The Treasury

Budget 2026 Information Release

September 2026

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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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Budget Ministers

Budget 2026 Strategy

24 September 2025

Purpose of this meeting

The purpose of this meeting is to

- **Agree** on our priorities for Budget 2026; and
- **Agree** the Budget 2026 Strategy ahead of Cabinet on 29 September

Economic and Fiscal Outlook

- Since the Budget, March quarter GDP has come in stronger than expected but this reversed in the June quarter with a contraction in GDP as activity softened after the announcement of US tariffs on “Liberation Day” in early April.
- It is too early to say if recent developments will change the economic or fiscal outlook. However, significant downgrades in the fiscal outlook – as occurred in late 2024 – are not anticipated at this stage.
- The Government’s short-term fiscal intentions are to:
  - Reduce core Crown expenses towards 30 per cent of GDP over time (on track)
  - Return OBEGALx to surplus by 2027/28 (currently 2028/29)
  - Put net core Crown debt on a downward trajectory towards 40% of GDP (on track)
- To deliver on this fiscal strategy, we will need to **continue to identify savings, constrain any new spending, and sequence or alternatively finance investments.**

Budget 2026 Priorities

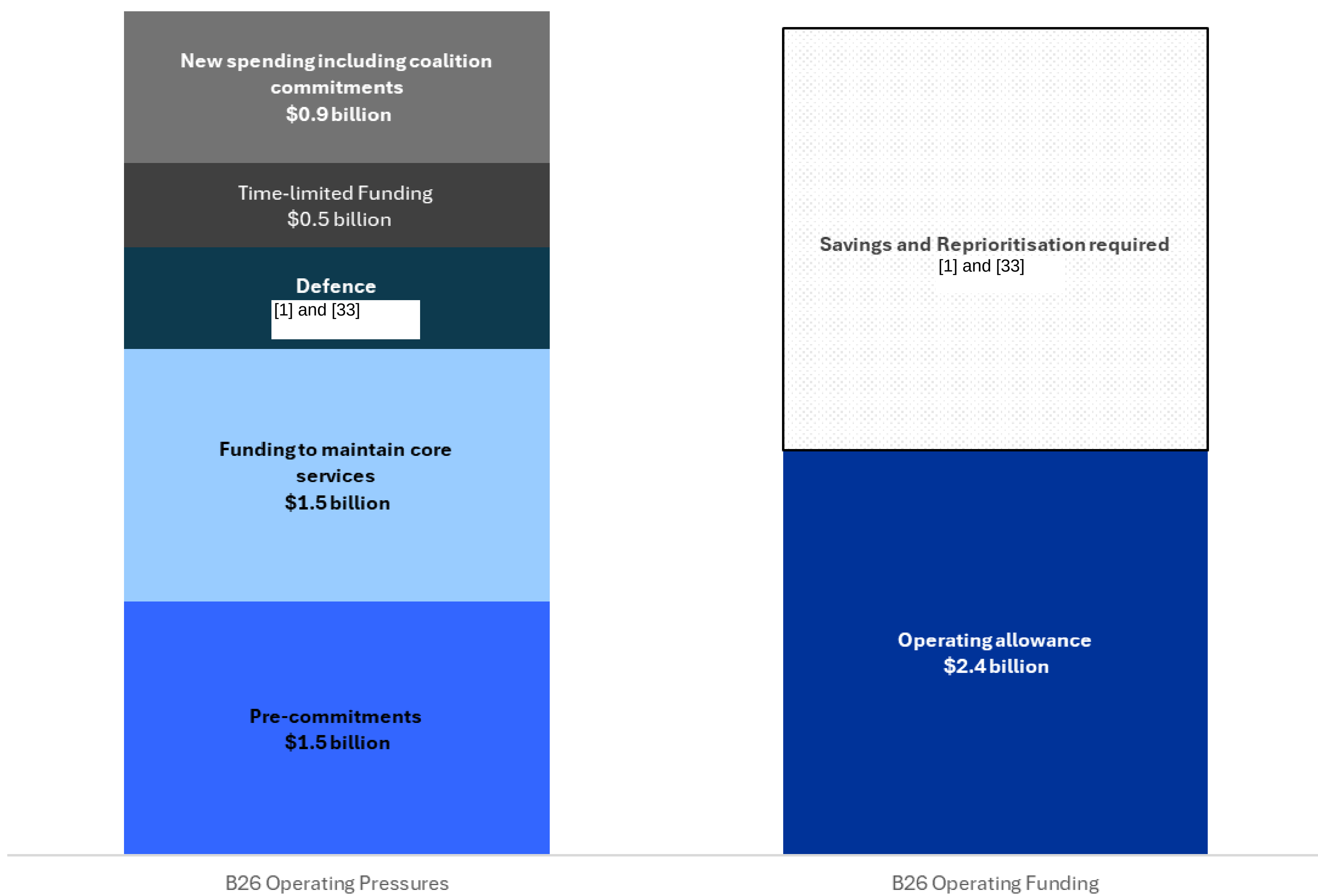
I propose that Budget 2026 prioritises funding in the following areas:

- **Outstanding coalition agreements**
- Funding to maintain delivery of **core services**
- Priority initiatives, including **growth-enhancing initiatives** and likely initiatives in **Defence, Education, Law and Order, Foreign Affairs** and **Health**
- **Productivity-enhancing** infrastructure investments.

