# Taxation Principles Reporting Act: Annual Report

December 2023

Policy and regulatory stewardship

**Inland Revenue**

**Version [draft]**

# Taxation Principles Reporting Act: interim report

## Background

Over the past three decades there have been several working groups formed to comment on how to improve the tax system. They tend to form their advice for change around principles of efficiency, fairness, simplicity and cohesiveness in the tax system.

The Taxation Principles Reporting Act ("the Act"), enacted in August 2023, requires the Commissioner of Inland Revenue to provide the Minister of Revenue with a report on New Zealand's current tax settings in relation to a set of tax principles. The principles are assessed through the approved taxation principles measurements in section 12 of the Act.

### The objective of this report

This inaugural report provides information on the tax principles that underpin the design of a tax system. It does not offer any judgement on whether the current New Zealand tax system achieves those principles. This report is intended to help inform conversations and debate by providing relevant data in one place.

### The reporting obligations

The Act stipulates that the report produced by Inland Revenue must take one of two forms and be either an "interim" report or a "full" report (with the "full" version being required once every three years, beginning in 2025). This hybrid reporting model was designed to ensure that available annual data is captured and reported, while ensuring that departmental resources for more comprehensive reporting are used efficiently with less frequent reporting. This inaugural report is an interim report.

Unless otherwise specified, we have used data from tax years where we have complete records. The most recent year for which we have complete records is the tax year ending (for most taxpayers) 31 March 2022.

# What are tax principles?

Tax principles are generally understood as the overarching values or aims which a tax system should pursue. These inform the tax policy frameworks which economists, tax professionals and policy makers use to develop and evaluate tax policy proposals. Trade-offs are usually required between the principles. Some of the tax principles in Schedule 1 of the Act can be traced back to at least Adam Smith's *The Wealth of Nations*, while others are more recent innovations.

## Efficiency

The principle of efficiency provides that revenue should be raised at the least possible social cost to society. Ultimately, regardless of whether they are levied on companies, transactions, individuals or families, taxes are paid by people. The social cost of taxation is at a minimum when the only cost of raising a dollar is the dollar paid from the person ultimately bearing the cost of the tax.

Efficiency costs are from people changing their behaviour[1] in response to a tax. Taxpayers lose more than just the tax revenue raised. They lose the surplus they were receiving from any activity curtailed by the tax. This is a net loss to society not compensated by the tax revenue collected.

## Equity

### Horizontal equity

The concept of horizontal equity provides that people in similar positions should be treated similarly. This implies that people who earn similar amounts of income should pay a similar proportion of their income in tax. Whether a country's tax system is regarded as horizontally equitable between two people will depend in part on judgments about whether these people are in similar positions.

### Vertical equity

Vertical equity provides that people in different positions should be treated differently. A common perspective is that this means that people with higher incomes should pay a higher proportion of their income in tax than those with lower income. This is known as progressivity and is observed when the average rate of tax rises as income increases.

## Revenue integrity

[1] Assuming that the tax is not an externality tax designed to discourage activities with spillover costs. Our income and consumption taxes are not these sorts of taxes.

This concept looks at how reliably the tax system is able to raise the level of revenue required to meet the government's expenditure programme over the longer term. This includes the tax system's contribution to whether the government can respond to unexpected events through sustainable fiscal strategy.

It also looks at whether the taxes are applied fairly and with integrity, or whether there are large gaps or lack of enforcement that means some groups do not contribute to the tax system when they should.

## Compliance and administration costs

Compliance costs refer to the costs which taxpayers incur in meeting their tax obligations (for example, the price of seeking professional services). These costs include non-monetary costs (e.g. the time and stress which taxpayers incur in determining and meeting their obligations).

Administration costs are the costs faced by a tax authority (e.g. Inland Revenue) in administering the tax system.

Both categories of costs should be minimised as far as possible. For a tax authority, minimising costs ensures that public funds are used efficiently. For taxpayers, it lowers the total costs of meeting their liabilities.

## Certainty and predictability

The principles of certainty and predictability refer to the ability of taxpayers to reliably determine their tax liabilities in advance. This can have important implications for investors' willingness to make long-term decisions, which will in turn affect the level of economic activity within a jurisdiction. As it is difficult to measure the level of certainty and predictability within a jurisdiction directly, discussion of this principle often occurs with reference to qualitative information.

## Flexibility and adaptability

The principles of flexibility and adaptability are about tax systems keeping pace with technological and commercial developments. Although the structural features of a tax system should be enduring, it is important that a tax system is flexible enough to allow governments to respond to changes within society.[2]

This could include changes in technology and business models and changes in society, such as aging population and changes in international mobility.

[2] OECD. (2014). *Addressing the Tax Challenges of the Digital Economy*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing pp30-32.

# Assessing the principles

As it is difficult to assess some principles directly, the Act describes the categories of information which are relevant to the principles. This was designed to allow the report's authors to report relevant information without limiting the tools at their disposal. The measurements specified in section 12 of the Act to be used are:

- Income distribution and income tax paid
- Distribution of exemptions from tax and of lower rates of taxation
- Perceptions of integrity of the tax system, and
- Compliance with the law by taxpayers.

This report addresses each in turn.

## Income distribution and income tax paid

The principle to which this measurement most closely relates is equity. In particular, the income distribution and the amount of income tax paid provides a measure of progressivity, which in turn informs judgments about vertical equity.

Progressivity in taxation has a specific technical definition: it is achieved when the average tax rate increases as income increases.

New Zealand's tax system achieves its progressivity through increasing marginal tax rates. By applying increasing marginal tax rates, average tax rates increase as taxable incomes increase. This ensures that those with higher taxable incomes face higher average tax rates – they contribute a proportionally larger share of their income to taxes. When average tax rates increase, a tax system is said to be "progressive".

Some level of progressivity is desirable because it supports vertical equity. Vertical equity is the concept that taxpayers with different levels of ability to pay should be taxed differently, aligning tax liabilities more closely with individuals' financial capabilities.

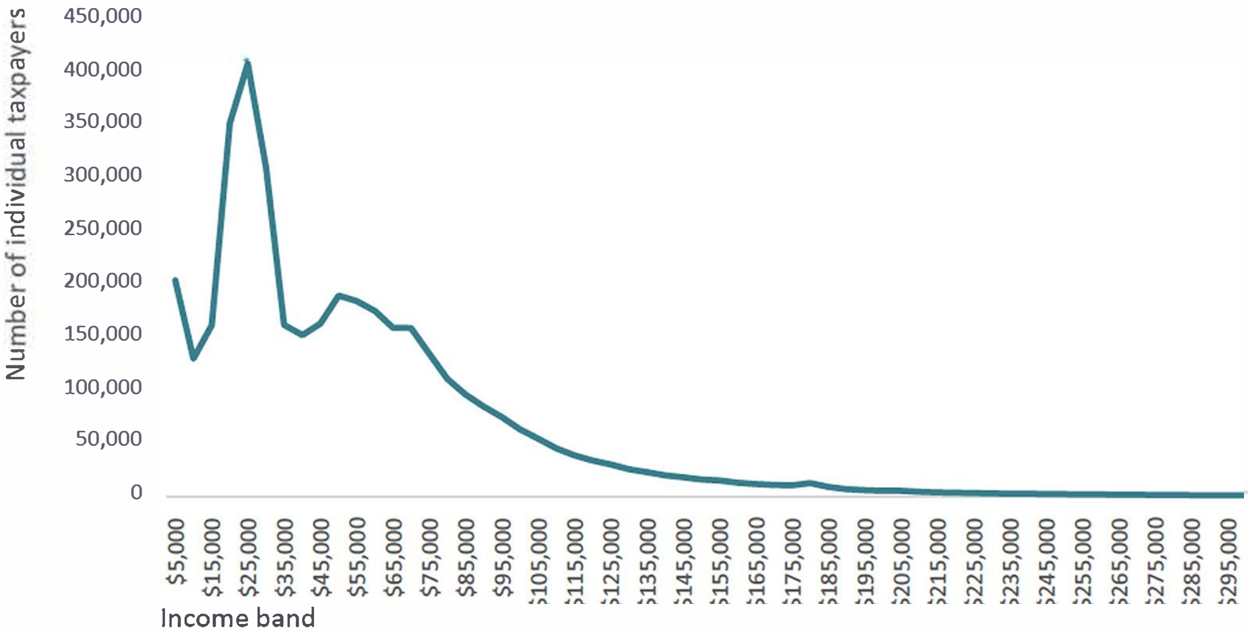
Before looking at marginal income tax rates and their impact, it is important to understand the broader taxable income distribution in New Zealand, as represented in Figure 1 below.

