Hon Simon Watts, Minister of Revenue

Information Release

Discussion document: GST and joint ventures

May 2025

Availability

This information release is available on Inland Revenue's tax policy website at https://taxpolicy.ird.govt.nz/publications/2025/ir-eco-25-sub-0045

Documents in this information release

#	Reference	Type	Title	Date
1	IR2024/187	Report	GST deductions for members of unregistered unincorporated bodies	14 May 2024
2	IR2024/433	Report	GST and unincorporated bodies – Scope of proposal for public consultation	7 November 2024
3	IR2025/027	Report	Discussion document – GST and joint ventures	12 February 2025
4	ECO-25-SUB-0045	Cabinet paper	Discussion document: GST and joint ventures	2 April 2025
5	ECO-25-MIN-0045	Minute	GST and Joint Ventures: Discussion Document	2 April 2025
6	CAB-25-MIN-0102	Minute	Report of the Cabinet Economic Policy Committee: Period Ended 4 April 2025	7 April 2025

Additional information

The Cabinet paper was considered by the Cabinet Economic Policy Committee on 2 April 2025 and confirmed by Cabinet on 7 April 2025.

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

- GST and unincorporated joint ventures – A Government discussion document[1]

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant

[1] https://www.taxpolicy.ird.govt.nz/consultation/2025/gst-and-unincorporated-joint-ventures

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.

Sections of the Act under which information was withheld:

9(2)(a)	to protect the privacy of natural persons, including deceased people

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Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: GST deductions for members of unregistered unincorporated bodies

Date:	14 May 2024	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2024/187

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Note** the contents of this report	6 June 2024
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report **Refer** a copy of this report to the Minister for Racing and the Minister for Resources	6 June 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Kerryn McIntosh-Watt	Policy Director	s 9(2)(a)
Shanae Sherriff	Senior Policy Advisor	s 9(2)(a)

14 May 2024

Minister of Finance
Minister of Revenue

GST deductions for members of unregistered unincorporated bodies

Executive summary

Purpose

1. It is a common and longstanding practice in the racing industry and oil and gas industry for GST-registered members of an unincorporated body (such as a joint venture for oil and gas exploration, or a horse racing syndicate) to individually claim GST input tax deductions on their "share" of the expenses incurred by the unincorporated body. However, draft Inland Revenue guidance published last year for public consultation concludes that these practices do not appear to be correct under the current law.

2. We understand there have been recent discussions between the Ministers of Finance and Revenue and the Minister for Racing about the issue of bloodstock co-ownership arrangements. You have requested officials undertake further policy work on this issue. This report provides advice on whether a law change should be introduced to accommodate both the racing industry's and oil and gas industry's current practices and sets out a proposed way forward for this work.

Background

3. For GST purposes, unincorporated bodies (including partnerships, trustees of a trust, syndicates and joint ventures) are required to register for GST as a single person, rather than having each member register individually. Inland Revenue's draft guidance concludes that where an unincorporated body is not registered for GST (which may be because it is not carrying on a taxable activity, or because its supplies are under the registration threshold), the current law does not allow members to register individually for the body's activities.

4. Most horse racing syndicates are unable to register for GST because generally these syndicates carry on a hobby for the private enjoyment of their members, which does not constitute a taxable activity for GST purposes. However, some of the members of a racing syndicate may be GST-registered because they conduct a horse breeding, trading or training business. These members will often file GST returns that include deductions for their share of syndicate costs on the basis that their interest in the syndicate is part of their wider taxable activity of breeding, trading or training.

5. Even where a syndicate is carrying on a taxable activity, the members may prefer not to register it for GST for compliance cost reasons.

6. The oil and gas industry makes extensive use of joint venture structures for their exploration and extraction activities. Large industry participants come together using a joint venture structure to explore for resources and extract them. However, industry regulation requires that they do not jointly sell the resources. Therefore, each member sells their share of the resources separately. From a GST perspective, the industry's view is that the oil and gas joint ventures are not carrying on a taxable

activity, and cannot be registered, because the resources are not sold jointly. Therefore, the members account for GST separately.

7. The oil and gas industry is concerned about the possible loss of input tax deductions for legitimate business expenses if Inland Revenue's draft guidance is finalised. Both the racing industry and the oil and gas industry are also concerned about the significant compliance costs that would result if they must register the unincorporated bodies for GST to continue to be able to claim the input tax deductions.

8. The policy question of whether input tax deductions should ever be allowed for a horse racing activity that is carried on by a different GST person as a hobby is not clear cut. One view is that the investment in the horse, and the activity of racing the horse, should be considered to be carried on by the syndicate. If this racing activity does not meet the threshold for a taxable activity but is instead a hobby, then it is appropriate that input tax deductions for costs incurred by the syndicate in carrying on this hobby are denied. On the other hand, if a GST-registered breeder, trader or trainer can demonstrate a sufficient link between those inputs and a taxable activity that they carry on, then it is arguable that (consistent with the principle of GST not being a tax on business) they should be entitled to deduct input tax on their share of the syndicate's costs.

9. Achieving both industries' preferred position would involve legislating a special GST rule. Such a rule might be seen as a departure from the general GST principle of always treating an unincorporated body as a person for GST purposes, similar to the treatment of a company. However, a special "flow through" treatment for GST would not be entirely without precedent. A similar approach also applies in Australia to joint ventures (which are not "entities" for Australian GST purposes).

10. On balance, we recommend that officials undertake further work on developing a special GST rule, including further targeted consultation on the issue before reporting back to Ministers on a specific proposal for public consultation.

Next steps

11. Subject to your agreement, we will continue to consult on the problem and a potential solution with the affected industries. Given the high level of interest in the issue; the range of different arrangements that are affected or potentially affected; and the possibility that other industries aside from racing and oil and gas may also be affected, we recommend that any further policy work on this issue follows the full Generic Tax Policy Process.

12. We suggest that, following further targeted consultation, a detailed policy proposal could be included in a public consultation document to be released in early 2025. This timeline would allow for a legislative amendment to be included in an omnibus tax Bill to be introduced in the second half of 2025. Including a legislative amendment in this Bill would allow for public consultation on the legislation via the Select Committee process and, if Ministers agree, potential for targeted consultation on the draft legislation prior to its introduction.

13. If Ministers commission further policy work, Inland Revenue will not put further resources into finalising its draft guidance on the current law and will instead continue with its current approach to these issues. This means affected taxpayers would be able to continue applying their existing practices until the new law (the special GST rule) is enacted.

14. If Ministers ultimately decide not to make a law change (or decide that any law change should be limited in its scope, for example to joint ventures only, which would include the bloodstock co-ownership arrangements the racing industry is most concerned about), Inland Revenue will continue to work on finalising its draft

guidance. It would continue to engage with both the racing industry and the oil and gas industry throughout this process. However, the conclusions reached in the guidance are not likely to change as a result.

15. Due to Inland Revenue's long-standing acceptance of the current practices in both the racing industry and oil and gas industry, any change to current practices will only apply on a prospective basis and will provide time for those affected to change their practices.

Background

16. There has been uncertainty about whether GST positions taken by GST-registered members of racing syndicates are correct under the current law. To resolve the uncertainty, Inland Revenue began developing guidance on how the current law applies to these arrangements, with a draft released for public consultation in March 2023. The draft guidance is not specific to the racing industry. Instead, it considers the more general issue of whether GST-registered members of unregistered unincorporated bodies can register individually and deduct input tax on their share of the body's expenses if the body itself is not registered for GST.

17. For GST purposes, unincorporated bodies (defined as including partnerships, trustees of a trust and joint ventures) are required to register for GST as a single person, rather than having each member register individually. The original policy rationale for requiring the body instead of its members to register seems to have been to minimise compliance and administration costs. In the specific case of partnerships (for example, many accounting and law firms) and other types of unincorporated bodies that operate similarly to a company, the individual members often will not have any other taxable activity that requires them to separately register for GST. This means that in many of these cases, only one GST registration (as opposed to several) is required.

18. The draft guidance concludes that where an unincorporated body is not registered for GST, either because it is not carrying on a taxable activity or because its supplies are under the registration threshold, the current law does not allow the members to register individually in respect of the body's activities.

19. Most racing syndicates are unable to register for GST. Inland Revenue has published guidance that a person that is only carrying on a racing activity will usually be involved in a private recreational pursuit or hobby, and is therefore excluded from registering for GST because they are not carrying on a taxable activity.[1] This guidance has been generally accepted by the racing industry.

