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[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

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Tax policy report: Working for Families: Changes to residency requirements, information sharing and definition of income

Date:	29 October 2025	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2025/379 T2025/2673 REP/25/10/818

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	12 November 2025
Minister for Social Development and Employment/Minister for Child Poverty Reduction	**Agree** to recommendations	12 November 2025
Minister of Revenue	**Agree** to recommendations	12 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Paul Young	Acting Policy Lead, Inland Revenue	[39]	☒
Melissa Siegel	Principal Policy Advisor, Inland Revenue		☐
Alex Harrington	Principal Advisor, Welfare and Oranga Tamariki, The Treasury		☒
Alana Roughan	Principal Analyst, Ministry of Social Development (Social Development and Employment)		☒
Deborah Tucker	Principal Analyst, Ministry of Social Development (Child Wellbeing and Poverty Reduction)		☐

29 October 2025

Minister of Finance
Minister for Social Development and Employment
Minister for Child Poverty Reduction
Minister of Revenue

Working for Families: Changes to residency requirements, information sharing and definition of income

Executive summary

Purpose and background

1. The policy proposals outlined in this report are to simplify the residency requirements for Working for Families tax credits, progress improved information sharing with the New Zealand Customs Service (Customs), and simplify the definition of family scheme income.

2. These proposals have merit on their own but would also support changes to joint administration and a shorter assessment period, should Ministers agree to these on the basis of future advice.

Problem definition and proposals

3. The Working for Families scheme is complex, making it difficult for recipients to understand what they need to do to comply and how changes will impact their payments. It also results in a large administrative burden for Inland Revenue.

4. The proposals in this report would simplify Working for Families and help to prevent overpayments, meaning less debt would be generated and families would find it easier to interact with the scheme. The proposals also lay the groundwork for more fundamental changes in the future (such as changes to joint administration and a shorter period of assessment).

Next steps

5. If Ministers agree to proceed, work on simplifying family scheme income, changes to residency requirements, and the Approved Information Sharing Agreement with Customs will continue.

6. Officials will provide further advice on changes to [33] a shorter period of assessment [33] before the end of 2025.

Background and purpose

7. This report is the first in a series of reports which outline policy options to simplify the Working for Families scheme, address debt issues, and improve integrity. It seeks your agreement to continue detailed policy design work on three smaller proposals which could be included in Budget 2026.

8. On 29 September, Ministers met to discuss the role that Working for Families changes could play in a potential welfare reform package for Budget 2026 and beyond. Ministers confirmed the key objectives were incentivising people to enter work or work more hours, keeping fiscal targets in mind. They also indicated interest in progressing specific changes to improve information sharing and simplify the

definition of family scheme income for Working for Families purposes. The Government publicly consulted on these proposals in consultation following the release of the discussion document *Empowering families: increasing certainty and preventing debt in the Working for Families scheme* ("the discussion document"), at Budget 2025. We have previously provided you with a summary of submissions on the discussion document [*IR2025-221, T2025/2105, REP/25/8/616 refers*].

Problem definition and objectives

9. The Working for Families scheme is highly complex. Families struggle to understand the information they are required to provide, and the ways in which their working hours, care levels, types and amounts of income can impact their Working for Families entitlements. These issues have led to persistent under- and over-payments, uncertainty and debt at an additional cost to Government, and can disincentivise paid work for some customers. They also create administrative burden and inefficiency for Inland Revenue and the Ministry of Social Development.

10. The recommendations for a Working for Families work programme in this report series aim to simplify the scheme, improve integrity and payment accuracy, and reduce the risk of overpayments while maintaining fiscal sustainability and reducing administrative burden.