The graph shows the distribution of taxable income up to $300,000. This captures 99.3% of taxpayers and 92.7% of personal taxable income. Taxable income itself is defined by tax law and is not the same as economic income, although there will be a significant overlap of the two concepts.[3]

[3] The standard economic definition of income used in public economics is the Haig-Simons' definition. This defines income as the increase in wealth plus consumer spending over a given period of time (e.g. a year). See R.M. Haig. (1921) The Concept of Income-Economic and Legal Aspects R. M. Haig (Ed.), *The Federal Income Tax* (pp. 1-28). *New York: Columbia University Press.*, and Simons, H. C. (1938). *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy*. Columbia University Press. Inland Revenue's recent High-wealth individuals research project

It is important to note that certain spikes tend to dominate the graph. These spikes are due to specific income amounts paid to a lot of people (such as those at the level of universal New Zealand Superannuation payments) and the graph should be interpreted with this context in mind.

**Figure 1: Taxable income distribution for individuals in 2022 tax year**



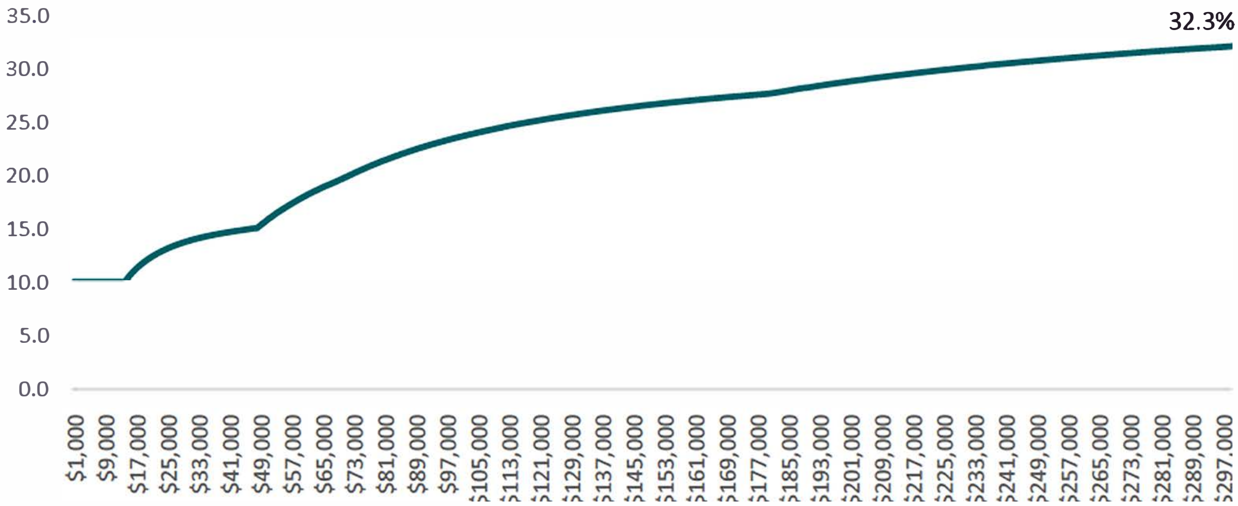

In New Zealand, taxable income is taxed at the following thresholds and marginal rates:

| Thresholds | Tax rate |
|---|---|
| $0 - $14,000 | 10.5% |
| $14,001 - $48,000 | 17.5% |
| $48,001 - $70,000 | 30% |
| $71,000 - $180,000 | 33% |
| $180,001+ | 39% |

looked at measures of tax paid relative to economic income and the taxable and economic income of high-wealth individuals, see Inland Revenue (2023), *High Wealth individuals research project,* Policy and Regulatory Stewardship, Inland Revenue.

Figure 2 below shows how the marginal income tax rates and thresholds create an upward sloping average tax rate for the taxable income range of $0 - $300,000.

**Figure 2: Average tax rates rise as income increases**




## Average tax rates from 2012 - 2022

Over time, as incomes grow through inflation or real increases, average tax rates increase unless the marginal tax rate structure is changed.

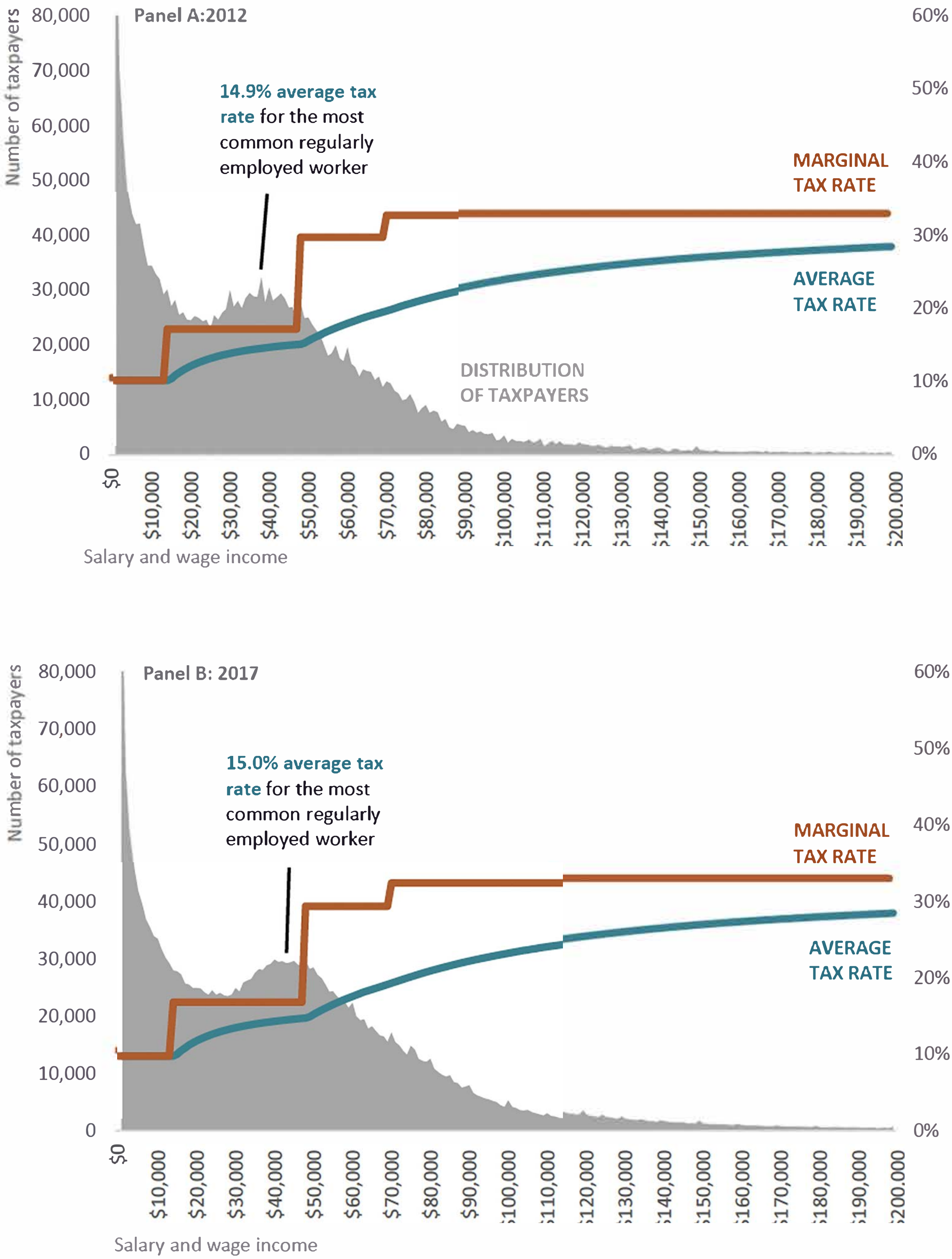
Progressivity falls unless thresholds are adjusted upwards.

