



10 February 2026

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 19 December 2025. You requested the following documents (numbered for ease of response):

1. *Inland Revenue Report IR2025/163: Approval to increase Inland Revenue's counterparty exposure limit*
2. *Inland Revenue Report IR2025/332: Working for Families stewardship programme of work report and proactive release*
3. *Inland Revenue Report IR2025/431: Financial arrangement rules - options to support new migrants*
4. *Inland Revenue Report IR2025/445: Tax forecasts for the 2025 Half Year Economic and Fiscal Update*
5. *Inland Revenue Briefing Note BN2025/451: Update on Croatian DTA*
6. *Inland Revenue Report IR2025/401: Vote Revenue: 2025 Half Year Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation*
7. *Treasury Report T2025/2705: Fiscal Management Approach and response to Corporate Taxpayers Group*
8. *Inland Revenue Briefing Note BN2025/454: Taxation and the not-for-profit sector: Targeted consultation release*
9. *Inland Revenue Briefing Note BN2025/453: Māori Fisheries Amendment Act 2024 – legislative clarification and next steps*
10. *Inland Revenue Report IR2025/408: Vote Revenue: 2025 Half Year Economic and Fiscal Update for non-departmental expenditure appropriations*
11. *Inland Revenue Report IR2025/444: Tax monitoring report: Collections to October 2025*
12. *Inland Revenue Briefing Note BN2025/466: Information release: FamilyBoost Customer Experience and Understanding report*

On 22 December 2025, we transferred your request for the document *Treasury Report T2025/2705: Fiscal Management Approach and response to Corporate Taxpayers Group* to the Treasury.

Information being released

I am partially releasing documents one, three, four, six, eight, 10, 11, and 12, attached as **Appendix A**, with some information withheld or refused under the following sections of the OIA, as applicable:

- 6(a) – to avoid prejudice to the security or defence of New Zealand or the international relations of the government,
- 9(2)(a) – to protect the privacy of natural persons,
- 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information or who is the subject of the information,
- 9(2)(f)(iv) – to maintain the constitutional conventions for the time being which protect confidentiality of the advice tendered by Ministers of the Crown and officials,
- 9(2)(g)(i) – to maintain the effective conduct of public affairs through 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, and
- 18(c)(i) – where making the requested information available would be contrary to the provisions of a specified enactment, namely Inland Revenue’s confidentiality obligations in section 18 of the Tax Administration Act 1994 (TAA).

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.

Information withheld

I am withholding in full the documents in the following table under the advised sections of the OIA:

Document no.	Title	Decision:
5	BN2025/451: Update on Croatian DTA	6(a)
9	BN2025/453: Māori Fisheries Amendment Act 2024 – legislative clarification and next steps	9(2)(f)(iv)

Information publicly available

I am refusing the document and attachment in the following table under section 18(d) of the OIA, as the information is publicly available on Inland Revenue’s Tax Policy website (taxpolicy.ird.govt.nz). When published some information may be removed, on the OIA grounds described in the document.

Document no.	Title	Link
2	IR2025/332: Working for Families stewardship programme of work report and proactive release	taxpolicy.ird.govt.nz
Attachment to document 12	FamilyBoost Customer Experience & Understanding report	FamilyBoost Customer Experience and Understanding – survey results

Right of review

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

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



Maraina Hak
Policy Director



Inland Revenue report: Approval to increase Inland Revenue's counterparty exposure limit and grace period

Date:	4/11/2025	Priority:	Medium
Security level:	In confidence	Report number:	IR2025/163

Action sought

	Action sought	Deadline
Minister of Finance	Approve the recommendations	28/11/2025
Minister of Revenue	Approve the recommendations and forward this report to the Minister of Finance	14/11/2025

Contact for telephone discussion (if required)

Name	Position	Telephone
Nick Bradley	Enterprise Leader, Finance Services	s 9(2)(a)
Rachel Parker	Domain Lead, Finance Services	s 9(2)(a)
Darren Cheevers	Domain Lead, Finance Services	s 9(2)(a)

4/11/2025

Minister of Finance
Minister of Revenue

Approval to increase Inland Revenue's counterparty exposure limit

Purpose

1. This report seeks your joint approval to:
 - increase Inland Revenue's counterparty¹ exposure limit with Citibank from the standard NZD \$5 million to NZD \$10 million,
 - allow Inland Revenue to exceed counterparty exposure limits for up to five business days (i.e. a grace period) for uncleared funds with both Citibank and Westpac.
2. These proposed changes exceed the standard limits specified in the Treasury's foreign exchange Guidelines², and therefore require your joint approval.
3. The proposed changes have been reviewed and endorsed by the Treasury and New Zealand Debt Management (NZDM).

Background

4. All departments are required to maintain a Foreign Exchange Policy (the Policy) that complies with the Treasury's Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure (the Guidelines). Any aspects of the Policy that do not align with the Guidelines require approval from the responsible Minister and the Minister of Finance (joint Ministers).
5. The Guidelines were updated in June 2024. Since then, we have been working with the Treasury to align our departmental and non-departmental foreign currency business practices with these Guidelines.
6. Our business activities create the following foreign exchange exposures:
 - payments to overseas suppliers, for example technology support services (departmental).
 - payments from overseas-based customers, for example taxpayers and student loan borrowers (non-departmental).

Approved counterparty grades

7. Under the Guidelines, departments can only transact with counterparties that have an upper medium grade of A- (S&P Global) and A3 (Moody's). We confirm that our bank counterparties (Westpac and Citibank) currently meet this requirement.

¹ A counterparty is a New Zealand or overseas bank with which departments may undertake foreign-exchange transactions and/or hold foreign-currency bank accounts.

² Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure, The Treasury, 12 June 2024, <https://www.treasury.govt.nz/publications/guide/foreign-exchange-exposure>

Counterparty	Entity Type	S&P Global	Moody's	IR entity using the service
Westpac Banking Corporation (Westpac)	Parent entity	AA-	Aa2	Non-departmental
Westpac New Zealand Ltd (Westpac)	Westpac's subsidiary	AA-	A1	Departmental & non-departmental ³
Citibank N.A. (Citibank)	Parent entity	A+	Aa3	Non-departmental

Exposure limits with approved counterparties

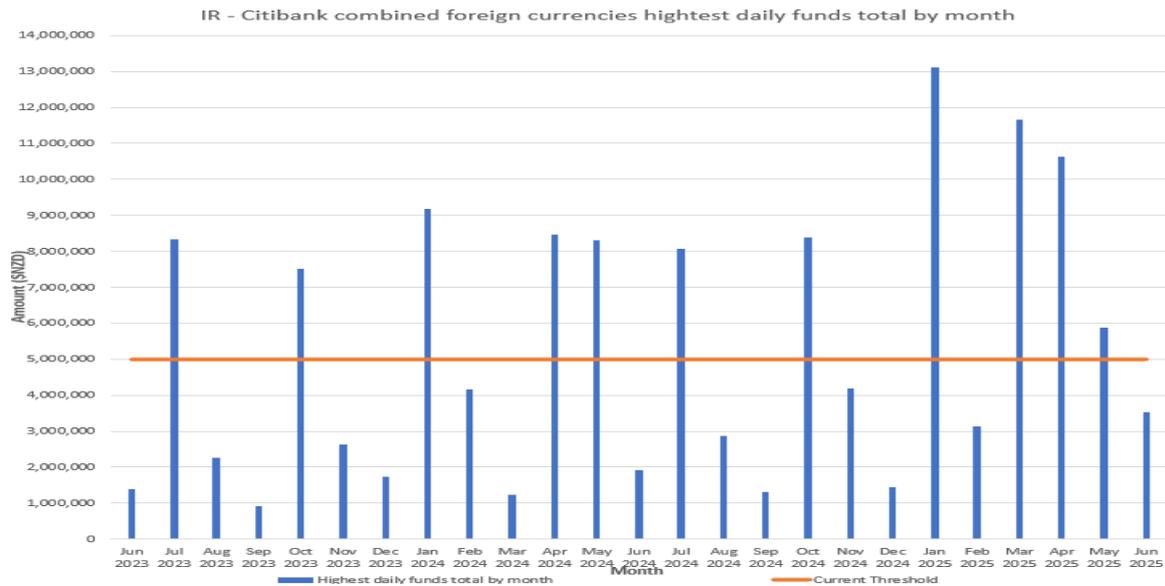
8. The Guidelines limit counterparty exposure with individual counterparties to NZD \$5 million without prior approval from ministers. This limit is designed to reduce credit risks with individual counterparties (i.e. any losses relating to the default of a creditor).
9. Departmental and non-departmental foreign currency exposure limits with a counterparty are required to be combined into a single exposure limit.
10. We propose a NZD \$10 million counterparty exposure limit for Citibank. This revised limit reflects the nature and value of Inland Revenue's foreign exchange transactions with Citibank.
11. We also propose the ability to temporarily exceed the counterparty exposure limit by up to five business days (i.e. a grace period) for uncleared funds with both Citibank and Westpac.
12. The following sections outline the rationale for the proposed increase in counterparty exposure limit and grace period.

Non-departmental foreign currency exposure

13. We currently operate non-departmental foreign currency bank accounts with Westpac and Citibank. These accounts support our compliance strategy and enhance the ease with which overseas-based customers can make payments to us.
14. Our Westpac bank accounts accept international payments at spot rates from customers based in Australia via the PayWay payment channel.
15. Our Citibank accounts accept international direct debit payments from overseas-based customers in their local currencies at agreed exchange rates. Since the introduction of this channel in 2019, it has continued to grow in both volume and value, offering customers greater certainty regarding the exact foreign currency amount required to meet their NZD-denominated tax and social policy obligations.
16. We maintain Citibank accounts in five major currencies – Australian Dollar (AUD), Canadian Dollar (CAD), British Pound Sterling (GBP), United States Dollar (USD), and Euro (EUR).
17. Inbound overseas payments into our foreign currency bank accounts are initiated by our customers. These foreign currency payments are typically cleared by Westpac and Citibank into our NZD Westpac bank accounts within 3-5 business days. As a result, our counterparty exposure with both banks is generally limited to a maximum of five business days from the time of receipt to the clearance of funds.
18. On occasion, we may receive inbound international payments into our Citibank foreign currency accounts through non-approved payment channels or receive funds not intended for us. In such cases, the funds may be held in the relevant bank account(s) for a longer period while we complete the process of receipting or returning the payments to the originating payers.

³ NZD only for non-departmental

19. The value of non-departmental funds held in Citibank’s foreign currency accounts at any given time is driven by the volume and value of customer transactions and can fluctuate significantly from day to day. Over recent years, we have observed a notable increase in transaction value through the Citibank payment channel, as it offers customers greater certainty regarding the amount required to settle their NZD liabilities.
20. Over the past two years, the level of funds held in the Citibank’s foreign currency accounts has exceeded the NZD \$5 million threshold on several occasions due to a small number of large inbound payments. These instances have been disclosed to the Treasury and NZDM in the past, and more recently in the 2025 Statement of Representation for Votes 019 and 020.



21. To support our daily operational activities, we are seeking an increase in the counterparty exposure limit with Citibank to NZD \$10 million. We consider the associated risk to be minimal, given Citibank’s investment-grade credit rating and the short duration (3-5 business days) for which receipts are held in these bank accounts. This proposed limit appropriately balances risk with expected average balances. Any daily exposures exceeding the threshold are anticipated to be short-term in nature while funds clear and can be effectively managed within the requested grace period.
22. We also seek the ability to temporarily exceed Citibank’s NZD \$10 million and Westpac’s NZD \$5 million counterparty exposure limits for up to five business days (i.e. a grace period) whilst funds are clearing. This flexibility enables us to manage occasional instances where customer activity results in total exposures exceeding the established limits.
23. These changes would provide IR with a practical and effective solution for managing foreign currency exposure, while maintaining the counterparty exposure limits with individual parties at an acceptable level.

Departmental foreign currency exposure

24. We have previously made departmental foreign currency payments (accounts payable) to third parties, such as suppliers, through two counterparties: New Zealand Debt Management (NZDM) and Westpac.
25. The primary currencies used for overseas supplier payments are the Australian Dollar (AUD), Canadian Dollar (CAD), British Pound Sterling (GBP), United States Dollar (USD), and Euro (EUR).

26. We will continue to forward cover significant foreign currency exposures through NZDM. However, the operational process has been updated to reflect a change in services provided by NZDM. On the settlement date of FX transactions, NZDM will transfer the foreign currency to us, and we will manage the subsequent payments through foreign currency bank accounts that we intend to establish with Westpac New Zealand Ltd.
27. This revised arrangement introduces counterparty credit risk during the interval between the FX forward settlement date and the supplier invoice payment date. Typically, this risk is mitigated within 3–5 business days as payments are processed and transferred to suppliers. To maintain robust oversight and risk control, we will monitor this exposure daily and track the duration for which the exposure exceeds established limits for each counterparty.
28. The estimated exposure during this 3-5 business day window is up to NZD \$15 million. s 9(2)(b)(ii) Prefunding foreign currency prior to settlement further amplifies the exposure, especially with large supplier payments.
29. To manage this operational change without raising the cash limit, we propose a five business-day grace period for uncleared funds with Westpac. This extension would enable us to complete settlements without breaching the Guidelines, while maintaining prudent risk controls and avoiding unnecessary prefunding that inflates counterparty exposure.
30. This arrangement would provide Inland Revenue with a practical and effective solution for managing credit risk, while maintaining the counterparty exposure limit with individual parties at an acceptable level.

Monitoring

31. The Inland Revenue Finance team will regularly monitor and review counterparty exposure. Any breaches will be reported to the Chief Financial Officer (CFO) and relevant external stakeholders.

Consultation with the Treasury

32. The proposed changes and recommendations outlined in this report have been endorsed by the Treasury and NZDM.

Recommended action

33. I recommend that you:

- (a) **Approve** a NZD \$10 million counterparty exposure limit for Inland Revenue with Citibank N.A.

Approved/Not approved

Approved/Not approved.

- (b) **Approve** Inland Revenue to exceed the counterparty exposure limit for up to five business days (i.e. a grace period) for uncleared funds with Citibank N.A., Westpac Banking Corporation, and Westpac New Zealand Ltd.

Approved/Not approved

Approved/Not approved.

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

s 9(2)(a)

Nick Bradley
Enterprise Leader, Finance Services
4 / 11 /2025



POLICY

Tax policy report: **Financial arrangements rules – options to support new migrants**

Date:	11 November 2025	Priority:	Medium
Security level:	In Confidence	Report number:	IR2025/431

Action sought

	Action sought	Deadline
Minister of Revenue	Agree to recommendations Refer to the Minister of Finance	25 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Fiona Wellgreen	Principal Policy Advisor, Policy Inland Revenue	s 9(2)(a) [REDACTED] [REDACTED]	<input type="checkbox"/>
Dan Doughty	Senior Policy Advisor, Policy Inland Revenue	s 9(2)(a) [REDACTED]	<input checked="" type="checkbox"/>

Financial arrangements rules – options to support new migrants

Purpose

- 1. This report provides an overview of how the financial arrangements (FA) rules may be creating barriers that prevent some highly skilled individuals from immigrating to New Zealand, and discusses options to reduce these barriers.
- 2. We seek your approval to progress policy options targeting specific issues identified by officials, including those proactively raised with us by stakeholders. Alternatively, we seek your decision to expand the scope of this project to allow for a more fundamental review of the FA rules.

Executive summary

- 3. In March of this year, Cabinet commissioned advice on how to lower tax barriers to attract highly skilled migrants. The FA rules have been identified by stakeholders as imposing disproportionately high costs on migrants. As a result, you included targeted changes to the FA rules on the refreshed Tax and Social Policy Work Programme – announced on 29 October.
- 4. Work to-date (including limited conversations with stakeholders) has identified that the FA rules are highly complex when applied to arrangements (such as, loans, bonds) denominated in foreign currencies. Migrants are more likely to be party to these types of arrangements. The rules can also result in unrealised gains on these arrangements being subject to tax.
- 5. Our initial view is that low-cost, bespoke policy solutions could be implemented to mitigate the issues caused by foreign currency arrangements. However, given the complexity of the FA rules, we need to consult more widely with stakeholders to:
 - confirm that the proposed solutions would not result in unforeseen issues when applied in practice, and
 - ensure that any other areas of the FA rules that are imposing disproportionately high costs on migrants are identified and included in this review.
- 6. We recommend that you approve Inland Revenue undertaking targeted consultation on the proposed policy options in this report. Following consultation, Officials will report back to you in early 2026 with updated policy proposals. This report only covers the issues we have identified to date so we expect that consultation will raise further low-cost, bespoke solutions, which we will also include in further reporting.
- 7. **s 9(2)(g)(i)**
[Redacted text]
- 8. A broader review of the FA rules is not within the current scope of this project. Given the likely fiscal costs and resourcing requirements we would not recommend expanding the scope of this project to accommodate such a review. Instead, we recommend a focus on targeted changes that will have a tangible benefit for taxpayers and can be progressed quickly.

Problem definition and project scope

9. The Government is seeking to incentivise more highly skilled individuals to migrate to New Zealand to support its economic strategy. To achieve that objective, Cabinet has commissioned advice on options to address tax barriers to attracting and retaining these migrants (CAB-25-MIN-0061 refers).
10. The FA rules impose disproportionately high costs on migrants (relative to non-migrants). This unequal treatment may be disincentivising some migrants with FAs from moving to New Zealand. The scope of this policy project is therefore to identify which aspects of the FA rules are causing these disproportionate costs, and to provide policy options that equalise the outcomes for migrants with the outcomes for non-migrants.
11. The FA rules are also an inherently complex area of law that impose high costs on anyone who must comply with them. The rules will likely still disincentivise some migrants even if their treatment is made the same as non-migrants. Addressing the concerns of these migrants (and of stakeholders more generally) would require a fundamental review of current settings, which is not within the proposed scope of the project. We discuss expanding the scope of the project below.

Overview of FA rules

12. The FA rules apply to any arrangement when a person provides another person with money with the expectation of repayment (with or without interest) at some point in the future. The purpose of the rules is to prevent taxpayers using these arrangements to shift taxable income into future years, while bringing forward deductions, that is, functionally deferring tax payments.
13. To achieve that purpose, the FA rules require parties to an FA to recognise income and expenses over the duration of the arrangement:
 - **During an FA** – parties are required to use spreading rules to apportion income and expenses over the duration of the arrangement. Importantly, these rules account for income on an accrual basis and not on cashflow (like most New Zealand tax rules).
 - **At the end of an FA** – parties are required to complete a base price adjustment when the FA ends (that is, when the arrangement is repaid in full, has matured, or is otherwise disposed of). A base price adjustment is functionally a “wash up” calculation, where any income and expenses not accounted for under the spreading rules is brought to account.
14. The legislative definition of an FA is very broad, and intentionally captures many common arrangements such as bank accounts, mortgages, and investments in bonds. A narrow subset of arrangements is then carved out from the FA rules altogether (arrangements that do not need to use the spreading rules or complete a base price adjustment), referred to as excepted financial arrangements. Common examples include shares and superannuation schemes.
15. Despite most taxpayers being party to one or more arrangements that are captured by the FA rules, very few natural persons ever interact with the rules for two main reasons:
 - To reduce compliance costs, the cash basis person rules allow any eligible taxpayers to account for FA income and expenses on a realisation basis (they can ignore the spreading rules). A person will be a cash basis person if the value or income of their FAs is below certain thresholds during the year (discussed below). Most individuals will not breach these thresholds.

- Despite technically being required to complete a base price adjustment calculation (even as a cash basis person), many arrangements will not have income or expenses to “wash up”.
16. As a result, only high-wealth individuals with sophisticated investments will generally be required to apply all aspects of the FA rules. This is intentional because, generally, it is only more complex FAs that carry the material integrity risks that justify the costs imposed by the rules. The key concerns with the application of the rules are:
- **High compliance costs** – the FA rules are highly complex and contained in both primary and secondary legislation. Most taxpayers are largely unaware of these rules and the complexity involved in applying them. Taxpayers who must deal with these rules will generally require specialist advice to remain compliant.
 - **Tax on unrealised income** – the FA rules operate on an accruals basis, so many taxpayers will incur tax on unrealised income. This can cause liquidity issues when realised income is significantly different from accrued income.

Core issue – interaction between FA rules and foreign currencies

17. Fundamentally, FAs are intangible financial assets and liabilities, which therefore have a value. The various components of the FA rules operate by assessing the value of the FAs each year and treating changes in value as either income or expenditure. Importantly, the rules assess those values in New Zealand dollars.
18. When a taxpayer is party to an FA denominated in a foreign currency, the FA rules become materially more complex, attracting both high compliance costs and taxing unrealised income. Because migrants are more likely to have FAs denominated in foreign currencies, they are disproportionately more exposed to these issues.
19. The rules will always need to account for exchange rate movements to some degree. However, officials have identified three main areas where it is being overemphasised, resulting in higher than intended compliance and tax costs.

Interaction between foreign currencies and cash basis person rules

20. As discussed above, a cash basis person is not required to use the spreading rules. A taxpayer is considered a cash basis person if they are below either of the following thresholds (in New Zealand dollars):¹
- the person does not have FAs with a total value of more than \$2 million on any day in the income year (the “absolute value threshold”), or
 - the person does not have accrued income of more than \$200,000 across all their FAs for the income year (the “accrued value threshold”), and
 - if below either of the first two thresholds, the person must also not have a difference in their accrued and realised income of more than \$100,000 (called “the deferral threshold”).
21. Under the current law, a taxpayer is required to revalue their FAs daily to determine whether they meet these thresholds, and therefore whether they are required to use the spreading rules for the income year (and incur the high associated costs).
22. These revaluations cause issues for migrants because they must account for the effect of exchange rate movements. This can cause some migrants to breach the

¹ The thresholds reported here are the updated thresholds proposed in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill. The thresholds contained in current legislation are generally half the thresholds reported here.

relatively low deferral threshold, which requires that they then use the spreading rules (and incur the associated costs).

Issues with spreading rules and foreign transaction accounts

23. When a taxpayer has an FA denominated in a foreign currency they must use special spreading rules. For many FAs, any foreign exchange gains or losses can be deferred until a base price adjustment calculation is completed. However, if the FA has an unpredictable cashflow, these gains and losses must instead be recognised annually.
24. This is a particular issue for migrants with foreign private transaction accounts because their private transactions force them to pay tax on unrealised foreign exchange gains annually, but do not always allow for the taxpayer to recognise any foreign exchange losses.
25. Stakeholders have raised concerns with this inconsistent treatment causing different treatment year-to-year on the same foreign FAs, without the ability to offset previous non-deductible unrealised losses against their current taxable unrealised gains.

FA rules and investor visa requirements

26. Migrants who apply for certain visas (such as the Active Investor Plus visa) are required to make investments into New Zealand to meet visa eligibility requirements. Many of these investments (particularly bonds) will be FAs, and once these investors become New Zealand tax residents they will need to apply the FA rules.
27. Unlike their foreign FAs (which are excluded under the transitional residency rules), these FAs will have a New Zealand source and so are subject to the FA rules from the date of their arrival into the country. Importantly, the FA rules will require that these investors revalue the FAs they acquired for visa-eligibility purposes at the date they became subject to the rules.
28. This causes an issue when changes in exchange rates can result in taxable unrealised gains from the date the investor arrives in New Zealand. Stakeholders report that this interaction is undermining the attractiveness of the Active Investor Plus and other visa categories.

Foreign tax credits for United States migrants

29. Separate from the foreign exchange related issues, officials have also heard anecdotal evidence that some US migrants are being denied foreign tax credits by US tax authorities on their FA income. This is an issue that arises under foreign rules, so we do not have the necessary expertise to comment on this problem at this stage. We intend to undertake further consultation and will provide recommendations at the next stage of this project.

