

Regulatory Analysis Summary: GST treatment of electricity exported to grid by residential premises

Decision sought	Final Cabinet decisions	
Agency responsible	Inland Revenue	
Portfolio Minister(s)	Minister of Revenue	
Date finalised	30.07.2026	
Ministry for Regulation ID number		REG-2292

Brief description of the Minister's regulatory proposal (preferred option)

Surplus electricity supplied to the grid from residential premises would be zero-rated. This means that if an electricity account holder for a household is GST-registered in their own name (a GST-registered household), any export credits paid to them by the electricity retailer would be zero-rated (GST charged at a rate of 0%).

Summary of the problem definition

Currently, surplus electricity supplied to the grid from residential premises is subject to GST when the electricity account holder is registered for GST in their own name for another taxable activity. Electricity retailers claim a GST deduction for the electricity they purchase, as they pay the GST-registered households a GST-inclusive amount. However, if the GST-registered household does not realise it must return GST on the credit it receives from the electricity retailer, there is a mismatch between GST collected and refunded, leading to revenue leakage.

Summary of options considered for addressing the problem

Option One – maintain status quo

No change to the legislative settings. GST-registered households would still be required to return GST on surplus electricity supplied to the grid, and both electricity retailers and GST-registered households could continue to claim back GST on their costs (to the extent the costs relate to making taxable supplies). Unless behaviour changes and GST-registered households return GST, a revenue mismatch would remain.

Option Two – zero-rate surplus electricity supplied to the grid

Electricity retailers would not be able to claim input tax deductions for the purchase of surplus electricity when the supply is made from residential premises, and GST-registered households would not have to return GST to Inland Revenue on these supplies. This eliminates the opportunity for a revenue mismatch. GST-registered households would continue to be able to claim input tax deductions for renewable energy systems. However, these would be minimal because they would remain limited to the extent that costs are associated with the generation of electricity that is exported to the grid (rather than consumption by the household).

Option Three – remove surplus electricity supplied to the grid from the GST base

Surplus electricity supplied to the grid is removed from the GST base. This means that GST-registered households would not return GST on these supplies and electricity retailers would not be able to claim input tax deductions for the purchase of the electricity. This would remove the opportunity for the revenue mismatch. GST-registered households would not be able to claim input tax deductions for any portion of the cost of renewable energy systems installed on a residential premises.

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

Yes

Summary of the main benefits of the Minister's preferred option

Crown: Monetary benefit from reduced revenue leakage – \$1.68 million over the forecast period, due to reduced input tax deductions.

Inland Revenue: Medium unquantified benefit of improving tax system integrity because an ongoing revenue leakage is removed, the law is better aligned with current practice, and confidence in the GST system is maintained.

Summary of the main costs of the Minister's preferred option

Electricity retailers: Unquantified, one-off implementation and transition costs following legislative changes. These costs are not expected to be high because, under the preferred option, retailers would be able to use information they already hold to determine whether to deduct input tax for the purchase of electricity or not. Therefore, only minimal billing changes would be required because legislation changes would allow buyer-created taxable supply information to continue to be issued. Consultation with electricity retailers did not identify any other compliance costs associated with the transition to new rules.

Inland Revenue: Unquantified, one-off implementation and transition costs following legislative changes. This is expected to be low because no system changes are required, with only changes to guidance for staff and the public. Inland Revenue is not seeking any additional funding as a consequence of this proposal and would implement the change by including it in general guidance for taxpayers using existing resources.

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

Yes

Have any potential inconsistencies with the principles of responsible regulation in the Regulatory Standards Act been identified in relation to the Minister's preferred option?

No

Limitations and constraints on analysis

Condensed timeframes	No	Constrained option set	No
Legislative constraints	No	Data and evidence gaps	No

Ministerial direction	No	Other	No
Limited public consultation	No		
Summary of limitations and constraints on analysis There have been no limitations or constraints on the analysis of this problem. What are the implications of these limitations and constraints, and what has been done – or will be done – to mitigate and manage them? N/A			

I am satisfied that, given the available evidence, this RAS represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:

