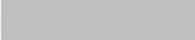




22 January 2026

Dear 

Thank you for your request made under the Official Information Act 1982 (OIA), transferred from the Treasury on 3 December 2025. The following documents were transferred to Inland Revenue to consider (numbered for ease of response):

1. *IR2025/409: Compliance economic-evaluation programme update*
2. *BN2025/443: Not-for-profits: Inland Revenue advice to the sector during targeted consultation*

### **Information being released**

The information you have requested is enclosed, as **Appendix A**, with some information withheld or refused under the following sections of the OIA, as applicable:

- 9(2)(a) – to protect the privacy of natural persons, and
- 9(2)(f)(iv) – to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information requested are 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](mailto: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](http://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**  
Te Tari Taake

**POLICY**

**Tax policy report: Compliance economic-evaluation programme update**

<b>Date:</b>	29 October 2025	<b>Priority:</b>	Low
<b>Security level:</b>		<b>Report number:</b>	<b>IR2025/409</b>

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the contents of this report	None
Minister of Revenue	<b>Note</b> the contents of this report	None

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Phil Whittington	Chief Economist	s 9(2)(a)	<input type="checkbox"/>
Tim Ng	Strategic Policy Advisor		<input checked="" type="checkbox"/>

29 October 2025

Minister of Finance  
Minister of Revenue

## **Economic evaluation of direct and indirect effects of compliance interventions: programme update**

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### **Summary**

1. As directed, this report outlines progress on IR's development of internal capability to assess, based on international best practice, the direct and indirect effects of our compliance activity on an ongoing basis (CAB-25-MIN-0126.57 refers). Successful development of the capability will help reduce tax gaps and strengthen the integrity of the tax system, helping both to sustain revenue collection and to reduce distortions caused by the tax system and tax gaps that can impair economic performance.
2. We have recruited an experienced economist within the Chief Economist's team to lead the capability development project, and established an initial work programme of evaluation projects.
3. An early priority in the work programme is to develop an economic framework, calibrated to New Zealand circumstances, for quantifying the likely net direct and indirect social gain payoffs to increased compliance activity. An early application of the framework will be to evaluate the impacts of the 2017 changes to the withholding tax rules for labour hire firms, for which some work on direct effects has already been done. We will also look at extending preliminary work on the indirect effects of compliance actions, where, for example, an audit of one taxpayer leads to increased compliance by other taxpayers in the audited taxpayer's business or social networks. We will add further projects guided by our compliance functions, to target the compliance risks and interventions where evaluation evidence may be most informative for our operational decisions.
4. We are planning to introduce a new analytical publication series to disseminate the results of the economic evaluation work as it is completed. This will help build a constituency and capability for economic evaluation both internally and in the broader tax and researcher community.

### **Purpose and background**

5. As part of Budget 2025, Cabinet directed Inland Revenue:
  - to use up to \$600,000 per annum of the additional \$35 million in funding received for compliance activities to fund the development of internal capability to assess, based on international best practice, the direct and indirect effects of our compliance activity on an on-going basis, and
  - to report to the Minister of Finance and the Minister of Revenue on the development of the internal capability (CAB-25-MIN-0126.57 refers).
6. This note provides the report required. It covers the organisational setup for the new compliance evaluation function, outlines the function's initial work programme, and notes our intention to introduce a new analytical publication series to disseminate selected evaluation work.

## Organisational setup

7. The economic evaluation capability development project will be led from the Chief Economist's team within Inland Revenue's Policy group. We have recruited an experienced economist to lead the project. The new function will develop a general economic approach to the conceptual, analytical and data-management challenges of measuring direct and indirect effects, and carry out evaluations of selected compliance interventions using the approach.
8. The new function will work with other parts of Inland Revenue to integrate the learnings and measures from economic evaluation. This includes our identification, monitoring and prioritisation of compliance risks, deployment of compliance resources to the areas with the largest potential gains, and design of interventions to support future evaluation. As the programme matures, data collection, management and modelling work is also likely to be needed to embed programme findings and enhance their impact.

