Hon Nicola Willis, Minister of Finance and

Hon Simon Watts, Minister of Revenue

Information Release

Budget 2024

September 2024

Availability

This information release is available on Inland Revenue's tax policy website at https://www.taxpolicy.ird.govt.nz/publications/2024/ir-budget-2024

Documents in this information release

Item	Reference	Title	Date
Overarching and Administrative			
1.	BN2024/088	Implementing Budget 2024 Initiatives – application dates and administration implications	08/03/2024
2.	IR2024/180	Draft Cabinet paper – Taxation (Budget Measures) Bill – Approval for introduction	08/05/2024
3.	LEG-24-MIN-0091	Taxation (Budget Measures) Bill: Approval for Introduction	23/05/2024
4.	IR2024/024 T2024/750	Aide Memoire: Draft Revenue Strategy	26/03/2024
5.	CAB-24-MIN-0188	Report of the Cabinet Legislation Committee: Period Ended 24 May 2024	27/05/2024
Tax Expenditure Statement			
6.	BN2024/225	Tax Expenditure Statement for Budget 2024	28/05/2024
Crypto-Asset Reporting Framework			
7.	IR2024/147	Implementing the Crypto-Asset Reporting Framework	05/04/2024
Personal Income Tax changes			
8.	BN2024/091	Interaction between the Independent Earner Tax Credit and Working for Families tax credits	07/03/2024
9.	BN2024/121	Implementing Budget 2024 Personal Income Tax Proposals	19/03/2024
10.	IR2024/122	Consequential impacts of Personal Income Tax changes	27/03/2024
11.	BN2024/163	Personal Income Tax – Implications of a 31 July application date	04/04/2024
12.	IR2024/175	Sharing information to enable implementation of the Personal Income Tax changes	18/04/2024
13.	BN2024/219	Update on Public Sector Organisations' PIT change readiness	21/05/2024
14.	BN2024/222	Budget Sensitive – Australia and New Zealand Personal income tax thresholds and rates	24/05/2024
Working for Families Changes			
15.	IR2024/032	Working for Families changes for Budget 2024	23/02/2024

Item	Reference	Title	Date
16.	IR2024/119	Consequential amendments to the Minimum Family Tax Credit following Budget decisions	04/04/2024
17.	BN2024/164	Relationship between the Minimum Family Tax Credit threshold and Working for Families abatement threshold	10/04/2024
18.	BN2024/170	Cover note for MFTC report [IR2024-119 refers]	10/04/2024
19.	BN2024/174	Further information – changes to the Minimum Family Tax Credit threshold in line with Budget 2024 package	12/04/2024
20.	BN2024/181	Increase to the Minimum Family Tax Credit threshold	19/04/2024
21.	BN2024/218	Part-year transfer recipients – worked example	23/05/2024
Compliance funding, Savings and other bids			
22.	IR2023/293	Coalition agreement compliance funding initiative	20/12/2023
23.	IR2023/283	Inland Revenue's financial position leading into Budget 2024	21/12/2023
24.		Slide pack to support discussion with MoR	15/01/2024
25.	IR2024/022	Budget 2024 – Savings options and Assurance Panel	29/01/2024
26.	BN2024/039	Baseline Savings Options -Updated options	05/02/2024
27.	BN2024/041	Baseline Savings Options – additional information	12/02/2024
28.	IR2024/023	Budget 2024 – Proposed Initial Baseline Exercise Submission for Vote Revenue	12/02/2024
29.	IR2024/055	Budget 2024 -Initial Baseline Exercise Submission for Vote Revenue -Vote Minister Signoff and other matters	16/02/2024
30.	IR2024/063	Budget 2024 and other matters	19/02/2024
31.	IR2024/075	Preliminary tax forecasts for the 2024 Budget Economic and Fiscal Update	27/02/2024
32.	BN2024/086	Budget 2024 – Bilateral meeting with Minister of Finance	07/03/2024
33.	BN2024/115	Budget 2024 – Summary of information provided to Treasury	19/03/2024
34.	IR2024/102	Vote Revenue – 2024 Budget Economic and Fiscal Update forecasts for non-departmental expenditure appropriations and other Budget 2024 matters	19/04/2024
35.	IR2024/103	Vote Revenue – 2024 Budget Economical and Fiscal Update Submission for the Research and Development Tax Incentive appropriation	19/04/2024
36.	IR2024/104	Budget 2024 – Estimates and supplementary Estimates for vote Revenue	23/04/2024
37.	IR2024/151	Final tax forecasts for the 2024 Budget Economic and Fiscal Update	23/04/2024
38.	IR2024/196	Budget 2024 – Estimates for Vote Revenue	02/05/2024
39.	BN2024/204	Budget 2024 Vote Revenue information	23/05/2024
FamilyBoost			
40.	IR2023/269	Key direction on FamilyBoost tax credit	15/12/2023
41.	IR2024/005	Cabinet Paper -FamilyBoost direction	
42.	BN2024/013	FamilyBoost details for Option 1	19/01/2024
43.	BN2024/016	Additional info for Cab paper pt 2 and context on the ECE landscape	26/01/2024
44.	IR2024/030	FamilyBoost detailed design decisions and draft Cabinet paper	14/02/2024
45.	BN2024/062	Additional information on FamilyBoost consultation and income test	16/02/2024

