



4 November 2025

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Dear [Redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), transferred to Inland Revenue from the Treasury, on 6 October 2025. You requested the following (numbered for ease of responding):

1. *Inland Revenue Report IR2025/293: Outcome of consultation on the thin capitalisation settings for infrastructure*
2. *Inland Revenue Report IR2025/327: Evaluation and monitoring of Investment Boost*
3. *Inland Revenue Report IR2025/336: Tax debt*
4. *Inland Revenue Briefing Note BN2025/337: Response to information requested by the Ministerial Advisory Group considering funding of early childhood education*
5. *Inland Revenue Briefing Note BN2025/366: Discussions with stakeholders on FBT proposals*

### Information being released

I am partially releasing documents 1 to 4, attached 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;
- 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
- 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(d) – the information requested publicly available.

The attachment to document 4 will soon be publicly available on the Ministry of Education's *Ministerial Advisory Group – early childhood education funding system review webpage* ([education.govt.nz](https://education.govt.nz)), and has therefore been refused under section 18(d) of the OIA.

### Information withheld

I am withholding document 5 in full under section 9(2)(f)(iv) of the OIA. As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information

requested is outweighed by the public interest. In this instance, I do not consider that to be the case.

**Right of review**

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



Kerryn McIntosh-Watt  
**Policy Director**



**Inland Revenue**  
Te Tari Taake

## POLICY

**Tax policy report:** **Outcome of consultation on thin capitalisation settings for infrastructure**

<b>Date:</b>	5 August 2025	<b>Priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2025/293

### Action sought

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations	13 August 2025
Minister of Revenue	<b>Agree</b> to recommendations	13 August 2025

### Contact for telephone discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Sam Rowe	Policy Lead	s 9(2)(a)	<input type="checkbox"/>
Matthew Gan	Principal Policy Advisor	s 9(2)(a)	<input checked="" type="checkbox"/>

5 August 2025

Minister of Finance  
Minister of Revenue

## **Outcome of consultation on thin capitalisation settings for infrastructure**

### **Executive summary**

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#### **Purpose**

1. This report briefs you on the outcome of the recent public consultation on thin capitalisation settings for infrastructure and seeks your approval on the next steps.

#### **Context and background**

2. The thin capitalisation rules protect the New Zealand tax base by preventing multinational firms from allocating excessive debt to New Zealand. This is done by limiting the amount of debt for which interest deductions are allowed, which is broadly set at 60% of the accounting value of the assets of the New Zealand group, or 110% of the multinational group's worldwide debt (whichever is higher).
3. There is a specific rule for public private partnership (PPP) infrastructure projects, allowing such projects to take on debt beyond these limits, but it does not apply to other infrastructure projects/investment.
4. In Budget 2025 you approved a tagged operating contingency of \$65 million over the forecast period for the fiscal cost of any changes to the rules.

#### **Problem definition**

5. While the thin capitalisation rules generally work well, they may be too rigid for some foreign investment in infrastructure that is not covered by the PPP concession. This is because infrastructure investment can sometimes support a higher level of commercial debt than is possible with other business activities.
6. For example, if there is a new project to develop a wind farm, external lenders may be willing to lend 75% of the funding required for the project because of a long-term power purchase agreement for the electricity with a retailer. This could result in some interest deductions being denied under the thin capitalisation rules which would increase the effective tax rate applying to the project.

#### **Options to address the problem**

7. The Government announced the release of an issues paper on 19 May 2025 to further assess the potential problem and sought views on two possible solutions:
  - 7.1 a rule targeted at new infrastructure projects, and
  - 7.2 a more general rule that applies to limited-recourse third-party debt (i.e., debt that only has recourse to the New Zealand assets of the entity/group).
8. Submissions closed on 19 June 2025 and we are now reporting back to you on them with our views. We report more fully on the submissions in the body of the report.

## The case for change

9. Most submitters supported a change as it could help remove a potential barrier to infrastructure investment in New Zealand.

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

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

## Submissions on the two potential options for reform

12. Submitters were broadly in favour of a more general rule based on third-party debt, than a rule targeted at new infrastructure projects. Submitters noted a targeted rule would require defining eligible infrastructure, which would raise boundary issues regarding what constitutes an eligible infrastructure project or investment. They were also concerned about whether mixed-use projects or investments would qualify under a targeted rule, and whether such a rule might require updates as new forms of infrastructure emerge.

13. Submitters argued a general rule could better support infrastructure investment because it is less likely to exclude an investment that should be eligible under the rule. They also noted that this approach was unlikely to compromise the tax base as it is expected to be self-limiting because third parties should only lend to sectors that can sustain a high level of debt, like infrastructure.

14. They submitted that if a targeted rule were chosen over a general rule, it should apply, not only to new infrastructure projects, but also to existing infrastructure assets and businesses. This approach would recognise that operating, maintaining, and improving infrastructure assets are also important. It could also facilitate asset recycling where an existing infrastructure asset/business is sold, allowing capital to potentially be redeployed elsewhere in New Zealand.

## Officials' views and recommendations

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

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

<sup>1</sup> s 9(2)(f)(iv)

<sup>2</sup> s 9(2)(f)(iv)

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Government	Percentage
Current government	85%
Previous government	15%

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**Recommended action**

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We recommend that you:

1. **discuss** with officials the contents of this report to understand your preferences and priorities for this work.

Agreed/Not agreed	Agreed/Not agreed
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2. s 9(2)(f)(iv)

Agreed/Not agreed	Agreed/Not agreed
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3. s 9(2)(f)(iv)

Agreed/Not agreed	Agreed/Not agreed
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4. **refer** a copy of this report to the Minister for Infrastructure.

Agreed/Not agreed
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s 9(2)(a)

**Sam Rowe**  
Policy Lead  
Policy

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

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



## Background

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1. The thin capitalisation rules help protect the New Zealand tax base by preventing multinational firms from allocating excessive debt to New Zealand to reduce their tax liability. The aim is to ensure multinationals operating in New Zealand pay an amount of tax that is fair, but not unduly burdensome.
2. The rules limit the amount of debt for which interest deductions are allowed in New Zealand, which is broadly set at 60% of the accounting value of the assets of the New Zealand group, or 110% of the multinational group's worldwide debt.
3. Although the rules generally work as intended, there are scenarios where they may unduly discourage foreign investment in infrastructure projects/businesses that could help reduce the infrastructure deficit in New Zealand. For example, where third-party lenders are willing to lend more than 60% of the accounting value of the project assets, the rules may deny some interest deductions even though the level of debt may not be considered excessive in commercial terms.
4. There is a specific rule for public private partnership (PPP) infrastructure projects, allowing such projects to take on debt from unrelated third parties in excess of the limits imposed by the general thin capitalisation rules.<sup>3</sup> This rule has largely worked well, but it does not apply to non-PPP infrastructure investment (such as developing a new wind farm).
5. Accordingly, you have asked us to review the thin capitalisation settings in New Zealand from an infrastructure lens [IR2024/413 refers]. On 21 April 2025, the Minister of Finance agreed for Inland Revenue to release an issues paper for public consultation [IR2025/141 refers].
6. In Budget 2025 you approved a tagged operating contingency of \$65 million over the forecast period for the fiscal cost of any changes to the rules.

