Regulatory Impact Statement: Lifting foreign investment fund de minimis

Decision sought	Analysis produced for the purpose of informing final Cabinet decisions
Agency responsible	Inland Revenue
Proposing Ministers	Revenue, Finance
Date finalised	16 April 2026

Description of Minister's regulatory proposal

Increase the foreign investment fund (FIF) de minimis from $50,000 to $100,000, exempting individuals with a FIF cost basis of less than $100,000 from returning FIF income and instead return dividends received.

Summary: Problem definition and options

What is the policy problem?

The FIF de minimis was introduced in 1993 to exempt "small-scale investors" from the FIF regime. Taxpayers (natural persons or trustees) with attributing interests in FIFs with a total cost under the de minimis do not need to calculate income under the FIF rules. For these taxpayers, the ordinary income tax rules apply in relation to the taxation of dividends and any capital gains. Under the de minimis, the rules applicable to a given taxpayer will depend on the nature of their share investment activity and whether investments are acquired for the purpose of disposal or as part of a profit-making scheme. Under the de minimis, a taxpayer can still make a one-time election to apply the FIF rules rather than the ordinary income tax rules.

For taxpayers with FIF interests under the de minimis, the de minimis functions to reduce compliance costs and, in some cases, tax costs (e.g., to the extent the tax payable on dividend income from FIF interests is less than the tax payable on FIF income, where shares are not held on revenue account).

Initially introduced at $20,000 in 1993, the de minimis was increased to $50,000 in 2000. This increase was justified on the grounds that while (still) a somewhat arbitrary figure, a de minimis of $50,000 balanced the compliance costs to small individual investors with the potential revenue loss to the Crown and the risk of investors making inefficient investment decisions to avoid being subject to the FIF regime.

This proposal seeks to increase the de minimis to offset the eroded real-terms (inflation-adjusted) value of the de minimis since its last adjustment in 2000. Adjusting for consumers price index (CPI) inflation, $50,000 in the year 2000 is approximated to be around $95,000 in

2026 dollars. Because the de minimis has not been adjusted since 2000, proportionately more small individual investors are subject to the FIF rules on their offshore investments than in 2000. Given the rise and popularity of easy-to-access investment platforms (for example, app-based platforms like Sharesies), the number of small individual investors is also likely to have increased substantially since the de minimis was last reviewed. This may have the effect of increasing the costs borne by these investors, while potentially distorting decision making, more than intended by the de minimis set in 2000.

There has been strong and consistent stakeholder support for this increase. Throughout the targeted and public submissions process on the introduction of the revenue account method (RAM) to calculate FIF income, a material number of submissions were received in favour of an increase in the de minimis.

What is the policy objective?

The change aims to align the relative burden imposed by the FIF regime for smaller-scale investors with the intent of the policy when the de minimis was last set, in 2000. This aligns with the Government's Tax and Social Policy Work Programme, which aims to strengthen the integrity of the tax system via simple and predictable tax rules.

A successful outcome is therefore a FIF de minimis that is, in 2026, broadly equivalent to the de minimis set in 2000, increased using the CPI.

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

1. **Status quo:** leaving the de minimis unchanged at $50,000.
2. **Partial adjustment:** increasing the de minimis to $80,000, partially offsetting the impact of inflation since 2000.
3. **Full adjustment (Minister's preferred option):** increasing the de minimis to $100,000, reflecting the full impact of price inflation since 2000 (as measured by the CPI) on the de minimis.

What external consultation has been undertaken?

The increase to the de minimis was raised in public and targeted consultation.

Most stakeholders agreed with an increase. Some stakeholders proposed a de minimis even higher than the Minister's preferred option of $100,000 to provide a cushion against future inflation.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?

Yes.

Summary: Minister's preferred option in the Cabinet paper

Costs

Description of costs and where they fall

There will be a direct fiscal cost to the Crown. The estimated fiscal impact of the change is $34.4 million across the forecast period:

Fiscal impact of FIF de minimis moving to $100,000 ($million, by June year)

	$ million increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 &outyears**
Tax Revenue: Other Persons tax	(2.000)	(8.100)	(8.100)	(8.100)	(8.100)
Total operating	**2.000**	**8.100**	**8.100**	**8.100**	**8.100**

There may be an unmeasurable indirect impact on the domestic investment market if the increase to the de minimis impacts taxpayers' investment decisions. This could result in more capital being directed towards foreign capital markets. While funds that may otherwise have been directed to the domestic market may instead be invested overseas, there is no data to quantify the extent of any possible substitution.

