



4 February 2025

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), transferred to me from the Office of the Minister of Finance, Hon Nicola Willis, on 19 December 2024. You requested the following documents:

1. *Inland Revenue Briefing Note BN2024/419: Timing used in income tax policy costing advice*
2. *Inland Revenue Briefing Note BN2024/415: Response to Xero*

Information being released

I have decided to release the briefing note *Timing used in income tax policy costing advice*, enclosed as **Appendix A**, and the briefing note *Response to Xero*, to you, enclosed as **Appendix B**.

The documents are released subject to information being withheld under the following sections of the OIA, as applicable:

- 9(2)(a) – to protect the privacy of natural persons,
- 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied, and
- 9(2)(g)(i) – to maintain the effective conduct of the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty.

Information withheld in full

I have decided to withhold the attachment to the briefing note *Response to Xero*, in full under section 9(2)(g)(i) of the OIA.

As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information requested is outweighed by the public interest. In this instance, I do not consider that to be the case.

Right of review

If you disagree with my decision on your OIA request, you can ask an Inland Revenue review officer to review my decision. To ask for an internal review, please email the Commissioner of Inland Revenue at: commissionerscorrespondence@ird.govt.nz.

Alternatively, under section 28(3) of the OIA, you have the right to ask the Ombudsman to investigate and review my decision. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

If you choose to have an internal review, you can still ask the Ombudsman for a review.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely



Thomas Allen
Domain Lead, Governance and Ministerial Services

Briefing note

Reference: BN2024/419

Date: 16 October 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy

From: Sandra Watson, Policy Lead, Forecasting and Analysis

Subject: **Timing used in income tax policy costing advice**

Purpose and Context

1. We have been asked to provide an explanation for the timing aspects of policy costing advice for the revenue measure of income tax.
2. Many fiscal costings for income tax are advised with a lag followed by a rapid catch up in the second year once information arrives on tax returns. The catch up occurs because the first year of tax returns is used by the system to generate estimations for the second year of impact.
3. There is no such catch-up in the cash measure of income tax.
4. The specific question is:

For income tax policy change advice using the revenue measure, why can the second June year of impact sometimes display more than double other years of impact?

Tax revenue recognition

5. A principle being applied in the policy costing advice is that the advice should use the same methodology for both forecasting and actual measurement of revenue. This ensures consistency and avoids discrepancies that would arise from using different methods.
6. Revenue is recorded when it is earned, at the taxing point. However, the government only receives the necessary information to record income tax revenue when taxpayers file their returns. This delay means that the system must estimate monthly revenue using the most recent data available, typically from the previous year. Once the actual data is received it replaces the estimates and is used for future estimates.
7. In a policy change situation, this means that the system continues to produce estimates which do not incorporate the policy change – until that change starts to be explicitly returned. When it is finally returned, the new information both

- Corrects the earlier estimate; and
- Produces an estimate for the next (i.e. the current) period.

8. Taxpayers have a long time to file their income tax returns. Depending on the policy change and which types of taxpayer are affected, for example those with tax agents, much of the impact may not show up in information flows until a year after the period first affected.

Example

9. An example is a change taking effect on 1 April 2026 and first returned on 2026-27 income tax returns. In this example¹, only 7% of these tax returns are filed by the end of the 2026/27 June year, and the remaining 93% arrive in the following 2027/28 June year.

10. For the June 2027 fiscal year-end, only the 7% of returns filed before the end of the year will be recognised.

11. By the next fiscal year end of June 2028, what is required to be measured is:

- The remaining 93% of March year 2026-27 (i.e. excluding the 7% already measured in fiscal 2026/27)
- All of the March year 2027-28 – through estimation if not yet filed
- One quarter of the March year 2028-29, being the April 2028 to June 2028 period – again using estimation.

12. Ignoring which returns are used for the first big wave of estimations (mostly this will be 2026-27 returns but there will also be some early 2027-28 returns filed) these three bullet points broadly add to 93% plus 100% plus 25% which is 218%, all booked in the second June fiscal year.