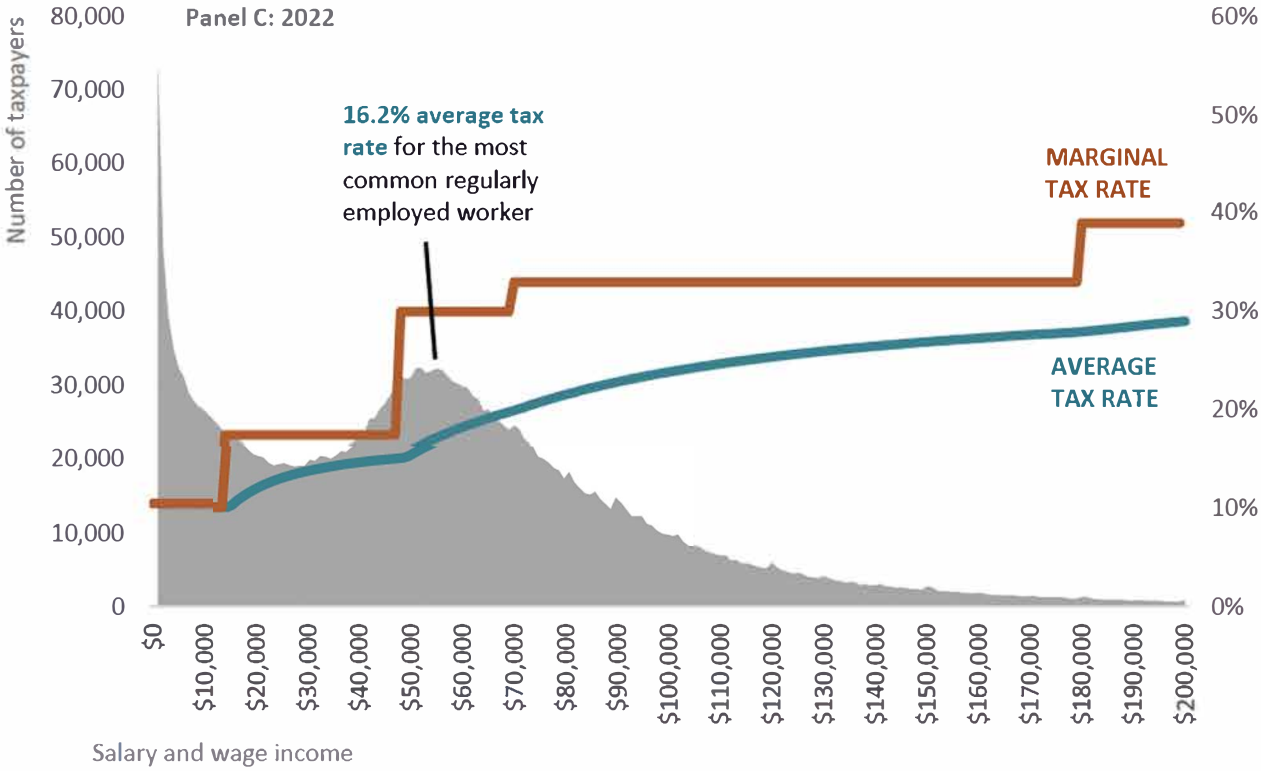
We can see the particular effect that strong inflation can have by looking at the change in distribution of taxpayers' incomes from 2012 – 2017, as compared with the change in 2017 – 2022. Figure 3 shows the distribution of taxpayers' salary and wage incomes for 2012, 2017, and 2022, with the average tax rate of the most common regularly employed worker highlighted.[4]

From 2012 to 2017, the average tax rate of the most common income of a regularly employed worker increased by 0.1 percentage points. But from 2017 to 2022 it increased by 1.2 percentage points. The significant increase is because the peak that includes the most common regularly employed worker shifts to the higher marginal tax rate of 30%. The average tax rate then increases rapidly as incomes rise from there and marginal income is taxed at 30% instead of 17.5%.

[4] Looking only at salary and wage income removes the large spikes associated with particular government payments like NZ Superannuation and other taxable welfare payments.

**Figure 3: Average tax rates have risen as the distribution of incomes has shifted higher (2012 - 2022)**






As the peak moves up the income scale over time (from panel A to C) through income growth and inflation, the value of lower marginal rates drops and the tax system becomes flatter. Whether that improves or worsens vertical equity depends on a view about how much progressivity is desirable.

## Progressivity and the distribution of tax paid

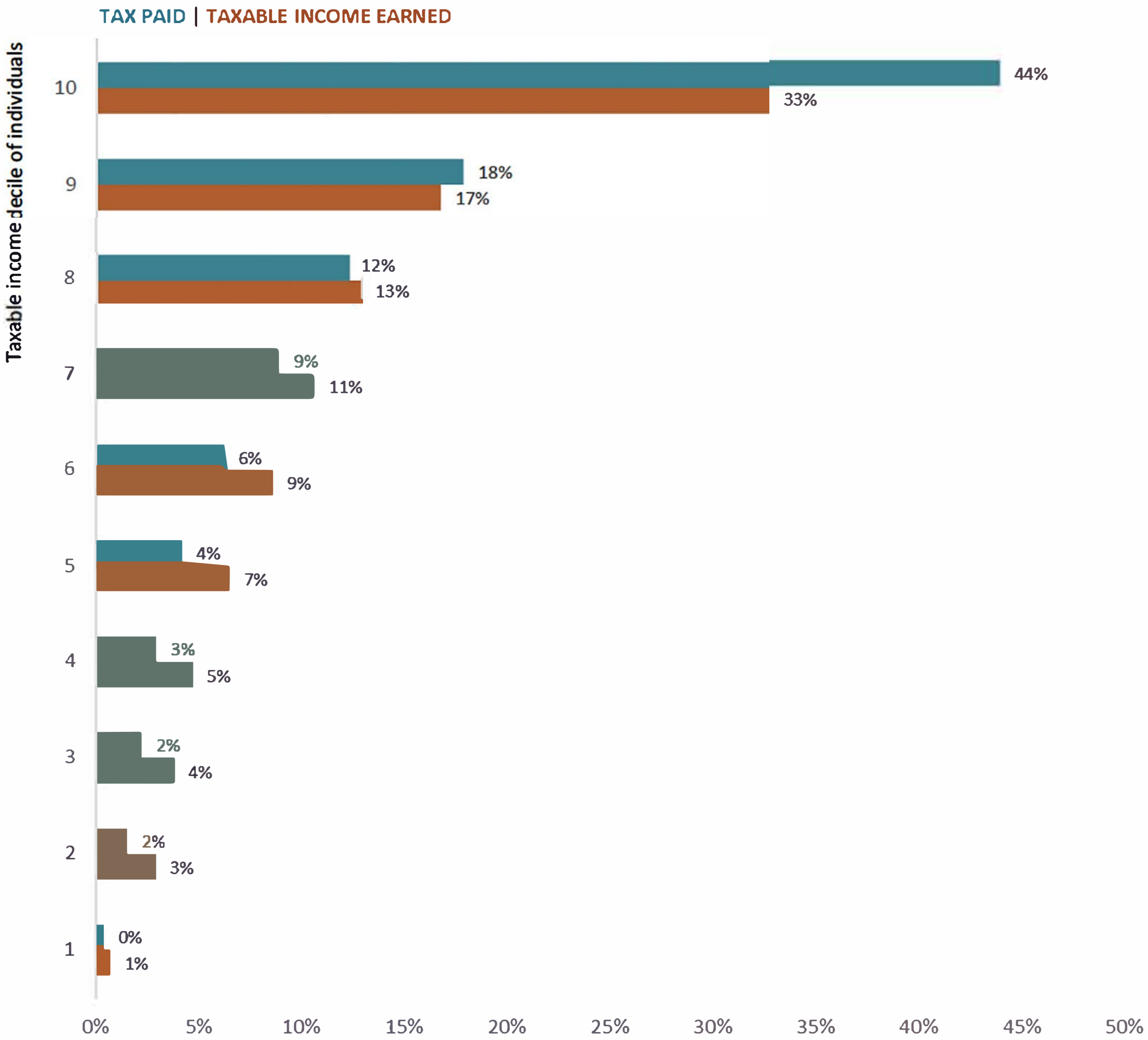
Some commentators use the percentage of tax revenue contributed by a segment of taxpayers to indicate progressivity. However, rising average tax rates provides a more accurate measure, because the percentage of tax paid is not a measure of progressivity unless we know the proportion of taxable income earned by each segment (i.e. the underlying distribution of the tax base).

