The Treasury

Budget 2026 Information Release

September 2026

This document has been proactively released and is available on:

- The Budget website from September 2026 to May 2027 only at: **https://budget.govt.nz/information-release/2026**, and on
- The Treasury website from later in 2026 at: **https://www.treasury.govt.nz/publications/budgets/budget-2026-information-release**

Information Withheld

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).

Where this is the case, the relevant sections of the Act that would apply have been identified.

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).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are **© Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [https://creativecommons.org/licenses/by/4.0/].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Tax policy report

TE TAI ŌHANGA THE TREASURY | Inland Revenue Te Tari Taake

Budget 2026 initiatives for the Revenue portfolio

Date	16 April 2026	**Priority**	High
Security level	Budget sensitive	**Report number**	IR2026/112 T2026/813

Action sought		**Deadline**
Minister of Finance	**Agree** to manage revenue impacts of certain initiatives against the Tax Policy Scorecard **Agree** to progress certain initiatives in Budget day legislation	20 April 2026
Minister of Revenue	**Agree** to manage revenue impacts of certain initiatives against the Tax Policy Scorecard **Agree** to progress certain initiatives in Budget day legislation	20 April 2026

Purpose
This report: • attaches summaries of the proposed Budget 2026 package of initiatives for the Revenue portfolio, • seeks confirmation from Joint Ministers on outstanding Budget 2026 initiatives relating to the Revenue portfolio, • seeks to confirm which initiatives will be charged against the Tax Policy Scorecard and which initiatives will be introduced in legislation on Budget day, and • sets out the impacts of proposed Budget 2026 departmental funding decisions.

Contact for phone discussion, if required

Name	**Position**	**Phone number**	**First contact**
Maraina Hak	Policy Director Inland Revenue	[39]	✓
Darren Cheevers	Domain Lead Finance Inland Revenue		
Giles Bollinger	Acting Unit Manager The Treasury		

Budget 2026 initiatives for the Revenue Portfolio

Executive summary

1 The proposed set of Budget 2026 initiatives for the Revenue portfolio is largely agreed and will be included in the Budget Cabinet paper. This report seeks agreement to the following outstanding matters in relation to the Revenue portfolio. A key decisions tracker is attached for you to take these decisions.

Policy agreement for the following initiatives

2 The Minister of Revenue has recommended a package of outstanding initiatives for the Minister of Finance to agree to, including:

- **Modernise non-resident contractors' withholding tax**
- **Financial arrangement rules amendments to support new migrants**
- **Working for Families: residence requirements and family scheme income**

Tax Policy Scorecard decisions for the following initiatives

3 We seek confirmation of the revenue impacts of the following initiatives:

- **Changes to thin capitalisation rules for foreign-owned New Zealand banking groups**
- **Review elements of charities and not-for-profits (excluding donation tax credit cap)**
- **Financial arrangement rules amendments to support new migrants**
- **Simplifying motor vehicle fringe benefit tax rules**

Budget day legislation for the following initiatives

4 We seek agreement to progress the following initiatives through Budget day legislation:

- **Charities and not-for-profits: tax policy settings for the donation tax credit**
- **Working for Families: residence requirements**
- **Working for Families: family scheme income**

5 This report also discusses impacts of proposed Budget 2026 departmental funding decisions for Inland Revenue.

6 This report can be discussed at the Joint Ministers' meeting on 20 April 2026.

Proposed Budget 2026 package

7 The set of proposed Budget 2026 initiatives for the Revenue portfolio is outlined in **Appendix 1** (policy initiatives) and **Appendix 2** (departmental initiatives). We have grouped policy initiatives into the following suggested packages in **Appendix 3**:

- Improve tax settings to attract and retain migrants
- Remove and reduce cross-border tax barriers and compliance costs for businesses
- Target and reduce the cost of the Research and Development Tax Incentive
- Review elements of charities and not-for-profits
- Simplify and uphold integrity of the tax system
- Tax settings for banks
- Improve Working for Families

Policy decisions still to be made on Revenue initiatives

8 All policy initiatives for the Revenue portfolio (see **Appendix 1**) have been agreed by Joint Ministers except as follows in this section.

9 The Minister of Finance asked the Minister of Revenue to make recommendations on the initiatives outlined below, with a general expectation that the cost of each initiative would remain no higher than the design options recommended by officials.

10 The Minister of Finance asked that the Minister of Revenue's recommendations be reported back at the Joint Ministers' meeting on 20 April 2026, and we therefore seek confirmation at the Joint Ministers' meeting on the following initiatives:

- **Modernise non-resident contractors' withholding tax**: the Minister of Revenue has recommended a package of changes, which includes an updated de minimis threshold of $75,000 (detailed in **Appendix 1**). The Minister of Revenue had previously agreed to Inland Revenue's recommended lower de minimis of $60,000 costing $9.1 million over the forecast period; the cost of the new $75,000 threshold is $12.35 million over the forecast period.
- **Financial arrangement rules amendments to support new migrants**: the Minister of Revenue has agreed to a package of changes (detailed in **Appendix 1**).

