



25 February 2026

[REDACTED]
[REDACTED]

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 29 January 2026. You requested the following documents:

1. *BN2025/433: Update on Investment Boost*
2. *IR2025/447: Summary of tax treatment of carried interest*
3. *IR2025/394: Update on GST officials' issues paper*
4. *BN2025/384: Overview of the tax treatment of software and current policy issues*
5. *BN2025/370: PepsiCo tax case in Australia*

Information being released

I am releasing the documents requested, attached as **Appendix A**. Some information has been withheld or refused under the following sections of the OIA, as applicable:

- 6(c) – making available of that information would be likely to prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial,
- 9(2)(a) – to protect the privacy of natural persons,
- 9(2)(f)(iv) - to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by minister 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 for 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 section 18(3) (in conjunction with section 143C(1)(a) of the TAA) which prevents the Commissioner of Inland Revenue from disclosing any item of revenue information if the release of the information would adversely affect the integrity of the tax system or prejudice the maintenance of the law.

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

Right of review

If you disagree with my decision on your OIA request, you 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



Briefing note

Reference: BN2025/370

Date: 4 September 2025

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Melissa Zhen

From: Matthew Gan

Subject: **PepsiCo tax case in Australia**

1. This briefing note provides a high-level summary of the recent Australian High Court judgment in *Commissioner of Taxation v PepsiCo, Inc and Commissioner of Taxation v Stokely-Van Camp, Inc* [2025] HCA 30, which has been closely followed by the tax community in New Zealand. It also highlights the potential significance of the case for New Zealand.

PepsiCo case

2. The PepsiCo litigation concerns the tax consequences arising from two exclusive bottling agreements (EBAs) between two related US companies, PepsiCo, Inc. (PepsiCo) and Stokely Van Camp, Inc. (SVC), and an unrelated Australian company, Schweppes Australia Pty Ltd (Schweppes). The litigation centred on the question of how payments under commercial contracts should be characterised for tax purposes, with a particular focus on embedded royalties.
3. Schweppes was the sole distributor of Pepsi, Mountain Dew and Gatorade in Australia under the EBAs with PepsiCo/SVC. Schweppes bought beverage concentrate, supplied by a PepsiCo subsidiary in Australia, and used PepsiCo/SVC formulas, trademarks and other intellectual property (such as bottle/can designs) to produce drinks for sale in Australia. The only payments by Schweppes were for the beverage concentrate to the PepsiCo subsidiary in Australia.
4. The primary issue was whether the payments made by Schweppes were, to any extent, a royalty and subject to royalty withholding tax. The taxpayer argued that contractually the payments were just for goods, being the concentrate, and so no royalty withholding tax was payable. The ATO argued that part of the payment was in substance for a right to use PepsiCo's trademarks and intellectual property (despite the contract stating otherwise) and so was subject to royalty withholding tax.
5. The case was heard in March 2023 in the Australian Federal Court. The judgment released in November 2023 found in favour of the ATO by concluding that part of the payments made by Schweppes under the EBAs was consideration for the use of, or right to use, the relevant trademarks and other intellectual property and subject to royalty withholding tax.
6. PepsiCo/SVC appealed the decision, and the case was heard before the Full Federal Court in May 2024. The judgment released in June 2024 overturned the original

decision by a 2-1 majority. The majority concluded in PepsiCo's favour that the payments were solely for the concentrate.

7. The ATO appealed the decision to the High Court of Australia and the case was heard in April 2025. The judgment released in August 2025 confirmed the Full Federal Court decision in PepsiCo's favour by a 4-3 majority. In particular:
 - The payments made by Schweppes did not include a royalty paid as consideration for the use of, or right to use, trademarks and other intellectual property licensed to Schweppes under the EBAs; and
 - Even if the payments made by Schweppes were found to have included a royalty component, such component was not income derived by, and was not paid to, PepsiCo and SVC, and was not subject to royalty withholding tax. This is because the payments for the concentrate were made to a PepsiCo subsidiary in Australia.
8. The ATO has acknowledged the High Court decision confirming that PepsiCo/SVC are not liable for royalty withholding tax. There is no higher court in Australia to which it can appeal the decision.