However, domestic share investments are often only taxable on dividends received (where shares are not held on revenue account, because New Zealand does not have a comprehensive capital gains tax regime), so it is uncertain whether the de minimis is a tax advantage strong enough to substantively affect taxpayers' investment decisions and thus the competitiveness of the domestic share market relative to those offshore. It is also uncertain whether the smaller investors that the proposal would impact are making investment decisions primarily driven by tax (rather than, for instance, expected return and compliance costs).

Benefits

Description of benefits and where they fall

An increase in the de minimis primarily benefits small-scale individual investors because the change may substantively reduce the compliance costs relating to their FIF interests. Investors will no longer be required to return FIF income and any arising taxes for FIF investment portfolio costs between $50,000 and $100,000. Similarly, new investors in offshore interests would also benefit from this exemption until the cost base of their portfolio exceeds the de minimis. A byproduct of this reduction in compliance costs is that, for some taxpayers whose foreign investments fall below the de minimis, tax costs may also reduce (specifically, investors who hold shares on capital account and so pay tax on dividends only).

The removal of FIF compliance costs related to small-scale investments below the de minimis may, moreover, improve the efficiency of investment decisions because the domestic market's advantage of having no comprehensive capital gains tax compared to the FIF tax payable may no longer be a deciding factor for an investor (for shares not held on revenue account). With the growth of easy-to-use retail investment platforms that allow easy access to offshore markets and the consequently growing numbers of individual investors in New Zealand, this change may indirectly encourage more savings through investment and the diversification of portfolios of New Zealand taxpayers. This in turn can lead to better returns and greater levels of savings.

It is important to note that not all taxpayers will benefit from this change equally (this RIS focuses on those taxpayers that are most impacted by a new de minimis, i.e., those liable for tax on only the dividends of their investments). This is because, under the de minimis, normal income tax rules apply. Regardless of the de minimis, a taxpayer may elect to apply FIF income tax rules instead, if this is in their best interests.

Taxpayers whose investments are on revenue account will still be liable for tax on gains related to their investments.

Balance of benefits and costs

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

The key policy consideration determining the change in the de minimis is the balance between the decrease in compliance costs to taxpayers, the potential revenue loss for the Crown, and the impact on investment efficiency if domestic shares are no longer preferred for their tax advantage relative to investments offshore. The RIS sets out how a full CPI adjustment to the de minimis, to restore its real-terms value (the Minister's preferred option), is the option most likely to yield the greatest benefits relative to cost to the extent that the objective of the policy change is to restore the balance between costs and benefits set with the de minimis in 2000.

Implementation

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

Inland Revenue will continue to be responsible for the threshold's implementation. This will require legislative amendments to the Income Tax Act 2007, made via the annual rates 2026–27 taxation Bill, with application from 1 April 2026 for the 2026–27 income year and onwards. There will be no transitional arrangements necessary because the cost of a taxpayer's FIF portfolio is determined at the beginning of each income year, so a taxpayer who may have had to report FIF income in the 2025–26 income year could simply revert back to not including FIF income on their income tax return. Available guidance published online by Inland Revenue relating to the FIF rules will be updated to reflect the changes, supporting taxpayer compliance. No departmental funding is anticipated to be required for this change because it is only updating guidance material and return forms. The increase in the de minimis is operationalised within existing systems (it is just a threshold change), so no material risks to delivery have been identified.

Limitations and constraints on analysis

Inland Revenue does not hold information on the cost of FIF interests held by individuals, only the market value of those interests. As a result, conservative assumptions have been made to estimate how many people would benefit from a higher threshold.

We also do not have any information on whether those in the impacted demographic have other sources of income that may now be shifted into FIFs if the de minimis is increased, for example, investments in domestic shares. Investors can already reduce their FIF compliance costs by investing through portfolio investment entities (PIEs), which shifts the compliance burden to the fund. This means that it is not possible to quantify with any certainty the full impact of the changes on the share market.

This proposed policy change was considered as part of a package of changes to the FIF rules that was subject to fiscal constraints directed by Ministers. Priority within this package of changes was given to changes that would target the broader Government objective of retaining talent and capital within New Zealand. As a result, the proposal to increase the de minimis was not considered independently, free from fiscal constraints. This essentially ruled out any consideration of adjusting the de minimis set in 2000 in favour of the taxpayer by lifting it to above $100,000. Likewise, a de minimis indexed to inflation was also not considered owing to these fiscal constraints as well as the fact that tax thresholds in New

Zealand are generally not indexed (meaning that policymakers are required to consciously consider the merits and drawbacks of any change, as in this RIS).

