

2024 Tax Expenditure Statement

30 May 2024

URL at 30 May 2024:

<https://www.treasury.govt.nz/publications/tax-expenditure/2024-tax-expenditure-statement>

Introduction

The purpose of this statement is to provide further 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 reduces 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.

Changes from Previous Statements

Donated trading stock

As part of the COVID-19 pandemic response, temporary relief from a deemed income rule was enacted to support businesses making disposals (including donations) of trading stock. The relief meant that a business that disposed of their trading stock for below market value was, apart from in limited circumstances, no longer deemed to have to derive income equal to the market value of that trading stock on disposal. The temporary relief expired on 1 April 2024. It was replaced by a permanent change to the deemed income rule that will apply to disposals of trading stock made on or after 1 April 2024. For integrity reasons, the permanent change is more targeted than the temporary relief as it only relates to donations of trading stock.

Fringe benefit tax exemption for public transport fares, bicycles and scooters

A fringe benefit tax (FBT) exemption was introduced for bicycles, electric bicycles, scooters, and electric scooters, as well as for public transport fares when an employer provides the benefit mainly for purposes of an employee commuting between their home and place of work. These initiatives were to address an inconsistency in the fringe benefit tax treatment between the different forms of transport used to commute to work. Previously, the FBT rules favoured commuting by car over the use of other modes of commuting given that most employer-provided car parks are exempt from FBT. The initiatives were also seen to have flow-on environmental benefits.

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 <i>Financial Statements of the Government</i> 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 <i>Financial Statements of the Government</i> 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. The 2010 statement was the first disclosure since 1984.

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

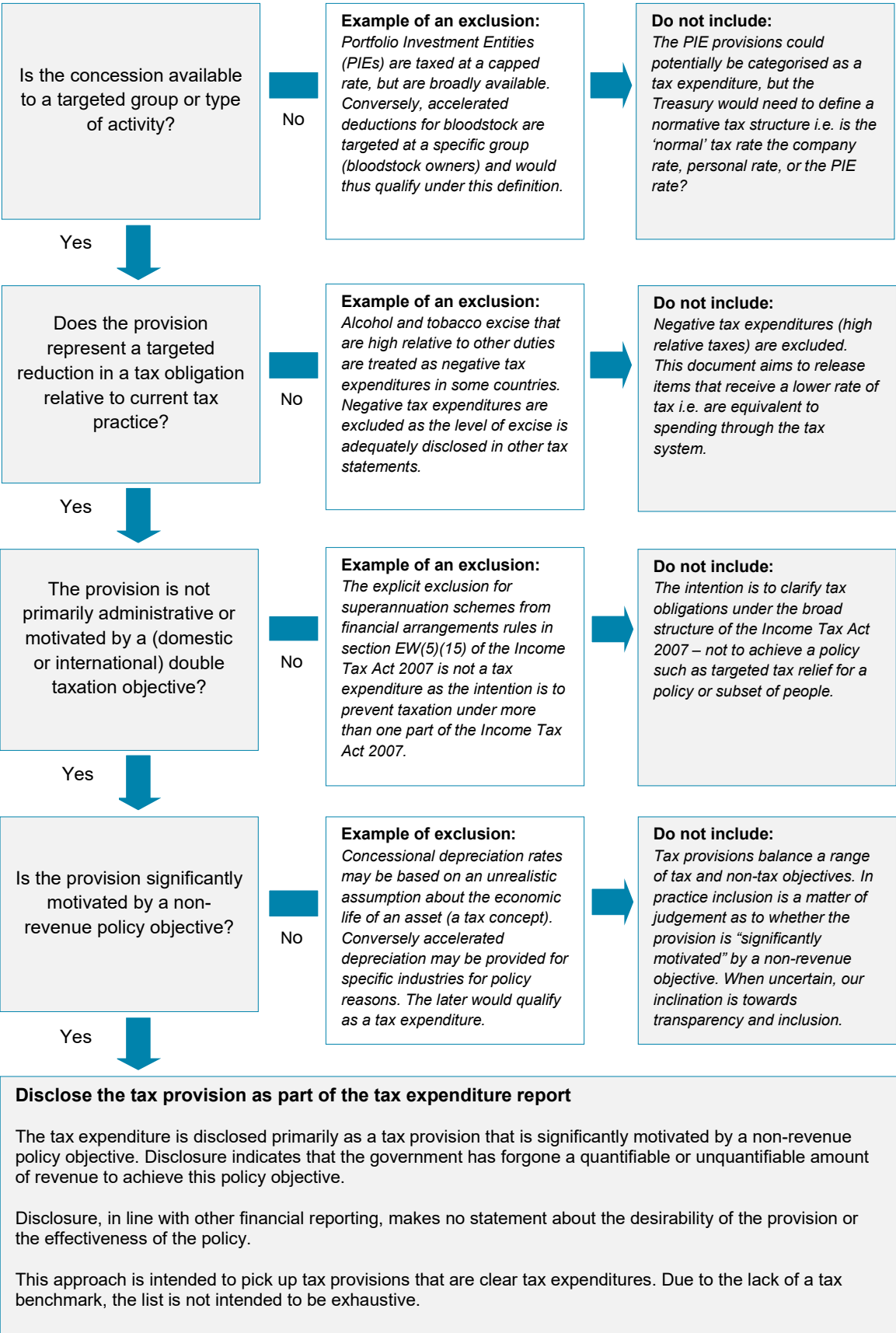
Some countries define tax expenditures indirectly relative to a normative benchmark. This approach allows countries to report a wider set of structural tax expenditures that are generally applicable.¹ This document has focused, in the first instance, on a narrow subset of tax expenditures that bear a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

