Inland Revenue
Te Tari Taake

26OIA1971

17 March 2026

[redacted]

Dear [redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), transferred to me from the Treasury on 17 February 2026. You requested the following documents:

1. *BN2025/460: Update on workstreams discussed in CAANZ letter: Targeted measures to support economic growth*
2. *BN2025/486: Request for student loan information*
3. *IR2025/467: International Tax Update*
4. *IR2025/422: Thin capitalisation settings for infrastructure - final policy recommendations*
5. *IR2025/456: FamilyBoost: Update on direct data feed model*
6. *IR2025/483: Assessing the impact of inflation on average tax rates*
7. *IR2025/488: Tax policy report: Matters raised in the departmental report on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill*
8. *BN2025/497: NZ Initiative proposal to reduce tax debt and address phoenixing issues*

Information being released

I am releasing, items one and six attached as **Appendix A.** Some information in these documents has been withheld 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 minister and officials.

Information being withheld or refused

Your request for the following documents are refused or withheld under the OIA grounds set out in the below table:

Item	Date	Document	Withholding ground
2.	03/12/2025	BN2025/486 - Request for student loan information	Section 9(2)(f)(iv)
3.	04/12/2025	IR2025/467 - International Tax Update	Section 6(a) – to avoid prejudice to the security or defence of New Zealand or the international relations of the government.

4.	10/12/2025	IR2025/422 - Thin capitalisation settings for infrastructure - final policy recommendations	Section 18(d) of the OIA, as the information requested will be publicly available soon on Inland Revenue's Tax Policy website: www.taxpolicy.ird.govt.nz.
5.	10/12/2025	IR2025/456 - FamilyBoost: Update on direct data feed model	Section 9(2)(f)(iv)
7.	11/12/2025	IR2025/488 - Tax policy report: Matters raised in the departmental report on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill	Section 9(2)(f)(iv)
8.	16/12/2025	BN2025/497 - NZ Initiative proposal to reduce tax debt and address phoenixing issues	Section 9(2)(f)(iv)

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

Emma Grigg
Policy Director

Appendix A
Item 1

Briefing note

Inland Revenue
Te Tari Taake

Reference	BN2025/460
Date	2/12/2025
To	Revenue Advisor, Minister of Revenue - Angela Graham Private Secretary, Minister of Revenue – Melissa Zhen
CC:	Private Secretary (Revenue), Minister of Finance – Carl Harris
From	Dan Doughty, Senior Policy Advisor, Tax Policy
Subject	**Update on workstreams discussed in CAANZ letter: *Targeted measures to support economic growth***

Background & purpose

1 On 11 November you received the report: *Financial arrangement rules – options to support new migrants* (IR 2025/431 refers). In response, you requested a table that reconciles the options we outline in that report with the options stakeholders have raised to date.

2 Subsequently, on 24 November, you received the letter *Targeted measures to support economic growth* from Chartered Accountants Australia and New Zealand (CA ANZ). That letter proposes targeted changes to the Financial Arrangement (FA) rules, and also targeted changes to the Research and Development tax loss credit (RDLTC) and transitional residency rules.

3 The purpose of this note is to respond to your original commissioning to reconcile our proposed FA changes with those raised by stakeholders – with specific reference to the options identified by CA ANZ. The requested reconciliation table is annexed to this note. For completeness, this note also reconciles the other options raised by CA ANZ with previous advice in their respective areas.

Proposed changes to the FA rules – officials and CA ANZ

4 The FA project seeks to address the problem definition defined by Cabinet's original commissioning (CAB-25-MIN-0061 refers); that some tax rules impose barriers to attracting and retaining highly skilled migrants to New Zealand, and that lowering these barriers would support the Government's economic objectives.

5 To meet that commissioning, the options we proposed in our initial report target specific points in the financial arrangement (FA) rules that impose disproportionately high costs on migrants. As discussed in that report, these options are largely designed to mitigate the costs involved in applying the FA rules to FAs denominated in foreign currencies.

6 As a result, the options we have previously proposed (or intend to investigate as part of consultation) align with two of the targeted changes that CA ANZ[1] request in their letter:

[1] The targeted changes that CA ANZ propose largely correspond with the changes other stakeholders have raised with officials to date, and so we have merged all stakeholder proposals into these broader proposals for the purposes of this note.

- Defer foreign exchange recognition until realisation where the FA is denominated in a foreign currency.

- Allow calculations in foreign currency to align with international practice.

7 However, we are not currently proposing to prevent the taxation of unrealised gains for all taxpayers (including those on accrual basis). Fundamentally, the FA rules operate on an accrual basis, and therefore tax some gains on an unrealised basis. Completely preventing the taxation of unrealised gains would require a much broader review of the basic design of the FA rules than is currently within the scope of this project.