Immediately actionable policy options

s 9(2)(f)(iv)



32. s 9(2)(f)(iv)
- These proposals can be progressed without further consultation, and independently of your decision on the options below.

Further policy options to address remaining issues

33. Officials have developed several policy options that would mitigate the specific issues identified above. We intend to consult on these issues with stakeholders if this project is progressed. We also expect that consultation will identify further low-cost, bespoke policy options.

Except private foreign currency transaction accounts from FA rules

34. The excepted FA rules currently except loans in foreign currencies that have a private or domestic purpose (that is, mortgages for overseas homes, personal cars, etc). We propose that the same treatment be extended to foreign private transaction accounts. This will prevent the inconsistent treatment of foreign exchange gains and losses discussed above.

Loosen requirements for foreign currency private loans to qualify as excepted FAs

35. The current rules that except private loans in foreign currencies also require that the borrower be considered a cash basis person for the loan to qualify. We recommend removing this requirement because we do not believe that private loans pose a material integrity risk, and the current settings are exposing taxpayers to tax on unrealised gains on their mortgage debt (when gains in the foreign currency mean the New Zealand dollar value of the debt has decreased).

Ignore foreign exchange movements for certain foreign on-call credit accounts

36. The FA rules also except variable principal debt instruments (on-call credit accounts) if the credit limit does not exceed \$100,000 in the income year. However, that limit is calculated in New Zealand dollar, which means it is also exposed to issues with changes in foreign exchange rates.
37. We recommend that this threshold also ignore foreign exchange movements to prevent taxation of unrealised foreign exchange gains on these debt instruments (when foreign exchange movements decrease the New Zealand dollar value of the balance of a foreign on-call credit account).

Fiscal costs associated with policy proposals

38. We have not costed these proposals at this stage because we cannot confirm whether further changes may be required post-consultation. However, our initial view is that these options would all have an unquantifiable impact that could be either a net gain or loss to the Crown. In situations such as this, Inland Revenue will generally forecast a nil fiscal impact.

Broader issue in meeting Ministers' stated objectives

39. The policy options outlined above will limit instances when the compliance and tax costs resulting from the FA rules are disproportionately imposed on migrants. However, particularly high-wealth migrants will still be exposed to the FA rules (and their associated costs) in the same way that high-wealth non-migrants are.
40. To the extent that those individuals are disincentivised by the costs of the FA rules generally, these policy options may not fully meet Ministers' objectives for attracting highly skilled migrants. Meeting that broader objective would require a more fundamental review of the FA rules.

Fundamental review of FA rules

41. The FA rules were designed over 30 years ago, and it is unclear if the integrity risks that motivated design decisions then are still as prevalent today given changes in commercial practice and the wider legislative landscape since then. Fundamentally reviewing the FA rules could potentially lower costs for all taxpayers with FAs,² while preserving the integrity of the tax system.
42. For example, we understand that the Australian equivalent of the FA rules generally exempts natural persons from the application of the rules, with different mechanisms for ensuring the integrity of the Australian tax system. New Zealand could consider a similar regime, but we expect doing so would require extensive policy work.
43. We do not believe that this work could be completed within this Parliamentary term, and that beginning this work would require reprioritising policy resources away from other projects in the meantime. Given the uncertain fiscal costs involved, and your broader legislative priorities, we would not recommend commissioning this work at this time.

Consultation

44. The Treasury was consulted on the contents of this report and agrees with Inland Revenue's recommendations.

Next steps

45. Officials can meet with you to discuss the contents of this report.
46. We recommend that you agree to officials conducting targeted consultation on the specific policy options recommended above during November and December 2025. We expect that we would complete this consultation in late 2025 or early 2026. Following consultation, we would report to you with final policy recommendations in February or March 2026.

² For example, we are aware of broader concerns with applying the FA rules to modern financial assets.

Recommendations

We recommend that you:

1. s 9(2)(f)(iv)



2. **Agree** to allow officials to conduct targeted consultation on the specific policy options discussed in this report. Following consultation, we will report back to you in early 2026 with final policy recommendations.

Agreed/Not agreed

3. **Agree** that the scope of this project on financial arrangements is limited to the specific policy options in this report, and not to a general review of the financial arrangements rules.

Agreed/Not agreed

4. **Refer** a copy of this report to the Minister of Finance for her information.

Referred

s 9(2)(a)



Fiona Wellgreen

Principal Policy Advisor

Policy

Hon Simon Watts

Minister of Revenue

/ /2025



POLICY

Tax policy report: **Tax forecasts for the 2025 Half Year Economic and Fiscal Update**

Date:	12 November 2025	Priority:	Low
Security level:	Sensitive - Budget	Report number:	IR2025/445

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Refer report to the Minister of Finance	19 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Sandra Watson	Policy Lead (Forecasting and Analysis)	s 9(2)(a) [REDACTED] [REDACTED]	<input type="checkbox"/>

12 November 2025

Minister of Revenue

Tax forecasts for the 2025 Half Year Economic and Fiscal Update

Executive summary

Purpose

1. This report provides a summary of the Treasury's tax forecasts for the 2025 Half Year Economic and Fiscal Update (HYEFU 2025), with a focus on changes since the last published forecasts of the 2025 Budget Economic and Fiscal Update (BEFU 2025).

Changes to forecasts since BEFU 2025

2. For the four years from 2025/26 to 2028/29 inclusive, and relative to BEFU 2025, the Treasury has revised down their unconsolidated forecasts by -\$2.1 billion, with -\$1.4 billion of that revision in the current year (2025/26).
3. These downward revisions are across most of the broad tax-type categories except for GST and other persons tax, which have been revised upwards across the forecast period.
4. The forecasts are underpinned by softer near-term outlook for compensation of employees and net operating surplus, and a stronger forecast for private consumption.
5. Tax policy changes captured since BEFU 2025 add a net **s 9(2)(b)(ii)** to tax revenue over the forecast period.

Recommended action

We recommend that you:

6. **Note** the contents of this report, and
Noted
7. **refer** a copy of this report to the Minister of Finance for their information.
Referred/Not referred

s 9(2)(a)



Sandra Watson

Policy Lead (Forecasting and Analysis)
Policy

Hon Simon Watts

Minister of Revenue
/ /2025

Background

8. This report informs you about the Treasury's tax forecasts prepared for HYEFU 2025. These forecasts were completed on 11 November 2025 with the following inputs:
 - 8.1 tax results to September 2025;
 - 8.2 macroeconomic forecasts produced by the Treasury, which were finalised on 28 October 2025; and
 - 8.3 policy changes decided since BEFU 2025, up to and including 10 November 2025.
9. The figures discussed in this report are for the revenue measure of tax (accrual-based). The forecasts cover a five-year fiscal outlook, which has been extended to 30 June 2030 in these forecasts. Figures are unconsolidated, which includes the Government paying tax to itself.
10. The framework used in this report is to compare changes since BEFU 2025, with those being the most recent published forecasts against which monthly results (to October 2025) are still reported.

Changes to the Treasury's unconsolidated tax forecasts since BEFU 2025

Table 1 – Changes in the Treasury's unconsolidated tax revenue forecasts since BEFU 2025

June years, \$ millions	2025/26	2026/27	2027/28	2028/29	2029/30
The Treasury					
<i>BEFU 2025 Treasury forecast</i>	140,327	148,521	156,261	164,545	n/a
Changes for HYEFU 2025 forecasts:					
Source deductions ¹	(662)	(932)	(1,280)	(1,380)	n/a
Other persons ²	(360)	398	414	476	n/a
Corporate taxes ³	(584)	(687)	337	269	n/a
GST (including Customs GST)	447	758	755	898	n/a
Resident withholding tax (RWT) on interest	(163)	(276)	(363)	(70)	n/a
Other taxes ⁴	(58)	(10)	(7)	(1)	n/a
Total change since BEFU 2025	(1,380)	(749)	(144)	192	<i>n/a</i>
Final BEFU 2025 Treasury forecast	138,947	147,772	156,117	164,737	173,390

¹ PAYE and employer superannuation contributions tax (ESCT).

² "Other persons" is income tax from individuals, trusts, and Māori authorities less any credits for tax withheld by others such as PAYE or RWT. It is mainly provisional tax, but also includes annual square-ups for wage and salary earners.

³ Company tax, residents withholding tax on dividends, and non-resident withholding tax (on interest, dividends, and royalties).

⁴ Mainly customs and excise, road user charges, and motor vehicle licensing fees. Also includes FBT.

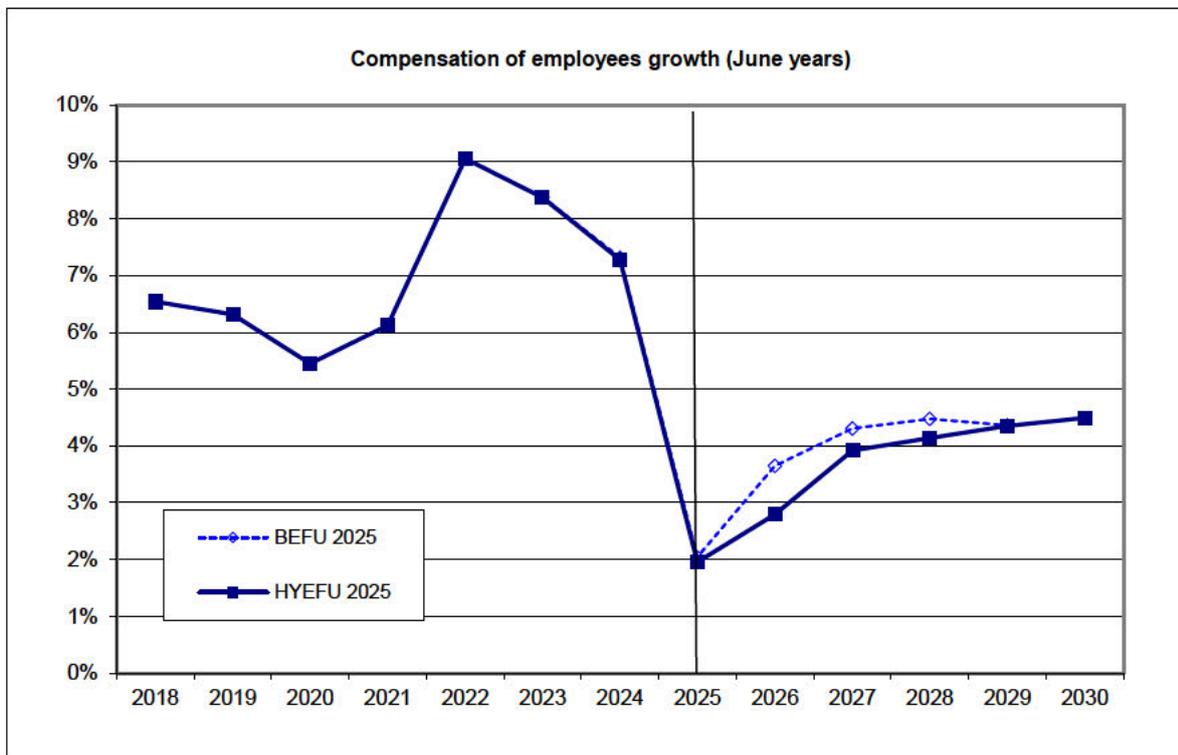
11. For the four years from 2025/26 to 2028/29 inclusive, the Treasury have revised down their unconsolidated forecasts by -\$2.1 billion. These revisions are concentrated in the first two years of the forecast period, with -\$1.4 billion of that revision in the current year and -\$0.7 billion in 2026/27. These downwards revisions occur in most of the main tax type categories summarised in Table One apart from GST which is revised up in all years.
12. Aggregate revisions to later years are not as large, with offsetting changes within the different tax types. In particular, the impact of the downward revision to source deductions forecasts is increasingly offset by upward revisions to forecasts for other persons from 2026/27 and corporate taxes from 2027/28.

Tax results since BEFU 2025 – Inland Revenue administered tax types plus Customs GST

13. In the 2025/26 fiscal year, results up to and including September 2025 were available in time for this forecasting round. These results were reported to you on 23 October (IR2025/374 refers) and showed aggregate unconsolidated tax revenue for Inland Revenue administered tax types plus Customs GST was \$685 million (2.2%) below BEFU 2025 forecast.
14. The largest negative variances were in net company tax and net other persons tax although the variance for the former largely disappears on consolidation. Other tax types were broadly in line with the Treasury’s BEFU 2025 forecast.

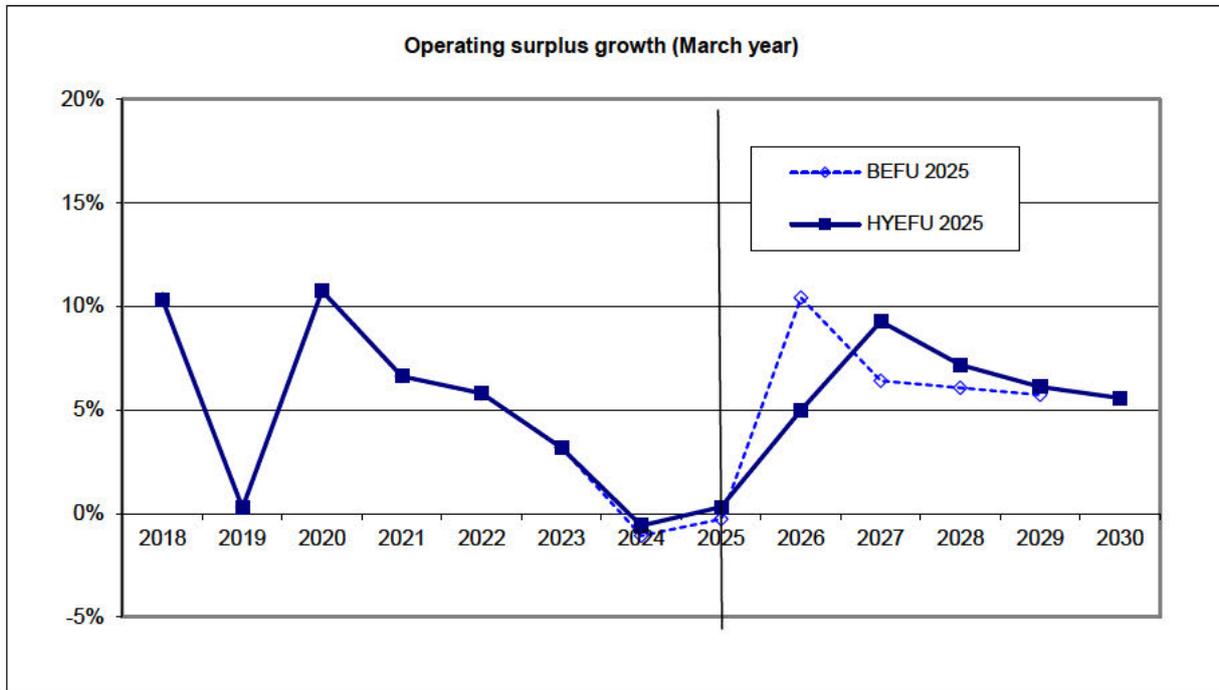
Revisions to the macroeconomic outlook

15. The main driver of the forecast revisions is a revised macroeconomic outlook. Growth in compensation of employees, which is a key macroeconomic driver for the source deductions forecasts, has been revised down across the forecast period, but notably by 0.8 percentage points (from 3.6% to 2.8%) in the current year.

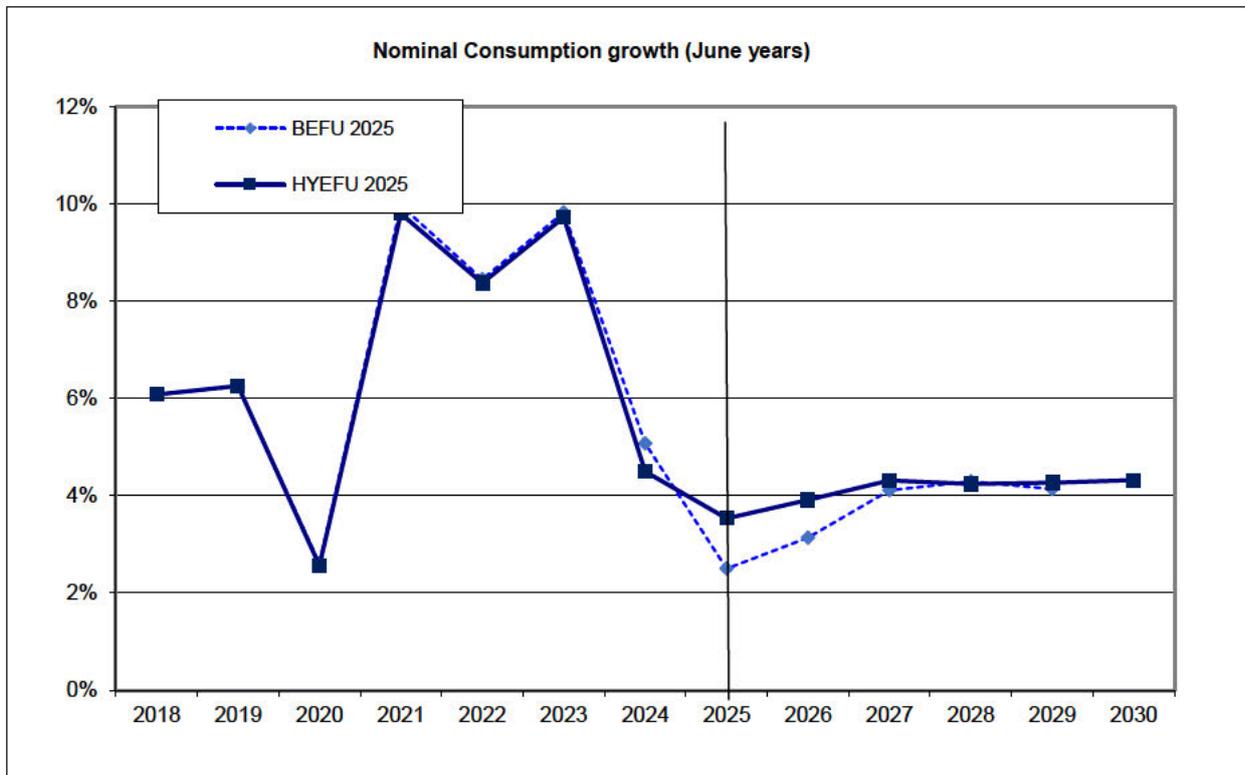


16. The key macroeconomic driver for corporate taxes and other persons tax is operating surplus. Forecasts for current year operating surplus growth have been

revised down materially (down 5.4 percentage points to 5.0%), with stronger growth expected beyond this year. This is reflected in near-term downward revisions in these two tax groupings.



- The near-term outlook for nominal consumption growth has been revised up following a stronger than expected 2024/25 result. This is reflected in the stronger GST forecasts.



Policy changes

- There have been a number of policy changes since BEFU 2025 which have been incorporated in these HYEFU 2025 forecasts, most of which have only small fiscal

impacts. s 9(2)(b)(ii)

Table 2 – Policy changes included in the Treasury’s unconsolidated tax revenue forecasts since BEFU 2025, rounded to \$0.1 million

June years, \$ millions	2025/26	2026/27	2027/28	2028/29	2029/30
Digital Nomads - income tax	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Schedule 32 overseas donee status	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
FBT on open loop payment cards	0.2	0.2	0.2	0.2	0.2
DTC clawback on refunded donations	0.1	0.2	0.2	0.2	0.2
GST remedial - second hand goods application date	(0.2)	0.0	0.0	0.0	0.0
Payments to estate trustee excluded from definition of pension	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Thresholds for financial arrangement rules	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Private households selling electricity - exemption	0.1	0.2	0.2	0.2	0.0
GST - joint ventures	(0.9)	(3.7)	(3.7)	(3.7)	(3.7)
FIF exclusion for new migrants	0.0	0.0	(0.4)	(1.0)	(1.0)
FBT prescribed rate of interest	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
NRWT exemption under s CW8	s 9(2)(b)(ii)				
Offshore gambling duty rate increase	0.0	8.0	16.0	16.0	16.0
Changes to the double tax agreement with the UK	s 6(a)				
Aggregate impact of policy changes since BEFU2025	s 9(2)(b)(ii)				

Risks and ongoing uncertainties

19. Tax forecasts and outturns have been impacted in recent years by a number of external ‘shocks’, including swings from COVID-19 lockdowns and subsequent recovery, sharemarket volatility, economic uncertainty, and changes to tax policy which have had marked impacts on taxpayer behaviour. While the impact of some of these is easing, others are ongoing, and in general terms, uncertainty remains on the timing and strength of recovery in income and consumption taxes.

Next steps

HYEFU 2025 is scheduled to be released on 16 December 2025. Tax results from November onwards will be reported to you with variances referencing these updated forecasts. The results for October 2025, which will be reported later this month, will still be benchmarked against BEFU 2025 forecasts.



Vote Revenue: 2025 Half Year Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation

Date:	12 November 2025	Priority:	High
Security level:	In confidence (Budget Sensitive)	Report no:	IR2025/401

Action sought

	Action sought	Deadline
Minister of Finance	Approve recommendations	26 November 2025
Minister of Science, Innovation and Technology	Approve recommendations Refer report to the Minister of Finance	19 November 2025
Minister of Revenue	For your information	19 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a) [redacted]	s 9(2)(a) [redacted]
Rachel Parker	Domain Lead Finance Services		s 9(2)(a) [redacted]

12 November 2025

Minister of Finance
Minister of Science, Innovation and Technology

Vote Revenue: 2025 Half Year Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation

Executive Summary

1. This paper asks you to note the changes to the forecast costs of the Research and Development Tax Incentive (RDTI) and seeks your approval for the corresponding changes to the RDTI appropriation.
2. The RDTI appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). The Minister of Science, Innovation and Technology is responsible for the appropriation.
3. Inland Revenue Te Tari Taake submitted the updated forecast for this appropriation to the Treasury on 7 November 2025 as part of the 2025 Half Year Economic and Fiscal Update (HYEFU 2025).
4. Forecast changes in this report for HYEFU 2025 are compared against the 2025 Budget Economic and Fiscal Update (BEFU 2025). They include all Cabinet and joint Minister decisions that impact the appropriation up to 7 November 2025.
5. Each year departments are required to roll out their baseline by an additional year, as part of the October Baseline Update (OBU). This roll out preserves a five-year planning horizon within the Treasury Crown Financial Information System. No other changes were made to this appropriation as part of OBU 2025 and we have included the change in this Update for your information.
6. The forecasts are based on MBIE's RDTI fiscal-cost forecast, which currently extends to 2029/30. MBIE's RDTI forecast is based on the Treasury's final HYEFU macroeconomic forecasts of nominal gross domestic product (GDP) as at 28 October 2025 and the 2024 R&D Survey results (released by Stats NZ on 23 April 2025).
7. MBIE's RDTI forecast relates to all RDTI-related expenditure. Cabinet agreed to decrease the forecast for the RDTI appropriation and approved a corresponding increase to expenditure in the in-year payments appropriation (DEV-22-MIN-0062 refers). This appropriation was not managed under Vote Revenue and hence was subtracted from the HYEFU 2025 forecast.
8. The in-year payments loans programme was discontinued in 2023/24, and the remaining funds transferred to the centre. However, the RDTI appropriation is still reduced by this amount until 2025/26 as the funds were transferred out of the RDTI appropriation at that time. The amounts are shown separately in the following table:

	\$ million				
RDTI forecast – HYEFU 2025	2025/26	2026/27	2027/28	2028/29	2029/30 & Out-years
MBIE RDTI total fiscal-cost forecast	660.000	713.000	765.000	820.000	876.000
Less the in-year payment	(29.258)	-	-	-	-
RDTI within Vote Revenue	630.742	713.000	765.000	820.000	876.000

9. We are seeking your joint approval for the following forecast and appropriation changes within Vote Revenue since BEFU 2025:

	\$ million				
Vote Revenue Minister of Science, Innovation and Technology	2025/26	2026/27	2027/28	2028/29	2029/30 & Out-years
<u>Non-departmental Other Expenses</u> Science, Innovation and Technology: R&D Tax Incentive					
BEFU 2025	650.742	731.000	784.000	839.000	839.000
HYEFU 2025	630.742	713.000	765.000	820.000	876.000
Forecast change – inc/(dec)	(20.000)	(18.000)	(19.000)	(19.000)	37.000

10. The decreases in HYEFU 2025 forecasts for 2025/26 to 2028/29 are primarily driven by a decrease in the baseline estimate of R&D, which is drawn from the latest R&D Survey estimate. The estimate of the RDTI-eligible R&D expenditure derived from the 2024 R&D Survey results is approximately 2-3% lower than the amount forecasted based on the 2023 R&D Survey results. This decrease was also partly driven by changes in forecast GDP in the relevant years.