11 These initiatives are part of the packages to improve tax settings to attract and retain migrants, and to remove and reduce cross-border tax barriers and compliance costs for businesses.

12 There are other initiatives that have not yet been agreed by Joint Ministers:

- **Working for Families: residence requirements and family scheme income**: these proposals are aimed at simplifying the system and reducing overpayments and debt. Our initial recommendations for these changes resulted in savings of $48.4 million over the forecast period. The Minister of Revenue is considering updated advice on detailed design for these proposals. Officials have recently recommended a package that would best meet policy objectives but result in a lower fiscal saving of $37.8 million over the forecast period. There is an alternative option that would broadly retain the initial level of savings ($48.6 million over the forecast period) but would not completely reduce complexity. We suggest this is discussed and confirmed at the Joint Ministers' meeting.

Tax Policy Scorecard

13 We have previously recommended that the revenue impacts of the following initiatives be managed against the Tax Policy Scorecard, which currently has a balance of [1] [1]

- **Changes to thin capitalisation rules for foreign-owned New Zealand banking groups**: $45.2 million revenue-positive impact over the forecast period. The Treasury considers that this is a suitable source of Scorecard funding, and notes that this revenue has not been relied upon in our Budget package advice. The Minister of Finance has indicated that this should only be added to the Scorecard if the Australian-style bank tax proposal is progressed.
- **Financial arrangement rules amendments to support new migrants**: $2.06 million revenue-negative impact over the forecast period.
- **Simplifying motor vehicle fringe benefit tax rules**: $0.58 million revenue-negative impact over the forecast period.

14 We seek confirmation on whether the revenue impacts of these initiatives will be managed against the Scorecard. If all the initiatives were managed against the Scorecard, the Scorecard balance would increase to [1] If any of these revenue impacts are not managed against the Scorecard, they would instead be managed against the Budget allowance (or the initiative would not be progressed).

15 There is also an outstanding decision about the fiscal treatment of revenue from the **review elements of charities and not-for-profits (excluding donation tax credit cap)** proposals which would [33] This revenue has been counted against the Budget package to date, but could be a suitable source of Scorecard funding, especially if revenue from the thin capitalisation changes for foreign-owned banking groups is not managed against the Scorecard.

Departmental funding for Inland Revenue

16 From a departmental perspective, the proposed Budget package includes the Minister of Finance's decisions on the following:

- a **baseline reduction** of $15.8 million (2%) p.a.
- new funding of $15 million p.a. for **additional compliance activities** with a $45 million p.a. return[1]
- new funding for **Research and Development Tax Incentive: in-year payments:** $0.675 million operating p.a. for implementation and delivery activities and $1.4 million capital to implement system changes[2]
- **self-funding all other policy initiatives**: $1.807 million operating p.a. for implementation and delivery activities[3] and $3.430 million capital to implement system changes

17 The department is committed to delivering the $15.8m baseline reduction and managing emerging cost pressures, which together equates to around $40m per annum (approximately 5%).

18 Inland Revenue advises that new funding for additional compliance activities would be targeted at the high volume of income tax debt with additional investment in GST and employer debt. [33] Funding would provide a return on investment of 3:1.

19 Inland Revenue's view is that the requirement to self-fund the Budget 2026 policy initiatives and the temporary in-work tax credit increase creates a delivery tipping point. While impacts on revenue and debt will be minimised, some performance trade-offs and foregone opportunities are likely. We will canvass these matters, where relevant, as part of discussions on the 2026/27 work programme with Ministers. The focus of meeting any costs pressures will focus primarily on fiscal discipline and value for money, including back-office reductions, frontline productivity improvements, and potentially personnel reductions through attrition or change processes. However, ongoing economic uncertainty means the department cannot assume efficiencies can be sustained at the same level year on year.

20 The Treasury notes that while Inland Revenue is self-funding departmental costs associated with Budget initiatives, this is consistent with the approach being taken to implementation and administration funding across Government given the challenging fiscal context.

21 Given uncertainties arising from the Middle East conflict, there may be some department cost pressures, but these will be absorbed including those related to the in-work tax credit implementation.

[1] A cash return of $90 million per annum (6:1) and an associated $45 million per annum reduction in debt impairment expenditure (3:1).

[2] We had previously advised administration costs of $1.1 million p.a. operating and $2.1 million capital.

[3] For example, customer contacts and compliance activities.