Significance of the PepsiCo decision for New Zealand

9. The PepsiCo majority decision is significant. It clarifies how commercial contracts should be interpreted and while, not binding on New Zealand, it is being reviewed with interest by the New Zealand tax community.
10. The High Court's decision shows that the positions of the Australian courts and the ATO are not always aligned. The judgments and relative closeness of the majority decisions also shows that in other circumstances the Australian courts may have found in the ATO's favour. It is not clear cut how a similar case to PepsiCo would be determined in New Zealand.
11. The High Court's decision also has immediate relevance for how Australia's domestic royalty withholding tax provisions are to be interpreted and applied. This is particularly relevant for software distribution arrangements, as the ATO issued a draft taxation ruling¹ in January 2024 taking a broad interpretation of when a payment under such an arrangement will constitute a royalty and be subject to withholding tax in Australia. In particular, the ATO consider that a payment for the distribution of goods or services may include an in-substance royalty component in some circumstances and so be subject to royalty withholding tax.
12. Private sector stakeholders contacted us at the time with concern over the draft ruling for New Zealand software companies distributing in Australia. They were concerned that the ATO may expect them to pay royalty withholding tax when they distribute software in Australia under the broad interpretation of a royalty in the ruling. This is a matter that we have been discussing with the ATO and Australian Treasury, 6(a)
13. The ATO deferred finalising its draft taxation ruling in light of the pending High Court case for PepsiCo. Now that the decision has been released, the ATO is considering what impact it may have on the draft ruling. We will continue to follow this with interest and engage directly with the ATO and Australian Treasury as needed.

¹ [TR 2024/D1 | Legal database](#)

14. The private sector has asked whether New Zealand will be taking a similar approach to Australia on software distribution arrangements. Inland Revenue is in the process of updating its guidance on the tax implications for non-resident software supplier payments derived from New Zealand, 6(a)

Matthew Gan
Principal Policy Advisor
9(2)(a)

**Policy
Taukaea**

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New Zealand

T. 04 890 1500

Briefing note

Reference: BN2025/384

Date: 18 September 2025

To: Revenue Advisor, Minister of Finance – Carl Harris

CC: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Melissa Zhen

From: Dan Doughty, Senior Policy Advisor, Inland Revenue
Claire McLellan, Acting Policy Lead, Inland Revenue

Subject: **Overview of tax treatment of software and current policy issues**

Background

1. At a meeting on 28 July 2025 between the Minister of Finance and the Minister of Revenue, the Minister of Finance asked for information on the various tax issues faced by different businesses using software.
2. We are reporting to the Minister of Revenue this week seeking approval to consult publicly on issues relating to software on the current Tax and Social Policy Work Programme (TSPWP). Stakeholders are likely to have strong and competing views on these issues, so we consider consultation is necessary to ensure these views are fully understood before developing options for resolving the issues.
3. This briefing note provides context on the different ways that businesses use software and the tax implications of those uses. It also comments on the tax treatment of software development relative to other sectors. A quick reference guide of this information is attached to this note. This briefing note also addresses at a high level how the tax treatment of software compares to other investments and summarises the policy issues with software that have been identified to date.

Summary of software uses for tax purposes

4. When describing the tax treatment of software, businesses can generally be grouped into one of two categories (with some overlap):
 - **Developers** — businesses that develop software, either to sell outright or to licence or grant access to the software.
 - **Users** — businesses that buy software for their own use, generally by paying for the right to use software from developers. Most businesses, including software developers, are software users.

Tax implications for developers

5. Software developers produce intellectual property in the form of software. The overall tax treatment for developers depends on what the developer does with the software. Generally, a software developer will do one of the following four things with software they develop:
- sell the software outright to another business.
 - sell licences to the copyright in the software to another person (while retaining ownership of the software) or sell a copy of the software.
 - sell the right to access and use the software as a service to another person.
 - retain the software in-house and use it for their own purposes.

Deductibility of software development expenditure

6. In general terms, a software developer will be entitled to a deduction for the cost of development. The timing of the deduction will depend on what the developer does with the software:
- If the software is treated as an intangible asset for tax purposes, the expenditure will be capitalised and depreciated over time.
 - If the software is trading stock (which may be the case if it has been developed for sale outright), the trading stock rules apply and the expenditure will be deducted when the asset is sold.
 - To the extent that the expenditure is treated as research and development (R&D) expenditure that is expensed for accounting purpose, the developer will be able to immediately deduct it.
7. 9(2)(g)(i)

Selling the software

8. These developers earn a profit by selling software they have developed to another person. They do not commercialise or otherwise use the software themselves. An example is a video game studio that develops the software for a video game, which is then sold to another person at the end of development.
9. In some cases, the software might be trading stock of the developer. This will be the case if the developer is carrying on a business of developing software, such as the video game studio. The sale proceeds from disposing of trading stock will be taxable income.
10. For some developers, the software will be treated as a capital asset. This is more likely to be the case if the software development is a one-off event. In this case, any profit from selling the software will generally not be taxable.
11. In situations where the software is treated as a capital asset and the software development expenditure was capitalised and depreciated, the developer may need to pay tax on sale if the depreciation deductions claimed exceed the value of the asset when it is sold (that is, there will be a clawback of the depreciation previously claimed).

