The Treasury

Budget 2026 Information Release

September 2026

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Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government

[4] 6(c) - to avoid prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[7] 6(e)(ii) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the regulation of banking or credit

[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

[13] 7(a)(ii) - to avoid prejudice to the security or defence of the self-governing State of Niue

[14] 7(a)(iii) - to avoid prejudice to the security or defence of Tokelau

[15] 7(a)(iv) - to avoid prejudice to the security or defence of the Ross Dependency

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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TE TAI ŌHANGA
THE TREASURY

Reference: T2026/1090 AD-1-187-M139278

Date: 21 May 2026

To: Minister of Finance
(Hon Nicola Willis)

Deadline: None
(if any)

Aide Memoire: Additional detail on the tax forecasts for Budget 2026

Your office has asked for an indication of the effect that the current Middle East Conflict has had on the tax revenue forecasts. The decompositions in this note should be treated as an approximation only to provide general guidance on the tax effects associated with the Middle East Conflict.

In general, we find that most changes to forecast tax revenue since the 2025 Half Year Update (HYEFU) are not directly related to the conflict in the Middle East and were already anticipated prior to the conflict. Over the forecast period as a whole, the Middle East conflict has pushed up inflation, which supports an increase in core Crown tax revenue, but this is offset by the conflict's impact on real economic activity, particularly at the start of the forecast period.

Comparing the final 2026 Budget Update (BEFU) forecasts to 2025 HYEFU, core Crown tax revenue has increased $9.7 billion over the forecast period. We estimate that $9.6 billion (i.e. nearly all of it) is not related to the Middle East conflict. Our best estimate is that, in total, over the forecast period, tax revenue increases by only $0.1 billion due to the Middle East crisis.

The Middle East conflict does change the profile of tax revenue over the forecast period. The conflict reduces tax revenue at the start of the period and increases it towards the second half of the forecast period.

The Middle East conflict has also increased benefit expenses, as a result of higher unemployment and a higher annual indexation adjustment and higher debt interest costs as a consequence of higher interest rates. It is difficult to fully isolate the economic and fiscal impacts of the Middle East conflict, but our analysis suggests that, if anything, the Middle East conflict has been negative for the fiscal position in total over the forecast period.

Changes in tax revenue forecasts from HYEFU to "Baseline" BEFU, excluding the impact from the Middle East conflict

As well as the final 2026 *Budget Update* (BEFU) tax forecast, we have prepared a tax forecast using a 'baseline' macroeconomic forecast that excludes the effects of the current Middle East Conflict. Comparing the baseline (excluding the conflict) forecast to the HYEFU forecast, Table 1 shows that most of the strength in tax since HYEFU is due to changes in the core Crown tax revenue forecast owing to:

- weaker real GDP throughout;
- higher prices and therefore more tax;
- a more tax-rich composition of GDP, i.e. more taxable profits but less salaries/wages;
- fiscal drag;
- higher interest rates bumping up RWT on interest; and
- other factors, including stronger than expected GST and source deductions in 2025/26 persisting through the forecast period.

Table 1 – Change in core Crown tax revenue forecast from 2025 HYEFU to 2026 BEFU baseline excluding the Middle East Conflict

	June years					
$billions	**2026**	**2027**	**2028**	**2029**	**2030**	**5-yr total**
2025 HYEFU	**124.2**	**132.2**	**140.2**	**148.4**	**156.6**	**701.6**
Change owing to:						
Real GDP	-0.5	-1.0	-0.5	-0.6	-0.9	-3.5
Prices	0.0	0.6	1.2	1.3	1.2	4.4
Composition of GDP	1.1	0.3	0.3	0.4	0.3	2.3
Fiscal drag	-0.1	-0.0	-0.0	0.1	0.2	0.2
Interest rates	0.0	0.2	0.3	0.4	0.4	1.4
Other	0.3	1.4	1.0	1.1	1.0	4.8
Total change	*0.8*	*1.4*	*2.3*	*2.8*	*2.3*	*9.6*
2026 BEFU baseline	**125.0**	**133.6**	**142.6**	**151.2**	**158.9**	**711.3**

Note: Numbers in tables may not add exactly to stated totals owing to rounding.

This baseline (excluding conflict) tax forecast includes:

- changes in the baseline macroeconomic forecast, excluding estimated macroeconomic effects of the current Middle East Conflict;
- macroeconomic data outturns up to 18 March, which do not differ materially from the data outturns up to 21 April that were used in the final 2026 BEFU forecast;
- the final 2026 Budget Package;
- tax outturns up to March 2026 (which will not reflect the impacts of the conflict);
- changes in tax forecasting judgements unrelated to the conflict, including the lower path for consumption of excisable tobacco over the forecast period; and
- other tax policy and tax administrative changes not included in the Budget Package.

