Hon Simon Watts, Minister of Revenue

Information Release

Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill

October 2026

List of documents included in this proactive release

#	Reference	Type	Title	Date
01	IR2026/161	Inland Revenue Report	Overseas donee status: Approvals for inclusion in 2026–27 Annual Rates Bill	10/06/2026
02	IR2026/167	Inland Revenue Report	Financial arrangements rules - final design recommendations	11/06/2026
03	IR2026/005; METIS 1355460	Inland Revenue Report	Policy ideas to improve student loan compliance	12/06/2026
04	IR2026/159	Inland Revenue Report	Approval of non-fiscal remedials for the 2026–27 Annual Rates Bill	18/06/2026
05	IR2026/175	Inland Revenue Report	Clarifying legislative authority for automated decision-making	22/06/2026
06	IR2026/118	Inland Revenue Report	International policy items for Annual Rates Bill	25/06/2026
07	IR2026/177	Inland Revenue Report	Simplifying tax compliance for Māori authorities: Remedial amendments	1/07/2026
08	IR2026/190; REP/26/6/489; METIS 1356240	Inland Revenue Report	Student loan establishment fee	2/07/2026
09	BN2026/212	Inland Revenue Briefing note	Proposal for an Approved Issuer Levy Act	8/07/2026
10	IR2026/200	Inland Revenue Report	Cryptoasset proposals for 2026–27 Annual Rates Bill	8/07/2026
11	IR2026/158	Inland Revenue Report	Approval of fiscal remedial items for the 2026–27 Annual Rates Bill	15/07/2026

#	Reference	Type	Title	Date
12	IR2026/162	Inland Revenue Report	Outcomes from targeted consultation on approved issuer levy	15/07/2026
13	IR2026/187	Inland Revenue Report	Land improvements - recommendations following targeted consultation	15/07/2026
14	IR2026/198	Inland Revenue Report	Outcome of consultation on regulatory framework for intermediaries	16/07/2026
15	IR2026/171	Inland Revenue Report	GST items recommended for inclusion in 2026–27 Annual Rates Bill	16/07/2026
16	IR2026/183; BRIEFING-REQ-003640	Inland Revenue Report	RDTI: Stakeholder feedback on Budget measures and final approvals for 2026–27 Annual Rates Bill	30/07/2026
17	IR2026/218	Inland Revenue Report	Further fiscal item for inclusion in the 2026–27 Annual Rates Bill	23/07/2026
18	IR2026/224	Inland revenue Report	Additional non-fiscal items for 2026–27 Annual Rates Bill	30/07/2026
19	IR2026/241	Inland Revenue Report	Transitional residence: alignment with DTA tax residence	6/08/2026
20	IR2026/210	Inland Revenue Report	Cabinet paper: Measures for inclusion in 2026–27 Annual Rates Bill	30/07/2026
21	ECO-26-SUB-0153	Cabinet paper	Measures for inclusion in 2026–27 Annual Rates Bill	19/08/2026
22	ECO-26-MIN-0153	Cabinet minute	Measures for inclusion in the 2026–27 Annual Rates	19/08/2026
23	CAB-26-MIN-0277	Cabinet minute	Report of the Cabinet Economic Policy Committee: Period Ended 21 August 2026	24/08/2026
24	IR2026/261	Inland Revenue Report	Access to the attributable FIF income method	20/08/2026
25	IR2026/256	Inland Revenue Report	Cabinet Paper – Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for introduction	18/08/2026
26	LEG-26-SUB-0192	Cabinet paper	Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds and Remedial Measures) Bill: Approval for Introduction	3/09/2026

#	Reference	Type	Title	Date
27	LEG-26-MIN-0192	Cabinet minute	Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for introduction	3/09/2026
28	CAB-26-MIN-0292	Cabinet minute	Report of the Cabinet Legislation Committee: Period Ended 4 September 2026	7/09/2026
29	IR2026/278	Inland Revenue Report	Fringe benefit tax motor vehicle valuation rates	8/09/2026

Additional information

The Cabinet paper *Measures for inclusion in 2026–27 Annual Rates Bill* [ECO-26-SUB-0153] was considered by the Cabinet Economic Policy Committee on 19 August 2026 and confirmed by Cabinet on 24 August 2026. The regulatory analysis summaries attached to this Cabinet paper have been published online: Regulatory impact statements for Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill.

The Cabinet paper *Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds and Remedial Measures) Bill: Approval for Introduction* [LEG-26-SUB-0192] was considered by the Cabinet Legislation Committee on 19 August 2026 and confirmed by Cabinet on 24 August 2026. The regulatory impact statements attached to this Cabinet paper have been published online: Regulatory impact statements for Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill. The consistency accountability statement attached to this Cabinet paper has been published: Consistency accountability statement for Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill.

A number of proposals included in the Bill were announced in Budget 2026. Key advice papers on these proposals have been previously released in the Budget 2026 information release: Information release for Budget 2026.

Information withheld

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

Where this is the case, the relevant sections of the Act that would apply are identified.

Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

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9(2)(h)	to maintain legal professional privilege
18(c)(i)	that the making available of the information requested would be contrary to the provisions of a specified enactment

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Tax policy report

Inland Revenue
Te Tari Taake

Overseas donee status: Approvals for inclusion in 2026–27 Annual Rates Bill

Date	10 June 2026	**Priority**	Medium
Security level		**Report number**	IR2026/161
Bill name	2026–27 Annual Rates Bill – title to be confirmed		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	23 June 2026
Minister of Revenue	**Agree** to recommendations	23 June 2026

Purpose
This report seeks your agreement to grant overseas donee status for six New Zealand registered charities. We also seek your agreement to remove CORSO (Incorporated) from the list of donee organisations in the Income Tax Act 2007. The necessary changes would be included in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026. This report supersedes our earlier report IR2026/051 dated 3 March 2026.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Charles Ngāki	Policy Lead	s 9(2)(a)	☐
Brandon Sloan	Principal Policy Advisor	s 9(2)(a)	✓

Overseas donee status: Approvals for inclusion in 2026–27 Annual Rates Bill

Executive summary

1 This report seeks your agreement to grant overseas donee status to six New Zealand charities and to include the necessary legislative amendments in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026.

2 We recommend you grant overseas donee status to the following charities:

- Africa on Fire Humanitarian Charitable Trust Board: This charity is active in Mozambique, and its purposes are directed at the relief of poverty.
- Atmabhav Charitable Trust, for a period of seven years ending 31 March 2033: This charity is about to commence projects in India that are directed at the relief of poverty.
- Dream for Life Trust, for a period of seven years ending 31 March 2033: This charity provides are directed at the relief of poverty and resources to support the delivery of tertiary education in India.
- Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust, for a period of seven years ending 31 March 2033: This charity is active in Ukraine, and its purposes are directed at the relief from the ravages of war.
- Pacific Islands Pacemaker Services (PIPS) Charitable Trust: This charity operates throughout the Pacific, and its purposes are directed at the relief of sickness.
- The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated, for a period of seven years ending 31 March 2033: This charity is active in various cities in Indonesia, and its purposes are directed at the relief of poverty and sickness.

3 The charities named above meet Cabinet's criteria for overseas donee status and are registered under the Charities Act 2005. Each undertakes activities that align with New Zealand's overseas development objectives and has appropriate arrangements in place to ensure accountability for funds applied to overseas projects.

4 For the charities we have recommended to have donee status for seven years, we propose to review their activities in 2031 to confirm that their purposes and activities remain appropriate for being listed as an "overseas donee organisation" in the Income Tax Act 2007.

5 We also recommend CORSO (Incorporated) be removed from the Income Tax Act because it is no longer a registered charity and is no longer applying funds outside New Zealand. s 9(2)(g)(i)

6 If you agree to the recommendations in this report, Cabinet approval to include the required legislative amendments in the 2026–27 Annual Rates Bill would be sought in August 2026.

Policy intent

Context

7 "Overseas donee status" is a specific exception in schedule 32 of the Income Tax Act 2007. It overrides the general policy of limiting donation-related tax benefits to charities that have New Zealand-only purposes. This status allows donors to charities that operate internationally to be eligible for tax benefits (such as the donation tax credit) for the monetary donations they make.

8 This status is granted through legislative amendment. The Legislation Design and Advisory Committee (LDAC) has confirmed that the use of legislation is appropriate for granting this status.[1]

Cabinet's consideration of requests for overseas donee status

9 Since 1978, Cabinet has applied the following criteria when assessing requests for overseas donee status. The basic criteria for adding an organisation to the list of approved "overseas" charities are as follows:

(i) the funds of the charity should be principally applied towards:

the relief of poverty, hunger, sickness or the ravages of war or natural disaster; or

the economy of developing countries; or*

raising the educational standards of a developing country;*

(ii) charities formed for the principal purpose of fostering or administering any religion, cult or political creed should not qualify;

**developing countries recognised by the United Nations.*

[CM 78/14/7 refers]

10 The eligible purposes align with the Government's overseas development objectives (disaster relief, provision of humanitarian aid, and assisting developing countries) and are narrower than both the common law meaning of "charitable purpose" and the legislative framework in the Charities Act 2005.

11 In 2009, Cabinet endorsed guidelines to support the analysis of requests for overseas donee status.[2] These guidelines are intended to provide assurance that organisations seeking overseas donee status are credible, transparent, and accountable, have an appropriate track record, and undertake activities the Government would want to support.

12 Fiscal impacts and the integrity of the tax system are also relevant considerations, particularly when there is a risk of private benefit or misuse of donation-related tax benefits.

Charities we recommend for overseas donee status

13 The six charities discussed below meet Cabinet's approval criteria, and they are registered under the Charities Act 2005. They all have adequate procedures to ensure accountability for funds applied to projects.

14 The charities discussed below have requested overseas donee status to support their fundraising objectives and further their charitable objectives.

Africa on Fire Humanitarian Charitable Trust Board

15 Africa on Fire Humanitarian Charitable Trust Board supports humanitarian and community-based activities in Mozambique. The charity's purpose is to provide welfare support, humanitarian relief, and community resilience initiatives, including assistance to vulnerable families affected by crisis and instability.

[1] We have previously provided advice to the Minister of Revenue on the merits of using legislation to implement these changes (BN2025/481 refers).

[2] CBC Min (09) 12/2 https://www.beehive.govt.nz/release/dunne-guidance-charitable-bodies-seeking-overseas-donee-status

Atmabhav Charitable Trust

16 s 18(c)(i)

17 s 18(c)(i)

18 The Trust s 18(c)(i) has s 18(c)(i) projects in India that are directed at the relief of poverty and the advancement of education.

19 s 18(c)(i)

Dream for Life Trust

20 Dream for Life Trust provides resources to support the delivery of tertiary education in Odisha, India, with a focus on computer training and English. The training is aimed at young adults and older children, with the objective of relieving poverty by improving future employment opportunities.

21 s 18(c)(i)

Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust

22 Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust delivers humanitarian and medical aid in Ukraine in response to the armed conflict. The charity operates close to active conflict zones, providing medical supplies, ambulances, humanitarian goods, and evacuation services for civilians, including internally displaced persons and patients requiring urgent medical care.

23 s 18(c)(i)

Pacific Islands Pacemaker Services (PIPS) Charitable Trust

24 Pacific Islands Pacemaker Services (PIPS) Charitable Trust is a New Zealand registered charity that provides lifesaving cardiac pacemaker services to people living in the Pacific Islands and developing capability in Fiji. PIPS sends volunteer teams of cardiologists, nurses, and cardiac physiologists to Pacific nations to implant pacemakers, conduct follow up care, and train local health professionals, with the aim of preventing premature death from untreated heart conditions.

[3] Ibid. footnote 2.

The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated

25 The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated (the Foundation) supports rehabilitation services for children and young adults with physical disabilities in Indonesia, particularly those from very poor families. The Foundation provides funding and support for rehabilitation centres, assistive equipment, therapy, and vocational training, with the goal of enabling disabled children to achieve greater independence and social participation. The charity's purpose is to address physical disability and poverty-related disadvantage by improving functional ability, independence, and long-term wellbeing.

26 s 18(c)(i) [redacted]

Certain approvals should be time-limited for seven years

27 Four of the charities recommended above should have overseas donee status for a defined period. We have recommended these charities have time-limited donee status because the charities have either:

- been recently established and need time to demonstrate the effectiveness and sustainability of their activities, or
- the purposes of the charity are contingent on events that are beyond the control of the governance board.

28 A time-limited approach allows us to review the charities again should they seek an extension to their donee status and protects the integrity of the tax system.

29 We consider a period of seven years, from 1 April 2026 to 31 March 2033, is appropriate.

Removing CORSO (Incorporated)

30 CORSO (Incorporated) was one of the original charities added to the list of donee organisations in the Income Tax Act (the Land and Income Tax Act 1954). Created in 1944, CORSO (the Council of Organisations for Relief Service Overseas) was organised to provide large-scale humanitarian assistance for war-torn countries. In its early years CORSO functioned as an umbrella organisation bringing together a wide range of religious, labour, youth, medical, and charitable groups to channel New Zealand's aid overseas. Its primary role was to support international relief efforts, particularly through collaboration with the United Nations Relief and Rehabilitation Administration.

31 An academic paper noted that governance changes in the 1970s led to the charity losing influence, including government support. The growth in private philanthropy and competition for donors by larger New Zealand international aid charities in the 1970s and 1980s also meant that its role as an "umbrella" organisation was diminished. By the 1990s, its national role largely ended. In 2010 it was deregistered from the Charities Register.[4]

[4] Sutton D, Baskerville R, and Cordery C (2007) "The CORSO Story" Working Paper no 47 Victoria University of Wellington, New Zealand found at: Paying the Price of the Failure to Retain Legitimacy in a National Charity: the CORSO Story

32 s 18(c)(i) [redacted]

33 We recommend CORSO (Incorporated) be removed from the Income Tax Act because it is no longer a registered charity and is no longer applying funds outside New Zealand. As such, it is no longer a suitable organisation to have overseas donee status.

Legislative vehicle and application date

34 The amendments recommended in this report to the list of overseas donee organisations in the Income Tax Act should be included in the 2026–27 Annual Rates Bill, scheduled for introduction in September 2026. The additions to the list should apply from 1 April 2026. Monetary donations received from that date would be eligible for tax benefits. The recommended application date gives the charities certainty for marketing and fundraising purposes.

35 Inland Revenue's systems can accommodate an application date of 1 April 2026 because individuals will be able to claim the donations tax credit for receipted monetary donations as part of Inland Revenue's 2026–27 return cycle. Companies and Māori authorities will be allowed deductions for monetary donations made during the 2026–27 income year.

Financial implications

36 The revenue effect of giving overseas donee status to the six charities recommended in this report is estimated to be $0.957 million over the forecast period.

37 The revenue effect is recognised as a forecasting change because it reflects an increase in the cost of the decision to allow donations to New Zealand-based charities with overseas purposes to be eligible for tax benefits. The revenue estimates are based on projections made by the charities about the monetary donations they expect to receive for the forecast period. The recommendations in this report have no impact on the Tax Policy Scorecard or Budget Allowances. The financial implications should flow through to fiscal indicators because they are in accordance with established Cabinet guidelines and do not reflect a policy change.

Administration implications

38 The recommendations in this report have minimal operational impact, and no systems changes are required.

Consultation

39 The Treasury, Ministry of Foreign Affairs and Trade, and the Department of Internal Affairs – Charities Services have been consulted and agree with the recommendations in this report.

Next steps

40 If you agree to the recommendations in this report, we will seek Cabinet's approval to include the charities you have agreed should be granted overseas donee status as part of the omnibus reporting to Cabinet on the 2026–27 Annual Rates Bill in August 2026.

41 No further reference to Cabinet is required in connection with removing CORSO (Incorporated) from the Income Tax Act because this is a remedial amendment.

Recommendations

We recommend you:

1 **Agree** that the **six** charities named below be added to the list of organisations with overseas donee status in the Income Tax Act 2007:

a Africa on Fire Humanitarian Charitable Trust Board

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

b Atmabhav Charitable Trust

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

c Dream for Life Trust

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

d Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

e Pacific Islands Pacemaker Services (PIPS) Charitable Trust

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

f The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated (Rehabilim)

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

2 **Agree** that the charities you approved in recommendation 1 are given overseas donee status from the following dates:

a Africa on Fire Humanitarian Charitable Trust Board and Pacific Islands Pacemaker Services (PIPS) Charitable Trust – from 1 April 2026.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

b Other charities – from 1 April 2026 until 31 March 2033.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

3 **Note** the following forecast changes, because of recommendations 1 and 2 above, have 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 – Other Persons	-	(0.192)	(0.233)	(0.255)	(0.277)
Total Operating	**-**	**0.192**	**0.233**	**0.255**	**0.277**

4 **Note** that recommendations 1 and 2 above are in accordance with established Cabinet guidelines and do not reflect a policy change, so the financial implications do not need to be managed against the Tax Policy Scorecard or against Budget Allowances and can flow through to fiscal indicators.

5 **Agree** to remove CORSO (Incorporated) from the list of organisations with overseas donee status in the Income Tax Act 2007, with effect from the date of enactment of the 2026–27 Annual Rates Bill scheduled for introduction in September 2026.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

6 **Agree** that amendments giving effect to recommendations 1, 2 and 5 be included in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

s 9(2)(a)

Brandon Sloan

Principal Policy Advisor

Policy | Taukaea

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Financial arrangements rules – final design recommendations

Date	11 June 2026	**Priority**	Medium
Security level		**Report number**	IR2026/167

Action sought		**Deadline**
Minister of Revenue	**Agree** to the recommended final design of all proposed changes to the financial arrangements rules.	9 July 2026

Purpose
This report provides an update on the feedback received during the second round of consultation and seeks final design decisions for the proposals that will be introduced in the 2026–27 Annual Rates Bill. We seek a decision by 9 July 2026 to align with internal drafting deadlines, but note that these are flexible.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Fiona Wellgreen	Principal Policy Advisor, Inland Revenue	s 9(2)(a)	✓
Dan Doughty	Senior Policy Advisor, Inland Revenue	s 9(2)(a)	☐

Financial arrangements rules – final design recommendations

Executive summary

1 As part of Budget 2026, the Government announced several tax changes designed to lift economic productivity by making it easier for New Zealand businesses to attract and retain highly skilled talent. This included a package of changes to the financial arrangements rules (the package) designed to increase cashflow certainty by reducing exposure to unexpected foreign exchange rate movements:

- An **elected functional currency rule** that would allow individuals (both migrants and non-migrants) to calculate income and expenditure from their foreign currency investments in a currency other than New Zealand dollars.
- New **quarantined foreign financial arrangements rules** that would tax foreign arrangements on realisation if the person would otherwise be subject to double taxation because of their citizenship in a foreign country.
- A retrospective new rule that would remove the requirement for taxpayers to revalue arrangements on the date that they become tax resident in New Zealand, if those arrangements were acquired for the purposes of meeting visa eligibility (i.e., the Active Investor Plus visa).
- A range of changes to exclude common, low-risk arrangements from the financial arrangements rules altogether, minimising compliance costs for migrants and returning New Zealanders (who are more likely to have these arrangements).

2 Alongside the Budget 2026 process, you agreed to us continuing consultation on the technical design of the package with external stakeholders (IR 2026/053 refers).

3 Stakeholders unanimously supported the package during consultation with their feedback focusing on the elected functional currency rule, which they saw as the most important change. They emphasised the need for an unambiguous test for excluding currency speculators and encouraged extending eligibility beyond individuals.

4 We recommend you agree to the final technical design of all proposals in the package (as informed by consultation) for introduction in the 2026–27 Annual Rates Bill.

5 We will also continue work on outstanding issues related to the elected functional currency rule alongside the Bill process, and report back to you with further policy options later this year.

Background

6 A financial arrangement is any arrangement when one person pays another person money now, on the expectation of repayment in the future (with or without the expectation of interest). The current rules tax income from the arrangements on an accrual basis, which negatively affects migrants (and non-migrants) who are being taxed on unrealised foreign exchange gains on offshore investments.

7 Ministers included a review of the financial arrangements rules on the current Tax and Social Policy Work Programme to support the Government's focus on attracting and retaining highly skilled talent. We have reported to you on this project twice before:

- November 2025 (IR2025/431 refers): Provided a technical overview of the financial arrangements rules, outlined initial understanding of the problems experienced by migrants, and possible policy changes. We sought (and you granted) permission to consult on the initial problem definition and policy changes.
- April 2026 (IR2026/053 refers): Provided an updated problem definition based on stakeholder feedback and recommended two new proposals (the elected functional

currency and quarantined financial arrangements rules). We sought (and you granted) permission to consult on the technical details of the package.

8 All changes in the package were agreed to as part of the 2026 Budget Cabinet paper (CAB-26-MIN-0156.59 refers). This report seeks your agreement to progress the final technical design, which reflects the technical feedback we received during the second round of consultation.

Summary of recent consultation

9 We have completed the technical design consultation you agreed to in our previous report (IR2026/053 refers). As noted in that report, consultation focused on two areas:

- Whether our external expert stakeholders saw any issues with the proposed technical design for each of the proposals contained in the package.
- Whether those stakeholders had any concerns with the integrity test we were considering for the elected functional currency rule.

10 This was also the first time that stakeholders were exposed to both of the new proposals (the elected functional currency rules and quarantined foreign financial arrangements rules). They were unanimously supportive of both proposals, and all agreed that the elected functional currency rule was the most important part of the package for reducing uncertainty for both migrants and non-migrants.

11 Stakeholders provided a range of technical design comments on all proposals, and we discuss how that affected our design recommendations later in this report. However, most of the feedback we received related to the proposed integrity test for the elected functional currency rule.

Design of elected functional currency rule

12 The elected functional currency rule would allow eligible taxpayers to elect to use a foreign currency (instead of New Zealand dollars) when calculating net income under the financial arrangements rules. This takes exchange rate movements out of the equation for arrangements denominated in a foreign currency, preventing their unpredictable impact each income year. Taxpayers would then only be required to convert the result of that calculation to New Zealand dollars.

13 Taxpayers would be able to use either one single currency for all their foreign currency arrangements, or elect to use the currency each of their foreign currency arrangements are denominated in. Taxpayers would be able to change which currency they have elected if they have good commercial reason for doing so.

14 Only natural persons (and a limited number of functional "proxies" for natural persons) would be eligible to use these rules.

Integrity test

15 In our previous report we noted it was important that the elected functional currency rules be designed in a way that prevented currency speculators from using them to make untaxed gains. To achieve this, we tested a rule with our stakeholders that would exclude arrangements with a "more than merely incidental purpose" of speculation.

16 While stakeholders agreed that speculators posed a material integrity risk, they raised several concerns with our proposed rule to exclude them. The most common concern was that the rule did not draw a clear enough line on what would be considered speculative, and that this would make the rules too uncertain in practice. Some stakeholders also noted that speculators could potentially circumvent the test.

17 However, stakeholders also agreed that designing a better rule was difficult and would require more time than available before the 2026–27 Annual Rates Bill to design.

Solution to integrity test problem

18 Currency speculators only pose an integrity problem at the point that they realise an exchange rate gain. We can mitigate that risk, without the need for a specific integrity test, by having the elected functional currency rules apply only when the financial arrangements rules account for unrealised gains (and losses).

19 As a result, we recommend the elected functional currency rule be designed to only apply to the **spreading rules** (which apply for income years in which a financial arrangement is ongoing), but not to the **base price adjustment rules** (which apply in the income year that a financial arrangement ends).

20 This design would prevent unrealised foreign exchange movements from being captured by the rules, which was the cause of stakeholders' primary concern (that is, cashflow uncertainty caused by unexpected exchange rate movements). However, taxpayers would still be taxed on any realised exchange rate gains when their arrangements mature, meaning any gains from currency speculation would be taxed.

Drawbacks from this design and how we plan to manage them

21 Many migrants with foreign currency arrangements do not convert their income to New Zealand dollars when the arrangements end. This means they have not realised a foreign currency gain or loss. However, the financial arrangements rules would still tax that gain as if it had been realised by converting the amounts to New Zealand dollars.

22 Stakeholders have indicated that this would lower the overall benefit of the rule, particularly for migrants who want to maintain a portfolio of foreign investments. Some United States migrants would also remain exposed to double taxation on realised foreign exchange gains.

23 We agree with stakeholders that the rules should be extended to realisation events to prevent these drawbacks, but only once we have developed an alternative integrity test to exclude currency speculators. While we do not believe this can be done in time for the 2026–27 Annual Rates Bill, we will continue work alongside the Bill process to develop a workable integrity test and report to you on options later in the Bill process.

24 Subject to your agreement, we will communicate that this work is ongoing to stakeholders to manage their concerns with the design of the elected functional currency rule when introduced.

Further feedback – scope of elected functional currency rule

25 Almost all stakeholders argued strongly for extending the elected functional currency rule to a range of other non-natural persons (particularly companies). We agree that expanding eligibility would support your broader economic objectives by lowering uncertainty over a much wider range of financial arrangements. However, this would come with a range of new integrity risks.

26 We do not consider we could design appropriate rules to mitigate these risks ahead of the 2026–27 Annual Rates Bill, and so do not recommend expanding the rules to all taxpayers at this time. However, we will explore solutions alongside the work on the integrity test discussed above, and report back on options to extend the rule to non-natural taxpayers at a later point in the Bill process.

Final technical design of all other proposals

27 The feedback we received from stakeholders on the remaining proposals focused on specific technical issues but did not change the substance of the proposals, which would

remain the same as previously agreed to by you and Cabinet. We recommend you note that the final design of the following proposals remains substantively unchanged.

Quarantined foreign financial arrangements rule

28 Taxpayers would be able to elect out of the requirement to use the spreading rules for a financial arrangement if it meets specific requirements. Those requirements will be designed to determine if the arrangement would be subject to double taxation if it were required to apply the spreading rules.

29 Eligible financial arrangements would instead calculate all income on a cash basis, identical to the current treatment of arrangements held by taxpayers that qualify for the cash basis persons rules. Special rules would apply to penalise taxpayers who use this rule and later claim foreign tax credits.

Financial arrangements acquired for Active Investor Plus visa requirements

30 If a financial arrangement was acquired to meet the requirements of a visa, then that arrangement would be treated as having been acquired for its original cost (in New Zealand dollars) on the first date that the person became a tax resident in New Zealand, regardless of the date the arrangement was actually acquired.

31 This would remove the requirement under current law to revalue those arrangements to market value on that date, which can cause unexpected tax liabilities to arise.

Removal of low risk, common arrangements from the rules

32 Changes would be made to the excepted financial arrangements rules to exclude three common foreign currency arrangements from the financial arrangements rules altogether:

- foreign currency bank accounts with a private or domestic purpose
- foreign currency loans with a private purpose, and
- foreign currency on-call credit accounts included in the rules because exchange rate movements mean they do not qualify for the existing rule.

Financial implications

33 As noted in our previous report (IR2026/053 refers), the fiscal cost for the package is $2.06 million over the forecast period. The final design of the proposals has not changed the expected fiscal cost of the package. You and the Minister of Finance agreed to manage the cost of the package via the Tax Policy Scorecard.

Administrative impact

34 As noted in our previous report (IR2026/053 refers), we estimated a one-off implementation cost for the package of $0.100 million. The final design of the proposals has not changed the expected implementation cost. Inland Revenue will manage this cost as part of its annual content updates process.

Consultation

35 On 1 May 2026, we invited further consultation with the 16 stakeholders that we originally engaged with in December 2025.

36 Consultation closed on 26 May 2026, and we received written feedback from eight of those stakeholders (Buddle Findlay, CA ANZ, Deloitte, EY, KPMG, MinterElisonRuddWatts, Patterson Legal, PwC). We also met with two other stakeholders to discuss their feedback directly (Baucher Consulting, OliverShaw).

37 Stakeholders universally supported all the proposals in the package and provided technical feedback that we have incorporated into the final design of each of the proposals. However, as anticipated in our previous report (IR2026/053 refers),

stakeholders have repeated requests that you progress a broader review of the financial arrangements rules.

38 As we noted previously, we believe there may be merit in undertaking a broader review. However, that work programme would require significant resource investment, which would need to be traded off against other policy projects as part of any future work programme decisions.

Treasury comment

39 Treasury was informed about this report.

Next steps

40 If you agree to the recommended technical design of the package, changes will be introduced in the 2026–27 Annual Rates Bill.

41 We will also continue to engage with stakeholders on the design of an integrity test for the elected functional currency rule through the Bill process.

Recommendations

We recommend you:

1 **Agree** to limit the application of the elected functional currency rule to the spreading rules only as an integrity measure.

Agree / Disagree

2 **Agree** to the final design of the elected functional currency rule as detailed in this report.

Agree / Disagree

3 **Agree** to officials communicating to stakeholders that work will continue on developing a workable integrity test for the elected functional currency rule, and to extend the application of those rules to the base price adjustment rules.

Agree / Disagree

4 **Note** to that the following proposals (which you have previously agreed to) will be introduced in the 2026–27 Annual Rates Bill substantively unchanged from previous reports:

Proposals

- A quarantined foreign financial arrangements rule
- Special rules for financial arrangements acquired for the purpose of meeting visa requirements
- Excepted financial arrangements rule – foreign currency private bank accounts
- Excepted financial arrangements rule – private foreign currency loans
- Excepted financial arrangements rule – on-call credit accounts

s 9(2)(a)

Fiona Wellgreen

Principal Policy Advisor

Policy | Inland Revenue

11 June 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Item 03

MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Inland Revenue
Te Tari Taake

Joint policy report

Policy ideas to improve student loan compliance

Date	12 June 2026	**Priority**	Medium
Security level		**Report number**	IR2026/005 METIS: 1355460

Action sought		**Deadline**
Minister of Finance	Not in scope	19 June
Minister for Tertiary Education	**Agree** to progress an amendment to the arrest-at-border power.	26 June
Minister of Revenue	**Agree** to progress an amendment to the arrest-at-border power.	26 June

Purpose
This report provides advice in response to ECO's invitation for Ministers to report back to Cabinet on policy options to improve student loan compliance among overseas-based borrowers (OBBs).

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Thomas Allen	Principal Advisor, Inland Revenue	s 9(2)(a)	✓
Nicki Ablitt	Senior Policy Manager, Ministry of Education	s 9(2)(a)	☐

Policy ideas to improve student loan compliance

Executive summary

1 This report responds to the Cabinet Economic Policy Committee's request for advice on broader policy options to improve compliance and overseas collection of student loan repayments. The report includes advice and updates Not in scope :

a. **Short term**: refining Inland Revenue's arrest-at-border powers. This proposal would address practical constraints that currently allow some persistently non-compliant borrowers to prevent Inland Revenue from meeting the criteria required to seek a court-issued arrest warrant.

b. Not in scope

c. Not in scope

2 If ministers wished to progress improvements to the arrest-at-border provision, we can provide a report with more specific options to change the provision. That report would attach a draft Cabinet paper for approval, Not in scope

Background

3 New Zealand's Student Loan Scheme aims to ensure access to tertiary education reducing financial barriers while managing costs for the taxpayer. However, low repayment compliance among OBBs significantly impacts the value of the Scheme and its cost to future generations. Current challenges include:

- Only 30% of OBBs meet repayment obligations and compliance declines sharply the longer the borrower is overseas.
- 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.
- For individual OBBs, high debt levels may deter engagement, creating stress and perceived unfairness. Some borrowers fear returning to New Zealand due to enforcement actions.

4 In December, the Cabinet Economic Policy Committee agreed to progress a Commissioner's discretion to provide relief from student loan interest [ECO-25-MIN-0202 refers]. In that meeting, the Committee invited the Minister for Universities and the Minister of Revenue to report back on "wider policy work on student loan obligations when borrowers go overseas and the Crown's ability to collect from overseas-based borrowers".

Compliance is increasing through incremental improvements

5 Notwithstanding the challenges associated with engaging OBBs, we consider it important to continue making incremental changes that shift repayment behaviour in the right direction. Operational compliance activity funded through Budget 2024 has contributed to improving repayment outcomes over time.

s 18(c)(i)

6 s 18(c)(i)

s 18(c)(i)

7 These outcomes demonstrate that incremental measures can deliver modest but sustained shifts in repayment behaviour. We consider it important to continue building on these gains over time. The interest relief power is an additional tool to support re-engagement by reducing barriers for some borrowers. s 18(c)(i)

8 Inland Revenue and the Ministry of Education have considered a range of additional options to further improve compliance. One measure has been identified that could be progressed in the short term, modifying Inland Revenue's arrest powers, however, we note that this option carries some risks. Not in scope

Short-term policy ideas: modification to arrest-at-border provision

Existing arrest-at-border power

9 One enforcement tool available in cases of persistent non-compliance is the ability to arrest student loan defaulters at the border when they attempt to leave New Zealand after returning from overseas.

10 A small number of arrests were undertaken in 2025, s 18(c)(i) nland Revenue's experience indicates that while arrest itself rarely results in the recovery of significant outstanding debt, the credible threat of arrest acts as an effective deterrent, prompting engagement and improved compliance.

11 To obtain a warrant to arrest, Inland Revenue must prove to the Court that the borrower has committed an offence and is about to leave/attempt to leave New Zealand. The offence requires them to:

a. be in default of their overseas-based repayment obligations, and

b. have been notified of this default, and

c. knowingly fail or refuse to make reasonable efforts to pay/arrange to pay by the date specified in the notification.

Practical constraints with current settings

12 In almost all cases of persistent non-compliance, elements (a) and (b) can be readily established. Most OBBs are aware they have a student loan and that they are not meeting their repayment obligations, (in most cases over a long time). Inland Revenue undertakes sustained and repeated communication with borrowers through multiple channels, including secure web messaging (myIR), letters to last known addresses, and, when possible, direct contact using available phone or email details.

13 To satisfy the requirements for the arrest power, Inland Revenue must issue a final notification letter (element (c)). The offence requires evidence that the borrower knowingly failed or refused to make reasonable efforts to resolve the debt after this notice was provided. While the final notification is a necessary step, receipt of the letter alone is not treated as sufficient to establish knowledge. Inland Revenue must be able to demonstrate that the borrower was aware of the notice and their obligations and did not take reasonable steps to respond.

14 s 18(c)(i)

15 Establishing knowledge of this final step can be challenging when borrowers do not engage. s 18(c)(i) [redacted] When engagement on the final notification cannot be demonstrated, the knowledge element of the offence may not be satisfied, preventing Inland Revenue from applying to the Court for an arrest warrant.

16 In summary, the effectiveness of the arrest power is constrained by borrowers' ability to avoid or minimise engagement at the final notification stage. This is despite Inland Revenue undertaking sustained and reasonable efforts to contact borrowers.

Amending the provision

17 One option Ministers could consider is refining the provision by placing greater weight on Inland Revenue's ability to demonstrate sustained and reasonable efforts to notify and engage the borrower, and correspondingly less emphasis on the final notification.

18 For example, the requirement could be reframed so that the arrest power may be exercised when Inland Revenue has undertaken repeated, multi-channel communication attempts and the borrower has failed to respond or take reasonable steps to resolve the debt.

19 This proposal would not remove the relevance of the borrower's knowledge requirement. The borrower would still need to have known, or reasonably be expected to have known, of their repayment obligations and failed to make reasonable efforts to address the debt. However, it would reduce the ability of borrowers to avoid enforcement solely through non-engagement with the final notification.

20 Amending the provision would enable Inland Revenue to take enforcement action in cases when there is a clear pattern of prolonged non-compliance, supported by evidence of sustained communication attempts and the borrower's failure to respond.

21 s 18(c)(i) [redacted] the change would send a clear signal that borrowers cannot avoid Inland Revenue meeting the criteria for a court-issued arrest warrant by failing to engage with the final notification. We expect this to encourage more constructive engagement from borrowers who are in default.

22 It is important to note that the existing legislative provision was deliberately designed to protect borrowers' rights and ensure appropriate due process before the arrest power is exercised. Any amendment that reduces the emphasis on a knowledge requirement would raise New Zealand Bill of Rights Act 1990 (BORA) considerations particularly in relation to freedom from arbitrary arrest and detention and (to a lesser extent) freedom of movement. Careful design would therefore be required to ensure that any changes are proportionate and justified.

Consultation with Ministry of Justice and New Zealand Police

23 The Ministry of Justice (MoJ) noted that the proposal could raise issues relating to culpability, procedural fairness, and consistency with BORA. In particular, it considered that the existing knowledge element serves as an important safeguard against penalising borrowers who may be unaware of their default or Inland Revenue's attempts to contact them. MoJ noted that moving away from a clear statutory trigger toward a more discretionary assessment of communication and engagement could weaken procedural safeguards, increase the risk of inconsistent decision-making, and make it harder to justify the proposal as a proportionate response.

24 If Ministers wished to proceed with this amendment, we would continue to consult with the MoJ in the development of the amendment, so it balances the need to create a statutory provision that is workable in practice while also protecting the rights of borrowers.

25 Police advised that the proposal could have operational implications at the border because arrests require staff to be diverted or additional resources to attend airports. While current use is limited and manageable, any changes would need to ensure they do not place undue pressure on frontline policing capacity. Similarly, there will be an increase in the workload in the court system.

Next steps

26 If Ministers are interested in exploring this option further, officials will continue to work with MoJ officials to amend the arrest power while balancing BORA considerations.

27 We note that no savings were booked when the arrest-at-the border power was introduced because of the uncertainty about its impacts. Consistent with this approach, this further change is also unlikely to have any fiscal impacts.

Not in scope

Not in scope

Not in scope

Discounted ideas

42 We did consider whether more severe measures, like passport restrictions, may be useful to encourage compliance. Introducing passport restrictions for overseas-based student loan borrowers who are non-compliant with repayments would raise significant concerns. Such a measure would directly engage the right to freedom of movement under the New Zealand Bill of Rights Act 1990 and may be difficult to justify as proportionate, particularly given it would likely operate as an administrative, ongoing restriction rather than a court-authorised, last resort tool. Passport restrictions also risk discouraging borrower engagement and return to New Zealand, potentially locking borrowers offshore and undermining longer-term compliance and recovery prospects.

43 Incremental improvements to existing enforcement and engagement tools, including refinement of the arrest-at-border framework and continued operational investment, are likely to be more effective, proportionate, and defensible.

Consultation

44 The Treasury, MoJ and New Zealand Police have been consulted on this report.

Not in scope

Commitment to report back to Cabinet

48 Following decisions to progress amendments to the arrest-at-border provision Not in scope a cabinet paper can be progressed fulfilling the commitment made at the Cabinet Economic Policy Committee last year. Not in scope

Recommendations

We recommend that you:

1.	**Note** officials have identified one option, "modification to the arrest-at-border provision", that could be progressed in the short term that may improve overseas-based student loan borrowers' compliance.
2.	**Agree** to progress work on changes to the arrest-at-border provision, for officials to work with the Ministry of Justice on the amendment and report back with a draft cabinet paper for your consideration. Agree/Disagree — *Minister for Tertiary Education* Agree/Disagree — *Minister of Revenue*
3.	Not in scope

4. Not in scope [redacted]

Agree/Disagree

Minister of Finance

s 9(2)(a) [redacted]

Carolyn Elliott
Policy Lead
Policy | Inland Revenue
12 June 2026

s 9(2)(a) [redacted]

Nyk Huntington
Acting Policy Manager
Policy | Ministry of Education
12 June 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Penny Simmonds
Minister for Tertiary Education
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Item 04

Tax policy report

Inland Revenue
Te Tari Taake

Approval of non-fiscal remedials for 2026–27 Annual Rates Bill

Date	18 June 2026	**Priority**	Medium
Security level		**Report number**	IR2026/159
Bill name	2026–27 Annual Rates Bill (Name TBD)		

Action sought		**Deadline**
Minister of Revenue	**Agree** to remedial items to be included in the 2026–27 Annual Rates Bill. **Refer** to the Minister of Finance	2 July 2026

Purpose
This report seeks agreement from the Minister of Revenue to make remedial amendments that do not have fiscal implications to the Inland Revenue Acts, and to include these in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Peter Frawley	Policy Lead	s 9(2)(a) [redacted]	☐
Matt Pilkinton	Bill Manager	s 9(2)(a) [redacted]	✓
Kaitlyn Payne	Bill Coordinator	s 9(2)(a) [redacted]	☐

Approval of non-fiscal remedials for 2026–27 Annual Rates Bill

Executive summary

1 This report seeks your agreement to include 17 remedial amendments in the 2026–27 Annual Rates Bill. The amendments recommended in this report do not have any fiscal implications.

2 The remedials in this report are intended to support the four workstreams of the Tax and Social Policy Work Programme. In particular, the recommended amendments will support the workstreams to "simplify and uphold integrity of the tax system" and "support small business".

3 Further advice on remedial amendments with fiscal impacts will be provided to you and the Minister of Finance in the week ending 17 July 2026.

Background

4 This report seeks your agreement to make 17 remedial amendments without fiscal impacts to the following Inland Revenue Acts, and to include these in the 2026–27 Annual Rates Bill (the Bill):

- Income Tax Act 2007 (ITA)
- Tax Administration Act 1994 (TAA)
- Goods and Services Tax Act 1985 (GST Act)
- Gaming Duties Act 1971
- Child Support Act 1991.
- KiwiSaver Act 2006
- Estate and Gift Duties Act 1968
- Estate Duty Abolition Act 1993
- Estate Duty Repeal Act 1999

5 Unless otherwise specified in this report, these changes should take effect on the day after the date the Bill receives Royal assent.

Purpose of remedial amendments

6 Remedial amendments play an important part in maintaining the tax system. Tax legislation needs to be regularly updated in response to changing technology, business practices, jurisprudence, or other factors. This helps ensure the tax system remains fit for purpose in a changing world.

7 The remedial amendments proposed for inclusion in the Bill are intended to ensure the relevant tax law is consistent with the policy intent and would support the four workstreams of the Government's Tax and Social Policy Work Programme:

- attract and retain capital and talent
- support small businesses
- simplify and uphold integrity of the tax system
- improve social policy.

8 The proposed remedials would have the most impact for the workstreams to "support small businesses" and "simplify and uphold integrity of the tax system". Many of the amendments proposed in this report clarify the law, reducing ambiguity and making it simpler for businesses to understand their tax obligations.

9 Remedial amendments that would specifically support businesses include:

- Allowing resident withholding tax (RWT) on dividends to be deducted at 39% (page 7), which would reduce compliance costs for taxpayers simply trying to pay the right amount of tax.
- Clarifying the definition of the Commissioner's official opinion (page 8), which would ensure businesses know when they can rely on a statement published on Inland Revenue's website.
- Clarifying that a business undertaking asbestos removal from a commercial building can claim a 20% Investment Boost deduction and still deduct the remaining 80% of the cost over time (page 4).

10 Remedials proposed in this report would also support the other two workstreams from the Tax and Social Policy Work Programme (but to a lesser extent). For example:

- The global anti-base erosion (GloBE) remedials (pages 4–5) would help attract and retain capital by simplifying tax compliance for multinationals operating in New Zealand.
- The proposed amendment to ensure 16- and 17-year-olds with estranged parents can enrol in KiwiSaver (page 8) would improve social policy.

Other remedial amendments

11 Remedial amendments to the GST Act are also proposed for inclusion in the Bill. Advice on these amendments will be provided following consultation on the officials' issues paper "Current GST issues".

12 A number of remedial amendments with fiscal implications are also proposed for inclusion in the Bill. Advice on these amendments will be provided in a separate report to you and the Minister of Finance in the week ending 17 July.

Operational implications

13 Inland Revenue can deliver the remedial changes included in this report based on our current work programme, and on what we understand the Government intends for Inland Revenue to deliver in the future. However, this Bill will reduce Inland Revenue's change capacity, and the resourcing of policy items within the Bill should be considered when thinking about Inland Revenue's ability to deliver future initiatives. While Inland Revenue proposes self-funding the departmental capital and operating costs to deliver these initiatives, we note this may require prioritisation or the potential of trade-offs becoming unavoidable within our fixed nominal baseline.

Consultation

14 The Treasury has been consulted on this report.

Next steps

15 Subject to your agreement, the remedial amendments proposed in this report will be included in the 2026–27 Annual Rates Bill. We propose that approval to introduce the Bill be sought from the Cabinet Legislation Committee on 3 September 2026 and Cabinet on 7 September. We expect the Bill to be introduced in the sitting week commencing 8 September.

16 Further advice on both remedial amendments with fiscal implications and policy changes proposed for inclusion in the Bill will be provided over the coming weeks.

Clarifying application of finance lease rules to software arrangements

17 The finance lease rules are intended to apply to arrangements that are economically equivalent to a sale or financing of an asset. The current definition of "lease" includes licences to use intangible property.

18 This creates uncertainty as to whether some software arrangements, particularly software as a service (SaaS) or other non-exclusive licences, could fall within the finance lease rules. These arrangements often fall within the part of the definition that captures leases with a term exceeding 75% of the asset's estimated useful life. However, they do not typically involve:

- transfer or near-transfer of ownership rights
- exclusive rights in the underlying intellectual property
- any realistic pathway to ownership.

19 On a literal reading, these rules could treat customers (for tax purposes) as if they had acquired the SaaS software, rather than merely obtained a right to use it. This would produce outcomes inconsistent with the policy intent of the finance lease regime and impose unnecessary compliance complexity.

20 Although Inland Revenue's current interpretation is that ordinary SaaS arrangements are unlikely to be finance leases, this position is not free from doubt and relies on interpretation rather than clear statutory boundaries.

21 We recommend amending the legislation to clarify that typical software licensing arrangements are excluded from the finance lease rules, when the only reason for inclusion is that the term of the license exceeds 75% of the useful life of the asset, and when:

- the license is non-exclusive, and
- the customer or any associate does not acquire rights to obtain an ownership interest (for example, copyright or equivalent intellectual property rights).

22 This amendment would improve the drafting of the law and remove doubt as to how the finance lease rules apply to ordinary SaaS arrangements. The amendment is consistent with Inland Revenue's interpretation of the current law so it would not have a fiscal impact.

Depreciation remedials

Definition of improvement

23 The definition of "improvement" for the purposes of the depreciation rules requires that the alteration, extension or repair to a depreciable asset "increases the capital value" of the asset. This is a redundant provision because all capital expenditure on altering, extending or repairing an asset would (at least marginally) increase the asset's capital value.