Licencing the software or selling a copy

12. These businesses develop software that they will commercialise themselves, by selling a licence to use the copyright in the software to another person or by selling a copy of the software. An example would be an accounting software provider operating a platform that other businesses pay to commercially exploit the copyright according to the terms of the licence agreement.
13. The proceeds from selling licences or copies to other people will be taxable income.
14. The software itself will likely be a capital asset of the developer and would not give rise to taxable income if sold, other than a clawback of the depreciation previously claimed.

Granting access to use the software as a service (SaaS)

15. These businesses develop the software to use as a basis for providing on demand access for the use of the software over the internet in return for regular subscriptions from customers. The subscription payments received from customers will be taxable income.
16. The software itself will likely be a capital asset of the developer and would not give rise to taxable income if sold, other than a clawback of the depreciation previously claimed.

Develop for internal use

17. These developers are less common and develop software to be used to support their broader business. An example would be a business that normally develops software to sell, but who is currently developing separate software that will be used to develop the software they commercialise.
18. The business will pay tax on any profits generated from their broader business (including from using the software in their business). There are no direct tax consequences from owning and using the software.

Tax implications for users

19. Generally, there are two ways that a business becomes a user:
 - By paying another business to use software.
 - By purchasing software outright from another person.

Users paying to use software

20. Paying to use software is common practice and is how most businesses access software. There are two main ways this can occur:
 - **On-premises software:** The business purchases a copy of the software that they install on their own hardware. The user may only purchase the right to use that software for a fixed period.
 - **Cloud service models:** The business pays for access to software hosted on a server controlled by a cloud provider. This can range from simple subscription arrangements with limited rights (like access to a website), to more complex arrangements where the user is granted rights to use the software as a service (SaaS).

21. The tax treatment of payments for the use of software depends on the specific facts of each arrangement. In some situations, the user will be entitled to an upfront deduction for the payments made to use the software.
22. In many cases, however, the user will have acquired an intangible asset. The cost of that intangible asset will be depreciated over its useful life (the length of time before the software is expected to become obsolete). As discussed further below, the user may also be able to claim Investment Boost.
23. When entering into SaaS arrangements, a business may need to customise and configure the software before using it. For example, a manufacturer that enters into a SaaS arrangement for inventory management software will likely need to configure it for their particular products, production processes and timelines, warehousing locations, etc.
24. The expenses incurred customising and configuring software (C&C costs) are often treated separately to the cost of the licence to use the software. Depending on the specific facts, C&C costs are either capitalised and depreciated, or immediately deducted.

Users purchasing software outright

25. These businesses purchase software outright and often intend to commercialise the software themselves. This is less common than acquiring a right to use software. An example might include the publisher purchasing the rights to the video game made by the developer discussed above.
26. These businesses are treated as having acquired a new intangible asset for tax purposes, which is depreciated over its useful life. Generally, these businesses will be able to claim Investment Boost, because the asset is not FLIP.
27. The tax treatment of any income that the business derives will depend on how the software is ultimately used but will generally follow the same treatment as a developer who was using that asset for the same reason.

Overlay with other tax incentives

28. In addition to the tax rules that apply to software, both developers and users can access various tax incentives that are not strictly limited to software.

Research and Development Tax Incentive (RDTI)

29. The RDTI allows businesses to claim a tax credit equal to 15% of the value of eligible expenditure. Software developers can claim the RDTI if they meet all the eligibility criteria for the scheme. A cap of \$25 million exists for eligible internal software development. Software developed with the sole or main purpose of improving internal administrative systems is ineligible for the RDTI.

Research and development loss tax credit

30. Businesses who are in tax loss or who have not yet started to make profits are also able to "cash out" 28% of their tax losses relating to R&D activity. Businesses that claim the loss tax credit are required to pay it back once they begin making a profit, and their tax losses are reinstated as the credit is repaid.

