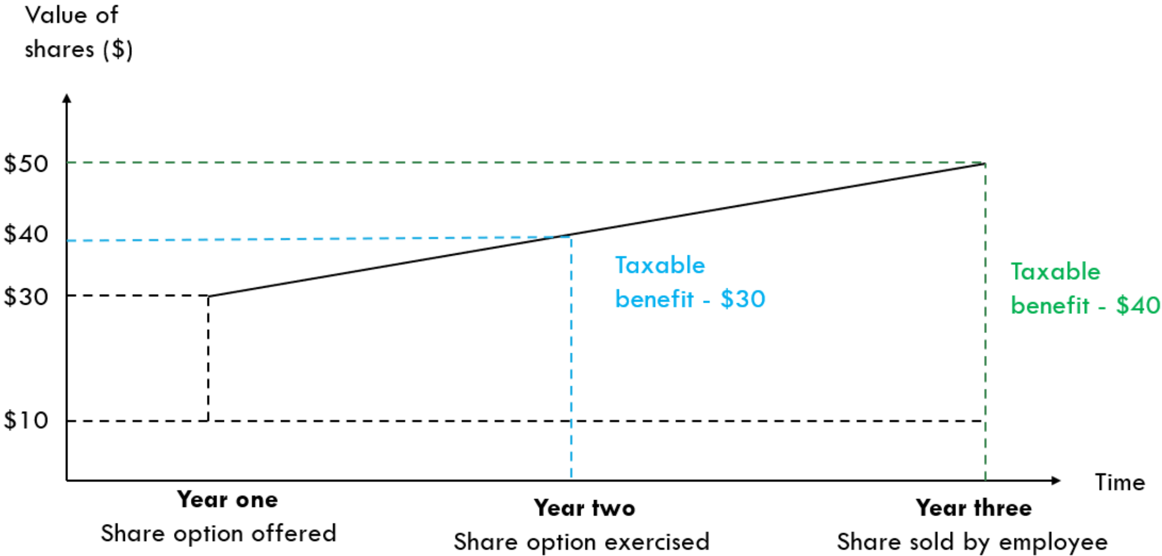
23. Under current settings for employee share schemes, tax is required to be paid when the employee holds shares, in the same way as any non-employee shareholder, free of any employment-related restrictions or conditions.[8] For an employee share option plan, this is usually once the option is exercised.

24. This can be problematic because tax needs to be paid on illiquid (non-cash) income. The employee is liable to pay tax on shares which they often cannot sell, leaving them out of pocket. The tax deduction available to the employer (equal in timing and amount to the employee's income) will not give rise to an immediate tax benefit if the employer is in tax loss (as it often is).

25. Additionally, Inland Revenue requires some evidence of the value of shares at the point of exercise which can in some cases require third-party valuations. This was identified as a problem in manifesto commitments, as well as in the Startup Advisors Council's 2023 Upstart Nation Report.[9] That said, many start-ups do regularly value their shares, for the purpose of attracting further funding.

26. A deferral regime would allow employees in start-up companies to elect to defer the recognition of employee share scheme income until there was a "liquidity event" to fund the tax on the income (for example, when the shares are sold by the employee, the company is listed or the assets of the company are sold, and the proceeds are distributed). The employee would be taxed on the value of the shares at this time, less any amount the employee paid for them (and the employer would be entitled to a corresponding deduction at that time).

Example 1: Deferral regime



This example assumes an employee is offered shares with an exercise price of $10 in year one. Under a deferral regime the taxing point would move from year two to year three when the shares are sold, and the taxable income would be $40 rather than $30.

27. This would address both the valuation and liquidity issues. For example, at the time the shares are listed, there is an established market value, and the employee can

[8] These restrictions or conditions relate to potential forfeiture of the benefit under the scheme, provisions that provide the employee will not be entitled to be compensated for a fall in the value of the shares, or conditions that may result in the reclassifying of shares.

[9] Ministry of Business, Innovation and Employment (July 2023), ISBN: 978-1-99-106959-7, *Upstart Nation*, Wellington.

sell some shares (or will receive some consideration for the shares on a wind up) to satisfy the tax liability.

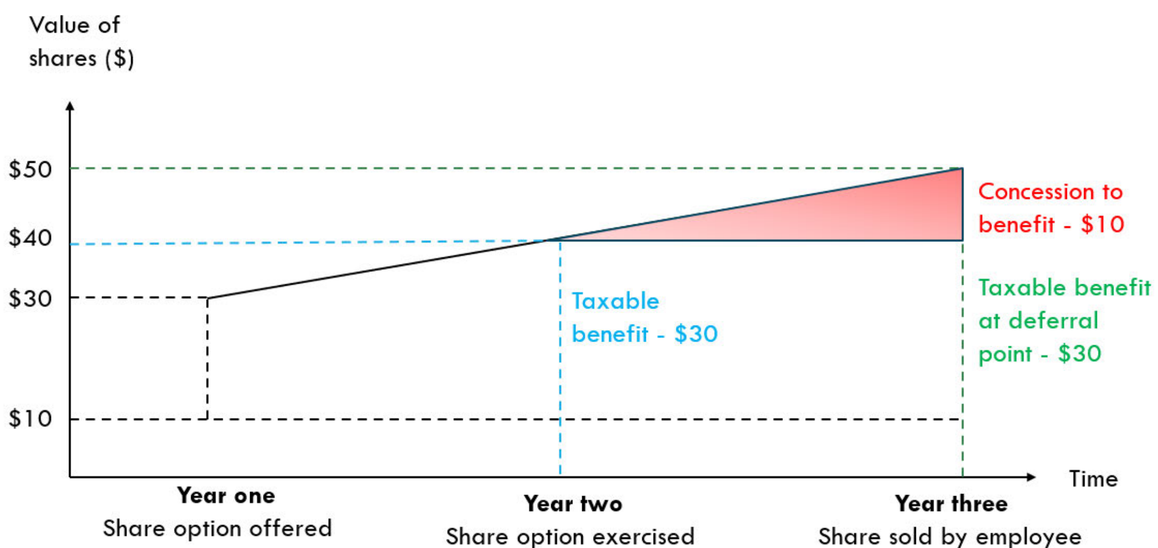
28. Any deferral regime would need to have a cut-off date (that would apply regardless of whether a liquidity event had occurred) so that tax could not be deferred indefinitely. When the cut-off date applies, issues of valuation and liquidity will still arise. The suggested date in the revised officials' issues paper is seven years.

29. Work on a deferral regime will also consider possible amendments to better integrate employee share schemes and the research and development loss cash out regime.

An alternative more concessionary regime

30. An alteration to the tax deferral regime would be to make any change in the share value after the exercise date non-taxable. The taxable benefit would still be assessed when the employee holds shares in the same way as any non-employee shareholder, free of any employment-related restrictions or conditions. This provides a timing advantage because the payment of the tax would not be required until there is a "liquidity event" to fund the tax on the income (for example, when the shares are sold by the employee, the company is listed or the assets of the company are sold, and the proceeds are distributed).

Example 2: Alternative deferral regime



This example assumes an employee is offered shares with an exercise price of $10 in year one. Under a concessionary regime the taxing point would still take place at year two when the shares are held by the employee, however, it would not need to be paid until the shares are sold. The taxable income would remain $30, and any increase in the share value would not be recognised as income.

31. This would address the liquidity issue. At the time the shares are sold the employee will have money available to satisfy the original tax liability. However, the valuation issue would remain, and an employee would be required to have a valuation of the shares once they are held.

Threshold increase for exempt schemes

32. Employers can provide exempt benefits to employees under an exempt employee share scheme. An exempt employee share scheme is a widely offered scheme that meets certain criteria. No deductions are available for an employer in relation to an exempt scheme other than in respect of establishing or managing the exempt scheme.

33. The eligibility criteria include, among other things, the following conditions:

    - the maximum value of shares provided to an employee is $5,000 a year;
    - the maximum discount an employer can provide on the market value of the shares to an employee is $2,000 a year; and
    - 90% or more of full-time permanent employees must be eligible to take part in the scheme.

34. Officials propose consulting on the possible benefits of changing the first two thresholds above. These thresholds relate to the value of the shares offered and the value of the benefit offered. Officials note that inflation adjusting these figures from the first time they applied (first quarter of 2018) would involve increasing them by approximately 25%.

35. Officials would like to know whether this change would be likely to increase the use of exempt schemes by start-ups and other tech sector companies.

Options analysis

Tax deferral for start-up companies

36. A deferral regime for start-up companies presents design issues which will need to be addressed to ensure compliance without imposing undue costs for employers, employees and Inland Revenue. In particular, the proposal would make it more difficult for employers to identify the taxing point, which might lower compliance with their obligation to report the benefit. If the taxing event is triggered by a sale of shares or an employee or ex-employee ceasing to be New Zealand resident for instance, the employer may not be aware that an event has taken place.

37. The deferral regime is not intended to provide a tax concession to employers and promote employee share scheme remuneration over cash remuneration. The "cost" of deferring the taxing point is that employees will, in effect, be taxable on any gains on the shares until the deferral taxing point occurs (which may be higher than their original value). Of course, where the shares decline in value, deferral will result in less tax for the employee.

38. The deferral regime would result in an additional administrative cost for Inland Revenue. This is from reduced compliance that will occur at the later taxing point, and an increase in reviews and disputes. There is potential that Inland Revenue would require more information about employee share schemes in employment information during payday filing. This will affect the end of year square up process, which will have flow on impacts to external delivery parties (e.g., software providers). There will also be a non-system delivery cost relating to updated guidance.

39. These design issues will take time for Inland Revenue and stakeholders to consider through consultation. It is important that any deferral regime that is implemented is fair and ensures employee share schemes remain an effective way of remunerating employees in New Zealand. If consultation exposes issues that

require more detailed work than anticipated (or further consultation), we will report back to you, and investigate options for other legislative vehicles.

Alternative more concessionary regime

40. An alternative, more concessionary regime does not align as well with New Zealand's broad-base low-rate framework. Under the framework, tax bases are defined as broadly as possible, so no activity or form of payment (including remuneration in shares) is either advantaged or disadvantaged through the operation of the tax system. This helps reduce economic distortions.

41. An alternative regime would advantage the use of employee share schemes as a form of employee remuneration for start-up and tech sector companies. Unlike salary or wages, employees would be entitled to a tax-free benefit in line with the growth of shares after they are held. This could be quite significant if the deferral date remains up to seven years.

42. An option to partially mitigate foregone revenue over the forecast period would be to permit the recipient to spread the income tax payable under an employee share scheme over an extended period. This period could be either a set number of years or until the realisation of those shares. This would reduce or eliminate the cashflow impact of accounting for tax without a corresponding disposal of the shares. There are currently a number of spreading regimes that allow such spreading within the Income Tax Act generally over a set number of years.[10]

43. Regardless of design choices, this alternative regime would also increase the fiscal cost of the original deferral regime (which is outlined below).[11] This is because any growth in the shares would be excluded from the taxable benefit, and not included in the employee's income tax.

44. For the reasons outlined above officials would not recommend a concessionary regime and have not included it in the consultation materials. However, if consultation identifies support for this option, we will report back to you, and identify options to reduce tax distortions.

Threshold increase for exempt schemes

45. The existing concessionary regime is intended to encourage employers to offer shares to employees under widely offered employee share schemes. The policy intent behind the concession is that the schemes are designed to increase employer engagement at all levels of the company and align employee and shareholder incentives. This may not be well targeted to start-up companies who may not have the ability to offer all their employees' access to employee share schemes.

46. A tax exemption for employment income does not fit generally within New Zealand's broad-base low-rate framework. Any changes to the thresholds should be viewed in light of this. Keeping the thresholds low is an important factor in ensuring that the full benefit of such schemes is accessible to the vast majority of company's employees.

47. Increasing the thresholds for exempt schemes will have minimal administrative implications considering the concessionary regime has been in place for some time.

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[10] These regimes are generally in the farming and agricultural sectors and allow the spreading back of income over prior income years, such as timber income, this would permit taxpayers to spread employee share scheme income over the following income years, much like the spreading rule for the loss of cattle from mycoplasma bovis.

[11] A set number of years rather than deferral until realisation would have a lesser fiscal impact.

However, it will likely come at some additional fiscal cost, which can be scaled depending on the extent of the threshold changes.

Financial implications

48. Deferral of taxation results in an outcome for the employee (and, over time, the Government) which is equivalent to upfront taxation, provided taxable income is determined using the value of the shares at the deferral date. However, there will be a level of foregone revenue for the Government in the immediate years following implementation of the deferral regime. The cost of this proposal is estimated to be $32 million within the current forecast period assuming the regime would apply from 1 April 2025. Beyond the forecast period, the fiscal cost steadily declines to $0 by 2033.

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28 & Outyears**
Tax Revenue:					
-Other persons	0	0	0	(26.000)	(23.000)
-Company tax	0	0	0	9.000	8.000
Total operating	**0**	**0**	**0**	**17.000**	**15.000**

49. This costing is projected from recent employee share scheme data with an implicit assumption that the data is representative.[12] The fiscal estimate assumes an 100% take-up of companies in the start-up sector when in reality the deferral regime would be voluntary, and a proportion of companies or employees would not take it up. It also assumes an assumption of no behavioural change (no increased use of employee share schemes) as a result of the introduction of the scheme.

50. The costing assumes criteria for determining what qualifies as a “start-up company”. The criteria, which is largely based on a similar Australian regime, provides that a company must:

- be an unlisted company;
- be less than ten years old; and
- have an annual turnover of less than $15 million.

Consultation

51. The Treasury has been consulted in the preparation of this report and the attached letter and issues paper. As identified below, there is particular concern for the out-of-cycle budget funding that would be required to progress the deferral regime.

52. The Ministry for Business, Innovation and Employment has been consulted in the preparation of this report and the attached letter and issues paper.

Next steps

53. Officials would like to confirm that you wish to pursue possible tax initiatives to support the start-up and tech sector.

[12] Employee share scheme information was taken from an average of the 2022 and 2023 tax years. An average of 124 “start-up” companies paid $56.8 million through employee share schemes and employees paid tax of $20.1 million.

54. Subject to your approval, we would issue a letter based on the contents in Appendix One and Two and hold meetings with select stakeholders (including Inland Revenue's regular tax stakeholders and the Ministry of Business Innovation and Employment's stakeholders in the start-up and tech sector) to discuss the proposed approach. We will seek to do this soon after your approval.

55. We will report back to you on feedback received from stakeholders and proposed final policy decisions after refining any relevant proposals. Our shortest timeline will allow this to be done with a view of obtaining Cabinet approval in time for the August Omnibus Taxation Bill. Assuming inclusion in the August bill, any changes could apply from 1 April 2025 in line with the new tax year. However, if consultation exposes issues that require more detailed work than anticipated (or further consultation), we will report back to you at that time, including options for later legislative vehicles.

56. The deferral regime, and other potential tax initiatives to support the start-up and the tech sector, have not been invited into the Budget 2024 process. Out-of-cycle funding would be needed to progress these into the August Omnibus Taxation Bill. The Tax Policy Scorecard is unlikely to have sufficient room to fund the mentioned employee share scheme changes. Treasury advise that the avenues for out-of-cycle funding are extremely limited at this time and reserved for exceptional circumstances where a change is sufficiently high-value and urgent that Cabinet considers it justified. An alternative would be to progress a consultation process now with a view to submitting a bid for funding as part of the Budget 2025 process and legislated for in the next Omnibus Taxation Bill.

57. A timeline has been provided below for your convenience based on the initiative being included in the August Omnibus Taxation Bill.

Timeline	**Deliverable**
25 March 2024	Email sent out as the basis for consultation to selected stakeholders
30 April 2024	Cease stakeholder engagement
23 May 2024	Cover report with draft Cabinet paper provided to Minister of Revenue and Minister of Finance
30 May 2024	Budget Day
19 June 2024	Cabinet paper to ECO
24 June 2024	Cabinet approval
26 August 2024	August Omnibus Taxation Bill introduced

Appendix One – Consultation letter

[Date]

[Address]

Dear [Name]

Consultation on possible changes to taxation rules for start-up and tech sector

We would like to begin consultation on possible taxation initiatives to support the start-up and tech sector. The Minister of Revenue has expressed particular interest in two changes to Employee Share Schemes (ESS) which are identified below. We would like to meet with you to get your feedback and comment on those two proposals as well as any other tax initiatives that you think would support the sector.

Employee share scheme changes

Deferred taxation regime

Under current settings tax for ESS, tax is required to be paid when the employee holds shares in the same way as any non-employee shareholder, free of any employment-related restrictions or conditions. For an Employee Share Option Plan, this is usually once the option is exercised.

We would like to consult on the desirability of a regime which would allow employees in start-up companies to elect to defer the recognition of ESS income until there was a "liquidity event" to fund the tax on the income (for example, when the shares are sold, listed, the employee migrates or the assets of the company are sold and the proceeds are distributed when the company is wound up). The employee would be taxed on the value of the shares at this time, less any amount the employee paid for them (and the employer would be entitled to a corresponding deduction at that time).

We are interested to discuss whether start-up and tech sector companies find that valuation and liquidity issues under the current regime are disincentives to using ESS. Further information about this issue can be found in the attached issues paper.

Threshold adjustments for exempt schemes

Employers can provide exempt benefits to their employees in the form of an exempt ESS. An exempt ESS is a widely offered scheme (offered to 90% or more of full-time permanent employees) that meets certain criteria. No deductions are available for an employer in relation to an exempt scheme other than in respect of establishing or managing the exempt scheme.

We would like to consult on the possible benefits of changes to two of the thresholds relating to exempt ESS (under section CW 26C of the Income Tax Act 2007). These are the thresholds relating to the value of shares offered ($5,000 pa maximum per employee) and the value of the benefit offered ($2,000 maximum per annum per employee).

We are interested to know whether changes to these thresholds would be likely to increase the use of exempt schemes by start-up and tech sector companies (recognising that keeping these

thresholds low is an important factor in ensuring that the full benefit of such schemes is accessible to the vast majority of a company's employees). We note that inflation adjusting these figures from the first time they applied (first quarter of 2018) would involve increasing them by approximately 25%.

Other possible options

We are interested to discuss other obstacles start-up and tech sector companies face which could be addressed through the tax system. This includes options that would reduce compliance costs.

For example, this could include work to clarify the PAYE obligations of ESS payments. Currently, the Income Tax Act 2007 imposes different withholding obligations on (a) benefits granted to the employee, and any (b) extra pay given to fund the tax. We also understand that there may be uncertainty regarding withholding tax when ESS benefits are paid out in cash.

Next steps

We will be in contact with you soon to schedule a meeting to discuss policy issues and proposed solutions. In the meantime, if you would like to discuss this further, please contact me on [cell phone number] or [email].

It is also proposed that there is a day for in-person meetings in Auckland on 16 April 2024. Please let us know if you are interested in meeting on this date.

If you have written submissions on the proposals in this letter, there are two avenues for contact. Submissions can be made by email to policy.webmaster@ird.govt.nz with "possible changes to taxation rules for start-up and tech sector" in the subject line or by post to:

> Possible changes to taxation rules for start-up and tech sector
> C/- Deputy Commissioner, Policy and Regulatory Stewardship
> Inland Revenue Department
> PO Box 2198
> Wellington 6140

The closing date for submissions is 30 April 2024.

Yours sincerely

[Name]
[**Role**]

POLICY

Tax policy report: **Consultation on improvements to employee share schemes**

Date:	02 October 2024	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2024/379

Action sought

	Action sought	Deadline
Minister of Revenue	**Agree** to recommendations **Refer** a copy of this report to the Minister of Finance and Minister of Science, Innovation and Technology	16 October 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Claire McLellan	Acting Policy Lead	s 9(2)(a) s 9(2)(a)
Richard McLaughlan	Senior Policy Advisor	s 9(2)(a) s 9(2)(a)

02 October 2024

Minister of Revenue

Consultation on improvements to employee share schemes

Purpose

1. In March 2024, you agreed for officials to consult on possible taxation initiatives to support the start-up and tech sector [IR2024/064 refers]. In the event that 'improvements to the employee share scheme (ESS) regime' is confirmed as a "non-discretionary" item on the Tax and Social Policy Work Programme, officials are proposing to begin targeted consultation on this issue.

2. This report seeks your agreement to begin targeted consultation on 16 October 2024. Officials propose to initiate targeted consultation by writing to stakeholders and offering to meet them to discuss changes to the tax treatment of ESS that could assist productivity in the start-up sector. Appendices one and two contain a draft letter, and revised officials' issues paper on a specific ESS deferral regime proposal, that we will provide to stakeholders.[1] This report provides a summary of the proposed deferral regime that would apply to start-up companies, including the associated fiscal costs.

Background

Government commitment to investigate the tax treatment of employee share schemes

3. The National Party's 100-point economic plan, referenced in coalition agreements, committed to investigating changes to the tax treatment of share options issued by start-ups to their staff to make it easier to attract and retain talent in their early years.[2] The "Boosting the Tech Sector" manifesto document identifies issues with the current taxing point of ESS, which a deferral regime would address.

4. The Minister of Science, Innovation and Technology previously wrote to you requesting that you investigate changes to tax rules that would better support start-ups in line with this commitment. The letter recognises that changes, including a deferral regime, could prove beneficial to the growth of businesses in our start-up sector considering they are often "cash-poor".

5. s 9(2)(f)(iv)

[1] In May 2017 officials released a paper consulting on a possible deferral regime (*Taxation of employee share schemes" start-up companies*, Inland Revenue (May 2017)). At the time there was relatively little reaction to the paper and the proposal did not proceed.
[2] Commitment 87 of the National Party's 100-point plan.

Employee share scheme deferral regime

6. An ESS involves an employer providing its shares, or options to acquire shares, to employees. When the price the employee pays for these shares or options is less than their market price, the difference is considered income of the employee. In other words, when the employee receives the shares at a discounted price.

7. The fundamental tax issues for start-up companies offering ESS is the timing of taxation. Under current settings, tax is required to be paid on that income when an employee holds shares free of any employment-related restrictions or conditions. For an employee share option plan this is usually once the option is exercised.[3]

8. This can be problematic because tax needs to be paid on illiquid (non-cash) income. The employee is liable to pay tax on shares that they often cannot sell, leaving them out of pocket. The tax deduction available to the employer (equal in timing and amount to the employee's income) will not give rise to an immediate tax benefit if the employer is in tax loss (as it often is as a start-up).

9. Additionally, Inland Revenue requires some evidence of the value of shares at the point of exercise, which can in some cases require third-party valuations. This was identified as a problem in the manifesto commitment, as well as in the Startup Advisors Council's 2023 *UpStart Nation* report.[4] That said, many start-ups do regularly value their shares for the purpose of attracting further funding.

10. A deferral regime would allow employees in start-up companies to elect to defer the recognition of ESS income until there was a "liquidity event" to fund the tax on the income (for example, when the shares are sold by the employee, the company is listed, or the assets of the company are sold and the proceeds are distributed). The employee would be taxed on the value of the shares at this time, less any amount the employee paid for them (and the employer would be entitled to a corresponding deduction at that time). This would address both the valuation and liquidity issues.

11. A deferral regime would need to have a cut-off date (that would apply regardless of whether a liquidity event had occurred) so tax could not be deferred indefinitely. When the cut-off date applies, issues of valuation and liquidity will still arise. The suggested date in Inland Revenues draft officials' issues paper is seven years.

Fiscal cost of the proposal

12. Deferral of taxation results in an outcome for the employee (and, over time, the Government) that is equivalent to upfront taxation, provided taxable income is determined using the value of the shares at the deferral date (for example, the date the shares are sold or listed).

13. There will be a level of foregone revenue for the Government in the immediate years following implementation of the deferral regime. The cost of this proposal for start-up companies is estimated to be $34 million within the current forecast period assuming the regime would apply from 1 April 2026. Beyond the forecast period, the fiscal cost steadily declines to $0 by 2032.

[3] Employee share option plans are a type of employee share scheme. These give employees the option to buy shares at a certain price (the exercise price) on or after a future date or event.
[4] Ministry of Business, Innovation and Employment (July 2023), ISBN: 978-1-99-106959-7, *UpStart Nation*, Wellington.

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	**2024–25**	**2025–26**	**2026–27**	**2027–28**	**2028–29 & Outyears**
Tax Revenue:					
-Other persons	0	0	0	(27.000)	(24.000)
-Company tax	0	0	0	9.000	8.000
Total operating	**0**	**0**	**0**	**18.000**	**16.000**

14. This costing is projected from recent ESS data with an implicit assumption that the data is representative.[5] The fiscal estimate assumes 100% take-up by companies in the start-up sector when, in reality, the deferral regime would likely be voluntary, and a proportion of companies or employees would not take it up. It also assumes no behavioural change (no increased use of employee share schemes) as a result of the introduction of the deferral regime.

15. The costing assumes criteria for determining what qualifies as a "start-up company". The criteria, which is largely based on a similar Australian regime, provides that a company must:

- be an unlisted company
- be less than ten years old, and
- have an annual turnover of less than $15 million.

16. These criteria, along with the design of the deferral regime, are likely to be a focus of stakeholders during the consultation phase. Changes not limited to start-up companies would significantly increase the fiscal cost of this proposal.

Next steps

Consultation

17. The 100-point economic plan committed to investigating ESS tax improvements within the start-up sector. We propose writing to selected stakeholders seeking feedback on the merits of progressing with a deferral regime with a view to establishing its likely impact on the sector.[6] A draft letter is attached as Appendix One.

18. To support consultation, we propose providing stakeholders with an updated version of the 2017 issues paper. A draft is attached as Appendix Two. A deferral regime for start-up companies presents design issues that will need to be addressed to ensure compliance without imposing undue costs for employers, employees and Inland Revenue. It is important that any deferral regime that is implemented is fair and ensures ESS remain an effective way of remunerating employees in New Zealand. The issues paper seeks feedback on specific design features that would be relevant if the Government wishes to progress the policy further.

19. This consultation would occur during October/November 2024. We will report to you on the outcome of targeted consultation, likely in early December.

[5] Employee share scheme information was taken from an average of the 2022 and 2023 tax years. An average of 124 "start-up" companies paid $56.8 million through employee share schemes and employees paid tax of $20.1 million.

[6] Association of Angel Investors, New Zealand Private Capital, UniServices, Outset Ventures, Movac, Creative HQ, Chartered Accountants Australia and New Zealand, Corporate Taxpayers Group, New Zealand Law Society, Deloitte, PWC, EY, KPMG, ATAINZ and Tax and Social Policy Māori Advisory Panel.

Funding

20. The deferral regime comes at a fiscal cost of approximately $34 million over the forecast period and cannot be charged against the current balance of the Tax Policy Scorecard (current balance approximately $17.238 million over the forecast period as of 24 September 2024). If Ministers wish to progress a deferral regime, it will need to be invited into the general Budget 2025 bid process. Other smaller remedial improvements may be able to be managed against the Scorecard depending on its balance at the time these are progressed.

21. The Treasury recently provided separate advice on current science, innovation and technology expenditure, and progressing an economic growth package through Budget 2025 to the Minister of Finance. The economic growth package could consider the deferral regime. The Treasury will provide further advice in early October 2024 to the Minister of Finance on effective policies for lifting productivity, drawing on international evidence and evaluations of New Zealand impacts.

Implementation

22. If, following consultation, the Government wishes to implement a deferral regime, legislation could be included in the 2025–26 omnibus taxation Bill with changes applying from 1 April 2026. However, if consultation exposes issues that require more detailed work than anticipated, we will report back to Ministers at that time, including options for later legislative vehicles.

23. A possible timeline has been provided below for your convenience based on the initiative receiving policy approval through the Budget 2025 process and being included in the 2025-26 omnibus taxation Bill at introduction. s 9(2)(f)(iv)

Timeline	Deliverable
16 October 2024 to 27 November 2024	Consultation period (release of officials' issues paper appended to IR2024/064)
Mid-December 2024	Provide Budget bid (based on consultation decisions)
Early April 2025	Report on overarching policy
Late April 2025	Policy approval through Budget process – delegation to joint Ministers
Late May 2025	Omnibus Bill report to joint Ministers including deferral regime
Late June 2025	Cabinet Committee (ECO)
Early July 2025	Cabinet
Late August 2025	Introduction of 2025–26 omnibus taxation Bill

Recommended action

We recommend that you:

1. **agree** to officials beginning targeted consultation with selected stakeholders on changes to the tax treatment of employee share schemes that could assist productivity in the start-up sector.

   Agreed/Not agreed

2. **agree** to officials issuing letters to relevant stakeholders based on the draft content in Appendix One and Appendix Two.

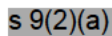
   Agreed/Not Agreed

3. **refer** a copy of this report to the Minister of Finance for their information.

   Referred/Not referred

4. **refer** a copy of this report to the Minister of Science, Innovation and Technology for their information.

   Referred/Not referred



Claire McLellan
Acting Policy Lead
Policy

Hon Simon Watts
Minister of Revenue
/ /2024

Appendix One – Consultation letter

[Date]

[Address]

Dear [Name]

Consultation on improvements to the tax treatment of employee share schemes

The Government has committed to investigating the tax treatment of employee share schemes (ESS) issued by start-up companies to make it easier to attract and retain talent in their early years. The Government recognises that start-up companies can be cash poor and are common users of ESS given they reduce the amount of cash salary they have to pay.

As such, we would like to begin consultation on how changes to the tax treatment of ESS could assist productivity in the start-up sector. One specific proposal consulted on in 2017 was a deferred taxation regime for ESS. We have revised that issues paper and appended it to this letter. We would welcome your feedback on this, or other areas where the tax system may be improved to better support the sector in regards to the ESS regime.

Deferred taxation regime

Under current ESS tax settings, tax is required to be paid when the employee holds shares in the same way as any non-employee shareholder, free of any employment-related restrictions or conditions. For an Employee Share Option Plan, this is usually once the option is exercised.

We would like to consult on a regime which would allow employees of start-up companies to elect to defer the recognition of ESS income until there was a "liquidity event" to fund the tax on the income. Examples of a liquidity event include; when shares are sold or listed, the employee migrates or the assets of the company are sold and the proceeds are distributed when the company is wound up. The employee would be taxed on the value of the shares at this time, less any amount the employee paid for them. The employer would be entitled to a corresponding deduction at that time.

We are interested in discussing whether start-up and tech sector companies find that valuation and liquidity issues under the current regime are disincentives to using ESS. Further information about this issue can be found in the attached issues paper.

Other possible options

We also wish to discuss other obstacles start-up companies face which could be addressed through the tax system, such as options that would reduce compliance costs.

For example, this could include work to clarify the PAYE obligations of ESS payments. Currently, the Income Tax Act 2007 imposes different withholding obligations on (a) benefits granted to the employee, and any (b) extra pay given to fund the tax. We also

understand that there may be uncertainty regarding withholding tax when ESS benefits are paid out in cash.

Next steps

We will be in contact with you soon to schedule a meeting to discuss the deferral regime and any other possible changes. In the meantime, if you would like to discuss this further, please contact me on [cell phone number] or [email].

If you have written submissions on the proposals in this letter, there are two avenues for contact. Submissions can be made by email to policy.webmaster@ird.govt.nz with “taxation of employee share schemes: start-up companies” in the subject line or by post to:

Taxation of employee share schemes: start-up companies
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140

The closing date for submissions is 27 November 2024.

Yours sincerely

[Name]
[**Role**]

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: Employee share scheme deferral regime – outcome of consultation

Date:	21 March 2025	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2025/126

Action sought

	Action sought	**Deadline**
Minister of Finance	**Agree** to recommendations **Note** the contents of this report	25 March 2025
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report	25 March 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
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21 March 2025

Minister of Finance
Minister of Revenue

Employee share scheme deferral regime – outcome of consultation

Executive summary

Purpose

1. This report seeks your decisions on whether to progress with a tax deferral regime for employee share schemes (ESS), and if so, seeks design decisions on the regime. Subject to that decision, the report seeks agreement to book the cost of the policy in Budget 2025, for inclusion in the August 2025-26 omnibus tax Bill.

Context and background

2. The National Party's 100-point economic plan committed to investigating changes to the tax treatment of share options issued by start-ups to their staff to make it easier to attract and retain talent in their early years.[1] The "Boosting the Tech Sector" manifesto document identifies issues with the current taxing point of ESS, which a deferral regime would address.

3. On 31 January 2025, Inland Revenue released the Officials' Issues Paper *Taxation of employee share schemes: start-up companies.* This paper proposed a deferral regime to allow recognition of taxable income from ESS offered by start-up companies to be deferred until there is a "liquidity event" to fund the tax on the income. Submissions closed on this paper on 14 March 2025. Targeted consultation was also undertaken with key stakeholders.

Problem definition

4. The issue is whether tax changes such as a deferral regime would make it easier for companies in the start-up and tech sector to attract and retain talent. Any changes would be intended to contribute to the growth of the sector.

5. Companies in the start-up and tech sector face issues with liquidity and valuation. They are often cash-constrained, and all available cash is allocated to developing the business. This is primary reason they use ESS, as those schemes reduce the amount of cash salary they pay.

6. However, there are two tax barriers to utilising ESS faced by start-up companies: valuation of the shares, and the ability of the employee to pay the tax on the income.

7. Both of these barriers can be overcome by using options rather than shares.[2] The issue is whether the inability to overcome these barriers with a scheme using shares is a problem that needs to be solved.

[1] Commitment 87 of the National Party's 100-point plan.
[2] Employee share option plans are a type of employee share scheme. Instead of granting shares directly, these give employees the option to buy shares at a certain price (the exercise price) on or after a future date or event.

Outcome of consultation

8. The key themes that arose in consultation were:

   - In the majority of cases, using long-dated options provides an adequate mechanism to defer an employee's ESS tax liability.
   - The proposed regime was too complicated and would not provide enough of a benefit compared with existing choice (long-dated options).
   - If a regime were implemented, the start-up definition in the proposed regime was too narrow, and would exclude companies that were true start-ups, which the policy was trying to target.

9. In response to feedback, Inland Revenue does not recommend progressing a deferral regime, as compared with the status quo it does not provide enough commercial benefit to companies to justify the cost of the proposal.

10. However, if you did wish to progress a deferral regime, we have developed a simplified version which responds to some of the concerns submitters raised with the design in of the proposal in the issues paper. Feedback from some submitters suggested that this version could be of use to the start-up sector.

11. If a deferral regime is not progressed, resources could be applied to other measures designed to improve the current tax regime. Stakeholders conveyed a strong interest in further consultation on other potential options to encourage the start-up sector, including a non-assessable/non-deductible approach similar to exempt ESS, providing tax concessions, publishing specific guidelines on valuation, or reviewing other compliance cost issues. Officials do not recommend more concessional approaches suggested by submitters, such as delaying the tax obligation on ESS, or extending the ambit of the current exempt ESS scheme.

Next steps

12. If Ministers agree with officials' recommendation, there is no need for further steps. Further engagement with the sector on other improvements to the tax settings for ESS could be considered as part of updating the Tax and Social Policy Work Programme.

13. If you wish to progress a simplified deferral regime, we recommend you invite the option into the Budget 2025 process.

14. Legislation could be included in the August 2025-26 omnibus tax Bill.

Background

Background

15. The National Party's 100-point economic plan, referenced in coalition agreements, committed to investigating changes to the tax treatment of share options issued by start-ups to their employees to make it easier to attract and retain talent in their early years. The "Boosting the Tech Sector" manifesto document identifies issues with the current taxing point of ESS, which a deferral regime would address.

16. The Minister of Science, Innovation and Technology previously wrote to you requesting that you investigate changes to tax rules that would better support start-ups in line with this commitment. The letter recognises that changes, including a deferral regime, could prove beneficial to the growth of businesses in our start-up sector considering they are often "cash-poor".

17. Officials subsequently undertook informal consultation with some start-up sector advisors, who suggested that there might be a benefit from developing a non-concessional tax deferral regime for ESS.

18. On 31 January 2025, Inland Revenue released the Issues Paper *Taxation of employee share schemes: start-up companies*. This Issues Paper primarily focused on a regime which would allow recognition of taxable income from ESS offered by start-up companies to be deferred until there is a "liquidity event" to fund the tax on the income. Start-up companies were defined as companies less than 10-years old, and with a turnover of under NZD$15 million. Along with several liquidity events, a 7-year sunset period was also included as a final taxing event.

19. Submissions closed on this paper on 14 March 2025. Targeted consultation was also undertaken with key stakeholders. Key themes from this consultation are discussed further below.

Current law

20. Under current settings for ESS, tax is required to be paid when the employee holds shares, in the same way as any non-employee shareholder, free of any employment-related restrictions or conditions. For an employee share scheme, this is usually once the employee holds the shares free of employment-related conditions.

21. This can be problematic because tax needs to be paid on illiquid (non-cash) income. The employee is liable to pay tax on shares which they often cannot sell. The tax deduction available to the employer (equal in timing and amount to the employee's income) will not give rise to an immediate tax benefit if the employer is in tax loss (as start-ups often are).

22. Additionally, Inland Revenue requires some evidence of the value of shares at the point of exercise which can in some cases require third-party valuations. This was identified as a problem in manifesto commitments, as well as in the Startup Advisors Council's 2023 *UpStart Nation* report.[3] Many start-ups do regularly value their shares for the purpose of attracting further funding. However, feedback was that these valuations might often be relatively optimistic, and also that they were relevant to shares having superior rights to those offered to employees.

Policy intent

23. The intent of the proposed deferral regime is to increase the use of ESS in the start-up sector by deferring the taxing point for schemes that involve the issue of shares rather than options. In doing so, this would be intended to contribute to the growth of the sector by aiding the attraction and retention of talent. It is important to note though that the benefit provided is one of timing and is not a tax concession.

Problem definition

24. Companies in the start-up and tech sector often face issues with liquidity and valuation. They are often cash constrained, and all available cash is allocated to developing the business. This is a particular reason they use ESS, because those schemes can reduce the amount of cash salary they pay, while remaining competitive in terms of remuneration.

[3] Ministry of Business, Innovation and Employment (July 2023), ISBN: 978-1-99-106959-7, *UpStart Nation*, Wellington.

25. There are two tax barriers to utilising ESS that are faced by start-up companies. The first is the valuation of the shares and second the liquidity on the employee's part to pay the tax on the income.

Valuation

26. Under the current law, calculating the tax payable by an employee requires a valuation of the shares at the relevant taxing point.

27. If the shares are in a listed company, the value of the shares at the time tax is payable can be easily found. It is more difficult to determine the value of the shares in an unlisted company, particularly if it is an early stage or start-up company, with little or no operating history, no net revenue or perhaps even cashflows and very few tangible assets.

Liquidity

28. Start-up companies are also often cash-constrained – all available cash is allocated to developing the business. This is one reason they use ESS to remunerate employees – because it reduces the amount of cash salary, they have to pay to remain competitive. Similarly, an employee may receive a modest cash salary to cover living costs and the rest of their remuneration in shares.

29. Compounding this issue is that in early-stage companies, and often in a broader set of unlisted companies, there is a very limited market for the employee's shares. The employee will often be prohibited from selling the shares other than to existing shareholders (and in some cases, that also may be impermissible). This makes it very difficult for the employee to sell their shares.

Use of options

30. Under current law, it is possible to legitimately structure an ESS so that it has the practical effect of deferring the taxing point – thus avoiding or minimising issues of liquidity and valuation. This can be done by using what is known as a long-dated option.

31. For example, if an employee is given an option which expires in 20 years, the employee can defer the taxing point in relation to that option until the company has an initial public offering (IPO) or the employee wishes to sell the shares. The employee can wait until that time to exercise the option. The employee will then have income equal to the value of the shares at that time, less the option price.

32. As discussed further below, during consultation it was made clear that for a deferral regime to be useful, it would at the very least need to provide a benefit greater than an option and be as easy to administer.

Consultation

33. Eleven submissions were received on the Officials' Issues Paper, and eight consultation meetings were held with stakeholders. Regular stakeholder groups such as Chartered Accountants Australia and New Zealand, New Zealand Law Society, Corporate Taxpayers Group, KPMG, PwC, EY and Deloitte were involved in consultation as well as industry experts such as the Angel Association and Venture Capital firms (Movac, Icehouse Ventures, Altered Capital, Global from Day One).

34. A common theme of consultation was that the proposal provided no real benefit over the status quo of using long dated options. Submitters have suggested that many in the start-up sector are content using options contracts, and the complexity of the proposal may result in employers continuing to use options. Many submitters suggested that tax concessions were a more appropriate way to make an impactful change in the start-up sector.

35. The majority of submitters also found the eligibility criteria for the proposed deferral regime to be too restrictive. Multiple submitters recommended we either remove the turnover and 10-year age limit, or we increase the limits to $50M turnover and an age of 15 years (to align with the Australian legislation).

36. Submitters advised this criterion did not capture "true start-ups" because many New Zealand start-ups are competing in the global market, thus need to be more aligned with international practice. Further, many innovative companies will either have an extended R&D phase, or "false starts" before finding success.

37. A number of submitters suggested removing the listed liquidity events, particularly ceasing to be an employee, and ceasing to be a New Zealand tax resident. This would leave only the sale/cancellation of shares as a taxing point to ensure the employee had the funds to service the tax liability when it is triggered. The point was made that when employees leave a company, they often have to forfeit their shares anyway, and to expand globally some employees may be required to leave New Zealand.

38. Many submitters also suggested that the 7-year sunset clause be removed or at least extended. They advised that the sunset clause would make this regime less attractive than options contracts because, with options, the tax liability may never arise if unexercised, whereas the sunset clause concretes a tax liability.

39. Most submissions agreed that this deferral regime should not be mandatory. Employers should have the choice to offer the deferral regime, and employees should have the choice to elect in. Elections should occur at the beginning of the regime.

Options analysis

40. Due to strong feedback during consultation, Inland Revenue does not recommend a deferral regime. If Ministers wish to progress with a deferral regime, however, a significantly simplified version is set out below that removes the 7-year sunset period and the start-up criteria, as requested throughout consultation.

Retaining the status quo (recommended)

41. Feedback has highlighted that the majority of start-ups use long-dated options as a self-help solution to delay the taxation of ESS. These long-dated options allow employees to exercise an option when they are in position to fund tax on the shares.

42. It also lowers the risk that an employee will owe tax on shares that have decreased in value since the share scheme taxing date and therefore cannot cover the tax by selling the shares.

43. The key issue with using long-dated options is that the employee is not a shareholder in the company until the share is exercised. This means they do not have the same rights as a shareholder, such as voting rights or the payment of a dividend. Holding a share can be seen as beneficial in aligning the interests of the company and employee.

44. However, feedback reinforced that many companies prefer providing options to their employees rather than shares, as it is less administratively burdensome.

45. Retaining the status quo would have no revenue or economic impact. If a deferral regime is not progressed, resources could be applied to other measures designed to improve the current tax regime, subject to prioritisation on the Tax and Social Policy Work Programme. Stakeholders conveyed a strong interest in further consultation on changes to ESS that could have a greater impact on start-ups.

Providing a deferral regime to all New Zealand companies that are not part of a listed group

46. The deferral regime proposed in the officials' issues paper raised many issues in consultation. When compared with a long-dated option, the regime provided less of an advantage and would be more difficult to comply with.

47. Given the proposed seven-year sunset period, and if ceasing to be an employee or a New Zealand tax resident would trigger taxation, a company would be able to defer taxation for longer under an options scheme.

48. Further, the narrow definition of start-ups was consistently raised during consultation as unworkable and would unintentionally exclude many companies that would still be considered true start-ups. The age of a start-up rarely reflects the state of growth that it is in. In many industries, it can take over ten years for a company to move past the start-up phase.

49. In response to this feedback, a simplified version is recommended if the deferral regime is to progress. There was limited time to consult on this simplified regime, but there was some positive feedback from stakeholders that this could be useful for start-ups who wish to provide shares to their employees rather than options schemes.

50. This simplified version would be available to all New Zealand companies that are not a member of a listed group.

51. The deferred taxing points would be limited to:

- Payment of a dividend on the shares (noting that other shares in the company not subject to deferral can still be paid a dividend)
- Listing of the company
- Sale of the shares by the employee
- Cancellation of the shares.

52. This approach would more closely align with how long-dated options function and would remove the initially proposed sunset period as well as ceasing employment and ceasing to be a New Zealand tax resident as liquidity events.

53. Removing the start-up definition responds to feedback received in consultation that the proposed definition would exclude companies that were in essence still start-ups, despite being over 10 years old, or having a turnover higher than NZD$15 million. It would also greatly reduce the compliance burden on companies as they would not have to monitor whether they meet the definition criteria.

54. The estimated revenue impact over the forecast period is $9.9 million.

55. While this option may provide some benefit to companies, officials do not believe this benefit would outweigh the cost of this proposal.

Conclusion

56. Officials recommend retaining the status quo, as consultation has suggested that a deferral regime would not provide enough of an incentive over options for companies to take up the regime.

57. If Ministers do wish to proceed with a deferral regime, officials recommend a simplified version of the deferral proposal consulted on in order to confer the most commercial benefit.

Financial implications

58. The fiscal impact of the simplified deferral regime results in an overall decrease in tax revenue of approximately $9.9 million over the forecast period, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Crown Revenue and Receipts: Tax Revenue: Other persons		(1.300)	(5.000)	(5.000)	(4.000)
Company tax	-	0.400	2.000	2.000	1.000
Total Operating	**-**	**0.900**	**3.000**	**3.000**	**3.000**

59. This costing assumes a take up rate of 5% on top of those who would move from long-dated options (moving from options would have no revenue impact).

60. Based on the consultation feedback, a large proportion of companies have already structured options to smooth or defer their ESS tax liability. This means that the available data is already reflecting a lag or a preference to pay at the vesting and not sale date.

61. This assumption is why this broader simplified regime has a lower cost than the initially proposed deferral regime. The initial costing did not take into account the fact that most start-ups were already in essence deferring the taxation point by using long-date options.

62. If you agree to progress a simplified deferral regime, we recommend that the cost be charged against the Budget 2025 allowance.

Administrative implications

63. s 6(c), s 9(2)(f)(iv)

64. Inland Revenue has completed a high-level assessment of the administration costs based on the current options being considered. Depending on the agreed policy options the implementation and delivery costs could range from $2 million to $3 million over the forecast period. At this stage we propose self-funding these costs up to $3 million.

Agency consultation

65. The Treasury was consulted on this report and agrees with the recommendations.

66. The Ministry for Business, Innovation and Employment was also consulted.

Next steps

67. If Ministers agree with officials' recommendation, there is no need for further steps. Further engagement with the sector on other improvements to the tax settings for ESS could be considered as part of updating the Tax and Social Policy Work Programme.

68. If you wish to progress a simplified deferral regime, we recommend you invite the option into the Budget 2025 process.

69. Legislation could be included in the August 2025-26 omnibus tax Bill.

Recommended action

We recommend that you:

1. **agree** to:

   1.1. Retain the status quo (Inland Revenue's preferred option);

   Agreed/Not agreed   Agreed/Not agreed

OR

   1.2. Progress a simplified deferral regime available to unlisted companies and invite the regime into the Budget 2025 process;

   Agreed/Not agreed   Agreed/Not agreed

2. **note** that the simplified deferral regime has a fiscal cost of approximately $9.9 million.

   Noted   Noted

If you agree to progress a simplified deferral regime initiative in recommendation 1.2 then:

3. **note** the following changes as a result of the decision in recommendation 1.2 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Crown Revenue and Receipts: Tax Revenue:	-	(0.900)	(3.000)	(3.000)	(3.000)
Total Operating	**-**	**0.900**	**3.000**	**3.000**	**3.000**

   Noted   Noted

4. **agree** that the reduction in Crown tax revenue in recommendation 3 above be charged against the Budget 2025 allowance.

   Agreed/Not agreed   Agreed/Not agreed

5. **agree** to include the necessary legislative changes in the Annual Rates 25-26 Tax Bill;

Agreed/Not agreed Agreed/Not agreed

Claire McLellan
Acting Policy Lead
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

POLICY

Tax policy report: Thin capitalisation settings for infrastructure

Date:	13 January 2025	**Priority:**	High
Security level:	In Confidence	**Report number:**	IR2024/413

Action sought

	Action sought	**Deadline**
Minister of Finance	**Agree** to recommendations	3 February 2025
Minister of Revenue	**Agree** to recommendations	3 February 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
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Matthew Gan	Principal Policy Advisor	s 9(2)(a) s 9(2)(a)	☒

13 January 2025

Minister of Finance
Minister of Revenue

Thin capitalisation settings for infrastructure

Executive summary

Purpose

1. This report outlines our initial thoughts on the thin capitalisation settings for infrastructure and seeks your approval to do further work with a view to preparing a consultation paper on this subject for release later in 2025.

Context and background

2. Foreign multinationals can choose to fund their New Zealand investments with either equity or debt. However, the lighter tax treatment of debt compared to equity investment provides an incentive for them to invest into New Zealand through debt rather than equity.

3. The thin capitalisation rules protect the New Zealand tax base by preventing multinationals from allocating an excessive proportion of their debt to New Zealand to reduce the amount of tax paid. The rules limit interest deductions by setting a maximum allowable debt percentage (i.e., debt to net assets ratio) for the New Zealand group.

4. If the New Zealand group's debt percentage exceeds 110% of the worldwide group's debt percentage, some interest deductions are disallowed. There is, however, a 'safe harbour' debt percentage of 60%. This means that if the New Zealand group's debt percentage does not exceed 60%, then the worldwide comparison is not needed and all the interest may be deducted.

5. The rules were relaxed in 2018 to provide an exemption for public private partnership (PPP) infrastructure projects, allowing such projects to take on debt in excess of the limits imposed by the general rules, provided that the debt is third-party debt with limited recourse (i.e, only has recourse to the assets and income that arise from the project and equity committed to the project by investors). This treatment only applies to PPP infrastructure projects with the Crown or a public authority.

Problem definition

6. Although the current thin capitalisation rules generally work as intended, there are some scenarios where the rules may be unduly discouraging some foreign investment in infrastructure projects.

7. In particular, high levels of debt can arise in infrastructure projects because they tend to be capital intensive with future cashflows that may be supported by long-term purchase agreements or service contracts. Under the current settings, some interest deductions may be denied even though the level of debt is not considered excessive in commercial terms (being from unrelated third parties on limited recourse terms). The case to consider changing the thin capitalisation rules is

premised on the basis that interest deductions should not be denied in such scenarios.

8. The interest denial increases the effective tax rate for such investments. Therefore, it potentially acts as a barrier to the inflow of capital that New Zealand needs to help resolve its infrastructure deficit.

Options to address the problem

<u>Option 1</u>: Rule targeted at infrastructure investments with a public benefit

9. The first option involves extending the specific rule that applies to PPP projects so that the same treatment can apply to infrastructure investments that are not performed under a contract with the Crown where the debt is third party limited recourse debt (e.g. renewable energy projects). There is a variation of this option that could apply more generally to New Zealand infrastructure businesses for third party debt (provided a foreign investor has not guaranteed the debt). This could potentially be narrowed by targeting only projects/investment that result in new infrastructure assets in New Zealand.

<u>Option 2</u>: General rule that applies to third-party limited recourse debt

10. The second option involves broadening the rule even further so that it applies more generally to investments (not limited to infrastructure) that have third-party limited recourse debt. There is again a variation of this option which could apply more generally to New Zealand businesses for third party debt (provided a foreign investor has not guaranteed the debt).

Initial assessment

11. Based on initial meetings with stakeholders, it seems reasonable to conclude that the current thin capitalisation settings are discouraging some foreign investment in infrastructure projects in New Zealand. Not addressing the issue could result in lost opportunities for New Zealand by deterring some investments. This issue is particularly important considering countries face competition in securing investment and expertise for infrastructure projects as there is limited availability of the investment and expertise worldwide.

12. Thin capitalisation settings are just one element that impacts the effective tax rate for foreign direct investment (FDI) so it is hard to say the extent to which changing thin capitalisation settings will lead to increased investment that helps with New Zealand’s infrastructure deficit. This is particularly because much of the infrastructure in New Zealand is owned by central or local government, rather than privately, but a change should help remove a potential barrier to some investment in infrastructure.

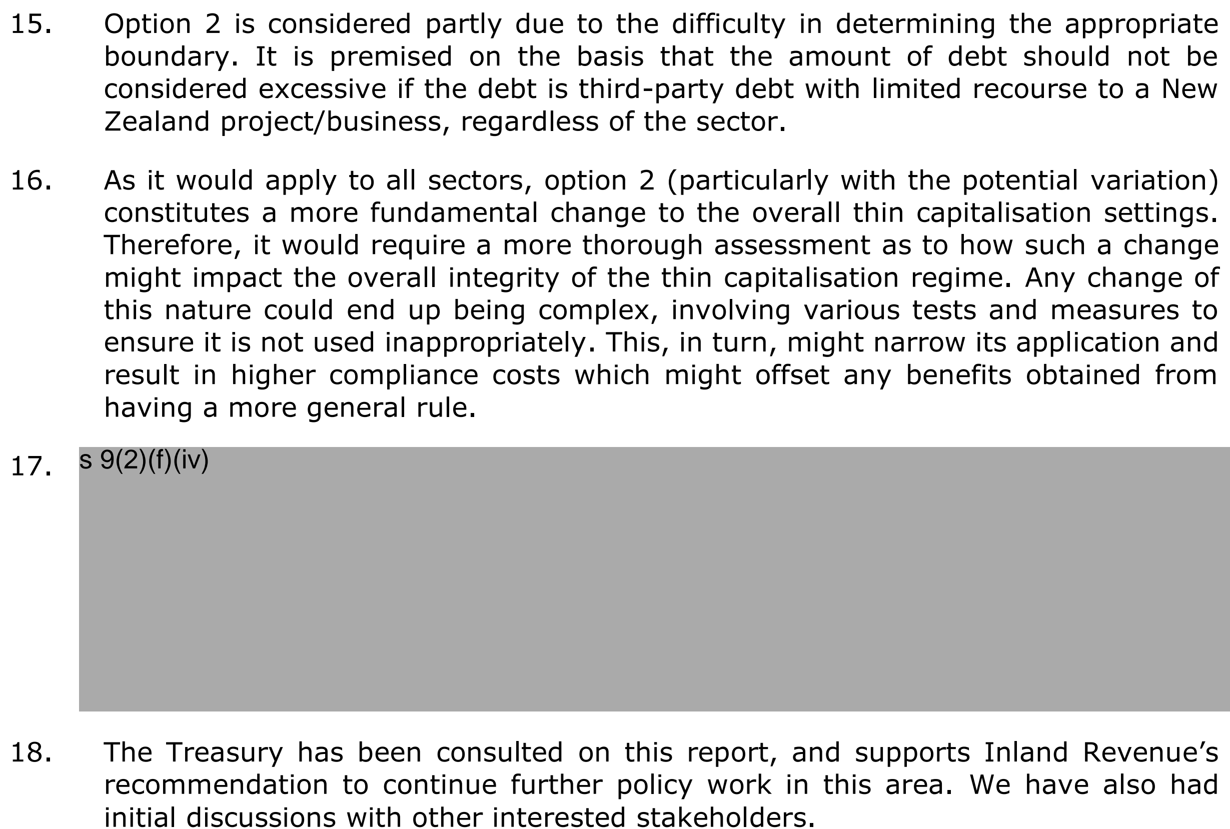
13. To address the issue, our initial view is that a targeted rule that applies only to infrastructure investment (Option 1) is preferred because it has the potential to address many of the examples raised by stakeholders to date (renewable energy projects being the primary example highlighted). Being a targeted rule, it also limits the risk that the rule may create unintended consequences.

14. The main design challenge for option 1 is likely to be determining an appropriate boundary of what constitutes an eligible infrastructure project. This could lead to requests to extend or clarify the boundary and the list of eligible infrastructure needing frequent updates to keep up with new technology. These issues may be mitigated depending on how the rule is designed, for example, by choosing a broader definition of eligible infrastructure investment, although this could also increase the potential cost.

15. Option 2 is considered partly due to the difficulty in determining the appropriate boundary. It is premised on the basis that the amount of debt should not be considered excessive if the debt is third-party debt with limited recourse to a New Zealand project/business, regardless of the sector.

16. As it would apply to all sectors, option 2 (particularly with the potential variation) constitutes a more fundamental change to the overall thin capitalisation settings. Therefore, it would require a more thorough assessment as to how such a change might impact the overall integrity of the thin capitalisation regime. Any change of this nature could end up being complex, involving various tests and measures to ensure it is not used inappropriately. This, in turn, might narrow its application and result in higher compliance costs which might offset any benefits obtained from having a more general rule.