## Initial work programme

9. In this section we briefly describe some of the initial items on the evaluation work programme. The broad purpose of the economic evaluation capability is to support sustainable net revenue collection over time, and to help reduce distortions caused by the tax system and tax gaps that can impair economic performance. The initial evaluation projects can be viewed as microcosms that will help build a better sense of the incidence and dynamics of tax gaps and other dimensions of compliance in particular intervention cases across customer segments and compliance risks, and taking into account policy and administrative settings.

### *A best-international-practice, economic approach to evaluating compliance activity*

10. As discussed in IR2024/422, given current tax system settings and compliance activities, additional compliance activity is likely to be a highly economically efficient way of raising revenue for the Crown. Economic evaluation requires measuring the net social gains over time associated with compliance interventions, that is, direct and indirect revenue impacts taking into account compliance and administration costs and changes in economic behaviour (such as labour supply, investment, employment, etc.). Taking this broad evaluation view suggests that additional compliance intervention could potentially result in substantial social gains per dollar of compliance expenditure, in contrast to the likely social costs of policy measures such as raising tax rates or expanding the base.
11. Building up the evidence base on indirect (deterrence) effects of compliance interventions will be a key objective of the programme. The evidence on the direct revenue effects of IR's additional compliance activity funded in Budget 2024 is already compelling. But international studies suggest that indirect effects may in general be several times greater than direct effects, and indirect effects are not well understood in the New Zealand context.
12. We will develop a version of the Behavioural Elasticity of Tax Revenue (BETR) framework to measure the net social gain for compliance interventions, in a way consistent with that for tax rate and base changes.<sup>1</sup> The BETR framework will help focus the work programme on the compliance risks and interventions with the greatest likely social-gain payoff. We will disaggregate by tax product, taxpayer type and sector, reflecting the granularity in tax administration and policy and the potential for the evaluation work to support both areas. Such an approach is quite

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<sup>1</sup> Hemel, D. J., & Weisbach, D. A. (2021). The Behavioral Elasticity of Tax Revenue. *Journal of Legal Analysis*, 13(1), 381-438. The BETR framework is a consistent way of analysing the net social gain impacts of revenue effects, administrative costs, and compliance costs due to marginal changes in tax rates, tax bases, or tax administration and enforcement.

new in tax administration, with few or no major tax authorities routinely publishing net social gain metrics from compliance interventions using BETR or similar frameworks, despite plentiful academic research indicating indirect effects as a key compliance channel.

13. Isolating the effect of an intervention from other influences on taxpayer behaviour in many cases requires a valid comparison group of taxpayers, whose outcomes are compared to the group of taxpayers subjected to the intervention. This challenge applies in particular to evaluating the deterrence effects of interventions, both in terms of the "specific" deterrence effect on the future compliance behaviour of the taxpayer subjected to the intervention, and the "general" deterrence effect on other taxpayers. An early step in building the evaluation capability will therefore be establishing a better sense of the baseline circumstances and behaviour of different taxpayer segments, as well as their network connections. The latter in particular depends on high-quality, granular data, as indicated earlier.
14. Strengthening our evaluation practices along these dimensions will increase confidence that successful interventions are likely still to be successful if applied in different circumstances, or if scaled to cover a greater proportion of compliance risk. IR considers that we have not yet reached diminishing returns to increased compliance activity. However, the programme will strengthen the evidence base about likely future marginal returns, which will support future funding and prioritisation decisions.