Investment Boost

31. Investment Boost allows businesses to immediately deduct 20% of the value of eligible new capital assets. Software developers who develop new software to use (either internally or to licence), or businesses that buy new software assets (either outright or licenced) to use, may be eligible for Investment Boost.

32. Investment Boost can only be claimed when the business is depreciating the software. When the business has fully deducted the cost, there is no need for them to claim Investment Boost.
33. Investment Boost cannot be claimed for “fixed life intangible property” (FLIP), which would be the case if a business purchased the right to use software for a period of four years or less.
34. We understand some stakeholders have raised concerns that businesses are unable to claim Investment Boost on their software licence investments. We do not consider this to be a significant issue, as software FLIP is already depreciable over a maximum of four years. We are not currently considering this issue but could undertake further work if you would like us to.

Game Development Sector Rebate (GDSR)

35. The GDSR allows businesses involved in video game development to claim a 20% rebate on eligible development expenses (capped at a rebate of \$3 million). This rebate is not part of the tax system and is administered by the Ministry of Business, Innovation and Employment (MBIE). The amount is not taxable income for the business that receives it.

Tax treatment of software compared to other investments

36. We have undertaken initial work to understand the tax treatment of software businesses relative to other sectors. That work has involved initial high-level modelling for the effective marginal tax rates (EMTRs) of software development businesses.

37. 9(2)(f)(iv)



38. We do not currently have sufficient information to undertake more comprehensive analysis. As discussed below, our next step will be to consult with the sector to better understand actual commercial practices to inform further analysis of the appropriateness of the current tax settings, and options for change.

Policy issues under review

39. We are reporting to the Minister of Revenue this week seeking his approval to consult on two issues on the TSPWP from October 2025. We understand that stakeholders are likely to have strong and competing views. Consultation on the problems are required to better understand these views and develop options for resolving these issues.

Issue 1: Software development expenditure

40. This issue relates to businesses that develop software for commercial exploitation. The policy problem is that changes in technology and the way software is commercially exploited have created uncertainty over the correct tax treatment for this expenditure. This issue is not new.

41. 9(2)(f)(iv)



42. 9(2)(f)(iv)



9(2)(f)(iv)

Tax asymmetry for some developers

43. As described above, when software development expenditure is R&D expenditure and expensed for accounting purposes, it is fully deductible upfront for tax purposes. If the rights to the developed software are sold, this is treated as the sale of a capital asset and the proceeds are not taxed. This results in a tax asymmetry and has the effect that some software development is taxed inconsistently with other asset classes.

44. 9(2)(f)(iv)

Issue 2: C&C costs

45. This issue relates to taxpayers who incur customisation and configuration costs (C&C costs). Stakeholders have reported that the current law can result to inconsistent outcomes across taxpayers and high compliance costs.

46. 9(2)(f)(iv)

Additional issue – PepsiCo case

47. For the sake of completeness, stakeholders have also raised concerns with the tax treatment of businesses entering into cross-border licencing agreements (including for software) following a recent ruling from the Australian High Court involving PepsiCo. This is a recent development and a complex area of law, and it is not yet clear what the implications are for New Zealand.

48. We recently provided the Minister of Revenue's office with a briefing note that provides a high-level summary of the case and its potential impacts (BN2025/370 refers).

Consultation

49. The Treasury and MBIE were informed about this briefing note.

Claire McLellan
Acting Policy Lead, Inland Revenue

9(2)(a)

Quick reference guide for tax implications of software use

Software is acquired by a business by...	Then...	Resulting in the following tax treatment for...	
		Income	Expenses
Developing it internally	The business sells software outright to another business.	The software will often be trading stock of the business, so any income would be taxable.	If the trading stock rules apply, development expenses will be deductible when the software is sold.
		If the software is a capital asset, any profits from the sale of that asset will not be taxable.	If the expenditure is R&D under accounting standards, it will be deductible upfront. Otherwise, the business will depreciate the new software asset over its useful life.
	The software is used by the business for in-house purposes.	The business has no taxable income directly related to the software.	
	The business sells a licence to use the software, sells copies to end-users or grants access to use the software as a service.	All income earned from selling the licence or granting access to use the software will be taxable.	
Buying it from another person	The business purchases the software outright.	In all of these cases, the business has no taxable income directly related to the software.	The business has acquired a new asset that will be depreciated over its useful life. Many businesses will be able to claim Investment Boost.
	The business pays to use the software.		Regular payments to use the software will usually be deductible upfront. If the business has acquired a new asset, the cost will be depreciated over its useful life. Many businesses will be able to claim Investment Boost.
	The business spends money to customise and configure the software for its needs.		Depending on the facts, the business will either deduct all expenditure upfront or depreciate the new software asset over its useful life.