17.

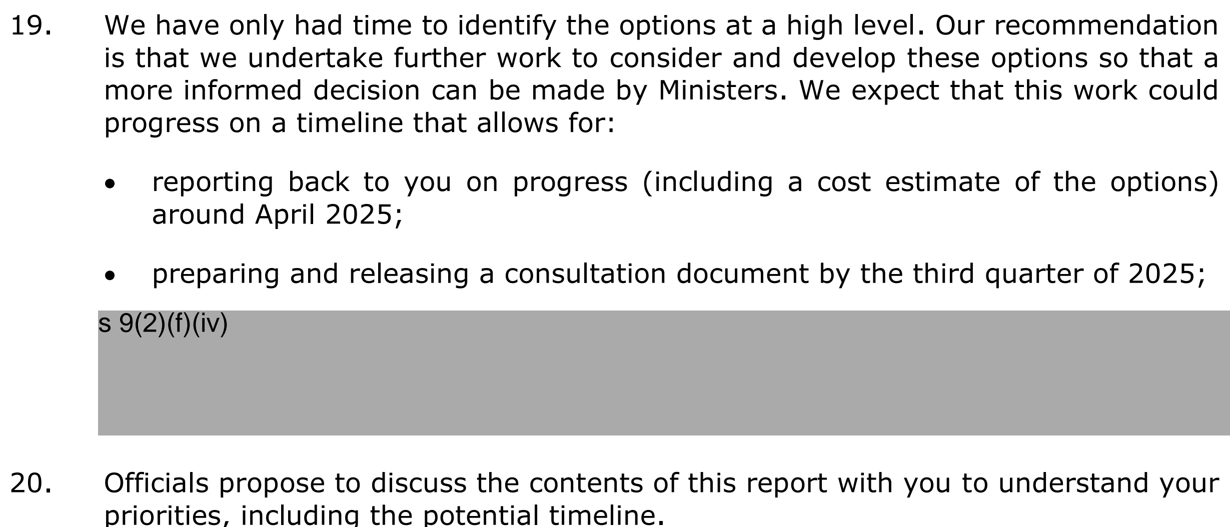


18. The Treasury has been consulted on this report, and supports Inland Revenue's recommendation to continue further policy work in this area. We have also had initial discussions with other interested stakeholders.

Next steps

19. We have only had time to identify the options at a high level. Our recommendation is that we undertake further work to consider and develop these options so that a more informed decision can be made by Ministers. We expect that this work could progress on a timeline that allows for:

- reporting back to you on progress (including a cost estimate of the options) around April 2025;
- preparing and releasing a consultation document by the third quarter of 2025;



20. Officials propose to discuss the contents of this report with you to understand your priorities, including the potential timeline.

Recommended action

We recommend that you:

1. **Discuss** with officials the contents of this report to understand your priorities for this work.

   Agreed/Not agreed Agreed/Not agreed

2. **Agree** that officials should continue work to develop options to the thin capitalisation rules so that they do not unduly discourage infrastructure investment in New Zealand.

   Agreed/Not agreed Agreed/Not agreed

3. **Refer** a copy of this report to the Minister for Infrastructure for their information.

   Referred/Not referred Referred/Not referred

s 9(2)(a)

Matthew Gan
Principal Policy Advisor
Policy

Hon Nicola Willis
Minister of Finance
/ /20X

Hon Simon Watts
Minister of Revenue
/ /20XX

Background

21. You have asked us to review the thin capitalisation settings in New Zealand from an infrastructure lens. The purpose of this report is to provide our initial thoughts on this topic and seek approval to do further work with a view to preparing a consultation document on this subject for release later in 2025. This is our first report on this topic and follows its addition to the Government Tax and Social Policy Work Programme published in November 2024.

22. As part of our work to date, we have considered a letter that the Corporate Taxpayers Group (CTG) wrote to you, the Minister for Infrastructure, and the Minister of Transport and Energy on *Foreign Direct Investment Tax Policy Solutions* on 2 August 2024. The letter noted that New Zealand needs policy settings that encourage more foreign direct investment (FDI) to fund the investment that New Zealand requires, particularly in infrastructure. We have met with the CTG to discuss their letter which has helped inform the options considered in this report. We have also had initial discussions with other interested stakeholders.

23. Other options such as increasing the safe harbour thin capitalisation threshold more generally or introducing a targeted regime for infrastructure projects of national significance, where investors would pay tax at a concessionary rate of 14%, were also raised. However, as instructed, we have not focused on these options at this time.

Thin capitalisation settings in New Zealand

24. Foreign investors can fund their New Zealand investments with equity or debt. In this context, the thin capitalisation rules help protect the New Zealand tax base by limiting the amount of debt that foreign investors can put into their New Zealand investments before some interest deductions are disallowed. The rules help protect the tax base from the following risks:

    - Multinational groups allocating an excessive proportion of their worldwide debt (and interest expenses) to New Zealand; and
    - Multinational groups using intragroup loans to shift profits out of New Zealand through interest payments.

25. These risks arise because debt and equity are taxed differently. Interest on debt is generally a deductible expense for the payer. Dividends, or other equity returns, on the other hand, are generally not deductible for the payer. The difference in treatment generally creates a tax-induced bias, in the cross-border context, towards debt financing, particularly in countries with higher corporate tax rates.

26. New Zealand has had thin capitalisation rules for inbound investment since 1996. There are two key elements to the rules:

    - *Worldwide group debt test:* The rules disallow a portion of the interest deductions if the debt percentage (i.e., debt to net assets ratio) of the New Zealand group exceeds 110% of the worldwide group's debt percentage.
    - *Safe harbour debt threshold:* The rules include a safe harbour debt threshold of 60%. This means that if the debt percentage of the New Zealand group does not exceed 60%, all the interest can be deducted without needing to consider the worldwide group debt test.

27. In 2018, New Zealand introduced a specific exemption for PPP infrastructure projects undertaken with the Crown or a public authority approved by the Minister of Finance. The rule effectively allows PPPs to take on debt in excess of the limits imposed by the general rules, provided that the debt is third party debt (or like third

party debt) that only has recourse to the assets and income that arise from the project and the equity committed by the investors in the project (i.e., it is limited recourse debt). The rule reflects that a PPP can be very highly geared commercially (approximately 85-90% debt funded) because third party lenders see a PPP as a safe investment due to the security and cash flow characteristics of the project (long-term cashflows provided by the Crown).

28. The PPP rule is consistent with the OECD's BEPS Action 4 Report (September 2015) *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments (BEPS Action 4 Report)*. This report noted that countries may wish to provide an exemption from interest limitation rules for third-party limited recourse loans used to fund public benefit infrastructure projects/assets, because they present little to no risk of base erosion and profit shifting (BEPS).

Problem definition

29. The thin capitalisation rules generally work as intended. The 60% safe harbour threshold is set at a level that means the vast majority of taxpayers fall below it and do not need to rely on the worldwide group debt test.

30. The key issue, from an infrastructure lens, is that the rules are discouraging some otherwise viable foreign investment in infrastructure. This was highlighted in the CTG letter to you of 2 August 2024 which stated:

> *In infrastructure projects, where third party lenders are willing to lend more than 60% of the asset value, the 60% limit under the thin capitalisation rules may result in interest deductions being denied even though in commercial terms the level of debt for the project in question would not be considered excessive.*

31. The primary concern is that in such cases the thin capitalisation settings are acting as a barrier to the foreign capital flow that New Zealand needs to help resolve its infrastructure deficit.

32. While the worldwide group debt test is intended to help in situations where the 60% safe harbour is breached, it may not help some infrastructure investment. This is because the foreign investor may have infrastructure projects of differing maturities around the world with more mature projects having lower debt levels than less mature ones. The foreign investor may also have investments in a range of industries with different capital structures.

33. We have had initial meetings with the CTG, KPMG and PwC to understand where third parties are willing to lend at more than 60% of the value of the assets. Renewable energy projects were the primary example provided. There were others involving businesses holding telecommunication towers, student accommodation, smart meters, and property, amongst others. The level of debt would generally fall within 60-80%.

34. Our sense from these meetings was that, while not common, there are examples where our thin capitalisation settings are impacting some infrastructure investment decisions. Denial of some of the interest deductions may mean that some projects do not proceed, and even if they do, they would be expected to have a negative impact on project modelling/economics.

35. Therefore, there is a reasonable case to further consider changing the thin capitalisation rules so that they do not unduly discourage infrastructure investment where third parties are willing to provide funding on limited recourse terms (and the level of debt funding breaches the thresholds in the general thin capitalisation rules).

36. It is hard to say the extent to which changing the thin capitalisation settings will lead to increased investment that helps with New Zealand's infrastructure deficit,

as there are many non-tax settings that also impact infrastructure investment decisions. Furthermore, the thin capitalisation rules are just one tax setting that could impact FDI in New Zealand (others include the company tax rate, accelerated tax depreciation, investment tax credits, and withholding tax rates on distributions to foreign investors). However, all things being equal, it would help address one potential tax barrier to investment.

Interest limitation approaches in other countries

37. We have undertaken a high-level review of the interest limitation approaches taken in some countries, particularly in respect of infrastructure projects/investment.

38. Most countries have interest limitation rules as part of their tax systems, and the need to have them was reinforced by the OECD's BEPS Action 4 Report noted above, but the rules can be quite different. There are now two common approaches to interest limitation rules. One is the approach adopted by New Zealand, which limits the amount of tax-deductible debt a business can have based on its level of assets or equity. The second approach is to directly limit the interest a business can deduct based on some measure of earnings (normally EBIT or EBITDA[1]), which several countries have adopted including the EU, the UK and, more recently, Australia.

39. Some countries supplement their general rules with a specific exemption that applies to infrastructure projects/businesses, including Canada, Ireland, the United Kingdom and the United States, with the scope of the exemption varying. Please refer to Appendix 1 for a summary of the exemptions in the countries that we have reviewed, noting that Ireland, the UK and the US have taken a broader approach than PPPs in their exemptions to include other investment, including utilities and renewable energy.

40. Australia has taken an alternative approach by including a 'third-party debt test' in its new earnings-based interest limitation rules. The test is sector agnostic but reflects that earnings-based rules may not work appropriately for asset-heavy sectors with long depreciation periods, such as infrastructure and property. The test generally allows a full deduction for interest incurred on third-party debt subject to a number of requirements being met in respect of permissible recourse, credit support and use of funds, amongst others, to preserve its integrity. It is not intended to accommodate all debt that may be accepted as current practice within industry. There are private sector concerns that the prescriptive requirements of the rule mean that the test may not work well in practice.

41. Care should be taken in any direct comparison with other countries because the nature of the rules vary, and interest limitation rules are just one setting that could impact FDI in infrastructure in a country from a tax perspective.

Options considered

Option 1: ***Rule targeted at infrastructure investments with a public benefit***

42. The first option is to extend the rule that applies to PPP projects in a targeted way so that the same treatment can apply to other infrastructure projects/investments. This option would allow interest on third-party limited recourse debt for eligible infrastructure investments to be fully deductible. There is a variation of this option where a rule could apply more generally to New Zealand infrastructure businesses for third party debt provided a foreign investor has not guaranteed the debt.

[1] EBIT is Earnings Before Interest and Taxes and EDITDA is Earnings Before Interest, Taxes, Depreciation and Amortisation.

43. Such a rule would require a definition of what constitutes eligible infrastructure investment. One approach would be limiting the rule to infrastructure investment with a public benefit, similar to the approach taken by some countries in Appendix 1. The scope of the rule could be limited to target only debt funding obtained for the purpose of producing new infrastructure assets (or making significant improvements to existing infrastructure).

Considerations

44. The OECD's BEPS Action 4 Report noted that an exception to the general interest limitation rules is justified if it does not pose a base erosion and profit shifting risk. A rule targeted at infrastructure investments with a public benefit seems to present limited risk because the use of high levels of gearing in this sector is commonly attributed to its unique features, rather than for tax minimisation motives, namely:

    - Infrastructure investments tend to be capital intensive, particularly during the construction phase with no significant income stream until much later; and

    - The level of debt funding is supported by, not only the assets of the projects, but also long-term purchase agreements or service contracts. Therefore, third-party lenders tend to be more willing to offer higher level of debt because these agreements/contracts provide greater certainty regarding the ability of the borrower to satisfy the debt obligations.

45. Therefore, applying a sector-specific rule targeted at infrastructure investments with a public benefit would provide an exception from the general thin capitalisation rules where there are reasonable justifications for it, while limiting the risk that the rule may be used inappropriately (i.e., when the high level of debt is driven primarily by a tax minimisation motive).

46. The restriction on third-party limited recourse debt should be helpful as it is typically used in project finance to develop new assets. However, it may be seen by some infrastructure businesses operating with high debt levels as restrictive as they may not apply project financing (where they take on third party debt on limited recourse terms) in their business.

47. A key design challenge is likely to be determining the appropriate boundary for a public benefit infrastructure project/investment which will be a matter of judgment. For example, infrastructure is no longer confined to bricks and mortar activity such as roads and bridges. It could include digital technology (e.g., data centres), distributed networks (such as charging stations or the distribution of solar panels across the country), large-scale residential developments and more.

48. This might lead to the following potential issues:

    - The list or guidance may need to be updated periodically to ensure the boundary remains appropriate because the scope of what is eligible infrastructure may evolve over time with the advent of new technology.

    - The rule may be more complex to apply if the debt funding is obtained collectively for a mixture of purposes and some of them are not considered eligible investments.

    - The list of eligible investments may be subject to lobbying meaning the list expands.

49. Setting the boundary of what constitutes eligible investments involve a trade-off between mitigating some of the above issues and the potential cost. Defining eligible investments more broadly should mitigate some of the issues and increase the potential benefits from additional investment, but it could also increase the cost.

<u>Option 2</u>: General rule that applies to third-party limited recourse debt

50. The second option involves broadening the PPP rule further so that it applies more generally where the debt is third-party limited recourse debt (and could apply beyond infrastructure). There is a variation of this option which could apply more generally to New Zealand businesses, provided a foreign investor has not guaranteed the third-party debt, which could sit outside the PPP rule. This option could share similarities to the third-party debt test that has been introduced recently in Australia.

51. This approach is premised on the notion that the amount of debt should not be deemed excessive if the debt is extended by third-party lenders with limited recourse to New Zealand, regardless of the sector. This option allows the market to put a limit on the quantum of debt that an entity/group would be able to take on because the market would not extend a level of debt that is not commercially viable.

Considerations

52. This option would avoid the need to determine what constitutes an eligible infrastructure project/investment and the potential issues associated with that noted above. It also has the potential to address more of the examples raised by stakeholders to date (as some of the examples raised by stakeholders to date may not be determined to be public benefit infrastructure projects/investment).

53. This rule would be sector agnostic. If extended to consider the variation, which could be a version of the Australian third-party debt test, it could effectively sit as a third general test alongside the worldwide group debt test and the safe harbour debt threshold. This represents a more fundamental change to the overall thin capitalisation settings. It is moving away from the underlying policy framework of the thin capitalisation rules that are intended to prevent the overallocation of debt to New Zealand based on the overall worldwide gearing ratio when the safe harbour is breached.

54. As such, this option would require a more thorough assessment as to how it might impact the overall integrity of the thin capitalisation regime to ensure that that the rule does not create unintended consequences or loopholes. Designing the rule may also require a longer timeframe and end up being relatively complex and narrow as we would expect it to include various tests and measures to ensure it is not used inappropriately. In turn, this might narrow its application and result in higher compliance costs, which might offset any benefits obtained from having a more general rule.

Initial view

55. We have only had time to identify the options at a high level and further work is required to develop and assess them. Based on our work to date, however, officials' initial preferred option is a targeted rule that applies specifically to infrastructure investment with a public benefit (Option 1), for the following reasons:

- A rule that applies specifically to infrastructure is more targeted and should be sufficient to address most of the types of cases that have been presented by the stakeholders;
- The rule is likely to be simpler than a rule that applies generally (option 2 including the potential variation); and
- It limits the risk that the rule creates unintended consequences or loopholes.

56. However, we acknowledge there are some challenges with this option that will have to be worked through and mitigated (or accepted).

57. We recommend that further work be done on the options with a view to potentially preparing a public consultation document on this subject for release later in 2025.

s 9(2)(f)(iv)

Consultation

60. Officials have undertaken an informal consultation process to date, meeting with a number of stakeholders across the government and private sector, including the Corporate Taxpayers Group, KPMG, PwC and the New Zealand Infrastructure Commission, which helped inform this report. We also met with the Australian Treasury to better understand their new interest limitation rules, particularly the third party debt test.

61. The Treasury has been consulted on this document, and supports Inland Revenue's recommendation to continue further policy work in this area.

Next steps

62. If you agree to our recommendation for further work, we expect that this work could progress on a timeline that allows for:

- Further development of options 1 and 2. This would include considering a potential definition for eligible infrastructure for option 1, the potential safeguards that could be required for option 2, and testing them with some government and private sector stakeholders.
- Reporting back to you on progress around April 2025. This would include more concrete proposals for options 1 and 2 with separate costings for each. It would also include a recommendation on which option (if any) to progress for formal public consultation.
- This work could flow into preparing and releasing a consultation document by the third quarter of 2025. s 9(2)(f)(iv)

s 9(2)(f)(iv)

Appendix 1 – International approaches to interest limitation rules for infrastructure

	Exemption
Canada	• Canada has an exemption for public-private partnership (PPP) projects.
Ireland	• Ireland has an exemption for qualifying long-term public infrastructure projects. • To qualify for this exemption the project must be to provide, upgrade, operate or maintain a "large scale asset" with a minimum expected life span of 10 years. • Large-scale assets include: certain energy, transport, environmental and health care infrastructure; electricity transmission lines; strategic gas infrastructure; railway works; road works; strategic housing developments; an asset constructed pursuant to a public private partnership arrangement; an installation generating energy from renewable sources; an asset specified by the Minister for Finance by regulation; and large-scale residential developments.
United Kingdom	• The UK has a public benefit infrastructure exemption for taxpayers that elect to be a qualifying infrastructure company (QIC). • This means that PPP companies, infrastructure companies and certain other 'public benefit' companies should generally be able to treat third-party limited recourse interest as deductible. • To be a public infrastructure asset the asset must meet the public benefit test. This test is met by a tangible asset which is infrastructure of the UK where it is, or is to be, procured by a relevant public body, or used in the course of a regulated activity. • Examples of infrastructure include: water, electricity, gas, telecommunications or sewerage facilities; oil pipelines, oil terminals or oil refineries; railway facilities (including rolling stock), roads or other transport facilities; health or educational facilities; facilities or housing accommodation provided for use by members of any of the armed forces or of any police force; court or prison facilities; waste processing facilities; and buildings (or parts of buildings) occupied by any relevant public body.
United States	• The US has exemptions for utilities, real estate and PPPs. • The utilities exemption applies to the extent a company is engaged in the business of furnishing electricity, water, sewage services, local gas or steam distribution or pipeline transportation of gas or steam where the rates at which these services are provided are established by or approved by a federal, state or local government agency. Businesses that choose to utilise this exemption cannot also take advantage of accelerated depreciation deductions in the US.
Australia	• Australia previously had thin capitalisation rules similar to those in New Zealand (including a worldwide gearing ratio test and safe harbour threshold), but it had a third element to its rules called the 'arm's length debt test'. • In broad terms, the arm's length debt test was satisfied where, considering the borrower's Australian business: (i) the level of debt was not more than what the Australian business would reasonably be expected to have; and (ii) the level of debt that would reasonably be expected to have been provided by the Australian business by independent commercial institutions on arm's length terms and conditions. • The arm's length debt test applied to both third party debt and related party debt and has been replaced by a narrower 'third party debt test'. • The third party debt test allows full interest deductions on third party debt provided other conditions are met including those in respect of permissible recourse, credit support, and use of funds. • While sector agnostic, it operates principally to accommodate capital intensive sectors with long investment horizons such as property and infrastructure.

POLICY

Tax policy report: **Officials' issues paper on thin capitalisation settings for infrastructure**

Date:	15 April 2025	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2025/141

Action sought

	Action sought	**Deadline**
Minister of Finance	**Inform** officials of any desired changes to the attached issues paper **Agree** to recommendations	24 April 2025
Minister of Revenue	**Inform** officials of any desired changes to the attached issues paper **Agree** to recommendations **Refer** a copy of this report to the Minister for Infrastructure for their information	24 April 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Sam Rowe	Policy Lead	s 9(2)(a) s 9(2)(a)	☐
Matthew Gan	Principal Policy Advisor	s 9(2)(a) s 9(2)(a)	☒

15 April 2025

Minister of Finance
Minister of Revenue

Officials' issues paper on thin capitalisation settings for infrastructure

Purpose

1. This report seeks your approval to release an officials' issue paper on thin capitalisation settings for infrastructure and your feedback on any changes you would like us to make to the paper. We also seek your view on the indicative timeline to release the paper.

Background

2. We reported to you on 13 January 2025 to provide our initial thoughts on the current thin capitalisation settings for infrastructure and sought approval to do further work [IR2024/413 refers]. We also outlined two potential solutions at a high level in the report.

3. The thin capitalisation rules protect the New Zealand tax base by preventing multinational firms from allocating excessive debt to New Zealand to reduce their tax liability. This is done by limiting the amount of deductible debt allowable in New Zealand, which is broadly set at 60% of the accounting value of the assets of the New Zealand group, or 110% of the multinational group's worldwide debt.

4. Although the rules generally work as intended, there are scenarios where they may unduly discourage foreign investment in some infrastructure projects that could help resolve the infrastructure deficit in New Zealand. For example, where third party lenders are willing to lend more than 60% of the accounting value of the project assets, the rules may deny some interest deductions even though the level of debt may not be considered excessive in commercial terms.

5. There is a specific rule for public private partnership (PPP) infrastructure projects that has generally worked well, but it does not apply to other infrastructure projects.

6. You have asked us to prepare an issues paper on the thin capitalisation settings for infrastructure as part of Budget 2025 to seek feedback on whether changes to the rules are warranted, s 9(2)(f)(iv)

7. We understand that Cabinet has:

- agreed to release an officials' issues paper on the thin capitalisation settings for infrastructure as part of Budget 2025;
- authorised the Minister of Finance and the Minister of Revenue to approve the content of the paper and the timing of its release; and
- agreed to recognise the potential fiscal cost of $65m over the forecast period as a tagged operating contingency in Budget 2025.

Content of the issues paper

8. The issues paper seeks submissions to gain a better understanding of where the current thin capitalisation settings might be discouraging foreign investors from investing in infrastructure projects in New Zealand, and whether changing those settings will lead to more infrastructure investment in New Zealand. This includes seeking submissions on whether there are any aspects of the current PPP rule that could be improved.

9. The issues paper also seeks submissions on the key design components of the two options contemplated for relaxing the thin capitalisation settings in order to encourage more infrastructure investment. The options contemplated are:

   - a rule targeted at infrastructure projects; and
   - a more general rule that applies to third-party limited recourse debt, which would cover infrastructure projects, but not be limited to them.

10. The issues paper notes that the options considered are intended to address the issue where our thin capitalisation rules may be discouraging foreign investment in projects aimed at creating or significantly upgrading infrastructure assets in New Zealand by removing a potential tax disincentive for such investment. They are not intended as a broader reform of the thin capitalisation regime.

11. The issues paper notes that a targeted rule is our current preference as it is more focused on the problem, but welcomes submissions on both options.

A rule targeted at infrastructure projects

12. The issues paper states that the targeted rule could draw on elements of the specific rule for PPP infrastructure projects. An entity applying the rule would be allowed to fully deduct its interest expense on all third-party debt that only has recourse to the project, provided that the debt is applied to fund or refinance an eligible infrastructure project to upgrade or create assets in New Zealand that are expected to have a life of at least 10 years. The application of the rule could also be limited to assets constructed after a set date (e.g. 1 April 2026). This does however mean that longstanding infrastructure businesses would generally not qualify in respect of their existing infrastructure. The purchase of existing infrastructure also would not qualify. However, the rule would apply to significant upgrades of existing infrastructure.

13. This option is more aligned with the Government's broader goal of closing New Zealand's infrastructure deficit. This goal is best achieved if new infrastructure is created (or existing infrastructure is significantly upgraded). This suggests the rule should be targeted at such projects. Expanding the rule beyond that would increase its fiscal cost without necessarily further achieving this goal.

14. It is also a more natural extension of the specific rule for PPP infrastructure projects. The PPP rule was introduced on the basis that the infrastructure project was of public benefit and presented minimal tax risk of base erosion and profit shifting (BEPS). While this is especially the case for PPPs that are procured by the Government, there is a reasonable case that extending it to other infrastructure projects with a public benefit is the most natural extension of the principles of the rule.

15. One key challenge is determining the appropriate boundary for what constitutes an eligible infrastructure project or investment. For example, there are varying opinions over whether a data centre or distributed networks (such as charging stations or the distribution of solar panels) should be eligible. This could be

mitigated by taking a relatively broad definition of infrastructure, but it might expose the New Zealand tax base to greater risks.

16. The primary example provided to date of infrastructure to which the rule could apply is renewable energy projects. The issues paper invites submissions on the other types of projects that should qualify.

A more general rule that applies to third-party limited recourse debt

17. The more general rule would be limited in its application, not by the sector that it would apply to, but rather by the type of debt arrangement. An entity applying the rule would be allowed to fully deduct its interest expense on debt applied to fund any economic/business activities in connection with New Zealand, provided that the debt is issued to an unrelated third party and only has recourse to the New Zealand assets of the entity.

18. This approach is premised on the notion that, regardless of the sector, an amount of debt should not be considered excessive if the debt is extended by third party lenders with limited recourse to the New Zealand operations and not used to fund commercial activities in other countries.

19. This option would avoid the need to determine what constitutes an eligible infrastructure project or investment. Although the rule would be sector agnostic, it would likely apply in practice only to entities investing in sectors such as infrastructure and property because entities in other sectors are less likely to be able to secure third party debt on limited recourse terms above the thresholds set by the existing rules.

20. Nevertheless, since the rule would be available to all sectors and would apply to both existing and new investment, it represents a more fundamental change to the overall thin capitalisation regime and would require a more thorough assessment to ensure that the rule does not create unintended consequences. Its application would also extend beyond the primary intent, which is to remove the potential impediment to foreign investment in private sector projects aimed at creating or significantly upgrading infrastructure assets in New Zealand. It would also be more costly to implement without that extra cost necessarily resulting in more investment in new infrastructure.

21. While some requirements (limited recourse, third party debt) are common to both options, the risks are magnified for the more general rule because it applies to a greater variety of scenarios. This means that some requirements need to be more detailed/stringent to ensure that the rule applies appropriately in all circumstance. It also means that it is not always possible to have clear-cut tests that are easy to apply. Both would inevitably increase the compliance requirements, even for entities/projects that present little tax risk and should quite clearly qualify for the rule.

22. While we have some initial concerns with the more general rule, we think it would be useful to test them as part of the consultation process to see how valid they are. We are particularly interested in feedback on whether the more general rule or the more targeted rule would better achieve the Government's objectives given the practical realities of infrastructure investment in New Zealand.

Consultation

23. Officials have undertaken several informal consultations with stakeholders across the government and private sector. In general, they are supportive of the solutions that we are considering and welcome any change that could help with increased infrastructure investment in New Zealand.

24. Some stakeholders have indicated their preference for the more general rule, primarily out of concern that the targeted rule could create boundary issues over what infrastructure projects/investment would qualify. Some consider that there should be no tax risk if the debt is from unrelated third parties on limited recourse terms (regardless of the sector). However, some stakeholders have also expressed their concerns about a rule similar to the broader option that was recently introduced in Australia. That rule is also sector agnostic but expected to be primarily used by the infrastructure and property sectors in Australia. The concern is that the requirements under the rule are restrictive and may not work well in practice.

25. The Treasury has been consulted and supports the release of the issues paper.

Next steps

26. The next steps are for you to let us know if you would like us to make any changes to the issues paper and then approve its release once you are happy with it. We also seek your guidance on the timing of its release.

27. We recommend that the issues paper is released as part of a pre-Budget announcement, ideally on or around 1 May 2025 if possible, as this will allow sufficient time for submissions to be considered. We propose a five-week public consultation period, ending on 6 June 2025. s 9(2)(f)(iv)

28. s 9(2)(f)(iv)

29. If you prefer to release the issues paper on Budget Day (22 May 2025), we propose to close the consultation on 27 June 2025, giving the public 5 weeks to make submissions. s 9(2)(f)(iv)

30. We can work with your offices to support you with any pre-Budget announcement (for example, draft press statement and questions and answers).

s 9(2)(f)(iv)

s 9(2)(f)(iv)

Impact Analysis

Regulatory impact assessment

32. As required by the Ministry for Regulation, the Inland Revenue QA panel has reviewed the issues paper and determined that it will lead to effective consultation and enable the development of future impact analysis. Therefore, a separate regulatory impact statement (RIS) is not required at this stage. A RIS will be completed to support any changes resulting from the issues paper.

Climate implications of policy assessment

33. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Recommended action

We recommend that you:

1. **Agree** to the release of the attached officials' issues paper, *The thin capitalisation settings for infrastructure*, subject to any revisions you request and minor/technical changes to improve the drafting;

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

2. **Agree** to the release of the officials' issues paper on (or around) 1 May 2025 with a five-week public consultation period, ending on 6 June 2025 *(officials' preferred option)*;

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree to the release of the officials' issues paper on 22 May 2025 (Budget day) with a five-week public consultation period, ending on 27 June 2025;

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

3. **Agree** to include the rule targeted at new infrastructure projects in the issues paper;

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

4. **Agree** to include the more general rule that applies to third-party limited recourse debt in the issues paper;

Agreed/Not agreed | Agreed/Not agreed

Minister of Finance | *Minister of Revenue*

5. **Refer** a copy of this report to the Minister for Infrastructure for their information.

Referred/Not referred

Minister of Revenue

s 9(2)(a)

Matthew Gan
Principal Policy Advisor
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

Policy
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Briefing note

Reference: BN2025/188

Date: 23 April 2025

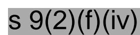
To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

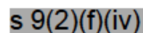
From: Matthew Gan

Subject: **Supporting information for the issues paper on thin capitalisation settings for infrastructure**

1. This briefing note provides supporting information in response to the Minister of Finance's comments on our report of 15 April 2025 on the officials' issues paper on thin capitalisation settings for infrastructure [IR2025/141].

2. We are happy to meet to discuss this note and/or respond to any further comments or questions.





s 9(2)(f)(iv)

Australia’s third party debt test

9. Our report of 15 April 2025 [IR2025/141] referenced a rule similar to the broader option that was recently introduced in Australia. We provide further information on this below, some of which has been drawn from our report of 13 January 2025 [IR2024/413 refers]:

    - Australia previously had interest limitation/thin capitalisation rules similar to those in New Zealand (including a worldwide gearing ratio test and safe harbour threshold based on the level of debt), but it had a third element to its rules called the ‘arm’s length debt test’. In broad terms, the arm’s length debt test was satisfied where, considering the borrower’s Australian business: (i) the level of debt was not more than what the Australian business would reasonably be expected to have; and (ii) the level of debt would reasonably be expected to have been provided to the Australian business by independent commercial institutions on arm’s length terms and conditions.

- Australia has now changed its interest limitation rules so that they directly limit the interest a business can deduct based on a measure of earnings (generally 30% of EBITDA[1]).
- The arm's length debt test applied to both third party debt and related party debt and was relatively subjective. It has been replaced by a narrower 'third party debt test' which is more objective.
- The third party debt test allows full interest deductions on third party debt provided other conditions are met including those in respect of permissible recourse, credit support, and use of funds, amongst others, to preserve its integrity.
- Australia note that it is not intended to accommodate all debt that may be accepted as current practice within industry.
- While sector agnostic, the third party debt test operates principally to accommodate capital intensive sectors with long investment horizons such as property and infrastructure.
- There are some private sector concerns that the prescriptive requirements of the rule mean that the test may not work well in practice.

10. s 6(b)(i) Care should therefore be taken in any direct comparison with Australia (or any other countries) because the nature of the interest limitation rules vary, and interest limitation rules are just one setting that could impact foreign direct investment (FDI) in infrastructure in a country from a tax perspective.

11. Further, the Australian third party debt test is tighter than the arm's length debt test that it replaced, whereas if New Zealand was to introduce a more general rule (sharing some similarities with the third party debt test) it would be relaxing the scope of our thin capitalisation rules.

12. We are wary that if New Zealand was to adopt a more general rule that such a rule could not be easily be restricted to infrastructure investment (new or existing) and could incentivise more third party debt than would otherwise be the case. This increases the fiscal cost/risk and such a rule may not lead to any new (or significantly upgraded) infrastructure in New Zealand.

13. This can be contrasted with a rule targeted at new infrastructure projects adopting some of the principles of the existing PPP thin capitalisation rule in New Zealand. PPP infrastructure projects result in new infrastructure with a public benefit and are generally 90% debt funded at the outset (regardless of whether the investors are based in New Zealand or overseas). Further, their close relationship with the Crown means that they present little tax risk. Relaxing the thin capitalisation settings for PPPs helped improve the competitiveness of the market in New Zealand.

14. While not the same as a PPP, there are private sector infrastructure projects with similar characteristics to a PPP. The primary example provided to date by the private sector is renewable energy projects (such as a solar or wind farm) which result in new infrastructure that can be generally 70-75% debt funded at the outset. Relaxing the thin capitalisation settings for such projects can potentially help improve their attractiveness while presenting relatively little tax risk. Countries with varying interest limitation exemptions for infrastructure include Canada, the United Kingdom and Ireland (Appendix 1 of IR2024/413 refers).

[1] EBITDA = earnings before interest, tax, depreciation and amortisation

15. We note that there is a general tax bias towards debt funding (over equity funding) because interest is tax deductible. The thin capitalisation rules help limit that bias by putting a limit on the level of tax-deductible debt. Potentially removing that limit, even if just for third party limited recourse debt, therefore poses some risk to the tax base.

Matthew Gan
Principal Policy Advisor
s 9(2)(a)

POLICY

Tax policy report: **Outcome of consultation on the effects of FIF rules on immigration**

Date:	10 February 2025	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2025/007

Action sought

	Action sought	**Deadline**
Minister of Finance	**Agree** to recommendations	12 February 2025
Minister of Revenue	**Agree** to recommendations **Refer** a copy of this report to the Ministers of Immigration and Science, Innovation and Technology for their information. **Lodge** the finalised Cabinet paper by 10am on Thursday, 20 February for the Cabinet Economic Policy Committee to consider at their meeting on Wednesday, 26 February.	12 February 2025 20 February 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Casey Plunket	Special Policy Advisor	s 9(2)(a)	☒

10 February 2025

Minister of Finance
Minister of Revenue

Outcome of consultation on the effects of FIF rules on immigration

Executive summary

Purpose

1. This report briefs you on the outcome of the recent public consultation on the effects of the foreign investment fund (FIF) rules on immigration, seeks your approval of our recommended policy solution and our recommend funding approach, and seeks your authorisation to lodge the attached draft Cabinet paper for Cabinet approval.

Context and background

2. New Zealand residents holding a portfolio (less than 10%) interest in a foreign company are generally taxed under the FIF regime annually on deemed income from that company. The deemed income is usually 5% of the value of the interest at the beginning of the year (but can be reduced to as low as zero if dividends plus the change in the New Zealand dollar value of the investment is less than 5%). This ensures that residents do not have a tax-driven incentive to invest in foreign companies rather than New Zealand ones.

Problem definition

3. While there are good reasons for continuing with the FIF regime, it discourages non-residents with significant portfolio investments from staying in New Zealand for longer than four years (during which period they are not subject to the FIF regime). They are familiar with and can accept paying tax when they realise their investment, but are much less willing to pay tax on deemed income, unrepresented by cash flow. This is especially a problem if the investment is not easily able to be sold. It is also especially a problem if the person is subject to tax in another country on a realisation basis, since that can lead to double taxation. The New Zealand Institute of Economic Research (NZIER) published a paper in April 2024 arguing that all FIF interests acquired before migrating to New Zealand should be ring-fenced and only dividends received and gains on disposal should be taxed.

Options to address the problem

4. Accordingly, in December last year you approved the release of an issues paper proposing a reform of the FIF rules to address the negative effect they have on attracting desirable migrants to come to and stay in New Zealand. Submissions on the paper closed on 27 January, and we are now reporting back to you on the submissions and our recommended option.

Submissions

5. We report more fully below on the submissions. In summary, they strongly support the need for reform, but are generally in favour of a wider scope both for eligible persons (all residents rather than only migrants) and for investments (all investments for all persons, rather than a more limited scope). Most are in favour

of taxing dividends and realised gains (the revenue account method) but many also favour extending the existing attributable foreign income and deferral methods in some way.

Officials' recommended option

Eligible taxpayers

6. Officials recommend that this reform only apply to migrants who become fully tax resident on or after 1 April 2025. Extending it to all New Zealand taxpayers would raise broader issues that were not properly raised in the consultation process and which it would be difficult to address fully in the time available. If a broader reform process is thought desirable, that could be undertaken as a separate project once other work and priorities allow.

7. However, in line with submissions, officials do recommend expanding:

   1.1 The category of migrants to whom the reform applies, to cover anyone who has not been resident during the previous five years before coming to New Zealand (and who become fully tax resident on or after 1 April 2025).

   1.2 The category of eligible taxpayers, to include a family trust if the principal settlor is an eligible migrant.

Eligible investments

8. Officials do not recommend extending the reform significantly beyond what was proposed in the discussion document, that is:

   1.3 Pre-migration illiquid investments; and

   1.4 For migrants who continue to be taxed on capital gains on a citizenship basis (primarily US citizens), all investments in foreign shares.

9. Changing the treatment of these investments will address the issue raised in the NZIER report. It solves the most pressing issues faced by migrants who cannot easily sell their pre-migration investments and by those facing the possibility of double taxation. Limiting the reform to these situations improves horizontal equity – the idea that once a person becomes New Zealand resident, they should be taxed in the same way as other New Zealand residents with the same investments and in materially the same situation. This is also broadly the solution requested in the NZIER report.

10. This will require the drawing of some boundaries through legislation. In response to submissions officials do propose to allow certain follow-on investments made after a person has become New Zealand resident but in relation to pre-migration investments to be subject to the reform. We also propose some extension in relation to shares acquired as a result of foreign employment.

Method

11. We recommend allowing an eligible investor to elect, with effect for the year they first become subject to the FIF regime, to be taxable on dividends and gains on sale on their eligible investments (the revenue account method), rather than being subject to the current FIF methods. This was supported by submissions. Losses on sale would only be able to be offset against gains on sale (and not other types of income), in the same or any future year.

12. We recommend that this approach be buttressed with an exit tax, which would deem a person who has applied the revenue account method to sell their investments for market value immediately before ceasing to be New Zealand resident (and have taxable gain or loss as a result). This was generally not supported by submitters.

The biggest concern expressed was that an exit tax would, like the current FIF rules, be taxing deemed income and this could discourage migrants from coming to New Zealand in the first place. However, a reasonable minority recognised that it is important for coherence, that is already adopted in relation to some other assets (including FIFs), and that it exists in many other countries that tax capital gains.

Rate

13. Following submissions, we recommend discounting any gains or losses on sale by 30%, so that the highest effective rate of tax would be 27.3%. Some discount is necessary to bring the rate closer to what investors would experience in other countries (which usually provide a discount for capital gains). However, a very low rate would set an undesirable precedent. We note that for a 39% marginal rate taxpayer, the rate would be similar to the top portfolio investment entity rate, which already applies to FIF income earned through a portfolio investment entity.

Next steps

14. If you agree to proceed with the recommended FIF reform the draft Cabinet paper, subject to your feedback, could be lodged by 10am on Thursday, 20 February with the Cabinet Economic Policy Committee for consideration at their meeting on Wednesday, 26 February. This would allow a Cabinet decision to be made in time for an announcement to be made in March should the Government wish to do so.

15. If approved, we would continue to report back and seek your agreement to various policy decisions of a minor and technical nature. We note that stakeholders expressed a strong desire to review our proposed solution (including draft legislation) and make further submissions. This will not be possible if the reform were included in budget legislation. Accordingly, we would aim to include the reform in the next Annual Rates Taxation Bill, usually introduced in August of each year and passed before 31 March the following year. However, the reform could be given retrospective effect to the start of the 2025-26 tax year.

Background

1. The New Zealand Institute of Economic Research published a paper in April 2024 which argued that our foreign investment fund (FIF) rules are discouraging desirable migrants from coming to and staying in New Zealand.

2. The FIF rules were introduced to remove a tax-driven incentive for New Zealand tax residents to invest in foreign enterprises over domestic ones. The rules achieve this by taxing the resident on deemed dividends calculated as 5% of the opening value of their FIF interests, or actual gains if the total return is lower than 5%. Net losses are generally not deductible. Different rules can or must be applied if the investment is more than 10% of the foreign enterprise.

3. Many taxpayers find taxation of notional income burdensome. They prefer being taxed on a realisation basis. Those coming to New Zealand are generally more accustomed to a capital gains tax as this is the norm in their home jurisdiction. In particular, they object to being taxed on investments on which they have suffered an economic loss. (This is not uncommon under the FIF rules. It is compensating for the fact that economic gain is not always fully taxed either, due to the 5% annual cap).

4. From a practical standpoint, taxing notional income can give rise to liquidity issues if those investments do not pay enough dividends to cover the tax liability or are hard to sell. For such FIF interests, taxpayers would have to fund their FIF tax liability with other sources of income, assets, or borrowing. In addition to the liquidity issue, some taxpayers may face double taxation. The most common case of double taxation relates to United States (US) citizens, who are taxed by the US on a citizenship basis. It is uncertain whether they can claim the foreign tax credits arising from paying their FIF tax to offset any US capital gains tax from the eventual disposal of their FIF interests.

5. The Government has stated that attracting highly skilled, well connected, and wealthy migrants to stay in New Zealand is a priority. This objective aligns with the Government's priority to boost capital investment in New Zealand, particularly in the technology and IT space. Accordingly, on 1 December 2024 the Minister of Revenue agreed for Inland Revenue to release an issues paper for public consultation on the effects of the FIF rules on immigration [IR2024/458 refers]. The issues paper proposed three solutions and sought feedback on them. This report briefs you on the feedback we received, seeks your approval of our recommended policy solution, and seeks your authorisation to lodge the attached draft Cabinet paper to Cabinet for approval.

Consultation

6. Public consultation opened on 6 December 2024 and closed on 27 January 2025. We received 98 submissions. Key themes arising from these submissions were:

    6.1 There was broad support for realisation-based taxation of FIF interests and the revenue account method.

    6.2 Removing the 10% interest threshold required for using the existing attributable FIF income method by itself would not achieve the stated policy objectives, but this was worth doing in addition to implementing the revenue account method.

    6.3 Horizontal equity concerns were raised regarding the proposal applying to migrants only. There was general support for any amendment to apply to everyone, including New Zealand tax residents who have never left New Zealand.

6.4 If any concession were available only to migrants, many submitters did not believe there should be a distinction between pre-migration and post-migration assets, or between liquid and illiquid assets.

6.5 The general consensus was that taxing any gain on realisation at the taxpayer's marginal income tax rate would not achieve the goal of the reform. Generally, submitters suggested a flat rate or discounting the taxable income by 50% to arrive at an effective tax rate of half the taxpayer's marginal tax rate.

6.6 There was general consensus that whichever method we implement should be optional so taxpayers can choose the method that works best for them.

6.7 Some submitters were concerned that there was not enough time to undertake a wider reform of the FIF regime or outbound international tax settings generally. In light of these concerns, those submitters advocated for changes to be implemented narrowly to begin with while a wider review of the FIF regime is undertaken.

Scope

7. Submitters generally considered that any changes made should apply to all New Zealand tax residents on the basis of ensuring horizontal equity – that is, for people in the same economic situation to be treated the same by the tax system. A 'favourable' change in the FIF rules available only to migrants would appear to be a preferential treatment and might erode public trust in the fairness of the tax system. Furthermore, submitters said it seemed counter to the aim of attracting and retaining talent in New Zealand if residents with similar FIF assets were motivated to leave New Zealand because the changes did not apply to them.

8. Similar submissions on fairness were received on the distinction between pre- and post-migration assets. Practical challenges were also raised, including the difficulties of determining and recording the distinction, and misalignment with capital commitment cycles of private investments (in that further investments might be required post migration in relation to interests acquired pre-migration). Submitters also raised concern relating to the treatment of pre-migration assets following common business practices such as share restructuring, and mergers and acquisitions.

9. There was also a clear majority against the changes applying to illiquid assets only. Submissions on this point focused on achieving the objective of appealing to migrants, and believed the restriction to illiquid assets would fail to achieve this objective. Some argued this may impact investors' and enterprises' business decisions, where individuals may be motivated to primarily invest in illiquid assets before migrating to New Zealand and businesses are incentivised against getting listed for the benefit of their shareholders.

10. There was no clear consensus on whether an 'unlisted share' was a good proxy for an illiquid asset. Commercial and personal insights from venture-capital and start-up sectors were against this definition, on the basis that listed shares may be illiquid due to reasons including contractual obligations, insufficient market liquidity and employment-related restrictions. There would also be instances where an unlisted share would be liquid, such as unlisted shares readily tradeable on private secondary markets.

Special treatment for double taxation

11. Most submitters agreed double taxation is an issue that needs to be resolved. They favoured the proposal for tax residents subject to double taxation to have the option

to apply the revenue account method to all FIF interests, irrespective of liquidity or whether they were acquired after migrating to New Zealand. However, concerns were raised on the proposed eligibility requirement that a tax resident would need to be subject to double taxation of 15% or more. This is because the capital gains tax rates in relevant foreign jurisdictions are often progressive, which can result in boundary issues as taxpayers may fall below 15% in some years.

12. Should a taxpayer no longer be subject to double taxation (because they renounce their citizenship of the other country), we proposed that they should apply the revenue account method with the same limitations as all other migrants who are not subject to citizenship-basis taxation by another jurisdiction. Submitters supported this proposal, but the opinion was split between whether the taxpayer should also have to perform a "wash-up" calculation to transition all their liquid FIFs to a different FIF method.

Expanding the attributable FIF income method

13. Currently, taxpayers with interests of 10% or more in a FIF may choose to calculate their FIF income under the attributable FIF income method. Under this method, if the FIF passes an active business test, only dividends are taxed. If it does not pass the test, shareholders are taxed on their share of the FIF's passive income as it is earned by the FIF. Any gain from the disposal of the FIF interests is not taxed unless the interest is held on revenue account.

14. One of the three consulted proposals was removing the 10% threshold required to access the attributable FIF income method, provided the shareholder played an active role in the company (such as an employee or director). Submitters who expressed a view did not agree the removal of the threshold would achieve the outcome by itself, with most noting the method was often not available due to the information requirements and complexity.

15. However, there are cases where executives and founders who have used the method fall below 10% shareholding in their company as their stake is diluted during expansion. So while submitters noted the expansion of AFI would not meet the policy aim, the removal of the threshold would allow access to those who have previously used AFI.

Revenue account method

16. The revenue account method taxes FIF interests on dividends received and capital gains on disposal. The consultation paper outlined key discussion points based on the revenue account method only being available to migrants and their illiquid investments acquired before migration.

17. The revenue account method was broadly supported, with submitters believing the method was the simplest and most taxpayer friendly out of the three proposed.

Optionality

18. Most submitters on optionality agreed using the revenue account method should be elective. Common sentiments informing this opinion were about retaining flexibility in the FIF regime so taxpayers could choose the method best suited for their investment portfolio.

Rates

19. Most submitters consider taxing capital gains at the taxpayer's marginal income tax rate too high. Submissions generally advocated for a flat tax rate of no more than 20%, although some advocated for aligning the tax rates with the prescribed

investor rates which are capped at 28% and currently used for portfolio investment entity incomes. Other submissions advocated for the taxable income to be discounted so that only half the FIF income under the revenue account method is taxable. Others suggested inflation-adjusting the cost basis of FIF interests so that only the real gains (rather than nominal gains) are taxed.

Exit tax

20. For the purposes of the revenue account method, the majority of submitters were against deeming a disposal of FIF interests upon the cessation of a person's New Zealand tax residence status. Concerns related to cashflow issues to fund the liability and the resulting disincentive against migration in anticipation of the risk of being 'locked-in' to New Zealand. Those in agreement noted the importance of the exit tax to maintain the integrity of the tax system, though they proposed alternative times for payment. The most common alternative proposed was for the exit tax payable to be deferred until the FIF interest is disposed of, which would mitigate cashflow concerns, but raises compliance issues given the taxpayer would no longer be a New Zealand resident.

Losses

21. Submissions broadly supported allowing losses under the revenue account method and most agreed for these losses to be carried forward into future years. There was general support for losses arising under the revenue account method to be ring-fenced and to only offset FIF income derived under the revenue account method.

Deferral method

22. The proposed third method, the deferral method, would impose the current FIF rules on a realisation basis, similar to how foreign superannuation funds are currently taxed.

23. The method calculates the taxable FIF income at sale by deeming the asset to have been acquired for a cost such that it returns 5% income each year, and adding an interest component to account for the benefit from delaying tax until sale. The FIF income is capped at 100% of the disposal proceeds, reached when the interest is held for more than 26 years.

24. Submissions generally did not support this method with concerns mainly about the method continuing to tax notional income. Secondly, submitters were concerned about the potential for the capital itself to be taxed, rather than just the capital gain, if any. This might mean tax payable under this method would not be creditable in the US as a result it being akin to a wealth tax.

25. A minority of submissions considered the deferral method better suited shares with no readily available market valuation. However, they submitted the method should be introduced in addition to the revenue account method to replace the existing cost method and deemed rate of return method.

Option analysis

26. This reform started as a project to prevent the FIF regime from deterring foreigners and returning New Zealanders with business skill and capital from coming to live in New Zealand. This was in response to a report from the NZIER which highlighted the issue and requested a solution targeted at migrants. As noted by NZIER, the FIF regime was particularly problematic for migrants who have shares they cannot easily sell and for people who remain subject to tax in another country even once they become New Zealand resident (such as US citizens).

27. Although the consultation has brought up other issues with the FIF regime, the original problem was not about the tax rules that apply to New Zealand residents in general on their foreign shares. Trying to make wider changes to the FIF regime to address these issues now risks missing important issues or not engaging with stakeholders about the right issues due to the need for a rapid solution. If the Government wants to consider these wider issues, we recommend it does so as part of a further project so they can be fully considered and consulted on.

28. Accordingly, we recommend implementing the revenue account method on a narrow basis that targets the original problem raised by NZIER. We recommend that the revenue account method would only apply to illiquid FIF interests that were acquired before a person comes to New Zealand, plus follow-on investments and shares acquired as a result of employment while non-resident. FIF interests (liquid or illiquid) acquired after becoming a New Zealand tax resident would generally not be eligible for the revenue account method.

29. We also recommend that New Zealand tax residents who are subject to tax on capital gains on a citizenship basis in another jurisdiction be allowed to apply the revenue account method on all FIF interests. For these taxpayers, there would be no distinction between liquid and illiquid FIF interests acquired before or after coming to New Zealand.

30. We outline below our recommended policy settings. However, some of the technical details of the proposal would require further work. We will report to you on these at a later date.

Eligibility and application date

31. For a person to be eligible for the revenue account method, we recommend the person must have been a non-resident for a period of five years or more. For returning New Zealanders, the revenue account method would not apply to FIF interests acquired before the start of the five year period.

32. We recommend allowing an eligible person who becomes fully tax resident on or after 1 April 2025 to make a one-time election to apply the revenue account method on eligible FIF interests. In this context, "fully tax resident" means someone who is a New Zealand tax resident and is not a transitional resident. So it would apply to people who arrived here up to four years before that date (from 1 April 2021), but whose transitional residence period ended on or after 1 April 2025. These people would be able to elect to apply the revenue account method on eligible FIF interests from 1 April 2025 onwards.

33. We understand that you may wish to include people who came to New Zealand during the COVID-19 lockdowns. An alternative approach is to allow eligible people who becomes fully tax resident on or after 1 April 2024 into the regime. This would cover everyone who came to New Zealand on or after 1 April 2020, provided they meet the other criteria of having been a non-resident for a period of five years or more before coming to New Zealand. This is feasible, though it would create some transitional complexities.

34. Further we recommend that a family trust be able to use the revenue account method if the principal settlor is a person who meets the eligibility criteria for individuals.

35. Eligible taxpayers would be able to make an election in the year they become subject to the FIF regime to return income on their illiquid FIF interests under the revenue account method. If the taxpayer does not make an election, the default method would be to apply the current FIF methods.

Rate

36. We recommend that dividends received from FIF interests under the revenue account method should be taxed the same way as dividends received from other sources. The recipient's marginal income tax rate should apply.

37. While the FIF regime should not be a barrier that discourages people from wanting to move to New Zealand, we do not consider the rates need to be "competitive" with lower-taxed jurisdictions for New Zealand to remain attractive to potential migrants. However, given the lower rates in other countries, we accept that taxing capital gains at the higher marginal rates is likely to make the reform less effective at achieving its goal, especially at the top marginal tax rate of 39%.

38. We therefore recommend that any gain on disposal of FIF interests subject to the revenue account method be discounted by 30% before being taxed at the taxpayer's marginal income tax rate. For a person with a marginal tax rate of 39%, this would reduce the effective tax rate to 27.3%. This is a similar rate to the maximum rate applying to income earned through a portfolio investment entity, including FIF income. The discount would result in a lower effective tax rate for taxpayers whose marginal income tax rate is lower than 39%. A higher discount rate would increase horizontal equity concerns with the proposal, as it would allow migrants to pay significantly less tax on their investments than other New Zealand residents.

Exit taxes on migration

39. We recommend that migration from New Zealand should result in a deemed disposal of FIF interests taxed under the revenue account method. This is an integrity measure that is common in jurisdictions that have a capital gains tax regime.

40. We note that of those who submitted on the point, a majority disagreed with an exit tax and those who support it called for an option to defer it until realisation. Many jurisdictions that have an exit tax have an option for deferring it. For instance, every EU country that has an exit tax allows taxpayers to pay the exit tax over a period of time or to defer paying it until realisation. Similarly, Australia allows taxpayers to defer paying its exit tax until realisation. However, there are obviously compliance challenges in allowing outward migrants to defer paying an exit tax until realisation.

41. Based on our experience with student loans, it becomes very difficult to enforce payment of a tax on a person once they have left New Zealand. On balance, we consider that implementing an exit tax without the option of deferring it is important to the integrity of the revenue account method. However, this is something we could consider further following submissions as part of the Select Committee process.

Losses

42. We recommend that losses arising under the revenue account method should be available to be offset against gains under the revenue account method only. Any net losses for a year should be carried forward to offset revenue account method gains in future years. While some submissions argued that losses arising from the disposal of revenue account items are not usually ring-fenced, we consider that the FIF methods are separate from those principles and that losses should be aligned with how losses, if available, are currently treated under the FIF rules.

Financial implications

43. The fiscal cost (i.e., tax revenue impact) of the revenue account method as proposed in this paper totals $0.150 million over the forecast period.

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
Tax Revenue: Other persons					
Turning off FIF	0.000	0.000	(0.020)	(0.150)	(0.420)
Replacement tax treatment	0.000	0.000	0.010	0.110	0.320
Total Revenue	0.000	0.000	(0.010)	(0.040)	(0.100)
Total Operating	**0.000**	**0.000**	**0.010**	**0.040**	**0.100**

44. We previously reported that the estimated fiscal cost for the revenue account method would be $4.09 million over the forecast period (to 2028/29), rising to $34.59 million over the period to 2033/34 [IR2024/458 refers]. However, this costing did not account for potential revenue that may come from taxing dividends and gain on disposal of interests under the proposed revenue account method. This has been accounted for in the latest costings.

45. We recommend that the non-departmental cost of the proposal be accounted for against the Tax Policy Scorecard.

46. The departmental costs for administering and implementing the revenue account method as proposed total $0.780 million over the forecast period.