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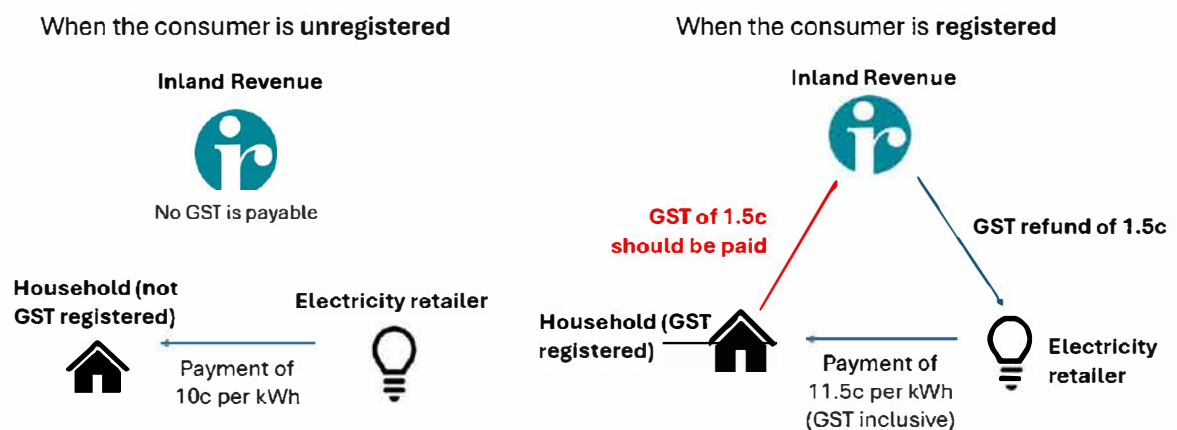
Graeme Morrison
Policy Lead, Inland Revenue
30 July 2026

Quality Assurance Statement	
Reviewing [Agency/Agencies]: Inland Revenue	QA rating: Meets
Panel Comment: Inland Revenue's internal quality assurance panel has reviewed the regulatory analysis summary (RAS) "GST treatment of electricity exported to grid by residential premises" prepared by Inland Revenue. The panel considers the information and analysis summarised in the RAS meets the quality assurance criteria.	

Section 1: Diagnosing the policy problem

What is the policy problem?

1. The supply of surplus electricity exported to the grid from a residential premises is subject to GST when the electricity account holder is registered for GST in their own name for another taxable activity. In this RAS, electricity account holders who are registered for GST in their own name are referred to as “GST-registered households”.
2. Inland Revenue considers that the supply of electricity exported to the grid from residential premises is a taxable activity in its own right and is therefore subject to GST if the person meets the criteria for GST registration (or is already registered for GST). This is because the ongoing rights and responsibilities mean the activity is continuous and regular, and the credit on the GST-registered households electricity bill is consideration for the supply of electricity.
3. This means GST-registered households must account for GST on the payment they receive from their electricity retailer for surplus electricity exported to the grid that is purchased by the retailer. Electricity retailers typically issue buyer-created taxable supply information (in the form of an electricity bill) to the GST-registered household and claim an input tax deduction for the amount of GST included in the payment. However, GST-registered households usually do not realise they must return GST on this payment. This means that GST is refunded to electricity retailers but not returned by GST-registered households, creating a mismatch.
4. Inland Revenue estimates around 4,000 households are affected, and this number will increase over time as uptake of residential renewable energy increases. The associated GST revenue leakage is estimated to be between \$0.4 million to \$0.6 million per year. Over time, this amount would increase as more GST-registered households supply surplus electricity to the grid.
5. The figure below demonstrates the current treatment when a household is unregistered compared to when they are registered. The figures used are illustrative for simplicity and are not necessarily representative of market buy-back rates.



6. There are two regulated parties affected by this problem:
 - o **Electricity retailers:** Pay households a credit for surplus electricity exported to the grid, with buyer-created taxable supply information issued by retailers. The GST

treatment of surplus electricity impacts what input tax deductions they are able to claim, and whether the credit paid to households is inclusive or exclusive of GST.