Simplifying residence requirements

11. To qualify for Working for Families, recipients must meet specific residence requirements on an ongoing basis. These must all be met by either the person caring for a dependent child (the principal caregiver), or the child themself. The requirements are not the same for the principal caregiver test and the dependent child test. While there is some commonality, some requirements are unique to either the principal caregiver or the dependent child as shown in the table below:

Requirement[1]	Principal caregiver	Dependent child
Living in New Zealand	Ordinarily resident in New Zealand	
Visa status	Lawfully resident in New Zealand, not on a temporary entry class visa	
Physical presence	Have been physically present in New Zealand for a continuous period of 12 months at any time	Physically present in New Zealand for the entitlement period
Tax residence	Tax resident in New Zealand	N/A

12. The current residency rules can be difficult for families to understand. Families who leave New Zealand and no longer qualify are required to inform Inland Revenue to stop payments. However, families do not always advise of their departure. In this case they will continue to be paid until Inland Revenue systems or staff raise an issue. Inland Revenue then requests information from Customs about the border movements of that family before their payments can be stopped. The family's account is reassessed, and a debt is created. Debt recovery is uncertain and expected to be low in these situations. While it is difficult to determine the true cost of this issue, we estimate that in the 2022-23 tax year, between $12 and $25 million in payments were made to Working for Families recipients who had relocated permanently from New Zealand.

[1] Those who are in receipt of an emergency benefit also meet the residency requirements of Working for Families, regardless of their residency status.

13. We recommend simplifying the residence requirements for Working for Families so that both the principal caregiver and the dependent child must meet all requirements. The test should consider their legal authority to be in New Zealand and physical presence here, as well as whether they are "ordinarily resident" to ensure that visitors cannot qualify for Working for Families when they are in New Zealand for a limited time and do not intend to reside in the country permanently.[2] However, the link to tax residence and a minimum 12-month period in the country would be removed.

14. This should be accompanied by a tolerance for short periods of physical absence to enable families to go overseas on holiday or to visit family, for example. In the discussion document, a period of six weeks was suggested. If a family is out of the country for longer than this period, their Working for Families payments would stop.

15. During consultation, the proposed period of six weeks was broadly viewed as an appropriate length for someone to be physically absent from New Zealand before losing their eligibility for Working for Families, although this sentiment was not universal. Written submitters did raise the importance of this period being consistent with other residence requirements. Submitters emphasised the importance that any period should allow for consideration of life events that require people to travel overseas.

16. [33]

17.

Sharing border movement information

18. The Ministry of Social Development has an information sharing agreement with Customs which allows it to receive information on beneficiaries leaving the country. This enables the Ministry of Social Development to stop payments in a timely manner, even if a recipient has not notified it that they are leaving New Zealand.

19. We recommend expanding Inland Revenue's information sharing with Customs to include border movements of customers who receive Working for Families payments. In combination with simplifying the residency requirements, this would enable Inland Revenue to automatically stop payments when a principal caregiver has been out of the country for a specified period and is no longer entitled to receive Working for Families. This information sharing is a necessary step to ensure the proposed residence requirements work effectively in practice and should be implemented at the same time (by 1 April 2027).

20. The discussion document included two options to implement an information sharing agreement. Further discussions between Inland Revenue and Customs have indicated that the only viable option is an Approved Information Sharing Agreement. The Office of the Privacy Commissioner previously noted that this is its preferred option to enable this information sharing under the Privacy Act 2020. The standard timeframe for putting an Approved Information Sharing Agreement in place is around 18 months. This means an application date of 1 April 2027 to align with the proposed start date of the new residence requirements is feasible. If the Approved Information Sharing Agreement is effective before then, information received could

[2] For example, Australian citizens are automatically granted a resident visa on arrival and without an ordinarily resident test, they would qualify for Working for Families while in New Zealand on holiday.

[3] Changes to the residence rules for Working for Families should apply from the start of a tax year.

be used to better understand trends and impacts and allow Inland Revenue to prepare to support impacted customers.

21. There was support in public consultation for targeted information sharing and clearer residency rules to ensure payments are accurate without being overly punitive or complex, with appropriate safeguards in place for information sharing.

Definition of family scheme income

22. Working for Families entitlements are calculated based on family scheme income, which includes the income of the principal caregiver, their partner and children. The definition of family scheme income is broad to ensure targeting of support and to reduce the risk of fraudulent behaviour through income structuring. It is based on net income for tax purposes plus or minus adjustments outlined in legislation. Most adjustments increase family scheme income.