20. Even where a syndicate could register, they may not want to for compliance cost reasons.

21. The implications of the draft guidance for the racing industry are that in nearly all cases, a GST-registered member of a racing syndicate will be unable to claim input tax deductions for their contribution to buying a horse. In most cases they will also be unable to claim input tax deductions for ongoing costs (although this depends on the facts of the arrangement).

22. The draft guidance also has implications for joint venture arrangements used in the oil and gas industry to explore for and extract resources. The industry is concerned that if Inland Revenue's draft guidance is finalised, they would be denied significant amounts of input tax deductions for legitimate business expenditure.

23. Both industries strongly disagree with Inland Revenue's draft guidance and consider they should be able to continue with their current practices. Officials understand

[1] Refer QB 17/04: Goods and services tax – whether a racing syndicate can be a registered person (ird.govt.nz).

the Minister for Racing has recently raised the racing industry's concerns with the draft guidance with the Ministers of Finance and Revenue.

Bloodstock

24. Tax changes to support the racing industry were made in 2019 with the repeal of the betting levy over a three-year period, and the introduction of the stud-founding bloodstock policy. Since then, there has not been any further policy work on changes to the tax settings for racing.

25. It is common practice in the racing industry for individual horses to be owned by a group of people (commonly referred to as a syndicate). In most cases, each horse is owned by a different combination of owners to spread risk. Large breeders and trainers, who are separately carrying on breeding or training businesses that are registered for GST, will usually own interests in a number of different syndicates. These breeders and trainers will often file GST returns that include deductions for their share of syndicate costs on the basis that their interest in the syndicate is part of their wider taxable activity of breeding or training. However, these GST positions would be incorrect under Inland Revenue's draft guidance.

26. There are different types of "syndicates" or unincorporated bodies used in the racing industry. The two most common types of syndicate or co-ownership arrangements for horses are as follows:

    26.1 Co-ownership arrangements commonly used by breeders for mares and young horses. These arrangements are often undocumented, and the number of co-owners is usually small (five or fewer). Generally, the co-owners are already in a breeding business and will often be individually registered for GST in relation to the breeding business they carry on. These "syndicates" are not registered for GST because the industry has historically taken the view that these arrangements are not unincorporated bodies, and therefore GST registration should be undertaken at the level of the members rather than registering the syndicate itself. However, Inland Revenue is of the view that these arrangements are joint ventures, and therefore are unincorporated bodies (meaning they will need to register).

    26.2 Formal racing syndicates with large numbers of members, including members of the public investing for their personal enjoyment. The industry accepts that these are unincorporated bodies, but these are not generally registered for GST because most of these syndicates are carrying on a private recreational pursuit or hobby instead of a taxable activity.

27. Enforcement of Inland Revenue's interpretation of the current law will have a clear negative impact on the affected GST-registered breeders, traders and trainers investing in either type of syndicate.

28. The racing industry is especially concerned about the compliance costs that would result if the syndicates commonly used by GST-registered breeders referred to in [26.1] above must register for GST. The industry is of the view that if these syndicates are unincorporated bodies, they will be able to register for GST because they will be carrying on a taxable activity of breeding (with an associated activity of racing that is an integral part of the breeding activity). However, they do not want to separately register these syndicates because of the compliance costs involved, which they consider will disadvantage the industry's competitive position in relation to the Australian bloodstock breeding and racing industry (which is the New Zealand bloodstock industry's main competition). They also disagree that these arrangements are joint ventures, meaning they do not agree that the unincorporated body rules apply to them.

29. The industry has supplied us with some information about the total number of broodmares registered in 2022 (both thoroughbred and standardbred) and young thoroughbred horses born in 2021 and 2022, which approximates the total breeding stock. The industry has advised the numbers are understated. For instance, they do not include young thoroughbred horses retained by their breeders nor young standardbred horses born in 2021 and 2022. Out of the estimated total breeding stock (approximately 14,400 horses), approximately 6,500 are co-owned under the model referred to at [26.1] above. This means that roughly 45% of the total breeding stock in New Zealand is affected, potentially resulting in approximately 6,500 additional GST registrations if Inland Revenue's draft guidance is finalised.

30. In some cases, enforcement of Inland Revenue's interpretation is likely to result in a loss of input tax deductions for GST-registered breeders, traders and trainers for their contributions to a racing syndicate's costs (such as where the syndicate is carrying on the racing as a hobby, rather than a bona fide taxable activity). This will increase their costs of participating in the affected syndicates by 15% (the rate of GST). For example, if a GST-registered breeder currently pays $20,000 plus GST of $3,000 to buy a 10% share in a racing syndicate that owns a racehorse purchased for $230,000, their cost of buying into the syndicate would increase by $3,000 because they could no longer claim an input tax deduction for the $3,000 of GST. They would also no longer be able to deduct GST on their share of the syndicate's ongoing expenses, such as for veterinary services, and would not return GST on stakes won from racing.

31. We do not have data about the amount of expenditure incurred by larger racing syndicates that is currently being claimed by GST-registered breeders, traders and trainers, and cannot determine this from GST returns. This is because the relevant input tax deductions are combined with the input tax deductions claimed for their breeding, trading or training businesses.

32. Given these outcomes, the racing industry is concerned about the consequences for them of Inland Revenue finalising its draft guidance. In addition, Inland Revenue has some concerns over the extra work that will be required in determining whether a large number of bloodstock syndicates can be registered or are carrying on a private recreational pursuit or hobby.

Oil and gas

33. The oil and gas industry makes extensive use of joint venture structures for their exploration and extraction activities. The industry has a long history of using these structures going back several decades. Under these arrangements, large industry participants come together to explore for resources and extract them. However, industry regulation requires that they do not jointly sell the resources, so each member sells their share of the extracted resources separately. Because the joint ventures do not make any supplies, the industry considers the joint ventures are not carrying on a taxable activity, and therefore cannot register for GST. On that basis, the members account for GST separately in their own GST returns.

34. This industry practice has been accepted by Inland Revenue for a long time. However, based on Inland Revenue's draft guidance, the members are not entitled to claim input tax deductions separately under current law. The industry strongly disagrees with Inland Revenue's interpretation and considers that the current law already allows their practices.

35. We do not know the precise amount of input tax deductions that might be lost if Inland Revenue's draft guidance is finalised but, at a minimum, it would likely be in the tens of millions of dollars (as the affected expenditure is likely in the hundreds of millions of dollars).

36. Inland Revenue has been considering options that may be available under the current law to allow the oil and gas members to claim input tax deductions (the correct policy outcome is that input tax deductions should be allowed for these expenses, which clearly relate to taxable supplies made by the individual members). However, the industry does not consider those options to be reasonable or viable, because they would require the joint venture contracts to be amended, which the industry says would involve considerable administrative costs. This is because the contracts themselves (which are for long-term arrangements and projects lasting decades at a time) are complex and take a long time to negotiate.

Policy considerations

37. The presumed policy rationale (of compliance cost minimisation) for treating an activity carried on collectively by the members of an unincorporated body as being carried on by the body as a separate person to its members seems much less relevant for unincorporated joint ventures.

38. An unincorporated joint venture is often more like a cost-sharing arrangement between its members for the purpose of a specific project (as opposed to an ongoing business operation with a central administrative and decision-making function). Therefore, treating these joint ventures as though they are companies for GST purposes may increase rather than decrease overall compliance and administration costs. This is because the members typically carry on their own business activities separately from the other members, meaning they have to individually register for GST, regardless of whether the joint venture is carrying on an activity that requires it to be registered as a separate person.

39. In addition, the activity carried on by the joint venture may not be enough for a taxable activity (such as where the joint venture does not make any supplies). Where this is the case, the joint venture cannot register for GST, leading to a potential loss of input tax deductions for legitimate business expenses (as illustrated above in the oil and gas context).

40. Likely for these reasons, Australia's GST legislation does not treat an unincorporated joint venture as an "entity" for GST purposes. The individual members instead generally deduct input tax on their share of joint venture expenditure in their own GST returns.

41. Large racing syndicates are different to joint ventures. There appears to be general agreement that it is appropriate to treat these syndicates as carrying on the racing activity if the activity meets the threshold for a taxable activity, meaning the syndicate can register for GST.

