BILL COMMENTARY

Taxation (Budget Measures) Bill

Hon Nicola Willis
Minister of Finance

FIRST PUBLISHED

May 2024 by Policy and Regulatory Stewardship, Inland Revenue, PO Box 2198, Wellington 6140.

Taxation (Budget Measures) Bill – commentary on the Bill

The document is available at https://www.taxpolicy.ird.govt.nz/publications/2024/commentary-taxation-budget-measures-bill

Table of Contents

Taxation (Budget Measures) Bill 1

Personal income tax changes 5

- Personal income tax 7
- Independent earner tax credit 14

Working for Families 19

- In-work tax credit 21
- Minimum family tax credit 23

FamilyBoost 25

- FamilyBoost 26

Research and Development Tax Incentive 33

- R&D Tax Incentive: Filing under incorrect entity name 34

Student loan scheme 35

- Student loan scheme base interest rate 36

Personal income tax changes

Personal income tax

Clauses 6, 7, 29, 31, 32, 34 to 39

Summary of proposed amendments

The amendments propose to increase three of the personal income tax thresholds with effect from 31 July 2024. If enacted, these changes would reduce the amount of tax a person would be required to pay on their personal income. Some consequential changes to other tax types that are based on personal tax rates and thresholds will not take effect until 1 April 2025.

Effective date

The amendments would be effective from:

- 1 April 2024:
  - formula to calculate fringe benefit tax (FBT) (clause 6)
  - composite personal income tax rates and thresholds (clause 7)
- 31 July 2024:
  - resident withholding tax (RWT) (clause 29)
  - certain tax codes and rates (clause 31)
  - reporting of income information by individuals and treatment of certain amounts (clause 32).
- 1 April 2025:
  - attribution rule for income from personal services (clause 34)
  - amounts of tax for PAYE income payments (clause 35)
  - payment of extra pay with other PAYE income payments (clause 36)
  - personal income tax, FBT and employer superannuation contribution tax rates and thresholds (clause 37)
  - basic tax rates for PAYE income payments (clause 38)
  - prescribed investor rate (clause 39).

Background

The Bill proposes changes to the personal income tax thresholds. The current thresholds have been unchanged since 2010, except for the introduction of the top marginal rate in 2021. The current and proposed thresholds are set out below:

Existing threshold	Proposed threshold	Threshold rate
$0 – $14,000	$0 – $15,600	10.5%
$14,001 – $48,000	$15,601 – $53,500	17.5%
$48,001 – $70,000	$53,501 – $78,100	30%
$70,001 – $180,000	$78,101 – $180,000	33%
$180,001+	$180,001+ (No change)	39%

Key features

The key features of the proposed amendments are:

- Composite personal income tax rates and thresholds that will take effect from 1 April 2024 to be applicable only for the 2024–25 tax year to give effect to the mid-year threshold changes.
- All references to current personal income tax thresholds across all Inland Revenue Acts will be replaced with corresponding proposed thresholds.
- Changes to the rates and thresholds of consequential tax types, which are dependent on the personal income tax rates and thresholds, ie, RWT, FBT, employer superannuation contribution tax, retirement scheme contribution tax and the prescribed investor rates.
- A change to the formula to calculate FBT payable.

Detailed analysis

Composite rates

The current tax thresholds will apply for the first three months and 30 days of the 2024–25 tax year, and the proposed thresholds will apply for the remaining eight months and one day of the tax year.

To account for two sets of thresholds being applicable in a single tax year, Inland Revenue will need to use composite rates for the income amounts between the old and new thresholds. The composite tax rates are a combination of the current and proposed rates to be applied across the entire year to determine a taxpayer's annual tax liability.

The composite rates and thresholds will be used for Inland Revenue's end-of-year "square-up" calculations, which assess a taxpayer's income against the amount of tax paid over that income year (and may result in a tax refund or liability).

The composite rates and thresholds that will take effect from 1 April 2024 to be applied for the 2024–25 tax year would be:

Composite tax thresholds	Composite tax rates
0 – $14,000	10.5%
$14,001 – $15,600	12.82%
$15,601 – $48,000	17.5%
$48,001 – $53,500	21.64%
$53,501 – $70,000	30%
$70,001 – $78,100	30.99%
$78,101 – $180,000	33%
$180,001+	39%

Example 1: Annual tax liability using composite rates and thresholds

Elizabeth earns $52,000 in the 2024–25 tax year.

