2019 Tax Expenditure Statement

30 May 2019

URL at 30 May 2019: https://treasury.govt.nz/publications/tax-expenditure/2019-taxexpenditure-statement

Introduction

The purpose of this statement is to provide additional transparency around policy-motivated 'expenditures' made through the tax system. Tax expenditures take the form of an exemption, allowance, preferential tax rate, deferral, or offset that reduce a tax obligation to achieve a specific policy objective. The concept recognises that the result is similar whether a government chooses to spend directly on or forego revenue from certain individuals, groups, or activities.

This voluntary disclosure improves our transparency arrangements by bringing New Zealand's financial reporting closer to OECD best-practice standards. This statement is not intended to be a statement of policy effectiveness or desirability.

All expenditures recorded in this statement include a short description. Expenditures in Tables 3 and 5 also include a policy rationale, as well as a classification by type (social, business or other) and impact (historic, timing or permanent).

The fiscal cost of a small sub-section of expenditures with readily accessible data is quantified in Table 2 of the statement. The government does not collect data on all tax expenditures as the compliance and administration costs of collecting additional data exceed the value that data might provide.

Changes from Previous Statements

The 2019 Tax Expenditure Statement is very similar to last year's statement. As detailed in Table 6, two tax expenditures have been added to this year's statement. One expenditure expired at the end of the income year and will be removed from next year's statement.

Table 2 has been updated to include the two new tax expenditures. A brief explanation of how the various expenditures listed in Table 2 are calculated is provided in the *Quantification Methods* section on page 17.

What is a Tax Expenditure?

Governments can spend in a variety of direct and indirect ways. International public sector accounting standards (IPSAS 23) divide spending into three different categories: direct spending; spending through the tax system; and tax expenditures.

Table 1: Classification of Crown spending under public sector accounting standards

	Definition	Reporting
Direct spending	Traditional spending made as a direct transfer between the Crown and different entities or individuals.	Disclosed in the *Financial Statements of the Government* and annual Budget.
Spending through the tax system	Hybrid transfers that can be taken as a cash payment or via a reduction in tax.	A predictable cash value allows these transfers to be formally appropriated and disclosed in the *Financial Statements of the Government* and annual Budget.
Tax expenditures	Individual features of the tax system that reduce an entity's tax obligation in a way that is designed to give effect to policy other than to raise revenue in the most efficient and economically neutral way.	Tax expenditures are defined in tax legislation, but have not previously been disclosed. The 2010 statement was the first disclosure since 1984.

Tax systems differ from country to country. Thus, there is no current international consensus as to how tax expenditures should be categorised. The Treasury released a discussion of how tax expenditure reporting could be categorised to meet New Zealand's objectives in the Treasury *Policy Perspectives Paper 09/01*.

Some countries define tax expenditures indirectly relative to a normative benchmark. This approach allows countries to report a wider set of structural tax expenditures that are generally applicable[1]. This document has focused, in the first instance, on a narrow subset of tax expenditures that bear a distinct fiscal cost and represent a clear policy-motivated exemption[2] to current tax practice. A summary of the guiding criteria is included in Figure 1.

No attempt has been made to identify a normative tax benchmark or to comprehensively analyse tax legislation.

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1 For example, Portfolio Investment Entities (PIEs) offer all tax payers the option of relatively 'concessional' tax treatment as a mechanism to encourage portfolio investment. While a non-revenue policy objective suggests that PIEs could be categorised as a tax expenditure, PIEs are excluded from the tax expenditure definition used in this document as PIEs are available to all taxpayers. A benchmark tax system would allow the Treasury to categorise structural features of the tax system such as PIEs, trusts, or progressive personal tax rates. A benchmark tax structure is useful where no clear exemption exists as it would define what constitutes the 'standard' tax treatment. For instance, is the 'standard rate' the company rate, PIE rate, trust rate, or one of the personal tax rates?

2 The stated purpose of the *Income Tax Act 2007* is to "define, and impose tax on, net income". Tax expenditures are not motivated by a desire to raise revenue in the most efficient manner possible, but instead are significantly motivated by non-revenue policy objectives.