8 For the reasons discussed in our previous report, we would not recommend extending the scope of the FA project at this time. However, as we detail in the table annexed to this report, some of the options we propose would limit *some* taxation of unrealised gains for both migrants and non-migrants.

9 We have begun consultation on our proposed changes to the FA rules. Consultation may raise further issues that warrant further work and we will be open to, and report back on, suggestions raised by stakeholders including CA ANZ.

Comments on proposed changes to the RDLTC

10 The RDLTC was introduced in 2016 to encourage business innovation by supporting start-up companies engaging in intensive R&D. The RDLTC supports cashflow by allowing a company to cash-out its tax losses arising from R&D expenditure. It was designed to be like an interest-free loan, which means it must be repaid. Generally, this occurs when the company pays tax once in profit.

11 However, repayment will be triggered in certain circumstances. Currently, a business that is claiming the RDLTC is required to repay the full value of all credits received if more than 90% of its shareholding changes after the first year the credits are claimed.

12 This rule reflects a clear policy position taken at the time of enactment:

12.1 It is an integrity measure which prevents the taxpayer making an untaxed return on their investment before they have repaid the value of the cashed-out losses. This outcome would be concessionary and create fiscal risk.

12.2 If the company is sold, it is likely that the company will no longer be subject to the same cashflow constraints, as the company will have funds available to pay back the value of the cashed-out loss.

13 We would generally not recommend changing this setting at this time. The 90% threshold for triggering a repayment of the paid-out losses is already relatively high. In addition to the benefit of the early monetisation of the tax losses, the taxpayer's original losses are reinstated upon repayment of the RDLTC (which they can then benefit from).

14 9(2)(f)(iv) [redacted]

Comments on proposed changes to the transitional residency rules

15 CA ANZ recommends extending the transitional residence period from 4-years to 10-years for high value migrants. 9(2)(f)(iv) [redacted]

[redacted]

[redacted]

[redacted]

Next steps

19 Officials have begun targeted consultation with stakeholders on proposed changes to the FA rules that would support new migrants. We will report back to you in early 2026 on the outcomes of this consultation, and provide advice on which policy options we recommend you progress to support your economic objectives.

20 9(2)(f)(iv) [redacted]

Dan Doughty

Senior Policy Advisor

9(2)(a) [redacted]

Annex: Reconciliation table – options for FA rules reform

	Aligns with stakeholder request to:			
Options officials are consulting on:	**Prevent taxation of unrealised gains**	**Defer foreign exchange gains**	**Calculate in foreign currency**	**Comments:**
Cash basis person rules: remove deferral threshold.	*Partially*	-	-	The deferral threshold is the lowest threshold for whether a person qualifies as a cash basis person, and is particularly sensitive to FX movements. Removing the threshold would prevent many migrants (and other taxpayers) from losing their cash basis person status – and thus preventing the taxation of unrealised gains on their FAs.
Cash basis person rules: absolute value threshold to ignore FX movements.	*Partially*	-	-	The absolute value threshold is also sensitive to FX movements, but is still important to the integrity of the cash basis person rules (i.e., why we do not recommend it is outright removed). However, having the threshold ignore FX movements would maintain integrity while also preventing many migrants (and other taxpayers) from losing their cash basis person status.
Except foreign currency transaction accounts from the FA rules.	-	*Yes*	-	Foreign currency transaction accounts are particularly sensitive to FX movements, which can become taxable unrealised gains under the FA rules. This change would remove these accounts from the FA rules entirely.
Broaden exception for foreign private loans from the FA rules.	-	*Yes*	-	Some migrants with foreign private loans (largely mortgages) are taxed on unrealised FX gains in the value of their loan when they don't qualify as a cash basis person. This change would remove these loans from the FA rules entirely.
Ignore FX movements for foreign credit account exception threshold.	-	*Yes*	-	Some migrants with foreign credit accounts are taxed on unrealised FX gains in the value of their account where the account has a high limit. This change would mean smaller credit accounts were not subject to the FA rules because of FX fluctuations.
Special rules for the valuation of FAs acquired for the purpose of visa eligibility	-	-	*Yes*	Migrants who apply for certain visas (such as the Active Investor Plus visa) are required to make investments (in the form of FAs) into New Zealand to meet visa eligibility requirements. The current valuation rules are making these visas less attractive, and so special valuation rules are being considered to mitigate this.

