



31 August 2023

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 3 August 2023. You requested the following:

I wish to understand why Best Start payments are linked to transition tax arrangements.

I wish to understand (A) the policy rationale behind linking the two policies and (b) whether any discussion has been had as to an exception for new parents.

The transitional residency legislation was introduced in 2006 as an incentive for skilled migrants and returning New Zealanders to come or return to New Zealand by removing the tax barriers inhibiting international relocations to New Zealand.

Under the Income Tax Act 2007, a person may be treated as a transitional resident for income tax purposes and be assessed and taxed only on their New Zealand-sourced income, for a period of up to four years.

If a transitional resident or their partner applies for Working for Families (WFF) Tax Credits, they also elect to end their transitional residency status. This means an individual cannot simultaneously be a transitional resident and receive, or have their partner receive WFF Tax Credits.

The formula for calculating WFF Tax Credits is based on the income (including both New Zealand sourced income and any income derived from overseas sources) of the caregiver and their partner. However, as transitional residents are not taxed on their foreign income for a temporary period, Inland Revenue cannot correctly determine their (or their partner's) entitlement for WFF Tax Credits. The Best Start Tax Credit is one component of the wider WFF Tax Credits package.

When the transitional residence policy was introduced, the above was the rationale for requiring taxpayers to either choose to be a transitional resident (and only return their New Zealand-sourced income for a temporary period), or to return all their income (including their foreign-sourced income) and apply for WFF Tax Credits.

Inland Revenue is not aware of current discussions regarding an exemption for new parents.

Publishing of OIA response

Please note that Inland Revenue regularly publishes responses to requests that may be of interest to the wider public on its website. We consider this response is of public interest so will publish this response in due course. Your personal details or any information that would identify you will be removed prior to it being published.

Yours sincerely



Sue Gillies

Customer Segment Leader – Families Customer Segment