Figure 1: Guiding criteria for inclusion in this disclosure document

Is the concession available to a targeted group or type of activity?

No

Example of an exclusion:
Portfolio Investment Entities (PIEs) are taxed at a capped rate, but are broadly available. Conversely, accelerated deductions for bloodstock are targeted at a specific group (bloodstock owners) and would thus qualify under this definition.

Do not include:
The PIE provisions could potentially be categorised as a tax expenditure, but the Treasury would need to define a normative tax structure i.e. is the 'normal' tax rate the company rate, personal rate, or the PIE rate?

Yes

Does the provision represent a targeted reduction in a tax obligation relative to current tax practice?

No

Example of an exclusion:
Alcohol and tobacco excise that are high relative to other duties are treated as negative tax expenditures in some countries. Negative tax expenditures are excluded as the level of excise is adequately disclosed in other tax statements.

Do not include:
Negative tax expenditures (high relative taxes) are excluded. This document aims to release items that receive a lower rate of tax i.e. are equivalent to spending through the tax system.

Yes

The provision is not primarily administrative or motivated by a (domestic of international) double taxation objective?

No

Example of an exclusion:
The explicit exclusion for superannuation schemes from financial arrangements rules in section EW(5)(15) of the Income Tax Act 2007 is not a tax expenditure as the intention is to prevent taxation under more than one part of the Income Tax Act 2007.

Do not include:
The intention is to clarify tax obligations under the broad structure of the Income Tax Act 2007 – not to achieve a policy such as targeted tax relief for a policy or subset of people.

Yes

Is the provision significantly motivated by a non-revenue policy objective?

No

Example of exclusion:
Concessional depreciation rates may be based on an unrealistic assumption about the economic life of an asset (a tax concept). Conversely accelerated depreciation may be provided for specific industries for policy reasons. The later would qualify as a tax expenditure.

Do not include:
Tax provisions balance a range of tax and non-tax objectives. In practice inclusion is a matter of judgement as to whether the provision is "significantly motivated" by a non-revenue objective. When uncertain, our inclination is towards transparency and inclusion.

Yes

Disclose the tax provision as part of the tax expenditure report

The tax expenditure is disclosed primarily as a tax provision that is significantly motivated by a non-revenue policy objective. Disclosure indicates that the government has forgone a quantifiable or unquantifiable amount of revenue to achieve this policy objective.

Disclosure, in line with other financial reporting, makes no statement about the desirability of the provision or the effectiveness of the policy.

This approach is intended to pick up tax provisions that are clear tax expenditures. Due to the lack of a tax benchmark, the list is not intended to be exhaustive.

Current Tax Expenditures

The following sections list tax expenditures drawn from the *Income Tax Act 2007* and *Goods and Services Tax Act 1985*, as at 1 April 2019. Appropriated cash payments (spending) made through the tax system, eg, *Working for Families* tax credits[3], have also been included in the list. Cash payments made through the tax system do not formally meet a tax expenditure definition but have been included for transparency purposes.

The fiscal cost of a small sub-section of tax expenditures with readily accessible data has been quantified (see Table 2). The government does not collect data on all tax expenditures as the compliance and administration costs of collecting additional data exceed the value that data might provide.

Tables 3 and 5 also provide the classification and policy rationale for individual expenditures. These were added initially to the 2017 statement to provide greater transparency, as recommended by the Open Budget Initiative and Transparency International[4].

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[3] Comprises the Child tax credit, Family tax credit, In-work tax credit, Parental tax credit, Minimum Family tax credit and Best Start tax credit.

[4] http://www.internationalbudget.org/budget-work-by-country/findgroup/group-data/?country=nz; https://www.transparency.org.nz/docs/2013/Integrity-Plus-2013-New-Zealand-National-Integrity-System-Assessment.pdf