- **GST-registered households:** Export surplus electricity to the grid from residential premises. If the electricity account holder for the household is GST registered, they are a regulated party and, under current law, are required to return GST on the surplus electricity they export to the grid.
7. Electricity account holders who are not GST registered are not a regulated party. GST registration is only required if a person makes, or expects to make, more than \$60,000 of supplies in a 12-month period. The issue therefore does not affect most households.
 8. While non-regulatory options to address the problem, such as education, behavioural nudges or compliance campaigns, could help GST-registered households understand their obligations, it would not necessarily ensure full compliance. s 18(c)(i)
 9. If regulatory changes are not made, and non-regulatory action is taken instead, the mismatch between GST returned and GST refunded may decrease but it would ultimately remain.
 10. Making a legislative change would ensure that if the current practices of affected households were to continue (that is, they would not include these supplies in their GST returns) there would not be any revenue leakage for the Crown.

What objectives are sought in relation to the policy problem?

11. The overall objective is to ensure that the Crown is not disadvantaged if GST-registered households do not comply with their GST obligations. This would reduce or eliminate the revenue mismatch that currently arises. The objectives below would ensure any solutions to the policy problem are effective, efficient, and proportional.
12. **Protect revenue integrity** of the New Zealand tax system. In this situation, this means the solution would reduce or eliminate the revenue mismatch and ensure that any non-compliance does not result in revenue loss for the Crown. The solution should also ideally ensure that more GST-registered households are compliant.
13. **Reduce compliance costs for regulated parties** to ensure the rules are easy to understand and comply with. Our assessment is that the impact on electricity retailers is likely to be low, and any impact would be in the form of transitional costs rather than ongoing costs. Submitters from the electricity industry supported the proposal. Our assessment is there would be no real compliance cost change for GST-registered households, as zero-rating their electricity sales does not impose any additional costs on them when compared to the status quo.
14. **Remain consistent with existing GST legislation** by using solutions that already exist in the Goods and Services Tax Act 1985. This also reduces compliance costs because existing rules are likely to be easy for taxpayers to understand and comply with.

What external consultation has been undertaken?

15. This issue has been publicly consulted as part of the officials' issues paper – "Current GST issues". The consultation period was open for five weeks from 22 May to 29 June 2026.
16. We considered submissions from the Electricity Retailers' and Generators' Association of New Zealand (ERGANZ), Meridian Energy, Chartered Accountants Australia and New Zealand, Corporate Taxpayers Group, CPA Australia, Deloitte, EY, KPMG, PwC, Sherlock Consulting and individual submitters.
17. We reached out to ERGANZ and other electricity retailers that are not ERGANZ members and that we identified as purchasers of surplus electricity to ensure they were aware of the consultation and had the opportunity to share their opinions.

Section 2: Assessing options to address the policy problem

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

18. In line with the identified objectives in section one, the criteria for comparing options with the status quo are outlined and defined below. Where possible, the definitions for criteria are from the established principles of tax policy design.
- **Effectiveness** – the extent to which an option achieves the stated policy objective and addresses the underlying problem.
 - **Proportionality** – whether the intervention is appropriate to the severity, urgency, and scope of the problem.
 - **Efficiency** – minimises impediments to economic growth and avoids distortions to the use of resources.¹
 - **Compliance costs** – minimises the costs of compliance and gives taxpayers as much certainty as possible.
 - **Revenue integrity** – minimises opportunities for tax avoidance and arbitrage.
 - **Coherence** – ensuring that individual tax rules make sense in the context of the entire tax system.

What scope will options be considered within?

19. The scope of all options is considered within the GST treatment of supplies of surplus electricity by GST-registered households to electricity retailers when:
- the electricity account holder is registered for GST for another taxable activity, and
 - the surplus electricity is generated by solar panels (or other renewable energy systems) installed on or in a residential premise.
20. The issues paper consulted on a proposal to zero-rate surplus electricity supplied to the grid by residential premises, rather than more broadly on the problem definition or other options to address the GST treatment. This specific option was consulted on because:
- it was raised by submitters as part of targeted consultation for the income tax treatment of the residential supply of surplus electricity change, as a potential way to address the revenue mismatch, and
 - there is precedent of solving similar revenue integrity issues when there is a mismatch between output tax and input tax through the use of compulsory zero-rating, for example, with the rules for the compulsory zero-rating of land.

¹ This RAS uses the established tax policy principles definition of efficiency, rather than the Regulatory Standards definition.