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.

Responsible Manager(s) signature: s 9(2)(a)

Sam Rowe
Policy Lead, International
16 April 2026

Quality Assurance Statement	
Reviewing Agency: Inland Revenue Department	**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 on 1 May 2026. The panel considers that the information and the 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?

1. New Zealand's FIF rules were developed in response to the growing cross-border economic activity of individuals and the resulting investment income derived by New Zealanders from foreign markets.
2. The FIF rules were developed in part to counter the tendency for overseas companies to pay fewer and lower dividends than New Zealand companies. This, coupled with strong share value growth in foreign markets and a lack of a comprehensive capital gains tax in New Zealand, could tilt decisions in favour of offshore investments. A policy response was necessary to tax investment income earned from both resident and non-resident companies at a similar level to ensure the tax system was not distorting investment decisions by providing a tax advantage to invest in either the domestic or foreign market. Specifically, there were strong and legitimate concerns in the 1980s that the New Zealand tax base and capital market were being eroded by investment decisions motivated by tax advantages, rather than investment merits, given the strong preference for offshore investments not subject to New Zealand tax rates.
3. There were, however, practical challenges with developing an international tax regime entirely equivalent to the domestic taxation of investment income. This has resulted in the current FIF rules that provide a number of proxy calculation methods to emulate the New Zealand tax treatment of investment income received from resident companies because New Zealand companies tend to pay more dividends than foreign companies. However, these rules have been consistently described by stakeholders as complex and at times unfair because they can often result in "dry taxation".[1] In other words, FIF tax can be payable even if the taxpayer receives no actual cash income from the FIF interest in an income year. This can create liquidity issues for taxpayers who may be required to liquidate certain investments to meet their tax liability.
4. The de minimis was introduced in 1993 in recognition of these complexities and the resulting compliance costs for taxpayers with only small FIF interest portfolios. The purpose of this de minimis is to exempt these taxpayers (natural persons or trustees) with attributing interests in FIFs with a total cost under the de minimis from having to comply with the FIF regime.
5. Initially introduced at $20,000, the de minimis was last increased in 2000, to $50,000. This adjustment was justified on the grounds that while still a somewhat arbitrary number, it better balanced the compliance costs to small individual investors with the potential revenue loss to the Crown and the risk of inefficient investment decisions.

[1] Dry taxation refers to a tax liability imposed on a taxpayer when they have not received any cashflow to pay the tax. This commonly occurs with unrealised gains, such as tax on the increased value of shares before they are sold, or through deemed income rules.

6. Leaving the $50,000 de minimis unchanged means that, over time, proportionally fewer taxpayers with FIF interests are entitled to the de minimis exemption owing to the erosion in its real-terms value. Consequently, an increasing number of taxpayers originally intended to be excluded from the FIF regime (by way of the threshold) are, absent any adjustment to the nominal value of this de minimis, being captured by the FIF regime, increasing both tax and compliance costs.

What is the policy problem or opportunity?

7. The status quo poses a policy problem because the de minimis does not reflect the impact of inflation on the balance of the relative costs and benefits for taxpayers and the Crown. Fiscal drag is pushing an increasing number of taxpayers with FIF interests over the de minimis. This means, proportionally, more small individual investors are subject to the FIF rules and associated compliance costs in relation to their offshore investments than intended by the policy decision to adjust the threshold in 2000.
8. Consequently, it is reasonable to conclude that an increasing number of small-scale investors are skewing investment decisions in favour of alternative investments once they near the cost de minimis of $50,000 (or even before investments in FIFs are made), decreasing investment efficiencies (and therefore returns) for these taxpayers.
9. Investment decisions may be skewed by factors other than the tax cost, such as the high compliance costs associated with the FIF regime. This is particularly true as those logically most affected by the de minimis will be smaller-scale investors, less likely to have sophisticated knowledge of FIF tax settings and/or professional tax advice. It is fair to conclude that the de minimis, at any level, may “scare off” investors from investing in FIFs above this threshold. Regardless of the complexity of the rules and a taxpayer’s ability to navigate them, applying the FIF rules can also result in liquidity issues for taxpayers as a result of dry taxation.
10. We believe this (the fact that the constraints imposed by the FIF de minimis are most affecting low- to middle-income taxpayers and their investments and savings portfolios) to be especially true given the rise of easy-to-access app-based trading platforms such as Sharesies. Given that investments of only a few dollars at a time can be made, these trading platforms have materially improved the direct accessibility of foreign markets in recent years at the lower end of the market.
11. Sharesies, for instance, has over 930,000 customers across New Zealand and Australia, with more than $12 billion in assets managed on the platform.[2] This is part of a wider trend, Financial Markets Authority data from 2021 showed an increasing number of New Zealanders owning shares that they purchased themselves (that is, not through KiwiSaver schemes or other managed funds), with this being around 1 in 5 New Zealanders. Around 6 in 10 of these individuals used an online platform, such as Sharesies, InvestNow, or Hatch.[3]
12. This is supported by Inland Revenue data that shows significant growth in FIF income in terms of the volume of those declaring FIF income and the value of that income over recent years. This is likely driven by the increased accessibility of investing in overseas markets, as well as the significant growth in the value of certain previously New Zealand based investments (such as Rocket Lab).

