Hon Simon Watts, Minister of Revenue

Information Release

Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Act

April 2026

Availability

This information release is available on Inland Revenue's tax policy website at:
https://www.taxpolicy.ird.govt.nz/publications/2026/ir-compliance-simplification-tax-act

Documents in this information release

#	Reference	Type	Title	Date
01	IR2025/488	Inland Revenue Report	Matters raised in the departmental report on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill	10/12/2025
02	IR2025/293	Inland Revenue Report	Outcome of consultation on thin capitalisation settings for infrastructure	05/08/2025
03	IR2025/422	Inland Revenue Report	Thin capitalisation settings for infrastructure – final policy recommendations	10/12/2025
04	IR2025/487	Inland Revenue Report	Cabinet paper – Changes to thin capitalisation settings for infrastructure	28/01/2026
05	ECO-26-SUB-0020	Cabinet Paper	Changes to thin capitalisation settings for infrastructure	
06	ECO-26-MIN-0020	Cabinet Minute	Changes to the Thin Capitalisation Settings for Infrastructure	04/03/2026
07	CAB-26-MIN-0061	Cabinet Minute	Report of the Cabinet Economic Policy Committee: Period Ended 6 March 2026	01/03/2026
08	IR2025/396	Inland Revenue Report	Aligning tax payments of the New Zealand Super Fund with similar taxpayers	07/11/2025
09	IR2025/240	Inland Revenue Report	Income tax debt pilot with the tax pooling industry	09/06/2025

#	Reference	Type	Title	Date
10	IR2025/398	Inland Revenue Report	Policy options to reduce tax debt	20/11/2025
11	IR2025/503	Inland Revenue Report	Credit reporting remedial amendment	15/01/2026
12	IR2025/359; METIS 1352698	Inland Revenue/Ministry of Education Report	Further advice on student loan scheme policy settings	18/11/2025
13	IR2025/414; METIS 1353740	Inland Revenue/Ministry of Education Report	Design of a discretion to provide relief from student loan interest	23/10/ 2025
14	IR2025/450; METIS 1354413	Inland Revenue/Ministry of Education Report	Student loan interest relief – draft Cabinet paper for ECO	13/11/2025
15	ECO-25-SUB-0202	Cabinet Paper	Cabinet paper: Commissioner discretion for Overseas Borrowers	3/12 2025
16	ECO-25-MIN-0202	Cabinet Minute	Cabinet Economic Policy Committee - Minute of Decision: Commissioner Discretion for Overseas Borrowers	3/12/2025
17	CAB-25-MIN-0452	Cabinet Minute	Minute of Decision: Report of the Cabinet Economic Policy Committee: Period Ended 5 December 2025	8/12/2025
18	IR2026/012	Inland Revenue Report	GST and bad debt deductions	29/01/2026
19	IR2025/496	Inland Revenue Report	Departmental report: RDTI and partnerships with non-standard balance dates	11/12/2025
20	IR2025/087	Policy Report	Inland Revenue and Accident Compensation Corporation Earners' Levy payments	31/10/2025
21	ECO-26-SUB-0007	Cabinet Paper	Inland Revenue and Accident Compensation Corporation earners' levy payments	3/2/2026
22	ECO-26-MIN-0007	Cabinet Minute	Inland Revenue and Accident Compensation Corporation Earners' Levy Payments	11/02/2026

#	Reference	Type	Title	Date
23	CAB-26-MIN-0033	Cabinet Minute	Minute of Decision: Report of the Cabinet Economic Policy Committee: Period Ended 13 February 2026	16/02/2026
24	IR2026/013	Inland Revenue Report	Alignment of definition of employee	22/01/2026

Additional information

The Cabinet paper, "Changes to thin capitalisation settings for infrastructure" [ECO-26-SUB-0020] was considered by the Cabinet Economic Policy Committee on 4 March 2026 [ECO-26-MIN-0020] and confirmed by Cabinet on 9 March 2026 [CAB-26-MIN-0061]. The regulatory impact statement attached to this Cabinet paper has been published online at https://www.taxpolicy.ird.govt.nz/publications/2026/ria-pack-compliance-simplification-tax-bill-amendment-paper.

The Cabinet paper, "Commissioner Discretion for Overseas Borrowers [ECO-25-SUB-0202] was considered by the Cabinet Economic Policy Committee on 3 December 2025 [ECO-25-MIN-0202] and confirmed by Cabinet on 8 December 2025 [CAB-25-MIN-0452]. The regulatory impact statement referred to in this Cabinet paper has been published at https://www.taxpolicy.ird.govt.nz/publications/2026/ria-pack-compliance-simplification-tax-bill-amendment-paper.

The information release for the Increase to the In-Work Tax Credit item has been published separately at https://www.taxpolicy.ird.govt.nz/publications/2026/iwtc.

Information withheld

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Item 01

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: **Matters raised in the departmental report on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill**

Date:	10 December 2025	**Priority:**	High
Security level:	Not in scope	**Report number:**	IR2025/488

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Note** the contents of this report	18 December 2025
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report	18 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Peter Frawley	Policy Lead	s 9(2)(a)	☐
Philip Marshall	Bill Manager	s 9(2)(a)	☒

10 December 2025

Minister of Finance
Minister of Revenue

Matters raised in the departmental report on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill

Executive summary

1. This report seeks your approval on issues that could be included as "matters raised by officials" and "matters raised by submitters" in the departmental report to the Finance and Expenditure Committee (FEC) on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill (the Bill).

2. The latest draft version of the departmental report is attached to this report. We note that the draft departmental report still contains placeholders in relation to the FIF revenue account method, non-resident visitors, and information disclosure by Ministerial agreement proposals because the content is largely subject to decisions to be made by Ministers in this report.

3. While many of the decisions sought in this tax policy report relate to amendments already in the Bill, others are related to newly raised Bill amendments. The latter have recently been brought to our attention as requiring an urgent legislative fix and should not be deferred to the next omnibus taxation Bill.

4. Although none of the amendments recommended in this report are material enough to require Cabinet approval, they do require approval from the Minister of Revenue and, when there are fiscal implications, the Minister of Finance. Four sets of recommended changes in this report have fiscal implications, and these would be managed through the Tax Policy Scorecard.

5. None of the changes in this report give rise to any material compliance or administration costs or any significant systems or technology implications. Unless otherwise stated in this report, the changes will take effect on the default commencement date of the day after Royal assent of the Bill.

6. The draft departmental report also includes recommendations covering a range of minor and technical changes to proposals in the Bill to improve the drafting of provisions or to better give effect to the policy intent. Because of the minor nature of these changes, we are not seeking your agreement to each of these in this report and instead seek your general agreement for officials to include such changes in the departmental report.

7. The Treasury has been consulted on this report and agrees that the changes proposed in it are consistent with Ministers' criteria for the Tax Policy Scorecard. There is no risk that the Scorecard may exceed its limits as a result of these changes.

Next steps

8. Any changes you agree to in this report will be included as recommendations in the departmental report. Subject to the FEC's agreement, these changes will be included in the revision-tracked version of the Bill to be reported back to the House by 10 March 2026.

9. The finalised departmental report is due to the FEC no later than 20 January 2026. This will allow the Bill to be progressed in line with the FEC's current timetable, reporting back to the House by 10 March 2026. We will provide you with a final draft version of the departmental report for noting before 20 January 2026.

Recommended action

We recommend you:

a. Note the contents of the draft departmental report attached to this report.

Noted	Noted
Minister of Finance	Minister of Revenue

b. **Indicate** in the body of this report whether you agree or do not agree with the recommendations.

Indicated	Indicated
Minister of Finance	Minister of Revenue

c. **Note** the net fiscal impact of the proposed changes on the Tax Policy Scorecard is as follows:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Other Persons	(0.050)	(0.200)	(0.200)	(0.200)	(0.200)
Total Operating	**0.050**	**0.200**	**0.200**	**0.200**	**0.200**

Noted	Noted
Minister of Finance	Minister of Revenue

d. **Agree** to minor and technical changes to proposals in the Bill to improve the drafting of provisions or to give effect to the policy intent.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

e. **Note** that agreed changes will be included as recommendations in the departmental report to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.

Noted	Noted
Minister of Finance	Minister of Revenue

s 9(2)(a)

Peter Frawley
Policy Lead
Policy | Inland Revenue

Hon Nicola Willis	**Hon Simon Watts**
Minister of Finance	Minister of Revenue
/ /2025	/ /2025

Items with fiscal implications (Minister of Finance and Minister of Revenue)

Foreign investment fund – introduction of the revenue account method

10. The Bill proposes introducing a new method of calculating foreign investment fund (FIF) income – the revenue account method (RAM). As proposed, the RAM would allow eligible FIF interests to be taxed on a realisation basis, meaning only dividends received from the interest and 70% of gains on disposal would be taxable. The proposal is intended to address the issues with the current FIF rules that are commonly cited as a significant barrier to the attraction and retention of highly desirable migrants, including returning New Zealanders.

11. The proposal is narrowly targeted towards recent migrants that hold illiquid shares to address the cashflow issues that arise from the existing FIF calculation methods attributing FIF income even if none has been received. The proposal also allows recent migrants who are concurrently taxed on their worldwide income by another jurisdiction to apply the new calculation method to all foreign equity investments. This is intended to address the double taxation issue that currently arises for United States migrants.

12. A further programme of work is underway to consider a package of changes that includes expanding access to the RAM to all New Zealanders. This is being considered separately to the proposal in this Bill.

Ring-fencing of RAM losses

13. The Bill currently proposes that any losses from the disposal of RAM interests are only available to offset gains from the disposal of other RAM interests. Submissions suggest that these losses should also be available to offset against any dividend income derived from RAM interests. This was suggested on the basis that dividends and gains derived from RAM interests are both FIF income and relate to the same investment portfolio. Submitters maintain that disallowing the use of RAM losses to offset dividends from RAM interests creates an artificial distinction, increases cashflow pressure, and undermines the stated policy objective.

14. We agree with the submission, noting that this would align with how FIF losses are generally treated under other FIF calculation methods. We recommend allowing RAM losses to offset dividends derived from RAM interests.

15. The original costing for the RAM proposal accounts for a probability of net tax arising from the proposal, so the fiscal cost of this change is already implicitly included. Therefore, this change would have no fiscal impact.

RAM should be available for treaty non-residents

16. Individuals who are New Zealand tax resident under our domestic laws but tie-break to another jurisdiction under a double tax agreement (DTA) are treated as non-residents. These individuals would not be subject to the current FIF rules or be taxed on their other foreign-sourced income. However, because they already meet the criteria for being a New Zealand tax resident under our domestic rules, they would not be eligible to use the RAM if they became a New Zealand tax resident under a DTA before 1 April 2024.

17. Submissions suggest that these individuals should be eligible to apply the RAM if they tie-break to New Zealand under a DTA on or after 1 April 2024.

18. We agree with this submission because people who were non-resident under a DTA do not have any reason to engage with the New Zealand tax rules relating to foreign-sourced income. Therefore, their circumstance falls within the policy rationale that

access to the RAM should be limited to those who could not have been expected to have the FIF rules in mind at the time they were making their investment decisions.

19. Accordingly, we recommend that individuals be eligible to use the RAM if they tie-break to New Zealand under a DTA on or after 1 April 2024, provided they have also been a non-resident under a DTA (or under New Zealand domestic law) for a continuous period of at least five years before tie-breaking to New Zealand.

20. Further, we recommend a consequential amendment to allow the RAM to apply to FIF interests acquired while the individual was a non-resident under a DTA, provided those interests also meet all other requirements as currently set out in the Bill. This consequential amendment is necessary for the proposal to be workable because the individual would otherwise not be allowed to apply the RAM to any shares that were acquired while they were New Zealand resident under our domestic law but a non-resident under a DTA.

21. The impact of this change is unquantifiable, but we think it would be a small cost because the population that would benefit from this would be small. It is also uncertain whether the tax collected from the RAM would be more or less than that collected under another FIF calculation method. On balance, we think this would be a small and unquantifiable cost.

22. Given the size of the fiscal impact, we have packaged this and the other recommended changes into one set of small unquantifiable costs.

Continued eligibility of RAM interests that no longer meet criteria

23. The Bill currently proposes that a RAM interest that no longer meets the eligibility criteria, for example, the investment becomes a publicly listed company, is deemed to be disposed of and then immediately reacquired. The deemed disposal taxes the gain or loss that has accrued in the RAM interest until the point it is no longer eligible to be taxed under the RAM, and the deemed reacquisition resets the cost base to allow the share to be taxed under one of the other FIF calculation methods going forward.

24. One submission suggests a taxpayer be allowed to continue using the RAM for interests that cease to be RAM interests because a loss of eligibility is usually outside the control of the taxpayer, and a deemed disposal could create the same liquidity problem the RAM is trying to prevent.

25. While a FIF interest generally becomes liquid when it ceases to meet the requirements to be a RAM interest, there is no underlying income to meet the tax impost from a deemed disposal. While the share is liquid and may be sold to meet the tax liability, being forced to sell the interest may be inequitable when the taxpayer had no control over the interest ceasing to be a RAM interest. Although taxpayers are generally expected to dispose of their interests if needed to pay their FIF tax liability, this situation can be differentiated from the other deemed disposal provisions in the Bill. This is because the tax liability in this case could be substantial, reflecting gains made over several years, rather than only the gains made in the previous year. We also do not see any real problem with allowing taxpayers to continue to apply the RAM to such shares, so deeming a disposal to occur does not seem necessary.

26. On this basis, we recommend that when a RAM interest ceases to be a RAM interest, the taxpayer should be allowed to choose whether to continue applying the RAM or to start applying a different FIF calculation method to that interest.

27. We note this amendment would not apply to extended RAM taxpayers because they are allowed to apply RAM to all FIF interests.

28. Eligible RAM taxpayers are a small demographic and instances of an interest ceasing to be a RAM interest are rare. This narrow set of circumstances means the fiscal impact of this change is likely to be a small average across forecast years.

29. Given the size of the fiscal impact, we have packaged this and the other recommended changes into one set of small unquantifiable costs.

Recommended action

We recommend you:

a. **Agree** RAM losses would be available to offset dividend income derived from RAM interests in addition to gains on disposal of RAM interests.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

b. **Agree** a person who is a non-resident under a DTA would be eligible to use the RAM when they tie-break to New Zealand under that DTA after 1 April 2024, provided they have been a non-resident under a DTA (or under New Zealand domestic law) for a continuous period of at least five years before tie-breaking to New Zealand under the DTA.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

c. **Agree** FIF interests acquired by a person while they are a non-resident under a DTA would be eligible for the RAM if the interest meets all the other criteria currently in the Bill, not including the criterion that the interests must be acquired before the person migrates to New Zealand.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

d. **Agree** a taxpayer would be allowed to choose to continue applying the RAM to interests that cease to meet the requirements for being a RAM interest.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

e. **Agree** the above amendments should take effect on 1 April 2025.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

f.	**Note** the following changes in tax revenue because of the decisions in recommendations (a) to (e) above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Other Persons	-	(0.200)	(0.200)	(0.200)	(0.200)
Total Operating	**-**	**0.200**	**0.200**	**0.200**	**0.200**

Noted — Minister of Finance

Noted — Minister of Revenue

g. **Agree** the reduction in Crown tax revenue in recommendation (f) above be charged against the Tax Policy Scorecard.

Agreed/Not agreed — Minister of Finance

Agreed/Not agreed — Minister of Revenue

Employee share scheme deferral regime

30. The Bill proposes to introduce the employee share scheme (ESS) deferral regime. These new rules were initially designed to support start-up businesses and would allow employees of unlisted companies to defer tax on ESS shares until a liquidity event. This regime would mitigate some of the valuation and liquidity issues stakeholders have previously raised with the ESS rules.

31. While submitters are broadly supportive of the proposed deferral regime, submissions have focused on two aspects of the liquidity event rules:

- Submitters do not support dividend payments triggering a liquidity event. They are generally concerned that the value of the dividend will likely be less than the tax liability arising from deferral, resulting in the liquidity issue the rules were intended to mitigate.
- Submitters are also concerned that some internal restructures would be captured by the current liquidity event rules. They are concerned this would result in a tax liability arising in situations when the underlying ESS shares still could not be valued, resulting in the valuation issue the rules were intended to mitigate.

32. We agree with submitters that these issues need to be addressed for the ESS deferral rules to meaningfully improve the status quo position. In the absence of these changes, many employees would still experience issues with liquidity and valuation at the point of taxation.

33. Therefore, we recommend that the liquidity event rules be amended to remove dividend payments and introduce specific roll-over relief provisions for some restructuring events when employees will not be able to either value their ESS shares or liquidate those shares.

34. These amendments defer a small amount of tax, so they would be collectively charged to the Tax Policy Scorecard at a notional fiscal cost of $200,000 per year for the

forecast period. Whether you proceed with one or both of the recommended amendments, the same notional amount would be charged.

Recommended action

We recommend you:

a. **Agree** to remove the payment of dividends as a liquidity event from the proposed employee share scheme deferral regime.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

b. **Agree** to introduce rollover relief for restructuring events that would trigger liquidity events when employees cannot either liquidate or value their employee share scheme shares.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

c. **Note** the following changes in tax revenue because of the decisions in recommendations (a) and (b) above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Other Persons	(0.050)	(0.200)	(0.200)	(0.200)	(0.200)
Total Operating	**0.050**	**0.200**	**0.200**	**0.200**	**0.200**

Noted	Noted
Minister of Finance	Minister of Revenue

d. **Agree** the reduction in Crown tax revenue in recommendation (c) above be charged against the Tax Policy Scorecard.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

Clarify period required to qualify for alternative tax treatment for certain lump sum support payments

35. The Income Tax Act 2007 (ITA) provides an alternative tax treatment for certain backdated lump sum support payments (for example, ACC earnings-related compensation) that relate to a period of more than one income year.

36. This alternative tax treatment reduces the potential for an unfair tax liability arising from a lump sum being paid in one income year (after the payment was subject to dispute and delay) instead of being spread across the multiple income years it relates

to. Without this treatment, the receipt of the lump sum may artificially push a recipient into higher tax rates in the year it is derived.

37. The period of time required for the alternative tax treatment to apply has been interpreted inconsistently, creating uncertainty for taxpayers. The policy intent was to provide the treatment for payments for periods covering multiple previous income years. Consequently, clarification is required to ensure this alternative tax treatment applies to backdated lump sum payments relating to a period of at least 366 days.

38. This item would technically result in an increase in tax revenue of $0.2 million per year over the forecast period. This impact would be added to the Tax Policy Scorecard.

Recommended action

We recommend you:

a. **Agree** the alternative tax treatment provided in section RD 20B of the Income Tax Act 2007 be clarified to apply to multi-year support payments for a period of at least 366 days to match the original policy intent.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

b. **Agree** this amendment should take effect on 1 April 2024, with a savings provision for anyone who has been assessed on a different basis.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

c. **Note** the following changes in tax revenue because of the decisions in recommendations (a) and (b), with a corresponding impact on the operating balance and/or net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Other Persons	0.200	0.200	0.200	0.200	0.200
Total Operating	**(0.200)**	**(0.200)**	**(0.200)**	**(0.200)**	**(0.200)**

Noted	Noted
Minister of Finance	Minister of Revenue

d. **Agree** the increase in Crown tax revenue in recommendation (c) above be added to the Tax Policy Scorecard.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	Minister of Revenue

Cash basis person threshold increases to take effect from start of 2025–26 income year

39. We received a submission on the Bill requesting that the increased cash basis person thresholds and variable principal debt instrument threshold be introduced with effect from the start of the 2025–26 income year to reduce compliance costs for taxpayers. We agree with the submitter than earlier application would reduce compliance costs for some taxpayers at a minimal cost.

40. This item changes fiscal timing by one year. This impact would be charged to the Tax Policy Scorecard.

Recommended action

We recommend you:

a. **Agree** the cash basis person and variable principal debt instrument thresholds increased in the Bill take effect from the start of the 2025–26 income year.

Agreed/Not agreed — Agreed/Not agreed

Minister of Finance — Minister of Revenue

b. **Note** the following changes in tax revenue because of the decision in recommendation (a) above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Other Persons	(0.200)	-	-	-	-
Total Operating	**0.200**	-	-	-	-

Noted — Noted

Minister of Finance — Minister of Revenue

c. **Agree** the reduction in Crown tax revenue in recommendation (b) above be charged to the Tax Policy Scorecard.

Agreed/Not agreed — Agreed/Not agreed

Minister of Finance — Minister of Revenue

Non-resident visitors

41. The proposed non-resident visitor rules enable a new tax exemption that would apply to a "non-resident visitor" to New Zealand. The proposed rules would take effect on 1 April 2026.

42. Broadly speaking, when a person meets the definition of a non-resident visitor, they will be exempt from New Zealand tax liabilities and obligations. This also applies to any associated entities, such as their foreign employer, or a company or trust associated with the non-resident visitor, as the activities of the non-resident visitor are disregarded when applying relevant source or company tax rules. Integrity rules were included to mitigate tax avoidance and base erosion risks.

43. We have considered the matters raised by submitters and recommend the changes discussed below. These changes would broaden or simplify the proposed rules for both non-resident visitors and their associated entities.

Tax "substantially the same" as New Zealand income tax

44. Under the proposed new rules, a non-resident visitor is required to maintain tax residence in another jurisdiction that imposes a tax that is substantially the same as New Zealand income tax. This integrity rule ensures that, while the person is non-resident in New Zealand, they are tax resident elsewhere and returning their income in another jurisdiction.

45. Submitters raised issues with the requirement that the individual's income is subject to tax that is "substantially the same" as income tax imposed under the ITA. This included questions about how this test should be assessed and requests for explicit guidance on which jurisdictions would qualify.

46. We have considered the present drafting and similar tests in the ITA and Inland Revenue guidance. We agree this test would be difficult for a layperson casually visiting New Zealand to apply. In addition, the "substantially the same" test sets a high bar that would be difficult for visitors from some jurisdictions to meet.

47. We recommend changing this test to set a lower bar by requiring the person to be liable to tax in the person's jurisdiction of residence. This removes the requirement to assess the nature, form, or rate of that tax, and therefore simplifying the rule for the majority of visitors to New Zealand.

Disregard retrospective non-residence in other jurisdiction

48. A submitter raised a concern that if, due to their absence, the other jurisdiction backdates a person's non-residence, the person would be retrospectively ineligible to be a non-resident visitor. This could lead to uncertainty and compliance costs.[1]

49. We agree that the loss of non-resident visitor status based on retrospective non-resident status in the other jurisdiction does not align with the policy intent. We recommend amending the rules so that any backdated cessation of a person's tax residence in a foreign jurisdiction is disregarded when assessing the definition of a non-resident visitor.

50. We note this change would mean, in certain situations, the visitor's income may not be subject to tax in either New Zealand or the other jurisdiction (because they would

[1] New Zealand has a similar rule under which a person absent from New Zealand for more than 325 days is retrospectively deemed to be non-resident from the first of those days.

be non-resident in both). We suggest monitoring this issue to ensure eligible persons do not intentionally arrange their tax affairs in a way that seeks to unfairly take advantage of these rules.

Broaden residence requirement to include taxation on basis of citizenship

51. A submitter has suggested the requirement to be tax resident should be amended to consider other situations in which another jurisdiction would tax the income.

52. We agree with the submitter that the rule could be amended to include individuals whose income is liable to tax in another jurisdiction by reason of citizenship. This would primarily affect United States individuals.

53. We do not recommend including situations when the income is liable to tax under another jurisdiction's source rules. Although simple cases exist, there could be interactions that lead to complex cross-border arrangements. In addition, source-only taxation could undermine the integrity of our rules and does not align with New Zealand's general tax settings.

Company residence tests

54. A submitter has raised concerns that an associated foreign company may be deemed New Zealand tax resident under the head office limb of the residence test. The head office test is based on the physical location of a company's administration and where the management of the business is directed and carried on. Given non-resident visitors will only be present for a short period, it is likely that only in rare situations could this test be satisfied. However, we think the head office test could be legislatively excluded to provide greater certainty, especially for small business owners.

55. In addition, during the Bill drafting stage, it was identified that in certain circumstances the activities of a non-resident visitor could result in a foreign company becoming New Zealand tax resident under the centre of management test limb of the residence test. Following the approach taken for the director control test exclusion [EXP-25-MIN-0052], the Bill, as introduced, included an exemption for the centre of management test. The proposed exemption for the centre of management test has been positively received by submitters. However, we did not obtain explicit policy approval from you to exclude the centre of management test at the time of introduction. We therefore seek your policy approval for this feature now.

Company required to be tax resident in another jurisdiction

56. For the proposed company exemption to apply, the foreign company must be tax resident in another jurisdiction that has a substantially similar income tax to New Zealand. This was included to mirror the treatment of the non-resident visitor.

57. A submitter noted that this requirement is not applied to the proposed permanent establishment and fixed establishment exemptions for associated foreign companies. In addition, no strong policy reason exists for retaining the requirement given that non-resident visitors are only rarely expected to trigger tax consequences for associated enterprises.

58. We agree with the submitter that for simplicity and consistency this requirement should be removed.

Prospective treatment of foreign entities when non-resident visitor status ceases

59. The proposed rules provide that a non-resident visitor who is not lawfully present in New Zealand for immigration purposes ceases to be a non-resident visitor. This would

typically happen when visa conditions are breached. The rule retrospectively removes non-resident visitor status, meaning that tax liabilities and obligations will arise in the past. This is intended to ensure that the proposed tax rules only apply to visitors who remain compliant with their New Zealand immigration obligations.

60. One submitter raised concerns that the treatment of the person losing their non-resident visitor status retrospectively would adversely affect their foreign employer when it had reasonably relied on this status of the employee. The submitter recommends that any loss of concessions available to the foreign entity should be prospective from the day the person's non-resident visitor status ceases.

61. We agree and think this issue applies more broadly. We recommend that for associated foreign entities, the removal of a person's non-resident visitor status should be prospective from the date the person's non-resident visitor status ceased for the purposes of their exclusions.

Recommended action

We recommend you:

a.	**Agree** the requirement that a non-resident visitor's income should be subject to tax that is substantially the same as New Zealand income tax be simplified to require that the person is liable to tax in their jurisdiction of residence. Agreed/Not agreed Minister of Revenue
b.	**Agree** backdating of non-residence in another jurisdiction is disregarded for the purposes of determining whether a person meets the requirement to be a non-resident visitor. Agreed/Not agreed Minister of Revenue
c.	**Agree** the proposed non-resident visitor exemptions should include persons liable to taxation by reason of their citizenship. Agreed/Not agreed Minister of Revenue
d.	**Agree** to include an exclusion from the head office test in the exclusions from the company residence test for associated entities of a non-resident visitor and retain the exclusion from the centre of management and control test. Agreed/Not agreed Minister of Revenue
e.	**Agree** the requirement for a foreign company to be tax resident in another jurisdiction with a substantially similar income tax to New Zealand be omitted. Agreed/Not agreed Minister of Revenue

f. **Agree** the exclusions provided for associated foreign entities of a non-resident visitor should be removed prospectively when the non-resident visitor becomes unlawfully present in New Zealand.

Agreed/Not agreed

Minister of Revenue

GST and unincorporated joint ventures

62. Submitters were broadly supportive of the proposal to allow the members of a joint venture to choose to individually account for GST on supplies made or received in the course of the venture under their own GST registrations (referred to as "flow-through treatment") rather than registering the joint venture separately.

63. However, some submitters were concerned at the complexity of the proposed changes. In particular, some considered there are problems with the proposed new concept of an "output-sharing joint venture", which they said might not adequately cover all cases and would impose additional compliance costs on taxpayers for them to confirm whether they fit within the definition of an output-sharing joint venture. Submitters were also concerned that members of output-sharing joint ventures would have no other option but to apply flow-through treatment.

64. We consider the issues arising from the distinction between output-sharing joint ventures and other types of joint ventures could be addressed by removing the distinction altogether. This would simplify the proposal by ensuring the same set of rules applies to all joint ventures, and by requiring only two categories of joint venture in the legislation (unincorporated body treatment by default and flow-through treatment by election) instead of the four categories currently proposed.

65. Most joint ventures (especially those operating in industries such as forestry and transport infrastructure) would prefer to register for GST as unincorporated bodies and have done so without issue. For most joint ventures, having the joint venture register for GST as an unincorporated body (instead of all the members individually accounting for GST on their share of joint venture supplies and acquisitions under their own separate GST registrations) minimises compliance costs.

Timeframe for election and notifying changes

66. The Bill proposes that, as a transitional measure for the first year of the rules, joint ventures would have until 1 April 2027 to make and notify a flow-through joint venture election for the election to be backdated to 1 April 2026, or a later date notified by the joint venture. Starting on 1 April 2027, elections for flow-through treatment would need to be notified within 21 days of the date of the written agreement between the members, with the election taking effect on the date of the agreement.

67. A notification requirement would also apply when a member of a flow-through joint venture leaves the joint venture or a new member joins the joint venture. Such changes in membership would need to be notified to the Commissioner of Inland Revenue (the Commissioner) within 21 days of the change occurring.

68. The bloodstock industry and another submitter disagreed with the proposed 21-day timeframe for notifying the election and made different suggestions for extending that timeframe. Alternatively, it was suggested the Commissioner should have discretion to backdate an election when notification is received late due to an error.

69. While we do not agree that the 21-day notification timeframe should be extended, we acknowledge there may be situations when, due to circumstances outside the control

of the members of a joint venture or due to an error, it might not be possible or feasible to notify a flow-through election within the required 21-day timeframe. Therefore, we recommend that the Commissioner should have the discretion in such situations to accept late elections and backdate them when appropriate.

Recommended action

We recommend you:

a.	**Agree** the current GST rules for unincorporated bodies would apply to all joint ventures by default, with the ability for joint venturers to elect flow-through treatment. Agreed/Not agreed Minister of Revenue
b.	**Agree** to provide the Commissioner with the discretion to accept late flow-through joint venture elections and backdate them as appropriate. Agreed/Not agreed Minister of Revenue
c.	**Agree** these amendments would take effect on 1 April 2026. Agreed/Not agreed Minister of Revenue

Employee share scheme remedials

70. The Bill, as currently drafted, proposes to introduce two remedial amendments to the ESS rules. The first clarifies that the taxing date for ESS shares occurs on the date that the shares are held by the employee, or the employee has the unconditional right to receive the shares, or the shares are held for the benefit of the employee. The second clarifies that employer deductions arise on the ESS taxing date, not the ESS deferral date (which is the current position allowed by Inland Revenue guidance).

71. In both cases, we originally proposed these changes because we believed that there was genuine uncertainty in these areas. We had consulted on both items in recent years and had released contentious guidance in both cases.

72. However, in the time between that guidance and the introduction of the Bill, commercial practice has adapted to the guidance. As a result, submitters report that both amendments would have outsized impacts on taxpayers and have reacted strongly to their introduction.

73. Ultimately, we agree with submissions. We recommend the first amendment to clarify the taxing date be withdrawn from the Bill to allow officials to consider the issue further, and to prevent the issues submitters have identified. For the second amendment to clarify when employer deductions arise, we recommend enacting transitional rules to ensure deductions for businesses providing ESS shares close to the proposal's effective date are not lost as blackhole expenditure. We also recommend that the current practice allowed by Inland Revenue guidance be grandparented for mergers and acquisitions entered into before the effective date of the remedial.

Recommended action

We recommend you:

a.	**Agree** to withdraw the proposed amendment to clarify the employee share scheme taxing dates from the Bill. Agreed/Not agreed Minister of Revenue
b.	**Agree** to enact transitional rules to ensure deductions for businesses providing employee share scheme shares close to the proposal's effective date are not lost as blackhole expenditure. Agreed/Not agreed Minister of Revenue
c.	**Agree** to grandparent the current practice allowed by Inland Revenue guidance for mergers and acquisitions entered into before the effective date of the remedial. Agreed/Not agreed Minister of Revenue

Income from residential supply of electricity

74. The Bill includes a proposed tax exemption for income derived by a natural person from the supply of excess electricity generated at a dwelling.

75. The rationale for the proposed tax exemption is to address disproportionate compliance costs associated with returning income derived from the residential supply of excess electricity. In the absence of this income, most individuals supplying excess electricity from a dwelling would not be expected to file tax returns because their only other income would be salary, wages, and investment income subject to withholding tax.

76. Submissions were supportive of the exemption applying when the person supplying the electricity is resident at the dwelling where the electricity is generated (either as an owner-occupier or a tenant). However, many submissions (including Tax Justice Aotearoa) raised concerns with the exemption applying to landlords. Submitters expressed concern that this would allow landlords to earn significant untaxed income and could exacerbate inequality and housing unaffordability.

77. We do not agree with submitters' concerns that the proposed exemption would provide a tax concession for landlords. To be eligible for the tax exemption, a landlord would need to be the electricity account holder for their rental property. Landlords charging all-inclusive rent are rare and in most situations a tenant will be the account holder.

78. However, the proposed exemption would increase compliance costs for landlords that do derive income from the supply of excess electricity from a rental property. This is because it would require landlords to apportion costs that relate to both the taxable rental income and exempt electricity income. The denial of deductions related to the exempt income may also increase landlords' after-tax costs and discourage landlords that charge all-inclusive rent from installing solar panels.

79. We therefore recommend the proposed tax exemption be narrowed to only apply when the person supplying excess electricity is a resident of the dwelling where the electricity is generated. This includes when the dwelling is:

- the person's main home (either as an owner or tenant), or

- a secondary residence of the person (for example, a bach).

Recommended action

We recommend you:

a. **Agree** the proposed tax exemption for income from the supply of excess electricity from a dwelling be narrowed to only apply when the person supplying the electricity is a resident of the dwelling.

Agreed/Not agreed

Minister of Revenue

Power for Commissioner to set certain rates by determination

80. The Bill contains several new Commissioner powers, including one to set the rate of interest charged for under- or overpayment of tax (use of money interest (UOMI)) by determination. This replaces equivalent powers currently provided under an Order in Council.

81. Submitters suggested that a prospective statutory effective date should apply to determinations effecting change to UOMI rates.

82. The Bill provides for determinations to change the rate of UOMI but does not stipulate the effective date of any such change. Generally, changes to these rates are relevant to tax payable from the next provisional or terminal tax dates. In practice these are aligned to standard provisional tax dates. We agree that it is appropriate to give taxpayers fair notice of changes to the rate, and changes should not in any event apply retrospectively. At least one month's notice is consistent with both current practice and the other similarly determined rate for fringe benefit tax (FBT) on employment-related loans. This would also give appropriate notice of the change to affected taxpayers and permit timely changes to administrative systems and publications as required.

83. We therefore agree with the submission that UOMI rate changes should only come into effect prospectively and after a certain minimum period following the making of the determination.

Recommended action

We recommend you:

a. **Agree** determinations amending the UOMI rate should have effect for the next standard provisional tax due date (28 August, 15 January, and 7 May) that falls at least one calendar month after the making of the determination, and for subsequent periods.

Agreed/Not agreed

Minister of Revenue

Information disclosure by way of Ministerial agreement

84. The proposed information disclosure by way of Ministerial agreement item includes several safeguards/requirements that the Minister must be satisfied have been met before entering into an agreement. These safeguards protect the privacy of individuals.

However, submitters have suggested the legislation should include several other safeguards.

85. Of the safeguards recommended by submitters, we recommend adding the following five:

- requiring Inland Revenue to provide a copy of its audit review to the Privacy Commissioner
- specifying in the agreement what adverse actions are to be taken by the other agency and the notification requirements to be given to individuals, as well as any grounds for departing from these notification requirements
- specifying the reporting requirements for inclusion in Inland Revenue's annual report
- requiring Ministers to consider the comments made by the Privacy Commissioner following the conclusion of a Ministerial agreement, and
- requiring three Ministers, including the Minister of Justice, to agree to a Ministerial agreement being made.

Requirement to provide reviews and independent audits

86. Currently, the Bill only provides that the requirements for reviewing the agreement be included in the Ministerial agreement. Submitters have suggested that the proposed legislation should require independent audits to be undertaken.

87. In addition, the New Zealand Law Society has commented that there is no provision for the Privacy Commissioner to formally review the operation of Ministerial agreements, only an ability under proposed new section 18HB(8) of the Tax Administration Act 1994 to "raise concerns". The Law Society is concerned that, in the absence of a formal review mechanism, it would be more difficult for the Privacy Commissioner to systematically identify concerns. We recommend empowering the Privacy Commissioner to review the operation of a Ministerial agreement and publicly report on findings, with any appropriate recommendations. This could occur either at regular intervals (for example, every three years) or at the Privacy Commissioner's discretion, as occurs for approved information sharing agreements (AISAs).

88. Independent audits are not included in disclosure agreements entered into by Inland Revenue because third parties would need access to sensitive revenue information about taxpayers or the tax system to undertake such an audit. Instead, an agreement requires the parties to review the agreement's operation and, in relation to AISAs and information-matching agreements, a copy of the review report is given to the Privacy Commissioner.

89. Given the sensitivity of information that would be disclosed under these agreements, we recommend that Ministerial agreements follow the same process as AISAs and that the legislation be amended to require Inland Revenue to provide a copy of the review only to the Privacy Commissioner.

90. Regarding the Privacy Commissioner formally reviewing the Ministerial agreements, we consider that the combination of a review by the parties to the agreement, the provision of the report to the Privacy Commissioner, the Commissioner's right to raise concerns with Ministers, and the ability of Ministers to consider the comments raised provides oversight of the agreements.

Complaints process and adverse actions

91. Under the Privacy Act 2020, information-sharing or -matching agreements must set out how agencies provide written notice to individuals before any adverse action is taken against them on the basis of information shared. This provides an opportunity

for the individual to correct any errors. Usually, agencies provide 10 working days for the individual to dispute the decision before adverse action is taken. However, under AISA agreements, if providing this notification of adverse action would undermine the compliance activity, then an agency could dispense with the notice period under the agreement.