¹ For example, Portfolio Investment Entities (PIEs) offer all taxpayers 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



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 May 2024. Appropriated cash payments (spending) made through the tax system, (for example, Working for Families tax credits,³ have also been included in the list.⁴ 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.⁵

³ Comprises the Child tax credit, Family tax credit, In-work tax credit, Parental tax credit and the Minimum Family tax credit.

⁴ Note that COVID-19 payments administered by Inland Revenue are also not included.

⁵ <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 (\$m)⁶

	Income tax years (1 April – 31 March)						
	Value of expenditure 2018-19 (actual)	Value of expenditure 2019-20 (actual)	Value of expenditure 2020-21 (actual)	Value of expenditure 2021-22 (actual)	Value of expenditure 2022/23		Value of expenditure 2023/24 (forecast)
					As at April 2024	Estimated Actual	
Quantified tax expenditures							
Charitable or other public benefit gifts by a company: deduction	34.000	32.000	28.000	41.000	23.000	23.000	23.000
Charitable or other public benefits: tax credit	288.000	296.000	310.000	319.000	304.000	330.000	330.000
Independent earner tax credit	245.000	234.000	213.000	191.000	173.000	176.000	160.000
Māori Authority donations	4.900	4.500	6.000	5.000	5.400	5.500	5.500

	Fiscal years (1 July – 30 June)					
	Value of expenditure 2018/19 (actual)	Value of expenditure 2019/20 (actual)	Value of expenditure 2020/21 (actual)	Value of expenditure 2021/22 (actual)	Value of expenditure 2022/23 (estimate)	Value of expenditure 2023/24 (forecast)
Appropriated spending through the tax system						
Child tax credit	0.100	0.100	discontinued	discontinued	discontinued	discontinued
Family tax credit	2,131.000	2,189.000	2,103.000	2,017.000	2,152.000	2,281.000
In-work tax credit	613.000	621.000	572.000	506.000	464.000	449.000
Parental tax credit	8.000	2.000	discontinued	discontinued	discontinued	discontinued
Minimum Family tax credit	14.000	18.000	13.000	13.000	12.000	12.000
Best Start payment	n/a	184.000	271.000	308.000	321.000	340.000
KiwiSaver tax credit	867.000	885.000	916.000	964.000	997.000	1,061.000
Research and Development tax credit	40.000	213.000	313.000	473.000	64.000	461.000
Interest on income equalisation reserve scheme deposits	5.000	6.500	6.500	8.400	8.400	10.000
Interest on environmental restoration account deposits	1.500	1.400	1.400	1.500	1.900	4.300