Elizabeth's tax liability for the tax year will be calculated using the composite rates and thresholds, which would mean:

- the first $14,000 will be taxed at 10.5%
- every dollar earned between $14,001 and $15,600 will be taxed at 12.82%
- every dollar earned between $15,601 and $48,000 will be taxed at 17.5%, and
- every dollar earned after $48,001 until $52,000 will be taxed at 21.64%.

Differing application dates for consequential tax type changes

While Inland Revenue can implement personal income tax changes relatively quickly, employers and payroll service providers are likely to require more time to implement changes. This is especially the case for consequential tax types. These consequential tax types use rates and thresholds that are based on personal income tax rates and thresholds. Examples of consequential tax types include RWT, FBT, employer superannuation contribution tax, retirement scheme contribution tax and the prescribed investor rates.

Rates and thresholds for consequential tax types are calculated using the personal income tax settings, which means calculating and implementing a mid-year change could create significant compliance challenges for employers, payroll service providers, and managed funds.

The Government has therefore decided that changes to consequential tax types will take effect from 1 April 2025, except for changes to RWT and the formula to calculate FBT payable under the attribution method. The deferred application of the changes to most consequential tax types is intended to minimise compliance costs for employers. This means that only one set of rates and thresholds will apply for these consequential tax types for the whole tax year. This is further explained below.

Changes to FBT calculation for the attribution method to take effect from 1 April 2024

The changes to the formula used to calculate a taxpayer's FBT liability under the attribution method will take effect from 1 April 2024. The current formula is designed to calculate the FBT payable assuming personal income tax and FBT rates are essentially the same. Because the Bill proposes changes to personal income tax and FBT thresholds to apply from different dates, the current formula may result in an amount of FBT payable that effectively claws back the tax relief the new personal income tax thresholds provide for the 2024–25 tax year.

The new formula mitigates and future proofs against this issue. The formula is:

$$\text{tax on all-inclusive pay} - \text{FBT on net cash pay.}$$

Where:

- **all-inclusive pay** is the sum of net cash pay and the value of taxable fringe benefits received by the employee
- **net cash pay** is the cash left in hand of the employee after tax, ie:

$$\text{cash pay} - \text{tax on cash pay.}$$

Example 2: FBT payable for the 2024–25 tax year using the new formula

Joanna earns $54,000 in salary and receives a fringe benefit worth $5,000 in the 2024–25 tax year.

Joanna's employer uses the FBT attribution method so the FBT liability will be calculated using composite personal income tax rates and thresholds, current FBT rates and thresholds and the new FBT formula. This means:

FBT payable on (net cash pay + fringe benefit) − FBT payable on (cash pay − tax on cash pay)

= FBT payable on ($45,314.68 + $5,000) − FBT payable on ($54,000 − $8,685.32)

= $11,591.02 – $9,448.02 = $2,143.00.

Where:

- **$45,315.68** is the net cash pay (the in-hand pay of the employee after personal income tax is deducted using the composite personal income tax thresholds and rates)
- **$5,000** is the cash value of the fringe benefit received by the employee
- **$54,000** is the cash pay
- **$8,685.32** is the personal income tax payable on the $54,000 using the composite personal income tax thresholds and rates.

Changes to RWT to take effect from 31 July 2024

The changes to RWT will apply with effect from 31 July 2024 alongside the personal income tax threshold changes. Because interest and dividends are included in a taxpayer's personal income tax calculation at the end of the year, RWT rates will not change. But people will be able to elect the 10.5% rate if they expect their total income to be less than $15,600 (currently $14,000). Some taxpayers who have elected higher RWT rates are likely to advise payers of resident withholding income that they wish to change their elected tax rates with the increases to the personal income tax thresholds. The changes to RWT are not expected to require payers of resident withholding income to make major changes.