The impact of the Middle East conflict on tax revenue forecasts, comparing the final BEFU forecast with the "baseline" forecast.

The final BEFU tax forecast includes all of the above, plus the tax effects of macroeconomic changes owing to the Middle East Conflict.

The changes in Table 2 are solely the result of the estimated macroeconomic effects of the Middle East Conflict:

- a more-pronounced cycle in real GDP, contributing less tax revenue up to 2029 and more tax revenue in 2030; and
- generally stronger prices, except for some weakness in 2026 attributable to a weaker terms of trade.

Table 2 – Change in core Crown tax revenue forecast from BEFU baseline to final BEFU

	June years					
$billions	**2026**	**2027**	**2028**	**2029**	**2030**	**5-yr total**
2026 BEFU baseline	**125.0**	**133.6**	**142.6**	**151.2**	**158.9**	**711.3**
Change owing to:						
Real GDP	-0.1	-0.9	-0.5	-0.1	0.2	-1.4
Prices	-0.3	0.1	0.3	0.5	0.5	1.2
Composition of GDP	0.2	-0.1	-0.1	-0.0	0.1	0.1
Fiscal drag	0.0	0.0	0.0	0.0	0.0	0.1
Interest rates	0.0	0.0	0.0	0.0	0.0	0.1
Other	-0.1	0.2	-0.1	0.1	-0.1	0.0
Total change	*-0.2*	*-0.6*	*-0.3*	*0.4*	*0.8*	*0.1*
2026 BEFU Final	**124.8**	**133.0**	**142.2**	**151.6**	**159.7**	**711.3**

Note: Numbers in tables may not add exactly to stated totals owing to rounding.

Overall, the final macroeconomic forecast including the effects of the Middle East Conflict lowers tax in the near term, but increases tax later in the forecast period, which adds up to a net change of $76 million (rounds to $0.1 billion in Table 2) across the five years.

Tables 1 and 2 are both reproduced by tax type in the Annex.

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Annex: Change in core Crown tax revenue by main tax types

Table 1A – Change in core Crown tax revenue forecast from 2025 HYEFU to 2026 BEFU baseline excluding the Middle East Conflict

	June years					
$billions	**2026**	**2027**	**2028**	**2029**	**2030**	**5-yr total**
2025 HYEFU	**124.2**	**132.2**	**140.2**	**148.4**	**156.6**	**701.6**
Change owing to:						
Source deductions	0.1	0.5	0.8	1.0	1.3	3.8
Net other persons tax	0.3	0.1	0.2	0.2	0.1	0.7
Corporate tax	0.8	1.2	0.6	0.5	0.2	3.3
Resident withholding taxes	-0.4	-0.1	0.7	0.9	0.8	1.8
GST	0.3	0.2	0.5	0.7	0.4	2.1
Duties	-0.2	-0.4	-0.4	-0.5	-0.5	-2.0
MVF & RUC	-0.1	-0.1	-0.0	-0.0	-0.0	-0.3
Other taxes	0.0	0.0	0.0	0.0	0.0	0.2
Total growth	*0.8*	*1.4*	*2.3*	*2.8*	*2.3*	*9.6*
2026 BEFU baseline	**125.0**	**133.6**	**142.6**	**151.2**	**158.9**	**711.3**

Table 2A – Change in core Crown tax revenue forecast from BEFU baseline to final BEFU

	June years					
$billions	**2026**	**2027**	**2028**	**2029**	**2030**	**5-yr total**
2026 BEFU baseline	**125.0**	**133.6**	**142.6**	**151.2**	**158.9**	**711.3**
Change owing to:						
Source deductions	-0.0	-0.1	-0.0	0.0	0.2	0.1
Net other persons tax	-0.1	-0.1	-0.1	0.0	0.1	-0.2
Corporate tax	-0.1	-0.3	-0.3	0.2	0.2	-0.2
Resident withholding taxes	-0.0	-0.0	0.0	0.0	0.1	0.1
GST	-0.0	-0.1	-0.0	0.1	0.3	0.2
Duties	0.0	0.0	0.0	0.0	0.0	0.1
MVF & RUC	-	-	-	-	-	-
Other taxes	-	-0.0	-0.0	-	0.0	-0.0
Total growth	*-0.2*	*-0.6*	*-0.3*	*0.4*	*0.8*	*0.1*
2026 BEFU Final	**124.8**	**133.0**	**142.2**	**151.6**	**159.7**	**711.3**

Note: Numbers in tables may not add exactly to stated totals owing to rounding.