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
One-off implementation	-	0.200	-	-	-
Ongoing administration	-	0.010	0.070	0.150	0.150
Total operating (inc/dec)	**-**	**0.210**	**0.070**	**0.150**	**0.150**
Capital injection	-	0.200	-	-	-
Total capital impact (inc/dec)	**-**	**0.200**	**-**	**-**	**-**
Total	**-**	**0.410**	**0.070**	**0.150**	**0.150**

47. The department has limited capacity to partially-fund or fully-fund initiatives without directly impacting core service delivery, tax revenue, tax debt or system change, and maintenance capacity. Given the relatively small scale of this initiative, the departmental will self-fund this initiative. However, the overall financial impact of all Budget 2025 initiatives will need to be assessed during the Budget process.

Next steps

48. If you agree to proceed with the recommended FIF reform the draft Cabinet paper, subject to your feedback, could be lodged by 10am on Thursday, 20 February for the Cabinet Economic Policy Committee to consider at their meeting on Wednesday, 26 February.

49. If approved, we would aim to include the reform in the next Annual Rates Taxation Bill, usually introduced in August of each year and passed before 31 March the following year. We would report back as part of that Bill process to seek your agreement to the more detailed policy decisions.

Recommended action

We recommend that you:

1. **agree** to add a new method to the foreign investment fund regime which allows for eligible foreign investment fund interests to be taxed on a realisation basis (the revenue account method), which means that only dividends received and gains on sale are taxed.

   Agreed/Not agreed   Agreed/Not agreed

2. **agree** that a person would be eligible to apply the revenue account method on eligible foreign investment fund interests only if they have been personally absent from New Zealand for a period of five years or more.

   Agreed/Not agreed   Agreed/Not agreed

3. **agree** that the proposal would be available to people that became fully tax resident in New Zealand on or after 1 April 2025, subject to them meeting the eligibility criteria set out in recommendation 2.

   Agreed/Not agreed   Agreed/Not agreed

4. **agree** that a family trust would be eligible to apply the revenue account method on eligible foreign investment fund interests if the principal settlor of that trust is eligible pursuant to the criteria set out in recommendations 2 and 3.

   Agreed/Not agreed   Agreed/Not agreed

5. **agree** that an eligible person whose foreign investment fund interests are subject to taxation by another jurisdiction on a citizenship basis should be allowed to apply the revenue account method on all foreign investment fund interests, including interests that are liquid and interests acquired after coming to New Zealand, subject to them meeting the criteria set out in recommendations 2 and 3.

   Agreed/Not agreed   Agreed/Not agreed

6. **agree** that with the exception of interests referred to in recommendation 5, the revenue account method would only apply to:

   6.1 foreign investment fund interests that are illiquid.

   Agreed/Not agreed   Agreed/Not agreed

   6.2 foreign investment fund interests that were acquired while the person was non-resident

   Agreed/Not agreed   Agreed/Not agreed

   6.3 certain follow-on investments into foreign investment fund interests made after a person has become New Zealand resident but in relation to investments acquired while non-resident.

   Agreed/Not agreed   Agreed/Not agreed

   6.4 foreign investment fund interests acquired as a result of foreign employment.

   Agreed/Not agreed   Agreed/Not agreed

7. **agree** that gains or losses on disposal of any foreign investment fund interests would be subject to a 30% discount before being taxed at the taxpayer's marginal income tax rate.

Agreed/Not agreed Agreed/Not agreed

8. **agree** that the revenue account method would apply from 1 April 2025 onwards.

Agreed/Not agreed Agreed/Not agreed

9. **agree** that losses on disposal of any foreign investment fund interests to which the revenue account method is applied are only available to be offset against any gains on disposal of any foreign investment fund interests to which the revenue account method is also applied, with any excess losses carried forward into future years.

Agreed/Not agreed Agreed/Not agreed

10. **agree** that the reform include some form of exit tax which would apply to shareholders who cease to be New Zealand resident while holding shares subject to the revenue account method.

Agreed/Not agreed Agreed/Not agreed

11. **note** that further work on minor, administrative and technical details are still needed and future reporting will seek decisions from you on those details.

Noted Noted

12. **note** the proposal above has a tax revenue fiscal cost of $0.150m over the forecast period.

Noted Noted

13. **agree** for the tax revenue fiscal cost of this proposal to accounted for against the Tax Policy Scorecard.

Agreed/Not agreed Agreed/Not agreed

14. **note** that Inland Revenue will self-fund the cost for administering and implementing the revenue account method, estimated at $0.780 million over the forecast period.

Noted Noted

15. **note** that the financial impact of this initiative and overall financial impact of other Budget 2025 initiatives will need to be assessed during the Budget process.

Agreed/Not agreed Agreed/Not agreed

16. **lodge** the attached draft Cabinet paper, subject to your feedback and any editorial changes made in light of ministerial consultation, with the Cabinet Office by 10am on 20 February for the Cabinet Economic Policy Committee to consider at their meeting on 26 February.

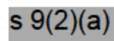
Lodged

17. **refer** a copy of this report to the Minister of Immigration for their information.

Referred/Not referred Referred/Not referred

18. **refer** a copy of this report to the Minister of Science, Innovation and Technology for their information.

Referred/Not referred   Referred/Not referred



Sam Rowe
Policy Lead
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: **Foreign Investment Fund – Phase One technical decisions**

Date:	23 May 2025	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2025/233

Action sought

	Action sought	**Deadline**
Minister of Finance	**Agree** to recommendations	26 May 2025
Minister of Revenue	**Agree** to recommendations	26 May 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Casey Plunket	Special Policy Advisor	s 9(2)(a)	☒

23 May 2025

Minister of Finance
Minister of Revenue

Foreign Investment Fund – phase one technical decisions

Executive summary

Purpose

1. This report seeks your joint approval on technical decisions relating to the first phase of the foreign investment fund (FIF) reform. Although these are technical, three of them in particular are important to the robustness of the reform.

Context and background

2. Cabinet has approved the introduction of a new method (the revenue account method) to the FIF regime that allows eligible FIF interests to be taxed on a realisation basis [*CAB-25-MIN-0061 refers*]. The key policy design parameters approved are outlined in Appendix One.

3. You were delegated authority to jointly make minor, administrative, and technical policy decisions to give effect to the new method. This report seeks your joint agreement to these decisions. These changes, if approved, will be implemented via the Taxation (Annual Rates for 2025-26) Bill, scheduled to be introduced in August this year, as a first phase of tax reform to reduce tax barriers to the further development of New Zealand's start up and tech sectors.

Key issues and officials' recommendations

4. Three key issues covered in this report are:

   4.1 Whether to decrease the tax on gains from sale by giving a 50% discount, rather than the previously agreed 30%, following feedback from stakeholders. We recommend staying with the 30% discount previously approved by Cabinet.

   4.2 The length of the absence test to determine a returning migrant's eligibility to apply the revenue account method. We recommend five years.

   4.3 Detailed design of the exit tax. We recommend focusing this measure so that it serves as an anti-abuse measure targeting people who sell their shares within a relatively short period after leaving. We recommend that gains arising from disposal within three years of a person leaving New Zealand be taxable.

Consultation

5. Officials released a technical issues paper to a targeted group of stakeholders on 23 April 2025. The recommendations in this paper have been made with regard to the feedback we received.

Next steps

6. If you decide to seek Cabinet's approval to increase the discount rate to 50%, we will include this in the Omnibus Cabinet paper regarding the Taxation (Annual Rates for 2025-26) Bill. The Omnibus Cabinet paper is scheduled for reporting to you in June and would be considered by the Cabinet Economic Policy Committee on 25 June 2025, subject to your approval.

7. If you decide to proceed with the already-agreed 30% discount rate, we will begin working on the draft legislation for inclusion in the Taxation (Annual Rates for 2025-26) Bill.

Background and context

Background

8. On 10 March 2025, Cabinet approved the introduction of a new method (the revenue account method, or 'RAM') to the foreign investment fund (FIF) regime that would allow eligible FIF interests to be taxed on a realisation basis [*CAB-25-MIN-0061 refers*] instead of the current attribution basis. The key policy design parameters approved are outlined in Appendix One.

9. Cabinet delegated you authority to jointly make minor, administrative, and technical policy decisions that give effect to the new method. This includes decisions on the exact period of non-residency required for eligibility and the detailed design of an exit tax as an integrity measure.

10. These changes, if approved, will be implemented via the Taxation (Annual Rates for 2025-26) Bill (the Bill) as a first phase of tax reform ('Phase One') to reduce tax barriers to the further development of New Zealand's start up and tech sectors. The Bill is scheduled to be introduced in August.

11. s 9(2)(f)(iv)

12. Officials released a technical issues paper to a targeted group of stakeholders on 23 April 2025. This report seeks your agreement on the proposals canvassed in the paper having regard to the feedback we received.

Policy objective and framework

13. The FIF rules were introduced in the 1980s to reduce a tax-driven incentive for New Zealand tax residents to invest in foreign companies rather than domestic ones. While stakeholders broadly agree that the FIF rules have a disincentivising effect on migrants looking to come to and stay in New Zealand, those working in the tax industry also agreed that the original purpose of the FIF rules is still valid, and the rules continue to serve a useful function.

14. In our analysis and in making our recommendation, we have tried to balance the competing objectives of providing a concession to reduce the effect of the FIF rules on migration decisions and maintaining the integrity of the tax base.

Policy settings

Rates

15. We previously reported that the feedback we received from public consultation was that a discount on capital gains tax would be required to align with what investors would generally experience in other countries [*IR2025/007 refers*]. We recommended a 30% discount (technically, only 70% of the gain is taxed) to bring the effective tax rate for a taxpayer on a 39% marginal tax rate down to 27.3%. This broadly aligns with the rate an investor would expect to pay if they invested through a portfolio investment entity (PIE). Further, a lower rate would set an undesirable precedent of introducing distortionary concessions in the tax system, especially if the revenue account method is made available to a wider group.

16. In making our recommendation, we also consulted with a representative of the key group of stakeholders who have been the most vocal in advocating for this reform. The outcome from this feedback was that a 30% discount likely struck the right balance between the administrative and integrity needs of our tax system and achieving the policy objectives [*BN2025/051 refers*].

17. However, in our recent targeted consultation, key stakeholders raised concerns that a 30% discount would not go far enough to reduce the FIF rules as a barrier to migration. The feedback was that our top effective tax rate needs to be broadly in line with the top tax rate in the US (20%).

18. This would require a 50% discount on the taxable amount, which would reduce the effective tax rate for a taxpayer on the top marginal tax rate to 19.5%. While a more generous tax rate may, at the margins, improve New Zealand's attractiveness as a migration destination, we outline other considerations below.

s 9(2)(f)(iv)

Recommendation

21. We recommend no change to the 30% discount already approved by Cabinet. While we understand that a larger discount may be a requirement for some potential migrants, aligning the effective rate with the top PIE rate will minimise distortions in our tax system s 9(2)(f)(iv)

22. If you would prefer to pursue a 50% discount, noting this would cost $448,000 more than a 30% discount, you would need seek Cabinet's approval as it has agreed to a 30% discount.

Cost base

23. We consulted on two methods for determining the cost basis in our issues paper:

    23.1 Market valuation method – obtain an independent valuation of the shares on the date the person elects to apply the RAM; or

    23.2 Apportion the taxable gain or loss on disposal so that the taxpayer is only taxed on the portion attributed to their period of residence in New Zealand.

24. A suggestion we received during targeted consultation was to set the cost base to original cost, so that all gains or losses are taxed, not just the portion that accrued while the person was resident in New Zealand. This gets around the complexities of obtaining market valuation and a need for rules around resetting cost bases for those who leave and then return to New Zealand. It will generally result in more New Zealand tax, but for New Zealand residents who are also taxable in another

country (primarily US citizens) this tax may well be creditable against the tax in that other country.

25. We expect the market valuation method to be the method that most people would be familiar with and best aligns with capital gains tax regimes around the world. As such, we do not expect this method to unduly increase compliance cost.

26. The main advantage of the apportionment method is its simplicity, similar to the original cost method. As the gains and losses are apportioned, the risk of taxing gains accrued before the migrant came to New Zealand is mitigated.

Recommendation

27. We recommend that the market valuation method be the default method, with the apportionment method available to use if the market value of the FIF interest can only be determined by an independent valuation.

28. However, if you decide to increase the discount rate to 50%, then we would recommend allowing only the original cost method for determining the cost base.

Exit tax

29. Cabinet agreed to include some form of exit tax to buttress the integrity of the reform. An exit tax imposes a tax on a deemed sale of foreign shares when a person loses NZ tax residence.

30. Feedback from stakeholders on an exit tax has generally been negative. While stakeholders have acknowledged that exit taxes are necessary to maintain the integrity of a regime that taxes gains on disposal, it is a factor that would turn some migrants away. However, most jurisdictions that have a capital gains tax also have an exit tax. Of those, a number have some form of deferral mechanism that allows the taxpayer to defer the payment until disposal or death.

Recommendation

31. To address stakeholder concerns, we propose that any foreign shares held on the RAM account be taxable if disposed within three years of the taxpayer leaving New Zealand. This is a more generous approach because after three years there would be no tax liability.

Extended RAM

Eligibility

32. We previously recommended that an eligible person who is subject to concurrent taxation by another jurisdiction on a citizenship basis should be allowed to apply the RAM on all FIF interests ("extended RAM").

33. It has come to our attention that a US Green Card holder, who are not US citizens, are still subject to US taxation on their worldwide income regardless of residence.

Recommendation

34. We recommend clarifying the eligibility rule so that a person may be eligible for extended RAM if they are generally liable to tax in another country on disposal of

FIF interests on the basis of their citizenship or rights to reside and work, regardless of their tax residence in New Zealand.

Tax treaty network

35. There is a risk that a person could claim the benefit of the extended RAM on the basis that they are resident of a country that has a very low rate of tax on gains, or on a basis that is otherwise problematic. We are not aware of any such country, but we cannot be familiar with the tax regime of every single country.

Recommendation

36. We recommend limiting the extended RAM to residents subject to tax on the basis of their citizenship or rights to reside and work regardless of their tax residence in New Zealand, in another country with which New Zealand has a tax treaty.

Change of circumstances

37. The extended RAM for liquid FIFs is concessionary but appropriate because the taxpayer is subject to concurrent taxation in another jurisdiction. Therefore, it is appropriate to rescind the concession allowing the RAM to be applied to liquid FIFs once the taxpayer is no longer subject to concurrent taxation.

38. For a US citizen or Green Card holder, this would occur when the taxpayer gives up their citizenship or Green Card. We anticipate a significant majority of US migrants will be subject to an exit tax upon the forfeiture, for which the deemed sale will provide a tax credit against the US exit tax. If we wait for an actual sale before imposing New Zealand tax, it may be more difficult for the person to claim a credit against the US exit tax paid in an earlier year. There may be no US tax creditable against New Zealand tax on a subsequent sale since the US tax is imposed on the basis of citizenship rather than source. Therefore, New Zealand not deeming a disposal of liquid FIF interests when the taxpayer must pay a US exit tax may give rise to an increased risk of double taxation.

Recommendation

39. If a person loses eligibility for the extended RAM, we recommend deeming a disposal on all liquid FIF interests, after which those interests would be taxed under an existing FIF methods (such as the fair dividend rate). All illiquid FIF interests would remain taxable under the RAM.

Absence test

40. One of the eligibility requirements to use the RAM is that the taxpayer must have been a non-resident for a number of years. Cabinet has delegated you the authority to jointly decide this number.

41. Migrants who have never been a New Zealand tax resident would not be affected by the absence test. This test would only affect returning New Zealanders and returning migrants.

42. The number of years should not be so low that people are incentivised to leave New Zealand to gain access to the RAM. The number of years should also be sufficiently high that the returning New Zealander or migrant has had the opportunity to accrue the relevant skills, connections, or capital.

Recommendation

43. We recommend a period of five years. Five years strikes an appropriate balance between allowing people with the right skills, connections, or capital to access the RAM, and maintaining the integrity of the measure and not incentivising New Zealanders to leave.

Temporary departure

44. A person who is eligible for the RAM may subsequently become non-resident. If the period of non-residence is less than the period required to satisfy the absence test, there is a question as to the person's eligibility to use the RAM upon their return. This is not an issue that affects a person who comes to New Zealand, leaves for a period longer than the absence test, then comes back as they would be eligible for the RAM upon their re-entry.

45. In the event that a person loses their eligibility to use the RAM when they re-enter New Zealand, there is a further question around what happens to the foreign shares that were previously held on the RAM account before they left New Zealand.

46. We think that absence should have no impact on the continued eligibility for the RAM of shares that were eligible for the RAM before the person temporarily departed. However, if the person departs for less than five years, illiquid shares acquired during that second period should not qualify for the RAM. However, a different rule for people who are eligible for the extended RAM is warranted as losing this eligibility would affect all shares (liquid and illiquid) acquired after their re-entry.

Recommendation

47. We recommend that the eligibility of shares for the RAM be preserved when a person returns to New Zealand. That is:

    47.1 FIF interests that are eligible for the RAM before their departure would continue to be eligible for the RAM upon their return at the same cost basis.

    47.2 FIF interests that were not eligible for the RAM before their departure would continue to be ineligible for the RAM upon their return.

48. For taxpayers who are eligible for the extended RAM, it does not seem justified for them to lose this eligibility simply because they have temporarily left New Zealand. We therefore recommend that taxpayers who are eligible for the extended RAM maintain their eligibility even after temporary non-residence.

Election

49. Cabinet has agreed for the RAM to be elective. However, there is a question around whether the election would apply on a share-by-share basis or on a portfolio basis. There is also the matter of whether the election should be permanent.

50. Applying the RAM on a portfolio basis would be administratively simpler and prevents cherry-picking. However, this means that making the election permanent may be considered too punitive – especially as the taxpayer would need to make this election as soon as they become subject to the FIF rules. This is particularly relevant for those who are eligible to apply the extended RAM, as it can be applied to all FIF interests and a taxpayer's portfolio is likely to change over time.

Recommendation

51. We recommend that an election to apply the RAM would apply on a portfolio basis and not permanently. This means that the taxpayer may elect to apply the RAM and could later elect to apply another FIF method instead. Electing out of RAM would be a deemed disposal event and the eligible FIF interests would be deemed to have been disposed at market value (otherwise taxpayers could avoid being taxed by electing into another method immediately prior to disposal).

Corporate re-organisation

52. Many countries with capital gains tax have rules to allow a person whose shares are replaced in whole or part with other shares following a corporate re-organisation, to ignore the transaction for tax purposes. The new assets have the same basis as those replaced, so this is a deferral of paying tax on any capital gains rather than a permanent exemption. New Zealand does not have highly developed rules in this respect, largely because of our lack of a capital gains tax.

53. These kinds of transactions can be problematic for New Zealand shareholders, since we do not have equivalent rules, and the rules we do have (for example, defining whether a transaction gives rise to a dividend) often give very different results from foreign rules. This issue is particularly relevant for people subject to concurrent taxation in another jurisdiction as this could give rise to different tax results for the same interest.

Recommendation

54. We recommend that in a corporate re-organisation where the shareholder does not have any significant influence on the outcome, the tax law of the country whose law governs the re-organisation is applied to determine whether the re-organisation gives rise to a disposal, a dividend, both, or neither under the RAM. This would only apply to people who are eligible to apply the extended RAM.

Financial implications

55. The fiscal cost of the RAM, with the 30% discount and a five-year absence requirement, would be $1.381 million over the forecast period.

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Tax Revenue: Other Persons tax (turning off FIF)	0.000	0.000	(0.100)	(0.750)	(2.100)
Other Persons tax (replacement tax treatment)	0.000	0.000	0.053	0.399	1.117
Net effect	0.000	0.000	(0.047)	(0.351)	(0.983)
Total Operating	**0.000**	**0.000**	**0.047**	**0.351**	**0.983**

56. The fiscal cost of the RAM, with a 50% discount and a five-year absence requirement, would be $1.829 million over the forecast period.

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Tax Revenue: Other Persons tax (turning off FIF)	0.000	0.000	(0.100)	(0.750)	(2.100)
Other Persons tax (replacement tax treatment)	0.000	0.000	0.038	0.285	0.798
Net effect	0.000	0.000	(0.062)	(0.465)	(1.302)
Total Operating	**0.000**	**0.000**	**0.062**	**0.465**	**1.302**

57. Cabinet has already agreed for the fiscal impact to be accounted for on the Tax Policy Scorecard.

58. s 9(2)(f)(iv)

Administrative implications

59. The departmental costs to administer and implement the proposed changes remain at $0.780 million over the forecast period.

60. The department has limited capacity to partially-fund or fully-fund initiatives without directly impacting core service delivery, tax revenue, tax debt or system change, and maintenance capacity. Given the relatively small scale of this initiative, the departmental will self-fund this initiative.

Consultation

61. The Treasury was informed of this report.

62. We engaged with the following stakeholders on the technical issues paper:

62.1 Acclime

62.2 Chartered Accountants Australia and New Zealand

62.3 Corporate Taxpayers Group

62.4 Deloitte

62.5 DLA Piper

62.6 EY

62.7 KPMG

62.8 Lane Neave

62.9 MinterEllisonRuddWatts

62.10 New Zealand Institute of Economic Research

62.11 New Zealand Law Society

62.12 Oliver Shaw

62.13 Peter Loerscher International Tax Ltd

62.14 PwC

62.15 s 9(2)(a)

62.16 Russ + Associates

Next steps

63. If you decide to seek Cabinet's approval to increase the discount rate to 50%, we will include this in the Omnibus Cabinet paper regarding the Taxation (Annual Rates for 2025-26) Bill. The Omnibus Cabinet paper is scheduled for reporting to you in June and would be considered by the Cabinet Economic Policy Committee on 25 June 2025, subject to your approval.

64. If you decide to proceed with the already-agreed 30% discount rate, we will begin working on the draft legislation for inclusion in the Taxation (Annual Rates for 2025-26) Bill.

Recommended action

We recommend that you:

1. **indicate** which discount rate you wish to adopt.

	Minister of Finance	*Minister of Revenue*
30% discount rate (recommended option)	Yes/No	Yes/No
50% discount rate	Yes/No	Yes/No

2. **note** that choosing to adopt a 50% discount rate would require approval by Cabinet.

   Noted		Noted

3. **note** that adopting a 30% discount rate would cost $1.381 million over the forecast period, while adopting a 50% discount would cost $1.829 million over the forecast period.

   Noted		Noted

4. **indicate** which of the cost base methods you wish to adopt.

	Minister of Finance	*Minister of Revenue*
Market valuation method and the apportionment method (recommended option)	Yes/No	Yes/No
Original cost method	Yes/No	Yes/No

5. **note** that officials recommend the original cost method if you wish to adopt a 50% discount rate.

   Noted		Noted

6. **agree** that when a person becomes a non-resident, they are only taxed on gains arising from the disposal of foreign shares made within three years of the beginning of their non-residency.

   Agreed/Not agreed		Agreed/Not agreed

7. **agree** that a person may apply the revenue account method to all foreign shares if they are generally liable to tax in another country on disposal of those shares on the basis of their citizenship or a right to work and live in that country ("concurrent taxation").

   Agreed/Not agreed		Agreed/Not agreed

8. **agree** that a person must be subject to concurrent taxation in another country that is a tax treaty partner with New Zealand to be eligible to apply the revenue account method to all foreign shares.

   Agreed/Not agreed		Agreed/Not agreed

9. **agree** that there should be a deemed disposal of all liquid foreign shares when a person loses their eligibility to apply the revenue account method on all their foreign shares.

   Agreed/Not agreed Agreed/Not agreed

10. **agree** that a person must be a non-resident for five years to be eligible for the revenue account method.

    Agreed/Not agreed Agreed/Not agreed

11. **agree** that the treatment of foreign shares is preserved when a migrant leaves New Zealand and later returns.

    Agreed/Not agreed Agreed/Not agreed

12. **agree** that migrants who are eligible to apply the revenue account method on all foreign shares would not lose this eligibility if they leave New Zealand and then return.

    Agreed/Not agreed Agreed/Not agreed

13. **agree** that an election to apply the revenue account method should apply on a portfolio basis.

    Agreed/Not agreed Agreed/Not agreed

14. **agree** that the taxpayer should be allowed to elect out of the revenue account method and that there is a deemed disposal when they make that election.

    Agreed/Not agreed Agreed/Not agreed

15. **agree** that for a person who is subject to concurrent taxation in another jurisdiction and is eligible to apply the revenue account method to all of their foreign shares, the tax treatment in New Zealand of a corporate re-organisation is aligned with the tax treatment in the other tax jurisdiction.

    Agreed/Not agreed Agreed/Not agreed

s 9(2)(a)

Casey Plunket
Special Policy Advisor
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

Appendix One – Summary of Cabinet decisions already made

1. Introduction of a new method (the revenue account method (RAM)) to the FIF regime that allows eligible FIF interests to be taxed on a realisation basis, which will apply from 1 April 2025 onwards.

2. Under the RAM, taxable FIF income will only be dividends received and **70%** of gains on sale (i.e., a 30% discount), which will be taxed at the taxpayer's marginal income tax rate.

3. Taxpayers would be eligible to use the RAM for specified FIF interests if:

   3.1 they have been a non-resident for New Zealand tax purposes for a number of years to be decided jointly by the Minister of Finance and the Minister of Revenue; and

   3.2 they became fully tax resident in New Zealand on or after 1 April 2024.

4. Family trusts whose principal settlor meets the eligibility criteria described in paragraphs 3.1 and 3.2 are also eligible to use the RAM for specified FIF interests.

5. Eligible FIF interests for the RAM will be:

   5.1 illiquid FIF interests acquired while the taxpayer was non-resident for New Zealand tax purposes;

   5.2 certain follow-on investments into FIF interests made after the taxpayer became New Zealand tax resident, but in relation to investments acquired before coming to New Zealand; and

   5.3 FIF interests acquired as a result of overseas employment.

6. Taxpayers who meet both of the criteria outlined in 3.1 or 3.2 who are subject to taxation in another jurisdiction on a citizenship basis would be able to apply the RAM on all FIF interests, rather than just the FIF interests outlined in paragraph 4.

7. Losses arising from disposal of FIF interests to which the RAM applied will only be available to offset any gains on disposal of other FIF interests to which the RAM is applied, with any excess losses carried forward into future years.

8. Some form of exit tax would apply to taxpayers who cease to be New Zealand tax residents while holding FIF interests to which the RAM applied.

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T. 04 890 1500

Briefing note

Reference: BN2025/083

Date: 10 March 2025

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Paul Young

Subject: **Accelerated deductions for petroleum development expenditure**

Purpose

1. We have been working with MBIE on a range of options to increase investment in gas production for energy security. One of these options is to accelerate tax deductions for petroleum development expenditure on a time-limited basis, which sits within the Revenue portfolio.

2. We understand that these options may be included in a Cabinet paper that would be put up by the Minister for Energy and the Minister for Resources. The draft Cabinet paper that we have seen provides limited detail on the tax proposal due to the scope of the other options provided, some of which we do not have visibility over for Budget secrecy reasons. This briefing note provides additional context to assist the Minister in making a recommendation on the tax proposal if it is included.

Current treatment of petroleum development expenditure

3. The tax rules for petroleum mining are split into two distinct phases: exploration and development. Broadly, *exploration* covers the period when the miner is searching for petroleum that can be extracted in commercial quantities, while *development* starts when the decision is made to extract petroleum for commercial production.

4. Exploration expenditure is immediately deductible, while petroleum development expenditure can be deducted in equal amounts (straight-line method) over a seven-year period.[1] Most fields have a productive life of greater than 7 years so this rule generally allows deductions to be taken sooner than they would be if they were spread over the life of the field. Deducting expenditure over a shorter period when calculating tax obligations results in a company paying less tax in earlier years and more tax in later years of a field's life. This provides a financial (time value of money) advantage to the company, and a financial disadvantage to the Crown.

5. In some cases the rule may not be concessionary, including in situations where:

   - the life of the petroleum field is less than seven years, or

[1] Miners can alternatively elect to use the reserve depletion method, which attempts to spread the expenditure over the life of the field. This method has had little use, partially because it is unavailable to miners who had a permit before 1 April 2008, and also because it is less advantageous where a field has more than seven years of expected production.

- the expenditure is for assets that have a shorter life than the field that the asset is a part of.

Proposed options

6. We have been working with MBIE on three options:

- s 9(2)(f)(iv)
- Option 2: Uplift deductions for development costs when calculating royalty returns; OR
- Option 3: Accelerate tax deductions for development expenditure.

7. Option 3 is the tax option and consists of two sub-options to accelerate deductions for petroleum development expenditure. Either option would be available for income incurred over a three-year period by companies that supply natural gas to the New Zealand market:

- **Accelerating deductions from the current seven-year spread to a three-year spread**, where expenditure would be deducted over a shorter period, resulting in the company paying less tax in the earlier years of a field's life and more tax in later years; or
- **Allowing immediate deductibility**, where expenditure would be 100 per cent deductible in the income year it is incurred.

8. If, as we understand to be correct, the objective is to incentivise companies to increase the amount of development expenditure to help secure short-medium term gas supply, either option could help to support this. Both would provide a further time value of money advantage to mining companies, potentially encouraging them to extract more gas from existing reserves over the period the proposal applies. Immediate deductibility would provide the greatest incentive.

9. If, however, the objective is to allay concerns that a future Government might not allow deductions for development expenditure, the value of accelerated deductions could be offset by discounting the deductions to reflect the time value of money foregone by the Government. For example, in present value terms, seven equal deductions of the full cost of development expenditure spread over seven years is equivalent to an immediate deduction of 75% of the development expenditure, with 25% never being deductible.[2]

10. The proposal would apply to development expenditure incurred by companies which supply natural gas to the New Zealand market on or after 1 July 2025 and before 30 June 2028, in line with the application dates for the proposed non-tax options.

11. While option 2, an uplift in deductions from royalty payments, is a non-tax option, it would have tax implications because royalties are deducted for tax purposes. If mining companies are paying less royalties due to the uplift, this would increase their tax obligation over the period the proposal applies.

Officials' recommendations

12. We do not recommend further accelerating petroleum development expenditure deductions. We would recommend that concessions offered to a particular industry are made in a transparent and direct way, rather than through the tax system. s 9(2)(f)(iv)
s 9(2)(f)(iv)

[2] Assumes a discount rate of 10.84%, only chosen to keep the 75% number a round number.

13. Additionally, we note that:

- **The existing seven-year spread is concessionary** where petroleum development expenditure provides a benefit beyond seven years. It departs from the general tax principle that expenditure should be deductible over the period for which it generates a benefit that is used to derive taxable income. Accelerating deductions or allowing immediate deductions would exacerbate this issue and would confer a further time value of money benefit to mining companies.

- **It would be difficult to target additional expenditure only** – we understand that MBIE is looking to target the incentives to expenditure that is additional to that which is already planned by the companies. It would be difficult to achieve this type of targeting through the tax legislation so it is likely that the more generous treatment would be applied to both currently planned expenditure and additional expenditure.

- **The cost of this incentive would not be capped** – it would only be limited by the amount that the companies were able to spend on development expenditure in the three-year period.
- **Other sectors may seek similar treatment** if either of these options or another form of support is progressed. These could include electricity generation, mineral mining, or any other activity that may be considered by various industries or the public to be desirable.

Financial implications

14. Initial estimates suggest that a three-year spread would have a fiscal cost of $230 million over the forecast period, while an immediate deduction would have a fiscal cost of $246 million over the forecast period.

15. The cost of accelerated deductions unwinds over time (notwithstanding the time value of money benefit to the company), as less tax is paid in earlier years, but more is paid in later years. Although less tax is paid in earlier years under immediate deductibility, the fiscal impact of the two options is relatively close over the forecast period. This is because the cost of immediate deductibility begins to unwind within this period (i.e. at 2027/28 the cumulative cost is $345m, but it reduces by $99m by 2028/29).

Implementation

16. If the Government does choose to progress one of the options for accelerating petroleum development expenditure deductions, implementing the chosen option would require legislative amendments to the Income Tax Act 2007. If the changes are intended to apply for expenditure from 1 July 2025, we would recommend including the change in Budget night legislation.

17. Based on the current policy design, Inland Revenue would self-fund the one-off implementation and delivery costs of this initiative.

Consultation

18. The Treasury and MBIE were informed about this briefing note.

Paul Young
Principal Policy Advisor
s 9(2)(a)

Briefing note
(Budget Sensitive)

Reference: **BN2024/368.**

Date: 6th September 2024

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy
Private Secretary, Minister of Finance – Emma Grigg

Copy to: Peter Mersi, Commissioner
Mary Craig, Deputy Commissioner
James Grayson, Deputy Commissioner
Joanne Petrie, Executive Support Advisor to the Commissioner
Ane Scott, Executive Support Advisor to the Deputy Commissioner
Carolyn Patchell, Executive Support Advisor to the Deputy Commissioner
Governance and Ministerial Services

From: Scott McCallum, Enterprise Leader, Strategic Portfolio Stewardship

Subject: ***IR Performance Plan (Check-In 1): Approach and context supporting brief.***

Purpose

This paper provides supporting notes for IRs Draft Performance Plan submission covering the attachments.

- Section 4 Managing Within Baselines
- Section 7a Non-Departmental Expenditure
- Cost Pressure Supplementary Information (excel spreadsheet)

Background and context

The Performance Plan (Check-In 1) focuses on the drivers of cost pressures and the corresponding initiatives for managing within funding baseline.

Scott McCallum
Enterprise Leader, Strategic Portfolio Stewardship
s 9(2)(a)

IR Performance Plan

Check-In 1, 6th September 2024

Approach and context supporting brief

- This paper provides supporting notes for IRs draft Performance Plan submission covering the attachments.
  - Section 4 Managing Within Baselines
  - Section 7a Non-Departmental Expenditure
  - Cost Pressure Supplementary Information (excel spreadsheet)

- Government has indicated its priorities for IR include fiscal sustainability, revenue collection, integrity of the tax system, minimizing compliance costs for customers and supporting a digital ecosystem.

- For fiscal sustainability, IR must plan to deliver current services and meet customer demand within our funding baseline, therefore self-funding cost pressures from annual remuneration increases and inflation. We believe this is achievable.

- 2023/24 becomes our baseline year for performance and volumes to manage our multi-year performance from, acknowledging that we currently do not meet all performance targets.

- While we will allocate resources to deliver on our core services and government priorities, IR must give primacy to improvement activity that delivers financial savings in the near term to cover cost pressures. This does create an opportunity cost, reducing our ability to redeploy savings generated into government priorities and outcomes.

- To the extent that demand for our services increase above current levels there could be a negative impact on performance.

- Based on our core operating baseline funding, 1% of cost pressure or savings equates to approximately $6.5m.

- Our primary ongoing cost pressures are remuneration and price increases, which we assume will increase a combined 2-4% per annum, equivalent to $15m to $25m each year. We have used a mid-point within the Performance Plan of $21m per annum. Within 5 years this represents an annual pressure of approximately $84m or the equivalent of 840 staff

- To manage these ongoing cost pressures, we will set annual efficiency targets of 2-4% per annum made up of:

  - 1-2% annual productivity and efficiency improvements which enable us to deliver similar results without compromising performance or customer service.
  - Minimum 2% aggregate efficiency improvements from our change initiatives portfolio and investments.
  - These savings will need to be realised as cash, rather than redeployed to other value generating activities.

- Based on our savings reduction of $15m of change capacity in B24, new, significant policy initiatives will require additional baseline funding to design, implement and support on an on-going basis. Similarly, taking on work currently managed by other departments will require additional funding or a transfer of funding.

25/26 funding gap includes $55m of time-limited funding

- Next year we have $40m of time limited funding and $15m of In-principle Expense Transfer (IPET) coming to an end, resulting in a total funding gap from the current year of $75-80m.

- The IPET reduction of $15m can be managed by rebalancing the workforce. Back-office business groups will find additional savings of approximately $14m (representing 14% of non-technology, people-based costs), on top of the 1-2% efficiency savings. There may be service impacts from these changes, to be confirmed. s 9(2)(g)(i)

- For the time-limited funding of approximately $40m ending next year:
  - $13m relates to funding provided in Budget24 for time-limited activities including changes to the personal income tax rate thresholds, FamilyBoost and the implementation of interest limitation rules. There will be no impact to IR's performance as this work is expected to cease when the funding does.

  - $27m has been in our baseline for five years to support the response to and recovery from COVID-19, address rising levels of unfiled returns and debt, to support affected customers to get their tax obligations right from the start, and to respond to emerging integrity risks. This is core, business-as-usual work delivered by our customer-facing teams, i.e. the activities are not themselves time-limited.

  - This funding equates to approximately 240 people. In the absence of this funding continuing, we will need to reduce our headcount with consequential impacts on our performance. We will be limited in how much we can expect from back-office expenditure, therefore there will be impacts on service levels and/or collection of tax and payment of entitlements. Additional funding would be required to negate this impact and protect the base for additional compliance funding and outcomes. Detailed impacts will be provided next month.

Performance Plan and use of intra year savings

- Our performance plan will set out how we propose to achieve these savings and does not assume any further government request for savings.

- Because we must remain within our Appropriation, efficiency dividends will always need to be realised in advance of the costs being incurred. We would expect that this will be recognised by supporting expense transfers between years enabling us to manage cost pressures across financial years.

Inland Revenue report: Performance Plan and the potential to increase compliance activity

Date:	3 October 2024	Priority:	High
Security level:	In confidence – Budget Sensitive	**Report number:**	IR2024/406

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report	11 October 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Scott McCallum	Enterprise Leader, Enterprise, Design & Integrity	s 9(2)(a)

3 October 2024

Minister of Revenue

Performance Plan and the potential to increase compliance activity

1. The purpose of this report is to:
   - seek your feedback on our draft Performance Plan (attached),
   - subject to an invitation, foreshadow the submission of a Budget 2025 Savings and Revenue initiative to increase compliance activity,
   - inform you that Treasury's approach is to treat time-limited funding as a volume-based cost pressure, rather than a new spending initiative, and
   - set out the next steps in the Performance Plan and Budget 2025 process.

Delivering the Government's priorities and Fiscal Sustainability Programme

2. The Government has indicated that its priorities for Inland Revenue include fiscal sustainability, revenue collection, integrity of the tax system, minimising compliance costs for customers and supporting a digital ecosystem.
3. For fiscal sustainability, we plan to deliver current services and meet customer demand from within our funding baseline, therefore self-funding cost pressures, such as annual remuneration increases and inflation. We believe this is achievable.
4. The 2023/24 financial year becomes our baseline year for performance and volumes to manage our multi-year performance from, acknowledging that we did not meet all performance targets last year.
5. While we will allocate resources to deliver on our core services and Government priorities, we must prioritise activity that delivers financial savings in the near-term to cover cost pressures. This does create an opportunity cost, reducing our ability to redeploy savings generated into Government priorities and outcomes.
6. To the extent that demand for our services increases above current levels, there will be a negative impact on performance.
7. Based on our core operating baseline funding, 1% of cost pressure or savings equates to approximately $6.5 million.
8. Our primary ongoing cost pressures are remuneration and price increases, which we forecast will increase to a combined 2-4% per annum, equivalent to $15 million to $25 million each year. For our staff under collective employment agreements there is an automatic annual increase representing 1.7% of salary costs. We have used a mid-point within the Performance Plan of $21m per year. At the end of 5 years, this represents an accumulative pressure of approximately $84 million or the equivalent of 840 staff.

9. To manage ongoing cost pressures, we will set annual internal efficiency targets of 2-4% per annum made up of:

   - 1-2% annual productivity and efficiency improvements which enable us to deliver similar results without compromising performance or customer service,

   - a minimum 2% aggregate efficiency improvements from our change initiatives portfolio and investments.

10. These savings will need to be realised as cash to offset cost pressures, rather than redeployed to other value generating activities.

11. Based on our Budget 2024 baseline savings of $15 million per year of change capacity, new, significant policy initiatives will require additional baseline funding to design, implement and support on an on-going basis. Similarly, taking on work currently managed by other departments will require additional funding or a transfer of funding.

The 2025/26 year funding gap includes $40 million of time-limited funding

12. From 2025/26, our baseline reduces by $52 million. Comprises $40 million of funding for time-limited activities coming to an end and a reversal of (a yet-to-be approved) $12 million in-principle expense transfer (IPET)[1]. Together with cost pressures of $21 million this results in a funding gap from the current year of $71 million.

13. The IPET reduction of $12 million can be managed by rebalancing the workforce. Back-office business groups will find savings of approximately $14 million (representing 14% of non-technology, people-based costs), on top of the 1-2% efficiency savings. There may be service impacts from these changes; this is to be confirmed. s 9(2)(g)(i)

14. For the time-limited funding of approximately $40 million ending next year:

   - $13 million relates to funding provided in Budget 2024 for time-limited activities including changes to the personal income tax rate thresholds, FamilyBoost and the implementation of interest limitation rules. There will be no impact to the department's performance as these activities are expected to cease when the funding does.

   - $27 million has been in our baseline for five years to support the response to and recovery from COVID-19, address rising levels of unfiled returns and debt, to support affected customers to get their tax obligations right from the start, and to respond to emerging integrity risks. This is now core, business-as-usual work delivered by our customer-facing teams. The activities themselves are not time-limited.

15. The $27 million of time-limited funding equates to approximately 240 people and associated operating expenditure. In the absence of this funding continuing, we will need to reduce our workforce with consequential impacts on performance. We will be limited in how much we can expect from back-office expenditure savings, therefore there will be impacts on service levels and/or the collection of tax (revenue) and payment of entitlements. New permanent funding would be required to negate this impact and protect the revenue base. Further details are provided in paragraphs 21-23 below.

[1] Confirmation of this in-principle expense transfer is being sought as part of our pending 2024 October Baseline Update submission (IR2024/353 refers).

The Performance Plan and the use of intra year savings

16. Our Performance Plan will set out how we propose to achieve baseline reductions and savings and does not assume any further Government request for baseline savings.

17. Because we must remain within our appropriated funding, efficiency dividends will always need to be realised in advance of the costs being incurred. We would expect that this will be recognised by supporting fiscally neutral expense transfers (retentions of underspends) between years enabling us to manage cost pressures and performance across financial years.

A funding bid for further compliance activity

Returns from Budget 2024 funding are tracking well

18. In Budget 2024 Inland Revenue received $29 million per annum to scale up activities aimed at increasing compliance in tax and overseas-based student loans. The return on this investment is forecast at 4:1 in 2024/25 increasing to 8:1 in 2025/26 and thereafter. The new funding has a positive impact on OBEGAL of $774 million, including raising $514 million of additional tax revenue, over the forecast period.

19. There are early signs that we are on track to meet and exceed the forecast additional revenue and cash collections. The key performance measures required for the Budget 2024 funding all demonstrate good progress relative to compliance results from the same period last year. For example, additional revenue from compliance interventions for August 2024 is up 32% from the same time last year and cash collected from debt activity is up 35%, noting that there will be some variability at this early stage of the year.

20. The department has a history of delivering positive revenue outcomes from previous time-limited initiatives such as the taxation of housing (2021/22 to 2024/25) and revenue investment (2015/16 to 2019/20).

The lapse of time-limited funding at the end of 2024/25 is a challenge

21. A short-term challenge is a $27 million downscaling of activities from previous time-limited funding that has been in our baseline for five years and expires at the end of 2024/25. This $27 million is part of the $40 million in time-limited funding that has been in our baseline for several years supporting core business-as-usual work to address integrity issues and manage customer demand.

22. While we will manage ongoing remuneration and inflationary cost pressures through re-prioritisation of work, a funding reduction of $27 million will have a negative impact on tax revenue and debt. Removing this funding, which accounts for 240 FTEs, will impact voluntary compliance and compliance activities. This will directly reduce tax revenue by $240 million to $300 million per annum (equates to a return of between 8:1) and put at risk the outcomes of the Budget 2024 investment. Of this reduced revenue, 70% will result from a reduced focus on unfiled returns. A further 20% will result from a reduction in activity to provide certainty and advice to customers on complex structures and reduced audit activity in areas such as income suppression, property, and the hidden economy. The remaining 10% mainly relates to voluntary disclosures.

23. Reducing Inland Revenue's workforce, s 9(2)(g)(i) , will also reduce Inland Revenue's ability to respond to population growth, business restructuring, and customers experiencing cashflow difficulties, and to promote end-to-end compliance. Therefore, an early decision on whether this time-limited funding will continue is desirable if Inland Revenue is to retain the FTEs currently funded through the time-limited funding, many of whom are employed on compliance related activities.

A funding bid for further compliance activities in Budget 2025 would yield further revenue, subject to an invitation to make a submission

24. There is also evidence to suggest that Inland Revenue is some way from experiencing diminishing returns from investing in compliance and enforcement activities. New Zealand's additional assessments raised through audit as a percentage of tax collections was 0.8% compared to an OECD average of around 4% in 2021 (Australia was 1.8%, and the United Kingdom was 4.9%). Australia's expected return on investment in compliance and enforcement is approximately 4:1 and the government continues to invest. Relative to Australia, Inland Revenue's target of 8:1 is a healthy return. Additional revenue from further investment in compliance activities would have a net positive effect on OBEGAL over the forecast period.

25. Inland Revenue could scale-up the Budget 2024 investment in compliance activities by a further $35 million (in addition to extending the time-limited funding of $27 million). We consider that we have capacity for the extra capability required and also maintain a scaled return of 4:1 ROI in the first year increasing to a 8:1 ROI thereafter. This amount is in line with the 2024 Budget bid with some extra funding for supporting activities to the direct compliance work.

26. The Treasury has indicated that an extension of the $27 million time-limited funding will be considered as a volume-based cost pressure initiative rather than a new spending initiative. Therefore, any bid for additional funding for compliance activities would be considered a *new* spending initiative and separate from the decision to permanently extend the time-limited funding.

Next steps

27. The next steps in the Performance Plan process are:

    - Refer a draft of the Performance Plan to the Minister of Finance prior to 17 October
    - 17 October – Submit to Treasury a near-final draft of the Performance Plan.
    - 7 November – Vote Minister formal sign-off of Performance Plan.
    - November 2024 to December 2024 – Central agency assessment of Performance Plan.
    - January 2025 to March 2025 – Expenditure and Regulatory Review Committee (EXP) consideration of aggregate Performance Plans.
    - June 2024 - Final Performance Plans due, incorporating Budget 2025 decisions.

28. There is currently no confirmed timeline for the Budget 2025 initiatives process. However, we are working on the detail of a further bid for compliance activity which we will report to you in late October.

Recommended action

1. We recommend that you:

(a) **Discuss** this report and the attached draft Performance Plan with officials at your meeting on 15 October.

Scott McCallum
Enterprise Lead, Inland Revenue

Hon Simon Watts
Minister of Revenue
/ /2024

Inland Revenue report: Performance Plan and the potential to increase compliance activity

Date:	6 November 2024	Priority:	High
Security level:	In confidence – Budget Sensitive	Report number:	IR2024/450.

Action sought

	Action sought	Deadline
Minister of Revenue	**Approve** the Inland Revenue Performance Plan (attachment 1 "final").	5pm, 7 November 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Scott McCallum	Enterprise Leader, Enterprise, Design & Integrity	s 9(2)(a)

6 November 2024

Minister of Revenue

Inland Revenue Performance Plan – Responsible Minister sign-off

1. The purpose of this report is to:
   - highlight any changes from the Check Point 2 version of the performance plan submitted to CFISNet on 17 October, to the final version (Attachment 2 "mark up" highlights changes in red)
   - request your sign-off of the attached Inland Revenue Performance Plan (Attachment 1 "final").

Background

2. Departments are required to produce a Performance Plan as part of the Government's Budget process and Fiscal Sustainability Programme. This plan is required to be signed by the Responsible Minister and submitted to the Treasury by 5pm, Thursday 7 November.
3. In October we shared and discussed with you our draft Performance Plan (IR2024/406 refers). We have now finalised the plan and seek your sign-off.
4. Since the version we previously provided you, we have made the following main changes (changes marked up in red font in Attachment 2):
   - As requested by the Minister of Finance we have standardised the forecast assumption for the remuneration cost pressure to be based on the Treasury macro forecasts in the 2024 Budget Economic and Fiscal Update (BEFU) for CPI inflation (~2%) rather than hourly wages (~3%). This assumption will be used across all departments. The impact is a reduction from $15 million to $10 million for our annual compounding remuneration cost pressure.
   - Updated the content about the Tax and Social Policy Work Programme to reflect decisions and the proposed release date.
   - Data and graph updates requested by The Treasury:
     - The inclusion of 2023/24 actuals to replace 2023/24 forecasts.
     - The inclusion of forecasts for 2028/29 to maintain a five-year forecast period being 2024/25 to 2028/29.
     - Updating departmental appropriation forecasts to reflect 2024 October Baseline Update (OBU) decisions.
   - As discussed with The Treasury we have retained BEFU 2024 forecasts for non-departmental appropriations. We have submitted preliminary non-departmental forecasts for the 2024 Half-Year Economic and Fiscal Update (HYEFU) but will

update the Performance Plan after we have submitted the final forecasts for HYEFU on 18 November.

- Reordered the outcomes to align with the order in our draft Statement of Intent.

Next steps

5. There are no confirmed dates for the next steps in the Performance Plan process but it is expected that plans will be provide to the Cabinet Expenditure and Regulatory Review Committee (EXP) in early 2025.

6. As part of the ongoing review process with The Treasury we may update some of the content in the Performance Plan, for example formatting, technical errors and to include the HYEFU 2024 forecasts. We will advise you of any material changes to the Performance Plan.

Recommendations

7. We recommend that you:

(a) **Approve** the submission of the Performance Plan (Attachment 1).

Approved / Not approved

(b) **Note** that Inland Revenue will update the non-departmental appropriation forecasts in the Performance Plan after the submission of the 2024 Half-Year Economic and Fiscal Update has been submitted on 18 December.

Noted

Scott McCallum
Enterprise Lead, Inland Revenue
06/11/2024

Hon Simon Watts
Minister of Revenue
/ /2024

Attachment 1 – Inland Revenue Performance Plan (Final)
Attachment 2 – Inland Revenue Performance Plan (Marked-up version)

Inland Revenue report: Compliance funding bid for Budget 2025

Date:	28 November 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/422

Action sought

	Action sought	**Deadline**
Minister of Finance (Hon Nicola Willis)	Invite a submission from the Minister of Revenue for additional compliance funding for Inland Revenue.	3 December 2024
Minister of Revenue (Hon Simon Watts)	Direct officials to draft a letter from the Minister of Revenue to the Minister of Finance outlining the case for a further compliance bid.	3 December 2024

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Peter Mersi	Commissioner, Inland Revenue	s 9(2)(a)	☒
Tony Morris	Customer Segment Leader, Inland Revenue	s 9(2)(a)	☐

28 November 2024

Minister of Finance
Minister of Revenue

Compliance funding bid for Budget 2025

Executive summary

Purpose

1. This report outlines Inland Revenue's case for providing additional compliance funding and seeks agreement from the Minister of Finance to invite the Minister of Revenue to submit a funding bid for additional compliance activity as part of Budget 2025.

Background

2. The Minister of Finance has indicated that an invitation is subject to Inland Revenue providing evidence that the Budget 2024 investment has led to the outcomes anticipated at the time. If any additional funding was provided at Budget 2025, it would be made conditional on:

- Inland Revenue carrying out a comprehensive economic analysis of the effectiveness of compliance funding based on international best practice; and
- Inland Revenue reporting on their debt recovery work, including what sectors, business and tax types are targeted and how the recovery rates are measured.

3. Fiscal sustainability is a key priority for the Government. Investing in increasing tax revenue is one way of supporting this objective. Funding of $29 million per annum allocated in Budget 2024 is on track to yield a $774 million positive impact on the Operating Balance before Gains and Losses (OBEGAL) over the forecast period and a return on investment (ROI) of $4 to $1 in 2024/25 and $8 to $1 thereafter.

Case for additional compliance funding

4. Inland Revenue considers that Budget 2025 presents an opportunity to support your short-term revenue objectives through the provision of additional compliance funding. It also supports your medium-term revenue objectives by enabling more comprehensive evaluation of the outcomes of this funding to support decisions on whether to provide more compliance funding in future budgets.

5. International evidence shows there is scope for New Zealand to increase the level and funding of compliance activity to match other comparable OECD countries.

6. There are early signs that Inland Revenue is on track to meet and exceed the forecast additional revenue and cash collections. The return on investment from all audit compliance activities for every dollar spent is $13 to $1 for the first quarter of 2024 compared to actual returns of $9.5 to $1 in 2023/24. More detail of the measures used to gauge the results of Budget 2024 are provided in this report and contained in Inland Revenue's published Quarterly Report.

7. Inland Revenue recommend additional funding of up to $35 million per annum ongoing, to be spent on a combination of direct compliance interventions, debt-focussed activities and investment in areas that support more effective tax collection in the medium-term. A small portion of the funding would be spent on evaluation of the investment. Inland Revenue expects a return of investment of $4 to $1 in 2025/26 and $8 to $1 thereafter.

The net positive impact on the Operating Balance before Gains and Losses (OBEGAL) would be $840 million over the forecast period (2025/26 to 2028/29).

8. The ROI for this new spending bid is contingent on the separate invitation for a volume cost pressure bid of $26.5 million per annum for funding compliance activities ceasing in 2025/26. If this cost pressure bid is unsuccessful, Inland Revenue would need to review the ROI achievable from a Budget 2025 compliance bid.

Next steps

9. Submissions for funding bids for Budget 2025 are due with the Treasury on 23 December.

Recommended action

We recommend that you:

1. **Agree** to invite a submission from the Minister of Revenue for additional compliance funding for Inland Revenue of up to $35 million per annum (as outlined in this report) for Budget 2025.

   Agreed/Not agreed

2. **Agree** that, if recommendation (1) is agreed to, any funding in Budget 2025 would be conditional on:

   (a) Inland Revenue carrying out comprehensive economic analysis, based on international best practice, evaluating both the direct and indirect returns from the additional compliance activity.

   (b) Inland Revenue reporting on their debt recovery work, including which groups the work is targeted at and how the recovery rates from this work are measured.

   Noted Agreed/Not agreed

3. **Direct** officials to draft a letter from the Minister of Revenue to the Minister of Finance outlining the case for a further compliance bid by 23 December 2024 if recommendation (1) is agreed to.

   Agreed/Not agreed

4. **Discuss** with officials at the Minister of Revenue meeting on Tuesday 3 December 2024.

   Discuss

Peter Mersi
Commissioner
Inland Revenue

Hon Simon Watts
Minister of Revenue

Hon Nicola Willis
Minister of Finance

Compliance funding bid for Budget 2025

Background

10. The Ministers of Finance and Revenue previously agreed to delay making decisions on whether to progress additional tax compliance funding as part of Budget 2025 until they received evidence of the outcomes from Budget 2024 [T2024/2164, IR2024/294 refers]. Since then, the Minister of Finance has indicated in her letter to the Minister of Revenue that a bid for additional compliance funding could be invited if evidence shows the Budget 2024 investment has led to the outcomes anticipated at the time.

11. At Budget 2024, $29 million per annum was provided to Inland Revenue to fund additional tax and overseas-based student loan compliance activity. This was expected to have a positive effect on OBEGAL of $774 million over the forecast period to 2027/28, based on an expected average return of $4 to $1 in the first year, and $8 to $1 in years following investment.

12. The Minister of Finance has indicated that any additional compliance funding at Budget 2025 would be made conditional on Inland Revenue carrying out a comprehensive economic analysis of the effectiveness of compliance funding based on international best practice.

13. In principle, increasing tax compliance funding aligns with your revenue priorities in relation to the draft Tax and Social Policy Work Programme. It can support the integrity of the tax system and enhance fairness by ensuring that taxpayers pay what they owe. It also raises revenue and can improve future compliance. These aspects all contribute to fiscal sustainability, which is essential for achieving the Government's fiscal strategy.

14. The funding would also be made conditional on Inland Revenue reporting on their debt recovery work, including what sectors, business and tax types are targeted and how the recovery rates are measured.

15. Separately, the Minister of Finance has invited the Minister of Revenue to submit a cost-pressure bid for funding compliance activities due to cease in 2025/26 as part of Budget 2025. Inland Revenue was provided time-limited funding of $26.5 million per annum in 2020/21 and this funding is due to lapse in 2024/25. This funding has been in our baseline for five years to support the response to and recovery from COVID-19, to address rising levels of unfiled returns and debt, to support affected customers to get their tax obligations right from the start, and to respond to emerging integrity risks. The tail of the economic impacts from the Covid-19 pandemic combined with the cost of living and the current global economic environment are continuing to impact taxpayers past the end date of this funding. There are negative fiscal impacts to tax revenue and tax debt associated with the lapsing of this funding.