92. We consider that Ministerial agreements should specify what adverse actions are to be taken and the notification requirements an agency shall give affected individuals, as well as any grounds for dispensing with these requirements.

93. Remedies for breaches of agreements are a standard clause in a memorandum of understanding or agreement between the two parties, and the legislation does not need to specify this point.

94. An individual can complain about the operation of the Ministerial agreement or request information under the Privacy Act 2020 or the Official Information Act 1982. The complaints or requests are considered by the agencies. The agreement or memorandum of understanding would outline that when a complaint is received by an agency, it will consult the other agency before making a decision about the complaint or request.

Reporting requirements in annual report

95. The provision in the Bill already includes publication and annual reporting obligations and specifically provides for the Privacy Commissioner to raise concerns directly with the Minister.

96. The proposal outlines that information will be included in Inland Revenue's annual report, but submitters have requested that the reporting requirements be spelt out in the legislation. Although the reporting requirements will depend on the purpose of the agreement, we recommend that some general requirements also be included in legislation, such as the frequency of sharing, the number of requests received and the number of disclosures made, the types of information shared, the number of errors or requests when no information is held, the number of complaints received or made, and the benefits from the disclosures.

97. To properly report on the operation of the agreements, we consider the legislation should be amended to include the above reporting requirements as examples, rather than requirements, because the exact information reported will depend on the agreement.

Privacy Commissioner comments post signing

98. The Corporate Taxpayers Group and the New Zealand Law Society note that the proposed provision allows the Privacy Commissioner to raise concerns about an agreement or its operation with Ministers. However, the provision only requires Ministers to consider the Privacy Commissioner’s comments made before signing the agreement. It does not apply to comments made post signing. The provision does not provide symmetry throughout the lifecycle of any agreement.

99. We consider that comments from the Privacy Commissioner, whether made before or after signing the agreement, should be considered by Ministers. Therefore, we recommend that changes be made to the proposal to ensure symmetry.

Minister of Justice oversight

100. Submitters have pointed out that the proposal lacks external scrutiny and allocates responsibility for agreements to two Ministers, rather than involving all of Cabinet oversight.

101. We take the point that having two Ministers deciding may not reflect other perspectives and therefore recommend that the Minister of Justice must be involved in the approval of a Ministerial agreement, as well as the Minister of Revenue and the Minister for the requesting agency, to ensure that privacy concerns are taken into account. In particular, the Privacy Commissioner reports to the Minister of Justice. Having another Minister's oversight would provide multiple perspectives on the proposed disclosure, which would mitigate the absence of public consultation on agreements.

102. The disadvantage of three Ministers being involved in the decision making is that it adds to the timeframe for concluding an agreement. However, this is outweighed by the benefits of reporting outlined in the previous paragraph and therefore we recommend an amendment to this effect be included in the Bill.

Limiting agreements to urgent information disclosing initiatives

103. Submitters suggested limiting the provision to cases when social licence exists and when the time is not sufficient to progress amendments to primary legislation or to conclude an AISA without rendering the sharing ineffectual. If time is available to progress information disclosure under existing mechanisms, the AISA process (which best supports the Privacy Act requirements) should not be avoided in the interests of administrative efficiency only.

104. We consider the provision could still be used to combat emerging criminal activity or to assist with the enactment of legislation when information disclosure was not previously considered. Both these situations include urgency. What would not be included is disclosing information when time is not an issue and the information could be disclosed through an AISA. A combination could apply, for example, emerging criminal activities could be accommodated by way of Ministerial agreement while still providing the time to negotiate an AISA to enable two-way sharing of other information. This would still enable swift action to address gaps in legislation.

105. We consider that limiting the use of Ministerial agreements to situations when urgency exists is in keeping with the original policy intent.

Government assistance

106. Both Deloitte and CTG understand that in some instances a government may wish to have a new policy implemented quickly and a Ministerial agreement may help facilitate this.

107. There has been uncertainty among submitters as to what is intended by the wording in the Bill around entitlement to government assistance. Some submitters consider that information disclosed under these agreements could be used, for example, to roll out flu vaccines, help homeowners access healthy homes insulation subsidies, or encourage drivers to pay their road user charges on time.

108. Submitters were concerned that the function of disclosing information to determine entitlement to, or eligibility for, government assistance could lead to individuals losing their entitlement to government assistance and incurring debts, which must be recovered.

109. Reducing or removing entitlement is an area where we are uncertain whether social licence exists, and therefore whether Ministerial agreements (without public consultation) would be an appropriate mechanism to disclose information. In these instances, we would recommend undertaking public consultation on the proposal either under Ministerial agreements or by an AISA. Under the Privacy Act, a reduction in entitlement is an adverse event and notice has to be given to the individual and time made available for them to object before the entitlement is adjusted.

110. Therefore, submitters recommend that if this proposal is to proceed, the benefit entitlement function should be limited to situations when that form of government entitlement is not currently received (for example, a new entitlement or an existing entitlement not previously received by the person). This ensures the function is to the benefit of individuals rather than the removal of entitlement.

111. We agree with the submitters' suggestion and consider it more accurately reflects the original policy intent. This is also more in line with social licence and assists with implementing new entitlements that need to be implemented quickly.

List of government agencies

112. Submitters have commented that the list of agencies with which the Minister of Revenue can make an agreement for information disclosure is very broad, ranging from policy departments (like the Ministry for Women) through to security agencies (such as the New Zealand Security Intelligence Service). Even if strict principles for disclosure are adhered to, the impression could be created among the public that their tax information can go anywhere in the government machine.

113. Submitters queried whether, considering the extent of the list of allowed receiving agencies, it is necessary to include all the departments listed in part 1 of schedule 2 of the Public Service Act 2020. That list includes, for example, the Department of Conservation and the Ministry for Culture and Heritage, and submitters cannot envisage what purposes either of these departments would have for tax sensitive information. They submit the list of allowed recipients should be significantly narrowed to agencies that would receive the greatest benefit from accessing taxpayer sensitive information.

114. We agree and recommend the list of departments be limited to the following, provided there is an enforcement function with terms of imprisonment of two years or more or a government entitlement function:

- Department of Corrections
- Department of Internal Affairs
- Government Communications Security Bureau
- Land Information New Zealand
- Ministry for Pacific Peoples
- Ministry for Primary Industries
- Ministry for the Environment
- Ministry of Business, Innovation, and Employment
- Ministry of Defence
- Ministry of Disabled People
- Ministry of Foreign Affairs and Trade
- Ministry of Health
- Ministry of Housing and Urban Development
- Ministry of Justice
- Ministry of Māori Development — Te Puni Kōkiri
- Ministry of Social Development
- Ministry of Transport
- New Zealand Customs Service
- New Zealand Security Intelligence Service
- Oranga Tamariki — Ministry for Children
- Serious Fraud Office
- New Zealand Police

- Accident Compensation Corporation
- Health New Zealand
- New Zealand Transport Agency
- Kāinga Ora – Homes and Communities
- New Zealand Defence Force.

Recommended action

We recommend you:

a.	**Agree** the Bill be amended to require Inland Revenue to provide a copy of Inland Revenue's audit review on the Ministerial agreement to the Privacy Commissioner. Agreed/Not agreed Minister of Revenue
b.	**Agree** the legislation be amended to require Ministerial agreements to address the adverse actions to be taken, what notifications are to be provided, and the grounds for departing from these notification requirements. Agreed/Not agreed Minister of Revenue
c.	**Agree** the legislation be amended to specify examples of the reporting requirements for inclusion in Inland Revenue's annual report. Agreed/Not agreed Minister of Revenue
d.	**Agree** the legislation require relevant Ministers to consider any comments made by the Privacy Commissioner following the conclusion of a Ministerial agreement. Agreed/Not agreed Minister of Revenue
e.	**Agree** three Ministers, including the Minister of Justice, be required to agree to a Ministerial agreement being made. Agreed/Not agreed Minister of Revenue
f.	**Agree** to limit Ministerial agreements to urgent information-disclosing initiatives only and rely on approved information-sharing agreements to share information long term. Agreed/Not agreed Minister of Revenue
g.	**Agree** the benefit entitlement function be limited to situations when that form of government entitlement is not currently received (for example, a new entitlement or an existing entitlement not previously received by the person). Agreed/Not agreed

a.	**Agree** the Bill be amended to require Inland Revenue to provide a copy of Inland Revenue's audit review on the Ministerial agreement to the Privacy Commissioner. Agreed/Not agreed Minister of Revenue	
b.	**Agree** the legislation be amended to require Ministerial agreements to address the adverse actions to be taken, what notifications are to be provided, and the grounds for departing from these notification requirements. Agreed/Not agreed Minister of Revenue	
c.	**Agree** the legislation be amended to specify examples of the reporting requirements for inclusion in Inland Revenue's annual report. Agreed/Not agreed Minister of Revenue	
d.	**Agree** the legislation require relevant Ministers to consider any comments made by the Privacy Commissioner following the conclusion of a Ministerial agreement. Agreed/Not agreed Minister of Revenue	
e.	**Agree** three Ministers, including the Minister of Justice, be required to agree to a Ministerial agreement being made. Agreed/Not agreed Minister of Revenue	
	Minister of Revenue	

h.	**Agree** the list of departments be limited to the list outlined above provided there is an enforcement function with terms of imprisonment of two years or more or a government entitlement. Agreed/Not agreed Minister of Revenue

GST: Business-to-business zero rating of financial services election process

115. The Bill includes a proposed amendment to allow the election to zero-rate GST on qualifying financial services to be exercised by notifying Inland Revenue. These suppliers can already choose to exercise the election by taking the relevant position in their GST returns and were previously able to make the election by notifying Inland Revenue (until 1 April 2025).

116. Deloitte and PwC have submitted that the proposed amendment should apply retrospectively from 1 April 2025 because this would provide more certainty for taxpayers who would prefer to notify Inland Revenue to exercise the election. We recommend accepting this submission. Inland Revenue has continued to allow

taxpayers to make the election by notifying us due to the upcoming amendment in the Bill.

Recommended action

We recommend you:

a.	**Agree** the proposed amendment to allow the election to zero-rate GST on qualifying financial services to be exercised by notifying Inland Revenue should take effect on 1 April 2025. Agreed/Not agreed Minister of Revenue

Investment Boost remedials

117. The Bill currently includes four Investment Boost remedial amendments and submissions were largely supportive. Therefore, we do not propose any changes to those amendments. However, in response to both submissions received, and further issues identified by officials, we recommend further remedial amendments be added to the Bill.

Improvements to existing assets

118. A submission from PwC raised the concern that improvements to a non-depreciable asset may often not constitute a new asset in its own right and therefore not be eligible for Investment Boost. This is particularly problematic in the farming, petroleum mining, and mining sectors, where improvements, such as land development or infrastructure works, typically enhance an existing non-depreciable asset (that is, land) rather than create a new identifiable one.

119. It was always intended that improvements to existing assets should be eligible for Investment Boost (providing all other criteria are met). We therefore recommend clarifying the legislation to ensure that all improvements to existing assets can be eligible for Investment Boost, even if the improvement does not give rise to a new asset in its own right.

Clawback of deduction following change of use

120. If the private use of an asset increases by 25% or more, the Investment Boost deduction previously claimed is clawed back to reflect the new private use. However, if a commercial building is reconfigured as a residential building but still used entirely for deriving income (for example, providing rental accommodation), there is no clawback of the Investment Boost deduction. This creates an integrity risk because some types of commercial buildings (for example, serviced apartments) can be easily converted to dwellings.

121. We recommend extending the clawback of an Investment Boost deduction following a change of use to also apply when the proportion of a commercial building used for dwellings increases by 25% or more.

Recommended action

We recommend you:

a.	**Agree** to clarify that all improvements to existing assets are eligible for Investment Boost. Agreed/Not agreed Minister of Revenue	
b.	**Agree** to extend the clawback of an Investment Boost deduction following a change of use to also apply when the proportion of a commercial building used for dwellings increases by 25% or more. Agreed/Not agreed Minister of Revenue	
c.	**Agree** these amendments should take effect on 22 May 2025 (the day the Investment Boost rules came into effect). Agreed/Not agreed Minister of Revenue	

GST: Amendment to treat sale of land as separate supply

122. The Bill includes a proposed amendment to treat a sale of land that had been used to make both taxable and exempt supplies (such as residential accommodation) as a separate supply to the extent to which the land had been used to make exempt supplies. This was intended to simplify how GST was calculated on these land sales.

123. While some submissions supported the proposed amendment, two submitters (KPMG and PwC) considered the proposed rule needed further work and consultation. They considered its current design would lead to unintended GST outcomes in some cases and submitted it should be removed from the Bill so further analysis and consultation could occur.

124. We agree and recommend removing the proposed amendment from the Bill and consulting further on the issue. A planned GST officials' issues paper could be used for this consultation.

Recommended action

We recommend you:

a.	**Agree** the proposed amendment to treat a sale of land partly used to make exempt supplies as a separate supply should be removed from the Bill to allow further consultation on this issue. Agreed/Not agreed Minister of Revenue	

Securitisation remedials

125. A securitisation is a funding arrangement involving the transfer of receivables to a special purpose vehicle that then issues debt securities backed by the expected cash flows from those receivables. Securitisation provides an important source of funding

for a range of businesses by allowing them access to wholesale debt markets for their funding needs on competitive terms, thereby serving as an alternative to the provision of funding from the major banks.

126. The Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Act 2025 (the Emergency Response Act) included several amendments to address tax barriers to securitisation arrangements. The current Bill includes an amendment to correct the commencement date of amendments made in the Emergency Response Act to the definition of "securitisation trust".

127. Submissions from several submitters raised further issues with the tax treatment of securitisations stemming from amendments made in the Emergency Response Act. The Emergency Response Act introduced a new exclusion from the association rules to address situations when association inadvertently arises in the ordinary course of a securitisation arrangement. However, it did not address all situations when association may inadvertently arise. For example, a person who is a beneficiary of a security trust may also be associated with the securitisation trust under the tripartite rule (for example, the securitisation trust is associated with the security trust by virtue of having the same settlor).

128. These issues can act as a barrier to undertaking securitisations. To ensure a securitisation entity has no unanticipated tax liabilities, parties undertaking securitisations are forced to structure around these issues, increasing the costs of undertaking a securitisation.

129. We recommend amending the exclusion from the association rules to ensure association does not arise in the ordinary course of a securitisation arrangement. The amendments would ensure that a person is not associated with a borrower simply because the person (or an associate of the person) is a beneficiary, settlor or person with a power of appointment or removal of a trustee of a security trust established in connection with the borrowing. This should apply generally (for any borrower that is a trust) rather than merely for a borrower that is a securitisation trust. In addition, a person would not be associated with a securitisation trust simply because the person (or an associate of the person), as an ordinary incident of lending to the securitisation trust, is a settlor of the securitisation trust or has the power to appoint or remove the trustee.

Recommended action

We recommend you:

a. **Agree** the association rules for securitisations be amended so that association does not arise in the ordinary course of a securitisation arrangement.

Agreed/Not agreed

Minister of Revenue

Māori Fisheries Amendment Act 2024: Technical amendment to transitional tax relief

130. We refer to BN2025/453, dated 19 November 2025. The Māori Fisheries Amendment Act 2024 (MFAA) was enacted to modernise the Māori fisheries settlement framework, granting iwi greater control over fisheries settlement assets. A central reform was the transfer of ownership and control of Aotearoa Fisheries Limited (AFL) from Te Ohu Kai

Moana Trustee Limited (TOKM) to mandated iwi organisations (MIOs). The reform involved the cancellation of TOKM's existing ordinary shares in AFL and recharacterisation of all TOKM's income shares in AFL as ordinary shares. The recharacterised shares would then be transferred to iwi.

131. To support this transition, tax transitional provisions were included in the MFAA to ensure the restructure would not trigger tax obligations or cause the loss of tax balances, such as through breaches of shareholder continuity.

132. The policy rationale for the transitional tax provisions is that Government-mandated restructures should be tax-neutral (BN2025/453, dated 19 November 2025, refers). This approach aligns with the original intent of the Māori Fisheries Act 2004, recognising iwi as the economic owners of the assets. Ensuring tax neutrality for the transfer of legal ownership is consistent with past restructures, such as those involving KiwiRail and Auckland local authorities.

133. TOKM raised a technical concern regarding the scope of the tax transitional rules in the MFAA. TOKM submits that the current rules are too narrow and do not fully protect AFL from breaching shareholder continuity, which could result in the loss of Māori authority credit balances. They propose an amendment to the relief provision to include the cancelled ordinary shares initially held by TOKM and to account for the recharacterisation of all the income shares.

134. We agree that a technical amendment is warranted to ensure that the restructure under the MFAA is tax neutral. The proposed change would clarify that the cancellation of shares and recharacterisation of income shares as ordinary shares under the MFAA does not breach shareholder continuity. The proposed change is consistent with previous Cabinet and Ministerial policy approvals connected with the MFAA.[2] The proposed change would not have a fiscal impact[3] and would provide certainty for affected parties.

135. Implementation of the reforms in the MFAA is due to be completed by 30 June 2026. We consider that the Bill would be a timely legislative vehicle to fix the problem identified by TOKM.

Recommended action

We recommend you:

a. **Agree** to amend the Māori Fisheries Amendment Act 2024 to ensure that the cancellation of Aotearoa Fisheries Limited ordinary shares and recharacterisation of its income shares under that Act is not a breach of shareholder continuity for the purposes of the Inland Revenue Acts.

Agreed/Not agreed

Minister of Revenue

Removal of foreign exchange movements from absolute value threshold

136. The absolute value threshold for determining whether someone can be a cash basis person (CBP) is "if, on every day in the income year, the absolute value of all financial arrangements to which the person is a party added together (regardless of whether

[2] MCR-21-MIN-0014, recommendation 8 refers.

[3] As of November 2025, the tax credit balance in question is around $5 million but it is expected to be much lower by 30 June 2026.

they are assets or liabilities) is [NZ]$1,000,000 or less." This threshold is proposed to be increased to NZ$2 million in the Bill.

137. It is very easy for foreign exchange fluctuations (even just for one day in an income year) to push someone over this threshold. If they are also over the income and expenditure threshold, they cannot be a CBP and must account on an accrual basis.

138. We propose that, for foreign currency denominated financial arrangements, the absolute value threshold should be tested using the principal amount converted at a set date (for example, the first day of the financial arrangement), ignoring subsequent foreign exchange fluctuations. If the principal amount changes (for non-foreign exchange rate reasons), the financial arrangement should be reassessed for the threshold alongside any other financial arrangements held by the person. This would assist those who are arbitrarily pushed over the threshold solely by foreign exchange fluctuation and reduce taxpayer compliance costs for low levels of financial arrangements.

Recommended action

We recommend you:

a. **Agree** to amend the Income Tax Act 2007 to remove the effect of foreign exchange fluctuations from the absolute value threshold in the cash basis person thresholds.

Agreed/Not agreed

Minister of Revenue

Repeal deferral threshold

139. Under the financial arrangements rules, a cash basis person (CBP) can account for income when it is received and for expenditure when it is paid during the life of a financial arrangement. This approach is simpler than accounting for income and expenditure from a financial arrangement on an accrual basis. However, like a person on an accrual basis, at the end of the arrangement a cash basis person must do a wash-up calculation called a base price adjustment.

140. The CBP thresholds were brought in to reduce compliance costs for smaller taxpayers while maintaining the integrity of the financial arrangements rules. The deferral threshold is one of three thresholds used to determine whether someone qualifies as a CBP.

141. The deferral threshold was included to prevent excessive deferral of income recognition. However, it imposes a high compliance burden, requiring taxpayers to calculate income and expenditure on an accrual basis to compare it with a cash basis result and ensure that the difference is below a threshold. This is the same compliance burden being a CBP is intended to prevent.

142. We received several submissions on the Bill that suggested this threshold was not fit for purpose and it imposed the compliance costs it was designed to avoid. We agree with the submitters that this threshold is no longer required and continuing with the other two CBP thresholds would be sufficient and would reduce compliance costs for taxpayers. We recommend the deferral threshold be removed.

Recommended action

We recommend you:

a. **Agree** to amend the Income Tax Act 2007 to remove the deferral threshold within the cash basis person thresholds.

Agreed/Not agreed

Minister of Revenue

GST: Recipient of supply to provide details

143. The Bill includes an amendment that clarifies that suppliers are not required to retain "recipient details" for unregistered purchasers when the value of the supply exceeds $1,000.

144. As currently drafted, the provision could require a store clerk to ask if customers spending more than $1,000 are GST registered so that they can obtain personal details (recipient details) from that purchaser for GST record-keeping purposes. It makes more commercial sense for recipients to have the duty to notify the supplier of their GST registration and details, rather than the supplier having to ask, because the recipient would be incentivised to provide sufficient information to ensure their records support any GST they may claim.

145. We propose the Bill be amended to clarify that the recipient of a supply that exceeds $1,000 is responsible for confirming they are a registered person and providing the requisite recipient details that make up part of the taxable supply information for the supply.

Recommended action

We recommend you:

a. **Agree** the Bill be amended to clarify that the recipient of a supply that exceeds $1,000 is responsible for confirming they are a registered person and providing the requisite "recipient details" that make up part of the taxable supply information for the supply.

Agreed/Not agreed

Minister of Revenue

Fringe benefit tax on personal protective clothing

146. The Tax Counsel Office has recently issued a draft "Question we've been asked" on the scope of the exclusion from fringe benefit tax (FBT) for benefits relating to health and safety.

147. One of the requirements for that exemption is that the "on-premises" exemption would apply to the benefit if it was provided on the employer's premises. This would mean that the health and safety exclusion would not apply to benefits that are free, discounted or subsidised travel, accommodation or clothing because these are excluded from the "on-premises" exemption.

148. Clothing that is "distinctive work clothing" would be subject to another exemption. However, clothing that is personal protective clothing that is not "distinctive" would not technically meet the definition and is arguably subject to FBT. Distinctive work clothing must be clearly branded with the employer's logo.

149. This is not the intended result, and the legislation should be amended to reflect the policy intent by ensuring these items are not subject to FBT.

150. We recommend that an amendment clarify that clothing that meets the definition of personal protective equipment in the Health and Safety at Work Act 2015 falls within the health and safety exemption in the FBT rules.

Recommended action

We recommend you:

a.	**Agree** to amend the Income Tax Act 2007 to clarify that clothing that meets the definition of personal protective equipment in the Health and Safety at Work Act 2015 falls within the health and safety exemption in the FBT rules. Agreed/Not agreed Minister of Revenue
b.	**Agree** this amendment should take effect on 1 April 2008, which is the date the health and safety exemption was included within the Income Tax Act 2007, to ensure the previous treatment of these items is not subject to dispute. Agreed/Not agreed Minister of Revenue

Recovering PAYE on overpayments of earnings-related accident compensation

151. An amendment is required to clarify that the Accident Compensation Corporation (ACC) can recover pay-as-you-earn (PAYE) from Inland Revenue when an earnings-related accident compensation payment is overpaid and legally recoverable but ACC decides not to collect that debt for other reasons.

152. Earnings-related compensation overpayments that are recoverable by law, but which ACC decides not to collect for other reasons, are not taxable income of the person under the ITA. These overpayments remain legally enforceable debt even if ACC decides not to recover the debt. Because these overpayments are not taxable income of the person, PAYE is not legally owed and should be recoverable by ACC.

153. The intention was for ACC to recover the PAYE on overpayments when the Tax Administration (Correction of Errors in Employment Income Information) Regulations 2019 were introduced. However, the regulations were not drafted to cover this situation. We recommend an amendment to the regulations to correct this.

Recommended action

We recommend you:

a.	**Agree** to amend the Tax Administration (Correction of Errors in Employment Income Information) Regulations 2019 to clarify that the ACC can recover PAYE from Inland Revenue when an earnings-related accident compensation payment is overpaid and legally recoverable but ACC decides not to collect that debt. Agreed/Not agreed Minister of Revenue

Partnership transparency for voting and market value interests

154. The ITA has several ownership-based tests that must be met for companies to qualify for certain tax benefits (for example, carrying forward a loss or imputation credits) or to prevent tax avoidance through artificial restructuring.

155. Currently, if a partnership owns shares in a company, the ITA does not explicitly look through to the partners for these ownership-based tests. Therefore, the current law does not align with the policy intent that partnerships be treated as transparent for ownership continuity purposes, and amendments are required to explicitly provide for partnership transparency when applying company ownership-based tests.

156. The current law could lead to some absurd results. For example, when individuals sell shares in a company to a limited partnership they are partners in, continuity of ownership for the company may be breached even if their partnership share aligned with their shareholding proportions. Also, when a limited partnership owns a company, even a complete change in the partners of the partnership may not breach continuity.

Recommended action

We recommend you:

a.	**Agree** to amend the Income Tax Act 2007 to explicitly provide for partnership transparency when applying company ownership-based tests. Agreed/Not agreed Minister of Revenue
b.	**Agree** this amendment should take effect on 26 August 2024, the commencement date for the provision being amended. Agreed/Not agreed Minister of Revenue

Exclude companies from treating variable principal debt instruments as excepted financial arrangements

157. The financial arrangements rules do not apply to excepted financial arrangements (EFA) and, therefore, income and expenses relating to those arrangements do not need to be spread over the term of the arrangement, reducing compliance costs for taxpayers.

158. The ITA provides that a variable principal debt instrument (VPDI) (for example, a credit card or overdraft) is an EFA, unless a person otherwise elects, if the total value on every day in an income year of all VPDIs to which a person is a party is $50,000 or less. The Bill proposes to change the threshold to $100,000.

159. We recommend that companies be excluded from treating VPDIs as EFAs. Companies can deduct most expenditure under a financial arrangement, including capital amounts, because there is no capital/revenue distinction in the financial arrangements rules. If a VPDI is an EFA, then a company cannot deduct everything. Therefore, generally, this means companies elect to treat VPDIs as a financial arrangement even if it might fall below the threshold to be an EFA.

160. Additionally, barring companies from treating VPDIs as EFAs may reduce opportunities for timing mismatches between associated persons.

Recommended action

We recommend you:

a.	**Agree** to amend the Income Tax Act 2007 to exclude companies from treating variable principal debt instruments as excepted financial arrangements. Agreed/Not agreed Minister of Revenue

Cryptoasset staking income and PIE eligibility

161. Under a previous law change, the law was clarified to make it clear that a portfolio investment entity (PIE) can hold cryptoassets as an eligible income type. However, it was not clear whether a PIE could generate staking income and retain its status as a PIE. The Bill clarifies that staking income generated through a proof of stake consensus mechanism is eligible income for a PIE to generate.

162. As currently drafted, the Bill requires the staking reward to be generated in the form of new or additional cryptoassets. Although income generated by way of a proof of stake consensus mechanism is generally paid in newly minted cryptoassets or transaction fees that are also paid in the form of cryptoassets, precluding possible rewards paid in other forms is unnecessarily restrictive.

163. We propose that the Bill be amended so it no longer stipulates that the staking reward must be paid in the form of cryptoassets.

164. The commencement dates for the amended provisions should remain the same as they were on introduction of the Bill, namely 1 January 2009, which is when the first cryptoasset (Bitcoin) was created, and 1 April 2010, which aligns with when the relevant section originally commenced.

Recommended action

We recommend you:

a.	**Agree** the Bill be amended to remove the requirement that any reward generated through the use of cryptoassets must be in the form of new or additional cryptoassets. Agreed/Not agreed Minister of Revenue
b.	**Agree** the amendments should take effect on 1 January 2009 and 1 April 2010 respectively. Agreed/Not agreed Minister of Revenue

Error correction by multi-rate PIEs

165. A provision in the portfolio investment entity (PIE) rules provides that a multi-rate PIE loses its PIE status if it breaches certain rules relating to how a multi-rate PIE should correct errors.

166. The error correction rules are prescriptive and inflexible and can be difficult for large PIEs to comply with. This means their PIE status can be put at risk for a minor breach

of the rules. This outcome is disproportionate and was not intended for a PIE that makes a reasonable attempt to comply with the rules.

167. Inland Revenue is aware of a very large PIE that appears to have inadvertently breached the rules and is at risk of losing its PIE status. This would have a significant impact on the large number of individuals who invest in the PIE.

168. We propose providing the Commissioner with a discretion to allow a multi-rate PIE to retain PIE status if the Commissioner is satisfied that the breach:

- occurred despite the PIE taking reasonable care
- did not have a material impact on any investor in the PIE, and
- is not part of a pattern of non-compliance.

169. To ensure that no multi-rate PIE inappropriately loses PIE status, this change would apply from 1 April 2017, the date the provision was last amended.

Recommended action

We recommend you:

a.	**Agree** the Commissioner should have a discretion to allow a multi-rate PIE to retain PIE status notwithstanding a breach of the error correction rules. Agreed/Not agreed Minister of Revenue
b.	**Agree** this amendment should take effect on 1 April 2017. Agreed/Not agreed Minister of Revenue

Advance election for limited partnerships

170. An amendment is required to allow a limited partnership to elect to account for non-resident withholding tax (NRWT) prior to payment when a limited partner makes a payment of non-resident passive income.

171. The ITA was recently amended to allow limited partnerships to elect to account for NRWT on non-resident passive income as part of a broader tidy-up of partnership taxation. These amendments took effect retrospectively from 1 April 2008.

172. Currently, a limited partnership can only elect to account for NRWT prior to payment when passive income is derived by a non-resident limited partner, not when a limited partner makes a payment of non-resident passive income.

173. The recent amendments intended to allow limited partnerships to elect accounting for NRWT, including before making a payment, so that borrowers entering lending arrangements know in advance of the payment if a partnership plans to make an election. Advance notification for both inbound and outbound situations should be enabled.

Recommended action

We recommend you:

a. **Agree** to amend the Income Tax Act 2007 to allow a limited partnership to elect to account for non-resident withholding tax prior to a limited partner making a payment of non-resident passive income.

Agreed/Not agreed

Minister of Revenue

b. **Agree** this amendment should take effect on 1 April 2008 to align with the date the previous amendments took effect.

Agreed/Not agreed

Minister of Revenue

Maintenance changes to schedule 32 – overseas donee status

174. In report IR2025/392, dated 25 September 2025, we recommended two maintenance changes to update the references to the following charities in schedule 32 of the ITA, with those changes applying as set out in the table below.

Recommended change	**Recommended application date**
Rename "International Christian Aid (ICA)" to "International Christian Aid Relief Enterprises".	1 April 1990
Rename "The New Zealand Society for the Intellectually Handicapped (Incorporated)" to "IHC New Zealand Incorporated".	14 December 1994

175. We have reconsidered the practicalities with retrospectively amending the earlier versions of the Income Tax Act to implement this change and consider it would be preferable to have the changes come into effect on 1 April 2008, the commencement of the ITA. This later application date:

- aligns with the purpose of the maintenance and correctness of the current list for the purpose of current claims for tax benefits for donations, and
- recognises that claims for tax benefits under earlier versions of the Income Tax Act, such as the 1976, 1994 and 2004 versions, would be time-barred.

Recommended action

We recommend you:

a. **Agree** the maintenance changes to schedule 32 of the Income Tax Act 2007 recommended in the table above take effect on 1 April 2008.

Agreed/Not agreed

Minister of Revenue

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: **Outcome of consultation on thin capitalisation settings for infrastructure**

Date:	5 August 2025	**Priority:**	High
Security level:	Not in scope	**Report number:**	IR2025/293

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	13 August 2025
Minister of Revenue	**Agree** to recommendations	13 August 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Matthew Gan	Principal Policy Advisor	s 9(2)(a)	☒

5 August 2025

Minister of Finance
Minister of Revenue

Outcome of consultation on thin capitalisation settings for infrastructure

Executive summary

Purpose

1. This report briefs you on the outcome of the recent public consultation on thin capitalisation settings for infrastructure and seeks your approval on the next steps.

Context and background

2. The thin capitalisation rules protect the New Zealand tax base by preventing multinational firms from allocating excessive debt to New Zealand. This is done by limiting the amount of debt for which interest deductions are allowed, which is broadly set at 60% of the accounting value of the assets of the New Zealand group, or 110% of the multinational group's worldwide debt (whichever is higher).

3. There is a specific rule for public private partnership (PPP) infrastructure projects, allowing such projects to take on debt beyond these limits, but it does not apply to other infrastructure projects/investment.

4. In Budget 2025 you approved a tagged operating contingency of $65 million over the forecast period for the fiscal cost of any changes to the rules.

Problem definition

5. While the thin capitalisation rules generally work well, they may be too rigid for some foreign investment in infrastructure that is not covered by the PPP concession. This is because infrastructure investment can sometimes support a higher level of commercial debt than is possible with other business activities.

6. For example, if there is a new project to develop a wind farm, external lenders may be willing to lend 75% of the funding required for the project because of a long-term power purchase agreement for the electricity with a retailer. This could result in some interest deductions being denied under the thin capitalisation rules which would increase the effective tax rate applying to the project.

Options to address the problem

7. The Government announced the release of an issues paper on 19 May 2025 to further assess the potential problem and sought views on two possible solutions:

    7.1 a rule targeted at new infrastructure projects, and

    7.2 a more general rule that applies to limited-recourse third-party debt (i.e., debt that only has recourse to the New Zealand assets of the entity/group).

8. Submissions closed on 19 June 2025 and we are now reporting back to you on them with our views. We report more fully on the submissions in the body of the report.

The case for change

9. Most submitters supported a change as it could help remove a potential barrier to infrastructure investment in New Zealand.

10. While officials agree with this sentiment, it is hard to say how much changing the thin capitalisation settings will lead to increased infrastructure. This is because:

    10.1 Foreign investors are already investing in New Zealand infrastructure.[1]

    10.2 Much of the infrastructure is owned by central or local government, so a change is unlikely to directly help with public roads, schools, and hospitals.[2]

    10.3 The thin capitalisation settings are just one of many regulatory settings (tax and non-tax) that could impact a foreign investment decision.

11. That said, officials expect making a change here will remove a potential barrier to some foreign investment in infrastructure at the margin. It could help with investments in energy infrastructure (renewable energy and electricity distribution businesses), digital infrastructure (data centres and communications towers), and social infrastructure (including student accommodation and social housing).

Submissions on the two potential options for reform

12. Submitters were broadly in favour of a more general rule based on third-party debt, than a rule targeted at new infrastructure projects. Submitters noted a targeted rule would require defining eligible infrastructure, which would raise boundary issues regarding what constitutes an eligible infrastructure project or investment. They were also concerned about whether mixed-use projects or investments would qualify under a targeted rule, and whether such a rule might require updates as new forms of infrastructure emerge.

13. Submitters argued a general rule could better support infrastructure investment because it is less likely to exclude an investment that should be eligible under the rule. They also noted that this approach was unlikely to compromise the tax base as it is expected to be self-limiting because third parties should only lend to sectors that can sustain a high level of debt, like infrastructure.

14. They submitted that if a targeted rule were chosen over a general rule, it should apply, not only to new infrastructure projects, but also to existing infrastructure assets and businesses. This approach would recognise that operating, maintaining, and improving infrastructure assets are also important. It could also facilitate asset recycling where an existing infrastructure asset/business is sold, allowing capital to potentially be redeployed elsewhere in New Zealand.

Officials' views and recommendations

15. Our previously preferred option, as outlined in the issues paper, was a targeted rule focused on new infrastructure. After considering submissions, we acknowledge the merit of extending this targeted rule so that it also applies to existing infrastructure businesses.

16. We do not favour adopting a more general rule as a solution for infrastructure, due to the risk that it could be used for aggressive tax planning and apply more broadly than anticipated. However, this is something which could be looked at in the future

[1] For example, Spark and 2 Degrees sold their mobile communication towers to Connexa (which is owned by two Canadian pension plans), and Genesis Energy and Contact Energy are in joint ventures with FRV Australia and LightSource BP for renewable energy projects.

[2] Foreign investors can help provide such infrastructure through PPPs which already have a specific exemption.

if the Government was interested in a wider reform of thin capitalisation aimed at encouraging investment more generally.

Extending a targeted rule to existing infrastructure

17. A rule narrowly targeted at new infrastructure, as proposed in the issues paper, is a more natural expansion of the existing PPP rule. A clear benefit of this approach is that the government and taxpayers are clear which infrastructure investments can apply the rule and that any debt subject to the rule is spent on new infrastructure assets. It would also be the most straightforward to design and have the least fiscal cost. However, there is a risk the rule may apply too narrowly and not cover some desirable infrastructure investment.

18. Like the PPP rule, the targeted rule would primarily apply in a project financing context where the borrowing is specifically used to fund a project. It would work best for an infrastructure investment where a new asset is created, like a new renewable energy project, where external lenders are willing to lend on limited recourse terms to the special purpose vehicle undertaking the project. However, it may not work well for maintenance or upgrades of infrastructure assets, the creation of new assets within existing infrastructure businesses, or under different financing arrangements such as when the debt is raised through the group's general borrowing facilities.

19. For this reason, we recommend the rule be amended by extending its application beyond new infrastructure projects to include existing infrastructure businesses. This approach should accommodate a wider variety of infrastructure investment and financing arrangements. The drawback is that it would necessitate including some integrity measures to ensure that the rule would not apply inappropriately, thus introducing further complexity and requiring additional development time. It would also weaken the direct link between borrowing and the creation or significant improvement of New Zealand infrastructure.

20. However, we see its merits, as it is likely to result in a more equitable outcome and could beneficially support asset recycling. It will also be less restrictive than a narrowly targeted rule, so it reduces the risk of being insufficiently flexible to accommodate the different commercial infrastructure arrangements that exist in practice. The projected fiscal cost of this approach is $32.5 million over the forecast period.

General rule

21. The case for a general rule is premised on the notion that, regardless of the sector, an amount of debt should not be considered excessive if third parties will lend to the New Zealand business on a standalone basis. It is the least likely to exclude desirable forms of infrastructure investment. The wider application could also be viewed as being more consistent with the broad-base, low-rate (BBLR) framework that New Zealand generally favours. That said, adopting such a rule would represent a significant change to the thin capitalisation rules, with an aim to reduce barriers to foreign investment in general, which extends beyond the original scope.

