

Briefing note



TE TAI ŌHANGA
THE TREASURY



Inland Revenue
Te Tari Taake

Reference BN2026/217

Date 15/07/2026

To Revenue Advisor, Minister of Finance – Carl Harris
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Melissa Zhen

From Sandra Watson

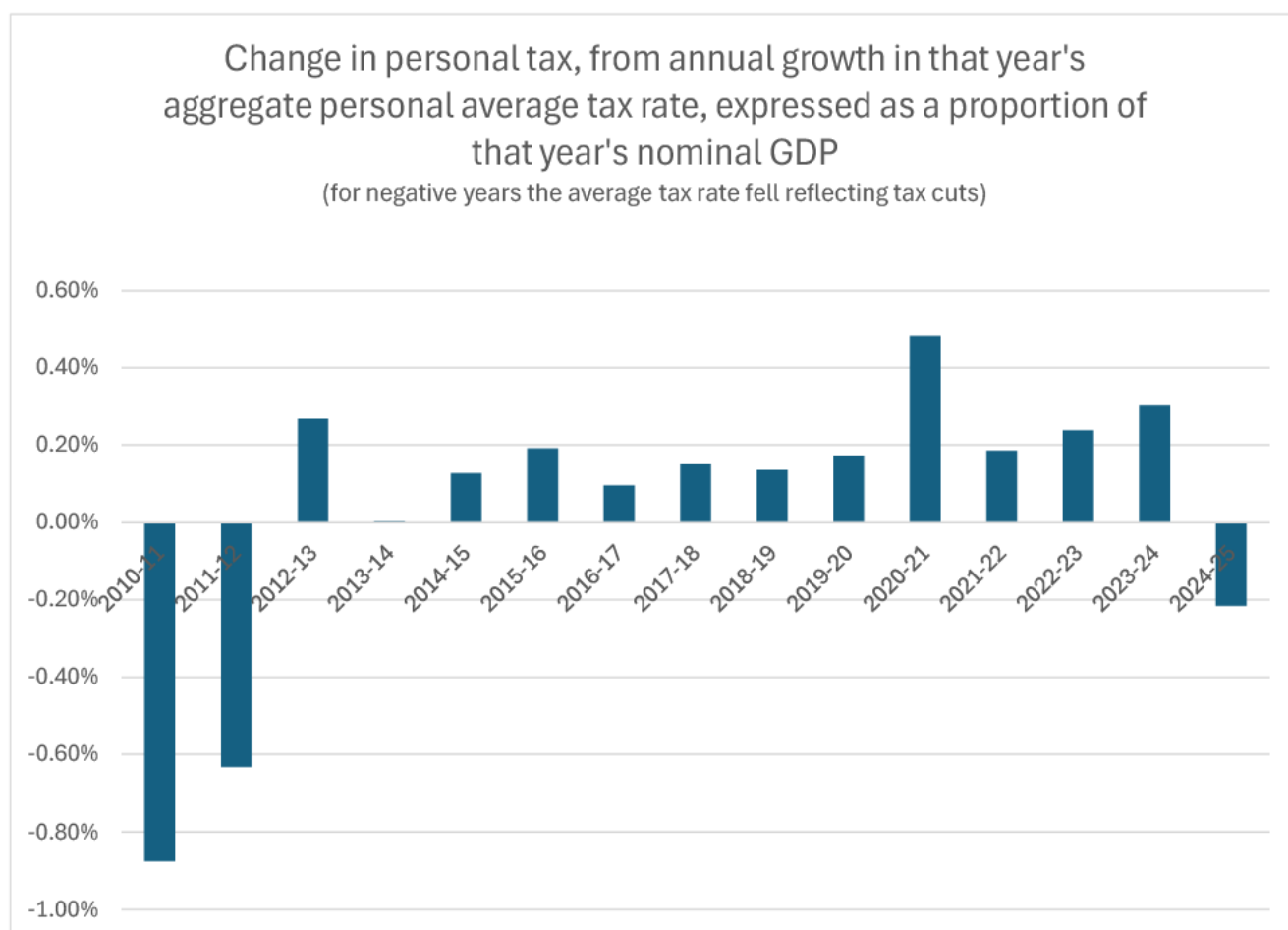
Subject **Average personal tax rates and fiscal drag**