#### *2017 change in withholding rules for labour-hire firms*

15. One initial project will look at a compliance-oriented regulatory change. Changes to tax legislation in 2017 required labour-hire firms (LHFs) to withhold tax from the pay of contractors (including companies) working via the labour-hire business. This rule change targeted contractors not subject to withholding who were not declaring their income in full (either deliberately or inadvertently). Some preliminary work on the direct revenue effects of the rule change exists. This project will extend that work.
16. The LHF rule change is an interesting case since the "treatment entity" (an LHF) is not the ultimate target of the intervention (contractors not otherwise subject to withholding). The rule change may have affected the relative payoffs of working as an employee (and being subject to PAYE withholding), contracting directly to a client, or contracting via an LHF. The change in revenue before and after the rule change therefore needs to be unpacked and evaluated in terms of the behaviour of workers in each category, and compared to a suitable comparison group of workers. The competitive position of the LHFs may also have been affected, with consequences for their own tax positions and behaviour.
17. Indirect effects in this case include the shorter- and longer-term impacts on income declarations (for all workers performing similar work, whether or not via an LHF), since they have all either observed or been directly affected by the rule change, and been exposed to our communications activities around the change (and others at the time). This complex pattern of treatment, and ambiguity around a suitable comparison group, illustrates the challenges involved in economic evaluation, that the new capability is intended to address.

#### *General deterrence effects of compliance activity via taxpayer networks*

18. A second initial project will look at extending existing work on general deterrence effects through taxpayer "social contagion" (also known as diffusion or ripple effects) that may drive voluntary disclosures. An example of social contagion would be where close contacts or associates of a taxpayer learn that the taxpayer has been audited (e.g. from a conversation at a barbecue), and increase their own

compliance because they think they might be next. International studies suggest that such effects are a material part of compliance dynamics. We have done some preliminary work measuring these effects via a complex systems approach, in which we represent customers and their known "relevant" adjacent connections (links via e.g. tax agents, directorships, shareholdings, etc.) in graph form. We add audit outcomes, voluntary disclosures and integrity discrepancies to the representation. We then measure instances where a voluntary disclosure or integrity discrepancy event has occurred in proximal and temporal adjacency to an audit event. Initial results suggest the observed occurrence of these adjacent events is not random, which we ascribe to social contagion.

*Other projects to be determined on the basis of business salience*

19. The success of the economic evaluation capability ultimately depends on its value to our business operations, including decisions to reprioritise or extend resources. The initial projects noted here build on some existing work in IR that can be extended not only for substantive insights into direct and indirect effects and social gains, but also as development cases for the prototype framework. Alongside these early projects, the function will work closely with our compliance, intervention design and data management functions. We will populate the work programme with further projects selected from the broader compliance risk and intervention landscape where evaluation evidence is likely to be most informative for operational decision making, and likely to drive the largest social gains.

### **New IR analytical publication series**

20. We are planning to strengthen the impact of the new compliance evaluation capability by introducing a new analytical publication series for disseminating the results of evaluation studies. This will provide transparency and accountability benefits, which contribute to integrity and other compliance objectives. It will also help build a constituency and capability in the broader tax and researcher community for strengthening economic evaluation practice, and strong working relationships between IR operational teams and the evaluation function. The academic tax research community is not very extensive in New Zealand, and publication of our work is intended partly to stimulate wider interest.

### **Consultation**

21. The Treasury has been consulted on the proposed compliance economic-evaluation work programme.

### **Next steps**

22. We will report to you on the results of our preliminary investigation of the direct effects of compliance activities in February 2026, as required (CAB-25-MIN-0126.57 refers).

### **Recommended action**

We recommend that you **note** the contents of this report

Noted

Noted

s 9(2)(a)

**Phil Whittington**  
Chief Economist  
Policy

**Hon Nicola Willis**  
Minister of Finance  
/ /2025

**Hon Simon Watts**  
Minister of Revenue  
/ /2025



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## Briefing note

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Reference: BN2025/443

Date: 30 October 2025

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

From: Stewart Donaldson  
Philip Marshall

Subject: **Not-for-profits: Inland Revenue advice to the sector during targeted consultation**

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### **Purpose**

1. On 28 October 2025 the Minister of Finance indicated she is comfortable with officials communicating Ministers' decisions about the not-for-profits tax policy work.
2. This briefing note outlines the generic update officials intend to provide during targeted tax policy consultation and in response to requests from other stakeholders when they ask about the next steps for the not-for-profits tax policy work.