## Consultation

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7. The public consultation opened on 19 May 2025 and closed on 19 June 2025. The issues paper sought submissions to gain a better understanding of how the current thin capitalisation settings might be discouraging foreign investors from investing in non-PPP infrastructure projects in New Zealand, and to explore two potential solutions to address it, namely:
  - 7.1 a targeted rule that applies to infrastructure projects (noted as officials' preferred option in the paper), and
  - 7.2 a more general rule that applies to third-party limited recourse debt, which would cover infrastructure projects/businesses, but not be limited to them.
8. We received 15 submissions and met with many of them to better understand their perspectives. Key themes arising from these submissions were:
  - 8.1 Most submitters considered that the current thin capitalisation rules may be discouraging infrastructure investment at the margin and were supportive of a making a change.
  - 8.2 There was a broad preference for a more general rule over a targeted rule.

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<sup>3</sup> The PPP rule is consistent with the OECD's 2015 BEPS Action 4 Report: *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments*, which noted that countries may wish to provide a tightly targeted exemption from interest limitation rules for third-party limited recourse loans used to fund public benefit infrastructure projects/assets, because these loans present little to no risk of base erosion and profit shifting (BEPS).

- 8.3 There were differing views on the extent to which deductions on related party debt should be permitted.

### ***Support for change***

9. Apart from one submitter who argued that the existing thin capitalisation rules are already more generous than those in comparable jurisdictions, there was broad support among submitters for reforming New Zealand's thin capitalisation settings for infrastructure investment, citing the following reasons:
- 9.1 Some submitters had examples where New Zealand's thin capitalisation settings impacted the project economics for some infrastructure investment, reducing the attractiveness of such projects.
  - 9.2 As a price taker in global capital markets, New Zealand must remain competitive. Factors such as geographic isolation and the small size of the economy already pose challenges to attracting foreign investment.
  - 9.3 Foreign investors consider both current tax settings and the direction of tax policy when making investment decisions. More favourable rules would signal that New Zealand is open to business and investment.
  - 9.4 When the rules were first implemented, they were intended to address concerns about multinationals allocating excessive debt to New Zealand. The growing role of sovereign wealth funds, superannuation funds, and private equity as prominent sources of direct investment underscores the need to modernise the rules to avoid unintended overreach.
10. While most submitters believe reform is likely to encourage greater investment, they are less certain about the extent to which it will boost foreign investment in infrastructure because of the following reasons:
- 10.1 The thin capitalisation rules are only one component of New Zealand's broader regulatory framework.
  - 10.2 The impact of the changes may be limited if deductions on related party debt are restricted under the new rules.

### ***Targeted rule***

11. The targeted rule proposed in the issues paper drew on elements of the specific rule for PPP infrastructure projects. Under this proposal, entities would be permitted to fully deduct interest expenses on third-party debt, provided the debt only has recourse to the project and is used to fund or refinance eligible infrastructure projects aimed at significantly upgrading or creating assets within New Zealand.
12. Submitters' primary concern with the proposed targeted rule is the potential boundary issues in determining whether a project or investment qualifies as eligible infrastructure. There was broad concern that the line-drawing exercise would inevitably exclude some infrastructure projects or investment which should be allowed to apply the rules.
13. While providing a definitive list of eligible infrastructure could offer certainty, there is a concern that such a list could be restricted by future governments. This could undermine investor confidence, as perceived instability in the rule's application is viewed negatively by the investment community. Flexibility in updating the list is also important. Allowing additions through mechanisms such as a Commissioner determination-making power or an Order in Council, rather than through legislative amendment, would enable a more responsive and efficient approval process.

14. Submitters also raised the importance of including existing infrastructure within the scope of the targeted rule if this option is progressed, citing the following reasons:
- 14.1 Ongoing investment in existing infrastructure is critical for maintaining and upgrading essential services.
  - 14.2 Allowing deductions for investments in existing assets could facilitate easier exits for investors, enabling capital to be recycled into new infrastructure projects. This flexibility could expand the pool of potential purchasers and improve funding availability.
  - 14.3 The requirement that the debt can only have recourse to the project may not be practical for upgrading projects because lenders typically require recourse over the entire asset or asset portfolio, not just the upgrade. Further, it can be unclear what level of enhancement qualifies as "significant" upgrades, adding further complexity.
  - 14.4 It is important that the tax system does not distort investment decisions. In many cases, upgrading existing infrastructure may be more economical than complete replacement, and the rule should not inadvertently incentivise one approach over the other.

### **General rule**

15. The application of the proposed general rule would be limited by the type of debt arrangement, but its application would not be limited to infrastructure. An entity/group applying the rule would be allowed to fully deduct its interest expense on debt applied to fund any economic/business activities in connection with New Zealand, provided that the debt is issued to an unrelated third party and only has recourse to the New Zealand assets of the entity/group.
16. Among submitters who supported changes, the majority favoured the more general rule. Key reasons include:
- 16.1 The more general rule is not inconsistent with the policy intent to prevent excessive debt allocation to New Zealand.
  - 16.2 With appropriate safeguards, the more general rule is unlikely to compromise the tax base. It is expected to be self-limiting, applying only to the limited sectors that can commercially sustain a high level of debt such as infrastructure, or property supported by a long-term lease.
  - 16.3 The more general rule is more consistent with the broad-base, low-rate (BBLR) approach, and avoids favouring specific sectors.
  - 16.4 Investors may benchmark New Zealand against Australia that has a rule similar to the proposed general rule.
17. To mitigate the risk of inappropriate application, some submitters proposed enhanced disclosure requirements or approval processes and/or post implementation review and monitoring. As an added protection, one submitter suggested imposing a maximum gearing level (e.g., 85% of the assets value), even for third-party limited recourse debt.
18. Some submitters expressed concern that as officials try to address various potential risks, the rule could become overly complex to administer. As a solution, some submitters proposed implementing both rules.
- 18.1 The targeted rule could be designed with clear, objective requirements that can provide certainty to investors, but might inadvertently exclude a small number of investors that should qualify for the rule.

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19. Under both proposed options, deductions on related party debt would be disallowed. This reflects a concern that foreign parent entities can often easily substitute equity with related party debt, enabling multinational groups to extract higher returns by claiming interest deductions for their New Zealand operations without materially increasing their risk.
20. While some submitters supported the exclusion of related party debt from deductibility, others proposed that such debt should be deductible under specific conditions, including:
  - 20.1 when the related party debt has the same rights and terms as the third-party debt, and/or
  - 20.2 when the debt is not proportional to the equity invested by shareholders (which is consistent with the approach permitted under the specific rule that applies to PPP infrastructure projects).
21. Submitters highlighted several reasons why related party debt may warrant deductibility in limited circumstances:
  - 21.1 Related party debt is sometimes used in infrastructure projects to provide early-stage returns to investors during periods when the project is not yet generating taxable profits.
  - 21.2 Interest on related party debt is subject to Non-Resident Withholding Tax (NRWT), generally at 10% depending on the applicable Double Tax Agreement (DTA). There is also a rule that caps interest rates on related party debt. These rules should already provide some protection from the risk that related party debt is used to shift profit overseas (but we note they still allow for some profit to be shifted via interest payments).
  - 21.3 Third-party debt generates less revenue for the Crown because interest on third-party debt is more likely to be subject to the Approved Issuer Levy (AIL), usually at 2%.