Item	Reference	Title	Date
46.	BN2024/078	Additional information on the Communications Plan for the FamilyBoost tax credit	04/03/2024
47.	IR2024/087	FamilyBoost shared care scenarios and risks	08/03/2024
48.	Cabinet Paper	Progressing the FamilyBoost tax credit	20/03/2024
49.	ECO-24-MIN-0033	Progressing the FamilyBoost Tax Credit	20/03/2024
50.	CAB-24-MIN-0089	Report of the Cabinet Economic Policy Committee: Period Ended 22 March 2024	25/03/2024
51.	IR2024/065	FamilyBoost: Technical and Administrative Policy settings	27/03/2024
52.	BN2024/178	Interim update on FamilyBoost consultation	19/04/2024
53.	IR2024/169	FamilyBoost tax credit- feedback from external consultation and payment requirements	08/05/2024
54.	BN2024/212	Tactical Communication plan for Budget 2024	16/05/2024

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

6(c)	the making available the information would be likely to prejudice the maintenance of the law, including the prevention, investigation, and detection of offences and the right to a fair trial
9(2)(a)	to protect the privacy of natural persons, including deceased people
9(2)(b)(ii)	to protect the commercial position of the person who supplied the information or who is the subject of the information
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
9(2)(f)(iv)	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions
9(2)(j)	to enable the Crown to negotiate without disadvantage or prejudice

Information publicly available

The following links are to Budget 2024 related documents which have already been published and may be linked to the advice being published as part of this release:

- Regulatory impact statements for items included in the Taxation (Budget Measures) Bill: https://www.taxpolicy.ird.govt.nz/publications/2024/ria-taxation-budget-measures-bill
- Vote Revenue: The supplementary Estimates of Appropriations 2023/24: https://www.treasury.govt.nz/sites/default/files/2024-06/suppest24reven.pdf

- Vote Revenue – Estimates of Appropriations 2024/25: https://budget.govt.nz/budget/pdfs/estimates/v4/est24-v4-reven.pdf

Accessibility

Inland Revenue can provide an alternate HTML version of this material if requested. Please cite this document's title, website address, or PDF file name when you email a request to policy.webmaster@ird.govt.nz

Policy and Regulatory Stewardship
Kaupapa me te Tiaki i ngā Ture
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Wellington 6140
New Zealand

T. 04 890 1500

Briefing note

Reference:	BN2024/088
Date:	8 March 2024
To:	Private Secretary, Minister of Finance – Emma Grigg Private Secretary, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Jason Batchelor
Subject:	**Implementing Budget 2024 Initiatives – application dates and administration implications**

Purpose

1. The Minister of Finance has requested several tax-related Budget initiatives be packaged and distributional impacts modelled together. Ministers have indicated that these initiatives should apply from 1 July 2024. As part of this, the Minister of Finance's office asked what the implementation implications of a 1 July 2024 date are, and whether a later application date might be preferable in managing these. The initiatives that make up the package are: Personal Income Tax (PIT), Independent Earner Tax Credit (IETC), FamilyBoost, In-Work Tax Credit (IWTC), s 9(2)(f)(iv) [redacted]

2. This note outlines the implementation implications of a 1 July 2024 application date from an administrative and delivery perspective and discusses potential options to manage these implications. If Ministers are keen on advice around deferring aspects of the tax package to a later date (such as 1 October or 1 April 2025), we can provide that advice.

3. Our objective is to deliver the Government's Budget initiatives in a way that achieves the purpose and minimises the compliance costs on taxpayers. To do this, we need to understand the:

   - impacts of the various initiatives on the different taxpayer and customer groups such as employers and payroll software providers (the affected parties);
   - time needed by these affected parties to make changes to systems and products they manage, and their processes (such as employer payroll systems);
   - consequential implications of the various initiatives to avoid multiple changes being required (e.g. Minimum Family Tax Credit) which will have an impact on Inland Revenue but also on those affected by the changes;
   - information needs of customers who have to engage with Inland Revenue to receive their payments and manage their entitlements; and
   - other tax events that are happening at the same time as the implementation of this package to minimise possible confusion and overload on affected parties.