	Fiscal years (1 July – 30 June)					
	Value of expenditure 2018/19 (estimate)	Value of expenditure 2019/20 (estimate)	Value of expenditure 2020/21 (estimate)	Value of expenditure 2021/22 (estimate)	Value of expenditure 2022/23 (estimate)	Value of expenditure 2023/24 (forecast)
Unquantified tax expenditures						
Bloodstock	n/a	0.200	1.900	2.700	3.100	3.500
Mycoplasma bovis cull income tax adjustment	n/a	n/a	1.500	0.750	0.100	-0.500
Donated Trading Stock: COVID-19 concession	n/a	0.000	2.000	5.000	5.000	4.000
FBT on E-bikes and scooters	n/a	n/a	n/a	n/a	-0.200	-1.100

⁶ An explanation of the quantification methods can be found on pages 17-18.

Tax Expenditures Categorisation

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

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 income exemptions or deductions, such as the charitable donations deduction.
- 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 **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.
- 3 **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.

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.		✓		✓	✓	
Defence Force ⁷ accommodation	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 accommodation	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).			✓			✓
Allowances of the Governor-General	Section CW 16 -Exemption	Allowances and benefits received by the Governor-General and former Governor-Generals under the <i>Governor-General Act 2010</i> 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.		✓			✓	

⁷ Employer provided accommodation and accommodation payments provide a private benefit to the employee and should be taxed. In instances described here, there is little benefit to the employee, because the accommodation or payments arise from the requirements of the employer or the job.