24 We recommend amending the improvement definition to remove the redundant requirement that the capital value be increased and to clarify that all capital expenditure on altering, extending or repairing a depreciable asset qualifies as an improvement. An equivalent amendment should also be made to the Investment Boost rules for improvements to assets eligible for Investment Boost.

25 This amendment would have no fiscal impact because it is simply a drafting improvement removing a redundant provision from the improvement definition.

Depreciation apportionment – rewrite remedial

26 The depreciation rules require a person partly using a depreciable asset for a private use to apportion the depreciation deduction for that asset. However, we have identified that these apportionment rules may not operate in the same manner as the equivalent rules from before the rewrite of the ITA.

27 The intent of the apportionment rules is to require the depreciation deduction available for an asset to be apportioned when the asset has some private use. Owing to errors made during the rewrite, the rules could prima facie allow a full depreciation deduction despite some private use of an asset in certain circumstances. However, the private limitation would still apply to these cases and ensure the correct outcome is achieved.

28 We recommend amending the depreciation apportionment rules to align with the equivalent rules from the Income Tax Act 1994. This amendment would be consistent with existing guidance (for example, Inland Revenue's Depreciation Guide) and align the rules with how taxpayers with partial private use of a depreciable asset currently apportion depreciation deductions. The private limitation still ensures the correct outcome is achieved under the current rules so the amendment would have no fiscal impact.

29 This issue stems from the errors made during the ITA re-write so we recommend the amendment applies retrospectively from the commencement date of the Income Tax Act 2007 (1 April 2008).

Investment Boost and deductions for asbestos removal expenditure

30 A special rule allows businesses in New Zealand to deduct certain expenditure incurred in remedying a contaminant (for example, asbestos removal) when no other provision allows a deduction. These deductions are spread over a period of up to 35 years.

31 The interaction between this special rule and Investment Boost is currently unclear. However, a reasonable interpretation is that when a 20% Investment Boost deduction has been claimed for expenditure incurred in remedying a contaminant, the remaining 80% of the expenditure can be deducted under this special rule. This interpretation is consistent with the policy intent of Investment Boost.

32 To remove uncertainty, we recommend clarifying that the availability of an Investment Boost deduction does not prevent the remaining 80% of the expenditure being deducted under this special rule. This clarification would be consistent with how taxpayers are applying the current law and would therefore have no fiscal cost.

33 This amendment should apply retrospectively from the introduction date of Investment Boost on 22 May 2025.

GloBE remedials

34 The following proposals would amend administrative requirements under New Zealand's global anti-base erosion (GloBE) rules, for example, amending filing requirements for multinational enterprises subject to the rules. The proposals just amend administrative requirements so they would have no fiscal impacts.

Annual MNE top-up tax return requirements

35 The GloBE rules currently allow one multinational enterprise (MNE) group representative to register for the GloBE rules tax type, and to file a single GloBE information return[1] on behalf of all group entities worldwide, so that compliance can be centrally managed.

[1] For MNEs headquartered outside New Zealand, the rules allow a single GloBE information return to be filed in another country as an alternative. When it is filed in another country, the tax authority of that country will transfer information

36 However, New Zealand's rules also require each New Zealand entity in the group to file a local top-up tax return. This is a problem because it means that all group entities in New Zealand would need to register to file local top-up tax returns if they have a top-up tax liability, which undermines the idea of centrally managed compliance.

37 To reduce compliance costs, we recommend allowing a single local top-up tax return to be filed by the registered group representative on behalf of all group entities in New Zealand with a top-up tax liability.

38 To align with the application of the GloBE rules, we recommend this change be given retrospective application from 1 January 2025.

Reducing GloBE rules filing requirements for MNEs

39 MNEs operating in New Zealand are currently required to file a local tax return even if they do not have any tax liability here under the GloBE rules. This creates unnecessary administrative and compliance costs.

40 This return is not a requirement under the GloBE rules but is a requirement under the TAA. The purpose of this return is to create a tax assessment for an in-scope MNE's top-up tax liability under our GloBE rules for tax administration purposes.

41 In most cases, the approximately 1,600 in-scope MNEs located in New Zealand are expected to have no top-up tax liability each year under our GloBE rules.

42 To reduce compliance costs, we recommend not requiring the local top-up tax return to be filed when an MNE has no top-up tax liability. A separate GloBE information return[2] will contain sufficient information for Inland Revenue to cross-check the position.

43 We also recommend making a consequential change so that the time bar for amending an assessment applies when no local top-up tax return is required, in the same way it would apply if a nil return had been filed. The time bar limits a taxpayer's risk of being subject to enforcement activity in the future. If it does not apply when no return is filed, this would undermine the simplification measure – taxpayers would likely continue filing nil returns to benefit from the time bar.

44 To align with the application of the GloBE rules, we recommend these changes are given retrospective application from 1 January 2025.

Application of transitional UTPR safe harbour to MNEs with 52- or 53-week fiscal years

45 In July 2023, the OECD Inclusive Framework agreed a transitional under-taxed profits rule (UTPR) safe harbour to provide transitional relief from the GloBE rules to an MNE's operations in its ultimate parent country.

46 Under the GloBE rules, the UTPR applies when an MNE's profits are taxed below the global minimum rate of 15% and that under-taxation is not topped up by a qualified minimum domestic top-up tax (which gives taxing rights to the jurisdiction in which a constituent entity of an MNE group is present) or the income inclusion rule (which gives taxing rights to the jurisdiction in which the parent entity of a group is located). In that case, countries that have adopted the UTPR are allocated the remaining top-up tax based on a formula.

47 The purpose of the transitional UTPR safe harbour is to reduce compliance costs for MNEs as they transition into the GloBE rules by stopping the UTPR from applying to

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in the return to New Zealand, and it will be stored in the account of the group representative that has registered in New Zealand.

[2] The rules also require a GloBE information return (GIR) to be filed. The GIR was developed by the OECD, and the OECD's model rules (which our rules are based on) require it to be filed. It contains information that can be shared with participating countries to help with tax administration and risk assessment. The GIR is required to be filed in one country only. This will typically be with the tax authority of the country where the ultimate parent entity is located, but it can be filed elsewhere. The country where it is filed is required to disseminate information in the return to other countries that have adopted the rules.

their ultimate parent country operations. Under the safe harbour, the UTPR top-up tax amount calculated for the ultimate parent country is deemed to be zero for fiscal years running no longer than 12 months that begin on or before 31 December 2025 and end before 31 December 2026.

48 Some MNEs have fiscal years made up of full weeks that end on the same day of the week each year (for example, the last Sunday in December each year) and therefore run for either 52 or 53 weeks depending on the year. This means it is possible for an MNE to have a 53-week fiscal year beginning on or before 31 December 2025 but ending after 31 December 2026. Without clarification, these MNEs would not be eligible for the transitional UTPR safe harbour under the existing rules.

49 To address this issue, the OECD has published guidance clarifying that the transitional UTPR safe harbour will apply to an MNE with a fiscal year beginning on or before 31 December 2025 and ending on or before 3 January 2027.

50 This guidance needs to apply to fiscal years beginning on or after 26 December 2025 (the earliest date on which such a fiscal year could begin). However, under our existing legislative settings for the GloBE rules it will apply only to fiscal years beginning on or after the day after it was published (in May 2026).

51 We recommend making a remedial amendment clarifying that the guidance applies for fiscal years beginning on or after 26 December 2025.

CFC rules – cash basis person threshold update

52 The Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Act 2026 updated the thresholds for qualifying as a cash basis person when applying the financial arrangements rules to an increased dollar amount. When the updates were made, the equivalent thresholds relating to controlled foreign companies (CFCs) holding financial arrangements (FAs) were not updated at the same time.

53 We recommend amendments to align the updated FAs thresholds and the equivalent thresholds for CFCs holding FAs so that the thresholds are consistent throughout the ITA.

54 FAs can be used to provide the taxpayer with income or expenditure. This means FAs can raise or decrease tax revenue, therefore the overall impact on taxable revenue will equal out to be nil on balance.

55 These changes would apply from the 2025–26 and later income years to match the application date of the updated thresholds in the financial arrangements rules.

Clarification of equalisation of FBT and PAYE

56 The Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Act 2026 introduced a provision to equalise the treatment of fringe benefits provided to employees that met the definition of "unclassified benefits". The intent was for the rules to be agnostic as to whether an employer provided the benefit themselves or reimbursed the employee for the benefit the employee had acquired themselves. If PAYE was paid, then no FBT would be payable and vice versa.

57 We recommend amending two issues with the legislation as it was enacted:

- When a person is reimbursed for a benefit, the provision works as intended and this income is exempt from FBT. However, there is nothing that stops FBT applying if an employer pays PAYE in respect of the payment. This should be corrected.
- Although the provision works for the reimbursement of an employee who incurs expenditure on behalf of an employer, it does not currently work for expenditure on account of an employee. The rule should also cover that type of expenditure, which would be treated as an unclassified benefit if it was provided directly to the employee.

58 These changes would apply to benefits provided on or after 1 April 2026 (to match the original change).

59 This amendment only impacts the type of tax payable (FBT or PAYE) and not the amount so it would not have a fiscal impact.

Greyhound Transition Agency – income tax exemption

60 The Greyhound Transition Agency was recently established to oversee the closure of the greyhound racing industry. The Greyhound Transition Agency effectively replaces Greyhound Racing New Zealand, which is exempt from income tax.

61 We recommend a consequential amendment to make the Greyhound Transition Agency exempt from income tax. This has no fiscal impact because the Greyhound Transition Agency is not expected to generate any taxable profits (it will be funded by TAB NZ on a cost-recovery basis).

62 The proposed amendment is consistent with the other racing-related organisations being exempt from income tax including the Racing Integrity Board, which is also funded by TAB NZ on a cost-recovery basis. It will remove the compliance costs that would otherwise arise if the new agency was subject to income tax.

63 The proposed amendment should apply from 10 April 2026, which is the date the Greyhound Transition Agency was established.

Administrative remedials

64 The following remedials recommend amendments to administrative requirements for Inland Revenue and taxpayers that do not impact on the quantum of tax payable. As such, they do not have any fiscal impacts.

Allowing RWT on dividends to be deducted at 39%

65 RWT on dividends is set to a maximum of 33% (of which, imputation credits usually make up 28%), not allowing RWT to be deducted up to the top marginal tax rate of 39%. Individuals on the top marginal rate and trusts can only pay up to 33% of their total tax obligation through RWT, leaving another 6% to pay later. This may result in provisional tax obligations and increased compliance costs.

66 Some smaller companies have been deducting and returning RWT at 39% on dividends to avoid shareholders becoming provisional taxpayers. These returns are sometimes accepted and sometimes error listed. This creates unnecessary work for Inland Revenue and taxpayers when the intention is simply to pay the tax owed.

67 We recommend allowing RWT on dividends to be deducted at 39% if agreed by the payer and recipient, while retaining the default rate of 33%. Having this option would result in reduced compliance costs for taxpayers and reduce work for Inland Revenue.

68 The amendment would apply to dividends paid on or after 1 April 2027.

Liability of trustee as agent for beneficiary income

69 If a beneficiary of a trust derives an amount of beneficiary income or a taxable distribution, the trustee of the trust, in their capacity as agent, must satisfy the income tax liability of the beneficiary on that beneficiary income or taxable distribution.

70 The current law provides that with the Commissioner's agreement, the beneficiary and trustee may decide that the beneficiary will instead undertake the duties of the trustee, that is, satisfying their own income tax liability on that beneficiary income or taxable distribution.

71 In practice, the Commissioner’s approval for the beneficiary to undertake the duties of the trustee is often not obtained, and there is no formal process for this.

72 We recommend an amendment to provide that trustees do not need to obtain the Commissioner's approval for the beneficiary to undertake the trustee's tax duties. This will align the law with the current practice. The trustee and beneficiary would remain jointly and severally liable for this tax.

73 We also recommend a clarifying amendment to maintain the current legislative settings that ensure the Commissioner has recourse to both the trustee and the beneficiary to satisfy the beneficiary's tax liabilities.

Clarifying definition of Commissioner's official opinion

74 Current legislative wording has inadvertently created uncertainty about whether Inland Revenue is required to separately notify taxpayers before they can rely on a Commissioner's official opinion, even when that opinion has already been publicly issued and published on the Inland Revenue website.

75 We recommend amending the legislation to clarify that separate notification by Inland Revenue is not required when a Commissioner's official opinion has been publicly issued and made available (for example, through publication on Inland Revenue's website).

76 This would align the legislation with long-standing policy intent and current practice and ensure that published official statements can be relied on without additional notification.

Consolidated deduction notices

77 Currently, when Inland Revenue issues a deduction notice to a third party (such as an employer or bank) to recover funds to resolve a taxpayer's tax arrears, at the same time Inland Revenue is required to send a **copy of the notice** to the indebted taxpayer. Some large third-party taxpayers may receive many deduction notices, in the form of one letter per taxpayer, from Inland Revenue in any given week.

78 To make it easier for payroll and other administration staff to process these requests, and to reduce their compliance costs, several large taxpayers have requested Inland Revenue combine the details of each taxpayer's deduction notice into one letter in the form of a "consolidated deduction notice". However, the current requirement for Inland Revenue to send a copy of the deduction notice to an indebted taxpayer means combining the information from several deduction notices into a single consolidated deduction notice is not possible.

79 We recommend amending the deduction notices rules to enable Inland Revenue to issue consolidated deduction notice information to a third party, while continuing to notify the indebted taxpayer of a deduction notice being issued to recover their tax arrears. Under this approach, the taxpayer would continue to be notified of the deduction notice (often electronically via MyIR) by receiving a deduction notice specific to them, as currently happens, rather than an exact copy of the notice provided to the third party.

80 The deduction notices rules are contained in several Revenue Acts so amendments are required to the Tax Administration Act 1994, Goods and Services Tax Act 1985, Gaming Duties Act 1971 and the Child Support Act 1991.

KiwiSaver enrolment for 16- and 17-year-olds with estranged guardians

81 The KiwiSaver Act 2006 requires 16- and 17-year-olds to contract alongside a guardian or Oranga Tamariki guardian to enrol in KiwiSaver. Currently, 16- and 17-year-olds with estranged guardians and a non-parent principal caregiver are unable to enrol in KiwiSaver and cannot receive the Government and employer contributions they qualify for. A caregiver receiving the Unsupported Child's Benefit is recognised by the Ministry of Social Development as a principal caregiver of a child whose parents can no longer care for them.

82 We recommend making an amendment to allow 16- and 17-year-olds to contract alongside a principal caregiver receiving the Unsupported Child's Benefit to enrol in KiwiSaver.

Repealing spent legislation

83 The remedials below recommend repealing legislation or provisions that are now redundant. As such, they have no fiscal impact.

Repeal of spent estate and gift duty legislation

84 Estate duty and gift duty have been abolished and no longer apply. However, the following Acts remain in force for historical reasons:

- Estate and Gift Duties Act 1968
- Estate Duty Abolition Act 1993
- Estate Duty Repeal Act 1999.

85 Estate duty in New Zealand was abolished for estates of people dying on or after 17 December 1992. Gift duty in New Zealand was abolished for gifts made from 1 October 2011.

86 The above legislation is now spent. Its continued existence has an ongoing maintenance burden because it must still be updated (for example, to reflect changes in entity names) despite no longer applying.

87 We recommend the above spent estate and gift duty legislation should be repealed.

88 Repeal of these Acts will not affect the treatment of pre-2011 gifts or pre-1992 estates. Under the Legislation Act 2019, existing rights and obligations arising under repealed legislation are preserved.

Repeal of redundant references to "extended model reporting standard for digital platforms"

89 The TAA contains several provisions relating to an OECD reporting standard for digital platforms operating in the gig and sharing economy, referred to as the "extended model reporting standard". This standard requires platform operators to collect information from sellers operating through digital platforms who sell goods and/or vehicle rentals. Platform operators would also be required to report this information to Inland Revenue.

90 The Finance and Expenditure Committee considered this proposal in 2022–23 and recommended deferring implementation of the extended reporting standard until a later time. It also recommended providing the Minister of Revenue with a temporary regulation-making power to implement the standard. This power could only be exercised before 31 March 2026.

91 We recommend removing redundant references to the extended model reporting standard from the TAA to avoid confusion. If the Government ever decides to introduce the extended model reporting standard it could include proposals to do this in a future taxation Bill.

Recommendations

We recommend you:

1 **Agree** that remedial amendments agreed to in this report be included in the 2026–27 Annual Rates Bill.

Agree / Disagree

2 **Agree** that, unless otherwise specified, the amendments would take effect on the day after the date the Bill receives Royal assent.

Agree / Disagree

3 **Refer** a copy of this report to the Minister of Finance.

Refer - yes / no

Clarifying application of finance lease rules to software arrangements

4 **Agree** to amend the Income Tax Act 2007 to exclude typical software licensing arrangements from the finance lease rules.

Agree / Disagree

Depreciation – definition of improvement

5 **Agree** to clarify that all capital expenditure on altering, extending or repairing an asset qualifies as an improvement.

Agree / Disagree

Depreciation apportionment – rewrite remedial

6 **Agree** to amend the depreciation apportionment rules to ensure they operate in the same manner as the equivalent rules from before the Income Tax Act re-write.

Agree / Disagree

7 **Agree** that the amendment would take effect from the commencement date of the Income Tax Act 2007 (1 April 2008).

Agree / Disagree

Investment Boost and deductions for asbestos removal expenditure

8 **Agree** to clarify that the availability of a 20% Investment Boost deduction does not prevent the remaining 80% of the expenditure incurred in remedying a contaminant (for example, asbestos removal) from being deducted.

Agree / Disagree

9 **Agree** that the amendment would take effect from the introduction date of Investment Boost (22 May 2025).

Agree / Disagree

Annual MNE top-up tax return requirements

10 **Agree** to allow a single local top-up tax return to be filed, by a registered group representative on behalf of all entities in a group with a top-up tax liability under the GloBE rules.

Agree / Disagree

11 **Agree** that this amendment would take effect from the start of the GloBE rules on 1 January 2025.

Agree / Disagree

Reducing GloBE rules filing requirements for MNEs

12 **Agree** to not require a local top-up tax return to be filed in New Zealand when a multinational enterprise has no top-up tax liability here under the GloBE rules.

Agree / Disagree

13 **Agree** to apply the time bar for amending an assessment when no local top-up tax return is required.

Agree / Disagree

14 **Agree** that this amendment would take effect from the start of the GloBE rules on 1 January 2025.

Agree / Disagree

Application of transitional UTPR safe harbour to MNEs with 52- or 53-week fiscal years

15 **Agree** that the OECD, "Administrative Guidance on the Application of the Transitional UTPR Safe Harbour to MNE Groups with 52-53-Week Fiscal Years", applies for fiscal years beginning on or after 26 December 2025.

Agree / Disagree

CFC Rules – cash basis person threshold update

16 **Agree** to amend the Income Tax Act 2007 so that the thresholds relating to CFCs holding FAs qualifying as cash basis persons match the cash basis person thresholds in the rest of the Act.

Agree / Disagree

17 **Agree** that the amendment would take effect retrospectively from the 2025–26 and later income years.

Agree / Disagree

Clarification of equalisation of FBT and PAYE

18 **Agree** to amend the rules to ensure the provisions work as originally intended so that employers can choose whether unclassified benefits are subject to PAYE or FBT and if they account for one tax type will not be liable for the other.

Agree / Disagree

19 **Agree** that the amendment would take effect from 1 April 2026.

Agree / Disagree

Greyhound Transition Agency – income tax exemption

20 **Agree** to add the Greyhound Transition Agency to the list of racing-related organisations that are exempt from income tax.

Agree / Disagree

21 **Agree** that the amendment would apply from 10 April 2026, the date the Greyhound Transition Agency was established.

Agree / Disagree

Allowing RWT on dividends to be deducted at 39%

22 **Agree** to allow RWT on dividends to be deducted at 39% if agreed between the payer and recipient.

Agree / Disagree

23 **Agree** that the amendment would take effect for dividends paid on or after 1 April 2027.

Agree / Disagree

Liability of trustee as agent for beneficiary income

24 **Agree** to an amendment to provide that the Commissioner's approval is not required for the beneficiary to undertake the trustee's duties relating to beneficiary income and taxable distributions.

Agree / Disagree

25 **Agree** to a clarifying amendment to ensure the Commissioner has recourse to both the trustee and the beneficiary to satisfy the beneficiary's tax liabilities.

Agree / Disagree

Clarifying definition of Commissioner's official opinion

26 **Agree** to clarify the legislative definition of the Commissioner's official opinion.

Agree / Disagree

Consolidated deduction notices

27 **Agree** to clarify the deduction notice rules to enable the Commissioner of Inland Revenue to issue consolidated deduction information to a third party and require the Commissioner to notify a taxpayer of a deduction notice being issued to recover their arrears.

Agree / Disagree

KiwiSaver enrolment for 16- and 17-year-olds with estranged guardians

28 **Agree** to allow 16- and 17-year-olds to contract alongside a principal caregiver receiving the Unsupported Child's Benefit to enrol in KiwiSaver.

Agree / Disagree

Repeal of spent estate and gift duty legislation

29 **Agree** to repeal spent estate and gift duty legislation.

Agree / Disagree

Repeal of redundant references to "extended model reporting standard for digital platforms"

30 **Agree** to repeal all references to the "extended model reporting standard for digital platforms" in the Tax Administration Act 1994 that no longer have legislative effect.

Agree / Disagree

s 9(2)(a)

Peter Frawley

Policy Lead

Policy | Inland Revenue

18 June 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Clarifying legislative authority for automated decision-making

Date	22 June 2026	**Priority**	Medium
Security level		**Report number**	IR2026/175
Bill name	2026–27 Annual Rates Bill		

Action sought		**Deadline**
Minister of Revenue	**Agree** that Inland Revenue undertake confidential targeted consultation on clarifying legislation within the Tax Administration Act for the use of automated decision-making, and on the development of appropriate safeguards. **Agree** to Inland Revenue including this item in the 2026–27 Annual Rates Bill.	03 July 2026

Purpose
This report seeks your agreement to amend the Tax Administration Act 1994 to clarify that Inland Revenue is able to use automated decision-making.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Carolyn Elliott	Policy Manager	s 9(2)(a)	☐
Patrick Sawyer	Senior Policy Advisor	s 9(2)(a)	✓

Clarifying legislative authority for automated decision-making

Background

1 The Commissioner of Inland Revenue (the Commissioner) has many discretionary powers. In some situations, the Commissioner has used a fully or almost fully automated system to make his decisions. These are systems that use specific rules-based criteria, designed and set by Inland Revenue staff to make automated decisions on the basis of those criteria. These systems encourage consistent decision-making and greatly increase Inland Revenue's efficiency.

2 Some of the Commissioner's automated decision-making (ADM), such as the making of assessments or determinations is expressly provided for under the Tax Administration Act 1994. This is a targeted provision and does not provide for other situations when the Commissioner may want to use ADM to increase efficiency.

3 There are situations when the Commissioner is using ADM without there being a specific statutory provision for this. Although the final decision is made by ADM, the decision-making criteria was designed by Inland Revenue staff. Current examples of this include:

- making a pre-approved instalment arrangement offer when a taxpayer is in debt
- accepting some extension of time requests for return filing.

4 Until recently Inland Revenue has also used ADM to issue third party deduction notices to employers when a taxpayer is in debt. However, a light human touch has recently been inserted into this process so that the decision making is no longer fully automated.

5 Inland Revenue is also considering using ADM in other areas, where clear rules-based decisions can be made, such as deciding whether a taxpayer meets the criteria for credit reporting. It is likely that the use of ADM will further increase as Inland Revenue continues to look for ways to improve its decision-making and efficiency.

6 s 9(2)(h) [redacted]

7 s 9(2)(h) [redacted]

Recommended approach

8 We recommend a broadly framed prospective legislative provision clarifying that the Commissioner may use ADM. The provision would authorise an automated electronic system to make a decision by analysing information held by Inland Revenue about a person and applying rules predetermined by the Commissioner.

9 This would clearly authorise Inland Revenue's current use of ADM, as outlined in paragraph 3, and support appropriate future uses. A targeted provision limited to current uses is not preferred because Inland Revenue is considering ADM for other processes, such as screening hardship applications.

10 s 9(2)(h) [redacted]

11 A broadly framed ADM provision would not be novel. Similar provisions exist in the Social Security Act 2018 and the Biosecurity Act 1993. Tax authorities in jurisdictions such as the United Kingdom and Canada also have broad legislative authority to use ADM. Existing provisions include the requirement for safeguards to be in place for the use of ADM to occur; we recommend implementing a safeguard provision consistent with these other pieces of legislation.

12 The provision would also support wider future use of ADM, improving consistency and operational efficiency in line with Government expectations that departments make greater use of technology to achieve efficiencies.

Concerns that stakeholders may raise

13 Concerns about ADM usually focus on fairness, transparency, and accountability. People may worry that automated processes reduce human judgement, do not reflect individual circumstances, or produce biased or inflexible outcomes. Without clear safeguards, such as transparency, human review, and strong governance, automation may be seen as reducing accountability and making decisions harder to challenge.

14 The Ministry of Social Development (MSD) has amended the Social Security Act twice recently to legislate for its use of ADM:

- The Social Security (Mandatory Reviews) Amendment Act 2025 allows MSD to use ADM as part of the process used to confirm the circumstances of clients who are receiving benefits.
- The Social Security (Modernisation) Amendment Act 2026 (which was passed under Budget urgency) introduced a general authorising provision in the Social Security Act for MSD use of ADM, with appropriate, strengthened safeguards.

15 When MSD consulted on and introduced the ADM provision in 2025, submissions were received from the New Zealand Law Society and the Office of the Privacy Commissioner, which raised concerns about how the use of ADM would apply. Other feedback on MSD's use of ADM mainly focused on ensuring that there were appropriate safeguards in place. Concern was raised that a general authorising provision would further broaden MSD's use of ADM and the potential for adverse action or outcomes due to incorrect client information (similar to Australia's Robodebt Scheme). We have already consulted with Government organisations in the preparation of this report (see their feedback below) that raised similar concerns. We recommend further targeted consultation with interested stakeholders on appropriate safeguards to help address their concerns.

16 MSD's 2026 legislation was introduced under Budget urgency, which meant it was not subject to select committee review. This in addition to the law change itself attracted some negative attention from the media and opposition parties.

Principles and safeguards to address concerns

17 If introduced, it is recommended that the provision be supported by the development of principles and safeguards. Principles could include:

- accuracy
- accountability
- transparency, and
- protection of privacy.

18 The development of safeguards will align with the Public Service AI Framework and may be included within an Inland Revenue ADM Standard. This could be modelled on MSD's ADM Standard, which was designed to help mitigate risks seen internationally when ADM is poorly implemented. This could include safeguards such as:

- appeal rights

- secure and thorough recording keeping of decision-making processes and rules
- ensuring the system provides enough information about how a decision is made to enable staff to explain decisions.

19 If approval is given to undertake targeted, confidential consultation, Inland Revenue will draft principles and operational safeguards that will be discussed as part of the consultation process. While the requirement for safeguards and rules could be explicitly set out in legislation enabling use of ADM, we suggest that the safeguards themselves should be left to the Commissioner's discretion, that is, not embedded in legislation. Having safeguards developed as operational guidelines rather than embedded in legislation allows for necessary flexibility and updates to occur as technology continues to develop, use-case opportunities arise, and public perception shifts over time. Once developed, the finalised version could then be published and regularly reviewed to ensure transparency and accountability.

Operational implications

20 The introduction of a broadly framed legislative provision to clarify that the Commissioner has legislative authority to use ADM would have no negative operational implications. It would simply allow Inland Revenue to continue with its current operational processes.

21 By contrast, there would be significant operational implications if there was a need in the long term to maintain manual steps in processes that currently use ADM.

Financial implications and administrative impact

22 The introduction of a broadly framed legislative provision to clarify that the Commissioner has authority to use ADM would have no immediate financial implications or administrative impact because it simply allows Inland Revenue to continue with its current processes. However, over time we expect an increased use of ADM would enable greater operational efficiencies with potential savings.

Treaty of Waitangi implications

23 We anticipate that Inland Revenue's use of ADM will attract concern from Māori. Māori are likely to have concerns about whether automated processes can adequately account for individual circumstances, avoid bias from inaccurate data or proxy variables, and prevent disproportionate impacts for Māori (as a population group). While these concerns will likely centre around operational policies and processes (rather than the legislation), the extent to which Māori would consider a new legislative provision to be Treaty-consistent would depend on the design of operational safeguards contemplated in this paper. For that reason, we consider it necessary, from a Treaty standpoint, that any consultation on those safeguards include Māori.

Consultation

24 The following Government agencies were consulted in the preparation of this report:

- The Treasury
- Law Commission
- Ministry for Regulation
- Ministry of Justice

- Office of the Privacy Commissioner
- Human Rights Commission
- Crown Law
- Ministry of Social Development
- Population agencies: Te Puni Kokiri, Ministry for Ethnic Communities, Ministry for Women, and Ministry of Disabled People.

25 The Ministry of Justice and the Law Commission had no comments at this stage in the process, the Treasury agreed with the recommendations, while the Ministry for Regulation agreed that a broad legislative provision was sensible.

26 The Population agencies all expressed concern that marginalised and under-represented communities may be disproportionately affected by increased Inland Revenue use of ADM. They identified that there may be risks when standardised processes do not adequately account for non-standard or complex situations, or when certain groups face barriers in understanding or responding to automated decisions. Finally, they all:

- emphasised the importance of the development of robust ADM safeguards
- believed that a requirement for safeguards to be developed should be included in legislation, and
- wanted to be consulted on the development of these safeguards.

27 The Office of the Privacy Commissioner expressed a preference for a more targeted approach to enabling Inland Revenue's use of ADM because this would allow specific consideration of the policy case for each use of ADM, and would enable more robust testing of benefits, risks, and social licence. If the approach was to be a broad legislative provision, the Office of the Privacy Commissioner agreed with other submitters about the need for the requirement for safeguards to be explicitly set out in legislation. It also recommended including statutory requirements similar to those in the Social Security Act, regarding consulting on the safeguards, publishing them, and implementing regular reviews.

28 The Office of the Privacy Commissioner also suggested that ADM deserves a whole of Government legislative approach to ensure consistent use of ADM across the public sector. We note that if such legislation is enacted in the future, it may be inconsistent with what we are proposing within the Tax Administration Act.

29 We have taken agency feedback onboard and will consult on the requirement for safeguards to be explicitly set out in legislation. Given the nature of issues and considerations relating to the use of ADM, we recommend confidential targeted consultation on this proposal from the end of June 2026. In addition to further consultation with the agencies listed in paragraph 24, we suggest consulting the following:

- New Zealand Law Society
- Community Law
- Māori Reference Group
- Te Kāhui Raraunga
- Māori Law Society.

Next steps

30 Subject to your agreement, we will undertake targeted consultation on the proposed introduction of a broadly framed legislative provision to clarify that the Commissioner has authority to use ADM, including the development of appropriate ADM safeguards.

31 Subject to your agreement, we will include a legislative provision in the 2026–27 Annual Rates Bill. Cabinet approval will be sought in the Omnibus Cabinet paper scheduled for consideration by the ECO Cabinet committee on 19 August. If during consultation significant issues are raised, we will outline these concerns in the cover report to the draft Cabinet paper for your consideration.

Recommendations

We recommend you:

1 **Agree** that Inland Revenue undertake confidential targeted consultation on the proposed introduction of a broadly framed legislative provision within the Tax Administration Act 1994 to clarify the Commissioner has authority for the use of automated decision-making, and to consult on the development of appropriate automated decision-making safeguards.

Agree / Disagree

2 **Agree** to include a prospective legislative amendment in the 2026–27 Annual Rates Bill that clarifies the Commissioner has authority for the use of automated decision-making.

Agree / Disagree

s 9(2)(a)

Carolyn Elliott

Policy Manager

Policy | Inland Revenue

22 June 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

International policy items for Annual Rates Bill

Date	25 June 2026	**Priority**	Medium
Security level		**Report number**	IR2026/118
Bill name	Taxation (Annual Rates for 2026-27, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	10 July 2026
Minister of Revenue	**Agree** to recommendations	10 July 2026

Purpose
This report seeks your agreement to minor policy changes to international tax settings for inclusion in the next Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Paul Fulton	Principal Policy Advisor	s 9(2)(a)	✓

International policy items for Annual Rates Bill

Executive summary

1 This report seeks your agreement to minor policy changes to international tax settings in the upcoming Annual Rates Bill. These changes are to:

- Foreign Investment Fund (FIF) methods beyond those announced as part of Budget 2026;
- Detailed design of a non-resident contractors' tax exclusion;
- Non-resident visitor eligibility for Working for Families recipients.

2 If you agree to these recommendations, we will incorporate them into the draft omnibus Cabinet paper scheduled to be provided to the Minister of Revenue on 30 July.

3 The first FIF proposal would have a fiscal cost of $800,000 over the forecast period while the second FIF proposal will have a fiscal gain of $650,000 over the forecast period. The other proposals do not have a fiscal impact. We recommend the net cost ($150,000 over the forecast period) be managed against the tax policy scorecard. The current scorecard balance is $57.289m.

FIF interests held through a foreign company

4 When a person has an income interest of 10% or more in a controlled foreign company (CFC), and that CFC has an interest in a FIF, the person is generally attributed with the FIF's income or loss for the year instead.

5 However, because the person is only attributed the CFC's FIF income or loss, but not the CFC's FIF interests, the person must calculate their portion of the CFC's FIF income or loss as if they were the CFC. For individuals, this means they are not allowed to use FIF calculation methods that a CFC is not able to use, such as the comparative value (CV) method and the recently introduced revenue account method (RAM).

6 This has become more significant due to the introduction of the RAM. Individuals who would otherwise choose RAM for their FIF interests will not be able to do so if they are instead held through a CFC. Therefore, for these people the recent RAM changes will not resolve their issues.

7 To address this, we recommend a person who holds an indirect interest in a FIF through a CFC should be able to use the same FIF methods for that interest as if they held the FIF interest directly.

Fiscal impact

8 At the moment the affected taxpayers have to use the fair dividend rate method (FDR) for their indirect interests in FIFs. This method attributes them with income each year equal to 5% of the market value of their indirect interest in the FIF. Given the scope of this policy, the affected population will be very small. The law as currently written is ambiguous – both within external stakeholder groups and within IR. If everyone was applying the current rules as intended, this proposal would open up a path to choose a lower tax option in some cases which could result in a fiscal cost. But it would be small, unquantifiable, and (given the current ambiguity) it is unclear whether this would result in any change in behaviour or tax, so it could equally be zero. For this reason, we have estimated a nominal fiscal cost of $200,000 per year, in line with our usual practice for small and unquantifable fiscal costs.

	$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**

Exit tax for treaty non-residents

9 The RAM includes a deferred exit tax when a person becomes non-resident and sells their shares within 3 years. If the person does not sell their shares within 3 years then no tax is payable (even when the shares are later sold). This is an integrity measure, so residents are not incentivised to avoid tax by becoming non-resident before disposing of their shares.

10 However, this exit tax applies only when a person becomes non-resident under domestic law. A person can also become treaty non-resident where they are resident in more than one country but tie-break to that other country. Treaty non-residents are also not taxed in New Zealand on their worldwide income, including any FIF investments. Accordingly, New Zealand is not able to tax someone under the RAM method after they become treaty non-resident.

11 To align the treatment of the two ways a person can become a non-resident, we recommend that the exit tax is also triggered when a person becomes non-resident by tie-breaking to another country under a DTA. This will allow New Zealand to tax a person on any sales they make of shares subject to the RAM method for 3 years after they become treaty non-resident.

12 We note that these share sales would still have been taxable if the person had remained treaty resident in New Zealand. In addition, becoming treaty non-resident by itself will not result in any tax being payable. So, the change should not result in an unexpected tax liability for persons who inadvertently become treaty non-resident.

13 We recommend the changes apply prospectively from 1 April 2027.

Fiscal impact

14 This proposal would affect very few people, and a deemed disposal could result in a gain or a loss. However, any loss arising from the exit tax would be ringfenced against future RAM income, which may be unlikely for a person who has become treaty non-resident. Therefore, this proposal has a small unquantifiable gain. There is a lower gain in the 2026/27 year than the proposal above due to the later application date.

	$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
Total Operating	**-**	**(0.050)**	**(0.200)**	**(0.200)**	**(0.200)**

Concurrent use of the FIF cost and CV methods

Background

15 Individuals and certain trusts generally have a choice between the fair dividend rate (FDR) and comparative value (CV) methods for their FIF interests each year:

- The FDR method taxes them on 5% of the opening market value of their foreign shares;
- The CV method taxes them on the total return (dividends and realised/unrealised gains/losses).

16 Taxpayers must apply the FDR or CV method consistently to their FIF interests within an income year so that there is no 'cherry picking' for each investment. Otherwise, they would be able to apply the CV method to FIF investments with a return below 5%, and the FDR method to FIF investments with a return above 5%. These two methods work best for FIF interests that have a readily available market value, like listed shares.

17 The FDR method has a 'back up' method where there is no readily available market value. This method taxes based on 5% of the cost of the shares (instead of 5% of market value), with the cost base increasing by 5% each year.

Inland Revenue draft interpretation statement

18 Inland Revenue's Tax Counsel Office (TCO) recently shared a draft interpretation statement about restrictions on the choice of FIF calculation methods with a targeted group of stakeholders. The controversial scenario is when an individual has a mix of listed and unlisted FIF investments. The private sector view is that the FIF rules allow a taxpayer to apply the cost method to their unlisted investments, while retaining the choice to apply to use the FDR or CV methods to their portfolio of listed investments. This is how they generally interpret the law and apply it in practice. However, the draft statement concludes that if a taxpayer applies the cost method to their unlisted FIF investments, then they are locked into using the FDR method for their listed FIF investments and cannot choose to use the CV method instead.

19 Practically speaking, in a year that the FIF investments fall in value, the private sector approach allows the taxpayer to:

- be taxed at 5% of cost for their unlisted investments; and
- not return any FIF income on their listed investments (because they would elect to use the CV method for their listed shares, which would result in a loss that would be capped at $0).

20 However, the draft statement would instead require the taxpayer to either:

- Be taxed at 5% of the cost of the unlisted investments and 5% of the market value of the listed investments (even though the FIF investments have fallen in value); or
- Not return any FIF income on the listed investments (because the CV method would result in a loss) but be forced to obtain a market valuation of the unlisted investments so that it could apply the CV method to that investment as well (which increases compliance costs for what could be quite a small investment).

21 The TCO view is consistent with a 2010 Inland Revenue publication after the FIF rules were introduced. However, we consider that using the cost method for <u>unlisted</u> investments and choosing between the CV and FDR method for <u>listed</u> investments should not be viewed as 'cherry picking' when balancing compliance, integrity and equity concerns. This reflects the fact that for most taxpayers the CV method is impractical for unlisted shares. So, it is not really cherry-picking for them to use the CV method for their listed shares (where its use is practical) but not for their unlisted shares (where its use is impractical).

22 Therefore, we recommend that the FIF rules be clarified to allow taxpayers to use the cost method (or the new RAM) for FIF investments with no readily available market value, while retaining the choice to use the FDR or CV method to FIF investments with a readily available market value.

Fiscal impact

23 The change has no fiscal impact. This is because it is unclear whether allowing individuals and certain trusts to apply the cost method, instead of the CV method, will result in more tax paid or less. Since the value of the unlisted FIF investments will fluctuate, in some years the cost will be revenue positive, and in some it will be revenue negative. In addition, there will be no cost to the extent that taxpayers choose to apply the revenue account method (RAM) to their unlisted foreign investments, following the Budget 2026 changes extending this method to all New Zealand residents (instead of limiting it to recent migrants).

Non-resident contractors' tax (NRCT) modernisation

24 As part of Budget 2026, Cabinet agreed to make changes to modernise NRCT settings from 1 April 2027, including a measure that would exclude certain "low-risk" non-resident contractors from the rules, subject to conditions (*CAB-26-MIN-0156.59 refers*).

25 You previously agreed that the exclusion would apply to branches, New Zealand limited partnerships and representative offices (*IR2026/026 refers*). We undertook to confirm the detailed design of the exclusion in a future report.

26 We have consulted with Inland Revenue operational experts and the Companies Office. We propose that the exclusion be available where the payer has confirmed:

- The non-resident contractor's IRD or GST number; and
- The non-resident contractor has been registered with the Companies Office for a period of at least 24 months prior to the contract payment.

27 We think these indicators support a "low risk" assessment of the non-resident's likely compliance with their New Zealand tax obligations. This set of particular indicators has been chosen as they are likely to be simple for the payer to obtain or check. The additional time-based requirement allows the exclusion to target entities with a more enduring connection to New Zealand and is similar to the 24-month period required for an exemption based on the contractor's compliance history. We note such entities are currently required to register with the Companies Office, so this will not impose an additional administrative burden on them.

28 New Zealand payers will be expected to keep a record of the basis for not withholding NRCT under ordinary tax administration rules.

Fiscal impact

29 The changes to NRCT were funded via Budget 2026. There are no additional fiscal or administrative costs to this recommendation.

Non-resident visitor Working for Families eligibility

30 The newly introduced New Zealand non-resident visitor (NRV) rules deem eligible visitors to be a non-resident for New Zealand tax purposes for up to 275 days in any 18-month period. During that period, they and any associated entities are exempt from New Zealand tax obligations and liabilities (subject to conditions). These conditions include a requirement that they or their spouse or partner cannot receive family scheme entitlements and credits (Working for Families).

31 It has been identified that in unusual cases a person or their partner may be able to subsequently claim Working for Families for a prior year in which that person was also an NRV and exempt from income tax. This is contrary to the policy intent.

32 To align with the policy intent of the NRV rules, we recommend clarifying the Working for Families exclusion so where a person or their partner receives Working for Families for a prior year, they cannot also be an NRV in that year.

33 The amendment would apply retrospectively from 1 April 2026, applying to persons who arrive in New Zealand on or after that date. This would align the changes with the date on which the NRV rules came into effect. To effect this, we technically need to make two amendments. The first amendment would cover a transitional period up until 1 April 2027, when the Budget 2026 changes to Working for Families rules take effect. A second amendment is required to ensure the rules work as intended after that date.

Fiscal impact

34 This change does not have a fiscal impact.

Operational implications

35 The recommendations in this report are minor changes consistent with existing processes and do not have any additional operational implications.

Consultation

36 The Treasury has been consulted on this report and agrees with the recommendations.

37 These proposals have arisen from submissions by stakeholders.

Next steps

38 If you agree to the recommendations in this report the 3 FIF decisions will need to be confirmed by Cabinet for inclusion in the Taxation (Annual Rates 2026-27) Bill. These recommendations can be included in the omnibus Cabinet paper for the Annual Rates Bill that we are planning on providing to you on 30 July. The NRCT and NRV decisions do not require separate Cabinet approval.

Recommendations

We recommend that you:

FIF interests held through a foreign company

1 **Agree** that a person holding an interest in FIF through a CFC should be able to choose the same methods for calculating the attributed income from that FIF as if they held the interest in the FIF directly.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

2 **Agree** that this change should apply from 1 April 2026.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

3 **Note** the following change in tax revenue as a result of the recommendations above

	$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

4 **Agree** that the reduction in tax revenue noted above be managed against the Tax Policy Scorecard.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Revenue

Exit tax for treaty non-residents

5 **Agree** that the RAM exit tax should apply where a person becomes non-resident under a double tax agreement.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Revenue

6 **Agree** that this change should apply to a person becoming treaty non-resident from 1 April 2027.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Revenue

7 **Note** the following change in tax revenue as a result of the recommendations above

	$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
Total Operating	**-**	**(0.050)**	**(0.200)**	**(0.200)**	**(0.200)**

Noted
Minister of Finance

Noted
Minister of Revenue

8 **Agree** that the increase in tax revenue noted above be managed against the Tax Policy Scorecard.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

Concurrent use of the FIF cost and CV methods

9 **Agree** that a person can use the cost method for FIF investments with no readily available market value, while still retaining the choice to use the FDR or CV method to FIF investments with a readily available market value from the 2026-27 income year (i.e. 1 April 2026).

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

10 **Note** that this recommendation does not have a fiscal impact.

Noted	Noted
Minister of Finance	*Minister of Revenue*

NRCT Modernisation

11 **Agree** that contract payers would not be required to withhold non-resident contractors' tax where the payer has confirmed the non-resident contractors' IRD or GST number and the contractor has been registered with the Companies Office for at least 24 months prior to the payment.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

12 **Note** that this recommendation was funded via Budget 2026.

Noted	Noted
Minister of Finance	*Minister of Revenue*

NRV Working for families eligibility

13 **Agree** that where a person or their spouse or partner receives Working for Families for a prior year, they are not eligible to be a non-resident visitor in the same year.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

14 **Agree** that this change should apply from 1 April 2026 and apply to persons who arrive in New Zealand on or after that date.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

15 **Note** that this recommendation does not have a fiscal impact.

Noted	Noted
Minister of Finance	*Minister of Revenue*

Next steps

16 **Agree** to include the above agreed FIF recommendations numbers 1-10 in the omnibus Cabinet Paper for inclusion in the next Annual Rates Bill.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

17 **Agree** to include the above agreed NRCT and NRV recommendations numbers 11-15 in the next Annual Rates Bill.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

s 9(2)(a)

Paul Fulton

Principal Policy Advisor
Policy | Inland Revenue

25 June 2026

Hon Nicola Willis	Hon Simon Watts
Minister of Finance	**Minister of Revenue**
/ /2026	/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Simplifying tax compliance for Māori authorities: Remedial amendments

Date	1 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/177
Bill name	2026–27 Annual Rates Bill (title to be confirmed)		

Action sought		**Deadline**
Minister of Revenue	**Agree** to recommendations **Refer** a copy of this report to the Minister of Finance **Refer** a copy of this report to the Minister for Māori Development	28 July 2026

Purpose
This report seeks your agreement to remedial amendments to the Māori authority rules and their interaction with the wider Income Tax Act 2007. The amendments would be included in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Charles Ngāki	Policy Lead	s 9(2)(a)	☐
Brandon Sloan	Principal Policy Advisor	s 9(2)(a)	✓

Simplifying tax compliance for Māori authorities: Remedial amendments

Executive summary

1 This report seeks your agreement to a package of remedial and maintenance amendments to the Māori authority rules for inclusion in the 2026–27 Annual Rates Bill.