Government	Percentage
Current government	85%
Previous government	15%

Government	Percentage
Current government	85%
Previous government	15%

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

### Financial implications

39. In Budget 2025, a tagged operating contingency of \$65 million over the forecast period<sup>4</sup> was established for any changes to the thin capitalisation rules.

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

s 9(2)(f)(iv)

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

s 9(2)(f)(iv)

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

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

s 9(2)(f)(iv)

<sup>4</sup> The five-year forecast period from 2024/25 to 2028/29.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

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





POLICY


**Tax policy report: Evaluation and monitoring of Investment Boost**

<b>Date:</b>	26 August 2025	<b>Priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2025/327 T2025/2216

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations	8 September 2025
Minister of Revenue	<b>Agree</b> to recommendations	8 September 2025

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

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Felicity Barker	Policy Lead	s 9(2)(a)	<input checked="" type="checkbox"/>
Jean Le Roux	Manager, Tax Strategy	s 9(2)(a)	<input type="checkbox"/>
Hien Nguyen	Senior Policy Advisor	s 9(2)(a)	<input type="checkbox"/>

26 August 2025

Minister of Finance  
Minister of Revenue

## **Evaluation and monitoring of Investment Boost**

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### **Purpose**

1. This report responds to Cabinet's request for agencies to develop a performance reporting plan for major spending policies. It provides information on how Inland Revenue and the Treasury intend to monitor the impacts of Investment Boost, including being able to estimate the cost of Investment Boost on an ongoing basis.

### **Context and background**

2. Cabinet has made the decision (ECO-24-SUB-0231 refers) that major Budget Spending and savings decisions now need a clear plan for performance reporting. Investment Boost is one of the major spending decisions identified by Treasury that meet this requirement.
3. Inland Revenue and the Treasury have worked together to develop a framework for evaluation and monitoring of the Investment Boost policy.

### **Monitoring the cost of Investment Boost**

4. Inland Revenue will monitor the annual cost of Investment Boost. However, we will only be able to estimate, not measure, the fiscal cost of Investment Boost. The fiscal cost is the annual cost of claims net of an offsetting reduction in residual depreciation over time. The former is measurable or can be estimated, but the offset is not directly measurable as Inland Revenue does not hold information on the underlying depreciation rates and will not be able to determine which assets received Investment Boost and which assets did not. The compliance costs of collecting such information would outweigh any benefits from gathering it. At best, to estimate the net fiscal cost, we would need to estimate, not measure, the offset component.
5. The estimated cost will not be fully comparable to the forecast of the cost of the policy.
6. We expect the estimated cost to be closer to the truth than the forecast because:
  - 6.1 It will be based on firm-level rather than macro-level data.
  - 6.2 It will be more accurate at picking up behavioural factors such as the change in firms' investment behaviours.
  - 6.3 While an estimate, it will be a backward-looking estimate informed by the economic conditions that actually prevailed, rather than a forecast that included predictions of economic conditions.
7. Inland Revenue can start reporting the estimated net fiscal cost of Investment Boost for the 2025/26 tax year onwards, that is from late 2027. The performance reporting for major spending decisions will be published on our website, in our annual report and directly to the Treasury.

## Measuring uptake of Investment Boost

8. Inland Revenue can in part measure uptake of the policy through tax returns.
9. Inland Revenue plans to ask for information on the amount of Investment Boost claimed through a question in the IR10 returns. This is an optional form and hence does not have full coverage of taxpayers. However, it does have good coverage of companies and will hence provide a reasonable basis from which to estimate uptake.
10. It is not possible to ask for this information in the 2024/25 tax year returns. We will first collect this information for the 2025/26 tax year returns. Information from IR10s for the 2025/26 tax year will not be available until late 2027.
11. Inland Revenue also plans to collect information on uptake from large businesses through its Basic Compliance Package survey. This is an annual survey of 450 significant enterprises. This information would be available by August 2026.
12. Inland Revenue also plans to undertake a firm survey at the end of 2025. This will provide qualitative information on whether firms are utilising Investment Boost.
13. We note that information on uptake provides limited information on the extent to which Investment Boost has stimulated new investment. This is because uptake covers investment that would have occurred anyway.

## Evaluating the economic benefits of Investment Boost

14. There are several options as to how to undertake evaluation of the benefits of Investment Boost. We could take more than one approach. Evaluation can be resource intensive and so more ambitious options will require more resources or require us to outsource work (at a cost).
15. Inland Revenue and the Treasury have worked together to develop a shared monitoring and reporting approach. The spectrum of options can be summarised as:
  - 15.1 Undertaking qualitative surveys to understand firms' self-assessment of whether Investment Boost has impacted their investment decisions.
  - 15.2 Undertaking quantitative modelling work to assess whether Investment Boost has had a significant impact on the level of investment.
  - 15.3 Undertaking quantitative modelling work to assess whether Investment Boost has had a significant impact on other variables such as GDP.
  - 15.4 Keeping abreast of international literature on the impacts of investment tax incentives.

## Impacts on investment

16. Inland Revenue intends to undertake some work on determining if Investment Boost has a significant impact on the level of capital investment or investment rate over time or capital investment decisions by firms.
17. We expect that benefits may not be empirically detectable in the short term. They may accumulate over time and suitable data will become available with a lag. This means approaches in the short term will need to focus on qualitative assessment approaches such as self-assessment by firms.

*In the short term, Inland Revenue could undertake firm surveys and/or interviews*

18. There are two survey approaches that Inland Revenue can utilise in the short term.

## **Approach 1 – Basic Compliance Package**

19. As noted, the Basic Compliance Package includes a survey of around 450 large enterprises each year.
20. Inland Revenue plans to add additional questions to the Basic Compliance Package questionnaire on whether firms are utilising Investment Boost. This can include asking firms how much Investment Boost they have claimed and if they have changed their plans due to Investment Boost. This will provide information on whether Investment Boost has had impacts on firm's decisions.
21. We will send the questionnaires in February 2026 to collect the information. We could report the outcomes when those questionnaires are due to be submitted to us, which is expected to be August 2026.

## **Approach 2 – Firm survey and/or interview**

22. We could undertake a firm survey and/or interview to examine if they have utilised Investment Boost. This would be a new survey for businesses of all sizes focused on Investment Boost specifically. We could ask firms if they have changed their investment plans due to Investment Boost. This survey could be conducted at the end of 2025.
23. Such surveys and qualitative data would not provide statistically robust information but provide a level of information that is useful and timely for policy evaluation. This information would not be directly tied to tax returns and would also focus on changes to investment behaviour. This means that the information will be available earlier than the Basic Compliance Package.

