Regulatory Impact Statement: Income derived from residential sale of excess electricity

Decision sought	*Analysis produced for the purpose of informing final Cabinet decisions*
Agency responsible	*Inland Revenue*
Proposing Ministers	*Hon Simon Watts, Minister of Revenue*
Date finalised	*2 July 2025*

The proposal is to introduce a tax exemption for income derived by individuals from selling excess electricity from their residential premises. This would help to address the disproportionate compliance costs many are likely to incur in meeting their tax obligations under current law.

Summary: Problem definition and options

What is the policy problem?

The policy problem is that where an individual is deriving income from the sale of excess electricity to the network, the compliance costs associated with the tax implications are likely to be disproportionate to any tax revenue in many cases. It would also be resource-intensive for Inland Revenue to monitor compliance for these individuals, who may often be in a tax loss position from selling electricity due to their expenses outweighing any income.

The stakeholders we have engaged with on the issue have agreed that these individuals are likely to face disproportionate compliance costs in meeting their tax obligations under the status quo.

What is the policy objective?

The policy objective is to ensure that tax is not a barrier to residential distributed generation by reducing compliance costs for individuals engaging in the activity.

What policy options have been considered, including any alternatives to regulation?

Option one: Treat all income derived by individuals selling excess electricity from their residential property as assessable, where they are required to pay tax on and file a tax return for the income. (Status quo)[1]

[1] The Tax Administration Act 1994 provides a $200 de minimis where individuals do not need to provide information about "other income" (i.e. income that is not reportable) if the total amount they derive in a tax year does not exceed $200. Whether this applies to an individual deriving income from the sale of excess electricity will depend on their circumstances.

Option two: Introduce an uncapped tax exemption for income derived by an individual from the sale of excess electricity from a residential property to the network. (Preferred option in the Cabinet paper)

Option three: Introduce a capped tax exemption for income derived by an individual from the sale of excess electricity from a residential property to the network, with the ability to change the threshold by Order in Council. (Preferred option in the RIS)

What consultation has been undertaken?

Officials undertook targeted consultation with the following stakeholders between 2 May 2025 and 19 May 2025:

- Electricity Retailers' Association of New Zealand,
- Electricity Networks Aotearoa,
- Consumer NZ,
- Chartered Accountants Australia and New Zealand,
- Corporate Taxpayers' Group,
- CPA Australia,
- New Zealand Law Society; and
- a number of professional services firms.

Our consultation was focused on the problem definition and the option to introduce a capped income tax exemption. Most stakeholders supported this option, subject to design details.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?
The preferred option in the Cabinet paper is option two, while the preferred option in the RIS is option three.

Summary: Minister's preferred option in the Cabinet paper (option two)

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

The key monetised costs relative to the status quo are:

- **Regulator (Inland Revenue)** (direct cost): there are one-off costs associated with implementing the preferred option. For example, preparing guidance material and resourcing an initial increase in assurance calls.

The key monetised costs relative to the status quo are:

- **Individuals subject to the exemption** (direct cost): although these individuals would not be required to pay tax on income derived from the sale of excess electricity, they would no longer be entitled to deductions for expenditure related to the sale of excess electricity.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

The key non-monetised benefits relative to the status quo are:

- **Individuals subject to the exemption** (direct benefit): compliance costs for these individuals would be reduced relative to the status quo, as they would not need to file a tax return for the income or complete apportionment calculations.
- **Regulator (Inland Revenue)** (direct benefit): As there are 67,000 residential connections with distributed solar generation, compliance activity would be resource-intensive under the status quo. This option would significantly reduce the compliance activity required.

The key monetised benefits relative to the status quo are:

- **New Zealand Government** (direct benefit): the Government would receive a revenue gain relative to the status quo. This is because individuals subject to the exemption would no longer be entitled to deductions for expenditure related to the sale of excess electricity, removing potential tax losses from the system. However, the assigned fiscal benefit takes into account the low likelihood this net income stream is currently being declared.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

The benefits of the Minister's preferred option would outweigh the costs given the objective of the proposal. There would be a cost for individuals who would have otherwise made deductions (e.g. for the cost of their solar generation asset), which would reduce the cost of their investment in its first years. However, for individuals deriving relatively small amounts of income, the compliance costs associated with apportioning expenditure may be disproportionate.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Inland Revenue would be responsible for the ongoing operation and enforcement of the income tax exemption. The proposal is planned to come into effect for the 2026-27 and later income years.