2 The proposed amendments would support Inland Revenue's forthcoming interpretative guidance by resolving legal uncertainties, correcting technical issues, and improving how the Māori authority rules interact with the wider Income Tax Act 2007.

3 Māori authorities often manage collective assets for iwi, hapū, and other Māori groups, including assets held for current and future generations. The rules that apply to them are moderately complex, and certainty is important so those organisations can comply with the law efficiently and make commercial and governance decisions with confidence.

4 The recommended amendments would:

- confirm how Treaty settlement redress assets should be valued for tax purposes
- confirm that Māori authorities can use tax pooling
- clarify how low- or no-interest loans from a Māori authority to its members should be valued, and
- correct technical errors and outdated cross-references in the legislation.

5 We consider the amendments are suitable for inclusion in the upcoming Bill because they are remedial in nature, reflect current policy settings and taxpayer practice, support taxpayer certainty, and do not have revenue, systems, or administrative impacts.

6 Subject to your agreement, we will consult a small group of tax advisers with expertise in the Māori economy on the detailed design of the proposed amendments.

Relationship with Government priorities

7 The Government's Tax and Social Policy Work Programme has a workstream with the objective of simplifying tax compliance for Māori authorities. This objective can be achieved through providing taxpayer guidance and ensuring the tax laws operate as intended in a coherent and sensible manner.

8 The amendments and work discussed in this report are directed at ensuring the Māori authority rules work as intended and provide taxpayers with certainty with the rules' operation.

9 s 9(2)(f)(iv) [redacted]

10 s 9(2)(f)(iv) [redacted]

s 9(2)(f)(iv)

11 s 9(2)(f)(iv)

12 s 9(2)(f)(iv)

s 9(2)(f)(iv)

13 s 9(2)(f)(iv)

14 s 9(2)(f)(iv)

15 s 9(2)(f)(iv)

Māori authority rules: Policy intent

16 The income tax rules applying to Māori authorities were substantially reformed in 2004. The rules recognise the distinctive collective and intergenerational nature of Māori asset ownership, including assets held through Treaty settlements and other historical arrangements. The rules are intended to tax that income in a coherent and equitable way while recognising the practical difficulty of taxing large and changing beneficiary groups directly.

s 9(2)(f)(iv)

17 The rules are designed to treat Māori authorities as taxable intermediaries. Māori authorities pay tax on behalf of their members and can attach Māori authority tax credits to taxable distributions, helping to reduce over-taxation and support a practical end-of-year square-up for members on different marginal tax rates.

18 The rules are also intended to support certainty, neutrality, and lower compliance costs for Māori authorities. In practice, this requires the rules to remain internally coherent.

Remedial amendments for 2026–27 Annual Rates Bill

19 The package of amendments recommended in paragraphs 22 to 28 have been identified through Inland Revenue's guidance work and respond to gaps, inconsistencies, and outdated interactions between the Māori authority rules and the wider Income Tax Act 2007.

20 Taken together, the amendments are intended to better reflect policy intent, remove uncertainty and inconsistency, and improve how the Māori authority rules interact with other parts of the Income Tax Act.

21 Subject to your agreement, we propose to consult with a small group of tax advisers with expertise in the Māori economy on the detailed design of the proposed amendments.

Set cost base for redress assets received under a Treaty Settlement Act

22 Treaty settlements often involve complex bundles of assets (land, forestry rights, commercial property, and emission units). Inland Revenue interpretation statements have taken the view that the receipt of redress assets is not "income" for the purposes of the Income Tax Act,[4] and the assets are typically treated as being on "capital account". There are also rules removing redress property from the scope of the "brightline" test.

23 Tax practitioners periodically seek Inland Revenue's view on the cost base of these assets because there is concern that taxable income may arise from movements in the market value of property between the time a deed of settlement is signed and the time settlement occurs. Delays associated with Treaty negotiations can mean some iwi groups do not receive settlement assets for many years. To date, Inland Revenue has taken the view, based on case law, that such transfers occur at market value. However, the issue remains uncertain, and some advisers are concerned that Inland Revenue may determine that redress asset values should be based on an earlier date, such as when the deed of settlement was signed. Specific legislation confirming that values should be based on the date the assets are received would reduce transaction costs for settling iwi in managing their tax affairs.

24 We recommend that the valuation rules in the Income Tax Act be amended to confirm that redress assets received by a settlement group, or a specified ancillary beneficiary entity, are valued at their market value on the date they are received.[5] The purpose of the amendment is not to deem redress assets to be within the tax base or to assume that disposal of those assets is taxable. Rather, its purpose is to remove uncertainty and associated transaction costs about when the cost base for redress assets should be determined.

25 We recommend that the change apply from the start of the 2026–27 income year.

[4] Interpretation statement IS0043: Income Tax treatment of Treaty of Waitangi Settlement, *Tax Information Bulletin* Vol 16, No 10 (November 2004) and QB09/01: Payments made in addition to financial redress under Treaty of Waitangi settlements – income tax treatment (2009).

[5] For example, the recent transfer of land to beneficiaries of Hāwea/Wanaka SILNA land provided through the Ngāi Tāhu settlement.

Confirm Māori authorities can use tax pooling

26 Tax pooling was introduced in 2003 as a tool for taxpayers to manage their exposure to use-of-money interest. The rules are intended to apply to a broad range of taxpayers. However, because the tax pooling rules were developed at the same time as the reform of the Māori authority tax rules, the two sets of rules do not correctly align. As a result, while some Māori authorities use tax pooling, on a strict reading of the legislation they are unable to do so. Inland Revenue has not intervened because this would be inconsistent with the policy intent of tax pooling. We recommend a retrospective amendment, with effect from 1 April 2003, to ensure Māori authorities continue to have access to tax pooling.

Provide guidance for valuing benefit arising from low- to no-interest loans to members of Māori authority

27 Māori authorities may at times give loans to members at low or no interest rates. This results in a transfer of value from the Māori authority to the member, which is treated as a taxable Māori authority distribution. The value of the loan depends on its market value, but there is currently no clear mechanism in the Māori authority rules for determining this amount. This creates uncertainty and administrative inefficiency for Māori authorities. We recommend linking the Māori authority rules to the rules for company dividends in the Income Tax Act (an existing mechanism for determining the market value of a loan in a shareholder context). This change would reduce uncertainty for Māori authorities and ensure coherency of the Income Tax Act. We recommend that the change apply from the start of the 2026–27 income year.

Maintenance changes

28 Inland Revenue's development of guidance to help users of the Māori authority rules has identified five errors, either in the form of incorrect cross references, incorrect section placement (or ordering), or omitted wording. These errors have mostly arisen because of the transition from the Income Tax Act 2004 to the Income Tax Act 2007. We recommend the Bill fix these maintenance errors. The amendments recommended in the table below are consistent with intended policy and taxpayer expectations about how the Māori authority rules operate.

Table 1: Recommended maintenance changes to the Income Tax Act 2007

Update section YA 1 to include Māori authority in the definition of "company"	Currently, the definition of "company" excludes an entity electing to be a Māori authority because the "company" definition excludes a company acting as a trustee. This could prevent a Māori incorporation, acting under the Te Ture Whenua Māori Act 1993 as trustee for its members and members that have beneficial interests in the land, from electing to be a "Māori authority". This outcome is inconsistent with the explicit rules in the Income Tax Act that allow companies that manage Māori land to elect to be taxed under the Māori authority rules. We recommend an amendment that expressly includes a company that is a "Māori authority" in the definition of "company" and prevents the trustee exclusion from applying to a Māori authority that is a company. This change should apply from the 2008–09 income year, when the Income Tax Act 2007 was enacted, to preserve taxpayer expectations that the Māori authority rules apply to corporate entities subject to Te Ture Whenua Māori Act.
Taxable bonus issue and "taxable Māori authority distribution"	We recommend that the rules that treat a distribution in the form of a bonus issued by a Māori authority to a member as a "taxable Māori authority distribution" should be re-ordered to assist user understanding of the rules. This change should apply from the 2026–27 income year.
Redundant transfer of value rule	The term "transfer of value" as it applies to distributions by Māori authorities was added as a general definition with the enactment of the Income Tax Act 2007. The definition of transfer of value, which includes a net market value-based transfer, makes some existing sections in the Māori authority rules redundant. We recommend these redundant

	provisions be repealed from the date of enactment of the 2026–27 Annual Rates Bill.
Incomplete references in section HF 9	This section is missing an amendment made in 2005 to the Māori authority rules in the Income Tax Act 2004. The 2005 amendment should be included in the current Māori authority rules as it provides interpretative detail about how to apply the consequences of a change in entity tax status. This change should apply from the 2008–09 income year, when the Income Tax Act 2007 commenced. We understand taxpayers have been applying the rules as intended by the 2005 amendments.
Incorrect references/terminology	The third row of the table in section HF 9 refers to section OK 18. This reference is incorrect and should instead refer to section OK 22. It also refers to "taxable income derived by…" – this should be changed to "taxable income of…" because taxable income is a calculation under the core provisions, it is not an amount that is derived. These changes correct terminology and should apply from the date of enactment of the 2026–27 Annual Rates Bill.

Financial and administrative implications

29 The remedial amendments recommended in this report do not have direct revenue, operating, or systems implications. They are intended to clarify existing policy settings and improve how the rules operate in practice, rather than introduce substantive policy change.

Consultation

30 We have discussed the content of this report with Te Puni Kōkiri and Te Tari Whakatau. Both agencies are supportive of recommendations in this report s 9(2)(f)(iv) [redacted] The comments from these agencies have been incorporated into this report. The Treasury was also consulted and agrees with the recommendations in this report.

Next steps

31 If you agree to the amendments recommended in this report, we will prepare drafting instructions so the changes can be included in the 2026–27 Annual Rates Bill.

32 A copy of this report should be referred to the Minister of Finance, and the Minister for Māori Development for their information.

Recommendations

We recommend you:

1 **Agree** that redress assets received by a post-settlement governance entity, or specified ancillary beneficiary entity, should be valued at the open market value on the date the assets are received.

Agree / Disagree

2 **Agree** that Māori authorities should be able to use tax pooling.

Agree / Disagree

3 **Agree** that the value of a distribution from a Māori authority to a member in the form of a low- to no-interest loan should be valued according to the open market framework set out in the company dividend rules in the Income Tax Act 2007.

Agree / Disagree

4 **Agree** to the maintenance changes in Table 1.

Agree / Disagree

5 **Agree** that:

a Recommendations 1 and 3 apply from the start of the 2026–27 income year.

Agree / Disagree

b Recommendation 2 applies from 1 April 2003.

Agree / Disagree

c Recommendation 4 applies from the dates specified in Table 1.

Agree / Disagree

6 **Agree** that the amendments in recommendations 1 to 5 be included in the 2026–27 Annual Rates Bill.

Agree / Disagree

7 **Note** that recommendations 1 to 5 are consistent with established policy, do not reflect substantive policy change, and do not have a revenue or other fiscal effect.

8 **Agree** to officials consulting a select group of experts in tax and the Māori economy on the amendments in recommendations 1 to 5.

Agree / Disagree

s 9(2)(a)

Charles Ngāki

Policy Lead

Policy | Inland Revenue

1 July 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Joint report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Inland Revenue
Te Tari Taake

MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Student loan establishment fee

Date	2 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/190 REP/26/6/489 METIS 1356240
Bill name	Taxation (Annual Rates for 2026–27) Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	17 July 2026
Minister for Social Development and Employment	**Agree** to recommendations	17 July 2026
Minister of Revenue	**Agree** to recommendations	17 July 2026
Minister for Tertiary Education	**Agree** to recommendations	17 July 2026

Purpose
This report seeks agreement from Joint Ministers to make a remedial amendment to the Student Loan Scheme Act 2011 in the Taxation (Annual Rates for 2026–27) Bill, relating to the student loan establishment fee.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Carolyn Elliott	Policy Lead, Policy, Inland Revenue	s 9(2)(a)	✓
Natisha Jones	Senior Policy Advisor, Inland Revenue	s 9(2)(a)	
Rachel Kenealy	Acting Policy Manager, Ministry of Social Development	s 9(2)(a)	
Nicki Ablitt	Senior Policy Manager, Ministry of Education	s 9(2)(a)	

Student loan establishment fee remedial

Purpose

1 This report seeks your agreement to make a remedial amendment to the Student Loan Scheme Act 2011 (2011 Act) in the upcoming Taxation (Annual Rates for 2026–27) Bill. This amendment would align the legislation with the policy intent and operational practice to only charge an establishment fee when a student loan borrower draws down a loan.

Student loan establishment fee

2 In 1991, Cabinet agreed that an establishment fee would be charged at the point a student drew down on their student loan. This was intended to subsidise the Crown's administrative cost associated with student loan draw downs (CAB 91 42/14, 44/20 refers). This was implemented in the Student Loan Scheme Act 1992 (1992 Act).

3 Until 2000, the Ministry of Education was the administrator of the fee and only charged this at the point a student drew down on their loan. When no draw down occurred, the establishment fee was not charged. This practice has been maintained since the Ministry of Social Development (MSD) took over the delivery of student loans, administered through StudyLink. For the smooth administration of the scheme, it is important that borrowers apply early for their loans. Early application does mean that there will be some students that have a change of plans and do not decide to study. However, we do not want to discourage borrowers from applying early as this could result in many students receiving delayed payments.

4 The 1992 Act was replaced by the 2011 Act. However, the current wording of the 2011 Act does not align with the policy intent and operational practice. The 2011 Act states that a student loan establishment fee of $60 (or any other amount prescribed by regulations) must be charged by the loan manager to a borrower **each time the borrower enters into a loan contract**.[1] An average of 1,500 clients per annum enter a student loan contract but do not draw down on the loan. This means the law requires that these clients are charged a $60 establishment fee, even though they do not draw down on the loan. However, in practice a fee is not currently charged.

5 We recommend an amendment to align the legislation with the original policy intent and current StudyLink practice. An amendment would mean the establishment fee would only be charged by StudyLink if a borrower enters into a loan contract and draws down on that loan.[2] The establishment fee would not be charged if a loan is not drawn down.

6 Given that this reflects long-standing policy intent and operational practice, we recommend the amendment is retrospective to the enactment of the 2011 Act. This would mean we would not seek to collect the fee from clients who entered into contracts between 2012 and 2026. The Crown would therefore forego approximately $1,371,000 of establishment fee revenue relating to previous

[1] With the enactment of the 2011 Act, a distinction was made between an "establishment fee" charged by MSD for the actual loan establishment costs and an "administration fee" of $40 charged by Inland Revenue for the ongoing costs of administering the loan when an establishment fee had not also been charged for that year. The establishment fee was previously called an administration fee under the 1992 Act.

[2] Note that the establishment fee is charged by StudyLink prior to the loan being transferred to Inland Revenue.

periods, noting this has not previously been accounted for in forecasting within Vote Social Development and Vote Revenue. The establishment fee would otherwise need to be clawed back from past students who did not expect this fee and may be more administratively costly than the value added to the scheme. In addition, $303,000 of administration fees which have previously been charged to students and accounted for but are no longer applicable will need to be reversed.[3]

Operational implications

7 There are no operational implications for StudyLink or Inland Revenue if this change is agreed to.

8 If the change is not agreed and the establishment fee is charged retrospectively, there may be an increase in customer contacts querying the charge. Given the relatively low value of the individual fees and the likely increase in customer contacts, the net fiscal benefit is likely to be limited or negative. The cost of any increase in customer contacts will be funded through Inland Revenue's existing baseline.

9 In addition, more than half the affected student loan borrowers have already fully repaid their loan or never drew down a loan, meaning these accounts would need to be re-opened to charge the establishment fee. Retrospectively charging the establishment fee would not only be unlikely to return a fiscal benefit but would also likely generate complaints and potentially reduce public confidence in the student loan scheme. Retrospective application of the establishment fee is not recommended.

Financial implications

10 The current practise of not charging borrowers an establishment fee unless they draw down the loan is not in accordance with current legislation and enforcing this would have a small positive fiscal impact.

11 However, if you agree to the proposed legislative change, that impact would be fully offset by a corresponding small negative fiscal impact, making the overall financial impact of the legislative change **fiscally neutral**.

Consultation

12 We have consulted with the Treasury when preparing this report.

Next steps

13 Since this remedial change is made in line with Cabinet's original policy intent, the change can be agreed by Ministers and is not significant enough to require Cabinet approval. However, if you do not make this change, the legislation will be inconsistent with the original Cabinet decision and this will need to be resolved.

14 If you agree to this change, we will include it in the Taxation (2026–27 Annual Rates) Bill. Approval to introduce the Bill is expected to be sought from the

[3] This number does not account for those clients who had a $40 administration fee charged instead for that year (for example, if they were not in their first year of the loan), for these cases this administration fee would have to be reversed.

Cabinet Legislation Committee on 3 September 2026, with introduction likely to be the following week.

Recommendations

We recommend you:

1 **Note** the policy intent of the student loan establishment fee is for a fee to be charged at the point of draw down to subsidise the Crown's administrative costs.

2 **Agree** to amend the Student Loan Scheme Act 2011 to clarify that the student loan establishment fee will only be charged to borrowers who enter into a loan contract and draw down on that loan.

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*	*Minister for Tertiary Education*

If recommendation 2 is agreed to:

3 **Agree** to include the proposal in the Taxation (Annual Rates for 2026–27) Bill.

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*	*Minister for Tertiary Education*

4 **Agree** that the amendment take effect from the enactment of the Student Loan Scheme Act 2011.

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*	*Minister for Tertiary Education*

5 **Note** that the current law requires borrowers to be charged a $60 establishment fee on entering into a loan contract, even if they do not draw down on the loan. However, in practice a fee is not currently charged if the loan is not drawn down. The fiscal impacts for Vote Revenue if fees were retrospectively charged to align with current law would be an increase to forecast operating balance and a decrease to net core Crown debt as follows:

	$m – increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental other revenue: Interest unwind – student loans	0.009	0.013	0.017	0.020
Non-departmental other expenses: Initial Fair Value Write-Down Relating to Student Loans	0.572	0.033	0.033	0.034
Total Operating	**0.563**	**0.020**	**0.016**	**0.014**
Crown Revenue and Receipts: Student Loans - Receipts	0.611	0.027	0.026	0.030
Total Capital	**(0.611)**	**(0.027)**	**(0.026)**	**(0.030)**

6 **Note** that the fiscal impacts for Vote Social Development if fees were retrospectively charged to align with the current law would be a decrease to forecast operating balance and net core Crown debt as follows:

	$m – increase/(decrease)			
Vote Social Development Minister for Social Development and Employment	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental revenue: Student Loan – administration fee	1.458	0.087	0.087	0.087
Total Operating	**(1.458)**	**(0.087)**	**(0.087)**	**(0.087)**

If recommendation 2 is agreed to:

Minister of Finance and Minister of Revenue

7 **Note** the following change to Vote Revenue Other Revenue to give effect to the policy decision in recommendation 2 above, with a corresponding impact on the operating balance:

	$m –increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Non-departmental other revenue: Interest unwind – student loans	(0.009)	(0.013)	(0.017)	(0.020)
Total Operating	**0.009**	**0.013**	**0.017**	**0.020**

8 **Approve** the following change to Vote Revenue appropriations to give effect to the policy decision in recommendation 2 above, with a corresponding impact on the operating balance:

	$m – increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental Other Expenses:				
Initial Fair Value Write-Down Relating to Student Loans	(0.572)	(0.033)	(0.033)	(0.034)
Total Operating	**(0.572)**	**(0.033)**	**(0.033)**	**(0.034)**

Approved / Not approved

Minister of Finance

Approved / Not approved

Minister of Revenue

9 **Note** the following change to Vote Revenue Capital Receipts to give effect to the policy decision in recommendation 2 above, with a corresponding impact on net core Crown debt:

	$m – increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Student loan capital receipts	(0.611)	(0.027)	(0.026)	(0.030)
Total Capital	**0.611**	**0.027**	**0.026**	**0.030**

10 **Agree** that the proposed change to appropriations for 2026/27 above be included in the 2026/27 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Agree / Disagree

Minister of Finance

Agree / Disagree

Minister of Revenue

Minister for Social Development and Employment:

11 **Note** the following change to Revenue to give effect to the policy decision in recommendation 2 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)			
Vote Social Development Minister for Social Development and Employment	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Non-departmental revenue: Student Loan – administration fee	(1.458)	(0.087)	(0.087)	(0.087)
Total Operating	**1.458**	**0.087**	**0.087**	**0.087**

12 **Note** that the financial impacts in recommendations 7, 8, 9 and 11 have an equal and opposite financial impact to the forecast adjustment in recommendation 5 and 6 and as such are fiscally neutral to the current forecasts.

13 **Agree** that as the financial impacts of the proposed amendment are fiscally neutral to the current forecasts, they will flow against fiscal forecasts rather than budget allowances.

Agree / Disagree	Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*

s 9(2)(a)

Carolyn Elliott
Policy Lead
Policy | Inland Revenue
2 July 2026

s 9(2)(a)

Rachel Kenealy
Acting Policy Manager
Ministry of Social Development
2 July 2026

s 9(2)(a)

Nicki Ablitt
Senior Policy Manager
Ministry of Education
2 July 2026

Hon Nicola Willis	Hon Louise Upston	Hon Simon Watts	Hon Penny Simmonds
Minister of Finance	**Minister for Social Development and Employment**	**Minister of Revenue**	**Minister for Tertiary Education**
/ /2026	/ /2026	/ /2026	/ /2026

Inland Revenue
Te Tari Taake

Briefing note

Reference	BN2026/212
Date	8/07/2026
To	Revenue Advisor, Minister of Revenue – Angela Graham Private Secretary, Minister of Revenue – Melissa Zhen
From	Peter Frawley
Subject	**Proposal for an Approved Issuer Levy Act**

Purpose

1 This briefing note seeks the Office's view on a proposal by officials to replace the Stamp and Cheque Duties Act 1971 (SCDA) with a new Approved Issuer Levy Act as part of some technical changes to the approved issuer levy (AIL) rules. This would improve the accessibility and transparency of the AIL legislation for taxpayers and would not change the outcome for taxpayers or have any fiscal cost. However, it is not necessary to have a new AIL Act and the status quo could be maintained instead.

Comment

2 The SCDA no longer implements either stamp duty or cheque duty. The only operative provisions remaining in the Act are the AIL provisions (all other regimes have been repealed). The AIL provisions concern a levy payable instead of non-resident withholding tax on interest in certain circumstances. These provisions were originally inserted in the SCDA in 1991 (when both stamp duty and cheque duty existed).

3 A number of technical changes to the AIL provisions are proposed as part of the 2026–27 Annual Rates Bill. Officials would also like to take the opportunity to move the AIL provisions from the SCDA into a bespoke new taxation Act for AIL. This new Act would be a taxation Act administered by Inland Revenue.

4 The AIL provisions have no necessary connection with either of the repealed stamp or cheque duty regimes and it seems to make little sense for them to remain in an Act entitled the Stamp and Cheque Duties Act. Officials believe that moving the AIL provisions to their own Act would make them more accessible for taxpayers. It would also allow the SCDA to be repealed and removed from the statute books. This would be good legislative stewardship.

5 The AIL rules provide for the payment of a levy instead of income tax and were legislated separately from the Income Tax Act to remove the possibility of the levy being claimed as a foreign tax credit by the lender. This was to cater for the case where a non-resident lender could choose to pay NRWT on a higher interest return (because it was not subject to AIL) if they could fully use the related foreign tax credit – this could result in more total tax for New Zealand. Officials propose creating a new AIL Act rather than amending the Income Tax Act for these reasons.

6 We have received advice from the Office of the Clerk that this change could be made as part of the 2026–27 Annual Rates Bill. The AIL provisions would be a separate part of the Bill at introduction and would then be divided from the main Bill at the Committee of whole House stage to become the Approved Issuer Levy Bill (and subsequently Act).

7 The Parliamentary Counsel Office, in their capacity as overall steward of the New Zealand statute books, supports this change.

8 The replacement of the SCDA with a new AIL Act would not change outcomes for any taxpayers. There would also be no fiscal impact.

9 Although the change would improve the statute books, we acknowledge it is not essential and continuing with the existing SCDA is a viable option.

Next steps

10 Officials seek the Office's view on this proposal before we send a report on the wider AIL reforms to joint Ministers.

Peter Frawley

Policy Lead

s 9(2)(a)

Tax policy report

Inland Revenue
Te Tari Taake

Cryptoasset proposals for 2026-27 Annual Rates Bill

Date	8 July 2026	**Priority**	High
Security level		**Report number**	IR2026/200
Bill name	Taxation (Annual Rates for 2026-27, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Revenue	**Agree** to recommendations	23 July 2026

Purpose
This report provides two cryptoasset simplification proposals that could be included in the upcoming Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Graeme Morrison	Policy Lead	s 9(2)(a)	☐
Paul Fulton	Principal Policy Advisor	s 9(2)(a)	✓

Cryptoasset proposals for 2026-27 Annual Rates Bill

Executive summary

1 This report recommends two targeted cryptoasset simplification measures for inclusion in the Taxation (Annual Rates for 2026-27, and Remedial Measures) Bill. The first would introduce cost-base rules for certain decentralised finance (DeFi) transactions where cryptoassets are provided to another person or pool and equivalent assets are returned. The second would exclude qualifying fiat-backed stablecoins from the rule that taxes disposals of personal property acquired with a purpose of disposal.

2 The proposals are intended to remove taxing points that can arise despite there being no material change in the taxpayer's underlying economic position and where compliance costs are disproportionate. They would reduce compliance costs, better align the tax treatment with the economic substance of the relevant transactions, and support the use of digital payment technologies without changing the general tax treatment of speculative cryptoasset gains.

3 The main policy risk is that cryptoassets are a fast-moving area and these proposals have not been subject to wider public policy consultation. This risk can be managed by ensuring the rules are narrowly defined, by aligning the stablecoin definition where possible with relevant work by MBIE and the Financial Markets Authority, and by limiting the proposals at this stage to discrete simplification measures rather than broader reform.

4 We recommend that you agree to both proposals applying from 1 April 2027 and agree that they be included in the omnibus Cabinet paper for inclusion in the next Annual Rates Bill. The proposals are expected to have no fiscal impact and no significant operational implications.

Background

5 This report recommends two policy simplifications in relation to cryptoassets that could be included in the upcoming Annual Rates Bill. These are provided in response to your request, following our cryptoasset update briefing note (BN2026/137 refers), for targeted simplification measures that can be included in this Bill.

6 These proposals are comparatively straightforward to implement, broadly supported by taxpayers, revenue-neutral, and aligned with the policy objectives in this area. However, cryptoassets are a fast-moving area and these proposals have some risk from not having been subject to wider policy consultation. Both of these proposals remove a taxing point where this is appropriate to do so but are dependent on the relevant definitions being appropriately specified. If definitions are too narrow these proposals will not achieve their intended simplification purpose but if they are too wide they could exempt cryptoassets from taxation even where the person entered into the transaction seeking a genuine gain which would currently be taxable.

7 Adoption of distributed ledger technology in financial services, markets, payments and infrastructure can represent a potential significant opportunity for NZ's economic growth, but it carries some risks as well and is being considered by the Council of Financial Regulators.

8 A future review of tax settings and their interactions with digital finance may be warranted to support government economic objectives as tax treatment and reporting requirements are an important part of the overall regulatory framework and burdens imposed on businesses adopting or seeking to develop DLT tech in finance.

9 Wider reform, such as a bespoke regime for cryptoassets, would be a substantial undertaking, requiring material engagement with other agencies to ensure a cross-government approach to digital finance. This is a developing area that is being

considered in a number of jurisdictions, and could be considered for future inclusion as part of the tax and social policy work programme.

Decentralised finance

10 Decentralised finance (DeFi) using cryptoassets is a term for a range of financial transactions involving lending and borrowing cryptoassets that may require a person to deposit cryptoassets to another person or into a pool (for use by other users) with equivalent assets returned to them (often plus a profit which will be taxable and is outside the scope of this proposal) at the end of the transaction. Economically the person has lent the cryptoassets to the pool but a recent Tax Counsel Office issues paper[1] reached an interim conclusion that these transactions were a disposal and reacquisition of new assets. As cryptoassets are usually acquired for the purpose of disposal, these transactions will likely be subject to tax. Whether they are provided to a pool or not the gain or loss over the holding period is expected to be the same and subject to tax on ultimate disposal; however, providing it to a pool will change the timing of any income or loss.

11 This transaction is conceptually the same as a returning share transfer in the share lending rules. In both cases, an asset is legally disposed of before an equivalent asset is reacquired at a later date but both transactions considered together are economically equivalent to a loan.

12 In a returning share transfer lending, the share continues to be treated as a disposal but this is deemed to be at the original acquisition cost. When the new share is acquired, this is also deemed to be acquired at the original acquisition cost. The effect of these two deemed transactions is the person maintains the same cost base throughout their ownership (so no interim gain or loss arises) and if they are taxed on the final disposal will be taxable on their gain over the entire period.

13 We recommend equivalent rules are introduced for cryptoassets provided to another person or a pool for a DeFi transaction. This would not require the full complexity of the share lending rules as, unlike shares, cryptoassets do not have dividends or imputation credits and therefore there is no compensation for dividends paid while the pool or another person legally owns the cryptoasset.

14 This proposal may not capture all types of DeFi arrangements and primarily focuses on lending due to the overlap with the existing share lending rules. If a broader cryptoasset project is added to the tax and social policy work programme this could be considered further.

15 This proposal should apply to cryptoassets provided to a pool for a DeFi transaction from 1 April 2027. This proposal would not have a fiscal cost.

Work of other agencies

16 In November 2025 the UK released the outcome of their consultation on DeFi transactions[2]. The UK is considering a similar 'no gain, no loss' (NGNL) rule where similar transactions to those we are considering would be treated as occurring for original cost.

[1] Income tax – wrapping, bridging, lending, borrowing and staking cryptoassets

[2] The taxation of decentralised finance (DeFi) involving the lending and staking of cryptoassets — Summary of responses - GOV.UK

Stablecoins

17 A fiat-backed stablecoin[3] aims to maintain a consistent value compared to its reference currency, commonly[4] the US dollar. Unlike most cryptoassets, stablecoins are designed to maintain a stable value relative to an underlying fiat currency and are increasingly being used as a transactional medium rather than as a speculative investment. However, as with all cryptoassets, they are usually acquired with the purpose of disposal, including when used as payment for goods and services, so gains and losses are taxable. A stablecoin will not change in value relative to its reference currency but could increase or decrease in value if that reference currency changes in value compared to the New Zealand dollar. As a result, the requirement for taxpayers to calculate income on each disposal can impose significant compliance costs despite little or no economic gain arising from movements in the stablecoin itself. Excluding qualifying fiat-backed stablecoins from tax would reduce these compliance costs and remove a potential barrier to the use of digital payment technologies.

18 There is also a principled basis for distinguishing qualifying fiat-backed stablecoins from other cryptoassets. New Zealand's broad taxation of cryptoassets is generally justified on the basis that they are volatile assets commonly acquired with a purpose of disposal. That rationale still applies, but is arguably less compelling for fiat-backed stablecoins whose primary purpose is to preserve value and facilitate transactions. Any gains or losses experienced by holders will largely reflect movements in the underlying currency rather than appreciation in the stablecoin itself. Creating a narrowly defined exemption for reserve-backed, fiat-denominated stablecoins would therefore target compliance costs that are disproportionate to the revenue at stake while continuing to tax more speculative cryptoassets in the ordinary way.

19 We propose removing qualifying stablecoins from the provision that taxes gains and losses on personal property acquired with the purpose of disposal. There is a risk this may create an avenue for people to make tax free gains from purchasing stablecoins with the intention of profiting from foreign currency movements. However, the proposal would not exempt gains and losses on stablecoins (or foreign exchange movements arising from that) from other provisions such as where income is derived from a profit-making scheme or where the person deals in personal property.

20 This proposal should apply to qualifying fiat-backed stablecoins disposed of from 1 April 2027. This proposal does not have a fiscal cost.

Work of other agencies

21 On 3 July 2026 MBIE closed its consultation on a discussion document on payment services regulation[5]. This includes a section on digital tokens used in payment services which would include stablecoins. We have discussed our proposals with MBIE to ensure they are consistent with their project.

22 In March 2026 FMA released a designation[6] that a specific stablecoin is not a financial product for the purposes of the Financial Markets Conduct Act. We will incorporate their approach where possible in designing the tax definition of a stablecoin.

23 In May 2026 the United Kingdom closed its first round of consultation[7] on stablecoins. The issues they have identified in their discussion document have been taken into account in our recommendations.

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[3] Stablecoins can also be pegged to other assets such as other cryptoassets or gold. However, this proposal is limited to those pegged to a fiat-currency as these have the least volatile values.

[4] Currently 99.4% of stablecoins are USD denominated.

[5] https://www.mbie.govt.nz/dmsdocument/32017-discussion-document-on-payment-services-regulation

[6] Financial Markets Conduct (ECDD Holdings Limited Stablecoin) Designation Notice 2026 | Financial Markets Authority

[7] Taxation of stablecoins - GOV.UK

Interaction of both proposals

24 People can use stablecoins to undertake DeFi transactions so it is possible for a single transaction to be affected by both proposals. This is also considered in the UK stablecoin consultation. We do not consider our proposals would cause any concerns where they affect the same transaction – effectively the cost base of a non-taxable transaction would be adjusted where either or both effects result in nil tax due to the DeFi transaction.

Operational implications

25 These proposals would simplify compliance by taxpayers. It may require some additional monitoring by Customer and Compliance Services but given the simpler outcomes this is not expected to require any additional resources compared with what is already required.

Financial implications

26 These proposals do not have a fiscal impact.

Consultation

27 The Treasury has been consulted on this report and agrees with the recommendations.

28 The Ministry of Business, Innovation and Employment has been consulted on this report. The Financial Markets Authority and the Reserve Bank have been informed.

29 As part of developing initial views on the application of the existing tax rules to DeFi transactions, Inland Revenue consulted a range of tax and cryptoasset industry experts. Submitters supported extending the existing share lending rules to cryptoassets to reduce compliance costs and addressing some practical tax issues. Stakeholders also identified a number of broader policy options, including a de minimis exemption for smaller transactions and excluding certain cryptoasset transactions from tax where cryptoassets are used to purchase goods and services. Consultation with BlockchainNZ similarly highlighted several potential short-term measures, including expansion of the share lending rules, reclassification of stablecoins, a de minimis threshold, and simplified tax reporting requirements, alongside a range of longer-term reform proposals. We also consulted with a Partner in a law firm who focuses on tax and crypto assets, who was supportive of the proposals and expected that the rest of the industry would also be. Some submitters are likely to advocate for more comprehensive reforms, such as a bespoke tax regime for cryptoassets, which falls outside the scope of the current work programme. We will continue to consult with cryptoasset industry experts on the development of these proposals.

Next steps

30 If you agree with the recommendations in this report these will be included in the draft omnibus Cabinet Paper that we are planning on providing to you on 30 July.

Recommendations

We recommend that you:

Decentralised finance

1 **Agree** that an equivalent of the share lending rules should be extended to cryptoassets provided to a pool as part of a DeFi transaction where equivalent assets are returned.

Agree / Disagree

2 **Agree** that recommendation 1 should apply to cryptoassets provided to a pool for a DeFi transaction from 1 April 2027.

Agree / Disagree

Stablecoins

3 **Agree** that a stablecoin that is backed by fiat-currency should be excluded from the provision that taxes the disposal of personal property acquired with the purpose of disposal.

Agree / Disagree

4 **Agree** that recommendation 3 should apply to stablecoins disposed of from 1 April 2027.

Agree / Disagree

Next steps

5 **Agree** to include the above agreed recommendations in the omnibus Cabinet Paper for inclusion in the next Annual Rates Bill.

Agree / Disagree

s 9(2)(a)

Paul Fulton

Principal Policy Advisor

Policy | Inland Revenue

9 July 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Approval of fiscal remedial items for the 2026–27 Annual Rates Bill

Date	15 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/158
Bill name	2026–27 Annual Rates Bill (Name TBD)		

Action sought		**Deadline**
Minister of Finance	**Agree** to remedial items with fiscal implications to be included in the 2026–27 Annual Rates Bill.	29 July 2026
Minister of Revenue	**Agree** to remedial items with fiscal implications to be included in the 2026–27 Annual Rates Bill.	29 July 2026

Purpose
This report seeks the agreement of the Minister of Finance and the Minister of Revenue to make remedial amendments with fiscal implications to the Inland Revenue Acts, and to include these in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Peter Frawley	Policy Lead	s 9(2)(a)	☐
Matt Pilkinton	Bill Manager	s 9(2)(a)	✓
Kaitlyn Payne	Bill Coordinator	s 9(2)(a)	☐

Approval of fiscal remedial items for the 2026–27 Annual Rates Bill

Executive summary

1 This report seeks your agreement to include six remedial amendments in the 2026–27 Annual Rates Bill.

Fiscal implications

2 We recommend that the fiscal implications associated with five of the remedial amendments in this report be managed through the Tax Policy Scorecard (the Scorecard). The net fiscal impact of these amendments over the forecast period (2026/27 to 2029/30) is a reduction in revenue of $4.78 million.

3 The fiscal implications of the remedial amendment to extend Investment Boost to aircraft engines cannot be managed through the Tax Policy Scorecard. The fiscal impact of this remedial could either flow through to the fiscal indicators or be a pre-commitment against the Budget 27 allowance.

Operational implications

4 The changes included in this report can be delivered through Inland Revenue's current change capacity. The departmental capital and operating costs to deliver these initiatives will be funded within existing baselines.

Consultation

5 The Treasury has been consulted on this report and agrees with the recommendations.

Next steps

6 If you agree to the recommendations, we will develop legislative changes to give effect to the remedial proposals in this report. These will be included in the Bill scheduled for introduction in September 2026.

7 We recommend that the proposal to extend Investment Boost to aircraft engines be included in the omnibus Cabinet paper seeking policy approval for items for the 2026–27 Annual Rates Bill.

Background

8 This report seeks your agreement to make six remedial amendments with fiscal impacts to the following Acts in the 2026–27 Annual Rates Bill:

- Income Tax Act 2007 (ITA)
- Tax Administration Act 1994 (TAA)
- Goods and Services Tax Act 1985 (GSTA).

9 These remedial amendments are intended to ensure the relevant tax law is consistent with the policy intent and seek to maintain the coherence and integrity of the tax system.

10 Unless otherwise specified in this report, these changes should take effect on the day after the date the Bill receives Royal assent.

Black hole expenditure from abandoned software development

Background

11 Some software as a service (SaaS) licensing arrangements require the customer to pay for configuring or customising the SaaS software to their own business software or hardware. This is a capital expense. If the project fails without establishing a depreciable asset, the cost is not generally deductible.

12 However, a rule applies to allow a deduction for abandoned software projects - but only if, had it been successful, the project would have resulted in the taxpayer acquiring copyright in the resulting software. Taxpayers cannot acquire copyright in SaaS projects and therefore the rule cannot apply.

Proposal

13 We recommend amending the current abandonment rule to also apply to the cost of abandoned SaaS (or similar) configuration, customisation or integration work done to enable or improve the application of third-party software to the taxpayer's existing systems. This would apply where a depreciable right to use (but not necessarily acquire) copyright would have arisen if the project was successful. That is, the rule would no longer require the taxpayer to acquire copyright ownership interests from the project (if it had succeeded).

Financial implications

14 This amendment will have a fiscal cost as it will allow taxpayers to make a deduction that was not previously available to them, reducing their overall tax liability. The fiscal cost is estimated to be $2.73 million over the forecast period.

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30** **& Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(0.210)	(0.840)	(0.840)	(0.840)
Total Operating	**0.210**	**0.840**	**0.840**	**0.840**

Debt-to-equity swap – financial arrangements rules

Background

15 Integrity measures were included in the financial arrangements rules to prevent insolvent companies from avoiding tax on forgiven debt through debt–equity swap arrangements.

16 However, the current wording can also apply when an insolvent company raises new equity from shareholders or new investors and uses those funds to repay third-party debt in full, even though—economically—no debt is remitted.

Proposal

17 We recommend amending the integrity measures in the financial arrangements rules, so they apply only where there is an economic remission of debt. This would exclude genuine shareholder-funded recapitalisations where newly raised equity is used to repay third-party debt in full.

Application date

18 We recommend that the amendment apply retrospectively from 1 April 2023, the date the integrity measures were first introduced.

Financial implications

19 The current rules tax instances where genuine share issues are made to fund the repayment of debt. This proposal would ensure those transactions are no longer taxed and therefore has a fiscal cost. However, this cost is small and unquantifiable because there is limited evidence on the frequency of affected arrangements and low expected revenue under the current rule. Awareness of the current law is likely low, reducing compliance, while informed taxpayers would be expected to structure around the unintended outcome.

20 In line with our usual practice for small and unquantifiable fiscal costs, we have estimated a nominal fiscal cost of $200,000 per annum.

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

Incorporated Societies Act 2022: consequential changes to tax legislation (aligning distribution requirements)

Background

21 To access tax concessions under the ITA and GSTA, incorporated societies must not be carried on for the financial gain of their members and must not make any distributions to their members. The Incorporated Societies Act 2022 also requires that incorporated societies are not carried on for the financial gain of members, however it allows limited distributions to members such as hardship grants and scholarships.

22 Because of the discrepancy between the Acts, incorporated societies who make distributions of the type allowed under the Incorporated Societies Act 2022 face administrative hurdles when applying for tax concessions. These organisations are required to update their constitutional arrangements to reflect the requirements of the ITA and GSTA, which creates administrative costs for Inland Revenue and compliance costs for the sector.

Proposal

23 We recommend amending the ITA and GSTA to ensure that incorporated societies are able to access the following tax concessions while still being able to make the limited distributions to members as permitted by the Incorporated Societies Act 2022:

- the effective tax-free threshold for not-for-profits ($10,000)
- the exemptions for amateur sports clubs and racing clubs, and
- the 'non-profit body' concessions in the GSTA.

24 This change would reduce administrative and compliance costs for Inland Revenue and the not-for-profit sector.

Application date

25 We recommend that the amendment apply retrospectively from the 2022-23 income year (generally from 1 April 2022) being the income year that aligns with the commencement date of the Incorporated Societies Act 2022 (5 April 2022).

Financial implications

26 This change would result in an up-front cost of $425,000 as not-for-profit incorporated societies would be entitled to refunds for tax paid because of the misalignment of tax and Incorporated Societies legislation since 2022. As the proposal increases eligibility for income tax concessions, the ongoing costs of the proposal are estimated to be $100,000 per annum. The total cost is estimated to be $725,000 over the forecast period. Note that this costing assumes the effective tax-free threshold for not-for profits will increase to $10,000 as announced as part of Budget 2026.

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30** **& Outyears**
Crown Revenue and Receipts: Tax Revenue - company tax	(0.425)	(0.100)	(0.100)	(0.100)
Total Operating	**0.425**	**0.100**	**0.100**	**0.100**

Aligning cash basis person requirements for deceased estates

Background

27 Under the financial arrangements rules, those who qualify to be a cash basis person can account for income when it is received and expenditure when it is paid during the life of an arrangement. This approach is often 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.

28 To be a cash basis person, a person must not hold financial arrangements that together exceed the following thresholds:

- $200,000 for income and expenditure; and/or
- $2,000,000 for absolute value on every day of an income year.

29 Before 2009, only natural persons or trustees of deceased estates could be cash basis persons.

30 Trustees of a deceased estate can account for financial arrangements on a cash basis where the deceased was a cash basis person at the time of death, and the estate's arrangements are under the cash basis person thresholds. This treatment is subject to a five-income-year limit. If, during that period, the estate's arrangements exceed the thresholds, the ability to account on a cash basis ceases permanently.

31 In 2009, eligibility to be a cash basis person was extended to non-natural persons. Given this extension of eligibility, if financial arrangements in a deceased's estate fall below the cash basis person thresholds, there remains no clear policy reason to further restrict eligibility to account on a cash basis.

Proposal

32 We recommend aligning the cash basis person requirements for deceased estates with that of other taxpayers. This would mean that, if financial arrangements in a deceased's estate fall below the cash basis person thresholds, trustees can account for those financial arrangements on a cash basis, without the 5-income year time limit, and without a permanent loss of cash basis eligibility if thresholds are exceeded once. Financial arrangements in the deceased's estate are assessed separately from financial arrangements held in any other capacity by the trustees.

Financial implications

33 This change would have a fiscal cost of approximately $100,000 per annum, reflecting a small timing shift in income recognition as some long-running estates remain on a cash basis for longer. This slightly reduces tax revenue each year.

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 &** **Outyears**
Crown Revenue and Receipts: Tax Revenue – other persons	(0.025)	(0.100)	(0.100)	(0.100)
Total Operating	**0.025**	**0.100**	**0.100**	**0.100**

Incoherence in deduction outcomes between look-through company and limited partnership rules

Background

34 There is a misalignment between the look-through company (LTC) loss limitation rule and the equivalent rule for limited partnerships (LPs).

35 Under current law, a LTC owner's deductions are limited to the level of their basis (the value of a shareholder's investment in the LTC). However, unlike the rules for LPs, this does not ensure that deductions are allowed to the extent they match assessable income allocated to the shareholder.

36 As a result, shareholders can be taxed on LTC income, even where matching deductions exist. This can create unintended and inequitable outcomes, for instance, in cases where losses are timing based and the shareholder's basis is temporarily insufficient.

Proposal

37 We recommend an amendment to ensure that deductions are allowed for LTC shareholders to the extent the deductions match assessable income allocated to the shareholder.

Application date

38 We recommend this amendment apply for the 2027–28 and later income years.

Financial implications

39 This amendment would have a one-off fiscal cost in the year of introduction. This cost is small and unquantifiable so a notional cost of $200,000 has been estimated for the 2027/28 fiscal year.

40 There is no ongoing fiscal impact because this change only affects the timing of deductions, rather than entitlement. The timing shift results in a small reduction in the year the change is introduced. As deductions remain capped at assessable income, no new deductions are created, and later years are offset by equivalent gains.