4. Managing these impacts will require trade-offs to be made.

Preferred timing of Personal Income Tax and In-Work Tax Credit changes

5. Depending on the final policy and design of these initiatives, Inland Revenue considers that it can deliver some of this package of initiatives from 1 July 2024. We, however, consider that it very unlikely that some affected parties such as employers and payroll software developers and providers will be a position to have implemented aspects of this package by 1 July 2024.

6. We have a strong preference for the PIT and IWTC changes to apply from the same date. This is because it can be easier for taxpayers and customers to handle multiple changes at once. To further this, if the IWTC change occurs prior to the PIT changes, the MFTC will go through multiple changes, resulting in families eligible for the MFTC receiving multiple notices of entitlement. This customer group typically has higher contact rates and we expect most of the 3,200 customers would contact us whenever there is a change in their entitlement.

7. Our administrative preference is for the PIT and IWTC changes to apply from 1 October 2024. This provides payroll software providers, payroll service providers, and employers (including large government agencies such as the Ministry of Social Development which manages the benefits payments system and the Ministry of Education) enough time to make the changes.

8. July is also the peak season for Inland Revenue as it is when we are processing the individual income tax assessments. During this time, we are less able to absorb additional demand, as customers seek help with preparing their end of year tax returns and understanding their tax calculations.

Consequential amendments

9. Both the PIT and IWTC changes will have several flow-through impacts, for example consequential changes to Fringe Benefit Tax (FBT), Employer Superannuation Contribution Tax (ESCT), Portfolio Investment Entity (PIE) rates, and the MFTC (this MFTC advice will require the Minister of Revenue to make a decision whether or not to reduce the incomes for some of the most vulnerable families. This is due to the interaction with the IWTC increase). For some of these, we have a preference to align the dates to reduce complexity for Inland Revenue and affected parties, and for others we do not.

10. We will report separately on these for decisions once the first order decisions are made.

Cumulative Impacts

11. Although our preference is to align the changes to occur from 1 October 2024, this may have a significant impact on Inland Revenue. If this is the case, we will report to Ministers on this cumulative impact on Inland Revenue and how we will manage the risks.

12. We note that this paper does not cover the other Inland Revenue Budget 2024 initiatives, such as changes to online casino operators, the interest limitation changes for residential properties and changes to the bright-line test.

Consultation

13. The Treasury was consulted on this briefing note. MSD have informed us they need decisions on PIT by the end of March in order for them to implement PIT changes by 1 July.

Jason Batchelor
Senior Policy Advisor
s 9(2)(a)

Summary of options

	1 July 2024	1 October 2024	1 April 2025
Personal Income Tax	Inland Revenue can implement PIT changes for 1 July 2024. However, payroll and software providers are highly unlikely to be able to deliver the PIT (including IETC) changes by 1 July with a Budget day announcement. MSD is also unable to implement the changes for 1 July 2024 unless they have full details of the changes by the end of March. MSD administer the benefits system which will be affected by the changes.	***Preferred*** This will provide payroll software providers and employers (including large government agencies such as the Ministry of Social Development and the Ministry of Education) enough time to make the changes.	Not currently considered as a choice but can be implemented on 1 April 2025. This option would also reduce the complexity associated with part-year income tax changes but also defers tax relief.
Independent Earner Tax Credit	Same as above.	If the IETC changes are implemented mid-year, this will affect payroll software providers and employers who will need to make changes to their systems to account for the different IETC calculations and will have to update employee tax codes and rates. This will also make the individual income tax assessment (end of year tax calculation process) more complex.	***Preferred*** Aligning with the start of a new tax year removes the need for an in-year change and reduces complexity for payroll software providers and employers. Making the change apply from the beginning of a tax year also reduces complexity for individual taxpayers, however this has to be traded off against deferring relief for taxpayers who would qualify under the changes.
FamilyBoost	***Preferred*** Eligibility to begin from 1 July, with the first applications available from 1 October. Having the PIT and IWTC changes align with this 1 October start date could be preferable because this would mean that, on a household basis, the cumulative effect of the tax changes would be realised at approximately the same time. This would reduce the confusion that might arise if support was delivered in different stages.	This will mean eligible families will be able to apply for the tax credit on 1 January. This is a time when many ECE operators will not be open, so families may find it difficult getting the required invoices needed to make payment claims from Inland Revenue.	Not currently considered as an option but can be implemented on 1 April 2025.
$25 Increase to the In-Work Tax Credit	This can be implemented on 1 July, but preferred for this to align with PIT so that multiple notices of entitlement do not need to be provided to MFTC customers (approx. 3,200).	***Preferred*** Preferred for this to align with the PIT changes. It also avoids overlap with Inland Revenue's peak time in July.	Same as 1 October 2024.
s 9(2)(f)(iv) [redacted]			