21. Given some submissions suggested removing surplus electricity from the GST base as an alternate option, we have considered this option as part of this RAS,
22. We have excluded non-regulatory options from consideration within this RAS. Non-regulatory options include education and guidance on obligations, behavioural nudges to encourage GST compliance or compliance campaigns. As discussed in paragraph 8, while these options could potentially improve awareness and compliance, they continue to rely on the behaviour of GST-registered households to correctly identify and return GST on what are relatively small and incidental supplies. As such, non-regulatory options are unlikely to fully address the revenue integrity issues currently present, compared to regulatory options (which do not require behavioural changes by GST-registered households). This means revenue leakage would persist absent a legislative change.

What options are being considered?

Option One – Retain current GST treatment (status quo)

23. Option one is to maintain the status quo. This would mean a GST-registered person, when they are also the electricity account holder, is required to return GST on any electricity exported to the grid for consideration, and electricity retailers can continue to claim refunds on the GST they pay on export credits. This option would also include Inland Revenue improving awareness of taxpayers' obligations when they are affected by this issue.

Option Two – Zero-rate surplus electricity supplied to the grid from residential premises

24. Option two was consulted on as part of the officials' issues paper "Current GST issues". Submitters from the electricity industry supported the proposal.
25. Zero-rating the supply means that electricity retailers cannot claim input tax deductions for the purchase of surplus electricity when the supply is made from a residential premises, and GST-registered households would not be liable for returning GST on this supply. This eliminates the opportunity for a revenue mismatch.
26. GST-registered households would still be able to claim partial input tax deductions for solar panels (or other renewable energy systems, for example, from wind). However, the deductions would be relatively small because they are only available to the extent that they are used to make taxable supplies (and not domestic consumption).
27. If they do not want to apportion input tax, GST-registered households could instead elect to not claim an input tax deduction for expenditure used for electricity generation because the assets were not acquired for the principal purpose of making taxable supplies.

Option Three – Remove surplus electricity supplied to the grid from residential premises from the GST base

28. Option three covers alternative solutions to the problem raised by submitters on the officials' issues paper "Current GST issues".

29. There were two mechanisms suggested by submitters that result in the same outcome. For the purposes of this analysis, they are grouped together into one option to avoid duplication. This includes treating surplus electricity exported to the grid by residential premises as a non-taxable supply or exempting it from GST.
30. This option would mean that GST-registered households do not have to return GST on these supplies and electricity retailers cannot claim input tax deductions because no GST has been charged on the supply. This would remove the opportunity for the revenue mismatch. GST-registered households would not be able to claim input tax deductions for any portion of the cost of solar panels (or other renewable energy systems) installed on residential premises.

Table 1: How do the options compare with the status quo/counterfactual?

	Option One – Status quo	Option Two – Zero-rate surplus electricity from residential premises	Option Three – Make surplus electricity from residential premises non-taxable/exempt	Comments
Effectiveness	0	++	+	Both options address the mismatch, however Option Three is less consistent with New Zealand's existing GST framework, which has few exceptions.
Efficiency	0	+	-	Option Two achieves the policy objectives in a way that aligns with New Zealand's existing GST framework, while Option Three would introduce a rare exception to the GST base.
Proportionate	0	+	-	Option Two is proportionate to the size of the problem because it addresses revenue leakage issue on an ongoing basis without creating new risks or ongoing compliance costs.
Compliance costs	0	+	+	Both options reduce compliance obligations for households, with only one-off (transitional) costs for affected electricity retailers.
Revenue integrity	0	++	+	Both options would remove the mismatch, however Option Three does so by creating a rare exception for a specific type of service from the GST system.
Coherence	0	++	-	Option Two maintains consistency with the GST framework, while removing supplies from the GST base is less consistent with New Zealand's broad-based, low-rate GST framework.

Overall assessment	0	++	+	While both options address the problem, Option Two better aligns with the criteria.
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Key for qualitative judgements:

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- 0 about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

Section 3: Cost-benefit analysis

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

31. The preferred option would have a monetary benefit of \$1.68 million over the forecast period for the Crown due to the reduction of revenue leakage.
32. The preferred option would also have a medium unquantified benefit of improving tax system integrity because an ongoing revenue leakage is removed, the law would be better aligned with what GST-registered households are already doing, and confidence in the GST system would be maintained.
33. Affected electricity retailers would face an unquantified one-off cost to operationalise the legislative change, which would mean they no longer claim GST deductions for the purchase of surplus electricity from residential premises. However, these costs are expected to be low. Retailers would be able to use information they already hold (for example, the Installation Control Point number) to determine whether a property is residential and therefore eligible for zero-rating, and minimal changes to billing would be required. In submissions on this proposal, electricity retailers did not identify any additional compliance costs associated with the transition to new rules.
34. Inland Revenue would face one-off minor implementation and transition costs. These costs are expected to be low because no system changes are required, only changes to guidance for staff and the public, to ensure affected parties are aware of the legislative change.

