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

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TE TAI ŌHANGA
THE TREASURY

Inland Revenue
Te Tari Taake

Tax and Social Policy Work Programme

Strategic Update

28 July 2025

T2025/1765

IR2025/329

Purpose

These slides are intended to **support an initial discussion** between you and officials on a **strategic update** to the Tax and Social Policy Work Programme (the work programme), looking to Budget 2026 and beyond.

Officials provide a progress update on the current work programme, and **seek to understand**:

- whether **revenue-positive measures not progressed at Budget 2025** are **still in scope for Budget 2026** (see Appendix A for overview), and whether you wish to receive **advice on other revenue-positive measures.**
- whether you wish to receive advice on significant **economic performance measures** which could be considered as part of the development of **Budget 2026.**
- whether you wish to better understand options for **longer-term analysis on the taxation of savings and investment.**

Update on Current Work Programme

Over the past year, the Treasury and Inland Revenue have **delivered a substantial programme of work**, including Budget 2025 and the Taxation (Annual Rates for 2024-25, Emergency Response, and Remedial Measures) Act 2025.

- **Officials are progressing significant work** through the **current work programme** (see Appendix B). This includes both the 2025-26 and 2026-27 Annual Rates Bills.

- There are also **items not progressed at Budget 2025** (Appendix A), as well as an **existing list of outstanding work items** (Appendix B) commissioned by the Minister of Revenue and requested by external stakeholders and the wider Inland Revenue department.

- While the current work programme can be delivered, **Inland Revenue has limited capacity to progress substantive new initiatives** for Budget 2026 or adding additional initiatives to the work programme **without deferring or ceasing existing work.**

Revenue Priorities

In June 2024, you set your **revenue priorities** for the work programme as:

Supporting economic growth and productivity

Raising revenue to fund growth and productivity enhancing measures

Enhancing the fairness and integrity of our tax system

Treasury considers that the **current fiscal position requires ongoing steady consolidation**, ideally consisting of both expenditure control and **revenue-positive measures.**

Treasury **recommends considering economic performance measures** only where these can be **implemented without hindering progress** in achieving the Government's **fiscal strategy goals.**

Revenue-positive Measures

If you are interested in **revenue-positive measures**, there are broadly **five ways to approach** this within the tax space:

Increasing rates on an existing base

(e.g. increasing GST)

Introducing a new base

(e.g. Australian Style Bank Tax)

Broadening an existing base

(e.g. taxing charitable business income)

Enforcing an existing base

(e.g. improving compliance activity)

Reducing targeted spend

(e.g. Research and Development Tax Incentive)

Appendix A presents predominantly **revenue-positive measures** that were **not progressed at Budget 2025.**

Officials can provide advice on *other* revenue-positive measures if you are interested.

Questions for discussion: Are all the revenue-positive measures in Appendix A still in scope for Budget 2026 at this point in time? Are you interested in receiving advice on other revenue-positive measures?

Significant Economic Performance Measures

Investment Boost significantly improved the treatment of inbound investment, reducing the average cost of capital by an estimated 5.2 percent. As a small open economy, **this treatment is a key issue impacting investment** and **remains the most important large-scale issue to address within the tax system.**

Officials' **first best advice** to address this issue within the current system is to **further reduce effective tax rates on inbound investment and to improve tax neutrality.**

Officials' preferred significant options to address this in the short-term are: a) restoring **depreciation for *new* commercial buildings**, and/or b) increasing the **Investment Boost rate.***

*While officials recommended a 20% rate for Budget 2025 as maximising net benefits, increasing the rate up to 40% is still likely to be one of the most cost-effective tax policies for lifting capital intensity.

However, we note that officials' preferred options come with a significant fiscal cost. **Treasury recommends progressing such measures only** if they can be implemented **without hindering progress** in achieving the Government's **fiscal strategy goals.**

Officials can provide advice on other economic performance options (i.e., significant options, or packages), if you are interested. [33]

Question for discussion: Do you wish to receive advice on significant economic performance measures which could be considered as part of the development of Budget 2026?