11. The increase of \$37 million in 2029/30 is driven by updating the roll forward of the 2028/29 appropriation of \$839 million with MBIE's RDTI latest forecast for that year (\$876 million).

12. The Treasury and Ministry of Business, Innovation and Employment have been consulted on this report.

Recommended action

13. It is recommended that you:

- (a) **note** that the appropriation limit in 2029/30 for the Vote Revenue Science, Innovation and Technology: R&D Tax Incentive appropriation has been rolled forward from 2028/29 (\$839 million).

Noted

Noted

- (b) **note** that the appropriation limit for 2029/30 and outyears in HYEPU 2025 has been increased by \$37 million, to \$876 million to reflect the latest fiscal-cost forecasts from MBIE for RDTI-eligible expenditure.

Noted

Noted

- (c) **note** that the appropriations for 2025/26 to 2028/29 have reduced as a result of the latest fiscal-cost forecasts from MBIE for RDTI-eligible expenditure.

Noted

Noted

- (d) **approve** the following forecast changes to the Vote Revenue Science, Innovation and Technology: R&D Tax Incentive appropriation, with a corresponding impact on the operating balance:

Vote Revenue Minister of Science, Innovation and Technology	\$ million – increase / (decrease)				
	2025/26	2026/27	2027/28	2028/29	2029/30 & Out-years
Non-departmental Other Expenses: Science, Innovation and Technology: R&D Tax Incentive	(20.000)	(18.000)	(19.000)	(19.000)	37.000
Total Forecast change – inc/(dec)	(20.000)	(18.000)	(19.000)	(19.000)	37.000

Approved/Not approved

Approved/Not approved

(e) **agree** that all proposed change to appropriations for 2025/26, as shown in recommendation (d) above, be included in the 2025/26 Supplementary Estimates.

Agreed/Not Agreed

Agreed/Not Agreed

s 9(2)(a)

Nick Bradley

Enterprise Leader Finance Services - Chief Financial Officer

12/11/2025

Hon Nicola Willis

Minister of Finance

___/___/2025

Hon Dr Shane Reti

Minister of Science, Innovation and Technology

___/___/2025



Briefing note

Reference BN2025/454

Date 14/11/2025

To Private Secretary Minister of Finance (Revenue) – Carl Harris
Revenue Advisor, Minister of Revenue - Angela Graham
Private Secretary, Minister of Revenue – Anna McGuinness

From Maria Deligiannis
Stewart Donaldson

Subject **Taxation and the not-for-profit sector: Targeted consultation release**

Purpose

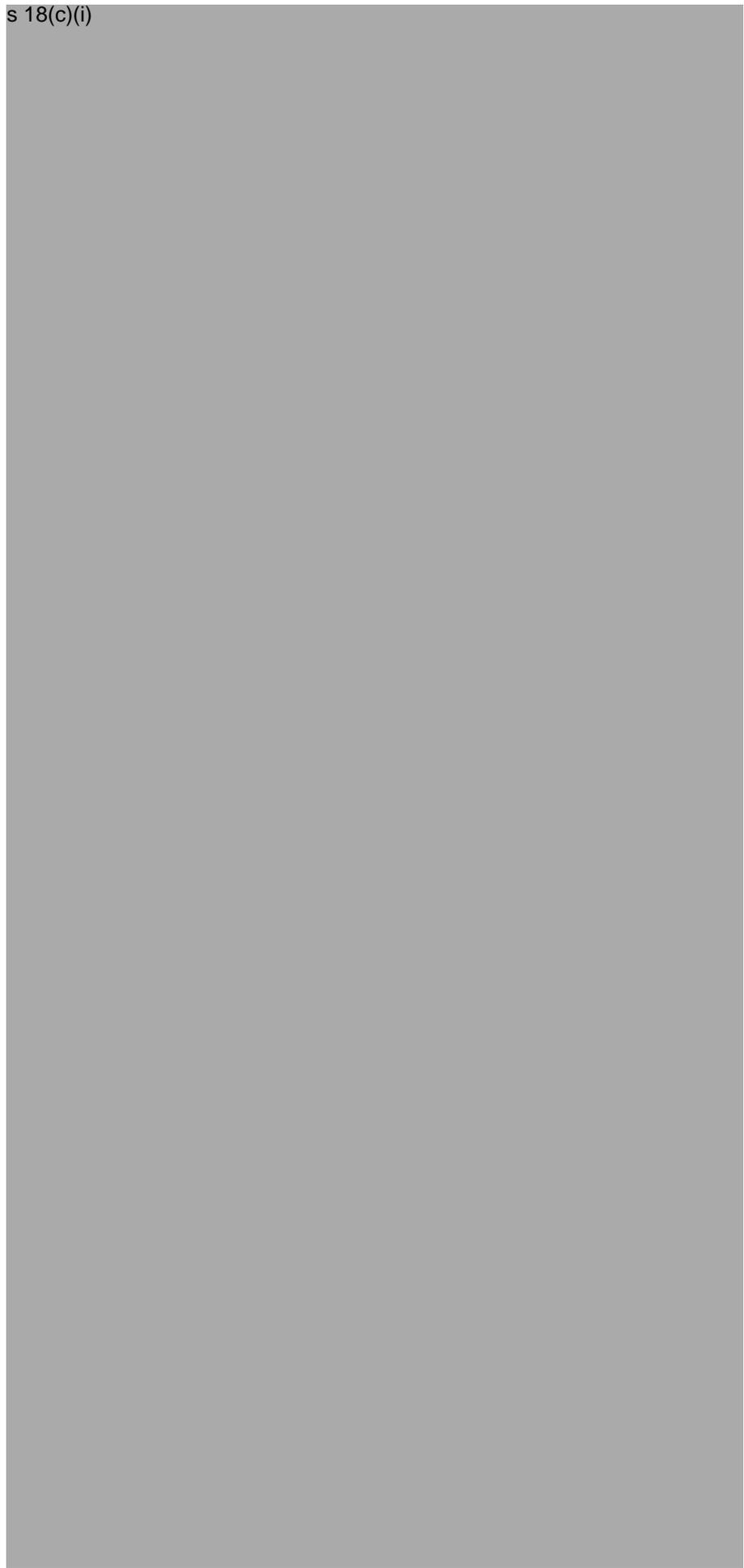
- 1 This briefing note provides an update on our previous advice about our targeted consultation for the not-for-profit sector (BN2025/441 refers).
- 2 On 14 November 2025 we commenced targeted consultation on the policy design of changes for donor-controlled charities, taxable associations, and donor simplifications.
- 3 We have not asked stakeholders to treat the consultation as confidential, so it is possible some submitters will publicly comment on the consultation or share the information wider.
- 4 The content of our consultation document is consistent with previous advice (IR2025/257 refers). We have provided a list of entities invited to participate in targeted consultation in Appendix A and the consultation document we provided these entities is in Appendix B.

Maria Deligiannis

Policy Advisor

s 9(2)(a)

s 18(c)(i)



s 18(c)(i)



APPENDIX B: Taxation and the not-for-profit sector: Targeted consultation on detailed design

A separate document is attached.

Taxation and the not-for-profit sector: Targeted consultation on detailed design

Date: 14 November 2025



Inland Revenue
Te Tari Taake

Making a submission

We invite you to submit on the issues raised in this document, including the specific questions asked and any other issues relevant for us to consider. A complete list of these questions can be found in the Appendix to this targeted consultation paper.

Include in your submission a summary of the major points and recommendations you have made.

The closing date for submissions is **Wednesday 24 December 2025**, however please contact us if you need more time. We would like to have time to review all targeted submissions in January 2026.

Submissions can be made to this email address:

NFPtaxpolicy@ird.govt.nz

Privacy of submissions

Submissions may be requested under the Official Information Act 1982. Please clearly indicate in your submission if you consider that any information should be withheld on the grounds of privacy, or for any other reason. Contact information such as an address, email, and phone number for submissions from individuals will be withheld. Whether any information is withheld will be determined using the Official Information Act 1982.

Contents

Making a submission	2
Chapter 1 – Introduction	5
Background.....	5
Document outline.....	6
Chapter 2 – Donor-controlled charities	7
Overview	7
Defining a donor-controlled charity	7
Minimum distribution requirement.....	9
Integrity measures.....	14
Alternative proposal: Donation tax concessions cap.....	21
Donor-advised funds	22
Trust income allocations to tax-exempt beneficiaries.....	24
Chapter 3 – Membership subscriptions and related matters for taxable not-for-profit organisations	27
Overview	27
Membership subscriptions.....	27
Member transactions.....	29
Tax-free threshold.....	30
Resident withholding tax exemption	31
Filing requirements.....	32
Application date.....	33
Chapter 4 – Donation tax credit simplifications.....	34
Overview	34
Proposed changes.....	34
Application date.....	37
Chapter 5 – Treaty of Waitangi considerations.....	38
Overview	38
Relevant treaty interests	38
Treaty implications.....	39

Appendix: Summary of questions for submitters.....42
Discussion questions.....42

Chapter 1 – Introduction

Background

- 1.1 In November 2024, the Government published its Tax and Social Policy Work Programme. The programme included reviewing elements of charities and not-for-profits. The work programme’s objectives included simplifying tax rules, reducing compliance costs, and addressing integrity risks.
- 1.2 In February 2025 Inland Revenue released an officials’ issues paper, “Taxation and the not-for-profit sector” (the February 2025 issues paper).¹ The paper considered the charity business income tax exemption, donor-controlled charities, and several integrity and simplification measures.
- 1.3 We received over 900 submissions in response to the February 2025 issues paper. We analysed those submissions, met with a number of submitters, and reported to Ministers in August 2025. In September 2025 Ministers made decisions about what work would cease and what work would continue. The Minister of Revenue made a public announcement in October 2025 when he launched the refreshed Tax and Social Policy Work Programme.
- 1.4 Ministers have asked us to undertake targeted consultation on detailed design for three matters that are addressed in this document:
 - integrity measures for donor-controlled charities, including whether donor-advised funds should be treated in a similar way to donor-advised charities, and distributions by private trusts to tax exempt entities
 - membership subscriptions and related matters for taxable not-for-profit organisations, and
 - donation tax credit simplifications.
- 1.5 Stakeholders have pointed out that not-for-profit tax changes could have potential impacts on Treaty of Waitangi interests. We have considered how specific proposals could affect Māori in this document.

¹ [Taxation and the not-for-profit sector](#)

Document outline

Chapter	Outline
2	Donor-controlled charities
3	Membership subscriptions and related matters for taxable not-for-profit organisations
4	Donation tax credit simplifications
5	Treaty of Waitangi considerations
Appendix	Summary of questions for submitters

Chapter 2 – Donor-controlled charities

Overview

- 2.1 The February 2025 issues paper sought feedback on a range of not-for-profit matters, including whether integrity concerns associated with donor-controlled charities warrant a policy response. After considering public feedback, the Government has decided to progress work on donor-controlled charity rules. This includes integrity measures to address circular arrangements and non-arm's length transactions, and a minimum distribution requirement to ensure the timely use of tax-exempt funds.
- 2.2 The scope of the donor-controlled charity work has been extended to also include a review of donor advised funds and a review of private trusts that allocate income to tax-exempt beneficiaries. These issues are related to, but are not limited to, donor-controlled charities.
- 2.3 This chapter discusses these policy issues further.
- 2.4 The policy proposals in this chapter draw directly from experiences in Australia, Canada, and the United States. A key principle behind the proposals is that they will not be more stringent than comparable rules in other countries, absent a strong justification.

Defining a donor-controlled charity

Background

- 2.5 To allow for special rules, the term "donor-controlled charity" first needs to be defined in legislation.
- 2.6 In New Zealand, "donor-controlled charity" generally refers to a charity registered under the Charities Act 2005 that is controlled by the primary donor, the donor's family, or their associates. Donor-controlled charities are typically referred to in other countries as private foundations.
- 2.7 To deter behaviour that poses integrity concerns going forward, the definition should include situations when a donor (one person or a group of associated persons) donates to a charity, and then the donor or their associates retain influence or control over how the funds are used. This is because this level of control presents a heightened risk of donor-controlled charities engaging in aggressive tax planning arrangements² and the excessive accumulation of tax-exempt funds.

² Aggressive tax planning arrangements are discussed further in paragraph 2.31.

Proposal

- 2.8 It is proposed that the Income Tax Act 2007 contain a new definition of a donor-controlled charity, which would apply to a “tax charity”³ that is controlled directly or indirectly by any means, by either:
- the primary donor, which may be one person or a group of associated persons, who has contributed amounts totalling more than 50% of the assets of the charity, measured cumulatively up to the time of their last contribution, or
 - a person or a group of associated persons, if the person or any member of the group is associated with the primary donor.
- 2.9 Control can take many forms along a spectrum from legal control to a legally unenforceable understanding. That is why it is proposed that a tax charity that is controlled directly or indirectly by any means by the primary donor, or associated person(s) to the donor, would be a donor-controlled charity. One example of the donor controlling the charity would be the power to appoint and replace the trustees of the charity.
- 2.10 For the purposes of this proposal, a “person” would follow the meaning in the Income Tax Act, which includes individuals, companies, and trustees. This would ensure that the definition applies when donations come from companies or trusts, and associated individuals to the company or the trust retain control over the charity.
- 2.11 The definition would apply both to charities that carry out activities that directly further a charitable purpose (or that operate a charity business), and fund-raising charities. However, the definition would not apply to council-controlled organisations or local authorities because they are adequately regulated by the range of additional compliance requirements that apply to those entities. It also would not apply to charities that are controlled by another charity, unless that charity is also a donor-controlled charity.
- 2.12 Submitters on the February 2025 issues paper raised concerns that a broad definition of a donor-controlled charity could capture iwi entities, particularly those with governance structures linked to Treaty settlements. Our understanding is that these entities would not fall within the proposed definition because of the absence of a contribution of 50% of the assets from a primary donor that controls the charity. However, this is difficult to assess owing to ongoing challenges with the availability and quality of data relating to Māori organisations, and the complexity of Māori organisational structures.
- 2.13 We are interested in hearing from submitters if our understanding is incorrect. If so, we propose excluding assets received from the Crown to settle a Treaty of Waitangi claim from the definition of a “contribution” for the purposes of the donor-controlled charity

³ As defined in the Income Tax Act, but excluding non-resident charities.

rules, or excluding Māori authorities from the definition of a “donor” for the purposes of these rules.

- 2.14 This proposal is similar to Canada’s framework for designating charities as private foundations. In Canada, a registered charity may be designated as a charitable organisation, a public foundation, or a private foundation. The private foundation designation takes into account the proportion of funds provided by a donor and whether the donor or their associates maintain control over the charity.

Questions for submitters

Q1. Are there any issues with the definition of donor-controlled charities outlined in this chapter? For example, would it apply to charities that are not donor-controlled? If so, what alternative(s) would you propose?

Minimum distribution requirement

Background

- 2.15 The policy intention of a minimum distribution requirement would be to address concerns related to the accumulation of tax-exempt funds. Under current settings, donors can donate to their donor-controlled charity and then receive a tax benefit⁴ at or after the end of the income year of their donation. However, in some cases, the donated funds are accumulated, and it may take many years before the total value of charitable distributions exceeds the value of the tax benefit received by the donor.

Proposal

- 2.16 It is proposed that donor-controlled charities be required to distribute a minimum amount each year to further their charitable purposes. The minimum distribution requirement would be calculated as 5% of the market value of the charity’s net assets from the previous year, minus any assets that are used directly in the course or furtherance of a charitable purpose. The calculation of the market value is discussed later in this chapter.
- 2.17 If any assets are subtracted in the calculation of the minimum distribution requirement, then any consequential liabilities in relation to the asset would also be excluded from the calculation of the minimum distribution requirement. This is to prevent the minimum distribution requirement from being reduced twice in respect of such assets.
- 2.18 The proposal is broadly consistent with minimum distribution requirements in other countries. In Australia, private ancillary funds are required to distribute annually at least

⁴ This could be a donation tax credit claim, a gift deduction, or income derived by a trustee and paid to a charity as a beneficiary of the trust and taxed at 0%.

5% of their net assets from the previous year. In Canada, all charities are subject to a disbursement quota, which is 3.5% of the average value of property not used directly in charitable activities or administration up to \$1 million, and 5% on any amount that exceeds \$1 million. In the United States, private foundations must distribute 5% of their net assets annually, subject to certain adjustments.

- 2.19 The principle underlying the minimum distribution rate is to strike a balance between ensuring the timely use of tax-benefitted funds for charitable activities and not discouraging genuine philanthropy or disrupting the long-term sustainability of charities.

Design features

- 2.20 The minimum distribution requirement would apply to each individual charitable entity, rather than to a parent entity of a consolidated charity group. Each donor-controlled charity within the group would be required to independently calculate the market value of its net assets and meet its own minimum distribution requirement.
- 2.21 There would be no minimum distribution requirement in the first year in which the rules come into effect. This is because charities would need to estimate the market value of their assets from the previous year to calculate the required minimum distribution. The rules would also not apply to charities in the first year the charity has been registered as it would not have any assets to calculate their minimum distribution.
- 2.22 Donor-controlled charities could apply to Inland Revenue for a reduction in, or exemption from, the minimum distribution requirement if the distribution would be inconsistent with a specific charitable purpose. For example, an exemption could be granted to a donor-controlled charity whose purpose is to benefit the community by gifting a CT scanner to a public hospital, if accumulating funds over multiple years is necessary to raise funds to purchase the scanner. Any reduction or exemption would apply to a specified income year or period and might be subject to conditions.
- 2.23 A donor-controlled charity could choose to average its minimum distribution requirements over a three-year period. Under this method, the minimum distributions required would be equal to the sum of the charity's minimum distributions for each year in the period. Each three-year period would be a discrete period rather than rolling periods because rolling periods could result in a lower distribution requirement than if the charity did not choose to average their distributions over three years, and it would be more difficult to monitor.

- 2.24 Once a charity opts to use this method, this would establish the first year of the three-year averaging period. Charities would not need to get approval from Inland Revenue to apply this rule.⁵
- 2.25 If a charity failed to meet its minimum distribution requirement, the charity would pay tax on the “undistributed amount” by filing a tax return. The undistributed amount would be the difference between the amount the charity was required to distribute, and the amount distributed. For example, if the donor-controlled charity was a charitable trust, then the tax rate would be the trustee income tax rate of 39%. This could be accompanied by shortfall penalties if, for example, the charity has not taken reasonable care in calculating their minimum distribution requirement.

Example 1: Averaging minimum distribution requirements

The Kikorangi Family Foundation, a donor-controlled charity, opts in to average its minimum distribution obligation over a three-year period, beginning in 2028. It calculates its minimum distribution requirements for 2028, 2029, and 2030 to be \$100,000, \$110,000, and \$140,000 respectively. This means the Kikorangi Family Foundation must distribute a total of \$350,000 over the 2028–2030 period.

The Kikorangi Family Foundation makes charitable distributions of \$20,000 in 2028, and \$80,000 in 2029. Therefore, the foundation must distribute \$250,000 in 2030 to meet its minimum distribution requirements for the three-year period.

Example 2: Exemption to minimum distribution requirements

The Whero Charitable Trust is a donor-controlled charity established to raise funds for the construction of a new mental health centre serving a low-income community. The trust applies to Inland Revenue for an exemption from the minimum distribution requirement for the relevant income year, on the basis that not distributing during this period is in line with its charitable purpose of accumulating capital to purchase a charitable asset.

Inland Revenue grants the exemption, because the asset is furthering the entity's charitable purpose. As a result, the Whero Charitable Trust is not required to meet the minimum distribution requirement for that income year.

⁵ The Australian Treasury has recently consulted on allowing ancillary funds to smooth their distribution requirement over a three-year period. These would be three discrete periods, and ancillary funds would need to only inform the Commissioner that they are using the method.

What is a “distribution”?

- 2.26 It is proposed that a “distribution” for the purposes of the minimum distribution requirement would be a “transfer of value”⁶ from a donor-controlled charity to another registered charity that is not a donor-controlled charity, or a donor-advised fund.⁷ The policy intent is that a distribution would include not only settlements, grants or donations to other charities, but also other forms of benefit provided by the donor-controlled charity. For example, if a donor-controlled charity lends money to a registered charity at a discount to the market interest rate, the charity would be providing a transfer of value to the registered charity equal to the difference between the market interest rate and the actual interest rate.
- 2.27 The definition would also include any expenditure incurred in the direct course or furtherance of the charity’s charitable purpose. The purpose of this is to ensure that any operating expenses incurred to deliver charitable services are recognised as a distribution. However, expenditures that do not directly further a charitable purpose, such as the purchase of shares or other investments intended to generate future returns, would not count as a distribution under the minimum distribution requirement.

Example 3: Below-market loan is a distribution

The Snoopy Family Foundation, a donor-controlled charity, provides financial assistance to a registered charity that provides social housing for low-income families. The Snoopy Family Foundation loans \$500,000 to the housing charity at an interest rate of 1%, while the market interest rate for such a loan would typically be 5%.

The difference between the market interest rate and the actual rate, which is equivalent to \$20,000, is treated as a distribution and included in the Snoopy Family Foundation’s minimum distribution calculation.

Example 4: Expenditure incurred in direct course or furtherance of charity’s purpose is a distribution

The Snowy Foundation, a donor-controlled charity, has a charitable purpose of improving adult literacy in low-income communities. Instead of providing grants to other charities, it delivers services directly by running weekly literacy workshops.

Expenditure incurred for these activities, such as tutor wages, rent, and material costs, will be recognised as a distribution because they are incurred in the direct furtherance of the charity’s purpose.

⁶ As defined in section YA 1 of the Income Tax Act 2007.

⁷ Donor-advised funds are discussed in more detail at paragraph 2.63.

Valuations

- 2.28 It is proposed that donor-controlled charities would have to determine a reasonable estimate of the market value of their assets and liabilities annually for the purposes of calculating their minimum distribution. This approach is consistent with the valuation method used to determine a charity's deregistration tax liability under current rules.⁸ It is also consistent with the approach in Australia, where private ancillary funds are required to estimate the market value of their net assets annually to calculate their minimum distribution requirement.⁹
- 2.29 A separate market value estimation is required because a charity's assets and liabilities in their financial statements are often based on accounting standards which allow for historical cost valuations. The market value of a charity's assets would give a more accurate reflection of the donor-controlled charity's financial position and its capacity to make distributions. Any estimate would be required to be based on reasonable, objective and supportive data, and the valuation methodology should be documented in the charity's records.
- 2.30 The trustees (or directors, in the case of a company), of a donor-controlled charity could estimate the market value of the charity's net assets themselves or engage another appropriate, qualified person to do so. In many cases, the market value would be readily available and relatively simple to calculate, for example, in the case of cash, term deposits, or publicly listed shares or bonds. However, if a donor-controlled charity holds unlisted shares or property, then it might be preferable to engage a qualified valuer or another appropriate person to undertake the valuation.

