

Hon Simon Watts, Minister of Revenue

Information Release

Release of issues paper – Fringe Benefit Tax – options for change

June 2025

Availability

This information release is available on Inland Revenue's tax policy website at:

<https://www.taxpolicy.ird.govt.nz/publications/2025/ir-eco-25-sub-0031>

Documents in this information release

#	Reference	Type	Title	Date
1	ECO-25-SUB-0031	Cabinet paper	Release of Issues Paper – Fringe Benefit Tax – Options for Change	26 March 2025
2	ECO-25-SUB-0031	Summary	Summary: Fringe Benefit Tax: Release of Issues Paper on Options for Change	26 March 2025
3	ECO-25-MIN-0031	Minute	Fringe Benefit Tax: Release of Issues Paper on Options for Change	26 March 2025
4	CAB-25-MIN-0086	Minute	Report of the Cabinet Economic Policy Committee: Period Ended 28 March 2025	31 March 2025

Additional information

The Cabinet paper was considered by the Cabinet Economic Policy Committee on 26 March 2025 and confirmed by Cabinet on 31 March 2025.

The attachment to the Cabinet paper is not included in this information release as it is publicly available:

- Officials' issues paper: Fringe benefit tax – options for change:
<https://www.taxpolicy.ird.govt.nz/consultation/2025/fbt-options-for-change>

Information withheld

Some parts of this information release were withheld as they were not in scope.

Accessibility

Inland Revenue can provide an alternate version of this material if requested. Please cite this document's title, website address, or PDF file name when you email a request to policy.webmaster@ird.govt.nz

Copyright and licensing

Cabinet material and advice to Ministers from the Inland Revenue Department and other agencies are © Crown copyright but are licensed for re-use under the Creative Commons Attribution 4.0 International (CC BY 4.0) licence (<https://creativecommons.org/licenses/by/4.0/>).



In Confidence

Office of the Minister of Revenue

Chair, Cabinet Economic Policy Committee

RELEASE OF ISSUES PAPER – FRINGE BENEFIT TAX – OPTIONS FOR CHANGE

Proposal

- 1 This paper seeks the Cabinet Economic Policy Committee's agreement to:
 - 1.1 release the **attached** officials' issues paper, *Fringe benefit tax – options for change* (the **issues paper**) on Tuesday 1 April 2025; and
 - 1.2 a five-week public consultation period ending on Monday 5 May 2025.

Relation to Government priorities

- 2 The issues paper supports the Government's revenue strategy to maintain a stable, efficient and predictable revenue system. It also progresses the fringe benefit tax (FBT) review item on the Government's tax and social policy work programme, focusing on simplifying the tax rules and reducing compliance costs.

Background

- 3 FBT was originally introduced in 1985 with the intention of bolstering the pay-as-you-earn system by ensuring that remuneration from employment is taxed fairly, regardless of whether it is paid in cash or provided by way of a non-cash benefit. However, over the past 40 years FBT has become increasingly complex, and businesses have reported that the regime is confusing, compliance-cost intensive, and unfair. For that reason, simplification of the FBT regime has regularly been the number one priority of stakeholders.
- 4 In response to this feedback, Inland Revenue undertook a regulatory stewardship review of FBT in 2022. The review's conclusions largely aligned with the feedback from industry in that although FBT continued to perform its primary task it had become complex and had high compliance costs which was impacting on the workability of the regime.
- 5 In response to this feedback, I directed officials to work with private sector stakeholders to simplify the FBT regime and reduce unnecessary costs on New Zealand businesses. The proposals in the attached consultation document (summarised below) are the result of this collaborative process.

The issues paper

Content of the issues paper

- 6 The issues paper discusses and seeks public submissions on the following:
 - 6.1 **Fringe benefit tax rules:** simplifying the rules focusing on issues related to the treatment of motor vehicles, unclassified benefits, and other miscellaneous aspects of the rules;
 - 6.2 **Entertainment deduction limitation:** a proposal to simplify these rules by including these adjustments within the fringe benefit tax rules;
 - 6.3 **Integrity and simplification:** integrity and simplification issues aimed at protecting against tax evasion, and maintaining stable, predictable, and where possible, simple tax rules for employers providing non-cash benefits to their employees.

Contentious topics

- 7 The changes to motor vehicle rules, specifically the removal of the work-related vehicle exemption may provoke comment. The reason for this is the fact that this exemption is commonly misunderstood, with many considering that if they provide a work-related vehicle, this will never be subject to fringe benefit tax. This is not the case, and these changes will seek to clarify this point.
- 8 The proposal to integrate the entertainment deduction limitation within the fringe benefit tax rules may also provoke comment. While the proposal will simplify the rules substantially, this may result in some taxpayers paying more tax.
- 9 Offsetting the changes above, many of the proposed changes are favourable to taxpayers, with many being likely to see an overall reduction in their total costs (including compliance). The broader revenue impacts of the proposals will be fiscally neutral.