Compliance funding can play a role in supporting medium-term revenue objectives of the Government

The indirect benefits of compliance measures are not well understood in New Zealand

16. Inland Revenue and Treasury's analysis indicates that additional compliance funding is likely to be a highly efficient way to raise revenue. Every dollar of revenue raised through additional compliance activity can result in a social gain per dollar – in stark contrast to other revenue-raising measures that generate social costs per dollar of revenue raised. For this reason, Inland Revenue and Treasury believe that effective compliance activity is an important lever for achieving the Government's revenue objectives in the medium-term, beyond Budget 2025.

17. However, our conclusion therefore depends on the level of both the direct and indirect return from compliance activities, the latter of which Inland Revenue has not

previously measured. These indirect returns are in addition to the measured direct revenue raised through compliance activities, and arise where:

- an audited taxpayer complies in future when they otherwise would not have, and
- an un-audited taxpayer who is made aware of a given audit complies when they otherwise would not have.

18. International studies have identified that the indirect effects from audit can be substantial, with deterrence effects on audited taxpayers ranging between 40%-300% of the direct return from audit between studies[1]. There is less evidence on the deterrence effects on un-audited taxpayers, but one 2020 study showed that impacts on unaudited taxpayers could increase the direct return by 120%[2].

An evaluation of the indirect effects of compliance funding is a condition of a Budget 2025 bid

19. Inland Revenue has not previously attempted to quantify the indirect return from audit or broader compliance activity and there is a lack of New Zealand evidence. Our conclusion relies on assumptions from the international literature, but the New Zealand context will be different. Budget 2025 presents an opportunity to build an evidence base to inform future decisions on providing additional compliance funding to meet your medium-term revenue objectives. This evidence base would also improve Inland Revenue's decisions on how and where to allocate resources to improve compliance.

20. The Minister of Finance has indicated that this evidence base could be developed through economic analysis of the outcomes of any Budget 2025 funding. The analysis would be based on international best practice, and we consider it could cover:

- The marginal return on investment from each additional dollar of compliance funding. This could be broken down by taxpayer type and sector, and should cover:
  - the direct effects of increased compliance activity, and
  - the indirect effects of increased compliance activity – for both directly and indirectly targeted taxpayers.
- A future projection of how this marginal return may change overtime, should bids for additional compliance funding to raise compliance activity be included in future budgets.

21. Inland Revenue would commit and fund this best-practice evaluation as part of the conditions of additional compliance funding in Budget 2025.

There is a case for additional compliance funding at Budget 2025

International comparisons suggest there is scope for further funding

22. Comparing New Zealand with overseas jurisdictions also suggests that there may be scope to invest further in tax compliance enforcement, particularly in relation to greater auditing and enforcement. More recently, Inland Revenue has focussed on automated compliance measures targeting individual income tax rather than the direct auditing of taxpayers (such as small businesses) that require a more manual intervention. This means that for part of our system, we now have very high levels of compliance compared with

[1] For example, Advani, A., Elming, W., & Shaw, J. (2023). *They dynamic effects of tax audits*. The Review of Economics and Statistics, 545-561; DeBacker, J., Heim, B., Tran, A., & Yuskavage, A. (2018). *Once Bitten, Twice Shy? The Lasting Impact of Enforcement on Tax Compliance*. Journal of Law and Economics, vol 61; and Boning, W., Nathaniel, H., Ben, S.-K., & Ellen, S. (2023). *A Welfare Analysis of Tax Audits Across the Income Distribution*. NBER Working Paper 31376.

[2] Boning, W., Guyton, J., Hodge, R., & Slemrod, J. (2020). *Heard it through the Grapevine: The Direct and Network Effects of a Tax Enforcement Field Experiment on Firms*. Journal of Public Economics Vol 190.

other jurisdictions. For example, in 2024, 3.5 million individuals were automatically assessed and 74% of individuals had nothing further to do.

23. In part, this shift to automatic compliance explains the reduced focus on auditing and the additional assessments they yield. Since 2012/13 New Zealand has reduced auditing resources by 43% in real terms. Comparable jurisdictions commit much greater resources to auditing-related functions than New Zealand.

Table 1: **Audit, verification and investigation as a percentage of total workforce**

Country	**Audit, verification & investigation as % of total workforce in 2022**
New Zealand	13%
Australia	27%
Canada	21%
United Kingdon	23%
United States	26%
OECD average	**29%**

Source: OECD (2024), Tax Administration 2024[3,4]

24. New Zealand appears to find a much lower level of tax discrepancies (tax that should have been paid but was only identified through proactive work by Inland Revenue) than other OECD countries.

Table 2: **Additional assessments raised through audit as a percentage of tax collections**

Country	**Additional assessments raised through audit as a % of tax collections in 2022**
New Zealand	1.1%
Australia	2.3%
Canada	3.1%
United Kingdon	3.9%
United States	1.0%
OECD average (48 jurisdictions)	**3.4%**

Source: OECD (2024) Tax Administration[5]

[3] OECD (2024), Tax Administration 2024: Comparative Information on OECD and other Advanced and Emerging Economies, OECD Publishing, Paris.
[4] Chapter 10 Budget and workforce. Figure 10.4 staff usage by function, 2022.
[5] Chapter 6 Compliance management. Figure 6.5. Additional assessments raised through audit as percentage of tax collections, 2022.

25. These comparisons suggest that there may be scope to increase tax compliance activity in New Zealand. Other countries have clearly decided that this is in their best interests to increase tax compliance activities, and there is no obvious reason why New Zealand would be in a different situation. Australia has committed to an additional $722 million (16.4% of the total Australian Tax Office (ATO) budget) to compliance programmes in individual tax, the hidden economy, fraud and tax avoidance. In their 2024 Budget, the United Kingdom announced a further £6.5 billion per annum and 6,800 additional staff to address uncollected tax in their recent budget.

Returns from Budget 2024 funding are tracking well

26. Inland Revenue committed to a return on the Budget 2024 funding of $29 million of $4 to $1 in 2024/25 increasing to $8 to $1 in 2025/26 and thereafter. The new funding is expected to add $774 million to OBEGAL over the forecast period.

27. There are early signs that Inland Revenue is on track to meet and exceed the forecast additional revenue and cash collections. The return on investment from all audit compliance activities for every dollar spent is $13 to $1 for the first quarter of 2024 compared to actual returns of $9.5 to $1 in 2023/24. The result to October 2024 is $12 to $1 which shows the ROI can be variable depending upon when it is measured during the year. The key performance measures against which the return from Budget 2024 funding is measured demonstrate good progress relative to the same period last year. The exception is revenue from overdue returns. However, this measure is impacted by the late tax return of a single taxpayer in 2023/24 that, because of Inland Revenue's intervention, quickly became compliant soon after.

Table 3: **Key performance indicators**

($million)	First quarter 2023	First quarter 2024	Year-to-date target range	Minimum year-end target
Compliance interventions	$235	$397	$160 - $270	$1,038
Overdue tax collected from debt activity	$915	$1,213	$903 - $1,233	$4,080
Revenue from overdue returns	$454	$345	$345 - $456	$1,715
Overseas borrower loan repayments	$41	$60	$44 - $60	$189

NB: The result for revenue from overdue returns is impacted by a large audit case of $76m in 2023.

28. Inland Revenue is currently increasing efforts to seek higher value outstanding returns (i.e. revenue assessed greater than $5,000). This will see the total value improve in the coming months. The groundwork done recently to get Inland Revenue in a position to increase compliance and enforcement activities is starting to be seen in the results.

29. Inland Revenue regularly reports the above key performance measures to the Minister of Revenue, both monthly and more comprehensively as part of Inland Revenue's published Quarterly Report.

But tax debt is rising

30. While additional revenue is being raised from compliance activities, the overdue debt book has grown from $6.9 billion in September 2023 to $8.1 billion in September

2024, an increase of 17%. As a ratio of tax debt to tax revenue this is 6.6% for 2024. This compares favourably with other similar tax administrations in 2022.

Table 4: **Debt as a percentage of revenue**

Country	Debt to Revenue (%) 2022
New Zealand	6.1%
Australia	12.9%
Canada	13.4%
United Kingdon	5.4%
United States	6.8%

Source: OECD (2024) Tax Administration 2024 report

31. The level of overdue debt is impacted by the economy, customer behaviour and Inland Revenue compliance effort. It is compounded by increasing penalties and interest as the core debt grows.

32. The primary driver of the debt book growth is economic conditions, particularly post-Covid cost of living and the global conditions which are reflected in employer and GST debt. This is a sign that businesses are experiencing cash flow issues.

33. Inland Revenue can influence the level of debt through increasing compliance activities. From the Budget 2024 funding, Inland Revenue has invested in increased compliance activities in recent months, which is increasing repayments on overdue debt. Between July and September 2024, we collected $1.2 billion overdue tax from debt activity which is 20% ($200 million) up on the same period last year.

Further work on managing tax debt more effectively and as part of maximising overall revenue

34. Tax debt management is an important part of maximising government revenue over time. Effective debt recovery not only brings in additional cash (which can be used to pay down debt), but also protects the value of the Government's tax revenue asset by minimising future impairments. To achieve this, our tax debt strategy must focus on targeting recoverable debts and measuring success by the reduction in future impairments.

35. Tax debt is part of the Government's overall tax revenue asset. Managing it effectively involves:

- **Focusing on true return on investment:** The return on investment for debt recovery is best measured by how much future impairment is avoided, not by the cash collected.
- **Targeting high-impact debt:** The effectiveness of debt recovery depends on the type of debt pursued and when it is pursued.
- **Considering deterrence effects:** Visible and effective debt recovery reinforces compliance, reducing the likelihood of future non-payment (and thus impairment) by signalling consequences for overdue obligations.

36. A commitment by Inland Revenue to report on its debt recovery work is a condition of the invitation to submit for further funding. Given the influence of external drivers of

the debt book and importance of how impairment affect the Government's accounts, there is merit in doing further work, including:

- Developing models to identify debts with the highest probability of collection.
- Estimating avoided impairments, to provide a more accurate measure of success.
- Incorporating any lessons from work on deterrence effects onto tax debt compliance work.

37. Inland Revenue proposes to report back to you in the first quarter of 2025 on the scope and timing of further work on the tax debt book.

A bid for further compliance funding in Budget 2025

38. The Government's focus is on a sustainable fiscal strategy. Inland Revenue can contribute to this aim by collecting more revenue over the forecast period.

39. If a further bid for funding is invited, there is a choice between increasing compliance activities, focussing on debt or a combination of both.

40. Inland Revenue has the potential to scale-up the Budget 2024 investment in compliance activities by a further $35 million per annum. Inland Revenue would propose allocating this funding between compliance and debt activities in line with the Budget 2024 funding. That is, 75% of funding would fund compliance activities and 25% would fund debt-focussed work (this excludes further resourcing dedicated to collecting from overseas student loan borrowers).

41. The proposed 75% compliance and 25% debt activity allocation is consistent with international OECD jurisdictions where the average resource mix between these two activities is 73% to 27%[6].

42. The rate of return on both compliance and debt activities would be $8 to $1. Investing more in compliance activities is recommended because there are indirect (and yet unmeasured) benefits of this investment and New Zealand commits less to audit and enforcement than other countries that are showing good returns.

43. This return would be measured by an $8 to $1 increase in revenue from audit interventions and a $16 to $1 increase in overdue tax collected from debt activity. The increase in overdue tax collected would equate to an $8 to $1 decrease in debt impairment expenditure.

44. Inland Revenue recommends that the funding is allocated to a combination of compliance activities, debt management and investing in areas that support more effective tax collection over the forecast period. Such a combination of activities would include:

- Increasing audits in all areas.
- Investigations into specific sectors such as property, organised crime, the hidden economy and trust compliance.
- A focus on outstanding high-value tax returns.
- Improved use of data and intelligence (such as Payment Service Provider data) to more quickly identify and target discrepancies.

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[6] OECD (2024), Tax Administration 2024: Chapter 10 Budget and workforce. Figure 10.4 staff usage by function 2022.

- Shifting from a manual to an automated process to collect data from third parties (such as banks) to be able to increase the scale and efficacy of targeting discrepancies.
- Improving cross-government information sharing to access data on taxpayers' circumstances, such as their financial circumstances.
- Using GST filed information to target unfiled income tax returns.

45. Budget 2024 allocated $4 million per annum towards increasing compliance by overseas student loan borrowers. This funded an additional 28 full-time equivalent staff and repayments are tracking well, up 47% in the first quarter of 2024/25 compared to the same time last year. However, its early days for our plans for student loans and we need more time to understand if further investment in people is required or other options like changes to the policy settings would be more impactful. We also note that further investment would have a minimal positive impact on OBEGAL.

46. Inland Revenue considers it has the capacity for additional compliance activities, including the ability to hire and accommodate additional staff.

47. The funding bid of up to $35 million includes resourcing for both the evaluation of the effectiveness of compliance activities and the further analysis and reporting on the tax debt book.

48. The net positive impact on the Operating Balance before Gains and Losses (OBEGAL) would be $840 million over the forecast period (2025/26 to 2028/29).

49. The ROI for this new spending bid is contingent on the separate invitation for a volume cost pressure bid of $26.5 million per annum for funding compliance activities ceasing in 2025/26. If this cost pressure bid is unsuccessful, Inland Revenue would need to review the ROI achievable from a Budget 2025 compliance bid.

Consultation

50. The Treasury have been consulted on this report. They agree that effective compliance activity can be an important lever for achieving the Government's revenue objectives in the medium-term. The Treasury also agrees the international evidence shows there is potential for New Zealand to invest more in compliance activities to align with other OECD countries.

51. However, the exact value of additional funding is not well-understood given that Inland Revenue has not previously assessed the indirect impact of compliance activity. The Treasury consider a stronger evidence base is necessary for future funding decisions beyond Budget 2025. A comprehensive economic analysis of the outcomes of any additional funding at Budget 2025 would provide this.

52. The Treasury does not express any views on the specific case for additional compliance funding at Budget 2025. If additional compliance funding is invited into the Budget process, the Treasury will outline their views on the relevant submission, as is the normal course.

Next steps

53. If the Minister of Revenue is invited to submit a bid for additional compliance funding for Budget 2025, the Minister of Revenue would write to the Minister of Finance providing a summary of the bid. The bid would be submitted to the Treasury. Both these actions would take place by 23 December 2024.

Inland Revenue
Te Tari Taake

Inland Revenue report: Inland Revenue Performance Plan: Performance Impacts - response to questions

Date:	29 November 2024	**Priority:**	High
Security level:	In confidence – Budget Sensitive	**Report number:**	**IR2024/479**

Action sought

	Action sought	**Deadline**
Minister of Revenue	• Pre-reading before 3 December meeting with Inland Revenue • Sign off of Inland Revenue Performance Plan	Prior to meeting on 3 December 2024

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Scott McCallum	Enterprise Leader, Enterprise, Design & Integrity	s 9(2)(a)

29 November 2024

Minister of Revenue

Inland Revenue Performance Plan: Performance Impacts - response to questions

1. The purpose of this report is to:

   a) provide a response to your questions relating to the Inland Revenue Performance Plan. We intend to discuss this with you at your regular meeting with the Commissioner on 3 December.

   b) if satisfied with the response, we seek your sign-off of the Performance Plan.

   c) Note: a revised Performance Plan has been attached with a correction to the reprioritisation values to align with an OBU adjustment made to IPET (reduced by $3.5m)

Background and context

2. In November we shared with you our final Performance Plan (IR2024/450 refers) for sign-off.

3. At the subsequent meeting with officials you requested further explanation of the planning and performance considerations taken by us to:

   - demonstrate savings identified and options considered and plans that are in place to reduce costs to stay within baseline funding
   - demonstrate our operations are efficient and effective and provide assurance of how our personnel and operating spending is delivering value
   - ensure that existing funding is well aligned to our key priorities.

4. The Government has indicated that its priorities for Inland Revenue include fiscal sustainability, revenue collection, integrity of the tax system, minimising compliance costs for customers and supporting a digital ecosystem.

5. In preparing our inputs into the Performance Plan, we first considered managing down the Time Limited Funding (TLF) reductions with no ongoing impacts, in addition to how we could solution next year's cost pressures. *These plans are outlined in the section 'Savings identified to manage within baseline funding'.*

6. To manage Time Limited Funding (TLF) reductions with no impact, in addition to solutioning next year's cost pressures - we concluded we could not cover the cost of the $26.5m compliance funding and resulting impact to revenue and debt without incurring impacts to other priority outcomes. s 9(2)(g)(i) and back-office capabilities but could not identify viable options. *These considerations are covered in the section 'How funding is aligned to priorities'.*

7. To provide transparency on our costs we have provided breakdowns on our people and non-people-based costs in section *'Overview of our people and non-people cost'.*

8. Since we discussed the Performance Plan in early November, the Minister of Finance's letter of 15 November 2024 has provided further information on the Budget 2025 process. You have been invited to submit a new spending cost pressure bid for funding for compliance activities ceasing in 2025/26 (the $26.5m TLF funding reduction). Also,

this letter discussed the possibility for additional compliance funding bid being submitted as part of the Budget 2025 process.

9. We have reported to the Minister of Finance and you on the case for providing additional compliance funding and propose to discuss this report with you at your meeting with the Commissioner on 3 December (Report IR2024/422: Compliance funding bid for Budget 2025 refers). We will report to you on the cost pressure bid in December so that a Budget bid can be submitted to the Minister of Finance by 23 December.

Savings identified to manage within baseline funding

10. The performance plan details a $54m cost pressure made up of:

- A reversal of an $11.5m in-principle expense transfer (IPET)1
- Wage and price pressures estimated at $16m. This is the lower end of our potential cost pressure estimated range, there is an additional risk of a further $3m of cost increase we may have to cover.
- TLF of $26.5m ending June 2025 - this has been in our baseline for five years to support the response to and recovery from COVID-19, address rising levels of unfiled returns and debt, to support affected customers to get their tax obligations right from the start, and to respond to emerging integrity risks. This is now core, business-as-usual work delivered by our customer-facing teams. The activities themselves are not time-limited.

11. To manage the $54m cost pressure, the Performance Plan details the following reprioritisation areas for which Figure 1 shows the colour-based impact:

- Efficiency savings managed across IR - $13m (colour coded as blue below).
- s 9(2)(g)(i) - $14m (colour coded as green below)
- s 9(2)(g)(i)

12. We have previously shared a view of our "Town Plan" based on our Tier 3 organisational functions grouped within four roles, customer management (front line), customer support services (supporting customers or front line directly), back office and enterprise governance, direction and integration. The detailed alignment assumptions are shown in in Appendix 1.

13. Our enterprise planning also considers how resources are applied to customers, the products we support and business functions rather than just organisational units. For example, annually on average 25% of customer segment business unit FTE effort is applied to a different customer segment based on moving FTE effort to business events, demand peaks, performance or best value.

14. In figure 1 on the next page, we show how our 2024/25 operating budget breaks down across business group teams and non-business group spending and where and how we have targeted managing the baseline reductions and cost pressures for next year (colour coded as blue, green, and purple).

[1] Confirmation of this in-principle expense transfer is being sought as part of our pending 2024 October Baseline Update submission (IR2024/353 refers).

Figure 1: Town Plan – Business group view

15. Blue and purple category of savings ($13m): The overall efficiency gains are being managed across IR based on teams delivering enduring productivity benefits, managing external spend with vendors and external spend categories, and from project benefit delivery.

16. Green category of savings ($14m): Targeted cost saving interventions based on benchmarking input highlighting opportunities and cost to value evaluation through our enterprise planning process. s 9(2)(g)(i)

17. s 9(2)(g)(i)

18. s 9(2)(g)(i) This does not have impact on performance but when planning our overall changes is a material change, and we must balance these changes across workloads and people numbers.

19. s 9(2)(g)(i)

How funding is aligned to priorities

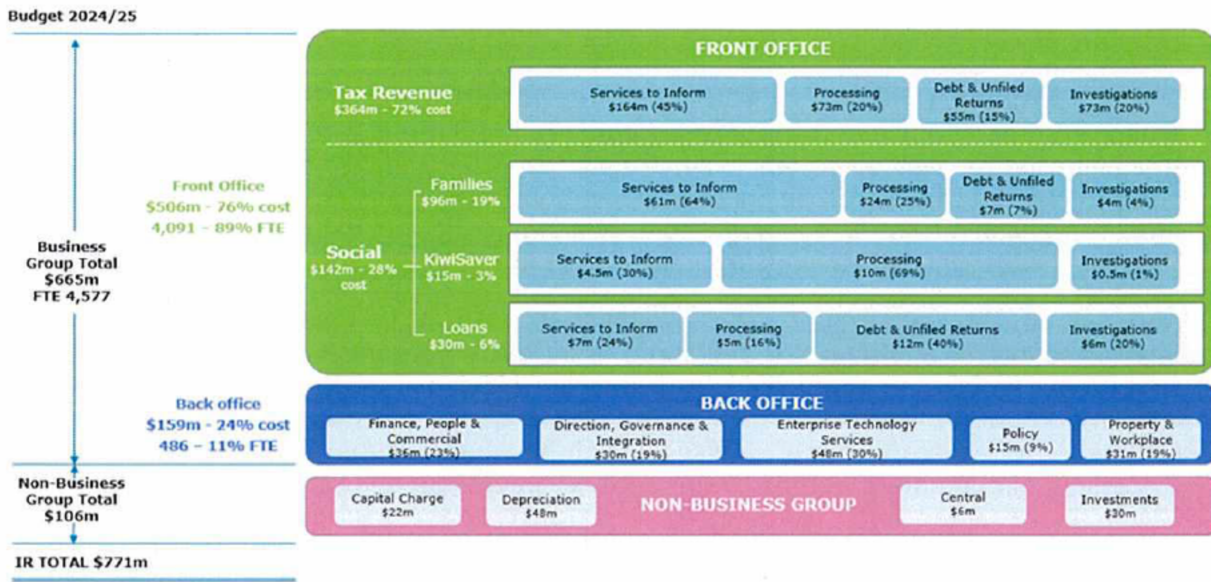
Using the High Impact Areas from the Performance Plan to illustrate value alignment

20. The town plan is one way to view our operating model to support discussion and decision making for allocating resources to optimise value and manage costs and risks. The view of the town plan we have shared previously has been limited to our tier 3 business groups. We can also view our costs and resources against the value of the products or groups of like products as we did with the approach to High Impact Areas in the Performance Plan, namely Tax Revenue, Loans, Kiwisaver and Families and back

office and support capabilities shared across these. This view of funding is shown in figure 2 below.

21. Our costs can be grouped by business groups costs (front office and back-office), non-business group costs and investments. As at Budget 2024-25, 76% of our business group costs / 89% of our FTE, sits within our front office, and back-office comprises 24% of our costs / 11% of our FTE. Appendix 1 shows the mapping from the tier 3 organisation view to what we consider front and back office.

Figure 2: High Impact Areas – Services view



22. We can further categorise our front office costs by key impact areas to demonstrate value delivered from our activities.

23. s 9(2)(g)(i)

s 9(2)(g)(i)

27. Given back-office comprises 24% of our costs, we are limited in how much we can expect from back-office and support savings. We are already targeting $14m from the areas labelled as back office, approximately a 9% reduction. We do not see further reduction within this period being possible without compromising key back office or supporting capabilities. Where applicable, benchmarking and value assessments have been used to target the savings areas identified in the green areas in figure 1.

28. Tax revenue - This accounts for 72% of our costs. 45% of this cost is associated with services to inform and help taxpayers and other customers meet their payment obligations. Processing and investigations account for 20% each, with debt and unfiled returns accounting for the remaining 15%. This includes costs associated with automating our systems and processes, which has made us more efficient in the processing of customers' returns, registrations, payments and refunds.

29. Based on this assessment we could not identify further savings trade-offs that would cover the full $26.5m of time-limited funding.

Overview of our People and Non-People costs

30. To further support transparency of our cost structures, we have included breakdowns of our people and non-people spend. 70% of our business group operating costs are people costs. This is mainly made up of salaries, training and overtime costs. While the remaining 30% is non-people costs made up of four categories – IT & telecommunications, property, contractors & consultants and other (postage and print, legal expenses, communications and publicity and travel).

31. To support our evaluations of appropriate costs for appropriate work we do leverage the OECD tax administration forums and publications which include tax revenue benchmarking information sets. We have also used Deloitte to provide relevant benchmarking for shared functions such as finance, people and commercial services. Social services such as working for families, student loans and Kiwisaver are not easily benchmarked.

People Costs

32. The decrease in FTEs since 2018 reflects the administrative savings realised through transformation which was completed in 2022. The department is 20% to 30% smaller than prior to transformation. As a comparison to FTEs across the public service, the

department was the 3rd largest agency in 2018 and reduced to the 7th largest agency in 2023.

33. As an outcome of Budget 2024, our total FTE has increased by 200 compared to 2023/24. This is primarily to increase compliance activities and to administer FamilyBoost.

34. In 2024/25, 89% of our FTE are within our front office business groups. The remaining 11% of our FTE are in our back-office.

35. Our operating model groups specialist resources, supporting partners and technology into self-sufficient teams which work across customer, product and functional views of value. This approach allows us to deliver our outcomes efficiently and we are confident we have a manageable line of sight of each person, their role and to value within the organisation.

36. This line of sight to value is enabled using three approaches:

- Manageable scale of team. The majority of our tier 3 teams are under 60-70 FTE. At this scale for each team, we can balance the value plan against accountabilities, outcomes, demands, performance and team supply side capabilities including their FTEs and suppliers.

- We have seven teams with headcount between 150-1,200 FTE, which we manage under an integrated operational planning model run by a centralised team, Operations Support, and integrated governance across the customer segments.

  We are currently investing in this capability to deploy a new technology based integrated operations planning solution which will provide improved capabilities to manage our volume work areas across both voice and non-voice demand, reactive and proactive work. See figure 3 on the next page for an example of the planned capacity being forecast last year across customer segments to our appropriation functions. With this level of specificity, we can balance demand, performance and supply capabilities down to the FTE and task level .

- As a requirement of the Public Finance Act (PFA), IR currently reports on output allocation by business group and product type. As mentioned previously, our enterprise planning also considers how resources are allocated by customer demand. This view represents the underlying effort to deliver services to a specific customer group as opposed to the segment our people are based in.

  Figure 3 on the next page is an example of our FTE effort by customer demand as at April 2024. This view helps demonstrate the value delivered by our FTEs across each output category.

Figure 3 – FTE by customer demand

Output category	Business Service L1	Individuals	Families	Micro	SME	SE	ComCom	Total
Investigations	Assure compliance	29	8	104	98	67	0	306
	Profile & Account for Customers	0	5	19	13	16	13	65
	Interpret legislation	0	0	16	33	30	0	79
Investigations Total		**29**	**13**	**139**	**144**	**114**	**13**	**451**
Management of debt and unfiled returns	Assure compliance	100	36	73	116	16	31	371
	Interpret legislation	0	7	8	10	5	0	30
Debt and unfiled returns Total		**100**	**43**	**81**	**126**	**21**	**31**	**401**
Services to inform the public about entitlements and meeting obligations	Assist	647	293	68	122	69	73	1271
	Disburse	1	0	0	0	1	0	2
	Assess obligations & entitlements	7	14	3	13	9	0	46
	Profile & Account for Customers	0	5	10	23	2	6	47
	Inform	0	0	0	0	14	84	98
	Interpret legislation	0	16	10	22	37	0	85
	Policy Advice	0	0	0	0	0	0	0
Services to inform the public Total		**655**	**328**	**91**	**180**	**132**	**163**	**1,549**
Services to process obligations and entitlements	Assess obligations & entitlements	85	9	5	13	41	25	177
	Profile & Account for Customers	71	10	4	0	13	12	110
	Collect	74	10	7	5	13	19	127
	Register & Enrol	144	63	0	0	2	50	259
	Disburse	27	10	0	0	10	0	47
Services to process Total		**401**	**102**	**15**	**18**	**78**	**106**	**720**
Grand Total		**1,184**	**485**	**327**	**467**	**345**	**313**	**3,121**

The above numbers are based customer attributed effort allocation as at April 2024 forecast.

37. We have 2 other teams greater than 100 FTE which sit outside of integrated operational planning.

- People & Workplace Services. Based on benchmarking we are undertaking a specific review to ensure we are right sized for this function. This will consider known inefficiencies due to outdated Payroll technology, which we are undertaking planning to replace over the next 2 years.
- Our START Planning Design and Delivery team who manage the full lifecycle services for our core START system with our partner FAST. Overall capacity and value is co-ordinated via a multiyear Asset Management Plan as this capability must balance technology operations and change driven investment demands.

38. Other items to note in managing people costs:

- To ensure we maintain control over our FTE numbers, recruitment plans are approved centrally with executive oversight.
- We maintain an optimised level of front-line workforce through selective use of overtime and contingent labour to manage peak period demands and support performance. This is managed with the integrated operations planning capability.
- Key areas of focus within our enterprise planning are ongoing value management, ongoing productivity improvements and staff performance management.

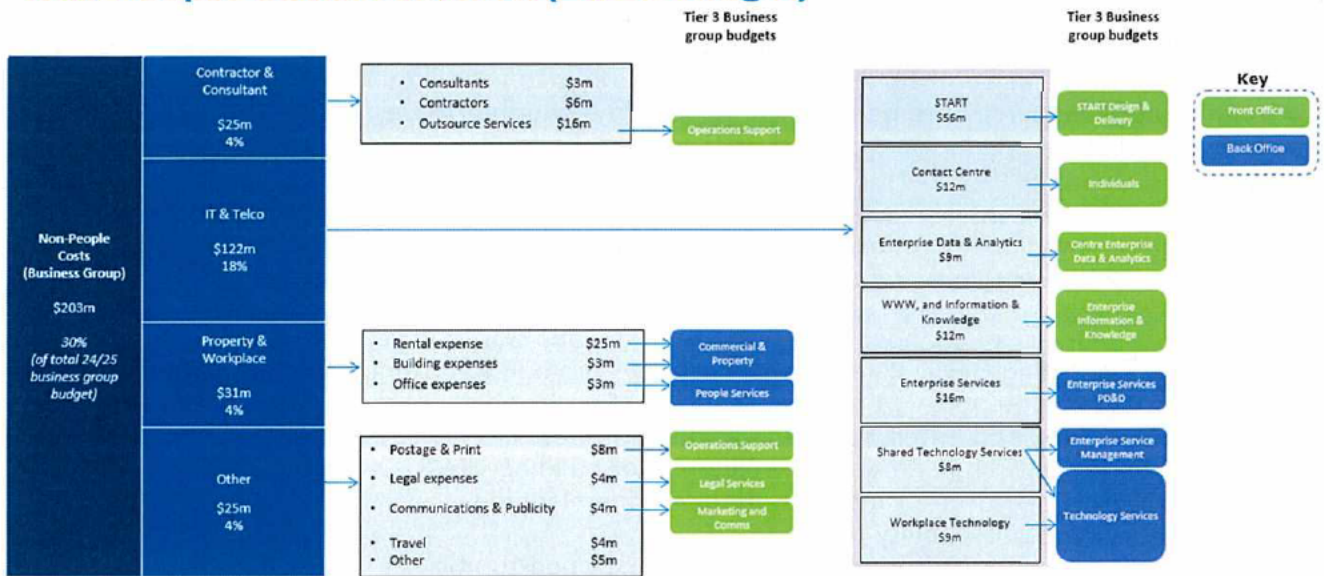
39. Refer to appendix 2 for the full list of FTEs by business group.

Non-People Costs

40. We manage our non-people costs under four categories – IT & telecommunications, property, contractors & consultants and other (postage and print, legal expenses, communications and publicity and travel) as shown in figure 4 on the next page. Over 90% of the external spend is managed within a single team tasked with managing value for money over time, with support from key stakeholders such as our commercial, architecture, legal and finance teams. With this operating model of control external expenditure within a team with expertise to balance demand and supply, internal and external sourcing approaches and leverage of specialist skills to augment we believe we have good line of sight to opportunities and risks. Figure 4 on the next page shows the

breakdown of our non-people costs and where cost management is managed directly within a single accountable Tier 3 leader the accountable group is shown.

Figure 4: Non-people costs



IT & Telco

41. Technology based services make up 18% ($122m) of our operating expenditure for 2024/25. The majority of this (73% cost) is front-office technology (in green above) such as our core tax system (START), contact centre, analytics and www.ird website. Our back-office technology (blue on the right above and 27% of this cost) is related to workplace technology, ERP and payroll, security and network services.

42. Where available our enterprise technology services are procured using All of Government panel rates and we have been continually reviewing our contracts for further efficiencies. Each key technology domain is managed under a multiyear Asset Management Plan by the key cross-function stakeholders of the asset or capability. Any further cost cutting in back-office technology services may result in increased system outages, risk of data and information leakage and risk of system stability. The teams have been tasked with managing ongoing cost increases from price inflation and increased demand by using cost optimisation and sourcing management and to decrease costs where possible.

43. The Government made a significant transformational investment into IRs technology capabilities (c$800m Crown funding). Maintaining the benefits of this investment requires ongoing system maintenance that the department will fund. The economic life of our core system START was originally set for 9 years, however we expect with maintenance, version upgrades and continuous investment that the life of this asset can be extended to 18+ years (2040/41) when the asset will need to be replaced. While the department will build cash reserves to fund this replacement, these reserves will not be sufficient to cover the inflationary cost component of a new asset.

Property & Workplace

44. IR is in the final phase of optimising its complete property portfolio, which has resulted in a 30% reduction of the department's leasing budget since 2020. The property portfolio is under long term agreements, with the renewed buildings enabling activity-based working allowing increased flexibility of how spaces can be utilised.

Contractors and Consultants

45. The department's expenditure on contractor and consultants has declined since the completion of the transformation programme in June 2022. Operating expenditure on contractors and consultants peaked at $137m during transformation and was $27m (4%) for 2023/24. Contractors and consultants expenditure is budgeted to continue at 4% for 2024/25.

46. We will continue to use temporary resources to complement and supplement internal capability for short term or temporary work or to access specialist skills and capabilities. These resources are generally engaged on a short-term basis.

Review of our investment and change portfolio

47. Our current enterprise change portfolio includes initiatives which support the government's key priorities, maintaining our building and technology infrastructure, efficiency enablers and discovery work for future step change improvements.

- Delivery of changes for the current Tax and Social Policy work programme: including OECD Pillars One and Two, Common Reporting Standard 2.0, OECD Crypto Reporting Framework, Digital Services Tax
- Payroll and enterprise application upgrades
- New building site and consolidation of building sites
- New platform for integrated operations planning
- Security capability uplifts
- Planning for future period step change opportunities:
    - s 9(2)(g)(i)
    - Working for Families Review
    - Broader government opportunities – s 9(2)(g)(i) and digital identity

48. Within planning we consider the capacity of the key technology-based change teams and how it is allocated to three areas of value, enterprise and local change and operations. Examples of key enterprise level change are covered in item 47., we reserve a level of change capacity for smaller, less complex change the business can deliver directly.

49. Based on the priority to manage within our baseline moving forward we are prioritising the delivery of bankable cost savings to support the approach of the Performance Plan. When considering the mandatory work commitments, the cycle time for change and managing external dependencies for policy changes and or customer change, our current portfolio over the next 18months supports delivery to the current cost pressure identified as being supportable. In the outer years we are focusing the current change discovery on areas we believe can generate the greatest value including enabling savings to support managing within baselines in future periods.

50. As part of the Budget 24 baseline savings process, we already committed to a reduction of $15 million in system maintenance and change capacity. This means we can only self-fund a relatively small work programme going forward. We will need to seek funding for Government initiatives as we will not have the capacity to fully-fund or partially fund TSPWP initiatives or Budget initiatives without impacting service delivery, tax revenue, debt or system change and maintenance activity.

Recommended action

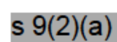
I recommend that you:

51. **Note** the contents of this report.

Noted

52. **Approve** Inland Revenue's Performance Plan.

Approved / Not approved



Scott McCallum
Enterprise Leader, Inland Revenue
27/ 11/2024

Hon Simon Watts
Minister of Revenue
/ /2024

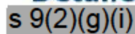
Appendix 1

Town Plan – front office and back office

The town plan below demonstrates how our teams and people are structured to best deliver value to our customers. The town plan has four layers which we have aligned with the front and back-office labels:

- Front Office capabilities
  - Customer Management – business groups or technology dealing directly with the customers
  - Customer Support Services – shared services business groups and or technology directly supporting the customer facing capabilities
- Back Office capabilities
  - Enterprise Support Services – back-office capabilities supporting the entire organisation (such as finance, people, etc.)
  - Direction, Governance & Integration – cross enterprise capabilities supporting the entire organisation

Detailed Town Plan - 2024/25 Budget View



Appendix 2: FTEs by business group

Workforce	2023/24 Actual FTEs	2024/25 Budget FTEs
Customer and Compliance Services - Bus.		
Small and Medium Enterprises	438	528
Significant Enterprises	345	400
Micro Business	318	361
Legal Services	140	159
Compliance Strategy & Innovation	24	31
International Revenue Strategy	21	27
CCSB Leadership	3	3
	1,288	**1,507**
Customer and Compliance Services - Ind.		
Individuals	1,107	1,251
Families	453	521
Community Compliance	307	307
PDD - Planning Design and Delivery Management	224	224
CCSI Leadership	14	16
Te Rōpū Kaitūāhanga Mātāmua[2]	217	-
	2,322	**2,319**
Enterprise Services		
People & Workplace Services	129	123
Technology Services	52	52
Finance Services	52	46
Enterprise Information and Knowledge	47	44
Marketing and Communications	35	35
Commercial Services & Strategic Property	32	31
Enterprise Service Management	24	25
Enterprise Services Planning, Design & Delivery	13	12
Enterprise Services Leadership	2	2
	385	**370**
Enterprise Design and Integrity		
Centre for Enterprise Data and Analytics	59	59
Leadership and Other[1]	31	30
Intelligence and Insights	58	58
Governance, Ministerial and Executive Services	30	26
Strategic Portfolio Stewardship	24	24
Integrity and Internal Assurance	17	18
Strategic Architecture	18	15
	237	**230**
Policy	88	84
Tax Counsel Office	65	67
TOTAL FTE	**4,384**	**4,577**

[1]Includes - Management, Corporate Legal, Digital Ecosystem, Information Security Office, Te Kāhui Tūhono.

[2]Te Rōpū Kaitūāhanga Mātāmua has been disestablished and the FTE have been split across the CCS segments

Inland Revenue report: Budget 2025 submission for Vote Revenue

Date:	13 December 2024	**Priority:**	High
Security level:	In confidence – Budget sensitive	**Report number:**	IR2024/496

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report. **Sign** the attached letter and send to the Minister of Finance.	1pm on Monday 23 December 2024.

Contact for telephone discussion (if required)

Name	Position	Telephone
Darren Cheevers	Acting Enterprise Leader Finance Services (CFO)	s 9(2)(a)
Mike Nutsford	Strategic Advisor	s 9(2)(a)

13 December 2024

Minister of Revenue

Budget 2025 submission for Vote Revenue

1. This report provides an update on the Budget 2025 process and recommends that you submit the attached Budget submission letter to the Minister of Finance by 1pm on Monday 23 December 2024.

2. This report also provides additional information for two non-policy initiatives. Information on policy initiatives is contained in separate reports to you.

3. The Minister of Finance wrote to you on 15 November 2024 setting out the core components of Budget 2025 and invited submissions for three initiatives. The Minister of Finance has also recently invited an initiative for extending the investment in compliance activities (IR2024-422 refers). The invited initiatives are:

   Savings and revenue: targeted policy savings:

   - Changes to the Best Start Tax Credit
   - Improvements to Working for Families (with four separate initiative options).

   New spending and cost pressures:

   - Funding for compliance activities ceasing in 2024/25
   - Extending Inland Revenue's investment in compliance activities.

4. In addition to invited initiatives, we have been working with yourself, the Minister of Finance, and Treasury officials on potential Tax and Social Policy Work Programme (TSPWP) streams of work. Based on further advice, the Minister of Finance will make decisions on whether to invite streams of TSPWP work into the Budget process.

5. The Treasury Budget Management team have requested that we submit placeholder bids to record potential initiatives that may be invited by the Minister of Finance, noting that this is for administrative purposes and does not a represent a commitment from Ministers. These initiatives are noted in the following sections of this report.

Budget 2025 process and initiatives

6. As part of the Budget 2025 process agencies are requested to submit invited and placeholder (potential) Budget initiatives into the Treasury CFISnet[1] system by 23 December 2024. In January 2025 the Treasury Vote teams will begin their assessments of these submissions. The following table shows the upcoming steps in the Budget process.

[1] CFISnet is the Treasury system that enables departments and agencies to submit Budget and financial data to the Treasury and for Treasury to consolidate and assess this data.

Table 1 - Budget 2025 process timetable

Date	Budget process stage	Status
Mid November	Budget invitation letters from MoF	Received
23 December 2024	Agency initiative submissions due in CFISnet	Current
January 2025	Treasury assessment of submissions	-
February to April 2025	Budget package development	-
April to May 2025	Cabinet agrees Budget package	-
Late May 2025	Budget Day	-

7. At this stage of the Budget process there are various initiatives and policy options being considered for Budget 2025 by the Minister of Finance, yourself and other Ministers. In some cases, there are tax initiatives running adjacent to Budget 2025 or in consideration for future Budgets. The Treasury advice for the 23 December submission is for agencies to submit invited and all potential initiatives. These initiatives can be updated, adjusted or removed during the assessment and package development stages of the process. We note that some initiatives may not proceed or not be announced in Budget 2025, but we have lent towards including placeholders at this stage.

8. We will base our CFISnet submission on the advice we have provided to you in recent reports. Where policy options are still to be determined we will submit provisional fiscals (e.g. for implementation costs, ongoing administration costs, non-departmental expenses and tax revenue) based on the worst-case operating balance impact (i.e. the highest cost and lowest revenue option) unless there is a more likely option. Details and fiscals for all initiatives will be updated in CFISnet as proposed policy decisions are made during the January to April 2025 period. The fiscals will also be revised as policy options narrow.

9. We have limited system capacity to implement all potential Budget 2025 initiatives and maintain the current system. Once the scope, scale and timing of all Budget 2025 initiatives is clearer, we will report to you on our ability to deliver them.

10. The following table sets out the invited and placeholder initiatives we propose submitting on 23 December. We seek your input on whether there are any amendments, additions or deletions to this list.

Table 2 - Budget 2025 initiatives led by the Minister of Revenue

Initiative title	Invited by MoF	Government objective	Priority area	Operating balance impact	Latest report
Extending Inland Revenue's investment in compliance activities	Yes	Revenue raising and integrity	New spending	Positive	IR2024/422
Funding for compliance activities ceasing in 2024/25	Yes	Revenue raising and integrity	Cost pressure	Neutral	IR2024/479
Foreign investment funds tax rules	-	Growth enhancing	New spending	Negative	IR2024/458
Thin capitalisation settings for infrastructure	-	Growth enhancing	New spending	Negative	January
9(2)(f)(iv)					
Fringe benefit tax reform	-	Growth enhancing	New spending	Neutral	IR2024/421
Best Start Tax Credit: target or repeal	Yes	Social policy	Saving	Positive	IR2024/485

Initiative title	Invited by MoF	Government objective	Priority area	Operating balance impact	Latest report
Working for Families: increase the abatement threshold	Yes	Social policy	New spending	Negative	IR2024/485
Working for Families: other changes to the abatement regime	Yes	Social policy	Saving	Positive	IR2024/485
Working for Families: skip or limit the CPI adjustment	Yes	Social policy	Saving	Positive	IR2024/485
Working for Families: reduce the value of overpayments	Yes	Social policy	Saving	Positive	IR2024/485
s 9(2)(f)(iv)					
Partial expensing for new assets	-	Growth enhancing	New spending	Negative	IR2024/459
KiwiSaver changes	-		Saving	Positive	IR2024/448
s 9(2)(f)(iv)					

11. The following table sets out an invited initiative led by another Minister that has impacts for Vote Revenue.

Table 3 - Budget 2025 initiatives led by the other Ministers

Initiative title	Invited by MoF	Government objective	Priority area	Operating balance impact	Latest report
s 9(2)(f)(iv)					

12. There are potentially other Budget 2025 initiatives being led by other Ministers that may impact Vote Revenue, such as s 9(2)(f)(iv) At this stage such initiatives have not yet been invited by the Minister of Finance. We will advise you if any of these initiatives do get invited.

13. In addition to the entry of initiatives into CFISnet we are required to submit a more detailed template for invited initiatives. These templates will reflect the content in the reports we have provided to you. We will share these templates with your office next week for review.

Initiative - Extending Inland Revenue's investment in compliance activities

14. The invited initiative, to extend Inland Revenue's investment in compliance activities, seeks permanent operating funding with a focus on debt and investigations. This activity supports the Government's fiscal strategy objectives by collecting more revenue and increasing cash collections.

15. This activity scales up the Budget 2024 investment in compliance activities and has an expected operating balance return of at least $4 to $1 in 2025/26 and at least $8 to $1

in outyears. This initiative includes resourcing for the evaluation of the effectiveness of compliance activities and reporting on the tax debt book.

16. Our focus on compliance will include opportunities to invest in emerging technologies (e.g. artificial intelligence) and extending our advanced analytical capabilities. We will initially use existing capital reserves to fund any capital investment required as our capital plan envisioned investment of this nature. We would seek additional capital injections if the size of the capital investment required puts at risk the maintenance of our existing systems.

17. With the evolving nature of technology and 'as a service' solutions it is likely that technology investments that were previously capital in nature will become operating. If required, we would seek your approval for fiscally neutral capital to operating swaps to fund these investments.

Initiative – Funding for compliance activities ceasing in 2024/25

18. The invited cost pressure initiative for compliance activities ceasing in 2024/25 seeks permanent replacement funding for the 'Budget 2022 Maintaining capability, integrity and to respond to demand' time limited funding of $26.5 million (~240 FTE) that ends on 30 June 2025.

19. This replacement 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 this time limited funding was being applied to are maintained.

20. As noted in the Vote Revenue Performance Plan the cessation of this funding would have a negative impact on tax revenue and debt by $240 million per annum. We have limited scope to manage the impact of this funding ceasing through efficiency savings and back-office expenditure savings. We have forecast our ongoing remuneration and price increases at 2 percent ($15 million) each year) and it is our plan to manage this cumulative cost pressure via efficiency, investment and back-office expenditure savings. In terms of workforce reduction this could be up to 200 FTEs less each year. This reduction is in addition to the $29.6 million of baseline operating savings per annum we are delivering from Budget 2024.

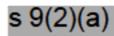
21. The accompanying 'Extending Inland Revenue's investment in compliance activities' initiative is premised on the basis that this time limited funding continues. The continuation of this time limited funding will ensure that any additional investment in compliance activities will be applied to additional compliance activities and not be used to substitute the compliance activities that this time limited funding is currently being applied to. In addition, we would not have the capacity and expertise to train and onboard the next wave of newly funded people whilst delivering business as usual results (including the additional revenue and cash receipts from the Budget 2024 compliance funding) and returns from this new initiative.

Recommended action

22. We recommend that you:

(a) **Advise** of any amendments, additions or deletions to the list of invited and placeholder initiatives for Budget 2025 (refer Table 2).

(b) **Sign and submit** the attached Budget 2025 Submission letter to the Minister of Finance.



Darren Cheevers
Acting Enterprise Leader Finance Services
13 / 12 /2024

Hon Simon Watts
Minister of Revenue
/ /2024

Hon Simon Watts

Minister of Climate Change
Minister of Revenue

Hon Nicola Willis
Minister of Finance
Parliament Buildings
Wellington

Dear Nicola

I am confirming that I, the Minister of Revenue, have submitted the initiatives for Inland Revenue, which covers all proposals for the Revenue Portfolio that you have invited.

At the request of the Treasury, I have also submitted placeholder initiatives where there is a potential for the initiative to be invited into the process subject to consideration of policy options and fiscals. These are predominantly initiatives from the Tax and Social Policy Work Programme

I am submitting targeted policy savings initiatives for the Revenue portfolio as detailed below:

16278	Saving	Social policy	Best Start Tax Credit: target or repeal	Invited
16282	Saving	Social policy	Working for Families: other changes to the abatement regime	Invited
16285	Saving	Social policy	Working for Families: skip or limit the CPI adjustment	Invited
16290	Saving	Social policy	Working for Families: reduce the value of overpayments	Invited
s 9(2)(f)(iv)				
16275	Saving	-	KiwiSaver changes	Placeholder
s 9(2)(f)(iv)				

I am also submitting cost pressure and new spending commitment initiatives as detailed below:

16264	New spending	Revenue raising and integrity	Extending Inland Revenue's investment in compliance activities	Invited
16265	Cost pressure	Revenue raising and integrity	Funding for compliance activities ceasing in 2024/25	Invited
16266	New spending	Growth enhancing	Foreign investment fund tax rules	Placeholder
16267	New spending	Growth enhancing	Thin capitalisation settings for infrastructure	Placeholder
s 9(2)(f)(iv)				
16271	New spending	Growth enhancing	Fringe benefit tax reform	Placeholder
16279	New spending	Social policy	Working for Families: increase the abatement threshold	Invited
16274	New spending	-	Partial expensing for new assets	Placeholder

Yours sincerely

Hon Simon Watts
Minister of Revenue

Inland Revenue report: Vote Revenue Ministerial Certification of Contingent Liabilities and Contingent Assets as at 31 December 2024

Date:	13 February 2025	**Priority:**	Medium
Security Level:	In confidence	**Report no:**	IR2025/011

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report, and **Sign** and **return** the attached *Certification of Contingent Liabilities and Contingent Assets* (appendix 2) to Inland Revenue.	5.00pm, Wednesday, 26 February 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	
Nick Bradley	Chief Financial Officer	s 9(2)(a)	
Darren Cheevers	Domain Lead, Finance Services	s 9(2)(a)	
Rachel Parker	Domain Lead, Finance Services	s 9(2)(a)	

13 February 2025

Minister of Revenue

Vote Revenue Ministerial Certification of Contingent Liabilities and Contingent Assets as at 31 December 2024

Purpose

1. This report seeks your sign-off of the attached *Certification of Contingent Liabilities and Contingent Assets as at 31 December 2024* (Certification) for Vote Revenue. We will submit the Certification and the attached *Register of Contingent Liabilities and Contingent Assets of Inland Revenue as at 31 December 2024* (Register) to the Treasury on your behalf.

Background

2. The Cabinet Expenditure Control Committee minute ECC (91)M21/4, dated 7 May 1991, requires Vote Ministers to certify the balances of their departments' contingent liabilities and contingent assets every six months.

3. Inland Revenue is required to send the Register and a signed copy of your Certification to the Treasury. The format and wording of the Register in appendix 1 and the Certification in appendix 2 have been agreed with the Treasury.

4. Inland Revenue has a comprehensive internal review process to ensure all contingent liabilities and contingent assets are identified.

5. We certify that the balances reported in the Register, in appendix 1, are correct.

Discussion

6. The changes in the balances of both departmental and non-departmental contingent assets and liabilities, from 30 June 2024, are provided below.

Departmental contingent assets

7. As at 31 December 2024, Inland Revenue's departmental contingent assets totalled $917,000. This is a decrease of $82,000 compared to 30 June 2024.

Departmental contingent assets	30 Jun 2024	31 Dec 2024	Increase/ (Decrease)
Legal proceedings and disputes - taxpayer	$999,000	$917,000	$(82,000)

8. Departmental contingent assets represent our estimate of the court costs that we will recover when cases before the court (such as tax disputes) are decided in our favour.

9. We distinguish departmental court costs from the tax revenue under dispute. Tax revenue amounts decided in our favour are payable to the Crown and are therefore reported as non-departmental contingent assets. They are disclosed separately below.

10. The decrease in departmental contingent assets is mainly due to a lower amount of estimated court costs for open tax dispute cases as at 31 December 2024 compared to 30 June 2024.

Departmental contingent liabilities

11. As at 31 December 2024 Inland Revenue's departmental contingent liabilities totalled $572,620. This is an increase of $180,620 compared to 30 June 2024.

Departmental contingent liabilities	30 Jun 2024	31 Dec 2024	Increase/ (Decrease)
Employee grievances	$155,000	$305,000	$150,000
Legal proceedings and disputes - taxpayer	$237,000	$223,000	$(14,000)
Other	-	$44,620	$44,620
Total	**$392,000**	**$572,620**	**$180,620**

12. Employee grievances represent potential amounts that may arise from grievance claims. There were three grievance claims as at 31 December 2024, an increase of one claim, and the other two are from the previous claims as at 30 June 2024 that have not yet been settled.

13. The legal proceedings and disputes contingent liability represent our estimate of court costs associated with tax disputes and other tax litigation that we may be required to pay when cases before the court are decided against Inland Revenue. Tax amounts that may become payable to taxpayers as a result of these decisions are reported as non-departmental contingent liabilities. The decrease in legal proceedings and disputes is mainly due to a lower amount of estimated cost of open dispute cases as at 31 December 2024 compared to 30 June 2024.

14. Other contingent liabilities reported as at 31 December 2024 represent a potential ex-gratia payment for funds paid as result of a system error. No contingent liabilities existed as at June 2024.

Non-departmental contingent assets

15. As at 31 December 2024, Inland Revenue administered $43,971,000 of non-departmental contingent assets. This is a decrease of $5,887,000 compared to 30 June 2024.

Non-departmental contingent assets	30 Jun 2024	31 Dec 2024	Increase/ (Decrease)
Legal proceedings and disputes	$49,858,000[1]	$43,971,000	$(5,887,000)

16. Non-departmental contingent assets arise as part of the tax disputes process. For example, when we advise a taxpayer of a proposed adjustment to their tax assessment, but we have not yet amended their assessment. We do not recognise additional tax revenue in these cases because we have not formally amended the assessment. Rather, we report the amount as a non-departmental contingent asset, estimated as the likely cash we will collect based on experience of similar cases.

17. Contingent assets also arise where a taxpayer has not filed an assessment, but we believe they are liable for tax and have issued an assessment. Where the taxpayer disputes our assessment, we recognise the amount assessed as a contingent asset but do not recognise

[1] *This is the final amount reported at 30 June 2024 and is $669,000 greater than the amount included in the June 24 Ministerial certification due to updated impairment rates received after the date of the certification.*

the additional tax revenue. We estimate the value of the contingent asset as the likely cash we will collect based on experience and similar cases.

18. The decrease in non-departmental contingent assets of $5,887,000 in comparison to 30 June 2024 is mainly driven by two customers with large net tax values who recently proceeded to the litigation phase and as such their assessed amounts are now recognised in revenue and reported in contingent liabilities. The transfer of two large cases to contingent liabilities is partially offset by an increase in the total number of disputed cases.

Non-departmental contingent liabilities

19. As at 31 December 2024, Inland Revenue administered $671,049,000 of non-departmental contingent liabilities. This is an increase of $88,813,000 compared to 30 June 2024.

Non-departmental contingent liabilities	30 Jun 2024	31 Dec 2024	Increase/ (Decrease)
Legal proceedings and disputes	$70,889,000[2]	$125,238,000	$54,349,000
Unclaimed monies	$511,347,000	$545,811,000	$34,464,000
Total	**$582,236,000**	**$671,049,000**	**$88,813,000**

20. Legal proceedings and disputes arise when either Inland Revenue or a taxpayer disagrees with a proposed adjustment, the dispute process is fully exhausted, and the matter has proceeded to litigation. We issue an assessment at this point and recognise the revenue and the contingent liability.

21. The amount of the contingent liabilities relating to legal proceedings and disputes increased by $54,349,000 in comparison to 30 June 2024. This is due to two high value customer cases progressing to the litigation phase. They were previously included in the contingent assets balance as at June 24, but as they have moved to litigation, revenue for the assessed amount has been recognised along with a related contingent liability.

22. We administer unclaimed monies under the Unclaimed Money Act 1971. We use trends from previous years to estimate the amount of unclaimed monies that will be paid out and this is recognised as a liability in our financial accounts. We report the remainder as a contingent liability.

23. The increase in unclaimed monies since 30 June 2024 is due to the amount of unclaimed monies being transferred to Inland Revenue exceeding the amount of refunds paid out. This is a continuing trend which is increasing the amount of unclaimed money held over time.