23. The current definition of family scheme income is complex and can be confusing for customers. All customers are asked to verify whether these income adjustments apply to them even though for most customers, family scheme income is the same as their net income for tax purposes.[4] In the 2021–22 tax year, only 2% of Working for Families customers had income adjustments included in their calculation.[5]

24. We recommend simplifying the definition of family scheme income by removing some income adjustments based on how commonly they are used and the level of risk they present to the integrity of the Working for Families scheme. For those adjustments that remain, administration would be improved by making better use of the information Inland Revenue holds.

25. Inland Revenue officials consider some income types to be low risk because they are not an effective way of minimising family income. Some of the less frequently used income types, such as requiring families to declare some pensions and annuities for Working for Families purposes, could be removed without substantially increasing the risk to the integrity of the scheme.

26. Simplifying family scheme income would help address complexity, resolve some of the customer compliance, payment accuracy and debt issues, and reduce administrative burden. It would also allow Inland Revenue to better allocate resources to maintain the integrity of the tax system.

27. As part of this simplification, increased legislative flexibility could be introduced to provide a mechanism for the inclusion of new income types in the future should they become an integrity risk. This would future-proof and further protect the integrity of Working for Families.

28. Most submissions on the recent discussion document did not comment on the proposal to simplify family scheme income. Those that did were generally supportive of simplification based on analysis of usage and risk for each adjustment type, with the caveat that any changes needed to be clearly communicated.

29. The Ministry of Social Development and the Ministry of Health[6] also use family scheme income to calculate certain entitlements. The Ministry of Social Development uses family scheme income as part of assessing eligibility for three sources of financial assistance: as part of the Parental Income Test for Student Allowance, the income test for a Community Services Card for low-income earners with dependent children, and as part of the Parental Income Test of the Young Parent Payment. The Ministry of Social Development will need to update guidance,

[4] This excludes child support, as many Working for Families customers have child support amounts either paid or received, which also adjusts family scheme income.
[5] Other than adjustments for child support.
[6] For community services card purposes

forms, and web content to reflect the updated definition and communicate the changes to clients.

30. The Ministry of Social Development considered whether by changing the definition of family scheme income, it would be required to reassess entitlements based on the revised definition. Their initial view is that there is no requirement to reassess entitlements for Student Allowance, Community Services Card or the Young Parent Payment based on the revised legislative definition of income.

[33]

Moving to a shorter period of assessment

35. A high number of under- and over-payments during the tax year are due to incorrect income estimates; it can be very challenging for families to get this right, particularly over a long period. On the other hand, an annual period of assessment is the internationally accepted norm for payments delivered via the tax system, and provides individuals with the ability to 'smooth' their income over a longer period.

[7] In the 2021–22 tax year, approximately half of the 145,800 beneficiary families who received Working for Families received their payments solely from the Ministry of Social Development, 42.5% solely from Inland Revenue and the remainder received their payments from both agencies.

36. Officials are considering options to move from an annual period of assessment based on estimated income and current circumstances with potentially significant end of year square-ups, to a shorter (quarterly) period based on lagged income, as well as either lagged or current circumstances. These options could increase the certainty of payments and reduce debt for many families. This could involve some negative trade-offs for those families with variable income due to the misalignment between the timing of the payments a person receives and the period of income used to determine those payments, however, it would be more accurate during the year and wouldn't require end of year adjustments.

37. Submitters had a mixed response to the proposal on a shorter period of assessment. While many agreed that the current model does not work for many families, the complexity of the issue and potential trade-offs for low-income families with variable income meant there was no consensus on what a better approach would look like. We will provide further advice on shorter periods of assessment by the end of the year.

Intermediaries

38. Public consultation highlighted that stakeholders struggle with the complexity of Working for Families and saw potential for intermediaries to help. However, barriers such as cost and privacy concerns mean intermediaries are prevented from helping or are reluctant to get involved in Working for Families. Officials recommend that Inland Revenue should continue to assess opportunities for intermediation and develop a wider intermediary strategy for Working for Families.