Item 6

Inland Revenue
Te Tari Taake

TE TAI ŌHANGA
THE TREASURY

Joint Report: Assessing the impact of inflation on average tax rates

Date:	9 December 2025	**Report No:**	IR2025/483 T2025/3051

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Nicola Willis)	**Note** the contents of this report **Refer** a copy of this report to the Rt Hon Winston Peters	16 December 2025
Minister of Revenue (Hon Simon Watts)	**Note** the contents of this report	16 December 2025

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Phil Whittington	Chief Economist	9(2)(a)	N/A (mob)	✓
Jacob Hawker	Policy Advisor, Inland Revenue	9(2)(a)	N/A (mob)	
James Haughton	Unit Manager, The Treasury	9(2)(a)	N/A (mob)	
Shane Domican	Principal Advisor, The Treasury	9(2)(a)	N/A (mob)	✓

Actions for the Minister's Office Staff (if required)

Return the signed report to the Treasury and Inland Revenue

Note any feedback on the quality of the report	

Enclosure: No

Assessing the impact of inflation on average tax rates

Purpose

1. This report responds to the Minister of Finance's request for advice on how inflation has affected average tax rates, in line with the commitment made in the National-New Zealand First coalition agreement to:

   "By or before 2026, assess the impact inflation has had on the average tax rates faced by income earners."

2. To support this the report provides information on:

   - The amount of inflation since 2010
   - The increase in average tax rates due to inflation across the income distribution
   - The amount of additional revenue from this increase in average tax rates
   - The distribution of individuals impacted by these higher tax rates

3. The analysis in this report focuses on individuals rather than families and solely considers taxable income. The report does not provide an overall assessment of the economic and policy impacts of the changes discussed. Further information on this is available in our Regulatory Impact Statement: Personal income tax relief[1].

Background

4. New Zealand's progressive personal income tax system means individuals pay higher marginal tax rates as their incomes rise above certain thresholds. These thresholds are not automatically indexed to inflation or income growth. This means that income increases due to inflation or real income growth can result in more income being taxed in higher tax brackets and increase average tax rates (ATRs). This phenomenon is known as "fiscal drag".

5. This report focuses only on inflation-driven fiscal drag to meet the requirements of the coalition agreement. It does not consider fiscal drag driven by real income growth.

6. Fiscal drag has increased average tax rates and revenue in New Zealand since 2010. Table 1 provides annual inflation, measured by the Consumer Price Index (CPI), from 2010 up until 2024. Inflation has averaged approximately 2.5% each year over this timeframe.

[1] https://www.treasury.govt.nz/sites/default/files/2024-06/ris-tsyird-pitr-apr24.pdf

Table 1. Annual inflation 2010-2024

Year	Annual CPI inflation (%)
2010	4.03%
2011	1.85%
2012	0.95%
2013	1.63%
2014	0.76%
2015	0.08%
2016	1.34%
2017	1.59%
2018	1.89%
2019	1.85%
2020	1.44%
2021	5.95%
2022	7.22%
2023	4.66%
2024	2.22%

Change in average tax rates due to inflation

7. To assess the impact of inflation on average tax rates (ATRs), we estimated how much less tax individuals would have paid if income tax thresholds had been fully adjusted for inflation from 2010 to 2024[2]. This involved increasing the first three thresholds by approximately 38%, and the top threshold by 18.3%. If income tax thresholds had been adjusted for inflation from 2010 to 2024, they would be as follows:

Table 2. Inflation-adjusted income tax thresholds 2010-2024

Threshold (NZD)	Rate (%)
0 – 19,323	10.5
19,324 – 66,249	17.5
66,250 – 96,614	30
96,615 – 212,939	33
212,940+	39

[2] For the 39% tax threshold, this was indexed for inflation since its introduction

8. We then compared these inflation-adjusted thresholds with the personal income tax thresholds introduced in Budget 2024 to show the impact with or without these changes. From this we calculated that fiscal drag has increased the average tax rate by approximately 2.55 percentage points without the Budget 2024 adjustments and 1.65 percentage points when including them. Figure 1 below shows how the change in average tax rates across the income distribution.

Figure 1: Impact of inflation on average tax rates, with and without Budget 2024 adjustments

9. The increase in ATRs from fiscal drag is uneven across income levels. The greatest increase in ATRs occurred for individuals earning between $70,000 and $90,000 in 2024. This is because inflation shifted a greater share of their income into the higher 30% tax bracket instead of the 17.5% bracket. In contrast, those on lower incomes have experienced no or smaller increases to their ATRs because their tax brackets increased by a smaller amount.