For example, in 2022, as shown in Figure 4 below, the top decile of taxable income earners paid 44 percent of personal income taxes. But this does not offer a complete picture of progressivity. Such a distribution could also result from a flat tax system if the top decile of taxpayers received 44 percent of the total taxable income.

Figure 4 captures both tax paid and taxable income earned, showing the top decile earned 33 percent of total taxable income. The combination of these (paying 44 percent of total personal income tax, earning 33 percent of total taxable income), is a better indicator of progressivity than the 44 percent measure by itself.

Note that many of those in decile one have losses[5].

**Figure 4: Taxable income earned and income tax paid by each decile**

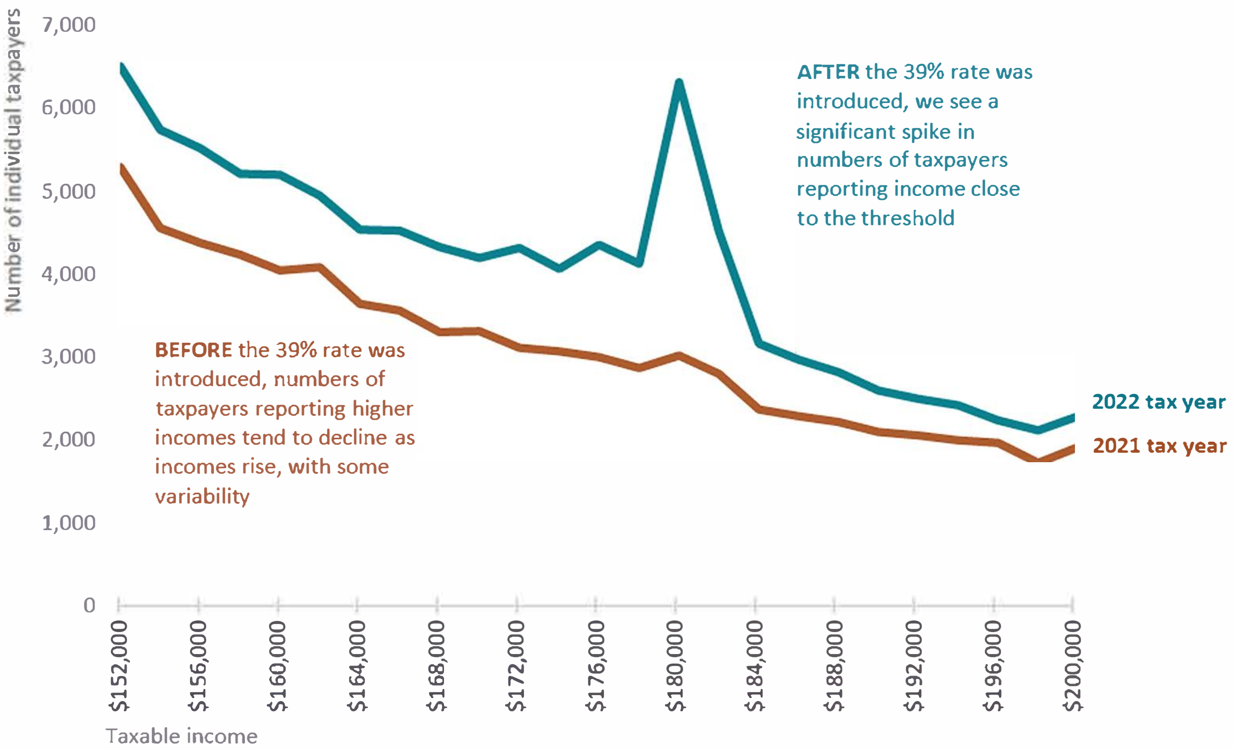



There are two further factors relevant to progressivity. First, if the tax base could be altered to better reflect taxpayers' actual ability to pay, the system's progressivity might be more effectively realised. In New Zealand, the major debate relevant here is whether realised capital gains should be included in the tax base.

[5] We have also removed from the distribution people with an automated annual square-up of tax withheld at source whose total taxable income was less than $100. These are often children or others whose only taxable income is from a small balance in an interest-bearing bank account.

Second, taxpayers who are more able to control their taxable income[6] might do so to remain below higher tax thresholds. This is evident in the observable "bunching" at certain income levels. An example of "bunching" can be seen in the graph below.

**Figure 5: Reported incomes bunch at the threshold of $180,000 after the introduction of the 39% rate**




Prior to the introduction of the 39% personal income tax rate, the number of taxpayers reporting higher incomes tended to decline (albeit with some variation in the data). However, following the introduction of the 39% rate in the 2021-22 income tax year, there was a "spike" in the numbers of taxpayers reporting income just below the $180,000 threshold. This suggests that some taxpayers are structuring their income to avoid paying the 39% rate of tax.

[6] For example, those taxpayers who operate a business through a company and can control the timing and amount of shareholder salaries and dividends.

## Distribution of exemptions and lower rates

Tax exemptions and lower rates of taxation for specified groups or activities are similar to government spending. These mechanisms, broadly categorised as "tax expenditures", represent the government's financial commitments through the tax system, benefiting various social or business segments.

Exemptions and lower rates are relevant to the principles of both equity and efficiency. The link to equity is the implications for vertical and horizonal equity if some taxpayers receive exemptions or lower tax rates. The efficiency question is whether having higher taxes on some taxpayers to raise enough revenue so that others can have lower taxes or be exempt results in higher total costs from taxation than a more neutral system. But also relevant is whether exemptions in any particular case are justified because the compliance and administration costs are higher for those particular taxpayers receiving the exemption.

The Treasury regularly provides an annual tax expenditure statement as part of the budget process. There are different ways of categorising tax expenditures. In the annual tax expenditure statement they are categorised into "social", "business", and "other".

To provide further information about their distribution, we present an alternative categorisation of tax expenditures:

- in the nature of welfare payments,
- to encourage private charity,
- to internalise "spillovers", and
- to promote particular activities or industries.[7]

Only some of the tax expenditures are quantified in the annual tax expenditure statement. This is because some expenditures (particularly those that are tax credits) require information to be provided to Inland Revenue while others do not.

In this report, we take a closer look at tax expenditures: in the nature of welfare payments, to encourage private charity, and to internalise "spillovers" through subsidies. This last category is motivated by situations where the full benefit of an activity is not captured by the parties to a transaction. In this case, the level of the activity will be inefficiently low. It will be inefficiently low because the parties do not face the wider marginal benefits and costs of their activity. Total benefits for wider society could be increased by subsidising the activity. The usual example given of this (and the primary activity of this nature subsidised through the tax system in New Zealand) is research and development expenditure.

[7] This includes activities or industries where the tax expenditure is to reduce compliance costs.

## Tax expenditures in the nature of welfare payments were falling until 2018

An example of "tax expenditure" is the use of welfare focused tax credits. The graph below shows tax expenditure through Working for Families Tax Credits and the Independent Earner's Tax Credit. This declined from the 2013-14 financial year until the family income package was introduced in the 2018-19 financial year, which raised abatement thresholds. This lifted expenditure briefly before it began to decline again.