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

Extending Investment Boost to aircraft engines

Background

41 The availability of Investment Boost when a business acquires a new aircraft differs between the engine and non-engine components (for example, the body of a plane or helicopter) of the aircraft:

- Investment Boost is available for expenditure on acquiring or improving the non-engine components of an aircraft (provided all other criteria are met, including that the asset is new to New Zealand).
- Investment Boost is not available for expenditure on aircraft engines, which are subject to separate aircraft engine expenditure rules.

42 For example, if a business buys a new helicopter for $1 million and the engine is valued at $500,000, the Investment Boost deduction available would be only $100,000 instead of $200,000 (10% of the total cost rather than 20%).

Why are engines treated differently?

43 The legislative design of Investment Boost was closely aligned with the existing depreciation rules in the Income Tax Act 2007 but also included certain non-depreciable assets subject to specific amortisation rules (for example, agricultural land improvements).

44 Aircraft bodies are depreciable assets and therefore eligible for Investment Boost. However, aircraft engines are outside the scope of the depreciation rules as expenditure on acquiring or overhauling an aircraft engine is subject to separate spreading rules.[1] Unlike some other non-depreciable assets (for example, horticultural plants), aircraft engines were not specifically included in the Investment Boost rules.

45 It was not an intentional policy decision to exclude aircraft engines from the scope of Investment Boost. Rather, it was not identified that aircraft engines are not depreciable assets during the development of the Investment Boost legislation.

Proposal

46 We recommend extending Investment Boost to aircraft engines.

47 There is no principled reason why Investment Boost should be available for aircraft bodies but not aircraft engines. In addition, extending Investment Boost to aircraft engines would support the overall capital deepening purpose of Investment Boost.

[1] This expenditure is spread in line with Civil Aviation Authority requirements for tracking when an engine overhaul must occur. For example, if a new engine's first overhaul is required after 5,000 flying hours and the aircraft is flown for 500 hours in an income year, 10% of the cost can be deducted in that year.

48 Consistent with broader settings, the extension of Investment Boost should apply only to the acquisition of a new (or newly imported) aircraft engine or capital improvements to an engine. Regular engine maintenance or overhaul expenditure should not be eligible for Investment Boost.

Application date

49 We recommend that the extension of Investment Boost to aircraft engines applies retrospectively from 22 May 2025, the date Investment Boost commenced. As aircraft engines were inadvertently excluded from Investment Boost initially, retrospective application is appropriate.

Financial implications

50 The original costing for Investment Boost was inclusive of aircraft engines because it was not realised at the time that engines would not be eligible for Investment Boost. As such, a revenue positive forecasting adjustment is required to remove Investment Boost on aircraft engines from existing baseline forecasts.

51 Extending Investment Boost to aircraft engines would then have a fiscal cost which would be equal and opposite to this forecasting adjustment. As such, the overall impact would be zero.

Forecasting adjustment

52 A revenue positive forecasting adjustment of $66 million is required to remove Investment Boost on aircraft engines from existing baseline forecasts. These impacts would be included in future forecasts (positively impacting the operating balance and net core Crown debt) as follows:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – company tax	34.000	14.000	9.000	9.000
Total Operating	**(34.000)**	**(14.000)**	**(9.000)**	**(9.000)**

53 This forecasting adjustment will be included in the pre-election economic and fiscal update.

Fiscal impact of recommended amendment

54 Agreeing to the proposed amendment to extend Investment Boost to aircraft engines would have a fiscal cost of $66 million over the forecast period as shown in the table below:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – company tax	(34.000)	(14.000)	(9.000)	(9.000)
Total Operating	**34.000**	**14.000**	**9.000**	**9.000**

55 The direct fiscal impacts from policy changes would usually be managed against an allowance. This approach supports the Government's fiscal strategy and its focus on returning to surplus. It also allows you to trade off the foregone revenue against other priorities. However, given the specific circumstances of this decision, a good case can be made to allow the fiscal impacts to flow-through to the fiscal indicators. This is because aircraft engines were inadvertently excluded from Investment Boost initially and the net impact of extending Investment Boost to aircraft engines is fiscally neutral to the BEFU forecast track.

56 The reduction in tax revenue from extending Investment Boost to aircraft engines is too large to manage through the Tax Policy Scorecard. As such, if you agree to manage the impact against an allowance, we recommend the fiscal costs be a pre-commitment against the Budget 27 allowance.

Consideration by Cabinet

57 A decision to make a remedial amendment can generally be made by Ministers without referral to Cabinet. However, given the fiscal impact of extending Investment Boost to aircraft engines, we recommend you inform Cabinet before including the amendment in the 2026–27 Annual Rates Bill.

58 Cabinet could be informed of a decision to extend Investment Boost to aircraft engines by including this proposal in the omnibus Cabinet paper seeking policy approval for a number of measures to be included in the Bill. This paper is due to be provided to you by 30 July for consideration at the Cabinet Economic Policy Committee meeting on 19 August.

Fiscal implications

Tax Policy Scorecard

59 We recommend that the fiscal implications associated with the first five remedial amendments in this report be managed through the Tax Policy Scorecard. The net fiscal impact of these remedial amendments over the forecast period is -$4.780 million.

60 The balance of the Scorecard until 30 June 2030 is currently $57.289 million. If you agree to the first five remedials in this report, the Scorecard balance will be $52.509 million.

Other proposals recommended to be managed through the Scorecard

61 The following recent or upcoming reports on items for inclusion in the 2026–27 Annual Rates Bill also include fiscal implications which we recommend managing through the Scorecard:

- IR2026/162 – Outcomes from targeted consultation on approved issuer levy
- IR2026/118 – International policy items for Annual Rates Bill
- IR2026/187 – Land improvements – recommendations following targeted consultation
- IR2026/171 – GST items recommended for inclusion in 2026–27 Annual Rates Bill
- IR2026/218 – Further fiscal items for inclusion in the 2026-27 Annual Rates Bill.

62 The current Scorecard balance can both manage the fiscal impacts of the recommendations in these reports and provide flexibility to fund further remedial changes in future taxation Bills. However, the total impact of the Bill on the Scorecard balance will be dependent on decisions made on these reports.

Extending Investment Boost to aircraft engines

63 As discussed above, the fiscal impact of the remedial amendment to extend Investment Boost to aircraft engines cannot be managed through the Scorecard. The reduction in tax revenue from this remedial could either flow through to the fiscal indicators or be a pre-commitment against the Budget 27 allowance.

Operational implications

64 Inland Revenue can deliver the remedial changes included in this report based on our current work programme, and on what we understand the Government intends for Inland Revenue to deliver in the future. However, this Bill will reduce Inland Revenue's change capacity, and the resourcing of policy items within the Bill should be considered when thinking about Inland Revenue's ability to deliver future initiatives. While Inland Revenue will self-fund the departmental capital and operating costs to deliver these initiatives within existing baselines, we note this may require prioritisation or the potential of trade-offs becoming unavoidable within our fixed nominal baseline.

Consultation

65 The Treasury has been consulted on this report and agrees with the recommendations.

Next steps

66 If you agree to the recommendations, we will develop legislative changes to give effect to the remedial proposals. These will be included in the Bill scheduled for introduction in September 2026.

67 As noted above, we recommend including the proposal to extend Investment Boost to aircraft engines in the omnibus Cabinet paper seeking policy approval for items for the 2026–27 Annual Rates Bill.

Recommendations

We recommend that you:

1 **Agree** for remedial amendments agreed to in this report to be included in the 2026–27 Annual Rates Bill.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

2 **Agree** that, unless otherwise specified, the amendments would take effect on the day after the date of Royal assent of the Bill.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Black hole expenditure from abandoned software development

3 **Agree** to amend the existing provision (providing relief for the capital costs of software projects which are abandoned before completion) to allow it to also apply to software configuration, customisation and integration projects, or similar, which are abandoned but which if successful would have resulted in a depreciable right to use the copyright in third party software.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

4 **Note** the following changes in tax revenue as a result of recommendation 3 above with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(0.210)	(0.840)	(0.840)	(0.840)
Total Operating	**0.210**	**0.840**	**0.840**	**0.840**

5 **Agree** that the reduction in tax revenue noted above in recommendation 4 be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Debt-to-equity swap – financial arrangements rules

6 **Agree** to amend the integrity measures in the financial arrangements rules so they apply only where there is an economic remission of debt and therefore exclude genuine equity-funded recapitalisations where third-party debt is repaid in full.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

7 **Agree** that this amendment should be retrospective to 1 April 2023, when the original rule was introduced.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

8 **Note** the following changes in tax revenue as a result of recommendation 6 above with a corresponding impact on the operating balance and net core Crown debt:

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

9 **Agree** that the reduction in tax revenue noted above in recommendation 8 be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Incorporated Societies Act 2022: consequential changes to tax legislation (aligning distribution requirements)

10 **Agree** to amend the ITA and GST Act to align the distribution requirements for not-for-profit incorporated societies with the Incorporated Societies Act 2022.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

11 **Agree** that this amendment be retrospective to the 2022-23 income year.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

12 **Note** the following changes in tax revenue as a result of recommendation 10 above with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30** **& Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(0.425)	(0.100)	(0.100)	(0.100)
Total Operating	**0.425**	**0.100**	**0.100**	**0.100**

13 **Agree** that the reduction in tax revenue noted above in recommendation 12 be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Aligning cash basis person rules for deceased estates

14 **Agree** to align the cash basis person requirements for deceased estates with that of other taxpayers.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

15 **Note** the following changes in tax revenue as a result of recommendation 14 above with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – other persons	(0.025)	(0.100)	(0.100)	(0.100)
Total Operating	**0.025**	**0.100**	**0.100**	**0.100**

16 **Agree** that the reduction in tax revenue noted above in recommendation 15 be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Incoherence in deduction outcomes between look-through company and limited partnership rules

17 **Agree** to align the look-through company loss limitation rule with the equivalent rule for limited partnerships.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

18 **Agree** to apply this amendment for the 2027–28 and later income years.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

19 **Note** the following changes in tax revenue as a result of recommendation 17 above with a corresponding impact on the operating balance and net core Crown debt:

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

20 **Agree** that the reduction in tax revenue noted above in recommendation 19 be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Extending Investment Boost to aircraft engines

21 **Agree** to extend Investment Boost to aircraft engines.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

22 **Agree** to apply this amendment from the commencement date of Investment Boost (22 May 2025).

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

23 **Note** as aircraft engines currently being ineligible for Investment Boost has not been included in fiscal forecasts, the following forecasting change with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30** **& Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	34.000	14.000	9.000	9.000
Total Operating	**(34.000)**	**(14.000)**	**(9.000)**	**(9.000)**

24 **Note** the following changes in tax revenue as a result of the decision in recommendation 21 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30** **& Outyears**
Crown Revenue and Receipts: Tax Revenue – company tax	(34.000)	(14.000)	(9.000)	(9.000)
Total Operating	**34.000**	**14.000**	**9.000**	**9.000**

25 **Agree** to manage the decrease in tax revenue in recommendation 24 above either:

a Against the fiscal forecasts but not to recognise any immediate impact on allowances (that is, to flow through).

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

OR

b As a pre-commitment against the Budget 27 allowance.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

26 **Agree** to include the proposal to extend Investment Boost to aircraft engines in the upcoming omnibus Cabinet paper seeking policy approval for items to be included in the 2026–27 Annual Rates Bill.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

s 9(2)(a)

Peter Frawley

Policy Lead

Policy | Inland Revenue

15 July 2026

Hon Nicola Willis	Hon Simon Watts
Minister of Finance	**Minister of Revenue**
/ /2026	/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Outcomes from targeted consultation on approved issuer levy

Date	15 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/162

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	23 July 2026
Minister of Revenue	**Agree** to recommendations	23 July 2026

Purpose
This report: • Informs Ministers of the outcome of targeted consultation on potential changes to the approved issuer levy. • Seeks final confirmation from Ministers to include these changes in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Sam Rowe	Policy Lead	s 9(2)(a)	☐
Haydn Clark	Principal Policy Advisor	s 9(2)(a)	✓

Outcomes from targeted consultation on approved issuer levy

Executive summary

1 This report summarises the outcome of targeted consultation on proposed changes to the approved issuer levy (AIL) regime and seeks your approval to include these changes in the 2026–27 Annual Rates Bill.

2 Stakeholders broadly supported the two simplification measures we consulted on: increasing the threshold for the reduced AIL filing frequency and moving people below the threshold from six-monthly to annual filing. We recommend increasing the threshold from $500 to $10,000[1], which would reduce compliance costs for approximately 55% of monthly AIL filers at a one-off fiscal cost of $78,000. We also recommend moving borrowers below the threshold to annual filing, which would further simplify compliance without any revenue impact.

3 Stakeholder views were mixed on the proposed integrity measure allowing Inland Revenue to deregister securities for serious non-compliance. Some stakeholders were concerned about the possible commercial impacts and the effect on lenders. To address these concerns, we recommend targeting the measure by applying it only to securities registered on or after 1 October 2027 and by incorporating safeguards into the legislation, including a clear trigger, a notification requirement, and a six-month opportunity to remedy non-compliance. We also recommend allowing securities to be registered where the issues causing the non-compliance have been remedied and the taxpayer is likely to be compliant in the future. The deregistration power will strengthen the integrity of the regime and produce a forecast revenue gain of $200,000 per annum.

4 We also recommend replacing the Stamp and Cheque Duties Act 1971 with a new Approved Issuer Levy Act to improve accessibility and transparency of the regime for ordinary taxpayers.

Background

5 The AIL regime provides New Zealand-resident borrowers with an alternative levy they can pay on loans from non-resident lenders instead of deducting non-resident withholding tax (NRWT) at 10% or 15% from the relevant interest payments. The levy is 2% of the interest payable to the lender. The regime is intended to lower the cost of capital for New Zealand borrowers who would otherwise bear the tax burden of NRWT due to gross-up clauses in loan agreements (because the non-resident lender will require a certain after-tax return). Provided the parties are not associated, a New Zealand borrower can generally apply to Inland Revenue to be an approved issuer and register the relevant security to pay the 2% levy.

6 The Tax and Social Policy Work Programme includes an item to simplify AIL. We provided you with initial advice (IR2026/048 refers) and sought to undertake targeted consultation on two measures to simplify AIL reporting, alongside an additional measure to increase integrity within the AIL regime. Those measures were:

- increasing the AIL filing threshold (currently $500) below which taxpayers can file less frequently than the standard monthly requirement
- moving from six-monthly filing to annual filing for borrowers who fall below the above filing threshold, and
- allowing registered securities to be deregistered if a borrower's approved issuer status has been revoked.

[1] This equates to $500,000 of interest.

Stakeholder views on the three AIL measures

7 We received submissions from the Accountants and Tax Agents Institute of New Zealand (ATAINZ), Chartered Accountants Australia and New Zealand (CA ANZ), Corporate Taxpayers Group (CTG), CPA Australia, Deloitte, KPMG, New Zealand Banking Association (NZBA), New Zealand Law Society (NZLS) and PwC.

8 Stakeholders were broadly supportive of the simplification changes but had mixed perspectives on the integrity change. Their views on each change are covered below. Other changes suggested by submitters are covered in "Additional measures put forward by submitters".

Increasing filing threshold

9 AIL borrowers expecting to pay less than $500 of AIL per year can file on a six-monthly basis instead of the standard monthly basis. The $500 threshold can impose disproportionate reporting requirements given the amount of tax at stake, requiring borrowers to file monthly AIL returns for less than $50 of AIL each time. This is a particular issue for migrants, who may, for example, still have a mortgage from the country they migrated from when they arrive here.

10 We consulted on increasing the $500 filing threshold to $1,000, $2,000 or $5,000. Each increase would allow additional borrowers to file on a reduced basis.

11 Stakeholders supported this option as a way to simplify the AIL regime and reduce compliance costs. They submitted that the benefits of this change include:

- fewer administrative touchpoints with Inland Revenue for some AIL borrowers, making it easier for those borrowers to be compliant
- lower costs for some borrowers because they will be allowed to prepare fewer AIL returns, and
- presumably reducing administrative costs for Inland Revenue, allowing for better focus on higher-risk cases.

12 CPA Australia, ATAINZ, CA ANZ and KPMG preferred increasing the threshold to $5,000. PwC favoured a $5,000 threshold of the options presented, but preferred either increasing the threshold to $10,000 or aligning it with the restricted transfer pricing threshold. ATAINZ also suggested periodically reviewing or indexing the threshold, to ensure it is kept up to date.

Officials' view

13 The below table shows the effect of increasing the threshold to $1,000, $2,000, $5,000 and $10,000.

Threshold increase	Estimated number of filers impacted	One off Fiscal cost
Increase to $1,000	56 additional filers (around 5%) can file six-monthly	$6,000
Increase to $2,000	191 additional filers (around 17%) can file six-monthly	$19,000
Increase to $5,000	395 additional filers (around 34%) can file six-monthly	$49,000
Increase to $10,000	640 additional filers (around 55%) can file six-monthly	$78,000

14 On balance officials recommend increasing the threshold to $10,000, in line with PwC's submission. This would reduce compliance costs for around 55% of AIL filers who are required to file on a monthly basis while preserving Inland Revenue's enhanced visibility over larger AIL liabilities for integrity purposes.

15 Increasing the threshold to $10,000 instead of $5,000 would reduce compliance costs for a further 21% of filers (245 in number) at a 60% additional fiscal cost ($29,000) and a total one off fiscal cost of $78,000. Given the low fiscal cost of the increased

threshold, we consider increasing the threshold to $10,000 to be preferable and note it will provide some future proofing against inflation in the medium term.

16 We do not recommend indexing the threshold or aligning it with the restricted transfer pricing threshold of $10 million of debt because this would result in substantial misalignment with the NRWT tax rules, and we are not currently proposing any changes to NRWT.

Shifting from six-monthly to annual filing

17 Stakeholders supported shifting to annual filing for borrowers who fall below the filing threshold. They submitted this would simplify compliance for borrowers by alleviating the administrative burden on businesses and aligning the timing of AIL filing with borrowers' standard income tax return process.

18 CPA Australia and CA ANZ acknowledged there are some risks, such as delaying the identification of errors and omissions while registering for or paying AIL. However, stakeholders considered these risks to be low and either outweighed by the compliance simplification or mitigated by Inland Revenue's broader compliance work.

Officials' view

19 Officials agree that these risks are low (particularly given this change is only targeted at borrowers with low AIL liabilities) and agree that the risks outlined by stakeholders are outweighed by the simplification benefits to borrowers. Given this change only impacts the timing in which AIL is paid within the income year, it has no fiscal impact.

Deregistering securities

20 We also consulted on an option to allow Inland Revenue to deregister securities for non-compliant borrowers who have had their AIL status revoked. Currently, Inland Revenue can deregister a borrower for AIL purposes, but that borrower can continue to withhold AIL on all previously registered securities. Following the proposed change, non-compliant borrowers would no longer be able to withhold AIL from any securities following their deregistration, including previously registered ones. They would be required to withhold NRWT instead. As part of this change, we also consulted on whether the meaning of "serious default or neglect" for the purposes of revoking AIL status should be clarified.

21 Stakeholders had mixed responses. CPA Australia, ATAINZ and Deloitte supported allowing Inland Revenue to deregister securities if it was also clarified how and when this power would be used. CA ANZ, CTG, NZLS and NZBA did not support this change. Their concerns largely focus on how the overseas lender could be negatively impacted by the borrower's non-compliance. PwC and KPMG did not support or oppose the proposal. However, PwC did note that this proposal should have some positive compliance benefits.

22 All stakeholders supported additional guidance on the meaning of "serious default or neglect" and the process behind revoking or reapplying for AIL status.

23 Stakeholders who **supported** this change as an integrity measure noted that:

- there is no incentive to remain compliant after registering a security[2] (CPA Australia), whereas this change would incentivise borrowers to comply with their obligations (ATAINZ)
- under the current settings, the Government effectively subsidises any non-compliance by creating a commercial advantage over compliant businesses (CPA Australia), and
- this change would create an effective enforcement tool (ATAINZ).

[2] Although we note that interest and penalties are payable in respect of unpaid AIL

- However, stakeholders submitted that this power should be progressed alongside statutory safeguards to ensure appropriate use. They suggested providing the borrower with a notification, a window to remedy, and the right to challenge/review the decision. Stakeholders also submitted that deregistration should be reserved for "significant" non-compliance that is prolonged, repeated and deliberate. ATAINZ suggested a grace period for historic non-compliance to encourage borrowers to remedy any faults before being deregistered, as well as a significant implementation period to avoid creating a large administrative burden on borrowers/lenders when preparing for this change.

24 Stakeholders who **did not support** this change raised the following concerns:

- Imposing NRWT would result in a 400% to 650% penalty for the borrower's non-compliance. This could ultimately be borne by the lender if the loan agreement does not contain appropriate gross-up clauses and Inland Revenue cannot obtain the NRWT from the borrower (because Inland Revenue can collect unpaid NRWT from the recipient of the interest), which may undermine the integrity of the tax system.
- The change could create commercial uncertainty by triggering cashflow issues, disrupting existing commercial arrangements, or causing unintended consequences such as being applied to situations of minor and technical compliance failures.
- Financial institutions may be hesitant to lend into New Zealand.
- There is no evidence that the status quo is undermining the integrity of the tax system, and the change is inconsistent with tax policy principles favouring the prospective application for adverse changes.
- There are existing enforcement mechanisms to encourage compliance, such as shortfall penalties and use of money interest.

Officials' view

25 Officials believe many of these concerns can be addressed by grandparenting existing loans and delaying the application date, similar to what was suggested by ATAINZ. This would mean that securities currently registered for AIL would not be deregistered.

26 We also agree with stakeholders that creating a statutory process for using this power is desirable. We also believe it is beneficial to create a bespoke statutory trigger for deregistering securities, separate from the poor compliance condition to revoke AIL status. A separate trigger will provide customers with more certainty about when deregistration of a security might occur, allowing them to avert deregistration by rectifying any non-compliance and helping ensure the power is used appropriately (i.e reserved for instances of serious non-compliance).

27 Regarding stakeholders' views on this change undermining tax system integrity, officials believe it is an appropriate measure in response to AIL non-compliance and should increase the integrity of the regime. While Inland Revenue can apply penalties and interest to unpaid AIL, these mechanisms do not address the unfair benefit non-compliant borrowers would continue to have over compliant borrowers if a security cannot be deregistered for AIL. Further, under current law NRWT already applies, and it can be collected from lenders, when AIL is not paid by a borrower. The proposed deregistration power will simply clarify the existing consequences of non-compliance rather than establish new ones.

Officials' recommended option

28 Officials' preferred approach is to only allow Inland Revenue to deregister securities that are registered on or after 1 October 2027. This would grandparent existing registered securities and give lenders a period of time after enactment to appropriately provide for the change in their lending documents, mitigating concerns raised about the potential commercial impacts.

29 We further think that amending the law to include the following criteria for deregistering a specific security will provide sufficient clarity and guardrails for when and how this power will be used:

- A borrower's total AIL liability for the relevant security for the previous two tax years is outstanding as at 21 April of the following year.
- Notification has been provided to the borrower detailing the amount outstanding and Inland Revenue's intention to deregister the security.
- Notification of the above has also been provided to the lender.
- A period of six months has passed since the notifications.
- At the time of deregistration, part of the outstanding amount remains outstanding and is either not subject to an instalment arrangement or is subject to an arrangement that has not been complied with.

30 This approach would give the borrower a six-month window to rectify their non-compliance before the power could be exercised.

31 We think that notifying the lender is appropriate because they will have a secondary NRWT liability due to the borrower's non-compliance with their AIL obligations.

32 We see two important benefits from this power. First, it would be available as a tool to address actual cases of serious non-compliance. Second, the general presence and availability of this power will incentivise all borrowers to continue to comply with their AIL obligations regardless of the frequency in which the power is used. We also think that a security should be able to be re-registered at a later time if the Commissioner considers that the issues leading to non-compliance have been resolved and the borrower is likely to be compliant in the future.

33 Deregistering securities has a notional $200,000 increase in revenue per annum.

Additional measures put forward by stakeholders

34 In addition to their responses on the proposed changes, stakeholders also put forward the following additional measures for consideration:

- Implementing a de minimis threshold for AIL registration for individuals moving to New Zealand who have mortgages overseas (CPA Australia).
- Clarifying the importance of both obtaining AIL status and registering the relevant security when applying the AIL rules (including paying AIL) (CA ANZ).
- Moving to a self-assessment model whereby AIL is treated like other tax return obligations and borrowers are not required to apply for AIL status or register securities (PwC).
- Allowing NRWT to be refunded to lenders who have had NRWT deducted when they did not know AIL was an option (KPMG).

35 Officials consider these suggestions to be out of scope of the proposals consulted on, however, we are happy to provide further advice on them if you wish.

A new AIL Act

36 Although not consulted on, officials also recommend creating a new AIL Act, which would help improve the transparency and accessibility of the AIL rules for taxpayers.

37 The AIL rules are currently mainly contained in the Stamp and Cheque Duties Act 1971 (SCDA). They are now the only operative part of the SCDA; all other regimes (including stamp duty and cheque duty) previously contained in that Act have been repealed.

38 We note that the AIL rules provide for the payment of a levy instead of income tax and were legislated separately from the Income Tax Act 2007 to remove the possibility of the levy being claimed as a foreign tax credit by the lender. This was to cater for the case where a non-resident lender could choose to pay NRWT on a higher interest return (because it was not subject to AIL) if they could fully use the related foreign tax credit –

this could result in more total tax for New Zealand. We have recommended creating a new Act rather than updating the Income Tax Act 2007 for these reasons.

39 We have received advice from the House Office that this change could be made as part of the 2026-27 Annual Rates Bill given that the new bill would have a similar legislative effect to the current provisions. This would not have a fiscal impact. We note that this change is not essential, and continuing on with the existing SCDA is an option if Ministers prefer.

Financials for officials' preferred package

40 Officials' preferred package has an overall positive revenue gain across the forecast period of approximately $472,000 and a gain of $200,000 for outyears.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Approved Issuer Levy (filing frequency changes)	-	(0.078)	-	-	-
Tax Revenue – Approved Issuer Levy (security deregistration)	-	-	0.150	0.200	0.200
Total Operating	**-**	**0.078**	**(0.150)**	**(0.200)**	**(0.200)**

41 As previously agreed by the Minister of Revenue (IR2026/048 refers), we recommend that the fiscal impact of these AIL changes is managed against the Tax Policy Scorecard. The scorecard balance is currently $57.289 million to the end of June 2030.

42 Should Ministers wish to only proceed with the filing changes, the package would have a one-off decrease in revenue of $78,000 in 2026–27. Consistent with Inland Revenue and Treasury's recommendation in the Tax Policy Scorecard report (T2026/261; IR2026/075 refers), we recommend that this decrease in revenue is also managed against the Scorecard.

Administrative impact

43 Inland Revenue can deliver the proposed changes in this report based on our current work programme, and on what we understand the Government intends for us to deliver in the future. However, the changes reduce Inland Revenue's change capacity, and the resourcing of these policy items should be considered when thinking about Inland Revenue's ability to deliver future initiatives.

Consultation

44 The Treasury was informed of this report.

Next steps

45 We recommend the proposed changes are made in the 2026–27 Annual Rates Bill (to be introduced in September 2026) and are managed against the Scorecard as previously noted. Subject to Ministers' decisions, we will include recommendations in an omnibus Cabinet paper seeking policy approval for various matters to be included in the 2026-27 Annual Rates Bill.

Recommendations

We recommend you:

1 **Agree** to increase the approved issuer levy filing threshold (currently $500) to $10,000.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

2 **Agree** to change to annual filing for borrowers below the monthly filing threshold.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

3 **Agree** that the approved issuer levy filing changes in recommendations 1 and 2 will take effect from 1 April 2027.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

4 **Agree** that Inland Revenue can deregister securities if the following conditions have been met:

- a borrower's total AIL liability for the previous two tax years is outstanding as at 21 April of the following year
- notification has been provided to the borrower detailing the amount outstanding and Inland Revenue's intention to deregister
- notification of the above has also been provided to the lender
- six months have passed since notification, and
- at the time of deregistration, part of the outstanding amount remains outstanding and is either not subject to an instalment arrangement or is subject to an arrangement that has not been complied with.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

5 **Agree** that a security can be re-registered if the Commissioner considers that the issues leading to non-compliance have been resolved and the borrower is likely to be compliant in the future.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

6 **Agree** that the changes related to the deregistration of securities registered for approved issuer levy in recommendations 4 and 5 will take effect for securities registered from 1 October 2027.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

7 **Note** the following changes as a result of the decisions in recommendations 1 and 4 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Approved Issuer Levy (filing frequency changes)	-	(0.078)	-	-	-
Tax Revenue – Approved Issuer Levy (security deregistration)	-	-	0.150	0.200	0.200
Total Operating	**-**	**0.078**	**(0.150)**	**(0.200)**	**(0.200)**

8 **Agree** that the increase in Crown tax revenue in recommendation 7 above be managed against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

9 **Agree** to implement the changes in the 2026–27 Annual Rates Bill.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

10 **Agree** to replace the Stamp and Cheque Duties Act 1971 with a new Approved Issuer Levy Act.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

s 9(2)(a)

Sam Rowe

Policy Lead

Policy | Inland Revenue

15 July 2026

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Land improvements – recommendations following targeted consultation

Date	15 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/187
Bill name	2026–27 Annual Rates Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	28 July 2026
Minister of Revenue	**Agree** to recommendations	28 July 2026

Purpose
This report summarises the outcome of targeted consultation on the officials' issues paper "Clarifying tax treatment of land improvements impacted by flooding and erosion" and seeks your agreement to officials' recommended next steps and legislative priorities arising from that consultation.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Geoff Leggett	Principal Policy Advisor	s 9(2)(a)	✓
Yan Wu	Policy Advisor	s 9(2)(a)	☐

Land improvements – recommendations following targeted consultation

Executive summary

1 This report provides you with a summary of the feedback received on our issues paper "Clarifying tax treatment of land improvements[1] impacted by flooding and erosion". It also provides officials' recommended next steps.

2 Feedback was sought on four proposals:

Not in scope

- To ensure the residual tax book value of land improvements on leased land is fully deductible when the lessee ceases business, to avoid "black hole expenditure".
- To improve the drafting and technical references in the relevant tax provisions.

Not in scope

6 There was broad support for rectifying situations when the residual tax book value of land improvements on leased land was neither claimable by the lessee nor the lessor. There was also broad support for simplifying the drafting.

Summary of officials' recommendations

7 In light of this feedback, officials recommend:

- Including the changes to land improvements on leased land and the drafting improvements in the 2026–27 Annual Rates Bill due for introduction in September.
- Continuing discussions with submitters on the more major proposals so that any such changes can potentially be included in a future taxation Bill in 2027.

[1] Includes stop-banks, earth dams, access tracks, powerlines on farmland and trees and vines and their support structures.

Background

8 Expenditure on land improvements is generally deducted over the economic life of the improvement, reflecting the expected decline in the income stream it generates. Since 1991, however, specific rules have also allowed expenditure on repairing flood or erosion damage to farmland to be deducted in the year it is incurred, to reduce uncertainty about whether work is properly characterised as a repair or a replacement.

9 Later changes in 2004 clarified the treatment of horticultural land improvements by allowing a small proportion of annual replacement expenditure for most fruit trees and vines (referred to as listed horticultural plants) to be treated as immediately deductible. The maximum thresholds were set at 7.5% per annum of the total area under planting, and 15% over three years. Winegrape vines were excluded from the changes at the request of the Winegrowers Council (now part of New Zealand Winegrowers).

10 Not in scope

11 Officials initially reported on the issue in August 2024 (IR2024/310). You then agreed that policy work should be undertaken, and Inland Revenue's interpretative work was put on hold. The issue was formally added to the Tax and Social Policy Work Programme in late 2025. Officials then reported again earlier this year (see IR2026/009 and IR2026/079) seeking agreement to release an issues paper for targeted consultation. The subsequent consultation focused on the four proposals referred to above seeking feedback on their practical impacts, compliance costs, improved certainty, fairness, and consistency with core tax policy principles.

Summary of submissions

Not in scope

Not in scope

Black hole expenditure

23 There was broad support for legislative change to prevent black hole expenditure when a lessee ceases business, but there were differing views on what needed to be resolved, with several submitters considering the issues paper proposal did not go far enough. For example, several submitters considered the solution should extend beyond emergency event scenarios proposed in the issues paper to ordinary lease expiry or non-renewal situations, with a rule based on the party who bears the economic cost of the residual tax book value of the land improvements.

24 Federated Farmers supported the intent of the proposal but suggested the rules needed to work for informal and short-term leases, and when no subsequent user continues the business.

25 New Zealand Apples & Pears and CA ANZ both pointed to inconsistencies between the wording of the provisions relating to horticultural plants and those relating to other land improvements. CA ANZ supported focusing on emergency events or circumstances beyond a taxpayer's control.

Drafting and technical changes

26 Feedback on drafting simplification was generally supportive. There was a general call for clarifying terms such as "plot" and "planting" and for more guidance on what qualifies as planting costs.

27 PwC also suggested simplifying the provisions relating to using the safe harbour rule over several years, including when the taxpayer acquires additional plantings. It suggested allowing taxpayers to elect to treat all listed horticultural plants as one planting in such circumstances.

28 Aquaculture New Zealand supported the suggested technical aquaculture drafting updates, particularly the removal of outdated terminology but also suggested that land-based aquaculture should be treated more consistently with other primary production sectors impacted by flooding or erosion.

Officials' comments

Not in scope

Not in scope

Not in scope [redacted]

37 In terms of land improvements on leased land, officials suggest that some changes can be included in the 2026–27 Annual Rates Bill to reduce the "black hole" situations when neither the lessee nor the lessor get to deduct the residual tax book value of the land improvements on the leased land when the lessee ceases business. The changes would be to ensure that the person who has borne the economic cost gets the deduction.

38 Similarly, various more remedial drafting issues can be included in the 2026–27 Annual Rates Bill.

Officials' recommendations

39 Officials consider that consultation has confirmed a need for legislative clarification but, because of the variety of views and practices, there is a need for further discussion with key stakeholders to establish whether the major suggested changes should be refined before making final policy recommendations and decisions.

40 We therefore recommend deferring such changes until a taxation Bill in 2027. We have included the latest revenue implications of potential major changes later in this report for your information.

41 Not in scope [redacted]

42 Not in scope [redacted]

43 In terms of the provisions applying to improvements on leased land, we recommend an amendment in the upcoming 2026–27 Annual Rates Bill to enable a lessee who ceases business to deduct the residual tax book value of their land improvements on the leased land in the year they cease business in the following circumstances:

- The land improvement has been destroyed by circumstances beyond the lessee's control, such as a natural disaster.
- Additionally, in the case of horticultural plants[2] if much of the area planted has been destroyed, this would include the tax book value of the remaining plants when it is no longer economic to use those remaining plants to generate income. This is provided the lessor agrees in writing that they will not use those remaining plants to generate income. The lessor or a subsequent lessee would not then be able to claim a deduction for the residual tax book value.

44 Some submitters suggested a wider change to allow a deduction for the residual tax book value in any situation when the lessee has ceased business and the lessor has confirmed they will not be using the improvement. While we acknowledge there is an economic cost to the lessee, that cost is capital in nature and any gain would conversely not be taxable. We are, therefore, not recommending such a wide change at this stage.

45 Various remedial drafting and technical fixes identified in the issues paper and in submissions should proceed in the upcoming 2026–27 Annual Rates Bill. This includes

[2] This would not include wine grapevines given discussions with winegrowers are on-going over whether the tax options available to other horticulturalists in respect of replacement plantings should also apply to winegrowers.

clarifying that the removal costs of destroyed listed horticultural plants are immediately deductible to align them with the removal costs of other land improvements.

Financial implications of options

Tax Revenue impact

Not in scope

46 Not in scope

47 Not in scope

Not in scope

Not in scope

48 Not in scope

Not in scope

Not in scope

49 Not in scope

Fiscal impact of changes to tax rules for land improvements on leased land, by June year ($million):

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

50 This is the estimated cost of the policy in a "normal" year. The cost in a year when there is a major event may be larger. However, we cannot predict such events, and established practice is to not book any fiscal impact for one-off gains or losses resulting from significant natural events. The estimate relies heavily on the assumptions for which limited evidential support exists. Consequently, our confidence bounds around this costing are wide. We are recommending that this cost be charged against the Tax Policy Scorecard which currently has a balance of $57.289 million.

Administrative impact

51 The administration implications of the various options are minor and absorbable within departmental baselines.

52 Software providers will be consulted early to ensure there is enough time to make any accounting package changes required by the proposed amendments. This may affect the implementation date because it is preferable for any software changes to apply from the start of an income year rather than part way through the year.

Consultation

53 The Treasury has been consulted on this report and agrees with the recommendations. The Ministry for Primary Industries was consulted on the issues paper.

Next steps

54 In light of the feedback, officials recommend including the changes to the leased land rules and remedial drafting improvements in the 2026–27 Annual Rates Bill.

55 Subject to your agreement, officials will undertake further discussions with stakeholders on the more major proposals so that changes can be included in a taxation Bill in 2027.

56 We recommend that a copy of this report be referred to the Minister of Agriculture and the Associate Minister of Agriculture (Horticulture).

Recommendations

We recommend you:

1 **Agree** to defer inclusion of the changes relating to Not in scope to a taxation Bill in 2027 to enable officials to undertake further discussions with stakeholders in the farming and horticultural sectors on those proposals (officials' recommendation).

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

Not in scope

Not in scope

4 If recommendation 1 is not agreed, **agree** to discuss with officials your preferred approach and how and when you would want any changes to be funded.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

5 **Agree** to allow lessees of farmland to deduct the residual tax book value of their land improvements to the leased land in the year in which they cease business in the following circumstances:

a The land improvements have been destroyed by circumstances beyond the lessee's control, such as a natural disaster.

b Additionally, in the case of listed horticultural plants if much of the area planted has been destroyed, the tax book value of the remaining plants when it is no longer economic to use those remaining plants to derive income and the lessor has confirmed they will not use those remaining plants to derive income.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

6 **Note** the following changes in tax revenue as a result of recommendation 5 above with a corresponding impact on the operating balance and net core Crown debt.

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

7 If recommendation 5 is agreed, **agree** that the reduction in tax revenue noted above in recommendation 6 be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

8 **Agree** to minor drafting and technical changes to the land improvement provisions.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

9 If any of recommendations 5 and 8 are agreed, **agree** to include the changes in 2026–27 Annual Rates Bill.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

10 **Refer** a copy of this report to the Minister of Agriculture and the Associate Minister of Agriculture (Horticulture).

Refer - yes / no — Refer - yes / no

Minister of Finance — *Minister of Revenue*

s 9(2)(a)

Geoffrey Leggett

Principal Policy Advisor

Policy | Inland Revenue

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Outcome of consultation on regulatory framework for intermediaries

Date	16 July 2026	**Priority**	High
Security level		**Report number**	IR2026/198
Bill name	2026–27 Annual Rates Bill		

Action sought		**Deadline**
Minister of Revenue	Agree to recommended improvements to the regulatory framework for intermediaries	23 July 2026

Purpose
This report presents the outcome of public consultation on the regulatory framework for intermediaries and seeks decisions from the Minister by 23 July 2026 on the seven proposals consulted on.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Carolyn Elliott	Policy Lead	s 9(2)(a)	☐
Patrick Sawyer	Senior Policy Advisor	s 9(2)(a)	✓

Outcome of consultation on regulatory framework for intermediaries

Executive summary

1 This report briefs you on the outcome of public consultation on the regulatory framework for intermediaries (RFI) and seeks approval for our policy recommendations.

2 The intermediaries project has examined whether legislative changes to the RFI could enable digital innovation, strengthen the integrity of the tax system, and reduce friction points for intermediaries, taxpayers, and Inland Revenue.

3 After a round of targeted consultation in 2025, you approved the release of an issues paper containing seven proposals. Public consultation on the proposals was undertaken from 1 May to 12 June 2026.

4 During public consultation, most submitters supported the direction taken in the issues paper and viewed the proposals, taken together, as an improvement to the RFI. The main concerns related to the data consumers category, replacing the 10-client rule with an approved body membership rule, and the tax crediting agent model. Our recommendations below have considered the concerns of submitters and stakeholders.

Officials' recommended options

5 Officials recommend that five proposals proceed for inclusion in the upcoming 2026–27 Annual Rates Bill, with an application date of 1 April 2027. Our recommendations are to:

- Recognise that digital services providers (DSPs) are a form of intermediary to reflect current practice.
- Clarify that DSPs can act as data consumers.
- Ensure consistency across intermediary categories by clarifying that PAYE and tax pooling categories should not adversely affect the integrity of the tax system.
- Clarify the Commissioner's discretion to disallow nominated persons when there is an integrity risk.
- Create a bookkeepers' category to reflect current practice.

6 Officials recommend that further work is undertaken with stakeholders regarding alternative changes to the 10-client rule and a tax crediting agent model.

Next steps

7 If you agree to the recommendations, they will proceed for inclusion in the 2026–27 Annual Rates Bill and be introduced in September 2026. We recommend further work on a tax crediting agent model and alternative changes to the 10-client rule to address concerns raised by stakeholders. These proposals could be progressed through legislation in 2027.

Background

Context

8 Tax intermediaries sit between Inland Revenue and the taxpayer, reducing compliance costs for taxpayers and supporting Inland Revenue with compliance and administrative tasks. The RFI refers to the rules applying to tax intermediaries in the Tax Administration Act 1994 (TAA).

9 Intermediaries consist of many types of entities. Traditionally, tax agents have been the main intermediary, assisting taxpayers in determining tax liabilities and filing income returns. However, digital innovation has shifted the services and business models away from Inland Revenue's traditional understanding.

10 The RFI project originated in 2021 with the issues paper "Tax administration in a digital world". The paper noted that with increasing digitalisation, the use of intermediaries should be encouraged.

11 The RFI project examined whether certain legislative changes would better facilitate the participation and development of intermediaries in the tax system. The project has explored options to enable digital innovation, strengthen the integrity of the tax system, and reduce friction points for intermediaries. You approved an issues paper (IR2025/463 refers) for public consultation, which was released on 1 May 2026. Submissions closed on 12 June 2026.

Problem definition

12 The regulatory environment for intermediaries is shaped by a combination of legislation, system design, and operational policies and practices. Looking at the interaction between these three elements has identified issues within the legislation.

13 Although DSPs operate within the tax system, they are not described in the TAA as a separate intermediary category. Internal Inland Revenue systems and processes have been developed in line with the existing legislation, which no longer reflects all business models and services. Consequently, Inland Revenue's internal processes have not been fully responsive to digital developments in the market.

14 The current categorisation of intermediaries in the TAA can be a barrier for intermediaries or force new entrants into inappropriate categories. For example, it has led some digital intermediaries to register or seek registration as tax agents because of the access to taxpayer data this enables, even though their business model differs from the traditional tax agent model.

15 Some standards within the legislation can also be inadequate for supporting the integrity of the tax system. Different categories have differing and inconsistent obligations and some integrity obligations are not always the most appropriate for the intermediary type accountable to them.

16 Some taxpayers view the provisional tax regime as complex or poorly aligned with cash flow. There is a possibility for DSPs to offer more flexible alternatives, by allowing certain in-year tax payments to be recognised as tax credits.

Options to address problems

17 We consulted on seven proposals to address these problems:

(1) Clarify that DSPs, whose services support users to fulfil tax obligations and access social policy entitlements, are a form of intermediary within the TAA by establishing a new intermediary category.

(2) Clarify that DSPs can act as data consumers by establishing a new intermediary category within the TAA for DSPs that (with appropriate customer consent) access data from Inland Revenue.

(3) Add the requirement to not adversely affect the integrity of the tax system for PAYE and tax pooling categories. This would align them with the other intermediaries categories in the TAA.

(4) Improve consistency by clarifying when the Commissioner has the discretion to disallow nominated persons when the integrity of the tax system is at risk.

(5) Create a bookkeepers category within the TAA to reflect practice and the important role they play in the tax system.

(6) Replace the 10-client rule with an approved body membership rule for the tax agents and bookkeepers intermediaries categories.

(7) Establish a tax crediting agent model that could be used by taxpayers who receive income that is not subject to withholding tax.

Feedback and recommendations

Submissions on proposals

18 We received 61 submissions in total (from 16 bookkeepers, 14 tax agents, 10 representative organisations, 9 accounting/consulting firms, 9 DSPs, and 3 others).

(1) Recognise that DSPs are a form of intermediary

19 The issues paper proposed to clarify that DSPs are a form of intermediaries under the TAA by establishing a new intermediary category. This change would better reflect current practice. DSPs are digital intermediaries whose services connect to Inland Revenue systems to support customers fulfil tax obligations and access social policy entitlements.

Feedback

20 We received 29 submissions on establishing a DSPs category, with 27 supporting the proposal. Submitters agreed that currently DSPs can be forced into intermediary categories that do not match their operating model, that DSPs often operate through Inland Revenue's IT systems without a clear legislative basis, and that DSPs do not face the same integrity requirements as other intermediaries.

21 The issues paper asked whether the legislation should create one broad DSP category or separate categories for different types of DSP services. Most submitters preferred one broad category, with technical standards set by the Commissioner and any service-specific requirements managed through Inland Revenue's terms of use. Submitters noted that the line between DSPs providing software and DSPs providing tax advice is already blurred, making separate categories difficult to apply. They also supported automatically moving existing DSPs into the new category so they would not need to reapply to have access to Inland Revenues IT systems.

22 Some submitters raised concerns about a single DSP category. ATAINZ said this would only be acceptable if DSPs performing tax agent-like functions faced equivalent obligations. A minority preferred separate categories based on services provided, arguing this would better address tax advice risks, support innovation, and focus on the role performed rather than the business model.

23 The issues paper also proposed a net-cost-to-tax-system test. This would allow Inland Revenue to decline onboarding a DSP if doing so would create excessive administrative costs. Some submitters said the test should focus on costs and benefits for the wider tax system, not just Inland Revenue. A few suggested a user-pays model, under which Inland Revenue could charge businesses for onboarding if their model created significant administrative costs.