13. One year later, it all reverts to 100% coverage as the system-driven estimates will all contain the change by then. As is normal for estimates, they will all be based on data from the year before.

14. The appended diagram and the table below both portray this example:

Example 1 April 2026 change		June fiscal years					
March tax year		2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
REVENUE recognition							
2026-27	y1			7%y1	93%y1		
2027-28	y2				y1	y2-y1	
2028-29	y3				25%y1	y2-25%y1	y3-y2
2029-30	y4					25%y2	y3-25%y2
							25%y3
		0%	0%	~7%	~218%	~100%	~100%

Another contributing factor can be the nature of the tax change

15. The above example shows that the first year of data “y1” is temporarily used quite heavily until the second year of data starts arriving to replace it – which for this example will mostly be in 2028/29.

¹ The filing proportions will change depending on the types of taxpayer affected and any soft-close at year end which might also capture some returns filed slightly later than June.

16. Some policy topics can have a bigger impact in the first tax year (y1) than in subsequent tax years. An example would be a *timing measure*. Relative to a status quo profile of timing, the second and subsequent years would contain a degree of clawback of the impact on earlier cohorts, whilst simultaneously capturing the change for each new cohort.
17. The estimations produced from the first year of data can hence potentially overstate the catch-up period. This is automatically corrected as subsequent tax returns arrive. As an example, although the above diagram is broadly showing 100% by 2028/29, it also has "y2" correcting "y1", which is a normal process for estimation more generally.