22. This change may offer greater economic benefits in attracting foreign investment more broadly. However, there is also a risk that the extra costs do not result in more investment in new infrastructure. For example, current Inland Revenue data shows that some non-infrastructure firms already have thin capitalisation ratios over the 60% safe harbour. Under the current rules, some of their interest expense deductions would generally be denied. Adopting a general rule could provide a tax reduction to these businesses which would not support infrastructure investment.

23. This approach carries a higher fiscal cost—estimated at $65 million over the forecast period (matching the amount set aside as a tagged operating contingency under Budget 2025). However, there remains considerable upward risk to this estimate

because the extent to which the new rule might incentivise businesses to take on more debt cannot be estimated with a high degree of certainty and the estimate only includes a modest allowance for behavioural change.

24. Further, a general rule might facilitate some forms of aggressive tax planning. For example, a general rule might encourage some foreign investors (particularly private capital) to favour subordinated high-yield debt over equity investment, allowing similar returns while paying much less tax in New Zealand. While this is already happening, its frequency may increase under a general rule, potentially undermining the tax base without resulting in a significant increase in investment. The fiscal estimate does not account for such a scenario.

Assessment

25. On balance, we recommend implementing an expanded targeted rule that applies more generally to infrastructure businesses, including in respect of their new and existing infrastructure assets. This approach puts the focus on infrastructure which could be said to have more positive externalities and benefit for the public than other industries/asset classes. Although this approach might still entail some boundary issues as it will require a definition of eligible infrastructure, it mitigates the risk of the rule being used for aggressive tax planning while ensuring it is not too restrictive for infrastructure businesses. This approach should also largely apply to most infrastructure investment examples that have been brought to our attention.

Next steps

26. If you agree to proceed with the recommended approach, the changes could be incorporated into the Annual Rates 2025-26 Taxation Bill through an Amendment Paper at the Committee of the whole House stage in March 2026. This timeline would allow officials to undertake further consultation with targeted stakeholders on the detailed design of the rule (including draft wording) prior to introduction. Although the general public would be unable to make submissions on this topic, this approach should be justified given the limited stakeholders that are likely to be impacted directly by this change (evidenced by the fact that we only received 15 submissions). We would report back following consultation later this year to seek your agreement on the final policy design.

27. As foreshadowed in our previous report [IR2025/141 refers], releasing the issues paper on 19 May 2025 has meant that it would not be feasible to incorporate the changes via an Amendment Paper shortly after the introduction of the Bill in September 2025, especially considering the increased complexity introduced by the expanded targeted rule that we are recommending now. Therefore, we advise against this accelerated timeline because it would severely restrict the period available for officials to finalise what are complicated and detailed designs and would elevate the risk of errors being introduced.

28. If Ministers wish to explore a general rule as an option to support economic growth more generally, we recommend it be considered against other potential solutions. This can be done in the future or concurrently as a separate workstream with a potential implementation under Budget 2026 or inclusion in a subsequent tax bill. Early implementation of a broader rule at this stage would risk unforeseen applications, with a greater fiscal cost and upward risk, and subsequent efforts to narrow its scope are likely to prove challenging.

29. One alternative to the timeline above would be to defer the implementation of the expanded targeted rule until further work to explore the general rule is done. We are happy to discuss the timeline with you if that is your preferred approach.

30. We recommend that you refer a copy of this report to the Minister for Infrastructure.

Recommended action

We recommend that you:

1. **discuss** with officials the contents of this report to understand your preferences and priorities for this work.

   Agreed/Not agreed　　　　Agreed/Not agreed

2. **agree** that officials undertake further work, including further targeted consultation, on an expanded targeted rule that also applies to existing infrastructure businesses.

   Agreed/Not agreed　　　　Agreed/Not agreed

3. **agree** that officials should aim to incorporate the proposed changes into the Annual Rates 2025-26 Taxation Bill through an Amendment Paper at the Committee of the whole House stage.

   Agreed/Not agreed　　　　Agreed/Not agreed

4. **refer** a copy of this report to the Minister for Infrastructure.

   Agreed/Not agreed

s 9(2)(a)

Sam Rowe
Policy Lead
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

Background

1. The thin capitalisation rules help protect the New Zealand tax base by preventing multinational firms from allocating excessive debt to New Zealand to reduce their tax liability. The aim is to ensure multinationals operating in New Zealand pay an amount of tax that is fair, but not unduly burdensome.

2. The rules limit the amount of debt for which interest deductions are allowed in New Zealand, which is broadly set at 60% of the accounting value of the assets of the New Zealand group, or 110% of the multinational group's worldwide debt.

3. Although the rules generally work as intended, there are scenarios where they may unduly discourage foreign investment in infrastructure projects/businesses that could help reduce the infrastructure deficit in New Zealand. For example, where third-party lenders are willing to lend more than 60% of the accounting value of the project assets, the rules may deny some interest deductions even though the level of debt may not be considered excessive in commercial terms.

4. There is a specific rule for public private partnership (PPP) infrastructure projects, allowing such projects to take on debt from unrelated third parties in excess of the limits imposed by the general thin capitalisation rules.[3] This rule has largely worked well, but it does not apply to non-PPP infrastructure investment (such as developing a new wind farm).

5. Accordingly, you have asked us to review the thin capitalisation settings in New Zealand from an infrastructure lens [IR2024/413 refers]. On 21 April 2025, the Minister of Finance agreed for Inland Revenue to release an issues paper for public consultation [IR2025/141 refers].

6. In Budget 2025 you approved a tagged operating contingency of $65 million over the forecast period for the fiscal cost of any changes to the rules.

Consultation

7. The public consultation opened on 19 May 2025 and closed on 19 June 2025. The issues paper sought submissions to gain a better understanding of how the current thin capitalisation settings might be discouraging foreign investors from investing in non-PPP infrastructure projects in New Zealand, and to explore two potential solutions to address it, namely:

   7.1 a targeted rule that applies to infrastructure projects (noted as officials' preferred option in the paper), and

   7.2 a more general rule that applies to third-party limited recourse debt, which would cover infrastructure projects/businesses, but not be limited to them.

8. We received 15 submissions and met with many of them to better understand their perspectives. Key themes arising from these submissions were:

   8.1 Most submitters considered that the current thin capitalisation rules may be discouraging infrastructure investment at the margin and were supportive of a making a change.

[3] The PPP rule is consistent with the OECD's 2015 BEPS Action 4 Report: *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments*, which noted that countries may wish to provide a tightly targeted exemption from interest limitation rules for third-party limited recourse loans used to fund public benefit infrastructure projects/assets, because these loans present little to no risk of base erosion and profit shifting (BEPS).

8.2 There was a broad preference for a more general rule over a targeted rule.

8.3 There were differing views on the extent to which deductions on related party debt should be permitted.

Support for change

9. Apart from one submitter who argued that the existing thin capitalisation rules are already more generous than those in comparable jurisdictions, there was broad support among submitters for reforming New Zealand's thin capitalisation settings for infrastructure investment, citing the following reasons:

9.1 Some submitters had examples where New Zealand's thin capitalisation settings impacted the project economics for some infrastructure investment, reducing the attractiveness of such projects.

9.2 As a price taker in global capital markets, New Zealand must remain competitive. Factors such as geographic isolation and the small size of the economy already pose challenges to attracting foreign investment.

9.3 Foreign investors consider both current tax settings and the direction of tax policy when making investment decisions. More favourable rules would signal that New Zealand is open to business and investment.

9.4 When the rules were first implemented, they were intended to address concerns about multinationals allocating excessive debt to New Zealand. The growing role of sovereign wealth funds, superannuation funds, and private equity as prominent sources of direct investment underscores the need to modernise the rules to avoid unintended overreach.

10. While most submitters believe reform is likely to encourage greater investment, they are less certain about the extent to which it will boost foreign investment in infrastructure because of the following reasons:

10.1 The thin capitalisation rules are only one component of New Zealand's broader regulatory framework.

10.2 The impact of the changes may be limited if deductions on related party debt are restricted under the new rules.

Targeted rule

11. The targeted rule proposed in the issues paper drew on elements of the specific rule for PPP infrastructure projects. Under this proposal, entities would be permitted to fully deduct interest expenses on third-party debt, provided the debt only has recourse to the project and is used to fund or refinance eligible infrastructure projects aimed at significantly upgrading or creating assets within New Zealand.

12. Submitters' primary concern with the proposed targeted rule is the potential boundary issues in determining whether a project or investment qualifies as eligible infrastructure. There was broad concern that the line-drawing exercise would inevitably exclude some infrastructure projects or investment which should be allowed to apply the rules.

13. While providing a definitive list of eligible infrastructure could offer certainty, there is a concern that such a list could be restricted by future governments. This could undermine investor confidence, as perceived instability in the rule's application is viewed negatively by the investment community. Flexibility in updating the list is also important. Allowing additions through mechanisms such as a Commissioner

determination-making power or an Order in Council, rather than through legislative amendment, would enable a more responsive and efficient approval process.

14. Submitters also raised the importance of including existing infrastructure within the scope of the targeted rule if this option is progressed, citing the following reasons:

    14.1 Ongoing investment in existing infrastructure is critical for maintaining and upgrading essential services.

    14.2 Allowing deductions for investments in existing assets could facilitate easier exits for investors, enabling capital to be recycled into new infrastructure projects. This flexibility could expand the pool of potential purchasers and improve funding availability.

    14.3 The requirement that the debt can only have recourse to the project may not be practical for upgrading projects because lenders typically require recourse over the entire asset or asset portfolio, not just the upgrade. Further, it can be unclear what level of enhancement qualifies as "significant" upgrades, adding further complexity.

    14.4 It is important that the tax system does not distort investment decisions. In many cases, upgrading existing infrastructure may be more economical than complete replacement, and the rule should not inadvertently incentivise one approach over the other.

General rule

15. The application of the proposed general rule would be limited by the type of debt arrangement, but its application would not be limited to infrastructure. An entity/group applying the rule would be allowed to fully deduct its interest expense on debt applied to fund any economic/business activities in connection with New Zealand, provided that the debt is issued to an unrelated third party and only has recourse to the New Zealand assets of the entity/group.

16. Among submitters who supported changes, the majority favoured the more general rule. Key reasons include:

    16.1 The more general rule is not inconsistent with the policy intent to prevent excessive debt allocation to New Zealand.

    16.2 With appropriate safeguards, the more general rule is unlikely to compromise the tax base. It is expected to be self-limiting, applying only to the limited sectors that can commercially sustain a high level of debt such as infrastructure, or property supported by a long-term lease.

    16.3 The more general rule is more consistent with the broad-base, low-rate (BBLR) approach, and avoids favouring specific sectors.

    16.4 Investors may benchmark New Zealand against Australia that has a rule similar to the proposed general rule.

17. To mitigate the risk of inappropriate application, some submitters proposed enhanced disclosure requirements or approval processes and/or post implementation review and monitoring. As an added protection, one submitter suggested imposing a maximum gearing level (e.g., 85% of the assets value), even for third-party limited recourse debt.

18. Some submitters expressed concern that as officials try to address various potential risks, the rule could become overly complex to administer. As a solution, some submitters proposed implementing both rules.

18.1 The targeted rule could be designed with clear, objective requirements that can provide certainty to investors, but might inadvertently exclude a small number of investors that should qualify for the rule.

18.2 The more general rule could include additional safeguards that might require more efforts to comply with, but would ensure all investors that should be eligible to apply the rule would not be disadvantaged.

Related party debt

19. Under both proposed options, deductions on related party debt would be disallowed. This reflects a concern that foreign parent entities can often easily substitute equity with related party debt, enabling multinational groups to extract higher returns by claiming interest deductions for their New Zealand operations without materially increasing their risk.

20. While some submitters supported the exclusion of related party debt from deductibility, others proposed that such debt should be deductible under specific conditions, including:

20.1 when the related party debt has the same rights and terms as the third-party debt, and/or

20.2 when the debt is not proportional to the equity invested by shareholders (which is consistent with the approach permitted under the specific rule that applies to PPP infrastructure projects).

21. Submitters highlighted several reasons why related party debt may warrant deductibility in limited circumstances:

21.1 Related party debt is sometimes used in infrastructure projects to provide early-stage returns to investors during periods when the project is not yet generating taxable profits.

21.2 Interest on related party debt is subject to Non-Resident Withholding Tax (NRWT), generally at 10% depending on the applicable Double Tax Agreement (DTA). There is also a rule that caps interest rates on related party debt. These rules should already provide some protection from the risk that related party debt is used to shift profit overseas (but we note they still allow for some profit to be shifted via interest payments).

21.3 Third-party debt generates less revenue for the Crown because interest on third-party debt is more likely to be subject to the Approved Issuer Levy (AIL), usually at 2%.

Options analysis

22. Officials broadly agree that modifying the thin capitalisation rules could help remove a potential tax barrier to infrastructure investment in New Zealand. The extent to which this change could result in increased infrastructure investment is unclear. The current rules appear to be sufficiently attractive for some foreign investors who are already investing in New Zealand infrastructure. Further, a significant portion of the country's infrastructure, including public roads, schools, hospitals and water infrastructure, is owned by central and local government, which are not subject to the thin capitalisation rules.

23. We previously indicated a preference for a targeted rule that only applies to non-PPP projects aimed at creating or significantly upgrading infrastructure assets in New Zealand because it is more focused on the problem of helping to address New Zealand's infrastructure deficit. However, following consultation, we see the merit

of extending the application of the targeted rule to existing infrastructure businesses where the debt may not be raised specifically to create or upgrade infrastructure assets.

Extending targeted rule to existing infrastructure

24. The limited application of the targeted rule is intended to ensure only investments that lead to new infrastructure assets (or the significant upgrade of existing ones) would benefit from the rule changes. Similar to the PPP exemption, the proposed rule allows full interest expense deductions if the debt only has recourse to the project, and there is a clear link between the borrowing and the infrastructure assets created. Infrastructure projects aimed at creating new assets, such as renewable energy projects to build new windfarms, should be able to satisfy this requirement.

25. However, this requirement means it is likely to apply only in the context of project finance where the debt is tightly connected to the project and expected to be fully repaid at its completion using only the income streams from the project. Infrastructure businesses, such as an electricity distribution business, which may be supported by debt facilities that roll over indefinitely, would be unlikely to apply the rule even if the debt proceeds are used to upgrade infrastructure assets because the recourse would likely not be limited to the particular project.

26. The targeted rule could be modified by amending the "limited recourse" requirement so that it applies, not only to project-financed infrastructure investments, but also to infrastructure businesses generally. In doing so, the rule would apply to a wider range of scenarios beyond those typically encountered in project finance which might necessitate including additional integrity measures to ensure that the rule would not apply inappropriately.

27. Consequently, it would be necessary to carefully review and precisely define the various requirements of the rule to maintain clarity across different situations. For instance, if an entity maintains a subsidiary in another country, it must be determined whether such entities should be entirely excluded from applying the rule, or permitted to do so provided that recourse on the debt does not extend to the foreign subsidiary.

28. The extension would invariably increase the complexity of the rule and require more time to develop. Further, extending the application of the targeted rule to existing infrastructure businesses also means the rule changes may not always lead to new infrastructure assets or significant upgrades—there is a risk that existing infrastructure businesses will use the rule to increase their interest deductions (and so reduce their tax liability) without increasing their investment. That said, on balance, we broadly agree extending the targeted rule to existing infrastructure businesses could be justified for the reasons cited by the submitters.

General rule

29. Although submitters generally expressed support for a more general rule, we maintain certain reservations regarding this approach as a solution for infrastructure. In particular, we are concerned about the risk of taxpayers simply using the rule to reduce their tax liability through additional borrowing without generating increased investment in their New Zealand business (infrastructure or otherwise).

30. Submitters justified this approach noting that the application of this rule should not extend significantly beyond infrastructure. This is because borrowing from third parties exceeding 60% of asset values is primarily feasible for infrastructure businesses. However, our data indicates that there are some non-infrastructure

entities/groups that are currently exceeding this 60% threshold. Under the current rules, some of their interest expense deductions would generally be denied.

31. The fiscal costs associated with this approach have been estimated based on the available data. That said, there remains a significant potential for upward risk due to the uncertainty regarding the extent to which a broader rule could incentivise non-infrastructure businesses to simply increase their debt levels. We also have some concerns that a general rule could potentially encourage foreign investors (especially private capital) to choose to invest via subordinated high-yield debt in place of equity investment. This approach enables them to extract similar returns while paying much less tax in New Zealand. While this is already occurring, its frequency may increase under a general rule, potentially eroding our tax base.

32. While extending the targeted rule to cover existing infrastructure broadens its scope, the approach still risks excluding some forms of investment. For example, it might still exclude new infrastructure asset classes that did not exist when the rule was enacted, or projects/businesses involving mixed assets where not all of them are eligible infrastructure. These boundary issues could be avoided by implementing a general rule. That said, a well-designed targeted rule could also mitigate some of the concerns, such as by enabling new asset classes to be recognised as eligible infrastructure more quickly.

33. We acknowledge that a general rule could potentially result in increased economic benefits by encouraging broader foreign investment. However, this approach would represent a more significant change to the thin capitalisation regime and would expand the focus from addressing barriers to infrastructure investment to obstacles to foreign investment overall. If Ministers wish to explore a general rule as an option to address that broader goal, we recommend it be weighed against other potential tax measures.

Assessment

34. It is a close call, but on balance, we recommend adopting an expanded targeted rule that encompasses existing infrastructure businesses (meaning it would apply to new and existing infrastructure assets). This approach should help with the majority of infrastructure investment examples that have been brought to our attention, while also limiting the risk of the rule being applied too broadly. This approach also prioritises infrastructure, which arguably generates greater positive externalities and public benefit compared to other industries or asset classes. Although boundary issue may still exist with this approach, there should be means to mitigate them.

35. A general rule could be seen as a more principled approach based on the premise that if the income generated by the New Zealand operations alone can support the borrowing, the level of debt should not be considered excessive. However, it comes with a higher fiscal cost and a potentially significant upward risk to that estimate, particularly because it may be used for aggressive tax planning in cases that might not be anticipated. It also represents a larger shift in the thin capitalisation rules that could be harder to pull back from if unintended consequences arise.

36. If Ministers want to explore a general rule as one possible approach to promote economic growth more broadly, a more measured approach would be to consider this for future implementation (potentially under Budget 2026 or later) with further work being done to explore its feasibility and risks in the meantime.

Related party debt

37. We have reservations about allowing deductions on related party debt, particularly if the Government decides to implement the general rule. The approaches

suggested by submitters regarding the conditions under which related party debt should be allowed would provide some protection against the risk of profit shifting. However, allowing deductions on related party debt would still enable investors to replace a portion of their equity investment with debt to reduce the amount of tax paid in New Zealand.

38. Furthermore, the potential changes were contemplated to address the issue where the current thin capitalisation settings may discourage infrastructure investment where there is a genuine need for the foreign equity investors to raise additional capital through raising debt funding. It is not intended to enable the equity investors to extract more return from the investment through related party debt.

Financial implications

39. In Budget 2025, a tagged operating contingency of $65 million over the forecast period[4] was established for any changes to the thin capitalisation rules.

40. The estimated fiscal cost of implementing an expanded targeted rule is $32.5 million over the forecast period (noting the numbers could vary depending on final design). This cost can be accounted for against the tagged operating contingency.

	$m – increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	-	(0.900)	(21.600)	(10.000)
Total Operating	**-**	**0.900**	**21.600**	**10.000**

41. The estimated fiscal cost of implementing the more general rule is $65 million over the forecast period.

	$m – increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	-	(1.800)	(43.200)	(20.000)
Total Operating	**-**	**1.800**	**43.200**	**20.000**

42. As previously indicated, it is hard to assess the reasonableness of the potential cost, especially for the general rule, and some fiscal uncertainty exists in the estimates. Some submitters thought that the $65 million set aside under Budget 2025 might be sufficient only for a targeted option, while another submitter suggested that the potential changes should have minimal cost.

43. The proposed changes are expected to have minimal administrative impact on Inland Revenue and can be managed within existing budget allocations. This is based on the approach that the changes would be delivered using a process similar to the current thin capitalisation group regime. This approach would not allow Inland Revenue to provide exact data on the uptake of the proposed changes, although we could still have some visibility.

[4] The five-year forecast period from 2024/25 to 2028/29.

Next steps

44. As foreshadowed in our previous report [IR2025/141 refers], releasing the issues paper on 19 May 2025 has made it impractical to incorporate the changes through an Amendment Paper soon after the Bill's introduction in September 2025, especially given the added complexity of the expanded targeted rule that we are recommending now. The accelerated timeline would considerably reduce the time available for officials to finalise the detailed designs and could increase the likelihood of errors occurring.

45. Instead, the changes could be included into the Annual Rates 2025-26 Taxation Bill through an Amendment Paper that can be introduced at the Committee of the whole House stage in March 2026.

46. This proposed timeline would provide an opportunity for officials to undertake further targeted consultation in the coming months with interested stakeholders to explore the detailed designs of the potential rule, including on draft wording. As noted above, expanding the targeted rule to cover existing infrastructure businesses would mean that the rule would apply to a broader range of investments and financing arrangements, requiring careful assessment on whether the rule applies appropriately for the different scenarios. Enacting the rule without sufficient consideration on the design of each requirement risks opening up the rule to unintended arrangements.

47. This timeline would not provide an opportunity for public submissions on this matter during the Finance and Expenditure Select Committee (FEC) stage, and so would not ordinarily be our preference. However, this approach could be considered reasonable in this instance because of the limited number of stakeholders directly impacted by the change, as reflected by the receipt of only 15 submissions on the issues paper.

48. We outline what this could look like below if this was to be introduced as an Amendment Paper at the Committee of the whole House stage of the Annual Rates 2025-26 Taxation Bill:

August-October 2025	Detailed design of the rules, including draft wording Targeted consultation with stakeholders
November 2025	Reporting back to Ministers and seeking approval on final design
November-December 2025	Seeking cabinet approval
March 2026	Introducing Amendment Paper once the Annual Rates 2025-26 Taxation Bill is referred to the Committee of the whole House

49. If Ministers wish to explore a general rule as an option to support economic growth more generally, this can be done in the future or in parallel as a separate workstream with potential implementation under Budget 2026 or inclusion in a subsequent tax bill. One alternative to the timeline above would be to defer the implementation of the expanded targeted rule until that work is complete. We are happy to discuss the timeline with you if that is your preferred approach.

Item 03

POLICY

Tax policy report: **Thin capitalisation settings for infrastructure – final policy recommendations**

Date:	10 December 2025	**Priority:**	High
Security level:	Not in scope	**Report number:**	IR2025/422

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	19 December 2025
Minister of Revenue	**Agree** to recommendations	18 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Matthew Gan	Principal Policy Advisor	s 9(2)(a)	☒

10 December 2025

Minister of Finance
Minister of Revenue

Thin capitalisation settings for infrastructure – final policy recommendations

Executive summary

Purpose

1. This report seeks your joint approval on the final policy design for a new thin capitalisation rule that applies to infrastructure investments.

Context and background

2. The thin capitalisation rules protect the New Zealand tax base by preventing foreign investors from allocating excessive debt to New Zealand. While the rules generally work well, they may be too rigid for some foreign investment in infrastructure.

3. In May 2025, Inland Revenue released an issues paper outlining two possible solutions:

   - a rule targeted at new infrastructure projects or upgrades (noted as officials' preferred option at the time), and
   - a more general rule that applies to limited-recourse third-party debt (i.e., debt that only has recourse to the New Zealand assets of the entity/group).

4. Following officials' recommendations on the feedback received, you agreed that officials undertake work on an expanded targeted rule that applies to both new and existing infrastructure projects and businesses. This work has been undertaken with a view to incorporating the proposed changes into the Annual Rates 2025-26 Taxation Bill through an Amendment Paper at the Committee of the whole House Stage.

Key issues and officials' recommendations

5. Officials seek your approval for the following key features of the proposed rule:

   - The type of infrastructure that will be eligible to apply the new rule – focused on core infrastructure in New Zealand.
   - The type of debt that will be eligible to apply the new rule - being third-party debt that only has recourse to the New Zealand infrastructure project or business.
   - The timing for the application of the new rule – being the 2026-27 income tax year (i.e. the year ended 31 March 2027 for taxpayers with a standard balance date).

6. More information on the proposed rule is provided in the body of this report.

7. The estimated fiscal cost of the proposed rule is $42.5 million over the forecast period. This cost can be accounted for against the tagged contingency of $85 million set aside as part of Budget 2025.

Consultation

8. On 29 October 2025, officials shared a technical issues paper on the proposed new rule on an "in confidence" basis, primarily with the 15 parties who submitted on the initial issues paper, with submissions closing on 21 November 2025. The paper included draft wording for the proposed new rule for stakeholders to comment on. The recommendations in this report have been made taking into account the feedback received.

9. The Treasury was informed of the contents of this report.

Next steps

10. If you agree to move forward with the suggested approach, the proposed changes can be incorporated into the Annual Rates 2025-26 Taxation Bill by way of an Amendment Paper during the Committee of the whole House stage in March 2026. We can prepare a draft Cabinet paper (and Regulatory Impact Statement) for your review by 28 January 2026, ahead of consideration at the Cabinet Economic Policy Committee meeting scheduled for 18 February 2026.

Background and context

Background

1. You previously asked us to review the thin capitalisation settings in New Zealand from an infrastructure lens [IR2024/413 refers]. On 21 April 2025, the Minister of Finance agreed for Inland Revenue to release an issues paper for public consultation [IR2025/141 refers]. The issues paper explored two potential solutions, namely:

   - a targeted rule that applies to new infrastructure projects or significant upgrades (noted as officials' preferred option in the issues paper), and

   - a more general rule that applies to third-party limited recourse debt, which would include infrastructure projects and businesses, but not be limited to them.

2. Following officials' recommendations based on the feedback received, you agreed for us to undertake further work, including targeted consultation, on an expanded targeted rule that also applies to existing infrastructure businesses [IR2025/293 refers]. You also agreed that officials should aim to incorporate the proposed changes into the Annual Rates 2025-26 Taxation Bill through an Amendment Paper at the Committee of the whole House Stage.

3. In Budget 2025 you approved a tagged operating contingency of $85[1] million over the forecast period for the fiscal cost of any changes to the rules.

Policy objective and framework

4. The thin capitalisation rules protect the New Zealand tax base by preventing foreign investors from allocating excessive debt to their New Zealand investments to reduce the amount of tax paid. This is generally done by limiting the amount of debt for which interest deductions are allowed, which is broadly set at 60% of the accounting value of the assets, or 110% of the foreign investors' worldwide debt percentage (whichever is higher). There is also a special thin capitalisation rule for public-private partnership (PPP) infrastructure projects that allows them to exceed the general thresholds.

5. While the thin capitalisation rules generally work well, they may be too rigid for some foreign investment in infrastructure. This is because infrastructure investment can sometimes support a higher level of commercial debt than is possible with other business activities. The current thin capitalisation rules can act as a disincentive to such infrastructure projects by increasing their effective tax rates to the extent of the disallowed interest deductions.

6. The purpose of reviewing these rules is to remove potential barriers to infrastructure investment in New Zealand that arise from the current thin capitalisation settings, while still preserving the integrity of the rules.

Consultation

7. The revised thin capitalisation proposal incorporates feedback received from the initial public consultation in May/June 2025. Targeted consultation on the revised proposal started on 29 October 2025 and closed on 21 November 2025. The proposed new rule is targeted at infrastructure but applies more broadly than the original option consulted on. It includes existing infrastructure projects and businesses, including the maintenance and operation of the infrastructure assets in

[1] A tagged contingency of $65 million over the forecast period to 2028/29 was established as part of Budget 2025. With the roll forward of the forecast period to 2029/30 this increases to $85 million.

those projects and businesses, rather than being limited to new infrastructure assets and significant upgrades.

8. The technical paper on the revised proposal was shared primarily with the 15 parties who submitted on the initial issues paper, including Chartered Accountants Australia and New Zealand, the New Zealand Law Society, the Corporate Taxpayers Group, Infrastructure New Zealand, and Tax Justice Aotearoa among others. The document included draft wording for the proposed new rule for stakeholders to review and comment on. Officials had 5 meetings with interested stakeholders during the targeted consultation period and received 8 submissions on the technical paper. The recommendations in this report take into account the feedback received during this targeted consultation.

9. Officials also provided an oral background briefing to the Finance and Expenditure Committee (FEC) on 12 November 2025 and shared with them the technical paper used for the targeted consultation. The paper will be publicly released by the FEC when it reports back on the Annual Rates 2025-26 Taxation Bill, which is expected to be in early March 2026.

General feedback

10. The submissions from the targeted consultation were generally supportive of the revised proposal covering both new and existing infrastructure investment in a relatively broad way. Comments included that the proposed changes are a "positive step toward improving New Zealand's attractiveness as an international investment destination", and are "likely to be broadly welcomed by the private sector."

11. Some submitters still favoured a more general rule for third party debt. Reasons included that it avoided definitional issues around eligible infrastructure, was sector agnostic, and that it should not be seen as a concession to allow interest paid to a third party to be fully deductible when the business can support that level of third-party debt.

12. This viewpoint stood in contrast to one submitter that thought no reform was needed and noted that the revised proposal has the potential to result in higher interest deductions in New Zealand without a corresponding increase in infrastructure investment in some cases.

Recommendation

13. We acknowledge both these perspectives and are conscious that it was ultimately a judgment call to recommend further work on an expanded targeted rule for targeted consultation in our last report instead of the wider third party debt rule or the narrower targeted rule (IR2025/293 refers).

14. The potential benefit of the expanded targeted rule (compared to the original rule targeted at new infrastructure) is that it should accommodate a wider variety of infrastructure investment and financing arrangements and potentially help with asset recycling. It also means that operating and maintaining infrastructure assets is recognised as important, rather than focusing on creating new infrastructure assets. The potential drawback is that it has a weaker link between the borrowing and the creation of new infrastructure.

15. That said, the expanded targeted rule remains our recommendation as it puts the focus on infrastructure, which could be said to have more positive externalities and benefit for the public than other industries/asset classes. While it leaves some boundary issues in determining eligible infrastructure, it should reduce the risk of the rule being used for aggressive tax planning while ensuring it is not too restrictive for infrastructure investment.

16. We highlight the key aspects of the proposed new rule below.

Policy settings

Eligible infrastructure

17. During the initial public consultation, officials preferred a rule that was narrowly targeted at project-financed infrastructure projects aimed at creating new assets or significantly upgrading existing ones. The feedback received was that the proposed rule would not work well for some infrastructure investments that could help alleviate New Zealand's infrastructure deficit. For example, investors would not be eligible to apply the rule if the project was funded through the general treasury function of an existing business (i.e. not project financed) where the lender had broader recourse to the business.

18. The recent targeted consultation expanded the scope of the targeted rule to apply more broadly to new and existing infrastructure investment in New Zealand. This means that existing infrastructure businesses would generally be able to apply the rule. It could also apply to the funding raised by investors to purchase an eligible infrastructure business – and so it could assist in asset recycling.

19. The core of the proposal is that the project or business needs to be creating, operating, maintaining, or upgrading "qualifying infrastructure assets" that it owns in New Zealand, including any ancillary or facilitative activities.

20. Since the rule would essentially allow a higher level of interest expense deductions against the profits of the business in New Zealand, the debt funding should not be used to support activities, and potentially generate profit, outside New Zealand.

21. The targeted consultation paper proposed a definition of "qualifying infrastructure asset" to mean *a tangible or intangible asset located in New Zealand that provides or is integral to providing, essential services to the public or a class of users on a shared-use basis* and included a non-exhaustive list of qualifying infrastructure. This list of infrastructure included:

    - transport infrastructure (for example, roads, rail, ports, airports),
    - energy infrastructure (for example, electricity generation, transmission, or distribution),
    - water infrastructure (for example, water supply, wastewater, and stormwater systems),
    - telecommunication infrastructure (for example, telecommunication networks, data centres, and communications towers),
    - social infrastructure (for example, hospitals, schools, libraries, or similar public facilities), and
    - ferries that operate on the Cook Strait.

22. The proposed definition of "qualifying infrastructure asset" also included a list of what is not included in infrastructure:

    - commercial buildings (for example, offices, supermarkets and shopping malls),
    - industrial buildings (for example, factories); and
    - dwellings.

Submissions

23. While some submitters continue to express preference for a rule that is not restricted to infrastructure, submitters generally welcomed the broader scope of the proposed targeted rule. One submitter believed that the definition of "qualifying infrastructure asset" effectively captures the types of things that are usually considered infrastructure.

24. Other submitters sought additions or clarifications to the example list of infrastructure including waste infrastructure, prisons, student accommodation, rolling stock (railway vehicles), ferries beyond those that operate on the Cook Strait, indefeasible rights to use to cable, private hospitals, retirement villages and storage terminals for fuel, pipelines, etc.

25. Submitters also made the point that infrastructure businesses have commercial or industrial buildings, or dwellings, that are an integral part of the infrastructure activities or ancillary to them and which therefore should also be included in the definition. For example, an electricity lines company with a warehouse for lines maintenance contractors to operate from and store network spares that are critical to keeping the distribution network functioning.

26. Some submitters thought that the proposed new rule should include a determination or regulation-making power to resolve boundary issues on qualifying infrastructure, keep pace with technological developments, and provide certainty to taxpayers. This power could sit with the Commissioner of Inland Revenue, the Infrastructure Commissioner, or with Ministers.

Recommendation

27. We recommend that the rule applies to businesses where the main activity is creating, operating, maintaining, or upgrading qualifying infrastructure assets that it owns.

28. We recommend that a business should still be eligible for the rule if it is also involved in other non-infrastructure activities that are ancillary to or facilitate the main infrastructure activity. For example, if an airport builds a new terminal it would be able to apply the rue if it also builds retail facilities and a hotel attached to the terminal, and the debt has recourse to both the new and existing assets of the airport company.

29. We do not recommend that a determination or regulation-making power be introduced at this time. The proposed wording for the new rule has been drafted to allow some flexibility over what constitutes qualifying infrastructure, and we will add some of the items requested by submitters to the non-exhaustive list of what infrastructure includes where they are commonly accepted as infrastructure (e.g. waste infrastructure and prisons). We can also add further items to the list through the omnibus tax bill each year, so a regulation making power would add complexity to the rules but is not necessary for the definition to be updated regularly. However, we can monitor the operation of the rules after enactment and reconsider this issue if problems arise in practice.

Third-party debt

30. Under the proposed rule, interest expense would be fully deductible only if the debt is from an unrelated third party (i.e. it cannot be from a shareholder/investor or an associated person of a shareholder/investor). This reflects a concern that foreign investors can often easily substitute equity with related party debt, enabling the investors to extract higher returns by claiming interest deductions for the New Zealand operations without materially increasing their risk.

Submissions

31. Several submitters thought that some related party debt should be allowed under specific conditions, including:

- when the shareholder debt has the same rights and terms as the third-party debt, and/or
- when the debt is not proportional to the equity invested by shareholders.

Recommendation

32. Officials have reservations about allowing deductions on related party debt. It is important that the proposed new rule only applies to third-party debt as this shows that the interest payment is going to an unrelated party so will not be a substitute for equity. It also undermines to some extent the principle of the proposal, which is to allow deductions for third party debt on the basis that such debt is commercially justifiable because third party lenders are prepared to advance it.

33. The suggested requirements under which related party debt should be allowed would provide some protection against the risk of profit shifting. However, allowing deductions on related party debt could still enable investors to replace a portion of their equity investment with debt to reduce the amount of tax paid in New Zealand.

34. Accordingly we recommend that the rule should only apply to debt from an unrelated third party (i.e. it cannot be from an investor or associate of an investor).

35. However this requirement may impose undue compliance burden for a listed infrastructure company where investors hold small quantities of shares and also hold company-issued bonds or debt. Where the investors hold small shareholdings, the risk of profit shifting in such case would also be low given the fact that investors most likely could not influence the level of debt obtained to fund the investment. Therefore we recommend that interest deductions should still be allowed if shareholders owning less than 5% of a listed infrastructure entity hold debt in that entity.

36. In order to further ensure that a debt instrument is not used as a replacement for equity, the rule should also specifically disallow interest expense deductions if the debt has equity-like characteristics or features, or if the return is calculated by reference to profits or cashflows.

Limited recourse

37. The proposed rule only applies to debt that has limited recourse to the infrastructure project or business in New Zealand. This is intended to mean that, in the event of default, the lenders can generally only seek repayment from the infrastructure assets, the income streams from those assets, and ownership interests in entities that are part of the eligible infrastructure investment.

38. This means that to be limited recourse debt, there cannot be any shareholder/investor guarantees or similar support over the debt, as this would mean the lender has recourse beyond the infrastructure project or business to the shareholder/investor in the event of default.

39. Some infrastructure projects involve the investors providing equity commitment letters to the project entity (which could be an eligible infrastructure investment) where a new asset is being constructed. This is when a pre-determined level of equity has been committed by the investors, but will only be paid into the project

entity when it is needed for the project. Third-party lenders will only provide funds to the project entity if the equity funds required for the project have been committed through these letters. This is particularly relevant for investments in new infrastructure which do not generate income/derive value at the outset.

40. For example, a new company is set up to construct a new solar farm for $100 million. External banks will provide $75 million of debt with the remaining $25 million to come in the form of equity from foreign investors. The new company will draw down the $75 million of debt first and then call on the $25 million of equity during the construction phase. Since the equity is coming at the end of the construction phase, the foreign investors provide equity commitment letters to the new company, which provides comfort to the banks that the new company has access to all the funds needed for construction.

Submissions

41. Submissions included that, if equity commitment letters are to be permitted, there must be a very narrow definition so they are only allowed in the context of new/greenfield infrastructure assets.