[2] *This is the final amount reported at 30 June 2024 and is $142,000 greater than the amount included in the June 24 Ministerial certification due to finalisation of amounts related to possible disputes.*

Recommendations

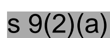
24. I recommend that you:

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

Noted

b) **Sign** the *Certification of Contingent Liabilities and Contingent Assets* (appendix 2).

c) **Return** the *Certification of Contingent Liabilities and Contingent Assets* to Inland Revenue by 5:00 pm, Wednesday, 26 February 2025.



Nick Bradley
Chief Financial Officer

13 / 02 / 2025

Hon Simon Watts
Minister of Revenue

/ / 2025

Appendix 1: Register

Register of Contingent Liabilities and Contingent Assets of Inland Revenue as at 31 December 2024

Departmental contingent assets	
Legal proceedings and disputes	$917,000
	$917,000

Departmental contingent liabilities	
Employee grievances	$305,000
Legal proceedings and disputes	$223,000
Other	$44,920
	$572,620

Non-departmental contingent assets	
Legal proceedings and disputes	$43,971,000
	$43,971,000

Non-departmental contingent liabilities	
Legal proceedings and disputes	$125,238,000
Unclaimed monies	$545,811,000
	$671,049,000

Appendix 2: Certification

Certification of Contingent Liabilities and Contingent Assets as at 31 December 2024.

In accordance with Cabinet Expenditure Control Committee minute ECC(91) M21/4 of 7 May 1991, I hereby certify that I am unaware of any contingent liability or asset that has been omitted from the Statement of Contingent Liabilities and Contingent Assets as reported in the register at 31 December 2024 prepared by Inland Revenue and reported in appendix 1.

Inland Revenue

……………………………………

Hon Simon Watts

Minister of Revenue

……………………………………

Date

Inland Revenue report: 2025 March Baseline Update submission for Vote Revenue

Date:	21 February 2025	**Priority:**	Medium
Security level:	In confidence - Budget Sensitive	**Report no:**	IR2025/012

Action sought

	Action sought	Deadline
Minister of Revenue	**Agree** to recommendations, and **sign** and **forward** the attached submission to the Minister of Finance by **1.00pm Monday 24 February 2025.**	1.00pm Monday, 24 February 2025

Contact for telephone discussion (if required)

Name	Position	
Nick Bradley	Chief Financial Officer	s 9(2)(a)
Darren Cheevers	Domain Lead, Finance Services	s 9(2)(a)
Rachel Parker	Domain Lead, Finance Services	s 9(2)(a)

21 February 2025

Minister of Revenue

2025 March Baseline Update submission for Vote Revenue

Purpose

1. This report seeks your approval of the attached Vote Revenue 2025 March Baseline Update (MBU) submission letter to the Minister of Finance.

Background

2. The MBU is a technical update of baselines for matters that do not raise significant policy issues and therefore do not require Cabinet approval. All of the proposed changes in this report can be made by Joint Ministers – the Vote Minister and the Minister of Finance.

3. The Treasury administers the MBU process. This includes providing agencies with letter templates and setting the timeframes and due dates. The attached draft letter from you to the Minister of Finance follows the Treasury template.

4. Our MBU submission includes changes to Vote Revenue departmental appropriations (Vote 19)[1] and preliminary changes to Vote Revenue non-departmental appropriations (Vote 20)[2].

5. Further changes to Vote Revenue non-departmental appropriations and tax forecasts (Vote 20) will be submitted to you separately in April as part of the 2025 Budget Economic and Fiscal Update (BEFU). These changes will be based on the latest Treasury macroeconomic forecasts. In addition, as part of BEFU we will submit technical initiatives as part of the Budget 2025 package to set the upper limits for annual non-departmental appropriations to allow appropriation management and mitigate the risk of breaching appropriations.

Overview

6. We request your approval to submit to the Minister of Finance the following proposed departmental (Vote 19) baseline changes for the 2024/25 financial year and outyears:

   - a retention of underspend (RoU) for administrative savings of $7.500 million from 2024/25 to 2025/26

[1] Vote Revenue departmental (Vote 19) includes appropriations to operate the department and deliver outputs and outcomes.
[2] Vote Revenue non-departmental (Vote 20) includes tax revenue and appropriations for expenditure administered by Inland Revenue such as Working for Families Tax Credits, FamilyBoost payments and the KiwiSaver Tax Credit.

- a forecast reduction to the departmental Capital Expenditure PLA of $29.100 million in 2024/25 and $8.300 million in 2025/26
- return of savings to the Crown for 2024/25 including:
    - a return of $1.400 million operating for the Crypto-asset Regulatory Framework initiative
    - a return of $1.750 million capital and $0.191 million operating a year for the child support pass on initiative.
- fiscally neutral adjustments including:
    - fiscally neutral adjustments between categories in our Services for customers appropriation
    - a reduction of $0.313 million for subleasing revenue and information sharing revenue.
- an in-principle expense transfer for the implementation of international initiatives of up to $3.000 million from 2024/25 to 2025/26.

7. We request your approval to submit to the Minister of Finance the following proposed non-departmental (Vote 20) changes to non-PLA appropriations for the 2024/25 financial year and outyears:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Benefits and Related Expenses:					
KiwiSaver: Interest	0.500	0.500	0.500	0.500	0.500
KiwiSaver: Tax Credit, Contribution and Residual Entitlement	7.000	7.000	8.000	8.000	8.000
Paid Parental Leave Payments	20.000	20.000	20.000	20.000	25.000
Non-departmental Other Expenses:					
Initial Fair Value Write-down Relating to Student Loans	(2.000)	2.000	-	(2.000)	(5.000)
Impairment of Debt and Debt Write-Offs	324.600	251.300	251.300	251.300	251.300
Final-year Fees Free Payment – Student Loans	-	12.756	46.154	75.334	90.145
Impairment of Debt Relating to Student Loans	12.000	-	-	-	-
Impairment of Debt and Debt Write-offs Relating to Child Support	30.000	-	-	-	-
Total Operating	392.100	293.556	325.954	353.134	369.945

8. The following other matters are also included in our submission for noting:

- recent Cabinet and Joint Minister decisions impacting on non-departmental appropriations
- s 9(2)(g)(i)

s 9(2)(g)(i)

9. the following changes to appropriations with a permanent legislative authority (PLA), reflecting the updated forecast expenses:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Benefits and Related Expenses:					
Child Support Payments PLA	-	2.000	4.000	7.000	9.000
Family Tax Credit PLA	24.000	13.000	17.000	31.000	31.000
Minimum Family Tax Credit PLA	0.143	0.070	0.070	0.070	0.070
In-Work Tax Credit PLA	(4.000)	(4.000)	(3.000)	-	-
Best Start Tax Credit PLA	1.000	-	1.000	1.000	1.000
FamilyBoost Tax Credit PLA	(43.000)	-	-	-	-
Non-departmental Other Expenses:					
KiwiSaver: Employee and Employer Contributions PLA	20.000	10.000	30.000	40.000	70.000
Borrowing Expenses:					
Income Equalisation Interest PLA	(1.000)	(2.000)	(2.000)	(1.000)	(1.000)
Total Operating	(2.857)	19.070	47.070	78.070	110.070

10. Each of the proposed changes are discussed below in detail.

11. The financial impacts of the proposed changes are summarised in Attachment 3 (Vote 19) and Attachment 4 (Vote 20).

12. The final MBU submission letter for Vote Revenue is due to the Minister of Finance by 1.00pm Monday 24 February 2025. A proposed letter from you to the Minister of Finance is attached.

Details of proposed changes – retention of underspend

A retention of underspend for administrative savings

13. A key Government goal is to get the Crown 'books back in order and restore discipline to public spending'[3]. In Budget 2024 we agreed to save $29.600 million every year to support this goal. We are on track to deliver this annual saving.

14. To manage long-term funding and unfunded future cost pressures, such as remuneration and price increases, we have specifically identified and achieved further savings and efficiencies of $7.500 million this year that can be used in future years, from:

[3] Budget 2025, Budget Policy Statement, 17 December 2024, page 1.

- s 9(2)(b)(ii), s 9(2)(i)
- reviewing and delaying back-office recruitment when there is turnover.

15. We seek your approval to submit a $7.500 million retention of underspend from 2024/25 to 2025/26.

Details of proposed changes – forecast adjustments

Forecast change - departmental capital expenditure

16. Our annual departmental capital expenditure is driven by our long-term asset management plans and capital injections for new Government initiatives.

17. We have recently developed a new START Asset Management Plan that sets out an annual schedule of maintenance, development and software upgrades. Based on this plan and a greater level of operating investments rather than capital investment we are updating our capital expenditure forecast.

	$ million – increase / (decrease)				
Inland Revenue Department - Capital Expenditure PLA	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
HYEFU 2024	61.100	56.000	40.000	40.000	40.000
MBU 2025	32.000	47.700	40.000	40.000	40.000
Forecast change - inc/(dec)	(29.100)	(8.300)	-	-	-

18. The forecast reduction of $29.100 million and $8.300 million in 2024/25 and 2025/26 respectively in capital expenditure is included for your noting.

Details of proposed changes – return of savings to the Crown

Return of savings to the Crown – Crypto-asset Regulatory Framework (CaRF)

19. In Budget 2024 we received $1.400 million operating funding for 2024/25 to implement and administer the initiative which is intended to ensure tax administrators globally have sufficient information to enforce tax laws on taxpayers deriving income from crypto assets trading.

20. We have not yet been able to progress with this initiative in the 2024/25 financial year due to schema required for CaRF only being released in October 2024. The release of the schema has enabled us to undertake further detailed analysis of delivery timelines resulting in a $1.400 million return of funding back to the Crown in 2024/25.

	$ million – increase / (decrease)				
Crypto-asset Regulatory Framework initiative	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Operating	(1.400)	-	-	-	-
Total inc/(dec)	(1.400)	-	-	-	-

21. We seek your approval to return the amount of $1.400 million of operating funding for the 2024/25 financial year.

Return of savings to the Crown –child support pass-on initiative

22. In Budget 2022, we received $2.700 million capital funding and $16.850 million operating funding over the forecast period (i.e. 2021/22 to 2025/26) to implement and administer the initiative to enable child support payments to be passed on to sole parent beneficiaries rather than be retained by the Crown. The actual capital cost to implement this initiative totalled $0.950 million.

	$ million – increase / (decrease)					
Child support pass on initiative	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears	Total
Operating	(0.191)	(0.191)	(0.191)	(0.191)	(0.191)	(0.955)
Capital withdrawal	(1.750)	-	-	-	-	(1.750)
Total inc/(dec)	(1.941)	(0.191)	(0.191)	(0.191)	(0.191)	(2.705)

23. We seek your approval to return the amount of $0.955 million for depreciation and capital charge operating funding and a $1.750 million capital withdrawal over the forecast period in this baseline update.

Details of proposed changes – technical adjustments

Technical adjustments within our *Services for customers* appropriation

24. Our *Services for customers* multi-category appropriation is our primary departmental operating appropriation, with a current 2024/25 budget of $766.421 million. This appropriation has five interrelated categories:
    - Policy advice
    - Services to manage debt and unfiled returns
    - Services to Ministers and to assist and inform customers to get it right from the start
    - Services to process obligations and entitlements categories, and
    - Services to protect the integrity of the tax system and functions the Commissioner administers.

25. From year to year the mix of expenditure across these categories change based on customer demand, work reprioritisation and the impact of new Government initiatives. In recent years the mix has also changed as an outcome of our transformation.

26. With a multi-category appropriation, we can underspend and overspend each category as long as the total budget for the appropriation is not exceeded. We do, however, seek your approval for fiscally neutral adjustments to the budget for each category. Without these adjustments there will be year-end budget versus actual category variances.

27. The following table compares the current 2024/25 Budget to the 2023/24 Actual and the fiscally neutral adjustments we propose to provide a more accurate revised 2024/25

Budget (column e). This revised budget provides a more accurate forecast of the allocation of our resources.

Proposed fiscally neutral adjustments (FNA) for 2024/25	$ million – increase / (decrease)					
	2023/24	2024/25				
	Actual a	Actual to budget movement b	Budget current c	Proposed FNA d	Budget revised e	Net change f (b+d)
Services for customers (MCA):						
Policy advice	13.146	0.766	13.912	-	13.912	0.766
Services to manage debt and unfiled returns	83.886	21.791	105.677	3.000	108.677	24.791
Services to Ministers and to assist and inform customers to get it right from the start	326.456	(4.419)	322.037	4.000	326.037	(0.419)
Services to process obligations and entitlements	180.385	(20.980)	159.405	31.000	190.405	10.020
Services to protect the integrity of the tax system and functions the Commissioner administers	102.665	62.725	165.390	(38.000)	127.390	24.725
Total	706.538	59.883	766.421	-	766.421	59.883

28. Our 2024/25 budget of $766.421 million is $59.883 million higher than our 2023/24 actual. This increase is primarily attributable to additional Budget 2024 funding: $29.000 million for investment in compliance activities, $13.900 million for FamilyBoost, and $9.450 million for personal income tax and independent earner tax credit changes.

29. The current 2024/25 budgets by category have become misaligned with forecast expenditure (current Budget) not matching the current mix of resources across these categories (actual). The misalignment is due to unadjusted activity mix changes from transformation and changes to the apportionment of technology overhead costs. For this baseline update we propose fiscally neutral adjustments to realign these category budgets, with no change to the overall appropriation.

30. The net change (column f) provides the clearest view of the resulting change in 2024/25 budgets compared to 2023/24 actuals. The material changes are:

- *Services to manage debt and unfiled returns*: The increase of $24.791 million compared to 2023/24 actuals reflects a reprioritisation of staff towards compliance activities and the Budget 2024 investment in compliance activities.

- *Services to process obligations and entitlements categories*: The increase of $10.020 million compared to 2023/24 actuals reflects Budget 2024 funding to administer FamilyBoost.

- *Services to protect the integrity of the tax system and functions the Commissioner administers*: The increase of $24.725 million compared to 2023/24 actuals reflects a reprioritisation of staff towards compliance activities and the Budget 2024 investment in compliance activities.

31. The following table shows the proposed fiscally neutral technical adjustments across the forecast period. The rationale for the outyear adjustments is the same as for the 2024/25 year. We seek your approval for these fiscally neutral adjustments.

	$ million – increase / (decrease)				
Proposed fiscally neutral adjustments (FNA)	2024/25 FNA	2025/26 FNA	2026/27 FNA	2027/28 FNA	2028/29 FNA
Services for customers (MCA):					
Policy advice	-	-	-	-	-
Services to manage debt and unfiled returns	3.000	1.000	0.500	2.000	4.000
Services to Ministers and to assist and inform customers to get it right from the start	4.000	7.000	8.500	10.000	10.000
Services to process obligations and entitlements	31.000	31.000	30.000	27.000	22.000
Services to protect the integrity of the tax system and functions the Commissioner administers	(38.000)	(39.000)	(39.000)	(39.000)	(36.000)
Total Operating	-	-	-	-	-

32. The fiscally neutral adjustments above do not change the mix and level of resources (people and activity) for these categories, rather they reflect the existing agreed mix of activities. The adjustments are a financial rebasing with no impacts on outputs, performance targets and agreed outcomes.

Fiscally neutral adjustments

A fiscally neutral adjustment for subleasing and information sharing revenue

33. We continually review the revenue we receive from other sources such as from subleasing vacant accommodation space to other agencies. Based on a reduction to vacant space, we are forecasting this subleasing revenue to decrease by $0.300 million in 2024/25 and outyears.

34. We previously charged the Ministry of Social Development $13,000 for information sharing. This manual work has now been replaced by an automated solution and we no longer charge for this service.

35. We seek your approval to submit a $0.313 million reduction to Revenue from Other Departments with a corresponding reduction to our *Services for customers* appropriation.

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
Services for customers (MCA):					
Services to process obligations and entitlements (funded by Revenue from Other Departments)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Services to Other Agencies RDA (funded by Revenue from Other Departments)	(0.300)	(0.300)	(0.300)	(0.300)	(0.300)
Total Operating	(0.313)	(0.313)	(0.313)	(0.313)	(0.313)

Details of proposed changes – in-principle expense transfers

Implementation of international initiatives

36. We are delivering a programme of international and cross-border work that includes fulfilling New Zealand's international obligations with other tax jurisdictions (and as an OECD member) and includes projects that respond to shifts in the global economy.

37. These initiatives, that we are self-funding and/or have received funding to implement and deliver, include:
    - Global anti-base erosion model rules (GloBE) Pillar Two
    - Country by country reporting (CBC 2.0)
    - Overseas pension transfer
    - Digital services taxes (DST)
    - Crypto-asset Regulatory Framework (refer paragraphs 19 to 21) and
    - OECD common reporting standard (CRS).

38. Some of the international initiatives could be impacted by the US Presidential Memo concerning the Global Minimum Tax (GMT) and whether this could apply in respect of digital services dates (IR2025/043 and BN2025/017 refer). This could impact the policy and timing for international initiatives.

39. Additionally, some of the one-off system changes associated with these initiatives that were planned for 2024/25 will now occur in 2025/26. This deferral enables us to focus on system changes with earlier application dates such as FamilyBoost. This deferral has no impact on the application dates or the total cost of these initiatives.

40. There are currently no changes to the value and timing of forecast tax revenue impacts associated with these initiatives.

41. To allow for uncertainty on final design and application dates for international initiatives we seek your approval for an in-principle expense transfer of up to $3.000 million from 2024/25 to 2025/26 in the *Services for customers* multi category appropriation. The amount of this transfer would be confirmed in the 2025 October Baseline Update, after the 2024/25 financial statements have been audited.

Non-departmental (Vote 20)

Cabinet decisions – non-departmental (appropriation impacts only)

42. We have included the following Cabinet decisions made since the Half Year Economic and Fiscal Update 2024 (HYEFU 2024) that impact Vote Revenue non-departmental appropriations in this baseline update.

Taxation - Use of Money Interest Rates

43. On 5 December 2024, Cabinet agreed to decrease the interest rates for use of money interest (UOMI) underpayment from 10.91% to 10.88% and the UOMI overpayment rate from 4.67% to 4.30% [CAB-24-MIN-0492, LEG-24-MIN-0260 refers]. This decision

resulted in an increase to tax revenue and the following forecast change to the impairment of debt and debt write-offs:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Departmental Other Expenses: Impairment of Debt and Debt Write-Offs	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Total Operating	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

Minimum Family Tax Credit Threshold: Holding the Rate this Year

44. In April 2004, Cabinet agreed to increase the Minimum Family Tax Credit threshold from 1 April 2006 onwards by an amount sufficient to ensure that families do not suffer a reduction in income when moving off a welfare benefit and into full-time paid employment [CAB Min (04) 13/4 refers].

45. In April 2021, Cabinet agreed to include an amount equating to five months of the Winter Energy Payment in the Minimum Family Tax Credit threshold calculation, ensuring that sole parent recipients would be financially better off than sole parent beneficiaries on an annual basis [CAB-21-MIN-0116.33 refers].

46. On 2 December 2024, Cabinet agreed to hold the Minimum Family Tax Credit threshold at its current level for one year (2025-26 tax year), with a consequential decrease in expenses. In addition, Cabinet agreed to resume adjustments to the Minimum Family Tax Credit threshold from the 2026-27 tax year, by applying the same percentage increase as would be applied when setting the threshold in line with the formula agreed in CAB-21-MIN-0116.33 [CAB-24-MIN-0472, CBC-24-MIN-0126 refers]. This decision resulted in the following forecast changes to the Minimum Family Tax Credit PLA:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Benefits and Related Expenses: Minimum Family Tax Credit PLA	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)
Total Operating	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)

Joint Minister approvals – non-departmental

47. In November 2024, Joint Ministers approved an increase in forecast of $800,000 in 2024/25 as a result of the decision to amend the RDTI time bar so that it does not nullify the existing discretionary powers that allow RDTI approvals to be corrected when they have been filed under the incorrect entity [IR2024-396 refers]. This decision resulted in the following forecast change to the Science, Innovation and Technology: R&D Tax Incentive appropriation:

	$ million – increase / (decrease)				
Vote Revenue Minister of Science, Innovation and Technology	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	0.800	-	-	-	-
Total Operating	0.800	-	-	-	-

Time-limited funding expiring in 2024/25

48. Vote Revenue has time-limited departmental funding of $26.500 million which expires on 30 June 2025. This funding was introduced in Budget 2022 to 'Maintain capability, integrity and to respond to demand' and was used to maintain compliance activities in the post COVID economy.

49. Our MBU preliminary forecasts have been updated to reflect the non-departmental impacts of this reduction in funding and associated FTEs on tax revenue and cash collections (and the related performance outcomes). The impact over the forecast period is a $600.000 million decrease in tax revenue and a $216.000 million increase in the impairment of debt and debt write-offs appropriation (as a result of the increase in debt).

50. We have been invited to submit a Budget 2025 cost pressure bid to permanently maintain this funding. If this bid is successful, this reduction in tax revenue and cash collections (and the related performance outcomes) will be reversed.

Forecast changes for non-departmental appropriations

51. Historically we have only sought Joint Minister approval for revised forecasts for our non-departmental appropriations based on the macroeconomic forecasts from The Treasury as part of the Budget Economic Fiscal Update (BEFU). However, in accordance with Treasury instruction, we are now seeking Joint Minister approval for revised preliminary forecasts as part of the MBU process.

52. The preliminary forecasts are our 'best estimate' of the expected outturn as at 20 February 2025. These forecasts will be updated as part of BEFU in April 2025 and we will seek additional Joint Ministerial approval for any changes required at that time. These changes may be material as we receive interim valuation updates from external valuers. As mentioned in paragraph 5, we will also review all annual non-departmental appropriations to ensure the upper limit is set at a level to enable us to appropriately manage expenses within our annual appropriations. The approval to set upper limits for appropriations will be sought through technical initiatives, which require Cabinet approval and will form part of the Budget 2025 package.

Non-departmental benefits or related expense appropriations

53. The following table sets out the forecast changes to appropriations for non-departmental benefits or related expenses that are not established under a permanent legislative authority. The forecast changes require your joint approval.

	$ million				
Non-departmental benefits or related expenses	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
KiwiSaver: interest					
HYEFU 2024	3.000	3.000	3.000	3.000	3.000
MBU 2025	3.500	3.500	3.500	3.500	3.500
Forecast change - inc/(dec)	0.500	0.500	0.500	0.500	0.500
KiwiSaver: tax credit, contribution and residual entitlement					
HYEFU 2024	1,049.000	1,090.000	1,133.000	1,179.000	1,228.000
MBU 2025	1,056.000	1,097.000	1,141.000	1,187.000	1,236.000
Forecast change - inc/(dec)	7.000	7.000	8.000	8.000	8.000
Paid parental leave payments					
HYEFU 2024	695.000	725.000	755.000	790.000	825.000
MBU 2025	715.000	745.000	775.000	810.000	855.000
Forecast change - inc/(dec)	20.000	20.000	20.000	20.000	25.000
Total forecast change – inc/(dec)	27.500	27.500	28.500	28.500	33.500

54. The following table provides an explanation for each of these forecast changes.

Appropriation	Reasons for change
KiwiSaver: Interest	The increase in forecast by $2.500 million over the forecast period is due to KiwiSaver interest remaining at an elevated rate longer than was anticipated in HYEFU 24.
KiwiSaver: Tax Credit, Contribution and Residual Entitlements	The increase in forecast by $38.000 million over the forecast period from HYEFU 24 is due to the increase in the nominal wage growth for 2024/25, resulting in greater contributions. To the extent that this growth is from those contributing less than the maximum qualifying amount, the amount of government contribution also increases. This increase is expected to continue into outyears.
Paid Parental Leave Payments	The increase in forecast by $105.000 million over the forecast period for Paid Parental Leave (PPL) Payments, is due to higher payments than anticipated in recent months reflecting stronger than anticipated demand. In addition, there is a higher than previously expected indexation of maximum payments from 2025/26. Both factors flow through into out years.

Non-departmental other expenses

55. The following table sets out the forecast changes and Cabinet approvals for non-departmental other expenses appropriations that are not established under a permanent legislative authority. The forecast changes require your joint approval.

	$ million				
Non-departmental other expenses	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
Initial fair value write-down relating to student loans					
HYEFU 2024	588.000	617.000	631.000	648.000	683.000
MBU 2025	586.000	619.000	631.000	646.000	678.000
Forecast change – inc/(dec)	(2.000)	2.000	-	(2.000)	(5.000)
s 9(2)(g)(i)					
Impairment of debt and debt write-offs					
HYEFU 2024	1,676.000	1,150.000	1,150.000	1,150.000	1,150.000
MBU 2025	2,000.000	1,400.000	1,400.000	1,400.000	1,400.000
Forecast change – inc/(dec)	324.600	251.300	251.300	251.300	251.300
Cabinet approved change –inc/(dec)	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)
Impairment of Debt relating to Student Loans					
HYEFU 2024	-	-	-	-	-
MBU 2025	12.000	-	-	-	-
Forecast change – inc/(dec)	12.000	-	-	-	-
Impairment of debt and debt write-offs relating to Child Support					
HYEFU 2024	-	-	-	-	-
MBU 2025	30.000	-	-	-	-
Forecast change – inc/(dec)	30.000	-	-	-	-
Total forecast change- inc/(dec)	364.600	266.056	297.454	324.634	336.445
Total approved by Cabinet	(0.600)	(1.300)	(1.300)	(1.300)	(1.300)

56. The following table provides an explanation for each of these forecast changes.

Appropriation	Reasons for change
Initial Fair Value Write-down Relating to Student Loans	The decrease of $7.000 million over the forecast period reflects an increase in initial fair value rates from HYEFU due to a drop in discount rates.

Appropriation	Reasons for change
s 9(2)(g)(i)	
Impairment of Debt and Debt Write-offs	Based on the preliminary findings of the interim valuation, we are expecting a further increase to the appropriation to that signalled at HYEFU across all years in the forecast period. Forecast overdue debt levels at 30 June 2025 and through to 30 June 2028 are expected to be higher than previously forecast as the prolonged downturn in economic conditions continues to make it difficult for our customers to meet their obligations. In addition, definitional changes to recognise debt as overdue from the day after due date (rather than when the debt enters the collection cycle) have contributed to the increase in the debt forecast. From 2025/26, the removal of time-limited funding is also expected to reduce cash collection and hence increase debt levels by $90.000 million per annum. As a result of the growth in debt, impairment is now expected to continue at the elevated levels we have seen in recent years for longer than previously expected. In out years, impairment is forecast to fall from current levels as the growth in debt slows, however the fall is no longer expected to be to the low levels previous anticipated. The increase in impairment expense for 2025/26 and outyears, also includes a $54.000 million per annum increase relating to the removal of the time limited funding (refer paragraphs 47 to 49). This forecast may change as a result of the finalisation of the interim valuation and any such changes will be reflected in BEFU 2025. The actual outcome will not be known until the final valuation is completed in July 2025.

Appropriation	Reasons for change
Impairment of Debt Relating to Student Loans	The student loan debt is valued annually by an independent valuer. Based on preliminary analysis of the interim valuation, we expect an increase in the student loan fair value in 2024/25, largely driven by a decrease in discount rates. The decrease in discount rates is expected to increase the student loan fair value by around $400.000 million. This increase is partially offset by a reduction in other macroeconomic effects such as updated wage inflation assumptions and repayment threshold inflation (CPI) assumptions which are forecast to decrease the student loan value by $40.000 million. Any change in macroeconomic assumptions (including discount rates) is treated as a remeasurement which is not appropriated. We also expect a small impact ($12.000 million) on appropriations from impairment in 2024/25 largely caused by lower domestic incomes and repayment rates, which is somewhat offset by the positive overseas based borrower payment experience. The forecast may change as a result of the finalisation of the interim valuation completed by our external valuer and any such changes will be reflected in final BEFU 2025. The actual outcome will not be known until the final valuation is completed in July 2025.
Impairment of Debt and Debt Write-Offs Relating to Child Support	The Child Support debt is valued annually by an independent valuer. Based on the preliminary findings of the interim valuation, we are expecting a small impairment in 2024/25 of $30.000 million reflecting an expected increase in the net impairment ratio. This forecast may change as a result of the finalisation of the interim valuation and any such changes will be reflected in BEFU 2025. The actual outcome will not be known until the final valuation is completed in July 2025.

Non-departmental benefits or related expenses - PLA

57. The following table sets out the forecast changes and Cabinet approvals for non-departmental benefits or related expenses which are established under a permanent legislative authority (PLA).

	$ million				
Non-departmental benefits or related expenses - PLA	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
Best Start tax credit *					
HYEFU 2024	346.000	340.000	341.000	357.000	348.000
MBU 2025	347.000	340.000	342.000	358.000	349.000
Forecast change - inc/(dec)	1.000	-	1.000	1.000	1.000
Child support payments					
HYEFU 2024	434.000	440.000	447.000	453.000	460.000
MBU 2025	434.000	442.000	451.000	460.000	469.000
Forecast change - inc/(dec)	-	2.000	4.000	7.000	9.000

	$ million				
Non-departmental benefits or related expenses - PLA	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
FamilyBoost Tax Credit PLA					
HYEFU 2024	174.000	171.000	167.000	165.000	163.000
MBU 2025	131.000	171.000	167.000	165.000	163.000
Forecast change - inc/(dec)	(43.000)	-	-	-	-
Family tax credit *					
HYEFU 2024	2,407.000	2,342.000	2,368.000	2,507.000	2,445.000
MBU 2025	2,431.000	2,355.000	2,385.000	2,538.000	2,476.000
Forecast change - inc/(dec)	24.000	13.000	17.000	31.000	31.000
In-work tax credit *					
HYEFU 2024	563.000	570.000	566.000	580.000	556.000
MBU 2025	559.000	566.000	563.000	580.000	556.000
Forecast change - inc/(dec)	(4.000)	(4.000)	(3.000)	-	-
Minimum family tax credit *					
HYEFU 2024	11.000	9.400	8.000	7.500	7.500
MBU 2025	10.900	8.500	7.100	6.600	6.600
Forecast change - inc/(dec)	0.143	0.070	0.070	0.070	0.070
Cabinet approved change – inc/(dec)	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)
Total forecast change – inc/(dec)	(21.857)	11.070	19.070	39.070	41.070
Total Cabinet approved changes – inc/(dec)	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)

* Working for Families Tax Credits

58. The following table provides an explanation for each of these forecast changes:

Appropriation	Reasons for change
Best Start Tax Credit PLA	The increase of $4.000 million over the forecast period reflects the flow-on impact of slightly higher than anticipated payments in recent months since HYEFU 24.
Child Support Payments PLA	The increase in forecast by $22.000 million over the forecast period, is due to amounts collected from non-custodians. This is a modelling calibration to recent results (volumes are still settling into a new pattern since the introduction of the child-support pass through) and does not reflect any particular economic reason.
FamilyBoost Tax Credit PLA	The forecast decreased by $43.000 million in 2024/25. Refer to paragraphs 62 to 66 for further discussion on FamilyBoost.
Family Tax Credit PLA	The increase in forecast by $116.000 million over the forecast period is driven by 2 factors. Firstly, a stronger starting point due to entitlements from late filed 2023 returns exceeding expectations. Secondly, more upfront payments than at the same time last year, and the average payment is higher than expected. The change in up-front activity may reflect timing or may reflect the stronger starting point and the ongoing impact of economic activity on entitlements. The latter causes prompted an upwards adjustment to forecasts. In addition, the expected CPI increase on 1 April 2027 has been revised upwards, which flows onto subsequent years.
In-Work Tax Credit PLA	The decrease in forecast by $11.000 million over the forecast period, is as a result of the year-to-date underspend in In-work Tax Credit

	payments which are currently $4.000 million below forecast. It is expected that the existing underspend to date will be retained for the remainder of the year and potentially out years.
Minimum Family Tax Credit PLA	The small forecast increase to the appropriation is caused by an expectation of lower wage growth in 2025 which drives higher claims. This will have a flow through into subsequent years. The forecast increase is offset by the Cabinet decision to hold the MFTC guaranteed income amount at the current level for the 2025-26 tax year.

Non-departmental borrowing expenses - PLA

59. The following table sets out the forecast changes for non-departmental borrowing expenses that are established under a permanent legislative authority.

	$ million				
Non-departmental borrowing expenses - PLA	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
Income equalisation interest					
HYEFU 2024	8.000	7.000	7.000	6.000	6.000
MBU 2025	7.000	5.000	5.000	5.000	5.000
Forecast change - inc/(dec)	(1.000)	(2.000)	(2.000)	(1.000)	(1.000)
Total forecast change - inc/(dec)	(1.000)	(2.000)	(2.000)	(1.000)	(1.000)

60. The decrease over the forecast period, reflects that withdrawals from the scheme are exceeding deposits. The resulting decline in the scheme balance reduces interest payable.

Non-departmental other expenses - PLA

61. The following table sets out the forecast changes for non-departmental other expenses that are established under a permanent legislative authority.

	$ million				
Non-departmental other expenses - PLA	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
KiwiSaver: Employee and employer contributions					
HYEFU 2024	9,960.000	10,510.000	11,120.000	11,790.000	12,480.000
MBU 2025	9,980.000	10,520.000	11,150.000	11,830.000	12,550.000
Total forecast change – inc/(dec)	20.000	10.000	30.000	40.000	70.000

62. The increase in forecast over the forecast period since HYEFU24 reflects an increase in forecasts of nominal wage growth.

A forecast reduction for FamilyBoost payments in 2024/25

63. In Budget 2024 we received funding for the FamilyBoost initiative. This included non-departmental funding for the FamilyBoost payments and departmental funding to implement and deliver the initiative.

64. The financial forecasts are based on 100,000 families (households) being eligible for FamilyBoost over the course of the year. FamilyBoost registrations began on 16

September 2024 and claims opened on 1 October 2024. By 31 January 2025, we had received 65,361 registrations and 105,281 claims relating to 56,976 households. We have paid out $29.300 million towards 78,904 claims.

65. As expected for a new initiative of this nature, uptake has been building over the first two quarters, with some expected lag in applications. One example of lag is that a family might want certainty of income before they apply. Our targeted marketing campaigns and community outreach has been extensive, and the initiative is still in its early days. We are currently assessing where to target further campaigns and outreach for coming weeks. We expect that registrations and payments will continue to rise and that the forecast uptake is achievable. We propose no changes to the payments forecast in MBU 2025 based on expected registrations. We will advise as part of the final BEFU forecasts if this assumption changes.

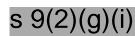
66. From an accounting perspective, we are changing to recognising the expense when a claim is approved and paid out, rather than an accrual basis, as the obligating event is the receipt of an eligible application. Applicants have 4 years to submit their quarterly claims. This adjustment is timing in nature and effectively means that we will recognise the expense for 3 rather than 4 quarters in the first year. Audit NZ have confirmed they are comfortable with this change.

67. We seek your approval to submit this accounting change that will reduce the current year appropriation from $174.000 million to $131.000 million, a reduction of $43.000 million. This has a positive operating and OBEGAL impact for the Crown in 2024/25:

	$ million				
FamilyBoost Tax Credit PLA (non-departmental)	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
HYEFU 2024	174.000	171.000	167.000	165.000	163.000
MBU 2025	131.000	171.000	167.000	165.000	163.000
Forecast change - inc/(dec)	(43.000)	-	-	-	-

68. We are forecasting to fully spend the departmental operating funding received to implement and deliver this initiative. The self-funded capital implementation was $1.153 million compared to our $1.500 million estimate.

s 9(2)(g)(i)



Treasury CFISnet Table 2 items

70. We have attached two Treasury CFISnet tables, referred to by Treasury as 'Table 2', that set out all of the changes for Vote Revenue departmental (Vote 19) and Vote Revenue non-departmental (Vote 20).

71. Some items listed in these tables do not require Joint Minister approval. All Cabinet and Joint Minister decisions relating to this Vote made after the 2024 October Budget Update for Vote 19 and the 2024 Half-year Economic and Fiscal Update for Vote 20 have been included in these tables.

72. The non-departmental *forecast adjustments* in Table 2 for Vote 20 are preliminary (provisional) only and are based on the current The Treasury macroeconomic forecasts. These forecasts will be updated in BEFU 2025, in April 2025, based on updated and macroeconomic forecasts from The Treasury.

Consultation with The Treasury

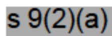
73. The Treasury was consulted on this report. It noted the good progress on achieving the baselines savings. The Treasury noted the $7.500 million of underspends achieved through efficiency gains, and the proposal to retain it for 2025/26. It voiced concern with the increased debt impairment driven by economic conditions and noted that the Budget 2025 compliance funding bid included a requirement for Inland Revenue to report on its debt recovery work. The Treasury noted the realignment of resources within Inland Revenue's multi-category appropriation to reflect increased processing costs, and away from compliance activities.

Recommendations

74. It is recommended that you:

    Sign and forward the attached March Baseline Update letter to the Minister of Finance by 1pm Monday 24 February 2025.

    Signed and forwarded



Nick Bradley
Enterprise Leader Finance Services (Chief Financial Officer)
21 / 02 / 2025

Hon Simon Watts
Minister of Revenue
/ / 2025

Attachments:

a) Appendix 1 – Summary of Departmental baseline changes
b) 2025 March Baseline Update submission to the Minister of Finance for Vote Revenue
c) Table 2 Baseline changes report, 2024/25 MBU (BEFU) Vote 19 – Inland Revenue departmental
d) Table 2 Baseline changes report, 2024/25 MBU (BEFU) Vote 20 – Inland Revenue non-departmental.

Appendix 1 – Summary of departmental baseline changes (Vote 19)

The table below summarises the baseline changes we propose in this baseline update for *Departmental* operating appropriations (Vote 19):

	$ million – increase / (decrease)				
Departmental – operating (Vote 19)	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
• Retention of underspend - administrative savings	(7.500)	7.500	-	-	-
• Return of savings to the Crown - Crypto-asset Regulatory Framework initiative	(1.400)	-	-	-	-
• Return of savings to the Crown - child support pass on initiative	(0.191)	(0.191)	(0.191)	(0.191)	(0.191)
• Fiscally neutral adjustments within the *Services for customers* appropriation.	-	-	-	-	-
• Fiscally neutral adjustments - subleasing revenue and information sharing revenue	(0.313)	(0.313)	(0.313)	(0.313)	(0.313)
Total operating	**(9.404)**	**6.996**	**(0.504)**	**(0.504)**	**(0.504)**
• Forecast change - Capital expenditure PLA	(29.100)	(8.300)	-	-	-
• Return of savings to the Crown - child support pass on initiative	(1.750)	-	-	-	-
Total capital	**(30.850)**	**(8.300)**	**-**	**-**	**-**

The table below summarises the proposed departmental (Vote 19) in-principle expense transfer that, if approved, will be confirmed in the 2024 October Baseline Update:

Departmental - In-principle expense transfers (Vote 19)	2024/25 $ million
• International initiatives	3.000

Hon Simon Watts

Minister of Climate Change
Minister of Revenue

24 February 2025

Hon Nicola Willis
Minister of Finance
Parliament Buildings
WELLINGTON

2025 March Baseline Update submission for Vote Revenue

1. Introduction

This report covers those items affecting the baseline for Vote Revenue for the 2025 March Baseline Update.

I confirm that none of the changes contained in this update require Cabinet decisions at this time.

The proposed changes to the baseline are set out below.

2. Retention of underspend

2.1 Administrative savings

A key Government goal is to get the Crown 'books back in order and restore discipline to public spending'. In Budget 2024 Inland Revenue agreed to save $29.600 million every year to support this goal. Inland Revenue is on track to deliver this annual saving.

To manage with long-term funding and unfunded future cost pressures, such as remuneration and price increases, Inland Revenue has specifically identified and achieved further savings and efficiencies of $7.500 million this year that can be used in future years, from:

- s 9(2)(b)(ii), s 9(2)(i)
- reviewing and delaying back-office recruitment when there is turnover.

I recommend you approve a retention of underspend of $7.500 million from 2024/25 to 2025/26 within Inland Revenue's *Services for customers* appropriation for known administrative savings. I also recommend a further $3 million as an in-principle expense transfer for potential further savings for international initiatives (refer section below, on in-principle expense and capital transfers). Any further underspend in this appropriation will be returned to the Crown as part of Inland Revenue's year-end surplus.

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	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Multi-category expenses and capital expenditure – services for customers:					
Services to protect the integrity of the tax system and functions the Commissioner administers (funded by revenue Crown)	(1.400)	1.400	-	-	-
Services to manage debt and unfiled returns (funded by revenue Crown)	(1.300)	1.300	-	-	-
Services to process obligations and entitlements (funded by revenue Crown)	(1.400)	1.400	-	-	-
Services to Ministers and to assist and inform customers to get it right from the start (funded by revenue Crown)	(3.400)	3.400	-	-	-
Total operating	**(7.500)**	**7.500**	**-**	**-**	**-**

2.2 Return of savings to the Crown – child support pass-on initiative

In Budget 2022 Inland Revenue received $2.700 million capital funding and $16.850 million operating funding over the forecast period (i.e. 2021/22 to 2025/26) to implement and administer the initiative to enable child support payments to be passed on to sole parent beneficiaries rather than be retained by the Crown. The actual capital cost to implement this initiative totalled $0.950 million.

I recommend you approve the return of the amount of $0.955 million for depreciation and capital charge operating funding and a $1.750 million of capital withdrawal over the forecast period in this baseline update.

Vote Revenue Minister of Revenue	$ million – increase / (decrease) 2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Multi-category expenses and capital expenditure – services for customers:					
Services to protect the integrity of the tax system and functions the Commissioner administers (funded by revenue Crown)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Services to manage debt and unfiled returns (funded by revenue Crown)	(0.032)	(0.032)	(0.032)	(0.032)	(0.032)
Services to process obligations and entitlements (funded by revenue Crown)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Services to Ministers and to assist and inform customers to get it right from the start (funded by revenue Crown)	(0.087)	(0.087)	(0.087)	(0.087)	(0.087)
Total operating	(0.191)	(0.191)	(0.191)	(0.191)	(0.191)
Capital withdrawal	(1.750)	-	-	-	-
Total capital	(1.750)	-	-	-	-

3. Technical adjustments

3.1 Technical adjustments within our *Services for customers* appropriation

The *Services for customers* multi-category appropriation (MCA) is Inland Revenue's primary departmental operating appropriation, with a current 2024/25 budget of $766.421 million. This appropriation has five interrelated categories:

- Policy advice
- Services to manage debt and unfiled returns
- Services to Ministers and to assist and inform customers to get it right from the start
- Services to process obligations and entitlements categories, and
- Services to protect the integrity of the tax system and functions the Commissioner administers.

From year to year the mix of expenditure across these categories changes based on customer demand, work reprioritisation and the impact of new Government initiatives. In recent years the mix has also changed as an outcome of Inland Revenue's transformation.

With a multi-category appropriation, Inland Revenue can underspend and overspend each category as long as the total budget for the appropriation is not exceeded. Inland Revenue does, however, seek Joint Ministers approval for fiscally neutral technical adjustments to the budget for each category. Without these adjustments there will be year-end budget versus actual category variances.

The following table compares the current 2024/25 Budget to the 2023/24 Actual and the fiscally neutral adjustments Inland Revenue proposes to provide a more accurate revised 2024/25 Budget (column e). This revised budget provides a more accurate forecast of the allocation of Inland Revenue's resources.

	$ million – increase / (decrease)					
Proposed fiscally neutral adjustments (FNA) for 2024/25	2023/24	2024/25				
	Actual a	Change b	Budget current c	Proposed FNA d	Budget revised e	Net change f
Services for customers (MCA):						
Policy advice	13.146	0.766	13.912	-	13.912	0.766
Services to manage debt and unfiled returns	83.886	21.791	105.677	3.000	108.677	24.791
Services to Ministers and to assist and inform customers to get it right from the start	326.456	(4.419)	322.037	4.000	326.037	(0.419)
Services to process obligations and entitlements	180.385	(20.980)	159.405	31.000	190.405	10.020
Services to protect the integrity of the tax system and functions the Commissioner administers	102.665	62.725	165.390	(38.000)	127.390	24.725
Total	706.538	59.883	766.421	-	766.421	59.883

Inland Revenue's 2024/25 budget of $766.421 million is $59.883 million higher than their 2023/24 actual. This increase is primarily attributable to additional Budget 2024 funding: $29.000 million for investment in compliance activities, $13.900 million for FamilyBoost, and $9.450 million for personal income tax and independent earner tax credit changes.

The current 2024/25 budgets by category have become misaligned with forecast expenditure (current Budget) not matching the current mix of resources across these categories (actual). The misalignment is due to unadjusted activity mix changes from transformation and changes to the apportionment of technology overhead costs. For this baseline update Inland Revenue proposes fiscally neutral adjustments to realign these category budgets, with no change to the overall appropriation.

The net change (column f) provides the clearest view of the resulting change in 2024/25 budgets compared to 2023/24 actuals. The material changes are:

- *Services to manage debt and unfiled returns*: The increase of $24.791 million compared to 2023/24 actuals reflects a reprioritisation of staff towards compliance activities and the Budget 2024 investment in compliance activities.
- *Services to process obligations and entitlements categories*: The increase of $10.020 million compared to 2023/24 actuals reflects Budget 2024 funding to administer FamilyBoost.
- *Services to protect the integrity of the tax system and functions the Commissioner administers*: The increase of $24.725 million compared to 2023/24 actuals reflects a reprioritisation of staff towards compliance activities and the Budget 2024 investment in compliance activities.

The following table shows the proposed fiscally neutral technical adjustments across the forecast period. The rationale for the outyear adjustments is the same as for the 2024/25 year.

Proposed fiscally neutral adjustments (FNA)	$ million – increase / (decrease)				
	2024/25 FNA	2025/26 FNA	2026/27 FNA	2027/28 FNA	2028/29 FNA
Services for customers (MCA):					
Policy advice	-	-	-	-	-
Services to manage debt and unfiled returns	3.000	1.000	0.500	2.000	4.000
Services to Ministers and to assist and inform customers to get it right from the start	4.000	7.000	8.500	10.000	10.000
Services to process obligations and entitlements	31.000	31.000	30.000	27.000	22.000
Services to protect the integrity of the tax system and functions the Commissioner administers	(38.000)	(39.000)	(39.000)	(39.000)	(36.000)
Total Operating	-	-	-	-	-

The fiscally neutral adjustments above do not change the mix and level of resources (people and activity) for these categories, rather they reflect the existing agreed mix of activities. The adjustments are a financial rebasing with no impacts on outputs, performance targets and agreed outcomes.

I recommend you approve for these fiscally neutral adjustments.

4. Fiscally neutral adjustments

4.1 Subleasing, and information sharing revenue

Inland Revenue continually review the revenue they receive from other sources such as from subleasing vacant accommodation space to other agencies. Based on a reduction to vacant space, they are forecasting this subleasing revenue to decrease by $0.300 million in 2024/25 and outyears.

Inland Revenue previously charged the Ministry of Social Development $13,000 for information sharing. This manual work has now been replaced by an automated solution and Inland Revenue no longer charge for this service.

I recommend you approve to submit a $0.313 million reduction to Revenue from Other Departments with a corresponding reduction to their *Services for customers* appropriation.

Vote Revenue Minister of Revenue	$ million – increase / (decrease)				
	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
Services for customers (MCA):					
Services to process obligations and entitlements (funded by Revenue from Other Departments)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Services to Other Agencies RDA (funded by Revenue from Other Departments)	(0.300)	(0.300)	(0.300)	(0.300)	(0.300)
Total	(0.313)	(0.313)	(0.313)	(0.313)	(0.313)

5. In-principle expense and capital transfer (IPECTs)

5.1 Implementation of international initiatives

Inland Revenue is delivering a programme of international and cross-border work that includes fulfilling New Zealand's international obligations with other tax jurisdictions (and as an OECD member) and includes projects that respond to shifts in the global economy.

These initiatives, that Inland Revenue is self-funding and/or has received funding to implement and deliver, include:

- Global anti-base erosion model rules (GloBE) Pillar Two
- Country by country reporting (CBC 2.0)
- Overseas pension transfer
- Digital services taxes (DST)
- Crypto-asset Regulatory Framework (refer section 6.1), and
- OECD common reporting standard (CRS).

Some of the international initiatives could be impacted by the US Presidential Memo concerning the Global Minimum Tax (GMT) and whether this could apply in respect of digital services dates (IR2025/043 and BN2025/017 refer). This could impact the policy and timing for international initiatives.

Additionally, some of the one-off system changes associated with these initiatives that were planned for 2024/25 will now occur in 2025/26. This deferral enables Inland Revenue to focus on system changes with earlier application dates such as FamilyBoost. This deferral has no impact on the application dates or the total cost of these initiatives.

There are currently no changes to the value and timing of forecast tax revenue impacts associated with these initiatives.

I recommend you approve the in-principle expense transfer of up to $3.000 million from 2024/25 to 2025/26 in the *Services for customers* multi category appropriation to allow for uncertainty on final design and application dates for international initiatives. The amount of this transfer would be confirmed in the 2025 October Baseline Update, after the 2024/25 financial statements have been audited.

6. Other Matters

6.1 **Return of savings to the Crown – Crypto-asset Regulatory Framework (CaRF)**

In Budget 2024 Inland Revenue received $1.400 million operating funding for 2024/25 to implement and administer the initiative which is intended to ensure tax administrators globally have sufficient information to enforce tax laws on taxpayers deriving income from crypto assets trading.

Inland Revenue has not yet been able to progress with this initiative in 2024/25 financial year due to schema required for CaRF only being released only in October 2024. The release of the schema has enabled Inland Revenue to undertake further detailed analysis of delivery timelines resulting in a $1.400 million return of funding back to the Crown in 2024/25.

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Multi-category expenses and capital expenditure – services for customers:					
Services to process obligations and entitlements (funded by revenue Crown)	(0.600)	-	-	-	-
Services to Ministers and to assist and inform customers to get it right from the start (funded by revenue Crown)	(0.800)	-	-	-	-
Total operating	(1.400)	-	-	-	-

I recommend you approve the return of the amount of $1.400 million of operating funding for the 2024/25 financial year.

6.2 Return of savings to the Crown –child support pass-on initiative

In Budget 2022 we received $2.700 million capital funding and $16.850 million operating funding over the forecast period (i.e. 2021/22 to 2025/26) to implement and administer the initiative to enable child support payments to be passed on to sole parent beneficiaries rather than be retained by the Crown. The actual capital cost to implement this initiative totalled $0.950 million.

I recommend you approve the return of the amount of $0.955 million of depreciation and capital charge funding and $1.750 million of capital expenditure over the forecast period for this baseline update.

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Multi-category expenses and capital expenditure – services for customers:					
Services to protect the integrity of the tax system and functions the Commissioner administers (funded by revenue Crown)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Services to manage debt and unfiled returns (funded by revenue Crown)	(0.032)	(0.032)	(0.032)	(0.032)	(0.032)
Services to process obligations and entitlements (funded by revenue Crown)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Services to Ministers and to assist and inform customers to get it right from the start (funded by revenue Crown)	(0.087)	(0.087)	(0.087)	(0.087)	(0.087)
Total operating	(0.191)	(0.191)	(0.191)	(0.191)	(0.191)
Capital withdrawal	(1.750)				
Total capital	(1.750)				

7. Forecast changes – non-departmental

Inland Revenue have submitted preliminary forecasts which are their 'best estimate' of the expected outturn as at 20 February 2025. These forecasts will be updated as part of BEFU in April 2025 and the department will seek additional Joint Ministerial approval for any changes required at that time. The department will also review all annual non-departmental appropriations to ensure the upper limit is set at a level to enable them to appropriately manage expenses within their annual appropriations. The approval to set upper limits for appropriations will be sought through technical initiatives, which require Cabinet approval and will form part of the Budget 2025 package.

I recommend that you approve the following preliminary forecast adjustments within the following non-departmental, non-PLA appropriations for the 2024/25 financial year and outyears:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Benefits and Related Expenses:					
KiwiSaver: Interest	0.500	0.500	0.500	0.500	0.500
KiwiSaver: Tax Credit, Contribution and Residual Entitlement	7.000	7.000	8.000	8.000	8.000
Paid Parental Leave Payments	20.000	20.000	20.000	20.000	25.000

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-departmental Other Expenses:					
Initial Fair Value Write-down Relating to Student Loans	(2.000)	2.000	-	(2.000)	(5.000)
Impairment of Debt and Debt Write-Offs	324.600	251.300	251.300	251.300	251.300
s 9(2)(g)(i)					
Impairment of Debt Relating to Student Loans	12.000	-	-	-	-
Impairment of Debt and Debt Write-offs Relating to Child Support	30.000	-	-	-	-
Total Operating	392.100	293.556	325.954	353.134	369.945

Each of the proposed changes are discussed below in detail:

Appropriation	Reasons for change
KiwiSaver: Interest	The increase in forecast by $2.500 million over the forecast period, is due to KiwiSaver interest remaining at an elevated rate than was anticipated in HYEFU 24.
KiwiSaver: Tax Credit, Contribution and Residual Entitlements	The increase in forecast by $38.000 million over the forecast period from HYEFU 24 is due to the increase in the nominal wage growth for 2024/25, resulting in greater contributions. To the extent that this growth is from those contributing less than the maximum qualifying amount, the amount of government contribution also increases. This increase is expected to continue into outyears.
Paid Parental Leave Payments	The increase in forecast by $105 million over the forecast period for Paid Parental Leave Payments, is due to higher payments than anticipated in recent months reflecting stronger than anticipated demand. In addition, there is a higher than previously expected indexation of maximum payments from 2025/26. Both factors flow through into out years.
Initial Fair Value Write-down relating to Student Loans	The decrease of $7 million over the forecast period reflects an increase in initial fair value rates from HYEFU due to a drop in discount rates.

Appropriation	Reasons for change
Impairment of Debt and Debt Write-offs	Based on the preliminary findings of the interim valuation, we are expecting a further increase to the appropriation to that signalled at HYEFU across all years in the forecast period. Forecast overdue debt levels at 30 June 2025 and through to 30 June 2028 are expected to be higher than previously forecast as the prolonged downturn in economic conditions continue to make it difficult for our customers to meet their obligations. In addition, definitional changes to recognise debt as overdue from the day after due date (rather than when the debt enters the collection cycle), have contributed to the increase in the debt forecast. From 2025/26, the removal of time-limited funding is also expected to reduce cash collection and hence increase debt levels by $90.000 million per annum. As a result of the growth in debt, impairment is now forecast to continue at the elevated levels we have seen in recent years for longer than previously expected. In out years, impairment is forecast to fall from current levels as the growth in debt slows, however the fall is no longer expected to be to the low levels previous anticipated. The increase in impairment expense for 2025/26 and outyears, also includes a $54.000 million per annum increase relating to the cessation of $26.500 million of time limited funding at 30 June 2025. This forecast may change as a result of the finalisation of the interim valuation and any such changes will be reflected in BEFU 2025. The actual outcome will not be known until the final valuation is completed in July 2025.

Appropriation	Reasons for change
Impairment of Debt Relating to Student Loans	The student loan debt is valued annually by an independent valuer. Based on preliminary analysis of the interim valuation, we expect an increase in the student loan fair value in 2024/25, largely driven by a decrease in discount rates. The decrease in discount rates is expected to increase the student loan fair value by around $400.000 million. This increase is partially offset by a reduction in other macroeconomic effects such as updated wage inflation assumptions and repayment threshold inflation (CPI) assumptions which are forecast to decrease the student loan value by $40.000 million. Any change in macroeconomic assumptions (including discount rates) is treated as a remeasurement which is not appropriated. We also expect a small impact ($12.000 million) on appropriations from impairment in 2024/25 largely caused by lower domestic incomes and repayment rates, which is somewhat offset by the positive overseas based borrower payment experience. The forecast may change as a result of the finalisation of the interim valuation completed by our external valuer and any such changes will be reflected in final BEFU 2025. The actual outcome will not be known until the final valuation is completed in July 2025.
Impairment of Debt and Debt Write-Offs Relating to Child Support	The Child Support debt is valued annually by an independent valuer. Based on the preliminary findings of the interim valuation, we are expecting a small impairment in 2024/25 of $30.000 million reflecting an expected increase in the net impairment ratio. This forecast may change as a result of the finalisation of the interim valuation and any such changes will be reflected in BEFU 2025. The actual outcome will not be known until the final valuation is completed in July 2025.

s 9(2)(g)(i)

Non-departmental appropriations with a permanent legislative authority

I recommend you note the following changes to appropriations with a permanent legislative authority, reflecting the updated forecast expenses:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Benefits and Related Expenses:					
Child Support Payments PLA	-	2.000	4.000	7.000	9.000
Family Tax Credit PLA	24.000	13.000	17.000	31.000	31.000
Minimum Family Tax Credit PLA	0.143	0.070	0.070	0.070	0.070
In-Work Tax Credit PLA	(4.000)	(4.000)	(3.000)	-	-
Best Start Tax Credit PLA	1.000	-	1.000	1.000	1.000
FamilyBoost Tax Credit PLA	(43.000)	-	-	-	-
Non-departmental Other Expenses:					
KiwiSaver: Employee and Employer Contributions PLA	20.000	10.000	30.000	40.000	70.000
Borrowing Expenses:					
Income Equalisation Interest PLA	(1.000)	(2.000)	(2.000)	(1.000)	(1.000)
Total Operating	(2.857)	19.070	47.070	78.070	110.070

Each of the proposed changes are discussed below in detail.