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Bloodstock deductions	<i>Sections EC 47C -Deduction</i>	The policy allows new investors in qualifying yearlings to claim tax deductions as if they have a bloodstock breeding business.	To encourage the ownership and breeding of stallions and broodmares.		✓				✓
Bodies promoting amateur games and sports: exempt income	<i>Section CW 46 -Exemption</i>	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	<i>Section CW 49 -Exemption</i>	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	<i>Sections CW 27 and HR 8 -Temporary exemption</i>	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	<i>Section DB 41 -Deduction</i>	A company is allowed a deduction for a charitable or other public benefit gift of cash when made to a donee organisation described in section LD 3(2) or listed in schedule 32 of the Income Tax Act 2007. This deduction is limited by net income.	To incentivise charitable donations.	✓					✓
Charitable or other public benefit gifts by an individual: tax credit	<i>Subpart LD -Deduction</i>	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.	To incentivise charitable donations.	✓					✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Charities deregistration exemption for community housing providers	<i>Section HR 12 -Exemption</i>	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	<i>Sections CW 41, 42,43 -Exemption</i>	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	<i>Section CW 42B -Exemption</i>	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	<i>Section CW 52 -Exemption</i>	Income derived by the trustee of a community trust is exempt income.	To assist with providing community benefits for the good of the public.	✓					✓
Donated trading stock – adverse events	<i>Section GC 1(5)(b)</i>	Relief from the deemed income rule in GC 1 to ensure business are not disincentivised from making donations in response to adverse events.	To support businesses in the agricultural, farming and fishing sector affected by adverse events.	✓					✓
Donated trading stock	<i>Section GC 1</i>	Permanent exclusion from the deemed income rule in section GC 1. The effect of this exclusion is to allow a person a net deduction for trading stock disposed of by them to a donee organisation, regardless of whether there is a nexus between this disposal and the derivation of income.	To remove the tax-related disincentive to donate trading stock to donee organisations.	✓					✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Environmental restoration accounts: deductions	<i>Subpart EK -Deduction</i>	Persons who carry out environmental restoration activities as outlined in Schedule 19 of the Income Tax Act 2007 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.		✓			✓	
Environmental restoration accounts: interest	<i>Section EK 6</i>	The scheme pays interest on the balance of the account.	To compensate for the loss of the use of money.		✓			✓	
Farming business expenditure: accelerated deductions	<i>Sections DO 1-3, DO 10 -Deduction</i>	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	<i>Sections DS 1-4 -Deduction</i>	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.		✓			✓	
Forestry encouragement grant: accelerated deductions	<i>Section DP 5 -Deduction</i>	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 needs.		✓		✓	✓	
Forestry expenditure: accelerated deductions	<i>Section DP 1 -Deduction</i>	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	<i>Section CW 44 -Exemption</i>	Specified income derived by a friendly society is treated as exempt income.	To support friendly societies and credit unions.	✓					✓
Fringe benefit tax exemption for certain public transport fare subsidies	<i>Section CX 19C -Exemption</i>	A public transport fare that an employer subsidises mainly for the purposes of an employee travelling between their home and place of work is not a fringe benefit.	To address an inconsistency in the FBT treatment between the different forms of transport used for commuting (Employer provided car parks were already largely exempt from FBT). Also, environmentally friendly.	✓		✓			✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Fringe benefit tax exemption for certain self-powered and low-powered vehicles and vehicle-share services	<i>Section CX 19D</i> <i>-Exemption</i>	A bike, electric bike, scooter or electric scooter that an employer provides to an employee for the main purpose of travelling between their home and place of work is not a fringe benefit.	As above, to address an inconsistency in the FBT treatment between the different forms of transport used for commuting.	✓		✓			✓
Fringe benefit tax: partial exclusion for charities	<i>Section CX 25</i> <i>-Exemption</i>	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	<i>Section CW 45</i> <i>-Exemption</i>	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	<i>Section CW 51</i> <i>-Exemption</i>	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.	Originally, herd improvement bodies were considered of national significance.		✓				✓
Income equalisation schemes: deduction	<i>Subpart EH</i> <i>-Deduction</i>	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.		✓			✓	
Income equalisation schemes: interest	<i>Section EH 6</i>	The scheme pays interest on the balance of the account.	To compensate for the loss of the use of money.		✓			✓	
Income for military or police service in operational area: exempt income	<i>Sections CW 23-24</i> <i>-Exemption</i>	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.			✓			✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Income from conducting gaming-machine gambling: exempt income	<i>Section CW 48</i> <i>-Exemption</i>	Gross gambling proceeds from gaming-machine gambling are exempt income if the person complies with the <i>Gambling Act 2003</i> . Note that turnover is separately taxed.	To reduce compliance costs as income is used for authorised purposes, which generally have an income tax exemption.			✓			✓
Independent earner: tax credit	<i>Section LC 13</i> <i>-Tax Credit</i>	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	<i>Sections LZ 6-8</i> <i>-Tax Credit</i>	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	<i>Section CW 26</i> <i>-Exemption</i>	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	<i>Section CW 40</i> <i>-Exemption</i>	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.	✓					✓
Māori Authorities: donations	<i>Section DV 12</i> <i>-Deduction</i>	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.	To incentivise charitable donations.	✓					✓
Mycoplasma bovis	<i>Sections CZ 37, EZ 4B, EZ 80 and EZ 81</i>	The income and deduction spreads only apply to breeding cattle culled under the Biosecurity Act 1993, that were valued at cost, and are quickly replaced.	To neutralise, for equity reasons, the unexpected income arising from the government decision to eradicate Mycoplasma bovis in New Zealand.			✓		✓	