Recommendation

42. We recommend that the rule only apply to limited recourse debt (i.e. where the lender can only have recourse to the infrastructure assets, the income streams from those assets, and ownership interests in entities that are part of the eligible infrastructure investment). This is necessary because the eligible infrastructure investment, which is wholly within New Zealand, needs to be able to support the level of third-party debt on a standalone basis in order for it to be a commercially reasonable level of debt for the business. Otherwise the business could borrow higher levels of debt than it could on a commercial standalone basis, which would allow the amount of tax paid in New Zealand to be eroded.

43. We also recommend a narrow exception for project-financed investment that results in the creation of new infrastructure assets, allowing the use of equity commitment letters subject to meeting certain conditions. While equity commitment letters are a form of investor credit support, we consider that such letters still fall within the requirement for recourse to be limited to the eligible infrastructure investment. This is on the basis that the letter relates to a pre-determined amount of equity committed to the project in New Zealand at the outset, rather than debt, and the letter will cease to have effect post-construction.

44. The exception should only apply narrowly to projects that result in the creation of new infrastructure assets (greenfield investment) that are project financed. It is not intended to apply more broadly than that because an equity commitment letter in the context of an existing infrastructure business, or beyond the construction period, would be more akin to a guarantee by the investors.

Use of funds to pay dividends

45. The targeted consultation paper noted that the new rule would not allow additional debt to be borrowed in order to fund a dividend to shareholders.

Submissions

46. Some submitters thought that this was out-of-place noting that tracing concepts of this kind are not part of the thin capitalisation rules and introducing such a requirement would add unnecessary complexity and compliance and administrative costs. They thought it was sufficient that the New Zealand infrastructure business

can support the level of debt that a third party is prepared to lend on a limited recourse basis.

47. For example, there is a project that the banks will fund 60% debt, so 40% is currently funded with equity, but following the successful progress of the project, banks are now willing to lend a further 20% which the business wants to use to repay equity to shareholders.

Recommendation

48. We can see the submitters' perspective and appreciate that the fungibility of money means that tracing what funds are used for could be difficult from a compliance and administrative perspective. The type of example in the paragraph above is also not something that the rules should actively discourage. However, removing this idea increases the risk that the rule may be used to increase the level of debt in New Zealand without a corresponding increase in investment. There will however be a degree of protection because the debt should still only be at a level that the infrastructure business or project can support.

49. On balance, we recommend that the proposed rule does not have a specific restriction around the payment of dividends/return of capital.

Availability and election to use the rule

50. The targeted consultation paper proposed that the new rule should only be available to some companies (mirroring who can apply the PPP thin capitalisation rule). It was also proposed that the new rule could be applied by one company or a wholly-owned group of companies (including a subset of the group). The paper also asked submitters about their suggested process to make an election.

Submissions

51. Some submitters though the rules should be available more generally to taxpayers that are subject to the thin capitalisation rules, including trusts, on the basis that this rule is likely to be more widely used than the PPP thin capitalisation rule.

52. Submitters generally preferred the election process to be as simple as possible and favoured electing to apply the new rule by taking the position that it applied in their income tax return or via a written election through Inland Revenue's online tax portal (MyIR). It was also noted that Inland Revenue could ask about whether the rule was being applied in its International Questionnaire or Basic Compliance Package which should capture a snapshot of who is using the new rule amongst the largest businesses in New Zealand.

Recommendation

53. The PPP thin capitalisation rule is generally available to companies and we expect that companies (or companies investing in limited partnerships) are the entities that would generally use the new rule. Further work would be required to confirm there were appropriate provisions and safeguards for trusts seeking to use the rule. Therefore, we recommend that the new rule is generally available to taxpayers that are subject to the thin capitalisation rules (except trusts), and can be applied by one company/entity or a wholly-owned group of companies (including a subset of the group).

54. Officials also consider that, given the new rule is not expected to apply widely (being targeted at infrastructure), it is reasonable for taxpayers to make the election by taking the position that the rule applies in completing their income tax return. This can be supplemented by an annual written election through MyIR which will provide Inland Revenue with some visibility over who is using the rule.

Infrastructure Funding and Financing Act 2020 (IFF Act) levies

Submission

55. Infrastructure Funding and Financing Act 2020 (IFF Act) levies are used to fund Crown endorsed infrastructure projects and do not currently fit within the PPP thin capitalisation rule. One submission was that, as the thin capitalisation rules are being broadened to cover more types of infrastructure, the new rule should also include an entity that holds an asset arising from a right to impose IFF levies under an Order-in-Council made under the IFF Act. This is not something we have previously considered as part of this project.

56. IFF levies are approved by the government and imposed on ratepayers or users of the infrastructure, in order to fund a debt special purpose vehicle (debt SPV). The infrastructure is not owned by the debt SPV (which would generally be required under the proposed rule). Instead, the debt SPV holds the right to impose the levy under an Order-in-Council.

57. The debt SPV borrows to fund an infrastructure project and uses the levy (which could be charged on local council rates bills) to repay the debt over a period of time. IFF levies have been approved for 30-year periods to fund roading projects in Tauranga and a sludge minimisation facility in Wellington, but IFF levies could also be used in a housing development project to construct the infrastructure necessary for the development (e.g. roads and water pipes).

58. While to date the debt SPVs have been established and owned by the Crown (via National Infrastructure Funding and Financing Limited or "NIFF Co"), it is possible that future SPVs could be owned by the private sector. In that context, thin capitalisation will be an important point to consider, as the debt SPVs are mostly debt funded (90%+ debt), with only a small amount of equity funding. The debt has also been limited-recourse project debt with two key exceptions:

   - The Crown has typically provided a guarantee (largely covering regulatory risk - e.g. risk the Crown will repeal the levy) so that lenders are comfortable that the SPV will have a revenue stream.
   - If the debt SPV provides funding to a developer or other third party in respect of a project, it is expected that security will be sought to guarantee the performance of the developer's obligations (e.g. that the infrastructure will be built). Therefore, a guarantee or other security (e.g. a mortgage over project land in a residential development) securing the project may be required.

Recommendation

59. We have spoken with NIFF Co to confirm the submission and the potential that debt SPVs may be owned by the private sector in the future (instead of NIFF Co). While it is not contemplated that this will happen imminently, they were supportive of the submission. Therefore, on the basis that this is effectively Crown-approved infrastructure, we recommend that the new rule also applies to entities that have the right to receive IFF levies.

Application date

Recommendation

60. We recommend that the application date for the new rule is the start of the 2026-27 tax year for the taxpayer (i.e. the year beginning 1 April 2026 for taxpayers with a standard March balance date).

Financial implications

61. In Budget 2025, a tagged operating contingency of $85[2] million over the forecast period was established for any changes to the thin capitalisation rules.

62. The estimated fiscal cost of implementing an expanded targeted rule under the recommended parameters is $42.5 million over the forecast period. This cost can be accounted for against the tagged operating contingency, Not in scope

	$million – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total Operating	**2.500**	**10.000**	**10.000**	**10.000**	**10.000**

63. The fiscal estimate depends on assumptions about behavioural impacts, amongst other matters. It is hard to determine the accuracy of these assumptions. Accordingly fiscal uncertainty exists in the estimates.

Administrative implications

64. The proposed changes are expected to have minimal administrative impact on Inland Revenue and can be managed within existing baselines. This is based on the assumption that the changes would be delivered using a process similar to the current thin capitalisation group regime. This approach would not allow Inland Revenue to provide exact data on the uptake of the proposed changes, although we could still have some visibility through a written election through MyIR and/or the annual International Questionnaire large foreign owned taxpayers are required to complete.

Next steps

65. If you agree with the recommended approach, we recommend incorporating the changes into the Annual Rates 2025-26 Taxation Bill via an Amendment Paper at the Committee of the whole House stage in March 2026. We can provide a draft Cabinet paper by 28 January 2026 for consideration at the Cabinet Economic Policy Committee meeting on 18 February 2026.

Recommended action

We recommend that you:

1. **agree** to introduce a new thin capitalisation rule for infrastructure that applies to new and existing projects and businesses where the main activity is creating, operating, maintaining, or upgrading their qualifying infrastructure assets.

   Agreed/Not agreed   Agreed/Not agreed

[22] A tagged contingency of $65 million over the forecast period to 2028/29 was established as part of Budget 2025. With the roll forward of the forecast period to 2029/30 this increases to $85 million.

2. **agree** that a business would still be eligible for the new rule if it is also involved in other non-infrastructure activities that are ancillary to or facilitate the main infrastructure activity.

Agreed/Not agreed Agreed/Not agreed

3. **agree** that the new rule should not include a determination or regulation-making power to determine qualifying infrastructure.

Agreed/Not agreed Agreed/Not agreed

4. **agree** that the new rule should only apply to debt from an unrelated third party (i.e. it cannot be from an investor or associate of an investor) with a limited exception for minor shareholders in (listed) companies.

Agreed/Not agreed Agreed/Not agreed

5. **agree** that the new rule should also disallow interest expense deductions if the debt has equity-like characteristics or features, or if the return is calculated by reference to profits or cashflows

Agreed/Not agreed Agreed/Not agreed

6. **agree** that the new rule should only apply to limited recourse debt (i.e. where the lender can only have recourse to the infrastructure assets, the income streams from those assets, and ownership interests in entities that are part of the eligible infrastructure business) with a limited exception for equity commitment letters for new infrastructure assets.

Agreed/Not agreed Agreed/Not agreed

7. **agree** that the new rule should not have a specific restriction on the use of debt to pay dividends or capital returns.

Agreed/Not agreed Agreed/Not agreed

8. **agree** that the new rule is generally available by optional election to taxpayers (made by taking the position that the rule applies in completing their income tax returns) that are subject to the thin capitalisation rules (except trusts) and can be applied by one company/entity or a wholly-owned group of companies (including a subset of the group).

Agreed/Not agreed Agreed/Not agreed

9. **agree** that the new rule can also apply to an entity that holds an asset arising from a right to levy under an Order-in-Council made under the Infrastructure and Financing Act 2020.

Agreed/Not agreed Agreed/Not agreed

10. **agree** that the application date for the new rule is the start of the 2026-27 tax year for the taxpayer (i.e. the year beginning 1 April 2026 for taxpayers with a standard balance date).

Agreed/Not agreed Agreed/Not agreed

11. **note** the following changes as a result of the decisions in recommendations 1 to 10 above, with a corresponding impact on the operating balance and net core Crown debt:

	$million – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total Operating	**2.500**	**10.000**	**10.000**	**10.000**	**10.000**

Noted Noted

12. **note** that on 11 April 2025, Cabinet agreed to the establishment of a tagged contingency of $85 million over the forecast period to progress changes to the thin capitalisation rules with the Minister of Finance and the Minister of Revenue jointly authorised to draw down funding from the tagged operating contingency [CAB-25-MIN-0126 refers].

Noted Noted

13. **agree** that the reduction in Crown tax revenue in recommendation 11 above be funded from this tagged contingency.

Agreed/Not agreed Agreed/Not agreed

14. Not in scope [redacted]

[redacted] [redacted]

15. **refer** a copy of this report to the Minister for Infrastructure for their information

Referred/Not referred Referred/Not referred

s 9(2)(a) [redacted]

Sam Rowe
Policy Lead
Policy

Hon Nicola Willis
Minister of Finance
/ /20

Hon Simon Watts
Minister of Revenue
/ /20

Item 04

Tax policy report

Inland Revenue
Te Tari Taake

Cabinet paper – Changes to thin capitalisation settings for infrastructure

Date	28 January 2026	**Priority**	High
Security level	Not in scope	**Report number**	IR2025/487
Bill name	Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	10 February 2025
Minister of Revenue	**Agree** to recommendations **Lodge** the attached Cabinet paper	10 February 2025 10am 12 February 2025

Purpose
This report seeks your agreement to include the required legislative changes to introduce the previously agreed new thin capitalisation rule for infrastructure investment in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, by way of an Amendment Paper in March 2026. This report also attaches for your review a draft Cabinet paper and a copy of the draft Regulatory Impact Statement (RIS) for the proposal.

Contact for phone discussion, if required

Name	**Position**	**Phone number**	**First contact**
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Matthew Gan	Principal Policy Advisor	s 9(2)(a)	✓

Cabinet paper – Changes to thin capitalisation settings for infrastructure

Background

1 You previously agreed to our recommendations to introduce a new thin capitalisation rule that applies to infrastructure investment [IR2025/422 refers].

Purpose

2 This report attaches a draft Cabinet paper reflecting the policy decisions made by Ministers for Ministerial consultation, as well as a copy of the draft Regulatory Impact Statement (RIS) for the proposal.

Next steps

3 We recommend including the required legislative changes in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, by way of an Amendment Paper, at the Committee of the whole House stage scheduled for March 2026.

4 Please let us know if you would like any changes made to the attached draft Cabinet paper. Once you are satisfied with it, the next step would be to lodge the paper and finalised RIS with the Cabinet Office by 10am Thursday 12 February 2026, ahead of the Cabinet Economic Policy Committee (ECO) meeting on 18 February 2026.

Recommendations

We recommend that you:

1. **Agree** to include the required legislative changes to introduce the new thin capitalisation rules for infrastructure investment in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, by way of an Amendment Paper, at the Committee of the whole House stage scheduled for March 2026.	
Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*
2. **Agree** to undertake Ministerial consultation on the attached Cabinet paper ahead of its lodgement with the Cabinet Office.	
	Agree / Disagree
	Minister of Revenue
3. **Agree** to lodge the Cabinet paper, once you are happy with it, by 10am on 12 February 2026.	
	Agree / Disagree
	Minister of Revenue

s 9(2)(a) [redacted]

Sam Rowe
Policy Lead
Policy | Inland Revenue
28 January 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Office of the Minister of Finance
Office of the Minister of Revenue
Chair, Cabinet Economic Policy Committee

Changes to thin capitalisation settings for infrastructure

Proposal

1 This paper seeks the Cabinet's approval to amend the thin capitalisation rules so that the rules do not unduly disincentivise foreign investment in New Zealand's infrastructure.

2 The proposal would be included in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill via an Amendment Paper at the Committee of the whole House stage scheduled for March 2026.

Relationship to Government priorities

3 The proposal supports the Government's goal of improving New Zealand's infrastructure to support economic growth.[1] The proposed changes should help reduce the potential impediments to foreign investment in infrastructure caused by the current thin capitalisation rules.

Executive Summary

4 In September 2024, we directed Inland Revenue officials to review the thin capitalisation rules in New Zealand from an infrastructure lens. This was partly in response to stakeholders' concerns that the current rules may be unduly discouraging some foreign investment in infrastructure.

5 The thin capitalisation rules protect the New Zealand tax base by preventing foreign investors from allocating excessive debt to New Zealand to reduce their tax liabilities. While the rules generally work well, they may be too rigid for some foreign investment in infrastructure. This is because infrastructure investment can sometimes support a higher level of commercial debt than is possible with other business activities. The current rules may result in some interest expense deductions being denied. This could raise funding costs and disincentivise such investment.

6 We therefore propose the introduction of a new thin capitalisation rule for infrastructure investments. The new rule would allow eligible infrastructure entities to hold more third-party debt than current limits permit.

[1] Infrastructure for Growth | Ministry of Business, Innovation & Employment

7 The fiscal cost of the proposal is estimated to be $42.5 million over the forecast period. This has been funded via a tagged operating contingency of $85 million over the forecast period that was set aside during Budget 2025 for any potential changes to the thin capitalisation settings for infrastructure [CAB-25-MIN-0126 refers].[2]

8 If Cabinet agrees to these changes, the legislative amendments would be included in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, by way of an Amendment Paper, at the Committee of the whole House stage scheduled for March 2026.

Background

9 Foreign investors can fund their New Zealand investments with equity or debt. However, the lighter tax treatment of debt compared to equity investment provides an incentive for them to invest into New Zealand through debt rather than equity.

10 The thin capitalisation rules were introduced in New Zealand in 1996 to protect the tax base by preventing foreign investors from allocating an excessive proportion of their debt to New Zealand to reduce the amount of tax paid. This is generally done by limiting the amount of debt for which interest deductions are allowed. The limit is broadly set at 60% of the accounting value of the assets, or 110% of foreign investors' worldwide debt percentage (whichever is higher).

11 The rules were relaxed in 2018 to provide an exemption for public private partnership (PPP) infrastructure projects. The specific exemption recognised that the standard thin capitalisation rules might not work well for PPP projects because they can be very highly geared commercially. These projects can now deduct interest on more debt than is usually allowed, but only if that debt comes from third parties (not the investors or their associates) and the lenders' claims are limited to the project's assets and income (limited recourse). This treatment applies only to PPP projects with the Crown or a public authority.

12 Although the thin capitalisation rules generally work as intended, they may unduly disincentivise infrastructure investments not covered by the PPP rule. Infrastructure investments tend to be capital intensive but have stable cashflows to support high debt levels. Under the current rules, some interest expense deductions may be denied even though the debt levels are not considered excessive commercially. This could increase funding costs and deter such investments.

13 On 19 May 2025, Inland Revenue released an issues paper for public consultation to gain a better understanding of the issues with the current rules and whether changing those rules would lead to more infrastructure investment. The paper presented two potential solutions. The consultation closed on 19 June 2025 with 15 submissions received. Most submitters

[2] A tagged contingency of $65 million over the forecast period to 2028/29 was established as part of Budget 2025. With the roll forward of the forecast period to 2029/30 this increases to $85 million.

indicated that current rules could unduly deter infrastructure investment and believed that a change would likely foster more investment.

14 Inland Revenue undertook further targeted consultation on a revised proposal from 29 October to 21 November 2025, engaging primarily with the 15 respondents during the public consultation. The technical issues paper included a revised proposal that incorporated the earlier feedback. Eight submissions were received. The majority supported the proposal covering both new and existing infrastructure investments in a relatively broad way.

Rule targeted at infrastructure investments

General proposal

15 After considering the submissions, we propose the introduction of a rule targeted at infrastructure investments, including new infrastructure projects as well as existing infrastructure projects and businesses. The rule would allow eligible infrastructure entities that would otherwise breach the standard thin capitalisation thresholds to fully deduct their interest expense provided the debt is third party with recourse limited to the New Zealand business and assets (including ownership interests). The rule would also allow the acquisition of existing infrastructure businesses and projects.

16 This approach recognises that infrastructure is an investment class that is more likely to be unduly impacted by the thin capitalisation rules. This is because infrastructure investment tends to be capital intensive with stable cashflows and can often secure a higher level of debt than is possible with other business activities as lenders usually view such investments as relatively safe.

17 The proposed rule is expected to be sufficiently versatile to accommodate a wide variety of infrastructure investments and financing arrangements. Therefore, it should adequately address most of the issues identified. The proposal also puts the focus on infrastructure, which could be said to have more public benefits and positive externalities than other sectors.

18 Two other potential solutions were initially considered by Inland Revenue officials and proposed during the initial public consultation, but we recommend these options should not be pursued.

- A rule targeted only at new infrastructure projects or upgrades: The debt financing must be applied to fund a project to create or significantly upgrade infrastructure assets in New Zealand.
- A general rule applying to limited recourse third-party debt: An entity from any sector can fully deduct its interest expense if the debt is limited recourse third-party debt and the funding is applied to fund business activities in connection with New Zealand.

19 A rule narrowly targeted at new infrastructure or upgrades is a more natural extension to the PPP rule. It would ensure only investments that lead to new assets or significant upgrades of existing ones would benefit from the

changes. However, the rule's requirements that would ensure targeted application might exclude some important infrastructure investments. For example, investments to upgrade existing infrastructure assets might be excluded if funded (as often occurs) through the general treasury function of an existing business since the debt recourse would no longer be limited to the project (such as, an electricity distribution company that operates and maintains a lines network and upgrades it over time).

20 A general rule could help prevent boundary issues in defining eligible infrastructure investments. It would also avoid favouring specific sectors. However, this approach could pose integrity risks for the thin capitalisation regime overall. Infrastructure is an investment class that is more likely to be unduly impacted by the current rules. Adopting a rule that applies across all sectors could significantly increase the potential for aggressive tax planning and unanticipated scenarios, which could significantly raise fiscal costs.

21 The targeted rule was noted as officials' preferred solution during the public consultation. Submitters were broadly in favour of the general rule but acknowledged that the targeted rule would still be an improvement over the current settings, particularly if the scope were expanded to also apply to existing infrastructure businesses. The solution that we are proposing incorporated that feedback and was shared during the targeted consultation. Most submitters supported the revised proposal, although some still expressed preference for the general rule.

Eligible infrastructure investments

22 We propose that the rule applies to businesses whose main activity is creating, operating, maintaining, or upgrading qualifying infrastructure assets that they own in New Zealand. The rule would essentially allow a higher level of interest deductions against profits of the businesses in New Zealand. Therefore, the debt funding should not be used to support activities, and potentially generate profits, outside New Zealand.

23 We propose that a business should still be eligible for the rule if it is also involved in other non-infrastructure activities that are ancillary to or facilitate the main infrastructure activity. For example, if an airport builds a new terminal, it would be able to apply the rule if it also builds retail facilities and a hotel attached to the terminal, and the debt has recourse to both the new and existing assets of the airport company.

24 Under the proposal, qualifying infrastructure assets would include tangible or intangible assets located in New Zealand that provide, or are integral to providing, essential services to the public or a class of users on a shared-use basis, such as:

- transport infrastructure (for example, roads, rail, rolling stock, ports, airports, ferries)
- energy infrastructure (for example, electricity generation, transmission and distribution assets)

- water infrastructure (for example, water supply, wastewater and stormwater assets)
- telecommunication infrastructure (for example, telecommunication networks, data centres, communications towers)
- waste infrastructure (for example, recycling and sewage facilities, landfills), and
- social infrastructure (for example, hospitals, schools, libraries, student accommodation, prisons, or similar public facilities).

25 Commercial buildings, industrial buildings, and dwellings would generally be excluded, unless they are an integral part of the infrastructure activities or ancillary to them. For example, a warehouse used by an electricity lines company for essential network maintenance would be included.

Third-party debt

26 We propose that interest expense would be fully deductible only if the debt is from an unrelated third party. This reflects a concern that foreign investors can often easily substitute equity with related-party debt, enabling the investors to extract higher returns by claiming interest deductions for the New Zealand operations without materially increasing their risk.

Limited recourse

27 We propose that full interest expense deductibility only applies to debt that has limited recourse to the infrastructure project or business in New Zealand. This is intended to mean that, in the event of default, the lenders can generally only seek repayment from the infrastructure assets, the income streams from those assets, and ownership interests in entities that are part of the eligible infrastructure investment. It also means that the investors cannot provide any form of guarantee over the debt.

28 This requirement is necessary because the eligible New Zealand infrastructure investment needs to be able to support the level of third-party debt on a standalone basis for it to be a commercially reasonable level of debt for the business.

Infrastructure Funding and Financing Act 2020 levies

29 We propose a specific exemption to ensure that the new rule can apply to entities that have the right to receive Infrastructure Funding and Financing Act 2020 levies on the basis that this is effectively Crown-approved infrastructure.

30 These levies are used to fund Crown endorsed infrastructure projects and do not currently fit within the PPP thin capitalisation rule. The levies are approved by the Government and imposed on ratepayers or users of the infrastructure, to fund a debt special purpose vehicle (debt vehicle). The infrastructure is not owned by the debt vehicle (which would generally be required under the proposed rule). Instead, the debt vehicle holds the right to impose the levy

under an Order in Council. The debt vehicle borrows to fund an infrastructure project and uses the levy to repay the debt over a period.

31 While to date the debt vehicles have been established and owned by the Crown (via National Infrastructure Funding and Financing Limited), future debt vehicles could be owned by the private sector. In that context, thin capitalisation will be an important point to consider. This is because the debt vehicles are mostly debt funded (90%+ debt), with only a small amount of equity funding. The debt has typically been limited recourse debt with two exceptions which should be catered for:

- The Crown typically provides a guarantee (largely covering regulatory risk for example, the risk of the Crown repealing the levy) so that lenders are comfortable the debt vehicle will have a revenue stream.
- If the debt vehicle provides funding to a developer in respect of a project, it is expected that security will be sought to guarantee the performance of the developer’s obligations (for example, that the infrastructure will be built).

Availability and election to use the rule

32 We propose that the rule be generally available to taxpayers that are subject to the thin capitalisation rules, except trusts. This is because the taxation rules that apply to trusts are relatively complex, and further work would be required to confirm that there were appropriate provisions and safeguards to ensure that the rule can apply appropriately to trusts.

33 We also propose that taxpayers can make an annual election as to whether they would apply the new rule or the standard thin capitalisation rules that apply to other foreign-owned New Zealand investments. This approach enables taxpayers to use the rules that best fit each year, especially when their situations may have changed.

Application date

34 We propose that the new rule apply from the 2026–27 income year. That is, the year beginning 1 April 2026 for taxpayers with a standard March balance date.

Cost-of-living Implications

35 The proposal is not expected to have a significant impact on the cost of living.

Financial Implications

36 In Budget 2025, a tagged operating contingency of $85 million over the forecast period was established for any changes to the thin capitalisation settings for infrastructure [CAB-25-MIN-0126 refers].

37 The estimated fiscal cost of implementing the proposed rule under the recommended parameters is $42.5 million over the forecast period. This cost can be accounted for against the tagged operating contingency, Not in

Not in scope

	$million – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total Operating	**2.500**	**10.000**	**10.000**	**10.000**	**10.000**

38 The fiscal estimate depends on assumptions about behavioural impacts, among other matters. It is hard to determine the accuracy of these assumptions. Accordingly, fiscal uncertainty exists in the estimates.

39 Any incremental investment in New Zealand’s infrastructure resulting from the proposed changes may generate additional tax revenue over time as economic activity increases. However, this potential impact has not been quantified because there is currently no reliable basis for such estimates.

40 The proposed changes are expected to have minimal administrative impact on Inland Revenue and can be managed within existing baselines.

Legislative Implications

41 Implementing these proposals will require changes to the Income Tax Act 2007.

42 If approved, we propose including the required legislative changes in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, by way of an Amendment Paper, at the Committee of the whole House stage scheduled for March 2026.

Impact Analysis

Regulatory Impact Statement

43 A regulatory impact statement (RIS) has been completed and is attached.

44 An internal quality assurance panel convened by Inland Revenue has reviewed the RIS and considers that the information and analysis it contains **meets** the quality assurance criteria for Ministers to make informed decisions on the proposals in this paper.

Climate Implications of Policy Assessment

45 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal, as the threshold for significance is not met.

Population Implications

46 The proposals in this paper are not expected to have any implications for specific demographics in New Zealand.

Human Rights

47 The proposals in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

48 Inland Revenue released an officials' issues paper for public consultation on 19 May 2025 to better understand the issues with the current thin capitalisation rules. The paper included two potential solutions contemplated. The consultation closed on 19 June 2025 with 15 written submissions received.

49 Inland Revenue undertook further targeted consultation on an "in confidence" basis from 29 October 2025 to 21 November 2025, engaging primarily with the 15 respondents during the public consultation. The technical issues paper included a revised proposal that incorporated the feedback. Eight written submissions were received.

50 During the policy project, Inland Revenue also consulted with the Treasury, New Zealand Trade and Enterprise, and National Infrastructure Funding and Financing Limited.

Communications

51 If agreed to, these changes will be included in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill due to be released in March 2026. Further details on the proposal will be released with the commentary to the Amendment Paper. Following enactment in March 2026, Inland Revenue will publish details of the new legislation on the Tax Policy website.

Proactive Release

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

Recommendations

We recommend that the Committee:

1. **Agree** to introduce a new thin capitalisation rule for infrastructure that applies to new and existing projects and businesses whose main activity is creating, operating, maintaining, or upgrading their qualifying infrastructure assets.

2. **Agree** that qualifying infrastructure assets include tangible or intangible assets located in New Zealand that provide, or are integral to providing, essential services to the public or a class of users on a shared-use basis, with a list of specific inclusions and exclusions.

3. **Agree** that a business would still be eligible for the new rule if it is also involved in other non-infrastructure activities that are ancillary to or facilitate the main infrastructure activity.

4. **Agree** that the new rule should only apply to debt from an unrelated third party (it cannot be from an investor or associate of an investor).

5. **Agree that** the new rule should only apply to limited recourse debt (that is, the lender can only have recourse to the infrastructure assets, the income streams from those assets, and ownership interests in entities that are part of the eligible infrastructure business, all of which are located in New Zealand).

6. **Agree** that the new rule can also apply to an entity that holds an asset arising from a right to levy under an Order in Council made under the Infrastructure Funding and Financing Act 2020.

7. **Agree** that the new rule is generally available by optional election to taxpayers that are subject to the thin capitalisation rules (except trusts).

8. **Agree** that the application date for the new rule is the start of the 2026–27 income year for the taxpayer (the year beginning 1 April 2026 for taxpayers with a standard balance date).

9. **Authorise** the Minister of Finance and Minister of Revenue to jointly make minor or technical decisions necessary to give effect to the policy proposals agreed in this paper, ahead of inclusion in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.

10. **Note** that on 11 April 2025, Cabinet agreed to the establishment of a tagged contingency of $65 million over the forecast period, that increases to $85 million with the roll out of the 2029/30 financial year, to progress changes to the thin capitalisation rules with the Minister of Finance and the Minister of Revenue jointly authorised to draw down funding from the tagged operating contingency [CAB-25-MIN-0126 refers].

11. **Note** the following decrease to Crown Revenue and Receipts as a result of the decisions in recommendations 1 to 8 above, with a corresponding impact on the operating balance and net core Crown debt:

	$million – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & outyears**

Crown Revenue and Receipts: Tax Revenue – company tax	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total Operating	**2.500**	**10.000**	**10.000**	**10.000**	**10.000**

12. **Note** that the proposed change to decrease Crown Revenue and Receipts for 2025/26 above will be included in the 2025/26 Supplementary Estimates.

13. **Agree** that the decrease to Crown Revenue and Receipts in recommendation 11 above be charged against the Budget 2025 Thin Capitalisation – Infrastructure Projects tagged contingency.

14. Not in scope

15. **Authorise** the Minister of Revenue, after consultation with the Minister of Finance and the Leader of the House, to release an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill that includes the above measures.

Authorised for lodgement

Hon Nicola Willis

Minister of Finance

Hon Simon Watts

Minister of Revenue

Cabinet Economic Policy Committee

Minute of Decision

Changes to the Thin Capitalisation Settings for Infrastructure

Portfolios **Finance / Revenue**

On 4 March 2026, the Cabinet Economic Policy Committee:

New thin capitalisation rule for infrastructure

1 **agreed** to introduce a new thin capitalisation rule for infrastructure that applies to new and existing projects and businesses whose main activity is creating, operating, maintaining, or upgrading their qualifying infrastructure assets;

2 **agreed** that qualifying infrastructure assets include tangible or intangible assets located in New Zealand that provide, or are integral to providing, essential services to the public or a class of users on a shared-use basis, with a list of specific inclusions and exclusions;

3 **agreed** that a business would still be eligible for the new rule if it is also involved in other non-infrastructure activities that are ancillary to or facilitate the main infrastructure activity;

4 **agreed** that the new rule should only apply to debt from an unrelated third party (it cannot be from an investor or associate of an investor);

5 **agreed** that the new rule should only apply to limited recourse debt (that is, the lender can only have recourse to the infrastructure assets, the income streams from those assets, and ownership interests in entities that are part of the eligible infrastructure business, all of which are located in New Zealand);

6 **agreed** that the new rule can also apply to an entity that holds an asset arising from a right to levy under an Order in Council made under the Infrastructure Funding and Financing Act 2020;

7 **agreed** that the new rule is generally available by optional election to taxpayers that are subject to the thin capitalisation rules (except trusts);

8 **agreed** that the application date for the new rule is the start of the 2026–27 income year for the taxpayer (the year beginning 1 April 2026 for taxpayers with a standard balance date);

9 **authorised** the Minister of Finance and Minister of Revenue to jointly make minor or technical decisions necessary to give effect to the decisions above, ahead of inclusion in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill;

Financial implications

10 **noted** that in April 2025, Cabinet:

10.1 agreed to establish a tagged contingency of $65 million over the forecast period, that increases to $85 million with the roll out of the 2029/30 financial year, to progress changes to the thin capitalisation rules;

10.2 authorised the Minister of Finance and the Minister of Revenue jointly to draw down funding from the tagged operating contingency;

[CAB-25-MIN-0126.59]

11 **noted** the following decrease to Crown Revenue and Receipts as a result of the decisions in paragraphs 1 to 8 above, with a corresponding impact on the operating balance and net core Crown debt:

	$million – increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total Operating	**2.500**	**10.000**	**10.000**	**10.000**	**10.000**

12 **noted** that the decrease to Crown Revenue and Receipts for 2025/26 above will be included in the 2025/26 Supplementary Estimates;

13 **agreed** that the decrease to Crown Revenue and Receipts in paragraph 11 above be charged against the Budget 2025 Thin Capitalisation – Infrastructure Projects tagged contingency;

14 Not in scope

15 **authorised** the Minister of Revenue, after consultation with the Minister of Finance and the Leader of the House, to release an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill that includes the above measures.

Rachel Clarke
Committee Secretary

Present: (see over)

Present:
Hon David Seymour
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Brooke van Velden
Hon Shane Jones
Hon Paul Goldsmith
Hon Louise Upston
Hon Dr Shane Reti
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Office of Hon James Meager
Officials Committee for ECO

Cabinet

Minute of Decision

Report of the Cabinet Economic Policy Committee: Period Ended 6 March 2026

On 9 March 2026, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 6 March 2026:

Not in scope

ECO-26-MIN-0020	**Changes to the Thin Capitalisation Settings for Infrastructure** Portfolios: Finance / Revenue	CONFIRMED

Not in scope

Rachel Hayward
Secretary of the Cabinet

Item 08

POLICY

Tax policy report: **Aligning tax payments of the New Zealand Super Fund with similar taxpayers**

Date:	7 November 2025	**Priority:**	Low
Security level:	Not in scope	**Report number:**	IR2025/396

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	28 November 2025
Minister of Revenue	**Agree** to recommendations	28 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Bary Hollow	Principal Policy Advisor	s 9(2)(a)	☒
Ella Flavell	Policy Advisor	s 9(2)(a)	☐

7 November 2025

Minister of Finance
Minister of Revenue

Aligning tax payments of the New Zealand Super Fund with similar taxpayers

Purpose

1. This report briefs you on an option to enhance cost efficiency and simplify the administration of tax obligations for the New Zealand Super Fund (NZSF): by allowing the NZSF to make a single annual income tax payment. This would align the NZSF's tax payments with similar taxpayers such as KiwiSaver providers.

2. s 9(2)(g)(i) [redacted]

3. s 9(2)(g)(i) [redacted] Under this option, the NZSF would make a single annual income tax payment instead of the current three instalments under the provisional tax rules. Such a change could save the NZSF, and therefore the government, significant costs.

4. NZSF have raised the issue of the timing of tax payments with the Minister of Finance's office. This approach coincides with the NZSF's standard uplift amounts no longer being based on years where the NZSF had smaller gains. NZSF's instalments for the next two years will be based on high return years, and this could mean that the NZSF locks up funds in tax payments which ultimately, because of the volatility of the fund, may not be required and could be better used in productive investments.

Context

5. The NZSF was introduced to act as a tax-smoothing vehicle to assist future taxpayers to cover the cost of providing New Zealand Superannuation. The NZSF currently pays income tax as a company at 28% s 9(2)(b)(ii) [redacted]

6. The NZSF's tax status has been debated since its inception. s 9(2)(b)(i) [redacted]

7. The current tax payment arrangements for the NZSF result in some leakage of funds outside of government. Leakage occurs through margins paid to tax pooling intermediaries, interest differential payments made to other taxpayers, high

s 9 ([redacted]

compliance costs in determining the most tax effective instalment amounts, and foreign tax obligations.

Allowing the NZSF to make a single annual income tax payment

Overview

8. Under this proposal, instead of paying provisional tax in three instalments, the NZSF would pay its income tax once per year on 28 July, the current date for the NZSF's third provisional tax instalment. If the NZSF's actual tax liability for the year exceeds what it paid by 28 July (i.e., if it underpaid), normal use of money interest (currently at 9.89%) would apply from 28 July on the shortfall until it is settled.

9. However, at this date the NZSF should have a high degree of certainty over its income tax position for the year, and the likelihood of material over- or under-payments is substantially reduced.

10. The NZSF would still need to calculate and file its annual taxable income, but it would not need to make earlier provisional tax payments during the year. This would reduce the compliance costs of calculating those instalments and funding the tax payments which could be, given the volatility of the fund, better applied to investments.

11. If the proposal is proceeded with it will require a legislative change to the Income Tax Act 2007.

Benefits

12. s 9(2)(b)(ii)

13. Due to the volatility of investment markets, it is impossible for the NZSF to accurately estimate its provisional tax liability for the year. Under the current system, this often leads to significant under- or over-payments of provisional tax. This is inefficient for both the fund and taxpayers: overpayment results in funds that could otherwise be invested being unnecessarily tied up in tax payments. s 9(2)(b)(ii)

14. The proposed annual tax payment treatment is not new. Under current rules multi-rate Portfolio Investment Entities (PIEs), e.g., some KiwiSaver providers, have the option to exempt themselves from provisional tax and instead pay their income tax liability (excluding exiting investors) at the end of the tax year. s 9(2)(f)(ii)

s 9(2)(b)(ii) [redacted]

15. s 9(2)(b)(ii) [redacted]

16. s 9(2)(b)(ii) [redacted]

17. Making one payment of income tax per year simplifies domestic tax compliance for the NZSF, reducing the number of calculations and transfers the NZSF must perform. This avoids the need to continually adjust estimates and allows funds to be more productively invested during the year. s 9(2)(b)(ii) [redacted]

Costs

18. Except for multi-rate PIEs, this option treats the NZSF differently from other taxpayers who are required to pay provisional tax. Some may argue that this is unfair treatment for a Crown entity, but we believe the volatility of the NZSF's tax obligations, its similarity to multi-rate PIEs, and its unique position as a pool of assets on the Crown's balance sheet mitigates this.