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[2] About Sharesies—Sharesies New Zealand
[3] https://www.fma.govt.nz/assets/Reports/FMA-Investor-Confidence-Report-2021.pdf

13. This considered, it is worth acknowledging that for many taxpayers, Portfolio Investment Entities (PIEs) are an effective vehicle to invest offshore without the compliance burden of the FIF regime because the New Zealand-domiciled PIE itself calculates and pays any FIF tax at the fund level.[4] This means there can be an advantage to investing in a PIE, which has a top tax rate of 28%. As such, it is reasonable to conclude that the de minimis has not only an effect on the level of taxpayers' foreign investment, but also the form of this investment. It may be that any increase in the de minimis results in differently structured investments offshore, without having a significant impact on the overall level of this investment.

14. Increasing the de minimis therefore reflects the policy decision made in 2000 by continuing to exempt taxpayers with a low level of FIF interests as originally contemplated by policymakers. This preserves the size of the original compliance cost benefits in real terms, alleviating the distortionary impacts of compliance costs on investment efficiency for small-scale, individual investors.

15. This change seeks to increase the de minimis to $100,000 to fully reflect the eroded real-terms value of the de minimis since the last adjustment in 2000 ($50,000 in the year 2000 is approximated to be worth around $95,000 in 2026).

16. Although the de minimis was initially introduced at $20,000 in 1993, the de minimis was increased to $50,000 in 2000. This increase was justified on the grounds that a de minimis of $50,000 better balanced the compliance costs to small individual investors with the potential revenue loss to the Crown and the risk of investors making inefficient investment decisions to avoid being subject to the FIF regime (i.e., this was not an adjustment to account for inflation *per se*). Assumimg that the policy rationale to increase the de minimis in 2000 was correct, it is therefore appropriate to use the 2000 de minimis as the baseline for the inflation adjustment proposed here, rather than the prior 1993 de minimis. A more fulsome examination of the scope of the de minimis within the FIF regime was not in scope of this review, though it remains an option for future policy work.

What objectives are sought in relation to the policy problem?

17. The principal objective of the policy change is to minimise the distortionary impacts of the tax system for some smaller-scale New Zealand investors so that they can make investment decisions that are efficient for them. This is achieved by reducing the number of taxpayers in scope of complex FIF rules and the resulting compliance burdens.

What consultation has been undertaken?

18. The proposal to increase the de minimis was raised in both public and targeted consultation processes.

19. The proposal was mentioned briefly as a potential option for future policy change in an officials' issues paper published in December 2024 ("Effect of the FIF rules on immigration: proposals for amendments").[5] This prompted a substantive number of submitters (18) to express their support for an increased de minimis. Four submitters then raised the issue of increasing the de minimis as part of the public consultation process on

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[4] Investments through a PIE do not count towards the de minimis.

[5] https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2024/effect-fif-rules-immigration.pdf?modified=20250211201626

the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, which included other changes to the FIF rules.

20. Similar support was received during a targeted consultation undertaken for phase two of the FIF changes, which specifically raised the possibility of a threshold increase as an item for consultation. In response, there was strong, and consistent, overall support for an increase in the de minimis.

21. Some submitters did note the fiscal cost of an increase in the de minimis, remarking that funds could be better allocated to other tax policy measures. These submitters noted that increasing the de minimis would not materially affect the attraction and retention of high-value migrants because these taxpayers are likely to have FIF assets above the proposed new de minimis. While this is true, as set out above, the proposed increase to the FIF de minimis addresses a broader policy problem for New Zealand taxpayers.