*In the longer term, Inland Revenue could undertake more complex modelling*

24. There are several approaches to measure the impact of Investment Boost on investment by utilising different data sources. However, we will be unable to do this until sufficient data for these analyses becomes available. Additionally, as noted above, the cumulative benefits may not be detectable for a few years.
25. We expect to be able to start conducting these analyses in late 2028 at the earliest.
26. We note that undertaking these analyses will require a significant investment in modelling capability for Inland Revenue.

## **Impact on GDP**

27. Using Inland Revenue's estimate of the impact of Investment Boost on investment, the Treasury could then estimate the implied impacts on wider macroeconomic variables such as GDP. This evaluation can most likely be completed using the Treasury's existing modelling resources.

## **Resourcing and funding**

28. At present, Inland Revenue expect that monitoring of the benefits of the policy can be met from existing funding. However, if Ministers are ambitious in the level of evaluation they would like to see, this may have resourcing implications.

## **Next steps**

29. Officials are available to meet with you to discuss the different approaches to measure the economic impacts of the policy for Budget 2026. Once we have feedback on the options you prefer, we will engage with the stakeholders to develop a more detailed approach to support final decision making mid-2026.

30. Officials will engage with stakeholders to develop a full strategy of monitoring and evaluation. We expect this to take approximately three months. We will inform the Ministers on the full strategy.

### Recommended action

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31. We recommend that you:

- a) **discuss** the contents of this report at the Joint Ministers' meeting on 8 September 2025.
- b) **indicate** which of these following options you would like Inland Revenue/The Treasury to pursue for monitoring and evaluating the policy

- i. Collecting information on the uptake of Investment Boost

Request/Do not request

Request/Do not request

- ii. Firm-level surveys and/or interviews

Request/Do not request

Request/Do not request

- iii. Empirical assessment of investment impacts

Request/Do not request

Request/Do not request

- iv. Empirical assessment of GDP impact

Request/Do not request

Request/Do not request

**Jean Le Roux**

Manager, Tax Strategy

The Treasury

s 9(2)(a)

**Felicity Barker**

Policy Lead

Inland Revenue

s 9(2)(a)

**Hon Nicola Willis**

Minister of Finance

/ /2025

**Hon Simon Watts**

Minister of Revenue

/ /2025



## Inland Revenue report: Tax debt

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<b>Date:</b>	4 August 2025	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2025/336

## Action sought

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	Action sought	Deadline
Minister of Finance	<p><b>Note</b> that a condition of Budget 2025 funding was to report on the current and planned approach to mitigating the growth of tax debt.</p> <p><b>Note</b> we will provide advice on policy options to reduce tax debt.</p>	12 August 2025
Minister of Revenue	<p><b>Note</b> that a condition of Budget 2025 funding was to report on the current and planned approach to mitigating the growth of tax debt.</p> <p><b>Note</b> we will provide advice on policy options to reduce tax debt.</p>	12 August 2025

## Contact for telephone discussion (if required)

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Name	Position	Telephone
Tony Morris	Customer Segment Leader, Customer and Compliance Services	s 9(2)(a)
Thomas Allen	Principle Policy Advisor, Policy	s 9(2)(a)

## **Tax debt**

### **Executive summary**

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#### **Purpose**

1. Budget 2025 provided Inland Revenue with \$35 million per annum for direct tax compliance interventions, tax debt-focused activities, and more effective tax collection. A condition of this funding was for Inland Revenue to report to the Minister of Finance and the Minister of Revenue on its current and planned approach to mitigating the growth of tax debt.
2. This report provides:
  - an overview of the overdue tax debt
  - what Inland Revenue is currently doing to mitigate the growth of tax debt, and
  - what further measures might be required (or we are investigating).

#### **Current state of tax debt**

3. Despite 94% of tax due being paid on time, tax debt is growing faster than revenue collection and debt repayments. Around 527,000 taxpayers currently have debt, which currently stands at \$9.3 billion and is forecasted to reach \$10.7 billion by June 2026.
4. There are a number of attributes of the debt book that contribute to its growth and/or make slowing down the growth of tax debt a challenge:
  - As debt ages, it gets harder to collect and it becomes more impaired. Of the 527,000 taxpayers that have debt, nearly half of them have debt greater than two years old.
  - A greater proportion of older debt is comprised of penalties and interest. By the time debt has reached five years of age, penalties and interest make up 65% of the debt.
  - GST and employer (eg, PAYE and KiwiSaver deductions) debt make up on average over 50% of total debt.
  - Small businesses have higher relative debt than other types of taxpayers. These taxpayers make up 64% of total debt.

#### **Current approach to managing debt**

5. We have deliberately shifted our stance on debt and are taking a firmer approach, which we are communicating to taxpayers. A greater focus on debt collection, including recruiting staff, and deploying resources into this area is making a difference. As a result, we exceeded our Budget 2024 target for overdue debt collection.
6. We have a range of tools to encourage the payment of debt, such as payment plans and deduction notices. We continue to improve, our data and analytics to better target these interventions. We are already seeing positive results from these interventions.

7. The number of statutory demands (an early step in the liquidation process) has increased from 759 in the year ending 30 June 2022 to approximately 1,750 in the year ending 30 June 2025. While liquidation is a last resort and little overdue debt is collected, it is necessary to prevent insolvent companies from continuing to trade.

### **Debt interventions**

8. We are exploring a range of ideas to prevent debt, to use existing tools more effectively, and to introduce levers to better incentivise compliance and promote tax transparency.
9. GST and employer deductions (eg, PAYE) are the most prominent sources of debt. These taxes are effectively held in trust for the Crown so timely payment of these taxes should not impact the cash flow and viability of healthy businesses. There is a case for stronger tools to encourage earlier payment of this debt.

### *Debt prevention*

10. We are exploring whether aligning filing and payment dates, and increasing filing and payment frequency, may help prevent debt from arising.
11. We are considering how intermediaries can help prevent tax debt by aligning the timing of income and tax payments. We have sought your agreement to consult publicly on proposals to more formally recognise the role of intermediaries in the tax system.
12. s 9(2)(f)(iv)  
[Redacted]  
[Redacted]  
[Redacted]
13. Work has been underway on an Approved Information Sharing Agreement (AISA) between Inland Revenue and the Ministry of Business, Innovation and Employment (MBIE). Better information sharing between the two agencies will help prevent company "phoenixing" and improve compliance and enforcement through prosecutions of directors for non-compliance.

### *Using existing tools more effectively*

14. We are exploring opportunities to speed up and automate notices to banks to retrieve information on taxpayers and to recover overdue tax debt.
15. We are trialling a new service and outsourcing smaller debts to Baycorp when earlier action may prevent the debt growing to unsustainable levels. The pilot covers 3,000 cases and runs until September 2025.

### *Better levers*

16. We are considering whether we can improve tax transparency through existing credit reporting rules, which give us the ability to pass on information to credit agencies in cases of serious non-compliance. s 9(2)(f)(iv)  
[Redacted]  
[Redacted]
17. s 9(2)(f)(iv)  
[Redacted]  
[Redacted]  
[Redacted]
18. We are continuing to consider tools used in other countries and whether those tools could apply in the New Zealand context.