Recommendations

24 We recommend that a DSPs category be added to the intermediary section of the TAA, clarifying that DSPs are a form of intermediary. This would provide a legislative basis for DSPs currently accessing Inland Revenue's IT services, as well as ensure they face integrity requirements consistent with other intermediary categories. It would also ensure that DSPs who want access as an intermediary can enter the system. Currently, some have to enter as a tax agent while others are denied access, causing operational inconsistencies due to incomplete legislation.

25 We recommend the DSPs category be broad and not define the types of services provided. The ability to impose different obligations based on differing services would be delegated to the Commissioner. This would ensure that the category is flexible enough to facilitate digital innovation and future business models.

26 Overall, there would be a balance between regulation specified in legislation and delegated to the Commissioner. We anticipate legislation would include a requirement to not adversely affect the integrity of the tax system, confirmation of the right of the Commissioner to enter into terms of use with the intermediary, requirements on the

intermediary if they provide tax advice on tax liabilities or handle taxpayer money, and a test that admitting the intermediary would not cause net costs to the tax system. The legislation would formalise existing processes while introducing a requirement for regular key office holder checks and integrity monitoring, consistent with other intermediary categories.

27 For DSPs that provide tax advice, or handle taxpayer money, the terms of use would specify which provisions from the legislation apply. We also recommend that current DSPs automatically be included in the new category. This would ensure duplicate entry processes are not enforced.

(2) Clarify that DSPs can act as data consumers

28 The issues paper proposed that the role of data consumers be clarified and formalised with an intermediary category. Data consumers are DSPs that, with customer consent, access data from Inland Revenue without sending data back to Inland Revenue.

Feedback

29 We received 30 submissions discussing the data consumers proposals. Where discussed, submitters supported allowing DSPs to solely receive data without having to send data to Inland Revenue. These submitters agreed that facilitating this DSP model would improve access to data and could reduce costs for businesses and individuals. Some DSPs noted that they already acted in this way as data consumers, and that the data consumers category would give them a clearer legislative basis.

30 However, most submissions focused more on the potential for a consumer data right arrangement, under which third parties could access taxpayer data more broadly for non-tax or social policy purposes if they had taxpayer consent.

31 Submitters were mostly supportive of a future customer data right arrangement, but raised concerns with the safeguards required. Many argued that consent would need to be explicit, one-off or timebound, and revocable, and that sufficient privacy and security protections would be necessary. A minority were opposed, concerned that even with consent models, access to data for non-tax and social policy posed significant risks to meaningful consent and the integrity of the tax system.

32 Some submitters raised concerns on how this proposal may impact Māori groups and Māori data governance. While these submitters generally supported the data consumers proposal, they believed further consultation with Māori was necessary. For example, s 9(2)(ba)(i) conditionally supported the data consumers category, only if further meaningful engagement with Māori occurred before the proposal is finalised.

Recommendations

33 We recommend clarifying that DSPs can act as data consumers but not creating a distinct category for them. While we had initially proposed a data consumers category, we no longer believe this is necessary. Data consumers will be DSPs, so separating the categories might be duplicative without additional benefits. Clarifying that DSPs can act as data consumers would ensure that they can access data from Inland Revenue, with customer consent, without having to supply data back to Inland Revenue.

34 Currently, the legislation is ambiguous as to whether DSPs can do this, resulting in inconsistent access to Inland Revenue's IT services. Explicitly enabling data consumers would give existing DSPs a clearer legislative basis while ensuring Inland Revenue is not inconsistent with who it allows to receive data.

35 Accessing data would only occur with taxpayer consent. Inland Revenue already has mechanisms in place to confirm consent has been granted before sharing the data requested.

36 We also recommend that the category not explicitly prohibit DSPs from receiving data for non-tax and social policy purposes. This would ensure that the legislation is future-proofed if Inland Revenue wanted to engage in a customer data right-type arrangement in the future. However, the onboarding of DSPs would be subject to a net-cost-to-tax-

system test, meaning the Commissioner would have the discretion to deny data consumers if benefits to the tax system cannot be proved. This would ensure the market has appropriate expectations relating to what Inland Revenue is planning to share, which would not include broad data sharing for non-tax and social policy purposes, while allowing the legislation to be flexible enough for any future developments.

(3) Improve consistency by adding requirement to not adversely affect integrity of the tax system for PAYE and tax pooling categories

37 The current legislative provisions require most intermediaries to not adversely affect the integrity of the tax system. However, the PAYE and tax pooling categories are not currently subject to this requirement. To improve consistency across intermediary categories, the issues paper proposed applying the same requirement to PAYE and tax pooling intermediaries.

Feedback

38 We received 23 submissions on this proposal, with the vast majority supporting, including the tax pooling providers Tax Management New Zealand and Tax Traders. Submitters agreed that integrity requirements should be applied consistently across the intermediary categories and that there was no reason why some intermediaries should be held to lower standards. One submitter noted, however, that Inland Revenue had not provided evidence showing why integrity changes were needed for these categories.

Recommendations

39 We recommend that the requirement to not adversely affect the integrity of the tax system be added for PAYE and tax pooling categories. Most intermediary categories currently have this requirement, so adding it for PAYE and tax pooling categories would strengthen the overall regulatory framework by ensuring consistent expectations of intermediaries. Administratively, it would introduce a requirement for key office holder checks and integrity monitoring.

(4) Clarify Commissioner's discretion to disallow nominated persons

40 The Commissioner has discretion under the TAA to disallow nominated persons when there is an integrity risk. However, at times, the discretion is limited to when nominated persons are acting in a fee-earning capacity. Furthermore, the interpretation of this section has caused operational issues. It has enabled customers who have been forcibly removed as a tax agent to become a nominated person for taxpayers, thereby gaining access to their accounts, until a work item is later actioned to remove their access.

Feedback

41 We received 20 submissions on this proposal, with broad support. Submitters agreed that the Commissioner should have sufficient discretion when the integrity of the tax system is at risk. However, submitters frequently noted that any changes to the disallowance of nominated persons necessitated updated guidance, transparent notification to the disallowed, and the ability for the disallowed to challenge a decision. One submitter also noted that we had not provided evidence of the integrity risks with the current disallowance rules.

Recommendations

42 We recommend that the Commissioner's discretion to disallow nominated persons be clarified to ensure it can be used when there is an integrity risk. This would ensure that Inland Revenue can refuse to allow a nominated person if they have been previously disallowed for adversely affecting the integrity of the tax system. It would also ensure that notification of exercising the Commissioner's discretion to disallow a nominated person only needs to be made once and not for every new attempted nomination.

(5) Create a bookkeepers category

43 The issues paper proposed establishing a bookkeepers category distinct from the representatives category, which they are currently included in. The representatives category is a catch-all grouping for any intermediary that acts on their clients' behalf for tax and social policy purposes, when they do not fit in the distinct categories like tax agents. Bookkeepers provide distinct services, recording financial transactions and assisting businesses with GST and PAYE obligations.

Feedback

44 We received 24 submissions on this proposal, with full support from submitters. Many noted that bookkeepers are an integral part of New Zealand's tax system and have key differences to other kinds of representatives. However, many submitters also noted that introducing a bookkeepers category would not be meaningful without increased systems access, although we had not proposed making any such changes at this time.

Recommendations

45 We recommend establishing a new bookkeepers category in the TAA. Currently, although bookkeepers have distinct registration processes, indicators, and removal cases from other representatives in Inland Revenue systems, the legislation does not reflect this and does not differentiate bookkeepers from other representatives. Operational issues have also arisen in the past due to bookkeepers not having a distinct category. For example, during COVID, it was deemed that bookkeepers could not apply for the Resurgence Support Payment on behalf of their clients because they were included in the broad representatives category.

46 Bookkeepers are already treated separately in Inland Revenue systems so this change would not have an administrative impact, but it would ensure the legislation is consistent and reflective of operational practices.

(6) Replace 10-client rule with an approved body membership rule

47 The issues paper proposed replacing the 10-client eligibility requirement for tax agents and bookkeepers with a requirement to be a member of an approved professional body. This was intended to respond to concerns about the quality of services provided by some tax agents, and the view that having 10 clients is not a reliable indicator of quality. Membership of an approved professional body was considered likely to provide stronger assurance of quality.

Feedback

48 We received 46 submissions discussing the approved body membership rule, with approximately half of submitters supporting the proposal. They saw the current 10-client rule as an inadequate indicator of quality and membership of a professional body as an improvement to minimum standards. Supporting submitters commonly mentioned that professional bodies had educational standards, continuing professional development requirements, and disciplinary processes.

49 However, many submitters thought the proposal would be unfair for smaller tax agents and bookkeepers, imposing unnecessary costs and additional regulation, disproportionate to the benefits. These submitters commonly noted that many tax agents had acted ethically within the tax system for years without being a member of a professional body. They also often noted that Inland Revenue had not provided evidence as to why a change was necessary.

50 CA ANZ acknowledged that the 10-client rule is weak and that approved body membership may provide stronger quality assurance. However, they opposed making professional body membership the only pathway to tax agent status, noting this could create barriers to entry for capable non-member practitioners. CA ANZ also noted that Inland Revenue does not have enough information about non-member tax agents to assess whether their services differ from members, and suggested Inland Revenue consider setting equivalent minimum criteria for non-member tax agents.

51 While there were mixed views on the requirement to be a member of an approved body, general support was given to a transitional period of at least three years if the proposal was to proceed. There was also concern around how approved body membership would work for entities, tax lawyers, and corporate group arrangements that are not typically members of approved bodies.

Recommendations

52 We recommend that further consideration be given to alternatives to the 10-client rule and that no change is made at this stage. While officials agree that the 10-client rule is not the most reliable indicator of quality for tax agents, we do not deem approved body membership to be a suitable replacement.

53 We do not hold complete data on which tax agents are members of professional bodies, and we do not have clear evidence that standards differ between members and non-members. The proposal could affect nearly 2,000 tax agents, who may either lose access to tax agent status or face increased compliance costs through approved body membership fees. While professional body membership is likely to be a stronger indicator of quality than the 10-client rule, the uncertainty of the impacts, mixed consultation feedback, and lack of evidence of widespread performance or competence issues among tax agents suggest we should not proceed with the proposal at this stage.

54 We are also concerned that the potential benefits of this change would not justify the departmental costs required to implement it. Replacing the 10-client rule with an approved body membership rule has been costed at $1.5 million, due to ongoing data sharing with professional bodies and related system changes. This is significantly more than the combined costing of all the other proposals.

55 While we agree that the 10-client rule may not be the best indicator of quality, we do not recommend replacing it with an approved body membership requirement at this stage. With your approval, we will work with relevant stakeholders to explore alternative options and provide you with further advice.

(7) Establish a tax crediting agent model that could be used by taxpayers who receive income that is not subject to withholding tax

56 The issues paper proposed allowing tax credits to be generated for customers who use approved software from DSPs that would calculate the customer's tax liabilities in-year and issue payment instructions. This could offer an alternative to the provisional tax framework for taxpayers who do not have tax withheld at source.

Feedback

57 We received 29 submissions discussing the tax crediting agent model. Most submitters supported investigating the idea further, agreeing that the proposal had merit. However, many stated that Inland Revenue had not provided clear design parameters and that further investigation would be necessary to determine how such a proposal could work in practice. Those supporting often agreed that, if done well, the model could reduce compliance costs for small businesses and sole traders, and that allowing in-year payments to be treated as tax credits could reduce frustrations with provisional tax payments.

58 However, most submitters questioned how the proposal would be implemented effectively. Many noted that attempting to make calculations more accurate would reduce simplicity for the taxpayer, removing the potential compliance benefits. Submitters emphasised that reporting and payment frequency requirements must not be excessive, and that in-year refunds were important. The issues paper noted that these design features needed further consideration.

59 Five submitters, including CA ANZ, opposed any further development of the tax crediting agent model. These submitters argued that creating a new payment regime outside of provisional tax, rather than improving provisional tax, would add complexity and costs disproportionate to the potentially narrow benefits. Previous attempts to address in-year payment issues, such as the AIM and GST-ratio method for provisional

tax, were frequently referenced due to their complexity and unpopularity, which submitters saw as a likely outcome if the tax crediting agent model was pursued. Some submitters also argued that if DSPs provided tax payment advice, they would be providing equivalent services to tax agents but without the same safeguards, posing risks to the integrity of the tax system.

Recommendations

60 We recommend that further consideration be given to the tax crediting agent model before legislation is introduced. While we see merit in the proposal, we agree with submitters that more work is needed to determine how it would operate in practice. Further consideration is needed on key design choices, including reporting and payment frequency, how to balance simplicity with accuracy, how the model would support compliance, and how to avoid the issues experienced with the AIM and GST-ratio methods for provisional tax.

61 We also have not received an indication of whether software providers would be willing to provide this service. The tax crediting agent model would rely on DSPs developing software that would calculate in-year tax liabilities and that would be accredited by Inland Revenue. There is a risk that without further design consultation and indication from software providers, there would not be sufficient suppliers in the market to facilitate the service.

62 While we are not yet in a position to recommend implementation, we see merit in exploring the proposal further. Treating in-year payments as tax credits could reduce frustrations with provisional tax, lower compliance costs for small businesses, and support digital innovation in the market. We therefore recommend developing the proposal further with stakeholders and reporting back to you at a later stage.

Financial implications

Fiscal impact

63 These changes do not have any fiscal impacts because the changes merely formalise current practice, clarify existing expectations, or ensure consistency across intermediary categories. Although we consider intermediaries to have a positive impact on tax revenue collected (by lowering barriers to compliance for taxpayers), the process is too intangible to be estimated.

Administrative impact

64 Implementing and administering the five recommended changes would result in departmental costs of an estimated $0.3 million over the forecast period. These costings are high level and will be refined based on final policy and design decisions.

	$m - increase/(decrease)					
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**	**Total**
Operating costs						
System build	-	0.200	-	-	-	0.200
Ongoing operating	-	0.025	0.025	0.025	0.025	0.100
Total Operating	**-**	**0.225**	**0.025**	**0.025**	**0.025**	**0.300**

65 Considering the current work programme and our understanding of the Government's future priorities, Inland Revenue can deliver the changes proposed in this report.

66 However, administering the proposals will reduce Inland Revenue's change capacity, and the resourcing of policy items should be considered when thinking about Inland Revenue's ability to deliver future initiatives. While Inland Revenue will self-fund the departmental operating costs to deliver these initiatives within existing baselines, we note this may require prioritisation or trade-offs becoming unavoidable.

Next steps

67 If you agree to the recommendations, five proposals will be progressed for inclusion in the 2026–27 Annual Rates Bill, to be introduced in September 2026.

68 Further policy work on the proposal for a tax crediting agent model and changes to the 10-client rule would be undertaken, and these could be pursued through later legislation.

69 Given that the majority of the recommended legislative changes reflect current practice, clarify existing rules or ensure consistency across intermediary categories, we consider that these changes are sufficiently minor to not require Cabinet approval.

Recommendations

We recommend you:

1 **Agree** to recognise that digital services providers are a form of intermediary.

Agree / Disagree

2 **Agree** to clarify that digital services providers can act as data consumers.

Agree / Disagree

3 **Agree** to ensure consistency across intermediary categories by clarifying that PAYE and tax pooling categories are required to not adversely affect the integrity of the tax system.

Agree / Disagree

4 **Agree** to clarify the Commissioner's discretion to disallow nominated persons when there is an integrity risk.

Agree / Disagree

5 **Agree** to create a bookkeepers category.

Agree / Disagree

6 **Agree** to progress recommendations 1, 2, 3, 4, and 5 through the 2026–27 Annual Rates Bill.

Agree / Disagree

7 **Agree**, subject to your agreement to the above recommendation, that the changes do not require separate Cabinet agreement.

Agree / Disagree

8 **Agree** to have officials undertake further work with stakeholders on alternative changes to the 10-client rule and a tax crediting agent model and report back in due course.

Agree / Disagree

s 9(2)(a)

Carolyn Elliott
Policy Lead
Policy | Inland Revenue
16 July 2026

Hon Simon Watts
Minister of Revenue
/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

GST items recommended for inclusion in 2026–27 Annual Rates Bill

Date	16 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/171
Bill name	2026–27 Annual Rates Bill (Name TBD)		

Action sought		**Deadline**
Minister of Finance	**Agree** to GST policy and remedial items to be included in the 2026–27 Annual Rates Bill	29 July 2026
Minister of Revenue	**Agree** to GST policy and remedial items to be included in the 2026–27 Annual Rates Bill	29 July 2026

Purpose
This report advises you of submissions received on the officials' issues paper *Current GST issues* and seeks your agreement to include GST policy and remedial amendments in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Graeme Morrison	Policy Lead	s 9(2)(a)	✓
Shanae Sherriff	Senior Policy Advisor	s 9(2)(a)	☐

GST items recommended for inclusion in 2026–27 Annual Rates Bill

Executive summary

Background

1 Public consultation on the officials' issues paper *Current GST issues* closed on 29 June 2026. This report advises you of the submissions received and seeks your agreement to include GST policy and remedial amendments in the 2026–27 Annual Rates Bill (the Bill).

2 The main topics consulted on in the issues paper were:

- Electricity exported to grid by residential premises
- Correcting errors and inaccuracies
- Deductions for pre-registration expenditure
- Dwellings and commercial dwellings
- Zero-rating business event services supplied to non-residents
- Modernising the GST Act.

3 Submissions received on the issues paper were generally supportive of most of the proposed solutions. However, there were some areas where some submitters disagreed with officials.

Recommended action

4 We recommend including issues relating to the first three items listed above in the Bill. As previously indicated, the last three items listed above are not being targeted for inclusion in the Bill (IR2026/088 refers) and we will report to the Minister of Revenue separately on these items in September.

5 In addition to the first three items listed above, several GST items of a more remedial or technical nature are also recommended for inclusion in the Bill.

Financial implications

6 We recommend that the fiscal implications associated with the amendments recommended in this report be managed through the Tax Policy Scorecard (the Scorecard). The net fiscal impact of these amendments over the forecast period (2026/27 to 2029/30) is an increase in revenue of $6.676 million.

Next steps

7 If you agree to the recommendations, we will develop legislative changes to give effect to the amendments recommended in this report.

8 We recommend the proposal to zero rate sales of electricity exported to the grid by residential premises be included in the omnibus Cabinet paper seeking policy approval for items to be included in the Bill.

9 The remaining changes recommended in this report are largely minor, technical, or remedial amendments and do not represent a significant change in policy direction. We therefore consider they do not require separate Cabinet approval outside of the Bill process.

Background

10 In late May 2026, the officials' issues paper *Current GST issues* was released. Consultation on the issues paper was open for five and a half weeks and closed on 29 June 2026, with 36 submissions received in total.

11 The topics covered in the issues paper were varied and largely technical. Submissions received were generally supportive of most of the proposed solutions, although there were areas where some submitters disagreed with officials or made alternative suggestions. We have adopted a number of submitters' suggestions in refining the proposals that we recommend proceeding with.

12 The feedback received from submissions and officials' responses and recommendations are outlined below and in the Appendix.

13 In addition to some of the items consulted on in the issues paper, this report also recommends six minor and remedial GST items for inclusion in the Bill that were not included in the issues paper. These amendments are intended to ensure the relevant tax law is consistent with the policy intent and seek to maintain the coherence and integrity of the tax system.

14 Unless otherwise specified, the amendments recommended in this report should take effect on the day after the Bill receives the Royal assent.

Feedback from submissions

Electricity exported to grid by residential premises

15 When a GST-registered person exports electricity from residential premises to the electricity grid, the electricity retailer purchasing that electricity may treat the payment as including GST and claim a GST deduction. There is a risk that the person selling the electricity may not pay the corresponding GST to Inland Revenue. This can result in GST being refunded to the purchaser without a corresponding amount being paid to Inland Revenue by the seller.

16 To address this risk, the issues paper proposed zero-rating sales of electricity exported to the grid from residential premises by GST-registered persons to electricity retailers. Zero-rating means GST applies at a rate of 0%. This removes the mismatch that can arise when the retailer claims a GST deduction, but the seller (account holder) does not account for the corresponding GST.

17 Most submitters (including the electricity industry) supported reform in this area, including the proposal to reduce GST documentation requirements for electricity retailers. We recommend proceeding with the proposal and incorporating practical improvements suggested through consultation, including allowing retailers to rely on information held by them or provided by account holders when determining whether zero-rating applies. We also recommend ensuring the rule applies broadly to excess electricity exported from residential premises, rather than being limited to solar generation, so that it remains fit for purpose as new technologies emerge. A more detailed summary of submitters' views and officials' responses is included in Appendix Table 1.

18 Inland Revenue estimates that around 4,000 GST-registered households currently export electricity to the grid from residential premises. Our expectation is that many of these households do not realise that export credits received from electricity retailers may have GST consequences. As residential solar generation becomes more common, this issue may become more widespread. Zero-rating provides a targeted response because it removes the mismatch that can result in revenue leakage without imposing significant compliance costs.

Financial implications

19 This amendment will have a positive fiscal impact of approximately $420,000 per annum on average. This arises because electricity retailers will not claim GST deductions for purchases of electricity from GST-registered residential account holders where the household is not accounting for GST on these sales.

Correcting errors and inaccuracies

20 The rules for correcting GST errors and inaccuracies sit across the Goods and Services Tax Act 1985 and the Tax Administration Act 1994. In practice, the interaction between these rules is not always clear and does not always produce logical outcomes.

21 The issues paper proposed clarifying the legislative framework for correcting GST errors and inaccuracies. The intent was to preserve current outcomes where they work well, while tightening and clarifying the rules where the current boundaries are unclear, difficult to apply, or produce unintended results.

22 A clear and coherent GST correction framework is important because GST errors can affect both suppliers and recipients. The correction rules should apply consistently regardless of how a transaction was documented, while still allowing low-value and low-risk errors to be corrected in a low-cost way.

23 The main proposals in the issues paper were to increase the threshold for correcting immaterial GST errors in a later return, clarify when suppliers can reduce GST previously accounted for in error, clarify the treatment of under-deducted GST on purchases, clarify the treatment of penalties and use of money interest where a GST error is corrected in a later GST return, and remove the extended timeframe for taxpayer-favourable corrections arising from a clear mistake or simple oversight.

24 Submitters generally supported the objective of improving and simplifying the GST correction framework, although several submitters raised concerns about aspects of the proposed design. A more detailed summary of submitters' views and officials' responses is included in Appendix Table 2.

25 Having considered submissions, we recommend proceeding with the package broadly as consulted on, with some refinements. This includes increasing the small-value thresholds for correcting GST errors in a later return, including replacing the current 2% materiality threshold with a 5% of total sales test. The package would make the rules easier for taxpayers and Inland Revenue to apply by clarifying when a GST error can be corrected in a later return and when the original return should be filed or amended.

26 In response to consultation, we recommend extending the period taxpayers have to claim previously missed GST deductions on purchases from two years to four years. This was suggested by a submitter and would align the rule with the general four-year period for claiming GST refunds.

27 We also recommend greater flexibility where a taxpayer has both under-accounted for GST on sales and missed GST deductions relating to the same earlier period. In those circumstances, it should be possible for both amounts to be reflected in the same GST return.

28 We no longer recommend proceeding with the proposal to remove the extended timeframe for taxpayer-favourable corrections arising from a clear mistake or simple oversight. GST can raise more complex issues than other taxes because a correction may affect both the supplier and recipient. Retaining the current rule provides greater flexibility to ensure both parties' GST positions can be corrected consistently where a genuine mistake has occurred, and was widely proposed by submitters.

29 We also recommend clarifying that, where a GST error is properly corrected in a later GST return, penalties and use of money interest do not apply to the original return to the extent of the correction. This clarification should apply from 30 March 2022 to coincide with the most recent amendments to these rules and to avoid unintended consequences for taxpayers who have used those rules as intended.

30 Overall, the revised package would improve the coherence and integrity of the GST correction rules while preserving flexibility for low-value and low-risk errors.

Financial implications

31 The combined package of proposals we recommend proceeding with is expected to have a positive fiscal impact of approximately $280,000 per annum.

32 The fiscal impact arises from several components:

- Increasing the threshold for correcting immaterial GST errors in a later GST return is expected to have a fiscal cost of approximately $100,000 per annum, primarily because fewer errors would be corrected through amendments to earlier GST returns, reducing the amount of use of money interest charged.
- Requiring suppliers to notify, credit, or refund customers before reducing GST previously accounted for in error is expected to have a fiscal benefit of approximately $200,000 per annum, reflecting an assumption that some GST previously accounted for in error will not be recoverable where the customer's position cannot be corrected.
- Extending the period taxpayers have to claim previously missed GST deductions on purchases from two years to four years is expected to have a fiscal benefit of approximately $180,000 per annum, primarily because less use of money interest would be payable on GST refunds arising from amended assessments.

33 The remaining proposals are expected to have little or no fiscal impact. Their primary purpose is to improve the coherence, integrity, and workability of the GST correction framework.

Deductions for goods and services acquired before GST registration

34 Under current law, GST deductions for goods and services acquired before GST registration may be unavailable or delayed, even when those goods and services are later used in a taxable activity. This can produce arbitrary outcomes for taxpayers who incur costs before registration and later use those goods or services in making taxable supplies.

35 The issues paper proposed replacing the current rules with a new "entry into the GST base" rule. This means a person would generally be able to claim GST on goods and services acquired before registration when those goods or services are first used in a taxable activity.

36 Submitters generally supported the proposal and considered it would address arbitrary outcomes that can arise under the current rules. The main feedback related to valuation requirements, the treatment of services, integrity measures, and whether any transitional relief should be provided. A more detailed summary of submitters' views and officials' responses is included in Appendix Table 3.

37 We continue to support replacing the current rules with a new entry into the GST base rule. In response to consultation, we recommend several refinements to reduce compliance costs and improve the workability of the proposal. These include a simplified valuation approach for recently acquired goods and services, clearer rules for services, and targeted integrity measures.

38 The refined proposal would produce more coherent outcomes by allowing GST deductions when goods and services first enter a taxable activity, while maintaining appropriate integrity safeguards. We also consider the amount deductible should generally be limited to the lower of the GST component of the original purchase price and the GST component of the market value when the goods or services enter a taxable activity. This ensures GST deductions better reflect the remaining value of the goods and services when they enter a taxable activity.

Financial implications

39 The proposal is expected to have a net positive fiscal impact of approximately $1.3 million per annum. The fiscal impact arises from two main components:

- Allowing GST deductions for pre-registration goods and services with a value of $10,000 or less (excluding GST) is expected to have a fiscal cost of approximately $700,000 per annum.
- Requiring goods and services acquired more than 12 months before they enter a taxable activity to generally be brought into the GST base based on the lower of

their original cost and market value at that time is expected to have a positive fiscal impact of $2 million per annum. This reflects the proposed change that limits GST deductions for assets that have depreciated before entering a taxable activity.

Other technical and remedial items

40 In addition to the issues consulted on in the issues paper that are detailed above, officials also recommend that several minor and technical GST items be included in the Bill. We also recommend that one of the remedial matters consulted on in the issues paper not be progressed at this time. These items are listed in Appendix Table 4.

Financial implications

41 Except where specifically indicated in Appendix Table 4, the recommended amendments would not have fiscal implications.

Operational implications

42 The changes included in this report can be delivered through Inland Revenue's current change capacity. The departmental capital and operating costs to deliver these initiatives will be funded within existing baselines.

Financial implications

43 We recommend that the fiscal implications associated with the amendments recommended in this report be managed through the Tax Policy Scorecard. The net fiscal impact of these amendments over the forecast period is +$6.676 million.

Consultation

44 The Treasury was consulted on this report and they agree with the recommendations.

Next steps

45 If Ministers agree to the recommendations, we will develop legislative changes to give effect to the amendments recommended in this report. These will be included in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026.

46 As noted, we recommend including the proposal to zero rate sales of electricity exported to the grid by residential premises in the omnibus Cabinet paper seeking policy approval for items to be included in the Bill. The draft Cabinet paper will be provided to the Minister of Revenue on 30 July 2026 ahead of it being discussed at the Cabinet Economic Policy Committee (ECO) meeting on 19 August 2026.

47 As previously indicated, some of the items that were consulted on in the issues paper are not being targeted for inclusion in the Bill (IR2026/088 refers). This report has not briefed you on the submissions on these items. We will report to the Minister of Revenue separately on the submissions on these items in September 2026.

Recommendations

We recommend that you:

1 **Agree** for amendments agreed to in this report to be included in the 2026–27 Annual Rates Bill.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

2 **Agree** that, unless otherwise specified, the amendments would take effect on the day after the Bill receives Royal assent.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Electricity exported to grid by residential premises

3 **Agree** to zero-rate supplies by GST-registered persons of excess electricity exported from residential premises to the electricity grid.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

4 **Agree** to provide an exception from the GST documentation requirements for supplies of electricity exported to the grid from residential premises, including allowing electricity retailers to rely on information held by them or provided to them about a customer's GST registration status when determining eligibility for zero-rating.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

5 **Agree** that the changes described in recommendations 3 and 4 take effect on 1 April 2027.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

6 **Note** the following changes in tax revenue as a result of the recommendations above with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – GST	0.120	0.480	0.520	0.560
Total Operating	**(0.120)**	**(0.480)**	**(0.520)**	**(0.560)**

7 **Agree** that the increase in tax revenue noted above be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

8 **Note** that if you agree with recommendations 3 and 4, officials will include this item in a draft Cabinet paper that seeks approval of a range of policy changes for inclusion in the upcoming Bill.

Correcting errors and inaccuracies

9 **Agree** to rewrite the GST rules for correcting errors and inaccuracies so the legislation more clearly sets out when an error must be corrected in a later GST return, when the original return must be filed, and when an earlier assessment must be amended.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

10 **Agree** that errors that only affect the registered person may be corrected in a later GST return only if they are within the updated small-value thresholds, including retaining the $10,000 cap and replacing the current 2% test with a 5% of total sales test.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

11 **Agree** that, where correcting GST charged on a sale would reduce the supplier's GST, the supplier must first take steps to put the purchaser in the position they should have been in, such as notifying them or providing a refund or credit where appropriate.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

12 **Agree** that, where GST on sales was not accounted for in the correct period, the error should generally be corrected by filing the original return or amending the earlier assessment, unless the error is within the small-value thresholds.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

13 **Agree** that errors identified by Inland Revenue may be corrected in a later GST return only if they are within the small-value thresholds, with larger errors corrected by filing the original return or amending the earlier assessment.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

14 **Agree** that, where a person has claimed too little GST on purchases, they should generally correct this in a later GST return, rather than asking Inland Revenue to amend the earlier assessment.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

15 **Agree** that, where a GST error is properly corrected in a later GST return, penalties and use of money interest do not apply to the original return to the extent of the correction, and that this clarification apply from 30 March 2022.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

16 **Agree** to make a base maintenance amendment to ensure the intended time limits for correcting GST errors apply consistently, regardless of whether taxable supply information was provided for the original transaction, and that this amendment apply from 4 June 2020.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

17 **Note** the following changes in tax revenue as a result of recommendations 9 to 16 with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – GST	0.070	0.280	0.280	0.280
Total Operating	**(0.070)**	**(0.280)**	**(0.280)**	**(0.280)**

18 **Agree** that the increase in tax revenue noted above be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Deductions for goods and services acquired before GST registration

19 **Agree** to replace the current GST rules for pre-registration expenditure with a new rule that allows GST to be claimed for goods and services acquired before GST registration when they start being used in a taxable activity.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

20 **Agree** that:

a. GST deductions under the new rule should be appropriately limited to reflect the value of goods and services when they enter a taxable activity

b. a compliance cost saving measure should apply for goods and services first used in a taxable activity within 12 months of acquisition, by treating their value as equal to their original purchase price

c. goods and services first used in a taxable activity more than 12 months after acquisition should generally be valued at their market value when they enter the taxable activity

d. services acquired more than 12 months before first use in a taxable activity should generally qualify only to the extent that they continue to provide rights or entitlements capable of being used in that taxable activity.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

21 **Agree** that GST deductions under the new rule should not exceed deductions available under existing rules for transactions between associated persons as an integrity measure.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

22 **Agree** that the changes described in recommendations 19 to 21 should take effect on 1 April 2027.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

23 **Note** the following changes in tax revenue as a result of the recommendations above with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – GST	0.325	1.300	1.300	1.300
Total Operating	**(0.325)**	**(1.300)**	**(1.300)**	**(1.300)**

24 **Agree** that the increase in tax revenue noted above be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Technical issues with fiscal implications

25 **Agree** that certain zero-rated supplies of services supplied by a non-resident supplier can be disregarded for the purpose of determining whether they are required to register for GST in New Zealand.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

26 **Note** the following changes in tax revenue as a result of recommendation 25 with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – GST	0.040	0.157	0.157	0.157
Total Operating	**(0.040)**	**(0.157)**	**(0.157)**	**(0.157)**

27 **Agree** that the increase in tax revenue noted above be charged against the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

28 **Agree** to amend the definition of "participatory security" in the GST Act to include an interest in any unincorporated body.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

29 **Note** the following notional changes in tax revenue as a result of recommendation 28 with a corresponding impact on the operating balance and net core Crown debt:

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

30 **Agree** that the decrease in tax revenue noted above be charged against the Tax Policy Scorecard.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

Non-fiscal technical and remedial items (Minister of Revenue only)

31 **Agree** to clarify that for GST purposes, work performed by a non-resident supplier at the premises of a New Zealand-based client is disregarded when determining whether a non-resident supplier has a fixed or permanent place in New Zealand.

Agree / Disagree

Minister of Revenue

32 **Agree** that a non-resident supplier should not be treated as having a fixed or permanent place in New Zealand solely because its employees perform work from temporary accommodation or co-working premises leased or rented by the non-resident supplier.

Agree / Disagree

Minister of Revenue

33 **Agree** to not progress the proposal to clarify the drafting of the timing rule for when the full price of a supply of goods and services is not yet determined at the time the contract is entered into.

Agree / Disagree

Minister of Revenue

34 **Agree** to amend the GST grouping provisions so that disregarding intragroup taxable supplies is optional instead of mandatory, with application for GST return periods starting on or after 30 March 2022.

Agree / Disagree

Minister of Revenue

35 **Agree** to provide the Commissioner with discretion to allow a member to join or leave a GST group at any time, with application for GST return periods starting on or after the day after the Bill receives the Royal assent.

Agree / Disagree

Minister of Revenue

36 **Agree** to clarify that the Commissioner can unilaterally change a registered person's filing frequency when they do not meet the eligibility requirements for six-monthly filing and fail to apply to change their filing frequency within the required timeframe.

Agree / Disagree

Minister of Revenue

37 **Agree** to amend the definition of "hire purchase agreement" in the GST Act to specifically exclude land from the definition.

Agree / Disagree

Minister of Revenue

38 **Agree** to amend the rule requiring a purchaser of incorrectly zero-rated land to account for the GST so that the rule simply refers to the sale being incorrectly treated by the vendor as zero-rated, and that this clarification apply from 1 April 2023.

Agree / Disagree

Minister of Revenue

s 9(2)(a)

Graeme Morrison

Policy Lead

Policy | Inland Revenue

16 July 2026

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

Minister of Revenue

/ /2026

Appendix: Summary tables of submitters' views and officials' responses

Table 1: Electricity exported to the grid by residential premises

Proposal	Submitters' views	Officials' response
Zero-rate the sale of excess solar energy generated at residential premises to electricity retailers.	Most submitters supported legislative change. Some submitters considered these sales should be removed from the GST base entirely whereas others, including the electricity industry, supported the zero-rating proposal. A small number of submitters considered no legislative changes were necessary.	We recommend proceeding with the proposal to zero-rate these sales. This addresses the revenue concern without creating a broader exception to New Zealand's broad-based GST system.
Simplify GST documentation requirements for retailers that purchase excess solar energy.	Submitters generally supported not requiring electricity retailers to provide "buyer-created taxable supply information" for zero-rated sales of electricity. Several submitters suggested that retailers should be able to rely on installation control point (ICP) numbers to determine whether zero-rating applied. Submitters also suggested retailers should be able to rely on information provided to them by their customers to determine whether the sales should be zero-rated.	We agree with submitters in principle. This should reduce retailers' compliance costs and result in sensible outcomes proportionate to the revenue risk.
Scope of the proposal should be expanded. *(Raised by submitters)*	Some submitters suggested the proposal should apply broadly to excess electricity exported from residential premises rather than being limited to solar generation.	We agree. The policy issue is not confined to solar generation, and the rule should be capable of applying to future forms of residential electricity generation without requiring further legislative change.

Table 2: Correcting errors and inaccuracies

Proposal	Submitters' views	Officials' response
Increase the threshold for correcting immaterial errors in a later GST return.	Submitters generally supported increasing the threshold. Some submitters considered the small-value thresholds should be more generous or designed differently, including by using a "greater of" test or providing a higher threshold for larger taxpayers.	We recommend proceeding with the changes to the threshold proposed in the issues paper. This would make it more accessible to a broader range of taxpayers. The suggestions to increase the threshold even further or have a different threshold depending on the size of the taxpayer may have some merit but would require further analysis which has not been possible within the timeframe. If Ministers want further advice on increasing the threshold even further, we can prepare this for consideration during the Select Committee stage of the Bill.
Require a supplier (the seller of the goods or services) to notify, credit, or refund a customer before reducing GST previously accounted for in error.	Submitters had mixed views on this proposal. Several submitters preferred the current approach, or a more flexible rule, particularly where the customer cannot be located or where both parties are fully taxable businesses. Other submitters supported the proposal.	We recommend proceeding with the proposal. This would produce a more consistent outcome by ensuring that GST correction outcomes do not depend on what GST documentation happened to be provided at the time of supply. It would also better align New Zealand's GST rules with comparable jurisdictions such as Australia and the United Kingdom.
Provide a separate rule for fully taxable business-to-business transactions *(Raised by submitters)*	Some submitters considered there should be more flexibility when both parties to a supply of goods or services are fully taxable businesses. The rationale for this is that the GST impact would be neutral for the Crown, assuming any GST charged by the supplier is claimed by the purchaser.	We do not recommend proceeding with this rule. A supplier will not always know whether their customer is registered for GST, whether their customer has claimed a GST deduction, or how the customer has otherwise treated the transaction. A notification, credit or refund requirement provides a clearer and more workable rule.

Proposal	Submitters' views	Officials' response
Require under-deducted GST on purchases to be claimed in a later GST return where the current framework already allows that outcome.	Submitters generally did not raise significant concerns with this proposal. One submitter suggested an additional simplification.	We recommend proceeding with this proposal. In response to a submitter suggestion, we also recommend extending the period for claiming previously missed GST deductions on purchases from two years to four years. This aligns the rule with the general four-year period for claiming GST refunds.
Clarify that, where a GST error is properly corrected in a later GST return, penalties and use of money interest do not apply to the original return.	Submitters generally supported confirming that penalties and use of money interest should not apply where a GST error is properly corrected in a later GST return.	We recommend proceeding with this proposal and applying it from 30 March 2022. This aligns the amendment with the most recent changes to the GST correction rules and reduces the risk of unintended outcomes for taxpayers who have used those rules as intended.
Remove the extended timeframe for taxpayer-favourable corrections arising from a clear mistake or simple oversight.	Most submitters who commented on this proposal opposed it. The main concern was that removing the extended timeframe could reduce flexibility for genuine errors. A small number of submitters agreed with the proposal.	We no longer recommend proceeding with this proposal in the Bill.
In 2020, changes were made to ensure taxpayers could not use GST correction documents to reduce GST previously returned outside the general time limits that apply for tax administration purposes. Subsequent changes have inadvertently created a gap whereby those time limits may not apply in some circumstances where taxable supply information was not provided for the original transaction. This outcome is inconsistent with the policy intent of the 2020 changes and creates a potential fiscal risk of back-dated claims. *(Raised by officials)*	N/A	We recommend a base maintenance technical amendment to ensure the intended time limits for correcting GST errors apply consistently, regardless of whether taxable supply information was provided for the original transaction. The amendment would address a gap that has emerged following subsequent changes to the GST rules and restore the policy outcome intended by changes enacted from 4 June 2020. While we do not know of anyone currently being aware of this gap, the amendment would remove a potential fiscal risk of back-dated claims and align the legislation with the original policy intent.

Table 3: Deductions for goods and services acquired before GST registration

Proposal	Submitters' views	Officials' response
Replace the current rules for pre-registration goods and services with a new "entry into the GST base" rule.	Submitters generally supported the proposal and considered it would address arbitrary outcomes under the current rules. One submitter preferred restoring the law to its pre-2019 position rather than introducing a new entry into the GST base rule. No other submitter supported reverting to the pre-2019 position.	We recommend proceeding with the proposal subject to some refinements, adopting suggestions made by submitters to reduce compliance costs and improve workability.
Determine deductible expenditure by reference to market value when goods and services first enter a taxable activity.	Submitters considered the proposal should minimise compliance costs associated with determining market value, particularly for goods and services acquired shortly before registration.	We agree with submitters. We recommend a safe harbour rule under which goods and services first used in a taxable activity within 12 months of acquisition are treated as having a market value equal to their original purchase price.
Provide further simplified valuation approaches for older or lower-value assets. *(Raised by submitters)*	Some submitters suggested alternative valuation approaches for older or lower-value assets, such as depreciated cost or tax book value proxies.	We do not recommend proceeding with a further safe harbour for all goods and services costing $10,000 or less. For assets that enter a taxable activity more than 12 months after acquisition, market value remains an important safeguard to ensure deductions reflect the remaining value of the asset.
Apply the new rule to services acquired before GST registration	Submitters expressed differing views on how services should be treated under the new rule. Some considered professional services costs, such as legal, accounting, engineering, design and feasibility costs incurred before registration, should generally qualify for a deduction where they relate to a later taxable activity.	We recommend services acquired within 12 months before first taxable use generally qualify under the new rule. Older services should generally qualify only to the extent they continue to provide rights or entitlements capable of being used in a taxable activity. This balances compliance cost savings against the risk of deductions being claimed for services that no longer provide any ongoing benefit.
Include an integrity measure for transactions between associated persons.	Submitters generally supported the proposal for transactions between associated persons.	We recommend proceeding with this proposal.

Proposal	Submitters' views	Officials' response
The new rule should apply prospectively.	Two submitters suggested backdating the proposal or providing transitional relief for historic claims. Other submitters either did not comment on this issue or considered prospective application made sense.	We do not recommend backdating any change. This would increase complexity and fiscal costs and would be inconsistent with the general approach that tax law changes apply prospectively unless the change is necessary to protect the tax base or resolve an obvious error.

Table 4: Other technical and remedial items

Problem	Issues paper proposal and submitters' views	Officials' response
Changes for non-resident visitors (included in the recent omnibus tax bill) enabled non-resident visitors to disregard certain zero-rated supplies of exported services for the purposes of the GST registration threshold. This change was widely supported as a compliance cost savings measure for short-term visitors to New Zealand, and submitters at the time suggested expanding this rule to other non-residents making zero-rated supplies more generally.	Submitters were supportive of the proposal to extend the existing rule allowing non-resident visitors to disregard zero-rated supplies of exported services for the purposes of the GST registration threshold so that it is also available for other non-resident suppliers. Some submitters suggested that the proposed change could be extended to also be available for New Zealand resident suppliers and for other zero-rated supplies.	We recommend proceeding with this proposal. However, we do not recommend extending the rule to be available for New Zealand resident suppliers or for other zero-rated supplies. Submissions in favour of this did not address how revenue and integrity concerns with extending the proposal in this manner would be mitigated. Fiscal impact of recommendation: Gain of $157,000 per annum due to reduced GST refunds paid out to some non-resident suppliers.
In some situations, a non-resident person or their employee may come to New Zealand and perform work at the premises of a GST-registered client. The Commissioner's view is that it is possible that the non-resident business in this scenario might be treated under the GST rules as a New Zealand resident on the basis that they have a fixed or permanent place in New Zealand, solely because of their temporary presence at the client's premises. This may result in the non-resident being required to register for GST for no net revenue benefit, resulting in unnecessary compliance and administration costs.	Some submitters were supportive of the proposal to clarify the rules to ensure that, for GST purposes, work undertaken at the premises of a New Zealand-based client does not give rise to the non-resident supplier having a fixed or permanent place. However, others considered the proposed solution to be unnecessary. We note that those who expressed scepticism about the necessity of the proposal were likely unaware of the Commissioner's interpretation, which has not previously been publicised.	We recommend proceeding with this proposal. In response to submissions, we also recommend clarifying that employer-funded accommodation and the rental of a co-working space on a temporary basis for an employee in New Zealand does not give rise to a non-resident employer having a fixed or permanent place in New Zealand.

Problem	Issues paper proposal and submitters' views	Officials' response
There are a range of possible GST treatments for the sale of an interest in an unincorporated body such as a joint venture or partnership (including that in some rare cases this sale might be subject to GST at the 15% rate, which can lead to double taxation concerns). This range of GST treatments causes confusion in practice and may be leading to some transactions being treated incorrectly for GST purposes.	Most submitters were supportive of the proposal to amend the definition of "participatory security" so that it includes an interest in any unincorporated body. One submitter suggested that rather than taking this approach, sales of unincorporated body interests should simply be non-taxable supplies (instead of either exempt or zero-rated as per the proposal).	We recommend proceeding with this proposal. This would treat sales of unincorporated body interests similarly to a sale of shares in a company. We consider this to be the most coherent and appropriate policy outcome, given that an unincorporated body is treated as a separate entity for GST purposes, similar to a company. Fiscal impact of recommendation: Cost of $200,000 per annum because it would enable some members of unincorporated bodies to register and claim GST deductions.
A specific GST timing rule applies when the full price of a supply of goods and services is not yet determined at the time the contract is entered into. The policy intention behind the rule is that the supplier should account for GST to the extent the price is or becomes known. However, the current drafting of the rule is unclear and does not appear to achieve this outcome in all cases.	Some submitters were supportive of the proposal to clarify the drafting of the timing rule. However, others were opposed on the basis they thought the GST timing rules should be more aligned with cash flows in transactions, instead of generally requiring the full amount of GST to be accounted for upfront regardless of whether the full price had been received by the supplier at that time.	We agree with the point made by some submitters that further consideration should be given to the application of the timing rule to services and particularly its interaction with other existing timing rules that allow for GST to be accounted for periodically. We therefore recommend that the issues paper proposal to clarify the drafting of the rule not be progressed at this time to allow for further consideration of this issue.
As an unintended consequence of changes made to the GST grouping rules in 2022, it is now mandatory to disregard most intragroup taxable supplies. Private sector stakeholders have requested an amendment reinstating the prior optionality.	N/A	We recommend reinstating the position that applied prior to 2022 that GST groups could choose not to disregard intragroup taxable supplies. This should apply for GST return periods starting on or after 30 March 2022 (being the effective date of the unintended change that made it mandatory to disregard intragroup supplies).
The current law requires a company to join or leave a GST group from the start of a GST return period (that is, a company cannot leave or join partway through a return period unless it was incorporated within the last 12 months). This is too inflexible.	N/A	We recommend providing the Commissioner the discretion to allow a company to join or leave a GST group at any time. This should apply for GST return periods starting on or after the day after the Bill receives the Royal assent.