22. A subset of stakeholders advocated for an even higher de minimis, to provide a cushion against future inflation. This RIS does not consider an adjustment to the FIF de minimis that exceeds $100,000. This is for three reasons.

23. First, this solution would extend beyond the specific policy problem (the real-terms erosion of the scope and balance between costs and benefits of the de minimis since it was set in 2000). It is not within the scope of this policy work to reconsider whether the threshold set in 2000 does indeed reflect the best possible balance between costs and benefits.

24. Second, “future proofing for future inflation” is arbitrary and therefore not generally considered when setting policy. The standard approach to setting thresholds in tax policy is to determine the most appropriate threshold at a given point in time without making arbitrary assumptions about the future. The threshold should then be reviewed at appropriate junctures and, if necessary, updated. This is also why it is not usual in tax policy to index thresholds to inflation, because decisions to update such thresholds should be made consciously following a consideration of the benefits and costs of any change, as set out in this RIS.

25. Third, officials were directed to develop a package of reforms to the FIF regime that was fiscally constrained. To that end, this RIS should be read alongside the RIS in relation to the corresponding FIF Phase Two reforms because these were considered by Ministers as a package of initiatives to modernise and improve the FIF regime.

Section 2: Assessing options to address the policy problem

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

26. The criteria used to assess the options are:

    a. **Compliance and administration costs:** The tax system should be simple, imposing the lowest costs possible on taxpayers to comply with the rules and the lowest costs possible for Inland Revenue to administer without compromising the integrity of the tax system.

    b. **Taxpayer liquidity risks:** The tax system should not unduly cause taxpayers to experience cashflow challenges in meeting their tax obligations.

c. **Efficiency:** Taxes should be efficient and minimise any negative impact on economic growth or distortion of economic decision making.

d. **Coherence:** New or existing tax rules should make sense in the context of the wider tax system. While a particular measure may seem appropriate when viewed in isolation, the measure may not be desirable when considering its interaction with the wider tax system.

e. **Revenue integrity:** The tax system should be sustainable over time and minimise opportunities for tax avoidance and arbitrage.

f. **Fiscal impact:** Tax reforms must be affordable within fiscal constraints and must not unnecessarily erode the tax base.

27. Often, these criteria will be interrelated. For example, unreasonable compliance costs on individuals and firms are likely to distort taxpayer behaviour away from activities that incur those costs, which can be economically and fiscally distortionary.

What scope will options be considered within?

28. The scope is limited to the FIF de minimis, with options to adjust the de minimis being considered against the criteria above, which were developed through the problem definition and the objectives.

29. Consideration of the FIF de minimis also sits within a broader package of reforms to improve and modernise the FIF regime and, for this, officials were directed to consider options within fiscal constraints. Priority was given to FIF reforms that best address the overall policy objective of attracting and retaining talent and capital within New Zealand.

30. This RIS should be considered alongside the RIS for the corresponding FIF regime changes. While this scope limits the options that are under consideration, these other changes do not impact officials' assessment of the options in relation to the de minimis, which presents a specific problem and solution that can stand alone from the broader modernisation of the FIF regime.

31. Moreover, there are no non-regulatory options that address what is inherently a tax-specific problem – the impact of the FIF rules on investment decisions made by New Zealanders. Specifically, in relation to the existing de minimis, this is the policy problem of the eroded balance between costs and benefits of the $50,000 threshold set in 2000, which means that an increasing proportion of taxpayers not intended to be captured by the FIF regime are becoming subject to FIF rules. Non-tax or non-regulatory options are therefore outside the scope of the policy issue considered.

What options are being considered?

Option 1 – Status quo

32. This option would leave the de minimis unchanged at $50,000.

Option 2 –Increase de minimis to partly adjust for inflation

33. This option would increase the de minimis to an amount that only partly accounts for the real-terms erosion of the original de minimis set in 2000. The $80,000 amount was selected as a mid-point threshold for this option.

34. Another mid-point threshold could be considered (eg, $75,000), but the arguments for and against such a threshold are fundamentally the same. This does not fully restore the

balance between costs and benefits envisaged by decision makers when the de minimis was set in 2000.

Option 3 –Increase de minimis to fully adjust for inflation

35. This option would increase the de minimis to an amount that fully offsets the impact of inflation on the $50,000 de minimis set in 2000.