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Non-profit organisations	<i>Section DV 8 -Deduction</i>	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	<i>Section CW 57 -Exemption</i>	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	<i>Section CW 5 -Exemption</i>	Interest derived by a person under section 2 of the <i>Income Tax (Repayment of Post-War Credits) Act 1959</i> 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	<i>Section CW 6 -Exemption</i>	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	<i>Subpart DT, sections EJ 12-20 -Deduction</i>	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	<i>Section CW 17CC -Exemption</i>	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.			✓			✓
Research and Development (R&D) – cashing out tax losses	<i>Subpart MX -Cash-out of losses</i>	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	<i>Section CW 36 -Exemption</i>	Any scholarship or bursary payment for attendance at an educational institution is exempt income, except for a basic grant or independent circumstances grant under the <i>Education Act 1989</i> .	To assist education development.	✓					✓
TAB and racing clubs: exempt income	<i>Section CW 47 -Exemption</i>	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 support the racing sector.		✓				✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Te Pou Tupua	<i>Section CW 40C and the Te Awa Tupua (Whanganui River Claims Settlement) Act 2017 -Exemption</i>	Income received by Te Pou Tupua is exempt from income tax so long as it is applied for the purposes set out in the <i>Te Awa Tupua (Whanganui River Claims Settlement) Act 2017</i> .	Treaty of Waitangi settlement.			✓			✓
Te Urewera Board	<i>Section CW 40B and the Te Urewera Act 2014 -Exemption</i>	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 <i>Te Urewera Act 2014</i> .	Treaty of Waitangi settlement.			✓			✓
Veterinary services bodies: exempt income	<i>Section CW 50 -Exemption</i>	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, the bodies were seen to be of national significance.		✓				✓

Table 4 – Approved Appropriated Spending Made through the Tax System

Appropriated spending	Sections	Comment	Type			Impact		
			Social	Business	Other	Historic	Timing	Permanent
Child tax credit	<i>Section MZ 2</i>	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	<i>Section MD 3</i>	Families are entitled to an income tested tax credit or cash payment for children aged 18 years or younger.	✓					✓
In-work tax credit	<i>Section MD 10</i>	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	<i>Section MK 1-8</i>	The savings of participants in the KiwiSaver scheme are entitled to a tax credit.	✓					✓
Parental tax credit	<i>Section MD 12</i>	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	<i>Section ME 1</i>	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 payment	<i>Section MG</i>	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	<i>Subpart LY</i>	Eligible entities are entitled to a tax credit of 15% for expenditure on R&D activity. Expenditure has to be primarily in New Zealand and at least \$50,000 (subject to exceptions), and no more than \$120 million.		✓				✓

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	<i>Section 20 (3K) -Deduction</i>	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.			✓			✓

Quantification Methods

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 is the amount of donations multiplied by the company tax rate prevailing for the tax year in which the donations are returned.

The estimate for claims in 2022-23 is based on an analysis of filing patterns for the 2021-22 income year. This analysis shows that approximately 98 percent of claims for donation-related deductions for the 2021-22 income year were made by early April 2023. The forecast for 2023-24 is, in the absence of better information, held at the same level as the estimate for 2022-23.

Charitable or other public benefits: tax credit

This item is sourced from the tax credit claim form (IR526) and from Employment Information for payroll giving.

Analysis of filing patterns for the IR526 return for the 2021-22 income year suggests that approximately 92 percent of claims for tax credits in the 2021-22 year were received by early April 2023. We have used this proportion to scale up claims for credits received by April 2024 for the 2022-23 income year.

The forecast for 2023-24 is, in the absence of better information, held at the same level as the 2022-23 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 2022-23 and 2023-24 years. This table was updated before the 20th of 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 IR3 tax returns or automatic square-up.