Changes to consequential tax types to take effect from 1 April 2025

Changes to other consequential tax types will apply from 1 April 2025 to avoid complexities arising from the need to calculate any composite rates or thresholds or to recalculate the rates applicable to employees. This will involve changes to the thresholds of:

- FBT
- employer superannuation contribution tax
- retirement scheme contribution tax, and
- prescribed investor rate.

All these tax types will have references to current thresholds replaced with the proposed thresholds except for FBT and employer superannuation contribution tax.

Thresholds of FBT are determined by the net in-hand income, ie, the difference between the gross income and the personal tax payable. The proposed thresholds of FBT are set out below.

Range of dollar in all-inclusive pay	Tax rate
$0 – $13,962	11.73%
$13,963 – $45,230	21.21%
$45,231 – $62,450	42.86%
$62,451 – $130,723	49.25%
$130,724+	63.93%

The thresholds of the employer superannuation contribution tax are 20% greater than the personal income tax thresholds. The proposed thresholds are set out below.

Employer superannuation contribution tax threshold amount	Tax rate
$0 – $18,720	10.5%
$18,721 – $64,200	17.5%

$64,201 – $93,720	30%
$93,721 – $216,000	33%
$216,001+	39%

Independent earner tax credit

Clauses 4 and 26

Summary of proposed amendment

The amendment proposes to lift the threshold at which the independent earner tax credit (IETC) will begin abating and a taxpayer will no longer be eligible to receive the IETC.

Effective date

The proposed amendments would take effect from 31 July 2024.

Background

The Bill proposes changes to the IETC thresholds. Currently, a taxpayer is entitled to the IETC if they earn from $24,000 to $48,000 per year. However, even if they earn within the income thresholds, they become ineligible for any months in which they receive a main benefit, student allowance, New Zealand Superannuation or veteran's pension or are eligible to receive Working for Families.

Taxpayers receive the maximum IETC available when they earn between $24,000 and $44,000 per tax year, receive reduced IETC if they earn more than $44,000 per tax year, and become ineligible once they earn more than $48,000. The maximum amount receivable is $520 per year ($10 per week).

The Bill proposes to increase the threshold where abatement begins and the threshold where taxpayers are no longer eligible to receive the IETC. The current and new settings are set out below.

	Eligibility starts	Abatement starts	No longer eligible
Current	$24,000	13 cents per dollar earned over $44,000	$48,000
Proposed	$24,000 (no change)	13 cents per dollar earned over $66,000	$70,000

The key features of the proposed amendments are:

- The personal income threshold at which the abatement begins changes from $44,000 to $66,000.
- The personal income threshold at which taxpayers will no longer be eligible to receive any amount of IETC changes from $48,000 to $70,000.
- The method to calculate a taxpayer's IETC entitlement for the tax year ending 31 March 2025 will use separate calculations for the period from 1 April 2024 to 30 July 2024 and for the period from 31 July 2024 to 31 March 2025. This will only be applicable for the 2024–25 tax year to give effect to the mid-year setting changes.

Detailed analysis

Composite calculation for the 2024–25 tax year

The current IETC settings will apply for the first three months and 30 days of the 2024–25 tax year, and the proposed settings will apply for the remaining seven months and a day of the tax year.

Clause 4 provides a composite calculation to calculate a taxpayer's full year entitlement to account for two sets of IETC settings being applicable in one year.

For 1 April 2024 to 30 July 2024, the IETC entitlement is calculated using the formula:

(person's credit – full year abatement) x credit period days ÷ 365.

Where:

- **person's credit** is either $520 if the taxpayer's net income for the tax year is equal to or more than $24,000, but $0 if the net income is less than $24,000 or more than $48,000
- **full year abatement** is the total of 13 cents per dollar earned over $44,000 for the tax year
- **credit period days** is the number of whole days the taxpayer is eligible for the IETC in the period 1 April 2024 to 30 July 2024.

For 31 July 2024 to 31 March 2025, the IETC entitlement is calculated using the formula:

(person's credit – full year abatement) x credit period days ÷ 365.

Where:

- **person's credit** is either $520 if the taxpayer's net income for the tax year is equal to or more than $24,000, but $0 if the net income is less than $24,000 or more than $70,000

- **full year abatement** is the total of 13 cents per dollar earned over $66,000 for the tax year
- **credit period days is the number of whole** days the taxpayer is eligible for the IETC in the period 31 July 2024 to 31 March 2025.