Item 3**POLICY****Tax policy report: Update on GST officials' issues paper**

Date:	22 October 2025	Priority:	Medium
Security level:		Report number:	IR2025/394

Action sought

	Action sought	Deadline
Minister of Revenue	Agree to recommendations Refer a copy of this report to the Minister of Finance	6 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Graeme Morrison	Policy Lead	s 9(2)(a)	<input checked="" type="checkbox"/>
Shanae Sherriff	Senior Policy Advisor	s 9(2)(a)	<input type="checkbox"/>

22 October 2025

Minister of Revenue

Update on GST officials' issues paper

Purpose

1. This report updates you on feedback received from private sector stakeholders on topics proposed by officials for inclusion in an upcoming officials' issues paper on current GST issues. We now seek your agreement to officials drafting the issues paper for Cabinet to consider. The report also discusses emerging issues that have been raised with officials since our last report on this subject, which might also be considered for inclusion in the issues paper.

Context and background

2. Inland Revenue has established a practice of releasing officials' issues papers to consult on GST technical policy issues that are topical (the last two GST issues papers were released in 2015 and 2020). Private sector tax practitioners welcome and increasingly expect this consultation.
3. It is important to regularly maintain and update the Goods and Services Tax Act 1985 (GST Act) to ensure it does not create undue compliance burdens for businesses and remains fit for purpose in a changing world. Officials have identified several areas where improvements can be made to this legislation. Many of these have been raised with officials by private sector stakeholders.
4. In a previous report, we recommended that an officials' issues paper on GST matters be included as a project on the Tax and Social Policy Work Programme (TSPWP) when resources allow (IR2024/208 refers).

Stakeholder consultation

5. In February and March this year, we undertook preliminary targeted consultation with private sector stakeholders (CA ANZ, Deloitte, EY and KPMG). Stakeholders were generally supportive of the topics proposed for inclusion in the issues paper. They rated finance leases, reviewing the "dwelling" and "commercial dwelling" definitions, reviewing the GST treatment of certain supplies by non-residents, and GST grouping issues as the highest priority issues.
6. The following table summarises each of the issues and stakeholders' comments on these issues.

Issue	Summary	Stakeholder views
s 18(c)(i)		
GST treatment of certain supplies by non-residents	Main proposals: allow non-resident businesses to register for GST by treating certain supplies made by a non-resident as taxable; and not require non-residents that only make zero-rated supplies of remote services to register for GST.	All stakeholders consulted are supportive.
Definitions of "dwelling" and "commercial dwelling"	Main proposals: remove the "quiet enjoyment" test from the definition of dwelling; and exclude premises provided by a GST-registered employer that are intended to be predominantly used for staff accommodation (such as hotel staff occupying a unit or seasonal farm workers) from the dwelling definition.	All stakeholders consulted are supportive.
Finance leases	Review time of supply treatment and valuation of certain leasing arrangements. Includes reviewing the GST Act definition of "credit contract".	All stakeholders consulted are supportive.
GST grouping issues	Fix various issues with the rules for GST groups.	All stakeholders consulted are supportive.
Administrative issues	Make changes to improve general GST administration. Includes aligning GST refund periods with those applying for other tax types and the time bar for increasing assessments; and reviewing the process for self-correcting errors.	Stakeholders support reviewing the rules allowing taxpayers to self-correct errors. However, they do not support the proposal to align GST refund periods with those applying for other tax types.
Definition of "non-profit body"	Review the exclusion from the definition of "non-profit body" for bodies that make distributions to their members or shareholders, with the expected outcome (if an amendment is progressed) of allowing more organisations to qualify as non-profit bodies under the GST Act.	All stakeholders consulted are at least mildly supportive. Some stakeholders noted the current exclusion from the definition is challenging for some non-profit organisations.