Problem	Issues paper proposal and submitters' views	Officials' response
Under the GST Act, a GST-registered person who no longer meets the requirements for six-monthly filing must change their filing frequency to monthly or two-monthly filing. However, if the person fails to apply to make this change within the required timeframe, there is nothing in the legislation that explicitly gives Inland Revenue the power to unilaterally change the person's filing frequency.	N/A	We recommend clarifying that the Commissioner can unilaterally change the person's filing frequency in this scenario. This would be consistent with how the law is being interpreted and applied by Inland Revenue currently.
The definition of "hire purchase agreement" applying for GST purposes inadvertently changed after the repeal of the Hire Purchase Act 1971 in 2005. Since then, it is no longer entirely clear whether the definition excludes land transactions. However, land arrangements were clearly never intended to be hire purchase agreements.	N/A	We recommend amending the definition of "hire purchase agreement" in the GST Act to specifically exclude land. This clarification would be welcomed by private sector stakeholders.
A rule in the GST Act applies in certain circumstances to require a purchaser of land that was incorrectly zero-rated by the vendor to account for GST on the land. However, based on the wording of the provision, this rule might not apply in cases where the vendor omitted the sale from their GST return but used other documents (such as agreements or invoices) where they incorrectly treated the sale as zero-rated.	N/A	We recommend clarifying the wording of the relevant provision so it simply refers to the sale being incorrectly treated by the vendor as zero-rated. Because this clarification is consistent with the policy intent of an earlier amendment to the provision in 2023, we recommend that the amendment apply retrospectively from 1 April 2023.

Tax policy report

Inland Revenue
Te Tari Taake

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HIKINA WHAKATUTUKI

RDTI: Stakeholder feedback on Budget measures and final approvals for 2026-27 Annual Rates Bill

Date	30 July 2026	**Priority**	Medium
Security level		**Report number**	IR2026/183 BRIEFING-REQ-0036409
Bill name	2026-27 Annual Rates Bill		

Action sought		**Deadline**
Minister of Revenue	**Note** stakeholder feedback on RDTI changes **Agree** to the recommendations	13 August 2026
Minister of Science, Innovation and Technology	**Note** stakeholder feedback on RDTI changes **Agree** to the recommendations	13 August 2026

Purpose
This report updates Ministers on stakeholder feedback that officials have received since the Research and Development Tax Incentive (RDTI) changes were announced at Budget 2026. It also seeks agreement from Ministers on design features of in-year payments and to allow RDTI filings to be based on the partnership's balance date (consistent with income tax filing).

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Claire McLellan	Acting Policy Lead, Inland Revenue	s 9(2)(a)	☐
Gordon Witte	Principal Policy Advisor, Inland Revenue	s 9(2)(a)	✓
David Rooney	Senior Policy Advisor, MBIE	s 9(2)(a)	✓
Lili Tagaloa-Aloniu	Policy Advisor, Inland Revenue	s 9(2)(a)	☐

RDTI: Stakeholder feedback on Budget measures and final approvals for 2026–27 Annual Rates Bill

Executive summary

1 Following the Government's 2026 Budget announcement of the four changes to the RDTI, officials engaged with the Research and Development Advisory Group (RDAG)[1] and other private sector stakeholders who expressed specific interest.

2 RDAG supported the changes to relax the mining exclusions. RDAG members also supported the changes to give the Commissioner of Inland Revenue discretionary powers to accept and amend late filings.

3 RDAG also supported the introduction of in-year RDTI payments, noting they would improve cashflow for research and development (R&D) businesses and likely achieve greater uptake than previous loan schemes. Officials recommend a self-assessed quarterly payment system, with payments capped at 80% of estimated R&D tax incentive and the existing labour-related refundability cap, to minimise the risk of overpayments leading to tax debt. Businesses would be able to claim catch-up payments if they apply late, while standard tax administration rules, including interest, penalties, and tax pooling, would apply to any overpayments (which should be rare).

4 RDAG had some concerns about the decision to reduce the RDTI cap for internal software development, but stakeholders mainly highlighted the difficulty with the boundaries between internal and external software for the RDTI, which they considered to be exacerbated by a reduction in the cap.

5 Officials have also met separately with one stakeholder, EY. EY has raised concerns that the change could have a significant impact because it considers internal software is under-reported, and the lower cap could impact more businesses and R&D spending than Inland Revenue has forecast.

6 Officials also recommend a remedial amendment to the RDTI rules for partnerships be included in the 2026–27 Annual Rates Bill, so that eligible R&D expenditure can be accounted for using the partnership's balance date, consistent with existing income tax treatment. This would remove current timing mismatches if partners and partnerships have different balance dates, reducing compliance costs, simplifying administration, and lowering the risk of reporting errors. There is no fiscal cost to this remedial measure.

Research and Development Advisory Group feedback

7 The RDTI is New Zealand's primary mechanism for supporting business investment in R&D. The RDTI provides a 15% tax credit for eligible expenditure on eligible R&D activities, with the objective of increasing the level of R&D undertaken in New Zealand. The credit can be used to offset income tax, and, for loss-making firms, a portion of the credit can be refunded in cash.

8 The Government announced four changes to the RDTI as part of Budget 2026:

- in-year payments would be introduced to increase cash-flow throughout the year,
- the Commissioner of Inland Revenue would have discretionary powers to accept or amend RDTI filings after the due date
- the exclusions on mining expenditure would be relaxed, and
- the non-administrative internal software development (internal software) cap would be reduced from $25 million to $3 million.

[1] A consultative committee, comprising officials and representatives from accounting firms and R&D businesses to function as a forum for identifying and resolving issues with the RDTI.

9 In June 2026, Inland Revenue and Ministry of Business, Innovation and Employment (MBIE) officials met the RDAG to discuss the Budget 2026 RDTI announcements. RDAG is a consultative committee, comprising officials and representatives from accounting firms and R&D businesses to function as a forum for identifying and resolving issues with the RDTI.

10 RDAG supported the changes to relax the mining exclusions. RDAG members also supported the changes to give the Commissioner of Inland Revenue discretionary powers to accept and amend late RDTI returns.

11 RDAG supported the introduction of in-year RDTI payments, noting it would improve cashflow for R&D businesses and likely achieve greater uptake than previous loan schemes. They provided additional feedback:

- Some start-ups have their RDTI refunds capped by their labour-related taxes and would benefit more if this cap was removed.
- Delivering in-year payments through the tax system should have better uptake than the previous loan scheme because it would not add to the firm's overall debt.
- The new system should allow firms to apply for "catch-up" payments, such as claiming all four in-year payments after the end of the fourth quarter because this could reduce compliance costs.

12 Officials explained the reduction in the internal software cap was intended to make the RDTI more cost-effective.[2]

13 RDAG raised concerns about the practical and economic impacts of reducing the internal software cap. They consider internal software development makes New Zealand more productive, and reducing the cap to $3 million may inhibit this productivity.

14 One stakeholder in particular, EY, advised that it expects that internal software development is under-reported in RDTI returns, and that the impact of the cap reduction to $3 million would have a greater impact than Inland Revenue forecast.

15 Some RDAG members consider there are challenges with the way software is defined in the context of the RDTI. They advised that the definitions are outdated and make it difficult for businesses to differentiate between the internal software, external software and administrative software boundary.

16 Officials have released guidance on distinguishing between the three categories of software development expenditure but acknowledge that the boundary is inherently difficult to navigate.

17 In July 2026, the Minister of Revenue met with the Corporate Taxpayers Group (CTG). CTG has not heard strong feedback from its stakeholders on the software cap reduction, and it advised that many of the issues with software and the RDTI are operational issues, such as claim delays and financial reviews.

Further engagement with EY

18 Following the RDAG meeting, EY wrote to officials to elaborate on its concerns and a follow up meeting occurred in June 2026. EY's primary concerns are with the estimated savings from the reduction in the internal software cap and with the difficult boundary between internal and external software for the purposes of the RDTI.

Concerns cap may impact more spending than forecast

19 EY considers Inland Revenue's current data may understate the potential number of businesses and amount of R&D spending affected by a $3 million cap due to classification issues, tax return limitations, group aggregation rules, and reporting lags.

[2] Compared to other types of spending it can be difficult to determine if internal software spending qualifies for the RDTI. This leads to higher compliance and administrative costs, reclassification risks, and lower behavioural responsiveness. It increases the fiscal cost per dollar of additional R&D induced by the RDTI, compared with other types of expenditure.

EY has suggested that setting the cap at a higher amount than $3 million could reduce some of the impacts on R&D businesses (while potentially achieving a similar level of fiscal cost savings). EY comments include:

- Many businesses do not have a clear understanding of the definition of "internal software" because internal software can include software that is used by external customers if the software is not sold or licenced to those customers. Some firms may not apply the definition correctly when they are far below the current $25 million cap, because more accurate reporting would not affect their overall tax position.
- The RDTI return does not allow businesses to categorise an expenditure item as both "internal software" and also a second applicable category (such as "feedstock", "foreign", "commercial production") if the spending qualifies as both types. This means that businesses may be categorising some internal software as a different type of expenditure if the other category is more relevant to their tax position (because their total software expenditure is well below the current $25 million cap).
- The software cap applies on an R&D group basis, and the available data may not aggregate associated companies together if they are not part of the same tax consolidated group.
- Software R&D has increased over the past two years but due to the lag between performing R&D and reporting the expenditure to Inland Revenue (typically 13 months after the end of the relevant income year), the available data may not reflect these increases.

Officials' view

20 Although we understand the points raised by EY, it is not possible to estimate how significant these data limitations may be. The forecast impacts of reducing the internal software cap are inherently uncertain because the available data may not reflect future spending or responses by affected businesses. We consider the Budget 2026 estimates are still an appropriate forecast of the potential fiscal impact.

21 For the Budget 2026 estimates, Inland Revenue used the latest available data from the 2023-2024 tax year and projected this forward to future years using the forecast growth rates for overall RDTI spending. The preliminary data from the 2024-2025 tax year suggests fewer businesses may report more than $3 million of software spending in 2024-2025 (12 businesses) compared to 2023-2024 (21 businesses). This is consistent with wider decreases in total RDTI claims for internal software (the 2024-2025 tax year had 26% less internal software spending compared to 2023-2024).

Internal software definition

22 EY considers that the definition of "internal software" is outdated and does not accommodate how many modern digital businesses commercialise their software. Software that is not sold or licensed but is central to delivering a product (such as a digital service) to external customers counts as "internal software" under the current definition. EY noted that a lower cap would exacerbate existing concerns with the definition of internal software development and the scope of the internal software definition should influence the level at which the cap should be set. EY considers a lower internal software cap could also impact AI technology development.

Officials' view

23 At this stage, officials do not recommend any changes to the proposed $3 million internal software cap or definition of internal software. Outside the specific engagement with EY, stakeholders have not raised significant concerns with the reduced cap. We expect to receive further submissions on the software cap reduction throughout the 2026–27 Annual Rates Bill process and will report back on the submissions and our recommended responses.

24 Officials will continue to engage with RDAG, EY and other interested stakeholders to identify whether there any specific cases where the internal software definition appears

to produce unintended outcomes and will report back to you with advice on this issue if required.

In-year payments design

25 Businesses can face a considerable wait between incurring R&D expenditure and receiving the benefit of RDTI tax credits associated with that expenditure. In-year payments of the RDTI will enable businesses to receive regular cash payments within the income year as an advance of the RDTI they expect to receive after the end of that year.

Detailed design

26 The proposed design of in-year payments aims to minimise the compliance costs for firms to access the cashflow benefit while also managing the integrity risks of overpayments and tax debt.

27 As part of Budget 2026, Ministers agreed to the broad parameters of the in-year payments scheme. Essentially, in-year payments will be available from the 2027–28 income year for businesses who have been granted an RDTI approval for their R&D activity and the existing labour-related refundability cap for RDTI refunds will be retained. This cap limits refunds to labour-related taxes (such as PAYE) paid by the firm. There would be an additional fiscal cost (estimated at $6.4 million per annum) and tax integrity risk if this cap was to be removed because it would increase cash refunds to firms compared to the current RDTI scheme.

28 To further reduce the risk of a firm overclaiming in-year payments compared to their final RDTI entitlement we recommend that in-year payments be limited to 80% of the firm's estimated R&D tax incentive (using information reported at the RDTI approval stage).

29 To provide the cashflow benefit and to minimise compliance costs we recommend:

- In-year payments be disbursed quarterly. This would balance the benefit of regular increase to cashflow with the compliance burden of preparing an application for in-year payments.
- Businesses be able to claim catch-up payments for earlier payments they missed. This would give businesses more flexibility to take advantage of in-year payments, including if a business applies late in the income year for RDTI approval, thereby missing the earlier quarters for claiming in-year payments.

30 Finally, we recommend closely aligning the administrative rules for in-year payments with existing tax administration rules. This includes:

- *Use of money interest:* In the case of a business' final RDTI entitlement being less than the total in-year payments received, we recommend charging use of money interest on any overpayments from the date that the total amount of in-year payments exceeded the final entitlement.
- *Penalties:* We recommend applying the standard tax penalty rules to in-year payments. Under these rules, Inland Revenue has discretion to waive or reduce penalties depending on the circumstances (such as for genuine mistakes).
- *Tax pooling:* We recommend allowing taxpayers to use tax pooling to settle overpayments of in-year payments (tax pooling allows businesses to reduce interest and penalties on underpaid taxes).
- *Imputation credit account transactions:* To simplify the rules we recommend no adjustments be required to imputation credit accounts for in-year payments and instead continue to only make these adjustments based on final RDTI entitlements.

31 Applying use of money interest and potential penalties to overpayments provides businesses with appropriate incentives to accurately self-assess their in-year payments,

reducing tax integrity risks and tax debt. Because in-year payments will be limited to 80% of the firm's estimated R&D tax incentive, it is unlikely a firm will inadvertently overclaim in-year payments (and therefore actually incur interest and potential penalties).

32 In summary, we recommend the following design settings:

- Make up to four quarterly payments per year available to businesses that have RDTI approval and elect to receive in-year payments.
- Make catch-up payments available for earlier payments so businesses can apply to receive an earlier quarter's payments later in the same income year.
- Payments would be the lower of 80% of the firm's estimated R&D tax incentive and labour-related taxes paid by the firm.
- Standard tax administration rules should apply to tax debts arising from in-year payments including charging use of money interest and applying standard tax penalties.
- Tax pooling may be used to settle an overpayment.
- In-year payments would not create imputation credit account adjustments.

Partnerships with non-standard balance dates

33 Currently, partners in a partnership can choose for income tax purposes to account for their share of the partnership income using the partnership's balance date, instead of apportioning this income according to their own balance date.

34 However, this choice is not currently accounted for in the RDTI rules which always require each partner to apportion eligible expenditure for the partnership's R&D activities according to each partner's own balance date.

35 Accordingly, where the partnership and partners have different balance dates there can be different time periods for how partnership income is accounted for in the partner's income tax return (for example, 1 January to 31 December based on the partnership's balance date) and how the partner is required to claim the RDTI (for example, 1 April to 31 March).

36 This mismatch increases compliance and administrative costs by requiring different amounts be calculated for RDTI purposes and by making it difficult to compare data across the partner's income tax and RDTI returns. It also increases the risk of an error from a partner including data for an incorrect period in their RDTI return.

37 An amendment to address the mismatch was initially proposed for the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Act 2026, however it was removed because it would have increased compliance costs. Submitters on that Bill suggested an alternative amendment, which would instead reduce compliance costs.

38 We recommend making this alternative amendment to allow the RDTI to be administered based on the partnership's balance date, consistent with their income tax return. RDAG supported this proposed amendment when officials discussed it with them in June. There is no fiscal cost to this remedial measure.

Recommendations

We recommend you:

1	**Note** stakeholder feedback on the RDTI changes.

2	**Agree** to implementing in-year payments of the RDTI with the design settings summarised in paragraph 32.	
	Agree / Disagree	Agree / Disagree
	Minister of Revenue	*Minister of Science, Innovation and Technology*

3	**Agree** to an amendment to allow RDTI filings to be based on the partnership's balance date, consistent with how the partners recognise partnership income in their income tax returns.	
	Agree / Disagree	Agree / Disagree
	Minister of Revenue	*Minister of Science, Innovation and Technology*

s 9(2)(a)

Claire McLellan

Acting Policy Lead

Policy | Inland Revenue

30 July 2026

s 9(2)(a)

Michael Contaldo

Manager, Innovation Policy

Ministry of Business, Innovation and Employment

30 July 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Hon Penny Simmonds

Minister of Science, Innovation and Technology

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Further fiscal item for inclusion in the 2026-27 Annual Rates Bill

Date	23 July 2026	**Priority**	Medium
Security level	In Confidence	**Report number**	IR2026/218
Bill name	2026-27 Annual Rates Bill (Name TBD)		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	31 July 2026
Minister of Revenue	**Agree** to recommendations	31 July 2026

Purpose
The purpose of this report is to obtain your approval for an item that was previously considered a non-fiscal remedial but after further review has a small fiscal benefit attached which required the Minister of Finance's agreement. Due to its size, we recommend the fiscal benefit be taken to the tax policy scorecard.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Bary Hollow	Principal Policy Advisor	[redacted]	✓

Further fiscal item for inclusion in the 2026-27 Annual Rates Bill

Background

1 The Minister of Revenue has previously agreed to various non-fiscal remedial items for inclusion in the 2026-27 annual rates Bill (IR2026/159 refers). Included in that report was a proposal to allow an option for resident withholding tax on dividends to be deducted at maximum of 39% rather than the current 33%.

2 Upon further review it has been determined this change has a fiscal benefit and should have been included in the fiscal remedial report and approved by both the Ministers of Revenue and Finance.

Allowing RWT on dividends to be deducted at a maximum of 39%

3 RWT on dividends is set to a maximum of 33% (of which, imputation credits usually make up 28%), not allowing RWT to be deducted up to the top marginal tax rate of 39%. Individuals on the top marginal rate and trusts can, legally, only have tax deducted at 33% of their total tax obligation through RWT, leaving another 6% to pay later. This may result in provisional tax obligations, debt and increased compliance costs.

4 Some smaller companies have been deducting and returning RWT at 39% on dividends to avoid shareholders becoming provisional taxpayers. These returns are sometimes accepted and sometimes error listed by Inland Revenue operations. This creates unnecessary work for Inland Revenue and taxpayers when the intention is simply to pay the tax owed and reduce compliance costs.

5 We recommend allowing RWT on dividends to be deducted at 39% if agreed by the payer and recipient, while retaining the default rate of 33%. Having this option would result in reduced compliance costs for taxpayers and reduce work for Inland Revenue.

6 This change has a fiscal benefit due to the change in timing of receipt of tax payments. The amount of that benefit is $6.5 million over the forecast period.

7 We recommend that due to the small size of the benefit, it be added to the tax policy scorecard.

8 If you agree, the amendment would apply to dividends paid on or after 1 April 2027.

Operational implications

9 The proposed changes will require some system modifications and changes to current guidance, but these are minor and able to be covered within baselines.

Financial implications

10 The proposal to allow taxpayers to deduct resident withholding tax from dividends at 39% has a fiscal benefit of $6.5 million over the forecast period. It also moves collections from one tax type (provisional tax) to another (RWT).

Tax Revenue impact

11 The fiscal impact of the proposed change to resident withholding tax on dividends is:

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – other persons	-	-	(4.100)	(77.700)	(44.600)
Tax Revenue – dividend RWT	-	-	44.100	44.300	44.500
Total revenue (if more than one)	-	-	40.000	(33.400)	(0.100)
Total Operating	**-**	**-**	**(40.000)**	**33.400**	**0.100**

Consultation

12 We have undertaken some initial consultation with the larger New Zealand share registry companies which informed the policy design to make the proposal elective requiring agreement between the payer and recipient as not all of these providers were set up to allow an additional deduction rate.

Next steps

13 If you agree, we will include the proposals in the 2026-27 Annual Rates Bill.

Recommendations

We recommend that you:

1 **Agree** to allow RWT on dividends to be deducted at 39% if agreed between the payer and recipient for dividends paid on or after 1 April 2027.

Agree / Disagree Agree / Disagree

2 **Note** that proposed change to allow RWT on dividends to be deducted at 39% subject to agreement between the payer and recipient has a fiscal impact as follows:

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – other persons	-	-	(4.100)	(77.700)	(44.600)
Tax Revenue – dividend RWT	-	-	44.100	44.300	44.500
Total revenue (if more than one)	-	-	40.000	(33.400)	(0.100)
Total Operating	**-**	**-**	**(40.000)**	**33.400**	**0.100**

Noted Noted

3 **Agree** that this fiscal benefit be taken to the tax policy scorecard.

Agree / Disagree Agree / Disagree

s 9(2)(a)

Bary Hollow
Principal Policy Advisor
Policy | Inland Revenue
23 July 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Additional non-fiscal items for 2026–27 Annual Rates Bill

Date	30 July 2026	**Priority**	High
Security level		**Report number**	IR2026/224
Bill name	2026–27 Annual Rates Bill (name TBD)		

Action sought		**Deadline**
Minister of Revenue	**Agree** to additional items to be included in the 2026–27 Annual Rates Bill.	12 August 2026

Purpose
This report seeks agreement from the Minister of Revenue to make amendments that do not have fiscal implications to the Inland Revenue Acts, and to include these in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Peter Frawley	Policy Lead	s 9(2)(a)	☐
Matt Pilkinton	Bill Manager	s 9(2)(a)	✓
Kaitlyn Payne	Bill Coordinator	s 9(2)(a)	☐

Additional non-fiscal items for 2026–27 Annual Rates Bill

Executive summary

1 This report seeks your agreement to make amendments without fiscal impacts to the Income Tax Act 2007 (ITA) and Tax Administration Act 1994 (TAA), and to include these in the 2026–27 Annual Rates Bill (the Bill). These amendments would:

- detail the design of the donation tax credits in-year payments
- require the development of operational safeguards around Inland Revenue's use of the proposed automated decision-making power
- make remedial changes to specify that overseas pension transfers are not income for the purposes of the student loans and child support rules
- increase the straight-line method threshold for the financial arrangements rules to $3 million
- amend the double tax agreement deemed source rule so the technical services fees exclusion applies to all double tax agreements
- extend the income tax exemption for industry skills boards to any wholly owned subsidiaries, and
- provide an income tax exemption for Ferry Holdings Limited.

2 Unless otherwise specified in this report, the amendments in this report would take effect on the day after the Bill receives Royal assent.

Donation tax credit in-year refunds

3 As part of the not-for-profit changes in Budget 2026, you agreed to allow Inland Revenue to refund donation tax credits in certain circumstances during the income year, instead of waiting until after year-end (IR2026/062 refers).

4 We recommend the following rules be enacted as part of the simplification to allow Inland Revenue to refund donation tax credits during the year. These proposals just relate to the detailed design of donation tax credit in-year refunds and do not have additional fiscal impacts.

Claims must be made through myIR

5 We recommend that donors only be eligible for donation tax credit in-year refunds if they file digital claims using myIR. This rule would require customers who file in-year claims to use myIR and is consistent with Inland Revenue's approach to deliver services through digital channels.

Maximum entitlement threshold

6 We recommend that the maximum entitlement threshold for donations eligible for the in-year donation tax credit be the lesser of $100,000 and the donor's reportable income. This rule takes into account the new $100,000 cap announced as part of Budget 2026, and introduces a reportable income cap. This approach is considered the most practical way for Inland Revenue to determine the donor's maximum in-year refund.

7 We further recommend that, after the end of the year, the maximum donation entitlement threshold will be the lesser of:

- $100,000, and
- the greater of the donor's reportable income and their taxable income.

8 This rule ensures that if a donor's taxable income for the entire year is greater than their reportable income, they will be entitled to more donation tax credits. Therefore, for the whole year, they would receive the same amount of donation tax credit refund as a donor who did not claim an in-year refund.

9 However, if a donor's taxable income for the entire year is less than their reportable income (for example, because they have a loss from their business activities), the donor will not need to repay any in-year donation tax credits they have already received. This rule is a practical way to ensure that donation tax credits claimed during the year would not be clawed back to create a tax debt at the end of the year. While this rule would give some donors with tax losses an advantage compared to the current donation tax credit cap rule, this approach is consistent with the payroll giving cap, which does not have a claw-back rule.

Application date

10 We recommend the amendments apply from 1 April 2028, the date in-year refunds begin.

Automated decision-making – safeguards for operational use

11 You previously agreed to an amendment to clarify that Inland Revenue has the authority to use automated decision-making (ADM) and for Inland Revenue to undertake further targeted consultation on the detailed design of the ADM power (IR2026/175 refers).

12 During consultation, stakeholders raised concerns with the ADM power and suggested safeguards be put in place for its use.

Proposal

13 In response to stakeholder concerns, we recommend the ADM power be modelled on the Ministry of Social Development's ADM standard and legislative approach. This would require:

- Inland Revenue to develop ADM safeguards for operational use
- the Office of the Privacy Commissioner and the Human Rights Commission to be consulted on the approval of these safeguards
- the specific principles for the safeguards to be explicitly named in legislation
- the safeguards to be reviewed at least every three years, and
- the safeguards to be published on the Inland Revenue website.

14 This proposal to require the development of ADM safeguards has been included in the draft omnibus Cabinet paper, which includes the proposal to clarify that Inland Revenue has the authority to use ADM (IR2026/210 refers).

Transfers from overseas pension schemes – social policy

15 The Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Act 2025 introduced a provision where a person transferring their overseas pension fund to certain New Zealand superannuation schemes can elect to have the scheme pay the tax due on the transfer from the fund on the person's behalf at a flat rate of 28% (scheme pays). Scheme pays resolved a long-standing issue for individuals who might otherwise face a potentially substantial New Zealand tax liability that some struggle to pay. The changes came into effect on 1 April 2026.

16 The implemented system excludes transferred funds from social policy eligibility criteria as the policy intended. This setting was chosen because the transferred fund is not available to the individual until a specified crystallisation event occurs, typically reaching minimum retirement age.

17 Legislative amendment is required in two cases to support the policy intent:

- In the case of student loans, existing rules exclude similar cases such as income from portfolio investment entities and distributions from superannuation schemes from being included in adjusted net income for repayment calculation purposes. However, the legislation is not broad enough to cover scheme pays.
- In the case of child support, the existing rules provide for the exclusion of income in the calculation of child support if it inflates the individual's income by more than 15%. This means that exclusion is a likely but not automatic outcome.

Proposal

18 To align with the policy intent and support implementation of scheme pays, we recommend remedial amendments to the student loans and child support rules to specify that transfers from overseas pension schemes are not income for those purposes.

19 These changes affect a very small population in specific circumstances (those who make a scheme pays transfer and who also have either a student loans repayment obligation or make a child support payment for an unsupported child that would not be disregarded). As such, and under the specific circumstances, the proposed changes are expected to be broadly fiscally neutral and can be managed within existing appropriations.

Application date

20 We recommend this amendment apply retrospectively from 1 April 2026, the date on which scheme pays took effect.

Increase straight-line method threshold in financial arrangements rules

21 Under the financial arrangements rules, if a person is required to account for their financial arrangements on an accrual basis and the total value (on every day of the income year) of all of the financial arrangements to which they are a party is $1,850,000 or less, they may spread their income and expenditure for their financial arrangements with the straight-line method.

22 The straight-line method aims to reduce compliance costs for taxpayers with relatively small parcels of financial arrangements by allocating total finance charges evenly or proportionally over the life of the arrangement, with amounts apportioned to income years on a daily basis, and without requiring revaluation of the arrangement over time. At the end of the financial arrangement, a base price adjustment is performed to ensure that the right amount of income and expenditure is returned.

23 The threshold to be eligible for the straight-line method has not been updated since 2009.

24 In the Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Act 2026, the thresholds under which a person could account on a cash basis were increased from:

- $100,000 to $200,000 for income and expenditure, and
- $1 million to $2 million for absolute value.

25 With the increased thresholds, it is likely that someone who falls under the $1,850,000 straight-line method threshold would be eligible to account on a cash basis and would not need to use the straight-line method threshold in the first place.

Proposal

26 We recommend increasing the straight-line method threshold to $3 million. This is roughly in line with inflation since the threshold was last set in 2009 and would use the same ratio as when the cash basis person and straight-line method thresholds were last increased together in 1999.

27 The proposal is not expected to have a material fiscal impact. It only applies to a relatively small group of taxpayers with financial arrangements valued between $2 million and $3 million, and changes the method used to spread income and expenditure rather than the overall tax treatment of those arrangements. Any revenue effect is expected to be very small and is indeterminate in direction because it is not possible to predict whether taxpayers' choice of spreading method would result in a net increase or decrease in revenue.

DTA deemed source rule exclusion for technical services fees

28 Under New Zealand domestic law, a non-resident's income is taxable only if it has a New Zealand source. A provision in the ITA deems income to have a New Zealand source if New Zealand has a right to tax the item of income under a double tax agreement (DTA). The rule was intended to ensure New Zealand could tax income when the treaty partner had agreed to New Zealand having that taxing right, but it has led to overreach in some cases.

29 New Zealand's DTA with India allows New Zealand to tax payments from New Zealand to a non-resident for technical services performed remotely from India. The DTA source rule would have deemed that income to have a New Zealand source. This was unintended because New Zealand's normal tax settings generally require some presence or activity in New Zealand before a non-resident's income is treated as sourced here.

30 The Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Act 2025 included an amendment to exclude technical services from the application of the DTA deemed source rule. The exclusion applies to the New Zealand–India DTA only because no other current New Zealand DTA contains a broad technical services fees provision. However, the same treatment should apply if such a provision is included in a future DTA.

Proposal

31 We recommend amending the DTA deemed source rule wording in the ITA so that the technical services fees exclusion is not limited to the New Zealand–India DTA. s 9(2)(f)(iv) s 9(2)(f)(iv) [redacted]

32 s 9(2)(f)(iv) [redacted]

33 This proposal has no fiscal implications because there is currently no other New Zealand DTA that contains a broad technical services fees provision apart from the New Zealand–India DTA.

34 The outcome of any current DTA negotiations remains uncertain. If the amendment of the DTA deemed source rule is deferred until the conclusion of negotiations, and a DTA includes a technical services provision, any fiscal implications would be considered at that time as part of the overall package.

Subsidiaries wholly owned by industry skills boards

35 Workforce development councils (WDCs) were disestablished and replaced by industry skills boards (ISBs) with effect from 1 January 2026 as part of broader vocational education and training reforms.

36 WDCs were previously exempt from income tax as registered charities. ISBs are also exempt from income tax, but under a specific provision introduced by the Education and Training (Vocational Education and Training System) Amendment Act 2025. This provision was intended to preserve the income tax exemption utilised by WDCs without requiring ISBs to become registered charities.

37 Because the WDCs were registered charities, any subsidiaries they owned were also eligible to be registered charities. While ISBs are permitted to own subsidiaries, they are not covered by the current wording of the income tax exemption for ISBs.

38 The policy intent is for government-mandated restructures to be tax neutral and to preserve the income tax treatment of impacted entities as much as possible.

39 We recommend extending the income tax exemption for ISBs to any wholly owned subsidiaries. It was not intended that subsidiaries wholly owned by ISBs should be subject to income tax.

40 We also recommend a corresponding amendment to ensure that deregistration tax does not apply to a tax-exempt subsidiary wholly owned by ISBs. When a subsidiary was previously a charity because it was owned by WDCs, it could be subject to income tax on its accumulated assets as part of the charity deregistration process. Deregistration tax ensures that tax-paying entities do not benefit from a previous tax exemption, but we consider it should not apply in this situation because the entity would still be tax exempt.

41 s 18(c)(i) [redacted]

42 s 18(c)(i) [redacted]

Application date

43 These remedial amendments would take effect from 22 October 2025, the date the Education and Training (Vocational Education and Training System) Amendment Act 2025 came into force.

Tax exemption for Ferry Holdings Limited

44 An income tax exemption is available for public-purpose Crown-controlled companies that are listed in Schedule 35 of the ITA. To qualify for the exemption and be added to Schedule 35, a company must:

- be listed in Schedule 4A of the Public Finance Act 1989
- be wholly owned by the Crown or local authorities, and
- have a primary purpose of carrying out a public policy objective of the Government of New Zealand.

45 Ferry Holdings Limited (FHL) is a wholly Crown-owned company listed in Schedule 4A of the Public Finance Act 1989. FHL has requested that it be made tax-exempt by adding it to Schedule 35.

Role of FHL

46 FHL was incorporated in March 2025 to lead procurement for the delivery of two new Cook Strait ferries and related port infrastructure.

47 Under its constitution, FHL cannot be the long-term owner or operator of the ferries. However, FHL may temporarily hold the assets after procurement while an appropriate arrangement for ownership of Crown interests in the assets is being finalised. s 9(2)(b)(ii) s 9(2)(b)(ii)

48 On 17 July 2026, the Minister for Rail announced that, once acquired, KiwiRail will be responsible for operating the ferries; however, it will not own them. s 9(2)(f)(iv)

Proposal

49 We recommend making FHL tax exempt by adding it to Schedule 35. This is because FHL, under its constitution, has a narrow public policy objective of procuring the new ferries and related port infrastructure.

50 FHL is expected to make a loss while undertaking its procurement role. In the absence of a tax exemption, FHL is not expected to have enough taxable income to fully use up its tax losses s 9(2)(b)(ii) As such, the proposed exemption would not have a fiscal impact. The benefit of the exemption for FHL is simply to reduce compliance costs associated with preparing and filing tax returns.

Revisiting exemption if FHL's role changes

51 Our recommendation to make FHL exempt is based on the current intention that FHL has a narrow procurement role (including temporarily holding the assets after procurement while an appropriate arrangement for ownership of Crown interests in the assets is being finalised). However, a decision to make FHL exempt from income tax should be revisited if FHL's future role materially changes.

52 s 9(2)(g)(i)

Application date

53 The proposed income tax exemption would apply retrospectively from the date of FHL's incorporation on 5 March 2025.

Informing FHL's shareholding Ministers

54 If you agree to make FHL tax exempt, we recommend sending the attached draft letter to FHL's shareholding Ministers to inform them of your decision.

Operational implications

55 Inland Revenue can deliver the remedial changes included in this report based on our current work programme, and on what we understand the Government intends for Inland Revenue to deliver in the future. However, this Bill will reduce Inland Revenue's change capacity, and the resourcing of policy items within the Bill should be considered when thinking about Inland Revenue's ability to deliver future initiatives. While Inland Revenue will self-fund the departmental capital and operating costs to deliver these initiatives within existing baselines, we note this may require prioritisation or the potential of trade-offs becoming unavoidable within our fixed nominal baseline.

Consultation

56 The Treasury was consulted on this report.

Next steps

57 If you agree to the recommendations, we will develop legislative changes to give effect to the proposals. These will be included in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026.

Recommendations

We recommend you:

1 **Agree** that remedial amendments agreed to in this report be included in the 2026–27 Annual Rates Bill.

Agree / Disagree

2 **Agree** that, unless otherwise specified, the amendments would take effect on the day after the Bill receives Royal assent.

Agree / Disagree

3 **Refer** a copy of this report to the Minister of Finance.

Refer - yes / no

Donation tax credits in-year refunds

4 **Agree** that the donation tax credit in-year refunds are only available to customers who file digital claims using myIR.

Agree / Disagree

5 **Agree** that for claims made during the year the maximum entitlement threshold for donations eligible for the donation tax credit will be the lesser of $100,000 and the donor's reportable income.

Agree / Disagree

6 **Agree** that after the end of the year the maximum entitlement threshold for donations eligible for the donation tax credit would be the lesser of $100,000 and the greater of the donor’s reportable income and taxable income.

Agree / Disagree

7 **Agree** that recommendations 4, 5 and 6 apply from 1 April 2028, the date in-year refunds will begin.

Agree / Disagree

Automated decision-making – safeguards for operational use

8 **Agree** to a legislative requirement for Inland Revenue to develop a set of appropriate automated decision-making safeguards to be approved in consultation with the Office of the Privacy Commissioner and the Human Rights Commission (reviewed at least every three years and published on the Inland Revenue website).

Agree / Disagree

Transfers from overseas pension schemes – social policy

9 **Agree** to exclude transfers from overseas pension schemes from income for the purposes of the child support and student loan rules.

Agree / Disagree

10 **Agree** to this amendment applying retrospectively from 1 April 2026, when the "scheme pays" option took effect.

Agree / Disagree

Increase straight-line method threshold in financial arrangements rules

11 **Agree** to increase the straight-line method threshold in the financial arrangements rules to $3 million.

Agree / Disagree

DTA deemed source rule exclusion for technical services fees

12 **Agree** that the double tax agreement deemed source rule be amended to ensure that the technical services fees exclusion applies to all double tax agreements.

Agree / Disagree

Subsidiaries wholly owned by industry skills boards

13 **Agree** to extend the income tax exemption for industry skills boards to any wholly owned subsidiaries.

Agree / Disagree

14 **Agree** that charity deregistration tax should not apply to a tax-exempt subsidiary wholly owned by industry skills boards.

Agree / Disagree

15 **Agree** that these amendments take effect from 22 October 2025, the date the Education and Training (Vocational Education and Training System) Amendment Act 2025 came into force.

Agree / Disagree

Tax exemption for FHL

16 **Agree** to make Ferry Holdings Limited exempt from income tax by adding it to Schedule 35 of the Income Tax Act 2007.

Agree / Disagree

17 **Agree** that the amendment take effect from Ferry Holdings Limited's establishment on 5 March 2025.

Agree / Disagree

18 **Agree** to send the attached letter to Ferry Holdings Limited's shareholding Ministers to inform them of your decision in recommendation 16 above.

Agree / Disagree

s 9(2)(a)

Peter Frawley

Policy Lead

Policy | Inland Revenue

30 July 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Transitional residence: alignment with DTA tax residence

Date	6 August 2026	**Priority**	Medium
Security level		**Report number**	IR2026/241
Bill name	2026-27 Annual Rates Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to the proposed policy change, with effect from 1 April 2027 **Agree** to manage the cost of the proposed change against the tax policy scorecard	17 August 2026
Minister of Revenue	**Agree** to the proposed policy change, with effect from 1 April 2027 **Agree** to manage the cost of the proposed change against the tax policy scorecard **Refer** report to Minister of Immigration and Minister for Trade and Investment.	17 August 2026

Purpose
This report seeks a decision from Ministers to align the beginning of transitional residence entitlements with when an individual "tie breaks" as a tax resident to New Zealand under an applicable double tax agreement (DTA). The report also seeks Ministers' agreement to include this change in the 2026-27 Annual Rates Bill and to manage the cost of the change against the tax policy scorecard.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Emma Grigg	Policy Director	s 9(2)(a)	✓
Hamish Dick	Senior Policy Advisor, International	s 9(2)(a)	☐

Transitional residence: alignment with DTA tax residence

Background

1 At the end of July, we reported to the Ministers of Revenue and Immigration on "Tax settings affecting migration and investment – feedback from Active Investor Plus (AIP) investor reference group and recommended next steps" [IR2026/186 refers]. This report was referred to the Minister of Finance and the Minister for Trade and Investment.

2 The purpose of that report was to set out Inland Revenue's recommendations regarding tax barriers that may be affecting migration decisions, informed by a small external reference group. The work was prompted by concerns raised in relation to the AIP visa programme, but the recommendations were intended to support a broader range of investors, migrants and returning New Zealanders.

3 Alongside identifying opportunities for further policy work, the report identified two practical steps that could be progressed quickly to improve certainty and investor confidence, specifically:

- improving public guidance and communications, especially in relation to tax residence and the permanent place of abode test, and
- making a targeted policy change to align New Zealand's transitional residence entitlements with when someone becomes a New Zealand tax resident under an applicable double tax agreement (DTA).

4 Inland Revenue is already progressing the first of these items, with tax residence guidance specifically targeted towards AIP investors to be published shortly.

5 This report seeks your agreement to include the second of these items in the 2026-27 Annual Rates Bill, due to be introduced in September, as discussed at the Inland Revenue officials' meeting with the Minister of Revenue on Tuesday 4 August.

6 This report also seeks your agreement to manage the cost of this change, $13.4 million operating over the forecast period, against the tax policy scorecard.

7 Our view is that this change does not meet the "significant or controversial" threshold that would mean it requires separate Cabinet approval (as in para 5.12 of the Cabinet Manual). As such, joint approval from the Ministers of Finance and Revenue is sufficient for this to be included in the 2026-27 Annual Rates Bill.

Recommended change

8 New Zealand's transitional residence rules provide a temporary tax exemption for certain foreign-sourced income for new and returning migrants (eg, in relation to controlled foreign companies, foreign investment funds (FIFs), financial arrangements and trusts), producing a result that is the same as if the transitional resident were non-resident in New Zealand for tax purposes.

9 An individual is automatically a transitional resident if they are a new migrant to New Zealand or a New Zealander returning home (if they have not been a tax resident in New Zealand in the 10 years before they qualified). The transitional residence period runs for around 4 years, after which the individual is treated like any other New Zealand tax resident and liable to tax on their worldwide income.

10 The proposed change would update New Zealand's transitional residence rules so that, where a DTA applies, a person's transitional residence period begins only when they are treated as tax resident in New Zealand under the DTA tie-breaker rules.

11 At present, where an individual is tax resident in more than one jurisdiction, they may "tie break" as a resident away from New Zealand so that, although they are tax resident here under our domestic law, they are treated as non-resident under a DTA meaning New Zealand does not have primary taxing rights over certain foreign-sourced income. In this sense, "tie breaking" as a tax resident to another jurisdiction has much the same effect as being a transitional resident in New Zealand.

12 The proposed change would better align transitional residence entitlements with the point at which New Zealand becomes the individual's primary taxing jurisdiction. The change would ensure individuals receive the full benefit of the transitional residence exemption when they become subject to New Zealand's tax system, rather than having part or all of that entitlement used during a period when another country continues to hold primary taxing rights over their income.

13 The current rules can produce outcomes that are difficult for migrants and investors to understand, as transitional residence begins when a person becomes a New Zealand tax resident under domestic law regardless of whether a DTA subsequently treats them as resident in another jurisdiction. As a result, an individual may begin using their transitional residence period before they are effectively subject to New Zealand taxation on the same basis as a sole New Zealand resident.

14 This has emerged as a particular problem for AIP migrants who wish to purchase a residence in New Zealand. They have expressed concern that purchasing a residence could result in them becoming tax residence in New Zealand (under our permanent place of abode test), even though they tie-break to another country under a DTA. This is because there is a significantly higher bar for tie-breaking to New Zealand under a DTA than there is for becoming resident here under our domestic law.

15 This issue has reportedly made some migrants reluctant to purchase property here or otherwise deepen their ties with New Zealand.

16 The proposed change would help alleviate this problem by providing assurance to migrants that purchasing property (and other steps to deepen their ties with New Zealand) will not prematurely trigger their transitional residence period.

Reference group feedback

17 We heard from the reference group that this interaction between domestic tax residence rules, DTA tie-breaker provisions, and transitional residence settings creates unnecessary complexity and uncertainty for investors, particularly for individuals with significant overseas assets, investments, or business interests. This is particularly true for those investors who want to put down limited roots in New Zealand, for example by purchasing property that may become a "permanent place of abode" (a trigger for New Zealand tax residence).

18 We agree with the reference group that the proposed change would provide a clearer and more intuitive outcome for both new and returning migrants. It is intuitive for individuals that their transitional residence period starts when New Zealand becomes their primary country of tax residence under the relevant tax treaty.

19 The reference group consistently emphasised the importance of certainty, predictability, and simplicity. While many concerns raised by stakeholders can be addressed through improved guidance and communications, which is underway, this targeted policy change would directly address one of the areas where legislative settings contribute to uncertainty. By aligning the commencement of transitional residence with DTA residence outcomes, the rules would become easier to explain, easier to understand, and more consistent with how internationally mobile individuals generally expect tax residence concessions to operate.

20 We consider this to be a proportionate and low risk change that supports the Government's objective of attracting globally mobile talent and capital while maintaining the integrity of the tax system.

21 Unlike broader reforms to transitional residence, the proposal does not expand the scope of exempt income or create a new concession. Instead, it ensures that existing entitlements are available at the point they are most relevant and valuable.

22 Although the economic benefits of this change cannot be quantified, as Inland Revenue does not collect specific data on transitional residents, the clear feedback from the reference group is that this change will make New Zealand's tax residence settings more attractive and easier to understand.

23 The purpose of the change is to preserve the optionality available to dual tax residents who may wish to, at some point, make New Zealand their primary home. In doing so, this change remedies a tax setting that we understand has been a deterrent to high-wealth AIP investors (and therefore, presumably, other migrants too). The view of the reference group was that removing this deterrent was a simple, effective way to further the Government's objective of reducing barriers to migration and investment. In turn, reducing barriers to migration and investment can be expected to deepen the well of productive capital, talent and entrepreneurship in New Zealand, which is critical to economic growth.

Operational implications

24 Transitional residence is an automatic entitlement, meaning transitional residents are not required to make any kind of declaration to Inland Revenue. As such, the administrative implications of this change are minor and absorbable within departmental baselines.

Financial implications

Tax Revenue impact

25 The proposed change has an estimated fiscal impact of $13.4 million over the forecast period (although settling around $10 million per annum in outyears).

26 It is recommended that you manage this cost against the tax policy scorecard. The balance of the scorecard is $63.4 million (increased to $65.4 million if all items in the omnibus Annual Rates Bill 2026-27 paper are agreed). Adding in this change would reduce the scorecard balance to $52.0 million.