42. The policy issue with the large syndicates is when the syndicate cannot register for GST (because the activity it carries on does not meet the threshold for a taxable activity). Typically, there are GST-registered syndicate members (such as a large breeder and/or trainer) whose investment in the syndicate is not merely a hobby but is, they would argue, integral to their own taxable activity of breeding, trading or training. Arguably, these members should be entitled to deduct input tax on their share of syndicate costs if those costs have a sufficient nexus to their own taxable activity, and those members use (or have a provable intention of using) those inputs for making taxable supplies. Proponents of this view would say this provides appropriate policy outcomes because it ensures that input tax on legitimate business costs can be recovered, while also ensuring members who have invested in the syndicate as a mere hobby cannot recover input tax on their share of the syndicate's costs.

43. The opposing view is that the investment in the horse and the activity of racing the horse should be viewed as being carried out by the syndicate. If this racing activity does not meet the threshold for a taxable activity but is instead a hobby, then it is

appropriate that input tax deductions for expenses incurred by the syndicate in carrying on this hobby are denied. Under this view, input tax can still be recovered if and when the syndicate commences a GST-registered breeding activity. Once a horse starts breeding, it becomes much easier for the syndicate to have a business that qualifies for GST registration (that is, the syndicate will be making taxable supplies).

44. An approach of always treating larger racing syndicates as a person for GST purposes would be consistent with Australia's GST rules. Under the Australian GST Act, larger racing syndicates are either partnerships[2] or are deemed to be companies, which means these racing syndicates are always "entities" under Australia's GST rules. If a syndicate is an "entity" for Australian GST purposes, the members cannot separately deduct input tax on the syndicate's costs.

Special GST rule

45. If, following consultation, Ministers decide to allow input tax deductions for GST-registered members of unregistered unincorporated bodies, it would be necessary to change the law by introducing a special GST rule to allow unincorporated bodies to make an election for "flow through" treatment. If the body elects into this treatment, the special rule would reclassify the supplies to the body as being deemed to be provided to the members in proportion to their ownership/participation interests. This approach is supported by both the affected racing industry and oil and gas industry stakeholders that we have consulted with to date.

46. Potentially, this approach might apply broadly to all types of unincorporated bodies that elect to apply it, or its scope might be limited to unincorporated joint ventures (which, as outlined above, would be broadly consistent with Australia's rules). Further consultation is required to determine what the appropriate scope would be.

47. There may be some risks and costs associated with a special GST rule. These potential risks and costs are:

- A special rule might have more limited application than some of the racing industry's current practices (for instance, if its scope is limited to just unincorporated joint ventures, it would not apply to the larger racing syndicates). Therefore, it may not be effective at addressing all the industry's concerns.
- Compared with finalising and enforcing Inland Revenue's interpretation of the current law, legislating a special rule might involve a higher risk of non-compliance in the racing industry because some members may incorrectly claim deductions or fail to return GST, especially if the rule applies to larger racing syndicates. These potential risks of non-compliance include:
  - Members who are GST-registered for an unrelated business activity (for example, a plumber or dentist who has invested in a racing syndicate) incorrectly claiming input tax deductions.
  - A person who simply owns shares in multiple racing syndicates incorrectly registering for GST because they believe they have a taxable activity of trading or racing horses when they do not.
  - Double-dipping, where the same GST costs are incorrectly deducted twice by both the syndicate and a member.

[2] In some cases, a syndicate may meet the income tax definition of a partnership because the members/partners are in joint receipt of ordinary income (for example, racing stakes), in which case the syndicate is also considered to be a partnership for GST purposes.

    - Members that have previously claimed input tax deductions failing to return GST in cases when they sell their interest in the syndicate, or when the syndicate sells the horse.

- The special rule could be complex – for example, rules may be needed to determine eligibility and to mitigate the integrity risks noted above.

48. That said, there are clearly also risks and costs involved with finalising and enforcing Inland Revenue's interpretation of the current law (most notably, of potentially denying input tax deductions for legitimate business expenses). To the extent the compliance issues noted above are existing problems, it is unlikely that a special GST rule would exacerbate or worsen those issues. Therefore, Inland Revenue would need to devote resources towards addressing these issues, regardless of whether a special rule is legislated, or Inland Revenue's view of the existing law is instead finalised and published.

49. Guidance on the special GST rule that would be published by Inland Revenue would also make it clear that input tax on syndicate costs cannot be deducted by a member of the syndicate if the costs do not have a nexus with the member's taxable activity.

Suggested policy process

50. On balance, we recommend that officials undertake further work on developing a special GST rule, including further targeted consultation on the issue before reporting back to Ministers on a specific proposal for public consultation. Further consultation on the design of a rule is required to ensure it is workable.

51. Officials have already undertaken some targeted consultation on our suggested legislative timeline with bloodstock breeders and oil and gas industry members. Both groups support a policy change and further consultation on it. Stakeholders in the oil and gas industry have also indicated they want to be consulted on the draft legislation prior to its introduction.

52. If Ministers agree to officials undertaking further consultation before introducing a legislative amendment, a consultation document could be released in early 2025. This timeline allows for further targeted consultation and work on developing a policy solution throughout 2024, and for a legislative amendment to be included in an omnibus tax Bill to be introduced in the second half of 2025. Including an amendment in this Bill would allow for public consultation on the legislation via the Select Committee process and, if Ministers agree, potential for targeted consultation on the draft legislation prior to its introduction.

53. We note that while Inland Revenue has consulted extensively with the oil and gas industry and industry associations representing bloodstock breeders, officials have not yet consulted with groups like the New Zealand Trainers' Association (representing thoroughbred racehorse trainers in New Zealand). If Ministers agree to officials undertaking further consultation, we will seek to engage with these groups.

54. Further, some stakeholders have suggested that the problem with unincorporated joint ventures may not be limited to the oil and gas industry, but that similar unincorporated joint venture arrangements are commonly used in other industries, and that participants in these affected industries may not be aware of Inland Revenue's draft guidance and how it would affect them. We consider this is another reason why it would be advisable to undertake a full public consultation process on this issue.

55. Additionally, we note that there is no particular urgency to legislate a solution, given that Inland Revenue's Tax Counsel Office (TCO) has made it clear that it will not be putting any further resources into finalising its draft guidance as long as the issue

is being considered by policy officials and Ministers, and will not finalise its view if the decision is eventually made to introduce a legislative amendment. The TCO has informed those who submitted on the draft guidance that taxpayers will be able to continue with their current practices until the issue is resolved.

Financial implications

56. In the racing industry, there are different practices around claiming input tax deductions, so a law change to allow input tax deductions for an unincorporated body's costs at the individual member level could allow an increased level of deductions by some taxpayers. Because the fiscal implications depend on the scope of the special GST rule, further consultation would be required before producing an estimate of the fiscal implications of any policy proposal.

Consultation with other agencies

57. The Treasury, the Department of Internal Affairs, and the Ministry of Business, Innovation and Employment were informed of this report.

Recommended action

We recommend that you:

	Minister of Finance	*Minister of Revenue*
1.	**Agree** to officials doing further consultation, and preparing further policy advice on, the design of a special GST rule for members of unincorporated bodies.	
	Agreed/Not agreed	Agreed/Not agreed
2.	**Refer** a copy of this report to the Minister for Racing and the Minister for Resources for their information.	
		Referred

s 9(2)(a)

Kerryn McIntosh-Watt
Policy Director
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2024

Hon Simon Watts
Minister of Revenue
/ /2024

Item 02

POLICY

Tax policy report: **GST and unincorporated bodies – Scope of proposal for public consultation**

Date:	7 November 2024	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2024/433

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	21 November 2024
Minister of Revenue	**Agree** to recommendations **Refer** a copy of this report to the Minister for Racing and the Minister for Resources	12 November 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Kerryn McIntosh-Watt	Policy Director	s 9(2)(a)	☐
Shanae Sherriff	Senior Policy Advisor	s 9(2)(a)	☒

7 November 2024

Minister of Finance
Minister of Revenue

GST and unincorporated bodies – Scope of proposal for public consultation

Executive summary

Purpose

1. The purpose of this report is to update Ministers on feedback received from racing industry stakeholders on the ability of GST-registered members of unregistered unincorporated bodies to claim GST deductions. It also seeks Ministers' approval for officials to draft a public consultation document on the issue for release early next year and a decision on the high-level scope of a policy proposal to be included in the consultation document.

Context and background

2. In May 2024, we reported to you on an issue concerning the availability of GST deductions for GST-registered members of an unregistered unincorporated body (such as a joint venture or a syndicate) where the relevant expenditure is incurred by the unincorporated body (IR2024/187 refers). The report outlined that common and longstanding practices used in both the oil and gas industry and the racing industry, where members of certain types of unincorporated bodies individually claim GST input tax deductions on their share of expenses incurred by the body, do not appear to be correct under the current law.