Questions for submitters

- Q2. If New Zealand adopts a minimum distribution of 5% of net assets for donor-controlled charities we would be similar to Australia and Canada. Do you agree this is appropriate in the New Zealand context? If not, what alternative would you propose and why?
- Q3. Are there any issues with the proposal to require donor-controlled charities to estimate the market value of their net assets annually for the purposes of the minimum distribution requirement? If so, what alternative would you suggest?
- Q4. Are there any issues with the policy design of a minimum distribution requirement for donor-controlled charities as outlined in this chapter that we should consider?

⁸ Section HR 12 of the Income Tax Act 2007.

⁹ Aside from land, which can be valued once every three years.

Integrity measures

Background

- 2.31 The policy intention of introducing specific integrity measures for donor-controlled charities is to clearly define the government's future expectations for donor-controlled charities that benefit from tax concessions. These measures would seek to deter the following behaviours and minimise potential integrity concerns:
- Circular arrangements, when the donor donates funds to their donor-controlled charity and claims a donation tax credit (DTC) or gift deduction. Then the donor-controlled charity loans the money back to the donor or invests it in a company (for example, by acquiring shares in the company carrying on the business) controlled by the donor or their associates. Although the loan or investment might pay a market rate of return, typically the return is accrued, and no cash is actually paid to the charity for many years (if at all).
 - Circular arrangements involving private trusts, when the private trust makes an income allocation to a donor-controlled charity, resulting in the income being tax-exempt rather than taxed at the trustee rate. The charity then loans the money back to the trust (or individuals associated with the trust) or invests the funds in a company associated with the trust. Again, the return might be accrued but no cash is paid.
 - Non-arm's length transactions, for example when the donor-controlled charity purchases assets or regularly acquires goods or services from the donor or their associates at above-market rates.
- 2.32 Inland Revenue has greater visibility than the charity regulator over all entities involved in these arrangements and can monitor tax concessions claimed by donors, which the charity regulator cannot access. Inland Revenue also has broader information gathering powers than the charity regulator. However, current anti-avoidance provisions have been difficult to apply in most of these scenarios, and it is resource intensive to attempt to do so.

Policy options

- 2.33 To mitigate the integrity concerns outlined above, officials are seeking submitters' feedback on the following options. These options are not necessarily mutually exclusive.

Option 1: Arm's length transactions rule

- 2.34 This option would require donor-controlled charities to only enter into arm's length transactions,¹⁰ or transactions that are on terms more favourable to the charity, when dealing with donors or their associates. For example, if a donor-controlled charity lends money to the donor or a person associated with the donor, then the interest rate on the loan must be the arm's length interest rate or higher. This rule would not affect transactions with persons or entities not associated with the charity because these are assumed to be on arm's length terms.
- 2.35 The donor-controlled charity would be assumed to be in the business of lending money when the arm's length rate for loans is determined. Therefore, when lending money to the donor, the donor-controlled charity would be required to act as if it was a commercial lender and the loan should be on commercial terms.
- 2.36 Australia and Canada have similar arm's length transaction requirements. In Australia, the private ancillary funds guidelines require private ancillary funds to ensure that investments are made and maintained on an arm's length basis, and that any loans or other forms of financial assistance are on arm's length terms, or on terms more favourable to the charity. In Canada, private foundations must receive a minimum return on non-qualified investments, such as a low-interest loan, when the issuer is a related party or the issuer will be liable for a tax equal to the shortfall. The minimum return is the lesser of the amount of interest assuming the foundation had been dealing with the donor on arm's length terms and carried on the business of lending money, or a prescribed rate set in legislation.
- 2.37 The consequences for engaging in a non-arm's length transaction would include a tax at 100% of the value of the "undue benefit" provided to the donor or the associated person. The undue benefit would be calculated as the difference between the arm's length terms of the transaction and the actual terms applied. For example, this could be the difference between an arm's length interest rate, and the actual interest rate charged. The tax would be payable by the recipient of the undue benefit.
- 2.38 This rule might not be effective in deterring behaviour that raises integrity concerns in donor-controlled charities. This is because it can be difficult and resource intensive for Inland Revenue to dispute what should be a fair arm's length rate.

¹⁰ An arm's length transaction is one in which the parties act severally and independently in forming the bargain and in which neither of the parties has the ability to exert personal influence or control over the other. The price agreed would be what a disinterested independent party would agree to pay in normal competitive market conditions.

Option 2: Prescribed rate for loans to related parties or shares held in related companies

- 2.39 This option would set a prescribed rate in legislation, based on market interest rates, that applies when a donor-controlled charity loans funds to the donor or an associate. If the interest rate charged on the loan is below the prescribed interest rate, then the recipient of the loan would have a tax liability at 100% of the difference between the prescribed rate and the interest rate charged.
- 2.40 The prescribed rate could align with the prescribed rate used to calculate fringe benefit tax on low-interest loans provided by employers to employees.¹¹ This rate is currently 6.67%.
- 2.41 This option could also apply to shareholdings in closely held companies. A prescribed dividend rate could be set for the investment. If the dividends paid to the charity were below the prescribed dividend rate, then the donor would have a tax liability at 100% of the difference between the prescribed dividend rate and the dividends actually paid. The prescribed rate for dividends could be lower than the prescribed rate for interest.
- 2.42 This would be accompanied by a “pay in money” rule requiring any interest or dividends owed to the donor-controlled charity to be actually paid. For example, interest would need to be paid on the loan no later than 30 days after the end of the tax year to avoid a tax liability. This is because interest might otherwise be accrued, with no cash being received by the charity and available for charitable purposes, even though the borrower may claim a tax deduction for the interest with no income tax consequence for the donor-controlled charity. It is also more in line with an arm’s length lending arrangement.
- 2.43 One benefit of this option is that it reduces the uncertainty and administrative costs associated with determining arm’s length rates. However, there is a risk that a prescribed rate would not accurately reflect the market rate in some situations.
- 2.44 As mentioned in Option 1, Canadian legislation uses a prescribed rate for loans to related parties and shares held in companies linked to the donor. The prescribed rate is set quarterly, based on the average yield of treasury bills sold during the first month of the preceding quarter. The prescribed rate is also used for calculating the taxable benefit on low-interest loans provided by employers to employees. The prescribed rate for dividends is two-thirds of the prescribed rate in legislation.

¹¹ The rate, used since 1995, is based on Reserve Bank floating first mortgage new customer housing interest rates published on the last day of each month. The rate is calculated as the average interest rate for the surveyed institutions, weighted on each institution’s share of total lending for housing purposes. This is intended to be an indication of general market interest rates.

Example 5: Loan below the prescribed rate

The Parāhi Foundation makes a loan of \$500,000 to its primary donor. The annual interest rate on the debt is 4%, or \$20,000 per annum.

The prescribed rate of interest set in legislation is 6.67%, which equates to \$33,350 per annum. Because the donor has only paid \$20,000 of interest on the debt, the donor has a tax liability of \$13,350.

Option 3: Reduce donation tax concessions in certain loan or share purchase arrangements

- 2.45 Under this option, the value of donations for tax purposes would be reduced by certain loan or share purchase arrangements involving donor-controlled charities.
- 2.46 It is proposed that a loan or share purchase arrangement would be deemed to occur if, within five years before or after a donor makes a donation, a donor-controlled charity:
- makes a loan to the donor or an associated person of the donor, or
 - acquires shares in a company associated with the donor.
- 2.47 If a loan is made or the shareholding is acquired up to five years before the donation, and the loan is still outstanding or the shares are held at the time of the donation, then the value of the donation for tax purposes would be reduced by the unpaid balance of the loan or the market value of the shares. For example, if a loan made by a donor-controlled charity to the donor had an unpaid balance at the time of the donor's donation, and the loan was made within the five-year period, then the donation for tax purposes would be the difference between the value of the donation and the value of the outstanding loan. Because the donation for tax purposes would be reduced, any DTC for the donation would be paid on the reduced amount.
- 2.48 If the loan is made or the shareholding is acquired within five years after the donation, the donor would be required to include the amount of the loan or shareholding, up to the value of the original donation for tax purposes, as deemed income in the income year in which the loan or share purchase agreement occurs. This deemed income would be taxed at the same rate as the tax benefit from the original donation.¹²
- 2.49 Alternatively, the DTC could be treated as an excess tax credit that is required to be repaid, or a company or trust's tax return (and assessment) for the relevant income year could be amended so the tax benefit is reversed. Although conceptually simpler, it is

¹² If the donation came from an individual, this would be equivalent to the rate of the DTC (33 $\frac{1}{3}$ %). If the donation came from an income allocation from a private trust, or a company, then this would be equivalent to the trustee tax rate or the company tax rate.

likely to be administratively complex and would provide a shorter period for the tax concession to be repaid.

- 2.50 An ordering rule is proposed to ensure that the value of a loan or share purchase is only accounted for once in the loan or share arrangement rules when multiple donors or donations are involved. The rule would apply the amount of the loan or share purchase to donations based on their proximity to the loan or share purchase, with those closest to the time of the loan or share purchase being reduced first. Any outstanding amount of the loan or share purchase not offset against that donation would then be applied to the next closest donation, until the full amount has been accounted for.
- 2.51 The rules would apply prospectively. They would not apply to any loan or share purchases that existed before the application date of any legislation.

Example 6: Loan before one donation

On 13 October 2028, The Freester Family Foundation, a donor-controlled charity, lends \$500,000 to the Freester Family Trust. The Freester Family Trust is the primary donor to the Freester Family Foundation.

On 5 February 2029, the trustees of the Freester Family Trust make an income allocation of \$500,000 to the Freester Family Foundation. At the time of the allocation, the balance of the loan is \$500,000.

Because the loan was made within five years of the donation being made, and the loan remains outstanding, this is a loan arrangement.

The Freester Family Trust's income allocation of \$500,000 will be taxed at the trustee tax rate of 39%, instead of the tax rate of the charity of 0%.

Example 7: Share purchase after one donation

On 20 July 2028, Ellenhall Family Investments Limited donates \$500,000 to the Ellenhall Charitable Trust, a donor-controlled charity. Ellenhall Family Investments Limited claims a gift tax deduction of \$500,000 for the donation in its income tax return for the 2028–29 income year. Ellenhall Family Investments Limited is an associated company to the primary donor to the Ellenhall Charitable Trust.

On 28 August 2030, the Ellenhall Charitable Trust purchases \$1,400,000 of shares in Ellenhall Family Investments Limited.

This is a share purchase arrangement because the shares were purchased within five years of a donation. As a result, Ellenhall Family Investments Limited would be required to return \$500,000, the value of the acquired shareholding, as deemed income in the income year in which the share purchase occurred.

Example 8: Multiple donors donating after a loan

Dunnaval Charitable Trust is a donor-controlled charity established in 2018 by a group of primary donors: James Dunnaval, Dunnaval Limited, and Dunnaval 2 Limited. The three primary donors are all associated.

On 29 September 2028, the Dunnaval Charitable Trust loans \$1,250,000 to Dunnaval Limited. On 20 November 2029, James Dunnaval donates \$1,000,000 to the Dunnaval Charitable Trust. On 15 January 2030, Dunnaval 2 Limited donates \$200,000 to Dunnaval Charitable Trust. On 2 February 2030, Dunnaval Limited donates \$300,000 to the Dunnaval Charitable Trust.

The balance of the loan at the time of each donation remains at \$1,250,000.

The loan arrangement rules would first apply to reduce the value of James' donation for tax purposes, because his donation was made closest to the time of the loan between the Dunnaval Charitable Trust and Dunnaval Limited. The value of James' donation is zero for tax purposes, because his donation is less than the amount of the loan. James would not be entitled to a DTC for his donation.

The rules would next apply to Dunnaval 2 Limited, because Dunnaval 2 Limited's donation is the next closest to the time of the loan. Because there is still \$250,000 outstanding from the loan that has not been previously considered for the loan arrangement rules, Dunnaval 2 Limited's \$200,000 donation is reduced to zero for tax purposes. This means Dunnaval 2 Limited's donation is not eligible for a gift tax deduction.

The rules would also apply to reduce the value of Dunnaval Limited's \$300,000 donation by the remaining \$50,000 from the loan that has not previously considered for the loan arrangement rules.

Example 9: Multiple donors donating before a loan

Wōnati Family Foundation is a donor-controlled charity established in 2018 by a group of primary donors: Emma Wōnati, Wōnati Family Trust, and Emma Wōnati Developments Limited. The three primary donors are all associated.

On 30 July 2030, the Wōnati Family Foundation loans \$1,000,000 to the Wōnati Family Trust.

The following donations are made within the five years preceding the loan:

- On 1 July 2028, Emma donates \$1,000,000 to the Wōnati Family Foundation and claims a \$333,333 DTC for the donation.
- On 19 October 2029, the trustees of the Wōnati Family Trust donate \$500,000 through an income allocation to the Wōnati Family Foundation. The income is taxed at 0%, the tax rate of the Foundation.

- On 29 November 2029, Emma Wōnati Developments Limited donates \$250,000 and claims a gift tax deduction for the donation.

All three donations are considered for the loan arrangement rules.

The loan arrangement rules would first apply to require Emma Wōnati Developments Limited to return \$250,000 in deemed income in its income tax return for the 2029 income year, because their donation was made closest to the time of the loan between the Wōnati Family Foundation and the Wōnati Family Trust.

The rules would next apply to the trustees of the Wōnati Family Trust because their donation is the next closest to the time of the loan. Because there is still \$750,000 dollars remaining on the loan that has not been previously considered for the loan arrangement rule, the trustees of the Wōnati Family Trust must return \$500,000 in deemed income in its income tax return for the 2029 income year.

The rules would also apply to Emma Wōnati, because her donation is the next closest to the time of the loan. Emma must return \$250,000, the outstanding amount of the loan not previously considered, as deemed income in its income tax return for the 2029 income year. The deemed income would be taxed at 33⅓%, the rate of the DTC.

- 2.52 This option has the strongest integrity focus of the three options by removing the tax benefit for loan or share purchase arrangements that present a high risk of tax abuse.
- 2.53 Canada has a similar rule that applies to loanback arrangements. In Canada, a loanback occurs when a donor makes a gift to a private foundation, and within five years of making the gift, either of the following situations occur:
- the private foundation holds a non-qualifying security (such as debt or a share in a company that is linked to the donor) that it acquired within five years before the gift was made, or
 - the donor, or a person associated with the donor, uses the private foundation's property under an agreement made or modified after the time that is five years before the gift was made, and the property was not used by the private foundation in its charitable activities.
- 2.54 In Canada, if a loanback has occurred, then the fair market value of the gift is reduced for income tax purposes.
- 2.55 Canada's loanback provisions apply on a taxpayer-by-taxpayer basis. If a loanback occurs, then the fair market value of the gifts made by each donor could be reduced for income tax purposes.

Questions for submitters

- Q5. Which of the three integrity options outlined in this chapter (Option 1: Arm's length transactions rule; Option 2: Prescribed rate for loans to related parties or shares held in related companies; Option 3: Reduce donation tax concessions in certain loan or share purchase arrangements) does the best job of addressing integrity issues without adversely affecting genuine philanthropy. Why?
- Q6. Are there any other issues with any of the options outlined in this chapter that we should consider?

Alternative proposal: Donation tax concessions cap**Background**

- 2.56 An alternative proposal to address the integrity concerns outlined in this chapter is to decrease the value of donation tax concessions for donations to donor-controlled charities. This would reduce the financial benefit of tax-aggressive arrangements in donor-controlled charities and help mitigate policy concerns with the accumulation of tax-exempt funds going forward because fewer tax concessions would be available. Therefore, reducing donation tax concessions could be an alternative to the minimum distribution requirement and the integrity options for donor-controlled charities.

Proposal

- 2.57 It is proposed that a cap is set on the amount of DTCs an individual can claim for donations made to donor-controlled charities. For example, the cap could be set between \$50,000 and \$100,000 worth of annual donations and still mitigate integrity concerns in donor-controlled charities. Based on current donation behaviour to both donor-controlled charities and other donee organisations, a DTC cap of \$50,000 would affect up to 900 donors, and a DTC cap of \$100,000 would affect up to 300 donors. We expect the number of donors affected by the cap would be lower because many of these donations are not made to donor-controlled charities.
- 2.58 To complement this measure, it is also proposed that caps are applied to:
- the amount of income that private trusts could allocate to donor-controlled charity beneficiaries without paying tax at the trustee rate, and
 - the amount companies could claim as a tax deduction for donations made to donor-controlled charities.
- 2.59 For example, if the DTC cap was set at \$50,000, then trustee income distributions would also be capped at \$50,000. If a private trust allocated \$150,000 of trustee income to donor-controlled charities, the trust would be liable for income tax at the trustee rate on donation amounts above the cap, which would be the excess \$100,000.

- 2.60 These additional measures are necessary because donors can make donations through private trusts and companies that they control. A DTC cap alone would not mitigate the financial benefit for donations through these entities, so it would not address circular arrangements involving these entities.
- 2.61 The donation tax concession caps would also apply to donations made to charities if the donation results in the charity becoming donor controlled. For example, if an individual donated to a charity, and as a result of their donation the charity became donor controlled, the tax credit for the donation would only be available up to the DTC cap.¹³
- 2.62 It is also proposed that there would be a specific anti-avoidance provision to address arrangements designed to circumvent being classified as a donor-controlled charity. This is because donation tax concession caps would pose a heightened risk of donors structuring around the rules.

Example 10: Donation to a charity that becomes donor-controlled

Clark makes an initial contribution of \$2 million to a newly established charity, the Kaharore Family Foundation. Clark and his partner Joanne are the sole trustees of the charity and retain full control over the charity's operations.

The Kaharore Foundation meets the definition of a donor-controlled charity at the time of Clark's donation. Therefore, the DTC cap applies, and Clark is only eligible to claim a DTC up to the DTC cap.

Questions for submitters

- Q7. What are the consequences of reducing the individual DTC cap for large donations to donor-controlled charities? What could be the impact on the charitable sector more generally?
- Q8. If the DTC cap was reduced for donations to donor-controlled charities, should there also be a cap on the amount of income that private trusts can allocate to donor-controlled charities, and a limit to the donation tax deduction for companies?

Donor-advised funds

Background

- 2.63 Donor-advised funds are philanthropic vehicles established within a registered charity. Each donor-advised fund comprises contributions made by individual donors. The donors can contribute to their donor-advised fund and receive a donation tax concession in the tax or income year of the donation. The donors can provide ongoing,

¹³ Or it could be less if the donor's taxable income is less than the value of the donation.

non-binding recommendations on how the funds are spent over time. While the registered charity retains legal control over the funds, it would typically follow the donor's recommendations.

- 2.64 There is a concern that donor-advised funds could be used as substitutes for donor-controlled charities. If integrity measures such as a minimum distribution requirement or a donation tax concession cap applied to donor-controlled charities, then donors could instead use donor-advised funds to avoid these rules.

Proposal

- 2.65 We are considering whether the same rules for donor-controlled charities should apply to donor-advised funds. For example, if there were a cap on the amount of DTCs a person could claim for donations to donor-controlled charities, this could also apply for donations to donor-advised funds.
- 2.66 If these funds were subject to a minimum distribution requirement or other integrity measures, then the registered charity that the fund is held within would be responsible for complying with these rules, and for any tax liability that would arise for breaching these rules. This is because the donor can only advise on distributions, and it is ultimately the responsibility of the registered charity as to when and how the funds are spent.
- 2.67 A donor-advised fund would be defined as a segregated fund within a registered charity, that comprises contributions made by a donor, or a group of donors that are associated persons, and when the donor can provide ongoing recommendations on payouts from the donor-advised fund.

“Wholly or mainly” test for donee status

- 2.68 There is also a policy concern that donor-advised funds can be used to circumvent the “wholly or mainly” test for donee status under section LD 3(2)(a) of the Income Tax Act.
- 2.69 To qualify for donee status, a donee organisation must apply its funds wholly or mainly to charitable, benevolent, philanthropic, or cultural purposes within New Zealand. Inland Revenue’s safe harbour threshold is met if an organisation applies 75% of their funds to charitable, benevolent, philanthropic or cultural purposes within New Zealand over a three-year period.¹⁴ This test currently applies at the level of the registered charity, not to each individual donor-advised fund within it.
- 2.70 We have observed that some donor-advised funds are meeting the safe harbour threshold individually. However, if the registered charity that the donor-advised fund is established within is meeting the wholly or mainly test due to other funds applying all

¹⁴ Inland Revenue has released guidance on the meaning of “wholly or mainly applying funds to specified purposes in New Zealand”, which can be found here: [Income tax - donee organisations – meaning of wholly or mainly applying funds to specified purposes in New Zealand](#).

their funds within New Zealand, then the donor can still claim DTCs for donations to its donor-advised fund that applies its funds outside New Zealand.

- 2.71 It is proposed that the wholly or mainly test apply to each donor-advised fund, instead of each registered charity as a whole. Each donor-advised fund would have to ensure that it is applying its funds wholly or mainly to charitable purposes within New Zealand to maintain donee status.
- 2.72 If a donor-advised fund did not meet the requirements of the wholly or mainly test, then the donor-advised fund would not be able to benefit from the charity's donee status. This could also result in Inland Revenue requiring the repayment of past DTC refunds for donations to the donor-advised fund.

Example 11: Donor-advised fund not meeting wholly or mainly test

Joe donates \$1 million to his donor-advised fund that is established within the Waiporoporo Giving Trust, a registered charity that operates donor-advised funds.

Joe recommends that his donor-advised fund pays out \$500,000 in grants over the next three years to an overseas charity that carries out charitable purposes in Mozambique. No other grants are made in the three-year period.

Joe's donor-advised fund does not meet the requirements under the wholly or mainly test because it is not applying its funds wholly or mainly to charitable purposes within New Zealand. Therefore, the donor-advised fund does not qualify for donee status and Joe cannot claim DTCs for donations to the fund.

Inland Revenue would review Joe's past DTC refunds for donations to his donor-advised fund, which could require Joe to repay these DTC refunds.

Questions for submitters

Q9. Should donor-advised funds be subject to the same rules as donor-controlled charities (such as a minimum distribution requirement and other integrity measures)? Why or why not? What impacts might this have on the broader philanthropic environment?

Q10. What are the implications of applying the wholly or mainly test for donee organisations under section LD 3(2)(a) of the Income Tax Act to donor-advised funds, instead of the fund-holding charity?

Trust income allocations to tax-exempt beneficiaries

- 2.73 Under current law, the trustees of a trust can allocate income to a beneficiary while not actually paying it or notifying the beneficiary that income has been allocated to them. This poses integrity risks when the beneficiary is a tax-exempt entity, for example a

registered charity, because the allocated income receives a tax exemption despite not being paid to the charity and available to be used for charitable purposes.

- 2.74 A “pay in money” rule is proposed that would require trustees to pay in money¹⁵ any income allocated to a tax-exempt beneficiary by the later of six months after balance date, or the earlier of the actual or required filing date of the trust’s tax return. If the trust uses a tax agent with an extension of time, then this would be on 31 March in the year after balance date.
- 2.75 If the income has not been paid in money to the beneficiary, then the income would be treated as having never been allocated to the beneficiary, and it would instead be taxed at the trustee rate. This timeframe is consistent with the current timing rules for the allocation of beneficiary income.