27 This costing is based on a 1 April 2027 application date and assumes that only a small number of individuals will benefit from the change. This is because only a fraction of transitional residents will be affected; namely, those who do not tie break as a resident New Zealand resident immediately upon becoming a tax resident here but will at a later date, and who have overseas income that they would otherwise report at that date (only a small fraction of transitional residents, around 3%, report overseas income at the end of their transitional residence period, and there will also be no change to those individuals who are not covered by a DTA).

28 As noted in previous advice, extending transitional residence entitlements costs around $30,000 on average each year per transitional resident [IR2026/186 refers].

29 Some stakeholders may prefer an earlier, retrospective application date so that individuals who have already triggered New Zealand tax residence (but who currently tie break elsewhere) benefit from the change. Making this change retrospective would add significantly to the cost of the policy change and may make the policy more likely to meet the significance threshold requiring Cabinet policy approval. Applying the policy change from 1 April 2026, for instance, would have a fiscal cost of $23.6 million over the forecast period.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Crown Revenue and Receipts:					
Tax Revenue – Other Persons	-	(0.600)	(3.000)	(2.000)	(7.800)
Total Operating	**-**	**0.600**	**3.000**	**2.000**	**7.800**
	2030/31	**2031/32**	**2032/33**	**2033/34**	**2034/35 & outyears**
Tax Revenue – Other Persons	(10.200)	(12.400)	(9.600)	(9.600)	(9.600)
Total Operating	**10.200**	**12.400**	**9.600**	**9.600**	**9.600**

Administrative impact

30 Inland Revenue guidance reflecting this change will be delivered through Inland Revenue's current change capacity. No new operating funding is required.

Consultation

31 The proposed change was strongly supported by the officials-led reference group convened to discuss tax settings affecting migration and investment s 9(2)(a)

32 Given the desire for this change to be included in the 2026-27 Annual Rates Bill, due for introduction in September, we have not undertaken any further external consultation in relation to the proposed change.

33 As noted in relation to IR2026/186, MBIE was represented on the officials-led reference group. MBIE supports the focus on reducing uncertainty in relation to tax residence and improving investor confidence, which this change is designed to achieve.

34 The Treasury is comfortable with the cost of this change being managed against the tax policy scorecard.

Next steps

35 Subject to your agreement, this proposal will be included in the 2026-27 Annual Rates Bill scheduled for introduction on 8 September 2026.

36 A Cabinet paper seeking approval to introduce the Bill is due to be lodged on 27 August for consideration by the Cabinet Legislation Committee on 3 September and Cabinet on 7 September.

Recommendations

We recommend that you:

1 **Agree** to align the beginning of transitional residence entitlements with when an individual "tie breaks" as a tax resident to New Zealand under a double tax agreement, if applicable.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

2 **Agree** that the change should be included in the 2026-27 Annual Rates Bill, with effect from 1 April 2027.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Financial Recommendations

3 **Note** the following tax revenue forecast changes as a result of the decision in recommendation 1 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Crown Revenue and Receipts:					
Tax Revenue – Other Persons	-	(0.600)	(3.000)	(2.000)	(7.800)
Total Operating	**-**	**0.600**	**3.000**	**2.000**	**7.800**
	2030/31	**2031/32**	**2032/33**	**2033/34**	**2034/35 & outyears**
Tax Revenue – Other Persons	(10.200)	(12.400)	(9.600)	(9.600)	(9.600)
Total Operating	**10.200**	**12.400**	**9.600**	**9.600**	**9.600**

4 **Agree** to manage the decrease in tax revenue from your decision in recommendation 1 above against the tax policy scorecard, which has a balance of $63.4 million.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

5 **Note** that if you do not agree to the fiscal impacts being charged against the tax policy scorecard, the fiscal impacts of your decision in recommendation 1 will be managed against the forecasts and will flow-through to the operating balance.

6 **Note** that Inland Revenue will self-fund any departmental operating and capital costs arising from this initiative.

7	**Refer** this report to the Minister of Immigration and Minister for Trade and Investment. Agree / Disagree *Minister of Revenue*

s 9(2)(a)

Emma Grigg
Director
Policy | Inland Revenue
6 August 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Cabinet paper: Measures for inclusion in 2026–27 Annual Rates Bill

Date	30 July 2026	**Priority**	High
Security level		**Report number**	IR2026/210
Bill name	2026–27 Annual Rates Bill (Name TBC)		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	13 August 2026
Minister of Revenue	**Agree** to recommendations **Approve** and **lodge** the attached Cabinet paper with the Cabinet Office by 10am Thursday 13 August 2026	13 August 2026

Purpose
This report seeks agreement to set the annual rates of income tax for the 2026–27 tax year and to approve and lodge the attached Cabinet paper seeking approval for the eight policy measures for inclusion in the 2026–27 Annual Rates Bill.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Peter Frawley	Policy Lead	s 9(2)(a)	☐
Matt Pilkinton	Bill Manager	s 9(2)(a)	✓
Kaitlyn Payne	Bill Coordinator	s 9(2)(a)	☐

Cabinet paper: Measures for inclusion in 2026–27 Annual Rates Bill

Background

1 This report provides a draft Cabinet paper seeking approval to set the annual rates of income tax for the 2026–27 tax year and the other policy proposals to be included in the 2026–27 Annual Rates Bill (the Bill).

2 This Cabinet paper is due to be considered by the Cabinet Economic Policy Committee at its meeting on 19 August 2026 and confirmed by Cabinet on 24 August 2026.

Set annual income tax rates for 2026–27 tax year

3 The Income Tax Act 2007 (ITA) requires the rates of income tax to be set each tax year by an annual taxing Act.

4 It is proposed that the Bill set the annual rates of income tax for the 2026–27 tax year at the same rates specified in Schedule 1 of the ITA.

5 This would not have any fiscal or administrative implications.

Other policy proposals in Cabinet paper

6 There are seven other policy proposals included in the draft Cabinet paper:

- clarify legislative authority for automated decision-making (IR2026/175 refers)
- student loans – amend the arrest-at-border power (IR2026/005 refers)
- zero-rate GST on electricity exported to the grid from residential premises (IR2026/171 refers)
- approved issuer levy (AIL) simplification (IR2026/162 refers)
- foreign investment fund (FIF) changes (IR2026/118 refers)[1]
- cryptoasset simplification (IR2026/200 refers), and
- charities recommended for overseas donee status (IR2026/161 refers).

7 Ministerial approval for these proposals was sought through the reports referenced.

Extending Investment Boost to aircraft engines

8 The draft Cabinet paper also seeks to inform Cabinet of a remedial amendment to extend Investment Boost to aircraft engines (IR2026/158 refers).

Regulatory analysis summaries

9 Regulatory analysis summaries (RAS) are required for the following three proposals included in the Cabinet paper and are attached to this report:

- clarifying legislative authority for automated decision-making (draft)
- student loans – amending the arrest at border power (draft), and
- zero-rating GST on electricity exported to the grid from residential premises (final).

10 Final versions of the two draft RASs will be provided to your office before lodgement of the Cabinet paper.

[1] Note these changes are additional to the FIF changes already approved through Budget 2026.

Other proposals to be included in the Bill

11 The Bill will also include a number of initiatives already approved through Budget 2026 as well as some minor and remedials measures that do not require Cabinet approval. The Budget initiatives to be included in the Bill are:

- simplifying fringe benefit tax rules for motor vehicles
- changes to the FIF rules
- increasing the thin capitalisation requirements for foreign-owned banking groups
- changes to the financial arrangements rules to support new migrants
- simplifying and modernising non-resident contractors' tax
- improvements to the Research and Development Tax Incentive, and
- changes to tax rules for charities and not-for-profits.

Cabinet approval for all not-for-profits changes

12 In March 2026, a package of not-for-profit tax changes were agreed to by the Minister of Finance and the Minister of Revenue (IR2026/062 refers). This package of changes was taken to Cabinet as part of Budget 2026 (Initiative 17532). These not-for-profit changes were subsequently announced on Budget Day. Officials have therefore proceeded on the basis that all these changes were agreed to be Cabinet even though the relevant Budget Cabinet minute (CAB-26-MIN-0156.59) only records Cabinet's agreement to the higher profile changes, such as a change to ensure membership subscriptions and levies remain non-taxable.

Fiscal implications

Tax Policy Scorecard

13 The following three proposals included in the draft Cabinet paper have financial implications that you have previously agreed would be managed through the Tax Policy Scorecard (the Scorecard) mechanism:

- zero-raying GST on electricity exported to the grid by residential premises
- AIL simplification, and
- FIF changes.

14 The total impact of these proposals is an increase in tax revenue of $2.002 million over the forecast period, 2025/26 to 2029/30.

15 The balance of the Scorecard until 30 June 3030 is currently $63.355 million.[2] If Cabinet agrees to the above three proposals, the balance of the Scorecard will be $65.357 million.

Overseas donee status

16 The estimated financial implications of giving overseas donee status to six additional charities would be a decrease to revenue of $0.957 million over the forecast period. The financial implications will be treated as a forecasting change.

[2] This balance reflects Ministers' decisions on minor and remedial changes that do not require Cabinet approval to be included in the Bill.

Consultation

17 The Treasury was consulted on this report and the draft Cabinet paper. The Department of the Prime Minister and Cabinet and the Ministry for Regulation were consulted on the draft Cabinet paper.

Next steps

18 The attached Cabinet paper is due to be considered by the Cabinet Economic Policy Committee at its meeting on 19 August 2026 and confirmed by Cabinet on 24 August 2026.

19 Please advise officials of any changes you wish to make to the draft Cabinet paper and then refer the final Cabinet paper to the Cabinet Office for lodgement by 10am on Thursday 13 August 2026.

20 The draft Cabinet paper does not include the proposal to replace the Stamp and Cheque Duties Act 1971 with a new Approved Issuer Levy Act (IR2026/162 refers). If you agree to this proposal we will add it to the draft Cabinet paper.

21 If Cabinet agrees to the recommendations, officials will develop legislative changes to give effect to the policy proposals. These will be included in the Bill scheduled for introduction in September 2026.

22 A draft LEG paper seeking Cabinet approval to introduce the Bill will be provided to the Minister of Revenue on 18 August 2026 for consideration by the Cabinet Legislation Committee at its meeting on 3 September 2026.

Recommendations

We recommend you:

1 **Agree** to set the annual rates of income tax for the 2026–27 tax year at the same rates specified in Schedule 1 of the Income Tax Act 2007.

Agree / Disagree	Agree / Disagree
Minister of Finance	*Minister of Revenue*

2 **Approve** and **lodge** the attached Cabinet paper and regulatory analysis summaries with the Cabinet Office by 10am Thursday 13 August 2026 for consideration by the Cabinet Economic Policy Committee on 19 August 2026.

Approved / Not approved	Approved / Not approved
Minister of Finance	*Minister of Revenue*

s 9(2)(a)

Peter Frawley

Policy Lead

Policy | Inland Revenue

30 July 2026

Hon Nicola Willis	Hon Simon Watts
Minister of Finance	**Minister of Revenue**
/ /2026	/ /2026

Office of the Minister of Revenue

Cabinet Economic Policy Committee

Measures for inclusion in 2026–27 Annual Rates Bill

Proposal

1 This paper seeks agreement to eight general policy measures that require changes to tax legislation.

Relation to government priorities

2 The measures in this paper promote government priorities by maintaining the integrity of the tax system and making it easier for taxpayers to meet their obligations.

Executive Summary

3 I recommend amendments to tax legislation to give effect to the following eight policy proposals for inclusion in the 2026–27 Annual Rates Bill (the Bill):

3.1 set the annual income tax rates for the 2026–27 tax year

3.2 clarify legislative authority for automated decision-making

3.3 student loans – amend the arrest-at-border power

3.4 zero-rate GST on electricity exported to the grid from residential premises

3.5 approved issuer levy (AIL) simplification

3.6 foreign investment fund (FIF) changes

3.7 cryptoasset simplification, and

3.8 charities recommended for overseas donee status.

4 Unless otherwise specified, I recommend that the above changes would take effect on the day after the Bill receives Royal assent.

5 The Bill will also include a number of tax changes approved through Budget 2026 [CAB-26-MIN-0156.58 and CAB-26-MIN-0156.59 refers] and some minor and remedial changes approved by me and the Minister of Finance.

Set annual income tax rates for 2026–27 tax year

6 The Income Tax Act 2007 requires the rates of income tax be set in legislation each tax year. I propose that the Bill set the annual rates of income tax for the 2026–27 tax year at the same rates specified in Schedule 1 of the Income Tax Act 2007.

Clarify legislative authority for automated decision-making

7 s 9(2)(h) [redacted]

8 s 9(2)(h) [redacted]

9 I propose the introduction of a prospective legislative clarification that Inland Revenue has authority for the use of automated decision-making. This would give Inland Revenue clear authorisation to continue its current use of ADM and would also allow wider use of ADM in future as appropriate. There would be operational guidelines limiting the use of ADM to clear, rules-based decisions.

10 I also propose the introduction of a legislative requirement that Inland Revenue develop a set of appropriate ADM safeguards, modelled on the Ministry of Social Development's ADM standard, to address concerns about transparency, accountability, and the fairness of decisions made using ADM. These safeguards must be approved in consultation with the Office of the Privacy Commissioner and the Human Rights Commission.

11 The safeguards would be published on Inland Revenue's website and would be reviewed at least every three years.

Student loans – amend arrest-at-border power

12 In November 2025, the Cabinet Economic Policy Committee invited the Minister for Universities and Minister of Revenue to report back with proposals to improve student loan overseas-based borrower (OBB) compliance [ECO-25-MIN-0202 refers].

13 Inland Revenue has the power to apply for a warrant to arrest OBB student loan defaulters when they seek to leave New Zealand (after returning from overseas), if they have not made attempts to remedy their default. This power is used selectively and only after all reasonable attempts to contact and engage with the borrower have been exhausted. The prospect of arrest

encourages borrowers to engage with Inland Revenue and address their loan obligations.

14 s 18(c)(i) [redacted]

15 I recommend amending the provision so that, when Inland Revenue has been unable to notify a borrower despite making reasonable efforts, it can rely on evidence of previous engagement with the borrower to demonstrate that the borrower was aware of their obligations and knowingly chose not to comply. This could be shown through a borrower's engagement with electronic messages and phone calls with Inland Revenue about their debt.

16 s 18(c)(i) [redacted]

Zero-rate GST on electricity exported to grid from residential premises

17 If a GST-registered person sells surplus electricity generated on their residential premises to their electricity retailer, that sale is subject to GST at the standard rate of 15%. This applies even if the person's GST registration has nothing to do with electricity generation (for example, a GST-registered plumber with solar panels on the roof of their home). Inland Revenue estimates this issue affects around 4,000 GST-registered persons.

18 Under the current treatment, electricity retailers claim a GST deduction for the electricity they purchase from GST-registered persons. If a GST-registered person does not realise they must account for GST on the sale of that electricity, Inland Revenue will refund more GST than it collects, creating a mismatch.

19 The current treatment relies on GST-registered persons correctly accounting for GST on the sale of that electricity. Most GST-registered persons in this situation do not realise that those sales are subject to GST and therefore do not correctly account for GST.

20 I therefore propose that surplus electricity exported to the grid from GST-registered residential premises should be zero-rated for GST purposes (subject to GST at a rate of 0%) to address the mismatch and safeguard GST revenue. I recommend this amendment apply from 1 April 2027.

21 s 18(c)(i) [redacted]

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s 18(c)(i) [redacted]

s 18(c)(i)

AIL simplification

22 The AIL regime provides New Zealand-resident borrowers with an alternative levy they can pay on loans from non-resident lenders instead of deducting non-resident withholding tax. The levy is 2% of the interest payable to the lender, compared with non-resident withholding tax of 10% or 15%. The regime is intended to lower the cost of capital for New Zealand borrowers. I recommend the following changes to simplify the regime and strengthen its integrity.

AIL filing requirements

23 I propose increasing the threshold above which borrowers are required to file AIL returns monthly from $500 of AIL per year to $10,000, and shifting from six-monthly to annual filing for borrowers who fall below this threshold (*1 April 2027 application*). This would reduce compliance costs for around 55% of AIL filers and align the timing of AIL filing with borrowers' standard income tax return process.

Deregistering securities

24 I propose allowing Inland Revenue to deregister securities for AIL purposes for a non-compliant borrower (*application to securities registered on or after 1 October 2027*). A security could be re-registered at a later time if the issues leading to non-compliance have been resolved and the borrower is considered likely to be compliant in the future.

25 Currently, Inland Revenue can deregister a borrower for AIL purposes, but that borrower can continue to pay AIL for all previously registered securities. This creates an integrity risk because it does not encourage continued compliance once a security has been registered. Under this proposal, once a security has been deregistered borrowers would be required to withhold non-resident withholding tax instead of paying AIL.

New Approved Issuer Levy Act

26 I propose replacing the Stamp and Cheque Duties Act 1971 (SDCA) with a new Approved Issuer Levy Act. The AIL provisions are the only operative part of the SCDA; all other regimes previously contained in that Act have been repealed. Transferring the AIL provisions to a new AIL Act will not affect the substance of these provisions or outcomes, but would improve accessibility and transparency of the AIL regime for taxpayers.

FIF changes

27 The FIF rules apply to a person with a non-controlling interest in a foreign company (for example, a person holding shares in a foreign company). Budget 2026 included a number of changes to the FIF rules to reduce tax

barriers to better attract and retain skills and capital [CAB-26-MIN-0156.59 refers]. I recommend three further changes to the FIF rules to further reduce tax barriers and better attract and retain skills and capital.

FIF calculation methods for FIF interests held through foreign company

28 I propose allowing a person with an indirect attributing interest in a FIF to choose the same FIF calculation method(s) that are available for their direct interests (*1 April 2026 application*).

29 The comparative value (CV) method and the recently introduced revenue account method (RAM) to calculate FIF income are only available to natural persons and trusts. If the person indirectly owns a FIF, by owning a controlling interest in another foreign company that owns the FIF, they will be taxed directly on the FIF income but cannot currently use these calculation methods. However, there is no policy reason why a person should be restricted in the choice of FIF calculation methods they can use for their indirect FIF interests compared to the FIF interests they hold directly.

RAM exit tax for non-residents

30 I propose extending the RAM exit tax so that it also applies when a person becomes non-resident under a double tax agreement (*1 April 2027 application*).

31 The RAM introduced in 2026 taxes FIF interests on dividends and gains and losses from disposal. To prevent incentivising people to leave New Zealand before they sell their FIF interests, the RAM includes an exit tax that taxes a person on any RAM interest they sell within three years of leaving New Zealand. However, this exit tax is only triggered if the person becomes non-resident under domestic law. It does not currently apply if a person is treated as non-resident under a double tax agreement.

Concurrent use of FIF cost and CV methods

32 I propose clarifying the FIF rules to allow taxpayers to use the cost method for FIF investments with no readily available market value, while retaining the choice to use the fair dividend rate (FDR) or CV methods for their FIF investments with a readily available market value (*application to 2026–27 and later income years*).

33 Individuals and trusts generally have a choice between the FDR and CV methods to calculate their income from their FIF interests each year. The FDR method has a “back up” method (the cost method) for FIF interests if there is no readily available market value, like unlisted shares.

34 Currently, there is a risk that if a taxpayer uses the cost method for their unlisted FIF interests, then they must use the FDR method for their listed FIF interests and cannot choose to use the CV method. This means the choice between the FDR and CV methods is largely removed for individuals and trusts that have any unlisted FIF interests.

Cryptoasset simplification

35 I propose two simplification measures to the tax rules applying to cryptoassets.

Decentralised finance

36 I propose introducing equivalent rules to the share lending rules for cryptoassets provided as part of a decentralised finance (DeFi) transaction where equivalent assets are returned (*1 April 2027 application*).

37 DeFi transactions using cryptoassets can involve a person providing cryptoassets to another person or pool for use by others, with equivalent assets returned at the end of the transaction. Economically, the person has lent the cryptoassets; however, current tax rules may treat this as a disposal and reacquisition of new assets. This can bring forward taxable income or losses even though the person's overall gain or loss over the holding period is unchanged.

38 The share lending rules, which deal with similar transactions involving shares, avoid this timing issue by treating the disposal and reacquisition as occurring at the original acquisition cost. This preserves the person's cost base, so any gain or loss is recognised only on final disposal.

Stablecoins

39 I propose exempting qualifying fiat-denominated stablecoins from the rule taxing personal property acquired for disposal (*1 April 2027 application*).

40 Stablecoins are increasingly used as a transactional medium rather than as a speculative investment. However, because they are usually acquired with the purpose of disposal, gains and losses can be taxable when they are used as payment for goods and services.

41 Although a stablecoin aims to maintain its value relative to its reference currency, commonly the US dollar, its value can fluctuate when converted to New Zealand dollars. Requiring taxpayers to calculate income on each disposal can therefore impose significant compliance costs despite little or no economic gain arising from movements in the stablecoin itself. Excluding qualifying stablecoins from tax solely because they were acquired for the purpose of disposal would reduce these compliance costs and remove a potential barrier to the use of digital payment technologies.

Charities recommended for overseas donee status

42 Overseas donee status allows certain New Zealand-registered charities that work overseas to receive donations that qualify for tax benefits in New Zealand. Normally, these tax benefits are only available for donations to charities working in New Zealand. To give a charity overseas donee status, Parliament must change the law and add the charity to the approved list in the Income Tax Act 2007. The Legislation Design and Advisory Committee

(LDAC) has confirmed that the use of legislation is appropriate for granting this status.

43 Cabinet has longstanding criteria for granting overseas donee status [CM 78/14/7 refers]. The purposes of the charities I am recommending come within Cabinet's approval criteria. All the charities recommended in this paper have adequate systems to show how donated money is spent, as per Cabinet's expectations set out in CBC Min (09) 12/2.

44 The recommended charities are seeking overseas donee status to grow their New Zealand donor bases and expand their work in the countries where they operate.

45 I recommend the following charities be granted overseas donee status from 1 April 2026:

45.1 **Africa on Fire Charitable Humanitarian Trust Board:** Supports humanitarian and community-based activities in Mozambique. The charity's purpose is to provide welfare support, humanitarian relief, and community resilience initiatives, including assistance to vulnerable families affected by crisis and instability.

45.2 **Pacific Islands Pacemaker Services (PIPS) Charitable Trust:** A New Zealand registered charity providing lifesaving cardiac pacemaker services to people living in the Pacific Islands and developing capability in Fiji, with the aim of preventing premature death from untreated heart conditions.

46 I also recommend the following charities be granted overseas donee status for seven years starting from 1 April 2026 and ending 31 March 2033. Imposing a time limit is appropriate for these charities for the reasons set out below. I have asked my officials to track the progress of these four charities in 2030.

46.1 **Atmabhav Charitable Trust:** Supports projects in India that are directed towards the relief of poverty and the advancement of education. The trust has recently started activities in India and does not have an established programme for raising funds from the public.

46.2 **Dream for Life Trust:** Provides resources to support the delivery of tertiary education in Odisha, India, with a focus on computer training and English, to help students get better job opportunities in the future. The trust has recently commenced in-country activities.

46.3 **Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust:** Delivers humanitarian and medical aid in Ukraine in response to the armed conflict. The charity's immediate focus is on providing relief from the effects of the current conflict, rather than rebuilding Ukraine after the war.

46.4 **The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated:** Supports rehabilitation services for children and young adults with physical disabilities in Indonesia, particularly those from very poor families. This charity does not yet have an established programme for raising funds from the public.

47 I also propose to remove CORSO (Incorporated) from the list of approved charities in the Income Tax Act 2007. Inland Revenue notes that it is no longer a registered charity and is no longer applying funds outside New Zealand. For this reason, CORSO (Incorporated) is no longer a suitable organisation to have overseas donee status.

Other measures to be included in 2026–27 Annual Rates Bill

48 The Bill will also include a number of measures announced in Budget 2026 [CAB-26-MIN-0156.58 and CAB-26-MIN-0156.59 refers] and some minor or remedial measures approved by me and the Minister of Finance.

Extending Investment Boost to aircraft engines

49 One remedial measure that the Minister of Finance and I have agreed to is extending Investment Boost to aircraft engines. This would apply retrospectively from 22 May 2025 (the commencement date for Investment Boost).

50 Currently, Investment Boost is available for the body of an aircraft but not its engine. This is because the engine is not a depreciable asset but is instead subject to a separate amortisation regime. It was not an intentional policy decision to exclude aircraft engines from the scope of Investment Boost. Rather, it was not identified that aircraft engines are not depreciable assets during the development of the Investment Boost legislation.

51 I am drawing the Committee's attention to this particular remedial amendment because of the fiscal implications of extending Investment Boost to aircraft engines. The proposal would have a fiscal cost of $66 million over the forecast period, however it is neutral against the tax forecasts because the original costing for Investment Boost already assumed that aircraft engines would be eligible.

Cost-of-living Implications

52 There are no cost-of-living implications associated with the proposals in this paper.

Financial Implications

53 The Minister of Finance and I have agreed that the financial implications of the following proposals would be managed through the Tax Policy Scorecard[2] mechanism:

53.1 zero-rating GST on electricity exported to the grid by residential premises

53.2 AIL simplification, and

53.3 FIF improvements.

54 The total impact of these proposals is an increase in tax revenue of $2.002 million over the forecast period, 2025/26 to 2029/30.

55 The estimated financial implications of giving overseas donee status to the six charities referred to in paragraphs 45 and 46 would be a decrease to revenue of $0.957 million over the forecast period. The financial implications will be treated as a forecasting change.

56 As noted at paragraph 51, the remedial amendment to extend Investment Boost to aircraft engines would have a fiscal cost over the forecast period of $66 million, however it is neutral against the tax forecasts because the original costing for Investment Boost already assumed that aircraft engines would be eligible.

57 The remaining proposals have no financial implications.

Legislative Implications

58 Implementing these proposals requires changes to the Income Tax Act 2007, Tax Administration Act 1994, Goods and Services Tax Act 1985, Student Loan Scheme Act 2011 and Stamp and Cheque Duties Act 1971.

59 If approved, I propose including the legislative changes resulting from these proposals in the 2026–27 Annual Rates Bill, scheduled for introduction in September 2026.

60 The Bill holds a category 5 priority on the 2026 Legislation Programme (to proceed to select committee before the 2026 General Election).

[2] The Tax Policy Scorecard is a memorandum account that allows the fiscal impacts of tax policy changes to be offset against one another, rather than being managed through Budget allowances or the between-Budget contingency. Use of the Scorecard requires joint Minister of Finance and Minister of Revenue agreement.

Impact Analysis

Regulatory Analysis Summary (RAS)

Clarifying legislative authority for automated decision-making

61 The quality assurance panel from Inland Revenue has reviewed the Regulatory Analysis Summary (RAS) “Clarifying authority for automated decision-making” prepared by Inland Revenue and associated supporting material on 3 August 2026. The panel considers that the information and analysis summarised in the RAS partially meets the quality assurance criteria.

62 The panel considers that the RAS provides a clear description of the policy issue and the proposed intervention. Some aspects of the analysis would benefit from further development and additional supporting evidence to make the case for change more convincing. In particular, the panel considers that additional evidence is required to support the cost-benefit analysis to fully demonstrate that the preferred approach is robust and proportionate. The information set is currently limited to a few instances where automated decision-making is currently applied and does not fully explain the implications for the future state if automated decision-making is deployed more broadly. Subject to these improvements, the RAS would provide a stronger basis for decision-making and would better meet the quality assurance criteria.

Student loans – amending the arrest at border power

63 The quality assurance panel from Inland Revenue has reviewed the RAS “Amending the student loan arrest at border provision” prepared by Inland Revenue and considers the information and analysis summarised in the RAS meets the quality assurance criteria.

Zero-rating GST on electricity exported to grid by residential premises

64 Inland Revenue's internal quality assurance panel has reviewed the RAS "GST treatment of electricity exported to the grid by residential premises" prepared by Inland Revenue. The panel considers that the information and analysis summarised in the RAS meets the quality assurance criteria.

Exempt proposals

65 The following proposals have been determined as exempt from the RAS requirements because they have only minor or limited impacts:

65.1 AIL simplification

65.2 FIF changes

65.3 cryptoasset simplification

65.4 charities recommended for overseas donee status, and

65.5 extending Investment Boost to aircraft engines.

66 A case-specific exemption applies to the annual setting of income tax rates so long as the rates remain unchanged.

Climate Implications of Policy Assessment

67 For each of the proposals, the Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply because the threshold for significance is not met.

Population Implications

68 There is potential for some population groups to be more impacted by ADM than others. Some agencies consulted by Inland Revenue expressed concern that ADM can produce biased or inflexible outcomes for some population groups and stressed the need for sufficient safeguards to be developed to mitigate these impacts.

69 The charities recommended for overseas donee status support activities that are consistent with New Zealand's overseas development principles. Their work specifically targets development and aid for communities in the Pacific, Asia, Africa and Eastern Europe.

70 There are no specific population implications associated with any of the remaining proposals in this paper.

Human Rights

71 **Student loans – amending the arrest at border power** raises issues relating to freedom from arbitrary arrest and detention, natural justice rights, and (to a lesser extent) freedom of movement. The existing knowledge element serves as a safeguard against penalising borrowers who may be unaware of their default or Inland Revenue's attempts to contact them. The proposal preserves a high threshold for exercising the power (maintaining the requirement to seek a court issued warrant), requiring Inland Revenue to demonstrate that the borrower had sufficient knowledge of their student loan obligations and knowingly chose not to comply before the power can be used. Inland Revenue will continue to engage with borrowers on their obligations and the consequences of continued non-compliance.

72 There are no human rights implications associated with any of the remaining proposals in this paper.

Consultation

73 In addition to the specific consultation undertaken for the proposals outlined below, the Treasury, the Department of the Prime Minister and Cabinet and the Ministry for Regulation were consulted on the contents of this Cabinet paper.

Clarifying legislative authority for automated decision-making

74 The Treasury, Law Commission, Ministry for Regulation, Ministry of Justice, Office of the Privacy Commissioner, Crown Law, Ministry of Social Development, population agencies (Te Puni Kokiri, Ministry for Ethnic Communities, Ministry for Women, and Ministry of Disabled People), New Zealand Law Society, Community Law Centres Aotearoa, the Tax and Social Policy Māori Reference Group and the Māori Law Society were consulted on this proposal.

75 Where appropriate, feedback from these organisations has been incorporated into the recommendations in this paper.

Student loans – amending the arrest at border power

76 The Ministry of Justice and New Zealand Police were consulted on this proposal. The Ministry of Education jointly reported with Inland Revenue on this issue and agreed with the proposal.

77 Assuming the proposal would not substantially change the number of arrests per year, the impact on New Zealand Police would be minimal. However, if the amendment results in an increase in arrests at the border, it could increase operational pressure to manage arrests, as well as adding to court workloads. Any material increase in arrests would need to be managed operationally to avoid placing undue strain on frontline policing and judicial capacity.

Zero-rating GST on electricity exported to grid from residential premises

78 The proposal was publicly consulted on as part of the officials' issues paper "Current GST issues", which was published in May. Officials considered submissions from 12 submitters, including Chartered Accountants Australia and New Zealand, Corporate Taxpayers Group, CPA Australia, Deloitte, the Electricity Retailers and Generators Association New Zealand, EY, KPMG, Meridian Energy, PwC, and Shellock Consulting, together with two individual submitters.

79 Submitters from the electricity industry supported the proposal. Technical improvements to the proposal were made following submissions.

Approved issuer levy simplification

80 The Accountants and Tax Agents Institute of New Zealand, Chartered Accountants Australia and New Zealand, Corporate Taxpayers Group, CPA Australia, Deloitte, KPMG, New Zealand Banking Association, New Zealand Law Society and PwC were consulted on the changes to the AIL rules.

Cryptoasset simplification

81 Inland Revenue has consulted with the Treasury, the Ministry of Business, Innovation and Employment, the Financial Markets Authority and the Reserve Bank of New Zealand on these proposals.

Charities recommended for overseas donee status

82 The Treasury, Ministry of Foreign Affairs and Trade (Pacific and Development Group) and the Department of Internal Affairs – Charities Services were consulted as part of Inland Revenue's analysis of the six charities recommended in this paper.

Communications

83 I will make an announcement regarding the proposals in this paper when the Bill is introduced (currently scheduled for September 2026). A commentary on the Bill will also be released at this time. Inland Revenue will publish details of the new legislation on the Tax Policy website after the Bill is enacted.

Proactive Release

84 I propose to delay the proactive release of this Cabinet paper, associated minutes and key advice papers until after the introduction of the Bill. The expected introduction date is in September 2026.

Recommendations

The Minister of Revenue recommends the Committee:

Annual rates of income tax for 2026–27 tax year

1 **Agree** to set the annual rates of income tax for the 2026–27 tax year at the same rates currently specified in Schedule 1 of the Income Tax Act 2007.

Clarify legislative authority for automated decision-making

2 **Agree** to a prospective legislative amendment to clarify that Inland Revenue has authority for the use of automated decision-making.

3 **Agree** to a legislative requirement for Inland Revenue to develop a set of appropriate automated decision-making safeguards to be approved in consultation with the Office of the Privacy Commissioner and the Human Rights Commission (reviewed at least every three years and published on the Inland Revenue website).

Student loans – amend arrest-at-border power

4 **Agree** to amend the legislative test for seeking a warrant to arrest an overseas-based student loan borrower at the border so that, if Inland Revenue has not been able to notify an overseas-based borrower (despite

reasonable efforts to do so), Inland Revenue can instead rely on earlier engagement with the borrower to demonstrate they had sufficient knowledge of their obligations and knowingly chose not to comply.

Zero-rate GST on electricity exported to grid from residential premises

5 **Agree** that GST be charged at a rate of 0% on surplus energy exported to the grid from residential premises to prevent revenue leakage arising when electricity retailers claim GST on purchases of surplus energy sold by GST-registered households that usually do not account for GST on the sale of that energy.

6 **Agree** that recommendation 5 would take effect from 1 April 2027.

7 **Note** the following changes to tax revenue as a result of recommendation 5 and 6, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – GST	0.120	0.480	0.520	0.560
Total Operating	**(0.120)**	**(0.480)**	**(0.520)**	**(0.560)**

8 **Note** that the Minister of Finance and I have agreed that the increase in Crown tax revenue in recommendation 7 be managed against the Tax Policy Scorecard.

Approved issuer levy simplification

9 **Agree** to increase the approved issuer levy (AIL) filing threshold (above which taxpayers must file monthly) from $500 to $10,000, and to change from six-monthly to annual filing for borrowers below this threshold.

10 **Agree** that recommendation 9 would take effect from 1 April 2027.

11 **Agree** to allow Inland Revenue to deregister securities from the AIL regime when a borrower is non-compliant with their AIL obligations, and to reregister securities to the regime in the future in appropriate cases.

12 **Agree** that recommendation 11 would apply to securities registered from 1 October 2027.

13 **Note** the following changes as a result of recommendations 9 to 12, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Approved Issuer Levy (filing frequency changes)	(0.078)	-	-	-
Tax Revenue – Approved Issuer Levy (security deregistration)	-	0.150	0.200	0.200
Total Operating	**0.078**	**(0.150)**	**(0.200)**	**(0.200)**

14 **Note** that the Minister of Finance and I have agreed that the increase in Crown tax revenue in recommendation 13 be managed against the Tax Policy Scorecard.

15 **Agree** to replace the Stamp and Cheque Duties Act 1971 with a new Approved Issuer Levy Act, by transferring the approved issuer levy provisions of the Stamp and Cheque Duties Act 1971 into the new Approved Issuer Levy Act without changing their substance.

Foreign investment fund (FIF) changes

FIF calculation methods for FIF interests held through foreign company

16 **Agree** to allow a person with an indirect interest in a FIF to choose the same FIF calculation method(s) that would be available if the person held the FIF directly.

17 **Agree** that recommendation 16 would apply from 1 April 2026.

18 **Note** the following changes as a result of recommendations 16 and 17, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**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**

19 **Note** that the Minister of Finance and I have agreed that the decrease in Crown tax revenue in recommendation 18 be managed against the Tax Policy Scorecard.

Revenue account method (RAM) exit tax for treaty non-residents

20 **Note** that a person applying the RAM for their FIF interests is taxable on gains or losses on those interests if they sell those interests within three years of becoming non-resident under the Income Tax Act 2007.

21 **Agree** that the treatment in recommendation 20 be extended to also apply if the person becomes non-resident under a double tax agreement.

22 **Agree** that recommendation 21 would apply from 1 April 2027.

23 **Note** the following changes as a result of recommendations 21 and 22, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**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
Total Operating	**(0.050)**	**(0.200)**	**(0.200)**	**(0.200)**

24 **Note** that the Minister of Finance and I have agreed that the increase in Crown tax revenue in recommendation 23 be managed against the Tax Policy Scorecard.

Concurrent use of FIF cost and comparative value (CV) methods

25 **Agree** that a person can use the cost method for FIF interests with no readily available market value, while retaining the choice to use the fair dividend rate (FDR) or CV method for FIF interests with a readily available market value.

26 **Agree** that recommendation 25 would apply from the 2026–27 income year (1 April 2026 for taxpayers with a standard balance date).

Cryptoasset simplification

27 **Agree** that rules equivalent to the share lending rules apply to cryptoassets provided as part of a decentralised finance (DeFi) transaction where equivalent assets are returned.

28 **Agree** that recommendation 27 would apply to cryptoassets provided for a DeFi transaction from 1 April 2027.

29 **Agree** that qualifying fiat-backed stablecoins be excluded from the rule taxing personal property acquired with the purpose of disposal.

30 **Agree** that recommendation 29 would apply to stablecoins disposed of from 1 April 2027.

Charities recommended for overseas donee status

31 **Agree** that the following charities be given overseas donee status and listed in Schedule 32 of the Income Tax Act 2007, with effect from 1 April 2026:

31.1 Africa on Fire Charitable Humanitarian Trust Board

31.2 Pacific Islands Pacemaker Services (PIPS) Charitable Trust

31.3 Atmabhav Charitable Trust (for a time-limited period, starting 1 April 2026, and ending 31 March 2033)

31.4 Dream for Life Trust (for a time-limited period, starting 1 April 2026, and ending 31 March 2033)

31.5 Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust (for a time-limited period, starting 1 April 2026, and ending 31 March 2033)

31.6 The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated (for a time-limited period, starting 1 April 2026, and ending 31 March 2033).

32 **Note** CORSO (Incorporated) will be removed from Schedule 32 of the Income Tax Act 2007 because it is no longer a registered charity.

33 **Note** the following changes to tax revenue as a result of recommendation 31, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – Other Persons	(0.193)	(0.233)	(0.256)	(0.278)
Total Operating	**0.193**	**0.233**	**0.256**	**0.278**

34 **Note** that the changes in recommendation 33 do not have an impact on Budget allowances or the Tax Policy Scorecard.

Extending Investment Boost to aircraft engines

35 **Note** the Minister of Finance and I have agreed to a remedial amendment to extend Investment Boost to aircraft engines with effect from 22 May 2025 (the commencement date of Investment Boost).

36 **Note** that while the decision in recommendation 35 has a cost of $66 million over the forecast period, it is neutral against the tax forecasts because the original costing for Investment Boost already assumed that aircraft engines would be eligible.

Next Steps

37 **Agree** that the above recommendations be included in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026.

38 **Authorise** the Minister of Revenue to make minor and technical changes to the policies included in this paper before introduction of the Bill.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue

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.

Measures for Inclusion in the 2026-27 Annual Rates Bill

Portfolio **Revenue**

On 19 August 2026, the Cabinet Economic Policy Committee:

Annual rates of income tax for 2026–27 tax year

1 **agreed** to set the annual rates of income tax for the 2026–27 tax year at the same rates currently specified in Schedule 1 of the Income Tax Act 2007;

Clarify legislative authority for automated decision-making

2 **agreed** to a prospective legislative amendment to clarify that Inland Revenue has authority for the use of automated decision-making;

3 **agreed** to a legislative requirement for Inland Revenue to develop a set of appropriate automated decision-making safeguards, to be approved in consultation with the Office of the Privacy Commissioner and the Human Rights Commission (reviewed at least every three years and published on the Inland Revenue website);

Student loans – amend arrest-at-border power

4 **agreed** to amend the legislative test for seeking a warrant to arrest an overseas-based student loan borrower at the border so that, if Inland Revenue has not been able to notify an overseas-based borrower (despite reasonable efforts to do so), Inland Revenue can instead rely on earlier engagement with the borrower to demonstrate they had sufficient knowledge of their obligations and knowingly chose not to comply;

Zero-rate GST on electricity exported to grid from residential premises

5 **agreed** that GST be charged at a rate of 0 percent on surplus energy exported to the grid from residential premises to prevent revenue leakage arising when electricity retailers claim GST on purchases of surplus energy sold by GST-registered households that usually do not account for GST on the sale of that energy;

6 **agreed** that the decision in paragraph 5 above will take effect from 1 April 2027;

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7 **noted** the following changes to tax revenue as a result of paragraphs 5 and 6 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – GST	0.120	0.480	0.520	0.560
Total Operating	**(0.120)**	**(0.480)**	**(0.520)**	**(0.560)**

8 **noted** that the Minister of Finance and the Minister of Revenue have agreed that the increase in Crown tax revenue in paragraph 7 above will be managed against the Tax Policy Scorecard;

Approved issuer levy simplification

9 **agreed** to increase the approved issuer levy (AIL) filing threshold (above which taxpayers must file monthly) from $500 to $10,000, and to change from six-monthly to annual filing for borrowers below this threshold;

10 **agreed** that the decision in paragraph 9 above will take effect from 1 April 2027;

11 **agreed** to allow Inland Revenue to deregister securities from the AIL regime when a borrower is non-compliant with their AIL obligations, and to reregister securities to the regime in the future in appropriate cases;

12 **agreed** that the decision in paragraph 11 above will apply to securities registered from 1 October 2027;

13 **noted** the following changes as a result of paragraphs 9 to 12 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Approved Issuer Levy (filing frequency changes)	(0.078)	-	-	-
Tax Revenue – Approved Issuer Levy (security deregistration)	-	0.150	0.200	0.200
Total Operating	**0.078**	**(0.150)**	**(0.200)**	**(0.200)**

14 **noted** that the Minister of Finance and the Minister of Revenue have agreed that the increase in Crown tax revenue in paragraph 13 above will be managed against the Tax Policy Scorecard;

15 **agreed** to replace the Stamp and Cheque Duties Act 1971 with a new Approved Issuer Levy Act, by transferring the approved issuer levy provisions of that Act into the new Approved Issuer Levy Act without changing their substance;

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Foreign investment fund (FIF) changes

FIF calculation methods for FIF interests held through foreign company

16 **agreed** to allow a person with an indirect interest in a FIF to choose the same FIF calculation method(s) that would be available if the person held the FIF directly;

17 **agreed** that the decision in paragraph 16 above will apply from 1 April 2026;

18 **noted** the following changes as a result of paragraphs 16 and 17 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue Minister of Revenue	**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**

19 **noted** that the Minister of Finance and the Minister of Revenue have agreed that the decrease in Crown tax revenue in paragraph 18 above will be managed against the Tax Policy Scorecard;

Revenue account method (RAM) exit tax for treaty non-residents

20 **noted** that a person applying the RAM for their FIF interests is taxable on gains or losses on those interests if they sell those interests within three years of becoming non-resident under the Income Tax Act 2007;

21 **agreed** that the treatment in paragraph 20 above be extended to also apply if the person becomes non-resident under a double tax agreement;

22 **agreed** that the decision in paragraph 21 above will apply from 1 April 2027;

23 **noted** the following changes as a result of paragraphs 21 and 22 above, with a corresponding impact on the operating balance and/or net core Crown debt:

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Vote Revenue Minister of Revenue	**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
Total Operating	**(0.050)**	**(0.200)**	**(0.200)**	**(0.200)**

24 **noted** that the Minister of Finance and the Minister of Revenue have agreed that the increase in Crown tax revenue in paragraph 23 above will be managed against the Tax Policy Scorecard;

Concurrent use of FIF cost and comparative value (CV) methods

25 **agreed** that a person can use the cost method for FIF interests with no readily available market value, while retaining the choice to use the fair dividend rate (FDR) or CV method for FIF interests with a readily available market value;

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26 **agreed** that the decision in paragraph 25 above will apply from the 2026–27 income year (1 April 2026 for taxpayers with a standard balance date);

Cryptoasset simplification

27 **agreed** that rules equivalent to the share lending rules apply to cryptoassets provided as part of a decentralised finance (DeFi) transaction where equivalent assets are returned;

28 **agreed** that the decision in paragraph 27 above will apply to cryptoassets provided for a DeFi transaction from 1 April 2027;

29 **agreed** that qualifying fiat-backed stablecoins be excluded from the rule taxing personal property acquired with the purpose of disposal;

30 **agreed** that the decision in paragraph 29 above will apply to stablecoins disposed of from 1 April 2027;

Charities recommended for overseas donee status

31 **agreed** that the following charities be given overseas donee status and listed in Schedule 32 of the Income Tax Act 2007, with effect from 1 April 2026:

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31.2 Pacific Islands Pacemaker Services (PIPS) Charitable Trust;

31.3 Atmabhav Charitable Trust (for a time-limited period, starting 1 April 2026 and ending 31 March 2033);

31.4 Dream for Life Trust (for a time-limited period, starting 1 April 2026 and ending 31 March 2033);

31.5 Kiwi K.A.R.E (Kiwi Aid & Refugee Evacuation) Trust (for a time-limited period, starting 1 April 2026 and ending 31 March 2033);

31.6 The Foundation for Rehabilitation of Physically Handicapped Children in Indonesia Incorporated (for a time-limited period, starting 1 April 2026 and ending 31 March 2033);

32 **noted** that CORSO (Incorporated) will be removed from Schedule 32 of the Income Tax Act 2007 because it is no longer a registered charity;

33 **noted** the following changes to tax revenue as a result of the decision in paragraph 31 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	$m - increase/(decrease)			
Vote Revenue Minister of Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue – Other Persons	(0.193)	(0.233)	(0.256)	(0.278)
Total Operating	**0.193**	**0.233**	**0.256**	**0.278**

34 **noted** that the changes in paragraph 33 above do not have an impact on Budget allowances or the Tax Policy Scorecard;

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Extending Investment Boost to aircraft engines

35 **noted** that the Minister of Finance and the Minister of Revenue have agreed to a remedial amendment to extend Investment Boost to aircraft engines with effect from 22 May 2025 (the commencement date of Investment Boost);

36 **noted** that while the decision in paragraph 35 above has a cost of $66 million over the forecast period, it is neutral against the tax forecasts because the original costing for Investment Boost already assumed that aircraft engines would be eligible;

Next steps

37 **agreed** that the above decisions be included in the 2026–27 Annual Rates Bill, which has a category 5 priority on the 2026 Legislation Programme (to proceed to select committee before the 2026 General Election);

38 **authorised** the Minister of Revenue to make minor and technical changes to the policies included in the paper under ECO-26-SUB-0153 before the introduction of the Bill.