The implementation of the proposal is expected to have a low administrative impact on Inland Revenue, which will be self-funded.

Limitations and Constraints on Analysis

One limitation is that scope of options has been constrained by timelines for the 2025-26 annual rates Bill, which is scheduled for introduction in August 2025 and enactment in March 2026.

Another limitation is that we do not have access to comprehensive data regarding the income individuals derive from selling excess electricity, or the rate of compliance with their income tax obligations. This makes it difficult to quantify the size of the problem and the potential impact of any options to address it. However, stakeholder feedback and evidence from independent Crown entities has helped to provide a basis for analysis.

Summary: agency's preferred option in the Cabinet paper (option three)

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

Option three has the same monetised and non-monetised costs as option two. There may be higher ongoing costs for Inland Revenue associated with assessing compliance for those who may exceed the threshold. However, individuals not subject to the threshold will remain entitled to deductions for expenditure relating to the sale of excess electricity.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

Option three has the same monetised and non-monetised benefits as option two. However, it would likely have a lesser impact on costs for both individuals selling excess electricity and Inland Revenue, depending on the threshold chosen.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the agency's preferred option are likely to outweigh the costs?

The benefits of officials' preferred option would also outweigh the costs. Compliance costs would be reduced where they are likely to be disproportionate to any tax revenue, and individuals above the threshold would remain eligible for deductions. The threshold could be reviewed and amended by Order in Council if the ratio changed over time due to market conditions to ensure it continues to achieve its policy intent.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Inland Revenue would be responsible for the ongoing operation and enforcement of the capped income tax exemption, and the administrative cost could be funded within existing baselines.

Limitations and Constraints on Analysis

The analysis of option three has been limited by the same constraints as those on the analysis of option two.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

s 9(2)(a)

Responsible Manager's signature:
Peter Frawley
Policy Lead
2 July 2025

Quality Assurance Statement	*[Note this isn't included in the four-page limit]*
Reviewing Agency: Inland Revenue	**QA rating: Meets**
Panel Comment: The Inland Revenue Department's internal quality assurance panel has reviewed the Regulatory Impact Statement (RIS) prepared by Inland Revenue and associated supporting material on **2 July 2025**. The panel considers that the information and analysis summarised in the RIS **meets** the Quality Assurance criteria.	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Background

1. Individuals can generate electricity (generally solar) for private use and, depending on the electricity retailer, can sell any excess electricity back to the network (also referred to as "distributed generation"). The retailer either pays or provides a credit or discount for the electricity supplied to the individual, as this results in the retailer buying less electricity from the wholesale market.

2. The uptake in residential distributed solar generation has increased significantly over time. According to the Electricity Authority, as of 31 March 2020 there were 25,717 residential connections with distributed solar generation. By 31 March 2025, this had grown to 65,636 connections[2]. The average installed capacity has also increased from 3.795 kilowatts (kW) as of 31 March 2020 to 5.145 kW as of 31 March 2025.

3. The Electricity Authority and the Commerce Commission have jointly established the Energy Competition Task Force in response to the fuel shortage and spike in wholesale prices in August 2024. The Task Force has publicly consulted on two proposals which relate to rewarding consumers who sell electricity back to the network[3]:

    - requiring distributors to pay a rebate when consumers supply electricity at peak times, and
    - requiring all retailers above a certain size to offer variable buy-back rates to reflect the higher value of electricity supplied by consumers at peak times.

4. The Task Force's initiatives are proposed to take effect in the first half of 2026, and along with factors such as the falling price of solar panels and rising retail electricity prices, would help to incentivise further investment in distributed solar generation.

Status quo

5. Inland Revenue's technical interpretation is that although dependent on the particular facts and legal arrangements (i.e. payment, credit, or discount), in many instances the amounts received by or credited to an individual for excess electricity supplied to the network are likely to be assessable income.

6. In the context of this Regulatory Impact Statement, "income" refers to the gross income that an individual derives from the sale of excess electricity. That is, it does not refer to their income after accounting for any payments for energy consumed from the network (i.e. their net income).