19. The NZSF would stop using tax pooling intermediaries if it is exempted from the provisional tax rules. Accordingly, the liquidity of the tax pools that the NZSF currently uses may drop. This may reduce the return of the affected pools, which may increase the pooling costs of other taxpayers who use these services. These costs are difficult to quantify currently, and as a private activity we do not see these impacts as a reason to prevent an alternative tax arrangement for the NZSF.

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s 9 [redacted]

Fiscal impacts

20. This option does not alter the amount of income tax paid by the NZSF, just the timing of when that tax is paid.

21. The tax revenue measure, which conceptually recognises tax as it is incurred, is not affected and will continue to be based on monthly estimates supplied by the NZSF.

22. The proposal affects unconsolidated tax receipts (the cash measure), moving two-thirds of a typical year of payments out of one June fiscal year and into the next. This will cause a one-off loss to unconsolidated tax receipts in the first year of change and subsequent years are expected to be broadly neutral, but acknowledging that the amount of deferral each year, and capture by the subsequent year, will vary with volatility in financial markets.

23. Fiscal consolidation removes the impact of the Government paying tax to itself (i.e., extra tax must be funded, so, tax paid by Government-owned entities is fiscally neutral). Because NZSF is Government-owned, the impact on consolidated tax receipts is neutral, irrespective of the amount deferred.

s 9(2)(g)(i) [redacted]

24. s 9(2)(g)(i) [redacted]

25. s 9(2)(g)(i) [redacted]

26. s 9(2)(g)(i) [redacted]

27. s 9(2)(g)(i) [redacted]

28. s 9(2)(g)(i) [redacted]

Officials Recommendation

29. Given the NZSF's income profile and the similarity in volatility to multi-rate PIE funds, we believe there are strong arguments for allowing the NZSF to make its tax payments in a similar way as those funds - that is, in a single payment on the final provisional tax instalment date.

30. This change would substantially reduce compliance costs for the NZSF and leakage of government s 9(2)(b)(ii) [redacted] While the impact on Inland Revenue's administration costs would be minimal, from an all-of-government perspective, the proposed change makes commercial sense.

31. s 9(2)(b)(i) eliminating provisional tax costs and aligning the NZSF’s tax payment schedule with multi-rate PIEs facing similar tax volatility is a practical way to reduce government leakage and a valuable first step in lowering the NZSF’s compliance costs.

32. Under the proposal the NZSF would:

    32.1 be removed from the current requirement to pay provisional tax in three instalments;

    32.2 be required to pay its residual income tax[3] for the year in one payment on the date of the third instalment of provisional tax for the NZSF (currently 28 July);

    32.3 make tax payments direct to Inland Revenue and be limited in the way in which it can use tax pooling intermediaries (essentially, it can continue to use tax pooling intermediaries for reassessments);

    32.4 incur standard use of money interest rates for any shortfall in residual income tax from the third provisional tax instalment date.

33. Officials recommend that Ministers agree to simplify the tax payments for the NZSF as described above.

34. If Ministers agree, there is a question of when this could apply from. To enable the maximum benefits to be obtained from the proposals, officials recommend that the change be made for the 2026-27 and later income years.

35. Given the progress of the Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Bill which is currently with the Finance and Expenditure Committee we do not recommend making the change in this Bill, instead, the change could be made in the next omnibus tax bill with retrospective effect.

Consultation

36. The Treasury has been consulted on the contents of this report.

[3] Residual income tax is the remaining tax liability of a taxpayer after the deduction of any tax credits such as pay as you earn deductions or resident withholding taxes but before any provisional tax payments.

Recommended action

We recommend that you:

37. **agree** to amend the Income Tax Act 2007 to allow the New Zealand Super Fund to pay its income tax once per year on 28 July rather than being subject to the current provisional tax rules.

Agreed/Not agreed Agreed/Not agreed

38. **agree** that the change be included in the next omnibus tax bill with retrospective effect.

Agreed/Not agreed Agreed/Not agreed

39. **agree** that the amendment apply from the 2026-27 and later income years.

Agreed/Not agreed Agreed/Not agreed

Bary Hollow
Principal Policy Advisor
Policy

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: Income tax debt pilot with the tax pooling industry

Date:	23 May 2025	**Priority:**	Medium
Security level:	Not in scope	**Report number:**	IR2025/240

Action sought

	Action sought	Deadline
Minister of Revenue	**Agree** to recommendations	9 June 2025

Contact for telephone discussion

Name	Position	Telephone	Suggested first contact
Bary Hollow	Principal Policy Advisor	s 9(2)(a)	☒
Ella Flavell	Policy Advisor	s 9(2)(a)	☐

23 May 2025

Minister of Revenue

Income tax debt pilot with the tax pooling industry

Summary

1. This report seeks your approval to run a pilot extension of the period for which tax pooling can be used to pay tax. The extension will enable Inland Revenue to determine whether an extended tax pooling period can have a positive impact on the collection of income tax debt and, if the pilot is successful, whether an extension should be a permanent feature of the tax pooling regime.

2. A tax pooling intermediary[1] and select tax agents support this proposal. Tax poolers' strong relationships with taxpayers and their agents is key to the success of the pilot.

3. The primary target for the project are taxpayers who want to be compliant but find themselves in a temporary debt position that makes it difficult for them to get back on track. One tax agent has described the proposal as "a game-changer for many clients and [would] simplify the process when dealing with tax arrears".s

4. A provision in the Tax Administration Act 1994 allows the Governor-General to extend the timeframe for due dates in the Inland Revenue Acts by Order in Council. If you agree with the proposal, this section would be used to facilitate the pilot by extending the usual time limit for settling pooling.

Purpose

5. This report seeks your approval to:

   5.1 extend the period for which tax pooling can be used to pay tax for the 2022-23 and 2023-24 tax years for the target population. This extension will be for contracts entered into prior to, or within six months of the date of the Order in Council, and settled by 31 December 2026;

   5.2 issue drafting instructions to the Parliamentary Counsel Office for the Order in Council to extend the tax pooling settlement date as outlined in paragraph 5.1.

Background

6. A tax pooling intermediary recently proposed to Inland Revenue a pilot extension of the period for which tax pooling can be used to pay tax. This pilot may enable Inland Revenue to determine whether income tax debt can be effectively collected through an extended tax pooling period and whether the extension should be permanently instated. The intermediary recorded support from selected tax agents

[1] Tax pooling enables taxpayers to consolidate their provisional tax payments with Inland Revenue approved pooling intermediaries, offsetting underpayments of provisional tax with overpayments within the same pool. Tax pooling intermediaries give taxpayers access to lower interest rates and removal of late payment penalties on underpayments and higher interest rates on overpayments of provisional tax as compared with Inland Revenue use of money interest rates.

s [redacted]
9

concerning the proposal and its ability to assist with income tax debt collection. The pilot would be available to all the tax pooling intermediaries.

7. Currently, tax pooling cannot be used for any tax or use of money interest after 75 days[3] from a taxpayer's terminal tax date (except on a reassessment[4]). A provision in the Tax Administration Act 1994[5] allows the Governor-General to extend the timeframe for due dates in Inland Revenue Acts by Order-in-Council. As part of the pilot, we propose extending the usual time limit for settling pooling transactions to a future date for two income years only (the 2022-23 and 2023-24 income years).

Targeting income tax debt that is less than two years old

8. We recommend that this pilot be limited to income tax debt that is less than two years old for two reasons:

   8.1 Tax pooling intermediaries primarily deal with income tax.

   8.2 Debt older than two years is typically harder to collect and may require use of Inland Revenue's more extensive powers.

9. The proposed extension periods for the pilot allow for contracts with tax pooling intermediaries to be entered into up to six months from the date the Order-in-Council comes into effect and settled prior to 31 December 2026.

Target population

10. Tax poolers' strong current relationships with taxpayers and their agents is key to the success of the pilot. Over the COVID-19 period, tax poolers had an extraordinary year despite the government offering interest and penalty write-offs. Taxpayers appeared to have preferred dealing with a third party rather than Inland Revenue directly despite this being less financially advantageous.

11. The primary target for the project would be taxpayers who want to be compliant but find themselves in a debt position currently and can pay in an improving economy. A restriction will be placed on taxpayers where a debt recovery operation has commenced (e.g., liquidation procedures).

12. Inland Revenue considers it appropriate to allow taxpayers in these groups to use the pilot:

    12.1 Those with an existing contract with a tax pooling intermediary which they have not fulfilled; or

    12.2 Those who have not entered a contract with a tax pooling intermediary but do so within six months of the Order-in-Council being in place for the payment of outstanding provisional or income tax debt.

13. The potential number of taxpayers who may use the debt pilot and value of tax debt that could be collected includes:

    13.1 653 taxpayers currently using tax pooling who have $15.5 million worth of income tax debt, 77% of that debt is less than two years old.

    13.2 1,175 taxpayers currently using tax pooling who have $28m worth of total tax debt, with 79% of being less than two years old.

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[3] Or 76 days for some terminal tax dates in a leap year.
[4] In which case the limit is 60 days from the reassessment.
[5] Section 226 of the Tax Administration Act 1994

13.3 The real target market for the poolers in this exercise will be a group of 6,000 taxpayers who don’t currently use a tax pooler but have income tax debt as well as unpaid 2023-24 provisional tax. They have approximately $149m in debt with 70% being two years old or less.

Building the book of debt to be subject to the pilot

14. Officials’ preferred option to build the book of debt to be subject to the pilot involves tax poolers proactively using their existing contacts to identify cases that would be suitable to use the pool to settle historic debt.

15. This is officials’ preferred option as:

15.1 It requires no taxpayer consent or information sharing with the tax poolers.

15.2 It puts the onus on the tax poolers to find clients who are likely to be those who are viable businesses rather than those who may not be viable.

15.3 Likely to have a higher success rate due to existing relationships the poolers have with the clients/tax agents and the ability to directly review and monitor the clients.

16. Another option is for Inland Revenue to generate cases for the tax poolers to follow up. This would require Inland Revenue to obtain customer consent before passing the information to the tax poolers.

17. We don’t consider this as a viable option for several reasons:

17.1 It would be administratively cumbersome to obtain consent from these taxpayers individually.

17.2 Issues may arise where one tax pooler’s clients are passed to another as there may be visibility that taxpayers are using a tax pool but not which one they may be using.

Alternative option

18. We consider the tax pooling pilot to be a useful way to explore whether the extension of the tax pooling settlement can assist in reducing income tax debt, however, an alternative option to the tax pooling extension could potentially involve the Government granting a one-off tax debt amnesty for taxpayers to receive a discounted use of money interest rate (or no use of money interest) if they settle their tax debt within a predefined period.

19. The advantages of this are:

19.1 Mimics the tax pooling proposal but allows the Government to retain some of the interest revenue that would otherwise be derived by the tax poolers.

19.2 Allows the collection of all debt not just income tax debt.

20. However, there are also downsides to an amnesty:

20.1 Sends the wrong message to taxpayers who have complied that the amnesty will not be a one-off and, given that, there is no incentive to comply in the future.

20.2 An amnesty may suffer from the same issue as COVID-19 where taxpayers are reluctant to deal directly with Inland Revenue and, as a result, the success of the amnesty is limited.

20.3 Needs to be targeted and clear that the amnesty is a one-off event.

21. While this option has some merit and could be more impactful than a small pooling pilot it has significant downsides and sends the wrong message to taxpayers. Consequently, we do not recommend this option.

Consultation

22. The Treasury has been consulted and agrees with the recommendations. The Treasury believes that the proposed pilot extension of the period for which tax pooling can be used to pay tax would not impact the fiscal forecast.

23. However, if the pilot were to be extended to a permanent part of the tax system, the Treasury would have a deeper consideration of the fiscal implications.

24. The Treasury would also recommend against the use of an amnesty.

Next steps

25. If you agree to the pilot, we will:

    25.1 prepare a Cover Report and LEG Paper for Ministerial consultation.

    25.2 instruct the Parliamentary Counsel Office to draft the Order in Council.

Recommended action

We recommend that you:

26. **agree** to pursue a pilot extension of the period for which tax pooling can be used to pay tax for the 2022-23 and 2023-24 income years for the target population detailed in paragraph 27.

    Agreed/Not agreed

27. **agree** to an extension for those taxpayers:

    27.1 with an existing contract with a tax pooling intermediary which they have not fulfilled; or

    27.2 who have not entered a contract with a tax pooling intermediary but do so within six months of the Order-in-Council being in place for the payment of outstanding provisional or income tax debt.

    Agreed/Not agreed

28. **agree** for those contracts to be settled by 31 December 2026.

    Agreed/Not agreed

29. **agree** to officials instructing the Parliamentary Council Office to draft an Order-in-Council to effect the extension.

    Agreed/Not agreed

Bary Hollow
Principal Policy Advisor
Policy

Hon Simon Watts
Minister of Revenue
/06/2025

Inland Revenue
Te Tari Taake

POLICY

Tax policy report: Policy options to reduce tax debt

Date:	20 November 2025	**Priority:**	Medium
Security level:	Not in scope	**Report number:**	IR2025/398

Action sought

	Action sought	Deadline
Minister of Revenue	Not in scope **Agree** to improvements to the credit reporting rules. Not in scope **Agree** to changes necessary for the tax pooling pilot extension.	12 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Carolyn Elliott	Policy Lead	s 9(2)(a)	☐
Thomas Allen	Principal Policy Advisor	s 9(2)(a)	☒

20 November 2025

Minister of Revenue

Policy options to reduce tax debt

Executive summary

Purpose

1. This report provides advice on three options to help address the growth of tax debt Not in scope [redacted] improvements to the credit reporting rules Not in scope [redacted]

2. It also provides a summary of ongoing work to help address growing debt and other ideas we have considered that could be progressed at a later stage.

Background

3. The growth in tax debt is a concern. Tax debt currently stands at $9.5 billion and is forecast to reach $10.5 billion by June 2026. We have increased our debt collection activities as a result of Budget 2024 and Budget 2025 funding. We have also reprioritised existing resources into debt recovery activities. While we expect positive results from these activities, it is challenging to engage some taxpayers with tax debt. When compared to countries like Australia, we have fewer tools available to encourage taxpayers to resolve their tax debt. Therefore, we consider enhancements to existing tools and the introduction of new tools necessary to help address the issue of debt over the longer term.

Options to address the growth of debt

Not in scope

[redacted]

Not in scope [redacted]

[redacted]

Not in scope [redacted]

Credit reporting was introduced in 2017, allowing Inland Revenue to share tax debt information with credit reporting agencies. Credit reporting is currently limited to companies, with tax debt over $150,000. To use credit reporting on a greater scale, we recommend making two changes:

1. Not in scope [redacted]
2. update the notification requirements for credit reporting to allow for notification via electronic means and through standard post.

In Australia, almost 30,000 businesses received a credit reporting warning notice in the 2024/25 financial year, and of these businesses, 30% resolved their debt in some form.

Stakeholders support greater use of the credit reporting rules as the view non-compliant businesses as gaining a competitive advantage. Credit reporting also provides greater transparency of tax debt to the trading community, allowing businesses to make more informed trading decisions.

Next steps

Not in scope [redacted] Changes to the notification requirements can be progressed via amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.

Not in scope [redacted]

Not in scope [redacted]

Not in scope [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Background – the growth of tax debt

1. As discussed in previous advice (IR2025/336 refers), tax debt is a growing concern. Tax debt currently stands at $9.5 billion and is forecast to reach $10.5 billion by June 2026. Several factors are contributing to this growth, primarily current economic conditions. Businesses are experiencing cashflow issues and are choosing to hold off paying tax to fund other business activities.

2. There are a number of attributes of the debt book that contribute to its growth and/or make slowing down the growth of tax debt a challenge:

   2.1 Unpaid GST and employer taxes such as PAYE make up 57% of tax debt. These taxes should be withheld and passed on to Inland Revenue, they are not a direct tax on businesses. Businesses that do not pay GST and PAYE have a competitive advantage over those that do.

   2.2 Small businesses are responsible for 64% of total debt. Around half the debt that is written off is for the self-employed or businesses with less than six employees.

   2.3 Of the 501,000 taxpayers that have debt, nearly half have debt greater than two years old. As debt ages it becomes harder to collect, and it accrues penalties and interest.

3. In response to this issue, Budget 2024 and Budget 2025 funding has been provided for direct tax compliance interventions, tax debt recovery activities, and more effective tax collection. Without the additional funding the debt book would grow to $10.7 billion this year. A range of operational measures have been amplified, such as specialised staff recruitment, increased and more focused debt collection activities, the use of tools like deduction notices and increased liquidation proceedings.

4. Despite our efforts, it can be challenging to engage taxpayers, and some are actively avoiding attempts to resolve their tax debt. When compared to countries like Australia, we have fewer tools available to encourage taxpayers to pay their tax debt, especially tools that can be used prior to legal actions, such as liquidation. Therefore, we consider that enhancements to existing tools and the introduction of new tools necessary to help address the issue of debt over the longer term.

Opportunities to address rising tax debt

5. We have been working on options that may prevent tax debt, as well as encourage taxpayers to remedy their tax debt by paying the debt in full, entering into instalment arrangements, or voluntarily liquidating their business if it is no longer viable.

6. We consider three measures are likely to have the greatest impact on reducing tax debt:

   6.1 Not in scope

   6.2 **Improve existing tools** – consider improvements to the credit reporting rules.

   6.3 Not in scope

7. We have been discussing improvements to credit reporting Not in in confidence with a select group of stakeholders to get their initial views, including the Australian Taxation Office, Accountants & Tax Agents Institute of NZ (ATAINZ), Corporate Taxpayers Group (CTG), Chartered Accountants Australia and New Zealand (CA

ANZ), and the New Zealand and Australian Institute of Company Directors. We have summarised their views as part of our analysis of the options.

Not in scope [redacted]

[redacted]

Not in scope [redacted]

[redacted]

Not in scope [redacted]

Not in scope [redacted]

Not in scope [redacted]

Not in scope [redacted]

[redacted]

[redacted]

Not in scope [redacted]

Not in scope [redacted]

Not in scope [redacted]

[redacted]

[redacted]

No [redacted]

Not in scope [redacted]

Not in scope [redacted]

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o [redacted]

Not in scope

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[redacted]

Consider improving credit reporting rules

Current rules and new interpretation

30. Credit reporting was introduced in 2017, allowing Inland Revenue to share tax debt information[3] with credit reporting agencies. Credit reporting was introduced to encourage compliance and help the business community by increasing visibility of

[3] Information disclosed includes the total amount outstanding for each tax type (expressed within a narrow band), the age of each tax debt by tax type and, if applicable, the status of the reportable unpaid tax as being under instalment arrangement (when tax debt information has previously been disclosed and the taxpayer has subsequently entered into an instalment arrangement).

significant tax debts. The ability for Inland Revenue to credit report is currently limited to companies.

31. For a company to be credit reported, the following criteria must be met:

 31.1 tax debt exceeds $150,000 or the debt has been unpaid for a year and is equal to 30% or more of the taxpayer's assessable income for that year,

 31.2 "reasonable efforts" must have been made by Inland Revenue to recover the unpaid tax, and

 31.3 the company must be formally notified 30 days before being credit reported.

32. Following notification, if the company does not resolve the debt (for example, make payment or enter into an instalment arrangement), Inland Revenue can share tax debt information to credit reporting agencies. Ideally, the threat of credit reporting would be sufficient to resolve the debt.[4] Inland Revenue currently discloses information with only one credit reporting agency, Centrix. However, we are exploring opportunities to disclose tax debt information to more agencies to reach more of the business community.

33. Since the introduction of credit reporting, Inland Revenue has rarely used the rules. This is in part due to the conservative approach taken to interpreting the rules, creating a number of practical barriers.

34. Based on the initial interpretation of the rules, "reasonable efforts" to collect the debt was set at a high bar and "formal notification" required all the company's directors to be formally notified. This approach was more restrictive than the legislation required. Broadly, the revised interpretation relaxes those requirements. Reasonable efforts can now be satisfied if the business has received reminders that tax payments are overdue (including options for payment), and the business has not engaged with Inland Revenue about resolving their debt. Secondly, formal notification to the company is now sufficient (not all directors need to be notified).

35. The new interpretation means Inland Revenue can now apply credit reporting more broadly. Since October, Inland Revenue has been conducting a pilot s 9(2)(f)(iv) [redacted]. Insights from this trial will inform larger-scale reporting, with the objective of reporting all companies that meet the criteria.

36. The current process for reporting companies is manual and the pool of companies we can report is limited. For credit reporting on a greater scale and to better automate the process, we recommend two changes:

 36.1 Not in scope [redacted]

 36.2 update the notification requirements to allow for electronic notification which will enable better automation of credit reporting.

Not in scope [redacted]

[redacted]

[4] If a company's tax debt information is disclosed, the incentive to engage with Inland Revenue remains because their tax debt information can be removed from credit reports if a satisfactory resolution is reached.

Not in scope [redacted]

Not in scope [redacted]

Not in scope [redacted]

No [redacted].

Not in scope [redacted]

[redacted]

Not in scope [redacted]

Not in scope [redacted]

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[redacted]

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N[redacted]

Not in scope [redacted]

[redacted]

Remedial changes – updating notification requirements

50. To credit report a company, Inland Revenue must "formally notify" the company that they have reportable unpaid tax. Legislation sets out that to "formally notify" a company means the communication is in print and personally delivered or sent by registered post. Because of this, any communication by electronic means cannot constitute formal notification, including the use of messages via MyIR.

51. Further, formal notification by post must be sent by "registered post". The Tax Administration Act 1994 (TAA) does not define the meaning of "registered post" and, according to New Zealand Post, it is no longer a service offered domestically. "Tracked delivery" is the closest alternative.

52. To update credit reporting legislation to modern practice and to align with Inland Revenue's notification systems, we recommend two minor remedial changes:

    52.1 allow taxpayers to be notified of the Commissioner's intent to be credit reported by **electronic means**, such as by myIR, and

    52.2 update notification requirements so that notifications can be sent via **standard post**, rather than "registered post".

53. We consider both changes to be remedial in nature and will allow Inland Revenue to better automate the use of credit reporting.

Next steps to progress changes to credit reporting rules

Not in scope [redacted]

[redacted]

56. If you wish to proceed with the notification requirement changes, the earliest opportunity for a legislative change would be through an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage. This should take place in March 2026 and be effective from 1 April 2026.

Not in scope [redacted]

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Not in scope [redacted]

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Not in scope [redacted]

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[redacted] [redacted]

Fiscal impacts

Not in scope [redacted]

[redacted]

Administrative impacts

Not in scope [redacted]

82. s 9(2)(f)(iv) [redacted] Following changes to the notification rules, we will be able to automate the credit reporting process more effectively. However, even with some automation, there will be administrative impacts, and we will likely have to phase in greater reporting to manage these impacts, including a higher volume of contact from impacted taxpayers. We will provide you with more detail on how we intend to roll out greater reporting and the associated administrative impacts when we provide the Cabinet paper to Not in scope [redacted]

Treaty of Waitangi considerations

83. Māori may be disproportionately impacted by options in this report. This may be attributed to structural barriers – including disparities in educational outcomes, digital inclusion and financial literacy – that affect the way that Māori engage with the tax system, generally. Not in scope [redacted] It is appropriate that we test our assumptions with Māori, particularly where there may be barriers that are unique to their context. We intend to reach out to specific Māori entities as part of wider consultation.

Tax pooling debt pilot

84. On 1 June 2025, you agreed to pursue a pilot scheme extending the timeframe during which tax pooling can be used to pay income tax for the 2022–23 and 2023–24 income years for a target population (IR2025/240 refers). This extension will enable Inland Revenue to determine whether an extended tax pooling period can have a positive impact on the collection of income tax debt and, if the pilot is successful, whether an extension should be a permanent feature of the tax pooling regime.

85. The preferred legislative vehicle at the time you agreed to the pilot was an Order in Council. The Parliamentary Counsel Office disagreed with using an Order in Council to effect the required changes. Therefore, we seek to effect the pilot through an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage. Other than the legislative vehicle, the details of the scheme you previously approved (IR 2025/240 refers) remain the same.

Next steps

86. Subject to your agreement we will include the changes necessary to effect the pilot scheme extending the timeframe during which tax pooling can be used to pay tax for a target population in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage.

Other options considered to reduce growth of tax debt

87. We have considered other options to reduce the growth of tax debt. While these ideas have merit, we recommend that Not in scope [redacted], improvements to the credit reporting rules, Not in scope [redacted] be prioritised. Following consultation on these ideas, we will provide further advice and recommendations on other options.

Not in scope [redacted]

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Not in scope [redacted]

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Not in scope

[redacted]

Recommended action

We recommend that you:	Minister of Revenue
Not in scope	
(a) Not in scope	Agreed/Not agreed
(b) Not in scope	Agreed/Not agreed
(c) Not in scope	Agreed/Not agreed
Improvements to the credit reporting rules	
(d) Not in scope	Agreed/Not agreed
(e) Not in scope	Indicated
(f) Not in scope	Noted
(g) Not in scope .	Agreed/Not agreed
(h) **Agree** to the remedial changes to update the notification requirements for credit reporting to allow for notification via electronic means and through standard post.	Agreed/Not agreed
If recommendation (h) is agreed to: (i) **Agree** to progress the change in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage.	Agreed/Not agreed
(j) s 9(2)(f)(iv)	Noted
Not in scope	
(k) Not in scope	Agreed/Not agreed
(l) Not in scope	Noted

(m) Not in scope [redacted]	Agreed/Not agreed
(n) Not in scope [redacted]	Agreed/Not agreed
Not in scope [redacted]	
(o) Not in scope [redacted]	Noted
(p) Not in scope [redacted]	Noted
Tax pooling debt pilot	
(q) **Agree** to include the changes necessary to effect the pilot extension to the period for which tax pooling can be used to pay tax for a target population in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage.	Agreed/Not agreed
Refer report	
(r) **Refer** a copy of this report to the Minister of Finance, Minister for Regulation, Minister of Housing, Minister for Commerce and Consumer Affairs, and Minister for Small Business and Manufacturing for their information.	Referred

s 9(2)(a)

[redacted]

Thomas Allen
Principal Policy Advisor
Policy

Hon Simon Watts
Minister of Revenue
/ /2025

Not in scope [redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Not in scope [redacted]	[redacted]	[redacted]
[redacted]	[redacted] [redacted]	[redacted] - [redacted] - [redacted] - [redacted] - [redacted] - [redacted] - [redacted]

Not in scope [redacted]	[redacted]	[redacted]

Tax policy report

Inland Revenue
Te Tari Taake

Credit reporting remedial amendment

Date	15 January 2026	**Priority**	High
Security level	Not in scope	**Report number**	IR2025/503
Bill name	Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report	30 January 2026

Purpose
This report seeks your agreement to a remedial amendment to the credit reporting rules to clarify that the Commissioner of Inland Revenue (the Commissioner) is able to disclose new tax debt that arises after the initial disclosure to a credit reporting agency.

Contact for phone discussion, if required

Name	**Position**	**Phone number**	**First contact**
Ella Yeatman	Policy Advisor	s 9(2)(a)	✓
Thomas Allen	Principal Policy Advisor	s 9(2)(a)	☐

Credit reporting remedial amendment

Current credit reporting rules

1 The credit reporting rules allow Inland Revenue to share tax debt information[1] with credit reporting agencies. Inland Revenue's ability to credit report is currently limited to companies. Inland Revenue can report debt amounts relating to income tax, GST or amounts required to be deducted under the PAYE rules. The objective of the rules is to incentivise companies to pay tax on time and to inform the trading community about companies operating with significant tax debt.

2 For a company to be credit reported, the following criteria must be met:

- tax debt exceeds $150,000[2] Not in scope [redacted]
- "reasonable efforts" have been made by Inland Revenue to recover the tax debt from the company, and
- the company must be formally notified 30 days before being credit reported.

3 Following notification, if the company does not resolve the debt (for example, make payment or enter into an instalment arrangement), the Commissioner can share tax debt information with credit reporting agencies. The policy intent is that once the Commissioner has begun to disclose the taxpayer's information, he may continue to do so until all the tax debt has been resolved.

4 Inland Revenue is preparing to automate the credit reporting process so it can be used more broadly with the aim of reporting all suitable companies above the threshold.

Remedial change – clarify that new tax debt can be reported

5 Legislation sets out that the Commissioner can disclose unpaid tax to credit reporting agencies. It is clear that the original amount disclosed can be updated with credit reporting agencies, for example, if a company makes repayments. However, based on the current wording of the legislation, it is unclear whether the Commissioner can disclose new tax debt to credit reporting agencies if a company continues to miss tax payments.

Example

Jones Co has $150,000 of tax debt and Inland Revenue proceeds to credit report Jones Co to credit reporting agencies. For any repayments, or penalties and interest in relation to the $150,000 of tax debt, the credit reporting agency is informed.

However, if Jones Co misses a future tax payment of $50,000 (for instance, a new GST liability from a GST return filed after the initial credit reporting), the legislation is not clear if the Commissioner can report this additional amount.

6 If the Commissioner is unable to disclose new tax debt to credit reporting agencies the market will be operating on outdated information. As a result, lenders and suppliers

[1] Information disclosed includes the total amount outstanding for each tax type (expressed within a narrow band), the age of each tax debt by tax type and, if applicable, the status of the reportable unpaid tax as being under instalment arrangement (when tax debt information has previously been disclosed and the taxpayer has subsequently entered into an instalment arrangement).

[2] Or the debt has been unpaid for a year and is equal to 30% or more of the taxpayer's assessable income for that year.

may make decisions without knowing the true debt position of companies they are trading with leading to sub-optimal outcomes.

7 The policy intent of the rules was to provide up-to-date information to the trading community until a company has resolved all its tax debts. However, the way the rules were originally drafted makes it unclear whether that policy intent has been achieved. We recommend the rules be clarified so that new unpaid tax amounts can be reported to credit reporting agencies. This would align the rules with the original intention of the policy.

Administrative, fiscal and compliance costs

8 There are no administrative, fiscal and compliance costs associated with this clarification.

Next steps

9 Since October, Inland Revenue has been conducting a pilot s 6(c) [redacted] Given we are already reporting companies, we recommend that an amendment be made as soon as possible.

10 If you wish to proceed with the clarifying remedial amendment, the earliest feasible opportunity for a legislative change would be through an Amendment Paper to the current Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at the Committee of the whole House stage. This is scheduled to take place in March 2026. The amendment should be effective from 1 October 2025. This retrospective application would align with the date the pilot launched.

11 We do not consider Cabinet approval is required because this change merely clarifies the original policy intent of the legislation.

Recommendations

We recommend that you:

1. **Agree** to the remedial change to clarify that the Commissioner of Inland Revenue is able to disclose new tax debt that arises after the initial disclosure to credit reporting agencies, with effect from 1 October 2025.

   Agree / Disagree

   Minister of Revenue

2. **Agree** to include the change in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at the Committee of the whole House stage.

   Agree / Disagree

   Minister of Revenue

s 9(2)(a)

[redacted]

Thomas Allen
Principal Policy Advisor
Policy | Inland Revenue
15 January 2026

Hon Simon Watts
Minister of Revenue
/ /2026

Item 12

Joint policy report: Further advice on student loan scheme policy settings

Date:	18 September 2025	**Priority:**	Medium
Security level:	Not in scope	**Report number:**	IR2025/359 METIS 1352698

Action sought

	Action sought	Deadline
Minister for Universities	**Indicate** whether you want officials to provide further advice on interest relief for overseas based borrowers	30 September 2025
Minister of Revenue	**Indicate** whether you want officials to provide further advice on interest relief for overseas based borrowers	30 September 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Carolyn Elliott	Policy Lead, Inland Revenue	s 9(2)(a)	☒
Natisha Jones	Senior Policy Advisor, Inland Revenue	s 9(2)(a)	
James Campbell	A/g General Manager Ministry of Education	s 9(2)(a)	

18 September 2025

Minister for Universities
Minister of Revenue

Further advice on student loan scheme policy settings

Executive summary

Purpose

1. This report provides advice following the discussion between the Minister for Universities and Minister of Revenue on overseas-based borrower's (OBBs) student loan compliance and debt. This includes:

   - Information about student loan compliance and debt, current settings, and comparisons with other jurisdictions to the lending and collection of student loans.
   - Advice on opportunities to improve compliance and address the growth of student loan debt.

Key facts and issues

Compliance and debt issues

2. When compared to domestic borrowers, OBBs have low compliance. Around 30% of OBBs are meeting their repayment obligations. Compliance can fluctuate for various reasons. A key factor is time overseas.

Overseas for less than 10 years (54,000)[1]	Overseas for more than 10 years (59,000)
• 51% (27,000) fully compliant • 17% (9,100) making some payments (partially compliant)	• 15% (8,700) fully compliant • 13% (7,800) making some payments (partially compliant)

3. s 18(c)(i) [redacted]

4. Lower compliance rates have increased overall debt due to the accumulation of interest and penalties. Overall debt could surpass $3 billion by 2029 and $5 billion by 2036, based on the year-on-year growth from 2023–24 to 2024–25. Because this growth pattern is already reflected in the valuation, no additional impairment is expected, unless borrower repayment behaviour worsens.

5. Borrowers with significant debt are reluctant to engage with Inland Revenue and there are limited incentives for these borrowers to repay their debt.

[1] Figures are rounded to the nearest thousand.

Comparisons with other countries

6. New Zealand's student loan scheme is unique in that we have different settings for domestic and overseas borrowers, such as how interest applies and how repayments are calculated.

7. Because information on location is gathered from the New Zealand Customs Service, we have more accurate systems to identify OBBs than other countries and therefore have a fuller picture of compliance.

8. Low OBB compliance is not unique to New Zealand, other countries also struggle to collect repayments and rely on voluntary compliance. Some countries, such as the United Kingdom, do not seek full recovery of student loans, instead they have write-off rules once the loan reaches a certain age. While Australia does not have a general write-off ability, they recently wrote off 20% of all loans in recognition of the impact of indexation on the loan balances of all borrowers.

9. All the parameters of overseas schemes should be considered together with how they sit within wider student support systems. This is because when making comparisons with other jurisdictions, each country makes different trade-offs to balance the costs of tertiary study for students and the government.

Discretion to provide relief from interest

10. Ministers have requested advice on a discretion to allow Inland Revenue to provide relief from interest with the aim of re-engaging borrowers who have been overseas for a long time and have significant debts. This group is made up of around 50,000 borrowers and much of the approximately $2 billion of debt they owe is estimated to be valued on average at 14%.

11. This report evaluates this proposal based on:

- current and future borrower compliance
- impact on the value of the student loan book
- equity and fairness
- administrative and compliance costs, and
- coherence within the student loan scheme and tax administration settings.

12. The key challenge in assessing the proposal is whether the resulting increase in repayments from exercising the discretion would outweigh any decline in compliance by OBBs who become aware of the possibility of a future interest relief. Any changes to OBB behaviour (positive or negative) would have a fiscal impact on the value of the student loan debt book and on future borrowing costs.

13. Inland Revenue and the Ministry of Education have different views on the trade-offs inherent in the proposal, particularly regarding the potential impact on current OBB compliance. Inland Revenue recommends a discretion be introduced and considers that the risk of lower compliance could be sufficiently mitigated by policy design, including by introducing the power on a trial basis. The Ministry is concerned that the proposal would result in lower overall compliance and negative impacts on the value of the student loan book.

14. We have provided a range of estimates of the possible recovery of loans based on different levels of uptake. Note we have not yet estimated the overall impact on the debt book and the value of loans. Further analysis would need to be undertaken to assess the likely fiscal impact and scale of any impact of options, although some uncertainty will remain until any policy change is implemented.

Next steps

15. If Ministers wished to proceed with this proposal, officials would report back with further design detail and an assessment of the impacts by mid-October 2025. Following this advice, if you still wished to proceed, the earliest opportunity for a legislative change would be through an amendment paper to the current Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage. This should take place in March 2026.

16. The Ministry of Education and Inland Revenue are also preparing further advice on refreshing overall policy responsibility and oversight arrangements for the student loan scheme to recognise the different roles and responsibilities of Ministers in relation to the scheme and to ensure that Ministers are receiving joined-up policy advice from agencies. Advice will be provided on these arrangements in October.

Purpose

17. Inland Revenue reported to the Minster of Revenue in July 2025 (IR2025/287), which resulted in a meeting in August between the Minister for Universities and the Minister of Revenue to discuss OBB compliance. This report provides advice on aspects that were commissioned from that meeting.

Problem definition

Improving OBB compliance continues to be challenging

18. The purpose of New Zealand's student loan scheme is to enable access to tertiary education for all students so that finance is not a barrier.[2] However, this needs to be balanced against the cost of the scheme to current and future generations.

19. In the context of a slowing economy, Ministers are focusing on improving the value of student loan spending. A major area of low-value lending is to borrowers who go overseas and do not repay (who may or may not have high incomes). These OBBs have much lower repayment compliance and slower repayment times than domestic borrowers.

20. Addressing low compliance among OBBs is a persistent challenge and not unique to New Zealand. As of June 2025, total student loan debt was at $2.5 billion, and OBBs accounted for 93% of that debt ($2.3 billion). Debt only refers to the part of a student loan balance that is currently due to be repaid but has not been paid.[3] There are approximately 113,000 OBBs, of which 78,000 (69%)[4] have overdue debt. In comparison, only 5.5% of New Zealand-based borrowers have overdue debt.

21. The levels of compliance decrease for borrowers that have been overseas longer (see Figure 1), which increases the average size of outstanding debt. For example:

    - borrowers that have been overseas less than 10 years with overdue debt: average loan size is approximately $28,000, with an average overdue debt of $10,000.[5]
    - borrowers that have been overseas for more than 10 years with overdue debt: average loan size is approximately $48,000, with an average overdue debt of $40,000.[6]

22. While compliance declines over time, around a third of borrowers remain engaged with their loan and making some repayments after 10 years of being overseas, albeit some are not meeting their full repayment obligation.