Smaller Economic Performance Measures

Several other workstreams are underway aimed at **lifting economic performance** that could be **included in a Budget 2026 package**. These include:

Foreign investment funds: phase 2 – would consider further tax policy issues around the FIF regime, e.g., allowing non-migrant residents to use the new FIF method, raising the FIF de minimis threshold, [33]

Fringe benefit tax: unclassified benefits – options to reduce compliance costs on FBT unclassified benefits[33]

[33]

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Enabling KiwiSaver funds to invest more in private assets – the current settings for PIEs impact how much a KiwiSaver fund can invest in private assets like unlisted shares; relaxing these settings will provide KiwiSaver funds a wider range of investment opportunities. This may support higher returns for KiwiSaver members and growth for the wider economy.

A **package of other economic performance measures** with a mix of these policies is **likely to be revenue negative** and funding should be considered as part of the Budget 2026 process.

Longer-term Reform Options

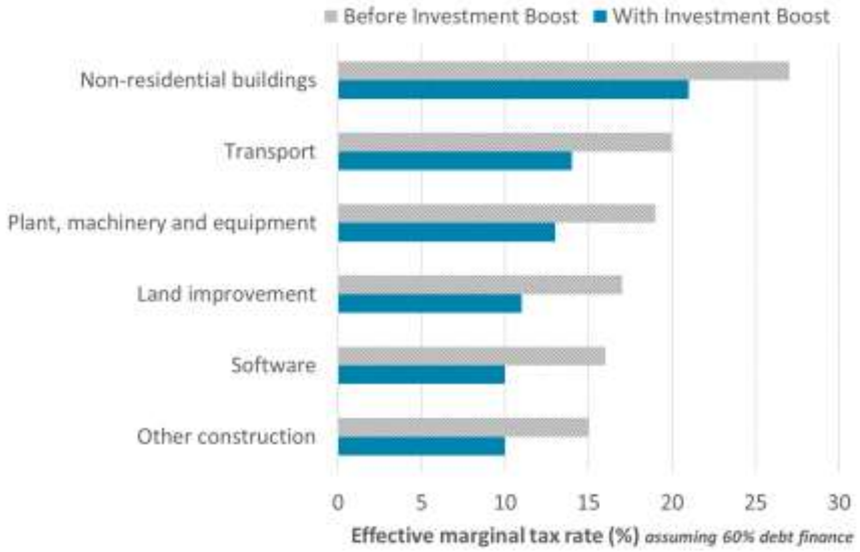
New Zealand's tax system compares well against our peers, in part due to our broad base, low-rate framework, and because of continued efforts to maintain and incrementally improve our system. **However, a longstanding significant issue is our inconsistent taxation of labour, savings and investment income**. Taxpayers have significantly different tax treatment depending on a range of factors:

Entities - Individuals face lower tax rates if they earn income through companies or managed funds.

Types of investment - Firms are taxed differently depending on what they choose to invest in (see chart). New Zealanders are also taxed differently depending on where they put their savings (e.g. into a home or in a term deposit).

Economic conditions - The taxation of investment and savings varies with economic conditions. Effective tax rates can be high when inflation is high relative to interest rates.

Firms taxed differently depending on what they invest in



This constrains your options to lift economic performance and raise revenue fairly and efficiently, **creating economic costs, horizontal inequities, and revenue sustainability risks.**

Officials can provide options for **high-level directions for reform** that you could consider in the **medium to long-term**. Key choices are **how we tax savings and investment**, and the **balance of taxation** between labour, savings and investment income.