Therefore, the calculation for the 2024–25 tax year is:

$$\underbrace{(((\$P - X) \times D/365)}_{\text{Period 1}} \quad + \quad \underbrace{((\$P - Y) \times D/365))}_{\text{Period 2}} \quad \times \quad EM/12.$$

Where:

- **Period 1** refers to when the current settings apply (1 April 2024 to 30 July 2024), and **Period 2** refers to when the proposed settings apply (31 July 2024 to 31 March 2025)
- **$P** = either $520 if the taxpayer earns more than $24,000 but less than the maximum threshold of the applicable setting, or $0 if the taxpayer earns less than $24,000 or more than the maximum threshold of the applicable setting
- **X** = amount of abatement under the old settings
- **Y** = amount of abatement under the new settings
- **D** = number of full days the setting applies to (based on implementation date)
- **EM** = number of full months the taxpayer was not ineligible for the IETC due to receiving a main benefit, student allowance, New Zealand Superannuation or veteran's pension or being eligible to receive Working for Families.

Eligible months will continue to be determined on an annual basis. This means that the total combined IETC amount from periods 1 and 2 will then be multiplied by the number of eligible months divided by 12.

Example 1: Annual IETC entitlement using composite calculation

Elizabeth earns $45,000 in the 2024–25 tax year.

Elizabeth is entitled to IETC because she receives no main benefit or government support and earns more than $24,000 but less than the maximum thresholds of both the current and new settings – $48,000 and $70,000. Elizabeth's $45,000 annual income is $1,000 above the beginning of the abatement zone for the period up to 30 July 2024.

Elizabeth's IETC entitlement for the tax year will be calculated using the composite calculation, which would mean:

(((\$520 - \$130) x 121/365) + ((\$520 – 0) x 244/365)) x 12/12 = \$476.90.

Where:

- **\$130** is the amount of the abatement under the current settings (13 cents x \$1,000)
- **121** is the number of days the current settings apply
- **\$0** is the amount of the abatement under the proposed settings (13 cents x \$0)
- **244** is the number of days the proposed settings apply
- **12** is the number of whole months Elizabeth was eligible for IETC.

Example 2: Annual IETC entitlement using composite calculation

Josh earns \$67,000 in the 2024–25 tax year.

Josh is partly entitled to IETC though he earns more than \$24,000 and receives no main benefit or government support. This is because he earns more than the maximum threshold of \$48,000 under the current settings but earns less than the maximum threshold of \$70,000 under the new settings.

Josh's IETC entitlement for the tax year will be calculated using the composite calculation, which would mean:

(((\$0) x 121/365) + ((\$520 − 130) x 244/365)) x 12/12 = \$260.71.

Where:

- **\$0** represents Josh's eligibility to receive IETC having been fully abated under the current settings
- **121** is the number of days the current settings apply
- **\$130** is the amount of the abatement under the proposed settings (13 cents x \$1,000)
- **244** is the number of days the proposed settings apply
- **12** is the number of whole months Josh was eligible for IETC.

Example 3: Annual IETC entitlement using composite calculation

Paul earns $44,000 in the 2024–25 tax year.

Paul is entitled to IETC because he earns more than $24,000 but less than the maximum thresholds of both the current and new settings – $48,000 and $70,000.

However, he begins receiving Working for Families from January 2025. Paul is no longer eligible to receive IETC in the months he receives Working for Families – January, February and March 2025.

Paul's IETC entitlement for the tax year will be calculated using the composite calculation, which would mean:

$$(((\$520 - 0) \times 121/365) + ((\$520 - 0) \times 244/365)) \times 9/12 = \$390.$$

Where:

- **$0** is the amount of the abatement under the current settings (13 cents x $0)
- **121** is the number of days the current settings apply
- **$0** is the amount of the abatement under the proposed settings (13 cents x $0)
- **244** is the number of days the proposed settings apply
- **9** is the number of whole months Paul was eligible for IETC.