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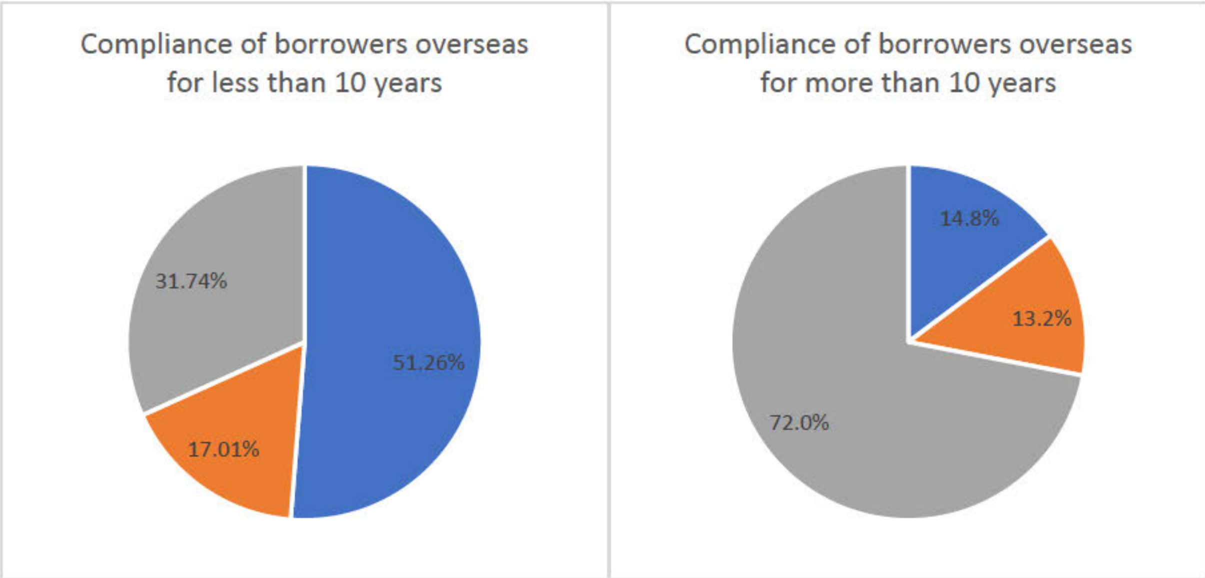
[2] The student support system is complemented by tuition subsidies, fee subsidies and fee regulation, which together manage the costs of tertiary education for students.
[3] This is generally overdue repayments, plus any late payment interest that has been charged on these amounts.
[4] Data as of June 2025.
[5] Borrowers that have been overseas for more than 10 years and no overdue debt owing also have an average loan size of 28,000.
[6] Borrowers that have been overseas for more than 10 years and no overdue debt owing have an average loan size of 46,000.

Figure 1: Compliance of overseas-based borrowers (as of 12 June 2025)



Key

Compliant (no debt currently due)

Current debt but making some payments (current debt but recent payment in the previous 12 months – including by payment arrangement)

Non-compliant (current debt and no payments in the previous 12 months)

23. The valuation of the student loan scheme is conducted periodically to assess its fair value on the government's balance sheet. The fair value of OBB loans reflects these compliance rates. Repayment behaviour among those overseas is carefully studied and modelled by PwC. The valuation assumes that past behaviour is a good predictor of future behaviour. This means the current repayment behaviours are fully incorporated into the scheme's valuation.

24. s 18(c)(i) [redacted] Further information on OBB loan fair values is at Appendix 1.

High levels of debt deterring some OBBs from engaging with their loan

25. The student loan debt book is sizable and growing. Most of the debt is attributed to borrowers that have been overseas for more than 10 years. Under current settings OBB student loan debt could surpass $3 billion by 2029 and $5 billion by 2036, based on the year-on-year growth from 2023–24 to 2024–25. Because this growth pattern is already reflected in the valuation, no additional impairment is expected, unless borrower repayment behaviour worsens.

26. Approximately $2.07 billion of the $2.3 billion debt is owed by OBBs who have been overseas for 10 or more years, this accounts for 89% of the debt. Almost 70% of this group have not made payments in the last year and the fair value of their loan is estimated to be on average 14%. Over time many compliant borrowers exit the Scheme by fully repaying their student loan. This means the older the loan balance, the more likely it is that the borrower will be non-compliant.

27. Stemming the flow of new OBBs defaulting and getting borrowers into good repayment habits from the start is important for improving their compliance over the long term. This is because once borrowers stop repayments, it is difficult to get them to start again. However, stemming the flow of new OBBs defaulting will not

prevent the overall amount of student loan debt from increasing. This is because historic debt is growing due to the accumulation of interest and late payment interest.

28. Based on correspondence and direct engagement with borrowers, for some their debt has become so large they avoid engagement with Inland Revenue, due to the inability to pay off such a large amount and perceived unfairness. At this point, interest and penalties can act as a barrier to compliance. Borrowers with high levels of debt are experiencing anxiety and stress due to limited options available to resolve the debt. Many fear returning to New Zealand at the risk of getting arrested at the border.

29. The example below, based on a borrower's experience, demonstrates what can happen when a borrower falls behind in their payments.

Example 1: Impact of interest on OBB [7]

Lana borrowed **$44,000** in student loans between 1998 and 2005. She moved overseas in 2005 and has not moved back.

In 2017, Lana finally started dealing with her student loan, by which time it was **$120,000** including $66,000 of interest and $14,500 of penalties. Since then, she has made payments of **$77,000**. As she is still living overseas, interest has kept applying to her loan. Her current balance at September 2025 is **$90,000** (over double her original loan balance).

If she keeps up her current repayments and remains overseas, it will take her over **20 years** to repay her loan in full, which will eventually be close to **six times** her original loan balance. This is because the required repayment of $5,000 is only slightly greater than the interest being charged each year.

Comparison of student loan scheme policy settings with overseas jurisdictions

30. New Zealand takes a unique approach by having different settings for domestic and OBBs. Since 2006, student loans have been interest-free for New Zealand based borrowers,[8] whereas interest continues to be applied to the student loans of OBBs.[9] Repayment obligations also differ based on borrower location. Other countries typically have the same or similar settings for both domestic and overseas borrowers, which include charging interest or CPI indexation.

31. The interest-free policy for domestic borrowers is a key lever in the tertiary education system for encouraging graduate retention and rewarding those who contribute to the New Zealand labour market.

32. Information is gathered from the New Zealand Customs Service to determine whether a borrower is based in or outside New Zealand. This allows us to better understand OBB compliance issues. Other countries rely on self-reporting of location, which may understate the number of borrowers overseas and the compliance issues associated with this group.

33. From our research, the approaches of other countries seem to be largely orientated around collecting a reasonable amount of the loan. The United Kingdom and Canada have a clear temporal element to their systems and can write off remaining balances after a period if a borrower has been making repayments.

[7] This example is based on borrower experience. Note this has been anonymised and figures have been rounded to the nearest $1000.

[8] This policy was introduced to reduce the cost of tertiary education, encourage graduates to remain in New Zealand and remove barriers for skilled New Zealanders returning home.

[9] Late payment interest will apply when the borrower fails to meet their minimum repayments, regardless of borrower location.

34. Australia does not have a general write-off ability, but on 1 June 2025 the Australian Government applied a 20% write off to the whole borrower population in recognition of the impact of indexation on the loan balances of all borrowers.

35. All the parameters of overseas schemes should be considered together and within wider student support systems. This is because countries make different trade-offs to balance the costs of tertiary study for students and the Government.[10]

36. A summary table with a comparative analysis of the approaches in Australia, the United Kingdom and Canada towards their student loan systems is in Appendix 2.

Discretion to provide relief from interest

37. We understand that a discretion to provide relief from core interest was discussed at the joint ministers meeting. The purpose of the discretion would be to re-engage OBBs that have high levels of debt due to the accumulation of interest and late payment interest. This could be a tool for full settlement of loans or when borrowers enter into instalment arrangements.

Existing powers

38. Inland Revenue can currently only provide relief from late payment interest on student loans. This legislative power is broad in nature and can be exercised when it is equitable to do so.

39. For tax debt, Inland Revenue has powers to write off or remit interest and penalties in some circumstances.[11] These powers were introduced in recognition that in certain circumstances, interest and penalties act as a barrier to compliance. These relief powers help get disengaged taxpayers back on track and promote voluntary compliance.

40. Both administrative and sustained collection efforts can have a positive impact on compliance. Budget 2024 funding is making a significant difference and Inland Revenue has been exceeding its targets,[12] but there are diminishing returns on collection activities. See Appendix 1 for an overview of Inland Revenue's compliance activities.

Extending existing powers

41. A discretion to provide relief from interest could be modelled on the current late payment interest relief discretion. This would be a general legislative discretion with operational limits on the use of the power. The discretion would be applied on a case-by-case basis s 18(c)(i) [redacted]

- s 18(c)(i) [redacted]
- s 18(c)(i) [redacted]

42. s 18(c)(i) [redacted]

[10] For example, under the UK scheme's settings, it is expected that around half of undergraduate loan borrowers in the 2023/24 academic year will repay their loan in full within 31 years. This compares to over 90% fully repaying in the NZ scheme within this timeframe.
[11] In relation to tax debt, relief can be provided for serious hardship, unrecoverable amounts, inefficient use of resources, insolvency (e.g., bankruptcy or liquidation) and for events beyond the taxpayer's control.
[12] We have received a total of $222.65 million (the target was $189 million) in repayments for the financial year ending 30 June 2025. This is a 40% increase in comparison to repayments collected this time last year.

s 18(c)(i) [redacted]

43. The Student Loan Scheme Act 2011 would need to be amended to implement this discretion.

Factors to evaluate the discretion to provide relief from interest

44. To help you decide on whether to progress this discretion to the detailed design stage we have carried out a high-level analysis.

Impact on current and future borrower compliance

45. The key issue to consider is what impact this discretion would have on compliance. We consider there are two key impacts:

- This discretion may improve compliance for borrowers that have been overseas for a long period of time and have significant debt. This discretion acts as an incentive for this group to re-engage with Inland Revenue to negotiate full settlement or restart repayments.

- There is a risk that the discretion will have a negative impact on compliance particularly for those borrowers who have been overseas for a short period of time. The discretion could weaken the incentive to remain compliant in the expectation that they will receive interest relief at some point and end up better off.[13]

46. It is unclear how significant the risk is to compliance. What we do know about behaviour shifts is that:

- OBB behaviour has shifted in the past in response to Inland Revenue's enforcement activities and messaging.

- Inland Revenue has not observed a link between current powers to provide relief from interest on tax debt and negative impacts on compliance, in fact 94% of tax due is paid on time.

Impact on value of student loan debt book

47. Changes to student loan scheme settings may impact on the flow of future repayments. These changes can have a flow on impact to the valuation of the student loan debt book.

48. The impact on the debt book and the value of the student loans will depend largely on the impact on compliance:

- Targeted use of the discretion may help maximise recovery of old student loan debt. Since old debt with no recent repayments is heavily impaired, this discretion may enable Inland Revenue to recover greater amounts than the loan's book value.

- If student loan compliance decreases, the value of OBB student loans may decline and debt may increase. Equally, the value of student loans may decline if interest is written off that would have eventually been repaid by the borrower. If the value of the scheme decreases, there will be a parallel increase in the cost of ongoing lending.

[13] This is referred to as 'moral hazard' – the change in behaviour of someone when there is a perceived lack of consequence.

Fairness and equity

49. The discretion may improve perceptions of unfairness. Many borrowers feel that the student loan system is unfair when interest (and penalties) can exceed the original loan balance. It may also reduce the stress and anxiety that some borrowers feel and remove barriers to returning to New Zealand.

50. In contrast, some compliant and domestic borrowers may feel the discretion is unfair. Compliant OBBs may have kept their loan at manageable levels by making regular payments, and domestic borrowers may have stayed in New Zealand to avoid interest on their loan and making regular payments through PAYE. These borrowers may feel the Government is rewarding non-compliant borrowers.

51. Care would be needed to consider how the discretion is executed so that it is applied consistently between compliant and non-compliant overseas borrowers. In addition, the design of the discretion would need to ensure that OBBs were not put in a better position than domestic borrowers.

Administrative and compliance costs

52. Based on Inland Revenue's initial assessment, if the discretion was to proceed its application can be managed within baselines. The compliance costs on borrowers are expected to be low. A key focus in the design of the discretion would be to minimise compliance costs for borrowers to maximise uptake.

Coherence

53. The discretion should ideally make sense in the context of the student loan scheme and tax administration scheme. As discussed, the discretion is aligned with the existing discretion to write off student loan late payment interest and existing powers available in relation to tax debt. These are viewed as an important tool used to engage non-compliant borrowers and taxpayers.

54. The discretion could be seen as contrary to the interest-free student loan policy granted to domestic borrowers. This could weaken a key lever the Government has to encourage graduate retention and reward those who contribute to the New Zealand labour market.

Inland Revenue view

55. Inland Revenue considers that older debt has become so significant that it requires separate consideration. This is because strategies to increase compliance in general will not be effective at recovering older debt.

56. Inland Revenue recommends implementing this discretion because we consider this would have the most significant impact in the short term. This discretion is frequently requested by borrowers and other stakeholders.

57. From Inland Revenue's research, it is unclear whether the discretion would have a negative impact on compliance. Literature on 'moral hazard' does not provide conclusive answers as to the level of risk, but it does suggest that the risks can be overstated.

58. Many factors influence borrowers' behaviour. For example, the risk of being arrested at the border for student loan debt may have a greater impact on immediate compliance compared to the anticipation of interest relief sometime in the future. Whether borrowers change their behaviour will depend on the certainty that they will receive relief in the future and how much relief they will receive. This means

the impact of interest relief on borrower behaviour could be influenced by policy design.

59. Providing a discretion to Inland Revenue, as opposed to legislating or publishing specific criteria to qualify for relief, may reduce the perceived certainty of relief as this would be provided on a case-by-case basis. This would be paired with operational limits s 18(c)(i) [redacted] which would reduce the perceived benefit. This is similar to how discretion is exercised in relation to student loan penalty interest.

60. Given the uncertainties as to the impacts on compliance, Inland Revenue recommends the discretion be granted on a trial basis. This could be achieved through the introduction of a sunset provision in the legislation. After a certain time, the power would expire unless extended via an Order in Council. This would give Inland Revenue time to demonstrate the benefits, but if a reduction in compliance was observed, the legislation would be left to expire.

Ministry of Education view

61. The Ministry of Education is concerned that this change could decrease the value of the scheme by lowering overall compliance. Even if the change enables Inland Revenue to collect more debt than may otherwise be the case in the short term, this could be outweighed by even a relatively small reduction in overall OBB compliance. Any reduction in the value of the scheme would have a negative fiscal impact on the government (via a non-cash expense on the operating balance).

62. The Ministry does not consider that overall debt in and of itself is a problem. It has always been known that the debt overseas was going to grow, and its increasing size does not result in any new impairment of the loan book. This is because not everyone overseas will meet all their obligations, and their debt will inevitably accumulate over time.

63. The key risk with the proposal is that it could negatively impact on overall OBB repayment behaviour. Providing a discretion to write off standard interest to settle loan accounts could generate cash in the short term but at the expense of degrading the value of the loan book as a whole.

64. It is well communicated to, and understood by, borrowers that interest will be charged on their loans when they go overseas. Writing off interest would weaken a key lever for encouraging graduate retention and rewarding those who contribute to the New Zealand labour market. If people overseas see that others overseas are having their interest cancelled, they will naturally wonder if they can achieve the same outcome.

65. If Inland Revenue is concerned with debt accumulation for individuals an option could be to stop applying penalties at a time when it becomes clear that they are having no impact.

66. A reduction in compliance could also increase the costs of new lending. If the value of the scheme decreases, there will be a parallel increase in the cost of ongoing lending. As an example, the interest-free policy for New Zealand-based borrowers put in place in 2006 saw the cost of lending increase from 20.1 cents in the dollar to 37 cents in the dollar (this was under new reporting standards put in place at that time). Any increase in the cost of new lending impacts the operating costs of current and future tertiary education delivery.

Loan recovery

67. The expected recovery of OBB student loans as a result of this policy is difficult to estimate and is dependent on a number of factors. Some of the key factors include uptake, level of loan recovery and any broader impacts on compliance. We may also see higher uptake initially due to pent up demand for settlements and then a decline to a steady rate over time.

68. s 18(c)(i) [redacted]

s 18(c)(i) [redacted]

69. s 18(c)(i) [redacted] Some borrowers would have also paid their loan back without this additional incentive, albeit over a prolonged period of time.

70. The uptake will depend on how the discretion is implemented, such as how proactively OBBs are engaged and marketed to.

71. Note that the student loan scheme valuation is very sensitive to OBB repayment behaviour. Even small changes can significantly reduce the value of the scheme. For example, if the probability of making a repayment in a year while overseas falls by 2.5% then the value of the scheme in the Crown's account would decrease by $202 million.[14] A fall in the value of the scheme is treated as an expense and so requires a new appropriation.

72. These estimates do not give an indication how the debt book might be impacted or the value of loans. These estimates are initial only, if you agree to progress work on a discretion, more detailed estimates will be provided including how the overall debt book will be impacted - noting any estimates will still have significant uncertainty.

Consultation

The Treasury

73. Treasury has been consulted and supports further exploration of this policy area but notes that the objectives of the proposed policy change need clarification. For example, it is unclear whether the primary goal is to achieve a fiscal benefit to the Crown (i.e., savings), or to support individual borrowers who have accumulated large loan balances.

74. Fiscal impacts would depend on the specific policy design and could have either a positive or negative impact on the operating balance and net core Crown debt. Based on the current evidence, Treasury cannot provide a firm view on whether an improvement to OBB compliance and the overall debt book would exceed the associated cost. Consistent with previous advice, Treasury would not advise any operating costs or savings from this policy to be managed against Budget

[14] PwC, 2025 Student Loan Valuation report.

allowances due to the uncertainty of impacts which depend on borrowers' behavioural responses.

75. Treasury recommends that future advice assesses costs and benefits of different scenarios incorporating both Inland Revenue's and the Ministry of Education's anticipated impacts. This would enable informed trade-offs between the potential benefits from improved compliance and risks of changes to borrower behaviour impacting on the integrity of the Student Loan Scheme. Advice on options should provide evidence of policy effectiveness and consider broader macroeconomic impacts.

76. Treasury considers a trial period could be used to establish an evidence base for the proposed policy but notes that a short trial period may not be sufficient to indicate impacts on long-term compliance behaviour. Additionally, longer-term options to improve OBB compliance could be considered.

The Ministry of Social Development

77. The Ministry of Social Development has been consulted, and they have no comments.

Further work

Options for policy design

78. If Ministers would like to progress a discretion to provide relief from student loan interest, we are able to provide advice in mid-October on:

- detail design
- the impact on compliance based on different scenarios, and
- financial implications, including impact on debt book and the value of student loans.

79. Following that advice, if Ministers wish to proceed with the discretion, we will provide a draft Cabinet paper seeking approval to make a legislative change.

80. The earliest opportunity for legislative change would be through an Amendment Paper to the current Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage. This should take place in March 2026.

Not in scope

81. Not in scope

Not in scope

82. Not in scope

83. Not in scope

84. Not in scope

Recommended action

We recommend that you:

1. **Note** that improving overseas-based borrower compliance is challenging particularly for borrowers with old debt.

Hon Dr Shane Reti	Hon Simon Watts
Noted	Noted

2. **Note** the key issue with interest relief is whether additional repayments received are outweighed by the broader changes in compliance behaviour that may impact the value of the student loan book and the cost of new lending.

Hon Dr Shane Reti	Hon Simon Watts
Noted	Noted

3. **Indicate** whether you would like officials to progress further work on options for the policy design of a discretion to provide relief for student loan interest and the impact on the debt book (Inland Revenue preferred approach).

Hon Dr Shane Reti	Hon Simon Watts
Yes/No	Yes/No

4. Not in scope

Hon Dr Shane Reti	Hon Simon Watts
Noted	Noted

s 9(2)(a)

James Campbell
A/g General Manager
Ministry of Education

18/09/2025

s 9(2)(a)

Carolyn Elliott
Policy Lead
Inland Revenue

18/09/2025

Hon Dr Shane Reti
Minister for Universities

Hon Simon Watts
Minister of Revenue

Appendix 1: Additional information

Fair value of OBB student loans

1. The valuation of the student loan scheme is conducted periodically to assess its fair value on the government's balance sheet. Impairment of the loan book impacts the long-term sustainability of the scheme and the government's ability to fund other public services. The scheme is valued on a fair value basis.[15] For 2024–25, the fair value of new lending is 66 cents for every $1 lent, a 34% write-down.[16]

2. The scheme's value is highly influenced by economic factors such as interest rates, unemployment and wages. Policy settings can also influence the value, one of the most significant policy settings that influences the value of the book for domestic borrowers is not charging interest on loans for borrowers based in New Zealand.

3. s 18(c)(i) [redacted]

s 18(c)(i) [redacted]

[15] This is the amount of student loan debt that could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value calculation adjusts for expected future repayments and interest rates.
[16] PwC also undertakes an annual valuation of the scheme – forecasts as of June 2025 have the fair value at $10 billion against a nominal value of $16.1 billion, or 62.2%.

4. s 18(c)(i)

Inland Revenue's compliance activities

5. In June 2025, Inland Revenue provided information to the Minister of Finance and Minister of Revenue's offices on actions taken to collect overseas student loan debt (BN2025/276 refers). A summary of this information follows.

6. Inland Revenue is exceeding Budget 2024 funding targets, but there are challenges with getting positive compliance outcomes from borrowers. Compliance interventions are resource heavy and often not sustained if borrowers ignore requests and actions.

7. Repayments received in the year ended June 2025 totalled over $226 million. This is a 40% increase in comparison to repayments collected this time last year.

8. Inland Revenue has been reaching OBBs through various advertising channels, including search, video, display digital advertising, and social media. They have sent out over 200,000 emails, almost 20,000 letters and 50,000 SMS, as well as phone calls to OBBs.

9. An arrest at the border was recently conducted and there a number of other individuals on our arrest watchlist. Inland Revenue's experience is that the actual arrest does not resolve significant debt, but the threat of arrest does.

10. Inland Revenue is using overseas collection agencies to help collect OBB debt. During the last quarter, January to March 2025, the agencies helped collect defaults from 3,742 individuals.

11. Between 1 July 2024 and 30 April 2025, 917 OBBs received late payment penalty interest remission amounting to a total of $12.4 million.

12. Between 1 July 2024 and 30 April 2025, 28,328 OBBs applied for and were granted $45.8 million in hardship relief.

13. Inland Revenue is exploring opportunities to gather more data about OBBs from certain countries and expand the use of overseas collection agencies.

Appendix 2: Table of international comparisons

Area	NZ	Australia	United Kingdom	Canada
Funding settings and access What are student loans for and how are they accessed?	Subsidised loans available for tuition cost of higher education and vocational training. Loans and grants (means-tested) available for living costs. As of 2024, median loan balance at graduation for a bachelor's degree was NZ$34,080. Current average loan balance is NZ$25,709 – OBB $36,601, domestic $23,342. Maximum capped by length of study limit.	Subsidised loans available for cost of higher education and vocational training. Mix of loan types for different purposes and other financial assistance available for living costs. As of 2024, the average Higher Education Loan Program balance was AU$27,640 (NZ$30,570) – overseas-based AU$29,787 (NZ$32,945). Maximum capped at AU$126,839 or AU$182,172 (Medicine).	Central government loans provided to cover tuition costs and living costs, which is means-tested. Separate loans are available for postgraduate study. Additional grants and allowances are available based on circumstances (e.g., low income, disability). As of 2024, average debt at graduation was £53,000 (NZ$122,074). For most undergraduates the maximum loan per year is £9,535. And maximum limit to first qualification (plus one year).	Federal government finance mostly provided by Canada Student Financial Assistance. Most provinces partner with federal government and administer part of the funding, while others run independent program. Provides mix of loans for higher education and vocational training as well as means tested targeted grants. Private loans are also available through banks. As of 2024, average debt at graduation was CA$29,000 (NZ$35,756).
Repayment system How are repayments of loans managed?	Different systems/expectations for domestic and overseas borrowers. **Domestic:** Income-based, 12% of income above NZ$24,128**.** Mostly auto-collected via PAYE. Interest not charged. **Overseas:** Once overseas for ~183 days. Loan-size based. Determined by size of loan on day of departure. Maximum payment NZ$5,000. Two repayments required per year (half of assessment). Interest charged (4.9% pa).	Largely single system/expectations for all borrowers. Income-based for all, administered through tax system by ATO. All borrowers are assessed on worldwide income. Compulsory repayments above annually adjusted threshold (largely collected via PAYG[17]): AU$67,000 to AU$125,000 = 15%; AU$125,000 to AU$179,000 = AU$8,700 plus 17% above AU$125,000; > AU$175,000 = 10% of all income. Other voluntary payments can be made, but they do not reduce the compulsory payment. All loans are indexed against CPI/WPI annually currently 3.2%. **Overseas:** once overseas for ~183 days – required to notify ATO. Overseas	Largely single system/expectations for borrowers. Income-based for all borrowers. Borrowers are on one of five plans based on when they studied. Threshold range £21,000 to £32,745 (NZ$48,292 to $75,301); repay 9% of income above threshold (6% for postgraduate loans). Obligations deducted via PAYE domestically. Other voluntary payments can be made. Interest charged depends on plan, currently between 4.3% to 7%, **Overseas:** After 3 months abroad considered overseas, thresholds adjusted by country. Borrowers must report income; if not, Student Loans Company (SLC) applies a higher fixed payment.	Single system/expectations for all borrowers. Fixed-term repayment starting 6 months after study. Default term 9.5 years (extendable to 14.5). Monthly payment = loan amount ÷ term (e.g., CA$29,000 ≈ CA$254/month). Payments made directly to National Student Loans Service Centre (NSLSC), frequency flexible. Federal loans are interest-free since April 2023; most provinces also removed interest (exceptions: Ontario, Alberta, Quebec, Northwest Territories, Saskatchewan at ~1% to 2% pa). **Overseas:** Same obligations; must notify NSLSC and pay in Canadian

[17] Australia's PAYE system

Area	NZ	Australia	United Kingdom	Canada
	Voluntary repayments can also be made.	borrower can choose assessment process variations to account for income tax filed in foreign countries.		dollars via Canadian banking channels.
Managing compliance How is compliance/non-compliance managed?	**Domestic:** Repayments deducted automatically via PAYE ensures high compliance ~95%. **Overseas**: Self-managed payments; late payment interest of 8.9% pa; compliance ~33%. **Enforcement**: Legal action and even border arrest for serious default. Use of third parties for tracing. **Difficulty paying:** Options include reducing assessments, payment plans with reduced penalties, or recapitalising arrears.	PAYG deductions ensure high compliance (domestically); student loan repayments are integrated with income tax so no separate compliance focus, but if borrowers do not file tax returns, no assessment occurs. **Enforcement:** Treated like tax debt; interest can be charged. Enforcement tools include garnishee, departure prohibition orders, and debt collection agencies. **Difficulty paying:** Options to defer or amend compulsory repayments with evidence. **Other:** Annual indexation incentivises voluntary repayments to reduce balance growth.	PAYE via HMRC deductions ensure high compliance; no payments required if income is below threshold. **Overseas:** High fixed assessments encourage income reporting; evidence can reduce or eliminate payments. **Enforcement:** Missed payments can trigger max interest (7%) and arrears remain payable regardless of income. Student loans differ from other government debts, rarely enforced via courts, credit reporting, or wage garnishment. SLC may use debt collectors or legal action for persistent arrears (especially overseas). **Difficulty paying:** Payment plans can be arranged directly with SLC.	No automatic deduction via tax system payments made directly to NSLSC. **Difficulty paying:** Borrowers can apply for the Repayment Assistance Plan (RAP), which caps payments at 10% of income (or $0 if below threshold) based on income and family size. Must reapply every 6 months. **Enforcement:** After 9 months of missed payments, the federal loan goes to the Canada Revenue Agency (CRA) for collection. CRA can garnish wages, intercept tax refunds, freeze accounts, and report to credit bureaus. To regain eligibility and access RAP, borrowers must 'rehabilitate the loan' – make two-monthly payments and resolve or capitalise outstanding interest.
Loan flexibility To what extent is debt considered uncollectable; or can be forgiven/written off?	Remaining student loan debt is written off due to death or bankruptcy. Late payment interest portion can be written off as part of 'hardship' process. Expectation that loans should be collected in full and as quickly as practicable.	Remaining student loan debt written off due to death. Not impacted by bankruptcy. No other standard mechanism to specifically write off student loans. However, a recent 20% one-off write-off has been approved to all loan balances to reflect growing burden on borrowers and inability to keep up with payment obligations.	Student loan debt (not including arrears) is written off after a plan-specific period (between 25 to 40 years from beginning of repayments). Written off earlier due to death and in some cases permanent disability. Generally excluded from bankruptcy. The UK Government has twice previously 'securitised' historic student loan debt (i.e., sold to third party). The UK Government has made the decision to end its sale programme because of	Loan is written off due to death or severe/permanent disability. After 60 months of being on RAP (cumulative) or 10 years following leaving study federal government assumes responsibility for unpaid proportion of federal loan. Bankruptcy discharge, however only after 7 years post study (5 if in RAP). Provinces may offer targeted forgiveness on provincial loans.

Area	NZ	Australia	United Kingdom	Canada
			the significant negative impact on public sector net borrowing.[18]	

[18] Refer page 35 of Student loan statistics, House of Commons briefing paper, June 2025 SN01079.pdf

MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Inland Revenue
Te Tari Taake

Joint policy report: Design of a discretion to provide relief from student loan interest

Date:	23 October 2025	**Priority:**	High
Security level:	Not in scope	**Report number:**	IR2025/414 METIS 1353740

Action sought

	Action sought	Deadline
Minister for Universities	**Agree** to recommendations **Refer** the report to the Minister of Finance	30 October 2025
Minister of Revenue	**Agree** to recommendations	30 October 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Carolyn Elliott	Policy Lead, Inland Revenue	s 9(2)(a)	☒
Natisha Jones	Senior Policy Advisor, Inland Revenue	s 9(2)(a)	
Katrina Sutich	Group Manager, Ministry of Education	s 9(2)(a)	

23 October 2025

Minister for Universities
Minister of Revenue

Design of a discretion to provide relief from student loan interest

Executive summary

Purpose

1. This report seeks your agreement to the design of a discretion for Inland Revenue to provide relief from student loan interest. It also provides an estimate of the impact on the value of the student loan debt book and next steps if you wish to progress this.

Summary

2. The purpose of the discretion would be to collect the highest amount possible from student loan borrowers with the aim of improving the overall value of the scheme to the Crown.

3. The discretion can be designed with different legislative options that determine how broad the discretion is, as set out in the table below. These options can be layered to provide more certainty and further limit how the discretion would work. Under all options, operational policy will inform how the discretion is applied.

Option A: Discretion limited by purpose only.
Option B: Discretion limited by decision-making criteria, using either: (i) broad criteria (similar to current discretion to provide relief from late payment interest), or (ii) specific criteria (such as the borrower's ability to pay).
Option C: Discretion limited by how it can be applied (such as for full and final settlements only).

4. The following table summarises implementation and monitoring options for the discretion. It also outlines Inland Revenue's proposed plans to target the discretion.

Implementation options
Permanent or trial basis (three years): Given the uncertainties about the impacts of a discretion, we recommended that the discretion proceed on a three-year trial basis. This can be either ended early or extended depending upon whether the discretion is achieving its policy objectives. This can be achieved by an Order in Council.
Ways to monitor the discretion
Regular reporting: Inland Revenue can report every six months on the use of the discretion. Inland Revenue can provide information on relief provided (as part of current reporting that is used in the valuation process) to help understand whether the interest relief provided was financially beneficial for the Crown.
Cabinet agreed cap on interest relief: To manage the total amount of interest relief given, Cabinet could set a dollar cap of total interest relief that Inland Revenue can provide (suggested $30 million core interest). If interest relief neared that cap, Cabinet would be informed and could either increase the cap or end the discretion early.
Operational policy for applying interest relief [revenue information]
Discretion exercised on a case-by-case basis: Inland Revenue would apply the discretion on a case-by-case basis following strict operational policy. s 18(c)(i) [redacted] s 18(c)(i) [redacted] s 18(c)(i) [redacted] s 18(c)(i) [redacted] s 18(c)(i) [redacted]

Financial impacts

6. There is considerable uncertainty in the costing. On balance, we think the most likely outcome of the tightly targeted application of the discretion (outlined in paragraphs 37 to 44 of this paper) is a modest one-off gain of around $0.942 million. This is largely offset by a decrease in interest unwind of $0.795 million over the forecast period.

7. The costing does not include any financial risk that the policy change would lead to other overseas-based borrowers (OBBs) not repaying on the expectation they could negotiate a settlement in the future.

Agency positions

8. Inland Revenue recommends agreeing to a discretion to provide interest relief and adopting Option B(i). This provides flexibility to administer the relief to maximise its benefits and is consistent with the current discretion to provide relief from late payment interest. Inland Revenue considers this will be an improvement on the status quo and it will endeavour to administer the discretion to maximise the overall value of the scheme.

9. The Ministry of Education's preferred option is to not extend the Commissioner of Inland Revenue's powers to write-off interest. It considers that the moral hazard risks of writing off interest likely outweighs any short-term gains in respect of student loan receipts. If an option were to progress, then Option A coupled with Option B(ii) is preferred because it provides clarity for why and how the legislative power will be used while retaining some flexibility for Inland Revenue to consider individual cases.

Next steps

10. If you decide to progress a discretion, Cabinet agreement and legislative change are required. The earliest opportunity for legislative change is through an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill (due to be enacted before the end of March 2026) s 9(2)(f)(iv)

Design of a discretion to provide relief from student loan interest

Background

11. In September we reported to you on the high-level advantages and disadvantages of a discretion to provide relief from student loan interest[1] (IR2025/359, METIS 1352698 refers). You agreed to receive further advice on the detailed design.

12. The purpose of introducing a discretion is to collect the highest amount possible from student loan borrowers with the aim of improving the overall value of the scheme to the Crown. This power would primarily be used to re-engage non-compliant OBBs to repay their student loan.

13. In some situations, there will be a tension between how much interest relief is provided and the impact on the scheme. Ideally, the discretion would allow Inland Revenue to improve the value of the scheme. The extent to which this purpose is achieved will depend on an OBB's ability to make a settlement and the value of these loans. The value of the loan is highly influenced by past compliance. This discretion may allow Inland Revenue to recover amounts from borrowers that otherwise would not be collected. However, there may be instances when the recovery amount is less than what would have been collected over time.

14. The discretion would also provide relief to individual borrowers whose balances have become significant due to the accumulation of penalties and interest. This accumulation is causing stress and anxiety for some borrowers, and can contribute to an unwillingness to engage with Inland Revenue because they perceive the debt is insurmountable. This may also contribute to a fear of returning to New Zealand in case they face arrest at the border.

Design options

15. There are different ways to legislatively design a discretion to provide interest relief. The key trade-off is between allowing flexibility for Inland Revenue and reducing the risk of potential negative impacts on the debt book. These are set out in the following options, which are not mutually exclusive.

16. Even if the legislation does not set out decision-making criteria or how the relief will be applied, these would still be present in operational guidelines and training for staff (discussed later in the report).

Option A: Discretion limited by purpose

17. The discretion could be limited by the legislative purpose. This would mean the legislation would reflect the purpose outlined in paragraph 2.

18. The discretion would be applied on a case-by-case basis, so it may not always be possible to determine whether the relief would improve the value of the scheme overall. While Inland Revenue would endeavour to collect the highest amount possible to improve the value of the scheme for the Crown, there will be limitations based on the information available, available resources to collect the debt, as well as considerations like the risk of continued non-compliance. If this option was

[1] Interest throughout this report refers to the portion of "core" interest that applies to the loans of OBBs, regardless of whether payments are made (currently 4.9%). "Core" interest stops being charged when a repayment amount falls due. Late payment interest refers to the amount of interest that applies to overdue payments (when that is $334 or more, currently the rate is 8.9%).

chosen, the purpose statement would need to be drafted in a way to provide some flexibility to consider the practicalities of each unique case.[2]

19. The key advantage of providing a broad discretion is that the discretion and decision-making factors would be adaptable overtime, especially if this power endures over the longer term. This means that Inland Revenue can be more responsive and adapt the guidelines with what it learns through using the discretion and its impact on borrower behaviour. s 18(c)(i) [redacted]

20. A disadvantage of this design is that relief is uncertain and there is a risk that the initial eligibility criteria or application could expand over time to include situations that increase the cost to the Crown.

21. If the discretion is given on a trial basis (discussed below), Inland Revenue would limit uses of this discretion to relief for full and final settlements only (either via lump sum payment or through a short-term instalment arrangement).

Option B: Discretion limited by legislative decision-making considerations

22. The discretion could be limited by outlining the decision-making criteria for interest relief in legislation. For example, the legislation could state the different factors Inland Revenue will consider when determining whether someone qualifies for relief and the level of relief. This could be achieved by setting broad or specific decision-making factors as discussed below.

(i): Broad decision-making factors (Inland Revenue's preferred option)

23. Including broad decision-making factors would model the current discretion to provide relief from late payment interest. The current discretion allows the Commissioner of Inland Revenue to provide relief on a case-by-case basis when considered equitable to do so. The term equitable is a broad decision-making consideration that generally means people in similar situations would be treated consistently.