The operating allowance set aside for Budget 2026 is $2.4 billion and represents a ceiling on new spending. This is a net concept so spending of more than $2.4 billion can be offset by savings.

The capital allowance of $3.5 billion in Budget 2026 has more flexibility, as in the previous Budget, depending on the quality of investments available for delivery.

Indicative gross spending and savings for Budget 2026



New Spending

New Spending Areas	Assumptions and additional information
Outstanding commitments from our coalition agreements	This includes implementing Resource Management Reform Tranche 1, various outstanding Health commitments including changes to the Aged Care system and Going for Housing Growth.
Envelopes for Government priority areas	Like the last two budgets, I recommend envelopes in the following areas to ensure delivery of core services and/or new spending: • Health • Education • Law and Order • Defence • Ministry of Foreign Affairs and Trade I will seek agreement to the size of the low, medium and high envelopes at our next meeting in October.

Pressures and Risks

- Most Ministers and agencies should not expect to be invited for funding at Budget 2026 and should instead address how they intend to continue to deliver core services within baselines through their Performance Plans.

Risk and pressure areas	Assumptions and additional information
Pressures in core services	There are a few areas (outside of envelope portfolios) that we will need to consider additional funding for critical pressures, such as forecast volume increases in Tertiary and Early Childhood Education.
KiwiSaver costs	Agencies will incur additional costs for Crown employees as a result of the Budget 2025 decision to increase employer contribution rates. This is expected to cost between \$100 and \$120m per annum per 0.5% increase. I recommend envelope agencies can seek funding for these costs. However, I expect remaining agencies to manage these costs within their baselines.
Time-limited funding	There are a number of initiatives for which time-limited funding is coming to an end that we will need to decide whether to provide additional funding, including: • Domestic Screen Production Rebate • Healthy School Lunches

Savings of [1] and [33] are required to deliver new spend

- To fund this indicative level of spending, Ministers need to work towards [1] and [33] **of savings and reprioritisation for Budget 2026.**
- Current options for how to deliver this new spending are:
  - **Baseline reprioritisation and reductions at 3-4% per annum** from most departments' discretionary spending baselines. This could form the first year of a total 10% baseline reduction phased over three Budgets and will be on top of non-envelope agencies absorbing KiwiSaver costs and other cost pressures.
  - [33]
  - I have met with the Minister of Revenue to discuss revenue-positive initiative options as part of the **Tax and Social Policy Work Programme**. These include integrity options for shareholder loans, options for bank measures and possible charities integrity measures. We have updated the public-facing work programme for publication in October (see Annex).
- Are there any additional areas we want to pursue?