Options to address the problem

3. We suggested in the May report that a policy solution to address concerns raised by the oil and gas industry and by GST-registered breeders could take the form of a "flow through" rule. We also suggested that the scope of the rule could be limited to joint ventures only, or that it might apply more widely to also include racing syndicates (including large racing syndicates with many members).

4. The May report outlined two separate issues for the racing industry:

   - Compliance costs for GST-registered bloodstock breeders if the joint ventures or "co-ownership" arrangements they use for horses must register for GST. An amendment that applies to joint ventures only would address this issue.

   - Loss of input tax deductions when a GST-registered breeder or trainer is a member of a racing syndicate (that is not a joint venture), if the syndicate cannot register for GST because it is carrying on racing as a hobby. If Ministers decide that a policy solution should resolve this issue, the scope of an amendment would need to apply more widely to include racing syndicates in general (not just joint ventures).

5. Following further targeted consultation, we have refined the scope of a potential wider proposal. In addition to joint ventures, this wider proposal could allow GST-registered breeders and trainers who are members of racing syndicates to deduct input tax on their share of syndicate costs if those costs have a sufficient nexus to

their own taxable activity. "Hobby" racing syndicates would generally not be joint ventures, mainly because most members of these syndicates would not be actively involved in enough of the decision making for the syndicate to be a joint venture.

6. Rather than applying to unincorporated bodies (including the likes of partnerships, trusts and clubs) in general, we consider that a policy proposal to allow GST deductions for GST-registered members of racing syndicates would need to be limited to the racing industry to avoid unintended consequences, and would apply to syndicates only, not including racing partnerships. It is well understood (and is the norm internationally) that the likes of partnerships and trusts are treated as separate persons for GST purposes. In any case, the racing industry has not asked for flow-through treatment to apply to partnerships.

7. Aside from the potential issues with treating joint ventures as "persons" for GST purposes (which were outlined in the May report), the unincorporated body rules in the GST Act generally provide appropriate policy outcomes. Therefore, it would not be appropriate for an amendment to apply to unincorporated bodies more generally.

Officials' recommended option

8. Officials consider that a proposal applying to joint ventures only is the best option. We therefore recommend that a public consultation document on the issue should consult on a policy proposal that would apply to joint ventures only, and not consult on other policy options.

9. While a wider amendment might be preferred by some in the racing industry (such as GST-registered trainers, for instance), the industry to date has not come out in support of a wider amendment. The issue the industry is most concerned about, and has been asking for a policy response to, is the compliance cost issue with bloodstock breeding joint ventures (which an amendment that applies to joint ventures only would resolve). Therefore, we expect that breeders will be supportive of the amendment, even if it does not apply to other unincorporated bodies used in the racing industry such as large racing syndicates.

10. An amendment that is limited to joint ventures would also be broadly consistent with Australia's GST rules, which the racing industry has asked for New Zealand's GST rules to be aligned with. A wider amendment that applies to other unincorporated bodies used in the racing industry, including large racing syndicates with many members, would not be consistent with Australia's rules.

11. We note that an amendment that applies to joint ventures only would not address the issue with GST-registered breeders and trainers who are members of "hobby" racing syndicates (except to the extent some of these syndicates might be, or might become, joint ventures). There is a possibility that the racing industry might lobby officials or the Government for a wider amendment once there is a general understanding of the implications of a "narrow" amendment applying to joint ventures only (that is, the denial of input tax deductions for GST-registered members of "hobby" syndicates).

12. Officials' recommended option of limiting the proposal to joint ventures would have nil fiscal implications. In contrast, a wider proposal could have a fiscal cost of approximately $7.6 million per annum.

Next steps

13. Subject to your agreement, we will commence drafting a consultation document to publicly consult on a detailed policy solution to the issue of GST deductions for GST-registered members of unregistered unincorporated bodies. As stakeholders have expressed that they would like to be consulted on draft legislation prior to its

introduction, we also suggest that the consultation document could include draft legislative wording for their feedback.

14. Following Cabinet approval, the consultation document could be released in March 2025 along with a Ministers' press release. This would allow for a legislative amendment to be included in an omnibus tax Bill to be introduced in the second half of 2025.

Background

15. In May 2024, we reported to you on an issue concerning the availability of GST deductions for GST-registered members of an unregistered unincorporated body (such as a joint venture or a syndicate) where the relevant expenditure is incurred by the unincorporated body (IR2024/187 refers). The report outlined a common and longstanding practice in the oil and gas industry and in the racing industry, where members of certain types of unincorporated bodies individually claim GST input tax deductions on their share of expenses incurred by the body. Draft Inland Revenue guidance released last year for public consultation concludes that these practices do not appear to be correct under the current law.

16. In the May report, we outlined two separate issues for the racing industry. One of the issues noted was a compliance cost issue arising for GST-registered bloodstock breeders if the joint ventures they use for horses must register for GST. This is the issue that the New Zealand Thoroughbred Breeders' Association and the New Zealand Standardbred Breeders' Association has previously written to Ministers about (refer the attached industry letter).

17. The second issue outlined in the May report was that GST-registered members of racing syndicates (such as breeders and trainers) may be filing GST returns that include input tax deductions for their share of syndicate costs on the basis that their interest in the syndicate is part of their wider taxable activity of breeding or training. Further consultation with the racing industry has confirmed that this is a common and longstanding practice of GST-registered trainers who are members of racing syndicates (similar to the practices of GST-registered breeders and businesses in the oil and gas industry using unincorporated joint venture structures for their activities).

18. We suggested in the May report that a policy solution to address concerns raised by the oil and gas industry and by GST-registered breeders could take the form of a "flow through" rule, and that the scope of the rule could be limited to joint ventures only. Such a rule would provide that supplies to the joint venture are deemed to be made to the joint venture members in proportion to their interests in the joint venture (or in proportion to their relative contributions to the costs of the joint venture, if different to their relative percentage interests), and that any supplies made by the joint venture would similarly be treated as being made by the individual members. Individual GST-registered members of the joint venture would then be able to claim their "share" of GST deductions for joint venture expenditure if there is a nexus between the expenditure and a taxable supply the member makes.

19. Alternatively, we suggested that the scope of such a rule might apply more widely to other types of unincorporated bodies that elect to apply it, such as those used in the racing industry (namely racing syndicates that are not joint ventures). This would address the second issue for the racing industry noted above.

20. In that report, we proposed to undertake further targeted consultation with stakeholders that might be affected by the second issue, including the New Zealand Trainers' Association (the industry group representing thoroughbred racehorse trainers in New Zealand).

21. We also suggested that, following targeted consultation, a detailed policy proposal could be included in a public consultation document to be released in early 2025. This timeline would allow for a legislative amendment to be included in an omnibus tax Bill to be introduced in the second half of 2025. To that end, we are seeking Ministers' approval for officials to draft a public consultation document on the issue,

and a decision on the scope of a proposal to be publicly consulted on (joint ventures only, or joint ventures and racing syndicates).

Views of trainers

22. Since the May report, we have consulted with the New Zealand Trainers' Association, and with Harness Racing New Zealand (on behalf of the New Zealand Harness Trainers and Drivers Association).

23. To attract customers for their training business, some GST-registered trainers buy horses and sell part shares to other individuals. In some of these cases, the trainer will retain an interest in the syndicate, sometimes at the request of the other syndicate members. In this situation, trainers consider their share of the syndicate's costs are legitimate costs of their training business, and that they should be able to claim GST deductions for this expenditure. Consultation with the industry has confirmed that this is the current practice of many GST-registered trainers.

24. In the context of the racing industry, a proposal to allow flow through treatment for GST on expenditure incurred by a joint venture would mostly benefit GST-registered bloodstock breeders that co-own horses using joint ventures. It would also benefit trainers that are members of these joint ventures if there is a nexus between their share of the expenditure and a taxable supply they make. Trainers would likely support a proposal to allow flow through treatment for joint ventures, but would probably also consider the proposal does not go far enough if this flow through treatment is not proposed to apply to racing syndicates more generally.

Option one: Limit scope of policy proposal to joint ventures only (recommended)

25. Limiting the scope of a policy proposal to joint ventures only would address the issue for "output sharing" joint ventures used in the oil and gas industry and in other industries.[1] It would also address the issue that bloodstock breeders have with their joint ventures.