7. Inland Revenue's interpretation means that such individuals are required to file a tax return and will be allowed deductions for expenditure incurred (e.g. interest on a loan to install solar panels) and depreciation loss to the extent it relates to the sale of excess electricity.

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[2] EMI Electricity Authority – Installed distribution generation trends

[3] Electricity Authority – New ways to empower electricity consumers

8. Depending on their circumstances, individuals who derive less than $200 of income from selling excess electricity (and other sources of non-reportable income) in an income year may be excluded from these information requirements under section 22K of the Tax Administration Act 1994.

Income derived by individuals selling excess electricity

9. We do not have comprehensive data on the distribution of income derived by individuals from residential distributed generation. The following analysis is undertaken using information the Electricity Authority has provided for the average consumer, and it relies on a range of assumptions.

10. The Electricity Authority estimates that the 67,000 residential connections with distributed solar generation have 5.1 kilowatts kW of installed capacity on average. They generate an average of 6,200 kilowatt-hours (kWh) per year and export an average of 4,300 kWh back into the network.

11. Solar buy-back rates (i.e. the price a retailer pays an individual per kWh of electricity supplied) can range between approximately 8 cents to 17 cents, and can vary between peak and off-peak times. Assuming a 20 cent buy-back rate to help account for future increases, the average individual would derive $860 per year from the sale of excess electricity.

12. Using this example (i.e. based on the generation of a 5.1kW system, where the individual exports approximately 69% of the electricity they generate, and using a 20 cent buy-back rate), the following table estimates the income an individual may derive per year with a bigger system:

System capacity (kW)	Electricity generated (kWh)	Electricity exported to network (kWh)	Income ($)
5.1 (avg)	6,200	4,300	860
8	9,730	6,710	1,340
10	12,150	8,380	1,680

13. This is a simplified model, where the increase in electricity generated is proportional to the increase in system capacity. Self-consumption (i.e. the amount of electricity generated that the individual consumes privately) will also vary. However, the results are relatively consistent with stakeholder feedback and anecdotal evidence we have received.

14. The estimates suggest that most individuals with residential distributed generation will derive relatively small amounts of income from the sale of excess electricity, even where their system capacity is significantly higher than the average of 5.1 kW.

15. Most of the 67,000 residential connections with distributed generation have a system capacity of less than 10 kW. According to the Electricity Authority's data, as of 31 January 2025, only 1,562 residential connections had a system capacity of more than 10 kW.

What is the policy problem or opportunity?

16. The policy problem is that under the status quo, where an individual is deriving income from the sale of excess electricity to the network, the compliance costs associated with the tax implications are likely to be disproportionate to any tax revenue in many cases. This could be a barrier to residential distributed solar generation.

17. In the absence of income derived from the sale of electricity, the majority of these individuals are not expected to be filing tax returns because their only other income would be salary, wages, and investment income subject to withholding tax. Due to the private limitation on deductions, individuals will need to apportion expenditure or depreciation loss based on how much electricity is used privately or sold back to the network.

18. There is limited data on the level of tax compliance by individuals selling excess electricity. However, we expect it to be low based on conversations with Inland Revenue's compliance staff. Individuals may not be aware that the amounts they receive are likely to be assessable income, or of the resulting tax obligations.

19. Individuals selling excess electricity from commercial property or who are in the business of selling excess electricity are not in scope of the problem. This is because it is unlikely that apportionment issues will arise (i.e. without mixed use of the assets), and businesses are likely better equipped to deal with the tax implications generally.

20. It would be resource-intensive for Inland Revenue to monitor compliance activity given that there are approximately 67,000 connections with residential distributed solar generation and potentially complex apportionment calculations. There are also risks associated with taxpayers being in a prolonged tax loss position, as their losses can be offset against other income sources (e.g. salary and wages).

21. There is an impetus to address the problem before the Energy Competition Task Force's initiatives are proposed to take effect in 2026, which is likely to further incentivise the uptake of distributed solar generation.

Assumptions

22. The lack of comprehensive income and compliance data has required us to make assumptions about the policy problem. This makes it difficult to quantify the size of the problem and the potential impact of any options to address it. However, stakeholder feedback and evidence from independent Crown entities has helped to provide a basis for analysis.