Rachel Clarke
Committee Secretary

Present:
Hon David Seymour
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Brooke van Velden
Hon Paul Goldsmith
Hon Louise Upston
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Casey Costello
Hon Nicola Grigg
Hon Andrew Hoggard
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Hon Cameron Brewer
Simon Court MP

Officials present from:
Office of Hon Simon Watts
Officials Committee for ECO

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CAB-26-MIN-0277

Cabinet

Minute of Decision

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Report of the Cabinet Economic Policy Committee: Period Ended 21 August 2026

On 24 August 2026, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 21 August 2026:

Not in scope

ECO-26-MIN-0153	**Measures for Inclusion in the 2026-27 Annual Rates Bill** Portfolio: Revenue	CONFIRMED

Not in scope

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Not in scope

Not in scope

Rachel Hayward
Secretary of the Cabinet

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Tax policy report

Inland Revenue
Te Tari Taake

Access to the attributable FIF income method

Date	20 August 2026	**Priority**	High
Security level		**Report number**	IR2026/261
Bill name	Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to the proposed policy change, with effect from 1 April 2026 **Agree** to manage the cost of the proposed change against the tax policy scorecard	24 August 2026
Minister of Revenue	**Agree** to the proposed policy change, with effect from 1 April 2026 **Agree** to manage the cost of the proposed change against the tax policy scorecard	24 August 2026

Purpose
This report seeks a decision from Ministers to increase the scope of the proposed amendment providing access to the attributable foreign investment fund (FIF) income method for calculating FIF income. The report also seeks Ministers' agreement to include this amendment in the 2026-27 Annual Rates Bill and to manage the cost of the change against the tax policy scorecard.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Sam Rowe	Policy Lead, International	s 9(2)(a)	✓
Rory Tait	Senior Policy Advisor, International	s 9(2)(a)	☐

Access to the attributable FIF income method

Attributable FIF income (AFI) method

1 Some taxpayers with an interest of 10% or more in a foreign investment fund (FIF) can use the attributable FIF income (AFI) method to calculate their FIF tax liability. These taxpayers typically have a more active role in their investment, and it makes sense for them to be taxed on this holding similarly to how controlled foreign companies are taxed (as these are also active investments). This means that in many cases only dividends are taxed. Many growing companies (like startups) will not yet be paying dividends and, as a result, there may be nil tax payable. This makes using the AFI method very desirable for investors.

2 However, an active investor will not be able to use the AFI method if their interest in the FIF drops below 10% (e.g. as a result of venture capital raising). As part of the Budget 2026 package of FIF changes, the Government announced it would allow existing users of the AFI method to continue to use this method even if their ownership interest in the FIF falls below 10%, provided that they still play an active role in the business. This expansion is designed to ensure founders and other key early employees are not encouraged to leave New Zealand as a result of facing FIF taxation under other FIF calculation methods. This measure will be included in the upcoming Annual Rates Bill [IR2026/405 refers].

Feedback from Deloitte

3 Late last month, the Minister of Revenue received a letter from Deloitte outlining other scenarios where a person may be unable to use the AFI method when their ownership stake is below 10%, despite playing an active role in the business.

4 This is because the current proposal requires that the person has applied the AFI method in the year prior. In the situations raised by Deloitte, the person may have been unable to apply the AFI method despite having had a 10% or greater ownership interest. To resolve this, Deloitte's letter suggests removing the requirement that the AFI method be used in the year prior to the year in which the person's ownership interest in the FIF falls below 10%. This would effectively allow a taxpayer to use the AFI method if they held more than 10% of a company at *any* point in the past, no matter how long ago (provided they continue to play an active role in the company).

5 We understand the concerns raised by Deloitte and see merit in a further expansion of the eligibility to use this method. However, because of the very favourable tax treatment the AFI method affords, we recommend a more cautious approach in widening access.

6 We note that because this proposal goes beyond existing users of the AFI method it falls outside the existing policy approvals for expanding the AFI method. To address this the Minister of Revenue has asked that we include proposed amendments to the AFI method in the upcoming Annual Rates Bill to address Deloitte's concerns. This report seeks your approval to do this.

Recommended change

7 We recommend expanding eligibility to the AFI method to situations where the taxpayer had a 10% or more interest in the FIF in the previous year, even if the taxpayer did not use the AFI method in that year. This will cover scenarios where the FIF rules did not apply to the taxpayer in the previous year, but the taxpayer would have been able to apply the AFI method if the FIF rules did apply.

8 The same information and active role requirements would apply as in the amendment agreed at Budget 2026.

9 This proposal would address scenarios raised by Deloitte, such as where:

- the taxpayer is eligible for an exemption from the FIF rules the prior year (such as the 10-year exemption for venture capital companies) and, at the end of the year, their ownership stake falls below 10%. Under the current drafting of the Bill, the taxpayer would not be able to use the AFI method because the exemption meant they did not apply the AFI method in the previous year.
- someone moves to New Zealand (or reaches the end of their transitional residence period), and at this point their ownership stake falls below 10%. However, because they were not previously subject to the FIF rules, they did not apply the AFI method in the previous year. Therefore, they would not be able to apply it for subsequent years.
- a taxpayer's ownership interest in a company falls below 10% in the year that the company migrates offshore and raises funding. As this is the first year of holding a FIF, the taxpayer did not apply the AFI method in the previous year and so would not be able to apply it for subsequent years.

10 Due to time constraints, we would recommend adopting this more cautious approach at this time. It is within the original policy intent of the amendment in the Bill (allowing taxpayers with more than a 10% interest to fall below that threshold and still use the AFI method) and does not affect the intended prospectivity of the change. That is, it will only apply to taxpayers whose interest dilutes below 10% in the year prior to the amendment or following years. This is consistent with the Government's objectives in relation to attracting and retaining talent, as well as the wider package of FIF reform.

11 We have concerns with the breadth of Deloitte's proposed change. For example it would allow a taxpayer to use the AFI method even if their ownership interest diluted below 10% many years before the change. Given such taxpayers are still in New Zealand, this would effectively be giving them a tax benefit that is not required to retain them. It could also significantly increase the fiscal cost of the change – but data limitations mean it could be difficult to estimate this without more time.

12 Including this proposal in the upcoming Annual Rates Bill will give the opportunity for Deloitte and other stakeholders to provide fulsome input via the Select Committee process. Accordingly, we can consider whether to further expand the measure as part of that process, where we will have the benefit of more time to discuss and work through the issues and input from other stakeholders. Deloitte have indicated that they are comfortable with this approach.

Operational implications

13 The change included in this report can be delivered through Inland Revenue's current change capacity. The administrative implications of expanding access to the attributable FIF income in the circumstances outlined in this report are minor and absorbable within departmental baselines.

14 There will be reduced compliance costs for the taxpayers who benefit from the amendment, and no change for other taxpayers.

Financial implications

Tax Revenue impact

15 The proposed change has an estimated fiscal cost of $1.5 million over the current forecast period (2025/26 to 2029/30), with an ongoing outyear cost of $0.8 million from 2030/31.

16 It is recommended that you manage this cost against the tax policy scorecard. The current balance of the scorecard is $63.4 million (increased to $65.4 million if all items in the omnibus Annual Rates Bill 2026-27 paper are agreed). Adding in this change, and

the proposed late change to transitional residence settings, which the Minister of Revenue recently agreed [IR2026/241 refers], would reduce the scorecard balance to $50.5 million.

17 This costing is based on a 1 April 2026 application date. Limited data availability makes it challenging to precisely estimate the cost of this change. For consistency, we have used the same methodology as the existing proposal to expand access to the AFI method announced at Budget 2026.

	$m - increase/(decrease)				
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – Other persons	(0.200)	(0.100)	(0.500)	(0.700)	(0.800)
Total Operating	**0.200**	**0.100**	**0.500**	**0.700**	**0.800**

Consultation

18 We have engaged with Deloitte on their letter to the Minister of Revenue's office. They were comfortable with their concerns being addressed through the Select Committee process.

19 The Treasury has been informed of this report.

Next steps

20 Pending your approval, an amendment to give effect to the changes proposed above will be included in the upcoming 2026-27 Annual Rates Bill.

Recommendations

We recommend that you:

1 **Agree** to expand access to the attributable foreign investment fund (FIF) income (AFI) method to taxpayers who were unable to use the AFI method in the year prior to their shareholding falling below 10% because they were not required to apply the FIF rules in that year.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

2 **Agree** to include the change in the 2026-27 Annual Rates Bill, with effect from 1 April 2026.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Financial Recommendations

3 **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:

	$m - increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31 & Outyears**
Crown Revenue and Receipts:					
Tax Revenue – Other persons	(0.200)	(0.100)	(0.500)	(0.700)	(0.800)
Total Operating	**0.200**	**0.100**	**0.500**	**0.700**	**0.800**

4 **Agree** to manage the decrease in tax revenue from your decision in recommendation 1 above against the tax policy scorecard, which currently has a balance of $63.4 million:

Agree / Disagree

Minister of Finance

Agree / Disagree

Minister of Revenue

5 **Note** that if you do not agree to the fiscal impacts being charged against the tax policy scorecard, the fiscal impacts of your decision in recommendation 1 will be managed against the forecasts and will flow-through to the operating balance.

6 **Note** that Inland Revenue will self-fund the departmental operating and capital costs of this initiative.

s 9(2)(a)

Sam Rowe

Policy Lead, International

Policy | Inland Revenue

20 August 2026

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

Minister of Revenue

/ /2026

Tax policy report

Inland Revenue
Te Tari Taake

Cabinet Paper – Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for introduction

Date	18 August 2026	**Priority**	High
Security level		**Report number**	IR2026/256
Bill name	Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Revenue	**Authorise** the lodgement of the attached Cabinet paper	10am, Thursday 27 August
	Refer a copy of this report to the Minister of Finance	

Purpose
This report seeks agreement to approve and lodge the attached Cabinet paper "Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for introduction", to be considered by the Cabinet Legislation Committee on 3 September 2026.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Peter Frawley	Policy Lead	s 9(2)(a)	☐
Matt Pilkinton	Bill Manager	s 9(2)(a)	✓
Kaitlyn Payne	Bill Coordinator	s 9(2)(a)	☐

Cabinet Paper – Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for introduction

Cabinet paper and attachments

1 This report asks you to authorise the lodgement of the attached draft Cabinet paper by 10am, Thursday 27 August. This paper seeks approval to introduce the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill. It is due to be considered at the Cabinet Legislation Committee meeting on Thursday 3 September 2026.

2 The following documents will be attached to the Cabinet paper:

- A draft version of the Bill. Drafting of the Bill is still ongoing and the Bill will undergo further technical revisions prior to introduction.
- A Consistency Accountability Statement (CAS) and Summary of Underpinning Analysis (SUA), which assess whether the Bill and the process for developing it are consistent with the principles of responsible regulation set out in section 9 of the Regulatory Standards Act 2025.
- Eleven Regulatory Impact Statements (RISs) for Bill measures that received Cabinet policy approval as part of Budget 2026. Draft RISs were prepared to support Ministers' decision-making as part of the Budget. However, the RISs have not previously been submitted to Cabinet.

New Zealand Bill of Rights Act 1990 (BORA)

3 The draft Bill has been provided to the Ministry of Justice to vet its consistency with the rights and freedoms affirmed by the BORA.

4 We believe the provisions in the Bill are consistent with the rights and freedoms affirmed by the BORA. However, we will advise you if any issues are identified during the vetting process.

Next steps

5 The attached Cabinet paper is due to be considered by the Cabinet Legislation Committee on 3 September 2026 and confirmed by Cabinet on 7 September 2026. Subject to Cabinet approval, the Bill is scheduled to be introduced on 8 September 2026 and have its first reading and referral to select committee on 15 September 2026.

6 Please advise officials of any changes you wish to make to the draft Cabinet paper and then authorise the final Cabinet paper for lodgement by 10am on Thursday 27 August 2026.

7 Final versions of the CAS, SUA and RISs will be provided to your office prior to lodgement of the Cabinet paper. Inland Revenue will provide the most up-to-date draft of the Bill to the Cabinet Office when the Cabinet paper is lodged.

Consultation

8 The Treasury, Ministry for Regulation and the Department of the Prime Minister and Cabinet were provided drafts of the Cabinet paper, CAS and SUA.

Recommendations

We recommend you:

1 **Authorise** the lodgement of the attached Cabinet paper and associated documents with the Cabinet Office by 10am Thursday 27 August 2026.

Authorised / Not authorised

2 **Refer** a copy of this report to the Minister of Finance.

Refer - yes / no

s 9(2)(a)

Peter Frawley

Policy Lead

Policy | Inland Revenue

18 August 2026

Hon Simon Watts

Minister of Revenue

/ /2026

Office of the Minister of Revenue

Cabinet Legislation Committee

Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for introduction

Proposal

1 This paper seeks the Cabinet Legislation Committee's agreement to introduce the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) on 8 September 2026. The Bill introduces amendments to the following Inland Revenue Acts:

1.1 Income Tax Act 2007 (ITA)

1.2 Goods and Services Tax Act 1985 (GSTA)

1.3 Tax Administration Act 1994 (TAA)

1.4 KiwiSaver Act 2006

1.5 Taxation (Budget Measures) Act 2026

1.6 Student Loan Scheme Act 2011

1.7 Child Support Act 1991, and

1.8 Gaming Duties Act 1971

2 The Bill also repeals the Stamp and Cheque Duties Act 1971 and replaces it with a new Approved Issuer Levy Act.

3 The Bill also repeals the following Inland Revenue Acts, which are no longer in force:

3.1 Estate and Gift Duties Act 1968

3.2 Estate Duty Abolition Act 1993

3.3 Estate Duty Repeal Act 1999, and

3.4 Stamp Duty Abolition Act 1999.

4 The Bill holds a category 5 priority on the 2026 Legislative Programme (to proceed to select committee before the 2026 General Election.)

5 Inland Revenue is currently in the process of preparing the Bill. Accordingly, the draft of the Bill (and associated Consistency Analysis Statement (CAS)) is enclosed. The Bill is likely to undergo further technical refinements prior to introduction.

Policy

6 The Bill would implement the policy items listed below. A Bill is necessary because amendments to existing legislation are required to implement the proposed policy changes.

Set annual income tax rates for 2026–27 tax year [ECO-26-MIN-0153]

7 The ITA requires the rates of income tax to be set each year by an annual taxing Act. The Bill proposes that the annual rates of income tax for the 2026–27 tax year be set at the rates currently specified in schedule 1 of the ITA.

Fringe benefit tax simplification [CAB-26-MIN-0156.59]

8 Announced as part of Budget 2026, the Bill proposes to simplify how fringe benefit tax (FBT) applies to motor vehicles. The current rules generally require employers to determine the number of days a vehicle is available for private use, which can require logbooks and detailed record keeping.

9 The Bill would replace that approach with a category-based approach. Employers would be able to choose the category that reflects the level of private use of the vehicle and use the corresponding rate to calculate the taxable value of the benefit provided to the employee.

10 The amendments are intended to reduce compliance costs and make the motor vehicle FBT rules easier to apply. Associated amendments would remove or replace rules that are no longer needed under the category approach, including day-count formulae and existing motor vehicle exemptions.

11 The Bill would also update the motor vehicle valuation settings, including different valuation percentages for standard vehicles, hybrid vehicles, and electric vehicles.

12 I recommend these amendments apply from 1 April 2027.

Foreign investment fund (FIF) rules changes [CAB-26-MIN-0156.59 & ECO-26-MIN-0153]

13 Announced and agreed as part of Budget 2026, the Bill proposes the following amendments to the FIF rules:

13.1 Allow all New Zealand residents to use the revenue account method (RAM) for their unlisted foreign shares, so that they pay tax only on realised gains and actual dividends received. This was previously limited to recent migrants.

13.2 Allow any New Zealand resident who faces concurrent taxation in another jurisdiction (due to citizenship or a right to work there), to access the extended RAM. This would allow them to pay tax only on realised gains and actual dividends received for all their foreign shares (both listed and unlisted). This was previously limited to recent migrants.

13.3 Increase the FIF de minimis threshold to $100,000 of overseas investments (from $50,000), reducing the compliance costs of smaller investors because they would not have to apply the FIF rules to their portfolios.

13.4 Ensure founders, active investors and other key employees could continue to use the attributable FIF income method even if their stake in their business falls below 10% during business growth.

13.5 Ensure New Zealand investors could continue to access the 10-year FIF exemption for corporate migrations if their company lists on an overseas stock exchange, regardless of the method by which they list.

14 In addition to the changes announced at Budget, Cabinet has also agreed to the following further changes:

14.1 Allow a person with an indirect attributing interest in a FIF (a controlling interest in a foreign company that has a direct interest in a FIF) to choose the same FIF calculation method(s) for their indirect interests that are available for their direct interests.

14.2 Extend RAM exit tax so it also applies when a person becomes non-resident under a double tax agreement. It currently applies only when a person becomes non-resident under domestic legislation. However, New Zealand will generally also lose taxing rights over the RAM interest when a person becomes non-resident under a double tax agreement.

14.3 Clarify that a person can use the cost method for FIF investments with no readily available market value, while retaining the choice to use the fair dividend rate or comparative value methods for their FIF investments with a readily available market value. This would ensure individuals can still elect to pay tax on their actual accrued gain or loss for their listed FIF investments (for example, when this is lower than their deemed income under the fair dividend rate method), regardless of the method they choose for their unlisted FIF investments.

15 Together, these changes would improve the FIF regime for investors in a way that makes the rules more workable and more coherent, and therefore more internationally competitive.

16 I recommend that these changes apply from 1 April 2026 for the 2026–27 and later tax years, except for the extension of the RAM exit tax for treaty non-residents, which would apply from 1 April 2027 for the 2027–28 and later tax years.

Changes to financial arrangement rules to support migrants [CAB-26-MIN-0156.59]

17 Announced and agreed as part of Budget 2026, the Bill proposes the following amendments to the financial arrangements rules:

17.1 Introduce an elected functional currency rule, allowing eligible taxpayers to elect a foreign currency for the purposes of calculating their net income on foreign currency financial arrangements. This would limit exposure to unexpected fluctuations in exchange rates that are captured and taxed under the status quo.

17.2 Introduce a quarantined foreign financial arrangements rule that would tax certain foreign financial arrangements on a cashflow basis. This rule would prevent the double taxation of primarily United States (US) migrants, who are exposed under the status quo because of a unique interaction between the financial arrangements rules, US tax residency rules, and the New Zealand–US double tax agreement.

17.3 Introduce special new rules for valuing financial arrangements entered into for the primary purpose of meeting visa eligibility. This change is intended to prevent unexpected tax outcomes occurring because of the current valuation requirements when a person becomes a New Zealand tax resident.

17.4 Introduce several amendments to the excepted financial arrangements rules to remove specific common but low risk foreign currency arrangements from the financial arrangements rules.

18 Together these amendments would provide both migrants and non-migrants greater certainty over the tax implications of their foreign investments, and make New Zealand a more attractive place for foreign talent.

19 I recommend these changes apply from 1 April 2027 for the 2027-28 and later tax years, except for the special rules for arrangements entered into for meeting visa eligibility which would apply from 1 April 2025 (to align with the introduction of the Active Investor Plus visa).

Taxation and not-for-profit sector [CAB-26-MIN-0156.59]

20 Announced as part of Budget 2026, the Bill proposes the following package of changes to the tax settings for taxable not-for-profits (NFPs) to increase

certainty and reduce compliance costs while ensuring Inland Revenue is able to monitor compliance:

20.1 Ensure membership subscriptions and levies received by NFPs remain non-taxable.

20.2 Increase the effective tax-free threshold for taxable NFPs to a maximum of $10,000 but targeted at smaller NFPs.

20.3 Enable in-year refunds of donation tax credits and allow donors to transfer their donation tax credit directly to a charity.

20.4 Provide NFPs the option to treat honoraria paid to volunteers as salary or wages instead of schedular payments.

20.5 Repeal the income tax exemption for non-resident charities with no charitable purpose in New Zealand.

20.6 Introduce an integrity measure for trust income allocations to tax exempt beneficiaries.

21 I recommend the membership subscriptions and increased tax-free threshold proposals apply from the 2027–28 tax year. I recommend the donation tax credit changes and repeal of the income tax exemption for non-resident charities apply from 1 April 2028. I recommend the honoraria and trust income allocations proposals apply from the 2028–29 tax year.

Changes to thin capitalisation rules for foreign-owned banking groups [CAB-26-MIN-0156.59]

22 The Bill proposes to update the thin capitalisation threshold for foreign-owned banking groups to protect New Zealand's tax base and align with the Reserve Bank of New Zealand's new prudential capital requirements. This was first announced and agreed as part of Budget 2026.

23 The thin capitalisation threshold for foreign-owned banking groups that include a domestic systemically important bank increases to 12%, and for other foreign-owned banking groups it increases to 11%.

24 The proposed amendments would also vary these thin capitalisation thresholds when the Reserve Bank changes its countercyclical buffer, in accordance with the Reserve Bank's changes.

25 I recommend these amendments apply for thin capitalisation measurement periods beginning on or after 1 April 2027.

Non-resident contractors' tax modernisation [CAB-26-MIN-0156.59]

26 Announced as part of Budget 2026, the Bill proposes three amendments to withholding tax rules that apply for payments to non-resident contractors:

26.1 Increasing the monetary exemption threshold for a payer from $15,000 to $75,000 in a 12-month period, below which non-resident contractors' tax does not need to be withheld.

26.2 Implementing a "single payer" view of the monetary and 92-day thresholds so that payers only need to consider their own contractual activity in a 12-month period when determining if a threshold applies.

26.3 Excluding branches, limited partnerships and representative offices from the withholding rules when they have a tax identification number or GST registration number and have been included on the appropriate Companies Office register for 24 months or more. These entities have a more enduring presence in New Zealand, so I consider non-resident contractor's tax does not need to be withheld from payments to them.

27 I recommend these changes apply from 1 April 2027.

Research and Development Tax Incentive [CAB-26-MIN-0156.59]

28 Announced as part of Budget 2026, the Bill proposes the following amendments to the Research and Development Tax Incentive (RDTI):

28.1 Provide the Commissioner of Inland Revenue with discretionary powers to accept late RDTI filings, and correct minor administrative errors in RDTI filings past the due date.

28.2 Introduce in-year payments to provide RDTI recipients with quarterly cash payments throughout the year based on their expected RDTI.

28.3 Expand the range of R&D expenditure mining businesses can claim under the RDTI.

28.4 Reduce the cap on non-administrative internal software development expenditure from $25 million to $3 million.

29 I recommend the Commissioner discretion to accept late filings and correct minor administrative errors commence from 1 April 2027. I recommend the in-year payments, mining expenditure, and non-administrative internal software development cap changes apply from the 2027–28 income year.

Approved issuer levy simplification [ECO-26-MIN-0153]

30 The Bill proposes two changes to approved issuer levy (AIL) filing requirements to simplify the regime:

30.1 changing from six-monthly to annual filing for borrowers below the monthly filing threshold, and

30.2 increasing this threshold from $500 to $10,000.

31 To strengthen the integrity of the AIL rules, the Bill proposes allowing Inland Revenue to deregister securities from AIL when a borrower is non-compliant with their AIL obligations. A security could be re-registered if the issues leading to non-compliance have been resolved and the borrower is considered likely to comply in the future.

32 I recommend the changes to AIL filing requirements apply from 1 April 2027.

33 I recommend the proposal to deregister and reregister securities would apply to securities registered on or after 1 October 2027.

New Approved Issuer Levy Act

34 The Bill would also repeal the Stamp and Cheque Duties Act 1971 and replace the AIL provisions in that Act with a standalone Approved Issuer Levy Act. The AIL provisions are the only operative provisions in the Stamp and Cheque Duties Act 1971; all other provisions in that Act have been previously repealed. A standalone Act would improve accessibility and transparency of the AIL rules without changing the outcomes for users of the regime.

35 I recommend the new Approved Issuer Levy Act commence on 1 April 2027.

Clarify legislative authority for automated decision-making [ECO-26-MIN-0153]

36 The Bill proposes a change clarifying that Inland Revenue has the authority to use automated decision-making (ADM).

37 The key features of the legislation include requirements that:

- Inland Revenue develop ADM safeguards for operational use
- the Office of the Privacy Commissioner and the Human Rights Commission are consulted on the approval of the safeguards
- the specific principles for the safeguards are explicitly named in legislation
- the safeguards are reviewed at least every three years, and
- the safeguards are published on the Inland Revenue website.

38 The proposal would give Inland Revenue clear authorisation to continue its current use of ADM and would also allow wider use of ADM in future as appropriate. There would be operational guidelines limiting the use of ADM to clear, rules-based decisions.

39 I recommend these amendments apply from the day after the Bill receives Royal assent.

Cryptoasset simplification [ECO-26-MIN-0153]

40 The Bill contains two simplification measures to the tax rules applying to cryptoassets.

41 The first change would introduce rules equivalent to the share lending rules where cryptoassets are provided as part of decentralised finance transaction where equivalent assets are returned. These rules would preserve the person's cost base, so any gain or loss is recognised only on final disposal.

42 The second change would exclude qualifying stablecoins, that have a stable value relative to a fiat currency, from the rule that taxes disposals of personal property acquired with a purpose of disposal.

43 I recommend these amendments apply from 1 April 2027.

Student loan – amend arrest-at-border power [ECO-26-MIN-0153]

44 The Bill proposes to amend the student loan arrest-at-border offence provision for overseas-based borrowers. The amendment addresses cases when Inland Revenue has not been able to notify an overseas-based borrower of their obligations despite taking reasonable steps to do so.

45 The amended test would allow Inland Revenue to rely on earlier engagement with the borrower to establish that the borrower had sufficient knowledge of their obligations and knowingly chose not to comply.

46 I recommend this proposal apply from the day after the Bill receives Royal assent.

Zero-rate GST on electricity exported to grid from residential premises [ECO-26-MIN-0153]

47 The Bill proposes to zero-rate supplies of surplus electricity exported to the grid from residential premises. This would address a revenue leakage arising from GST-registered people exporting electricity from residential premises applying a different GST treatment to the supply than the electricity companies purchasing the electricity.

48 I recommend this proposal apply from 1 April 2027.

Charities recommended for overseas donee status [ECO-26-MIN-0153]

49 The Bill proposes that six registered charities with overseas purposes be granted overseas donee status and included in schedule 32 of the ITA.

50 The additions to the list are proposed to apply from 1 April 2026. Four of the additions are time limited until 31 March 2033.

Items not requiring Cabinet approval

51 The Bill contains a number of minor or remedial amendments that do not require Cabinet approval. These amendments support the coherence and integrity of the tax system and ensure the relevant tax law is consistent with the policy intent. The Bill also contains various maintenance items. These

correct minor faults of expression, readers' aids, incorrect cross-references, and update statutory lists.

Regulatory analysis

52 The following Regulatory Analysis Summaries were submitted to Cabinet at the time policy approval was sought:

52.1 Clarifying legislative authority for automated decision-making

52.2 Amending the student loan arrest at border provision

52.3 GST treatment of electricity exported to the grid by residential premises.

Budget 2026 Regulatory Impact Statements

53 Draft Regulatory Impact Statements (RISs) were prepared by Inland Revenue for items approved through Budget 2026. However, these RISs have not been previously submitted to Cabinet. The final RISs are attached to this paper:

53.1 *Simplifying the motor vehicle fringe benefit tax rules* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

53.2 *Foreign investment fund reforms, phase 2* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

53.3 *Lifting foreign investment fund de minimis* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

53.4 *Research and Development Tax Incentive: Commissioner's discretionary powers* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information and analysis summarised in the RIS **partially meets** the quality assurance criteria. Consultation and evidence supported understanding of the issue but due to timing constraints detailed consultation on options and impacts was not undertaken. The RIS is otherwise sufficient to enable Ministers to make an informed decision.

53.5 *In-year payments of the Research and Development Tax Incentive* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

53.6 *Research and Development Tax Incentive: Mining exclusions* – An Inland Revenue quality assurance panel has reviewed this RIS and

considers that the information and analysis summarised in the RIS **partially meets** the quality assurance criteria. Consultation and evidence supported understanding of the issue but due to timing constraints detailed consultation on options and impacts was not undertaken. The RIS is otherwise sufficient to enable Ministers to make an informed decision.

53.7 *Research and Development Tax Incentive: Internal software* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

53.8 *Tax policy settings for taxable not-for-profits: Membership subscriptions and levies* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance criteria.

53.9 *Tax policy settings for taxable not-for-profits: Statutory deduction and related measures* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance criteria.

53.10 *Lowering compliance and cashflow costs for foreign currency financial arrangements* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

53.11 *Changes to the thin capitalisation rules for foreign-owned New Zealand banking groups* – An Inland Revenue quality assurance panel has reviewed this RIS and considers that the information contained in the RIS **meets** the quality assurance requirements.

Exempt proposals or out-of-scope proposals

54 The proposal to set annual income tax rates for the 2026–27 tax year is exempt from the RAS requirements on the grounds that the rates remain unchanged from the 2025–26 tax year.

55 The remaining proposals in the Bill are either:

55.1 exempt from the RAS requirements on the following grounds:

55.1.1 they have no or only minor economic, social or environmental impacts, or

55.1.2 their economic, social or environment impacts are limited and easy to assess, or

55.2 outside the scope of the RAS requirements.

Consistency with principles of responsible regulation

56 A Consistency Accountability Statement (CAS) and Summary of Underpinning Analysis have been prepared for the Bill and are attached to this paper. No inconsistencies with the principles of responsible regulation are identified in the CAS.

Compliance

57 The Bill complies with:

57.1 the principles of the Treaty of Waitangi

57.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993

57.3 the principles and guidelines set out in the Privacy Act 2020

57.4 relevant international standards and obligations

57.5 the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

58 The Bill is currently being evaluated for its consistency with the New Zealand Bill of Rights Act 1990 by the Ministry of Justice as part of its usual vetting process.

Consultation

59 The main policy measures within this Bill have been developed in accordance with the Generic Tax Policy Process (GTPP). It is a very open and interactive engagement process between the public and private sectors. This process helps to ensure that tax and social policy changes are well thought through. The GTPP is designed to ensure better, more effective policy development through the early consideration of all aspects, and likely impacts, of proposals. The GTPP increases opportunities for public consultation.

60 The GTPP means that major tax initiatives are normally subject to public scrutiny at all stages of their development. As a result, Inland Revenue and Treasury officials have the opportunity to develop more practical options for reform by drawing on information provided by the private sector and the people who will be affected.

Relevant government departments or other public bodies

61 In developing the proposals set out in the Bill, Inland Revenue consulted with the Treasury, the Department of the Prime Minister and Cabinet, Ministry for Regulation, the Law Commission, Ministry of Justice, Office of the Privacy Commissioner, Crown Law, Ministry of Social Development, Te Puni Kokiri, Ministry for Ethnic Communities, Ministry for Women, Ministry of Disabled People, New Zealand Police, Ministry of Education, Ministry of Business,

Innovation and Employment, the Financial Markets Authority, the Reserve Bank of New Zealand, Ministry of Foreign Affairs and Trade, and the Department of Internal Affairs (Charities Services).

Relevant private sector organisations and public consultation processes

62 General and targeted consultation was undertaken during the policy process with relevant external stakeholders. The feedback provided by these stakeholders was taken into account when finalising policy proposals.

Government caucus and other parties represented in Parliament

63 The government caucus will be consulted on this Bill before its proposed introduction.

Binding on the Crown

64 A number of Inland Revenue Acts currently bind the Crown (including the ITA). This amending Bill does not alter the status quo in this respect, the amendments follow the position of the principal Acts.

Allocation of decision-making powers

65 The Bill does not involve the allocation of decision-making powers between the executive, the courts, and tribunals.

Associated regulations

66 No regulations are required to bring the proposed Bill into force.

Other instruments

67 The Bill does not include any provision empowering the making of other instruments.

Definition of Minister/department

68 The Bill does not contain a new definition of Minister, department, or chief executive.

Commencement of legislation

69 Each provision of the Bill comes into force on the date specified in the Bill for that provision.

Parliamentary stages

70 The Bill should be introduced on 8 September 2026, referred to the Finance and Expenditure Committee and reported back to the House in February 2027.

71 Because the Bill sets the annual income tax rates for the 2026–27 tax year , the Bill should be enacted by the end of March 2027.

Proactive Release

72 The Minister of Revenue proposes 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

I recommend the Cabinet Legislation Committee:

1 **Note** that the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill holds a category 5 priority on the 2026 Legislation Programme (to proceed to select committee before the 2026 General Election).

2 **Note** the Bill sets the annual income tax rates for the 2026–27 tax year.

3 **Note** the Bill makes substantive, remedial, and technical amendments to the following Acts:

3.1 Income Tax Act 2007 (ITA)

3.2 Goods and Services Tax Act 1985 (GST Act)

3.3 Tax Administration Act 1994 (TAA)

3.4 KiwiSaver Act 2006

3.5 Taxation (Budget Measures) Act 2026

3.6 Student Loan Scheme Act 2011

3.7 Child Support Act 1991

3.8 Gaming Duties Act 1971

4 **Note** the Bill repeals the Stamp and Cheque Duties Act 1971 and replaces it with a new Approved Issuer Levy Act.

5 **Note** the Bill repeals the following Acts, which are no longer in force:

5.1 Estate and Gift Duties Act 1968

5.2 Estate Duty Abolition Act 1993

5.3 Estate Duty Repeal Act 1999, and

5.4 Stamp Duty Abolition Act 1999.

6 **Approve** the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill for introduction, subject to the final approval of the government caucus and sufficient support in the House of Representatives.

7 **Agree** that the Bill be introduced on 8 September 2026.

8 **Agree** that the Government propose the Bill be:

8.1 referred to the Finance and Expenditure Committee for consideration

8.2 reported back to the House in February 2027

8.3 enacted by 31 March 2027.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue

Cabinet Legislation 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.

Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for Introduction

Portfolio **Revenue**

On 3 September 2026, the Cabinet Legislation Committee:

1 **noted** that the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) holds a category 5 priority on the 2026 Legislation Programme (to proceed to select committee before the 2026 General Election);

2 **noted** that the Bill sets the annual income tax rates for the 2026–27 tax year;

3 **noted** that the Bill makes substantive, remedial, and technical amendments to the following Acts:

3.1 Income Tax Act 2007;

3.2 Goods and Services Tax Act 1985;

3.3 Tax Administration Act 1994;

3.4 KiwiSaver Act 2006;

3.5 Taxation (Budget Measures) Act 2026;

3.6 Student Loan Scheme Act 2011;

3.7 Child Support Act 1991;

3.8 Gaming Duties Act 1971;

4 **noted** that the Bill repeals the Stamp and Cheque Duties Act 1971 and replaces it with a new Approved Issuer Levy Act;

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5 **noted** that the Bill repeals the following Acts, which are no longer in force:

5.1 Estate and Gift Duties Act 1968;

5.2 Estate Duty Abolition Act 1993;

5.3 Estate Duty Repeal Act 1999;

5.4 Stamp Duty Abolition Act 1999;

6 **approved** the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill [IRD 28644/3.0] for introduction;

7 **agreed** that the Bill be introduced in the week of 8 September 2026;

8 **agreed** that the Government propose the Bill be:

8.1 referred to the Finance and Expenditure Committee for consideration;

8.2 reported back to the House in February 2027;

8.3 enacted by 31 March 2027.

Sam Moffett
Committee Secretary

Present:
Hon David Seymour
Hon Louise Upston (Chair)
Hon Paul Goldsmith
Hon Simon Watts
Hon Brooke van Velden
Hon Nicole McKee
Hon Scott Simpson
Hon James Meager
Hon Cameron Brewer
Hon Mike Butterick
Simon Court MP
Stuart Smith MP

Officials present from:
Officials Committee for LEG
Office of Simon Court

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Cabinet

Minute of Decision

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Report of the Cabinet Legislation Committee: Period Ended 4 September 2026

On 7 September 2026, Cabinet made the following decisions on the work of the Cabinet Legislation Committee for the period ended 4 September 2026:

Not in scope

LEG-26-MIN-0192	**Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill: Approval for Introduction** Portfolio: Revenue	CONFIRMED

Not in scope

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Not in scope

Rachel Hayward
Secretary of the Cabinet

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Tax policy report

Inland Revenue
Te Tari Taake

Fringe benefit tax motor vehicle valuation rates

Date	8 September 2026	**Priority**	High
Security level		**Report number**	IR2026/278
Bill name	Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill		

Action sought		**Deadline**
Minister of Finance	**Agree** to recommendations	9 September 2026
Minister of Revenue	**Agree** to recommendations	9 September 2026

Purpose
This report provides updated options for calculating the value of a motor vehicle for FBT purposes.

Contact for phone discussion, if required			
Name	**Position**	**Phone number**	**First contact**
Bary Hollow	Policy Director (acting)	s 9(2)(a)	✓
Natisha Jones	Senior Policy Advisor	s 9(2)(a)	☐

Fringe benefit tax motor vehicle valuation rates

Fringe benefit tax reform

1 Fringe Benefit Tax (FBT) is intended to appropriately tax the private benefit an employee derives from the use of an employer-provided vehicle. When the FBT rate does not accurately reflect this private benefit, it creates distortions that compromise the neutrality and efficiency of the tax system.

2 Such distortions incentivise employers to provide vehicles for private use, which can distort labour market decisions and place employees who must purchase their own vehicles at a disadvantage.

3 In Budget 2026, Cabinet agreed to make changes to the way FBT applies to motor vehicles by implementing a category approach. As part of this proposal, there were also updates proposed for aspects of the motor vehicle rules, the main one being the valuation rates.

4 The valuation rates help calculate the value of a motor vehicle for FBT purposes (based on the cost price of the vehicle). The rates are currently 20% annually or 5% quarterly for someone using the cost base method.[1]

5 In Budget 2026, it was agreed to update these rates to reflect the increasing running costs of vehicles since the rates were last reviewed in 2006 and to introduce lower rates for electric and hybrid vehicles which reflected the lower operating costs of those vehicles.

6 These updated rates were calculated based on the running costs of vehicles calculated based on the New Zealand Automobile Association costs of operating a vehicle and MBIE fuel watch information.[2]

7 The rates announced in Budget 2026 were:

- standard default rate: 22.8% annually or 5.7% quarterly,
- hybrid vehicle: 19.6% annually or 4.9% quarterly, and
- electric vehicles: 17% annually or 4.25% quarterly.

8 These rates were calculated in 2025 and have not been updated to reflect any recent increases in fuel prices due to the conflict in the Middle East.

9 The fiscal impacts of the FBT proposals were agreed to be managed against the Tax Policy Scorecard and did not impact Budget allowances. The fiscal impact of these changes was $580,000 less tax revenue over the forecast period.

Options to change the valuation rates

10 You have requested that we change the previously agreed Budget 2026 rates.

11 If Ministers wish to amend the proposals to update the valuation rates, there are two options:

- **Option 1**: Keep current rates for standard vehicles (20% annually or 5% quarterly) and Budget 2026 rates for hybrid and electric vehicles (hybrid vehicles at 19.6% annually or 4.9% quarterly and electric vehicles at 17.0% annually or 4.25% quarterly); or

[1] There are consequential changes to the tax book value rates driven from these underlying changes to the standard rates. For brevity these are not included.

[2] The rates agreed to in Budget 2026 were lower than those consulted on in the Fringe Benefit Tax – options for change issues paper (April 2025), in part due to building in a 12.5% discount over actual costs to reflect non-availability of the vehicle.

- **Option 2**: Keep current rates for all vehicles (regardless of fuel type) at 20% annually or 5% quarterly).

12 Note that these updated rates would also have consequential changes to the tax book value rates.

13 There has been inadequate time for us to analyse these options for changes to the rates, meaning it has not been possible to evaluate whether the benefits of any proposals outweigh the fiscal costs, or whether any of the proposals would further undermine the efficiency of the tax system.

14 For these reasons, officials recommend retaining the rates as announced as part of Budget 2026. However, if Ministers did wish to amend these rates, officials can make the necessary changes in time for Bill introduction, which will have fiscal impacts as discussed below.

Financial implications

15 The fiscal impacts of the FBT proposals were agreed to be managed against the Tax Policy Scorecard and did not impact Budget allowances. If you agree to either option, this will have an additional fiscal cost which can also be charged to the Tax Policy Scorecard.

16 The previous costing will be reversed and replaced with the costing relating to the option you agree to. The costings below differ from those initial costings provided to your offices earlier today as these included a longer forecast period.

17 The reversal of the previous costing is as follows:

	$m – increase/(decrease)			
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – FBT	0.060	0.250	0.250	0.250
Tax Revenue – Company tax	(0.020)	(0.070)	(0.070)	(0.070)
Total Revenue	0.040	0.180	0.180	0.180
Total Operating	**(0.040)**	**(0.180)**	**(0.180)**	**(0.180)**

18 The fiscal cost of option 1 – retaining the current standard motor vehicle rate and adopting the rates agreed in Budget 2026 for hybrid and EV's has the following financial implications:

	$m – increase/(decrease)			
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – FBT	(2.500)	(10.100)	(10.100)	(10.100)
Tax Revenue – Company tax	0.700	2.800	2.800	2.800
Total Revenue	(1.800)	(7.300)	(7.300)	(7.300)
Total Operating	**1.800**	**7.300**	**7.300**	**7.300**

19 Including the reversal of the original costing, option 1 will have a total fiscal cost of $23.12 million over the forecast period ending 2029/30.

20 The fiscal cost of option 2 – retaining the current standard FBT motor vehicle rate for all vehicles regardless of fuel type has the following financial implications:

	$m – increase/(decrease)			
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – FBT	(1.450)	(5.800)	(5.800)	(5.800)
Tax Revenue – Company tax	0.400	1.600	1.600	1.600
Total Revenue	(1.050)	(4.200)	(4.200)	(4.200)
Total Operating	**1.050**	**4.200**	**4.200**	**4.200**

21 Including the reversal of the original costing, option 2 will have a total fiscal cost of $13.07 million over the forecast period ending 2029/30.

22 As noted, these costs can be charged against the Tax Policy Scorecard, although it will use a sizable amount of the scorecard balance which is currently sitting around $50 million.

Consultation

23 The Treasury has been informed of this advice.

24 As requested by your office, we have tested these options with a trusted stakeholder, and their clear preference was for option 1 as it maintains the lower rates for alternative fuel vehicles that were announced as part of Budget 2026 and there is a significant expectation of this change in the market.

Next steps

25 We consider that agreeing to option 1 or 2 would not require Cabinet approval as they fall within Joint Ministers delegated decision-making powers and can be charged against the Tax Policy Scorecard.

26 If you agree to either option, officials will make the required drafting changes to the Taxation omnibus Bill. If decisions are taken by the morning of 9 September, the Bill could likely still be introduced on Thursday 10 September. This would allow the Bill to have its currently planned first reading on 15 September without the use of urgency.

27 However, you may wish to take an oral item to Cabinet to update your colleagues of this change. The Bill would then be introduced after Cabinet.

28 At the latest, introduction will be required early in the week beginning 14 September to ensure the Bill receives first reading and referral to select committee before the House rises.

Recommendations

We recommend that you:

1 **Agree** to change the motor vehicle valuation rates agreed to as part of Budget 2026.

Agree / Disagree Agree / Disagree

Minister of Finance	*Minister of Revenue*

2 **Agree** to update the motor vehicle valuation rates as follows:

a **Option 1**: Retain current rates for standard vehicles and Budget 2026 rates for hybrid and electric vehicles

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

or

b **Option 2**: Retain current rates for all vehicles (regardless of fuel type)

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

Financial Recommendations

IF you agree to either option in recommendation 2:

3 **Note** the following reversal of the previous Budget 2026 decisions, with a corresponding impact on the operating balance and new core Crown debt:

	$m – increase/(decrease)			
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – FBT	0.060	0.250	0.250	0.250
Tax Revenue – Company tax	(0.020)	(0.070)	(0.070)	(0.070)
Total Revenue	0.040	0.180	0.180	0.180
Total Operating	**(0.040)**	**(0.180)**	**(0.180)**	**(0.180)**

4 **Agree** to charge this fiscal impact to the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

IF you agree to option 1 in recommendation 2a,

5 **Note** the following changes as a result of the decision in recommendation 2a above, with a corresponding impact on the operating balance and new core Crown debt:

	$m – increase/(decrease)			
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – FBT	(2.500)	(10.100)	(10.100)	(10.100)
Tax Revenue – Company tax	0.700	2.800	2.800	2.800
Total Revenue	(1.800)	(7.300)	(7.300)	(7.300)
Total Operating	**1.800**	**7.300**	**7.300**	**7.300**

6 **Agree** to charge this fiscal impact to the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

OR

IF you agree to option 2 in recommendation 2b,

7 **Note** the following changes as a result of the decision in recommendation 2b above, with a corresponding impact on the operating balance and new core Crown debt:

	$m – increase/(decrease)			
Vote Revenue	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:				
Tax Revenue – FBT	(1.450)	(5.800)	(5.800)	(5.800)
Tax Revenue – Company tax	0.400	1.600	1.600	1.600
Total Revenue	(1.050)	(4.200)	(4.200)	(4.200)
Total Operating	**1.050**	**4.200**	**4.200**	**4.200**

8 **Agree** to charge this fiscal impact to the Tax Policy Scorecard.

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

s 9(2)(a)

Bary Hollow

Policy Director (acting)

Policy | Inland Revenue

8 September 2026

Hon Nicola Willis — Hon Simon Watts

Minister of Finance — **Minister of Revenue**

/ /2026 — / /2026