24. Broad decision-making factors would guide Inland Revenue as to how to develop operational guidelines to maximise the objectives of the provision and adapt them as needed. However, this option does not mitigate the risk of eligibility gradually expanding over time in situations that could be costly to the Crown.

(ii): Specific decision-making factors (Ministry of Education's preferred option coupled with Option A)

25. The decision-making factors could be more specific to direct the Commissioner's use of the power. For example, the legislation could direct the Commissioner to consider factors like the OBB's ability to pay and how long they have been overseas when applying the discretion.

26. Including specific considerations would provide less flexibility for Inland Revenue to adapt operational guidance. However, limiting the decision-making criteria, would reduce the risk of eligibility expanding (as noted above).

27. Providing specific factors also risks that borrowers may adapt their behaviour or the information provided to Inland Revenue to meet the criteria and increase the likelihood of getting relief.

[2] This is like the Commissioner's legislative duty of care and management, which states the Commissioner must collect over time the highest net revenue that is practicable within the law.

Option C: Discretion limited by situations when it can be applied

28. The discretion could be limited by situations when the power is applied. For example, the legislation could limit the amount of relief that can be provided [redacted] s 18(c)(i) or by only allowing relief to be provided if borrowers agree to a full and final settlement of their loan balance.

29. If Ministers wished to limit the discretion in this way, we recommend relief be limited to full and final settlement of a borrower's loan balance. Full and final settlement could be reached through a lump sum payment or through a short-term instalment arrangement for the full amount (eg, a maximum term of two years).[3]

30. This option would still allow Inland Revenue some flexibility to apply the discretion on a case-by-case basis. However, if too many constraints were placed on the discretion, it may limit the ability of Inland Revenue to re-engage non-compliant borrowers and therefore achieve the underlying purpose. In addition, specifying the amount of relief available could create a target that undermines the ability of Inland Revenue to recover the maximum amount when negotiating with borrowers.

Implementation options

Trial vs ongoing discretion

31. Given the uncertainties as to the impacts on compliance, the discretion could be granted on a trial basis. This could be achieved through the introduction of a sunset provision in the legislation. After a certain time, the power would expire unless extended via an Order in Council or amendment to primary legislation. This would give Inland Revenue time to evaluate the benefits and any negative consequences. If the policy objectives were not being achieved or a reduction in compliance was observed, the legislation could be left to expire or be terminated early.

32. Inland Revenue would pair a trial with a phased implementation approach, starting with a controlled roll out of the power to monitor the impact for borrowers and the impact on the scheme. Uses of the discretion would be tracked, and this information would be analysed to understand its impacts.

33. If you agree to a trial, we recommend a minimum trial period of three years. This will give Inland Revenue time to apply the discretion and gather insights. These insights can be incorporated with the planned rebuild of the student loan administrative system in 2029, and any further policy changes could be evaluated at the same time.

34. The main disadvantage with a short-term trial is that it limits how Inland Revenue can use the discretion, for example, relief for borrowers that return to compliance by entering instalment arrangements. A three-year trial may also not be long enough to observe behavioural change particularly if there is a soft roll out of the policy and an extension of the trial period may be needed.

Monitoring the discretion (non-legislative measures)

35. It will be important to understand the value of loans repaid that received relief from interest and this value could then be compared to the lump sums received. We suggest Inland Revenue reports to you every six months on the application of the discretion, including number of borrowers and value of relief provided. In addition to the reporting above, Inland Revenue would include the information about relief provided as part of current reporting to Statistics NZ (to the Integrated Dataset Infrastructure), which is used in the annual valuation process.

[3] For lump sum payments, the relief would be given at the time of payment. For instalment arrangements, relief could be provided following completion of payments.

36. In addition, Cabinet could agree to an overall cap for interest relief to limit and monitor how much interest has been written off. If the amount of interest written off was nearing the cap, a report back to Cabinet would be required. At that point, options could be considered to set a higher cap or end the discretion early if the policy objectives were not being achieved. If you consider a cap necessary, we recommend a cap of $30 million.

Operational policy [information contained in this section is revenue information[4]]

37. There would be clear operational policy in how the Commissioner applies the discretion, s 18(c)(i) [redacted]

s 18(c)(i) [redacted]

38. s 18(c)(i) [redacted]

- [redacted]
- [redacted]
- [redacted]

39. s 18(c)(i) [redacted]

40. s 18(c)(i) [redacted]

41. s 18(c)(i) [redacted]

s 18(c)(i) [redacted]

42. s 18(c)(i) [redacted]

43. s 18(c)(i) [redacted]

[4] Revenue information in this context means information relating to how Inland Revenue would administer a proposed discretion. This information should not be disclosed to the public.
s 18(c)(i) [redacted]

s 18(c)(i) [redacted]

44. s 18(c)(i) [redacted]

Financial implications

Interest charged on OBBs' loans has a high value to the Crown

45. Interest charged on overseas loans has a high value to the Crown. Much of this value comes from repayments that are expected to be made by borrowers who are modelled as returning to New Zealand in the future, with a smaller contribution from payments made while overseas.

46. If all interest on overseas loans was written off, the value of the overseas asset (around $1,640 million) would be halved. If this was extended to the interest on borrowers' accounts for people who have lived overseas and have returned to New Zealand, this would be an additional loss.

Current proposal

47. The financial implications of the proposal have been assessed assuming the operational policy in paragraphs 37 through 44 is strictly followed, and settlements are full and final. s 18(c)(i) [redacted] and outlines the approach Inland Revenue would take to improve the odds the settlement of the loan is a positive outcome to the Crown.

48. Full and final settlements allow a borrower to pay a lump sum in exchange for extinguishing their loan. The difference between the lump sum amount and the expected value of the loan (that is, the present value of the estimated repayments the borrower would have made in the absence of a settlement) is either a profit or a loss to the Crown.

Impact of proposal on borrower behaviour is highly uncertain

49. It is not possible to accurately assess borrower behaviour in this matter. A borrower who considers that an offer to settle is of benefit to them is more likely to accept the offer. We assume that most borrowers know their own intentions and so are often well placed to make a good assessment. If a borrower makes a decision that does not financially benefit them, the Crown will make a profit on the transaction. The proportion of borrowers who are likely to make a poor decision is unknown but is estimated to be 10% or 20%.

50. There is also a high level of uncertainty about borrowers' financial capacity to complete the settlement. We assume that larger amounts are harder to find but we are only speculating about these levels.[7]

Considerable uncertainty in costing

51. As noted, some settlements will be in the Crown's favour and some will not. The balance of these transactions is the gain or loss. Using different assumption sets gives a range of outcomes, from a loss to the Crown of $2 million to a gain of $6

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s 18(c)(i) [redacted]

[7] For example, we have assumed that 70% of people can find $4,000 but only 25% can find $32,000.

million. On consideration we believe the most likely outcome is a one-off gain of $0.942 million.

52. This assessment does not take into account the risk that the proposal has a negative impact on current borrower repayment behaviour.[8]

53. This forecast assumes a net increase in cash receipts from this policy of $7.501 million over the forecast period.

54. As we are expecting the cash earlier than previously forecast, there will be $0.795 million less interest unwind over the forecast period. This means the net forecast impact on operating balance over the forecast period is a $0.147 million increase.

Inland Revenue administrative and system implications

55. Implementation of the proposed discretion will require system changes and updating operational guidance and training material for staff. We estimate the cost of this at approximately $500,000, which Inland Revenue will absorb within baselines. We note that the April 2026 release is at capacity and delivery of these changes may require some reprioritisation. However, we believe the changes to enable lump sum full and final settlement could be delivered by 1 April 2026.

56. In working through the detailed design, we have identified that system changes to permit settlement through an instalment arrangement may be more challenging to deliver because it requires a bespoke build that is different to existing instalment arrangement functionality. We are undertaking further work to understand whether this is possible to deliver in a cost-effective manner and will advise further on this when a draft Cabinet paper is provided if you agree to progress the proposals in this paper.

Agency views

Inland Revenue view

57. Inland Revenue's preference is to limit the discretion by broad decision-making factors only. This provides flexibility to administer the relief to maximise its benefits and is consistent with the current discretion to provide relief from late payment interest. Inland Revenue will employ a continuous improvement model, with initial learnings fed back into how the discretion is applied to best achieve the policy purpose.

58. Inland Revenue does not recommend any other form of limitation, other than restricting the discretion to full and final settlements. Legislating specific eligibility criteria or other restrictions on how the rule is applied risks causing behavioural changes and gaming to qualify for relief. Our research indicates that less certainty of relief would result in less behavioural change. When relief is predictable and/or unconditional, it can create expectations of future relief, exposing the moral hazard risk. Our preferred approach would be to allow the discretion to be applied on a case-by-case basis and the specific criteria not be published, so we could minimise the moral hazard risk.

59. Inland Revenue is comfortable for the discretion to proceed on a trial basis initially given the high level of uncertainty as to the impact on the scheme. We are also comfortable with regular reporting to Ministers on the use of the discretion (including monitoring by way of a soft cap of $30 million).

[8] Even small changes in OBB repayment behaviour can significantly reduce the value of the scheme. For example, a decline in the probability of an OBB making a repayment in a year falls permanently by 2.5%, the value of the scheme in the Crowns accounts would reduce by $202 million, and would require an appropriation.

60. Inland Revenue considers that the discretion will be an improvement on the status quo, and we will endeavour to administer the discretion to maximise the overall value of the scheme while also applying the discretion in a consistent manner. A key benefit we see is the administrative savings resulting from this discretion. For example, it can be very time consuming and costly to take collection action against non-compliant borrowers. We consider this power would enable us to achieve collection from borrowers we otherwise would not.

Ministry of Education view

61. The Ministry of Education considers that Inland Revenue's existing powers of loan relief (ie, writing off late payment interest) give it considerable power to do deals already.

62. The Ministry considers that the risks of introducing a discretion are outweighed by the likely very small gain for the Crown in terms of revenue. The risk of introducing a discretion refers to the risk that currently compliant overseas-based borrowers stop making repayments because they believe that an interest write-off is an option for them in the future (e.g., because of misinformation spread across overseas-based borrower networks that deals can be done and in the absence of detail about the policy and its purpose).

63. If the proposal is to progress, the Ministry prefers Option A coupled with Option B(ii). This approach does not impose legislative limits to the circumstances in which the Commissioner can write-off interest but sets out the purposes for which the discretion can be exercised and what must be considered. This provides clarity for why and how the power will be used while retaining some flexibility for Inland Revenue to consider individual cases.

64. To better manage the risks, the Ministry supports a trial period but considers that this period needs to be flexible. For example, it should be possible to end the trial period early if significant problems emerge or extend it if there is not enough information on which to evaluate the policy in terms of the moral hazard. This is possible given the soft implementation approach Inland Revenue is recommending.

Consultation

65. The Treasury were consulted in the preparation of this report.

Next steps

66. We have provided options for the design of the discretion, however, if you wish to vary those design options, we recommend you discuss with officials.

67. If you agree to progress a discretion to provide interest relief, Cabinet agreement and legislative change are required. There are two possible timelines depending on whether you wish to progress this s 9(2)(f)(iv) [redacted] or include in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill through an amendment paper:

	Amendment paper to Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill	s 9(2)(f)(iv) [redacted]
Reporting	Draft Cabinet paper and draft RIS: Early November 2025	
Cabinet Committee decisions	Cabinet Economic Policy Committee: 3 December 2025 Cabinet: 9 December 2025	
Other actions	Committee of the Whole House: likely March 2026	
Enacted by	31 March 2025	

Recommended action

We recommend that you:	Minister for Universities	Minister of Revenue
1. Agree to seek Cabinet approval to provide the Commissioner of Inland Revenue with a legislative discretion to provide relief from some student loan interest. **2. Note** the purpose is to collect the highest amount possible from student loan borrowers with the aim of improving the overall value of the scheme to the Crown.	Agreed (IR preference)/ Not agreed (MoE preference) Noted	Agreed (IR preference)/ Not agreed (MoE preference) Noted
If you agree to recommendation 1, agree to the legislative design		
3. Agree to <u>one or more</u> of the following options: Option A: Legislative purpose Option B(i): Broad decision-making criteria (eg, similar to the late payment interest discretion). Option B(ii): Specific decision-making criteria. Option C: Situations when it can be applied (such as, for full and final settlements only). **4. Note** that Inland Revenue's preferred option is Option B(i). **5. Note** that the Ministry of Education's preferred option is Option A combined with Option B(ii). **6. Discuss** with officials to finalise the limiting legislative factors.	Circle preferred option/s Discuss	Circle preferred option/s Discuss
Further limitations on discretion		
7. Agree that the discretion would end after three years (or earlier), unless extended by an Order in Council. **8. Agree** to a soft limit of $30 million of the amount of interest relief when exercising the discretion by Cabinet agreement. **9. Agree** that Inland Revenue report to Ministers on how the discretion is being applied every six months. **10. Note** that Inland Revenue will provide information on relief provided as part of current reporting to Statistics NZ (to the Integrated Dataset Infrastructure), which is used in the annual valuation process.	Agreed/ Not Agreed Agreed/ Not Agreed Agreed/ Not Agreed Noted	Agreed/ Not Agreed Agreed/ Not Agreed Agreed/ Not Agreed Noted
Financial implications		
11. Note that if the anticipated uptake in the target group is realised, this would result in a net decrease in impairment expense because the cashflows expected to be generated from the policy exceed the amount of cashflows previously expected.	Noted	Noted
12. Note that there is significant uncertainty in the fiscal implications due to borrower behaviour, given the Crown is unaware of a borrower's individual financial circumstances or decisions and self-interest. Using different assumption sets gives a range of outcomes, from a loss to the Crown of $2 million to a gain of $6 million. On consideration we believe the most likely outcome is a one-off gain of $0.942 million.	Noted	Noted

We recommend that you:	Minister for Universities	Minister of Revenue
13. Note the proposal has the following change to appropriation which positively impacts the operating balance and net core Crown debt:	Noted	Noted

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Non-departmental Other Expenses:					
Impairment of Debt Relating to Student Loans	(0.942)	-	-	-	-
Total Operating	(0.942)	-	-	-	-

We recommend that you:	Minister for Universities	Minister of Revenue
14. Note the following changes as a result of the decision in recommendation 1 above, with a corresponding impact on the operating balance and net core Crown debt:	Noted	Noted

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Capital receipts	0.101	1.298	3.938	2.814	(0.650)
Non-Tax Revenue:					
Interest on Impaired Student Loans	0.019	0.024	(0.114)	(0.326)	(0.398)
Total Capital Receipts	0.101	1.298	3.938	2.814	(0.650)
Total Operating	(0.019)	(0.024)	0.114	0.326	0.398

We recommend that you:	Minister for Universities	Minister of Revenue
15. Agree to progress this change in an amendment paper at the Committee of the Whole House stage to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill. ***AND***	Agreed/ Not Agreed	Agreed/ Not Agreed
16. Agree that subject to recommendation 15, officials will provide a draft Cabinet paper and draft legislation for an amendment paper to take to the Cabinet Economic Policy Committee in December 2025 for approval. ***AND***	Instructed	Instructed
17. Note that Inland Revenue will draft the legislative amendments to give effect to the decisions above, which the Parliamentary Counsel Office will peer review. ***OR***		Noted
18. s 9(2)(f)(iv) [redacted]	Agreed/ Not Agreed	Agreed/ Not Agreed
19. Refer a copy of this report to the Minister of Finance.	Referred	

s 9(2)(a) [redacted]

Katrina Sutich
Group Manager
Ministry of Education

s 9(2)(a) [redacted]

Carolyn Elliott
Policy Lead
Inland Revenue

Hon Dr Shane Reti
Minister for Universities

Hon Simon Watts
Minister of Revenue

MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Inland Revenue
Te Tari Taake

Joint policy report: **Student loan interest relief – draft Cabinet paper for ECO**

Date:	13 November 2025	**Priority:**	High
Security level:	Not in scope	**Report number:**	IR2025/450 METIS 1354413

Action sought

	Action sought	**Deadline**
Minister for Universities	**Agree** to recommendations **Authorise** the attached Cabinet paper for lodgement by 10am **Thursday 27 November**	10am Thursday 27 November
Minister of Revenue	**Agree** to recommendations **Authorise** the attached Cabinet paper for lodgement by 10am **Thursday 27 November**	10am Thursday 27 November

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Carolyn Elliott	Policy Lead, Inland Revenue	s 9(2)(a)	☒
Natisha Jones	Senior Policy Advisor, Inland Revenue	s 9(2)(a)	
Katrina Sutich	Group Manager, Ministry of Education	s 9(2)(a)	

13 November 2025

Minister for Universities
Minister of Revenue

Student loan interest relief – draft cabinet paper for ECO

Purpose

1. This report seeks your agreement to lodge a paper to the Cabinet Economic Policy Committee to agree to give the Commissioner of Revenue (the Commissioner) the discretion to provide relief from student loan interest.

2. We reported to you in October on the detailed design of a discretion (IR2025/414; METIS 1353740 refers).

Background

3. The attached cabinet paper seeks agreement to a legislative amendment to give the Commissioner the discretion to provide relief from student loan interest when he considers it equitable to do so. This extends the current discretion to provide relief for late payment interest.

4. The paper also proposes Inland Revenue report to joint ministers on the use of the discretion every six months and report to Cabinet when interest relief exceeds $30 million. We also note that in the paper that if a problem emerges at any time, we may consider whether the discretion is continued.

5. You agreed to an enduring power, rather than a 3-year trial. As a result, the Ministry of Education re-estimated the fiscal impact. The impact is slightly more positive, with an increase in fair value of $1.500 million and net cash receipts of $8.290 million over the forecast period. The increase in value is partially offset by $1 million reduction in interest unwind (revenue) over the forecast period.

Consultation

6. We have consulted with the Ministry of Social Development and the Treasury on the policy proposal.

Administrative impacts

7. The draft Cabinet paper notes that administrative costs as a result of this policy will be covered within baselines. s 9(2)(f)(iv) [redacted]

Proactive release considerations

8. Officials recommend that the Cabinet paper, associated minutes, and key advice papers be proactively released following the tabling of the amendment paper. Note that the information on how Inland Revenue proposes to apply the discretion is revenue information and should not be disclosed to the public.

Next steps

9. We recommend the attached Cabinet paper be lodged with the Cabinet Office by **10am Thursday 27 November** for the Cabinet Economic Policy Committee meeting on 3 December 2025.

10. If the Committee agree, the paper will progress to Cabinet on 9 December 2025. The discretion would then be included in an amendment paper at the Committee of the Whole House stage to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, likely March 2026.

Recommended action

We recommend that you:

1. **Note** joint ministers agreed to progress a proposal to provide the Commissioner of Revenue with the discretion to provide relief from student loan interest.

   Noted | Noted

2. **Agree** to take the attached Cabinet paper to the Cabinet Economic Policy Committee on 3 December 2025 to seek a discretion to provide relief from student loan interest.

   Agreed/Not agreed | Agreed/Not agreed

3. **Authorise** the lodgement of the attached Cabinet paper with the Cabinet Office by 10 am Thursday 27 November 2025 for the Cabinet Business Committee to consider at its meeting on Wednesday 3 December 2025.

   Authorise/Not authorise | Authorise/Not authorise

4. **Agree** to proactively release the Cabinet paper, associated minutes, and key papers in full, in line with the provisions of the Official information Act 1982, following the tabling of the amendment paper.

   Agreed/Not agreed | Agreed/Not agreed

s 9(2)(a)

Katrina Sutich
Group Manager
Ministry of Education

s 9(2)(a)

Carolyn Elliott
Policy Lead
Inland Revenue

Hon Dr Shane Reti
Minister for Universities

Hon Simon Watts
Minister of Revenue

Office of the Minister for Universities

Office of the Minister of Revenue

Chair, Cabinet Economic Policy Committee

Student Loan Interest Relief

Proposal

1 This paper seeks the Cabinet Economic Policy Committee's agreement to introduce a legislative discretion to allow the Commissioner of Inland Revenue (the Commissioner) to provide relief from student loan interest.

2 The Commissioner already has the discretion to provide relief from late payment interest on student loans. He also has powers to write off or remit interest and penalties in some circumstances for tax debt.[1]

Relation to Government priorities

3 This proposal supports the Government's priority to get the Government's books back in order and restore discipline to public spending. The proposal aims to improve the Crown's financial position, through obtaining value from student loans that are in default. The Student Loan Scheme represents a significant financial asset on the Government's balance sheet, which impacts the Government's ability to fund public services. The proposal could also reduce barriers for skilled overseas-based borrowers (OBBs) to return to New Zealand and contribute to the economy.

Executive summary

4 New Zealand's Student Loan Scheme aims to ensure access to tertiary education without financial barriers. However, low repayment compliance among OBBs significantly impacts the value of the Scheme and its cost to future generations.

Current challenges

4.1 Only 30% of OBBs meet repayment obligations and compliance declines sharply the longer the borrower is overseas.

4.2 Historic debt is growing due to accumulated interest and penalties. Currently 90% of overdue debt is owed by borrowers overseas for more than 10 years.

4.3 For individual OBBs, high debt levels deter engagement, creating stress and perceived unfairness. Some borrowers fear returning to New Zealand due to enforcement actions.

[1] In relation to tax debt, relief can be provided for serious hardship, unrecoverable amounts, inefficient use of resources, insolvency (e.g., bankruptcy or liquidation) and for events beyond the taxpayer's control.

Recent progress at increasing compliance

5 Budget 2024 funding for direct compliance interventions has improved collections.[2] Inland Revenue exceeded its target, collecting around $243 million in repayments in 2024/25 (40% increase year-on-year). Despite this, the debt book is forecast to grow to $3 billion by 2029 and $5 billion by 2036 under current settings.

Proposal – interest relief discretion

6 We propose that the Commissioner be given the discretion to provide relief from core student loan interest (currently limited to late payment interest).[3] This would:

6.1 s 18(c)(i) [redacted]

6.2 enable full and final settlements either through a lump-sum payment or short-term payment arrangement, and

6.3 improve the Crown's financial position by recovering amounts that would be otherwise challenging to collect.

7 s 18(c)(i) [redacted]

8 We propose that legislative changes be included in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, effective from enactment in March 2026.

Monitoring

9 Inland Revenue will monitor the impact on compliance and report after 18 months to the Minister of Finance, the Minister for Universities and the Minister of Revenue. In addition, Inland Revenue will report every 6 months to the Minister for Universities and the Minister of Revenue (refer to the Minister of Finance) on the use of the discretion. We also propose that we report to Cabinet when relief exceeds $30 million. At that time or if significant impacts on compliance are observed, the discretion can be reviewed to determine if it is meeting the policy intent and repealed if necessary.

Background

Improving OBB compliance continues to be challenging

10 The purpose of New Zealand's Student Loan Scheme is to enable access to tertiary education for all students so that finance is not a barrier. However, this needs to be balanced against the cost of the Scheme to current and future generations if borrowing is not repaid.

[2] Inland Revenue received $29 million in funding, with $4 million of this focused on student loan overdue debt.

[3] Core interest refers to interest that applies to the loans of OBBs regardless of whether payments are made (currently 4.9%). Core interest stops being charged when a repayment amount falls due. Late payment interest refers to the interest that applies to overdue payments (when that is $334 or more, currently 8.9%).

11 We have been focusing on improving the value of student loan spending. A major area of low-value lending is to borrowers who go overseas and do not repay their loan. These OBBs have much lower repayment compliance and slower repayment times than domestic borrowers.

12 Addressing low compliance among OBBs has been a persistent challenge. As of October 2025, total student loan debt was at $2.6 billion, and OBBs accounted for 93% of that debt ($2.4 billion). Debt in this context refers to the part of a student loan balance made up of missed payments and any penalties and late payment interest. There are approximately 114,000 OBBs, of which 82,000 (72%) have overdue debt. In comparison, only 5.7% of New Zealand-based borrowers have overdue debt.

13 On average, over the past year only around 30% of OBBs are meeting their repayment obligations. Compliance can fluctuate for various reasons, with a key factor being time overseas as shown in the table below:

Overseas for less than 10 years (54,000 borrowers)[4]	**Overseas for more than 10 years (60,000 borrowers)**
56% (30,000) fully compliant	16% (9,600) fully compliant
15% (7,900) making some payments (partially compliant)	12% (7,100) making some payments (partially compliant)

14 s 18(c)(i) [redacted]

Student loan debt is forecast to grow

15 Stemming the flow of new OBBs defaulting and getting borrowers into good repayment habits from the start is important for improving their compliance over the long term. This is because once borrowers stop repayments, it is difficult to get them to start again.

16 Budget 2024 funding is making a difference and Inland Revenue has been exceeding its targets. Inland Revenue's target was $189 million in repayments for the financial year ending 30 June 2025, however, it received around $243 million. This is a 40% increase in comparison to repayments collected in the previous year.

17 Despite this progress, there are diminishing returns on these administrative activities and without more tools to address poor compliance, the student loan debt book for OBB is forecast to grow. This is because historic debt is growing due to the accumulation of interest and late payment interest. As a result, approximately $2.1 billion of the $2.4 billion OBB debt is owed by OBBs who have been overseas for 10 or more years, accounting for 90% of the debt. Under current settings, OBB student loan debt could surpass $3 billion by 2029 and $5 billion by 2036, based on the year-on-year growth from 2023–24 to 2024–25.[6]

[4] Figures are rounded to the nearest 1,000.

s [redacted]
s [redacted]
1 [redacted]
8

High levels of older debt are deterring some OBBs from engaging with Inland Revenue

18 Based on correspondence and direct engagement with OBBs, for some their debt has become so large they avoid engagement with Inland Revenue, due to the inability to pay off such a large amount and perceived unfairness. At this point, interest and penalties can act as a barrier to compliance. Borrowers with high levels of debt report experiencing anxiety and stress due to limited options available to resolve the debt. Many fear returning to New Zealand due to the risk of getting arrested at the border.

19 The example below, based on a borrower's experience, demonstrates what can happen when a borrower falls behind in their payments.

Example 1: Impact of interest on OBB [7]

Lana borrowed **$44,000** in student loans between 1998 and 2005. She moved overseas in 2005 and has not moved back.

In 2017, Lana finally started dealing with her student loan, by which time it was **$120,000** including $66,000 of interest and $14,500 of penalties. Since then, she has made payments of **$77,000**. She is still living overseas so interest has kept applying to her loan. Her current balance at September 2025 is **$90,000** (over double her original loan balance).

If she keeps up her current repayments and remains overseas, it will take her over **20 years** to repay her loan in full, which will eventually be close to **six times** her original loan balance. This is because the required repayment of $5,000 is only slightly greater than the interest being charged each year.

20 While some OBB do accept responsibility for the situation they are in, many are requesting greater flexibility to negotiate settlement of their loan. Inland Revenue can currently only provide relief from late payment interest on student loans (i.e., interest that applies when a borrower does not make a payment on time). This means there may be some situations where Inland Revenue has limited tools to negotiate with borrowers to settle their loan balances. While the existing discretion does incentivise some borrowers to engage with Inland Revenue, in many cases, it is not sufficient to enable full settlement.

Proposal: Discretion to provide relief from interest

21 We have been investigating ways to increase student loan repayments and improve the Crown's financial position. We recommend that legislation be introduced to allow the Commissioner discretion to provide relief from student loan interest. This proposal would build on the increased proactive OBB compliance activities funded in Budget 2024.

22 The Commissioner can currently only provide relief from late payment interest on student loans. This legislative power is broad in nature and can be exercised when it is equitable to provide relief. We recommend this power be extended to cover relief from core student loan interest so that the Commissioner can provide relief on a case-by-case basis when it is equitable to do so. The term equitable is a broad decision-making consideration that generally means people in similar situations would be treated consistently.

[7] This example is based on borrower experience. Note this has been anonymised and figures have been rounded to the nearest $1,000.

Implementation: Application of the discretion [information contained in this section is revenue information[8]]

23 s 18(c)(i) [redacted]

24 In the medium term, Inland Revenue would limit uses of this discretion to relief for full and final settlements (either via a lump-sum payment or through a short-term instalment arrangement). s 18(c)(i) [redacted]

25 The discretion would allow Inland Revenue to improve the Crown's financial position through obtaining value from loans that are otherwise challenging to collect. The extent to which this purpose is achieved will depend on an OBB's ability to make a settlement and the amount of that settlement.

Risks

26 The impact on broader compliance is unknown. The discretion could weaken the incentive to remain compliant in the expectation that the OBB will receive interest relief at some point and end up better off.[9] It is unclear how significant this risk is to current compliance, but this risk could be managed by the administration of the new rule, including how it is messaged to OBBs.

27 If current student loan compliance decreases, the value of OBB student loans may decline and debt may increase.[10] Equally, the value of student loans may decline if interest relief is granted but that interest would have eventually been paid by the borrower. If the value of the Scheme decreases, there will be a parallel increase in the cost of ongoing lending.

28 There is also a perception risk that providing interest relief to non-compliant OBBs is seen as unfair by compliant borrowers and the general public. The size of this risk is uncertain.

Monitoring application of discretion

29 We propose that Inland Revenue report after 18 months to the Minister of Finance, the Minister for Universities and the Minister of Revenue on any impacts on broader compliance. In addition, Inland Revenue will report every six months to the Minister for Universities and the Minister of Revenue (refer to the Minister of Finance) on the use of the discretion, such as the number of borrowers granted relief and the amount of relief granted.

[8] Revenue information in this context means information relating to how Inland Revenue would administer a proposed discretion. This information should not be disclosed to the public.

[9] This is referred to as "moral hazard" – the change in behaviour of someone when there is a perceived lack of consequence.

[10] The Student Loan Scheme valuation is very sensitive to OBB repayment behaviour. Even small changes can significantly reduce the value of the Scheme. For example, if the probability of making a repayment in a year while overseas falls by 2.5% then the value of the Scheme in the Crown's account would decrease by $202 million (PwC, 2025 Student Loan Valuation Report).

30 Inland Revenue will also provide information on the amount of relief provided as part of current reporting to Stats NZ (to the Integrated Data Infrastructure), which is used in the annual valuation process. This would help us understand whether the interest relief provided was financially beneficial for the Crown.

31 We also propose that the Minister of Revenue report to Cabinet once the amount of interest relief exceeds $30 million with a further assessment of whether the policy is achieving its policy purpose. If at any time a problem emerges, joint Ministers may review and recommend repealing the discretion if necessary.

Financial implications

32 There is considerable uncertainty in the costing due to challenges predicting borrowers' behaviour. Officials from the Ministry of Education estimate the most likely outcome of a tightly targeted discretion is a modest gain of around $1.5 million over the forecast period. However, this assumes no negative repayment behaviour shift among other borrowers.

33 This forecast also assumes a net increase in cash receipts from this policy of $8.290 million over the forecast period. Because we are expecting the cash earlier than previously forecast, there will be just over $1 million less interest unwind over the forecast period. This in part offsets the expected gain in paragraph 33 above.

Legislative implications

34 Implementing these proposals requires changes to the Student Loan Scheme Act 2011.

35 If approved, we propose including the legislative changes resulting from these recommendations in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage scheduled for early next year. The Bill is due to be passed by the end of March 2026. The legislative changes would apply from date of enactment.

Impact analysis

Regulatory impact assessment

36 The Quality Assurance panel from Inland Revenue and the Ministry of Education has reviewed the "Student loan interest relief" regulatory impact statement (RIS) prepared by Inland Revenue and Ministry of Education and considers that the information and analysis summarised in the RIS partially meets the quality assurance criteria. This is because there is a fundamental uncertainty around the behavioural response of existing compliant or partially compliant overseas borrowers. This uncertainty cannot easily be resolved as there is limited comparable empirical evidence available.

37 Detailed consultation has not been undertaken; however, this is considered reasonable given there are limited interested third parties other than the borrowers themselves.

Climate implications of policy assessment

38 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal because the threshold for significance is not met.

Population implications

39 This proposal impacts OBBs. These are typically New Zealand residents that have completed tertiary studies in New Zealand and are currently overseas. Currently there are approximately 113,000 OBBs, 54% female / 46% male split with an average age of 41 years. Inland Revenue does not collect ethnicity data for this group.

40 While the main objective of a discretion is to improve the Crown's financial position, the effect of the discretion would be more borrowers repaying their student loan. This could mean the proposal may reduce the stress and anxiety associated with high loan balances and concerns about coming back to New Zealand at the risk of being arrested at the border.

41 We do not anticipate there will be any negative population impacts resulting from the proposal, however, some borrowers may not be able to access the benefits of this proposal if they do not have the funds to settle the loan or enter into a short-term instalment arrangement. s 18(c)(i) [redacted]

Human rights

42 There are no inconsistencies with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 as a result of this proposal.

Administrative impacts

43 Inland Revenue will administer the discretion, which will require system changes and updating operational guidance and training material for staff. Inland Revenue will absorb any costs within baselines.

Use of external resources

44 No external resources were used in the development of this proposal or Cabinet paper. PwC was informed of this proposal as part of its role in the valuation of the Student Loan Scheme.

Consultation

45 The Treasury and the Ministry of Social Development were consulted throughout the development of this proposal and in the preparation of this Cabinet paper.

46 No external consultation has been undertaken, however, regular engagement with OBBs and their representatives indicate that this proposal will be well received by many borrowers. Greater ability to negotiate with Inland Revenue as to the repayment of OBB loans has been the most requested change.

Communications

47 We will make an announcement when the amendment paper is tabled early next year. A commentary on the amendment paper will be released on the Tax Policy website at this time. Inland Revenue will publish details of the new legislation in an Act commentary released on the Tax Policy website after the Bill is enacted.

Proactive release

48 We propose to proactively release this Cabinet paper, associated minutes and key advice papers in part following the tabling of the amendment paper. Note that the information on how Inland Revenue proposes to apply the discretion is revenue information and should not be disclosed to the public.

Recommendations

The Minister of Revenue and Minister for Universities recommend that the Committee:

1 **agree** to introduce a legislative discretion to allow the Commissioner of Inland Revenue to provide relief from student loan interest when the Commissioner considers it equitable;

2 **note** the purpose of the discretion is to collect the highest amount possible from student loan borrowers with the aim of improving the Crown's financial position, through obtaining value from student loans that are in default;

3 **agree** to introduce the discretion in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage scheduled for early 2026;

4 **agree** that the discretion apply from the date of enactment of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill;

5 **authorise** the Minister of Revenue to release an amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill to give effect to the decision in recommendation 1 above;

6 **delegate** authority to the Minister for Universities and Minister of Revenue to make decisions on the detailed design of the proposal recommended in this paper;

7 s 18(c)(i) [redacted]

8 **note** that the impact on broader compliance is unclear, and that Inland Revenue will assess and report on the impact of the policy by:

8.1 monitoring compliance and reporting to the Minister for Universities and the Minister of Revenue if any adverse impacts are observed,

8.2 reporting every six months on the use of the discretion to the Minister for Universities and the Minister of Revenue, with these reports referred to the Minister of Finance, and

8.3 reporting to the Minister of Finance, Minister for Universities and the Minister of Revenue after 18 months on shifts in repayment behaviour;

8.4 providing information on the amount of relief provided as part of current reporting to Stats NZ (to the Integrated Data Infrastructure), which is used in the annual valuation process;

9 **agree** that the Minister for Universities and Minister of Revenue report to Cabinet on the application of the discretion once total relief exceeds $30 million with a further assessment of whether the policy is achieving the policy purpose as set out in recommendation 2;

10 **note** that if a problem emerges at any time, the Minister for Universities and Minister of Revenue may review and recommend repealing the discretion if necessary;

11 **note** that as a result of the decisions in recommendations 1 and 2 above, a small gain in the fair value of the Scheme of approximately $1.500 million is expected to arise over the forecast period. This will flow through into the year-end fair value remeasurements over the forecast period and be incorporated into the actuals;

12 **note** the following changes as a result of the decision in recommendations 1 and 2 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Crown Revenue and Receipts:					
Capital receipts	0.101	1.298	3.938	2.972	(0.019)
Non-Tax Revenue:					
Interest on Impaired Student Loans	(0.001)	(0.018)	(0.162)	(0.381)	(0.484)
Total Capital Receipts	**0.101**	**1.298**	**3.938**	**2.972**	**(0.019)**
Total Operating	**0.001**	**0.018**	**0.162**	**0.381**	**0.484**

13 **note** that the capital receipts (cash) have no operating impact and no impact on the operating budget allowance;

14 **note** that although the decrease in interest on impaired student loans shown in recommendation 12 above will impact on the operating balance, the expected gain in the value of the Scheme noted in recommendation 11 will offset this impact**;**

15 **agree** to allow the operating balance impacts in recommendations 13 and 14 above to flow through allowances directly to the fiscal indicators**;**

16 **note** that the financial implications do not include the impact of any behavioural shifts that reduce current compliance levels.