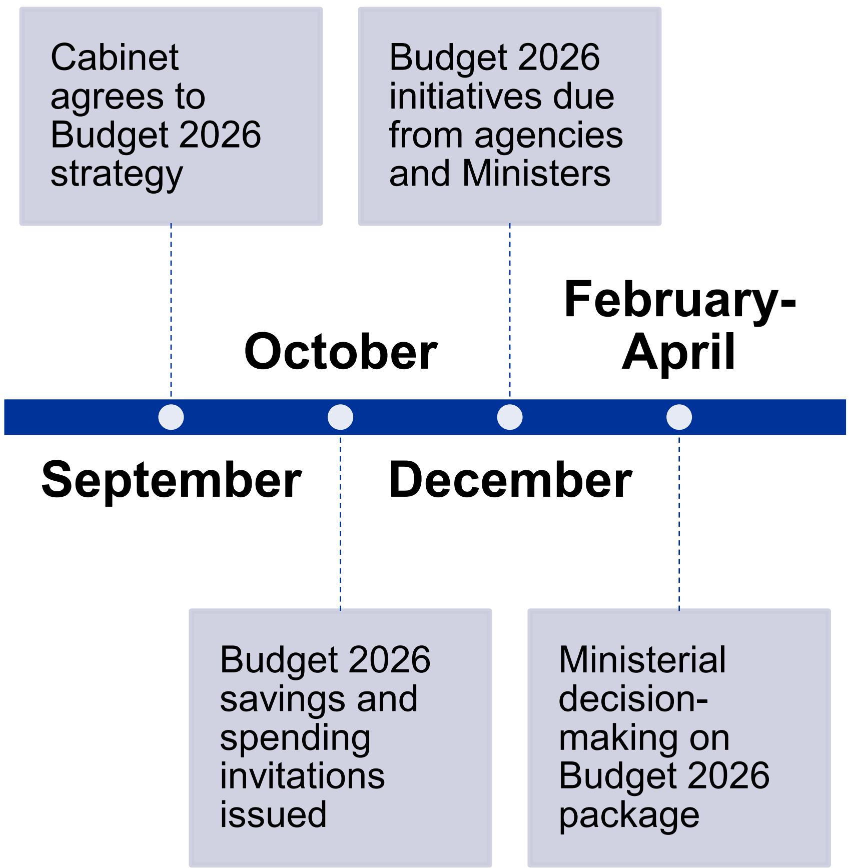
Capital investment

- Lifting capital investment is a key part of the Government's plan to increase economic growth and productivity. Improvements in agency planning are generating a pipeline of potentially high quality investments.
- The draft Quarterly Investment Report for June 2025 signalled that Budget 2026 capital funding requests are likely to **exceed $10 billion.**
- I propose to invite a broad range of investments for us to consider, but asking Ministers and Agencies to accelerate and demonstrate investment readiness as a condition of funding.
- **There is $1.6 billion remaining for the capital allowance**, but there is flexibility to raise this if needed when making decisions next year.

Expected capital funding requests at Budget 2026 ($b)

[33]

Next Steps



- On 29 September, Cabinet will consider the Budget Strategy.
- At our next meeting on 6 October, I intend to provide an overview of the **Budget Invitation** process.

Annex 1 – Tax and Social Policy Work Programme

The Work Programme's overarching priorities are simplifying tax and reducing compliance costs, addressing integrity risks, and improving fiscal sustainability, in order to rebuild the economy.

The Work Programme covers the following workstreams:

- **Attracting and retaining capital and talent**: this workstream makes New Zealand a better place to invest capital, work and do business by minimising biases on economic decisions, reducing international tax barriers and rewarding effort and individuals' investment in their own skills.
- **Supporting small businesses**: this workstream is focused on supporting small businesses by reducing compliance costs and making tax treatment simpler and fairer
- **Simplification and Integrity of the tax system**: this workstream reduces compliance costs for taxpayers and protects against tax avoidance and evasion to maintain a simple, stable and predictable tax system. Social policy: this workstream involves improving the delivery of income support payments administered through the tax system and increasing work incentives.
- **Other agency work**: this workstream involves other agency work that aligns with Government priorities that may have tax consequences or Inland Revenue delivery implications.

Attracting and retaining capital and talent

- Monitoring and refining Investment Boost*
- Reviewing thin capitalisation settings for infrastructure
- Reviewing the Foreign Investment Fund tax rules*
- Impact of the financial arrangement rules on new migrants
- Double tax agreement negotiations
- Simplification of the Approved Issuer Levy reporting
- Modernising non-resident contractor's withholding tax
- Work to find a multilateral solution to the challenges the digital economy poses to international taxation (UN and OECD Pillar 1 and Pillar 2 work)
- Digital nomads*
- Improvements to the employee share scheme regime*

Simplification and Integrity of the tax system

- Policy options to support wider Inland Revenue compliance work and reduce tax debt
- Reviewing elements of charities and not-for-profits
- Simplifying tax compliance for Māori authorities
- Clarifying the income tax treatment of software development expenditure
- Software expenditure by businesses on Software-as-a-Service customisation and configuration
- Interest allocation for bank branches
- Donee status for overseas focused organisations (schedule 32)*
- Removing the Commissioner's power to collect information for policy purposes*
- Replacing the legislative trust disclosure provisions with Commissioner powers*
- Income derived from residential sale of excess electricity*
- Delegating to the Commissioner powers to set certain rates*
- GST and unincorporated joint ventures*
- Remedial work programme

Supporting small businesses

- Simplifying Fringe Benefit Tax: Motor vehicles, unclassified benefits, entertainment expenses
- Supporting the transition to digital tax administration for tax intermediaries
- Information sharing with other government agencies (e.g. MBIEAISA, NZ Business Numbers among others)
- GST issues consultation*
- Expenditure on floods and land improvements

Social policy

- Ongoing FamilyBoost improvements
- Ongoing Working for Families improvements
- Student loans – overseas-based borrower settings

Other agency work

- Supporting all-of-Government response to organised crime*
- Treaty of Waitangi settlements
- Other ministerial priorities as they arise

Highlighted items indicate new items

* Indicates items included in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill

This is a draft programme that may be subject to minor changes due to Ministerial feedback and further evaluation of resources within Inland Revenue