### **Next steps**

19. We plan to report to you on our progress before the end of the financial year. We are happy to discuss the contents of this report with you if requested.



20. We plan to report back separately with advice on policy options to reduce tax debt in the final quarter of this year.

### **Recommended action**

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We recommend that you:

1. **Note** that a condition of Budget 2025 funding was for Inland Revenue to report to the Minister of Finance and the Minister of Revenue on its current and planned approach to mitigating the growth of tax debt.
2. **Note** that we plan to report before the end of the financial year with a further progress update on how our approach is addressing the growth of debt.
3. **Note** we plan to provide advice on policy options to reduce tax debt in the final quarter of this year.

s 9(2)(a)

**Tony Morris**  
Customer Segment Leader  
4 / 8 / 2025

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

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

## Background

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21. Fiscal sustainability is a key priority for the Government. Investing in increasing tax revenue is one way of supporting this objective. Budget 2025 provided Inland Revenue with funding of \$35 million per annum for direct compliance interventions, debt-focused activities and more effective tax collection. This investment is forecast to return \$4 to \$1 in the first year and \$8 to \$1 in subsequent years, resulting in \$980 million additional revenue and a reduction in impairment over the forecast period.<sup>1</sup>
22. While additional revenue is being raised from compliance activities, overdue tax and entitlements debt currently stands at \$9.3 billion. Tax debt has grown by \$1.3 billion since June 2024 and it is forecast to be \$10.7 billion by June 2026.<sup>2</sup>
23. Managing debt is an important part of maximising revenue over time. Effective debt recovery not only brings in additional cash (which can be used to pay down Crown debt), it also protects the value of the Government's tax revenue base by minimising future impairment and reducing write-offs.
24. A condition of the Budget 2025 funding was for Inland Revenue to report to the Minister of Finance and the Minister of Revenue on its current debt collection activities and on potential future measures to mitigate the growth in overdue tax debt (CAB-25-MIN-0126.57 refers).
25. This report only covers tax debt in the first instance. This includes overdue tax and entitlements, including Working for Families and COVID-19 support products. Strategies have been developed that are specific to the nature of student loan and child support debt. However, learnings or interventions might arise in the analysis of the tax debt book that may be applicable to other types of debt.

## Overview of tax debt

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### Drivers of debt

26. Growing tax debt is not specific to New Zealand. Many OECD countries are experiencing growth in tax debt, particularly among small businesses and sole traders.<sup>3</sup> The key driver is the persistently weak global post-pandemic recovery, rising costs, and global trade disruptions, which have strained businesses and households, making it harder for some to meet or prioritise tax obligations.
27. During periods of economic hardship, taxpayers often face cashflow constraints. In these situations, they may treat Inland Revenue as a de facto lender, perceiving penalties and interest as more manageable than borrowing from third parties or defaulting on other obligations. Inland Revenue also focused on providing relief and support to individuals and businesses during the pandemic. This diverted resources away from its usual compliance activities. While arguably necessary at the time, less engagement with taxpayers has had a negative impact on their compliance behaviour and attitude towards paying tax debt. These taxpayers are now struggling to get back on track, in part due to the accumulation of interest and penalties on their debt and debt to other creditors. Delayed liquidation actions have also meant that some businesses have continued to trade and accumulate tax debt and debt to other businesses with whom they have been trading.

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<sup>1</sup> The Budget 2025 forecast period of 2025/26 to 2028/29.

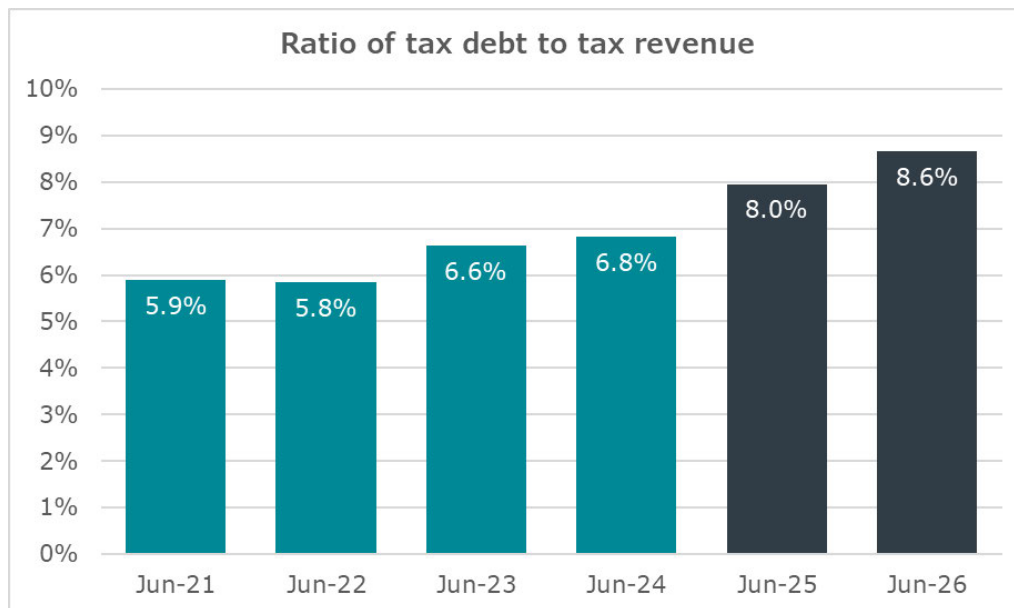
<sup>2</sup> Excluding student loan, child support, and small business cash flow debt.

<sup>3</sup> In Australia, for example, the tax debt book has doubled since 2019 to reach AU\$52 billion by 2024.

### Tax debt is outpacing revenue growth

28. Tax debt has been growing quicker than assessed revenue and debt repayments. The ratio of tax debt to tax revenue was 5.9% in 2021 and is expected to grow to 8.0% in 2025 (see Figure 1).

Figure 1: Ratio of tax debt to tax revenue



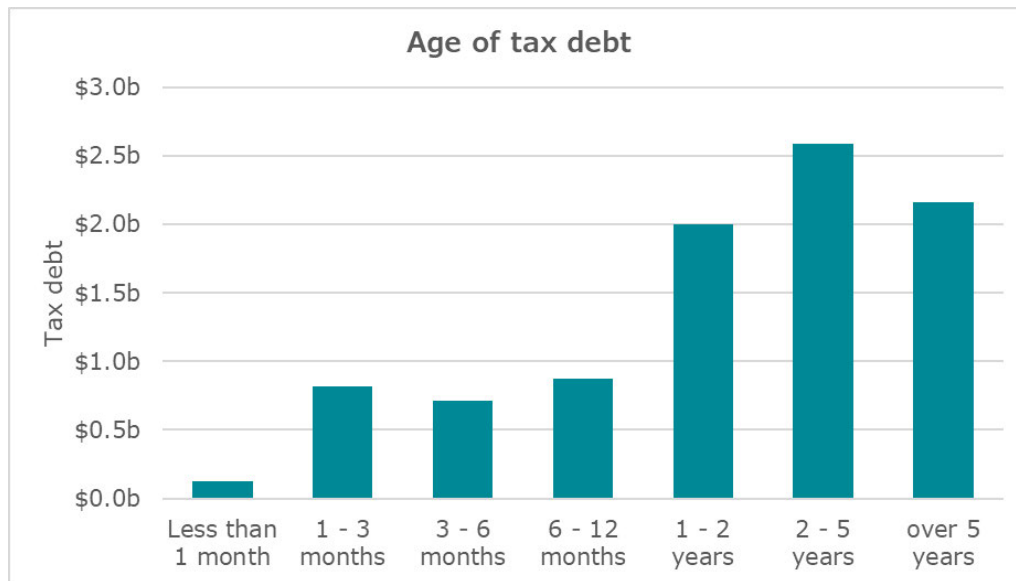
29. By June 2026 the tax debt book is forecast to be \$10.7 billion. The forecast impairment and write-off appropriation required at this level of debt is forecast to be \$1.5 billion in the same year. In general, as the debt book grows and ages, the appropriation required for the impairment and debt write-offs will also increase.