Sequencing and dependencies

39. We recommend that implementation is sequenced, with changes to residency requirements, information sharing and family scheme income implemented prior to [33] the period of assessment noted in this report. This report seeks agreement to work on detailed design for these options to include them as part of the package put forward for Budget 2026 and implemented by 1 April 2027. These initiatives collectively are expected to result in fiscal savings of $48.4 million over the forecast period.

40. Even if [33] or moving to a shorter assessment period do not progress, changes to residency and information sharing of border movements of Working for Families recipients with Customs have merit, as does simplifying the definition of family scheme income.

Administrative implications

41. Inland Revenue has completed initial administrative costings for Vote Revenue for the three proposals. These costings are based on high-level assumptions for the changes being considered and are conservative estimates given the lack of certainty at this time. Inland Revenue will refine these costs as part of subsequent work on detailed policy design. Cost estimates may change based on policy settings and implementation timing.

Simplifying residence requirements and sharing border movement information

42. We estimate the one-off cost to Inland Revenue for implementing an information share with Customs and changing the residence rules to be around $1 million. The residency changes would be built to automate the facilitation of border movements and the end dating of Working for Families entitlements. Although this change would introduce new processes to administer the proposed exemptions and permit changes to who is the principal caregiver within a family, this would also reduce follow-up work that occurs as a result of overpayments. Therefore, while Inland

Revenue would incur increased ongoing costs over the forecast period 2025/26 to 2029/30, we anticipate these costs to balance out with benefits of reducing current administrative work. These achieved savings would help fund the aforementioned ongoing cost.

43. The administrative costings have been completed on the assumption that the system solution will enable significant automation of the end dating of Working for Families payments based on data received from Customs and any exemptions will be able to be self-serviced by the customers.

44. Cost impacts of implementing information sharing with Customs are subject to completion of confirmed costings. Customs will provide further information on the cost and any further operational impacts of implementing an Approved Information Sharing Agreement as scoping is completed.

Definition of family scheme income

45. We estimate the one-off implementation cost to Inland Revenue to be around $0.500 million and no increase in ongoing cost over the forecast period 2025/26 to 2029/30. This would include updating forms and related content to help impacted customers understand the changes.

Combined administrative implications

46. Inland Revenue would be able to confirm how much can be covered through self-funding for both the above measures once the whole suite of initiatives covered in this report, their components and options, and the timing of implementation have been decided on by Ministers. In relation to the family scheme income proposal, the Ministry of Social Development can provide cost implications through the Budget 2026 process.

Indicative costings/financial implications

47. Overall, excluding the administrative implications noted above, the three proposals are expected to save $48.400 million over the forecast period. This would have a corresponding positive impact on the operating balance and the Budget 2026 operating allowance, as set out in the table below.

	$ million – increase/(decrease)					
Summary	2025/26	2026/27	2027/28	2028/29	2029/30 & outyears	Total
Residency requirements	-	-	(8.900)	(13.500)	(13.200)	(35.600)
Information sharing	-	-	(3.300)	(10.300)	(10.200)	(23.800)
Simplifying definitions	-	0.800	3.200	3.500	3.500	11.000
Total Operating	-	0.800	(9.000)	(20.300)	(19.900)	(48.400)

48. The fiscal impact of changing the Working for Families residence requirements with application from 1 April 2027 is set out in the following table. It is contingent on the information share with Customs being in place.

	$ million – increase/(decrease)					
Vote Revenue	2025/26	2026/27	2027/28	2028/29	2029/30 & outyears	Total
Non-departmental Benefits or Related Expenses						
Family Tax Credit	-	-	(4.500)	(4.400)	(4.300)	(13.200)
In-Work Tax Credit	-	-	(1.600)	(1.600)	(1.600)	(4.800)
Best Start Tax Credit	-	-	(0.500)	(0.500)	(0.500)	(1.500)
Subtotal	-	-	(6.600)	(6.500)	(6.400)	(19.500)