The final step in quantification of IETC for any given return period is an estimate for late claims. Data is complete for periods up until 2021-22. Analysis of filing patterns for the 2021-22 income year suggests that approximately 99 percent of claims for IETC from personal tax returns are generally available by early April the following year. We have used this proportion to scale up claims for credits received by April 2024 for the 2022-23 income year.

The amount of IETC claimed has fallen by an average of 9.1% per year over the past two years. The forecast for 2023-24 incorporates, in the absence of better information, a further 9.1% fall from the estimate for 2022-23.

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 2021-22 income year suggests that approximately 98 percent of claims for donation-related deductions were reported by April 2023. Data for 2022-23 uses the claims information available on 16 April 2024 with a small allowance for later claims.

The 2023-24 year is estimated to be similar to 2022-23.

Research and Development Tax Incentive

The Research and Development tax incentive took effect from the start of the 2019-20 income year. Forecasts are prepared by the Ministry of Business, Innovation and Employment as part of the Government's Budget process, and historical values are as reported in Inland Revenue Annual Reports.

Appropriated spending through the tax system

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

Historical values for these Working for Families tax credits are based on actual expenditure on these credits. These items are also formally forecast appropriations as part of the Government's Budget process, and the values reported in the Tax Expenditure statement are taken from these forecasts.

KiwiSaver tax credit

The KiwiSaver tax credit is reported here as a combination of KiwiSaver tax credit (primarily the annual government contribution which is conditional on member contributions) 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 based on actual expenditure on these credits. Both items are also formally forecast as part of the Government's Budget process, and the values reported in the Tax Expenditure statement are taken from these forecasts.

Income Equalisation Reserve Scheme Interest

Deposits held in Income Equalisation Reserve Scheme accounts attract interest if the deposit is left in the scheme for a period of at least 12 months.

Historical values for these interest payments are based on actual interest expenditure. This item is formally forecast as part of the Government's Budget process, and the values reported in the tax expenditure statement are taken from these forecasts.

Environmental Restoration Account Interest

Deposits held in Environmental Restoration accounts attract interest.

Historical values for these interest payments are based on actual interest expenditure. This item is formally forecast as part of the Government's Budget process, and the values reported in the tax expenditure statement are taken from these forecasts.

Unquantified Tax Expenditures

Unquantified tax expenditures are not formally measured, but the table reports the expected fiscal impact at the time the measure was legislated.

Bloodstock

Changes to the bloodstock tax rules introduced in Budget 2018 were expected to cost a total of \$4.8 million in the first three years of their being in place. The table shows expected costs as determined when the policy was legislated. Ongoing expenditure is unquantifiable due to the secrecy provisions of the Tax Administration Act 1994.

Mycoplasma Bovis culling compensation

An option was enacted in early 2021 that enables the spread of certain income and deductions arising from the cull of livestock affected by Mycoplasma bovis. The Government had previously decided that Mycoplasma bovis would be eradicated from New Zealand, using the powers under the Biosecurity Act 1993. The spreading option terminates after the 2027-28 income year. This treatment was expected to cost \$1.5 million in the 2020/21 fiscal year, and \$0.75 million in 2021/22, with the cost being recouped in subsequent fiscal years as the treatment relates to timing.

Donated trading stock

Disposal of trading stock to unrelated parties at below market value (donations of trading stock) were granted a temporary concession from 17 March 2020 to 16 March 2022 at Budget 2021. This concession was extended to 31 March 2023 at Budget 2022 and was subsequently extended a further year to 31 March 2024. The table shows expected costs as determined when the policy and subsequent extension were legislated.

In addition, a concession for trading stock disposed of at less than market value to donee organisations came into effect on 1 April 2024. The fiscal impact of this concession falls outside of the period shown in the table but will be included in future updates.

FBT on ebikes and scooters

A fringe benefit tax exemption, from 1 April 2023, for the provision of self-powered or low-powered vehicles (ie ebikes or scooters) that were mainly used for the purpose of travelling between home and work. The table shows expected costs as determined when the policy was legislated.