### Aging tax debt harder to collect, attracts penalties and interest, and more impaired

30. While tax debt is increasing, the age of the debt is also growing. Old debt is harder and more resource-intensive to collect. It is also more impaired, which translates into a greater expense on the Government's books. Debt less than two years old is impaired on average by 51%. Debt over two years old is impaired on average by 88%.<sup>4</sup>
31. Figure 2 shows the age of debt broken down by different time periods.

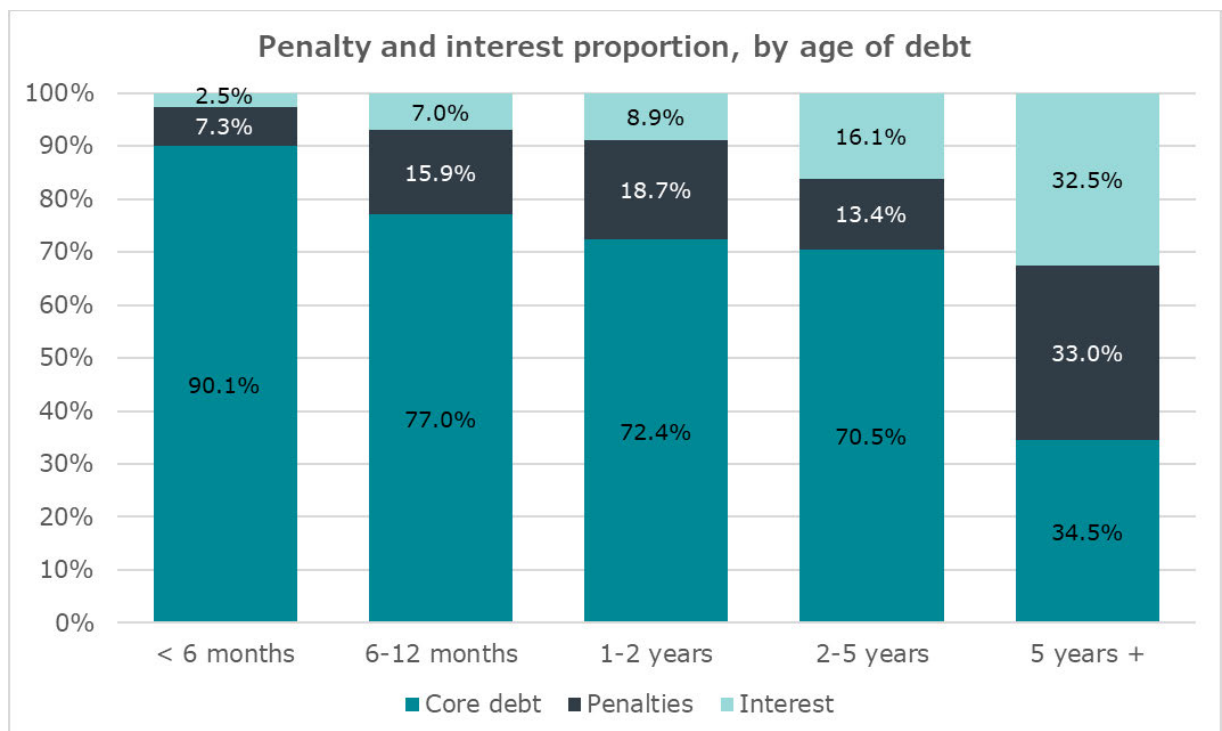
<sup>4</sup> These figures are for the total weighted debt book based on the age of the debt.

Figure 2: Age of tax debt as at June 2025



32. Currently, around 527,000 taxpayers have debt, nearly half of these taxpayers (around 248,000 or 47%) have debt greater than two years old. These taxpayers are typically less engaged.
33. As debt ages, penalties and interest compound the growth of the debt. By the time debt has reached five years of age, penalties and interest comprise 65% of the total debt (see Figure 3). The current debt that is two to five years of age has benefitted from interest and penalties remission during COVID-19. There is a question as to how effective penalties are at deterring debt or encouraging payment after a period of time.

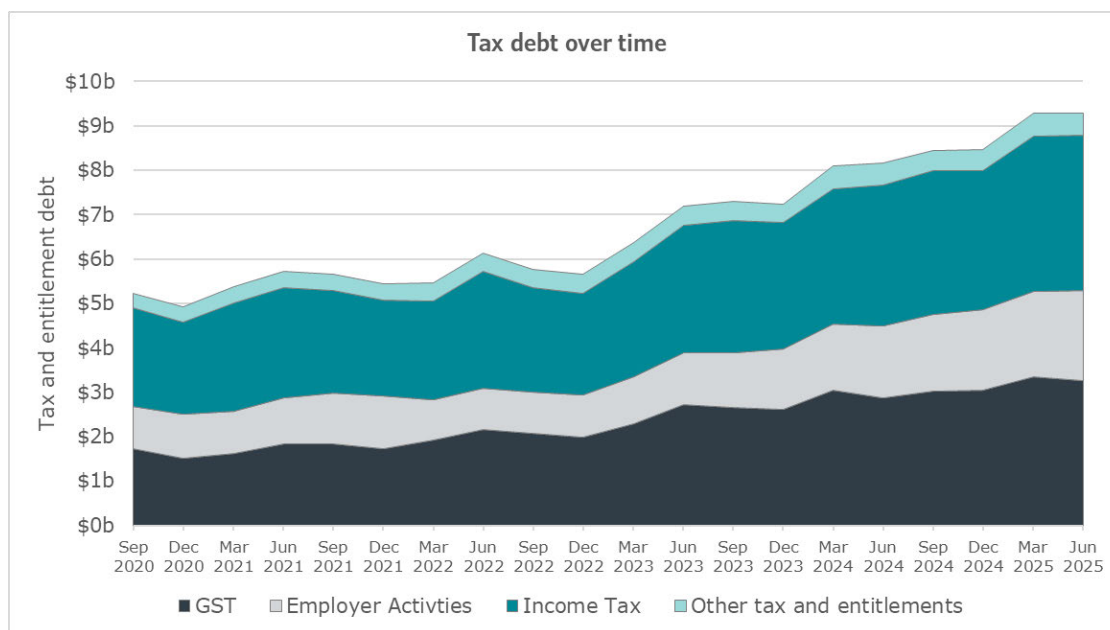
Figure 3: Penalty and interest proportion, by age of debt, as at June 2025



## GST and employer tax debt are of particular concern

34. Although GST and employer deductions (eg, PAYE, KiwiSaver deductions) are reasonably stable as a proportion of taxpayer debt over time, they average over 50% of total debt (see Figure 4). In June 2025, GST comprised 35% and employer deductions 22% of total tax debt. These are taxes essentially held in trust for the Crown, and their payment should not impact on the cash flow of businesses. The Crown must fund the shortfall when taxpayers do not pass on these taxes. Not paying these taxes on time could indicate that a taxpayer is experiencing financial difficulty or cash-flow issues.