Non-departmental Other Expenses Impairment of Debt and Debt Write-offs	-	-	(2.300)	(7.000)	(6.800)	(16.100)
Total Operating	-	-	(8.900)	(13.500)	(13.200)	(35.600)

49. The fiscal impact of the introduction of the information sharing agreement with Customs from 1 April 2027 is as follows:

	$ million – increase/(decrease)					
Vote Revenue	2025/26	2026/27	2027/28	2028/29	2029/30 & outyears	Total
Non-departmental Benefits or Related Expenses						
Family Tax Credit	-	-	(2.800)	(8.600)	(8.500)	(19.900)
In-Work Tax Credit	-	-	(1.000)	(3.100)	(3.100)	(7.200)
Best Start Tax Credit	-	-	(0.300)	(1.000)	(1.000)	(2.300)
Subtotal	-	-	(4.100)	(12.700)	(12.600)	(29.400)
Non-departmental Other Expenses Impairment of Debt and Debt Write-offs	-	-	0.800	2.400	2.400	5.600
Total operating	-	-	(3.300)	(10.300)	(10.200)	(23.800)

50. The fiscal impact of changing the definition of family scheme income for Working for Families from 1 April 2027 is as follows:

	$ million – increase/(decrease)					
Vote Revenue	2025/26	2026/27	2027/28	2028/29	2029/30 & outyears	Total
Non-departmental Benefits or Related Expenses						
Family Tax Credit	-	0.600	2.400	2.600	2.600	8.200
In-Work Tax Credit	-	0.100	0.500	0.600	0.600	1.800
Best Start Tax Credit	-	0.100	0.300	0.300	0.300	1.000
Subtotal	-	0.800	3.200	3.500	3.500	11.000
Non-departmental Other Expenses Impairment of Debt and Debt Write-offs	-	-	-	-	-	-
Total Operating	-	0.800	3.200	3.500	3.500	11.000

Consultation

51. Inland Revenue have consulted with Customs on the relevant parts of this report.

52. Officials will provide further advice in our next report, before the end of 2025, regarding any further consultation on the proposals outlined in that report.

Next steps

53. If Ministers agree to proceed:

    53.1 Inland Revenue and Customs officials will continue to work on progressing towards an Approved Information Sharing Agreement for sharing border movements of Working for Families customers.

    53.2 Officials will progress detailed policy design for simplifying the residence requirements and the definition of family scheme income for Budget 2026 consideration.

    53.3 Officials will provide the second report in this series seeking decisions on [33] providing further detail on a shorter assessment period before Christmas.

    53.4 Officials intend to undertake further targeted consultation on policy options in this series of reports.

54. [33]

Recommended action

We recommend that you:

1. **agree** that detailed policy design for simplifying the Working for Families residency requirements be progressed for Budget 2026 consideration

Agreed	**Agreed**	**Agreed**
Minister of Finance	Minister for Social Development and Employment Minister for Child Poverty Reduction	Minister of Revenue

2. **agree** that officials work on progressing an Approved Information Sharing Agreement enabling border movements of Working for Families customers to be shared between Inland Revenue and Customs

Agreed	**Agreed**	**Agreed**
Minister of Finance	Minister for Social Development and Employment Minister for Child Poverty Reduction	Minister of Revenue

3. **agree** that detailed policy design for simplifying the definition of family scheme income be progressed for Budget 2026 consideration

Agreed	**Agreed**	**Agreed**
Minister of Finance	Minister for Social Development and Employment Minister for Child Poverty Reduction	Minister of Revenue

4. **refer** this report to the Minister of Customs.

Referred/ **Not referred** Minister of Finance	**Referred/** **Not referred** Minister for Social Development and Employment Minister for Child Poverty Reduction	**Referred/** **Not referred** Minister of Revenue

Shelley Robertson
Manager, Welfare and Oranga Tamariki
The Treasury

Sam Willis
Policy Manager, Welfare System and Income Support
Ministry of Social Development

Paul Young
Acting Policy Lead
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Louise Upston
Minister for Social Development and Employment
Minister for Child Poverty Reduction
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025