Table 2: Quantified Tax Expenditures and Spending through the Tax System

Quantified tax expenditures	Value of expenditure 2013/14 (actual)	Value of expenditure 2014/15 (actual)	Value of expenditure 2015/16		Value of expenditure 2016/17		Value of expenditure 2017/18		Value of expenditure 2018/19 (forecast)
			As at April 2019	Estimated Actual	As at April 2019	Estimated Actual	As at April 2019	Estimated Actual	
Charitable or other public benefit gifts by a company: deduction	17	31	*27*	27	*30*	30	*37*	40	40
Charitable or other public benefits: tax credit	239	247	*255*	255	*261*	263	*260*	274	274
Independent earner tax credit	226	228	*225*	228	*227*	228	*223*	228	228
Māori Authorities: donations	0.9	4.8	*3.7*	3.7	*4.0*	4.0	*4.4*	4.4	4.4
Bloodstock deductions	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-

Note: measured in $000,000s over March tax years. Italicised values may be incomplete. See Quantification Methods on page 17 for further information on quantification methods.

Appropriated spending through the tax system	Value of expenditure 2013/14 (actual)	Value of expenditure 2014/15 (actual)	Value of expenditure 2015/16 (actual)	Value of expenditure 2016/17 (actual)	Value of expenditure 2017/18 (actual)	Value of expenditure 2018/19 (forecast)
Child tax credit	1.8	1.3	1.1	0.9	0.8	0.6
Family tax credit	2,015	2,006	1,793	1,728	1,639	2,271
In-work tax credit	533	511	513	548	515	525
Parental tax credit	18	21	31	30	28	3
Minimum Family tax credit	14	16	14	13	12	14
Best Start tax credit	N/A	N/A	N/A	N/A	N/A	52
KiwiSaver tax credit	804	855	698	743	807	869
Research and Development tax incentive	N/A	N/A	N/A	N/A	N/A	40

Note: These credits are appropriated and are measured in $000,000s over fiscal years.

Tax Expenditures Categorisation

In the tables that follow, tax expenditures and appropriated spending are categorised by *Type* and *Impact*.

Notes on Categorisation

In this statement there are three *types* of tax expenditures:

1 **Social:** Tax expenditures that are introduced with the purpose of achieving certain social policy objectives. These can be either appropriated spending – such as the *Working for Families* tax credits – or income exemptions or deductions such as the Charities tax credit or the deduction for Māori Authority donations.

2 **Business:** Tax expenditures that are aimed at incentivising certain types of business or commercial activities in order to meet explicit or implicit economic policy objectives. Some examples include: income exemption for bodies promoting scientific or industrial research, or the deduction for petroleum mining expenditure.

3 **Other:** Tax expenditures that are not expressly introduced to achieve social or business economic policy objectives. An example is the tax exemption for the allowances of the Governor General.

Tax expenditures are also categorised by their *impact*. That is, whether their effect on the current tax base results from *historic* policy settings, and/or whether they are *permanent*, that is subject to no future reversal, or that they facilitate *timing* changes which reverse in the future. Detailed definitions of these *impact* categories are as follows:

1 **Historic:** Tax expenditures that are no longer available for new claims, but qualifying activity from the past can still affect tax revenues. Some examples include: accelerated depreciation and home ownership savings.

2 **Timing:** Tax expenditures that achieve a tax deferral through allowing later recognition of income or earlier deductions that reverse over following years. An example is the film industry expenditure deduction.

3 **Permanent:** Tax expenditures that reduce the overall amount of tax payable or increase entitlement to Crown expenditure. Some examples include: income exemption for Community Trusts and the Charitable or other public benefit gifts tax credit.