Recommendation

10. We recommend that the issues paper should include the above policy issues, except for s 18(c)(i) [REDACTED]. This is because (as noted above) further work is required to develop an effective policy solution ahead of any public consultation on the issue.
11. While most stakeholders were opposed to one of the proposed administrative changes (being the proposal to align GST refund periods with those applying for other tax types), we still recommend including it in the issues paper for the following reasons:
 - The time bar for the Commissioner to increase a GST assessment is currently four years, which is the same as the time bar applying for income tax. We do not consider there to be any good reason to have a longer time bar (currently up to eight years) for GST error correction when this is favourable to the taxpayer. The time bar should work both ways equally.
 - We do not agree that GST is so fundamentally different from income tax (and all other tax types subject to a four-year timeframe for refunds) that there should be more time to correct GST errors than to correct errors in income tax returns. GST returns are filed more regularly than income tax returns providing a greater opportunity for identifying any errors.
 - Allowing up to eight years to go back and correct certain errors is also not consistent with having more real time tax administration and compliance. More real time tax administration is the main objective of recent tax modernisation efforts by Inland Revenue such as Business Transformation.
 - Aligning GST refund periods with those applying for other tax types would likely be fiscally positive (although, based on current data, the fiscal impact will be difficult if not impossible to quantify).

Emerging issues

12. Since our last report on the GST officials' issues paper, several emerging GST policy issues have been raised with us that could be considered for inclusion in the issues paper. These issues are outlined below.

GST on business events

13. The issue of the GST treatment of conference and convention events services supplied in New Zealand to non-resident businesses (referred to as "business events services") has emerged as a potential Ministerial priority to support the Government's

focus on increasing tourism and economic growth. We previously consulted on this in a 2020 officials' issues paper on GST issues. Submitters on the 2020 issues paper were broadly in favour of the proposal to zero-rate business events services. However, the public consultation period for the issues paper coincided with the beginning of the COVID-19 pandemic, meaning we received limited feedback from the business events industry.

14. To progress this issue and ensure any proposed changes reflect today's commercial environment and the business events industry, we recommend this issue be included in the upcoming GST issues paper to allow for further consultation to inform the policy development process.
15. Public consultation will inform the detailed design of the proposal as several key questions remain. Such questions include the scope of the proposed zero-rating rules (particularly when different services are bundled together as a conference or event package), who should qualify for the proposed zero-rating, and the potential fiscal cost. Including this issue in the GST officials' issues paper would allow for meaningful engagement with the business events industry, which would help develop the policy's boundaries and refine the fiscal estimates.

Selling solar-generated electricity back to the grid

16. The Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill (the Bill) includes a proposal to exempt small amounts of income from income tax when that income arises from the sale of electricity back to the grid. When targeted consultation was undertaken on this proposal, several stakeholders said that the GST implications of this arrangement should also be considered. We expect this issue will likely come up again during the Bill's Select Committee stage.
17. We are aware that when GST-registered persons with solar panels sell electricity back to the grid, the electricity retailer purchasing the electricity will often gross the payment up to the registered person for GST and claim a GST deduction. There is a concern that the registered person selling electricity to the grid in this situation might not be accounting for GST on the supply to Inland Revenue, therefore possibly resulting in revenue leakage. We recommend this issue be included in the issues paper to address the likely revenue leakage.

Modernising the GST Act

18. The GST Act has undergone substantial revisions since its introduction in 1985, with several regimes added to the Act in recent years. As a result, some stakeholders have said the structure of the Act has become difficult to navigate and they have asked for a rewrite.
19. At this time, we do not agree that there should be a full rewrite of the GST Act. This would consume considerable resource that we consider could be better utilised on policy and remedial projects that private sector stakeholders have identified as being high priority, such as some of the issues proposed for inclusion in the issues paper. Our impression is that most private sector GST advisors would prefer that we devote our resources to working on and releasing the issues paper, rather than to a full rewrite of the GST Act, which would only restructure and reword the existing GST rules and not involve any policy changes. Without any policy changes, a rewrite might not achieve its intended outcome of making the legislation simpler and easier to navigate because in many cases it is the underlying policy that leads to complex legislation.
20. However, to acknowledge the calls for a rewrite, we could (subject to your agreement) formally seek feedback in the issues paper on whether it would be worth making certain structural changes to the Act (including some reordering and

renumbering of provisions, adding defined terms lists, and making better use of Parts, subparts and schedules). These changes could address private sector concerns without requiring as much resourcing as a full rewrite.

s 18(c)(i)