Working for Families

In-work tax credit

Clauses 5 and 27

Summary of proposed amendment

The proposed amendment would increase the in-work tax credit (IWTC) base rate by $25 per week.

Effective date

The proposed amendment would apply from 31 July 2024.

However, part-year amendments would apply from 1 April 2024. These allow the old rate and new rate to be used for different periods in the 2024–25 tax year.

Background

The IWTC is the key instrument to "make work pay" within the wider context of the Working for Families package. It supports low- to middle-income working families whose members take up and stay in employment, rather than remaining on a benefit. It achieves this by providing a boost to the family's income once members begin working.

However, there is no requirement to automatically increase the rate of the IWTC over time. The real value of the IWTC has decreased relative to wage growth, and its effectiveness as an incentive to move off a benefit and to take up and stay in employment has lessened.

Alongside the family tax credit, the IWTC also contributes to supporting income adequacy and reducing child poverty by increasing the incomes of low-income working families. Recent inflation and the impact of the cost-of-living crisis has made it difficult for families to meet household costs. The diminished value of the IWTC means the payment does not provide adequate financial support to help low-income working families face the rising cost of living.

Key features

- The IWTC base rate would increase from $3,770 per year to $5,070 per year. This represents a $25 increase in weekly income.
- The maximum weekly entitlement for a family of up to three children would increase from $72.50 to $97.50.

- The additional child rate remains at $15 more per week.
- The previous IWTC amount of $3,770 would be used to calculate IWTC entitlements until 30 July 2024.

Minimum family tax credit

Clauses 5 and 28

Summary of proposed amendment

The proposed amendment adjusts the minimum family tax credit (MFTC) threshold to $35,316 after tax. This will ensure that MFTC recipients benefit from the personal income tax changes and the increase to the IWTC.

Effective date

The proposed amendment would apply from 31 July 2024.

However, part-year amendments would apply from 1 April 2024. These allow the old threshold and new threshold to be applied for the payment of instalments for different periods in the 2024–25 tax year.

Background

The MFTC is one of the Working for Families tax credits. Its purpose is to incentivise members of families with children to move off the benefit at the margin and into full-time work. The MFTC achieves this by "topping up" the incomes of working families to an amount that is more than what they could potentially receive on a benefit.

The IWTC and the MFTC work together to top up a person's income to ensure that they are financially better off in work without a main benefit. Changes made to the IWTC will automatically flow through to MFTC recipients by keeping the MFTC threshold at its current level.

However, for every dollar a family earns over the MFTC threshold, their MFTC entitlement reduces by a dollar. As such, the MFTC threshold must be increased to ensure that a family's entitlement is not reduced by reason of them gaining tax relief from the personal income tax rate changes. The proposed increase in the MFTC means that single parent families would remain better off in full-time work (defined as 20 hours for sole parents and 30 hours for couples) and receiving the MFTC, rather than remaining on a benefit.

Key features

- The MFTC threshold would increase from $35,204 per year (after tax) to $35,316 per year (after tax). This represents a $2.15 increase in weekly income.

- This change, in conjunction with the increase to the IWTC, would increase recipients' income by approximately $27.15 per week.
- The previous MFTC threshold of $35,204 would be used to calculate MFTC entitlements until 30 July 2024.

FamilyBoost

FamilyBoost

Clauses 8 to 24

Summary of proposed amendments

The proposed amendments introduce and outline the FamilyBoost tax credit, the eligibility and process requirements for claimants, and how the credit is calculated.

Supporting provisions in the Income Tax Act 2007 (ITA) and the Tax Administration Act 1994 (TAA) would also be amended to align FamilyBoost legislation with general tax legislation and administrative provisions for aspects of the policy relating to issues such as debt, penalties, credit offsets and payments.

Effective date

The proposed amendments would take effect on 1 July 2024.

This means that applicants will be able to claim payments related to early childhood education (ECE) costs incurred from 1 July 2024. Payments could be issued to parents and caregivers from October 2024.

Background

The Government has agreed to a new payment named FamilyBoost to support low- to middle-income working families with the rising cost of living by providing targeted assistance with ECE costs. The tax credit was agreed to by Cabinet in March 2024.