Table 3: Tax Expenditures Included in the *Income Tax Act 2007*

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Accelerated depreciation	*Sections DO 4-5, 12, DP 3, DZ 17-18, EE 31* *-Accelerated write-off*	The ability to depreciate capital items faster than their economic life reduces income by a greater amount in earlier years (deferring tax payments). This covers both primary sector amortisation and fixed asset depreciation.	To encourage investment in depreciable assets.		✓		✓	✓	
Accommodation allowances	*-Exemption*	Certain exemptions in relation to accommodation and accommodation allowances for these three groups.	Employer provided accommodation and accommodation payments provide a private benefit to the employee and should be taxed. In these three instances, there is little benefit to the employee, because the accommodation or payments arise from the requirements of the employer or the job.			✓			✓
Defence Force	*Section CE 1D* *-Exemption*	Accommodation provided to a member of the Defence Force – difference between market rental value and rental charged is exempt income.	NZDF staff are required to accept postings anywhere in the country. Some housing is on base and under certain restrictions.			✓			✓
Ministers of religion	*Section CE 1E* *-Exemption*	Owned and rental accommodation supplied by religious bodies to their ministers - cap on the amount used to value the benefit of the accommodation.	Subsidised accommodation enables and encourages ministers, who are generally low wage earners, to better perform their religious duties and provide a service to their communities (often the expectation is parishioners can visit their home).			✓			✓
Canterbury rebuild	*Section CZ 29* *-Exemption*	Transitional rule to provide an extended exemption for employer-provided or paid accommodation for employees working on Canterbury earthquake reconstruction projects from 4 Sep 2010 to 31 March 2019.[5]	Recognised longer-term nature of Canterbury rebuild projects			✓			✓

5 Note this concession expired on 31 March 2019 but is recorded here for completeness. See also Table 6.

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Allowances of the Governor-General	*Section CW 16* *-Exemption*	Allowances and benefits received by the Governor-General and former Governor-Generals under the *Governor-General Act 2010* are exempt from tax.	Administrative convenience, as the Governor-General's allowance covers both personal and office expenses.			✓			✓
Bloodstock: accelerated deductions	*Sections EC 38-48* *-Accelerated write-off*	Both the timing and rate of write downs are accelerated when compared with an economic approach.	To encourage the ownership and breeding of stallions and broodmares.		✓			✓	
Bodies promoting amateur games and sports: exempt income	*Section CW 46* *-Exemption*	Income derived by a club, society or association is exempt income, providing it is established to promote an amateur game or sport and no funds are used for private pecuniary profit.	To encourage amateur games or sports which have the purpose of promoting physical activity across generations for the general well-being of society.	✓					✓
Bodies promoting scientific or industrial research: exempt income	*Section CW 49* *-Exemption*	Income derived by a society or association established mainly to promote or encourage scientific or industrial research is exempt income, providing the society or association is approved by the Royal Society of New Zealand and no funds are used for private pecuniary profit.	To encourage research that is of national interest, and ensure these institutions are on a level playing field with other tax exempt organisations.		✓				✓
Certain income derived by transitional residents: exempt income	*Sections CW 27 and HR 8* *-Temporary exemption*	New tax residents (both immigrants and returning New Zealanders) can gain a temporary tax exemption for up to four years on most foreign-sourced income (NZ tax on foreign-sourced income is higher than some other countries).	To reduce the costs to NZ businesses associated with recruiting highly skilled and mobile individuals; remove tax barriers that may inhibit international recruitment to NZ; and grow development of a competitive and innovative economy.			✓			✓
Charitable or other public benefit gifts by a company: deduction	*Section DB 41* *-Deduction*	A company is allowed a deduction for a charitable or other public benefit gift of cash when made to an entity described in section LD(3)(2) or listed in schedule 32 of the *Income Tax Act 2007*. This deduction is limited by net income.	Tax incentives for charitable donation.	✓					✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Charitable or other public benefit gifts by an individual: tax credit	*Subpart LD* *-Deduction*	An individual who makes a charitable or other public benefit gift is, under certain conditions, allowed a refundable tax credit. This applies to cash donations only and is limited by taxable income.	Tax incentives for charitable donation.	✓					✓
Charities deregistration	*Section HR 12* *-Exemption*	Charities that predominately provide community housing are exempt from section HR 12 (tax on deregistration of charities) in qualifying circumstances.	To ensure that assets and income accumulated while an entity was exempt from income tax as a charity is destined for charitable purposes.	✓					✓
Charities: exempt income	*Sections CW 41-43* *-Exemption*	Business, non-business and charitable bequests are exempt income for registered charitable entities. The exemption does not apply to business income to the extent that the charity carries out its charitable purposes outside New Zealand.	To support the carrying out of charitable purposes and encourage individuals to leave bequests to charities.	✓					✓
Community housing: exempt income	*Section CW 42B* *-Exemption*	Income derived by community housing entities is exempt income.	To help promote home ownership for New Zealanders who would not otherwise be able to afford to buy a house. Supports community housing providers that offer pathways to home ownership to low-income households but may no longer be considered charitable entities.	✓					✓
Community trusts: exempt income	*Section CW 52* *-Exemption*	Income derived by the trustee of a community trust is exempt income.	To assist with providing community benefits for the good of the public.	✓					✓
Farming business expenditure: accelerated deductions	*Sections DO 1-3, DO 10* *-Deduction*	Certain deductions granted for improvements and enhancements to land for farming can be expensed rather than treated as capital and amortised, eg, fencing.	To increase the productive capacity of existing farms and the quality of the nation's exports.		✓			✓	✓
Film industry expenditure: accelerated deductions	*Section DS 1-4* *-Deduction*	Expenditure incurred acquiring film rights or film production expenditure can be expensed over a specified time frame.	To encourage the development of the New Zealand screen production industry.		✓			✓	