Stakeholder views on the problem

23. The regulated parties and other stakeholders in this issue include:

- government agencies and independent Crown entities (including MBIE and the Electricity Authority),
- industry and professional bodies in the energy sector (including Electricity Retailers' Association of New Zealand and Electricity Networks Aotearoa),
- industry and professional bodies in the tax community (including Chartered Accountants Australia and New Zealand, CPA Australia, and other tax practitioners), and
- electricity distributors, retailers, and consumers.

24. The stakeholders we have engaged with on the issue have agreed that individuals selling excess electricity from their residential property are likely to face disproportionate compliance costs in meeting their tax obligations under the status quo. Some also noted the likelihood that many individuals will be in a prolonged tax-loss position.

25. Some stakeholders emphasised that any tax policy measures should support broader environmental and energy policies, along with the evolving role of consumers in the electricity market.

What objectives are sought in relation to the policy problem?

26. The policy objective is to ensure that tax is not a barrier to residential distributed generation by reducing compliance costs, which are likely to be disproportionate to any tax revenue in many cases.

What consultation has been undertaken?

27. Officials undertook targeted consultation with the following stakeholders between 2 May 2025 and 19 May 2025:

- Electricity Retailers' Association of New Zealand,
- Electricity Networks Aotearoa,
- Consumer NZ,
- Chartered Accountants Australia and New Zealand,
- Corporate Taxpayers' Group,
- CPA Australia,
- New Zealand Law Society; and
- a number of professional services firms.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

28. The criteria used to compare options to the status quo are: compliance costs, administrative costs, coherence, and equity. These are described below.

    a. **Compliance costs:** does the option reduce compliance costs for individuals with residential distributed electricity generation?
    b. **Administrative costs:** does the option minimise administrative costs for Inland Revenue?
    c. **Coherence:** does the option minimise the impact on the coherence of the tax system as a whole?
    d. **Equity:** does the option minimise the impact on the tax system's fairness, i.e. the burden of taxes across individuals depending on which bases and rates?

29. Reducing compliance costs for individuals with residential distributed electricity generation is the key objective of this proposal. However, the adverse impact on the tax system (i.e. its coherence and equity) should also be minimised.

What scope will options be considered within?

30. The scope of options has been limited by the time constraints of the project. As the Task Force's proposals are proposed to come into effect in the first half of 2026, we are targeting the 2025-26 Annual Rates Bill, which is scheduled for introduction in August 2025 and enactment in March 2026.

31. This means that options that would require extensive policy change or consultation under the Generic Tax Policy Process were ruled out. While targeted consultation occurred with the tax community and energy sector, longer and potentially public consultation would be required for substantial change.

32. This does not preclude future work on any tax implications that arise within the electricity market, particularly as the role of residential customers evolves. However, this is outside of the scope of this project.

What options are being considered?

Option one – Status Quo

33. Option one is to maintain the status quo. To the extent the amounts derived by individuals from residential distributed electricity generation are assessable income, they will be required to return the income and apportion expenditure to account for any private use.

Option two – Uncapped income tax exemption

34. Option two is an uncapped income tax exemption for income derived by an individual from residential distributed generation. The amounts would be treated as exempt income. That is, individuals subject to the exemption would not need to pay tax on or file a tax return for that income.

35. This option is compared against the status quo using the criteria outlined above as follows.

Compliance costs

36. This approach would significantly reduce compliance costs, as individuals with residential distributed generation would not need to return the income or complete apportionment calculations. However, they would no longer be entitled to deductions for expenditure relating to the sale of electricity.

Administrative costs

37. As the Electricity Authority estimates that there are approximately 67,000 connections with residential distributed electricity generation, the approach under Option Two would significantly reduce the compliance activity required by Inland Revenue relative to the status quo.

Coherence

38. Providing an uncapped income tax exemption for income derived from residential distributed generation would be a departure from a broad-base low-rate (BBLR) approach. If an individual is deriving material amounts of income from the sale of excess electricity, there may not be a basis to provide an exemption on compliance cost grounds. Without a cap, there is also a risk that individuals with significant levels of generation, and therefore an income earning purpose, would be covered by the exemption.

39. There are examples in the tax system where income derived from activities that are likely to be loss-making is not subject to income tax. For example, income derived from hobby activities (i.e. activities conducted primarily for private pleasure or recreation) is also typically not taxable. The main tax policy concern in these cases is that the individual's expenses will typically exceed any receipts or revenue they earn.