### **Generic responses provided to submitters and stakeholders**

3. From Friday 31 October 2025 we will start to proactively contact a number of sector representatives as part of targeted tax policy consultation. The consultation questions will be sent in the week beginning 10 November 2025. We anticipate that some submitters and stakeholders will also contact Inland Revenue asking what the next steps will be for the not-for-profits tax policy work, following the Minister of Revenue's announcement yesterday about the refreshed tax and social policy work programme.
4. We will tailor our responses to the specific stakeholder and provide updates on the topics that are relevant to them. Our responses will generally draw on/contain the following narrative.

### **Announcement by Minister of Revenue**

5. Officials received comprehensive feedback from over 900 submitters during consultation in February/March 2025. The consultation document, submissions and a summary of the submissions are published on the tax policy website ([the link is here](#)). The submissions informed decision-making and helped Ministers decide where best to focus attention.

6. The Minister of Revenue released the Government's refreshed tax and social policy work programme on 29 October 2025 ([the link is here](#)). The Minister said that the Government will continue to focus on simplifying the tax system and improving integrity, and this includes ongoing policy work looking at the taxation of charities and not-for-profits.
7. When the Minister spoke about the work programme on 29 October 2025, he said the Government has stopped work on taxing charity business income. He was concerned the complexities, compliance costs and distortions associated with a change would impose significant costs on charitable organisations and distract them from their core purposes. However, the Minister said he expects Inland Revenue to increase its enforcement efforts to make sure charity businesses are complying with the existing rules.
8. The Minister said that Inland Revenue will continue to work on donor-controlled charities as the main focus because these types of charities receive generous tax concessions, and it is vital that the rules governing them are clear, fair, and robust.
9. The Minister said Inland Revenue will also work with the Department of Internal Affairs on improving transparency for charitable funds that are accumulated.
10. The Minister said final policy decisions will be made in early 2026.

#### ***Donor-controlled charities***

11. Officials will undertake targeted tax policy consultation on the following matters affecting donor-controlled charities:
  - a proposed definition for donor-controlled charities
  - a proposed minimum distribution rule
  - proposed integrity measures, including whether a donation tax concession ceiling should apply to donations made to donor-controlled charities
  - a proposal to subject donor-advised funds to the same rules as donor-controlled charities, as well as other integrity rules, and
  - a proposed "pay in money" rule for private trust income allocations to tax-exempt beneficiaries.

#### ***Taxable associations: subscriptions, mutual transactions and related matters***

12. A draft operational statement, ED0265 "Mutual transactions of associations (including clubs and societies)" was released in April 2025. The 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 and levies may be taxable.
13. Officials will undertake targeted tax policy consultation on the following matters affecting taxable associations:
  - a proposal to clarify the circumstances when membership subscriptions and levies could be exempt
  - a proposal to raise the annual tax-free threshold<sup>1</sup> from \$1,000 to \$10,000 based on advice from submitters

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<sup>1</sup> Refer to section DV 8 of the Income Tax Act 2007.

- a proposal to require taxable not-for-profits to have simplified income tax return filing requirements, and
- a proposal to require financial institutions to provide Inland Revenue with financial information for all not-for-profits that rely on the section DV 8 tax-free threshold.

### ***Simplifications for volunteers and donors***

14. Officials will progress work to simplify tax rules for volunteers, as discussed in the issues paper.
15. The Government supports providing more options to claim donation tax credits to encourage philanthropic giving. Officials will undertake targeted tax policy consultation on the following matters affecting donor simplifications:
  - proposals that will allow donors to claim in-year donation tax credits, and
  - proposals that will allow donors to allocate donation tax credits to the charity they donated to.

### ***Exemptions***

16. Officials consulted on whether to remove several not-for-profits tax exemptions in the 2025 officials' issues paper.

s 9(2)(f)(iv)



### ***Targeted consultation***

20. Ministers have asked officials to undertake targeted consultation on the policy design of matters that will be progressed, so that final decisions can be made in early 2026. Consultation will occur over the period November 2025 to early February 2026, starting in the week beginning 10 November 2025.
21. Targeted consultation will draw from the pool of people who submitted on the 2025 issues paper.

### ***Consultation with agencies***

22. The Treasury and the Department of Internal Affairs were informed about this briefing note.

Stewart Donaldson  
**Principal Policy Advisor**

s 9(2)(a)