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Forestry encouragement grant: accelerated deductions	*Section DP 5* *-Deduction*	Forestry expenditure incurred by a person who derives a forestry encouragement grant that is not grant related is immediately deductible.	To encourage the planting of woodlots and ensure an adequate supply of timber for future need.		✓		✓	✓	
Forestry expenditure: accelerated deductions	*Section DP 1* *-Deduction*	Expenditures associated with forestry (eg, planting or tending costs) can be expensed rather than capitalised against harvest proceeds.	To encourage the establishment of new forests.		✓			✓	
Friendly societies: exempt income	*Section CW 44* *-Exemption*	Specified income derived by a friendly society is treated as exempt income.	Mutuality principle that a person cannot derive income from mutual transactions as they are of a similar nature to trading with oneself.	✓					✓
Fringe benefit tax: partial exclusion for charities	*Section CX 25* *-Exemption*	Generally fringe benefits provided to employees not involved in a charities' business are exempt FBT.	The cost of complying with FBT obligations would be onerous and reduce the funds available for charitable purposes.	✓					✓
Funeral Trusts: exempt income	*Section CW 45* *-Exemption*	Interest or a dividend derived by a trustee in a funeral trust is exempt income.	To reduce compliance costs for sickness, accident and death funds that would need to restructure to be recognised as friendly societies.	✓					✓
Herd improvement bodies: exempt income	*Section CW 51* *-Exemption*	Income derived by a herd improvement association, or society established mainly to promote an improvement in New Zealand dairy cattle, is exempt income, providing no funds are used for private pecuniary profit.	Herd improvement bodies were considered of national significance at the time.		✓				✓
Income equalisation schemes: deduction	*Subpart EH* *-Deduction*	Persons working in forestry, fishing, or farming entities may reduce their taxable income in a year by depositing taxable income with Inland Revenue. The schemes allow taxable income to be transferred between years thereby smoothing taxable income.	To facilitate income smoothing.		✓			✓	

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Income for military or police service in operational area: exempt income	*Sections CW 23-24* *-Exemption*	Specified income derived by members of the New Zealand Defence Force (or the police) serving in an operational area can be treated as exempt income.	To increase equity and reduce the administrative burden across the New Zealand Defence Force and the Police.			✓			✓
Income from conducting gaming-machine gambling: exempt income	*Section CW 48* *-Exemption*	Gross gambling proceeds from gaming-machine gambling are exempt income if the person complies with the *Gambling Act 2003*. Note that turnover is separately taxed.	To reduce compliance costs and ensure there is no bias in favour of amateur sports, which have an income tax exemption.			✓			✓
Independent earner: tax credit	*Section LC 13* *-Tax Credit*	Individuals whose income is between $24,000 and $44,000, and who are not receiving certain forms of income, are entitled to a tax credit of $520. This credit abates once annual income rises above $44,000.	To improve incentives to participate in the workforce.	✓					✓
Interest on home vendor mortgages: tax credit	*Sections LZ 6-8* *-Tax Credit*	A tax credit may be available for interest from a home vendor mortgage, providing it was approved by the Housing NZ Corporation, on or before 5 August 1982.	To encourage home ownership.	✓			✓		✓
Jurors' and witnesses' fees: exempt income	*Section CW 26* *-Exemption*	Fees paid by the Crown to jurors and its witnesses, other than expert witnesses, are exempt income.	To encourage public involvement in law enforcement by increasing the net payment to witnesses. Cost savings for the Department of Justice who administer the payments, which outweigh the tax foregone.	✓					✓
Local and regional promotional bodies: exempt income	*Section CW 40* *-Exemption*	The income derived by a charitable association or society is exempt income, if it is primarily established for beautification purposes.	To encourage local and regional beautification/advertisement.	✓					✓