Legislative implications

22 Most Budget initiatives for the Revenue portfolio will be progressed through the 2026–27 Annual Rates Bill, scheduled for introduction in September 2026.

23 The 2026 Legislation Programme incorporates a Budget Bill for Revenue initiatives and [34] Both these Bills are Category 3 (a priority to be enacted before the 2026 General Election).

24 Ministers have previously agreed to the following initiatives being introduced through Budget day legislation:

- **Reduce non-resident contractors' withholding tax for asset leasing in the airline industry**: Ministers have agreed that this be passed through all stages under urgency on Budget day, with a retrospective application date of 1 April 2026 (IR2026/001 refers).

[34]

25 We recommend the following initiatives also progress through Budget day legislation:

- **Charities and not-for-profits: tax policy settings for the donation tax credit**: although this would have a commencement date of 1 April 2027, we consider that the proposal to introduce a $100,000 cap for the donation tax credit is [33] . Early enactment of this change has the benefit of providing certainty and a longer lead-in time before it comes into force. However, it would be possible to progress this change in the 2026–27 Annual Rates Bill if preferred.
- **Working for Families: residence requirements**: enacting this change on Budget day ensures that Inland Revenue has sufficient time to incorporate the new settings into notices of entitlement issued in February 2027, which inform customers' Working for Families entitlements ahead of the start of the 2027–28 tax year.
- **Working for Families: family scheme income**: Working for Families recipients need to estimate their income before 1 April 2027, but can only estimate based on the law as it stands. Enacting this change through Budget day legislation gives earlier certainty for the purposes of this income estimation so that entitlements are correctly calculated.

Next steps

26 Officials will discuss with you the status of Revenue initiatives for Budget 2026 at the Joint Ministers' meeting on 20 April.

27 Subject to confirmation by Budget Ministers and through the Budget Cabinet paper, we will provide you with draft Cabinet papers to seek legislative approvals for a Budget Bill [34] introducing the initiatives that you agree to progress through Budget day legislation.

Recommendations

We recommend that you:

1) **Refer** to the attached *key decisions tracker* to take decisions and **agree** to the recommendations in this report.

Outstanding decisions on fiscal treatment

Thin Capitalisation Rules for Foreign-owned New Zealand Banking Groups

2) **note** the following increase to tax revenue from progressing changes to thin capitalisation rules for foreign-owned New Zealand banking groups, with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue Companies	-	3.200	13.100	14.400	14.500
Total Operating	**-**	**(3.200)**	**(13.100)**	**(14.400)**	**(14.500)**

Review Elements of Charities and Not-for-profits (excluding donation tax credit cap)

3) **note** the following increase to tax revenue from progressing review elements of charities and not-for-profits (excluding donation tax credit cap), with a corresponding impact on the operating balance and net core Crown debt:

[33]

Financial Arrangement Rules Amendments to Support New Migrants

4) **note** the following decrease to tax revenue from progressing financial arrangement rules amendments to support new migrants, with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue Other Persons	-	(0.700)	(0.580)	(0.450)	(0.330)
Total Operating	**-**	**0.700**	**0.580**	**0.450**	**0.330**

Simplifications of Motor Vehicle Fringe Benefit Tax Rules

5) **note** the following decrease to tax revenue from progressing simplifications of motor vehicle fringe benefit tax rules, with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts: Tax Revenue					
Fringe Benefit Tax	-	(0.060)	(0.250)	(0.250)	(0.250)
Companies	-	0.020	0.070	0.070	0.070
Total Revenue	**-**	**(0.040)**	**(0.180)**	**(0.180)**	**(0.180)**
Total Operating	**-**	**0.040**	**0.180**	**0.180**	**0.180**

[39]

Giles Bollinger
Acting Unit Manager
Revenue and Economic Development | The Treasury
16 April 2026

Maraina Hak
Policy Director
Policy | Inland Revenue
16 April 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026

Appendices

Appendix 1: Policy initiatives in the Revenue portfolio for Budget 2026

Appendix 2: Department and other initiatives for Budget 2026

Appendix 3: Summaries of Budget 2026 Revenue portfolio packages

Appendix 1: Policy initiatives in the Revenue portfolio for Budget 2026

Notes:

- Fiscals are presented as totals across the five-year forecast period (2025/26 to 2029/30) or as an average per annum over the forecast period (total divided by four).
- Fiscals are shown as the impact on the Operating Balance (for operating) or net core Crown debt (for capital).
- A decrease in expenditure is shown as a negative number; an increase in expenditure is shown as a positive number.
- An increase in revenue is shown as a negative number; a decrease in revenue is shown as a positive number.
- Initiatives, policy decisions and costings are subject to Budget Minister and Cabinet approval.