Appropriation	Reasons for change
Child Support Payments PLA	The increase in forecast by $22.000 million over the forecast period, is due to amounts collected from non-custodians. This is a modelling calibration to recent results (volumes are still settling into a new pattern since the introduction of the child-support pass through) and does not reflect any particular economic reason.
Family Tax Credit PLA	The increase in forecast by $116.000 million over the forecast period is driven by 2 factors. Firstly, a stronger starting point due to entitlements from late filed 2023 returns exceeding expectations. Secondly, more upfront payments than the same time last year, and the average payment is higher than expected. The change in up-front activity may reflect timing or may reflect the stronger starting point and the ongoing impact of economic activity on entitlements. The latter causes prompted an upwards adjustment to forecasts. In addition, the expected CPI

	increase on 1 April 2027 has been revised upwards, which flows onto subsequent years.
Minimum Family Tax Credit PLA	The small forecast increase to the appropriation is caused by an expectation of lower wage growth in 2025 which drives higher claims. This will have a flow through into subsequent years. The forecast increase is offset by the Cabinet decision to hold the MFTC guaranteed income amount at the current level for the 2025/26 tax year.
In-Work Tax Credit PLA	The decrease in forecast by $11.000 million over the forecast period, is as a result of the year-to-date underspend in In-work Tax Credit payments which is currently $4 million below forecast. It is expected that the existing underspend to date will be retained for the remainder of the year and potentially out years.
Best Start Tax Credit PLA	The increase of $4.000 million over the forecast period reflects the flow-on impact of slightly higher than anticipated payments in recent months since HYEFU 24.
FamilyBoost Tax Credit PLA	The forecast decreased by $43.00 million in 2024/25. Further discussion on FamilyBoost is provided below.
KiwiSaver: Employee and Employer Contributions PLA	The increase in forecast over the forecast period since HYEFU24 reflects an increase in forecasts of nominal wage growth.
Income Equalisation Interest PLA	The decrease over the forecast period, reflects that withdrawals from the scheme are exceeding deposits. The resulting decline in the scheme balance reduces interest payable.

A forecast reduction for FamilyBoost payments in 2024/25

In Budget 2024 Inland Revenue received funding for the FamilyBoost initiative. This included non-departmental funding for the FamilyBoost payments and departmental funding to implement and deliver the initiative.

The financial forecasts are based on 100,000 families (households) being eligible for FamilyBoost over the course of the year. FamilyBoost registrations began on 16 September 2024 and claims opened on 1 October 2024. By 31 January 2025, we had received 65,361 registrations and 105,281 claims relating to 56,976 households. Inland Revenue have paid out $29.300 million towards 78,904 claims.

As expected for a new initiative of this nature, uptake has been building over the first two quarters, with some expected lag in applications. One example of lag is that a family might want certainty of income before they apply. Inland Revenue's targeted marketing campaigns and community outreach has been extensive, and the initiative is still in its early days. Inland Revenue are currently assessing where to target further campaigns and outreach for coming weeks. They expect that registrations and payments will continue to rise and that the forecast uptake is achievable. Inland Revenue propose no changes to the payments forecast in MBU 2025 based on expected registrations. Inland Revenue will advise as part of the final BEFU forecasts if this assumption changes.

From an accounting perspective, Inland Revenue are changing to recognising the expense when a claim is approved and paid out, rather than an accrual basis, as the obligating event is the receipt of an eligible application. Applicants have 4 years to submit their quarterly claims. This adjustment is timing in nature and effectively means that Inland Revenue will recognise the expense for 3 rather than 4 quarters in the first year. Audit NZ have confirmed they are comfortable with this change.

8. Consultation with the Treasury

The Treasury was consulted on this report. It noted the good progress on achieving the baselines savings. The Treasury noted the $7.500 million of underspends achieved through efficiency gains, and the proposal to retain it for 2025/26. It voiced concern with the increased debt impairment driven by economic conditions and noted that the Budget 2025 compliance funding bid included a requirement for Inland Revenue to report on its debt recovery work. The Treasury noted the realignment of resources within Inland Revenue's multi-category appropriation to reflect increased processing costs, and away from compliance activities.

9. Recommendations

I recommend that you:

1. **agree** the changes to those baselines for the departmental appropriations within Vote Revenue that require Joint Ministers' approval as set out in Table 2 for Vote 19;

2. **agree** the changes to those baselines for the non-departmental appropriations within Vote Revenue that require Joint Ministers' approval as set out in Table 2 for Vote 20;

3. **agree** that the proposed changes to appropriations and departmental capital injections for 2024/25, covered by recommendation one and two above, be included in the 2024/25 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

4. **note** that Table 2 for Vote 19 and Vote 20 include for completeness other changes to baselines for the appropriation on Vote Revenue that have been approved by Cabinet or Joint Ministers since the previous update or do not require such approval.

5. **note** that Table 2 for Vote 20 includes provisional non-departmental forecast adjustments that will be updated in BEFU 2025, in April 2025, based on updated Treasury macroeconomic forecasts and interim valuations.

Hon Simon Watts
Minister of Revenue

Table 2: Baseline Changes Report, 2024/25 MBU, Vote 19 - 0: IRD Department - Revenue. Data has not been validated

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Departmental Output Expenses (Restricted by Revenue)								
Services to Other Agencies (RDA)								
Dept Other Appropriation								
Co-location recoveries adjustment	FNA	(300)	(300)	(300)	(300)	(300)	CO(18)2	On going
Revenue Dept								
Co-location recoveries adjustment	FNA	(300)	(300)	(300)	(300)	(300)	CO(18)2	On going
Total changes - Departmental Output Expenses (Restricted by Revenue)		**(300)**	**(300)**	**(300)**	**(300)**	**(300)**		
Departmental Capital Expenditure								
Inland Revenue Department - Capital Expenditure (PLA)								
Dept Other Appropriation								
Capital forecast adjustment	Fcst Adj	(29,100)	(8,300)	-	-	-	CO(18)2	On going
Total changes - Departmental Capital Expenditure		**(29,100)**	**(8,300)**	**-**	**-**	**-**		
Multi-Category Expenses and Capital Expenditure								
Services for Customers (MCA)								
Departmental Output Expenses								
Services to manage debt and unfiled returns								
Dept Annual Appropriation								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(32)	(32)	(32)	(32)	(32)	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	3,000	1,000	500	2,000	4,000	CO(18)2	On going
Administrative savings	RoU	(1,300)	1,300	-	-	-	CO(18)2	On going
Revenue Crown								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(32)	(32)	(32)	(32)	(32)	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	3,000	1,000	500	2,000	4,000	CO(18)2	On going
Administrative savings	RoU	(1,300)	1,300	-	-	-	CO(18)2	On going
Services to Ministers and to assist and inform customers to get it right from the start								
Dept Annual Appropriation								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(87)	(87)	(87)	(87)	(87)	CO(18)2	On going

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
A return of Crypto-asset Regulatory Framework (CaRF) – Implementation and Operating Cost	Return Sav	(800)	-	-	-	-	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	4,000	7,000	8,500	10,000	10,000	CO(18)2	On going
Administrative savings	RoU	(3,400)	3,400	-	-	-	CO(18)2	On going
Revenue Crown								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(87)	(87)	(87)	(87)	(87)	CO(18)2	On going
A return of Crypto-asset Regulatory Framework (CaRF) – Implementation and Operating Cost	Return Sav	(800)	-	-	-	-	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	4,000	7,000	8,500	10,000	10,000	CO(18)2	On going
Administrative savings	RoU	(3,400)	3,400	-	-	-	CO(18)2	On going
Services to process obligations and entitlements								
Dept Annual Appropriation								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(36)	(36)	(36)	(36)	(36)	CO(18)2	On going
A return of Crypto-asset Regulatory Framework (CaRF) – Implementation and Operating Cost	Return Sav	(600)	-	-	-	-	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	31,000	31,000	30,000	27,000	22,000	CO(18)2	On going
Administrative savings	RoU	(1,400)	1,400	-	-	-	CO(18)2	On going
Information sharing revenue adjustment	FNA	(13)	(13)	(13)	(13)	(13)	CO(18)2	On going
Revenue Crown								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(36)	(36)	(36)	(36)	(36)	CO(18)2	On going
A return of Crypto-asset Regulatory Framework (CaRF) – Implementation and Operating Cost	Return Sav	(600)	-	-	-	-	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	31,000	31,000	30,000	27,000	22,000	CO(18)2	On going
Administrative savings	RoU	(1,400)	1,400	-	-	-	CO(18)2	On going
Revenue Dept								
Information sharing revenue adjustment	FNA	(13)	(13)	(13)	(13)	(13)	CO(18)2	On going
Services to protect the integrity of the tax system and functions the Commissioner administers								
Dept Annual Appropriation								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(36)	(36)	(36)	(36)	(36)	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	(38,000)	(39,000)	(39,000)	(39,000)	(36,000)	CO(18)2	On going
Administrative savings	RoU	(1,400)	1,400	-	-	-	CO(18)2	On going
Revenue Crown								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(36)	(36)	(36)	(36)	(36)	CO(18)2	On going
Adjustments between categories in our Services for customers appropriation	FNA	(38,000)	(39,000)	(39,000)	(39,000)	(36,000)	CO(18)2	On going

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Administrative savings	RoU	(1,400)	1,400	-	-	-	CO(18)2	On going
Total changes - Multi-Category Expenses and Capital Expenditure		**(9,104)**	**7,296**	**(204)**	**(204)**	**(204)**		
Total changes - Output revenue (Crown +Dept+Other)		**(9,104)**	**7,296**	**(204)**	**(204)**	**(204)**		
Departmental Net Assets								
Dept. Capital Withdrawals								
Department Net Assets								
A return of capital expenditure for Child Support Pass On initiative capital and operating funding	Return Sav	(1,750)	-	-	-	-	CO(18)2	On going
Total changes - Departmental Net Assets		**(1,750)**	**-**	**-**	**-**	**-**		

Classification Key

Short Name	Description	Reference
Cabinet	Cabinet policy decision	Approvals are sought in cabinet papers (refer to cabinet manual), with authority given via a cabinet minute. The authority for change should reference both supporting documents.
ECT	Expense and Capital Transfer	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding within an appropriation across financial years.
ECT ip	Expense and Capital Transfer in-principle	Defined in (Cabinet Office Circular). The portion of an ECT that can't be accurately quantified so the transfer amount has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calcultion, or Crown Revenue.
FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
SuppsJune	Offset MYA June vs Supps Difference	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the difference between the Supps Forecast and June Actual.
BudgetOY4	Offset MYA Budget OY4 Rollover	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the rollover of Budget OY4 into OBU OY4.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

Table 2: Baseline Changes Report, 2024/25 MBU, Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Benefits or Related Expenses								
Best Start Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Best Start Tax Credit	Fcst Adj	1,000	-	1,000	1,000	1,000	CO (18) 2	On going
Child Support Payments (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Child Support payments	Fcst Adj	-	2,000	4,000	7,000	9,000	CO (18) 2	On going
Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Family Tax Credit	Fcst Adj	24,000	13,000	17,000	31,000	31,000	CO (18) 2	On going
FamilyBoost Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting FamilyBoost Tax Credit	Fcst Adj	(43,000)	-	-	-	-	CO (18) 2	On going
In-Work Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting In-Work Tax Credit	Fcst Adj	(4,000)	(4,000)	(3,000)	-	-	CO (18) 2	On going
KiwiSaver: Interest								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting KiwiSaver Interest	Fcst Adj	500	500	500	500	500	CO (18) 2	On going
KiwiSaver: Tax Credit, Contribution and Residual Entitlement								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting KiwiSaver: Tax Credit, Contribution and Residual Entitlement	Fcst Adj	7,000	7,000	8,000	8,000	8,000	CO (18) 2	On going
Minimum Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Minimum Family Tax Credit	Fcst Adj	143	70	70	70	70	CO (18) 2	On going
Minimum Family Tax Credit Threshold: Holding the Rate this Year	Cabinet	(243)	(970)	(970)	(970)	(970)	CAB-24-MIN-0472, CBC-24-MIN-0126	On going
Paid Parental Leave Payments								
Non-Dept Annual Appropriation								

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Cumulative forecasting changes impacting Paid Parental Leave Payments	Fcst Adj	20,000	20,000	20,000	20,000	25,000	CO (18) 2	On going
Total changes - Benefits or Related Expenses		**5,400**	**37,600**	**46,600**	**66,600**	**73,600**		
Non-Departmental Borrowing Expenses								
Income Equalisation Interest (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Income Equalisation Interest	Fcst Adj	(1,000)	(2,000)	(2,000)	(1,000)	(1,000)	CO (18) 2	On going
Total changes - Non-Departmental Borrowing Expenses		**(1,000)**	**(2,000)**	**(2,000)**	**(1,000)**	**(1,000)**		
Non-Departmental Other Expenses								
s 9(2)(g)(i)								
Impairment of Debt and Debt Write-Offs								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Impairment of Debt and Debt Write-Offs	Fcst Adj	324,600	251,300	251,300	251,300	251,300	CO (18) 2	On going
Taxation (Use of Money Interest rates) Amendment Regulations 2024	Cabinet	(600)	(1,300)	(1,300)	(1,300)	(1,300)	CAB-24-MIN-0492, LEG-24-MIN-0260	On going
Impairment of Debt and Debt Write-Offs Relating to Child Support								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Impairment of Debt relating to Child Support	Fcst Adj	30,000	-	-	-	-	CO (18) 2	On going
Impairment of Debt Relating to Student Loans								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Impairment of Debt relating to Student Loans	Fcst Adj	12,000	-	-	-	-	CO (18) 2	On going
Initial Fair Value Write-Down Relating to Student Loans								
Non-Dept Annual Appropriation								
Cumulative Forecasting Changes impacting Initial Fair Value Write-Down Relating to Student Loans	Fcst Adj	(2,000)	2,000	-	(2,000)	(5,000)	CO (18) 2	On going
KiwiSaver: Employee and Employer Contributions (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting KiwiSaver Contributions	Fcst Adj	20,000	10,000	30,000	40,000	70,000	CO (18) 2	On going
s 9(2)(g)(i)								

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
s 9(2)(g)(i)								
Total changes - Non-Departmental Other Expenses		**380,000**	**269,756**	**322,154**	**359,334**	**402,145**		
Tax Revenue								
Companies								
Non-Dept Revenue								
Cumulative forecasting changes impacting Companies	Fcst Adj	(1,919,450)	(1,618,400)	(1,858,400)	(1,602,400)	(1,576,400)	CO (18) 2	On going
Deductions for forestry releasing expenditure	Other	(200)	(200)	(200)	(200)	(200)	IR2024/397 Approved by Joint Ministers	On going
Land tainting rules and foreign PIE eligibility	Other	(50)	(200)	(200)	(200)	(200)	IR2024/397 Approved by Joint Ministers	On going
Taxation (Use of Money Interest rates) Amendment Regulations 2024	Cabinet	1,700	3,800	3,800	3,800	3,800	CAB-24-MIN-0492, LEG-24-MIN-0260	On going
Fringe Benefit Tax								
Non-Dept Revenue								
Cumulative forecasting changes impacting Fringe Benefit Tax	Fcst Adj	1,000	4,000	5,000	5,000	6,000	CO (18) 2	On going
Gaming Duties								
Non-Dept Revenue								
Cumulative forecasting changes impacting Gaming Duties	Fcst Adj	11,000	10,000	8,000	10,000	11,000	CO (18) 2	On going
Goods and Services Tax (IRD)								
Non-Dept Revenue								
Cumulative forecasting changes impacting Goods and Services Tax	Fcst Adj	392,986	(86,743)	(20,743)	10,257	92,257	CO (18) 2	On going
Disclosure of GST registration status to listing intermediaries	Other	400	1,400	1,400	1,400	1,400	IR2024/396 Approved by Joint Ministers	On going
GST - in relation to artist resale royalty (Resale Rights for Visual Artists Act 2023)	Other	14	43	43	43	43	IR2024/487 Approved by Joint Ministers	On going
Taxation (Use of Money Interest rates) Amendment Regulations 2024	Cabinet	600	1,300	1,300	1,300	1,300	CAB-24-MIN-0492, LEG-24-MIN-0260	On going
Other Indirect Taxes								
Non-Dept Revenue								
Cumulative forecasting changes impacting Other Indirect Taxes	Fcst Adj	10,000	-	-	-	-	CO (18) 2	On going
Other Persons								
Non-Dept Revenue								
Cumulative forecasting changes impacting Other Persons	Fcst Adj	(11,000)	(98,200)	(260,870)	(228,870)	(237,870)	CO (18) 2	On going
New Zealand Memorial Museum - Le Quesnoy: Tax Benefits for Monetary Donations	Cabinet	-	-	(330)	(330)	(330)	CAB-24-MIN-0458, ECO-24-MIN-0275	On going

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Taxation (Use of Money Interest rates) Amendment Regulations 2024	Cabinet	1,000	2,200	2,200	2,200	2,200	CAB-24-MIN-0492, LEG-24-MIN-0260	On going
Source Deductions								
Non-Dept Revenue								
Cumulative forecasting changes impacting Source Deductions	Fcst Adj	47,750	598,500	644,500	732,500	844,500	CO (18) 2	On going
PAYE exemption on health and safety reimbursement (expands flu vaccination)	Other	(50)	(200)	(200)	(200)	(200)	IR2024/397 Approved by Joint Ministers	On going
Taxation (Use of Money Interest rates) Amendment Regulations 2024	Cabinet	300	700	700	700	700	CAB-24-MIN-0492, LEG-24-MIN-0260	On going
Withholding Taxes								
Non-Dept Revenue								
Cumulative forecasting changes impacting Withholding Taxes	Fcst Adj	39,000	214,000	244,000	234,000	230,000	CO (18) 2	On going
Total changes - Tax Revenue		**(1,425,000)**	**(968,000)**	**(1,230,000)**	**(831,000)**	**(622,000)**		
Non-Tax Revenue								
Interest on Impaired Student Loans								
Non-Dept Revenue								
Cumulative forecasting changes impacting Interest on Impaired Student Loans	Fcst Adj	(23,000)	9,000	15,000	23,000	31,000	CO (18) 2	On going
Unclaimed Monies								
Non-Dept Revenue								
Cumulative forecasting changes impacting Unclaimed Monies	Fcst Adj	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	CO (18) 2	On going
Working for Families Tax Credit Interest and Penalties								
Non-Dept Revenue								
Cumulative forecasting changes impacting Working for Families Tax Credit Interest and Penalties	Fcst Adj	(3,895)	-	-	-	-	CO (18) 2	On going
Total changes - Non-Tax Revenue		**(46,895)**	**(11,000)**	**(5,000)**	**3,000**	**11,000**		
Capital Receipts								
Student Loans - Receipts								
Non-Dept Revenue								
Cumulative forecasting changes impacting Student Loans - Receipts	Fcst Adj	(29,000)	(10,000)	(29,000)	(29,000)	(28,000)	CO (18) 2	On going
Total changes - Capital Receipts		**(29,000)**	**(10,000)**	**(29,000)**	**(29,000)**	**(28,000)**		

Classification Key

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FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
SuppsJune	Offset MYA June vs Supps Difference	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the difference between the Supps Forecast and June Actual.
BudgetOY4	Offset MYA Budget OY4 Rollover	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the rollover of Budget OY4 into OBU OY4.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

Vote Revenue: 2025 March Baseline Update submission for the Research and Development Tax Incentive appropriation

Date:	21 February 2025	**Priority:**	High
Security level:	In confidence (Budget Sensitive)	**Report no:**	IR2025/071

Action sought

	Action sought	**Deadline**
Minister of Finance	**Approve** recommendations	27 February 2025
Minister of Science, Innovation and Technology	**Approve** recommendations **Refer** report to the Minister of Finance	1.00pm Monday, 24 February 2025
Minister of Revenue	For your information	24 February 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a)	s 9(2)(a)
Rachel Parker	Domain Lead Finance Services	s 9(2)(a)	s 9(2)(a)

21 February 2025

Minister of Finance
Minister of Science, Innovation and Technology

Vote Revenue: 2025 March Baseline Update submission for the Research and Development Tax Incentive appropriation

1. This paper asks you to note the changes to the forecast costs of the Research and Development Tax Incentive (RDTI) and seeks your approval for the corresponding changes to the RDTI appropriation.
2. The RDTI appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). The Minister of Science, Innovation and Technology is responsible for the appropriation.
3. Inland Revenue submitted the updated forecast for this appropriation to the Treasury on 20 February as part of the 2025 March Baseline Update submission (MBU 2025). This is a preliminary forecast which will be updated as part of the Budget and Economic Fiscal Update 2025 (BEFU 2025).
4. Forecast changes in this report for MBU 2025 are compared against the 2024 Half-year Economic and Fiscal Update (HYEFU 2024). They include all Cabinet and Joint Minister decisions that impact the appropriation up to 20 February 2025.
5. The forecasts are based on MBIE's RDTI fiscal-cost forecast, which currently extends to 2031/32. MBIE's RDTI forecast is based on the Treasury's preliminary BEFU 2025 macroeconomic forecasts of Nominal GDP as at 14 February 2025.
6. MBIE's RDTI forecast relates to all RDTI-related expenditure. Under the previous government, Cabinet made a decision to decrease the forecast for the RDTI appropriation and approve a corresponding increase to expenditure in the in-year payments loans appropriation (DEV-22-MIN-0062 refers). This appropriation was not managed under Vote Revenue and hence was excluded from the MBU 2025 forecast.
7. s 9(2)(f)(iv)

s 9(2)(f)(iv)

8. s 9(2)(f)(iv)

s 9(2)(f)(iv)

9. s 9(2)(f)(iv)

10. We have included the following joint Minister decision made since the Half Year Economic and Fiscal Update 2024 (HYEFU 2024) that impacts the appropriation in this baseline update.

- In November 2024, Joint Ministers approved an increase in forecast of $800,000 in 2024/25 as a result of the decision to amend the RDTI time bar so that it does not nullify the existing discretionary powers that allow RDTI approvals to be corrected when they have been filed under the incorrect entity [IR2024-396 refers]. This decision resulted in the following forecast change to the Science, Innovation and Technology: R&D Tax appropriations:

	$ million – increase / (decrease)				
Vote Revenue Minister of Science, Innovation and Technology	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	0.800	-	-	-	-
Total Operating	0.800	-	-	-	-

11. The Treasury and Ministry of Business, Innovation and Employment have been consulted on this report.

Recommended action

12. It is recommended that you:

(a) **note** the following Joint Minister decision that has been approved since HYEFU 2024:

	$ million – increase / (decrease)				
Vote Revenue Minister of Science, Innovation and Technology	2024/25	2025/26	2026/27	2027/28	2028/29 & Out-years
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	0.800	-	-	-	-
Total Joint Minister change – inc/(dec)	0.800	-	-	-	-

Minister of Finance
Noted

Minister of Science, Innovation and Technology
Noted

s 9(2)(f)(iv)

Minister of Finance
Approved/Not Approved

Minister of Science, Innovation and Technology
Approved/Not Approved

(c) **agree** that all proposed change to appropriations for 2024/25, as shown in recommendation (b) above, be included in the 2024/25 Supplementary Estimates.

Minister of Finance
Agreed/Not Agreed

Minister of Science, Innovation and Technology
Agreed/Not Agreed

s 9(2)(a)

Nick Bradley
Enterprise Leader Finance Services - Chief Financial Officer
21/02/2025

Hon Nicola Willis
Minister of Finance
__/Feb/2025

Hon Dr Shane Reti
Minister of Science, Innovation and Technology
__/Feb/2025

Briefing note

Reference:	BN2025/116
Date:	17 March 2025
To:	Revenue Advisor, Minister of Revenue – Angela Graham Private Secretary, Minister of Revenue – Helen Kuy
Copy to:	Peter Mersi, Commissioner Joanne Petrie, Executive Support Advisor to the Commissioner Governance and Ministerial Services Nick Bradey, Enterprise Leader
From:	Rachel Parker, Domain Lead, Finance Services
Subject:	**Budget 2025 – Proposed Technical Initiative**

Purpose

1. The purpose of this briefing note is to provide you with information and background ahead of the Treasury deadline for submitting financial recommendations for Technical Initiatives into Budget 25 (due 18 March).

Background

2. As part of the Budget process, Cabinet allows departments to submit Technical Initiatives.
3. Technical Initiatives are initiatives that do not seek new funding over the five-year forecast period and do not carry significant policy implications. The initiatives are technical in nature and are outside the scope of what Joint Ministers can normally approve under the delegation set out in CO (18) 2: Proposals with Financial Implications and Financial Authorities.

4. Technical initiatives are considered and approved by Cabinet on the same date as new policy initiatives (significant), although these initiatives have an earlier deadline for the submission of financial recommendations to the Treasury.

Proposed Technical Initiatives for Budget 25

5. Inland Revenue has submitted a Technical Initiative as part of the budget process:

Non-departmental, Non-PLA Upper Limits

This initiative seeks approval for buffers on non-departmental appropriations in order to mitigate the risk of unappropriated expenditure. Inland Revenue has

proposed upper limits for its non-departmental, non-PLA[1] appropriations for 2024/25 to reduce the risk of any breach of appropriations. The expenses related to these appropriations are either:

- demand driven and therefore out of the control of the department; or
- related to impairment and the actual expense is not known until after the end of the year when final debt levels are known, and independent valuations are completed.

In the past Inland Revenue has sought approval for buffers on current year appropriations in the Supplementary Estimates.

The Treasury have advised that instead using the technical initiatives process to set an upper limit for the appropriation is standard practice and the preferred approach across other agencies. This ensures appropriate delegation for setting appropriation upper limits are in place. This is an appropriation management initiative to mitigate the risk of breaches and Inland Revenue does not necessarily expect to spend up to these limits. Inland Revenue's forecasts continue to be their best estimate of the expected expense. The impact on appropriations will be:

	$Millions Increase/(decrease)				
	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
KiwiSaver - interest	0.500	-	-	-	-
KiwiSaver - Tax Credit, Contribution and Residual Entitlement	53.000	-	-	-	-
Paid Parental Leave	36.000	-	-	-	-
Impairment of Debt Relating to Student Loans	50.000	-	-	-	-
Impairment of Debt and Debt Write-offs Relating to Child Support	50.000	-	-	-	-
Initial Fair Value Write-Down Relating to Student Loans	30.000	-	-	-	-
Impairment of Debt and Debt Write-offs	300.000	-	-	-	-
Impairment of debt relating to the SBCS	40.000	-	-	-	-
Total Upper Limits	**559.500**	**-**	**-**	**-**	**-**

6. As part of this technical initiative, we will seek Cabinet approval to delegate authority for Joint Ministers to approve appropriation buffers for Inland Revenue's nondepartmental appropriations across all forecast years through baseline update processes. This will mean that in future we will still inform you of changes to forecasts

[1] Permanent Legislative Authority

for appropriations, but we will only need to seek approvals when there is a need to increase the upper limits (buffers).

7. We have consulted with the Treasury, who have discussed and agreed the amounts of this technical initiative that we have submitted.

s 9(2)(a)

Rachel Parker
Domain Lead
s 9(2)(a)

Vote Revenue: 2025 Budget Economic and Fiscal Update for non-departmental expenditure appropriations

Date:	17/04/2025	**Priority:**	High
Security level:	In Confidence (Budget Sensitive)	**Report no:**	IR2025/092

Action sought

	Action sought	Deadline
Minister of Finance	**Approve** recommendations	24 April 2025
Minister of Revenue	**Approve** recommendations **Refer** report to the Minister of Finance	22 April 2025

Contact for telephone discussion (if required)

Name	Position	
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a)
Sandra Watson	Policy Lead Forecasting	s 9(2)(a)
Rachel Parker	Domain Lead Finance Services	s 9(2)(a)

17 April 2025

Minister of Finance
Minister of Revenue

Vote Revenue: 2025 Budget Economic and Fiscal Update for non-departmental expenditure appropriations

Executive summary

1. Inland Revenue Te Tari Taake submitted forecasts for non-departmental appropriations to the Treasury for the 2025 Budget Economic and Fiscal Update (BEFU 2025) on 15 April 2025. These forecasts update preliminary Budget 2025 forecasts supplied for the 2025 March Baseline update (MBU 2025) and reported to you on 21 February 2025 (IR2025/012 refers). A full list of the non-departmental appropriations is provided in Appendix A.

2. The forecasts in this report incorporate actual results to February 2025 (with updates for draft March results where appropriate) and are based on the Treasury's updated macroeconomic forecasts of 7 April 2025. These forecasts include Cabinet and joint minister's decisions that impact Vote Revenue made since 20 February 2025 (i.e. since MBU 2025) up to and including 14 April 2025.

3. A list of Ministerial decisions and forecast changes since MBU 2025 are contained within the body of this report.

4. We are seeking your joint approval for forecast changes since MBU 2025 for 2024/25 and outyears, for appropriations which are not established under a PLA as part of the Supplementary Estimates (Supps) and BEFU 2025. These are reflected in recommendations b and c.

5. Forecast changes to appropriations which are established under a permanent legislative authority (PLA) do not require approval[1] and are provided for your information.

6. For appropriations which are not established under a PLA, we have worked with the Treasury to establish a buffer (appropriation upper limit) for 2024/25 as a budget technical initiative. Your approval for the current year is now only required in situations where the amended forecast exceeds the approved buffer. Your approval is still required for changes to outyear appropriations which are not established under a PLA.

[1] As per the Public Finance Act, section 65ZH.

7. We will seek buffers for those appropriations which are not established under a PLA for 2025/26 at the next Half-year Economic and Fiscal Update (HYEFU). Going forward, we will seek similar appropriation upper limits for the current year at each HYEFU.

8. The major forecast changes since MBU 2025 for appropriations requiring joint ministers' approval (not including PLAs) are:

   - an increase in the forecast for the *KiwiSaver; Tax Credit, Contribution and Residual Entitlement* appropriation of $76.300 million over the forecast period as a result of an expected increase to the number of contributing members reflecting labour force and population projections;

   - a decrease in the forecast for the *Initial Fair Value Write-Down Relating to Student Loans* appropriation of $67.978 million as a result of a decrease in the value of loans from that anticipated at MBU 2025. The decrease relates to a reduction in average loan values which has a direct impact on the initial fair value write-down.

   - an increase of $436.200 million over the forecast period ($249.100 million in 2025/26 and $187.100 million in 2026/27) for the *Impairment of Debt and Debt Write-offs* appropriation. The increase relates to higher than anticipated actual debt levels in February and March 2025 since the MBU 2025 update which flows through to a higher year-end forecast. This increased debt in 2024/25, as well as a move to reporting debt as overdue on the day after the due date, has led to a flow on increase in forecast debt in outyears.

   - a decrease of $57.910 million in the forecast for the *Final-year Fees Free Payments* appropriation reflecting revisions to the forecast number of students completing study.

9. For PLA appropriations, the major forecast changes since MBU 2025 are:

   - a $49 million increase in the forecast for the *Family Tax Credit* appropriation to reflect the impact of weaker income growth expectations throughout the forecast period, which reduce the abatement for families over the threshold. As a partial offset, the expected CPI indexation adjustment on 1 April 2027 has been revised downwards since MBU 2025, and this has flow on consequences for subsequent years.

   - a $86 million increase in the forecast for the *In-Work Tax Credit* appropriation to reflect softer income growth, which in turn softens abatement. The current year has a reduction of $5 million reflecting a timing adjustment with an offset in the 2025/26 year.

   - The appropriation for *KiwiSaver: Employee and Employer contributions* sent to scheme providers has been significantly impacted by Budget 2025 changes to contribution rates from April 2026, albeit this appropriation does not affect the operating balance. Apart from the policy-related change, there has been an underlying reduction in the appropriation in both the current and future years to reflect softer nominal wage growth.

10. Further details of major forecast changes are contained within the body of this report. Appendix B sets out the forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format. This table includes tax forecasts prepared by the Treasury.

11. We have consulted with the Treasury on the 2025 Budget Economic and Fiscal Update submission.

Recommended action

12. We recommend that you:

(a) **note** the BEFU 2025 forecasts in this report incorporate actual results to February 2025 (with updates for draft March results where appropriate), are based on the Treasury's macroeconomic forecasts of 7 April 2025, and were submitted to the Treasury on 15 April 2025;

Noted Noted

(b) **approve** the following forecast changes to appropriations for non-departmental benefits or related expenses that are not established under a permanent legislative authority, with a corresponding impact on the operating balance and net core Crown debt:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-Departmental Benefits or Related expenses:					
KiwiSaver: Interest	0.200	0.500	0.500	0.500	0.500
KiwiSaver: Tax Credit, Contribution and Residual Entitlement	-	20.000	18.400	23.200	14.700
Paid Parental Leave Payments	5.000	-	-	-	-
Total Operating	**5.200**	**20.500**	**18.900**	**23.700**	**15.200**

Approved/Not approved Approved/Not approved

(c) **approve** the following forecast changes in appropriations for non-departmental other expenses that are not established under a permanent legislative authority, with a corresponding impact on the operating balance and net core Crown debt:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-Departmental Other Expenses:					
Initial Fair Value Write-Down Relating to Student Loans	(21.000)	12.015	(9.081)	(22.488)	(27.424)
Impairment of Debt and Debt Writes-Offs	-	249.100	187.100	-	-
Final-year Fees Free Payments	-	(3.794)	(8.457)	(22.912)	(22.747)
Impairment of Debt Relating to Student Loans	76.000	-	-	-	-
Impairment of Debt and Debt Write-Offs Relating to Child Support	(15.000)	-	-	-	-
Total Operating	**40.000**	**257.321**	**169.562**	**(45.400)**	**(50.171)**

Approved/Not approved Approved/Not approved

(d) **note** the following forecast changes to non-departmental benefits or related expenses, non-departmental borrowing expenses, and non-departmental other expenses, that are established under a permanent legislative authority:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-Departmental Benefits or Related Expenses - PLA:					
Best Start Tax Credit	1.000	-	1.000	2.000	3.000
Family Tax Credit	4.000	7.000	11.000	12.000	15.000
In-Work Tax Credit	(5.000)	19.000	22.000	24.000	26.000
Minimum Family Tax Credit	(0.600)	(0.600)	(0.600)	(0.600)	(0.600)
Total change – inc/(dec)	**(0.600)**	**25.400**	**33.400**	**37.400**	**43.400**
Non-Departmental Borrowing Expenses – PLA:					
Income Equalisation Interest	1.000	2.000	1.000	1.000	1.000
Total change – inc/(dec)	**1.000**	**2.000**	**1.000**	**1.000**	**1.000**
Non-Departmental Other Expenses - PLA:					
KiwiSaver: Employee and Employer Contributions*	(110.000)	150.000	1,080.000	1,090.000	1,450.000
Total change – inc/(dec)	**(110.000)**	**150.000**	**1,080.000**	**1,090.000**	**1,450.000**
Total Operating*	**0.400**	**27.400**	**34.400**	**38.400**	**44.400**

* The KiwiSaver contributions appropriation does not affect the operating balance.

Noted Noted

(e) **note** the following Cabinet decisions which have been incorporated into BEFU 2025 for Vote Revenue non-departmental appropriations:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Benefits or Related Expenses:					
Best Start Tax Credit PLA					
Working for Families – Best Start Tax Credit Changes	-	(14.000)	(58.000)	(68.000)	(71.000)
Family Tax Credit PLA					
Working for Families Abatement Changes	-	12.000	50.000	51.000	50.000
In-Work Tax Credit PLA					
Working for Families Abatement Changes	-	3.000	11.000	11.000	11.000
KiwiSaver: Interest					
Buffers on Impairment and Demand-Driven Appropriations	0.500	-	-	-	-

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
KiwiSaver: Tax Credit, Contribution and Residual Entitlement					
Buffers on Impairment and Demand-Driven Appropriations	53.000	-	-	-	-
KiwiSaver Package	-	(576.000)	(598.400)	(626.200)	(641.700)
Minimum Family Tax Credit PLA					
Working for Families Abatement Changes	-	-	1.000	1.000	1.000
Paid Parental Leave Payments					
Buffers on Impairment and Demand-Driven Appropriations	36.000	-	-	-	-
Total Benefits or Related Expenses	**89.500**	**(575.000)**	**(594.400)**	**(631.200)**	**(650.700)**
Non-Departmental Other Expenses:					
Final-year Fees Free Payments					
Delivering Quality and Timely Primary Care: Next Steps and Implementation	-	-	-	(0.167)	(0.170)
Final-year Fees Free - Increased Cost	-	6.312	35.684	61.676	75.159
Increased Tuition Fees - Impacts Related to Student Loans and Final-year Fees Free Payments	-	0.238	3.927	6.737	8.903
Impairment of Debt and Debt Write-Offs					
Buffers on Impairment and Demand-Driven Appropriations	300.000	-	-	-	-
Compliance Activities - Continuation of Funding	-	(54.000)	(54.000)	(54.000)	(54.000)
Compliance Activities - Increasing Investment	-	(34.000)	(68.000)	(68.000)	(68.000)
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	(6.100)	(41.100)	(41.100)	(41.100)	(41.100)
Working for Families Abatement Changes	-	-	1.000	1.000	1.000
Impairment of Debt and Debt Write-Offs Relating to Child Support					
Buffers on Impairment and Demand-Driven Appropriations	50.000	-	-	-	-

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Impairment of Debt Relating to Student Loans					
Buffers on Impairment and Demand-Driven Appropriations	50.000	-	-	-	-
Student Loans - Indefinite Freeze of the Repayment Threshold	(76.000)	-	-	-	-
Impairment of debt relating to the SBCS					
Buffers on Impairment and Demand-Driven Appropriations	40.000	-	-	-	-
Initial Fair Value Write-Down Relating to Student Loans					
Buffers on Impairment and Demand-Driven Appropriations	30.000	-	-	-	-
Delivering Quality and Timely Primary Care: Next Steps and Implementation	-	0.096	0.192	0.268	0.501
Increased Tuition Fees - Impacts Related to Student Loans and Final-year Fees Free Payments	-	13.889	16.889	17.220	17.923
Student Loans - Indefinite Freeze of the Repayment Threshold	(5.000)	(9.000)	(11.000)	(14.000)	(16.000)
Total Non-Departmental Other Expenses	**382.900**	**(117.565)**	**(116.408)**	**(90.366)**	**(75.784)**
Total Operating expenditure	**472.400**	**(692.565)**	**(710.808)**	**(721.566)**	**(726.484)**

Noted Noted

(f) **note** that the *R&D Tax Incentive* appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE) and that we are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology for changes to this appropriation (IR2025/093 refers);

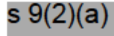
Noted Noted

(g) **agree** that all proposed changes to appropriations for 2024/25, covered by the recommendations above, be included in the 2024/25 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Agreed/Not agreed Agreed/Not agreed

(h) **note** that the Table 2 Baseline Changes Reports (attached) for Vote 20 sets out the forecast changes for Vote Revenue Crown (non-departmental) for the 2024/25 Supplementary Estimates (SUPPS 2024/25 – final forecasts) and BEFU 2025.

Noted　　　　　　　　　　Noted



s 9(2)(a)

Nick Bradley
Enterprise Leader Finance Services - Chief Financial Officer
17/04/2025

Hon Nicola Willis
Minister of Finance
___/___/2025

Hon Simon Watts
Minister of Revenue
___/___/2025

Background

13. Inland Revenue submitted forecasts for non-departmental appropriations for the 2025 Budget Economic and Fiscal Update (BEFU 2025) to the Treasury on 15 April 2025. These forecasts are based on the Treasury's BEFU 2025 macroeconomic forecasts of 7 April 2025, and they incorporate actual results to February 2025 (with updates for draft March results where appropriate). The forecasts include all Cabinet and joint minister's decisions that impact Vote Revenue made up to and including 14 April 2025.

14. The forecasts for the following appropriation and revenue items have been prepared by other agencies;

    - The tax revenue forecast has been prepared by the Treasury.
    - The student loans lending forecast has been prepared by the Ministry of Social Development.
    - The *Final-year Fees Free Payments* appropriation forecast has been prepared by the Ministry of Education.
    - The forecast for the *R&D Tax Incentive* appropriation has been prepared by the Ministry of Business, Innovation and Employment.

15. For appropriations which are not established under a PLA, we have worked with the Treasury to establish a buffer (appropriation upper limit) for 2024/25 as a budget technical initiative. Your approval for the current year is now only required in situations where the amended forecast exceeds the approved buffer.

16. We will seek buffers for those appropriations which are not established under a PLA for 2025/26 at the next HYEFU. Going forward, we will seek similar appropriation upper limits for the current year at each HYEFU.

17. Forecast changes to appropriations established under PLA do not require approval and are provided for your information. The body of the report briefly explains, at a high level, the main drivers of each change.

18. Forecasts are compared to appropriations approved at MBU 2025, which was based on a preliminary macroeconomic outlook for Budget 2025.

19. *Appendix B* sets out the forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format.

Non-departmental benefits or related expenses appropriations

20. The following table sets out the forecast changes and Cabinet decisions for non-departmental benefits or related expenses that are not established under a permanent legislative authority. The forecast changes require your joint approval.

	$ million – increase / (decrease)				
Non-departmental benefits or related expenses	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
KiwiSaver: Interest					
MBU 2025	3.500	3.500	3.500	3.500	3.500
BEFU 2025	4.200	4.000	4.000	4.000	4.000
Forecast change - inc/(dec)	0.200	0.500	0.500	0.500	0.500
Cabinet decisions - inc/(dec)	0.500	-	-	-	-
KiwiSaver: Tax Credit, Contribution and Residual Entitlement					
MBU 2025	1,056.000	1,097.000	1,141.000	1,187.000	1,236.000
BEFU 2025	1,109.000	541.000	561.000	584.000	609.000
Forecast change - inc/(dec)	-	20.000	18.400	23.200	14.700
Cabinet decisions - inc/(dec)	53.000	(576.000)	(598.400)	(626.200)	(641.700)
Paid Parental Leave Payments					
MBU 2025	715.000	745.000	775.000	810.000	850.000
BEFU 2025	756.000	745.000	775.000	810.000	850.000
Forecast change - inc/(dec)	5.000	-	-	-	-
Cabinet decisions - inc/(dec)	36.000	-	-	-	-
Total forecast change – inc/(dec)	**5.200**	**20.500**	**18.900**	**23.700**	**15.200**
Total Cabinet decisions inc/(dec)	**89.500**	**(576.000)**	**(598.400)**	**(626.200)**	**(641.700)**

* Note: The 2024/25 year is Supps 2024/25, BEFU 2025 is reflected for 2025/26 and outyears.

21. The appropriation for *KiwiSaver: Interest* for 2024/25 has increased by $700,000 to $4.2 million since MBU 2025. This reflects a forecast increase of $200,000 and a buffer of $500,000 to minimise the risk of breaching the appropriation. The ongoing growth in contributions handled by Inland Revenue, means there will be growth in amounts held and exposed to interest payable, albeit that interest rates are currently declining. Subsequent years have been increased by $500,000 to $4 million per annum for the same reason.

22. The *KiwiSaver: Tax Credit, Contribution and Residual Entitlement* appropriation covers government contributions to KiwiSaver schemes. The Cabinet decision in 2024/25 reflects the buffer agreed as a Budget 2025 technical initiative to minimise the risk of breaching the appropriation. In outyears, this appropriation has been reduced by the Budget 2025 initiative to increase employee and employer contribution rates to 3.5% from 1 April 2026 and 4% from 1 April 2028, extend eligibility for the Government contribution to 16- and 17- year olds, remove the Government contribution for all earners over $180,000 per annum, and halve the rate of the Government contribution to 25 cents per dollar contributed.

23. The forecast changes to this appropriation in outyears are in response to an expected increase in the number of contributing members reflecting labour force and population projections.

24. The Cabinet decision in the 2024/25 *Paid Parental Leave Parents* appropriation reflects the buffer agreed as a Budget 2025 technical initiative to minimise the risk of breaching the appropriation. The forecast increase in 2024/25 reflects stronger outturns since MBU 2025.

Non-departmental other expenses

25. The following table sets out the forecast changes and Cabinet decisions for non-departmental other expenses that are not established under a permanent legislative authority. The forecast changes require your joint approval:

	$ million – increase / (decrease)				
Non-departmental other expenses	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Initial Fair Value Write-Down Relating to Student Loans					
MBU 2025	586.000	619.000	631.000	646.000	678.000
BEFU 2025	590.000	636.000	628.000	627.000	653.000
Forecast change - inc/(dec)	(21.000)	12.015	(9.081)	(22.488)	(27.424)
Cabinet decisions - inc/(dec)	25.000	4.985	6.081	3.488	2.424
Impairment of Debt and Debt Write-Offs					
MBU 2025	2,000.000	1,400.000	1,400.000	1,400.000	1,400.000
BEFU 2025	2,293.900	1,520.000	1,425.000	1,237.900	1,237.900
Forecast change - inc/(dec)	-	249.100	187.100	-	-
Cabinet decisions - inc/(dec)	293.900	(129.100)	(162.100)	(162.100)	(162.100)
Impairment of Debt Relating to Student Loans					
MBU 2025	12.000	-	-	-	-
BEFU 2025	62.000	-	-	-	-
Forecast change - inc/(dec)	76.000	-	-	-	-
Cabinet decisions - inc/(dec)	(26.000)	-	-	-	-
Impairment of Debt and Debt Write-Offs Relating to Child Support					
MBU 2025	30.000	-	-	-	-
BEFU 2025	65.000	-	-	-	-
Forecast change - inc/(dec)	(15.000)	-	-	-	-
Cabinet decisions - inc/(dec)	50.000	-	-	-	-
Impairment of debt relating to the SBCS					
MBU 2025	-	-	-	-	-
BEFU 2025	40.000	-	-	-	-
Forecast change - inc/(dec)	-	-	-	-	-
Cabinet decisions - inc/(dec)	40.000	-	-	-	-

	$ million – increase / (decrease)				
Non-departmental other expenses	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Final-year Fees Free Payments					
MBU 2025	-	52.244	68.846	117.666	161.855
BEFU 2025	-	55.000	100.000	163.000	223.000
Forecast change - inc/(dec)	-	(3.794)	(8.457)	(22.912)	(22.747)
Cabinet decisions - inc/(dec)	-	6.550	39.611	68.246	83.892
Total forecast change – inc/(dec)	**40.000**	**257.321**	**169.562**	**(45.400)**	**(50.171)**
Total Cabinet decisions – inc/(dec)	**382.900**	**(117.565)**	**(116.408)**	**(90.366)**	**(75.784)**

* Note: The 2024/25 year is Supps 2024/25, BEFU 2025 is reflected for 2025/26 and outyears.

Initial Fair Value Write-Down Relating to Student Loans

26. The *Initial Fair Value Write-Down Relating to Student Loans* appropriation has increased by $4 million in 2024/25 since MBU 2025. This increase is due to a $30 million buffer agreed as a Budget 2025 technical initiative to reduce the risk of exceeding the appropriation, offset by a $26 million reduction in the write-down, resulting from updated lending forecasts that have lowered expected lending by $76 million.

27. The Cabinet decisions in outyears relate to the three Budget 2025 initiatives to increase tuition fees by 6%, indefinitely freeze the repayment threshold and add 25 additional medical places.

28. In January 2025, Cabinet agreed to indefinitely suspend the annual CPI adjustment of the student loan repayment threshold with the financial impacts to be addressed through the Budget technical process. The impact of this initiative is expected to reduce the write-down by between $5 million and $16 million over the forecast period. This financial impact was anticipated in MBU 2025 as a forecast adjustment. In this exercise the impact is transferred from a forecast adjustment to a policy adjustment.

29. The forecast increase in 2025/26 is as a result of a forecast increase in the number and value of loans from that anticipated at MBU 2025. This has a consequential impact on the initial fair value write-down.

30. A forecast decline in the number of loans from 2026/27, along with updated CPI forecasts which have decreased the expected amount of lending have resulted in the reduced initial fair value write-down.

Impairment of Debt and Debt Write-Offs

31. The Impairment of Debt and Debt Write-Offs expense is dependent on the level and quality of the debt book, the level of repayments against the debt and the value of write-offs. We are forecasting the expense to increase by $120 million in 2025/26 and $25 million in 2026/27 before declining in outyears. This is a flow on from the increased impairment of debt and debt write-off expense in 2023/24 and the expectation that overdue debt levels will continue to grow, albeit at a slower rate than in recent years.

32. The level of overdue debt is impacted by the economy, customer behaviour and Inland Revenue compliance effort. It is compounded by increasing penalties and interest as the core debt grows.

33. Whilst the economy is indicating a softening of inflationary impacts, we know that any inflation impacts the level of debt more than it impacts revenue, as it also impacts on a customer's ability to pay as the time value of money decreases.

34. Inland Revenue has invested in increased compliance activities in recent months, which is increasing repayments on overdue debt. Between July 2024 and March 2025, we collected almost $3 billion overdue tax from debt activity which is $300 million up on the same period last year.

35. Despite our efforts, overdue tax debt continues to rise and at a slightly elevated level to that forecast at MBU 2025. Debt levels have historically risen significantly in the February to May period as many key due dates fall in this period. The increase above forecast in February and March is due to audit compliance activity which has increased revenue but also increased debt and above forecast levels of GST debt. This increased debt, together with a move to reporting debt as overdue on the day after the due date has led to a flow-on increase in forecast overdue debt in outyears.

36. The appropriation for the *Impairment of Debt and Debt Write-Offs* has increased by $293.900 million for the 2024/25 fiscal year. This increase is due to a $300 million buffer agreed as a Budget 2025 technical initiative to reduce the risk of exceeding the appropriation. This increase is slightly offset due to the decrease in the underpayment use-of-money interest rate effective from 8 May 2025. This will reduce the amount of interest being added to debt and consequently the amount of impairment.

37. The appropriation for 2025/26 shows an increase of $120 million. This increase is due to a projected increase in impairment resulting from higher debt levels, totalling $249.100 million. This reflects the forecast expenditure for 2025/26 and does not include any buffer for appropriation management purposes. We expect to seek a buffer for 2025/26 as part of HYEFU 2025.

38. This increase in forecast expenditure in 2025/26 is partially offset by the compliance initiatives from Budget 2025: the continuation of funding, which reduces impairment by $54 million and the increased investment in compliance activities, which further reduces impairment by $34 million, and by the reduction in the underpayment use-of-money interest rates which reduces the appropriation by a further $41 million.

39. For 2026/27, the increase to appropriation of $25 million is due to higher forecast debt levels, resulting in an increase to forecast impairment of $187.1 million. This is mostly offset by the reduction in impairment from the underpayment use-of-money interest rates and the two Budget 2025 initiatives.

40. In 2027/28 and 2028/29, the appropriation has decreased by $162.1 million since MBU 2025. This reduction is solely due to the lower underpayment use-of-money interest rates and the compliance initiatives from Budget 2025.

Other impairments

41. The *Impairment of Debt Relating to Student Loans* appropriation reflects the Budget 2025 initiative to include a buffer of $50 million to reduce the risk of exceeding appropriation and the one-off gain from the decision to indefinitely freeze the repayment threshold. This one-off gain was recognised as a forecast gain in MBU 2025 and is transferred from a forecast change to a cabinet decision at BEFU 2025.

42. The increase in relation to the *Impairment of Debt and Debt Write-Offs Relating to Child Support* appropriation is the Budget 2025 initiative to include a buffer of $50 million to reduce the risk of exceeding appropriation. The forecast change is mainly as a result of the interim external valuation of the debt book being higher than expected.

43. The increase in relation to the *Impairment of debt relating to the SBCS* appropriation is the Budget 2025 initiative to include a buffer of $40 million to reduce the risk of exceeding appropriation.

Final-year Fees Free Payment

44. s 9(2)(g)(i)

45. The Cabinet decisions include the Budget 2025 initiatives to recognise increased costs in relation to payments for final-year Fees Free, the increase to tuition fees and the provision of 25 additional medical places.

46. The forecast decreases reflect revisions to the forecast number of completions of study since the Budget initiative was submitted.

Non-departmental benefits or related expenses - PLA

47. The following table sets out the forecast changes and Cabinet decisions for non-departmental benefits or related expenses which are established under a permanent legislative authority (PLA).

	$ million – increase / (decrease)				
Non-departmental benefits or related expenses - PLA	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Best Start Tax Credit **					
MBU 2025	347.000	340.000	342.000	358.000	349.000
BEFU 2025	348.000	326.000	285.000	292.000	281.000
Forecast change - inc/(dec)	1.000	-	1.000	2.000	3.000
Cabinet decisions - inc/(dec)	-	(14.000)	(58.000)	(68.000)	(71.000)
Child Support Payments					
MBU 2025	434.000	442.000	451.000	460.000	469.000
BEFU 2025	434.000	442.000	451.000	460.000	469.000
Forecast change - inc/(dec)	-	-	-	-	-

	$ million – increase / (decrease)				
Non-departmental benefits or related expenses - PLA	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
FamilyBoost Tax Credit					
MBU 2025	131.000	171.000	167.000	165.000	163.000
BEFU 2025	131.000	171.000	167.000	165.000	163.000
Forecast change - inc/(dec)	-	-	-	-	-
Family Tax Credit **					
MBU 2025	2,431.000	2,355.000	2,385.000	2,538.000	2,476.000
BEFU 2025	2,435.000	2,374.000	2,446.000	2,601.000	2,541.000
Forecast change - inc/(dec)	4.000	7.000	11.000	12.000	15.000
Cabinet decisions - inc/(dec)	-	12.000	50.000	51.000	50.000
In-Work Tax Credit **					
MBU 2025	559.000	566.000	563.000	580.000	556.000
BEFU 2025	554.000	588.000	596.000	615.000	593.000
Forecast change - inc/(dec)	(5.000)	19.000	22.000	24.000	26.000
Cabinet decisions - inc/(dec)	-	3.000	11.000	11.000	11.000
Minimum Family Tax Credit **					
MBU 2025	10.900	8.500	7.100	6.600	6.600
BEFU 2025	10.300	7.900	7.500	7.000	7.000
Forecast change - inc/(dec)	(0.600)	(0.600)	(0.600)	(0.600)	(0.600)
Cabinet decisions - inc/(dec)	-	-	1.000	1.000	1.000
Total forecast change – inc/(dec)	**(0.600)**	**25.400**	**33.400**	**37.400**	**43.400**
Total Cabinet decisions – inc/(dec)	**-**	**1.000**	**4.000**	**(5.000)**	**(9.000)**

* Note: The 2024/25 year is Supps 2024/25, BEFU 2025 is reflected for 2025/26 and outyears.

** Working for Families Tax Credits

48. Changes to the *Best Start Tax Credit* appropriation predominantly reflect Cabinet decisions from Budget 2025. Entitlements for infants under one year of age are no longer universal and will be targeted on family incomes, with effect from 1 April 2026. Underlying adjustments to forecast reflect less abatement due to softer income growth.

49. The *Family Tax Credit* appropriation is affected by Budget 2025 Cabinet decisions, which change the abatement settings with effect from 1 April 2026, resulting in increased entitlements. These arise from an increase in the abatement threshold from $42,700 to $44,900, with the fiscal impact partially offset by an increase in the abatement rate from 27% to 27.5%. Underlying forecast adjustments for BEFU 2025 reflect the impact of weaker income growth expectations throughout the forecast period, which reduce abatement for families over the threshold. As a partial offset, the expected CPI indexation adjustment on 1 April 2027 has been revised downwards since MBU 2025, with the rate now expected at 6.84% (from 7.08% in MBU 2025), and this has a flow on consequence for subsequent years.