Example 12: Trust allocation to charity not paid within six months after balance date

The Ōrangitea Charitable Trust (a registered charity) is a discretionary beneficiary of the Ōrangitea Family Trust. The trustees of the Ōrangitea Family Trust earn \$500,000 in investment income for the income year ended 31 March 2028.

The trustees of the Ōrangitea Family Trust allocate \$200,000 of the income to the Ōrangitea Charitable Trust, and journal entries are made recording the allocation. The trustees use a tax agent who has an extension of time to file the 2028 return until 31 March 2029, and the return is filed on 31 March 2029.

The trustees of the Ōrangitea Family Trust make a payment in money of \$200,000 to the Ōrangitea Charitable Trust on 5 May 2029. Since the income allocation was not paid in money by the date the return is filed, the \$200,000 is treated as trustee income and taxed at the trustee rate of 39%.

Questions for submitters

Q11. Do you agree that there should be a “pay in money” rule for trustee allocations to tax-exempt beneficiaries? Why or why not?

Q12. Are there any policy design issues that we need to consider?

Application date

- 2.76 We propose that the changes set out in this chapter apply from the 2027–28 tax year. We believe this application date would provide sufficient time for affected entities to

¹⁵ For the purposes of the proposed rule, money will mean currency authorised as a medium of exchange by the law of NZ.

fully understand the changes being made and their implications, and to apply any necessary changes to systems and processes.

Questions for submitters

Q13. Does the application date of 1 April 2027 for changes proposed in this chapter give affected entities and trusts sufficient time to implement any changes to their processes? If not, what date do you propose and why?

Chapter 3 – Membership subscriptions and related matters for taxable not-for-profit organisations

Overview

- 3.1 This chapter deals with issues concerning taxable not-for-profits and covers several policy design matters including:
- a proposal to clarify the circumstances when membership subscriptions and levies could be exempt
 - a proposal to raise the annual tax-free threshold from \$1,000 to \$10,000 and target it towards small not-for-profits
 - a proposal to require taxable not-for-profits to have simplified income tax return filing requirements.

Membership subscriptions

- 3.2 In addition to the February 2025 issues paper, Inland Revenue released a detailed draft operational statement, ED0265 “Mutual transactions of associations (including clubs and societies)” (the draft operational statement) in April 2025.
- 3.3 The draft operational statement reiterated Inland Revenue’s current position that member trading transactions (for example, food and drinks at a club) are taxable. It also outlined Inland Revenue’s updated view that membership subscriptions, fees and levies may be taxable. This is a departure from Inland Revenue’s current position that membership subscriptions are not taxable under the mutuality principle.¹⁶
- 3.4 Submitters on the February 2025 issues paper and the draft operational statement strongly opposed imposing tax on membership subscriptions. Many submitters stated that if the updated view is confirmed, it would place a significant amount of financial pressure on not-for-profits and could cause smaller not-for-profits to close on the basis that they would no longer be financially viable.
- 3.5 Most submitters said that a law change should be considered to ensure that member subscriptions remain non-taxable in recognition of the significant benefits not-for-profits provide to their communities.
- 3.6 The Government has asked us to consider the circumstances in which subscriptions and levies could remain non-taxable.

¹⁶ The common law mutuality principle provides that an association of people does not derive taxable income from transactions within its circle of membership, based on the idea that persons cannot make a profit from trading with themselves.

- 3.7 Not-for-profits are organisations that do not have a purpose of making a profit for their members and have a constitution (set of governing rules) that prohibits distributions of property to those members. If the entity makes a profit, that profit is taxable after allowing for a statutory deduction (of up to \$1,000).
- 3.8 As explained in the draft operational statement, for the most part the mutuality rule may not apply to not-for-profits because the mutuality principle requires that members both contribute to and continue to have a financial interest in the assets of the association. By definition, those prohibited from making distributions (that is, not-for-profits) do not meet this criterion.
- 3.9 To determine the circumstances in which membership subscriptions could remain non-taxable, we need to distinguish between membership subscriptions and payments that are for goods or services.

Proposal

- 3.10 Currently, there is no definition of a membership subscription, and it is possible for goods or services to be included in what people consider to be a membership subscription despite them being member trading transactions. This leads to confusion as to whether all or part of a membership subscription should be treated as taxable or non-taxable.
- 3.11 We propose a new definition of membership subscription to clarify amounts which would be non-taxable to the extent that they fall within that definition. Payments as part of a membership subscription for provision of goods or services would remain taxable according to ordinary rules.
- 3.12 The new definition would seek to differentiate non-taxable payments that entitle a person to core membership benefits from taxable payments that entitle a person to identifiable direct valuable benefits in the form of goods or services (albeit labelled as a membership subscription).¹⁷
- 3.13 Our initial thinking is that core membership benefits received in exchange for a membership subscription would normally include:
- the right to vote at meetings of the body and to participate in elections of officers or office holders, and
 - the right to receive notices of decisions and the financial and other regular reports of the body, including regular updates of the activities of the not-for-profit.
- 3.14 We propose that if a membership subscription payment, in addition to entitling the person to core membership benefits (as above), also entitles the member to identifiable

¹⁷ This wording borrows from the definition of “unconditional gift” in section 2 of the Goods and Services Act 1985.

direct valuable benefits,¹⁸ that part of the subscription would not be treated as a membership subscription and would be taxable to the not-for-profit. This should be the case even if those additional benefits are not separately identified in the charge or invoice. In its guidance in the context of “unconditional gifts” in a GST context, Inland Revenue considers that an “identifiable direct valuable benefit” means an advantage or gain to the payer (or a person associated with the payer) in the form of a supply of goods or services that is:

- clearly able to be defined or identified
- sufficiently closely connected to the payment
- useful, important and of real value
- capable of being valued, and
- not of only nominal worth.¹⁹

- 3.15 Examples of identifiable direct valuable benefits included as part of a membership subscription could include meals, training, conferences, certification, and the right to use facilities (such as a gym).
- 3.16 Incorporated societies and other not-for-profits serve a diverse range of purposes, such as trade unions, advocacy groups, resident associations, drama clubs, industry groups, marae, and many others. This diversity means that some degree of judgement will be needed to draw the line between payments that are taxable and those that are non-taxable. We are interested in your feedback on what “core membership benefits” should include.

Member transactions

- 3.17 The draft operational statement also mentioned that a transaction, (for instance, sales of goods and services) between an organisation and its members has long been considered taxable by the Commissioner of Inland Revenue (the mutual association provisions in the Income Tax Act 2007 override the mutuality principle in the case of trading with members, when those principles would otherwise apply).
- 3.18 For example, clubs that operate a restaurant or bar must treat member purchases in the same way as those by non-members. Income from members and non-members such as rents, interest and dividends remain taxable, though not-for-profits are entitled to a \$1,000 deduction (see below) in addition to other deductible expenses.
- 3.19 We anticipate that the proposal relating to the tax treatment of membership subscriptions will help to clarify the position on member trading transactions, given that

¹⁸ In the form of a supply of goods and services to that member or any person associated with that member

¹⁹ IS20/09: GST - unconditional gifts - <https://www.taxtechnical.ird.govt.nz/-/media/project/ir/tt/pdfs/interpretation-statements/is-20-09.pdf?modified=20211123220054>

some membership subscriptions may include taxable payments for services. The normal tax rules as to what constitutes taxable income will apply to those and other payments from members of the organisation.

Questions for submitters

- Q14. Does the proposed definition of a membership subscription for not-for-profits describe the type of payments we want to relieve from tax? Are there likely to be any unintended consequences?
- Q15. Does this test sufficiently distinguish payments for core membership benefits from payments made for other benefits received by a member? If not, why?
- Q16. What types of benefit do you think should fall outside the concept of a membership subscription? Would this include, for instance, advocacy services on behalf of an industry or a group of workers?
- Q17. The proposed approach requires potential apportionment of some membership subscriptions. Would you prefer a simpler test that required all of the membership subscription to be treated as taxable instead, if it included any identifiable direct valuable benefits? Are there any other approaches we could use?
- Q18. When a payment contains both taxable and non-taxable elements, would a test like a principal purpose or wholly or mainly test to determine the degree of taxability be appropriate?

Tax-free threshold

- 3.20 While exempting subscriptions that solely relate to core membership benefits will help, we recognise that many not-for-profits may nevertheless earn small surpluses in some years. One of our goals is to minimise the overall impact of the tax system on not-for-profits without creating excessive integrity risks (which could happen if we simply exempted all income).
- 3.21 Currently, not-for-profits with constitutions that prohibit distributions to members (for example, incorporated societies) are entitled to a tax-free threshold of \$1,000, that is, they can deduct up to \$1,000 against their income. The threshold has not changed since 1979.
- 3.22 To reduce compliance costs for not-for-profits, especially those small not-for-profits that may not have paid tax on member transactions in the past, the February 2025 issues paper raised the question of increasing and/or redesigning the current \$1,000 tax-free threshold to continue to remove small-scale not-for-profits from the tax system.

Proposal

- 3.23 It is proposed that the current \$1,000 tax-free threshold be increased to \$10,000. This is consistent with suggestions from many submitters who indicated that a \$10,000 threshold was an appropriate level.
- 3.24 However, to target the threshold to small not-for-profits (and limit the fiscal cost of the proposal) rather than all not-for-profits, we are considering a “cliff face” threshold. This means that if an entity has net income of more than \$10,000, the tax-free threshold would not apply to them. Without the cliff face, an entity with income of \$10 million would be eligible for the deduction, which we do not consider appropriate.
- 3.25 We considered and dismissed the option to apply an abating threshold, because it would be complex to administer and the fiscal cost of the proposal would increase.
- 3.26 We acknowledge that at the margin, the cliff-face proposal could be seen as unfair. For example, a not-for-profit entity with a surplus of \$9,000 would not pay any income tax, whereas a not-for-profit entity with a surplus of \$11,000 would pay income tax on its total surplus. However, the proposal to increase the threshold to \$10,000, together with the exemption of subscription payments, would keep a relatively large group of not-for-profits in a non-taxpaying situation.
- 3.27 As is currently the case with the \$1,000 tax-free threshold, a \$10,000 tax-free threshold would apply to each entity, and not to individual branches. Any tax-free threshold not used in a year could not be carried forward to subsequent years.

Questions for submitters

Q19. If the tax-free threshold is increased to \$10,000 it would apply to each entity (not to individual branches) and the proposal is for a cliff face threshold, that is, it would not apply to any entity with a net profit greater than \$10,000. Do you agree this proposal would reduce compliance costs for small not-for-profits?

Q20. What design changes do you recommend to improve the proposal?

Q21. Are there likely to be any unintended consequences of a cliff face threshold?

Resident withholding tax exemption

- 3.28 Currently, not-for-profits with net income under \$1,000 are entitled to a resident withholding tax (RWT) exemption. The exemption means that RWT is not deducted at source from interest and dividends paid to them. However, it does not mean that the interest and dividends are not subject to tax. Rather, this income needs to be included in the not-for-profit’s income tax return.
- 3.29 Not-for-profits are required to advise Inland Revenue when they no longer meet the criteria for the RWT exemption (this is an annual test), for example, because their net

income exceeds \$1,000. We are aware that there is some non-compliance in this area and that some not-for-profits consider that the RWT exemption means they do not pay tax on interest income. It is difficult for Inland Revenue to effectively address this non-compliance because, currently, payers of interest and dividends are not required to tell Inland Revenue about the investment income paid to holders of RWT exemptions – including not-for-profits.

Proposal

- 3.30 Currently, payers of interest and dividends are not required to tell Inland Revenue about the investment income paid to holders of RWT exemptions, including not-for-profits. It is proposed that the tax-free threshold is increased to \$10,000, so it is also proposed that financial institutions be required to provide Inland Revenue with not-for-profits' financial information. This will enable Inland Revenue to enforce the current requirement that the RWT exemption must be removed when a not-for-profit earns income above the tax-free threshold.

Questions for submitters

Q22. What issues are there with requiring financial institutions to provide Inland Revenue with not-for-profits' financial information?

Filing requirements

- 3.31 Currently, Inland Revenue does not require taxable not-for-profits to file tax returns if they qualify for the \$1,000 tax-free threshold and have net taxable income of \$1,000 or less. However, this approach is not supported by the current legislation, which requires all taxable not-for-profits to file income tax returns even if they have no taxable income.
- 3.32 Of the approximately 26,000 taxable not-for-profits on Inland Revenue's system, currently only 4,000 file income tax returns. If the current legislation were enforced, the remaining 22,000 non-filing not-for-profits would be required to file tax returns.

Proposal

- 3.33 Filing requirements for not-for-profits should balance the objective of reducing compliance costs with the need for appropriate integrity measures, particularly when a significant tax concession is being provided.
- 3.34 The filing requirements for smaller not-for-profits should be reduced. However, we do not believe the requirement to file should be removed entirely. Exempting smaller not-for-profits from filing tax returns does not give Inland Revenue any assurance that officers of not-for-profits have turned their mind to whether their annual taxable income is below the tax-free threshold. The filing exemption can, in some circumstances,

perpetuate the misunderstanding that all not-for-profits are tax exempt and do not have any tax obligations.

- 3.35 Therefore, we propose that smaller not-for-profits would not be required to file full tax returns and instead would file a short-form tax return. The short-form return would essentially be an annual confirmation that a not-for-profit qualifies for the \$10,000 tax-free threshold, and that they have income under that amount (see Example 13). Our initial view is that for simplicity, eligibility for reduced filing requirements should be aligned with eligibility for the effective tax-free threshold.
- 3.36 Changes in filing requirements in this way can be made without the need for a legislative amendment. Inland Revenue can use its existing ability to prescribe the form of a tax return so that the information smaller not-for-profits are required to provide annually is not onerous.
- 3.37 We propose that the standard late filing penalty would apply. In addition, the RWT exemption would be based on the not-for-profit's previous year's income, therefore failure to provide a return would mean that the not-for-profit is not entitled to an RWT exemption in the following year.

Example 13: Short form filing question

Is your net taxable income \$10,000 or less? If so, tick yes and go straight to question X and sign the return.

Questions for submitters

Q23. Do you agree with the approach proposed in this chapter to introduce a short form return? If not, what do you suggest? What should be the consequences of a not-for-profit not filing a return (either a short form or full return)?

Application date

- 3.38 We propose that the changes set out in this chapter apply from the 2027–28 tax year. This date would allow sufficient time for legislative change to provide certainty on the treatment of membership subscriptions and for entities to implement changes (for example, if a not-for-profit needs to register as a charity). Also, we expect that this date would align with the release of Inland Revenue's guidance on member transactions.

Questions for submitters

Q24. Does the proposed application date give not-for-profits sufficient time to implement any changes to processes? If not, what date do you propose and why?

Chapter 4 – Donation tax credit simplifications

Overview

- 4.1 The donation tax credit (DTC) is a longstanding policy mechanism designed to encourage philanthropy by allowing individuals to claim a 33 $\frac{1}{3}$ % tax credit on donations made to schools and approved donee organisations.
- 4.2 In 2023–2024 Inland Revenue conducted a DTC regime regulatory stewardship review²⁰ that identified opportunities to improve the regime by reducing compliance burdens and encouraging philanthropy.
- 4.3 As outlined in the February 2025 issues paper, the policy-related recommendations were:
- moving away from annual DTC claims to allow for more real-time payments, for example when DTCs are refunded before year-end and closer to the time a donation is made
 - allow Inland Revenue to collect data from donee organisations to pre-fill DTC claims and streamline the DTC claiming process, and
 - introduce a three-month grace period so donee status is retained if a deregistered charity is re-registered within three months.
- 4.4 The pre-fill DTC claims proposal is not progressing. While a majority (55%) of submissions on this issue supported the proposal, there were concerns that it would shift compliance costs from the donor to the donee organisation because new systems would be needed to gather and store information.
- 4.5 The grace period proposal is also not progressing. There are concerns that deregistered charities could retain their donee status even when becoming taxable. Such a situation would be open to abuse. In addition, we considered that an arbitrary three-month grace period is unlikely to be justified when most deregistered charities have failed to meet their filing requirements under the Charities Act for at least two consecutive years.

Proposed changes

- 4.6 Two key proposals have emerged from this review. The first would allow Inland Revenue to refund DTCs during the year instead of waiting until after year-end. The second would allow donors to allocate their DTC directly back to the charity they donated to.
- 4.7 These proposals are slightly different to what was canvassed in the February 2025 issues paper. We consider that they would support philanthropic giving.

²⁰ [DTC regime regulatory stewardship review findings and response](#)

- 4.8 Both changes would take advantage of new capabilities in the Inland Revenue computer system.

DTC in-year refunds

- 4.9 This proposal would allow in-year refunds, enabling individual donors to receive refunds closer to the time of donation. This simplification would apply to schools and approved donee organisations.
- 4.10 This could be implemented by allowing for DTC claims to be made within the year.
- 4.11 Shifting to an “in-year” model may help Inland Revenue progress the claims quicker, making the DTC more accessible and timely for donors, which may encourage greater and more frequent philanthropic giving.
- 4.12 Our proposal is that DTC in-year refunds would have the following key features:
- Individuals who have reportable income will benefit from this proposal.²¹
 - Individuals with reportable and non-reportable income could make use of this change up to the value of any reportable income earned in the year.
 - In-year claims would be made through myIR.
 - In-year claims made by tax agents would be eligible if individual donation details and receipts were uploaded to myIR.
 - Inland Revenue would process the refunds periodically throughout the year.
 - Consistent with current processes, the DTC would be limited to a third of the individual's reportable income earned in the year to date. If at the time of the donation, the donor's reportable income is less than the donation, they may need to wait to claim the DTC until later in the year.
- 4.13 Here are some limitations with the proposal, which we think are necessary to minimise Inland Revenue administrative costs and work within system constraints:
- Individuals with only non-reportable income would need to file an income tax return to claim their DTC.
 - Paper-based claimants would not be able to access in-year refunds.
 - Donee organisations would not be required to provide receipts to donors more frequently, but they may face pressure to do so. Receipts would still need to be provided when claims are made because donors cannot claim the credit until receipts are issued. This may impact when donee organisations issue receipts.

²¹ Reportable income includes salary and wages and other income types that are reported to Inland Revenue by third parties, for example, interest and dividends.

- 4.14 Our current proposal is that donations eligible for the DTC are capped at the donee's reportable income. We recognise this is inconsistent with the DTC claims that are limited to taxable income, rather than reportable income.

Questions for submitters

Q25. Do you believe the proposal for donors to claim in-year DTCs, as described in this chapter, would benefit donors and charities?

Q26. What design changes do you recommend to improve the proposal?

Allocating DTCs directly to donee organisations

- 4.15 This proposal would allow donors to allocate their DTC directly to the donee organisation they supported, simplifying the process for donors and encouraging further charitable giving.
- 4.16 Currently, when a donation is made the donor is the only eligible recipient of the DTC. This means that if the donor wants the charity to receive the DTC, they must manually donate it back to the charity.
- 4.17 While this was not consulted on in our February 2025 issues paper, many submissions proposed that the ability for donors to allocate their DTC to the donee organisation be reinstated.
- 4.18 Our proposal for allocating DTCs directly to donee organisations would have the following key feature – if the donor elects, Inland Revenue will refund the DTC to the donee organisation that received the original donation.
- 4.19 Here are some aspects of the proposal you may need to consider:
- When a donor donates to more than one donee organisation, they will be able to have their DTC allocated to each donee organisation.
 - When the donor has overdue tax obligations, this would still be covered before any remaining credit is allocated to the donee organisation.
 - The allocation of the DTC to the charity would not qualify as an additional donation by the donor (that is, it would not qualify for a DTC).
 - Donee organisations will need to set up an account with Inland Revenue to receive the DTC, otherwise the donor will receive the DTC refund.
 - The donee organisation will not be able to identify the donor of the DTC when it is refunded back to the donee organisation.

Questions for submitters

Q27. Do you believe the proposal for donors to allocate DTCs to the charity they donated to, as described in this chapter, would benefit donors and charities?

Q28. What design changes do you recommend to improve the proposal?

Application date

4.20 We propose that the changes set out in this chapter would have an application date of 1 April 2027.

Questions for submitters

Q29. Does the application date of 1 April 2027 give donee organisations sufficient time to implement any changes to their processes? If not, what date do you propose and why?

Chapter 5 – Treaty of Waitangi considerations

Overview

- 5.1 The Government's Treaty of Waitangi and Tiriti o Waitangi (Treaty) responsibilities relating to matters raised in this document require consideration of Treaty interests and, when Treaty interests may be impacted, engagement with the principles of the Treaty of Waitangi. This chapter discusses the potential impacts of the proposals on Treaty interests.
- 5.2 We do not have access to comprehensive data on Māori donors or Māori not-for-profits and cannot accurately state how many of those persons, trusts or entities may be affected by reform. In the absence of comprehensive data, information in this chapter has been informed by limited data and recent engagement with Māori.

Relevant treaty interests

- 5.3 There are a variety of Treaty interests in the tax system generally. We consider that the interests that are particularly relevant are:
- Māori individuals or entities who are donors, officers or beneficiaries of donor-controlled charities, donor-advised funds or donee organisations.
 - Māori trustees who allocate beneficiary income to donor-controlled charities, donor advised funds, or tax-exempt entities.
 - Māori involved with taxable not-for-profit entities and taxable charitable trusts that have obligations under the Income Tax Act 2007 and the Tax Administration Act 1994.
- 5.4 The legal characteristics of Māori donors, officers, beneficiaries, and trustees are largely the same as other entities. Although our understanding is that these Māori individuals, entities or trustees would be affected, the extent of that impact remains unclear.
- 5.5 Some Māori submitters on the February 2025 issues paper noted the importance of understanding the wider context in which Māori operate, including their cultural responsibilities to whānau, hapū, marae and iwi, and relevant legislation or government processes that regulate how Māori can govern, manage or develop their resources. These factors can influence the impact of any likely tax compliance costs. For example, the Māori Land Act 1993 provides for the retention of Māori land in Māori ownership, rules for succession to land interests and trusts for management purposes. These provisions can add complexity to the way in which land may be used and developed by Māori, which can then exacerbate the impact of any likely tax compliance costs.

Treaty settlement commitments

- 5.6 We are not aware of any Treaty settlement commitments that establish obligations on tax settings.
- 5.7 We acknowledge that some post-settlement governance entities have expressed a view that Treaty settlement commitments could give rise to obligations in respect of taxation and not-for-profit settings. However, that view was expressed in relation to proposals that are now not being progressed. It is, therefore, unclear what the views of these entities would be on the current proposals.

Treaty principles

- 5.8 The Treaty principles relevant to matters raised in this document include active protection and partnership. Active protection requires the Crown to give appropriate priority to, and take reasonable steps to protect, Māori interests. Partnership requires the Crown and Māori to act reasonably and in good faith.
- 5.9 There are no statutorily recognised Treaty principles in tax law.

Treaty implications

- 5.10 The potential Treaty implications of the proposals are discussed below.