	$ million increase / (decrease)			
	Non-Dept. Ave. p.a.[1]	Dept. Operating Ave. p.a.[2]	Dept. Capital Total[3]	Legislative vehicle
Improve tax settings to attract and retain migrants				
Foreign Investment Fund tax rules reform • Expand revenue account method to foreign shares for migrants subject to double taxation and unlisted foreign shares only for other taxpayers • Lift the foreign investment fund de minimis to $100,000 • Expand access to the attributable foreign investment fund income method • Ensure the 10-year foreign investment fund exemptions continue to apply for corporate migration	18.131	0.075	-	2026–27 Annual Rates Bill
Financial arrangement rules amendments to support new migrants (Scorecard) • Introduce an elected functional currency rule • Extend the cash basis person treatment to any individuals taxed on a citizenship basis • Except private foreign currency transaction accounts from the financial arrangement rules • Remove the requirement to exclude all foreign private loans from the financial arrangement rules • Allow taxpayers to ignore any exchange rate moments when calculating foreign credit amounts • Introduce special rules for financial arrangements acquired for the purpose of meeting visa requirements	0.515	0.025	-	2026–27 Annual Rates Bill
Total	**18.646**	**0.100**	**-**	
Budget Allowance Impact (excludes Scorecard items and impact of self-funding)	**18.131**	**-**	**-**	
Remove and reduce cross-border tax barriers and compliance costs for businesses				
Reduce non-resident contractors' withholding tax for asset leasing in the airline industry • Introduce a permanent exemption from non-resident contractors' tax for the leasing of aircraft (excluding aircraft charters) and parts	4.463	0.063	-	Budget Bill
Modernise non-resident contractors' withholding tax • Increase the de minimis monetary threshold from $15,000 to $75,000 • Implement a "single-payer view" of the monetary and de minimis thresholds • Exclude certain "low-risk" non-resident contractors from the ambit of the rules • Introduce a bespoke non-resident contractors' tax code within the PAYE code	3.250	0.243	0.330	2026–27 Annual Rates Bill
Total	**7.713**	**0.305**	**0.330**	
Budget Allowance Impact (excludes Scorecard items and impact of self-funding)	**7.713**	**-**	**-**	

	$ million increase / (decrease)			
	Non-Dept. Ave. p.a.[1]	Dept. Operating Ave. p.a.[2]	Dept. Capital Total[3]	Legislative vehicle
Target and reduce the cost of the Research and Development Tax Incentive				
Research and Development Tax Incentive: mining exclusions • Expand the RDTI eligibility of expenditures incurred by mining businesses	0.438	0.025	-	2026–27 Annual Rates Bill
Research and Development Tax Incentive: Commissioner's discretionary powers • Allow the Commissioner of Inland Revenue the discretion to accept or amend late RDTI filings	2.500	0.025	-	2026–27 Annual Rates Bill
Research and Development Tax Incentive: in-year payments • Introduce in-year payments of the RDTI through the tax system with a refundability cap	-	0.675	1.400	2026–27 Annual Rates Bill
Research and Development Tax Incentive: internal software • Reduce the RDTI's cap on eligible internal software development expenditure to $3 million per business per year.	(24.750)	0.025	-	2026–27 Annual Rates Bill
Total	**21.812**	**0.750**	**1.400**	
Budget Allowance Impact (excludes Scorecard items and impact of self-funding)	**21.812**	**0.675**	**1.400**	
Review elements of charities and not-for-profits				
Charities and not-for-profits: tax policy settings for the donation tax credit • Implement a donation tax credit threshold of $100,000	(12.950)	0.100	-	Budget Bill
Charities and not-for-profits: tax policy settings for taxable not-for-profits (Scorecard) • Ensure membership subscriptions and levies received by taxable not-for-profits remain non-taxable • Increase the effective tax-free threshold for taxable not-for-profits to $10,000 for not-for-profits with net income of $10,000 or less • Exempt taxable not-for-profits from filing a return when they are eligible for the effective tax-free threshold, and give Inland Revenue the power to require taxable not-for-profits to file a return • Require financial institutions to provide Inland Revenue with interest income information in relation to customers exempt from resident withholding tax	0.248	0.068	0.200	2026–27 Annual Rates Bill
Charities and not-for-profits: donation tax credit and honoraria simplifications (Scorecard) • Allow Inland Revenue to refund donation tax credits in certain circumstances during the income year • Allow donors to elect for their donation tax credit to be refunded directly to a donee organisation (without that refund qualifying for a subsequent donation tax credit) • Provide not-for-profit entities the option to treat honoraria as salary or wages	0.225	0.188	0.700	2026–27 Annual Rates Bill
Charities and not-for-profits: private trust income allocations to tax-exempt beneficiaries (Scorecard) • Introduce an integrity measure to tax trust income allocations to tax-exempt beneficiaries at the trustee rate, unless they are paid in money to the tax-exempt entity within a specified timeframe	(0.225)	-	-	2026–27 Annual Rates Bill
Charities and not-for-profits: removal of tax exemption for non-resident charities (Scorecard) • Repeal the non-resident charities non-business income tax exemption for not-for-profits	(0.113)	-	-	2026–27 Annual Rates Bill