40. Based on anecdotal evidence and feedback from stakeholders, given the high upfront cost of solar panels, the same issue is likely to arise where individuals derive relatively small amounts of income from residential solar generation. Under current market conditions many individuals are likely to be in a tax loss position in relation to the sale of excess electricity.

Equity

41. Option two would mean that income derived from the sale of electricity is treated differently to income derived by individuals from other sources (e.g. salary and wages), i.e. having a negative impact on the horizontal equity of the tax system. Solar generation assets are also likely to be more accessible to higher-income individuals, as the Electricity Authority estimates that the average solar electricity system (5 kW) costs $12,000 to install.

Option three – Capped income tax exemption

42. Option three is a capped income tax exemption for income derived by an individual from residential distributed generation, with the ability to amend the threshold by Order in Council. Amounts below the threshold would be treated as exempt income.

43. The aim of a capped exemption would be to reduce compliance costs where they are likely to outweigh the potential tax revenue. Even where an individual has relatively high system capacity, compliance costs may be disproportionate. The analysis in section 1 suggests that individuals with capacity up to 10 kW are likely to derive less than $2,000 from the sale of excess electricity.

44. Our consultation was focused on option three, and stakeholders were generally supportive of this approach. We proposed a $1,000 at the time of consultation, and most suggested alternative thresholds ranging between $2,000 and $10,000. Their reasons included the potential compliance costs associated with tracking income under a threshold, and future-proofing for changes in the electricity market.

45. Based on the analysis in section 1, we expect that a $2,000 threshold would cover the large majority of individuals with residential distributed generation under current market conditions. However, if energy prices and/or solar technology costs fall, investments could become more profitable. A higher threshold (e.g. $4,000) would help to future-proof the policy. The ability to amend the threshold by Order in Council would also help to provide flexibility (i.e. rather than requiring changes to be made by primary legislation).

46. As we do not have access to comprehensive income data, it is difficult to determine the difference in coverage between options two and three. However, based on the analysis in section 1, we estimate that 97-98% of those included under option two would be included under option three under current market conditions.

Compliance costs

47. The approach under option three would have a smaller absolute impact on compliance costs than option two. However, it is better targeted at individuals who are likely to face disproportionate compliance costs relative to the income they earn from selling excess electricity.

Administrative costs

48. A targeted income tax exemption would reduce administrative costs for Inland Revenue relative to the status quo, but to a lesser extent than option two. However, it would help to ensure that Inland Revenue does not need to monitor compliance by individuals with minimal income and potentially complex apportionment calculations, where the resource required would likely outweigh any tax revenue.

Coherence

49. Under a BBLR approach, the use of exemptions should be minimised. However, the precedent for loss-making activities not being subject to income tax noted in the analysis of option two is relevant under option three. There is also precedent for providing capped exemptions on compliance cost grounds.

50. Under the mixed-use asset rules, an individual can opt out (i.e. where they would not be required to return the income and would not be entitled to deductions) if their gross income derived from the asset is less than $4,000. This measure was introduced on the basis that requiring individuals with minimal amounts of asset income to keep sufficient records and apportion expenditure would create disproportionate compliance costs. Many individuals deriving income from residential distributed solar generation are likely to face similar issues.

Equity

51. Because option three includes a cap, limiting the amount of the benefit, any adverse effect on the equity of the tax system would be less than option two.

How do the options compare to the status quo/counterfactual?

	Option One – *Status Quo*	Option Two – *Full exemption*	Option Three – *Targeted exemption (preferred option)*
Compliance costs	0	++	+
Coherence	0	- -	0
Equity	0	- -	-
Administrative cost	0	++	+
Overall assessment	0	0	+

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

52. Inland Revenue considers that option three (a capped income tax exemption) has the highest net benefits. Option three is likely to best address the disproportionate costs faced by individuals and Inland Revenue, while minimising the impact on the tax system as a whole. Option two would deliver the greatest absolute impact on compliance and administrative costs, but would have a greater negative impact on the coherence and equity of the tax system.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