Donor-controlled charities

- 5.11 The problem definition and objectives for reform are outlined in Chapter 2.
- 5.12 Submitters on the February 2025 issues paper raised concerns that a broad definition of a donor-controlled charity could capture iwi entities, particularly those with governance structures linked to Treaty settlements. Our understanding is that these entities would not fall within the proposed definition. This is discussed further in Chapter 2.
- 5.13 We consider that the specific proposals that could have Treaty implications are:
- the proposal to require private trusts to pay beneficiary income allocated to a tax-exempt entity within the later of six months from balance date or the due date for filing an income tax return, and
 - the proposal to apply the donor-controlled charity rules to donor-advised funds.
- 5.14 The impacts of the two proposals above are not anticipated to be unique for Māori. Although the impact of the first proposal is expected to be positive, the impact of the second proposal could be negative. More specifically, on the latter (the proposal to apply donor-controlled charity rules), the impact would depend on whether Māori donors hold donor-advised funds and are distributing below the minimum distribution requirement; if they are, they could be negatively impacted. Māori could also be negatively impacted if

the DTC cap for donor-controlled charities is extended to donations to donor-advised funds.

Membership subscriptions and related matters for not-for-profit organisations

- 5.15 The problem definition and objectives for reform are outlined in Chapter 3.
- 5.16 We consider that the specific proposals that could have Treaty implications are:
- The proposal to raise the not-for-profit tax-free threshold from \$1,000 to \$10,000 but remove the tax-free threshold for not-for-profits with a net surplus greater than \$10,000. On balance, this proposal would be positive for Māori involved with taxable not-for-profit entities and taxable charitable trusts. It might mean fewer taxable not-for-profits pay tax.
 - The proposal to introduce a short form return for not-for-profits who benefit from the \$10,000 deduction. On balance, this proposal would address the concerns raised by Māori in submissions on the previous consultation, that there is a need for compliance obligations to be simplified. It would mean fewer taxable not-for-profits would have to file long form income tax returns. Introducing a short form return is expected to make it easier to comply with filing requirements.
 - The proposal to exempt some membership subscriptions would make it clear which payments should be treated as income for tax purposes, which is expected to assist with compliance.
- 5.17 We consider that some marae would be impacted by the proposal to raise the not-for-profit tax-free threshold from \$1,000 to \$10,000. Marae have particular cultural significance and, of the approximately 780 marae in New Zealand, about 40% (about 300) are not registered as charities. Of those marae that are not charities, we anticipate 12% (about 40) would benefit from this proposal. This assumption, however, is based on income earned by charitable marae, which we have assumed would be like non-charitable marae.

Donation tax credit simplifications

- 5.18 The problem definition and objectives for reform are outlined in Chapter 4.
- 5.19 Although we consider that there could be a number of proposals that might impact Māori individuals or entities who are donors, officers or beneficiaries of donee organisations, the proposals that could have treaty implications, are:
- The proposal to allow donors to allocate their DTC to the donee organisation they donated to. On balance, this proposal is anticipated to be positive for Māori donors and donee organisations. For example, donors to marae that are registered charities and donee organisations will be able to request Inland Revenue to pass their DTC directly back to the marae.

- The proposal to allow in-year refunds, enabling individual donors to receive refunds closer to the time of donation. On balance, this proposal is anticipated to be positive for Māori groups. Although donee organisations would not be required to provide receipts to donors more regularly during the year, this proposal could increase compliance costs for Māori donee organisations if they face pressure to provide receipts to donors more regularly. However, we expect that these additional compliance costs for Māori donee organisations would be outweighed by the benefit of individuals donating more to Māori donee organisations. International research indicates that donors would donate more if a DTC were refunded closer to the time of the donation.

Questions for submitters

Q30. Do you agree that the proposals identified in this chapter would have direct impacts for Māori?

Q31. Do you agree that the impacts are articulated appropriately? If not, what impacts do you believe the proposals are likely to have on Māori?

Appendix: Summary of questions for submitters

Discussion questions

Chapter 2 – Donor-controlled charities

- Q1. Are there any issues with the definition of donor-controlled charities outlined in this chapter? For example, would it apply to charities that are not donor-controlled? If so, what alternative(s) would you propose?
- Q2. If New Zealand adopts a minimum distribution of 5% of net assets for donor-controlled charities we would be similar to Australia and Canada. Do you agree this is appropriate in the New Zealand context? If not, what alternative would you propose and why?
- Q3. Are there any issues with the proposal to require donor-controlled charities to estimate the market value of their net assets annually for the purposes of the minimum distribution requirement? If so, what alternative would you suggest?
- Q4. Are there any issues with the policy design of a minimum distribution requirement for donor-controlled charities as outlined in this chapter that we should consider?
- Q5. Which of the three integrity options outlined in this chapter (Option 1: Arm's length transactions rule; Option 2: Prescribed rate for loans to related parties or shares held in related companies; Option 3: Reduce donation tax concessions in certain loan or share purchase arrangements) does the best job of addressing integrity issues without adversely affecting genuine philanthropy. Why?
- Q6. Are there any other issues with any of the options outlined in this chapter that we should consider?
- Q7. What are the consequences of reducing the individual DTC cap for large donations to donor-controlled charities? What could be the impact on the charitable sector more generally?
- Q8. If the DTC cap was reduced for donations to donor-controlled charities, should there also be a cap on the amount of income that private trusts can allocate to donor-controlled charities, and a limit to the donation tax deduction for companies?
- Q9. Should donor-advised funds be subject to the same rules as donor-controlled charities (such as a minimum distribution requirement and other integrity measures)? Why or why not? What impacts might this have on the broader philanthropic environment?
- Q10. What are the implications of applying the wholly or mainly test for donee organisations under section LD 3(2)(a) of the Income Tax Act to donor-advised funds, instead of the fund-holding charity?
- Q11. Do you agree that there should be a "pay in money" rule for trustee allocations to tax-exempt beneficiaries? Why or why not?
- Q12. Are there any policy design issues that we need to consider?

Q13. Does the application date of 1 April 2027 for changes proposed in this chapter give affected entities and trusts sufficient time to implement any changes to their processes? If not, what date do you propose and why?

Chapter 3 – Membership subscriptions and related matters for taxable not-for-profits

Q14. Does the proposed definition of a membership subscription for not-for-profits describe the type of payments we want to relieve from tax? Are there likely to be any unintended consequences?

Q15. Does this test sufficiently distinguish payments for core membership benefits from payments made for other benefits received by a member? If not, why?

Q16. What types of benefit do you think should fall outside the concept of a membership subscription? Would this include, for instance, advocacy services on behalf of an industry or a group of workers?

Q17. The proposed approach requires potential apportionment of some membership subscriptions. Would you prefer a simpler test that required all of the membership subscription to be treated as taxable instead, if it included any identifiable direct valuable benefits? Are there any other approaches we could use?

Q18. When a payment contains both taxable and non-taxable elements, would a test like a principal purpose or wholly or mainly test to determine the degree of taxability be appropriate?

Q19. If the tax-free threshold is increased to \$10,000 it would apply to each entity (not to individual branches) and the proposal is for a cliff face threshold, that is, it would not apply to any entity with a net profit greater than \$10,000. Do you agree this proposal would reduce compliance costs for small not-for-profits?

Q20. What design changes do you recommend to improve the proposal?

Q21. Are there likely to be any unintended consequences of a cliff face threshold?

Q22. What issues are there with requiring financial institutions to provide Inland Revenue with not-for-profits' financial information?

Q23. Do you agree with the approach proposed in this chapter to introduce a short form return? If not, what do you suggest? What should be the consequences of a not-for-profit not filing a return (either a short form or full return)?

Q24. Does the proposed application date give not-for-profits sufficient time to implement any changes to processes? If not, what date do you propose and why?

Chapter 4 – Donation tax credit simplifications

Q25. Do you believe the proposal for donors to claim in-year DTCs, as described in this chapter, would benefit donors and charities?

Q26. What design changes do you recommend to improve the proposal?

Q27. Do you believe the proposal for donors to allocate DTCs to the charity they donated to, as described in this chapter, would benefit donors and charities?

Q28. What design changes do you recommend to improve the proposal?

Q29. Does the application date of 1 April 2027 give donee organisations sufficient time to implement any changes to their processes? If not, what date do you propose and why?

Chapter 5 – Treaty of Waitangi considerations

Q30. Do you agree that the proposals identified in this chapter would have direct impacts for Māori?

Q31. Do you agree that the impacts are articulated appropriately? If not, what impacts do you believe the proposals are like to have on Māori?



Vote Revenue: 2025 Half Year Economic and Fiscal Update for non-departmental expenditure appropriations

Date:	21 November 2025	Priority:	High
Security level:	In Confidence (Budget Sensitive)	Report no:	IR2025/408

Action sought

	Action sought	Deadline
Minister of Finance	Approve recommendations	28 November 2025
Minister of Revenue	Approve recommendations Refer report to the Minister of Finance	21 November 2025

Contact for telephone discussion (if required)

Name	Position	
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a) [REDACTED]
Rachel Parker	Domain Lead Finance Services	s 9(2)(a) [REDACTED]
Sandra Watson	Manager Forecasting	s 9(2)(a) [REDACTED]

21 November 2025

Minister of Finance
Minister of Revenue

Vote Revenue: 2025 Half Year Economic and Fiscal Update for non-departmental expenditure appropriations

Executive summary

1. Inland Revenue Te Tari Taake submitted forecasts for non-departmental appropriations to the Treasury for the 2025 Half Year Economic and Fiscal Update (HYEFU 2025) on 7 November 2025. The forecasts in this report incorporate actual results to September 2025 and are based on the Treasury's updated macroeconomic forecasts of 28 October 2025. These forecasts include Cabinet and joint Minister's decisions that impact Vote Revenue up to 7 November 2025.
2. This report seeks your joint approval for the forecast changes to appropriations that are reflected in HYEFU 2025, and which are not established under a permanent legislative authority (PLA). Forecast changes to appropriations which are established under a PLA do not require approval¹ but are also provided for your information. A full list of the appropriations is provided in Appendix A.
3. We incorporated a roll out to include the 2029/30 financial year, for which the 2025 Budget Economic and Fiscal Update (BEFU 2025) had an implied repeat of 2028/29 with no explicit growth assumptions, in the October Baseline Update (OBU 2025) [IR 2025/372 refers]. Where the structure of this HYEFU report requires a comparison to BEFU 2025, that comparison is shown in italics for 2029/30, as part of the revision will reflect the inclusion of growth.
4. We have consulted on this submission with the Treasury and included their comments in the body of this report.
5. The major forecast changes since BEFU 2025 for appropriations requiring joint Ministers' approval (not including PLAs) are:
 - The Impairment of Debt and Debt Write-Offs appropriation has increased by \$851.3 million across the forecast period, reflecting:

¹ As per the Public Finance Act, section 65ZH.

- There is a \$551.3 million increase in forecast across the forecast period, resulting from a delay in the expected economic recovery, with a flow on impact into the outyears. The 2025/26 and 2026/27 forecasts remain broadly in line with BEFU 2025, with forecasts for outyears 2027/28 to 2029/30 increasing from circa \$1.2 billion to circa \$1.4 billion each year. Economic recovery is slower than was expected at BEFU 2025 and the forecast reflects the lag between economic recovery and reductions to debt levels. In addition to existing compliance initiatives, strategic options are currently being investigated to further curtail debt growth, and in turn reduce impairment growth. Any updates to forecast will be reflected in the next forecasting period.
- A buffer of \$300 million has been included for 2025/26 to help manage the appropriation due to the volatility involved with impairment. This brings the total appropriation for 2025/26 to \$1,850 million.
- The forecast for the Initial Fair Value Write-Down Relating to Student Loans appropriation has increased by \$1,259.2 million over the forecast period due to;
 - an increase of \$650 million following agreement of the accounting treatment for final-year fees free with the Treasury. This now recognises the expected expense of amounts to be 'offset' against the student loan as a forgiveness of the loan at the point of lending (rather than as a separate expense against the Final-year Fees Free Payments appropriation as the application for the fees-free payment is approved). This is a change to how funding was originally allocated and is partially offset by a decrease of \$544.5 million in the Final-year Fees Free Payments appropriation,
 - an uplift in forecast new lending of just over \$1,141 million, reflecting greater numbers of students borrowing. This has increased the initial fair value write-down by just over \$421 million, and
 - an increase of \$188 million from changes to the initial fair value write-down rate due to discount rate changes and other forecast cashflow changes which impact the expected initial fair value write-down.
- The forecast for the Final-year Fees Free Payments appropriation has decreased by just under \$534 million due to the accounting change above, offset by a small increase in expected cash payments.
- As a result of the accounting change relating to final-year fees free, there is a one-off impairment expense of \$30 million in 2025/26. This reflects a correction to the projected cashflows at 30 June 2025 for the small number of borrowers who took out loans in 2024/25 and are expected to be eligible for final-year fees free payments. As this expenditure has already been incurred, there is a breach of appropriations until this expenditure is approved. We will separately seek retrospective approval through the Appropriation (2025/26 confirmation and validation) Bill.

6. For PLA appropriations, the major forecast changes since BEFU 2025 are:

- Family tax credit (FTC) increases by \$75 million in 2025/26 and \$153 million in 2026/27, largely due to earlier Consumer Price Index (CPI) indexation than assumed at BEFU 2025 (now 5.27% from 1 April 2026, rather than 6.84% from 1 April 2027). The 2027/28 year is \$23 million less than forecasted at BEFU 2025 because the indexation was at a lower rate than previously assumed. A further indexation is now expected to occur in April 2029, consequently the 2028/29 year and 2029/30 year have been revised up by \$54 million and \$197 million respectively.
- The KiwiSaver: Employee and Employer Contributions appropriation has increased by \$1,860 million over the forecast period, due to a stronger nominal wage growth than what was assumed in BEFU 2025. \$1,280 million of this increase is in 2029/30 and reflects the fact that the roll over from 2028/29 excluded growth. This does not affect the operating balance, as this is a pass-through transaction.

7. Further details of all forecast changes, including the major forecast changes above, are contained within the body of this report. Appendix B sets out all forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format. This table includes tax forecasts prepared by the Treasury.

8. We included a table of Ministerial and Cabinet decisions made between BEFU 2025 and 16 October 2025 in OBU 2025 which was submitted on 23 October 2025 [IR2025/372 refers]. There have been no Ministerial and Cabinet decisions made since 16 October 2025 which impact on appropriations.

9. The Science, Innovation and Technology: R&D Tax Incentive appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). We are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology for forecast changes to this appropriation [IR2025/401 refers].

Recommended action

10. We recommend that you:

- (a) **note** the HYEPU 2025 forecasts in this report incorporate actual results to September 2025, are based on the Treasury's macroeconomic forecasts of 28 October 2025, and were submitted to the Treasury on 7 November 2025.

Noted

Noted

- (b) **approve** the following forecast changes to appropriations for non-departmental benefits or related expenses that are not established under a PLA, with a corresponding impact on the operating balance and net core Crown debt:

	\$ million – increase / (decrease)					
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears	Total Forecast Period
Non-Departmental Benefits or Related expenses:						
KiwiSaver: Tax Credit, Contribution and Residual Entitlement	14.800	12.600	15.700	20.400	42.400	105.900
Paid Parental Leave Payments	(5.000)	(5.000)	(5.000)	(5.000)	35.000	15.000
Total Operating	9.800	7.600	10.700	15.400	77.400	120.900

Approved/Not approved

Approved/Not approved

- (c) **approve** the following forecast changes in appropriations for non-departmental other expenses that are not established under a PLA, with a corresponding impact on the operating balance and net core Crown debt:

	\$ million – increase / (decrease)					
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears	Total Forecast Period
Non-Departmental Other Expenses:						
Initial Fair Value Write-Down Relating to Student Loans	146.000	220.000	273.000	291.000	329.199	1,259.199
Impairment of Debt and Debt Write-Offs	330.000	5.000	202.100	172.100	142.100	851.300
Final-year Fees Free Payments	(35.000)	(66.000)	(114.000)	(163.000)	(155.996)	(533.996)
Impairment of Debt Relating to Student Loans	30.000	-	-	-	-	30.000
Total Operating	471.000	159.000	361.100	300.100	315.303	1,606.503

Approved/Not approved

Approved/Not approved

- (d) **note** the following forecast changes to non-departmental benefits or related expenses, non-departmental borrowing expenses, and non-departmental other expenses that are established under a PLA:

	\$ million – increase / (decrease)					
Vote Revenue Minister of Revenue	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears	Total Forecast Period
Non-Departmental Benefits or Related Expenses - PLA:						
Best Start Tax Credit	-	2.000	(20.000)	(12.000)	(3.000)	(33.000)
Child Support Payments	(7.000)	(10.000)	(18.000)	(22.000)	(16.000)	(73.000)
Family Tax Credit	75.000	153.000	(23.000)	54.000	197.000	456.000
In-Work Tax Credit	(15.000)	(5.000)	(33.000)	(23.000)	(16.000)	(92.000)
Minimum Family Tax Credit	0.400	0.400	0.400	0.200	-	1.400
Total change – inc/(dec)	53.400	140.400	(93.600)	(2.800)	162.000	259.400
Non-Departmental Borrowing Expenses – PLA:						
Environmental Restoration Account Interest	(0.100)	(0.100)	(0.100)	(0.100)	(0.100)	(0.500)
Total change – inc/(dec)	(0.100)	(0.100)	(0.100)	(0.100)	(0.100)	(0.500)
Non-Departmental Other Expenses - PLA:						
KiwiSaver: Employee and Employer Contributions*	100.000	130.000	160.000	190.000	1,280.000	1,860.000
Total change – inc/(dec)	100.000	130.000	160.000	190.000	1,280.000	1,860.000
Total Operating*	53.300	140.300	(93.700)	(2.900)	161.900	258.900

* The KiwiSaver: Employee and Employer Contributions appropriation does not affect the operating balance as it is a pass-through transaction.

Noted

Noted

- (e) **note** that the Science, Innovation and Technology: R&D Tax Incentive appropriation is managed under Vote Revenue using forecasts developed by MBIE and that we are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology for changes to this appropriation [IR2025/401 refers].

Noted

Noted

- (f) **agree** that all proposed changes to appropriations for 2025/26, covered by the recommendations above, be included in the 2025/26 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Agreed/Not agreed

Agreed/Not agreed

(g) **note** that the Table 2² Baseline Changes Report (attached – Appendix B) for Vote 20 sets out the forecast changes for Vote Revenue Crown (non-departmental) for the 2025 Half Year Economic and Fiscal Update.

Noted

Noted

s 9(2)(a)

Nick Bradley

Enterprise Leader Finance Services - Chief Financial Officer

21 / 11 / 2025

Hon Nicola Willis

Minister of Finance

___/___/2025

Hon Simon Watts

Minister of Revenue

___/___/2025

² This is a technical report from Treasury's CFISnet system which sets out the quantum and authority for each change.

Background

11. Inland Revenue manages a number of non-tax items which require appropriations to cover the expenditure. Authority to spend is needed for appropriations established without a PLA. A full list of the non-departmental expenditure appropriations is attached in Appendix A.
12. We update the forecasts for these appropriations during the year to feed into the Government Budget and/or half year economic and fiscal updates. With each revision to forecasts we need joint Minister authority to change the forecast for appropriations without a PLA. If the changes are jointly approved, they will be included in the 2025/26 Supplementary Estimates and in the interim, the increases will be met from Imprest Supply.
13. Inland Revenue submitted forecasts for non-departmental appropriations for the Half Year Economic and Fiscal Update 2025 (HYEFU 2025) to the Treasury on 7 November 2025. These forecasts are based on the Treasury's HYEFU 2025 macroeconomic forecasts of 28 October 2025, and they incorporate actual results to September 2025. The forecasts include all Cabinet and joint Minister decisions that impact Vote Revenue made up to 7 November 2025.
14. This report seeks your joint approval for forecast changes to appropriations that are not established under a PLA. Forecast changes to appropriations established under PLA do not require approval and are also provided for your information. The body of the report briefly explains, at a high level, the main drivers of each change.
15. Forecasts are compared to amounts appropriated at the Budget Economic and Fiscal Update 2025 (BEFU 2025). At BEFU 2025 the 2029/30 fiscal year was outside of the forecast period and was indicated as a rollover of the 2028/29 expenditures, with no explicit growth. 2029/30 was included in the forecast period as part of the October Baseline Update 2025 (OBU 2025). Comparatives to BEFU 2025 for the 2029/30 fiscal year in this report are shown in *italic* in the tables as these new figures now reflect growth assumptions.
16. Appendix B sets out the forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format. This table includes tax forecasts prepared by the Treasury.

Non-departmental benefits or related expense appropriations

17. The following table sets out the forecast changes for non-departmental benefits or related expenses that are not established under a PLA.

Non-departmental benefits or related expenses	\$ million				
	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
KiwiSaver: interest					
BEFU 2025	4.000	4.000	4.000	4.000	4.000
HYEFU 2025	4.000	4.000	4.000	4.000	4.000
Forecast change - inc/(dec)	-	-	-	-	-
KiwiSaver: Tax Credit, Contribution and Residual Entitlement					
BEFU 2025	541.000	561.000	584.000	609.000	609.000
HYEFU 2025	555.800	573.600	599.700	629.400	651.400
Forecast change - inc/(dec)	14.800	12.600	15.700	20.400	42.400
Paid Parental Leave Payments					
BEFU 2025	745.000	775.000	810.000	850.000	850.000
HYEFU 2025	740.000	770.000	805.000	845.000	885.000
Forecast change - inc/(dec)	(5.000)	(5.000)	(5.000)	(5.000)	35.000
Total forecast change – inc/(dec)	9.800	7.600	10.700	15.400	77.400

18. The KiwiSaver: Interest appropriation has not changed. There is ongoing growth in contributions handled by Inland Revenue, which means there will be growth in amounts held and exposed to interest payable, but this is offset by declining interest rates.

19. The KiwiSaver: Tax Credit, Contribution and Residual Entitlement appropriation covers government contributions to KiwiSaver schemes. The appropriation has been revised up since BEFU 2025 to reflect a stronger outlook for growth in nominal wages, which increases contributions and hence the likelihood that entitlements reach the cap. There is also a stronger outlook for the size of the labour force, which flows to an increase in contributing membership.

20. The downwards revision in the Paid Parental Leave Payments appropriation reflects slightly weaker outturns since Budget 2025 (the year to June 2025 was \$11 million below the BEFU 2025 forecast), which carries through into the outyears.

Non-departmental other expenses

21. The following table sets out the forecast changes and Cabinet and joint Minister approvals for non-departmental other expenses that are not established under a PLA. The forecast changes require your joint approval.

Non-departmental other expenses	\$ million				
	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
COVID-19 Resurgence Support Payment					
BEFU 2025	-	-	-	-	-
HYEFU 2025	0.039	-	-	-	-
Joint Minister approval OBU 2025 – inc/(dec)	0.039	-	-	-	-
COVID-19 Support Payment					
BEFU 2025	-	-	-	-	-
HYEFU 2025	0.054	-	-	-	-
Joint Minister approval OBU 2025 – inc/(dec)	0.054	-	-	-	-
Cost of Living payment					
BEFU 2025	-	-	-	-	-
HYEFU 2025	0.009	-	-	-	-
Joint Minister approval OBU 2025 – inc/(dec)	0.009	-	-	-	-
Initial Fair Value Write-Down Relating to Student Loans					
BEFU 2025	636.000	628.000	627.000	653.000	653.000
HYEFU 2025	782.000	848.000	900.000	944.000	981.000
Forecast change – inc/(dec)	146.000	220.000	273.000	291.000	329.199
Cabinet decisions – inc/(dec)	-	-	-	-	(1.199)
Final-year Fees Free Payments					
BEFU 2025	55.000	100.000	163.000	223.000	223.000
HYEFU 2025	20.000	34.000	49.000	60.000	67.000
Forecast change – inc/(dec)	(35.000)	(66.000)	(114.000)	(163.000)	(155.996)
Cabinet decisions – inc/(dec)	-	-	-	-	(0.004)
Impairment of Debt Relating to Student Loans					
BEFU 2025	-	-	-	-	-
HYEFU 2025	30.000	-	-	-	-
Forecast change – inc/(dec)	30.000	-	-	-	-
Impairment of Debt and Debt Write-Offs					
BEFU 2025	1,520.000	1,425.000	1,237.900	1,237.900	1,237.900
HYEFU 2025	1,850.000	1,430.000	1,440.000	1,410.000	1,380.000
Forecast change – inc/(dec)	330.000	5.000	202.100	172.100	142.100
Total forecast change – inc/(dec)	471.000	159.000	361.100	300.100	315.303
Total Cabinet decisions – inc/(dec)	-	-	-	-	(1.203)
Total joint Minister approval OBU 2025 – inc/(dec)	0.102	-	-	-	-

22. At OBU 2025, you jointly approved a fiscally neutral expense transfer of \$102,000 from 2024/25 to 2025/26 for three non-departmental appropriations (COVID-19 Resurgence Support Payment, COVID-19 Support Payment and the Cost of Living payment). This funding provides for the settlement of residual claims after the original claim period has passed.