[34]

	$ million increase / (decrease)			
	Non-Dept. Ave. p.a.[1]	Dept. Operating Ave. p.a.[2]	Dept. Capital Total[3]	Legislative vehicle
Simplify and uphold integrity of the tax system				
Fringe benefit tax: simplifying motor vehicle rules (Scorecard) • Apply a category approach for determining the private use of a motor vehicle	0.145	0.063	-	2026–27 Annual Rates Bill
Improving taxation of loans made by companies to shareholders • Tax a shareholder on an outstanding loan six months after company is removed from the Companies Register • Improve record keeping for company cessation	(36.500)	0.363	0.500	2026–27 Annual Rates Bill
Total	**(36.355)**	**0.425**	**0.500**	
Budget Allowance Impact (excludes Scorecard items and impact of self-funding)	**(36.500)**	**-**	**-**	
Tax settings for banks				
[33]				
Changes to thin capitalisation rules for foreign-owned New Zealand banking groups (Scorecard) • Increase the thin capitalisation threshold for banking groups that include a domestic systemically important bank to 12% • Increase the thin capitalisation threshold for all other banking groups to 11%	(11.300)	-	-	2026–27 Annual Rates Bill
[33]				
Improve Working for Families (officials' recommendations presented here)				
Working for Families: residence requirements – tagged contingency • Remove the tax residence test • Introduce a 6-week absence period before payments stop	(6.950)	0.205	0.700	Budget Bill
Working for Families: information sharing – tagged contingency • Consideration after Budget 2026 of an Approved Information Sharing Agreement between Inland Revenue and Customs	(5.950)	0.123	0.600	Order in Council
Working for Families: family scheme income • Remove low-risk adjustments from the family scheme income definition • Remove the "other payments" adjustment from the family scheme income	3.450	0.050	-	Budget Bill
Total	**(9.450)**	**0.378**	**1.300**	
Budget Allowance Impact (excludes Scorecard items and impact of self-funding)	**(9.450)**	**-**	**-**	

	$ million increase / (decrease)			
	Non-Dept. Ave. p.a.[1]	Dept. Operating Ave. p.a.[2]	Dept. Capital Total[3]	Legislative vehicle
Other				
Changes to the thin capitalisation settings for infrastructure – return of unused B26 contingency ($42.5m)	(10.625)	**-**	**-**	n/a
Total	**(10.625)**	-	-	
Budget Allowance Impact (excludes Scorecard items and impact of self-funding)	**(10.625)**	**-**	**-**	

[33]

1. Four-year average across forecast period.
2. Four-year average across forecast period. Inland Revenue to self-fund with the exception of the **Research and Development Tax Incentive: in-year payments** initiative**.**
3. Total across the forecast period.

Appendix 2: Departmental and other initiatives for Budget 2026

Other non-policy initiatives that impact the Revenue portfolio

	$ million increase / (decrease)			
	Non-Dept. Ave. p.a.	Dept. Operating Ave. p.a.	Dept. Capital Total	Legislative vehicle
Baseline reduction	-	(15.800)	-	Estimates Bill
Additional compliance activities – individuals	(45.000)	15.000	-	Estimates Bill
Total	**(45.000)**	**(0.800)**	**-**	

Pre-commitment against the Budget 2026 operating allowance that impact the Revenue portfolio (Inland Revenue is self-funding the departmental costs of $0.125m p.a.)

	$ million increase / (decrease)			
	Non-Dept. Ave. p.a.	Dept. Operating Ave. p.a.	Dept. Capital Total	Legislative vehicle
Increase to the In-work Tax Credit (CAB-26-MIN-0086)	93.250	0.125	-	Current 2025-26 Tax Bill
Total	**93.250**	**0.125**	**-**	

Appendix 3: Summaries of Budget 2026 Revenue portfolio packages

Attached to this report are factsheet summaries for the following packages.