**Figure 6: Tax expenditures on welfare rose when the family income package was introduced in 2017**

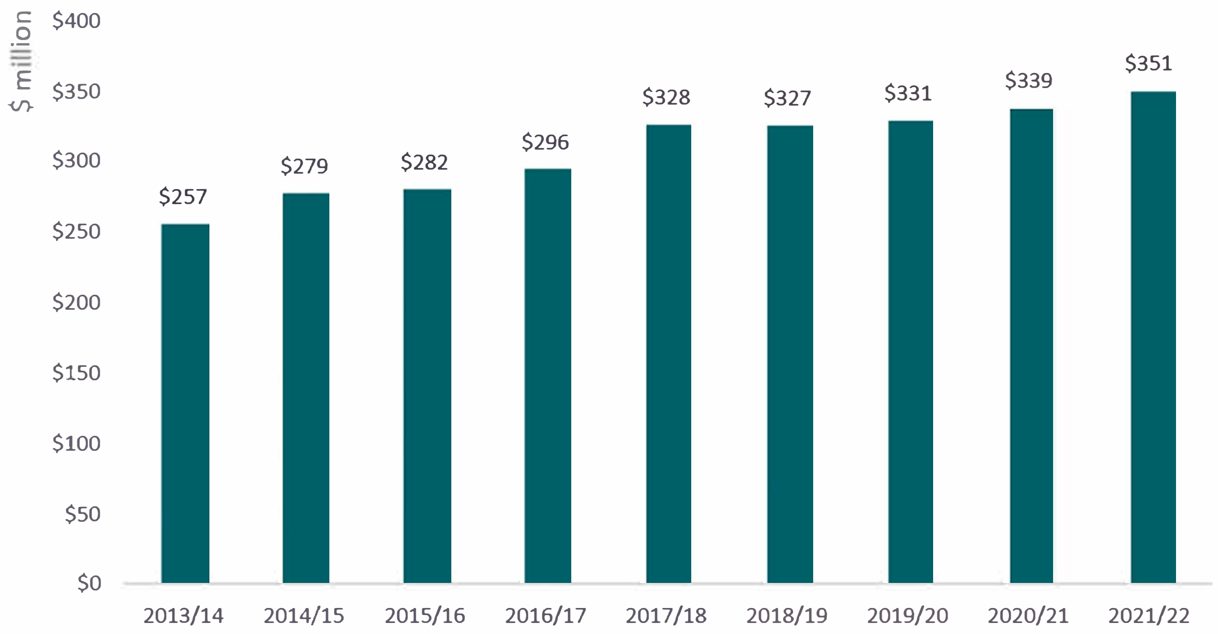

## Tax expenditures to promote charitable giving have been relatively stable

The two principal forms of tax expenditures related to charity are:

1. **Exemption from income tax for charities:** This exemption is not quantified in the tax expenditure statement. It allows registered charities to operate without paying income tax.
2. **Donations tax credit and deductions:** This category includes the donations tax credit for individuals and the deductions available to companies and Māori authorities for donations to registered donee organisations.

This second category has risen by approximately $100m since the 2013/14 financial year but has been broadly stable over the last five years.

**Figure 7: Quantified tax expenditures on charities have stabilised in the last five years**




A closer look at the data for donations tax credit claims shows that while the total tax expenditure continues to rise, the number of individuals claiming these credits has decreased. This has resulted in increasing average donations tax credit claimed as shown in Figure 8.

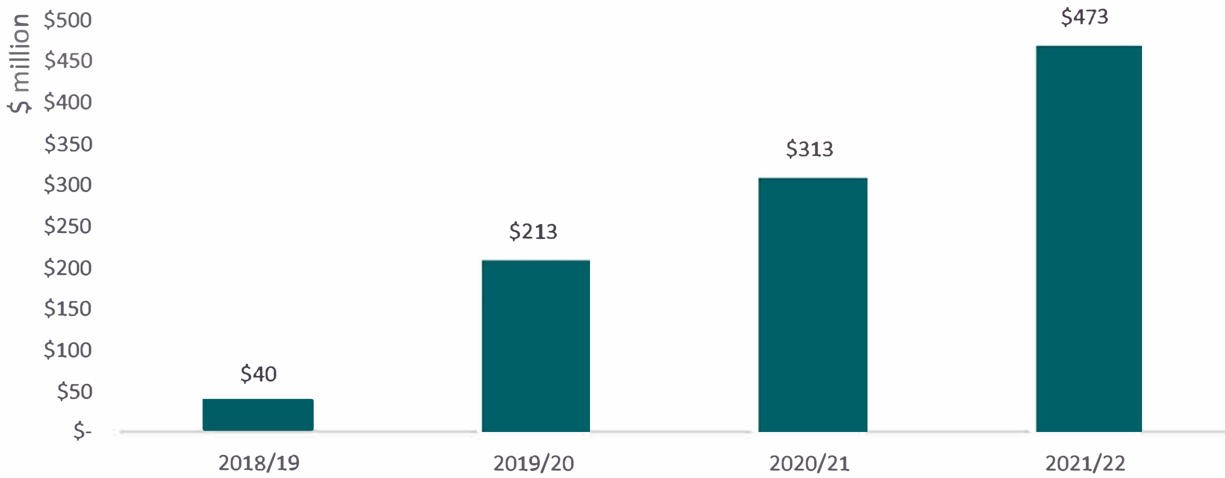
**Figure 8: The average donations tax credit claimed has risen significantly since 2012**

## The R&D tax incentive has risen significantly since its introduction

Another form of tax expenditure is the Research and Development (R&D) tax incentive. This credit aims to increase company spending on R&D by reducing the cost of R&D faced by companies. The logic behind this is that there are spillover benefits not captured by firms undertaking R&D. Because of this, firms will do an inefficiently low amount of R&D.

This tax expenditure has risen significantly since the introduction of the tax credit in the 2018/19 financial year, with over $1.4 billion claimed since the tax credit first became available.

**Figure 9: Tax expenditure on the R&D tax credit has increased significantly since introduction**



# Perceptions of integrity of the tax system

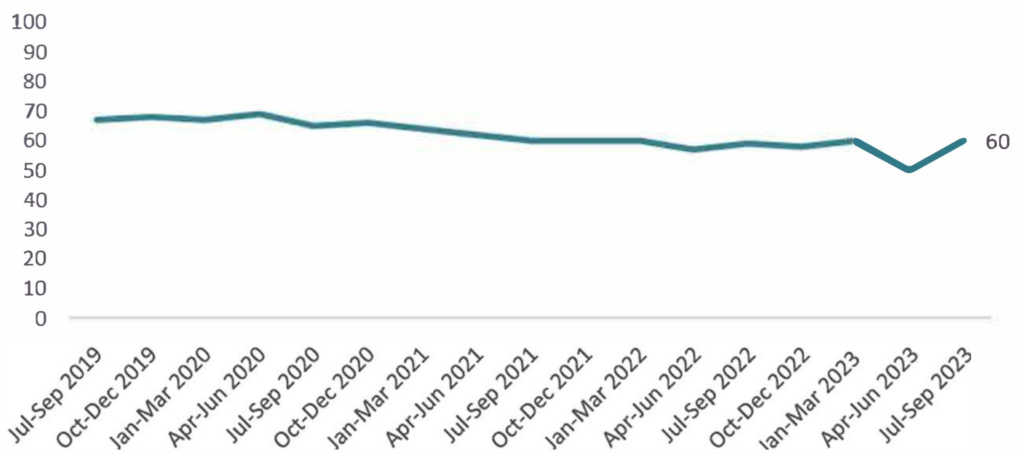
The principle this measurement is most closely related to is revenue integrity. Taxpayer perceptions influence taxpayer compliance, which in turn affects the government's ability to raise revenue. However, perceptions of integrity are also clearly related to equity (and people's perceptions of it) and efficiency. Because taxpayers' behaviour is influenced by their perception of others' behaviour, a tax system will be more efficient when it has integrity and people understand that others comply with their obligations and cannot step around tax rules. This is because taxpayers will spend less resources trying to avoid or evade obligations. In addition, a high integrity system will require fewer resources to ensure taxpayers meet their obligations, lowering administration costs.

## Perceptions of integrity have been stable over time

The information below shows the results of Inland Revenue's Customer Experience and Perceptions survey over the last four years. The metrics are broadly stable, but some have declined slightly over the past four years. However, in some cases, signs of recovery are evident in the most recent quarterly data.

Taxpayers' trust in the tax system rose 10% in the July – September 2023, suggesting a recovery from the fall in the preceding quarter.[8]

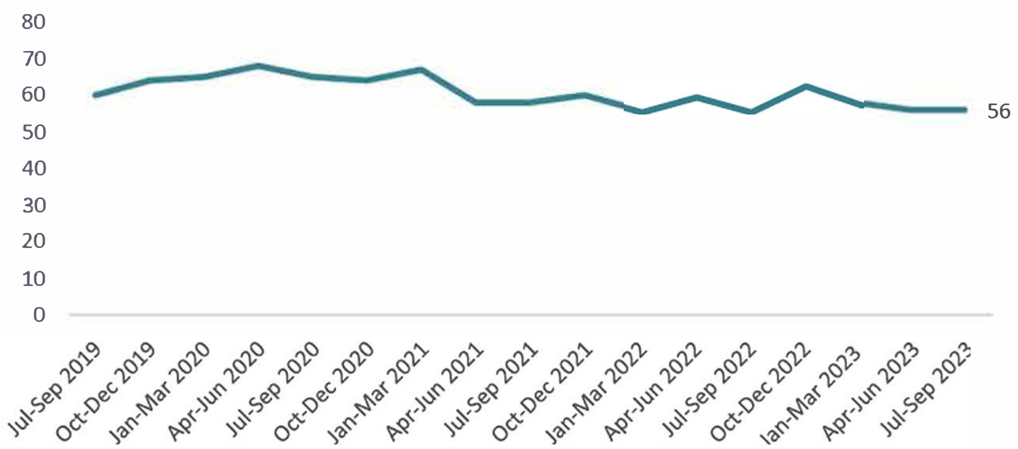
**Figure 10: Trust in the tax system has fallen slightly fallen over the past four years**




[8] Respondents are asked about the extent to which they trust Inland Revenue and provided with a seven-point scale (1 being do not trust Inland Revenue at all, 7 being trust Inland Revenue completely). The percentage of those who scored Inland Revenue between 5-7 is reflected in the graph above.