Final-year fees free

23. We have worked with the Treasury to finalise the accounting treatment of the Budget 2024 final-year fees free policy. Previously all the funding for final-year fees free payments was allocated to the Final-years Fees Free Payments appropriation in the year the application for the final-year fees free payment was expected to be approved, with no differentiation of treatment between cash payments to recipients and amounts offset against student loans. Additionally, for the purpose of setting the initial fair value write-down rate for new lending, the amount expected to be offset against the student loan was assumed to be a cash inflow when the application was approved. We have now confirmed that the amounts expected to be offset against student loans are effectively grants which forgive the student loan for accounting purposes. As a result, the amount of the final-year student loan expected to be forgiven when study is completed is now required to be written-off when the borrowing occurs. This effectively brings forward the expense and treats it as an initial fair value write-down of the student loan rather than as a final year fees free repayment.

24. The Initial Fair Value Write-Down Relating to Student Loans appropriation has increased by \$1,258 million over the forecast period. This increase relates to;

- a \$650 million increase from the change to the accounting treatment explained in the paragraph above – this is partially offset by the \$544.5 million decrease in the Final-year Fees Free Payments appropriation explained in paragraph 25 below. The net difference of \$105.5 million represents the earlier recognition of cost under the new treatment,
- a \$421 million increase in forecast write-down on new lending over the forecast period. Lending is forecast to increase by \$1,141 million over the period due to a 20% increase in the number of student loan applications compared to the same time last year. The increase in the number of students is due to weaker labour market conditions, which have made it more difficult for people to find and retain work,
- a \$188 million increase from changes to the initial fair value write-down rate due to discount rate changes and other forecast cashflow changes which impact the expected initial fair value write-down. This type of adjustment is expected every forecasting round, and is dependent on movements in discount rates and experience/forecasts for the student loan scheme, and
- the rollover of several Budget 24 and 2025 initiatives totalling (\$1) million which had different approved appropriations for 2029/30 than 2028/29. This is shown as cabinet decisions in the table above.

25. The decrease in the Final-year Fees Free Payments appropriation of \$534 million largely reflects the change in treatment of the final year fees free expense as noted in paragraph 23 (\$544.5 million). This appropriation now only reflects amounts expected to be paid in cash to eligible students on approval of their application for the payment (i.e. to those with no Student Loan). There has been a small offsetting increase in the forecast cash payment of \$10.5 million over the forecast period. There is also a small decrease to the appropriation from the Budget 2025 Delivery Quality and Timely Primary Health Care initiative to increase and retain doctors in primary care, which approved the 2029/30 appropriation for final-year fees free to be \$0.004 million lower than the 2028/29 amount rolled over from BEFU 2025.
26. As a result of the accounting change in paragraph 23 above, there is a one-off impairment of \$30 million in 2025/26 which reflects a correction to the projected cashflows at 30 June 2025 for the small number of borrowers who took out loans in 2024/25 and are expected to be eligible for final-year fees free. As this expenditure has already been incurred, there is a breach of appropriations until it is approved. We will separately seek retrospective approval through the Appropriation (2025/26 confirmation and validation) Bill.

Impairment of Debt and Debt Write-Offs

27. The Impairment of Debt and Debt Write-Offs appropriation is dependent on the level and quality of the debt book. The most significant drivers of impairment are the amount of new debt added in any year, as well as the amount of repayments and write-off of older debt compared with the expectations of these movements in previous valuations.
28. The level of overdue debt is impacted by the size and buoyancy of the economy, customer behaviour and Inland Revenue compliance effort. It is compounded by increasing penalties and interest as the core debt grows.
29. Whilst the economy is indicating a softening of inflationary impacts, we know that any inflation impacts the level of debt more than it impacts revenue, as it also impacts on our customer's ability to pay as the time value of money decreases.
30. Inland Revenue is investing heavily in increased compliance activities to reduce debt. This includes increasing the number of people working on debt through the Budget 2024 and 2025 compliance initiatives, as well as internal reprioritisation, and using our tools differently to ensure we maximise the return on debt. These efforts are increasing repayments on overdue debt and reducing the debt balance from what it would otherwise have been. The returned agreed from the Budget 2024 and 2025 compliance initiatives will reduce tax debt by \$1.1 billion from what it would otherwise have been over the forecast period.
31. Between July and September 2025, we collected \$1.1 billion overdue tax from debt activity. This is above the minimum target from the Budget 2024 and 2025 compliance initiatives but 8% (\$100 million) down on the same period for the previous year, due to more timely processing of tax-pooling transfers this period (several large tax-pooling transfers were processed late between July – Sept 2024, inflating cash receipts).

32. Despite our efforts, overdue tax debt continues to rise and was just over \$9.5 billion at 30 September 2025. This is an increase of over \$200 million from June 2025. The increase in the first quarter of the year is largely related to GST and income tax.
33. We are forecasting that overdue debt will reach \$10.5 billion by the end of the current financial year and increase by between \$700 million and \$800 million each year over the remainder of the forecast period. The forecast assumes inflation will continue to trend down, and our increased compliance effort will continue to slow the growth of debt from what it would otherwise have been. The debt forecast reflects the expected reduction in debt from the Budget 2024 and Budget 2025 compliance initiatives and current operational activity but does not yet assume any reductions from other initiatives which are currently being worked on, as the impact on debt has not yet been quantified.
34. Our definitions for overdue debt changed in 2025 from when we began action to collect it or it remained unpaid 25-days after the due date, to one-day after the due date. The change in definition has resulted in higher reported overdue debt balances, and it also introduces greater volatility in the debt balance at month-end depending on when payment due dates fall. Whilst this change increases the nominal size of the debt book, the “very new” debt is more valuable, and has a lower associated impairment.
35. Based on the current debt forecast, we are forecasting the impairment of debt and debt write-off expense to increase by \$551.3 million across the forecasting period, reflecting a delay in the expected economic recovery, and the flow on impact into the outyears.
36. The impairment forecast is prepared on the basis that whilst new debt growth is slowing, there is a lag between economic recovery and reduction in debt levels. In the meantime, existing debt continues to attract more penalties and interest as it ages. These penalties and interest are added to old debt and will continue to incur significant additional impairment.
37. We believe the impairment cost has peaked and with the slowing of the debt growth, will continue to fall over the next two years. However, we no longer consider it will settle at the levels previously forecast for 2027/28 and outyears. The \$551.3 million increase in forecast brings the appropriation in outyears to approximately \$1.4 billion per annum which is consistent with the amount already approved for 2026/27.
38. A buffer of \$300 million has been added to the forecast for 2025/26, to help manage the appropriation due to the volatility involved with impairment. This brings the total appropriation for 2025/26 to \$1,850 million. The actual expenditure for 2024/25 was \$1,872 million. Previously we have only included a buffer for the current year as part of BEFU (Supplementary Estimates). Given the current focus on impairment, and the magnitude of the appropriation, we consider it prudent to signal the need for the buffer through HYEPU this year. The buffer does not impact on budget allowances. We will add buffers to outyears as appropriate in future exercises.
39. In addition to the existing compliance initiatives and internal reprioritisation of resources to debt work, strategic options are currently being investigated and developed to further curtail debt growth, which in turn, may reduce impairment growth. s 9(2)(f)(iv)

[IR 2025/398

refers]. Any updates to the debt forecast and consequential impact on the impairment appropriation from these will be reflected in the next forecasting update.

40. The final expense for 2025/26 will not be confirmed until August 2026 after completion of the final valuation for the year.

41. We have discussed and agreed the above approach with The Treasury.

Non-departmental benefits or related expenses - PLA

42. The following table sets out the forecast changes and Cabinet decisions for non-departmental benefits or related expenses which are established under a PLA.

	\$ million				
Non-departmental benefits or related expenses - PLA	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Best Start Tax Credit *					
BEFU 2025	326.000	285.000	292.000	281.000	281.000
HYEFU 2025	326.000	287.000	272.000	269.000	278.000
Forecast change - inc/(dec)	-	2.000	(20.000)	(12.000)	(3.000)
Child Support Payments					
BEFU 2025	442.000	451.000	460.000	469.000	469.000
HYEFU 2025	435.000	441.000	442.000	447.000	453.000
Forecast change - inc/(dec)	(7.000)	(10.000)	(18.000)	(22.000)	(16.000)
FamilyBoost Tax Credit					
BEFU 2025	171.000	167.000	165.000	163.000	163.000
HYEFU 2025	146.000	168.000	166.000	163.000	163.000
Cabinet decisions - inc/(dec)	(25.000)	1.000	1.000	-	-
Family Tax Credit *					
BEFU 2025	2,374.000	2,446.000	2,601.000	2,541.000	2,541.000
HYEFU 2025	2,449.000	2,599.000	2,578.000	2,595.000	2,738.000
Forecast change - inc/(dec)	75.000	153.000	(23.000)	54.000	197.000
In-Work Tax Credit *					
BEFU 2025	588.000	596.000	615.000	593.000	593.000
HYEFU 2025	573.000	591.000	582.000	570.000	577.000
Forecast change - inc/(dec)	(15.000)	(5.000)	(33.000)	(23.000)	(16.000)
Minimum Family Tax Credit *					
BEFU 2025	7.900	7.500	7.000	7.000	7.000
HYEFU 2025	8.300	7.900	7.400	7.200	7.000
Forecast change - inc/(dec)	0.400	0.400	0.400	0.200	-
Total forecast change – inc/(dec)	53.400	140.400	(93.600)	(2.800)	162.000
Total Cabinet decisions – inc/(dec)	(25.000)	1.000	1.000	-	-

* Working for Families Tax Credits

43. The forecasts for Best Start payments to families have been reduced by \$33 million over the forecast period. The forecast for 2025/26 remains unchanged from BEFU 2025. From 2026/27, Best Start payments continue to fall year-on-year, driven by the full-year impact of income testing and ongoing income-related abatement, which outweighs the CPI

adjustment. A further CPI indexation of 6.71% is expected on 1 April 2029, offsetting some of the impacts of abatement in 2029/30.

44. The forecasts for child support payments to custodial parents have been reduced by between \$7 million to \$22 million per annum across the forecast period. This reflects a continued decline in the number of child support arrangements managed by Inland Revenue, following a policy change in 2023/24 that had the effect of reducing the demand for Inland Revenue's involvement for welfare recipients. The slight year on year increase in the forecast reflects modest expected income growth.
45. The forecast for FamilyBoost tax credit has decreased by \$23 million over the forecast period, reflecting the net impact of policy changes introduced on 1 July 2025. These changes increased the maximum rebate (from 25% to 40%), increased the quarterly income cap (from \$975 to \$1,560), and reduced the abatement rate (from 9% to 7%). Expenditure rises in 2026/27 as these changes phase in. From 2027/28, spending is expected to gradually decline as rising family incomes reduce entitlements, although this is partially offset by increasing Early Childhood Education fees.
46. The forecast for family tax credit (FTC) has increased by \$456 million over the forecast period. This reflects CPI indexation occurring on 1 April 2026 rather than 1 April 2027 and at a lower rate (5.27% compared with 6.84% at BEFU 2025) as a result of the recent CPI quarterly release and changes to CPI forecasts. There has also been an increase in the number of recipients of upfront payments in the first three months of 2025/26 which is expected to continue for the remainder of the year. The 2027/28 year is \$23 million less than forecasted at BEFU 2025 because the indexation was at a lower rate than previously assumed. A further CPI indexation of 6.71% is now expected to occur on 1 April 2029 resulting in higher expenditure in 2028/29 and 2029/30 than forecast at BEFU 2025.
47. The forecast for in-work tax credit (IWTC) has decreased by \$92 million over the forecast period. Stronger wage growth in the 2025 and 2026 tax years relative to BEFU 2025 is contributing to lower IWTC payments in the first 3 months of the year. Softer payments of IWTC are expected to continue over the remainder of the financial year. Other factors including weaker employment relative to BEFU 2025 may also be contributing to lower IWTC payments. Weaker IWTC payments in the first part of the year are partially offset by the earlier CPI indexation change to FTC. IWTC abates after FTC and an increase in the FTC entitlement will result in abatement of IWTC occurring at a later point for working families. These changes are expected to flow through to outyears.
48. The forecast for minimum family tax credit (MFTC) has increased by \$1.4 million over the forecast period. MFTC spending declines over time as family incomes grow, reducing the need for top-ups to the guaranteed income level. The increase is a flow on from the slightly higher payments in 2024/25.

Non-departmental borrowing expenses - PLA

49. The following table sets out the forecasts for non-departmental borrowing expenses that are established under a PLA.

	\$ million				
Non-departmental borrowing expenses - PLA	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Environmental Restoration Account Interest					
BEFU 2025	4.200	4.200	4.200	4.200	4.200
HYEFU 2025	4.100	4.100	4.100	4.100	4.100
Forecast change - inc/(dec)	(0.100)	(0.100)	(0.100)	(0.100)	(0.100)
Income Equalisation Interest					
BEFU 2025	7.000	6.000	6.000	6.000	6.000
HYEFU 2025	7.000	6.000	6.000	6.000	6.000
Forecast change - inc/(dec)	-	-	-	-	-
Total forecast change - inc/(dec)	(0.100)	(0.100)	(0.100)	(0.100)	(0.100)

50. The environmental restoration account and income equalisation account allow for timing changes for tax on qualifying income or expenditure and usage of both accounts is demand-driven.
51. For the Environmental Restoration Account Interest appropriation, the 2024/25 fiscal year was slightly below the BEFU 2025 forecast and this result has been carried through to forecasts for subsequent years.
52. The main income equalisation account allows qualifying taxpayers from the primary sector to smooth their taxable income across years. The forecast for the Income Equalisation Interest appropriation has been left unchanged, with the forecast profile for interest continuing to reflect a softly declining scheme balance.

Non-departmental other expenses

53. The following table sets out the forecasts for non-departmental other expenses that are established under a PLA.

	\$ million				
Non-departmental other expenses - PLA	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
KiwiSaver: Employee and Employer contributions					
BEFU 2025	10,670.000	12,230.000	12,920.000	14,000.000	14,000.000
HYEFU 2025	10,770.000	12,360.000	13,080.000	14,190.000	15,280.000
Total forecast change - inc/(dec)	100.000	130.000	160.000	190.000	1,280.000

54. KiwiSaver employee and employer contributions to scheme providers have increased by \$1,860 million over the forecast period. This reflects the increase in KiwiSaver contributions in recent months which have been above BEFU 2025 and an increase to nominal wage growth. \$1,280 million of this increase is in 2029/30 and reflects the fact that the roll over from 2028/29 excluded growth. KiwiSaver employee and employer contributions are a pass-through transaction and do not impact the operating balance.

Research and Development (R&D) Tax Incentive

55. Science, Innovation and Technology: R&D Tax Incentive appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). We are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology [IR2025/401 refers] for forecast changes relating to this appropriation. The following changes are included for your information.

Vote Revenue Minister of Science, Innovation and Technology	\$ million				
	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Other Expenses Science, Innovation and Technology: R&D Tax Incentive					
BEFU 2025	650.742	731.000	784.000	839.000	839.000
HYEFU 2025	630.742	713.000	765.000	820.000	876.000
Forecast change – inc/(dec)	(20.000)	(18.000)	(19.000)	(19.000)	37.000

- The decreases forecasts for 2025/26 to 2028/29 are primarily driven by a decrease in the baseline estimate of R&D, which is drawn from the latest R&D Survey estimate. The estimate of the RDTI-eligible R&D expenditure derived from the 2024 R&D Survey results is approximately 2-3% lower than the amount previously forecasted based on the 2023 R&D Survey results used in BEFU 2025. This decrease was also partly driven by changes in forecast Nominal Gross Domestic Product (GDP) in the relevant years.
- The increase of \$37 million in 2029/30 is driven by updating the roll forward of the 2028/29 appropriation of \$839 million with MBIE's RDTI latest forecast for that year (\$876 million).

Consultation

56. The Treasury has been consulted on the contents of this report and notes the significant increase in the Impairment of Debt and Debt Write-Offs across the forecast period (\$851.3 million). This consists of a forecast increase of \$551.3 million across the forecast period. It also includes a buffer of \$300 million for 2025/26 which brings the total appropriation for 2025/26 to \$1,850 million. Officials have previously reported to you on this increase and have reported to you recently on policy options to reduce tax debt [IR 2025/398 refers].

The Treasury also notes a significant increase in the Fair Value Write-Down Relating to Student Loans across the forecast period (\$1,258 million). This figure is not a net-expenditure increase, as a proportion of this is offset by a decrease in the Final-Year Fees Free appropriation, relating to the change in accounting treatment for Final-Year Fees Free. As the remainder is mainly driven by the level of borrowing and the write-down rate, so mainly outside of Inland Revenue's control, there are limited mitigation options.

Appendix A

The forecasts cover the following non-departmental expenditure appropriations (with an asterisk identifying expenditure items that are established under a PLA):

Benefits or related expenses:

- Best Start Tax Credit*
- Child Support Payments*
- FamilyBoost Tax Credit *
- Family Tax Credit*
- In-Work Tax Credit*
- KiwiSaver: Interest
- KiwiSaver: Tax Credit, Contribution and Residual Entitlement
- Minimum Family Tax Credit*
- Paid Parental Leave Payments

Borrowing expenses:

- Environmental Restoration Account Interest*
- Income Equalisation Interest*

Other expenses:

- Cost of Living payment
- COVID-19 Resurgence Support Payment
- COVID-19 Support Payment
- Final-year Fees Free Payments
- Initial Fair Value Write-Down Relating to Student Loans
- Impairment of Debt and Debt Write-offs
- KiwiSaver: Employee and Employer Contributions*
- Science, Innovation and Technology: R&D Tax Incentive
- Impairment of Debt and Debt Write-Offs Relating to Child Support
- Impairment of Debt Relating to Student Loans
- Impairment of debt relating to the SBCS

There are two appropriations which currently have a nil balance and forecast for the five-year period. These appropriations will be reviewed ahead of the 2026 Budget Economic and Fiscal Update (BEFU 2026) after an interim valuation of the associated asset has been completed. These appropriations include:

Other expenses:

- Impairment of Debt and Debt Write-Offs Relating to Child Support
- Impairment of debt relating to the SBCS

Appendix B – Table 2 report for Vote Revenue non-departmental appropriations

The attached Table 2 Baseline Changes Report sets out the forecast changes for Vote Revenue Crown (non-departmental) since BEFU 2025 in a tabulated format. The table includes tax forecasts prepared by the Treasury.

The Table 2 Baseline Changes Report attached is for:

- HYEPU 2025 - final forecasts.

Table 2: Baseline Changes Report, 2025/26 OBU (HYEFU), Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2025/26 \$000	2026/27 \$000	2027/28 \$000	2028/29 \$000	2029/30 \$000	Authority for Change	Final Year Funding
Benefits or Related Expenses								
Best Start Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Best Start Tax Credit	Fcst Adj	-	2,000	(20,000)	(12,000)	(3,000)	CO (18) 2	On going
Child Support Payments (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Child Support Payments	Fcst Adj	(7,000)	(10,000)	(18,000)	(22,000)	(16,000)	CO (18) 2	On going
Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Family Tax Credit	Fcst Adj	75,000	153,000	(23,000)	54,000	197,000	CO (18) 2	On going
FamilyBoost Tax Credit (PLA)								
Non-Dept Other Appropriation								
Ensuring FamilyBoost Reaches More Families	Cabinet	(25,000)	1,000	1,000	-	-	CAB-25-MIN-0217	On going
In-Work Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting In-Work Tax Credit	Fcst Adj	(15,000)	(5,000)	(33,000)	(23,000)	(16,000)	CO (18) 2	On going
KiwiSaver: Tax Credit, Contribution and Residual Entitlement								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting KiwiSaver: Tax Credit, Contribution and Residual Entitlement	Fcst Adj	14,800	12,600	15,700	20,400	42,400	CO (18) 2	On going
Minimum Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Minimum Family Tax Credit	Fcst Adj	400	400	400	200	-	CO (18) 2	On going
Paid Parental Leave Payments								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Paid Parental Leave Payments	Fcst Adj	(5,000)	(5,000)	(5,000)	(5,000)	35,000	CO (18) 2	On going
Total changes - Benefits or Related Expenses		38,200	149,000	(81,900)	12,600	239,400		
Non-Departmental Borrowing Expenses								
Environmental Restoration Account Interest (PLA)								

	Classification	2025/26 \$000	2026/27 \$000	2027/28 \$000	2028/29 \$000	2029/30 \$000	Authority for Change	Final Year Funding
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting Environmental Restoration Account Interest	Fcst Adj	(100)	(100)	(100)	(100)	(100)	CO (18) 2	On going
Total changes - Non-Departmental Borrowing Expenses		(100)	(100)	(100)	(100)	(100)		
Non-Departmental Other Expenses								
Cost of Living payment								
Non-Dept Annual Appropriation								
JPECT IPET COVID-19 payments and COL payments	ECT ip	9	-	-	-	-	CO (18) 2	On going
COVID-19 Resurgence Support Payment								
Non-Dept Annual Appropriation								
JPECT IPET COVID-19 payments and COL payments	ECT ip	39	-	-	-	-	CO (18) 2	On going
COVID-19 Support Payment								
Non-Dept Annual Appropriation								
JPECT IPET COVID-19 payments and COL payments	ECT ip	54	-	-	-	-	CO (18) 2	On going
Final-year Fees Free Payments								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Final-year Fees Free Payments	Fcst Adj	(35,000)	(66,000)	(114,000)	(163,000)	(155,996)	CO (18) 2	On going
Rollout: Delivering Quality and Timely Primary Care: Next Steps and Implementation	Cabinet	-	-	-	-	(4)	CAB-25-Min-0045	On going
Impairment of Debt and Debt Write-Offs								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Impairment of Debt and Debt Write-Offs	Fcst Adj	330,000	5,000	202,100	172,100	142,100	CO (18) 2	On going
Impairment of Debt Relating to Student Loans								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Impairment of Debt Relating to Student Loans	Fcst Adj	30,000	-	-	-	-	CO (18) 2	On going
Initial Fair Value Write-Down Relating to Student Loans								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Initial Fair Value Write-Down Relating to Student Loans	Fcst Adj	146,000	220,000	273,000	291,000	329,199	CO (18) 2	On going
Rollout: Delivering Quality and Timely Primary Care: Next Steps and Implementation	Cabinet	-	-	-	-	144	CAB-25-Min-0045	On going
Rollout: Disregarding EFTS for students receiving partial tuition fee refunds as a result of Covid-19	Cabinet	-	-	-	-	(185)	CAB-20-MIN-0164	2029/30
Rollout: Final-year Fees Free - Impacts Related to Student Loans	Cabinet	-	-	-	-	(2,000)	CAB-24-MIN-0148.69	On going
Rollout: Increasing Medical School Enrolments for the 2024 Intake	Cabinet	-	-	-	-	67	CAB-23-MIN-0207.01	On going