Balancing the Work Programme

You have trade-offs in setting your desired work programme given Inland Revenue's **capacity constraints across the short-term**. In light of this, officials seek to understand **how you wish to balance the work programme** between:

- development of policies for **Budget 2026** or **other policy and remedial measures** in the **short-term**

- **medium to longer-term** work on **significant issues** that would be implemented on a **2027 and beyond** timeframe

Officials recommend committing work programme resources to **bolster ongoing stewardship analysis** on the **taxation of savings and investment**. It will be **increasingly challenging** for the tax system **to support economic and fiscal objectives** without addressing the long-standing issues noted earlier, and **prioritising this analysis** now will make it easier to address these issues in the future. This longer-term analysis would:

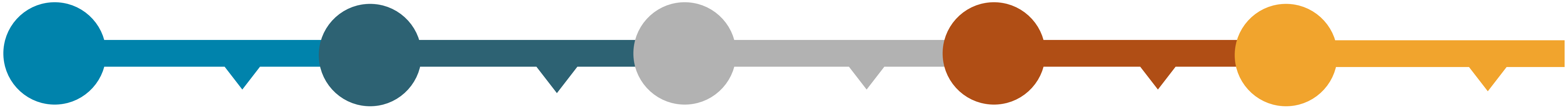
- **provide a valuable knowledge base to support your longer-term decision making.**
- **support any future work on savings and retirement income.**

Question for discussion: Do you wish to better understand options for longer-term analysis on the taxation of savings and investment?

Next Steps

Following your initial steers on how you wish to balance the work programme, officials can **provide further advice on options for an updated work programme** (including potential policies/packages).

Officials also **seek your feedback** on our **proposed process** below:



August 2025 –

Officials provide further advice on options for an updated work programme

MoF/MoR meet to discuss

September 2025 –

Public-facing work programme published

MoF/MoR meet to discuss work programme progress

October 2025 –

MoF/MoR meet to discuss work programme progress

November 2025 –

MoF/MoR meet to discuss work programme progress

December 2025 –

Review process for remainder of B26 development

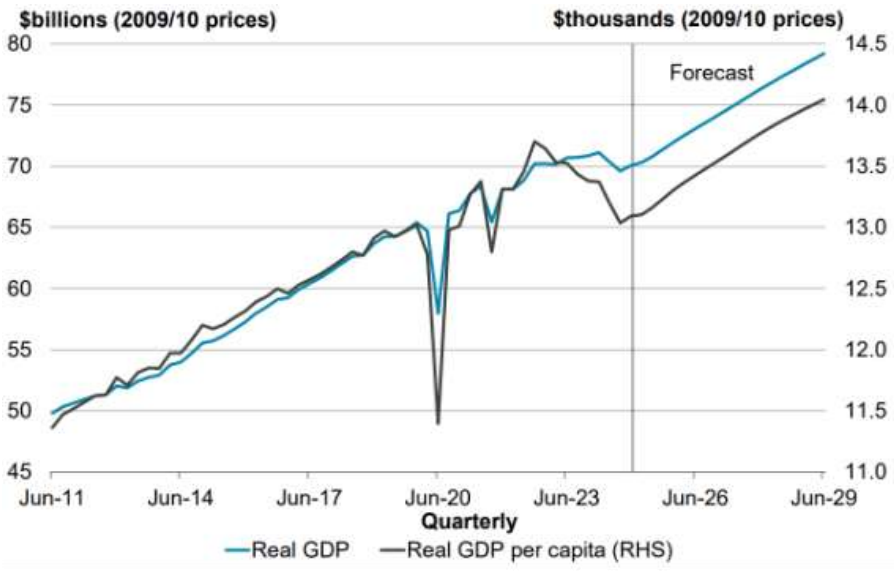
Annex 1: Economic Context

The **short-term economic outlook is improving**, but **weakness in labour productivity** is expected to **constrain the pace of growth** over the medium-term.

Ministers have set an **ambitious agenda** to **lift productivity and growth** through the five pillars of *Going for Growth*.

- **Budget 2025** contributed to this programme in the tax policy space through ***Investment Boost*** among other policies.
- The short-term economic outlook is improving, supported by falling interest rates and an increase in net exports. **Real GDP growth of ~3%** is expected over the **next three years.**
- However, **weakness in labour productivity** is expected to **constrain the pace of growth over the medium-term**. Ongoing geopolitical developments also add to uncertainty.
- **Tax policy options** to **lift economic performance** are available for Budget 2026 and beyond.