				Type			Impact		
Tax Expenditure	**Sections/ Classification**	**Comment**	**Policy Rationale**	**Social**	**Business**	**Other**	**Historic**	**Timing**	**Permanent**
Māori Authorities: donations	*Section DV 12* *-Deduction*	A Māori authority is allowed a deduction for a cash donation that it makes to a Māori association as defined in the *Māori Community Development Act 1962*. It is also allowed a deduction for charitable or other public benefit cash gifts. This deduction is limited by net income.	Tax incentives for charitable donation.	✓					✓
Non-profit organisations	*Section DV 8* *-Deduction*	Non-profit organisations are entitled to an income tax deduction for the lesser of $1,000 and their net income.	To reduce compliance costs.	✓					✓
Non-resident oil rig and seismic vessel operator - tax exemption	*Section CW 57* *-Exemption*	Income derived by non-resident operators of oil rigs and seismic vessels is exempt from taxation.	To prevent rig operators leaving NZ before 183 days and a separate operator having to come in to finish the job.		✓				✓
Payments of interest post-war credits: exempt income	*Section CW 5* *-Exemption*	Interest derived by a person under section 2 of the *Income Tax (Repayment of Post-War Credits) Act 1959* of the United Kingdom Parliament is exempt income.	To reduce compliance costs, as interest on post-war credits was already exempt from tax in the UK.	✓					✓
Payments of interest on farm mortgages: exempt income	*Section CW 6* *-Exemption*	50 percent of the interest that an individual derives from a mortgage securing a loan made by a seller of a farm is exempt income, if the Rural Banking and Finance Corporation of New Zealand approves the mortgage.	To encourage young farmers.		✓				✓
Petroleum mining expenditure: accelerated deduction	*Subpart DT, sections EJ 12-20* *-Deduction*	Development expenditure is written off over an accelerated seven-year period.	To make the NZ mining industry more competitive internationally (and similar to the rules in Australia)		✓			✓	
Plain clothes allowances	*Section CW 17CC* *-Exemption*	In very limited circumstances a plain clothes allowance paid to an employee who is also provided with a uniform can be tax exempt.	To reduce compliance costs. Consistent with longstanding practice.			✓			✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Research and Development (R&D) – cashing out tax losses	*Subpart MX* *-Cash-out of losses*	In qualifying circumstances a company that conducts R&D and incurs tax losses may cash out the tax value of the research and development part of the tax losses. This is repayable against future profits, or in certain other circumstances.	To reduce bias against investment in R&D start-ups arising from the current treatment of tax losses.		✓			✓	
Scholarships and bursaries: exempt income	*Section CW 36* *-Exemption*	Any scholarship or bursary payment for attendance at an educational institution is exempt income, except for a basic grant or an independent circumstances grant under the *Education Act 1989*.	To assist education development.	✓					✓
TAB and racing clubs: exempt income	*Section CW 47* *-Exemption*	Income derived by the New Zealand Racing Board, New Zealand Thoroughbred Racing, Harness Racing New Zealand and the New Zealand Greyhound Racing Association is exempt income. Note that betting turnover is separately taxed.	To reduce administrative costs owing to the small amount of receipts.		✓				✓
Te Awa Tupua	*Section CW 40C and the Te Awa Tupua (Whanganui River Claims Settlement) Act 2017* *-Exemption*	Income received by Te Pou Tupua is exempt from income tax so long as it is applied for the purposes set out in the *Te Awa Tupua (Whanganui River Claims Settlement) Act 2017*.	Treaty of Waitangi settlement.			✓			✓
Te Urewera Board	*Section CW 40B and the Te Urewera Act 2014* *-Exemption*	Te Urewera Board's income (generally from concessions) is exempt from tax so long as it is applied for the purposes set out in the *Te Urewera Act 2014*.	Treaty of Waitangi settlement.			✓			✓
Veterinary services bodies: exempt income	*Section CW 50* *-Exemption*	Income derived by a veterinary association, club, or society established mainly to promote efficient veterinary services in New Zealand is exempt income, providing no funds are used for private pecuniary profit.	Originally established as the bodies were seen to be of national significance.		✓				✓