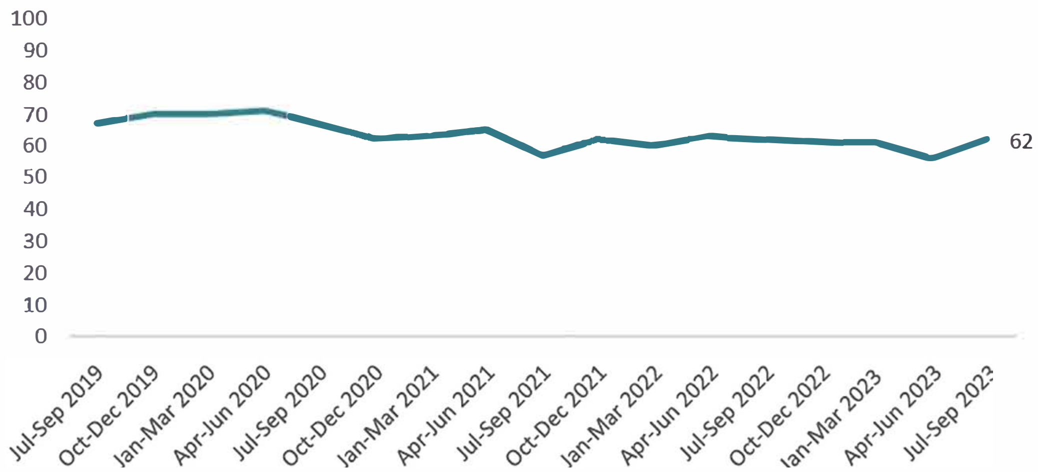
Taxpayers' feelings about paying their tax have remained broadly consistent and unchanged over the last four years.[9]

**Figure 11: Feelings about paying tax have been stable for the past four years**




Perceptions of Inland Revenue's helpfulness have declined slightly over the last four years, although the most recent quarter shows a rise from the quarter immediately before.

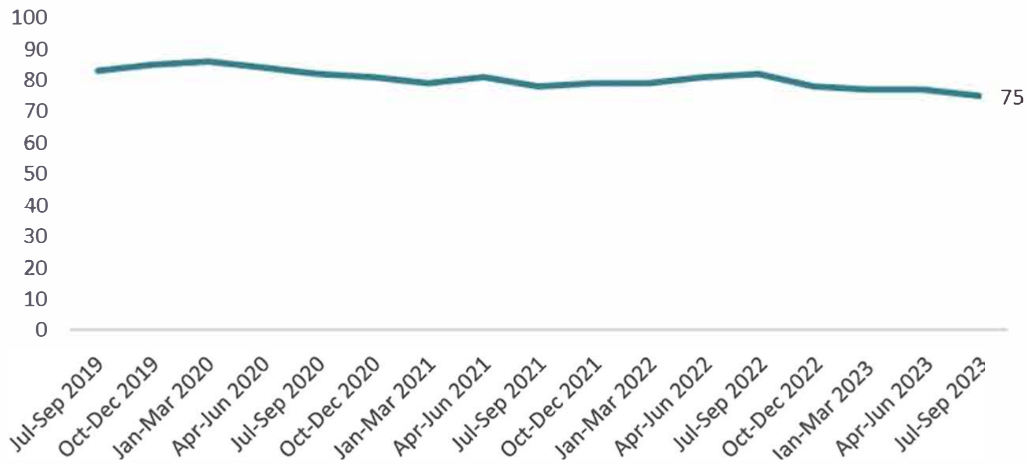
**Figure 12: Perceptions of IR's helpfulness have been stable over the past four years**




[9] Questions on taxpayers' feelings about paying tax, perceptions of Inland Revenue's helpfulness and likelihood of enforcement actions are also determined using a seven point scale (1 strongly disagree, 7 being strongly agree). The results in each graph show the percentage of respondents who gave a rating between five and seven.

Taxpayers' perceptions of consequences for taxpayers who do not meet their obligations have declined slightly but remain largely consistent.

**Figure 13: Perceptions of consequences for taxpayers**




# Compliance with the law

This measurement relates to revenue integrity, efficiency, and compliance and administration costs. High compliance with the law improves revenue integrity, increases efficiency, and reduces compliance and administration costs.

## Comprehensive data on compliance with the law is difficult to collect but disputes are falling

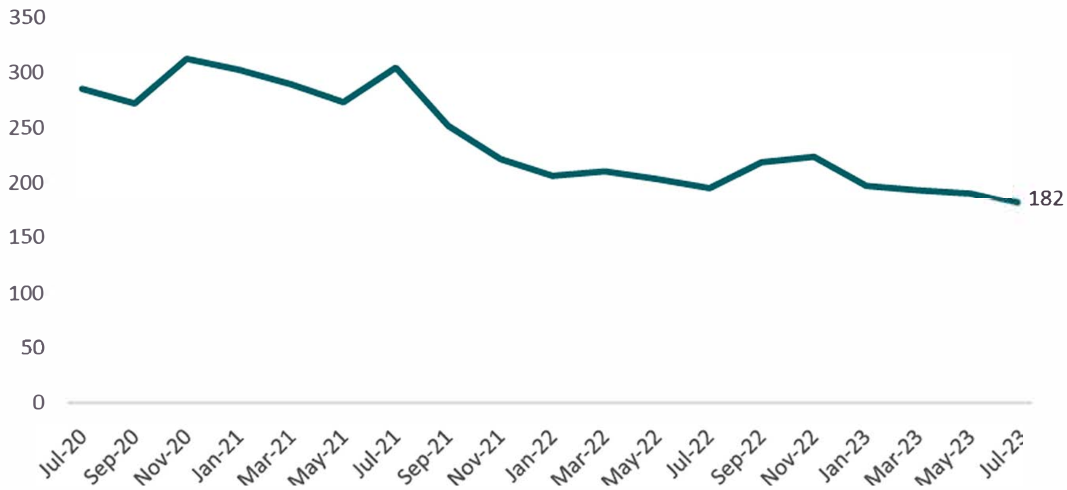
**Disputes**

Disputes refer to disagreements between taxpayers and Inland Revenue. These can be initiated by Inland Revenue following audit activity, or by taxpayers in filing a Notice of Proposed Adjustment (NoPA). In each case, either Inland Revenue or the taxpayer will have disagreed with the tax position taken by the other party.

The frequency and value of disputes can have important implications for such principles as efficiency, compliance and administrative costs, and certainty. However, drawing clear conclusions from the number of open disputes at any one time can be challenging. For example, a large number of open disputes could be interpreted as the tax environment being uncertain and creating the ambiguity necessary to allow large numbers of disputes to arise. Or, it could be interpreted as an increased focus on compliance activity on the part of Inland Revenue, or a greater inclination to engage in disputes on the part of taxpayers.