Figure 4: Tax debt over time



NB: Employer deductions consist of PAYE, KiwiSaver, student loans.

## Small businesses have higher relative debt and poorer debt outcomes

35. Small businesses have higher relative debt than other taxpayer segments.<sup>5</sup> These taxpayers make up \$6 billion, or 64%, of the total \$9.3 billion tax debt.
36. For very small businesses (less than five employees), the proportion of tax debt to tax revenue is 40%, and 43% of their debt is greater than two years old. Consequently, very small businesses account for 50% of all debt written off. This group is likely hit the hardest by economic conditions and therefore has the most pronounced cashflow issues contributing to higher levels of tax debt.

## Current approach to managing debt

### Reduce opportunities for non-compliance

37. Inland Revenue's approach to managing debt has shifted significantly in recent years. A key guiding principle is "getting it right from the start", which attempts to avoid more costly interventions later. Improved withholding and information collection now means that instead of individuals completing tax returns, returns are automatically generated using data from employers, banks, and financial institutions.<sup>6</sup> Following the individual income tax assessment process,<sup>7</sup> there is often very little tax to pay. Without this shift, we may have experienced even greater growth in tax debt.

<sup>5</sup> Small businesses include individuals who have business income.

<sup>6</sup> Refer to Outcome 1 of the Inland Revenue Business Transformation Final Business Case Addendum, March 2022.

<sup>7</sup> So far over 3.5 million automated assessments have been issued for the 2024–25 income year.

38. For individuals with less simple tax affairs and businesses, the process is more complex. Most of these taxpayers are required to pay provisional tax, as well as file employer and GST returns. For these taxpayers, there are greater opportunities to miss filing and payment dates.

### More resources deployed to debt collection and notifying stakeholders

39. Since COVID-19, resources have been redeployed back into compliance activities. These resources have been supplemented as a result of Budget 2024 funding, which has allowed Inland Revenue to recruit an additional 85 customer services officers solely focused on collecting debt. The target for overdue tax collected for the 2024–25 income year was at least \$4,080 million, the result for this year is \$4,286 million.
40. We are deliberately shifting our stance on debt and taking a firmer approach. We have developed a communications approach and key messages that we are beginning to use with media, business, trade groups and the tax community to communicate what we are doing about debt. We are reinforcing expectations that everyone pays their tax on time and that there are consequences for non-compliance. But at the same time, we are clear that help is available to support customers who may be experiencing difficulties, treating people with respect, and managing debt in a fair and transparent way.

### Tools currently available to encourage compliance and payment of debt

41. We are conscious of the financial pressures that individuals and businesses may be under and will continue to work with all taxpayers that are in debt to find an acceptable way to resolve those debts. We use a full range of levers to encourage taxpayers to comply with their tax obligations and collect any missed payments. Our response is proportionate to the situation, increasing in severity when considering factors like the level of debt or risk of continued non-compliance.
42. Some of the key interventions and tools we will continue to use include:

<b>Automated system reminders</b> – Designed to promote self-service options and encourage customers to engage with Inland Revenue without the need for direct contact.	<b>Penalties and interest</b> – Incentivise taxpayers to pay tax debt.	<b>Relief provisions</b> – Help customers to get back on track, including instalment arrangements and write-off provisions under certain conditions like hardship. We also offer advisory services to help taxpayers manage their debt.
<b>Tailored and more direct engagement</b> – Phone conversations, case management and suggesting legal action for non-payment.	<b>Deduction notices</b> – Requires third parties to redirect funds or a portion of salary or wage payments to Inland Revenue instead of paying them to the taxpayer.	<b>Bankruptcy or liquidation</b> – This is a last resort option after all other interventions have failed to collect the debt.

### Improved analytics and data matching to better target interventions

43. We have improved our analytics and data matching that can be used to identify at-risk customers and to target interventions. We use a tool called *Decision support manager*, which supports the way we manage collections. Some examples of improvements to the tool include:
- **Recognising taxpayers that will self-correct:** This has allowed us to direct resources to taxpayers that need more direct intervention to get back on track.
  - **Offering pre-approved arrangements:** We identify taxpayers that can repay debt through an instalment arrangement. The uptake in pre-approved arrangements has

been positive with 14% (at \$34 million) of customers accepting arrangements and 14% (at \$8.9 million) paying the debt in full.

- **Better targeting of bank deduction notices:** We utilise the information from banks to better target customers (based on their interest income) to directly deduct from their bank account. This has allowed us to collect \$9.3 million from 3,800 customers over six weeks.

### Forecasting debt

44. A key driver of managing the debt book is the ability to more accurately forecast the growth in the book and the forecast impact on this growth of interventions or economic or customer behavioural changes. This will help us to understand the impact of the levers available to us. Enhanced forecasting of debt will flow onto forecasting the impact on impairment and write-off expense and the ability to manage the appropriation. We are investing in building this modelling capability ahead of the next forecasting rounds.

### Significant increase in liquidations

45. The number of statutory demands (early step in the liquidation process) has increased from 759 in the year ending 30 June 2022 to approximately 1,750 in the year ending 30 June 2025. Capacity constraints on the part of Inland Revenue, the courts, and MBIE limit the ability to increase this much further.
46. We receive very little overdue debt from liquidations, but they are necessary to prevent insolvent companies from continuing to trade. As at 30 June 2024, more than 15% of total tax debt was owed by companies in liquidation. We are also exploring Inland Revenue's ability to identify potentially insolvent businesses earlier and considering what actions could be taken to reduce the number of businesses that continue to trade while effectively insolvent.

### Debt interventions

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47. We have identified three areas of focus to further step up Inland Revenue's debt collection activities:
- **Prevention:** Making it less likely debt will arise by identifying at risk taxpayers before they accrue significant debt.
  - **Improving efficiency and effectiveness of current interventions:** Doing what we do now but better and on a larger scale.
  - **Better levers:** More measures that create consequences for non-compliance, including making it transparent which taxpayers are not meeting their obligations as opposed to those that are.
48. Relative to other jurisdictions, we have fewer measures that might influence taxpayer behaviour. GST and employer debt (such as PAYE) are taxes effectively held in trust so timely payment of these taxes should not impact on the cash flow and viability of healthy businesses.
49. Given that GST and employer deductions (eg, PAYE) are two of the most pronounced sources of debt, measures that encourage or require early passing on of this Crown revenue are likely to be the most effective. There is a case for stronger tools to encourage earlier payment of this debt, particularly given the recent growth of GST and employer debt.
50. What follows are potential areas and measures that we recommend for further development and consultation.