50. The *In-Work Tax Credit* (IWTC) appropriation is also affected by the abatement policy changes. Underlying IWTC forecasts have been revised up, again reflecting expectations of weaker income growth softening abatement. The reduction to forecast for 2024/25 reflects a timing adjustment to the expected impact of the recent $25 per week increase, with an offset in 2025/26.

51. The *Minimum Family Tax Credit* appropriation has been revised down since MBU 2025, reflecting ongoing softness in applications. This has a flow on implication for subsequent years. Policy changes to the abatement of Working for Families Tax Credits have a flow on consequence to the guaranteed income level which is set for the minimum family tax credit, increasing expenditure from April 2026.

Non-departmental borrowing expenses - PLA

52. The following table sets out changes to the forecasts for non-departmental borrowing expenses that are established under a permanent legislative authority.

	$ million – increase / (decrease)				
Non-departmental borrowing expenses - PLA	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Environmental Restoration Account Interest					
MBU 2025	4.200	4.200	4.200	4.200	4.200
BEFU 2025	4.200	4.200	4.200	4.200	4.200
Forecast change - inc/(dec)	-	-	-	-	-
Income Equalisation Interest					
MBU 2025	7.000	5.000	5.000	5.000	5.000
BEFU 2025	8.000	7.000	6.000	6.000	6.000
Forecast change - inc/(dec)	1.000	2.000	1.000	1.000	1.000
Total forecast change - inc/(dec)	**1.000**	**2.000**	**1.000**	**1.000**	**1.000**

* Note: The 2024/25 year is Supps 2024/25, BEFU 2025 is reflected for 2025/26 and outyears.

53. The environmental restoration account and income equalisation account allow for timing changes for tax on qualifying income or expenditure, and usage of both accounts is demand-driven.

54. The main income equalisation account allows qualifying taxpayers from the primary sector to smooth their taxable income across years. Deposit activity last year was higher than usual, but in the current year refunds are exceeding deposits resulting in a declining scheme balance. The forecasts for MBU 2025 had incorporated an expectation of a rapid decline in the scheme balance, however based on recent activity we now expect this decline in appropriation to be at a softer rate.

Non-departmental other expenses - PLA

55. The following table sets out the forecast changes for non-departmental other expenses that are established under a permanent legislative authority.

	$ million – increase / (decrease)				
Non-departmental other expenses - PLA	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
KiwiSaver: Employee and Employer Contributions					
MBU 2025	9,980.000	10,520.000	11,150.000	11,830.000	12,550.000
BEFU 2025	9,870.000	10,670.000	12,230.000	12,920.000	14,000.000
Total forecast change – inc/(dec)	**(110.000)**	**150.000**	**1,080.000**	**1,090.000**	**1,450.000**

* Note: The 2024/25 year is Supps 2024/25, BEFU 2025 is reflected for 2025/26 and outyears.

56. The appropriation for *KiwiSaver: Employee and Employer Contributions* sent to scheme providers covers contributions to KiwiSaver schemes made through Inland Revenue as an administrator (either directly or via PAYE from employers). The appropriation does not cover contributions made by savers directly to their KiwiSaver providers. The impacts of this appropriation on the financial statements of the Government are fiscally neutral as the appropriation reflects a pass through of funds to providers.

57. Although not detailed in Cabinet advice on the Budget 2025 KiwiSaver changes (because this appropriation does not impact the financial statements of the Government), this appropriation has been adjusted to reflect those decisions. The main impact is the increase of both employee and minimum employer contributions from 3% to 3.5% from April 2026 and to 4% from April 2028. The Budget 2025 KiwiSaver changes also expand coverage of employer-matching of contributions for youth aged 16 or 17, which should increase uptake amongst that age group.

58. Apart from changes to the contribution settings, growth in this appropriation predominantly reflects nominal wage growth. Forecasts of nominal wage growth have been revised down since MBU 2025 resulting in softer expectations for contributions and an underlying downward revision in this appropriation in the current year and throughout the forecast period.

R&D Tax Incentive

59. The R&D Tax Incentive appropriation (RDTI) is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). We are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology [IR2025/093 refers], for forecast changes relating to this appropriation. The following changes are included for your information only:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Science, Innovation and Technology**	**2024/25***	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-Departmental Other Expenses					
Science, Innovation and Technology: R&D Tax Incentive					
HYEFU 2024	590.168	652.742	735.000	787.000	841.000
BEFU 2025	592.968	650.742	731.000	784.000	839.000
Total forecast change – inc/(dec)	**2.000**	**(2.000)**	**(4.000)**	**(3.0000**	**(2.000)**
Total joint minister's decisions - inc/(dec)	**0.800**	**-**	**-**	**-**	**-**

* Note: The 2024/25 year is Supps 2024/25, BEFU 2025 is reflected for 2025/26 and outyears.

60. The forecasts are based on MBIE's RDTI fiscal-cost forecast, which is based on the Treasury's BEFU 2025 macroeconomic forecasts of Nominal Gross Domestic Product (GDP) as at 7 April 2025.

61. s 9(2)(g)(i) and consequently we are now seeking joint approval for the changes to forecast since HYEFU 2024.

62. The forecast changes result in a minor reduction in the fiscal costs across years from 2025/26 onwards. These changes are driven by an increase in the Treasury's estimate of GDP for 2022/23. This reduces the baseline R&D intensity rate from which the predictions for future years are calculated. MBIE's RDTI forecast relates to all RDTI-related expenditure.

63. In November 2024, joint ministers (Minister of Revenue and Minister of Finance) approved an increase in the forecast appropriation of $800,000 in 2024/25 to reflect the decision to apply the discretionary powers that allow RDTI approvals to be corrected when they have been filed under the incorrect entity retrospectively to the start of the RDTI regime in 2019 [IR2024/396 refers]. s 9(2)(g)(i) and we are seeking approval from the Minister of Science, Innovation and Technology who holds the delegations for this appropriation through IR 2025/093.

Appendix A

The forecasts cover the following non-departmental expenditure appropriations (with an asterisk identifying expenditure items that are established under a permanent legislative authority):

Benefits or related expenses:

- Best Start Tax Credit*
- Child Support Payments*
- FamilyBoost Tax Credit*
- Family Tax Credit*
- In-Work Tax Credit*
- KiwiSaver: Interest
- KiwiSaver: Tax Credit, Contribution and Residual Entitlement
- Minimum Family Tax Credit*
- Paid Parental Leave Payments

Borrowing expenses:

- Environmental Restoration Account Interest*
- Income Equalisation Interest*

Other expenses:

- Cost of Living payment
- COVID-19 Resurgence Support Payment
- COVID-19 Support Payment
- Final-year Fees Free Payments
- Initial Fair Value Write-Down Relating to Student Loans
- Impairment of Debt and Debt Write-Offs
- KiwiSaver: Employee and Employer Contributions*
- Science, Innovation and Technology: R&D Tax Incentive
- Impairment of Debt and Debt Write-Offs Relating to Child Support
- Impairment of debt relating to the SBCS
- Impairment of Debt Relating to Student Loans

The following appropriations are still active but Inland Revenue can no longer process new claims:

Other expenses:

- Initial Fair-Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19

Capital expenditure:

- Small Business Cashflow Scheme COVID-19

Appendix B – Table 2 Baseline Changes Reports for Vote Revenue non-departmental appropriations

The Table 2 reports attached set out the forecast changes for Vote Revenue Crown (non-departmental) from MBU 2025 in a tabulated format. The tables include tax forecasts prepared by the Treasury.

The Table 2 reports attached are for:

- 2024/25 Supplementary Estimates (SUPPS 2024/25)
- 2025 Budget Economic and Fiscal Update (BEFU 2025).

Table 2: Baseline Changes Report, 2025 Budget (BEFU), Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Benefits or Related Expenses								
Best Start Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Best Start Tax Credit	Fcst Adj	-	-	1,000	2,000	3,000	CO (18) 2	On going
Working for Families – Best Start Tax Credit Changes	Cabinet	-	(14,000)	(58,000)	(68,000)	(71,000)	Initiative 16308	On going
Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Family Tax Credit	Fcst Adj	-	7,000	11,000	12,000	15,000	CO (18) 2	On going
Working for Families Abatement Changes	Cabinet	-	12,000	50,000	51,000	50,000	Initiative 16309	On going
In-Work Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting In-Work Tax Credit	Fcst Adj	-	19,000	22,000	24,000	26,000	CO (18) 2	On going
Working for Families Abatement Changes	Cabinet	-	3,000	11,000	11,000	11,000	Initiative 16309	On going
KiwiSaver: Interest								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting KiwiSaver: Interest	Fcst Adj	-	500	500	500	500	CO (18) 2	On going
KiwiSaver: Tax Credit, Contribution and Residual Entitlement								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting KiwiSaver: Tax Credit, Contribution and Residual Entitlement	Fcst Adj	-	20,000	18,400	23,200	14,700	CO (18) 2	On going
KiwiSaver Package	Cabinet	-	(576,000)	(598,400)	(626,200)	(641,700)	Initiative 16318	On going
Minimum Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Minimum Family Tax Credit	Fcst Adj	-	(600)	(600)	(600)	(600)	CO (18) 2	On going
Working for Families Abatement Changes	Cabinet	-	-	1,000	1,000	1,000	Initiative 16309	On going
Total changes - Benefits or Related Expenses		**-**	**(529,100)**	**(542,100)**	**(570,100)**	**(592,100)**		
Non-Departmental Borrowing Expenses								
Income Equalisation Interest (PLA)								
Non-Dept Other Appropriation								

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Cumulative forecasting changes impacting Income Equalisation Interest	Fcst Adj	-	2,000	1,000	1,000	1,000	CO (18) 2	On going
Total changes - Non-Departmental Borrowing Expenses		**-**	**2,000**	**1,000**	**1,000**	**1,000**		
Non-Departmental Other Expenses								
Final-year Fees Free Payments								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Final-year Fees Free Payments	Fcst Adj	-	(3,794)	(8,457)	(22,912)	(22,747)	CO (18) 2	On going
Delivering Quality and Timely Primary Care: Next Steps and Implementation	Cabinet	-	-	-	(167)	(170)	CAB-25-Min-0045	On going
Final-year Fees Free - Increased Cost	Cabinet	-	6,312	35,684	61,676	75,159	Initiative 16934	On going
Increased Tuition Fees - Impacts Related to Student Loans and Final-year Fees Free Payments	Cabinet	-	238	3,927	6,737	8,903	Initiative 17003	On going
Impairment of Debt and Debt Write-Offs								
Non-Dept Annual Appropriation								
Compliance Activities - Continuation of Funding	Cabinet	-	(54,000)	(54,000)	(54,000)	(54,000)	Initiative 16694	On going
Compliance Activities - Increasing Investment	Cabinet	-	(34,000)	(68,000)	(68,000)	(68,000)	Initiative 16322	On going
Cumulative forecasting changes impacting Impairment of Debt and Debt Write-Offs	Fcst Adj	-	249,100	187,100	-	-	CO (18) 2	On going
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	-	(41,100)	(41,100)	(41,100)	(41,100)	LEG-25-MIN-0045, CAB-25-MIN-0106	On going
Working for Families Abatement Changes	Cabinet	-	-	1,000	1,000	1,000	Initiative 16309	On going
Initial Fair Value Write-Down Relating to Student Loans								
Non-Dept Annual Appropriation								
Cumulative Forecasting Changes impacting Initial Fair Value Write-Down Relating to Student Loans	Fcst Adj	-	12,015	(9,081)	(22,488)	(27,424)	CO (18) 2	On going
Delivering Quality and Timely Primary Care: Next Steps and Implementation	Cabinet	-	96	192	268	501	CAB-25-Min-0045	On going
Increased Tuition Fees - Impacts Related to Student Loans and Final-year Fees Free Payments	Cabinet	-	13,889	16,889	17,220	17,923	Initiative 17003	On going
Student Loans - Indefinite Freeze of the Repayment Threshold	Cabinet	-	(9,000)	(11,000)	(14,000)	(16,000)	Initiative 16764	On going
KiwiSaver: Employee and Employer Contributions (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting KiwiSaver Contributions	Fcst Adj	-	150,000	1,080,000	1,090,000	1,450,000	CO (18) 2	On going
Science, Innovation and Technology: R&D Tax Incentive								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting R& D Tax Incentive	Fcst Adj	-	3,000	-	1,000	1,000	CO (18) 2	On going

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Total changes - Non-Departmental Other Expenses		**-**	**292,756**	**1,133,154**	**955,234**	**1,325,045**		
Tax Revenue								
Companies								
Non-Dept Revenue								
Base maintenance measure for inclusion in upcoming Amendment Paper	Other	-	200	200	200	200	IR2025/066 Approved by Joint Ministers	On going
Compliance Activities - Continuation of Funding	Cabinet	-	24,000	24,000	24,000	24,000	Initiative 16694	On going
Compliance Activities - Increasing Investment	Cabinet	-	47,700	95,400	95,400	95,400	Initiative 16322	On going
Cumulative forecasting changes impacting Companies	Fcst Adj	-	13,940	(92,560)	(469,360)	(370,860)	CO (18) 2	On going
Employee Share Schemes - Tax Deferral Regime	Cabinet	-	400	2,000	2,000	1,000	Initiative 16908	On going
Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025	Cabinet	-	760	760	760	760	LEG-25-MIN-0047, CAB-25-MIN-0106	On going
Investment Boost - Partial Expensing Regime	Cabinet	-	(1,665,000)	(1,466,000)	(1,560,000)	(1,163,000)	Initiative 16317	On going
KiwiSaver Package	Cabinet	-	(36,900)	(148,700)	(185,900)	(335,400)	Initiative 16318	On going
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	-	(1,100)	(1,100)	(1,100)	(1,100)	LEG-25-MIN-0045, CAB-25-MIN-0106	On going
Fringe Benefit Tax								
Non-Dept Revenue								
Cumulative forecasting changes impacting Fringe Benefit Tax	Fcst Adj	-	(290)	(3,290)	(4,290)	(6,290)	CO (18) 2	On going
Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025	Cabinet	-	(2,710)	(2,710)	(2,710)	(2,710)	LEG-25-MIN-0047, CAB-25-MIN-0106	On going
Gaming Duties								
Non-Dept Revenue								
Cumulative forecasting changes impacting Gaming Duties	Fcst Adj	-	4,000	4,000	4,000	3,000	CO (18) 2	On going
Goods and Services Tax (IRD)								
Non-Dept Revenue								
Compliance Activities - Continuation of Funding	Cabinet	-	68,000	68,000	68,000	68,000	Initiative 16694	On going
Compliance Activities - Increasing Investment	Cabinet	-	36,040	72,080	72,080	72,080	Initiative 16322	On going
Cumulative forecasting changes impacting Goods and Services Tax (IRD)	Fcst Adj	-	(74,040)	(132,080)	(102,080)	(247,080)	CO (18) 2	On going
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	-	(18,000)	(18,000)	(18,000)	(18,000)	LEG-25-MIN-0045, CAB-25-MIN-0106	On going
Other Indirect Taxes								
Non-Dept Revenue								
Cumulative forecasting changes impacting Other Indirect Taxes	Fcst Adj	-	(1,000)	(1,000)	(1,000)	(1,000)	CO (18) 2	On going
Digital Economy Taxation Measures	Cabinet	-	-	(194,000)	(139,000)	(146,000)	CAB-25-MIN-0079	On going
Other Persons								
Non-Dept Revenue								
Compliance Activities - Continuation of Funding	Cabinet	-	55,000	55,000	55,000	55,000	Initiative 16694	On going

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Compliance Activities - Increasing Investment	Cabinet	-	22,260	44,520	44,520	44,520	Initiative 16322	On going
Cumulative forecasting changes impacting Other Persons	Fcst Adj	-	(168,360)	(105,920)	(151,920)	(181,920)	CO (18) 2	On going
Employee Share Schemes - Tax Deferral Regime	Cabinet	-	(1,300)	(5,000)	(5,000)	(4,000)	Initiative 16908	On going
Investment Boost - Partial Expensing Regime	Cabinet	-	(165,000)	(145,000)	(154,000)	(115,000)	Initiative 16317	On going
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	-	(9,600)	(9,600)	(9,600)	(9,600)	LEG-25-MIN-0045, CAB-25-MIN-0106	On going
Source Deductions								
Non-Dept Revenue								
Compliance Activities - Continuation of Funding	Cabinet	-	3,000	3,000	3,000	3,000	Initiative 16694	On going
Cumulative forecasting changes impacting Source Deductions	Fcst Adj	-	(418,500)	(571,000)	(703,100)	(822,500)	CO (18) 2	On going
KiwiSaver Package	Cabinet	-	57,800	251,300	342,400	590,800	Initiative 16318	On going
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	-	(6,300)	(6,300)	(6,300)	(6,300)	LEG-25-MIN-0045, CAB-25-MIN-0106	On going
Withholding Taxes								
Non-Dept Revenue								
Cumulative forecasting changes impacting Withholding Taxes	Fcst Adj	-	27,000	(81,000)	(175,000)	(186,000)	CO (18) 2	On going
Total changes - Tax Revenue		**-**	**(2,208,000)**	**(2,363,000)**	**(2,977,000)**	**(2,659,000)**		
Non-Tax Revenue								
Child Support Collections								
Non-Dept Revenue								
Cumulative forecasting changes impacting Child Support Collections	Fcst Adj	-	2,000	2,000	1,000	1,000	CO (18) 2	On going
Interest on Impaired Student Loans								
Non-Dept Revenue								
Cumulative forecasting changes impacting Interest on Impaired Student Loans	Fcst Adj	-	(6,296)	(5,366)	(9,692)	(15,197)	CO (18) 2	On going
Delivering Quality and Timely Primary Care: Next Steps and Implementation	Cabinet	-	3	16	39	75	CAB-25-Min-0045	On going
Increased Tuition Fees - Impacts Related to Student Loans and Final-year Fees Free Payments	Cabinet	-	293	1,350	2,653	4,122	Initiative 17003	On going
Student Loans - Indefinite Freeze of the Repayment Threshold	Cabinet	-	3,000	2,000	2,000	2,000	Initiative 16764	On going
Other non-tax revenue								
Non-Dept Revenue								
Cumulative forecasting changes impacting Other non-tax revenue	Fcst Adj	-	6,000	20,000	32,000	43,000	CO (18) 2	On going
Small Business Cashflow Scheme interest unwind								
Non-Dept Revenue								
Cumulative forecasting changes impacting Small Business Cashflow Scheme interest unwind	Fcst Adj	-	(1,000)	-	-	-	CO (18) 2	On going
Unclaimed Monies								

	Classification	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	Authority for Change	Final Year Funding
Non-Dept Revenue								
Cumulative forecasting changes impacting Unclaimed Monies	Fcst Adj	-	(30,000)	(30,000)	(30,000)	(30,000)	CO (18) 2	On going
Working for Families Tax Credit Interest and Penalties								
Non-Dept Revenue								
Cumulative forecasting changes impacting Working for Families Tax Credit Interest and Penalties	Fcst Adj	-	6,000	9,000	12,000	16,000	CO (18) 2	On going
Total changes - Non-Tax Revenue		**-**	**(20,000)**	**(1,000)**	**10,000**	**21,000**		
Capital Receipts								
Small Business Cashflow Scheme receipts								
Non-Dept Revenue								
Cumulative forecasting changes impacting Small Business Cashflow Scheme Receipts	Fcst Adj	-	10,900	14,700	818	1,000	CO (18) 2	On going
Student Loans - Receipts								
Non-Dept Revenue								
Cumulative forecasting changes impacting Student Loan - Receipts	Fcst Adj	-	3,000	21,000	11,000	20,000	CO (18) 2	On going
Total changes - Capital Receipts		**-**	**13,900**	**35,700**	**11,818**	**21,000**		

Classification Key

Short Name	Description	Reference
Cabinet	Cabinet policy decision	Approvals are sought in cabinet papers (refer to cabinet manual), with authority given via a cabinet minute. The authority for change should reference both supporting documents.
ECT	Expense and Capital Transfer	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding within an appropriation across financial years.
ECT ip	Expense and Capital Transfer in-principle	Defined in (Cabinet Office Circular). The portion of an ECT that can't be accurately quantified so the transfer amount has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calcultion, or Crown Revenue.
FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
SuppsJune	Offset MYA June vs Supps Difference	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the difference between the Supps Forecast and June Actual.

BudgetOY4	Offset MYA Budget OY4 Rollover	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the rollover of Budget OY4 into OBU OY4.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

Table 2: Baseline Changes Report, 2024/25 Supps, Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2024/25 $000	Authority for Change	Final Year Funding
Benefits or Related Expenses				
Best Start Tax Credit (PLA)				
Non-Dept Other Appropriation				
Cumulative forecasting changes impacting Best Start Tax Credit	Fcst Adj	1,000	CO (18) 2	N/A
Family Tax Credit (PLA)				
Non-Dept Other Appropriation				
Cumulative forecasting changes impacting Family Tax Credit	Fcst Adj	4,000	CO (18) 2	N/A
In-Work Tax Credit (PLA)				
Non-Dept Other Appropriation				
Cumulative forecasting changes impacting In-Work Tax Credit	Fcst Adj	(5,000)	CO (18) 2	N/A
KiwiSaver: Interest				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	500	Initiative 16798	N/A
Cumulative forecasting changes impacting KiwiSaver: Interest	Fcst Adj	200	CO (18) 2	N/A
KiwiSaver: Tax Credit, Contribution and Residual Entitlement				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	53,000	Initiative 16798	N/A
Minimum Family Tax Credit (PLA)				
Non-Dept Other Appropriation				
Cumulative forecasting changes impacting Minimum Family Tax Credit	Fcst Adj	(600)	CO (18) 2	N/A
Paid Parental Leave Payments				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	36,000	Initiative 16798	N/A
Cumulative forecasting changes impacting Paid Parental Leave Payments	Fcst Adj	5,000	CO (18) 2	N/A
Total changes - Benefits or Related Expenses		**94,100**		
Non-Departmental Borrowing Expenses				
Income Equalisation Interest (PLA)				
Non-Dept Other Appropriation				

	Classification	2024/25 $000	Authority for Change	Final Year Funding
Cumulative forecasting changes impacting Income Equalisation Interest	Fcst Adj	1,000	CO (18) 2	N/A
Total changes - Non-Departmental Borrowing Expenses		**1,000**		
Non-Departmental Other Expenses				
Impairment of Debt and Debt Write-Offs				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	300,000	Initiative 16798	N/A
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	(6,100)	LEG-25-MIN-0045, CAB-25-MIN-0106	N/A
Impairment of Debt and Debt Write-Offs Relating to Child Support				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	50,000	Initiative 16798	N/A
Cumulative forecasting changes impacting Impairment of Debt and Debt Write-Offs Relating to Child Support	Fcst Adj	(15,000)	CO (18) 2	N/A
Impairment of Debt Relating to Student Loans				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	50,000	Initiative 16798	N/A
Cumulative forecasting changes impacting Impairment of Debt relating to Student Loans	Fcst Adj	76,000	CO (18) 2	N/A
Student Loans - Indefinite Freeze of the Repayment Threshold	Cabinet	(76,000)	Initiative 16764	N/A
Impairment of debt relating to the SBCS				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	40,000	Initiative 16798	N/A
Initial Fair Value Write-Down Relating to Student Loans				
Non-Dept Annual Appropriation				
Buffers on Impairment and Demand-Driven Appropriations	Cabinet	30,000	Initiative 16798	N/A
Cumulative Forecasting Changes impacting Initial Fair Value Write-Down Relating to Student Loans	Fcst Adj	(21,000)	CO (18) 2	N/A
Student Loans - Indefinite Freeze of the Repayment Threshold	Cabinet	(5,000)	Initiative 16764	N/A
KiwiSaver: Employee and Employer Contributions (PLA)				
Non-Dept Other Appropriation				
Cumulative forecasting changes impacting KiwiSaver Contributions	Fcst Adj	(110,000)	CO (18) 2	N/A

	Classification	2024/25 $000	Authority for Change	Final Year Funding
Science, Innovation and Technology: R&D Tax Incentive				
Non-Dept Annual Appropriation				
Cumulative forecasting changes impacting R& D Tax Incentive	Fcst Adj	6,800	CO (18) 2	N/A
Total changes - Non-Departmental Other Expenses		**319,700**		
Tax Revenue				
Companies				
Non-Dept Revenue				
Base maintenance measure for inclusion in upcoming Amendment Paper	Other	200	IR2025/066 Approved by Joint Ministers	N/A
Cumulative forecasting changes impacting Companies	Fcst Adj	501,810	CO (18) 2	N/A
Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025	Cabinet	190	LEG-25-MIN-0047, CAB-25-MIN-0106	N/A
Investment Boost - Partial Expensing Regime	Cabinet	(189,000)	Initiative 16317	N/A
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	(200)	LEG-25-MIN-0045, CAB-25-MIN-0106	N/A
Fringe Benefit Tax				
Non-Dept Revenue				
Cumulative forecasting changes impacting Fringe Benefits Tax	Fcst Adj	(320)	CO (18) 2	N/A
Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025	Cabinet	(680)	LEG-25-MIN-0047, CAB-25-MIN-0106	N/A
Gaming Duties				
Non-Dept Revenue				
Cumulative forecasting changes impacting Gaming Duties	Fcst Adj	(1,000)	CO (18) 2	N/A
Goods and Services Tax (IRD)				
Non-Dept Revenue				
Cumulative forecasting changes impacting Goods and Services Tax (IRD)	Fcst Adj	86,700	CO (18) 2	N/A
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	(2,700)	LEG-25-MIN-0045, CAB-25-MIN-0106	N/A
Other Persons				
Non-Dept Revenue				
Cumulative forecasting changes impacting Other Persons	Fcst Adj	432,400	CO (18) 2	N/A
Investment Boost - Partial Expensing Regime	Cabinet	(19,000)	Initiative 16317	N/A
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	(1,400)	LEG-25-MIN-0045, CAB-25-MIN-0106	N/A
Source Deductions				
Non-Dept Revenue				

	Classification	2024/25 $000	Authority for Change	Final Year Funding
Cumulative forecasting changes impacting Source Deductions	Fcst Adj	(520,100)	CO (18) 2	N/A
Taxation (Use of Money Interest Rates) Amendment Regulations 2025	Cabinet	(900)	LEG-25-MIN-0045, CAB-25-MIN-0106	N/A
Withholding Taxes				
Non-Dept Revenue				
Cumulative forecasting changes impacting Withholding Taxes	Fcst Adj	8,000	CO (18) 2	N/A
Total changes - Tax Revenue		**294,000**		
Non-Tax Revenue				
Interest on Impaired Student Loans				
Non-Dept Revenue				
Cumulative forecasting changes impacting Interest on Impaired Student Loans	Fcst Adj	(4,000)	CO (18) 2	N/A
Student Loans - Indefinite Freeze of the Repayment Threshold	Cabinet	1,000	Initiative 16764	N/A
Other non-tax revenue				
Non-Dept Revenue				
Cumulative forecasting changes impacting Other non-tax revenue	Fcst Adj	(10,000)	CO (18) 2	N/A
Small Business Cashflow Scheme interest unwind				
Non-Dept Revenue				
Cumulative forecasting changes impacting Small Business Cashflow Scheme interest unwind	Fcst Adj	(3,000)	CO (18) 2	N/A
Unclaimed Monies				
Non-Dept Revenue				
Cumulative forecasting changes impacting Unclaimed Monies	Fcst Adj	(30,000)	CO (18) 2	N/A
Working for Families Tax Credit Interest and Penalties				
Non-Dept Revenue				
Cumulative forecasting changes impacting Working for Families Tax Credit Interest and Penalties	Fcst Adj	(105)	CO (18) 2	N/A
Total changes - Non-Tax Revenue		**(46,105)**		
Capital Receipts				
Small Business Cashflow Scheme receipts				
Non-Dept Revenue				
Cumulative forecasting changes impacting Small Business Cashflow Scheme Receipts	Fcst Adj	1,000	CO (18) 2	N/A
Student Loans - Receipts				
Non-Dept Revenue				
Cumulative forecasting changes impacting Student Loan - Receipts	Fcst Adj	(10,000)	CO (18) 2	N/A

	Classification	2024/25 $000	Authority for Change	Final Year Funding
Total changes - Capital Receipts		**(9,000)**		

Classification Key

Short Name	Description	Reference
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Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calcultion, or Crown Revenue.
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FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
SuppsJune	Offset MYA June vs Supps Difference	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the difference between the Supps Forecast and June Actual.
BudgetOY4	Offset MYA Budget OY4 Rollover	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the rollover of Budget OY4 into OBU OY4.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

Vote Revenue: 2025 Budget Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation

Date:	17 April 2025	**Priority:**	High
Security level:	In confidence (Budget Sensitive)	**Report no:**	IR2025/093

Action sought

	Action sought	**Deadline**
Minister of Finance	**Approve** recommendations	24 April 2025
Minister of Science, Innovation and Technology	**Approve** recommendations **Sign and refer** this report to the Minister of Finance	22 April 2025
Minister of Revenue	For your information	24 April 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a)	s 9(2)(a)
Rachel Parker	Domain Lead Finance Services		s 9(2)(a)

17 April 2025

Minister of Finance
Minister of Science, Innovation and Technology
Minister of Revenue

Vote Revenue: 2025 Budget Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation

Executive Summary

1. This report asks you to note the changes to the forecast costs of the research and development tax incentive and seeks your approval for the corresponding changes to the R&D Tax Incentive (RDTI) appropriation.
2. The RDTI appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). The Minister of Science, Innovation and Technology is the responsible Appropriation Minister for the appropriation.
3. Inland Revenue Te Tari Taake submitted the updated forecast for this appropriation to the Treasury on 15 April as part of the 2025 Budget Economic and Fiscal Update (BEFU 2025). Forecast changes in this report for BEFU 2025 are compared against the 2024 Half-year Economic and Fiscal Update (HYEFU 2024). The forecasts include all Cabinet and joint minister's decisions that impact the appropriation up to and including 14 April 2025.
4. A forecast update and request for approval for changes to the appropriation since HYEFU 2024 was provided as part of the 2025 March Baseline Update (MBU 2025) submission for the RDTI appropriation [IR2025/071 refers] s 9(2)(g)(i)
s 9(2)(g)(i)
5. The forecasts are based on MBIE's RDTI fiscal-cost forecast, which currently extends to 2031/32, and are based on the Treasury's macroeconomic forecasts of nominal gross domestic product (GDP) as at 7 April 2025.
6. MBIE's forecast relates to all RDTI-related expenditure. The previous government made a decision to decrease the forecast for the RDTI appropriation and approved a corresponding increase to expenditure in the in-year payments loans appropriation [DEV-22-MIN-0062 refers]. This appropriation was not managed under Vote Revenue and hence was excluded from the BEFU 2025 forecast.
7. The in-year payments loans programme was discontinued in 2023/24, and the remaining funds transferred to the centre. However, the RDTI appropriation is still reduced by this

amount until 2025/26 as the funds were transferred out of the RDTI appropriation at that time.

8. In November 2024, joint ministers (Minister of Revenue and Minister of Finance) approved an increase in the forecast appropriation of $800,000 in 2024/25 to reflect the decision to apply the discretionary powers that allow RDTI approvals to be corrected when they have been filed under the incorrect entity retrospectively to the start of the RDTI regime in 2019 [IR2024/396 refers]. This decision resulted in the following forecast change to the Science, Innovation and Technology: R&D Tax Incentive appropriation:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Science, Innovation and Technology**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & outyears**
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	0.800	-	-	-	-
Total Operating	**0.800**	**-**	**-**	**-**	**-**

9. We have included this joint minister's decision in this baseline update as it requires approval from the Minister of Science, Innovation and Technology, as the Appropriation Minister:

	$ million				
RDTI forecast – BEFU 2025	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
MBIE RDTI total fiscal-cost forecast	632.000	680.000	731.000	784.000	839.000
Less the in-year payment	(39.832)	(29.258)	-	-	-
Joint minister's decision	0.800	-	-	-	-
RDTI within Vote Revenue	**592.968**	**650.742**	**731.000**	**784.000**	**839.000**

10. We are seeking your joint approval for the following forecast and appropriation changes within Vote Revenue since HYEFU 2024:

	$ million – increase/ (decrease)				
Vote Revenue **Minister of Science, Innovation and Technology**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-departmental Other Expenses Science, Innovation and Technology: R&D Tax Incentive					
HYEFU 2024	590.168	652.742	735.000	787.000	841.000
BEFU 2025	592.968	650.742	731.000	784.000	839.000
Total change – Inc/ (dec)	**2.800**	**(2.000)**	**(4.000)**	**(3.000)**	**(2.000)**
Joint minister's decision – Inc/(dec)	**0.800**	**-**	**-**	**-**	**-**
Forecast change – Inc/ (dec)	**2.000**	**(2.000)**	**(4.000)**	**(3.000)**	**(2.000)**

11. The new forecast results in a minor reduction in the fiscal costs across years from 2025/26 onwards. These changes are driven by an increase in the Treasury's estimate of GDP for 2022/23. This reduces the baseline research and development intensity rate from which the predictions for future years are calculated.

Budget 2025 Estimates documentation

12. The Minister of Science, Innovation and Technology is responsible for RDTI, but it is appropriated under Vote Revenue. As part of the Budget 2025 process, the Minister of Revenue will sign off the Vote Revenue Estimates documentation on behalf of the Minister of Science, Innovation and Technology for this appropriation.

Consultation

13. The Treasury and the Ministry of Business, Innovation and Employment have been consulted on this report.
14. The Treasury notes that forecasts for the RDTI appropriation have historically been higher than actuals. The final evaluation for the RDTI was released in March 2025 and has provided more data on eligible research and development expenditure. The Treasury would expect future forecasts to be refined by using this data, and as such be more reflective of actual expenditure.

Recommended action

15. It is recommended that you:

(a) **note** the joint minister's decision to apply the discretionary powers that allow RDTI approvals to be corrected when they have been filed under the incorrect entity retrospectively to the start of the RDTI regime in 2019;

Noted   Noted

(b) **approve** the following changes to the appropriation to give effect to the policy decision in recommendation (a) above, with a corresponding impact on the operating balance and net core Crown debt:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Science, Innovation and Technology**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	0.800	-	-	-	-
Total joint ministers change – inc/(dec)	**0.800**	**-**	**-**	**-**	**-**

Approved/Not Approved   Approved/Not Approved

(c) **approve** the following additional forecast changes to the Science, Innovation and Technology: R&D Tax Incentive appropriation within Vote Revenue, with a corresponding impact on the operating balance and net core Crown debt:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Science, Innovation and Technology**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	2.000	(2.000)	(4.000)	(3.000)	(2.000)
Total forecast change – inc/(dec)	**2.000**	**(2.000)**	**(4.000)**	**(3.000)**	**(2.000)**

Approved/Not Approved

Approved/Not Approved

(d) **agree** that all proposed change to appropriations for 2024/25, as shown in recommendation (b) and (c) above, be included in the 2024/25 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Agreed/Not Agreed

Agreed/Not Agreed

s 9(2)(a)

Nick Bradley
Enterprise Leader Finance Services - Chief Financial Officer
16/04/2025

Hon Nicola Willis
Minister of Finance
__/Apr/2025

Hon Dr Shane Reti
Minister of Science, Innovation and Technology
__/Apr/2025

Inland Revenue
Te Tari Taake

Inland Revenue report: Budget 2025 Estimates for Vote Revenue – Vote Minister sign-off

Date:	24 April 2025	**Priority:**	High
Security level:	In confidence – Budget sensitive	**Report no:**	IR2025/086

Action sought

	Action sought	Deadline
Minister of Revenue	**Agree** to the recommendations. **Sign and forward** the attached Estimates of Appropriations 2025/26 and a draft letter to the Minister of Finance. **Sign and forward** the attached Supplementary Estimates of Appropriations 2024/25 and a draft letter to the Minister of Finance.	Friday 2 May or earlier if possible.

Contact for telephone discussion (if required)

Name	Position	Telephone
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a)
Darren Cheevers	Domain Lead Finance Services	s 9(2)(a)
Rachel Parker	Domain Lead Finance Services	s 9(2)(a)

Inland Revenue
Te Tari Taake

24 April 2025

Hon Simon Watts
Minister of Revenue
Parliament Buildings
WELLINGTON

Budget 2025 Estimates for Vote Revenue – Vote Minister sign-off

Action required

Attached, for your review and sign off are:

- the Estimates of Appropriations 2025/26 for Vote Revenue and a draft letter from you to the Minister of Finance, and
- the Supplementary Estimates of Appropriations 2024/25 for Vote Revenue and a draft letter from you to the Minister of Finance.

Background

The Budget 2025 process requires that you review the following Estimates documents and confirm to the Minister of Finance that it is fit for publication, by Friday 2 May:

- The Estimates of Appropriations 2025/26 for Vote Revenue, and
- The Supplementary Estimates of Appropriations 2024/25 for Vote Revenue.

We provided a near final draft of these two documents to your office earlier this week.

A full list of Budget 2025 initiatives that impact Vote Revenue is provided in Attachment A.

The 2024/25 Estimates document

Appropriation Ministers associated with Vote Revenue

The process requires that one of the appropriation Ministers responsible for appropriations in the Vote, on behalf of all appropriation Ministers with appropriations in the Vote, confirms to the Minister of Finance that this material is correct and in a form suitable for publication.

You are responsible for all appropriations under Vote Revenue with the exception of one appropriation. The Minister of Science, Innovation and Technology is responsible for the non-departmental other expenses appropriation for *R&D Tax Incentive payments*. The Minister of Science, Innovation and Technology will separately sign off funding movements and forecasts for this appropriation and is aware you will be signing the Vote Revenue Estimates documents (IR2025/093 refers).

Document review process

The two Estimates documents have been through an appropriate quality assurance process and are free of material errors and omissions. The Treasury and ourselves will correct any non-material errors in these documents that may be identified prior to publication.

The non-departmental appropriations and forecasts for tax and social policy appropriations are based on the final Treasury macroeconomic forecasts dated 7 April 2025. The forecasts for tax revenue are from the Treasury tax forecasting team.

Consequential changes to appropriation conditions of use

As a result of the Budget 2025 Working for Families – Best Start Tax Credit changes, we have worked with the Treasury to update the *What is intended to be achieved* by the *Best Start Tax Credit PLA* appropriation. We have included the proposed change below for your approval.

	Current	Proposed
What is intended to be achieved with this appropriation	This appropriation is intended to provide for payments to all families with a dependent child in the first year of the child's life to help with day-to-day living costs. Payments continue for low and middle income families until the dependent child turns three years old.	This appropriation is intended to provide for payments to eligible families with a dependent child in the first three years of the child's life to help with day-to-day living costs.

As a result of the Budget 2025 KiwiSaver package, we have worked with the Treasury to update the *Conditions on use* and *What is intended to be achieved* by the *KiwiSaver: Tax Credit, Contribution and Residual Entitlement* appropriation. We have included the proposed changes below for your approval.

	Current	Proposed
What is intended to be achieved with this appropriation	This appropriation is intended to encourage participation in the KiwiSaver scheme by providing for an annual payment to contributing members aged 18 or over who meet the eligibility criteria.	This appropriation is intended to encourage participation in the KiwiSaver scheme by providing for payments to contributing KiwiSaver members who meet the eligibility criteria.
Conditions on use of appropriation	Provides a tax credit for members up to a cap of $521.43; Provides a payment of a 3 percent KiwiSaver contribution for eligible paid parental leave recipients; Provides payment of the member fee subsidy and kick-start payment.	Provides a tax credit for members up to the current cap; Provides a payment of a KiwiSaver contribution for eligible paid parental leave recipients in line with the minimum employer contribution; Provides payment of the member fee subsidy and kick-start payment.

We have identified a minor change to the reference in the *Conditions on use of appropriation* for the *FamilyBoost Tax Credit PLA* appropriation. We have included the proposed change below for your noting.

	Current	Proposed
Conditions on use of appropriation	Section 185 of the Tax Administration Act 1994	Subpart MH of the Income Tax Act 2007

The Estimates documents – Chief Executive endorsement

I confirm that the information provided for your approval:

- is consistent with the policies and performance expectations of the government, and has been prepared in accordance with the Public Finance Act 1989
- is consistent with the proposed appropriations to be set out in the Appropriation (2025/26 Estimates) Bill, as entered by Inland Revenue into the Treasury's CFISnet system
- is consistent with the proposed appropriations to be set out in the Appropriation (2024/25 Supplementary Estimates) Bill, as entered by Inland Revenue into the Treasury's CFISnet system
- is consistent with existing appropriations, financial authorities, and Cabinet decisions up to 14 April 2025
- has been prepared in the required format, and in accordance with the guidance that has been issued by the Treasury
- has been appropriately reviewed by Inland Revenue's senior management team – with a particular focus on areas where new strategic information, such as statements about what an appropriation is intended to achieve, is now required, and
- has been through an appropriate quality assurance process and is free of material errors and omissions.

Recommendations

I recommend that you:

1. **Approve** the following change to the *Best Start Tax Credit PLA* appropriation:

	Current	Proposed
What is intended to be achieved with this appropriation	This appropriation is intended to provide for payments to all families with a dependent child in the first year of the child's life to help with day-to-day living costs. Payments continue for low and middle income families until the dependent child turns three years old.	This appropriation is intended to provide for payments to families with a dependent child in the first three years of the child's life to help with day-to-day living costs.

Approved/Not Approved

2. **Approve** the following changes to the *KiwiSaver: Tax Credit, Contribution and Residual Entitlement* appropriation:

	Current	Proposed
What is intended to be achieved with this appropriation	This appropriation is intended to encourage participation in the KiwiSaver scheme by providing for an annual payment to contributing members aged 18 or over who meet the eligibility criteria.	This appropriation is intended to encourage participation in the KiwiSaver scheme by providing for payments to contributing KiwiSaver members who meet the eligibility criteria.
Conditions on use of appropriation	Provides a tax credit for members up to a cap of $521.43; Provides a payment of a 3 percent KiwiSaver contribution for eligible paid parental leave recipients; Provides payment of the member fee subsidy and kick-start payment.	Provides a tax credit for members up to the current cap; Provides a payment of a KiwiSaver contribution for eligible paid parental leave recipients in line with the minimum employer contribution; Provides payment of the member fee subsidy and kick-start payment.

Approved/Not Approved

3. **Note** the following change to the *FamilyBoost Tax Credit PLA* appropriation:

	Current	Proposed
Conditions on use of appropriation	Section 185 of the Tax Administration Act 1994	Subpart MH of the Income Tax Act 2007

Noted

4. **Sign and forward** the following documents:

- The Estimates of Appropriations 2025/26 for Vote Revenue
- a draft letter to the Minister of Finance for the Estimates
- The Supplementary Estimates of Appropriations 2024/25 for Vote Revenue, and
- a draft letter to the Minister of Finance for the Supplementary Estimates

Signed and forwarded

Peter Mersi
Chief Executive and Commissioner of Inland Revenue
24/04/2025

Hon Simon Watts
Minister of Revenue
/ / 2025

Attachments:
a) Budget 2025 initiatives that impact Vote Revenue
b) Draft letter to the Minister of Finance for the 2024/25 Estimates
c) Draft letter to the Minister of Finance for the Supplementary Estimates
d) The Estimates of Appropriations 2025/26 for Vote Revenue, and
e) The Supplementary Estimates of Appropriations 2024/25 for Vote Revenue.

Attachment A - Budget 2025 initiatives that impact Vote Revenue

The Estimates documents for Vote Revenue include the following Budget 2025 initiatives:

Initiatives (departmental):

- Compliance activities – continuation of funding
- Compliance activities – increased investment
- Income Charging Phase 2 – using IR data to improve the accuracy of MSD payments (MSD).

Initiatives (non-departmental):

- Compliance activities – continuation of funding
- Compliance activities – increased investment
- Employee share schemes - tax deferral regime
- Investment Boost – partial expensing regime
- KiwiSaver package
- Thin capitalisation – infrastructure projects (tagged contingency)
- Working for Families – Best Start Tax Credit changes
- Working for Families – abatement changes
- Final-year Fees Free – increased cost (MoE)
- Student loans - indefinite freeze of the repayment threshold (MoE)
- Increased tuition fees – impacts related to student loans and final-year Fees Free payments (MoE)
- Delivering Quality and Timely Primary Care: Next Steps and Implementation (MoH, TEC, MSD).

Technical initiatives (non-departmental):

- Buffers on impairment and demand-driven appropriations (2024/25).

Hon Simon Watts

Minister of Climate Change
Minister for Energy
Minister of Local Government
Minister of Revenue

2 May 2025

Hon Nicola Willis
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Minister

2025/26 Estimates: Ministerial Sign-off for Vote Revenue

I advise that the *Estimates of Appropriations 2025/26 and Supporting Information* documents for Vote Revenue, for which Inland Revenue is the administering department, have been completed – and that it is accurate and suitable for publication. I confirm that the information provided:

- is consistent with the policies and performance expectations of the government, and has been prepared in accordance with the Public Finance Act 1989
- is consistent with the proposed appropriations to be set out in the Appropriation (2025/26 Estimates) Bill, existing appropriations and financial authorities, and with known Cabinet decisions up to 14 April 2025
- is provided in the required format, and has been prepared in accordance with the guidance that has been issued by the Treasury
- has been through an appropriate quality assurance process and is free of material errors and omissions, and
- has, where it relates to an appropriation that is the responsibility of another Minister, been approved by the Minister responsible for that appropriation.

In signing this statement, I acknowledge that I and the other Minister responsible for appropriations in this Vote are responsible for the information for Vote Revenue administered by Inland Revenue included in the *Estimates of Appropriations 2025/26 and Supporting Information*.

Yours sincerely

Hon Simon Watts
Minister of Revenue
On behalf of all Ministers responsible for appropriations in Vote Revenue

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand | +64 4 817 6814 | s.watts@ministers.govt.nz

Hon Simon Watts

Minister of Climate Change
Minister for Energy
Minister of Local Government
Minister of Revenue

2 May 2025

Hon Nicola Willis
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Minister

2024/25 Supplementary Estimates: Ministerial Sign-off for Vote Revenue

I advise that the *Supplementary Estimates of Appropriations 2024/25 and Supporting Information* documents for Vote Revenue, for which Inland Revenue is the administering department, have been completed – and that it is accurate and suitable for publication. I confirm that the information provided:

- is consistent with the policies and performance expectations of the government, and has been prepared in accordance with the Public Finance Act 1989
- is consistent with the proposed appropriations to be set out in the Appropriation (2024/25 Supplementary Estimates) Bill, existing appropriations and financial authorities, and with known Cabinet decisions up to 14 April 2025
- is provided in the required format, and has been prepared in accordance with the guidance that has been issued by the Treasury
- has been through an appropriate quality assurance process and is free of material errors and omissions, and
- has, where it relates to an appropriation that is the responsibility of another Minister, been approved by the Minister responsible for that appropriation.

In signing this statement, I acknowledge that I and the other Minister responsible for appropriations in this Vote are responsible for the information for Vote Revenue administered by Inland Revenue included in the *Supplementary Estimates of Appropriations 2024/25 and Supporting Information*.

Yours sincerely

Hon Simon Watts
Minister of Revenue
On behalf of all Ministers responsible for appropriations in Vote Revenue

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand | +64 4 817 6814 | s.watts@ministers.govt.nz

Inland Revenue
Te Tari Taake

55 Featherston Street
PO Box 2198
Wellington 6140
New Zealand

T. 04 890 1500

Briefing note

Reference: BN2025/196

Date: 2 May 2025

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

cc: Peter Mersi, Commissioner
Lisa Barrett, Deputy Commissioner
James Grayson, Deputy Commissioner
David Carrigan, Deputy Commissioner
David Shanks, Deputy Commissioner,
Phil Whittington, Acting Deputy Commissioner
Joanne Petrie, Executive Support Advisor to the Commissioner
Jill Compton, PA to Deputy Commissioner
Governance, Ministerial & Ministerial Services

From: Chris Gillion, Strategic Advisor

Subject: Overview of Budget 2025 compliance funding initiatives

Background

1. Cabinet has agreed to fund additional compliance activity and debt prevention and recovery. The outcome will be an increase in tax revenue, an increase in cash collections and a decrease in debt impairment.

2. There are two separate compliance funding initiatives:

   - New permanent funding of $35 million per annum for a combination of direct compliance interventions, debt-focussed activities and investing in more effective tax collection.
   - Making permanent funding of $26.5 million per annum that was provided in Budget 2022 which was due to cease in June 2025. This funding was to support recovery from Covid-19, to address rising levels of unfiled returns and debt and to respond to emerging integrity concerns in the tax system.

3. The focus of these initiatives is on tax compliance and debt, which includes Working for Families but excludes student loans and child support.

4. These initiatives follow on from Budget 2024 which invested $29 million per annum of permanent funding from 2024/25 in further compliance activity.

Compliance activities – increased investment

5. Fiscal sustainability is a key priority for the Government. Investing in increasing tax revenue or reducing debt is one way of supporting this objective. Funding of $29

million per annum allocated in Budget 2024 is on track to yield a $774 million positive impact on the Operating Balance before Gains and Losses (OBEGAL) over the forecast period and a return on investment (ROI) of $4 to $1 in 2024/25 and $8 to $1 thereafter.

6. There are early signs that Inland Revenue is on track to meet and exceed the forecast additional revenue and cash collections from the Budget 2024 funding. The return on investment from all audit compliance activities for every dollar spent was $13.5 to $1 for the first three quarters of 2024/25 compared to actual returns of $9.5 to $1 in 2023/24.

7. Budget 2025 presented an opportunity to further support the Government's revenue objectives through the provision of additional compliance funding. In addition to raising revenue, investment in improving compliance has a positive impact on the integrity of the tax system.

8. The additional funding will include:

   - Increasing audits in areas of high risk and/or value.
   - Investigations into specific sectors such as property, organised crime, the hidden economy and the compliance of trusts.
   - Improved use of data and intelligence (such as payment service provider data) to more quickly identify and target discrepancies and pursue debt.
   - Shifting from a manual to an automated process to collect data from third parties (such as banks) to be able to increase the scale and efficacy of targeting discrepancies and debt.
   - Improving cross-government information sharing to access customer data on taxpayers' circumstances, such as their financial circumstances.

9. The additional compliance activities will fund an additional 265 FTEs. This will likely comprise 195 new FTEs and 70 existing FTEs from other time-limited funding that ceases in 2024/25.

10. The Budget 2025 funding is for **$35 million** per annum of permanent funding. This investment has an expected return of **4:1 in 2025/26 and 8:1 in 2026/27 and beyond**, being a mix of increased tax revenue and decreased debt impairment.

($million)	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Funding Vote: Revenue	-	35.000	35.000	35.000	35.000	140.000
Revenue (IRD-Crown)	-	(140.000)	(280.000)	(280.000)	(280.000)	(980.000)

11. The funding also requires Inland Revenue to develop internal capability to assess the indirect effects of audit activity based on international best practice. The indirect effects include whether audited taxpayers become more compliant in the future and the extent to which unaudited taxpayers become compliant once they are aware of wider audit activity. International studies have identified that the indirect effects from audit can be substantial.

Compliance activities – continuation of funding

12. In 2020/21 Inland Revenue was provided with time-limited funding of $26.5 million per annum to support the response and recovery from Covid-19. This funding was due to lapse at the end of 2024/25. As part of Budget 2025 the $26.5 million per annum will become permanent.

13. The funding was initially provided to support taxpayers during and post the Covid-19 pandemic, to support taxpayers with debt (including instalment arrangements) and to manage tax integrity including unfiled tax returns and resolving debt. These activities remain core business and allowing this funding to lapse would have a negative impact on tax revenue, cash receipts and debt. The tail of the economic impacts from the Covid-19 pandemic combined with the cost of living and the current global economic environment are continuing to impact taxpayers past the end date of this funding.

14. Continuation of this funding would maintain tax revenue, cash receipts and impairment of debt of **$816 million** 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.

($million)	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Funding Vote: Revenue	-	26.500	26.500	26.500	26.500	106.000
Revenue (IRD-Crown)	-	(204.000)	(204.000)	(204.000)	(204.000)	(816.000)

Consultation with the Treasury

15. The Treasury was informed of this briefing note.

Chris Gillion
Strategic Advisor
s 9(2)(a)

Inland Revenue
Te Tari Taake

Briefing note

Reference:	BN2025/206
Date:	02 May 2025
To:	Revenue Advisor, Minister of Revenue – Angela Graham Private Secretary, Minister of Revenue – Helen Kuy Private Secretary, Minister of Finance – Emma Grigg
Copy to:	Peter Mersi, Commissioner Lisa Barrett, Deputy Commissioner James Grayson, Deputy Commissioner David Carrigan, Deputy Commissioner David Shanks, Deputy Commissioner, Phil Whittington, Acting Deputy Commissioner Joanne Petrie, Executive Support Advisor to the Commissioner Jill Compton, PA to Deputy Commissioner Governance, Ministerial & Ministerial Services
From:	Pip Knight
Subject:	**Tactical communications plan for Budget 25**

Purpose

1. The purpose of this briefing note is to inform the Minister of Finance and Minister of Revenue about how Inland Revenue will be preparing their staff and customers for the changes announced in Budget 25.

Tactical Communications plan for Budget 25

Note: This tactical plan is primarily to inform our people and our customers of Investment Boost and the changes coming to KiwiSaver and Working for Families. This plan covers tactics from Budget Day (post announcement) until July 2025.

When – Delivered/In market	What – Channel/tactic	Who - Audience	Why – Purpose
Phase One – Awareness: Budget Day (post government announcement)			
22 May 2025 After announcement	IR General Website • Homepage alert Banner about Budget 2025 tax changes • 'Updates' section of the Homepage to include a reference to the Budget announcements and links to the IR Tax Policy and Budget 25 websites	External: All Customers	To ensure people landing on our website are made aware of the Budget announcement and know where to go for more information.

	• New Investment Boost section will go live after enactment • Updated KiwiSaver website content will go live after enactment.		
22 May 2025 After announcement	IR Tax Policy website - Budget Day release and links to Bill items.	External: Tax agents All customers	To ensure tax agents and interested customers can read more information about each of the Budget 2025 tax policies/changes.
22 May 2025 After announcement	Internal comms about all Budget 25 items: • People Leaders message • Email to Unions • Leader led emails to relevant frontline teams • Snapshot update • New Te Matawai content (internal guides) • Featured News intranet article • Viva Engage Post.	Internal: All IR people	To ensure our people have the information they need to support the introduction of Investment Boost, changes to KiwiSaver as well as are aware of the other changes announced as part of Budget 25, i.e. Working for Families.
22 May 2025 After announcement	E-subscription tax agent newsletter & news item update. Manually delayed ensuring it can be released after the announcement.	External: Tax agents All customers	To ensure tax agents know about the Budget announcement.
22 May 2025 After announcement	Organic posts on IR social media channels directing customers to the IR Tax Policy and Budget 25 websites. All IR social media channels	External All Customers	General awareness about the proposed changes pointing customers to the IR Tax Policy and Budget 25 websites.
22 May 2025 After announcement	Emails to relevant tax stakeholders including: • Five professional TA bodies (E.g. CAANZ, ATAINZ, CPA, ICNZB, NZQBA) • Tax agent cohort – reps from the Big 4, FINDEX, Hnry and 4-5 reps from a mix of small-medium tax agents from across the country • IR tax agent account managers.	External: Tax agents and tax agent account managers	To ensure they're aware of the changes required.
22 May 2025 After announcement	Email to KiwiSaver providers • Includes supporting attachments to assist KiwiSaver providers with implementation of the changes • Includes the updated KiwiSaver Business Process Manual (BPM).	External: KiwiSaver providers	To ensure they're aware of the changes required and to provide key information for them to share with their customers.