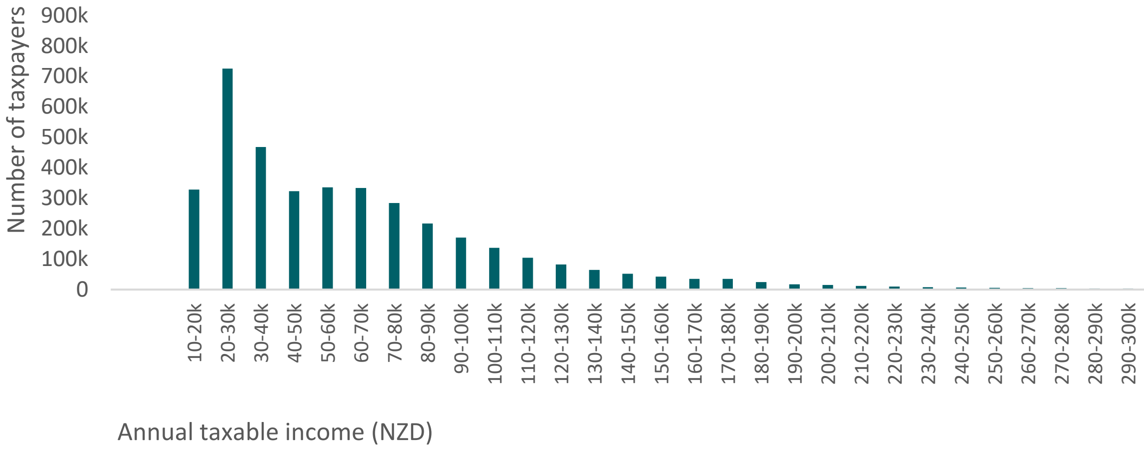
10. The analysis in this report excludes any flow-on impacts of inflation on welfare settings. For example, New Zealand Superannuation is indexed to after-tax wages, and some other benefits are adjusted annually for inflation and wage growth. It also does not consider the effect of the independent earner tax credit.

Distribution of taxpayers by income

11. Figure 2 shows the number of individuals in each band of taxable income up to $300,000 for the 2024 tax year. It shows that there were approximately 540,000 individuals in 2024 with incomes between $70,000 and $90,000 where fiscal drag has the largest impact on average tax rates[3].

[3] These statistics are based on personal tax returns and supplemented by Inland Revenue data for non-filers. The number of individuals with very low income is inflated due to a number of factors, for example, because some children are included. However, individuals earning below $14,000 are unaffected by fiscal drag because they remain in the 10.5% bracket even if thresholds were indexed, so this does not impact the analysis.

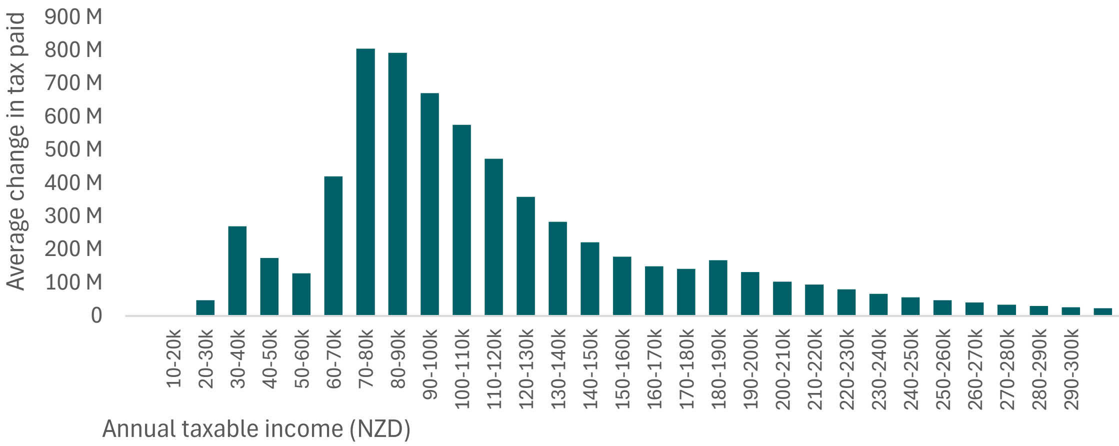
Figure 2: Individual taxable income distribution in 2024[4]



Revenue impact by income band

12. Figure 3 below shows the additional revenue collected from fiscal drag by income band in the most recent year for which we have comprehensive data – the year ended 31 March 2024.

Figure 3: Additional revenue collected by income band due to fiscal drag



13. Without Budget 2024 changes, we estimate that fiscal drag from inflation would have increased tax revenue by approximately 1.6 percentage points of GDP. Including the Budget 2024 changes, we estimate that fiscal drag from inflation has increased tax revenue by approximately 1 percentage point of GDP.

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[4] These statistics are based on personal tax returns and supplemented by Inland Revenue data for non-filers. The number of individuals with very low income is inflated due to a number of factors, for example, because some children are included. However, individuals earning below $14,000 are unaffected by fiscal drag because they remain in the 10.5% bracket even if thresholds were indexed, so this does not impact the analysis.

Recommended action

We recommend that you:

a **note** the contents of this report.

Noted Noted

b **refer** a copy of this report to the Rt Hon Winston Peters.

Referred

9(2)(a)

9(2)(a)

James Haughton
Unit Manager
The Treasury

Phil Whittington
Chief Economist
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025