26. From a recent discussion with a private sector stakeholder, we learned that output sharing joint ventures are commonly used in the construction industry, where two or more developers pool their resources to undertake a large property development. Potentially, there may be other industries that use similar output sharing joint ventures that we are not aware of. Therefore, public consultation will be important to identify if other industries or stakeholders may be affected by the issue or by the proposal.

27. There will likely be some boundary issues with this approach (some of which would also exist under option two), which will require Inland Revenue to provide guidance on what specific arrangements the rule applies to. For instance, in some cases there might be confusion about whether a given commercial undertaking or venture between two or more persons is a partnership (which would not be in scope of the proposal) or a joint venture. However, we expect that in most cases, it should be reasonably clear factually whether a venture or business undertaking is a partnership. We also note this boundary between "partnership" and "joint venture" is an existing boundary for VAT/GST in overseas jurisdictions like the UK, Ireland and Canada, and so this approach would be consistent with overseas approaches.

28. Any boundary issues in the racing industry might to some extent be helped by the industry standardising their "co-ownership" agreements and documenting them, so

[1] This refers to joint venture arrangements where supplies of the product or output of the venture are not made jointly, but instead each member of the joint venture markets and sells its "share" of the output separately from the other members.

that there can be no dispute about what the arrangement is and what the co-owners' rights and obligations are.

29. In addition to being broadly consistent with many overseas jurisdictions' approaches in relation to unincorporated joint ventures, this approach would also be broadly aligned with how Australia's GST rules apply to the racing industry, which is what the industry has asked for.

30. Under Australia's GST law, "co-ownership" arrangements used by breeders for horses (similar to the joint ventures used by New Zealand breeders) are often not treated as separate entities from the co-owners. This means the individual co-owners claim input tax deductions and account for output tax in their own GST returns in proportion to their ownership interest in the horse, and do not separately register the venture or syndicate for GST. However, large racing syndicates are deemed to be either partnerships[2] or companies for the purposes of Australia's GST rules. This means the syndicate members, even if they are GST-registered for a bloodstock-related business, cannot separately deduct input tax on the syndicate's costs.

31. We expect a policy proposal that applies to joint ventures only would be supported by bloodstock breeders, who are concerned about the GST treatment of their joint ventures under the current law, and have not asked for a policy solution to apply more widely. A private sector tax advisor acting on behalf of the New Zealand Thoroughbred Breeders' Association and the New Zealand Standardbred Breeders' Association that we recently spoke with was supportive of the suggested approach and was of the view that it would address the issue the breeders are concerned about.

32. On the other hand, an amendment that applies to joint ventures only would not address the issue with GST-registered breeders and trainers who are members of "hobby" racing syndicates (except to the extent some of these syndicates might be, or might become, joint ventures). There is a possibility that the racing industry might lobby officials or the Government for a wider amendment once there is a general understanding of the implications of a "narrow" amendment applying to joint ventures only (that is, the denial of input tax deductions for GST-registered members of "hobby" syndicates).

33. We expect that "hobby" syndicates would generally not be joint ventures, and that most probably could not be set up as joint ventures. This is mainly because most of the members of these syndicates would not be actively involved in enough of the decision making for the syndicate to be a joint venture, which would be especially true for large racing syndicates with many members.

Option two: Include joint ventures and racing syndicates in scope of proposal

34. The other option is for the proposal to apply to joint ventures and to racing syndicates more generally.

35. Racing partnerships (of which there are only a small number, and which tend to register for GST as an unincorporated body where they can) would not be in scope. This is mainly because it is well understood (and is the norm internationally) that the likes of partnerships and trusts are separate persons for GST purposes. In any case, the racing industry has not asked for flow-through treatment to apply to partnerships.

36. We do not favour consulting on a wider proposal that would apply to racing syndicates that are not joint ventures. It is officials' view that including racing

[2] In some cases, a syndicate may meet the income tax definition of a partnership because the members/partners are in joint receipt of ordinary income (for example, racing stakes), in which case the syndicate is also considered to be a partnership for GST purposes.

syndicates in the scope of the suggested flow-through rule would be an industry-specific amendment, which does not seem principled and would likely be viewed as a concession for the racing industry. If we were to go with a wider approach so that racing syndicates are in scope, the proposal would need to be limited to joint ventures and racing syndicates only. For instance, it would not make sense for the likes of partnerships, trusts, clubs, and syndicates used in other industries (such as commercial property syndicates) to be in scope, as unincorporated body treatment is appropriate in those cases and provides the intended policy outcomes.

37. We also note the policy question of whether input tax deductions should ever be allowed for a horse racing activity that is carried on by a large syndicate as a hobby is not clear cut. One view is that the investment in the horse, and the activity of racing the horse, should be considered to be carried on by the syndicate as a separate person to its members. Under this view, if the racing activity does not meet the threshold for a taxable activity but is instead a hobby, then it is appropriate that input tax deductions for costs incurred by the syndicate in carrying on this hobby are denied.

38. On the other hand, if a GST-registered breeder or trainer can demonstrate a sufficient link between those inputs and a taxable activity they carry on, then it is also arguable that (consistent with the principle of GST not being a tax on business) they should be entitled to deduct input tax on their share of the syndicate's costs. However, we note that it might not always be the case that there would be a nexus between the inputs and a taxable activity carried on by a GST-registered breeder or trainer who is a member of the syndicate (as determining whether there is a nexus would be highly fact-specific, and it seems likely that in some cases there will not be a sufficient link despite the breeder or trainer possibly thinking there is). If there is no nexus, then an input tax deduction would not be available under option two.

39. While GST-registered trainers that are members of racing syndicates would likely prefer option two, we note that the issue that the industry has been vocal about is the issue with bloodstock breeding joint ventures, and that the industry has not come out in support of a wider amendment.

40. There are also several integrity issues with a wider approach that are less likely to exist or would be less significant if the rule applies to joint ventures only. Extending the rule to large racing syndicates might involve a higher risk of non-compliance (for example, because some members may incorrectly claim deductions). Limiting the rule to joint ventures, on the other hand, involves relatively low risks, as it would limit the scope of the rule mostly to arrangements used by breeders, most of whom would be GST-registered for a taxable activity of breeding. As such, there is also a higher likelihood of there being a nexus between a given member's share of the inputs and a taxable supply they make. While there are some hobbyist breeders participating in those joint ventures, they are understood to be few in number and would generally remain unregistered and not claim input tax deductions anyway.

41. Specific risks of non-compliance if a law change applies to large racing syndicates include:

- GST-registered members incorrectly claiming input tax deductions in situations where there is no nexus between the "inputs" and a taxable supply the member makes. This may include situations where the member is GST-registered for an unrelated business activity (for example, a plumber or dentist who has invested in a racing syndicate).
- A person who simply owns shares in multiple racing syndicates incorrectly registering for GST because they believe they have a taxable activity of trading or racing horses when they do not.

- Members that have previously claimed input tax deductions failing to account for GST in cases when they sell their interest in the syndicate, or when the syndicate sells the horse.
- Double-dipping, where the same GST costs are incorrectly deducted twice by both the syndicate and a member (although this is less likely, since very few large racing syndicates are registered for GST because most are carrying on racing as a hobby).

42. An amendment that applies to other unincorporated bodies used in the racing industry, including large racing syndicates with many members, would also not be consistent with Australia's GST rules (which the racing industry has requested alignment with).

Financial implications

43. Option one described above (limiting the scope of a policy proposal allowing optional flow-through treatment to joint ventures only) would have nil fiscal implications. This is because it would simply align the law with what taxpayers are currently doing in respect of oil and gas joint ventures and bloodstock breeding joint ventures, as well as joint ventures used in other industries (if applicable). We also think there are reasonable arguments that even without a law change, GST-registered participants in these joint ventures who are currently claiming input tax deductions could effectively continue to do so.[3]

44. A wider proposal (option two) would additionally bring GST-registered members of racing syndicates (such as breeders and trainers) into the scope of the change. Relative to clarifying that deductions for these groups could not otherwise be claimed, this broader scope is estimated to have a fiscal cost of approximately $7.6 million per annum.

Consultation with other agencies

45. The Treasury, the Department of Internal Affairs, and the Ministry of Business, Innovation and Employment were informed of this report.

Next steps

46. Subject to your agreement, we will commence drafting a consultation document to publicly consult on a detailed policy solution to the issue of GST deductions for GST-registered members of unregistered unincorporated bodies. As stakeholders have expressed that they would like to be consulted on draft legislation prior to its introduction, we also suggest that the consultation document could include draft legislative wording for their feedback.