To ensure FamilyBoost payments reflect actual ECE fees incurred and are targeted toward families who need it most, FamilyBoost will be a 'rebate style' payment each quarter.

While externally the credit will generally be referred to as a payment or as FamilyBoost, it will be a new tax credit under Part M of the ITA. The proposals include the eligibility criteria for the tax credit, calculation basis, definitions associated with caregivers and household income, and consequential amendments to the administration and avoidance provisions in the ITA and TAA.

Key features

FamilyBoost recipients will be able to claim a quarterly partial refund of actual ECE fees incurred for that quarter. The amount to be reimbursed will be 25% of costs incurred.

Entitlements will abate where the annual income of the household is between $140,000 to $180,000, with no remaining entitlement at $180,000.

Because of the quarterly nature of the payment, these amounts will be calculated against quarterly equivalents, with household income for abatement being between $35,000 and $45,000 per quarter, and no remaining entitlement after the $45,000 threshold is reached for a given quarter.

The key features of the proposed amendments are:

- Eligible households consist of a parent or caregiver and that person's partner (that is, de facto partner or spouse).
- Separated parents can submit separate applications for FamilyBoost, provided they care for the child and meet some ECE costs directly.
- Parents and caregivers will apply in the manner to be specified by the Commissioner and provide information required for the new tax credit.
- The FamilyBoost payment will be 25% of ECE costs incurred, after existing support that reduces the fees payable is taken into account.
- The payment amount is capped at $975 for the quarter. The payment cap will reduce where household income is above $35,000 per quarter.
- Caregivers can apply for a previous quarter, but a four-year time bar will apply. This means caregivers must apply in the four-year period after the end of the quarter of the credit that the application relates to.
- Applications will include details of current family circumstances, and the payment is intended to be full and final for most applicants.
- Where debt is generated, FamilyBoost will use existing debt regimes for other tax products.
- Integrity checks will be performed.

Detailed analysis

Eligibility

A person is entitled to a quarterly FamilyBoost tax credit if they meet the eligibility requirements for that quarter. This means they must, at some point during the quarter:

- have a child in their care who is enrolled with a licensed early childhood service,
- incur ECE fees for that child, and
- be a tax resident in New Zealand.

At the end of the quarter, they will need to complete an application for FamilyBoost, declare their relationship status, and provide the required evidence of fees incurred.

If the parent or caregiver (or their partner) is required to file an income tax return as part of their usual tax obligations to Inland Revenue, this will need to be filed before a FamilyBoost payment can be processed.

FamilyBoost is paid per household rather than per child, meaning the income and refund caps apply regardless of the number of children in the household attending ECE.

Separated parents and other caregivers

FamilyBoost requires that the applicant have some day-to-day care of the child they are applying for, and that they incur ECE fees for that child.

Where the parents of a child have separated and share care of a child, FamilyBoost can be claimed by both parents, provided each parent incurs at least a portion of the ECE costs directly and they provide separate invoices. Separated parents will not be able to claim more than the $975 per quarter household cap, but each parent will be treated as having a separate household.

Where a grandparent or other caregiver also incurs ECE fees for a child, they can claim FamilyBoost provided they have an ongoing responsibility for the day-to-day care of the child.

If a caregiver is eligible for FamilyBoost but passes away before applying for FamilyBoost their estate will be able to claim it on their behalf.

Registration and application

Parents and caregivers applying for the refund must complete an application in the manner specified by the Commissioner and provide the required information to support the application. It is anticipated that a person will need to register for this new product through myIR and provide the information that the Commissioner of Inland Revenue requires to set up and open their FamilyBoost account.

After the initial registration is completed, it is anticipated caregivers can log on each quarter to submit invoices and confirm their family circumstances for each application. FamilyBoost payments will be paid following each quarterly application.

Parents and caregivers can apply at a later date but must apply within the four-year period that begins on the day immediately following the end of the quarter they wish to apply for.

Evidence of costs incurred

It is anticipated that parents or caregivers will need to upload ECE invoices or similar evidence via myIR to support their application. The Commissioner will set out the information required on these invoices or other evidence in guidance following the Bill's enactment. This is expected to include evidence of the amount of fees payable for the relevant period, family circumstances and licensed early childhood service details.