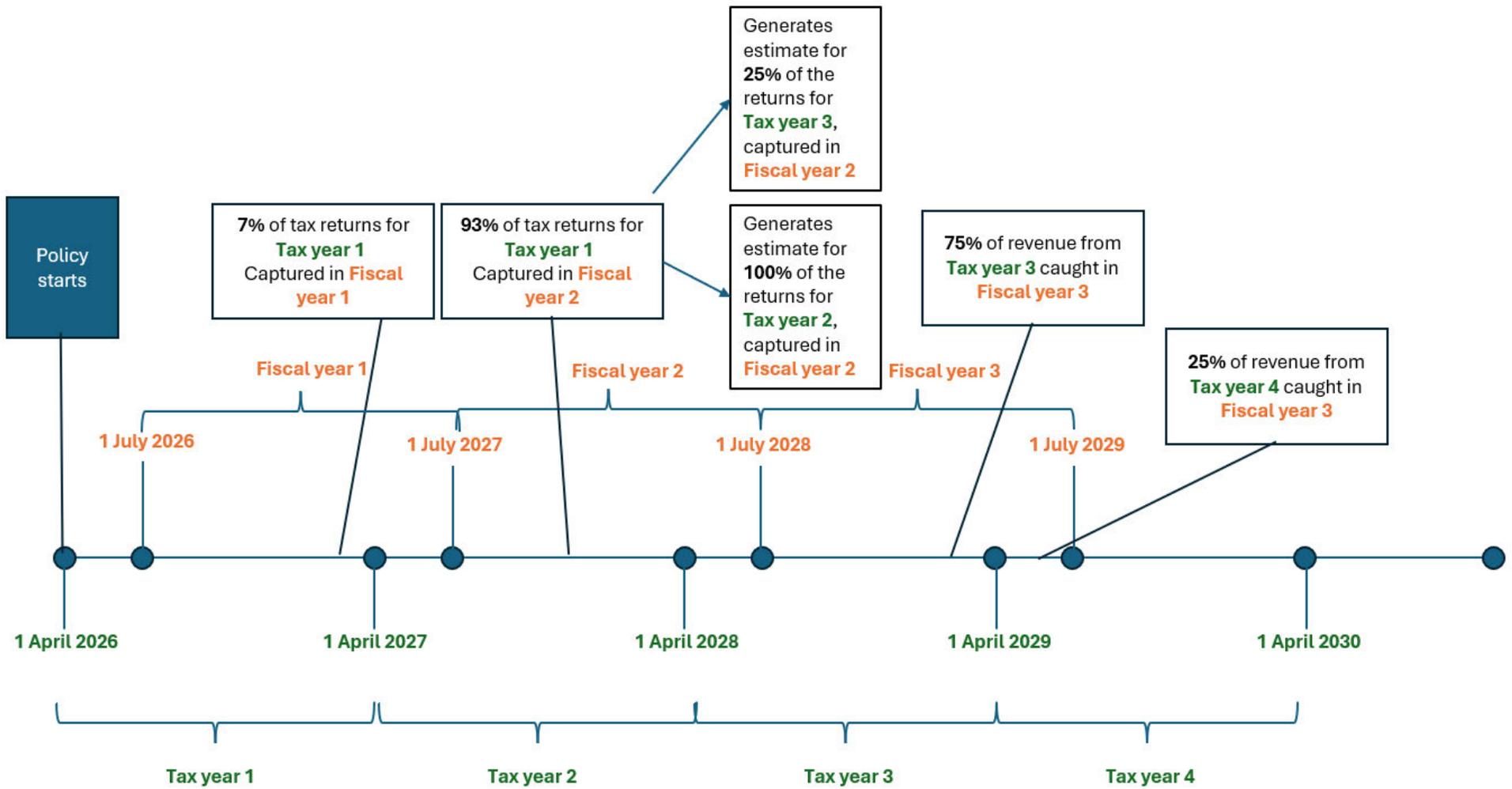
Consultation with the Treasury

18. The Treasury was informed about this briefing note. The Treasury notes that further work around the timing for recognising revenue impacts from tax policy changes is currently being undertaken by Inland Revenue following comments from Audit New Zealand raised through the year end audit process.

Sandra Watson

Policy Lead, Forecasting and Analysis, Inland Revenue

s 9(2)(a)



Briefing note

Reference: BN2024/415
Date: 29 October 2024
To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Helen Kuy
Private Secretary, Minister of Finance – Emma Grigg
Copy to: Peter Mersi, Commissioner
Jane Elley, Acting Deputy Commissioner, Customer & Compliance Services
Joanne Petrie, Executive Support Advisor to the Commissioner
Carolyn Patchell, Management Support to Deputy Commissioner
Governance and Ministerial Services
From: Mark Tapara, External Relationship Manager
Subject: **Response to Xero**

Purpose

1. The purpose of the briefing note is to support the suggested response to Xero (attached) by the Minister of Revenue, Hon Simon Watts, regarding Xero's letter of feedback to him on 23rd September 2024.

Background and context

2. At a media event hosted by Xero on 26 July 2024, both the Minister of Finance, Hon Nicola Willis, and the Minister of Revenue were in attendance. As a result, Xero were provided with an opportunity to provide feedback to the Minister of Revenue on their relationship with us. Xero followed up with a letter to the Minister of Revenue. This briefing note provides the basis for our responses to all the feedback provided by Xero.
3. **Relationship with Inland Revenue** – We acknowledge Xero's feedback around the strong working relationship it has with us. Noting our engagement style, relationship management and contribution and involvement in the New Zealand Digital Advisory Group (NZDAG).
4. **Digital partnering** – We acknowledge Xero's concerns regarding s 9(2)(ba)(i)

s 9(2)(ba)(i), s 9(2)(g)(i)

s 9(2)(ba)(i), s 9(2)(g)(i)

5. s 9(2)(ba)(i), s 9(2)(g)(i)

6. **Tax Working Group** – This has been disestablished. However, implementation of changes throughout the tax year is now overseen by our formal Release Management Programme.

s 9(2)(g)(i)

7. s 9(2)(ba)(i)

8. **Executive strategy and connection** – We note and advise that Xero’s External Relationship Manager, Mr Mark Tapara, will continue to work with both internal and external interested parties to ensure a strategic connection.

9. **Next steps** – Develop and establish a connection between our leaders and Xero’s leaders.

Mark Tapara

External Relationship Manager

s 9(2)(a)