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Draft Cabinet paper – Taxation (Budget Measures) Bill: Approval for introduction**

Date:	8 May 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/180

Action sought

	Action sought	Deadline
Minister of Finance	**Authorise** the lodgement of the attached Cabinet paper **Refer** a copy of this report to the Minister of Revenue	10am on Thursday 16 May 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Ben Smith	Principal Policy Advisor	s 9(2)(a)
Kaitlyn Saunders	Policy Advisor	

8 May 2024

Minister of Finance

Draft Cabinet paper – Taxation (Budget Measures) Bill: Approval for introduction

Summary

1. This report asks you to authorise for lodgement the attached Cabinet paper and accompanying draft Bill and departmental disclosure statement with the Cabinet Office by 10am Thursday 16 May 2024 for consideration at the Cabinet Legislation Committee meeting on Thursday 23 May 2024.

2. The Cabinet paper seeks approval to introduce the Taxation (Budget Matters) Bill on 30 May 2024. It recommends that the Bill is passed under urgency. The Bill contains the tax measures that Cabinet agreed to as part of Budget 2024.

3. A draft departmental disclosure statement for the Bill is attached in accordance with Cabinet guidelines. The draft disclosure statement is referred to Cabinet along with the Cabinet paper. The draft statement is finalised by Inland Revenue with the Parliamentary Counsel Office three days before the introduction of the Bill and is made public when the Bill is introduced.

Contents of the Bill

4. The Bill gives effect to the tax measures Cabinet agreed to as part of the Budget 2024 package on 29 April 2024 (CAB-24-MIN-0148 refers):

    4.1 Increases to personal income tax thresholds from 31 July 2024

    4.2 Expanding eligibility for the independent earner tax credit from 31 July 2024

    4.3 Increases in Working for Families tax credits, with an increase in the in-work tax credit rate of $25 a week and an increase in the minimum family tax credit threshold to $35,308 (after-tax) from 31 July 2024

    4.4 Increasing the student loan base interest calculation by 1 percent for five years from 1 April 2025.

5. The Bill contains the amendments necessary to implement the FamilyBoost tax credit, as previously agreed to by Cabinet (ECO-24-MIN-0033 and CAB-24-MIN-0089 refers) and announced in March 2024.

6. The Bill also includes amendments previously agreed to by the Ministers of Finance and Revenue to resolve an issue that prevented Inland Revenue from processing applications for the Research and Development Tax Incentive when they are made under an incorrect entity name (IR2024/162 refers).

New Zealand Bill of Rights Act 1990

7. We consider the provisions in the Bill are consistent with the rights and freedoms affirmed by the New Zealand Bill of Rights Act 1990 (BORA). The Ministry of Justice will undertake the required BORA vetting. Although not expected, we will advise if any issues arise from this process.

Support party and caucus consultation

8. We recommend that the Bill is introduced under urgency and passed on Budget Day. To achieve this, support party and caucus consultation will need to occur in advance of Cabinet's final decision to introduce the Bill.

Proactive release

9. We propose to proactively release the Cabinet paper, Cabinet minutes and key advice papers with appropriate redactions at the same time as all other Budget 2024 material is released.

Consultation

10. The Treasury and the Department of the Prime Minister and Cabinet have been consulted on the contents of this paper.

Next steps

11. If you agree with the draft Cabinet paper attached to this report, the next step is to authorise lodgement of the Cabinet paper with the Cabinet Office for the Cabinet Legislation Committee meeting on 23 May 2024. Your authorisation is required before 10am on Thursday 16 May 2024 to meet this timeframe.

12. We will provide your office with an updated Bill and departmental disclosure statement before Thursday 16 May 2024. These documents need to be lodged alongside the Cabinet paper. We have also attached regulatory impact statements for the personal income tax changes (including the independent earner tax credit) and the $25 increase to the in-work tax credit. These statements can be lodged alongside the Cabinet paper.