Calculation and payments

The Bill outlines how Inland Revenue will calculate a parent or caregiver's FamilyBoost payment. The payment amount will be determined by the ECE fees incurred and the income of the caregiver and their partner.

Other ECE supports

The amount of the credit will be 25% of residual fees payable, after other supports such as 20 Hours ECE and Work and Income's childcare subsidy are taken into account. This reflects the fact that the policy is designed to support parents directly with the actual costs they face for ECE. Fees also do not include any amount that is a donation.

Quarterly calculation

Inland Revenue will calculate the parent or caregiver's household income on a quarterly basis using the most recent income information held by Inland Revenue. Generally, this will be either the most recent three months' reportable income or the most recent income tax return filed. Where a person has a mix of income types, the greater amount will be used.

Example 1: Single parent on salary/wage income

Jacqui earns $85,000 per year and has one child aged 3 in ECE for 40 hours per week. Her child is eligible for the 20 Hours ECE, and she pays for the remaining 20 hours, which costs her $250 per week. Jacqui has earned $21,250 for the period 1 July to 30 September and has paid $3,250 in ECE fees for the same period. Because her income is under the quarterly cap of $35,000, Jacqui will receive back 25% of the fees she pays.

She will be reimbursed $812.50 as her quarterly FamilyBoost refund.

Where a household has two earners – one self-employed and the other earning only reportable income, a mixture of income types will be used (see example 2).

Example 2: One parent is a salary/wage earner, the other is self-employed

Dharmendra works full time for wages, earning $1,700 per week ($88,400 a year). His partner, Neisha, is self-employed, working roughly 30 hours per week for her carpentry business. Neisha's last income tax return was filed on 7 July 2024, for the period 1 April 2023 to 31 March 2024. For that period, she earned $50,000. They have two children, Samira (4) and Niam (2). The combined weekly daycare cost for both children is $531 per week at a daycare centre in Christchurch. Due to their level of income, they are not eligible for a childcare subsidy from Work and Income.

Dharmendra receives wages, so Inland Revenue uses his gross wages paid between 1 July and 30 September 2024 of $22,100. Neisha's income for this quarter will be calculated as $12,500 ($50,000 / 4). Their combined income for the quarter is $34,600. The ECE invoices are in Dharmendra's name.

In September, Dharmendra registers for FamilyBoost via myIR. In October, Dharmendra logs onto the account and submits the first claim, confirming their family's details and including the invoices he's been saving since July, which show they've spent $6,903 on daycare in the last three months. The family's earnings for the quarter are under the quarterly threshold of $35,000, so the family receives $975 into their bank account.

Abatement

Households with up to $35,000 in income for a quarter will receive the full payment. Where a household's quarterly income falls between $35,000 and $45,000, the full payment will abate by 9.75 cents per dollar of income over $35,000. Households earning over $45,000 per quarter will not be eligible.

Table 1: Eligibility for different income levels

Annual household income	Maximum weekly rebate	Amount refunded (paid quarterly)
Up to $140,000	$75.00	$975.00
$150,000	$56.25	$731.25
$160,000	$37.50	$487.50
$170,000	$18.75	$243.75

Payment

The payment can be made every three months into the applicant's nominated bank account. Families can choose to apply less frequently if they wish.

Amendments, debt and integrity

Amendments, additional invoices and time-bar for applications

It is proposed that in most cases, a household's entitlement to FamilyBoost is full and final. Inland Revenue would have the power to amend applications where a change in the applicant's circumstances has resulted in an unduly harsh outcome; guidance around the types of cases where this power may be used will likely be clarified in a later determination.

Where an application has been made with at least one invoice, a calculation would be made of the caregiver's maximum entitlement, based on their income and family circumstances. Based on this calculation, a caregiver would be able to upload further invoices to that same quarter until their maximum entitlement is reached. This would need to be done within four years of the end of the quarter of the original application.

Example 3: Additional invoices

Ana applies for FamilyBoost in May 2025, for the period 1 January 2025 to 30 April 2025. She uploads 11 weeks' worth of invoices from her daycare centre, confirms her income of $20,000 for 1 January to 30 April, and submits the application. Later, she realises she missed a further two invoices she could have submitted. In October, she uploads these to myIR to add them to the May application and is refunded 25% of the fees on these two invoices.