47. Following Cabinet approval, the consultation document could be released in March 2025 along with a Ministers' press release. Following submissions, officials would report to you with a draft Cabinet paper in May or June 2025 seeking Cabinet approval of the final policy design. This timeline would allow for a legislative amendment to be included in an omnibus tax Bill to be introduced in the second

[3] For instance, we think there are reasonable arguments for why (in the case of the oil and gas industry) they could make changes to their contracts that would enable them to continue with their current practice, or (in the case of the bloodstock joint ventures) they could register the joint ventures for GST. The issue is that neither industry wants to bear the compliance costs of changing from their current practices, which they say would be unreasonable given the magnitude of these costs, the fact that their practices have been accepted by Inland Revenue for over 30 years, and that there is no policy mischief associated with that current practice.

half of 2025. Including a legislative amendment in this Bill would allow for a second round of public consultation on the legislation via the Select Committee process.

Recommended action

We recommend that you:

	Minister of Finance	*Minister of Revenue*

1. **Agree** to officials drafting a public consultation document on the issue of GST deductions for GST-registered members of unregistered unincorporated bodies.

Agreed/Not agreed	Agreed/Not agreed

2. **Agree** to one of these two options for the high-level scope of a policy proposal to be publicly consulted on:

   2.1 Option one – Limit scope of policy proposal to joint ventures only (officials' preferred option); OR

Agreed/Not agreed	Agreed/Not agreed

   2.2 Option two – Include joint ventures and racing syndicates in the scope of a proposal.

Agreed/Not agreed	Agreed/Not agreed

3. **Note** that option one has a nil fiscal cost and option two has an estimated fiscal cost of $7.6 million per annum.

Noted	Noted

4. **Refer** a copy of this report to the Minister for Racing and the Minister for Resources for their information.

	Referred

s 9(2)(a)

Kerryn McIntosh-Watt
Policy Director
Inland Revenue

Hon Nicola Willis	**Hon Simon Watts**
Minister of Finance	Minister of Revenue
/ /2024	/ /2024

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: Discussion document – GST and joint ventures

Date:	12 February 2025	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2025/027

Action sought

	Action sought	**Deadline**
Minister of Finance	**Authorise** the lodgement of the attached Cabinet paper	10am Thursday 20 March 2025
Minister of Revenue	**Authorise** the lodgement of the attached Cabinet paper	10am Thursday 20 March 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Martin Neylan	Policy Lead	s 9(2)(a)	☐
Shanae Sherriff	Senior Policy Advisor	s 9(2)(a)	☒

12 February 2025

Minister of Finance
Minister of Revenue

Discussion document – GST and joint ventures

Purpose

1. Attached to this report is a draft discussion document and Cabinet paper on GST and joint ventures for your consideration.

Background

2. Officials previously reported to you with advice on possible changes to the GST rules for unincorporated bodies to address issues particularly affecting the oil and gas industry and the racing industry (IR2024/187 and IR2024/433 both refer). The most recent of these reports, dated 7 November 2024, recommended that public consultation on a proposed solution to these issues be undertaken in March 2025. This would allow for legislative amendments to be included in an omnibus tax bill to be introduced in the second half of 2025.

3. Following the November report, you agreed to limit the scope of a policy proposal for public consultation to joint ventures only (rather than including racing syndicates in the scope of the proposal). More recently, the Deputy Prime Minister announced on 31 January 2025 that the Government is preparing public consultation on GST and joint ventures.

4. The attached discussion document contains proposals to align the GST legislation for joint ventures with common industry practices and to clarify certain areas of the legislation. Officials are in the process of finalising the discussion document, so the document is still subject to minor technical and editorial changes.

5. Officials also propose to include an appendix to the discussion document that would contain draft legislative wording for most of the proposals. This is because of the technical nature of the proposals and the current time frames for including any resulting legislative amendments in the next available omnibus tax bill. In addition, stakeholders in the oil and gas industry have indicated they want to be consulted on draft wording before proposed legislation is introduced (and we anticipate that affected stakeholders in other industries will similarly be interested in reviewing draft legislative wording before the introduction of a bill containing the proposals).

6. Because the draft legislative wording is being prepared for consultation purposes as part of the policy development process, the Attorney-General's Protocol for release of draft government legislation (CO (19) 2 refers) does not apply.

7. Since the draft legislative wording is still being finalised, officials will provide your office with the finalised discussion document (including the appendix with the draft wording) closer to the lodgement date.

Proposals in the discussion document

8. The table overleaf summarises the key policy proposals in the discussion document.

Default flow-through treatment	The members of a joint venture would individually account for GST on any supplies made or received in the course of the joint venture activity.
Optional registration of joint venture	The members of a joint venture could still choose to register the joint venture as a separate person (consistent with the current rules). If this choice is made, the joint venture would account for GST on any supplies of goods or services made or received instead of its members.
Special rule if joint venture would be above registration threshold	If, in the absence of the proposed changes, a joint venture would be liable to register for GST (because it carries on a taxable activity and makes taxable supplies over the $60,000 registration threshold), a special rule would provide that either: • all the members of the joint venture must individually register, or • the members must register the joint venture for GST as a separate person. This would ensure that the default "flow-through" proposal does not provide members of joint ventures with an opportunity to escape GST registration altogether (resulting in non-taxation) in situations where, under the current law, the joint venture would have to register.
Interests in joint venture property	The rules that currently require that transfers of interests in an unincorporated body be treated as exempt supplies (similar to the treatment of shares in a company) would be switched off. Instead, the GST consequences would depend on the underlying goods and services being transferred.
	Under flow-through treatment, supplies of interests in joint venture property between GST-registered persons would be zero-rated for GST purposes if the recipient intends to use the interest to make taxable supplies. This may be preferred by the parties involved for cash flow reasons.
Deregistration of joint venture	A transitional rule would allow the members of a joint venture that was registered for GST before the enactment date for the new rules to elect for flow-through treatment by applying to cancel the joint venture's registration.
	A rule would provide that there is a supply of the assets of an unincorporated body (including a GST-registered joint venture) by the body to its members at market value immediately before its registration is cancelled. This supply would be zero-rated if the recipient is a registered person and intends to use the goods and services for making taxable supplies.

Financial implications

9. As previously advised, the net fiscal implications of the proposals as they apply to oil and gas joint ventures would be nil.

10. In the November report, officials advised that limiting the scope of the proposed "flow-through" approach to joint ventures only would have nil fiscal implications, in part because we understood that GST-registered members of bloodstock joint ventures could, even without a law change, effectively continue to claim GST deductions by registering the joint venture for GST.

11. On further analysis of "syndicate" structures in the racing industry, officials now understand that many hobby racing "syndicates" are in fact joint ventures. Because these joint ventures cannot register, GST deductions for expenditure incurred by these joint ventures cannot be deducted by anyone under the current law. However, it is common industry practice for GST-registered breeders and trainers who are members of these joint ventures to claim GST deductions in their own returns. The proposals, if enacted, would allow this practice to continue. This means there will be a small fiscal cost associated with the proposals, compared with the position under the current law.

12. Whether the proposals are progressed or not, the ability of GST-registered members of unregistered unincorporated bodies in the racing industry to claim GST deductions will be clarified. Members of racing syndicates will have clarity that they cannot claim deductions for syndicate costs. For this group, there is an estimated loss of GST deductions of $3.5 million per annum. Because this would arise from enforcing the current law, this would be recognised as a forecasting adjustment.

13. Those in the racing industry who are instead structured as joint ventures would similarly lose $3.3 million in GST deductions per annum if, instead of Parliament changing the law, Inland Revenue finalised and enforced its view of the current law. Measured against this counterfactual, the policy cost of changing the law to allow GST-registered members of joint ventures to claim GST deductions is a fiscal cost of $3.7 million per annum.[1]

14. The table below summarises the fiscal impacts of clarifying and enforcing the current law, and of changing the law to allow current practices.

Annual tax impact of GST deductions claimed in racing industry ($m)

	Joint ventures	Syndicates	Combined
Current practice	**-3.3**	**-3.5**	**-6.8**
No law change	**0**	**0**	**0**
Forecasting adjustment	3.3	3.5	6.8
Policy proposal	**-3.7**	**0**	**-3.7**
Fiscal cost	-3.7	0	-3.7
Net impact relative to current practice	-0.4	3.5	3.1

[1] The policy cost of $3.7 million per annum is larger than the forecasting adjustment of $3.3 million per annum because the fiscal estimates assume that, currently, a small proportion of GST-registered breeders and trainers who are members of "hobby" joint ventures are not claiming GST deductions but will under the policy change.