36. A value of $100,000 was chosen for this option because it fully incorporates what the 2000 de minimis would be if adjusted for CPI inflation since it was set (approximately $95,000) and rounds this figure up to the nearest $10,000.

37. CPI inflation is used because it is the most understood and frequently used measure of inflation. The amount of $100,000 is easy for officials to communicate and easy for taxpayers to understand, essentially it is a “doubling” of the existing de minimis.

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

	Option 1 – Status quo	Option 2 – Partial adjustment	Option 3 – Full adjustment
Compliance costs and administration costs	0	+ *Reduces compliance costs for some small-scale investors*	++ *Reduces compliance costs for more small-scale investors, consistent with policy intent from 2000*
Taxpayer liquidity risks	0	+ *Reduces liquidity concerns for some small-scale investors*	++ *Reduces liquidity concerns for more small-scale investors, consistent with policy intent from 2000*
Efficiency	0	+ *By reducing unequal tax treatment of investing offshore, improves taxpayers' investment efficiency up to $80,000 cost base*	++ *By reducing unequal tax treatment of investing offshore, improves taxpayers' investment efficiency up to $100,000 cost base, consistent with policy intent from 2000*
Coherence	0	0 *Increase is largely arbitrary, does not improve the coherence of the tax system.*	+ *Increase accounts for inflation to the de minimis since 2000, supporting the coherence of the tax system*
Revenue integrity	0	0 *No measurable effect on sustainability of tax system, other than fiscal impact (below)*	0 *No measurable effect on sustainability of tax system, other than fiscal impact (below)*
Fiscal impact	0	- *Estimated outyear fiscal cost of $7.1 million per annum*	-- *Estimated outyear fiscal cost of $8.1 million per annum*
Overall assessment	0	+ *Material improvement in compliance, liquidity and efficiency for small-scale investors*	++ *Larger improvement in compliance, liquidity and efficiency for small-scale investors while supporting the coherence of the tax system*

Key

++ 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

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

38. Option 3 (a full adjustment of the de minimis) is most likely to fully address the policy problem because it best meets the policy objective while delivering the greatest net benefit.

39. Beyond fully offsetting the impact of inflation on the de minimis set in 2000, an increase in the de minimis to $100,000 would alleviate compliance and administration costs for taxpayers more than the alternatives, with only a marginally greater fiscal cost than the option to lift it to $80,000.[6] When officials consulted on options to increase the de minimis, $100,000 was identified as stakeholders' preferred option.

40. A de minimis of $100,000 removes the requirement to report and pay FIF tax for the largest number of taxpayers with FIF interests, relative to the alternatives. Similarly, it mitigates liquidity risks for the largest number of taxpayers, as no cashflow pressures would arise for those under this de minimis as no FIF tax is payable (unless the taxpayer opts into the FIF regime).

41. To the extent that the income tax payable on income from FIF interests (which, for many taxpayers, is the dividend income only) is less than the FIF tax that would otherwise have been payable, there is a monetised benefit for these taxpayers as a direct result of the de minimis increase. An increased de minimis therefore not only decreases compliance costs for a larger number of taxpayers but can also result in a reduced tax liability and a monetary benefit.

42. As the only option that fully accounts for the change to the real-terms value of the $50,000 de minimis as set in 2000, this is also the only option that preserves the balance between the costs and benefits of the de minimis as originally intended.

43. Any increase in de minimis will carry a fiscal cost, and any reduction in the de minimis increases costs for taxpayers, including in relation to the efficiency of their investment decision making. A balance between the two must be struck (and there is no reason to believe that the de minimis set in 2000 did not represent a fair balance between costs and benefits). As such, officials support the proposed nominal adjustment of the threshold to maintain its real-terms value, provided the change is affordable within fiscal constraints.

44. Essentially, maintaining the real-terms value of the de minimis retains the FIF exemption for taxpayers with only a modest level of investment to the extent originally envisaged by policymakers. Accordingly, by realigning the de minimis with the original intent of its introduction and restoring its real-terms value since 2000, this option also best improves tax system coherence.

45. The reduced compliance costs and liquidity risks for taxpayers mitigate the impact of the FIF rules on a taxpayer's choice between domestic and foreign investments, improving the efficiency of investment decisions. However, the broadened exemption from the FIF rules (by way of the increased de minimis) could conversely bias investment decisions in favour of offshore markets up to the $100,000 threshold, relative to the status quo.