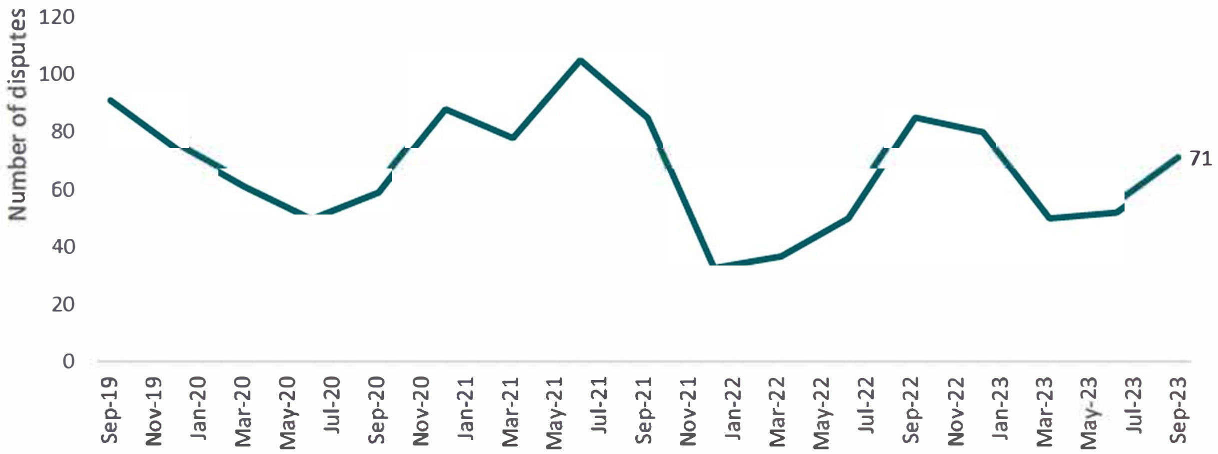
The graph below shows the number of open disputes since July 2020. These are disputes which have been initiated by either the taxpayer or Inland Revenue and which have not proceeded to litigation.

**Figure 14: The number of open dispute cases has declined**



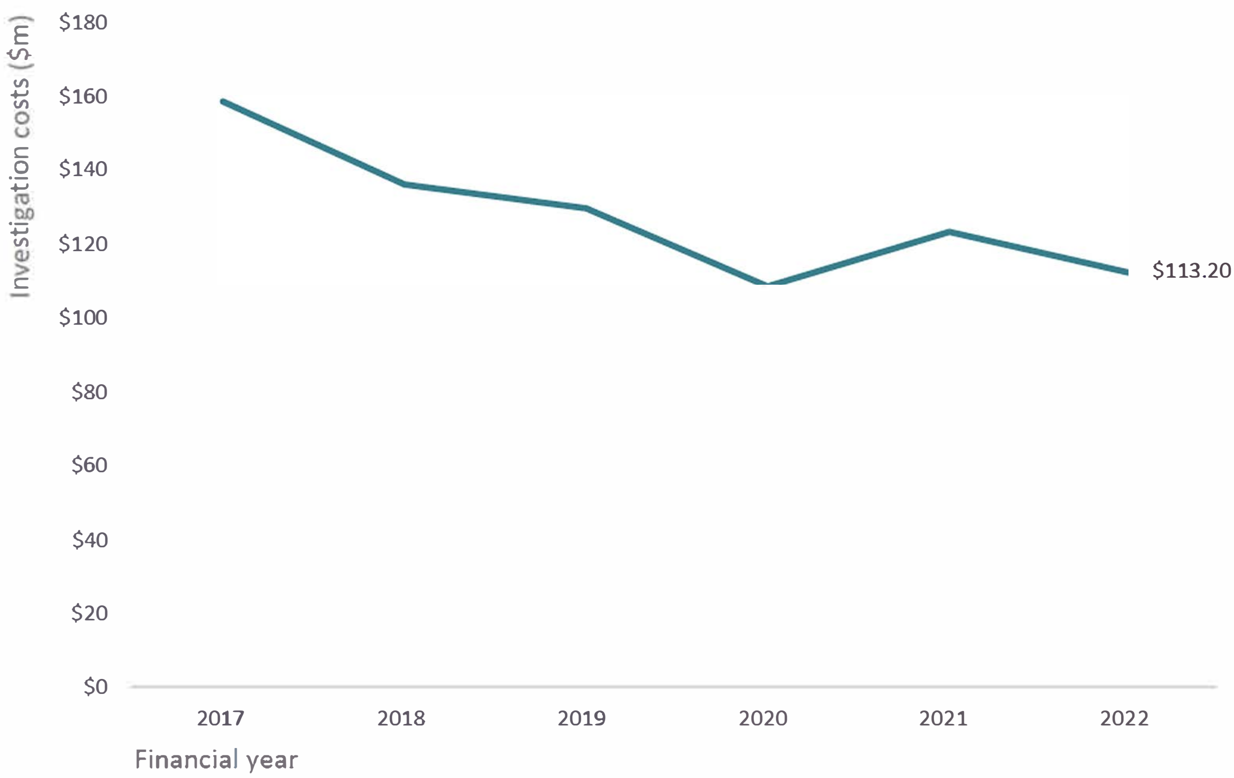

In general, there is a trend toward a reduction in the number of open disputes. This could be due to a range of factors, including the impact of Inland Revenue's Business Transformation Programme, COVID-19 disruptions and the resulting focus less on compliance activity when taxpayers have got things wrong, and more on designing systems to try to get things "right from the start".

**Figure 15: New disputes opened each quarter have varied significantly over the COVID-19 period**



As a result of the above factors, the resources Inland Revenue spends on investigations have reduced significantly in recent years, as seen in Figure 16 below. Some of this has been the temporary shift in effort from back-end compliance activities to support COVID-19 and cost-of-living initiatives. This is expected to change in future as more resources become available for investigation work.

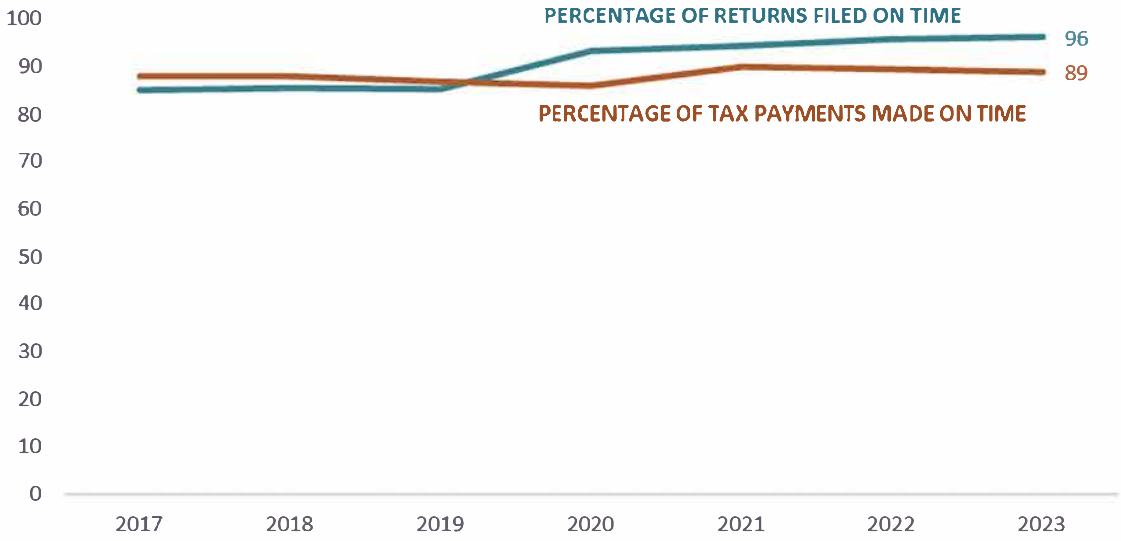
**Figure 16: Resources devoted to investigations have reduced since 2017**



### Returns and payments

Most taxpayers file their tax returns on time. For the 2022-23 tax year, the proportion of taxpayers who filed their returns on time reached 96%. The percentage of taxpayers who made tax payments on time remained relatively steady at 89%.