Table 4: Approved Appropriated Spending Made through the Tax System

Tax Expenditure	Sections	Comment	Type			Impact		
			Social	Business	Other	Historic	Timing	Permanent
Child tax credit	*Section MZ 2*	Families with a pre-existing entitlement dating from before 31 March 2006 are able to claim a tax credit for dependent children. Additional access to this tax credit is no longer available.	✓			✓		✓
Family tax credit	*Section MD 3*	Families are entitled to an income tested tax credit or cash payment for children aged 18 years or younger.	✓					✓
In-work tax credit	*Section MD 10*	Families with children 18 years or younger that work the required number of hours per week are entitled to an income tested in-work tax credit.	✓					✓
KiwiSaver tax credits	*Section MK 1-8*	The savings of participants in the KiwiSaver scheme are entitled to a tax credit.	✓					✓
Parental tax credit	*Section MD 12*	A tax credit may, under certain conditions, be paid to families with a newborn baby for the first 70 days (ten weeks) after the baby is born.	✓					✓
Minimum Family tax credit	*Section ME 1*	A tax credit may be available to ensure that the annual income (after tax) of a family with dependent children 18 or younger does not fall below the specified threshold ($26,572 from 1 April 2019).	✓					✓
Best Start tax credit	*Section MG*	Families are entitled to a tax credit for the first year of a child's life. The credit may, under certain conditions, continue to be paid to families with a dependent child until the child turns three years old.	✓					✓
Research and Development tax incentive[6]	*Proposed new subpart LY*	A tax credit of 15% will be provided in relation to expenditure on R&D activity. Expenditure has to be primarily in New Zealand and at least $50,000 and no more than $120 million.[7]		✓				✓

6 In process of being legislated for (see table 6).

7 The credit is proposed to apply from the 2019-20 income year.

Table 5: Tax Expenditures Included in the *Goods and Services Tax Act 1985*

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Input tax (GST) recovered by registered non-profit bodies	*Section 20 3K* *-Deduction*	GST input tax is able to be recovered where the input tax does not factually relate to taxable supplies made by a non-profit body.	Except for input tax relating to exempt supplies, a non-profit body should be able to recover all other input tax whether or not it relates to the making of taxable supplies. This ensures, for example, that input tax can be recovered in relation to donations.			✓			✓

Table 6: Revisions to Tax Expenditures since the 2018 Tax Expenditure Statement

Tax Expenditure	Sections	Comments
Added expenditures		
Research and Development tax incentive	*New subpart LY and schedules 21 and 21B*	Provides a tax credit for R&D expenditure, to encourage businesses to undertake R&D. The credit is in the process of being legislated for, through the Taxation (Research and Development Tax Credits) Bill. The credit will apply from the 2019-20 income year.
Bloodstock deductions	*EC 47C*	Added by the *Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Act* 2019. The policy allows new investors in qualifying yearlings to claim tax deductions as if they have a bloodstock breeding business.
Removed expenditures		
Canterbury Rebuild accommodation concession	*CZ 29*	This transitional provision has ended. The last period covered ended on 31 March 2019.

Quantification Methods

This section provides further information on the methods used to obtain those expenditures listed in Table 2.

Quantified Tax Expenditures

Charitable or other public benefit gifts by a company: deduction

This item is sourced from the *Income tax return for companies (IR4)*. The values returned are the amount of donations made; the tax expenditure associated with these donations are the amount of donations multiplied by the company tax rate prevailing for the tax year in which the donations are returned.

Analysis of filing patterns in the previous two years suggests that claims for donation-related deductions are generally available by April the following year, and additional claims for a deduction are not large. Consequently, data for 2017/18 uses the claims information available at the 18 April 2019 with a small allowance for later claims.