There will also be a four-year limit to applications for FamilyBoost. Parents and caregivers must apply within the four-year period that begins on the day immediately following the end of the quarter they are applying for. For example, a parent claiming for the 1 July 2024 to 30 September 2024 period has until 1 October 2028 to apply for that quarter's FamilyBoost payment.

Debt

FamilyBoost is a 'rebate' style payment where most entitlements are full and final so the level of debt generated should be minimal. Where the Commissioner recalculates a parent or caregiver's FamilyBoost application, for example, due to uncovering a genuine error, the Commissioner must use the original calculation unless amending this would result in a significant overpayment or underpayment. What constitutes a significant overpayment or underpayment will be established in a published determination made by the Commissioner.

Where a debt is created, standard income tax penalty and use-of-money interest rules will apply to any outstanding amount.

Where a caregiver is unable or unwilling to repay a debt, Inland Revenue will utilise standard debt collection processes and powers to negotiate a payment plan, consider a write-off, or enforce payment depending on the individual's situation.

Integrity

Integrity checks will be completed as applications are made. Claims will be subject to verification both during the application process and retrospectively.

Changes to information-sharing provisions

Information will be shared with the Ministry of Education for the purposes of administering FamilyBoost. The Ministry of Education holds the details of children who are in ECE and details around licensed ECE providers, which will be used to verify that the child is enrolled with the ECE provider that they are providing an invoice from.

Research and Development Tax Incentive

R&D Tax Incentive: Filing under incorrect entity name

Clauses 41, 42 and 43

Summary of proposed amendment

The proposed amendments would enable the Commissioner of Inland Revenue to amend an approval of a person enrolled in the Research and Development Tax Incentive (RDTI) in instances where the person has applied for approval using an incorrect entity name.

Effective date

The proposed amendments would apply for the 2021–22 and later income years.

Background

For a person to be able to claim a tax credit through the RDTI regime, they must apply for approval (either a general approval of their activities or a criteria and methodologies approval) and then submit a supplementary return containing their research and development (R&D) expenditure for the year.

In a wholly-owned group situation, approval must be sought in the name of the entity undertaking the R&D. If, for example, approval was applied for and given to a parent company when its wholly-owned subsidiary company was the entity undertaking the R&D, then RDTI tax credits would not be processed for either entity if the time to vary that approval had elapsed.

Key features

- A person can apply to the Commissioner to amend the name of an entity in an RDTI approval if they have incorrectly named another entity within the same wholly-owned group in the approval.
- If a person has an application to amend a name in an RDTI approval accepted, they have 30 days to subsequently file a supplementary return in the correct entity's name.

Student loan scheme

Student loan scheme base interest rate

Clauses 2(7) and (8), and 44

Summary of proposed amendment

The Bill proposes that the student loan scheme base interest rate is increased by 1% for five years from 1 April 2025. This will mean that the interest rate charged on an overseas-based borrower's student loan will increase by 1%, as will the late payment interest rate charged on unpaid amounts.

Effective date

The proposed amendments will apply for five years from 1 April 2025 to 1 April 2030.

Background

The base interest rate is the interest charged on overseas-based borrowers' student loans. Late payment interest is charged on unpaid amounts and is the base interest rate plus 4%.

Inland Revenue determines the base interest rate using the five-year average of the ten-year bond rate to December in the year preceding the tax year to which the rate will apply (to two decimal places) plus a margin of 0.74%. This number is then rounded to the nearest decimal place.

The interest rate charged on overseas-based borrower loans was 2.9% for the 2023–24 tax year (and is 3.3% for 2024–25). Late payment interest charged on overdue student loan payments (for both New Zealand-based and overseas-based borrowers) was 6.9% for the 2023–24 tax year (and is 7.3% for 2024–25).

Over the last three years inflation has overtaken the base interest rate by 9.5%. The proposed amendment would increase the student loan base interest rate by 1% for five years to partially cover the loss in value of the student loan scheme due to three years of high inflation.