Improve tax settings to attract and retain migrants

- Foreign Investment Fund tax rules reform
- Financial arrangement rules amendments to support new migrants

Remove and reduce cross-border tax barriers and compliance costs for businesses

- Reduce non-resident contractors' withholding tax for asset leasing in the airline industry
- Modernise non-resident contractors' withholding tax

Target and reduce the cost of the Research and Development Tax Incentive

- Research and Development Tax Incentive: mining exclusions
- Research and Development Tax Incentive: Commissioner's discretionary powers
- Research and Development Tax Incentive: in-year payments
- Research and Development Tax Incentive: internal software

Review elements of charities and not-for-profits:

- Charities and not-for-profits: tax policy settings for the donation tax credit
- Charities and not-for-profits: tax policy settings for taxable not-for-profits
- Charities and not-for-profits: donation tax credit and honoraria simplifications
- Charities and not-for-profits: private trust income allocations to tax-exempt beneficiaries
- Charities and not-for-profits: repeal of the income tax exemption for non-resident charities

[33]

Simplify and uphold integrity of the tax system:

- Fringe benefit tax: simplifying motor vehicle rules
- Improving taxation of loans made by companies to shareholders

Tax settings for banks:

- Australian-style bank tax
- Changes to thin capitalisation rules for foreign-owned New Zealand banking groups

Improve Working for Families:

- Working for Families: residence requirements
- Working for Families: information sharing
- Working for Families: family scheme income

Improve tax settings to attract and retain migrants

This package supports increased foreign investment into New Zealand by encouraging new migrants to stay by reducing the overall tax burden of their investments. This supports the settings necessary for increased capital and labour investment into New Zealand, which in turn boosts the economic activity that happens within our borders, driving economic growth.

The following initiative has been agreed to by Joint Ministers:

Foreign Investment Fund tax rules reform

- Expand the scope of the revenue account method to foreign shares for migrants subject to double taxation and unlisted foreign shares only for other taxpayers
- Lift the foreign investment fund de minimis to $100,000
- Expand access to the attributable foreign investment fund income method
- Ensure the 10-year foreign investment fund exemptions continue to apply for corporate migration

The following initiative is recommended by the Minister of Revenue:

Financial arrangement rules amendments to support new migrants

- Introduce an elected functional currency rule
- Extend the cash basis person treatment to any individuals taxed on a citizenship basis
- Except private foreign currency transaction accounts from the financial arrangement rules
- Remove the requirement to exclude all foreign private loans from the financial arrangement rules
- Allow taxpayers to ignore any exchange rate movements when calculating foreign credit amounts
- Introduce special rules for financial arrangements acquired for the purpose of meeting visa requirements

Fiscal impact

Foreign Investment Fund tax rules reform					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	4.225	17.100	16.600	17.100	17.500

Financial arrangement rules amendments to support new migrants					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	0.700	0.580	0.450	0.330

Remove and reduce cross-border tax barriers and compliance costs for businesses

This package supports increased foreign investment into New Zealand by reducing compliance and by reducing the cost of capital and labour. This supports the settings necessary for increased capital and labour investment into New Zealand, which in turn boosts the economic activity that happens within our borders, driving economic growth.

The following initiatives have been agreed to by Joint Ministers:

Reduce non-resident contractors’ withholding tax for asset leasing in the airline industry

- Introduce a permanent exemption from non-resident contractors’ tax for the leasing of aircraft (excluding aircraft charters) and parts

The following initiative is recommended by the Minister of Revenue:

Modernise non-resident contractors’ withholding tax

- Increase the de minimis monetary threshold from $15,000 to $75,000
- Implement a “single-payer view” of the monetary and de minimis thresholds
- Exclude certain “low-risk” non-resident contractors from the ambit of the rules
- Introduce a bespoke non-resident contractors’ tax code within the PAYE code

Fiscal impact

Reduce non-resident contractors’ withholding tax for asset leasing in the airline industry					
Legislative vehicle	Budget Bill				
Application date	1 April 2026				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	1.050	4.200	4.200	4.200	4.200

Modernise non-resident contractors’ withholding tax					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental[4]	-	1.000	4.000	4.000	4.000

[4] These numbers have been updated to incorporate a higher de minimis threshold since forecasts were last submitted.

Target and reduce the cost of the Research and Development Tax Incentive

This package enhances the Research and Development Tax Incentive scheme, ensuring it continues to support genuine research and development. Changes look to reduce the compliance burden for businesses, improve access for small businesses and achieve value for money for taxpayers and the Government.

The following initiatives have been agreed to by Joint Ministers

Research and Development Tax Incentive: mining exclusions

- Expand the RDTI eligibility of expenditures incurred by mining businesses

Research and Development Tax Incentive: Commissioner's discretionary powers

- Allow the Commissioner of Inland Revenue the discretion to accept or amend late RDTI filings

Research and Development Tax Incentive: in-year payments

- Introduce in-year payments of the RDTI through the tax system with a refundability cap
  - The departmental costs to implement and deliver this initiative has reduced from previously advised, following detailed costing analysis.