**Figure 17: Returns and payments made on time**



Inland Revenue
Te Tari Taake

# Appendix

## Approved appropriated spending made through the tax system

| **Tax Expenditure** | **Policy Rationale** | **Type** | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Accelerated depreciation | To encourage investment in depreciable assets. | | | | ✓ |
| Defence Force accommodation | NZDF staff are required to accept postings anywhere in the country. Some housing is on base and under certain restrictions. | | | | ✓ |
| Ministers of religion accommodation | Subsidised accommodation enables and encourages ministers, who are generally low wage earners, to better perform their religious duties and provide a service to their communities (often the expectation is parishioners can visit their home). | | | | ✓ |
| Allowances of the Governor-General | Administrative convenience, as the Governor-General's allowance covers both personal and office expenses. | | | | ✓ |

| Tax Expenditure | Policy Rationale | Type | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Bloodstock: accelerated deductions | To encourage the ownership and breeding of stallions and broodmares. | | | | ✓ |
| Bloodstock: deductions | To encourage the ownership and breeding of stallions and broodmares | | | | ✓ |
| Bodies promoting amateur games and sports: exempt income | To encourage amateur games or sports which have the purpose of promoting physical activity across generations for the general well-being of society. | | | | ✓ |
| Bodies promoting scientific or industrial research: exempt income | To encourage research that is of national interest, and ensure these institutions are on a level playing field with other tax-exempt organisations. | | | | ✓ |
| Certain income derived by transitional residents: exempt income | To reduce the costs to NZ businesses associated with recruiting highly skilled and mobile individuals, remove tax barriers that may inhibit international recruitment to NZ and develop a competitive and innovative economy. | | | | ✓ |
| Charitable or other public benefit gifts by a company: deduction | To incentivise charitable donations | | ✓ | | |

| Tax Expenditure | Policy Rationale | Type | | | |
|---|---|---|---|---|---|
| | | In the nature of welfare payments | To encourage private charity | To internalise spillovers | To promote particular activities |
| Charitable or other public benefit gifts by an individual: tax credit | To incentivise charitable donations. | | ✓ | | |
| Charities deregistration exemption for community housing providers | To ensure that assets and income accumulated while an entity was exempt from income tax as a charity is destined for charitable purposes. | | ✓ | | |
| Charities: exempt income | To support the carrying out of charitable purposes and encourage individuals to leave bequests to charities. | | ✓ | | |
| Community housing: exempt income | To help promote home ownership for New Zealanders who would not otherwise be able to afford to buy a house. Supports community housing providers that offer pathways to home ownership to low-income households but may no longer be considered charitable entities. | | ✓ | | |
| Community trusts: exempt income | To assist with providing community benefits for the good of the public. | | | | ✓ |
| Donated trading stock – adverse events | To support businesses in the agricultural, farming and fishing sector affected by adverse events. | | ✓ | | |

| **Tax Expenditure** | **Policy Rationale** | **Type** | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Donated trading stock – COVID-19 | To remove any tax-related disincentive to donate trading stock in response to COVID-19. | | ✓ | | |
| Environmental restoration accounts: deductions | To facilitate income smoothing. | | | | ✓ |
| Environmental restoration accounts: interest | To compensate for the loss of the use of money. | | | | ✓ |
| Farming business expenditure: accelerated deductions | To increase the productive capacity of existing farms and the quality of the nation's exports. | | | | ✓ |
| Film industry expenditure: accelerated deductions | To encourage the development of the New Zealand screen production industry. | | | | ✓ |
| Forestry encouragement grant: accelerated deductions | To encourage the planting of woodlots and ensure an adequate supply of timber for future need. | | | | ✓ |

| **Tax Expenditure** | **Policy Rationale** | **Type** | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Forestry expenditure: accelerated deductions | To encourage the establishment of new forests. | | | | ✓ |
| Friendly societies: exempt income | To support friendly societies and credit unions. | | | | ✓ |
| Fringe benefit tax: partial exclusion for charities | The cost of complying with FBT obligations would be onerous and reduce the funds available for charitable purposes. | | ✓ | | |
| Funeral Trusts: exempt income | To reduce compliance costs for sickness, accident and death funds that would need to restructure to be recognised as friendly societies. | | | | ✓ |
| Herd improvement bodies: exempt income | Originally, herd improvement bodies were considered of national significance. | | | | ✓ |
| Income equalisation schemes: deduction | To facilitate income smoothing. | | | | ✓ |
| Income equalisation schemes: interest | To compensate for the loss of the use of money | | | | ✓ |

| Tax Expenditure | Policy Rationale | Type | | | |
|---|---|---|---|---|---|
| | | In the nature of welfare payments | To encourage private charity | To internalise spillovers | To promote particular activities |
| Income for military or police service in operational area: exempt income | To increase equity and reduce the administrative burden across the New Zealand Defence Force and the Police. | | | | ✓ |
| Income from conducting gaming-machine gambling: exempt income | To reduce compliance costs as income is used for authorised purposes, which generally have an income tax exemption. | | | | ✓ |
| Independent earner: tax credit | To improve incentives to participate in the workforce. | | | | ✓ |
| Interest on home vendor mortgages: tax credit | To encourage home ownership | | | | ✓ |
| Jurors' and witnesses' fees: exempt income | To encourage public involvement in law enforcement by increasing the net payment to witnesses. Creates cost savings for the Department of Justice who administer the payments, which outweigh the tax foregone. | | | | ✓ |
| Local and regional promotional bodies: exempt income | To encourage local and regional beautification/advertisement. | | | | ✓ |

| Tax Expenditure | Policy Rationale | Type | | | |
|---|---|---|---|---|---|
| | | In the nature of welfare payments | To encourage private charity | To internalise spillovers | To promote particular activities |
| Māori Authorities: donations | To incentivise charitable donations. | | ✓ | | |
| Mycoplasma bovis | To neutralise, for equity reasons, the unexpected income arising from the government decision to eradicate Mycoplasma bovis in New Zealand. | | | | ✓ |
| Non-profit organisations | To reduce compliance costs. | | | | ✓ |
| Non-resident oil rig and seismic vessel operator – tax exemption | To prevent rig operators leaving NZ before 183 days and a separate operator having to come in to finish the job. | | | | ✓ |
| Payments of interest post-war credits: exempt income | To reduce compliance costs, as interest on post-war credits was already exempt from tax in the UK. | | | | ✓ |
| Payments of interest on farm mortgages: exempt income | To encourage young farmers. | | | | ✓ |

| Tax Expenditure | Policy Rationale | Type | | | |
|---|---|---|---|---|---|
| | | In the nature of welfare payments | To encourage private charity | To internalise spillovers | To promote particular activities |
| Petroleum mining expenditure: accelerated deduction | To make the NZ mining industry more competitive internationally (and similar to the rules in Australia). | | | | ✓ |
| Plain clothes allowances | To reduce compliance costs. Consistent with longstanding practice. | | | | ✓ |
| Research and Development (R&D) – cashing out tax losses | To reduce bias against investment in R&D start-ups arising from the current treatment of tax losses. | | | ✓ | |
| Scholarships and bursaries: exempt income | To assist educational development. | | | | ✓ |
| TAB and racing clubs: exempt income | To support the racing sector | | | | ✓ |
| Te Pou Tupua | Treaty of Waitangi settlement. | | | | ✓ |
| Te Urewera Board | Treaty of Waitangi settlement. | | | | ✓ |

| | | | | | |
|---|---|---|---|---|---|
| Veterinary services bodies: exempt income | Originally, the bodies were seen to be of national significance. | | | | ✓ |

## Approved appropriated spending made through the tax system

| **Appropriated spending** | **Comment** | **Type** | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Child tax credit | Families with a pre-existing entitlement dating from before 31 March 2006 are able to claim a tax credit for dependent children. Additional access to this tax credit is no longer available. | ✓ | | | |
| Family tax credit | Families are entitled to an income tested tax credit or cash payment for children aged 18 years or younger. | ✓ | | | |
| In-work tax credit | Families with children 18 years or younger that work are entitled to an income tested in-work tax credit. | ✓ | | | |
| KiwiSaver tax credits | The savings of participants in the KiwiSaver scheme are entitled to a tax credit. | ✓ | | | |
| Minimum Family tax credit | A tax credit may be available to ensure that the annual income (after tax) of a family with dependent children 18 or younger does not fall below the specified threshold. | ✓ | | | |
| Best Start payment | Families are entitled to a tax credit for the first year of a child's life. The credit may, under certain conditions, | ✓ | | | |

| | | | | | |
|---|---|---|---|---|---|
| | continue to be paid to families with a dependent child until the child turns three years old. | | | | |

| **Appropriated spending** | **Comment** | **Type** | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Research and Development tax incentive | Eligible entities are entitled to a tax credit of 15% for expenditure on R&D activity. Expenditure has to be primarily in New Zealand and at least $50,000 (subject to exceptions), and no more than $120 million. | | | ✓ | |

## Tax expenditures included in the Goods and Services Act 1985

| **Tax Expenditure** | **Policy Rationale** | **Type** | | | |
|---|---|---|---|---|---|
| | | **In the nature of welfare payments** | **To encourage private charity** | **To internalise spillovers** | **To promote particular activities** |
| Input tax (GST) recovered by registered non-profit bodies | Except for input tax relating to exempt supplies, a non-profit body should be able to recover all other input tax whether or not it relates to the making of taxable supplies. | | ✓ | | |