	Classification	2025/26 \$000	2026/27 \$000	2027/28 \$000	2028/29 \$000	2029/30 \$000	Authority for Change	Final Year Funding
Rollout: Increasing Student Loan Scheme Overseas Interest Formula - Impacts Related to Student Loans	Cabinet	-	-	-	-	27	CAB-24-MIN-0148.69	On going
Rollout: Increasing Tuition Fees - Impacts Related to Student Loans	Cabinet	-	-	-	-	580	CAB-24-MIN-0148.69	On going
Rollout: Training 25 More Doctors – Impact on Student Loans	Cabinet	-	-	-	-	97	CAB-24-MIN-0148.69	On going
Rollout: Training Incentive Allowance – Supporting Eligible Ministry of Social Development Clients to Study	Cabinet	-	-	-	-	70	Decision 11 April 2023	On going
Rollout: Waiving Student Support Residency Rules for Families of Those Directly Affected by the Chch Mosques Attack	Cabinet	-	-	-	-	1	CAB-22-MIN-0498, SWC-22-MIN-0191	2029/30
KiwiSaver: Employee and Employer Contributions (PLA)								
Non-Dept Other Appropriation								
Cumulative forecasting changes impacting KiwiSaver: Employee and Employer Contributions	Fcst Adj	100,000	130,000	160,000	190,000	1,280,000	CO (18) 2	On going
Science, Innovation and Technology: R&D Tax Incentive								
Non-Dept Annual Appropriation								
Cumulative forecasting changes impacting Science, Innovation and Technology: R&D Tax Incentive	Fcst Adj	(20,000)	(18,000)	(19,000)	(19,000)	37,000	CO (18) 2	On going
Total changes - Non-Departmental Other Expenses		551,102	271,000	502,100	471,100	1,631,100		
Tax Revenue								
Companies								
Non-Dept Revenue								
Cumulative forecasting changes impacting Companies	Fcst Adj	(500,520)	(726,520)	292,480	197,480	1,699,480	CO (18) 2	On going
Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 2) 2025	Cabinet	520	520	520	520	520	CAB-25-MIN-0240, LEG-25-MIN-0131	On going
Fringe Benefit Tax								
Non-Dept Revenue								
Cumulative forecasting changes impacting Fringe Benefit Tax	Fcst Adj	25,670	31,670	29,670	40,670	87,670	CO (18) 2	On going
Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 2) 2025	Cabinet	(1,870)	(1,870)	(1,870)	(1,870)	(1,870)	CAB-25-MIN-0240, LEG-25-MIN-0131	On going
Tax treatment of open loop cards provided to employees	Other	200	200	200	200	200	IR2025/191 Approved by JM CO (18) 2	On going
Gaming Duties								
Non-Dept Revenue								
Cumulative forecasting changes impacting Gaming Duties	Fcst Adj	5,000	4,000	1,000	6,000	23,000	CO (18) 2	On going
Online Casino Gambling Bill: Community Returns	Cabinet	-	8,000	16,000	16,000	16,000	CAB-25-MIN-0382	On going
Goods and Services Tax (IRD)								
Non-Dept Revenue								

	Classification	2025/26 \$000	2026/27 \$000	2027/28 \$000	2028/29 \$000	2029/30 \$000	Authority for Change	Final Year Funding
Cumulative forecasting changes impacting Goods and Services Tax	Fcst Adj	398,100	613,700	721,700	895,700	2,354,700	CO (18) 2	On going
GST and Unincorporated Joint Ventures	Cabinet	(900)	(3,700)	(3,700)	(3,700)	(3,700)	CAB-25-MIN-0263, EXP-25-MIN-0065	On going
GST secondhand goods interaction with adjustment rules	Other	(200)	-	-	-	-	IR2025/191 Approved by JM CO (18) 2	On going
Other Indirect Taxes								
Non-Dept Revenue								
Cumulative forecasting changes impacting Other Indirect Taxes	Fcst Adj	23,000	17,000	15,000	16,000	23,000	CO (18) 2	On going
Other Persons								
Non-Dept Revenue								
Charities recommended for overseas donee status	Cabinet	(178)	(197)	(212)	(228)	(228)	CAB-25-MIN-0224, EXP-25-MIN-0052	On going
Cumulative forecasting changes impacting Other Persons	Fcst Adj	(359,792)	398,474	414,793	477,441	1,108,641	CO (18) 2	On going
Donation tax credit clawback for refunded donations	Other	100	200	200	200	200	IR2025/191 Approved by JM CO (18) 2	On going
Exclude payments made to trustee of deceased estate from definition of pension	Other	(50)	(200)	(200)	(200)	(200)	IR2025/191 Approved by JM CO (18) 2	On going
Financial arrangements thresholds	Other	(50)	(200)	(200)	(200)	(200)	IR2025/191 Approved by JM CO (18) 2	On going
Foreign Investment Fund - Phase One technical decisions	Other	-	(47)	(351)	(983)	(983)	IR2025/233 Approved by JM CO (18) 2	On going
Income derived from residential sale of excess electricity	Cabinet	50	200	200	200	-	CAB-25-MIN-0255	2029/30
Income Tax (Deemed Rate of Return on Attributing Interests in Foreign Investment Funds, 2024-25 Income Year) Order 2025	Cabinet	(30)	(30)	(30)	(30)	(30)	CAB-25-MIN-0240, LEG-25-SUB-0130	On going
Tax treatment of digital nomads and other visitors	Cabinet	(50)	(200)	(200)	(200)	(200)	CAB-25-MIN-0224, EXP-25-MIN-0052	On going
Source Deductions								
Non-Dept Revenue								
Cumulative forecasting changes impacting Source Deductions	Fcst Adj	(688,000)	(1,014,000)	(1,409,000)	(1,530,000)	1,625,000	CO (18) 2	On going
Withholding Taxes								
Non-Dept Revenue								
s 6(a)								
Cumulative forecasting changes impacting Withholding Taxes	Fcst Adj	(246,800)	(236,800)	(318,208)	2,751	368,689	CO (18) 2	On going
s 9(2)(b)(ii)								
Non-Tax Revenue								
Child Support Collections								
s 9(2)(a)								

	Classification	2025/26 \$000	2026/27 \$000	2027/28 \$000	2028/29 \$000	2029/30 \$000	Authority for Change	Final Year Funding
Non-Dept Revenue								
Cumulative forecasting changes impacting Child Support Collections	Fcst Adj	6,000	5,000	5,000	4,000	4,000	CO (18) 2	On going
Interest on Impaired Student Loans								
Non-Dept Revenue								
Cumulative forecasting changes impacting Interest on Impaired Student Loans	Fcst Adj	(81,000)	(87,000)	(66,000)	(51,000)	(21,058)	CO (18) 2	On going
Rollout: Delivering Quality and Timely Primary Care: Next Steps and Implementation	Cabinet	-	-	-	-	58	CAB-25-Min-0045	On going
Other non-tax revenue								
Non-Dept Revenue								
Cumulative forecasting changes impacting Other Non-Tax Revenue	Fcst Adj	(11,000)	-	-	-	-	CO (18) 2	On going
Small Business Cashflow Scheme interest unwind								
Non-Dept Revenue								
Cumulative forecasting changes impacting SBC interest unwind	Fcst Adj	1,208	592	323	102	31	CO (18) 2	On going
Unclaimed Monies								
Non-Dept Revenue								
Cumulative forecasting changes impacting Unclaimed Monies	Fcst Adj	28,000	-	-	-	-	CO (18) 2	On going
Working for Families Tax Credit Interest and Penalties								
Non-Dept Revenue								
Cumulative forecasting changes impacting WfFTC Interest & Penalties	Fcst Adj	(2,000)	(2,000)	(3,000)	(4,000)	(1,000)	CO (18) 2	On going
Total changes - Non-Tax Revenue		(58,792)	(83,408)	(63,677)	(50,898)	(17,969)		
Capital Receipts								
Income Equalisation Reserve Account								
Non-Dept Revenue								
Cumulative forecasting changes impacting Income Equalisation Reserve Account	Fcst Adj	(20,000)	(30,000)	(20,000)	(20,000)	(20,000)	CO (18) 2	On going
Small Business Cashflow Scheme receipts								
Non-Dept Revenue								
Cumulative forecasting changes impacting SBC Scheme Receipts	Fcst Adj	14,100	2,200	-	20	(400)	CO (18) 2	On going
Student Loans - Receipts								
Non-Dept Revenue								
Cumulative forecasting changes impacting Student Loan - Receipts	Fcst Adj	3,000	17,000	35,000	41,000	95,000	CO (18) 2	On going
Total changes - Capital Receipts		(2,900)	(10,800)	15,000	21,020	74,600		

Classification Key

Short Name	Description	Reference
Cabinet	Cabinet policy decision	Approvals are sought in cabinet papers (refer to cabinet manual), with authority given via a cabinet minute. The authority for change should reference both supporting documents.
ECT	Expense and Capital Transfer	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding within an appropriation across financial years.
ECT ip	Expense and Capital Transfer in-principle	Defined in (Cabinet Office Circular). The portion of an ECT that can't be accurately quantified so the transfer amount has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calculation, or Crown Revenue.
FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
SuppsJune	Offset MYA June vs Supps Difference	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the difference between the Supps Forecast and June Actual.
BudgetOY4	Offset MYA Budget OY4 Rollover	This is a subset of the Technical Adjustments classification for neutral changes to the MYA spending profile to offset the rollover of Budget OY4 into OBU OY4.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.



Inland Revenue
Te Tari Taake

POLICY

Tax policy report: Tax monitoring report: Collections to October 2025

Date:	26 November 2025	Priority:	Low
Security level:	In Confidence (Information is released to a timetable)	Report number:	IR2025/444

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Refer report to Minister of Finance	None 3 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Sandra Watson	Policy Lead, Forecasting and Analysis	s 9(2)(a) [REDACTED]	<input checked="" type="checkbox"/>

26 November 2025

Minister of Revenue

Tax Monitoring Report: Collections to October 2025

Purpose and context

1. The purpose of this report is to inform you of how tax collections¹ for the year to October 2025 have tracked against the Treasury's forecasts from the 2025 Budget Economic and Fiscal Update (BEFU 2025). No action is required from Ministers.
2. Monthly tax outturns have a timetabled release by the Treasury and figures should not be disclosed until after publication. Tax outturns for October 2025 will be released by the Treasury on 4 December 2025.
3. The 2025 Half Year Economic and Fiscal Update (HYEFU 2025) will be released on 16 December 2025.²
4. This is the final report of variances against BEFU 2025 forecasts. Variances for November and December will be reported together against the updated HYEFU 2025 forecasts in January.

Tax receipts to October 2025 (2025/26 fiscal year)

Receipts Variance

5. For the four months ending 31 October 2025, unconsolidated aggregate tax receipts totalled \$44,372m, which is \$946m (2.2%) greater than BEFU 2025 forecast. This variance remains the same as for the three months to 30 September 2025, but with some changes within the different tax types.
6. The largest positive variance remains in **net company tax**, which is now \$1,494m (24.8%) greater than forecast but the variance is closer to \$1 billion after consolidation³. About a third of this remaining variance reflects an exhaustion of losses, which will next impact in January 2026⁴. The net company tax variance grew by \$389 million in October, reflecting strength in the third and final 2024-25 provisional tax instalment for September balance date taxpayers, who are largely from the finance and investment sector.
7. There is also small positive variance for **net other persons tax** (\$88m, 4.2%) which is within normal variability for this tax type. The gross other persons variance grew by \$29m in October. Other persons tax payments in October are largely the first 2025-26 provisional tax instalment from May-balance taxpayers, which are predominantly in the dairy farming industry.
8. **Total net GST** is \$392m (2.7%) below forecast for the four months to October, a reversal of the \$84m positive variance in September. October is generally a large month for GST receipts as it contains due dates for monthly, two monthly and six-monthly filers and these have come in below BEFU 2025 forecast. However, as this

¹ Limited to Inland Revenue administered tax types plus Customs GST, referred to in this document as aggregate taxation.

² HYEFU 2025 forecasts were reported to you in IR2025/445.

³ Consolidation removes the impact of taxation of government-owned entities because this is also an expense for government. In this case the unconsolidated cash accounts are showing a 2025/26 variance against BEFU 2025 forecast on results which for the unconsolidated revenue measure mainly impacted the 2024/25 fiscal year.

⁴ This will have been factored into HYEFU 2025 forecasts but was not included in BEFU 2025 forecasts.

negative variance is only for one month following a positive variance, it does not yet reflect a trend.

9. **PAYE** is \$155m (0.9%) lower than forecast, a partial reversal of the \$250m below forecast variance seen last month. This is consistent with the revenue measure which is below forecast for a third consecutive month. The Treasury has revised down its PAYE forecasts in the HYEUFU 2025 update.

Receipts Growth

10. Over the twelve months to October 2025, unconsolidated aggregate tax receipts grew by \$2,332m (1.8%) compared to the previous twelve months. The main contributors to this growth were:
 - **Net company tax:** increased by \$1,770m (9.8%),
 - **Total net GST:** increased by \$1,227m (3.0%), and
 - **Net other persons:** increased by \$605m (8.4%).
11. **Residents withholding tax on dividends (DWT)** decreased by \$1,456m (59.1%) over the twelve months. This is because there were increased dividends paid ahead of the 39% trustee tax rate taking effect in April 2024, and the same activity has not happened this year.
12. **Residents withholding tax on interest (RWT)** decreased by \$373m (10.2%) reflecting a continued decline in interest rates.
13. **PAYE** growth over the twelve months at \$397m (0.8%) was smaller than the other main tax types, reflecting personal tax cuts from 31 July 2024. Growth in this tax type has now returned to positive figures, which will continue as the tax cut is increasingly captured in the comparator year as well as in the current year.

Tax revenue to October 2025 (2025/26 fiscal year)

14. Unconsolidated tax revenue for the four months ending 31 October 2025 totalled \$42,462m, which is \$579m (1.3%) lower than BEFU 2025 forecast, with this variance partially reversing from \$685m below forecast last month.
15. The largest negative variances remain in unconsolidated **net company tax** (\$453m, 8.7%) and **net other persons tax** (\$260m, 8.8%), both of which are of the opposite sign to the tax receipts variances. The revenue variance for company tax partially reduces on consolidation. There are other timing factors affecting the different outcomes between receipts and revenue measures, with receipts reflecting amounts paid through tax pools which are not yet showing as revenue as it is based on uplifts of prior-year tax returns.
16. There was also a negative variance in **PAYE** (\$71m, 0.4%) which is consistent with the receipts measure and is within normal variability for this tax type. The variance partially reversed from \$130m below forecast last month.
17. These negative variances were partially offset by **total net GST** which was \$227m (1.6%) greater than forecast. This positive variance is supported by some macroeconomic data. Although measuring an earlier period, annual inflation for the September 2025 quarter has been measured at 3.0% compared to a BEFU 2025 forecast of 2.5%.⁵ GDP data for the September 2025 quarter will be released on 18 December.

⁵ Source: Consumers price index (CPI): September 2025 quarter, releases by Statistics New Zealand on 20 October 2025.

Consultation

18. The Treasury has been consulted on this report.

Next steps

19. The Government's interim financial statements for the four months ended 31 October 2025 will be published by the Treasury on 4 December.
20. The 2025 Half Year Economic and Fiscal Update (HYEFU) will be released on 16 December 2025 and November results will be reported with December against these updated forecasts in January.

Recommended action

We recommend that you:

1. **note** the contents of this report
Noted
2. **refer** a copy of this report to the Minister of Finance for their information.
Referred/Not referred

s 9(2)(a)



Sandra Watson

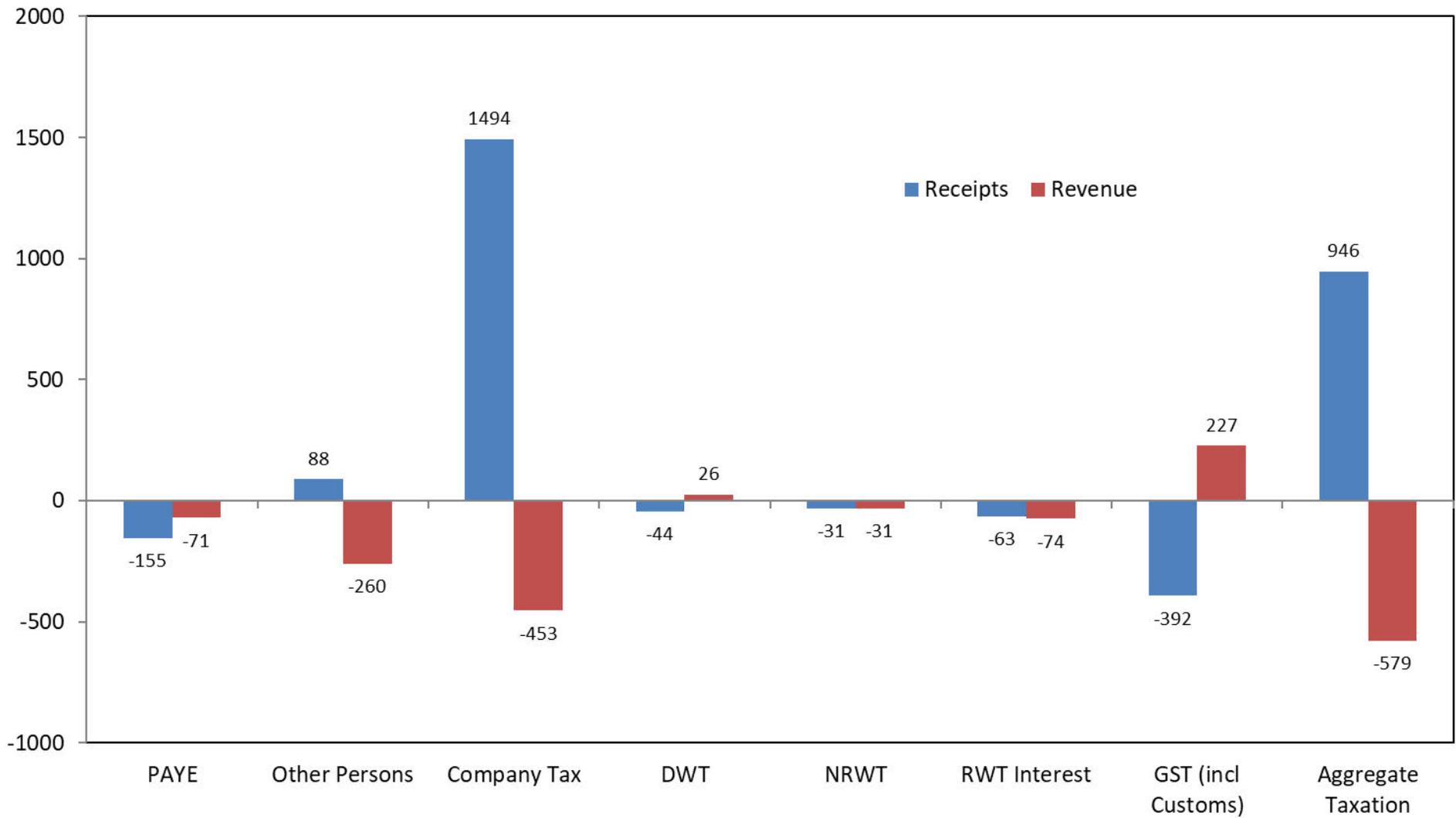
Policy Lead, Forecasting and Analysis
Policy

Hon Simon Watts

Minister of Revenue
/ /2025

Cumulative Variance (2025/26 June year) on the Treasury's BEFU 2025 forecasts - October 2025

\$ millions





Briefing note

Reference BN2025/466

Date 28/11/2025

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

From Murray Shadbolt

Subject Information release: FamilyBoost Customer Experience & Understanding report

Overview

- 1 This information release covers the report prepared internally by the Data Analytics and Insights team to help Inland Revenue understand customers' views of FamilyBoost.

Documents in this release

- 2 These documents are included in the information release:

#	Reference	Title	Date	Information withheld
1	N/A	FamilyBoost Customer Experience & Understanding	Sept 2025	None

Information withheld

- 3 No information in this document needs to be withheld. The document is being released in full.

Information NOT withheld

- 4 The survey uses quotes from survey respondents. No names or details are associated with the quotes.

Risks and issues

- 5 This information release may cause public comment because it relates to previous public comment and media stories on the administrative burden of applying for FamilyBoost, and the current work programme item to investigate a direct data feed of invoice information from Early Childhood Education providers to Inland Revenue.
- 6 The Minister of Finance has publicly noted in response to oral questions and interviews that parents have told her how easy it is to apply for FamilyBoost.
- 7 Other matters to note are:
 - The survey was conducted in July 2025, about the time of the public announcement of the extension of FamilyBoost but before it came into effect.

- The report found 84% found the claim process easy and most can register and claim without help.
- For those who found it difficult to claim, this was primarily due to Early Childhood Education provider invoice requirements.
 - Inland Revenue has worked with software providers to ensure invoices are compliant, but not all Early Childhood Education providers use the software providers. Likewise, the quarterly summary statement has made things easier for parents, but not all Early Childhood Education providers provide this
- Registration was also difficult for 14% of people, mainly due to confusion about eligibility and complex requirements such as IRD numbers for children and partners.
 - Those who contacted Inland Revenue for help were largely satisfied.
- Early Childhood Education providers were the lead source of information about FamilyBoost and a number of people mentioned difficulty with information on the Inland Revenue website.
 - Inland Revenue has updated the website material to address some of the concerns raised.
- Some families reported they were not eligible every quarter and gave reasons why, such as child leaving Early Childhood Education due to change in circumstances. Others didn't apply due to not having time, didn't think they would get much, or didn't have the Early Childhood Education invoices.
- Respondents provided ideas on how to improve the claims process.
 - Inland Revenue has updated the website material to make this information clearer and easier to find, and to include the changes from October 2025.
- The report refers to "potentially eligible customers" who are not currently registered, but survey responses indicate they may be entitled. 51% of these customers indicated they had little or no understanding of what FamilyBoost is, with some concerned about the difficulty of the registration and claim process.
 - Inland Revenue does not have the details of customers surveyed to use for targeted marketing purposes, however, general marketing continues across a range of media channels and to Early Childhood Education providers.

Ministerial Advisory Group on ECE funding

8 The Ministerial Advisory Group is aware that Inland Revenue was undertaking a survey of FamilyBoost customers and has asked for a copy of the final report and a briefing on the findings. Information provided to the Group is also proactively released on their website, with appropriate redactions.

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

Other relevant information – Finance and Expenditure Committee hearings

10 Inland Revenue is due to appear before Parliament's Finance and Expenditure Committee (FEC) in the first week of December. The standard questions will be asked of the department. We expect the FEC may also ask about FamilyBoost and customers' experience in applying for payments. The response will draw on the findings from this survey.

Approval

- 11 The draft information release was reviewed and approved by Murray Shadbolt, principal policy advisor in the Families and Individuals team.

Publishing

- 12 We are planning to proactively publish the survey findings report on 8 December 2025.

Attachments

- 13 Attached is the draft information release with redactions applied – the only information withheld is personal information (personal phone numbers and signatures).

- 14 Attached are:

#	Description
1	FamilyBoost Customer Experience & Understanding report

Murray Shadbolt

Principal Policy Advisor

s 9(2)(a)