Research and Development Tax Incentive: internal software

- Reduce the RDTI's cap on eligible internal software development expenditure to $3 million per business per year.

Fiscal impact

Research and Development Tax Incentive: mining exclusions					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	2027–28 and later income years				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	0.700	0.350	0.350	0.350

Research and Development Tax Incentive: Commissioner's discretionary powers					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	5.000	2.500	1.250	1.250

Research and Development Tax Incentive: in-year payments					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	2027–28 and later income years				
$ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Operating balance impact					
Non-departmental	-	-	-	-	-
Departmental - Operating	-	0.600	0.650	0.850	0.600
Capital impact					
Departmental – Capital	-	1.400	-	-	-

Research and Development Tax Incentive: internal software					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	2027–28 and later income years				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	(7.000)	(29.000)	(29.000)	(34.000)

Review elements of charities and not-for-profits

This package is focused on improving the integrity and simplicity of the not-for-profit tax rules while supporting the sector. The changes in this package aim to simplify tax rules, reduce compliance costs, and address integrity risks. Changes to the donation tax credit cap ensure value for money, while addressing tax integrity concerns and supporting fiscal sustainability.

All initiatives within this package have been agreed to by Joint Ministers

Charities and not-for-profits: tax policy settings for the donation tax credit

- Implement a donation tax credit threshold of $100,000

Charities and not-for-profits: tax policy settings for taxable not-for-profits

- Ensure membership subscriptions and levies received by taxable not-for-profits remain non-taxable
- Increase the effective tax-free threshold for taxable not-for-profits to $10,000 for not-for-profits with net income of $10,000 or less
- Exempt taxable not-for-profits from filing a return when they are eligible for the effective tax-free threshold, and give Inland Revenue the power to require taxable not-for-profits to file a return
- Require financial institutions to provide Inland Revenue with interest income information in relation to customers exempt from resident withholding tax

Charities and not-for-profits: donation tax credit and honoraria simplifications

- Allow Inland Revenue to refund donation tax credits in certain circumstances during the income year
- Allow donors to elect for their donation tax credit to be refunded directly to a donee organisation (without that refund qualifying for a subsequent donation tax credit)
- Provide not-for-profit entities the option to treat honoraria as salary or wages

Charities and not-for-profits: private trust income allocations to tax-exempt beneficiaries

- Introduce an integrity measure to tax trust income allocations to tax-exempt beneficiaries at the trustee rate, unless they are paid in money to the tax-exempt entity within a specified timeframe

Charities and not-for-profits: repeal of the income tax exemption for non-resident charities

- Repeal the non-resident charities non-business income tax exemption for not-for-profits

[33]

Fiscal impact

Charities and not-for-profits: tax policy settings for the donation tax credit					
Legislative vehicle	Budget Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	1.500	(15.300)	(19.000)	(19.000)

Charities and not-for-profits: tax policy settings for taxable not-for-profits					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	0.110	0.260	0.260	0.360

Charities and not-for-profits: donation tax credit and honoraria simplifications					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2028				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	-	0.100	0.400	0.400

Charities and not-for-profits: private trust income allocations to tax-exempt beneficiaries					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2028				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	-	(0.050)	(0.200)	(0.200)

Charities and not-for-profits: removal of tax exemption for non-resident charities					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2028				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	-	(0.050)	(0.200)	(0.200)

[33]

Simplify and uphold integrity of the tax system

This package looks to reduce compliance and administrative costs for complex tax types while maintaining integrity and fairness. Both the fringe benefit tax rules and shareholder loans rules are complex. Changes to fringe benefit tax in this package realign it with the original policy intent, while changes to shareholder loans are intended to address high-risk loans without disrupting normal business operations.

The following initiatives have been agreed to by Joint Ministers:

Fringe benefit tax: simplifying motor vehicle rules

- Apply a category approach for determining the private use of a motor vehicle

Improving taxation of loans made by companies to shareholders

- Tax a shareholder on an outstanding loan six months after company is removed from the Companies Register
- Improve record keeping for company cessation

Fiscal impact

Fringe benefit tax: simplifying motor vehicle rules					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	0.040	0.180	0.180	0.180

Improving taxation of loans made by companies to shareholders					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	4 December 2025 (release date of issues paper)				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	(7.000)	(31.000)	(26.000)	(44.000)	(38.000)

Tax settings for banks

This package consists of:

- an Australian-style bank tax intended to [34] and
- changes to thin capitalisation rules for foreign-owned New Zealand banking groups intended to better align with the Reserve Bank's new capital rules and provide greater certainty in tax settings.