Next steps

15. Officials propose the following timeline for releasing the discussion document and obtaining approval of the final policy following public consultation:

- 26 March 2025 – Cabinet Economic Policy Committee (ECO) considers discussion document release.
- 31 March 2025 – Cabinet approval of discussion document release.
- 9 May 2025 – Submissions on discussion document close.
- 4 June 2025 – Officials report to Ministers on submissions and final policy recommendations.
- 25 June 2025 – Final policy proposals considered by ECO.
- 30 June 2025 – Cabinet approval of final policy.
- July/August 2025 – Cabinet approval for including proposals in omnibus tax bill.

Recommended action

We recommend that you:

Minister of Finance *Minister of Revenue*

1. **Note** that the proposals in the discussion document, if enacted, are estimated to have a fiscal cost of $3.7 million per annum compared to an alternative where the current law is clarified and enforced, rather than having nil fiscal implications as indicated in the November report.

Noted Noted

2. **Authorise** the attached Cabinet paper and discussion document for lodgement with the Cabinet Office.

Authorised Authorised

s 9(2)(a)

Martin Neylan
Policy Lead
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

In Confidence

Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Cabinet Economic Policy Committee

DISCUSSION DOCUMENT: GST AND JOINT VENTURES

Proposal

1 This paper seeks the Cabinet Economic Policy Committee's agreement to the release of a discussion document, *GST and unincorporated joint ventures*.

Relation to Government priorities

2 Releasing the discussion document will progress a workstream in the Government's current Tax and Social Policy Work Programme (reviewing the GST rules for joint ventures).

Executive summary

3 The discussion document considers possible reforms to the Goods and Services Tax (GST) policy settings for joint ventures.

4 A common practice in some industries where joint ventures are used is for participants in a joint venture to individually account for GST on supplies of goods and services made or received in the course of the venture in their own GST returns. This often reflects the commercial reality that the joint venture is undertaken as part of each participant's wider business.

5 Draft guidance published by Inland Revenue concludes that these practices are not correct under the current rules for unincorporated bodies, which apply to joint ventures. The current rules treat an unincorporated body as a separate person for GST purposes, similar to a company, and require that the body and not the members be registered for GST. While this tax setting gives rise to the correct policy outcome for other types of unincorporated bodies (such as trusts or partnerships), it gives rise to problems for certain types of joint ventures.

6 Some joint ventures are unable to register for GST, so this treatment means that GST deductions cannot be claimed. Even when a joint venture may be able to register for GST, the members (who are often already registered for GST for their own separate activities) may prefer not to also register the joint venture for compliance cost reasons.

7 The discussion document seeks public views on a set of proposals to address these problems.

8 The main proposal is to remove joint ventures from the unincorporated body rule by default. This would mean that a joint venture would not ordinarily be treated as a “person” that must be registered separately for GST purposes. However, the members could still choose to register the joint venture separately. The default treatment would provide for a “flow-through” approach that would allow the members of a joint venture to individually account for GST themselves on any supplies made or received in the course of the joint venture activity.

Background

9 New Zealand’s GST rules treat an unincorporated body, such as a partnership, joint venture, trust, club, or any other type of unincorporated association, as a separate person for GST purposes. Unincorporated bodies are required to register for GST if they supply or expect to supply goods or services worth more than $60,000 in a 12-month period.

10 Draft Inland Revenue guidance, released in March 2023 for public consultation, concludes that when an unincorporated body is not registered for GST (which may be because it is not carrying on a taxable activity, or because its supplies are under the registration threshold), the current law does not allow members to register individually for the body’s activities and claim GST deductions for goods and services acquired by the body.

11 This conclusion, while consistent with the policy intention for most unincorporated bodies, raises issues for joint ventures due to their unique features. In particular, joint ventures are usually not formed to carry on an entirely separate undertaking. Instead, the parties involved often carry on a business of their own separately from the other participants, with their participation in the joint venture often being for the purpose of (or an extension of) that separate business.

12 Specific problems arise when the participants in a joint venture share in the output or product of the venture and each sell their share separately (which is a common practice in both the resources and construction industries). In this situation, because the output of the venture is sold separately by the members rather than jointly, the joint venture (as a collective body of its members) might not make any supplies of goods or services. When this is the case, the joint venture cannot register for GST because it is not carrying on a taxable activity.

13 Even when a joint venture is carrying on a taxable activity, requiring the joint venture to register instead of the members may in some instances increase overall compliance costs. This may be the case if the joint venture members are individually registered for GST in respect of their own separate businesses.

Discussion document proposals

14 The table overleaf summarises the key policy proposals in the discussion document.

Default flow-through treatment	The members of a joint venture would individually account for GST on any supplies made or received in the course of the joint venture activity.
Optional registration of joint venture	The members of a joint venture could still choose to register the joint venture as a separate person (consistent with the current rules). If this choice is made, the joint venture would account for GST on any supplies of goods or services made or received instead of its members.
Special rule if joint venture would be above registration threshold	If, in the absence of the proposed changes, a joint venture would be liable to register for GST (because it carries on a taxable activity and makes taxable supplies over the $60,000 registration threshold), a special rule would provide that either: • all the members of the joint venture must individually register, or • the members must register the joint venture for GST as a separate person. This would ensure that the default flow-through proposal does not provide members of joint ventures with an opportunity to escape GST registration altogether (resulting in non-taxation) in situations where, under the current law, the joint venture would have to register.
Interests in joint venture property	The rules that currently require that transfers of interests in an unincorporated body be treated as exempt supplies (similar to the treatment of shares in a company) would be switched off. Instead, the GST consequences would depend on the underlying goods and services being transferred.
	Under flow-through treatment, supplies of interests in joint venture property between GST-registered persons would be zero-rated for GST purposes if the recipient intends to use the interest to make taxable supplies. This may be preferred by the parties involved for cash flow reasons.
Deregistration of joint venture	A transitional rule would allow the members of a joint venture that was registered for GST before the enactment date for the new rules to elect for flow-through treatment by applying to cancel the joint venture's registration.

	A rule would provide that there is a supply of the assets of an unincorporated body (including a GST-registered joint venture) by the body to its members at market value immediately before its registration is cancelled. This supply would be zero-rated if the recipient is a registered person and intends to use the goods and services for making taxable supplies.

Timing for the proposals

15 Legislative changes would be required if these proposals were to be progressed following public consultation. Such legislative changes could be included in a Government omnibus taxation bill to be introduced in the second half of 2025.

16 The discussion document invites submissions on the appropriate application date for the proposed changes.

Analysis

Issues

17 The issues identified with the current law particularly affect the oil and gas industry and the horse racing industry.

18 The oil and gas industry makes extensive use of joint ventures for exploration and extraction activities. Large industry participants come together using a joint venture structure to explore for resources and extract them. However, anti-cartel provisions in the Commerce Act 1986 require that the resources are not sold jointly by the participants. This means that many oil and gas joint ventures are not carrying on a taxable activity, and cannot register for GST, because the resources are not sold jointly (meaning the joint ventures do not make any supplies of goods or services). Therefore, the participants account for GST separately.

19 Based on Inland Revenue's draft guidance, the members are not entitled to claim GST deductions separately under current law. The proposals in the discussion document would validate the industry's current practice, so that members of oil and gas joint ventures may continue to claim GST deductions under their individual GST registrations.

20 Anecdotally, similar joint venture arrangements (where the members share in the output of the venture and each sell their share of the output separately rather than jointly) are also commonly used in the construction industry.

21 The racing industry is most concerned about the compliance costs involved in separately registering a large number of bloodstock breeding and racing joint ventures (in many cases one for each horse). Instead, the industry is asking for GST-registered breeders who are members of these joint ventures to be allowed to continue with their practice of accounting for GST on supplies, and claiming GST deductions on purchases, in their own GST returns.

Policy considerations

22 A policy justification for requiring an unincorporated body to register for GST, instead of its members, is to minimise overall compliance and administration costs. For instance, in the case of a partnership, often the partners will not have any other taxable activity that requires them to separately register for GST. This means that in most cases, only one GST registration (as opposed to several) is required.

23 This rationale seems much less relevant for joint ventures than it is for other unincorporated bodies such as partnerships, given the unique characteristics of joint ventures (as well as the fact that the members of a joint venture will often all be individually registered for GST in relation to their separate activities).