The forecast for 2018/19 is, in the absence of better information, held at the same level as for 2017/18.

Charitable or other public benefits: tax credit

This item is sourced from the *Tax credit claim form (IR526)* and from the *Employer Monthly Schedule* for payroll giving.

Analysis of filing patterns for the IR526 return suggests that over 90 percent of claims for tax credits in the 2017/18 year will be received by April 2019. Consequently, for the estimated actual figure for 2017/18 we have assumed a small scale up on the credits received by 18 April.

The forecast for 2018/19 is, in the absence of better information, held at the same level as the 2017/18 estimate.

The (small) payroll giving component of the donations reported in this expenditure is available within 20 days of the end of the month in which the donation was made, and actual data is used for both the 2017/18 and 2018/19 years. Table 2 was updated before 20 April, but the value of credits claimed tends to be small enough to have little impact on the annual figure reported here.

Independent earner tax credit

The Independent Earner Tax Credit (IETC) can be claimed at year end, or during the year through the PAYE system. For the year-end claims, the amount is compiled directly from the Individual tax return (IR3) or Personal tax summary. For the PAYE claims of people who do not square up at year end, the amount of IETC claimed is imputed monthly from the PAYE earnings of people who have selected 'ME' tax codes for their PAYE. This monthly imputation annualises the earnings of that particular month, and imputes entitlement on the basis of these monthly earnings, not on the basis of the annual earnings.

The final step in quantification of IETC for any given return period is an estimate for late claims. Not all claims are made within a year of their entitlement, and back periods can continue to grow as late claims are made through the square-up process. From past experience, up to $20 million of additional claims can be made in second and subsequent years.

Because of the ongoing potential for back-year claims, the estimate for any year is set at the largest of the preceding "complete" years.

Māori Authorities: donations

This item is sourced from the *Income tax return for Māori authorities (IR8)*. The values returned are the amount of donations made; the tax expenditure associated with these donations is the amount of donations multiplied by the Māori authority tax rate for the tax year in which the donations are returned.

Analysis of filing patterns in the previous two years suggests that claims for donation-related deductions are generally available by April the following year, and additional claims for a deduction are not large. Consequently, data for 2017/18 uses the claims information available at 18 April 2019.

The 2018/19 year is estimated to be similar to 2017/18.

Bloodstock deductions

Changes to the bloodstock tax rules were announced as part of Budget 2018 and had an estimated cost of $4.8 million in the first three years from introduction. Costs are estimated to be $0.2 million in the 2019/20 fiscal year, rising to $1.9 million the following year, based on assumptions about the expected number of qualifying horses, and purchase and holding costs. These figures will be updated as data comes available.

Appropriated spending through the tax system

Child tax credit, Family tax credit, In-work tax credit, Parental tax credit and Minimum Family tax credit

Historical values for these *Working for Families* tax credits are provided by Inland Revenue's Crown Accounting team, based on actual expenditure on these credits. These items are also formally forecast as part of the preparation of the Government's Budget process, and the values reported in the Tax Expenditure Statement are taken from these forecasts.

Best Start tax credit

The Best Start package took effect from 1 July 2018. The value for the 2018/19 forecast is based on the expected policy cost for that period.

KiwiSaver tax credit

The KiwiSaver tax credit reflects the combined expenditure on (historically) Kickstart, Member Tax Credit, and interest payments made by Inland Revenue relating to the period when contributions to members' scheme providers are held by Inland Revenue.

Historical values for these tax credits are provided by Inland Revenue's Crown Accounting team, based on actual expenditure on these credits. This item is also formally forecast as part of the preparation of the Government's Budget process, and the values reported in the Tax Expenditure Statement are taken from these forecasts.

Research and Development tax incentive

The Research and Development tax incentive is available to eligible businesses from the beginning of the 2019/20 income year. Forecast expenditure on the incentive is provided by the Ministry of Business, Innovation and Employment and is based on the 2018 R&D Survey. Estimated expenditure for the 2018/19 fiscal year is $40 million. This is expected to increase to $454 million per annum in 2021/22, when the Growth Grant regime administered by Callaghan Innovation finishes.