[34]

Australian-style bank tax

[34]

The following initiatives have been agreed to by Joint Ministers:

Changes to thin capitalisation rules for foreign-owned New Zealand banking groups

- Increase the thin capitalisation threshold for banking groups that include a domestic systemically important bank to 12%
- Increase the thin capitalisation threshold for all other banking groups to 11%

Fiscal impact

[34]

Changes to thin capitalisation rules for foreign-owned New Zealand banking groups					
Legislative vehicle	2026–27 Annual Rates Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental (Scorecard)	-	(3.200)	(13.100)	(14.400)	(14.500)

Improve Working for Families

This package simplifies the Working for Families scheme, in turn improving the delivery of income support payments administered through the tax system. Changes aim to make it easier for families to apply for the scheme, reduce integrity risks during the application process and minimise the need for manual reviews and adjustments of payments. This will make the Working for Families process more accurate and increase confidence in families to move into work, knowing they will be supported without incurring debt.

The following initiatives are currently being considered by the Minister of Revenue (officials' recommendation presented here):

Working for Families: residence requirements

- Remove the tax residence test
- Introduce a 6-week absence period before payments stop
- Establish a (negative) tagged contingency of $27.8 million over the forecast period

Working for Families: information sharing

- Consideration after Budget 2026 of an Approved Information Sharing Agreement between Inland Revenue and Customs
- Establish a (negative) tagged contingency of $23.8 million over the forecast period

Working for Families: family scheme income

- Remove low-risk adjustments from the family scheme income definition
- Remove the "other payments" adjustment from the family scheme income

Fiscal impact

Working for Families: residence requirements – tagged contingency					
Legislative vehicle	Budget Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	-	(6.300)	(10.900)	(10.600)

Working for Families: information sharing – tagged contingency					
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	-	(3.300)	(10.300)	(10.200)

Working for Families: family scheme income					
Legislative vehicle	Budget Bill				
Application date	1 April 2027				
Operating balance impact $ million increase / (decrease)	2025/26	2026/27	2027/28	2028/29	2029/30 & Outyears
Non-departmental	-	1.100	4.000	4.200	4.500

20 April Joint Ministers meeting decision tracker

Outstanding policy decisions	
Recommendation	**Decision**
a) **Agree** to the Minister of Revenue's recommended package for outstanding policy initiatives:	
i. Modernise non-residents contractors' tax ($13 million cost over forecast period)	*Agree / Disagree*
ii. Financial arrangement rules amendments to support new migrants ($2.06 million cost over forecast period, Scorecard)	*Agree / Disagree*
iii. Working for Families: residence requirements (fiscal impact dependent on design agreed at Joint Ministers' meeting)	*Agree / Disagree*
iv. Working for Families: family scheme income (fiscal impact dependent on design agreed at Joint Ministers' meeting)	*Agree / Disagree*
Tax Policy Scorecard: decisions on fiscal treatment	
Recommendation	**Decision**
b) **Note** that the current balance of the tax policy scorecard is [1] which would increase to [33] over the forecast period if you charged all of the revenue impacts below against the tax policy scorecard;	*Noted*
c) **Agree** to manage the revenue impact of the following initiatives against either the Scorecard or Budget Allowances: (refer to report for detailed fiscal tables)	
i. Changes to thin capitalisation rules for foreign-owned New Zealand banking groups ($45.2 million revenue-positive over the forecast period)	*Scorecard / Budget Allowances / Scorecard if bank tax progresses*
ii. Review elements of charities and not-for-profits (excl. donation tax credit cap) [33] impact over the forecast period)	*Scorecard / Budget Allowances*
iii. Financial arrangement rules amendments to support new migrants ($2.06 million revenue-negative impact over the forecast period)	*Scorecard / Budget Allowances*
iv. Simplifying motor vehicle fringe benefit tax rules ($0.58 million revenue-negative impact over the forecast period)	*Scorecard / Budget Allowances*
Budget day legislation	
Recommendation	**Decision**
d) **Note** that Ministers have already agreed for the following proposals to be included in legislation introduced on Budget day: i. Non-resident contractor tax for asset leasing in the airline industry ii. Australian-style bank tax (if progressed)	*Noted*
e) **Agree** to introduce the following initiatives in Budget day legislation:	
i. Charities and not-for-profits: tax policy settings for the donation tax credit ($100,000 cap)	*Agree / Disagree*
ii. Working for Families: residence requirements	*Agree / Disagree*
iii. Working for Families: family scheme income	*Agree / Disagree*

[39]

Giles Bollinger
Acting Unit Manager
Revenue and Economic Development | The Treasury
16 April 2026

Maraina Hak
Policy Director
Policy | Inland Revenue
16 April 2026

Hon Nicola Willis
Minister of Finance
/ /2026

Hon Simon Watts
Minister of Revenue
/ /2026