13. We will also work with your office to ensure the appropriate publicity for the introduction of the Bill.

Recommended action

We recommend that you:

(a) **note** the contents of this report and attached Cabinet paper

Noted

(b) **authorise** lodgement of the attached Cabinet paper with the Cabinet Office before 10am on Thursday 16 May 2024 for consideration by the Cabinet Legislation Committee on Thursday 23 May 2024

Authorised/Not authorised

(c) **refer** a copy of this report to the Minister of Revenue for his information.

Referred/Not referred

s 9(2)(a)

Ben Smith
Principal Policy Advisor
Policy and Regulatory Stewardship

Hon Nicola Willis
Minister of Finance
/ /2024

Office of the Minister of Finance

Chair, Cabinet Legislation Committee

TAXATION (BUDGET MEASURES) BILL: APPROVAL FOR INTRODUCTION

Proposal

1 This paper seeks the Cabinet Legislation Committee's agreement to introduce the Taxation (Budget Measures) Bill under urgency on 30 May 2024. The Bill introduces amendments to the:

1.1 Income Tax Act 2007

1.2 Tax Administration Act 1994

1.3 Student Loan Scheme Act 2011.

2 The Taxation (Budget Measures) Bill holds a category 2 priority on the 2024 Legislative Programme (must be passed by the end of 2024).

Policy

3 The Bill will implement the policy items listed below. A Bill is necessary as amendments to existing legislation are required to implement the proposed policy changes.

4 The Bill will include the following tax measures that Cabinet has agreed to be delivered as part of Budget 2024 (CAB-24-MIN-0148 refers):

4.1 **Increases to personal income tax thresholds.** The full-year personal income tax thresholds will be adjusted in accordance with Table 1.

Table 1: Current and new personal income tax thresholds

Current bracket ($)	New bracket ($)	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+	No change	39%

4.1.1 Transitional brackets and rates will apply for the 2024–25 tax year due to the changes taking place on 31 July 2024, part-way through the tax year.

4.1.2 Consequential changes will be made to other tax types that are reliant on the personal income tax system. These are:

(1) resident withholding tax (RWT) from 31 July 2024; and

(2) fringe benefit tax (FBT) rules, employer superannuation contribution tax (ESCT), retirement scheme contribution tax (RSCT), and portfolio investment entity (PIE) tax rules from 1 April 2025.

4.2 **Expanding eligibility to the independent earner tax credit (IETC).** The Bill expands the eligibility for the IETC by lifting the upper income threshold from $48,000 to $70,000. The lower limit of eligibility will remain at $24,000 and the abatement rate will remain at 13 cents for every dollar of income over $66,000. This change will also apply from 31 July 2024.

4.3 **Increases in Working for Families tax credits.** The Bill increases the in-work tax credit (IWTC) base rate by $25 a week and the minimum family tax credit (MFTC) threshold to $35,316 (after-tax) to ensure that MFTC recipients also receive the IWTC increase and benefit from the personal income tax changes. These changes also apply from 31 July 2024.

4.4 **Changes to the student loan base interest calculation.** The Bill also increases the interest rate charged on overseas-based borrowers' student loans by 1 percent for a period of five years from 1 April 2025.

5 The coalition government has already agreed to implement the **FamilyBoost tax credit** from 1 July 2024, with the first payments to be paid in October 2024 (ECO-24-MIN-0033 and CAB-24-MIN-0089 refers). The Bill includes the amendments necessary to give effect to Cabinet's decisions on the FamilyBoost tax credit.

6 The Bill also includes an urgent remedial amendment agreed to by the Ministers of Finance and Revenue to allow Inland Revenue to process claims for the Research and Development Tax Incentive when applications are made using an incorrect entity name. This item does not require Cabinet approval.

Impact analysis

7 Regulatory impact statements for "personal income tax relief" and the "$25 per week increase to the in-work tax credit" are submitted with this paper. The regulatory impact statement for the FamilyBoost tax credit was submitted at the time that policy was considered by the Cabinet Economic Policy Committee.

8 Cabinet's impact analysis requirements apply to the proposal to temporarily increase the student loan interest rate, but there is no accompanying Regulatory Impact Statement. Therefore, it does not meet Cabinet's requirements for regulatory proposals. The Treasury's Regulatory Impact Analysis team has waived the

requirement for supplementary analysis given time constraints and the likelihood that supplementary analysis would have limited value for decision-makers.

Compliance

9 The Bill complies with:

9.1 the principles of the Treaty of Waitangi

9.2 the disclosure statement requirements (the draft disclosure statement is attached)

9.3 the principles and guidelines set out in the Privacy Act 2020

9.4 relevant international standards and obligations, and

9.5 the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

10 The Bill has been provided to the Ministry of Justice to review whether it complies with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

11 Due to the nature of these proposals being subject to Budget confidentiality, limited public consultation has occurred on the specific details of the proposals given effect to by the Bill. However, parties have signalled most of the changes in this Bill as part of the 2023 General Election.