Authorised for lodgement

Hon Dr Shane Reti

Minister for Universities

Hon Simon Watts

Minister of Revenue

Cabinet Economic Policy Committee

Minute of Decision

Commissioner Discretion for Overseas Borrowers

Portfolio **Universities / Revenue**

On 3 December 2025, the Cabinet Economic Policy Committee:

1 **agreed** to introduce a legislative discretion to allow the Commissioner of Inland Revenue to provide relief from student loan interest when the Commissioner considers it equitable (the discretion);

2 **noted** that the purpose of the discretion is to collect the highest amount possible from student loan borrowers with the aim of improving the Crown's financial position, through obtaining value from student loans that are in default;

3 **agreed** to introduce the discretion in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at the Committee of the Whole House stage, scheduled for early 2026;

4 **agreed** that the discretion apply from the date of the enactment of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill;

5 **authorised** the Minister of Revenue to release an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill to give effect to the decision in paragraph 1 above;

6 **authorised** the Minister for Universities and the Minister of Revenue to make decisions on the detailed design of the discretion;

7 s 18(c)(i) [redacted]

8 **noted** that the impact on broader compliance is unclear, and that Inland Revenue will assess and report on the impact of the policy by:

8.1 monitoring compliance and reporting to the Minister for Universities and the Minister of Revenue if any adverse impacts are observed;

8.2 reporting every six months on the use of the discretion to the Minister for Universities and the Minister of Revenue, with these reports referred to the Minister of Finance;

8.3 reporting to the Minister of Finance, Minister for Universities and the Minister of Revenue after 18 months on shifts in repayment behaviour;

8.4 providing information on the amount of relief provided as part of current reporting to Stats NZ (to the Integrated Data Infrastructure), which is used in the annual valuation process;

9 **invited** the Minister for Universities and the Minister of Revenue to report back to Cabinet on:

9.1 the application of the discretion once total relief exceeds $30 million with a further assessment of whether the policy is achieving the policy purpose as set out in paragraph 2 above;

9.2 wider policy work on student loan obligations when borrowers go overseas and the Crown's ability to collect from overseas based borrowers;

10 **noted** that if a problem emerges at any time, the Minister for Universities and the Minister of Revenue may review and recommend repealing the discretion if necessary;

11 **noted** that as a result of the decisions in paragraphs 1 and 2 above, a small gain in the fair value of the student loan scheme of approximately $1.500 million is expected to arise over the forecast period, and that this will flow through into the year-end fair value remeasurements over the forecast period and be incorporated into the actuals;

12 **noted** the following changes as a result of the decisions in paragraphs 1 and 2 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Crown Revenue and Receipts:					
Capital receipts	0.101	1.298	3.938	2.972	(0.019)
Non-Tax Revenue: Interest on Impaired Student Loans	(0.001)	(0.018)	(0.162)	(0.381)	(0.484)
Total Capital Receipts	**0.101**	**1.298**	**3.938**	**2.972**	**(0.019)**
Total Operating	**0.001**	**0.018**	**0.162**	**0.381**	**0.484**

13 **noted** that the above capital receipts (cash) have no operating impact and no impact on the operating budget allowance;

14 **noted** that although the decrease in interest on impaired student loans in paragraph 12 above will impact on the operating balance, the expected gain in the value of the Scheme noted in paragraph 11 above will offset this impact;

15 **agreed** to allow the operating balance impacts in paragraphs 13 and 14 above to flow through allowances directly to the fiscal indicators;

16 **noted** that the financial implications do not include the impact of any behavioural shifts that reduce current compliance levels.

Rachel Clarke
Committee Secretary

Present:
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Simeon Brown
Hon Brooke van Velden
Hon Shane Jones
Hon Dr Shane Reti
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Officials Committee for ECO

Cabinet

Minute of Decision

Report of the Cabinet Economic Policy Committee: Period Ended 5 December 2025

On 8 December 2025, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 5 December 2025:

Not in scope

ECO-25-MIN-0202	**Commissioner Discretion for Overseas Borrowers** Portfolios: Universities / Revenue	CONFIRMED

Not in scope

Rachel Hayward
Secretary of the Cabinet

Tax policy report

GST and bad debt deductions

Date	29 January 2026	**Priority**	Medium
Security level	Not in scope	**Report number**	IR2026/012
Bill name	Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to include a clarifying amendment in the Amendment Paper to the current tax Bill	16 February 2026
Minister of Revenue	**Agree** to include a clarifying amendment in the Amendment Paper to the current tax Bill	16 February 2026

Purpose
This report seeks Ministers' agreement to include a technical amendment to the bad debt deduction rules in the Goods and Services Tax Act 1985 (GST Act) to ensure they work as intended. The amendment is proposed to be included in the Amendment Paper to the Taxation (Annual Rates for 2025–2026, Compliance Simplification, and Remedial Measures) Bill at the Committee of the whole House stage.

Contact for phone discussion, if required

Name	**Position**	**Phone number**	**First contact**
Graeme Morrison	Policy Lead	s 9(2)(a)	☐
Kaitlyn Payne	Policy Advisor	s 9(2)(a)	✓

GST and bad debt deductions

Background

1 When a person accounts for GST on the sale of goods or services but is not paid for those goods or services, the person may be able to claim a deduction for the bad debt. The deduction cancels the GST owing to Inland Revenue, meaning the person effectively has no GST liability on the sale unless the debt is subsequently recovered.

2 Since 2000, the policy intention has been that GST deductions creditable or refundable to persons such as liquidators or receivers of companies in liquidation or receivership must be set off against tax debt owed by the company.

Issue

3 Inland Revenue identified a technical issue with the law when preparing public guidance on GST and liquidations. The issue means GST deductions for bad debts cannot be set off against tax debt payable under current law when the bad debt deduction is claimed by someone like a liquidator or a receiver of a company in financial distress to whom the bad debt deduction relates. This public guidance is currently on hold.

> **Example**
>
> A business sells $115 of goods to a buyer before entering liquidation. The business accounts for GST of $15 on the sale by including the sale in its GST return but is never paid by the buyer.
>
> The business goes into liquidation and the appointed liquidator writes the $115 debt off as bad. The liquidator then claims a GST deduction for the bad debt of $15.
>
> s 9(2)(h) [redacted]
>
> Following the proposed technical amendment, the original policy intent (and current operational practice) would be maintained, with the $15 deduction being set off against tax debt payable by the company.

4 We are not aware of any active disputes in relation to this issue and consider it appropriate for an amendment to be made and backdated to 11 October 2000 to align with the introduction of the original rules, and Inland Revenue's practice since that time.

5 If you choose to not make an amendment, Inland Revenue will be unable to continue to set off GST deductions for bad debts against tax debt. This means the deduction must instead be refunded to the liquidator or receiver, providing them with an unintended windfall.

Operational implications

6 If you agree to make the change recommended in this report, Inland Revenue would continue its longstanding practice of offsetting refunds claimed by liquidators or receivers against tax debt payable by the company they are acting for.

Financial implications

7 Now that it is clear the law does not operate as intended, a forecasting adjustment is required to reflect a negative financial impact of $1.2 million due to increased GST refunds (lower net receipts) and increased tax debt impairment and write-offs.

8 However, if you agree to the proposed law change, that adjustment would be fully offset by a corresponding increase in net tax receipts and decrease to tax debt impairment and write-offs, making the overall financial impact of the law change neutral.

9 The following tables show the effect of the proposed law change.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Receipts: Tax Receipts – GST Refunds	1.200	1.200	1.200	1.200	1.200

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental other expenses: Impairment of Debt and Debt Write-Offs	(1.200)	(1.200)	(1.200)	(1.200)	(1.200)
Total Operating	**(1.200)**	**(1.200)**	**(1.200)**	**(1.200)**	**(1.200)**

Consultation

10 The Treasury has been consulted on this report and agrees with the recommendations.

Next steps

11 We recommend that an amendment be included in the Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at the Committee of the whole House stage. This would ensure the law reflects the policy intention and confirm Inland Revenue's longstanding practice of setting off GST deductions for bad debts claimed by liquidators, receivers and others acting for companies in financial distress against tax debts.

Recommendations

We recommend that you:

1. **Agree** to a remedial amendment to the Goods and Services Tax Act 1985 be included in the Amendment Paper to the Taxation (Annual Rates for 2025–2026, Compliance Simplification, and Remedial Measures) Bill at the Committee of the whole House stage to ensure the GST bad debt deduction rules work as intended.

   Agree / Disagree — *Minister of Finance*

   Agree / Disagree — *Minister of Revenue*

2. **Agree** the amendment would apply from 11 October 2000, when the law originally took effect.

   Agree / Disagree — *Minister of Finance*

   Agree / Disagree — *Minister of Revenue*

3. **Note** the following forecast change, as a result of the change in interpretation of the current law.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Receipts: Tax Receipts – GST Refunds	(1.200)	(1.200)	(1.200)	(1.200)	(1.200)

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental other expenses: Impairment of Debt and Debt Write-Offs	1.200	1.200	1.200	1.200	1.200
Total Operating	**1.200**	**1.200**	**1.200**	**1.200**	**1.200**

4. **Note** the following change in fiscals, if recommendation (1) and (2) are agreed.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Receipts: Tax Receipts – GST Refunds	1.200	1.200	1.200	1.200	1.200

	$m increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non departmental other expenses: Impairment of Debt and Debt Write-Offs	(1.200)	(1.200)	(1.200)	(1.200)	(1.200)
Total Operating	**(1.200)**	**(1.200)**	**(1.200)**	**(1.200)**	**(1.200)**

5. **Note** the fiscal impact of agreeing to recommendations (1) and (2) would be neutral because the fiscal impact of the change would be offset by the forecasting change, which would be required in absence of the law change.

s 9(2)(a)

Graeme Morrison
Policy Lead
Policy | Inland Revenue
29 January 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Inland Revenue
Te Tari Taake

POLICY

Tax policy report:	**Departmental report: RDTI and partnerships with non-standard balance dates**

Date:	12 December 2025	**Priority:**	Medium
Security level:	Not in scope	**Report number:**	IR2025/496

Action sought

	Action sought	Deadline
Minister of Revenue	**Agree** to recommendations	18 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Claire McLellan	Acting Policy Lead	s 9(2)(a)	☒
Callum Aldiss	Senior Policy Advisor	s 9(2)(a)	☐

12 December 2025

Minister of Revenue

Departmental report: RDTI and partnerships with non-standard balance dates

Purpose

1. The Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill (the Bill) includes a remedial amendment that would require partners in partnerships with non-standard balance dates that claim the Research and Development Tax Incentive (RDTI) to return their share of the partnership income according to the partner's balance date (the amendment).

2. This report seeks your approval for officials to include a recommendation in the Departmental Report to the Finance and Expenditure Committee that the amendment be removed from the Bill. This report supplements IR2025/488 *Matters raised in the departmental report on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.*

The proposal in the Bill

3. Currently, partners in a partnership can choose to return their share of the partnership income using the partnership's balance date or apportion the income according to their own balance date. The RDTI is applied for at the partner level, meaning that the individual partner must apportion eligible expenditure for the partnership's R&D activities according to their own balance date.

4. A mismatch in the balance date used for returning partnership income and claiming the RDTI for partnership R&D activities can make it difficult, when assessing RDTI claims, to match the data in the claim with the relevant income tax return. Since RDTI due dates are tied to balance dates, there is also a risk that a partner could mistakenly file according to the wrong date.

5. Accordingly, the amendment included in the Bill to ensure that the partners would use the same balance date for returning income as claiming the RDTI on eligible R&D expenditure.

Submitters do not support the proposed change

6. Submitters are opposed to the amendment on the basis that it would increase compliance costs. Instead, submitters recommend a policy change to allow an RDTI claim arising from a partnership to be made based on the partnership's balance date.

7. We consider that aligning the rules for how partnerships with non-standard balance dates return income and apply for the RDTI would reduce complexity and therefore offer compliance cost reductions. However, we agree that the amendment should not proceed to allow further consideration of the issue. The alternative option raised by submitters merits further consideration but there are integrity concerns which would need to be worked through on a longer timeframe than the Bill allows.

Fiscal implications

8. Removing the amendment from the Bill would have no fiscal cost.

Recommended action

We recommend that you:

1. **note** that the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill includes an amendment that would require partnerships with an RDTI credit for a given income year to apportion income according to the partners' balance date when returning partnership income for that year.

   Noted

2. **agree** to officials including a recommendation in the Departmental Report to the Bill that to the amendment referred to in recommendation 1 be removed from the Bill.

   Agreed/Not agreed

s 9(2)(a)

[redacted]

Claire McLellan
Acting Policy Lead
Policy

Hon Simon Watts
Minister of Revenue
/ /2025

Inland Revenue
Te Tari Taake

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

POLICY

Tax policy report: **Inland Revenue and Accident Compensation Corporation Earners' Levy payments**

Date:	31 October 2025	**Priority:**	High
Security level:	Not in scope	**Report number:**	IR2025/087 MBIE - BRIEFING-REQ-0022774

Action sought

	Action sought	**Deadline**
Minister of Revenue	**Agree** to recommendations	14 November 2025
Minister for ACC	**Agree** to recommendations	14 November 2025

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**Suggested first contact**
Bary Hollow	Principal Policy Advisor, Inland Revenue	s 9(2)(a)	☒
Beth Goodwin	Manager, Accident Compensation Policy	s 9(2)(a)	☐

31 October 2025

Minister of Revenue
Minister for ACC

Inland Revenue and Accident Compensation Corporation Earner Levy Payments

Purpose

1. This report seeks your agreement to a legislative amendment to the Accident Compensation Act 2001 (AC Act) for collecting and transferring ACC earners' levies and associated penalties to the Accident Compensation Corporation (ACC).

2. The proposed amendment ensures that future payments are made in line with legislation, improves adaptability, and enables Inland Revenue and ACC to adjust how levies and penalties are managed in response to any future changes.

Context

3. Inland Revenue collects ACC earners' levies[1] from employees on behalf of ACC as its agent and pays the earners' levies to ACC under provisions in the AC Act[2].

4. The AC Act currently requires that Inland Revenue pay ACC based on the ACC earners' levies "received" by Inland Revenue. Inland Revenue receives information relating to PAYE deductions in aggregate, without separate identification of the ACC earner levy component within those PAYE deductions, unlike other items such as KiwiSaver contributions.

5. Inland Revenue has been paying ACC based on the information provided by employers to Inland Revenue in their payday employment information and applying a formula to determine the ACC earner levy component. However, where no, or partial, payment of the total PAYE liability is made, Inland Revenue has not been adjusting for this and therefore has not, technically, been fully compliant with the current legislative wording as it has paid on the basis of the amount that "should" have been received rather that what was "actually" received.

6. In addition, the AC Act requires Inland Revenue to pass on to ACC an estimate of penalties payable in relation to earner levy obligations (e.g., if levies are paid late). Inland Revenue has not been paying these amounts to ACC.

Issue

7. The AC Act requires Inland Revenue to pay ACC based on amounts actually "received". However, Inland Revenue pays ACC based on employment information provided by employers, which does not align with the legislation. The historical overpayments to ACC are minor relative to overall levies paid and have largely been offset by estimated penalties not paid. While the net impact is expected to be

[1] The ACC earners' levy is employees' contribution to ACC, deducted as part of pay-as-you-earn (PAYE) deductions by employers and funds the ACC Earners Account.
[2] The self-employed also pay ACC earners levies but these are invoiced and paid directly to ACC and do not form part of this advice.

immaterial, the exact amount cannot be determined due to various system changes and upgrades over time.

8. Operationalising the current legislative wording would be challenging, as it would require all employers to modify their payroll software, resulting in a one-off increase in compliance costs for no gain to those employers. Accurately apportioning the ACC earners' levies "received" would necessitate separating out the ACC earner levy amount from the PAYE deductions and allocating partial payments across the relevant tax types, which would add administrative and compliance complexity.

9. Officials recommend amending the AC Act to provide that Inland Revenue pays to ACC, earners' levies and any penalties for late filing or payment of those levies calculated using a formula agreed from time to time between the Commissioner of Inland Revenue and the Chief Executive of ACC. Should Ministers agree with the proposal, this formula and process will be agreed through a Memorandum of Understanding.

10. Officials from Inland Revenue and ACC have developed a formula based on prior year recovery rates and a square-up approach based on actual recoveries to determine the amounts of earners' levies and penalties that Inland Revenue would pay to ACC going forward. Interest charged in relation to the earner levy amounts will not be passed on to ACC as is the current setting under the AC Act.

11. The agreed approach will closely approximate the actual amounts received by Inland Revenue in respect of ACC earners' levies and penalties, though it may not reflect the actual amounts "received"[3]. Importantly, it will avoid imposing compliance costs on taxpayers as it avoids requiring them to modify their payroll software, which would offer no direct benefit to them.

12. Inland Revenue, ACC, and MBIE recommend that the most effective path forward is to introduce this level of flexibility into the legislation governing on-payments. This would allow future changes to be made without requiring further legislative amendments as these can be agreed between ACC and Inland Revenue.

13. ACC has been consulted on this report and is supportive of the proposal, as it closely aligns with current practice.

Legislative vehicle

14. MBIE, ACC, and Inland Revenue agree that the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill is the preferred legislative vehicle for this change to ensure full compliance with the legislation as soon as possible. The Bill is required to be passed by 31 March 2026 and is currently before the Finance and Expenditure Committee.

15. The above amendments can be made as a consequential amendment to other amendments relating to these payments which are being made to the Tax Administration Act 1994 and can be introduced via an Amendment Paper at the committee of the whole House stage of the Bill.

16. The Office of the Clerk of the House has indicated that they agree that these changes to the AC Act can be made in this manner. While this would mean the change would not have the benefit of public submissions and examination by the Select Committee, we think this is warranted as the matter does not affect any third parties

[3] The agreed formula works on the calculation of an estimate of the amount of levy based on historical collection levels of PAYE debt. This is then squared-up over following years for actual collection levels of PAYE debt by Inland Revenue. This should closely approximate the actual collection of the earners' levy, but it may not reflect the "actual" amount collected.

– it is a technical matter of an internal government transfer. It also does not have any fiscal implications.

17. We considered alternative vehicles, but we consider neither is viable. Another option is to wait to include this in the next AC Amendment Bill, but there are none scheduled, so the technical non-compliance would not be rectified promptly.

18. The other would be to recommend the change as part of the Departmental Report in Select Committee. However, Cabinet policy decisions would be needed first, given the proposed change will be delegating decisions on a formula to the Commissioner of Inland Revenue and the Chief Executive of ACC.

Fiscal Implications

19. There are no fiscal implications of this amendment as this is an intra-governmental payment.

Next steps

20. Officials can meet with you to discuss the contents of this report if requested.

21. Should you agree to the recommendations below, officials will begin drafting the changes for inclusion in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at the committee of the whole House stage.[4]

22. Officials will also prepare a Cabinet paper for the Minister of Revenue to take to Cabinet for approval as soon as possible.

[4] Unlike other agencies, Inland Revenue has responsibility for the drafting of taxation legislation. While the proposed change modifies the AC Act, it is more efficient for the drafting of this change to be completed by Inland Revenue's drafting unit with the Parliamentary Counsel Office providing quality assurance over the change.

Recommended action

We recommend that you:

23. **agree** to amend the AC Act to provide that that Inland Revenue pays to ACC earners' levies and any penalties for late filing or payment of those levies to ACC calculated using a formula agreed from time to time between the Commissioner of Inland Revenue and the Chief Executive of ACC.

Agreed/Not agreed | Agreed/Not agreed

24. **agree** to include these changes in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.

Agreed/Not agreed | Agreed/Not agreed

25. **agree** to changes applying from the date of the Royal Assent.

Agreed/Not agreed | Agreed/Not agreed

Bary Hollow
Principal Policy Advisor
Inland Revenue

Beth Goodwin
Manager, Accident Compensation Policy
Ministry of Business, Innovation and Employment

Hon Simon Watts
Minister of Revenue
/ /2025

Hon Scott Simpson
Minister for ACC
/ /2025

Office of the Minister of Revenue

Cabinet Economic Policy Committee

Inland Revenue and Accident Compensation Corporation earners' levy payments

Proposal

1 This paper seeks agreement to:

1.1 amend the Accident Compensation Act 2001 (AC Act) to provide that Inland Revenue can pay to the Accident Compensation Corporation (ACC) employee earners' levies and any associated penalties calculated using a formula agreed from time to time between the Commissioner of Inland Revenue and the Chief Executive of ACC, provided the formula closely approximates the amount of the levies and penalties collected; and

1.2 include these changes in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage.

Relation to government priorities

2 This is a routine operational adjustment that requires Cabinet approval because it delegates authority for determining the formula used to calculate levies and associated penalties to transfer to ACC, to the Commissioner of Inland Revenue and the Chief Executive of ACC.

Background

3 Inland Revenue collects ACC earners' levies from employees as part of their pay-as-you-earn deductions (PAYE deductions) on behalf of ACC as its agent and pays the earners' levies to ACC under provisions in the AC Act.

4 The AC Act currently requires Inland Revenue to pay ACC based on the earners' levies "received" by Inland Revenue. Inland Revenue has instead been paying ACC based on the information provided by employers as part of PAYE deductions and applying a formula to determine the ACC earners' levy component. This is because Inland Revenue receives information relating to PAYE deductions in aggregate, without separate identification of the ACC earners' levy component unlike other items such as KiwiSaver contributions. Given this, it is also not possible to determine the amounts "received" but only the amounts expected to be received.

5 In addition, the AC Act requires Inland Revenue to pass on to ACC an estimate of penalties payable in relation to earners' levy obligations (for

example, if levies are paid late). Inland Revenue has not been paying these amounts to ACC.

6 Inland Revenue identified this discrepancy as part of a review of its sign-off process for passing ACC earners' levies to ACC.

Analysis

7 Operationalising the current legislative requirements would be challenging because it would require all employers to modify their payroll software, resulting in a one-off increase in compliance costs for no gain to those employers.

8 To closely approximate the actual amounts received by Inland Revenue in relation to earners' levies and associated penalties without imposing an additional compliance burden on employers, officials from Inland Revenue and ACC have developed a formula based on prior year levy recovery rates and a square-up approach based on actual levy recoveries to determine the amounts of earners' levies and penalties Inland Revenue would pay to ACC going forward.

9 To ensure the law reflects this practice, I recommend amending the AC Act to provide that Inland Revenue can pay to ACC, earners' levies and any penalties for late filing or payment of those levies calculated using a formula agreed from time to time between the Commissioner of Inland Revenue and the Chief Executive of ACC. The formula must provide for a close approximation of the amount of the levies and penalties collected based on previous years' collection rates.

10 The formula would be agreed in the form of a Memorandum of Understanding. This would allow future changes to be made, for example, if the formula to determine the earners' levy component is improved, without requiring further legislative amendments because these can be agreed between ACC and Inland Revenue. Inland Revenue would include a note in its Annual Report identifying that the amounts paid to ACC for earners' levies and associated penalties are calculated using an agreed formula.

Cost-of-living Implications

11 The proposal avoids imposing one-off compliance costs on employers (which may be passed on to consumers) by avoiding the need for them to modify their payroll software, which would offer no direct benefit to the employer.

Financial Implications

12 This proposal concerns an intra-governmental payment and has no financial implications.

Legislative Implications

13 The Ministry of Business, Innovation and Employment (MBIE), ACC, and Inland Revenue agree that the Taxation (Annual Rates for 2025–26,

Compliance Simplification, and Remedial Measures) Bill is the preferred legislative vehicle for this change to ensure full compliance with the legislation as soon as possible. The Bill is required to be passed by 31 March 2026 and is currently before the Finance and Expenditure Committee.

14 The proposed amendments to the AC Act can be made as a consequence of related amendments to provisions in the Tax Administration Act 1994 and can be incorporated through an Amendment Paper during the Committee of the whole House stage of the Bill. The Office of the Clerk of the House has indicated that they agree these changes to the AC Act can be made in this manner.

15 While this would mean the change would not have the benefit of public submissions and examination by the Finance and Expenditure Committee, we think this is warranted because the matter does not affect any third parties, instead, it is a technical matter of an internal government transfer. It also does not have any fiscal implications.

Impact Analysis

Regulatory Impact Statement

16 The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it has no or only minor economic, social, or environmental impacts.

Climate Implications of Policy Assessment

17 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms the CIPA requirements do not apply to this policy proposal because the threshold for significance is not met.

Consultation

18 MBIE and ACC have been consulted and agree with the proposals.

19 The Treasury has been consulted on the proposal.

20 The Minister for ACC has been consulted and agrees with the proposals.

Communications

21 Inland Revenue will notify these changes on its Tax Policy website.

Proactive Release

22 I intend to release this Cabinet paper proactively in whole following the tabling of the Amendment Paper.

Recommendations

The Minister of Revenue recommends the Committee:

23 **Agree** to amend the Accident Compensation Act 2001 to provide that Inland Revenue can pay to the Accident Compensation Corporation (ACC) earners' levies and any associated penalties calculated using a formula agreed from time to time between the Commissioner of Inland Revenue and the Chief Executive of ACC.

24 **Agree** to include these changes in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage.

25 **Delegate** to the Minister of Revenue the ability to make editorial changes to the drafting of the legislation consistent with the policy above.

Authorised for lodgement.

Hon Simon Watts

Minister of Revenue.

ECO-26-MIN-0007

Cabinet Economic Policy Committee

Minute of Decision

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

Inland Revenue and Accident Compensation Corporation Earners' Levy Payments

Portfolio **Revenue**

On 11 February 2026, the Cabinet Economic Policy Committee:

1 **agreed** to amend the Accident Compensation Act 2001 to provide that Inland Revenue can pay to the Accident Compensation Corporation (ACC) earners' levies and any associated penalties calculated using a formula agreed from time to time between the Commissioner of Inland Revenue and the Chief Executive of ACC;

2 **agreed** to include the above changes in an Amendment Paper to the Taxation (Annual Rates for 2025 26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage;

3 **authorised** the Minister of Revenue to make editorial changes to the drafting of the legislation, consistent with the policy above.

Rachel Clarke
Committee Secretary

Present:
Hon David Seymour
Rt Hon Winston Peters
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Brooke van Velden
Hon Shane Jones
Hon Paul Goldsmith
Hon Tama Potaka
Hon Simon Watts
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Officials Committee for ECO

Cabinet

Minute of Decision

Report of the Cabinet Economic Policy Committee: Period Ended 13 February 2026

On 16 February 2026, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 13 February 2026:

Not in scope

Not in scope

Not in scope

ECO-26-MIN-0007	**Inland Revenue and Accident Compensation Corporation Earners' Levy Payments** Portfolio: Revenue	CONFIRMED

Not in scope

Diana Hawker
for Secretary of the Cabinet

Item 24

Tax policy report

Alignment of definition of employee

Date	22 January 2026	**Priority**	High
Security level	Not in scope	**Report number**	IR2026/013
Bill name	Taxation (Annual Rates for 2025-26, Compliance, Simplification, and Remedial Measures) Bill.		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	30 January 2026
Minister of Revenue	**Agree** to recommendations	30 January 2026

Purpose
This report seeks a decision from Ministers to align the tax definition of an employee with the proposed Employment Relations Amendment Bill 2025 (ERA Bill) if that Bill is enacted by Parliament. A decision is required by 30 January 2026 to ensure the change can be included in an amendment paper to the Taxation (Annual Rates for 2025-26, Compliance, Simplification, and Remedial Measures) Bill at Committee of whole House stage of the Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Bary Hollow	Principal Policy Advisor	s 9(2)(a)	✓

Alignment of definition of employee

Background

1 The proposed Employment Relations Amendment Bill 2025 (ERA Bill) changes follow the recent Supreme Court decision relating to Uber drivers and will create a mismatch between the employment and tax law definition of an "employee". While there are currently other situations where there is the possibility of a misalignment of the definition of employee for employment and tax law purposes, the scope for mismatch has been far more limited.

2 However, if the ERA Bill is enacted in its current form, it will introduce a statutory definition of "specified contractor" which is separate from the determination as to whether someone is engaged under a contract of service (an employee) or a contract for service (a contractor) which is the key for tax purposes. Because the tax definition of employee follows this common law test and is not linked to legislation, if the ERA Bill is enacted this will create the potential for a mismatch between a worker's employment status for employment and tax law on a large scale, which would be undesirable for those workers and with the businesses engaging them.

3 While, technically, the decision in the Uber case only relates to four drivers because of the homogeneous nature of those contracts the decision has wider impacts. s 9(2)(h) [redacted]

4 s 9(2)(h) [redacted]

The Uber decision

5 Uber operates platform businesses for transportation and food delivery services. It contracts drivers who provide those services through the Uber app. There are approximately 11,000 Uber drivers in New Zealand.

6 Over the past three years Uber has been involved in Court proceedings with the E Tū and First Union which have sought decisions that the Uber drivers are not independent contractors but are employees of Uber.

7 The unions succeeded in both the Employment Court and the Court of Appeal. The Courts found that Uber exercised very close control over every aspect of the driver's delivery of the services. While the drivers were not integrated into the business in the traditional sense, they were the face of Uber's business and while there were some indications that the drivers were in business the inability of individual drivers to generate their own goodwill indicated they were not.

8 The Supreme Court dismissed the appeal by Uber finding that:

8.1 the 'real nature' of the relationship between the company and the worker trumps any contractual labels of employment status if those labels do not reflect the reality of the situation.

8.2 Uber's model exercised significant control over these four drivers through fare setting, disciplinary action, the ratings system, and protocols when logged into the app.

8.3 The drivers were integrated into Uber's business, rather than running their own businesses as self-employed workers or independent contractors.

9 Technically, the Supreme Court decision only affects the four drivers who were parties to the case, however, given the homogenous nature of the contracts between other drivers it is likely this case would be similarly decided for other Uber drivers and other similar situations.

The ERA Bill

10 In June 2025 the Government introduced a Bill that intends to amend the Employment Relations Act 2000. Among the changes the ERA Bill is proposing is excluding from the definition of "employee" a person who is a "specified contractor".

11 A worker will be classified as a "specified contractor" when:

- there is a written agreement that specifies the worker is an independent contractor or is not an employee; and
- the worker is not restricted from working for others; and
- the worker is—
  - not required to be available to work certain times or days or for a minimum period; or
  - able to sub-contract the work; and
- the business does not terminate the arrangement for not accepting an additional task; and
- the worker has reasonable opportunity to seek independent advice before entering the arrangement.

12 This definition, commonly referred to as the "gateway test", reflects some of the common law factors pointing to a worker being an independent contractor as opposed to an employee, which are relevant under the current definition of "employee" in the ERA. However, it does not encompass all the factors that would be considered at common law. If the ERA Bill is enacted, we understand that the arrangements Uber has with its drivers are expected to meet this new gateway test[1] and therefore, these workers will be considered to be specified contractors and not employees for employment law purposes.

13 These provisions in the Bill apply from the date of enactment and are not retrospective[2]. They will not impact the employment status of drivers who have already been found to be employees.

Tax definition of employee

14 The definition of employee for tax purposes does not rely on the legislative test in the ERA. In the Income Tax Act 2007 an employee is simply a "person who receives a PAYE income payment". A PAYE income payment includes the payment of "salary and wages", which is (broadly) defined by reference to payments being made to a person "in connection with their employment".

15 Whether someone is an employee or not for tax purposes is dependent on the common law tests as to whether they are working under a contract of service (an employee) or a contract for services (a contractor). As noted, to date, a person's status for tax

[1] Some minor modifications to contracts may be necessary to ensure this definition is met.

[2] Although we understand the Government is exploring some transitional rules these will not affect the conclusions or recommendations in this report.

purposes has largely been aligned with employment law as the main current part of the employment law definition of "employee" requires considering the common law tests.

16 s 9(2)(h) [redacted]

17 This outcome is not desirable and introduces uncertainty and inconsistency for workers and those who contract such workers.

18 To a certain extent this uncertainty and potential for inconsistency of status for employment and tax law can currently arise in respect of certain workers. For example, it could arise for workers in the screen industry since the 2010 enactment of the "Hobbit Law" amendments to the ERA.[3] However, while there is potential for a mismatch of status there, the relevant case law which led to the specific rules for screen industry workers concerned a worker who was an outlier and the contract in that case was not reflective of contracts used in the industry more generally. Hence legislative change following that case law did not have the same potential impact that the proposed ERA amendments following the Uber decision may. There are a number of other Acts which deem workers not to be employees but again these have not raised an issue to date for tax purposes.

Why misalignment is not desirable

19 Misalignment of the test for who is an employee between employment and tax law is not desirable. An employee for tax purposes is generally denied deductions for expenses incurred in earning their employment income as those expenses are generally reimbursed by the person contracting the worker unlike for someone in business on their own account (an independent contractor).

20 Misalignment would result in a worker returning income as wages and salary but not being able to deduct expenses, even though those expenses would not be reimbursed, as under employment law they would be an independent contractor. This could result in them being overtaxed compared to others regarded as in business on their own account (independent contractors) for both employment and tax law purposes, who are able to deduct business expenses.

21 A person contracting a worker as an independent contractor will not be expecting to have to deduct tax or ACC levies from those payments, however, overlaying the tax treatment, the payer may have to account for PAYE and other associated taxes which could upset the contractual arrangements with the worker.

22 Someone who is a contractor for employment law purposes is also not able to register for GST if their tax status differs from employment law.

23 Overall, misalignment creates a distortion between the employment and contractor treatment which can ultimately create uncertainty for workers and those engaging them, as their contractual agreements can differ from the tax treatment and this can result in incompatible outcomes. In addition, it can result in financial loss to the worker through over taxation because of the misalignment.

Recommended amendment

24 s 9(2)(h) [redacted]

[3] Now contained in the Screen Industry Workers Act 2022.

s 9(2)(h) [redacted]

25 In addition to this, we would also recommend ensuring alignment for others whose status for employment law purposes may also potentially differ to their status for tax purposes, for example, those subject to legislation such as the Screen Industry Workers Act 2022 and the Real Estate Agents Act 2008 by agreeing to amend the Income Tax Act 2007 and the Goods and Services Act 1985 so the employment status for tax purposes for those workers is determined with reference to those Acts rather than relying on the distinction between contracts of service and contracts for services.

26 Due to the progress of the ERA Bill, we would also recommend this potential misalignment be addressed as soon as possible and consider that amending legislation be included in an amendment paper to the Taxation (Annual Rates for 2025-26, Compliance, Simplification, and Remedial Measures) Bill at Committee of whole House stage of the Bill.

27 Should you agree to the amendments we also recommend making the change retrospective to the date the ERA Bill is enacted (if that is enacted prior) to ensure there is no gap in the consistency of treatment.

Operational implications

28 There are only minor operational implications as this change will continue with the status quo position although some website material will be required for those who are transitioning to the new regime or treated as employees, this can be dealt within business as usual work.

Financial implications

Tax Revenue impact

29 If you decide to *not* make a change to tax law to align with the proposed employment law change, the baseline forecasts will be adjusted to reflect the likely outcomes of misalignment as follows (with a corresponding impact on the operating balance and net core Crown debt):

	$m - increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – Income tax	2.750	11.000	11.000	11.000	11.000
Tax Revenue – GST	2.500	10.000	10.000	10.000	10.000
Total Revenue	5.250	21.000	21.000	21.000	21.000
Total Operating	**(5.250)**	**(21.000)**	**(21.000)**	**(21.000)**	**(21.000)**

30 If you decide to make a change to tax law to align with the proposed employment law change, the fiscal impact of the decision counteracts the above figures as follows (with a corresponding impact on the operating balance and net core Crown debt):

	$m - increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – Income tax	(2.750)	(11.000)	(11.000)	(11.000)	(11.000)
Tax Revenue – GST	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total Revenue	(5.250)	(21.000)	(21.000)	(21.000)	(21.000)
Total Operating	**5.250**	**21.000**	**21.000**	**21.000**	**21.000**

31 The figures in both tables are highly uncertain and are largely based on assumptions of the degree to which existing deductions might become forfeit if tax treatment were to start denying deductions to the drivers. Whether there is any fiscal at all on this is moot as it is not clear what the reaction would be under misalignment of tax treatment should that occur. These figures are based on assumed behaviours and could just as easily be a smaller amount (with the impacts of the policy decision still a full offset) or nil.

32 The Treasury's first-best advice is usually to manage the fiscal impacts of tax policy changes against an allowance (including the scorecard) to ensure that the fiscal impacts of decisions align with the Government's fiscal strategy. However, given the limited discretion in the current circumstances (due to the employment law change being progressed through Parliament) officials consider it appropriate to allow the fiscal impacts of the tax change to flow through to the fiscal indicators without being charged to an allowance.

Consultation

33 The Ministry of Business, Innovation and Employment and the Treasury have been consulted in the preparation of this report.

Next steps

34 If you agree to the recommendations, we can proceed with drafting the changes for inclusion in the Bill.

Recommendations

We recommend that you:

1. **Agree** to amend the Income Tax Act 2007 and Goods and Services Tax Act 1985 to ensure that a person who is not an employee under the Employment Relations Act for employment law purposes (after the Employment Relations Amendment Bill 2025 is enacted) should not be treated as an employee for taxation purposes (including income tax and GST).

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

IF you agree to the recommendation in 1 above:

2. **Agree** the amendments referred to in recommendation 1 be retrospective to the date of enactment of the Employment Relations Amendment Bill 2025 (if enacted earlier);

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

3. **Agree** to amend the Income Tax Act 2007 and Goods and Services Tax Act 1985 to ensure that a person who is not an employee under other legislation should not be treated as an employee for taxation purposes (including income tax and GST);

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

4. **Note** that the fiscal impact of *not* making proposed changes in recommendations 1-3 above is as follows:

	$m - increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – Income tax	2.750	11.000	11.000	11.000	11.000
Tax Revenue – GST	2.500	10.000	10.000	10.000	10.000
Total revenue	5.250	21.000	21.000	21.000	21.000
Total Operating	**(5.250)**	**(21.000)**	**(21.000)**	**(21.000)**	**(21.000)**

Noted	Noted
Minister of Finance	*Minister of Revenue*

5. **Note** the following changes as a results of the decisions in recommendations 1-3 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – Income tax	(2.750)	(11.000)	(11.000)	(11.000)	(11.000)
Tax Revenue – GST	(2.500)	(10.000)	(10.000)	(10.000)	(10.000)
Total revenue	(5.250)	(21.000)	(21.000)	(21.000)	(21.000)
Total Operating	**5.250**	**21.000**	**21.000**	**21.000**	**21.000**

Noted	Noted
Minister of Finance	*Minister of Revenue*

6. **Agree** that the reduction in Crown tax revenue in recommendations 1-3 above be reflected in the fiscal forecasts but not recognised against allowances (i.e., allowed to flow through).

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

7. **Refer** a copy of this report to the Minister of Workplace Relations and Safety for her information.

	Refer - yes / no
	Minister of Revenue

s 9(2)(a)

Bary Hollow

Principal Policy Advisor

Policy | Inland Revenue

22 January 2026

Hon Nicola Willis	Hon Simon Watts
Minister of Finance	**Minister of Revenue**
/ /2026	/ /2026