Table 2: Cost-benefit analysis

Nature of the benefit/cost to New Zealand	Dollar value of impact (or quantified impact)	Scale of unquantifiable impact	Nature of impact – one-off or ongoing	Source of evidence
Additional benefits of preferred option compared with taking no action				
Crown – Reduced revenue leakage	+\$1.68 million over the forecast period		Ongoing	Inland Revenue
Improvement to tax system integrity		Medium	Ongoing	Inland Revenue
Total annual benefits	+\$1.68 million over the forecast period	Medium		
Total one-off benefits				
Additional costs of preferred option compared with taking no action				
Electricity retailers – transition and implementation costs		Low	One-off	Consultation with electricity retailers
Inland Revenue – implementation and transition costs		Low	One-off	Inland Revenue
Total annual costs				
Total one-off costs		Low		
Net impacts compared with taking no action				
Total annual benefits minus costs	+\$1.68 million over the forecast period	Medium		
Total one-off benefits minus costs		Low		

Are the benefits of the preferred option in the Cabinet paper expected to exceed the costs?

35. Yes, the benefits of the preferred option are expected to exceed this cost.
36. Net monetised benefits of the preferred option are \$1.68 million over the forecast period, due to a reduction in revenue leakage. Unquantifiable benefits are a medium ongoing benefit of improved integrity of the tax system, due to the removal of compliance risk and increased confidence. Unquantifiable costs are low, due to the small, one-off impacts of any implementation or transition costs to both Inland Revenue and electricity providers. Net, the unquantified benefit is low.

What are the impacts on different groups of the preferred option compared with taking no action?

37. The preferred option is not expected to disproportionately affect any population groups compared with taking no action. The groups affected by this change are electricity retailers and a limited group of people who:
- are GST registered under their own name for another taxable activity
 - are the named electricity account holder, and
 - have solar panels (or other renewable energy systems) on their residential premises.
38. There would be no change for GST-registered households not accounting for these supplies in their GST returns.
39. GST-registered households that are accounting for these supplies (which is expected to be rare) would instead account for the supplies as “zero-rated supplies” rather than supplies subject to GST at 15%. Affected electricity retailers would no longer “gross up” the payments/credits for surplus electricity to GST-registered households and they would no longer claim corresponding GST deductions for these payments.

Conclusion

Which option is the most effective, efficient, and proportionate response to the problem?

- 40. As shown in Table 1, Option Two is the most effective, efficient and proportionate response to the policy problem.
- 41. Option Two is the most effective because it addresses the revenue mismatch and achieves the policy objectives while remaining consistent with New Zealand's existing GST framework.
- 42. Option Two is the most efficient because it achieves the policy objectives with lower costs compared to Option Three, which would have greater costs due to the wider consequences for the GST system.
- 43. Option Two is the most proportionate because it entirely resolves the mismatch in a low-cost way rather than relying on Inland Revenue devoting resources to undertaking less effective non-regulatory responses.

Section 4: Delivering an option

What are the next steps for implementing the legislation?

- 44. Inland Revenue would be responsible for implementation and administration of the change and would provide guidance to parties affected by the changes to ensure there is understanding of how the zero-rating rules would apply in practice.
- 45. The Minister's preferred option in the Cabinet paper would require amendments to the Goods and Services Act 1985. The change would be included in the 2026–27 Annual Rates Bill, scheduled for introduction in September 2026 and enactment in March 2027.
- 46. Guidance on the change would be published on Inland Revenue's website and in an Act Commentary shortly after any change is enacted. Overall, implementation of the proposal is expected to have a low administrative impact on Inland Revenue, which would be self-funded.

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

- 47. No specific post-implementation review for this proposal is planned. However, Inland Revenue 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.