Relevant Government Departments or Other Public Bodies

12 In developing the proposals in the Bill, Inland Revenue consulted with the Treasury, the Ministry of Social Development, the Ministry of Education, and the Department of the Prime Minister and Cabinet.

13 Inland Revenue officials also met with the Office of the Privacy Commissioner to discuss the privacy implications of the FamilyBoost tax credit and the associated powers enabling the sharing of information between Inland Revenue and the Ministry of Education. The Office of the Privacy Commissioner advised they required more time to consider the full impacts of the relevant provisions before offering a view on any potential privacy implications and whether these were justified.

Relevant Private Sector Organisations and Public Consultation Processes

14 The government announced the FamilyBoost tax credit in March to allow for targeted consultation with the early childhood education sector and other relevant parties. The feedback provided by these stakeholders was taken into account when finalising policy proposals and developing the legislation.

Coalition Government Caucuses Represented in Parliament

15 The coalition government caucuses represented in Parliament have been consulted on the initiatives included in the Bill to ensure they are aligned with the coalition agreements.

Binding on the Crown

16 The Bill amends the Acts listed in paragraph 1 and, where those Acts bind the Crown either in whole or part, this Bill does not change that position.

Commencement of legislation

17 Each provision of the Bill comes into force on the date specified in the Bill for that provision.

Parliamentary stages

18 The Bill should be introduced on 30 May 2024, and passed as soon as possible under urgency.

Communications

19 I will announce the Budget 2024 proposals contained in this Bill on Budget Day. I am preparing Budget documents and other material to support this announcement. The Bill will be introduced shortly after on Budget Day.

20 Inland Revenue will prepare a commentary on the Bill that will be published at the same time the Bill is introduced to the House. Inland Revenue will also include details of the new legislation in a *Tax Information Bulletin* after the Bill is enacted.

Proactive release

21 I propose to proactively release this Cabinet paper, associated minutes, and key advice papers with appropriate redactions alongside all other Budget 2024 material.

Recommendations

I recommend that the Committee:

1 note the Taxation (Budget Measures) Bill holds a category 2 priority on the 2024 Legislative Programme (must be passed by the end of 2024)

2 note the Bill makes amendments to the:

2.1 Income Tax Act 2007

2.2 Tax Administration Act 1994

2.3 Student Loan Scheme Act 2011

3 note the Bill gives effect to decisions Cabinet has already made as part of the Budget 2024 package to:

3.1 increase the personal income tax thresholds and expand the eligibility for the independent earner tax credit from 31 July 2024

3.2 make consequential amendments to other tax types that are reliant on the personal income tax system such as RWT from 31 July 2024, and FBT, ESCT, RSCT and the PIE tax rules from 1 April 2025

3.3 increase the in-work tax credit base rate and the minimum family tax credit threshold from 31 July 2024

3.4 introduce the FamilyBoost tax credit with entitlements starting from 1 July 2024

3.5 change the student loan base interest rate calculation from 1 April 2025

4 note the Bill includes an urgent remedial amendment to enable Inland Revenue to process claims for the Research and Development Tax Incentive where the application is made under the incorrect name

5 approve the Taxation (Budget Measures) Bill for introduction, subject to the final approval of the government caucus and sufficient support in the House of Representatives

6 note the Minister of Finance and the Leader of the House have been delegated authority by Cabinet to decide which legislation will progress under urgency on Budget Day (CAB-24-MIN-0148 refers) and Ministers have agreed to this Bill being passed as soon as possible under urgency on Budget Day.

Authorised for lodgement

Hon Nicola Willis

Minister of Finance

Cabinet Legislation Committee

Minute of Decision

Taxation (Budget Measures) Bill: Approval for Introduction

Portfolio **Finance**

On 23 May 2024, the Cabinet Legislation Committee:

1 **noted** that the Taxation (Budget Measures) Bill (the Bill) holds a category 2 priority on the 2024 Legislation Programme (must be passed by the end of 2024);

2 **noted** that the Bill makes amendments to the:

2.1 Income Tax Act 2007;

2.2 Tax Administration Act 1994;

2.3 Student Loan Scheme Act 2011;

3 **noted** that the Bill gives effect to the following decisions made by Cabinet in April 2024 in relation to Budget 2024:

3.1 increase the personal tax income thresholds and expand eligibility for the independent earner tax credit from 31 July 2024;