Financial implications

24. It is still too early to determine the overall fiscal implications of the package of proposals officials recommend including in the issues paper. Because the fiscal implications depend on the design of the proposals, further policy work and consultation is required before producing any estimates.
25. However, we can advise there are some individual proposals that are expected to have a fiscal cost (the main ones being changes to the definitions of dwelling and commercial dwelling, and allowing some non-resident businesses to register for GST and treat certain supplies as taxable supplies).
26. Some of the other items suggested for inclusion in the issues paper are expected to have positive fiscal implications if they proceed as legislative proposals, such as finance leases and aligning GST refund periods with those applying for other tax types. It is expected that the latter item, if it is progressed, would give rise to a small but unquantifiable gain.
27. Also, as explained in the previous report, one of the items suggested for inclusion (GST grouping issues) includes a base maintenance issue, meaning there is a fiscal cost that could arise if nothing is done to address the issue.

Next steps

28. Subject to your agreement, officials will commence drafting the issues paper for Cabinet to consider. Following Cabinet approval, the issues paper could be released for public consultation in the first half of 2026. Following submissions, officials would report to you with a draft Cabinet paper seeking a Cabinet decision later in 2026 with a view towards including at least some of the resulting legislative changes in the 2026–27 omnibus taxation Bill.

Recommended action

29. We recommend that you:

- a. **Agree** that officials should commence drafting the GST officials' issues paper and report back with a draft of the issues paper for Cabinet to consider.

Agreed/Not agreed

- b. **Agree** to include the following topics in the issues paper:

i.	GST treatment of certain supplies by non-residents Agreed/Not agreed
ii.	Definitions of "dwelling" and "commercial dwelling" Agreed/Not agreed
iii.	Finance leases Agreed/Not agreed
iv.	GST grouping issues Agreed/Not agreed
v.	Reviewing rules for self-correction of GST errors Agreed/Not agreed
vi.	Align GST refund periods with those applying for other tax types Agreed/Not agreed
vii.	Definition of non-profit body Agreed/Not agreed
viii.	GST on business events (subject to Ministerial discussions with the Minister of Tourism and Hospitality) Agreed/Not agreed
ix.	Selling solar-generated electricity back to the grid Agreed/Not agreed
x.	Modernising the GST Act Agreed/Not agreed

s 18(c)(i)

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

Referred

Graeme Morrison

Policy Lead

Inland Revenue

Hon Simon Watts

Minister of Revenue

/ /2025

Briefing note

Reference: BN2025/433

Date: 6 November 2025

To: Revenue Advisor, Minister of Revenue – Angela Graham
Private Secretary, Minister of Revenue – Anna McGuinness

From: Matt Pilkinton – Senior Policy Advisor

Subject: **Update on Investment Boost**

Purpose

1. The Minister of Revenue has asked for an update on Investment Boost including:
 - The remedial amendments included in the Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Bill (the “Compliance Simplification Bill”);
 - Feedback from stakeholders on Investment Boost; and
 - s 9(2)(f)(iv) [REDACTED]

Matters included in the Compliance Simplification Bill

2. The Compliance Simplification Bill currently includes four Investment Boost remedial amendments:
 - Restoring the original \$1,000 threshold for immediately deducting the cost of low-value assets, ensuring it is based on the asset’s full cost rather than its reduced cost after applying the Investment Boost deduction.
 - Limiting the transfer of the Investment Boost deduction to cases where the recipient is deemed to have inherited the transferor’s depreciation loss, ensuring the deduction only applies when the transferee steps into the shoes of the original owner.
 - Confirming that when depreciable assets are sold between associated persons, the purchaser’s depreciation loss is limited to the vendor’s original cost, calculated before any Investment Boost deduction is applied.
 - Clarifying the scope of the secondhand exclusion under the Investment Boost policy to ensure:
 - Only assets genuinely new to New Zealand are eligible for the deduction;
 - Use of a new asset that is necessary for sale does not prevent the purchaser from claiming the deduction; and
 - Commercial buildings held as trading stock remain eligible for the deduction once sold.

Feedback from stakeholders on Investment Boost

5. It is still too early to determine how Investment Boost has impacted businesses' investment plans. However, Inland Revenue has heard generally positive feedback about Investment Boost from stakeholders such as National Tax Liaison Group and tax advisors that some of their clients seem to be making higher investments due to Investment Boost.
6. Stakeholders have also identified potential impediments to claiming Investment Boost, including accounting software that is not yet configured to accommodate the requirements of the Investment Boost policy.
7. Inland Revenue has published guidance to assist stakeholders interpret Investment Boost legislation. In response to feedback around implementation issues, we have also provided some more practical guidance around how to claim Investment Boost deductions.
8. Feedback on the remedial amendments in the Compliance Simplification Bill has also been generally supportive. Some stakeholders have requested further guidance or legislative amendments to provide clarity on the availability of Investment Boost for certain edge cases. For example, confirming that a commercial building which has been developed with the intention of being sold can be tenanted before sale without impacting the availability of Investment Boost for the first purchaser of the building.