24 Another policy justification for the unincorporated body rules is that, when a single supply is made jointly by an unincorporated body of persons, it should be treated as a single supply with a single GST treatment, rather than being treated as multiple supplies with potentially differing GST treatments. This rationale of taxing a supply by a group of persons as a single supply by a single supplier is not, however, relevant to an "output sharing" joint venture (that is, where the participants in the venture share in the output rather than the profits of the venture).

Scope of proposals

25 It might be argued by some that GST-registered members of other types of unincorporated bodies, such as racing syndicates, should also have flow-through treatment for GST purposes. However, we consider that the current law is appropriate for unincorporated bodies that are not joint ventures and provides the correct policy outcomes.

26 In other types of unincorporated bodies, it is much clearer that the members are engaged in a managed joint undertaking, as opposed to the type of limited cost-sharing exercise that a joint venture is typically engaged in. Therefore, for non-joint venture unincorporated bodies, it is appropriate for registration to be considered, and supplies of goods and services to be taxed, at the unincorporated body level rather than at the member level. It is also more likely to be the case that a single registration will result in compliance cost savings in these circumstances.

27 Most racing syndicates are unable to register for GST because generally these unincorporated bodies carry on a hobby for the private enjoyment of their members, which does not constitute a taxable activity for GST purposes. However, some of the members of a racing syndicate may be GST-registered because they conduct a horse breeding or training business. These members will often file GST returns that include deductions for their share of syndicate costs on the basis that their interest in the syndicate is part of their wider taxable activity of breeding or training.

28 In the racing industry, a proposal to allow flow-through treatment for joint ventures for GST purposes would mostly benefit GST-registered bloodstock breeders and trainers that co-own horses using joint ventures. Since the proposals would not apply to large racing syndicates, some bloodstock breeders and trainers that own interests in these syndicates may consider that the proposals do not go far enough. There is a possibility that the racing industry might lobby the Government for a wider amendment (applying to racing syndicates as well as joint ventures) once there is a general understanding of the implications of a “narrow” amendment applying to joint ventures only.

29 The broader racing industry has not, to date, come out in support of a wider amendment. The issue the industry is most concerned about, and has been asking for a policy response to, is the compliance cost issue with bloodstock breeding and racing joint ventures. Therefore, we expect that bloodstock breeders as a whole will be supportive of the proposals, even if the proposals do not apply to other unincorporated bodies used in the racing industry such as large racing syndicates.

30 We also note that the proposed approach would be broadly consistent with Australia’s GST rules, which the racing industry has asked for New Zealand’s GST rules to be aligned with. A wider amendment that applies to other unincorporated bodies used in the racing industry, including racing syndicates with many members, would not be consistent with Australia’s rules. It could also have a fiscal cost of approximately $7.6 million per annum, compared with a counterfactual where the law was not changed and Inland Revenue instead finalised and enforced its view of the current law. Compared with current practices, there would be a cost of $0.8 million per annum due to enabling GST deductions that are not currently being claimed.

Financial implications

31 The net fiscal implications of the proposals as they apply to joint ventures in the resources industry and in other industries, except for the racing industry, would be nil. This is because the proposals would simply align the law with what taxpayers are currently doing in respect of these joint ventures.

32 Current fiscal forecasts do not incorporate the expected change in GST revenue that would result if GST-registered members of unincorporated bodies in the racing industry consistently applied Inland Revenue’s interpretation of the current law. Therefore, the change in revenue forecasts that would result if the proposals for joint ventures were progressed, but the law remained unchanged for other unincorporated bodies, is the combined effect of two changes which partially offset each other.

33 Applying the current law for all types of unincorporated bodies (not just joint ventures) would result in a loss of GST deductions for some GST-registered members of syndicates and joint ventures in the racing industry that could not be claimed by the syndicate or joint venture as a separate person. This would apply if the syndicate or joint venture is carrying on racing as a mere hobby, rather than a taxable activity (meaning the syndicate or joint venture cannot register for GST). The potential loss of GST deductions for GST-registered members of these bodies therefore represents an opportunity for a fiscal gain to the Crown if, instead of Parliament changing the law, Inland Revenue finalised and enforced its view of the current law. This fiscal gain (which would be treated as a forecasting adjustment) is estimated at $6.8 million per annum.

34 Compared with enforcing the current law for all unincorporated bodies, the proposals in the discussion document (which are limited in their scope to joint ventures) would have a fiscal cost of approximately $3.7 million per annum. Therefore, relative to current practices, the net impact of these two partially offsetting changes is a fiscal gain of $3.1 million per annum. This would arise because the proposals would not benefit GST-registered breeders and trainers who are members of racing syndicates (rather than joint ventures) and who are currently claiming GST deductions for their share of syndicate costs (meaning these members should not claim GST deductions for this expenditure going forward).

Legislative implications

35 The release of the discussion document will not give rise to any immediate legislative implications. Legislative changes to the Goods and Services Tax Act 1985 will be necessary to implement the proposals. It is proposed that any resulting changes are included in an omnibus taxation bill to be introduced in the second half of 2025.

Impact analysis

Regulatory impact assessment

36 As required by the Ministry for Regulation, Inland Revenue's QA panel has reviewed the discussion document 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 discussion document.

Climate implications of policy assessment

37 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal at this time, as it is in the discussion document stage. 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

38 Releasing the discussion document will not have any population implications. Any population implications resulting from the proposals will be included in final policy advice to Cabinet following consultation.

Human rights

39 The proposals in the discussion document are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

Agency comments

40 Officials have consulted with the Ministry of Business, Innovation and Employment, the Department of Internal Affairs, and the Department of the Prime Minister and Cabinet. The agencies consulted did not have any comments on this paper or on the discussion document.

Public consultation

41 Public consultation will be open for a period of six weeks from the date of the discussion document's release.

42 Following consultation, it is expected that final policy recommendations will be presented to Cabinet in the second half of 2025.

Communications

43 We propose to issue a press release to accompany the discussion document.

44 All other communications will be undertaken by Inland Revenue. The goal is to gain detailed feedback from the tax and business communities. Key stakeholders will be contacted and encouraged to make a submission. The discussion document will be hosted on Inland Revenue's tax policy website, with the consultation period open for six weeks until 16 May 2025.

45 Media enquiries will be sent to Inland Revenue's policy communications staff, who will work with Ministers' offices to coordinate responses.

Proactive release

46 We propose to proactively release this Cabinet paper, associated minutes, and key advice papers with appropriate redactions within 30 working days of Cabinet making final decisions.

Recommendations

The Ministers of Finance and Revenue recommend that the Committee:

1 **agree** to the release of the discussion document, *GST and unincorporated joint ventures*;

2 **authorise** the Minister of Finance and the Minister of Revenue to make minor editorial changes to the text and layout of the discussion document before release;

3 **invite** the Minister of Finance and the Minister of Revenue to report back to Cabinet on the outcome of the consultation and final policy recommendations in June 2025.

Authorised for lodgement

Hon Nicola Willis

Minister of Finance

Hon Simon Watts

Minister of Revenue

Cabinet Economic Policy Committee

Minute of Decision

GST and Joint Ventures: Discussion Document

Portfolios **Finance / Revenue**

On 2 April 2025, the Cabinet Economic Policy Committee (ECO):

1 **approved** the release of the discussion document, *GST and unincorporated joint ventures* attached to the submission under ECO-25-SUB-0045;

2 **authorised** the Minister of Finance and the Minister of Revenue to make minor editorial changes to the text and layout of the discussion document before its release;

3 **invited** the Minister of Finance and the Minister of Revenue to report back to ECO in June 2025 on the outcome of the consultation and final policy recommendations.

Rachel Clarke
Committee Secretary

Present:
Rt Hon Winston Peters
Hon David Seymour
Hon Nicola Willis (Chair)
Hon Simeon Brown
Hon Brooke van Velden
Hon Erica Stanford
Hon Louise Upston
Hon Dr Shane Reti
Hon Tama Potaka
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Office of the Prime Minister
Office of Hon Erica Stanford
Officials Committee for ECO

CAB-25-MIN-0102

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 4 April 2025

On 7 April 2025, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 4 April 2025:

Not in scope [redacted]	[redacted]	[redacted]
ECO-25-MIN-0045	**GST and Joint Ventures: Discussion Document** Portfolios: Finance / Revenue	CONFIRMED
Not in scope [redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Not in scope [redacted]

Rachel Hayward
Secretary of the Cabinet