Next steps

- 10 Officials will consider all submissions received and will report to me once consultation has closed.

Financial implications

- 11 The release of the issues paper will not have any fiscal implications. If I decide to take forward any policy ideas following consultation and advice, fiscal implications will be included in subsequent policy advice to Cabinet.

Legislative Implications

- 12 The release of the issues paper will not give rise to any immediate legislative implications.

Impact Analysis

Regulatory impact assessment

- 13 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

- 14 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to the policy proposal at this time, as it is an officials issues paper. The CIPA team will be consulted again when the proposal reaches a later stage, at which point a CIPA assessment will be prepared.

Population implications

- 15 Releasing the issues paper will not have any population implications. If I decide to take forward any policy ideas following consultation, population implications will be included in subsequent policy advice to Cabinet.

Human rights

- 16 The proposals contained in the issues paper are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 17 Inland Revenue officials consulted with the Treasury on the draft issues paper and this Cabinet paper.

Communications

- 18 Communications about this issues paper will be undertaken by Inland Revenue. The issues paper will be hosted on Inland Revenue's tax policy website, with the proposed consultation period open for five weeks until Monday 5 May 2025.
- 19 Media enquiries will be sent to Inland Revenue's policy communications staff, who will work with the Minister's Office to coordinate responses.

Proactive release

- 20 I propose to delay the proactive release of this Cabinet paper, associated minutes, and key advice papers with appropriate redactions until after Budget 2025.

Recommendations

The Minister of Revenue recommends that the Cabinet Business Committee:

- 1 **agree** to the release of the attached draft issues paper, *Fringe benefit tax – options for change*, on Tuesday 1 April 2025;
- 2 **agree** to a five-week public consultation period, ending on Monday 5 May 2025.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue



Cabinet Economic Policy Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Fringe Benefit Tax: Release of Issues Paper on Options for Change

Portfolio	Revenue
Purpose	This paper seeks agreement to release the attached issues paper <i>Fringe Benefit Tax – options for change</i> for public consultation.
Previous Decisions	None.
Proposal	<p>Fringe benefit tax (FBT) was introduced in 1985, and over the years has become increasingly complex, with businesses reporting that the regime is confusing, compliance-cost intensive and unfair.</p> <p>Officials have worked with private sector stakeholders on the matters in the issues paper, which propose simplifying the FBT rules relating to the treatment of motor vehicles, unclassified benefits, the entertainment deduction limit, and other miscellaneous aspects. The issues paper also considers integrity and simplification issues aimed at protecting against tax evasion, and maintaining stable, predictable and simple FBT rules. Potentially contentious issues are outlined in paragraphs 7 to 9.</p>
Impact Analysis	Not required at this stage.
Financial / Legislative Implications	None from this paper.
Timing Matters	The consultation period will be five weeks, closing on 5 May 2025.
Communications	The issues paper will be published in IRD's website.
Consultation	<p>Paper prepared by IRD. The Treasury was consulted.</p> <p>The Minister indicates that all Ministers were consulted.</p>

The Minister of Revenue recommends that the Committee:

- 1 note that fringe benefit tax was introduced in 1985 and has become increasingly complex;
- 2 approve the release of the issues paper, *Fringe benefit tax – options for change*, attached under ECO-25-SUB-0031 on 1 April 2025, noting that minor editorial changes may be made prior to its release;
- 3 agree to a five-week public consultation period, ending on Monday 5 May 2025.

Rachel Clarke
Committee Secretary

Hard-copy distribution:
Cabinet Economic Policy Committee



Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Fringe Benefit Tax: Release of Issues Paper on Options for Change

Portfolio

Revenue

On 26 March 2025, the Cabinet Economic Policy Committee:

- 1 **noted** that fringe benefit tax was introduced in 1985 and has become increasingly complex;
- 2 **approved** the release of the issues paper, *Fringe benefit tax – options for change*, attached under ECO-25-SUB-0031 on 1 April 2025, noting that minor editorial changes may be made prior to its release;
- 3 **agreed** to a five-week public consultation period, ending on Monday 5 May 2025;
- 4 **noted** that the Minister of Revenue will report back to Cabinet with any proposals following officials' consideration of feedback.

Rachel Clarke
Committee Secretary

Present:

Rt Hon Winston Peters
Hon David Seymour
Hon Nicola Willis (Chair)
Hon Brooke van Velden
Hon Shane Jones
Hon Louise Upston
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Mark Patterson
Hon Scott Simpson
Simon Court MP

Officials present from:

Office of the Prime Minister
Office of Hon Simon Watts
Officials Committee for ECO



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Economic Policy Committee: Period Ended 28 March 2025


On 31 March 2025, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 28 March 2025:

Not in scope

ECO-25-MIN-0031 **Fringe Benefit Tax: Release of Issues Paper on Options for Change** CONFIRMED
Portfolio: Revenue

Not in scope

Not in scope



Rachel Hayward
Secretary of the Cabinet