Investment Boost survey

9. Inland Revenue will be undertaking a survey of firms by the end of 2025 to understand how investment plans have changed due to Investment Boost (IR2025/327 refers). This will provide qualitative information on whether firms are utilising Investment Boost.
10. We will report to Ministers on the results of this survey in the first quarter of 2026.

Consultation with the Treasury

16. The Treasury was informed about this briefing note.

Matt Pilkinton
Senior Policy Advisor

s 9(2)(a)

Item 5**POLICY & CUSTOMER AND COMPLIANCE SERVICES****Tax policy report: Summary of tax treatment of carried interest**

Date:	10 November 2025	Priority:	Low
Security level:		Report number:	IR2025/447

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Agree to recommendation	5 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Kerryn McIntosh-Watt	Policy Director	9(2)(a) [REDACTED]	<input checked="" type="checkbox"/>
Tony Morris	Customer Segment Leader – Significant Enterprises	9(2)(a) [REDACTED]	<input type="checkbox"/>

10 November 2025

Minister of Revenue

Summary of tax treatment of carried interest

Purpose

1. This report follows a discussion you had with the Commissioner of Inland Revenue on 4 November 2025 and provides a summary of Inland Revenue's current work and next steps on carried interest.
2. We have previously reported to you with our initial policy view on carried interest (IR2025/227 refers) and provided an update on our operational position (IR2025-324 refers). This report summarises and updates the information in those reports.

Background

What is "carried interest"?

3. In summary, "carried interest" is a form of compensation for fund managers in the private equity (PE) industry.
4. In broad terms, a typical PE investment will involve a fund manager coming together with a group of passive investors to acquire the shares in a target company. The passive investors provide financial capital to acquire the shares. The fund manager may have a small financial stake but will predominantly use their knowledge and expertise (services) to grow the target company, receiving a management fee during the life of the investment.
5. When the target company is sold, a portion of the amount received will be paid to the passive investors, along with dividends, as a return on their investment (the hurdle return). Assuming the dividends and sale proceeds exceed the hurdle return, a fixed proportion (usually 20%) of the excess is paid to the fund managers in addition to their management fee (the **carried interest**), with the remaining amount paid to the passive investors. Carried interest can therefore be seen as a performance-based reward for the fund manager's services and expertise.

What is the current tax treatment?

6. New Zealand does not currently have any specific tax rules that apply to carried interest. Carried interest is generally structured to be treated as a return on investment and, as such, entitled to capital gains treatment (except for the dividends) for tax purposes. Capital gains typically have favourable tax treatment globally and lead to a tax-free return in New Zealand.

6(c)





Inland Revenue's initial policy view

15. The issue with the taxation of carried interest is one of boundary setting – namely the boundary between capital and revenue receipts. The PE industry seems to acknowledge that carried interest is earned via labour activity but argue that the result is a capital gain. The counter argument to this position is that the activities undertaken by the fund manager are no different to a service provider providing management services and that the compensation is better viewed as taxable service income. There is no doubt that carried interest is a means to compensate the fund manager for their skills and expertise.

16. As previously advised, our initial policy view is that there are good policy reasons to treat carried interest in relation to investment services performed in New Zealand as taxable income in line with similar performance-based reward income.
17. This issue is not on the Tax and Social Policy Work Programme, and we are not currently undertaking any policy work. This was agreed by you and the Minister of Finance in July. We seek your confirmation that no policy work should be undertaken at this time. ^{6(c)}

Consultation

18. Inland Revenue Policy has not yet undertaken any consultation on this issue. The Treasury has not been consulted on this report.

9(2)(g)(i)



Recommended action

We recommend that you:

- 1. **note** the contents of this report concerning the current operational work
Noted

- 2. **confirm** that Inland Revenue should not undertake any further policy work at this time
Yes/No

9(2)(a)


Tony Morris
Customer Segment Leader
Customer and Compliance Services

9(2)(a)


Kerryn McIntosh-Watt
Policy Director
Policy

Hon Simon Watts
Minister of Revenue
/ /2025