3.2 make consequential amendments to other tax types that are reliant on the personal income tax system, such as resident withholding tax from 31 July 2024, and fringe benefit tax, employer superannuation contribution tax, retirement scheme contribution tax, and the portfolio investment entity tax rules from 1 April 2025;

3.3 increase the in-work tax credit base rate and the minimum family tax credit threshold from 31 July 2024;

3.4 introduce the FamilyBoost tax credit with entitlements starting from 1 July 2024;

3.5 change the student loan base interest rate calculation from 1 April 2025;

[CAB-24-MIN-0148]

4 **noted** that the Bill include an urgent remedial amendment to enable Inland Revenue to process claims for the Research and Development Tax Incentive where the application is made under the incorrect name;

5 **approved** the Taxation (Budget Measures) Bill [IRD 26202/6.0] for introduction, subject to the final approval of the Government caucuses and sufficient support in the House of Representatives;

6 **noted** that the Minister of Finance and Leader of the House have been delegated authority to decide which legislation will progress under Budget urgency [CAB-24-MIN-0148], and that Ministers have agreed to this Bill being passed as soon as possible under Budget urgency.

Sam Moffett
Committee Secretary

Present:
Rt Hon Winston Peters
Hon David Seymour
Hon Nicola Willis
Hon Chris Bishop (Chair)
Hon Dr Shane Reti
Hon Paul Goldsmith
Hon Simeon Brown
Hon Matt Doocey
Hon Tama Potaka
Hon Casey Costello
Hon Simon Watts
Hon Andrew Bayly
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard

Officials present from:
Office of the Prime Minister
Officials Committee for LEG
Office of the Leader of the House

Inland Revenue
Te Tari Taake
POLICY AND REGULATORY STEWARDSHIP

TE TAI ŌHANGA
THE TREASURY

Reference: T2024/750, IR2024/024

Date: 26 March 2024

To: Minister of Finance
(Hon Nicola Willis)

Minister of Revenue
(Hon Simon Watts)

Deadline: None
(if any)

Aide Memoire: Draft Revenue Strategy

1. This aide memoire conveys the draft Revenue Strategy (Annex 1), for inclusion in the Fiscal Strategy Report. It also signals further opportunities this year for Ministers to engage on strategic tax questions outside the scope of the Revenue Strategy.

Background

2. The Public Finance Act 1989 (PFA) requires the Minister of Finance to publish the Government's Revenue Strategy as part of the Fiscal Strategy Report (FSR) delivered alongside the Budget. Traditionally, the Revenue Strategy has been agreed jointly by the Ministers of Finance and Revenue before being taken to Cabinet. However, the responsibility to issue the document ultimately lies with the Minister of Finance.

3. The PFA requires that the Revenue Strategy set out the Government's objectives for the tax system and tax policy each year. In formulating the Revenue Strategy, the PFA requires that the Government must have regard to the *efficiency* and *fairness* of the tax system, including the *predictability and stability* of tax rates. The Revenue Strategy must be consistent with the Government's wider economic and fiscal strategies.

4. The Revenue Strategy is usually a brief, high-level statement on the Government's tax policy focus for the coming year. The length and detail of the document is ultimately at Ministers' discretion. It is an important indicator of the Government's intent, but does not need to articulate specific tax policies or take a longer-term view of tax strategy. Opportunities for more in-depth planning are explained below.

Next steps

5. Officials have produced the draft Revenue Strategy (Annex 1) in consultation with your offices. It takes account of the PFA requirements (set out in para 3) and draws from key messages in the Budget Policy Statement, the Government's public statements on tax policy, and New Zealand's long-standing approaches to tax policy.

6. The Revenue Strategy will be included in the FSR that goes to Cabinet for approval, subject to any further feedback from you and your offices.

Further opportunities to influence the design of the tax system

7. The **Tax and Social Policy Work Programme** (TSPWP) sets out the Government's work programme for tax and social policy. It is published on Inland Revenue's website and generally attracts strong interest from the tax and business communities.

8. Officials will prepare a draft TSPWP on the basis of the draft Revenue Strategy. Officials will report to you with a view to delivering the TSPWP shortly after Budget 2024. The TSPWP is traditionally agreed by the Ministers of Finance and Revenue and generally only taken to Cabinet for noting prior to publication.

9. Beyond the scope of the Revenue Strategy, there are significant fiscal, economic, and distributional challenges that will put pressure on our tax settings over the medium to long term. The Treasury and Inland Revenue undertake stewardship work to understand these challenges and prepare analysis on potential responses. Such work is a statutory obligation for agencies under the Public Services Act 2020 and Public Finance Act 1989.