### Prevention

51. Preventing debt from arising is the most effective way to mitigate it. Strategies such as increasing withholding taxes, enhancing deductions at source, and integrating tax obligations into the natural systems of business operations can help ensure timely payments.
52. A key issue is the time gap between tax assessment and payment due dates. For example, employers are required to file soon after they pay their employees but are not required to pay at the same time, instead they have until the 20th of the month to pay. Ideally, to maximise revenue collection, payments should be due as soon as (or as close to when) the tax is assessed.
53. The frequency of filing and payment can also be a factor. For example, small businesses can file every six months. If they miss a couple of filing/payment dates, the debt can quickly become hard to manage. Australia is trialling the threat of increasing GST filing frequencies for non-compliant taxpayers to reduce GST debt. We are assessing whether better alignment of filing and payments dates, as well as the increasing frequency of filing/payments, could prevent debt from arising.
54. The following initiatives provide opportunity to prevent debt.
  - s 9(2)(f)(iv)
  - s 9(2)(f)(iv)
  - **Information sharing with MBIE:** Work has been underway on an Approved Information Sharing Agreement (AISA) between Inland Revenue and MBIE. The AISA will allow both agencies to share more information, helping to prevent company “phoenixing”, improve compliance and enforcement, and increase prosecutions of directors for non-compliance.

## Improving efficiency and effectiveness of current interventions

s 9(2)(f)(iv)

Government	Percentage
Current government	85%
Previous government	15%

Country	Share of GDP
United States	10.5%
Germany	10.0%
France	9.5%
Japan	9.0%

*Greater use of third parties*

57. The volume of overdue debt cases means that the bar for personalised intervention is high. As a result, some taxpayers do not get contacted for some time after they get into debt. We are trialling a new service and outsourcing smaller debts to Baycorp when



earlier action may prevent the debt growing to unsustainable levels. The pilot covers 3,000 cases and runs until September 2025. It will test whether using a third-party provider is an efficient and effective way to engage with taxpayers with low levels of debt.

## Better levers

### *Promoting tax transparency*

58. We are investigating what levers we currently have that might promote tax transparency, whether they are being used effectively, and if additional measures might be useful. Tax transparency plays a crucial role in promoting trust, accountability, and fairness in the tax system.
59. We have the ability to pass on information to credit agencies in cases of serious non-compliance. Credit reporting was introduced in 2017 to encourage compliance and to help the business community by increasing the visibility of significant tax debts. The rules require that the debt exceeds \$150,000,<sup>8</sup> the business is notified before reporting, and reasonable efforts are made to collect the unpaid tax. Due to the uncertainty as to what qualifies as "reasonable efforts" and the high threshold, we have only reported 27 taxpayers to a single credit reporting agency since the introduction of this lever.
60. We are doing interpretive work on credit reporting. This work covers whether the threat of credit reporting is effective, particularly early on when a taxpayer first gets into debt. Depending on the outcome of that work, changes might be required to ensure the rules are workable in practice.

61. s 9(2)(f)(iv)  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]

### *Incentivising compliance*

62. We are investigating other levers that might incentivise compliance, specifically levers to increase the consequences of sustained non-compliance and unpaid tax debt.
63. We have the ability to pass tax debt on to directors and shareholders. This lever was introduced in 1992 and was specific to situations where an arrangement has been entered when the company cannot meet a tax liability.<sup>9</sup> Due to the narrow application of the rule and the burden of proof required, this lever has been rarely used.
64. s 9(2)(g)(i)  
[Redacted]  
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[Redacted]  
[Redacted]
65. s 9(2)(g)(i)  
[Redacted]  
[Redacted]  
[Redacted]
66. We continue to investigate tools and policy settings that other jurisdictions have available to incentivise compliance and reduce tax debt, and whether these tools/settings might be effective in the New Zealand context. Subject to your

<sup>8</sup> Or the amount must be more than a year old and is more than 30% of the taxpayer's gross income.

<sup>9</sup> This prevents the assets of the company being stripped leaving the company unable to meet its tax liability.

agreement, we can update you on our assessment of these tools and/or policy settings as part of reporting back on the credit reporting and director/shareholder liability rules.

**Next steps**

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- 67. Reducing the growth of debt is a significant challenge and it will take some time to address the problem, but we are making progress. We plan to report to you on our progress before the end of the financial year. We are happy to discuss the contents of this report with you.
- 68. We plan to report back with advice on policy options to reduce tax debt in the final quarter of this year. s 9(2)(f)(iv) [redacted]  
[redacted] s 9(2)(g)(i) [redacted]  
[redacted]  
[redacted]



## Briefing note

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Reference: BN2025/337

Date: 8 August 2025

To: Revenue Advisor, Minister of Finance – Carl Harris  
Revenue Advisor, Minister of Revenue – Angela Graham  
Private Secretary, Minister of Revenue – Helen Kuy

From: Murray Shadbolt, Principal Policy Advisor

Subject: Response to information requested by the Ministerial Advisory Group  
considering funding of early childhood education

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### Background

1. An Early Childhood Education (ECE) Funding Review has been initiated to modernise the funding system to ensure it is simple, fair, and provides value for money. This review, established by Associate Education Minister David Seymour, is being carried out by the Ministerial Advisory Group (the Group) and is chaired by Linda Meade.
2. The review aims to address concerns about the current ECE funding model, including ECE affordability and access, targeted versus universal funding, complexity, and impact on child development and labour market participation. The terms of reference for the ECE Funding Review do not include 20 Hours ECE funding but have recently been updated to include FamilyBoost.
3. Officials from the Ministry of Education, the Ministry of Social Development and Inland Revenue have been asked to support the Group as they conduct the review. Inland Revenue attended the first officials' meeting with the Group on 16 July. During this meeting, the Group requested additional information regarding FamilyBoost.

### Purpose

4. The purpose of the enclosed briefing note is to address the information sought by the Ministerial Advisory Group regarding FamilyBoost, as part of the ECE Funding Review.
5. Specifically, this note provides responses on three main areas:
  - Barriers to uptake of FamilyBoost
  - Measures underway to improve uptake, and
  - The scope and detail of data available from Inland Revenue, including relevant insights and limitations.
6. Inland Revenue will continue to support the Group as it progresses the review and makes its recommendations. Officials will continue to keep you informed of relevant information we submit to the Group.

### Consultation with other agencies

7. The Treasury was informed about this briefing note.

- [REDACTED]
8. The Ministry of Education and the Ministry of Social Development are also supporting the Early Childhood Education funding review. The Ministry of Education were provided with the enclosed note to pass on to the Group.

Murray Shadbolt

**Principal Policy Advisor**

s 9(2)(a) [REDACTED]