BEFU 2025 Forecast



Annex 2: Fiscal Context

The government remains in a **structural deficit**, with **consolidation required** to generate sustained operating surpluses and build resilience against future shocks.

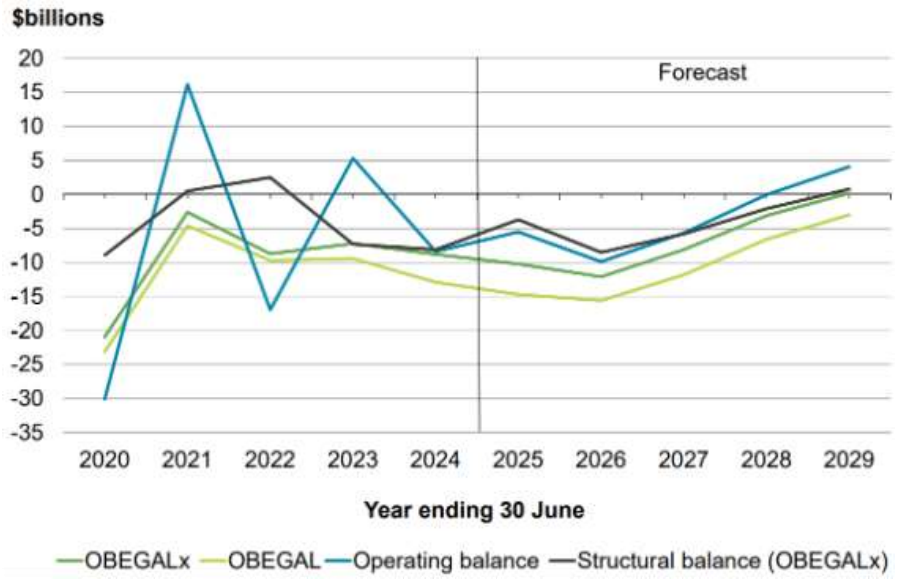
The Government is taking a **medium-term approach to consolidation**. The fiscal strategy is focused on **controlling expenditure** as the primary lever.

The Government has successfully **managed within allowances** for Budget 2024 and 2025, providing **significant savings**.

However, Treasury expects **managing within allowances** to become **increasingly challenging** over future Budgets.

In March 2025, Treasury advised (T2025/684) that achieving the Government's fiscal strategy goals will **require a wider range of policy measures including increases to revenue**.

BEFU 2025 Forecast



Appendix A: Items not progressed at Budget 2025

Item	Estimated Fiscal Impact (Rough and Uncertain)
LIVE WORK: Projects or initiatives that are actively progressing, with resources assigned and milestones underway	
Charity business income tax exemption	$30m - $70m p.a.
Integrity option - Shareholder loans	$1bn + in 2028/29 (tax existing stock of loans) $200m - $500m p.a. from 2029/30 onwards
Research and development tax incentive	Unquantified
PAUSED WORK: Projects or initiatives that are on hold, pending further direction from Ministers	
Integrity option - Imputation credit flushing *(Deliverable for B27)*	$55m p.a. from 28/29
Reducing expenditure on donation tax concessions	$86m p.a.
[33]	
AU Style Bank Tax or Prudential Levy	[34] $35m - $45m p.a. (Prudential Levy)
Vehicle Depreciation	$30m p.a. in 2026/27 and 2027/28, $10m p.a from 2028/29 onwards (25% rate) $55m p.a. in 2026/27 and 2027/28, $25m p.a from 2028/29 onwards (20% rate)
[33]	

Appendix B: Status of work programme items and other initiatives (orange = potential impact on **cost of living**; green = potential impact on **economic growth**)