- 1 In response to an 8 July 2026 request from the Minister of Finance's office, this report provides a technique to calculate the fiscal impact of rising average tax rates using published aggregate data.
- 2 On 9 December 2025, we reported on assessing the impact of inflation on average tax rates (refer IR2025/483, T2025/3051). The report used the analytical framework of CPI-indexing tax brackets from October 2010 to the 2024 March year and used 2023-24 personal income data to assess the additional tax collected relative to not indexing thresholds. The approach gave a result that between 2010 and 2024 fiscal drag had increased revenue by 1.6 percent of GDP, and further that the Budget 2024 changes would reduce this calculation to 1.0 percent of GDP. Fiscal drag refers to the impact of a progressive personal tax scale where, over time and because of rising incomes, an increasing proportion of income is taxed at higher marginal tax rates.
- 3 Referencing the abovementioned report, the specific request was for whether it was appropriate to divide the results in the report by the number of years to estimate the average fiscal drag per year. That approach is fine, but it is specific to that analytical framework of using price-indexing as the adjusting factor and the chosen reference points.
- 4 Another way to look at the impact of fiscal drag over time is to use aggregate annual published data and to calculate the average tax rate (tax divided by income) each year. Between any two March years, the average tax rate is likely to grow in years with a tax rate increase or years without a tax scale change and reflecting personal income growth. It is likely to drop, or to grow less strongly, in years impacted by a tax cut. The tax impact of fiscal drag in any one year can be calculated in aggregate by taking the income in that year and calculating how the tax would differ had the year-minus-one average tax rate been applied instead.
- 5 Unlike the calculation method used in the report, this method is tied to using annual aggregate data, in this case March years, as this becomes available. It will capture the impact of distributional changes over time. The table provided in the appendix uses the technique described in paragraph 4 and, similarly to the earlier report, compares this to the income measure of nominal GDP. The data is sourced from the links below. Figures coloured orange in the table are derived from 2024-25 personal tax information not yet published but once finalised it will be publicly available after the second week of October.

Inland Revenue data: [Tax on taxable income datasets](#)

Statistics NZ data (Seasonally adjusted series of nominal GDP, income measure): [Gross domestic product: March 2026 quarter | Stats NZ](#)

- 6 The calculation gives a negative result (a decline in the average tax rate) for the March years 2010-11, 2011-12, and 2024-25, all of which included a part-year impact from a within-year tax cut. The October 2010 tax scale change impacted half of a March year in each of 2010-11 and 2011-12, and the Budget 2024 tax scale change impacts 66.6% of March year 2024-25. All other years, coloured blue in the table, show an increase in the average tax rate and hence personal tax in that year was higher than it would have been had the average tax rate remained unchanged from the prior year. Expressed as a percentage of GDP, the blue-coloured annual calculations average 0.20% of GDP. This long-term average drops of 0.16% when also including the 2025 March year which contains a part year impact from the July 2024 tax bracket change.
- 7 A graph of the calculations in the final column of the table is shown below for your convenience. The unusual peak in 2020-21 reflects a temporary distributional change, with additional dividends paid out in that year in advance of the 39% personal tax rate taking effect. The long-term average calculation would be smaller (0.17% to 2023-24 and dropping to 0.14% to 2024-25) if excluding the 2020-21 year.



- 8 The main difference between the two approaches is that approach in the December 2025 report measured fiscal drag from price-inflation, and the approach described above and shown in the appendix measures fiscal drag from total income growth (wages and other sources, which do not necessarily move perfectly with price-inflation). Different approaches and different reference points will give different results. Which approach to use depends on which aspect you are wanting to consider: price-inflation as a driver, or income growth more generally.

Next steps

9 This note is for your information only.

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Appendix: Average personal tax rate calculations, 2009-10 to 2024-25

March year	Explanatory events	Nominal GDP (Income measure, March year, seasonally adjusted), \$m	Personal taxable income (\$M)	Personal tax (\$M)	Average tax rate (ATR)	ATR prior year	Change in personal tax if prior year ATR remained (\$M)	Tax change attributable to a changing ATR as a percentage of that years GDP
2009-10		194,772	118,338	25,338	21.4%			
2010-11	mid year tax cut	203,856	121,370	24,202	19.9%	21.4%	1785	-0.88%
2011-12	full year impact of above	213,230	130,432	24,661	18.9%	19.9%	1348	-0.63%
2012-13		217,920	138,007	26,676	19.3%	18.9%	-583	0.27%
2013-14		232,717	142,387	27,528	19.3%	19.3%	-5	0.00%
2014-15		242,854	149,893	29,288	19.5%	19.3%	-309	0.13%
2015-16		255,521	157,771	31,316	19.8%	19.5%	-489	0.19%
2016-17		271,517	165,874	33,186	20.0%	19.8%	-262	0.10%
2017-18		290,757	176,081	35,671	20.3%	20.0%	-443	0.15%
2018-19		306,179	187,284	38,354	20.5%	20.3%	-413	0.14%
2019-20		323,718	199,738	41,463	20.8%	20.5%	-559	0.17%
2020-21	larger dividends	329,153	217,897	46,820	21.5%	20.8%	-1587	0.48%
2021-22	39c tax rate (full year)	358,641	224,764	48,961	21.8%	21.5%	-665	0.19%
2022-23		393,794	243,496	53,978	22.2%	21.8%	-937	0.24%
2023-24		417,477	267,989	60,677	22.6%	22.2%	-1269	0.30%
2024-25	part year tax cut	432,088	278,230	62,065	22.3%	22.6%	931	-0.22%
2025-26	full year impact of above	451,249						

Average 0.20%

Average including 2025 0.16%

Source SNZ website

Gross domestic product: March 2026 quarter | Stats NZ

Source IR website

Tax on taxable income datasets

Source: Not yet published IR refresh, subject to change