46. Put differently, there may be a behavioural reaction to the reduction in FIF tax barriers, leading to increased investment in foreign equities. This increased investment offshore could come from a reallocation of funds from other investment classes. However, the exact source of such funds is uncertain, and it is not possible to say with certainty that it would

[6] The cost of increasing the de minimis to $80,000 is forecast to be $7.1 million per annum in outyears. The cost of increasing the de minimis to $100,000 is forecast to be $8.1 million per annum in outyears.

decrease domestic capital stocks. This is particularly true because New Zealand-resident investors can already invest overseas through PIEs without being subject to FIF compliance costs (the New Zealand-domiciled PIE calculates and pays any FIF tax at the fund level). This means an increase in the de minimis may influence the form of New Zealanders' investments overseas as much as the level itself.

47. It is, moreover, uncertain whether FIF rules are a primary driver of investment patterns for the smaller-scale investors subject to the de minimis. It is therefore uncertain whether an increase will materially influence investment decisions in favour of foreign interests in any form. Regardless, if materialised, this risk is balanced by an increased opportunity for smaller-scale investors to better diversify and maximise their investments and savings through increased investments overseas, which is beneficial for these New Zealanders and therefore beneficial for New Zealand.

48. While Option 3 is the most fiscally expensive option ($34.4 million over the forecast period), we consider the fiscal costs to be well-balanced by the fact that this option delivers the greatest overall benefits as outlined above.

49. On this basis, we consider the $100,000 de minimis to present the greatest net benefit, within fiscal constraints, and this is preferred to the alternative options. We note, however, that the benefits of the change will reduce over time as inflation reduces the real-terms value of the new de minimis. This is true of any option. The fiscal cost of the change also reduces over time, in real terms. Consideration can be given to further increasing the de minimis at an appropriate time to rebalance the costs and benefits and to ensure that small- and medium-scale investors continue to remain in scope as per the original policy intent

50. As noted above, underpinning the analysis of all proposals is the assumption that the $50,000 de minimis as set in 2000 was an amount that fairly balanced the costs and benefits of the monetary de minimis. We have no reason to believe that this is not the case, particularly given the continued support that stakeholders have expressed for the restoration of the real-terms value of this de minimis. This considered, it must be noted that the costs will always be the Crown's to bear, so taxpayer support for an increased de minimis can be expected. It is therefore for the Crown to determine whether the benefits to the taxpayer outweigh the cost to the Crown.

51. When it was introduced, the $50,000 de minimis was indeed noted to be somewhat arbitrary, and the accompanying officials report stated it could come to light that this is not the "correct" de minimis, for example following a wider review of the FIF rules and the role of the de minimis within the regime.

52. A review of the appropriateness of the de minimis within the context of the wider FIF regime was, however, out of scope of this narrower workstream. The possibility of undertaking such a review in future is not limited by any decision in relation to the options set out in this RIS. The scope of this policy project was limited to consideration only of whether the de minimis contemporarily provides the benefits to smaller investors afforded by the $50,000 de minimis in 2000, and therefore the proposed thresholds are necessarily relative to the $50,000 figure.

53. An increase to $100,000, although remaining somewhat arbitrary, reflects a threshold that best balances the above considerations, grounded by the fact that $100,000 is more-or-less simply an adjustment of the existing $50,000 de minimis (set in 2000) for inflation. Although this adjustment generates a cost to the Crown (through foregone revenue), relative to the continuation of the status quo, the increase in the de minimis ultimately improves the tax

system's coherence by retaining the initial policy intent of exempting small-scale investors from the compliance burden of the FIF regime.

54. As noted, the value of the benefit to investors will erode gradually over time as the real-terms value of the nominal $100,000 de minimis reduces (the real cost to the Crown will also reduce over time).

55. With the compounding effect of inflation over years, small-scale investors will no doubt argue, in future, that the $100,000 de minimis is too low. In future, the de minimis may be considered to be imposing an unduly heavy compliance burden compared to the benefit to Crown Revenue and risk of tax-motivated investment decisions. The de minimis may be increased again at this time.

56. Without clear evidence to support an argument today that the $50,000 de minimis set in 2000 was too low (and that a $100,000 de minimis set today would also be too low), it would not be appropriate to increase the de minimis beyond the proposed adjustment to offset the erosion of its real-terms value since 2000. Across all forms of tax policy in New Zealand, in general, thresholds are not adjusted to account for the uncertain erosion of their value through future inflation over an arbitrary time period.