Item	Fiscal impact over forecast period ($m)
Work in progress	
August 2025 Bill	
Improvements to the employee share scheme regime	-9.9
Improvements to the Foreign Investment Fund tax rules – addition of revenue account method	-1.4
Improvements to the GST rules for joint ventures	-12.0
Improvements to the thin capitalisation settings for infrastructure	-65.0
Ongoing Investment Boost improvements	28.0
Digital nomads	-0.8
Simplifying the tax rules for non-resident contractors	-
Updating procedures for handling unclaimed money	-
Income derived from residential sale of excess electricity	0.8
Donee status for overseas focused organisations (schedule 32)	0.8
Delegating the Commissioner powers to set certain rates	-
Replacing the legislative trust disclosure provisions	-
Removing the Commissioner's power to collect information for policy purposes	-
Enable disclosure of information to another government agency under a Ministerial agreement	-
Power to change FamilyBoost settings	-
Supporting all-of-Government response to organised crime	-
Other	
Research and Development Tax Incentive	TBC
Simplifying tax compliance for Māori authorities	TBC
Fringe Benefit Tax Review	[33]
Exploring compliance cost reductions, including improving tax compliance for small businesses	TBC
Income tax treatment of software development expenditure	TBC
Double tax agreement negotiations	TBC
FamilyBoost Bill	-23.0
FBT exemption for private health insurance	TBC
Ongoing Working for Families improvements	TBC
Interest allocation for bank branches	322.0
Shareholder loans	1,000.0
Reviewing elements of charities and not-for-profits	TBC
Policy options to support wider Inland Revenue compliance work and reduce tax debt	TBC
Reviewing the Foreign Investment Fund tax rules – phase 2	TBC
Compliance evaluation as a required performance measure for B25 funding	-
Evaluation of Investment Boost	-
Supporting the transition to digital tax administration for tax intermediaries	-
Simplification of the Approved Issuer Levy reporting	TBC
PIE changes to enable KiwiSaver investment in private assets	TBC
[33]	
Costing tax policy changes	-
Servicing OECD committees (including questionnaires)	-
Remedial work programme	-
Student loans – overseas-based borrower settings	TBC
GST issues consultation	TBC
Approved information sharing agreement with MBIE	-

Item	Fiscal impact over forecast period ($m)
Watching brief/deferred	
[33]	
Scoping issues for review of the land sale rules	TBC
Impact of the financial arrangement rules on new migrants	TBC
Income and cost base mismatch issues	TBC
KiwiSaver-further discussion with Minister Simpson	TBC
Improvements to controlled foreign company and foreign investment fund rules	TBC
Expenditure on floods and land improvements	TBC
Reviewing exempting the New Zealand Superannuation Fund from income tax	TBC
Carried interest	TBC
[33]	
Confidentiality of data shared under tax treaties	TBC
New Zealand Business Number information sharing provision	-
[33]	
IRD numbers and illegal immigration	TBC
Carbon Border Adjustment Mechanism Feasibility Study	TBC
[33]	[33]
Non-discretionary items	
Regulatory functions	
Common Reporting Standard implementation support and legislative review	
Tax consequences of Government-mandated restructures	
Treaty of Waitangi settlements	
United Nations and OECD Pillar 1 and Pillar 2 work, including responding to potential US retaliatory actions	
Implementation of new requirements for the Tax Expenditure Statement	
Organised crime cross agency work	
Work completed	
Budget 2025	
KiwiSaver changes	2960.0
Investment Boost	-6600.0
BestStart/WFF changes	-
Compliance funding	-140.0
Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Act 2025	
Generic response measures for emergency events	
Threshold increase for exempt schemes under the employee share scheme regime	
PIE changes – banks and licenced deposit takers, and related party interest payments	
Trust disclosures post-implementation review	
Implementation of the Crypto-asset Reporting Framework	
Easing opt-in-in to KiwiSaver for children under 16	
Inwards pension transfers and locked-in KiwiSaver changes	
Approved Issuer Levy reporting – retrospective registration	
Student loans – final year fees free	
Local Water Done Well project	