53. The preferred option in the Cabinet paper is option two, while the preferred option in the RIS is option three.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of the preferred option compared to taking no action			
Regulated groups (individuals subject to the exemption)	Denial of deductions (noting the low compliance under the status quo)	Notional value of $200m per annum over forecast period	Low (constrained by lack of data on income and compliance)
Regulators (Inland Revenue)	One-off administrative costs	Low (e.g. from initial increase in assurance calls and preparation of guidance material)	Medium (self-assessment of impact on agency)
Others (eg, wider govt, consumers, etc.) *For fiscal costs, both increased costs and loss of revenue could be relevant*	N/A	N/A	N/A
Total monetised costs		Low	
Non-monetised costs		Low	
Additional benefits of the preferred option compared to taking no action			
Regulated groups (individuals subject to the exemption)	Reduction in ongoing compliance costs	High (noting the low compliance under the status quo, but also any future compliance activity from IR)	Medium (consultation limited to targeted stakeholders)
Regulators (Inland Revenue)	Reduction in ongoing administrative costs	High (i.e. less compliance activity and assistance required)	Medium (self-assessment of impact on agency)
Others (NZ Government)	Ongoing fiscal benefit	Notional value of $200m per annum over forecast period	Low (constrained by lack of data on

			income and compliance)
Total monetised benefits		Low	
Non-monetised benefits		High	

What are the marginal costs and benefits of the agency's preferred option in the RIS?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of the preferred option compared to taking no action			
Regulated groups (individuals subject to the exemption)	Denial of deductions (noting the low compliance under the status quo)	Notional value of $200m per annum over forecast period	Low (constrained by lack of data on income and compliance)
Regulators (Inland Revenue)	One-off administrative costs	Low (e.g. from initial increase in assurance calls and preparation of guidance material)	Medium (self-assessment of impact on agency)
Others (eg, wider govt, consumers, etc.) *For fiscal costs, both increased costs and loss of revenue could be relevant*	N/A	N/A	N/A
Total monetised costs		Low	
Non-monetised costs		Low	
Additional benefits of the preferred option compared to taking no action			
Regulated groups (individuals subject to the exemption)	Reduction in ongoing compliance costs	Medium (noting the low compliance under the status quo, but also any future compliance activity from IR)	Medium (consultation limited to targeted stakeholders)
Regulators (Inland Revenue)	Reduction in ongoing administrative costs	Medium (i.e. less compliance activity and assistance required)	Medium (self-assessment of impact on agency)
Others (NZ Government)	Ongoing fiscal benefit	Likely a notional value of $200m per annum	Low (constrained by

		over forecast period (depending on threshold)	lack of data on income and compliance)
Total monetised benefits		Low	
Non-monetised benefits		Medium	

54. Option two (Minister's preferred option) has been assigned a notional $200,000 fiscal benefit per annum over the forecast period, taking into account the low likelihood this net income stream is currently being declared. A fiscal benefit has been assigned because under current market conditions and the recently introduced Investment Boost for new connections, we expect that many individuals are likely to be in a tax loss position due to expenses outweighing any income.

55. Depending on the threshold, option three (agency's preferred option) would also likely be assigned a notional small fiscal benefit. This is because we do not have access to comprehensive income data, but we expect that a $2,000 threshold would cover the large majority of individuals with residential distributed generation under current market conditions (while a $4,000 threshold would likely cover almost all of these individuals).

Section 3: Delivering an option

How will the proposal be implemented?

56. Inland Revenue would be responsible for the implementation and administration of the change, and would provide guidance to operational departments affected by any changes to ensure there is understanding of the new rules.

57. The Minister's preferred option in the Cabinet paper (option two – uncapped income tax exemption) would require amendments to the Income Tax Act 2007. The change would be included in the 2025-26 Annual Rates Bill, scheduled for introduction in August 2025 and enactment in March 2026.

58. The usual guidance on the change would be published on Inland Revenue's website and in an Act Commentary shortly after any change was enacted. In particular, the guidance would need to help individuals understand whether they are subject to the exemption.

59. Overall, implementation of the proposal is expected to have a low administrative impact on Inland Revenue, which will be self-funded.

How will the proposal be monitored, evaluated, and reviewed?

60. Policy officials would maintain communication channels with both internal and external stakeholders. If issues emerge, they will be dealt with operationally, or by way of legislative amendment if agreed by Parliament.