22 May 2025 After announcement	Email to payroll software providers.	External: Payroll Software providers	To ensure they're aware of the changes required and any updates they need to make to their software.
22 May 2025 After announcement	Commissioners Update – reiterate Budget 2025 changes and link to a Budget 25 Featured News article.	Internal: All IR people	To ensure our people have the information they need to support the introduction of Investment Boost, changes to KiwiSaver as well as are aware of the other changes announced as part of Budget 25.
23 May 2025	Direct marketing (emails and letters) to employers and sole traders. Resend to those who haven't opened the original on 30 May.	External: Business and employers	To ensure businesses and employers are aware of Investment Boost and the changes to KiwiSaver.
23 May 2025	Te Pounga o Te Waka – Senior Leaders Hui – Update from Commissioner about Budget 2025 announcements.	Internal: Senior IR leaders	To ensure senior IR leaders are aware of the Budget 2025 changes.
Phase Two – Education: June to August 2025			
June	Tax agent Webinar/speaking opportunities: – TBC. • 9 June - ICNZB virtual meeting • 17 June - Bookkeepers virtual meeting • 19 June - Tax Agent cohort virtual meeting • 24 June - National Tax Liaison Group virtual meeting.	External: Tax agents and tax agent bodies	To ensure tax agents are clear about the various Budget 2025 changes, particularly Investment Boost and KiwiSaver, and the actions they need to take.
June	Financial Services Council meeting – TBC.	External: KiwiSaver providers	To ensure KiwiSaver providers are clear about the upcoming KiwiSaver changes and have the support they need to make updates to their systems and +documentation.
June-August *KiwiSaver to have an additional boost in July post 1 July changes coming into effect*	Website – Homepage promotional tiles: • Investment Boost • KiwiSaver changes • Working for Families changes (including promotion of consultation).	External: Businesses & employers Tax agents Families	To direct people who have come organically to our website to detailed information about the changes.
June-August *KiwiSaver to have an additional boost in July post 1 July changes coming into effect*	Search advertising • Investment Boost • KiwiSaver changes • Working for Families changes (including promotion of consultation)	External: Businesses & employers Families	To direct people to detailed information about the changes.

June-August *KiwiSaver to have an additional boost in July post 1 July changes coming into effect*	Digital and social media advertising • Investment Boost • KiwiSaver changes • Working for Families changes (including promotion of consultation).	External: Businesses & employers Families	To raise awareness about the changes and direct people to detailed information about the changes.
1 July	Internal comms about first of KiwiSaver changes to come into effect: • People Leaders message • Leader led emails to relevant frontline teams • Snapshot update • Updated Te Matawai content (internal guides) • Featured News intranet article • Viva Engage Post.	Internal All IR people	To ensure our people are aware of the first of the KiwiSaver changes that have come into effect and have the information they need to support customers.
1 July	Media release about 1 July 2025 KiwiSaver changes coming into effect.	External All Customers	To ensure the general public are aware of the 1 July 2025 KiwiSaver changes in effect.
Phase Three – Education: February to July 2026			
We will be in market from February – July 2026 with similar tactics to those used in phase two to ensure our customers are aware of the changes, including how to claim Investment Boost in their 25/26 tax returns. More information on these will be available in late 2025.			

Pip Knight
Service Leader Marketing and Communications
s 9(2)(a)

Inland Revenue report: 2025 IR Performance Plan – final approval

Date:	12 June 2025	**Priority:**	Medium
Security level:	In confidence	**Report number:**	**IR2025/271**

Action sought

	Action sought	**Deadline**
Minister of Revenue	Approve the amended 2025 Performance Plan	30 June 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Scott McCallum	Enterprise Leader, Enterprise and Integrity Services	s 9(2)(a)

12 June 2025

Minister of Revenue

2025 IR Performance Plan – final approval

1. Ministerial approval of the 2025 IR Performance Plan is required by 30 June 2025.

2. This report covers:

   - the amendments made to the 2025 IR Performance Plan since the last ministerial approval in November 2024.
   - public release of the 2025 IR Performance Plan
   - the 2026 IR Performance Plan.

Amendments to the 2025 IR Performance Plan

3. Attached is the proposed 2025 IR Performance Plan for ministerial approval.

4. The amendments to the Performance Plan since the approved plan as at November 2024 are:

   4.1. The 'Budget Sensitive' marking on each page has been removed.

   4.2. The following note has been added to Page 1 under the "Key Issues" heading:

   Note: This Performance Plan (completed in November '24) references the expiration of $27m Time Limited Funding in FY24/25. IR has subsequently received a permanent continuation of this funding in Budget '25: "compliance activities - continuation of funding".

   4.3. The following note has been added to the top-right of Page 1:

   Note: All figures are prior to Budget 2025. Departmental figures are as at the 2025 March Baseline Update. Non-departmental figures are as at the 2024 Half-year Economic and Fiscal Update

   4.4. No further amendments have been made on the basis that all other changes since the November-approved Performance Plan (e.g. other Budget 25 outcomes) will be captured as planning inputs into the 2026 Performance Plan.

   Updating the IR 2025 Performance Plan to fully reflect a June 2025 position would be a significant change to the plan.

Public release of the 2025 IR Performance Plan

5. Once approved, the 2025 IR Performance Plan will be released on our website as part of Inland Revenue's proactive release of Budget 2025 documents. This release date will align to the yet to be determined proactive release date for Treasury held Budget 2025 documents.

6. There is no content in the Performance Plan that would be withheld under the Official Information Act.

s 9(2)(f)(iv)

Recommended action

I recommend that you:

8. **Note** the contents of this report.

Noted

9. **Note** that a meeting with IR officials can be arranged to discuss this paper if the Minister requires.

Meeting required / Meeting not required

10. **Approve** the 2025 IR Performance Plan

Approved / Not approved

11. **Approve** the public release of the approved 2025 IR Performance Plan

Approved / Not approved

s 9(2)(a)

Scott McCallum
Enterprise Leader
12 / 06 /2025

Hon Simon Watts
Minister of Revenue
/ /2025

1. Department overview: Vote Revenue

Note: All figures are prior to Budget 2025. Departmental figures are as at the 2025 March Baseline Update. Non-departmental figures are as at the 2024 Half-year Economic and Fiscal Update.

KEY ISSUES

Note: This Performance Plan (completed in November '24) references the expiration of $27m Time Limited Funding in FY24/25. IR has subsequently received a permanent continuation of this funding in Budget '25: "compliance activities - continuation of funding".

Vote Revenue is a significant vote covering $756m departmental expenditure, $19b non-departmental expenditure and $116.4b tax revenue in 2024/25.

New Zealand raises taxes primarily from personal income taxes, GST, and corporate income taxes, which collectively account for 96% of core Crown tax revenue.

IR is well placed to support the Government's plan to rebuild the economy, through efficiently and effectively collecting and distributing money. Collecting the highest net revenue over time that is practical within the law can be achieved through encouraging voluntary compliance and compliance interventions.

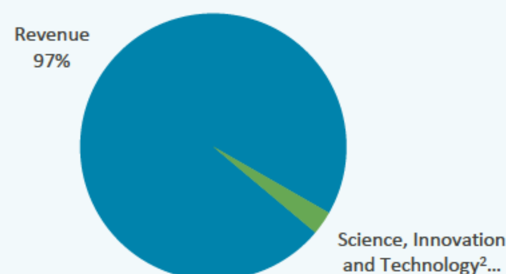
Compliance interventions, particularly those that enhance the fairness and integrity of the tax system, are a key opportunity to significantly increase revenue for the Crown. The department has refocused its resources into compliance and increased compliance activities through the additional Budget 2024 investment.

International benchmarking and research would suggest that, with a staged investment over the forecast period, there are opportunities to increase the size of the department's compliance programme and deliver additional revenue at a favourable return on investment.

IR is also well placed to deliver fiscal savings. A short-term challenge is a $27m downscaling of activities from previous time limited funding that expires at the end of 2024/25. This has been in our baseline for a number of years and supports core, business-as-usual work to address integrity issues and manage customer demand.

While IR will manage ongoing remuneration and inflationary cost pressures through re-prioritisation of work, a funding reduction of $27m will have a negative impact on tax revenue and debt. Removing this funding which accounts for 250-270 FTE, will directly reduce tax revenue and cash receipts by $240m to $300m per annum, impact revenue through voluntary compliance and put at risk the outcomes of the Budget 2024 investment. Reducing IR's workforce, s 9(2)(g)(i) will also reduce the department's ability to respond to population growth, business restructuring, and customers experiencing cashflow difficulties, and to promote end-to-end compliance.

1.1 SPEND BY PORTFOLIO[1]



1. Includes departmental and non-departmental appropriations.
2. R&D tax incentive

TARGETS AND PRIORITIES

Government targets

Inland Revenue does not directly contribute to the nine Government targets, but does indirectly contribute to, for example, 'reduced net greenhouse gas emissions'.

Current Government priorities for Vote Revenue

- Deliver tax relief to middle-income New Zealanders ✓
- Develop a Revenue Strategy ✓
- Develop the Tax and Social Policy Work Programme (TSPWP) ✓
- Achieve Budget 2024 departmental cost savings, while focusing on Inland Revenue's core business of collecting the revenue necessary to pay for things New Zealanders value and delivering entitlements to those eligible for them ✓

Strategic priorities

Aspiration

- Improving oranga for current and future generations.
- We make our biggest contribution to oranga through economic activities including collecting and distributing money.

Outcomes

- Revenue is available to fund government programmes and services.
- People receive their entitlements, enabling oranga.
- Oranga increases when Inland Revenue works with other organisations.
- The intergenerational oranga of the people of New Zealand Aotearoa is supported by Inland Revenue's active stewardship.

Portfolio priorities

Tax and Social Policy Work Programme priorities

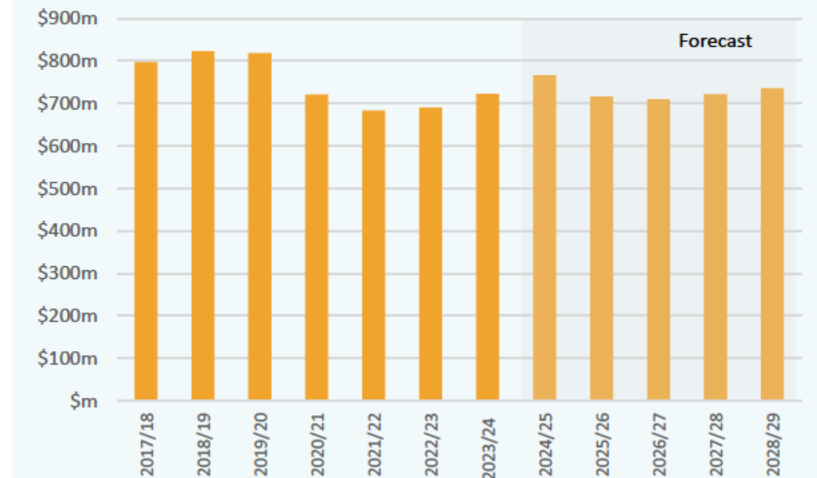
- Supporting economic growth and productivity.
- Raising revenue to fund growth and productivity enhancing measures.
- Enhancing the fairness and integrity of our tax system.

Tax and Social Policy Work Programme focus areas

- Simplifying tax to reduce compliance costs for individuals and businesses.
- Addressing integrity risks to increase taxpayer compliance and improve the collection of unpaid taxes owed, so that the government can raise the revenue it needs to support its priorities.
- Advancing the digital ecosystem, which includes both increased simplicity for taxpayers and customers through enabling digital intermediaries and Inland Revenue's role.
- Helping improve taxpayer compliance and address integrity risks, so that the Government can raise the revenue it needs to support its priorities.

EXPENDITURE BY TYPE

1.2



Recent changes in expenditure

Inland Revenue completed its transformation programme in June 2022 and is 20% to 30% smaller as an outcome. This is reflected in the baseline reductions in the period to 2022/23.

In the period 2020/21 to 2024/25 the department received time limited funding for responding to COVID-19 demand and maintaining capability and integrity. The department also received time limited funding to deliver the Resurgence Support Payments, COVID Support Payments, Small Business Cashflow Scheme (loans), Cost of Living Payments, FamilyBoost and personal income tax threshold changes.

Refer s7.1 for information on non-departmental appropriations.

Expected changes in expenditure

In 2025/26 the department's baseline will reduce by $52m. This primarily relates to $40m for time limited activities and $12m for intra-year funding transfers coming to an end.

From 2026/27 the department's baseline remains relatively constant with no further significant time-limited funding impacts.

Monitoring and funding of Crown companies or entities

There are no Crown companies or Crown entities funded or monitored under Vote Revenue

2. Department overview: Current specific fiscal risks, workforce, and third-party revenue

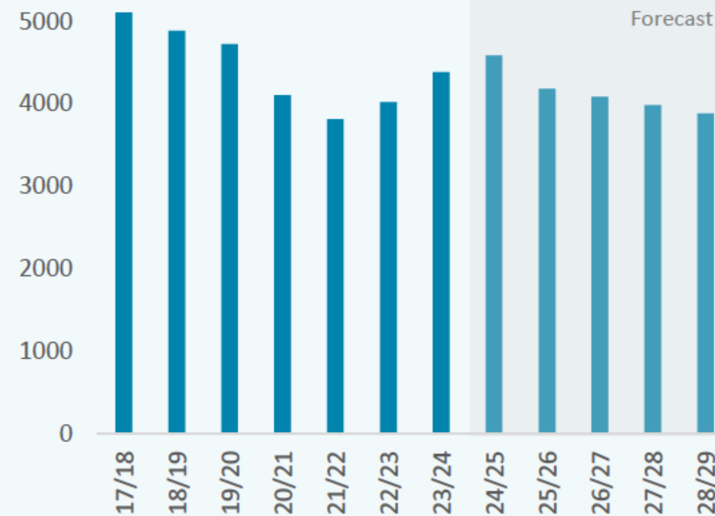
SPECIFIC FISCAL RISKS

Title / Description	Amount and Probability	Description and Mitigations
Risks associated with assumptions used in the forecast for revenue and expenses and valuation of assets and liabilities*	Unquantified	The forecasts for some revenue and expense items and the valuation of some assets and liabilities included in the fiscal forecasts are subject to significant assumptions. These assumptions may change in the future and impact on the fiscal position.
Delivering baseline savings*	$29.6m pa Low	The department is on track to deliver baseline saving amounts.
International tax*	Unquantified	Relates to delays and uncertainty around the final design of the OECD approach to taxing digital services.
Tax and social policy changes*	Unquantified	The tax and social policy work programme will have projects that could have negative and positive fiscal impacts. General tax policy settings and their collective fiscal implications are subject to change.
Non-departmental - Impairment of debt and write-downs	Unquantified	These costs have significant variability and are driven by multiple factors including macroeconomic impacts, compliance strategy and customer behaviours. Whilst we continue to closely monitor spend in this area, there remains the risk that this expenditure exceeds current appropriations.

- Denotes risks published in BEFU2024.
- Risks have been updated but are subject to the Treasury HYEFU review process.

WORKFORCE

2.2



Drivers and implications of change(s) in FTE

The decrease in FTEs since 2018 reflects the administrative savings realised through transformation, which was completed in June 2022.

FTE increases since 2020/21 are due to time limited funding for COVID-19 demand and maintaining capability and integrity. This funding ends on 30 June 2025.

As a comparison to FTEs across the public service, the department was the 3rd largest agency in 2018 and reduced to the 7th largest agency in 2023 (10% of the sector in 2018 and 6% in 2023).

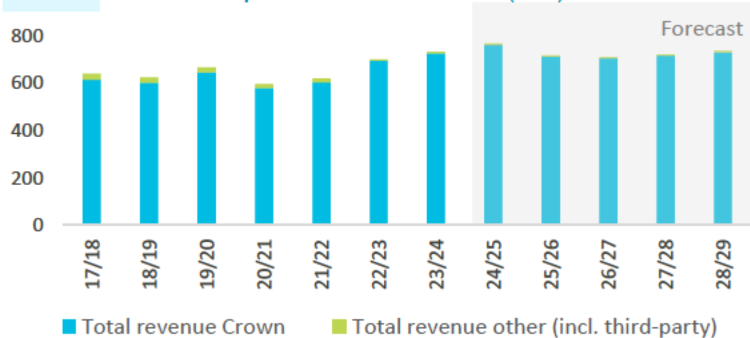
As an outcome of Budget 2024 and other funding impacts, FTEs are forecast to increase by 200 in 2024/25. This increase is primarily to increase compliance activities and to administer FamilyBoost.

FTEs could potentially reduce by 400 in 2025/26 followed by a potential 100 FTEs in each subsequent year to manage cost pressures.

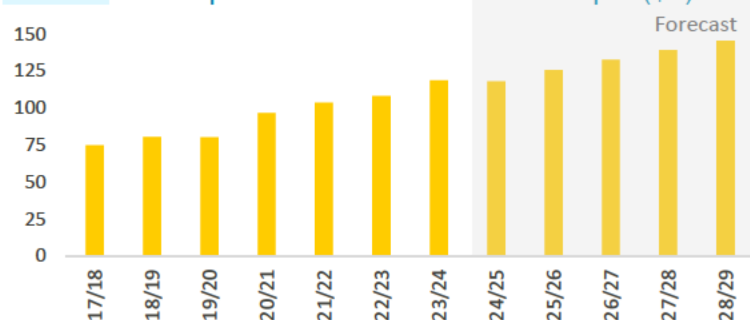
DEPARTMENTS WITH THIRD PARTY REVENUE (INCLUDING TAX, FEES, LEVIES, EXCISE, DUTIES AND CHARGES)

Revenue sources

2.1a



2.1b



Scenarios that could impact third-party revenue

Scenarios	Incidence in last 10 years	Likely in next 10 years?
Specific fiscal risks		
Non-departmental:		
• Refer table above.	N/A	N/A
Other potential shocks		
Departmental:		
• Potential for ACC to seek a reduction in the fee. Potential risk of up to $3.4m per annum.	Yes	Yes

Activities funded by third-party revenue and when were they last reviewed

Activity name	% User funded	Date last reviewed	Date next reviewed	Material under or over recovery	Key performance measure and 2023/24 performance
Departmental:					
ACC earner levy collection fee	100%	2023	2024	Neutral	$3.5m in 2023/24
Rental revenue from accommodation sub-leases	100%	n/a	n/a	Neutral	$0.9m in 2023/24. Varies from year to year.
Revenue from rulings	100%	n/a	n/a	Under	$0.8m in 2023/24. A $322 application fee and $161 per hour fee for private and product ruling. A $2,000 fee for short process rulings.
Court costs recovered	100%	n/a	n/a	Under	$0.4m in 2023/24. Cost recoveries to IR are not always awarded by the court.
Foreign trust administration fees	100%	n/a	n/a	n/a	$0.1m in 2023/24.
Services and information provided to other agencies	100%	n/a	n/a	Neutral	$0.1m in 2023/24.

3a. Value and Performance: Key impact areas

KEY IMPACT AREA 1 - TAX REVENUE

Current state

- IR collected $115.4b in tax revenue in FY24. $106.9b was paid on time and in full (94%). We identified $975m in additional assessed revenue or disallowed expenditure and collected over $4b in overdue debt through our interventions.
- The resources to deliver tax revenue account for approximately 72% of our total costs. In FY24 the cost to collect $100 of revenue was $0.45, which is considered highly efficient against OECD peers. Most of our expenditure is focused on ensuring we continue to make it easy to pay and file on time as this is the most efficient way to minimise administration and compliance costs. Core functions supporting the collection of tax revenue include customer segment teams, legal, marketing, insight and analytics, our core system (START), and our website and voice channels. Approximately 85% of customer interactions are digital.
- Cost of living pressures and economic conditions are driving increases in debt levels and write-offs. This is increasing the motivation not to comply.

Desired state

- The integrity of the tax system is maintained and sufficient revenue is raised to fund public services supported by information flows from key stakeholders such as employers, accounting software companies, and financial institutions.
- Customers find it easy to meet their tax obligations, maintaining high levels of voluntary compliance.
- We support customers to get back on track when they do not get things right and take appropriate enforcement action when necessary.
- Administration costs are low for IR and taxpayers, with compliance effort meaningfully reduced for smaller businesses.

Constraints and opportunities

- There is an opportunity to address integrity risks - revenue upside from addressing non-compliance and emerging tax avoidance approaches and contributing to an economy where businesses compete fairly including with international competitors. International benchmarking and research would suggest there is scope to increase IR's compliance activities to deliver additional revenue.
- There is an opportunity to improve outcomes for businesses by simplifying policy settings and leveraging digital and analytical capabilities to reduce compliance costs and improve revenue outcomes.
- There is an opportunity to optimise the mix of resources for targeted, risk-based compliance and enforcement effort, balancing this with our strong focus on customer service.
- A constraint is that it is challenging to forecast the impairment of debt and debt write-offs, particularly in the current economic environment.
- Balancing change capacity and competing priorities is a constraint – fiscal sustainability, TSPWP and broader government contribution.
- Time limited funding of $27m ends this year (250-270 FTE) and is a constraint. Reducing this activity will have a corresponding impact on voluntary compliance and direct negative impact on tax revenue and debt: tax revenue and cash receipts will reduce by $240m to $300m. Of this, there will be a reduced focus on unfiled returns and resolving debt. There will also be a reduction in activity to provide certainty and advice to customers on complex structures and reduced audit activity in areas such as income suppression, property, and the hidden economy. There will also be a reduction to the support provided to customers to get their tax obligations right from the start, to minimise the risk of new businesses operating outside the system, and to identify and respond to emerging integrity risks, mainly the result of fewer voluntary disclosures. From an FTE perspective, 30% of the resources covered by this funding work with 1.5m micro businesses (defined as businesses with less than 6 employees and less than $1m GST turnover), where business churn is prevalent requiring end-to-end compliance activity. Turnover in these roles (the 250 to 270 FTE) is low, requiring a change process and redundancies.

Improvement and learning

- The use of natural systems supports compliance by making it easier for customers to file and pay. Integrating tax rules into the ecosystem will reduce the need for reporting outside of natural systems.
- Evolving our compliance risk management capabilities by leveraging data analytics, machine learning and AI.
- New ways of earning income will continue to emerge. We'll work to ensure that policy settings and our operational practices adapt and remain fit-for-purpose.

KEY IMPACT AREA 2 – FAMILIES

Current state

- IR distributed $4.1b (FY24 actuals) in net entitlements across Working for Families (WfF) tax credits with MSD including Family tax credit ($2,297m), In work Tax credit ($437m), Best Start ($336m), Minimum family tax credit ($11m), Paid Parental Leave ($647m) and Child Support payments ($413m) to support 145,000 children in FY24. Payment timeliness for WfF and PPL has consistently been above 99% for the last 5 years. The % of child support assessments paid by liable parents on time has sat between 70% and 72.5% for the last 5 years. FamilyBoost is being introduced in September 2024.
- Approximately 336,000 customers rely on WfF as a significant part of their income.
- These social policy payments account for approximately 19% of our overall costs.
- We have a dedicated customer segment team supporting Families with 520 FTE. The Individuals Segment and Community Compliance team, along with online services, also provide support services to families.
- Under Vote Revenue non-departmental appropriations, the department is forecast to administer, on behalf of the Crown, $5.7b of benefits or related expenses (BoREs) and borrowing expenses in 2024/25 (refer to section 7 for details).
- Most of the non-departmental expenditure, with the exception of impairments and initial fair value write-downs, is driven by policy settings and customer volumes. Policy settings are considered as part of the TSPWP. Impairments and initial fair value write-downs are driven by multiple factors including macroeconomic forecasts and customer behaviours.

Desired state

- Customers find it easy to receive the payments they are entitled to, supported by integrated services and information sharing across agencies.
- Customers access and use online services and tools to update their information without needing to contact us.
- Fewer parents with outstanding debt and less debt overall, with IR supporting customers to get back on track, including taking appropriate enforcement action if necessary.

Constraints and opportunities

- The design of WfF is a constraint. WfF includes 4 types of payments, each with different eligibility rules. The payments depend on income, the number of dependent children and any shared care arrangements. Payment accuracy also relies on customers giving IR timely updates if their circumstances change. Around two-thirds of WfF customers who receive payments during the year received within 20% of what they should have during the year.
- Changing work patterns are a constraint that can make it more difficult for customers to accurately estimate their income, resulting in under or over payment. Approximately 56,000 WfF customers (12%) had a debt at 30 June 2024.
- A constraint for Working for Families is that IR shares responsibility for policy with Treasury and MSD and shares responsibility for administration with MSD. For Paid Parental Leave, responsibility for policy sits with MBIE.

Improvement and learning

- IR has been considering potential areas for improvement for WfF, including providing more accessible, timely ways to support customers and reducing the risk of debt. We continue to consider long-term aspirational objectives, nearer-term options and how to improve customer experiences through administrative improvements. Next steps include feasibility design while engaging with other agencies.
- Embed FamilyBoost and explore integration of data sources to improve automation and accuracy of payments.

3b. Value and Performance: Key impact areas

KEY IMPACT AREA 3 – KIWISAVER

Current state

- IR supports 3.4m KiwiSaver members, 68% of whom contributed to their KiwiSaver fund in 2024. The department transferred $9.5b in member contributions and $990m in government contributions to 29 scheme providers in FY24. More than 98% of member contributions were passed to scheme providers within 3 days in FY24.
- KiwiSaver represents 3% of our total costs. KiwiSaver is low effort to collect due to leveraging the PAYE system, and strong service level agreements and relationship management with scheme providers.
- KiwiSaver is managed within our Individuals segment. Our key operational responsibility is facilitating the timely transfer of contributions. We also oversee registrations, opt outs, savings suspensions, employer obligations, and government contributions.
- Under Vote Revenue non-departmental appropriations, the department is forecast to administer, on behalf of the Crown, $10.2b of pass-through KiwiSaver employee and employer contributions in 2024/25 (refer to section 7 for details).
- The appropriation for the pass through of KiwiSaver employee and employer contributions is a permanent legislative authority (PLA) that does not affect the Crown operating balance. The value is driven by the level of salaries and wages and contribution rates. The payments come through Inland Revenue and are passed onto scheme providers.

Desired state

- KiwiSaver is a long-term saving scheme which helps New Zealanders save for a first home or for retirement.
- Information sharing settings ensure providers and government agencies have the necessary information to both efficiently run and evaluate whether the scheme's settings are delivering on its long-term outcome.

Constraints and opportunities

- A constraint is that responsibility for policy settings to deliver on the desired state sits with Treasury and MBIE. The Financial Markets Authority is responsible for scheme provider administration. IR is responsible for membership rules and contributions. The Retirement Commissioner provides regular reviews of retirement policies including KiwiSaver. In practice, agencies regularly consult one another and work together on policy initiatives.
- Information to assess the performance of this large NZ asset against long term outcomes is not readily accessible for agencies such the Retirement Commissioner.

Improvement and learning

- Educating and informing employers so they understand their role and responsibilities relating to KiwiSaver. There is low engagement in KiwiSaver among some employers, which leads to errors that create manual work for the department.

KEY IMPACT AREA 4 – LOANS

Current state

- We manage Student Loans within our Individuals Segment, collecting $1.6b in repayments from 618,000 borrowers based here and overseas. Payments from New Zealand based borrowers are low effort to collect with high compliance rates (95%) due to leveraging the tax system, particularly PAYE. 18% of borrowers are based overseas and spread over 100 countries, with the whereabouts of many unknown. Compliance is low (29%) resulting in high costs to collect. Overseas based borrowers represent 93% of the $2.4b in overdue repayments.
- Loans account for approximately 6% of our total costs and the nominal value of student loans is $15.9b and small business cashflow scheme loans is $1.1b.
- Small Business Cashflow Scheme loans were introduced for businesses either suffering a loss or predicted loss of revenue as a result of COVID-19. Applications have now closed, and businesses are repaying their loans. However, overdue payments have started to increase with more than 10,000 customers having overdue repayments worth $137m. These loans are managed by our Micro Businesses segment.
- Under Vote Revenue non-departmental appropriations, the department is forecast to administer, on behalf of the Crown, $2.9b of other expenses in 2024/25 (refer to section 7 for details).
- Most of the non-departmental expenditure, with the exception of impairments and initial fair value write-downs, is driven by policy settings and customer volumes. Policy settings are considered as part of the TSPWP. Impairments and initial fair value write-downs are driven by multiple factors including macroeconomic forecasts and customer behaviours.

Desired state

- Improved percentage of loans repaid on schedule, and those that are in default are under a repayment plan. Appropriate enforcement action is taken when necessary.
- Improved compliance for overseas based student borrowers.
- Make it easy for student loan customers to get it right with minimal effort, supported by integrated services and information sharing across agencies.
- An increased number of overseas based borrowers make their first two repayments (this is a good indicator of ongoing compliance).

Constraints and opportunities

- A constraint for student loans is that the lead agency is the Ministry of Education which is responsible for strategic policy and the valuation, lending sits with MSD. IR is responsible for collection. In 2026 IR becomes responsible for making final-year fees free payment.
- The number of NZ based borrowers has declined significantly over the past few years with fewer students entering the loan scheme, while the number of overseas based borrowers has steadily increased post Covid, so maintaining current revenue levels is challenging.
- A constraint is that time limited funding for small business cashflow scheme loans finishes in 2031.

Improvement and learning

- Explore opportunities to improve repayments from overseas based borrowers, including improving those regularly meeting obligations right from the start, explore further third-party collection opportunities and options to encourage payments from those in serious default.
- Extend administrative and jurisdictional reach of student loan repayment system.
- Strengthen elements of the loan system to encourage timely repayment.

3c. Value and Performance: Key impact areas

KEY IMPACT AREA 5 – TAX & SOCIAL POLICY WORK PROGRAMME

Current state

- The Tax and Social Policy Work Programme (TSPWP) is jointly approved by the Minister of Finance and the Minister of Revenue. It forms a detailed agreement on the Government's tax and social policy priorities for the Treasury and Inland Revenue to progress.
- The work programme will be released in November 2024 and will be available on the https://www.taxpolicy.ird.govt.nz/ website. It will be periodically updated (e.g. 6-monthly) as work items are completed and new work items arise depending on fiscal cost and available resourcing and change capacity.
- The non-departmental financial impacts (e.g. tax revenue) are managed through the Tax and Social Policy Scorecard. Initiatives with negative and positive impacts are offset against other, generally resulting in a fiscally neutral programme.
- While not published on the Inland Revenue website, the work programme is supplemented by initiatives that will be progressed through the Budget process.

Desired state

- Inland Revenue needs to balance system change resources (capacity) to maintain the current system (e.g. START) and deliver new Government initiatives.
- To be efficient and effective, where possible change is best delivered within existing system change release dates that generally align to tax years. Delivering change outside of these releases creates additional risk and cost.

Constraints and opportunities

- Inland Revenue's change capacity is categorised as:
  - Enterprise – government priorities and major changes requiring cross IR support
  - Local – smaller, lower risk changes managed within an allocated capacity
  - Operate – ongoing operations, support, maintenance and break/fix activities managed with an allocated capacity
- As part of the Budget 2024 baseline savings process the department committed to a reduction of $15m in its systems maintenance and change capacity. This means the department can only self-fund a relatively small work programme going forward. The department will need to seek funding for Government initiatives as it will not have the capacity to fully-fund or partially fund TSPWP initiatives or Budget initiatives without impacting service delivery, tax revenue, debt, or system change and maintenance activity.

Improvement and learning

- In planning the TSPWP both IR and Ministers will need to be mindful of the need to protect a level of capacity to deliver fiscal savings and maintain system integrity.
- With the level of digital adoption across our services many changes now require co-ordination with customers' own systems and software and payroll providers. This requires the department to provide sufficient lead in time to consult on the nature of the change and for customers and providers to schedule these into their own change programmes.

4. Managing within baselines: Current and future drivers

DRIVERS OF COST PRESSURES AND INITIATIVES FOR MANAGING WITHIN BASELINES

4.1

	Operating impact $m increase, (decrease)					
	2017/18	2024/25	2025/26	2026/27	2027/28	2028/29
Total baseline[1]	6,079	**19,381**	**19,313**	**20,140**	**21,198**	**21,902**
Operating baseline[2]	639	**766**	**717**	**710**	**722**	**736**
Total volume pressures	-	-	*27*	*27*	*27*	*27*
Total price pressures	-	-	*6*	*12*	*18*	*24*
Total wage pressures	-	-	*10*	*20*	*30*	*40*
Total other pressures	-	-	*12*	*12*	*12*	*12*
Total cost pressures	-	-	*54*	*70*	*86*	*102*
Total reprioritisation/ savings	-	-	*(54)*	*(70)*	*(86)*	*(102)*
Net impact on baseline	-	-	-	-	-	-

1. Includes all operating (departmental, non-departmental, benefits or related expenses and revenue dependent appropriations). Benefits or Related Expenses and revenue dependent appropriations are removed in the operating baseline.
2. Excludes non-departmental other expenses – refer section 7a.

Summary of cost pressures:

- Volume – Reflects the impact of enduring work funded by time-limited funding that ceases 30 June 2025. The cessation of this $27m will impact compliance outcomes. Additional funding would be required to negate this impact and protect the base for additional compliance funding and outcomes.
- Wage – Reflects the forecast impact of compounding annual remuneration increases based on Treasury BEFU 2024 inflation forecasts (2% per annum).
- Price – Reflects the forecast impact of inflationary cost pressures on operating contracts and accommodation rent.
- Other – Reflects the impact of funding transfers that reverse in 2025/26.
- We can manage wage and price pressures by delivering annual productivity improvements and efficiencies through change initiatives without impacting front line services. By prioritising fiscal efficiencies there is an opportunity cost of not being able to reinvest to cover demand growth or improve revenue or social outcomes.
- Back-office savings partially address the reducing baseline.

FUTURE DRIVERS

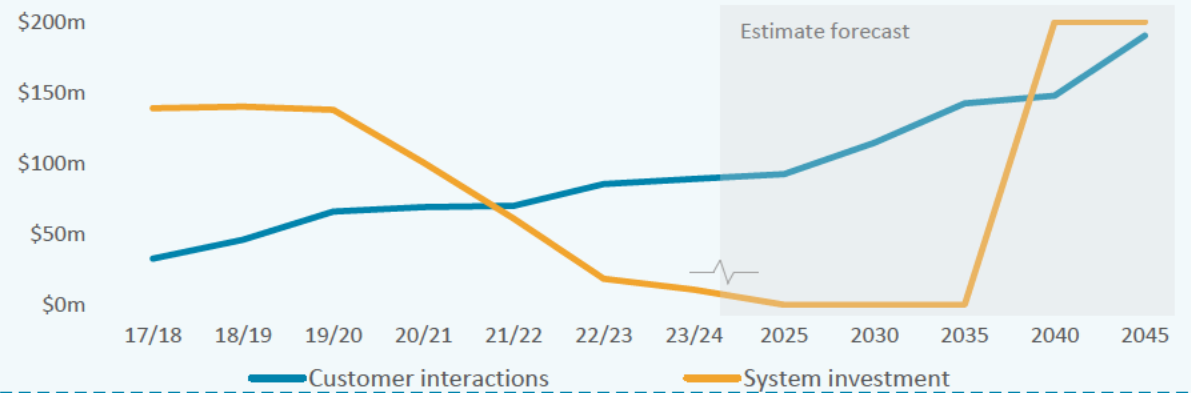
There are two primary drivers underpinning the financial stewardship and future expenditure of Inland Revenue (IR):

Customer interactions – Multiple factors drive customer interactions, such as customer growth and churn in the customer base (e.g. taxpayers, social policy recipients, and borrowers). Macroeconomic conditions, societal attitudes to compliance and technology change also have a significant impact on interactions. A proxy driver of interactions is population and businesses growth. The department's efficiencies help manage the increasing customer interactions. Periodic step funding changes are likely to be required over the next 20 years to fund customer growth, otherwise revenue, debt, and performance outcomes are likely to be compromised.

System investment - The Government made a significant transformational investment into Inland Revenue (c$800m Crown funding). This transformation was successfully completed in 2021/22. Maintaining the benefits of this investment requires ongoing systems maintenance that the department will fund. The economic life of this asset was originally set for 9 years but we expect with maintenance, version upgrades and continuous investment that the life of this asset can be extended to 18+ years (2040/41) when the asset will need to be replaced. While the department will build cash reserves to fund this replacement, these reserves will not be sufficient to cover the inflationary cost component of a new asset.

The forecast fiscal costs of future drivers over the next 20 years

4.2



Choices to mitigate/manage long term pressures

Policy that causes demand or demand driver	Options to manage this?	Lead time required to make changes?
Maintaining a world class tax system	Yes.	Maintaining a simple tax system that uses emerging technology and minimises customer interactions and compliance costs will reduce the fiscal impact of customer growth. New policies that require customers to interact more with the tax system or complicates the tax system are likely to increase administration costs.
Maintaining the investment in system technology	Yes.	The department has a multi-year plan to maintain and upgrade its core system (START). The key risk is fiscal pressures or additional work programme changes that reduce funding or capacity to maintain this programme of work.

Plan for managing within baselines (Table 4.1)

Transfers: To assist with managing cost pressures the department is seeking the flexibility for intra-year transfers to manage funding over the short-term on a fiscally neutral basis.

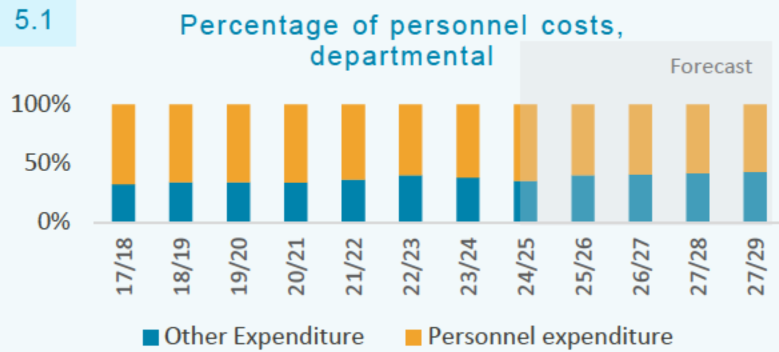
Raising Revenue: extending the B24 investment in compliance activities provides an 8:1 return for OBEGAL and the Budget allowance.

Area	Impact 24/25	25/26	26/27	27/28	28/29	Description
B24 baseline savings	(30)	(30)	(30)	(30)	(30)	The department is on track to deliver Budget 2024 baseline savings in operating costs with no impact on frontline services. $15m of these savings was from our change capacity which meant we could only self-fund a relatively small work programme moving forward. New initiatives above this level will need to be funded.
Reduce compliance activities	-	(27)	(27)	(27)	(27)	Compliance activities are reduced impacting tax revenue and debt outcomes. Specific impacts are outlined in section 3a Key Impact Area – Tax revenue – Constraints and Opportunities last bullet point.
Managing cost pressures through efficiencies		**(13)**	**(29)**	**(45)**	**(61)**	We can deliver annual productivity and efficiency improvements without compromising performance or customer service.
Back-office savings	-	(14)	(14)	(14)	(14)	A reduction in back-office services. There may be service impacts from these changes. s 9(2)(g)(i)

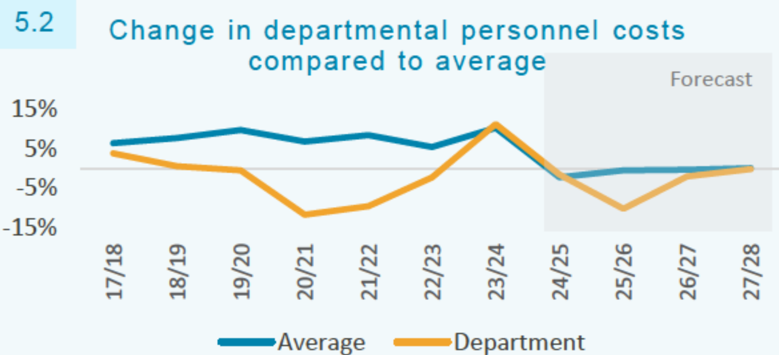
5. Managing within baselines: Workforce and capability

SUMMARY OF WORKFORCE

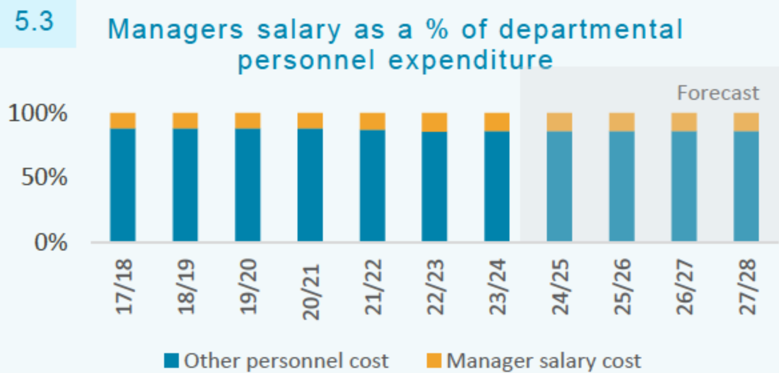
5.1 Percentage of personnel costs, departmental



5.2 Change in departmental personnel costs compared to average



5.3 Managers salary as a % of departmental personnel expenditure



Contractor and consultant (C&C) spend

In an increasingly agile business environment, Inland Revenue needs to operate with the capacity to temporarily increase and decrease its workforce size in response to government policies, economic factors, business peaks and fluctuating levels of customer demand.

Inland Revenue will continue to use temporary resources to complement and supplement internal capability, particularly for specialist capabilities. These temporary resources are generally engaged on a short-term basis.

The department's expenditure on C&C has declined since the completion of the transformation programme in June 2022. Operating expenditure on C&C peaked at $137m during transformation and was $27m for 2023/24.

Impact of workforce

Estimated FTE allocation as at 30 June 2024	Tax	Social Policy	Total
Frontline			
Services to inform	1,130	470	1,600
Services to process	510	250	760
Debt and unfiled returns	370	120	490
Investigation and audit	460	50	510
	2,470	890	3,360
Other			
Support and enabling			1,020
Total			4,380

Explanation of workforce breakdown

- Services to inform customers about entitlements and obligations, eg, customer assistance, education, disputes resolution and rulings.
- Services to process entitlements and obligations, eg, registration, process returns/payments, issue assessments, process refunds/disbursements.
- Debt collection and unfiled returns eg, activities to prevent returns and debt becoming overdue, and to collect unfiled returns and overdue payments.
- Investigations and audit eg, early interventions, investigation, audit and integrity of tax system/functions.
- Support and enabling eg, policy, finance, human resources, information technology, governance, strategy, planning, marketing, intelligence, and initiatives and system maintenance.

Notes:

1. Budget 2024 initiatives, for example the investment in compliance and FamilyBoost will be reflected in 2024/25 FTEs.
2. A contingent workforce is engaged to support key events/work as required. This contingent workforce is not included in the FTEs.

Strategy for workforce costs, including remuneration

The department will manage the compounding financial impact of remuneration cost pressures estimated at $15m per annum. From 2025/26 this impact will primarily result from an equivalent reduction in FTEs as efficiencies in non-personnel expenditure are required to manage volume and CPI increases.

The ratio of personnel expenditure to total expenditure is forecast to remain at approximately 62%.

The ratio of leaders to staff was reviewed as part of the transformation programme and will continue to be reviewed.

- IR has six reporting layers which is considered a relatively flat structure within recent benchmarking.
- The ratio of senior managers (Tiers 2 and 3) salary expenditure to total personnel expenditure is forecast to remain constant at ~2%.
- The ratio of managers salary expenditure to total personal expenditure is forecast to remain constant at ~14% (refer Graph 5.3). The definition of managers is as per the PSC occupational profile categories.

Capability – non-workforce (e.g. organisational systems, processes, governance, technology and data)

The department is well-placed in terms of non-workforce capability following its recent transformation programme. The department will continue to maintain this non-workforce capability, for example maintenance and continuous improvement of the tax system (START), contact centre, analytics, website, and workplace technology.

Balancing change capacity and competing Government priorities will be a key challenge (refer Key Impact Areas 1 and 5).

Workforce changes required to ensure delivery in the key areas of impact

	Change required (including targeted workforce segment)	Current state (% of the target workforce)	Ideal state within the time horizon	Plan to achieve the change	Risks, challenges, and barriers
1	Compliance planning and risk capability	Rebalancing and growing compliance capabilities within the workforce.	The capacity and capability to address future compliance challenges.	Internal training and recruitment (internal and external).	Increasing complexity of tax avoidance and evasion.
2	Understanding and leveraging digital, AI and analytics capabilities within our eco-systems	Strong capabilities to understand and support current state eco-systems but limited capacity	Taxation and social services become more of a seamless and frictionless process over time.	Build stewardship capability and develop a digital ecosystem work programme.	Strong demand and competition for these capabilities within the NZ marketplace
3	Enduring productivity improvement	Focus over BT and since on large scale centrally, co-ordinated changes has meant we have reduced internal capability and capacity	Capability to analyse opportunities, commission and deliver improvements that will realise 1-2% pa productivity gains	Dedicated resources and external augmentation with cross skilling	Availability of change capacity to implement improvements in core systems
4	Change capacity and capability	Strong capabilities to manage change within our boundaries on core systems but limited capacity	Scalable change capacity that can co-ordinate eco-system changes for both tax and social services eco-systems	Leveraging change capabilities from Business Transformation and adapting into current context	Strong demand and competition for these capabilities within the NZ marketplace

6. Managing with baselines: Investment and monitoring

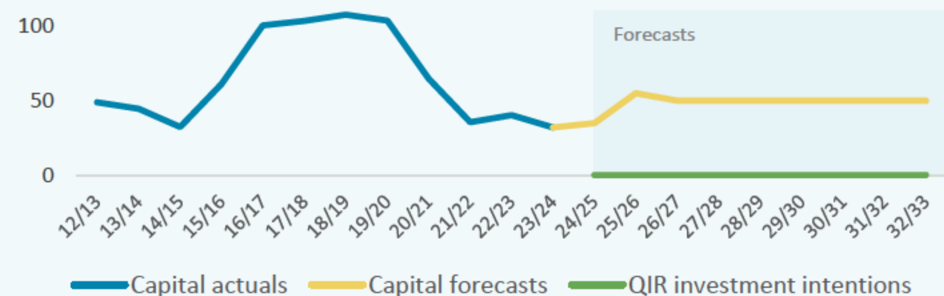
INVESTMENT ($200M+)

Investments in the planning stage (departmental and non-departmental)

The table below outlines departmental or non-departmental investments over $200m in the planning stage.

Project	Total Cost	Forecast business case approval	Forecast delivery start	Forecast completion	CBA
n/a	n/a	n/a	n/a	n/a	n/a

6.1 CAPEX actuals and outyears (departmental) ($m)



Assurance on delivery of investments

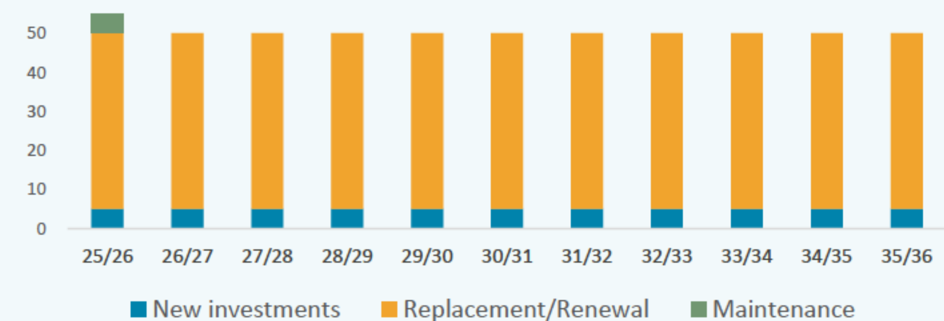
[Over the past five years how many investments have been subject to a post project implementation review (Gateway 5 or otherwise) and what are the key learnings from this for future delivery?]

WORK IN PROGRESS

Implementation of $200m+ projects in the last five years:

Total no. of projects	No. assessed	Met or exceeded expected benefits	On time	On Budget	To scope
1	[X]		Yes	Yes	Yes

6.2 Investment intentions by type ($m)



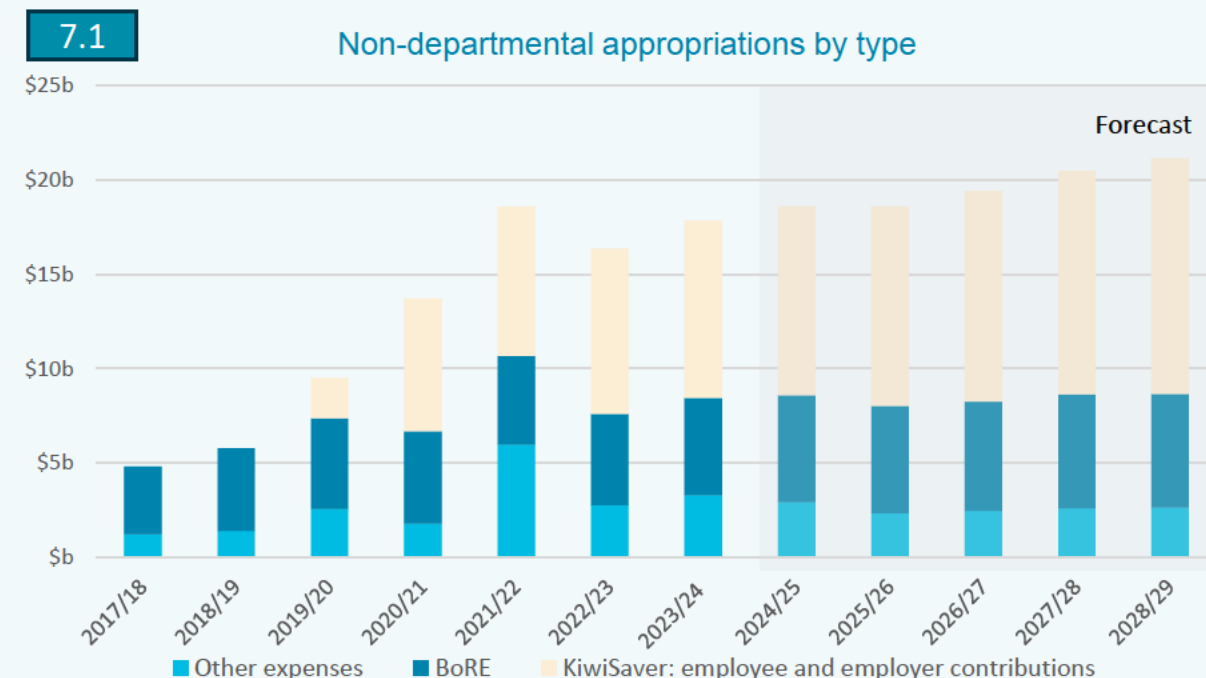
MONITORING STATEMENT (IF APPLICABLE)

Not applicable for Vote Revenue.

7a. Additional information – non-departmental appropriations

7.1 NON-DEPARTMENTAL EXPENDITURE BY TYPE

This section extends sections 1.2 and 4 and provides information on non-departmental Benefits or Related Expenditure, other expenses and pass-through payments appropriations.



Borrowing expenses and other expenses – core

Includes the R&D Tax Incentive, the initial fair value write-down on student loans, the initial fair value write-down on Small Business Cashflow Scheme lending, impairments and write-offs (student loans, Small Business Cashflow Scheme loans, and debt relating to child support, general tax, KiwiSaver and Working for Families Tax Credits), and interest payments for the income equalisation and environmental restoration account schemes. It also included the COVID-19 Resurgence Support and COVID-19 Support payments in 2020/21 and 2021/22 and the Cost-of-Living Payments in 2022/23.

Benefits or related expenses (BoRE)

Includes Working for Families Tax Credits, Best Start tax credit, paid parental leave payments, KiwiSaver (interest and tax credits), FamilyBoost tax credits and child support payments to custodial persons. It also included payroll subsidy and parental tax credit, which both ceased in 2019/20, and the Research and Development Tax Incentive from April 2019 to April 2021.

Other expenses - KiwiSaver: employee and employer contributions (pass through)

This appropriation is for the pass through of KiwiSaver: employee and employer contributions. This permanent legislative authority (PLA) does not affect the Crown operating balance.

Managing within baselines: Current and future drivers – non-departmental

Most of the non-departmental expenditure, with the exception of impairments and initial fair value write-downs, is driven by policy settings and customer volumes. Policy settings are considered as part of the Tax and Social Policy Work Programme.

Impairments and initial fair value write-downs are driven by multiple factors including macroeconomic forecasts and customer behaviours.

7.2 NON-DEPARTMENTAL EXPENDITURE

The table below sets out the Vote Revenue non-departmental expenditure appropriations. **The 2024/25 Budget is as at BEFU 2024.**

Vote Revenue non-departmental appropriations	2023/24 Actual $m	2024/25 Forecast $m
Benefits or related expenses		
Best Start tax credit [1]	336	346
Child support payments [1]	413	425
Family tax credit [1]	2,297	2,403
FamilyBoost tax credit [1]	-	174
In-Work tax credit [1]	437	578
KiwiSaver: interest	3	3
KiwiSaver: tax credit, contribution and residual entitlement	1,011	1,051
Minimum family tax credit [1]	11	12
Paid parental leave payments	647	695
	5,156	5,687
Non-departmental borrowing expenses		
Environmental restoration account interest [1]	4	4
Income equalisation interest [1]	9	8
	13	12
Non-departmental other expenses - core		
Cost of Living payment [3]	-	-
COVID-19 Resurgence Support Payment [4]	-	-
COVID-19 Support Payment [5]	-	-
Impairment of debt and debt write-offs	2,376	1,676
Impairment of debt and debt write-offs relating to child support	-	-
Impairment of debt relating to the SBCS [2]	38	-
Initial fair value write-down relating to student loans	544	626
Initial fair value write-down relating to the SBCS [2]	-	-
Science, Innovation and Technology: R&D Tax Incentive	317	593
	3,275	2,895
Non-departmental other expenses – pass through		
KiwiSaver: Employee and Employer Contributions	9,424	10,030
Total non-departmental operating expenditure	**17,867**	**18,612**

1. Denotes a Permanent Legislative Authority (PLA).
2. SBCS – COVID-19 Small Business Cashflow Scheme.
3. Cost of Living payment - $10,000 forecast in 2024/45.
4. COVID-19 Resurgence Support Payment - $40,000 forecast in 2024/25.
5. COVID-19 Support Payment - $90,000 actual in 2023/24 and $80,000 forecast in 2024/25.

The table below sets out the key non-departmental assets managed on behalf of the Crown.

Vote Revenue non-departmental assets held on behalf of the Crown	2023/24 Gross $m	2023/24 Fair value $m
Receivables	28,485	22,988
Receivables – child support	755	196
Small Business Cashflow Scheme loans	1,120	465
Student loans	15,868	9,596

7b. Additional information

7.3 KEY RISKS

Approach to risk management

IR has a robust enterprise risk management framework, which is consistent with the International Risk Management Standard (ISO 31000:2018), and associated risk registers are in place. These risk management practices consider operational and tactical risks and the eight enterprise risks that are regularly monitored by our Executive Leadership Team.

Assurance is provided in different forms, including our executive level governance system, our policies, and processes. The Risk and Assurance Committee provides independent, impartial advice and insight to the Commissioner on risk oversight and management as well as the system of internal control.

Our enterprise plan (Eke Tangaroa) links together risk and planning to ensure we allocate sufficient resources to managing our risks cost effectively.

Enterprise risks

IR is currently monitoring eight enterprise risks including the supporting plans to improve control effectiveness to the desired target state position within agreed dates.

Enterprise Risk	Current Risk Level	Target Risk Level
Failure to deliver for customers or government priorities	High	High
Compliance is reduced to the point of having a material impact on revenue collection for the Crown	Very High	High
Unable to ensure continuity of business services	High	High
Insufficient people capability and capacity to deliver the outcomes	Very High	Medium
Data, analytics, information and knowledge management is insufficient and impacts the quality, efficiency and integrity of our decision-making, outcomes and reputation	High	Medium
Unexpected negative stakeholder reaction to change	High	High
Failure to provide appropriate stewardship of tax and social policy system	Very High	High
IR does not adequately consider the accountabilities we have over data in AI tools, or does not sufficiently manage the implications of AI on the tax and social policy system	Very High	Medium

Key controls

There are 55 controls mapped to our enterprise risks and 39 are rated effective, 15 partially effective and 1 is to be rated. Of the partially effective controls, 5 have achievable remediation plans in place to move them to effective.

7.4 OTHER INFORMARTION

Performance Improvement Review of Inland Revenue, June 2024

https://www.publicservice.govt.nz/assets/DirectoryFile/FINAL-IR_Performance_Improvement_Review-web-version.pdf

Tax and Social Policy Work Programme (November 2024)

https://www.taxpolicy.ird.govt.nz/

Tax Administration 3.0: The Digital Transformation of Tax Administration

https://www.oecd.org/en/publications/tax-administration-3-0-the-digital-transformation-of-tax-administration_ca274cc5-en.html

Government Targets.

https://www.dpmc.govt.nz/our-programmes/government-targets