57. Likewise, as noted in 2000, there is always the possibility of a wider review of the FIF rules and the role of the de minimis within the regime. Such a review could lead to a more fundamental adjustment of the de minimis. It would not be prudent to fundamentally review the size and role of the de minimis in isolation from a broader review of FIF settings. This reflects the limited fiscal impact of the de minimis, the advantages of certainty and predictability in tax policy, and the fact that the de minimis is intrinsic to broader FIF settings.

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

58. Yes, the Minister's preferred option is the same as officials' preferred option (Option 3).

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

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Taxpayers with FIF interests with a cost < $50,000	No new costs anticipated.	N/A	N/A
Taxpayers with FIF interests with $50,000 < cost < $100,000	No new costs anticipated.	N/A	N/A
Inland Revenue	Small, one-off costs to update guidance material, forms and other minor systems changes as needed.	Low	High
Crown	Ongoing costs of lower FIF tax revenue that otherwise would have been paid by taxpayers with FIF interests with a cost of	$34.4 million over forecast	Medium

Affected groups	Comment	Impact	Evidence Certainty
	over $50,000 but less than $100,000. This is somewhat alleviated by the income tax payable on dividends on the now FIF-exempt FIF income.		
Wider economy	With tax settings for investment overseas becoming more favourable relative to the status quo, there is potential for some shift in capital away from the domestic market. The effect of this is expected to be small (and is unquantifiable), given investors already have ways to invest abroad while avoid FIF compliance costs (eg, by investing through PIEs). Any change in investment behaviour will be by those at the smaller end of the market.	Low	Low
Total monetised costs	Main cost is reduction in Crown revenue over the forecast period, partially offset by the tax paid on dividends.	$34.4 million over forecast	Medium
Non-monetised costs	Potential shift in capital away from domestic market and low administrative costs to deliver.	Low	Low
Additional benefits of the preferred option compared to taking no action			
Taxpayers with FIF interests with a cost < $50,000	No new benefits anticipated.	N/A	N/A
Taxpayers with FIF interests with $50,000 < cost < $100,000	To the extent tax payable on the dividend income from FIF interests is less than FIF tax payable before the de minimis increase, there is a monetised benefit for these taxpayers directly due to the de minimis increase. There is also a non-monetised benefit of the decreased compliance cost of no longer having to comply with the FIF rules.	$34.4 million over forecast	Medium

Affected groups	Comment	Impact	Evidence Certainty
Inland Revenue	There is likely some non-compliance with existing FIF rules. A greater de minimis will reduce the scale of any non-compliance, ensuring compliance and monitoring resources are directed towards higher value activity, better supporting Inland Revenue's objective to maximise net revenue over time within policy settings.	Low	Low
Wider economy	Increasing the de minimis can decrease the economic distortion that may be created as a consequence of different tax policy settings for foreign investments relative to investment in New Zealand. This can support more efficient investment decisions, leading to better investment returns for New Zealand investors.	Low	Low
Total monetised benefits	Fiscal benefit to taxpayer from a more generous de minimis, below which FIF income does not need to be calculated, partially offset by the tax paid on dividends.	$34.4 million over forecast	Medium
Non-monetised benefits	Lower costs for taxpayers and Inland Revenue, owing to the more generous de minimis.	Medium	Medium

Section 3: Delivering an option

How will the proposal be implemented?

59. The proposed changes will require amendments to the Income Tax Act 2007, to be made through the annual rates 2026-27 taxation Bill.

60. The legislative changes will take effect from 1 April 2026. Retrospective application is consistent with the approach taken for the FIF Phase 1 reforms, it is taxpayer friendly, and it should have a minimal compliance impact because the relevant tax returns for the 1 April 2026 year are due after 31 March 2027. Announcement of the policy change as part of Budget 2026 allows for a change in investor behaviour prior to its effect in legislation.

61. Inland Revenue will be responsible for the implementation and administration of the new rules. Inland Revenue's guidance on FIFs will be updated.[7]

62. The proposed changes will not require significant systems changes for Inland Revenue because they largely involve updating guidance and administrative material to reflect the new de minimis and alerting taxpayers who may now be eligible for the FIF exemption.

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

63. Inland Revenue will monitor whether the de minimis continues to be fit for purpose via our regular engagements with tax stakeholders.

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[7] https://www.ird.govt.nz/-/media/project/ir/home/documents/forms-and-guides/ir400---ir499/ir461/ir461-2024.pdf?modified=20240327190346&modified=20240327190346