10. Inland Revenue recently reported to the Minister of Revenue on its next **Long-Term Insights Briefing** which is required to provide information on medium and long-term trends that may affect the tax system [IR2024/081]. Inland Revenue plans to engage with Ministers on the LTIB topic again in April/May with a view to releasing the consultation shortly after.

11. In addition, the Treasury and Inland Revenue intend to provide initial advice on **medium-term challenges and opportunities in the coming months**. This will consider the implications of fiscal pressures for the tax system and revenue sustainability, and possible amendments to the tax system as a result.

Jean Le Roux, Manager, Tax Strategy, The Treasury, s 9(2)(a)
Felicity Barker, Policy Lead, Economics, Inland Revenue, s 9(2)(a)

Annex 1: Draft Revenue Strategy

A good tax system is a fair one. The Government's immediate tax policy priorities are to deliver tax relief for middle-income New Zealanders, improve housing affordability, and address integrity risks to ensure everyone is paying their fair share.

More broadly, tax policy will be consistent with the Government's fiscal strategy, which aims to reduce core Crown expenditure to 30% of GDP over the long term and to raise sufficient revenue so that expenses are not debt funded. However, in the short to medium term, expenses are expected to exceed revenue. In the absence of a larger decline in expenditure, revenue may need to exceed expenses for a period to support the fiscal strategy goal of reducing net debt.

The Government remains committed to a broad-base, low-rate tax system that minimises economic distortions, rewards effort, has low compliance and administrative costs, and minimises opportunities for tax avoidance and evasion.

Compliance should not come at undue cost to businesses or individuals. We are committed to ensuring our tax system supports business and economic efficiency. This means making our tax system simple and easy to navigate, and maximising the potential that exists from digitalisation. We will also consider how tax impediments to investment can be reduced as fiscal conditions allow.

We will remain transparent and open in our tax policy processes. The Government is committed to public engagement in the design of tax policy including through the Generic Tax Policy Process. Listening to stakeholders ensures our tax system is stable and predictable, providing certainty to businesses and individuals to make decisions that maximise our collective wellbeing.

The tax system must respond to longer-term needs in a planned and coherent way. While the Government is comfortable with the broad structure of the tax system and has no plans for major reform in the near term, we will monitor our current and future environment to assess what adjustments might make sense in time.

CAB-24-MIN-0188

Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Legislation Committee: Period Ended 24 May 2024

On 27 May 2024, Cabinet made the following decisions on the work of the Cabinet Legislation Committee for the period ended 24 May 2024:

LEG-24-MIN-0091	**Taxation (Budget Measures) Bill: Approval for Introduction** Portfolio: Finance	CONFIRMED

Not in scope

Not in scope

[redacted]

Diana Hawker
for Secretary of the Cabinet

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Briefing note

Reference:	BN2024/225
Date:	28 May 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Kaitlyn Saunders
Subject:	**Tax Expenditure Statement for Budget 2024**

Purpose

1. This briefing note attaches the Tax Expenditure Statement for Budget 2024.

Tax Expenditure Statement

2. The Tax Expenditure Statement (the Statement) is a Budget document that provides transparency around policy-motivated 'expenditures' made through the tax system. Tax expenditures take the form of an exemption, allowance, preferential tax rate, deferral, or offset that reduces a tax obligation to achieve a specific policy objective.

3. The Statement will be available on the Treasury website once the Budget 2024 documents are released. This will be following the delivery of Budget 2024 on Thursday 30 May.

Changes from the 2023 Statement

4. The 2024 Statement is very similar to the 2023 Statement. This year, two new tax expenditures have been included which are explained below.

Donated trading stock

5. Temporary relief from a rule that deems a person to derive income equal to the market value of any trading stock disposed by them for less than market value (the deemed income rule) was enacted in response to the COVID-19 pandemic. This temporary relief expired on 1 April 2024 and will be replaced by a permanent change to the deemed income rule that will apply to disposals of trading stock made on or after 1 April 2024. For integrity reasons, the permanent change is more targeted than the temporary relief as it relates to donations of trading stock.

Fringe benefit tax exemption for public transport fares, bicycles and scooters

6. A fringe benefit tax exemption was introduced for bicycles, electric bicycles, scooters, and electric scooters, as well as for public transport fares where an employer provides the benefit mainly for purposes of an employee commuting

between their home and place of work. These initiatives were to address an inconsistency in the fringe benefit tax treatment between the different forms of transport used to commute to work. Previously, the FBT rules favoured commuting by car over the use of other modes of commuting given that most employer-provided car parks are exempt from FBT. The initiatives were also seen to have flow-on environmental benefits.

Consultation with the Treasury

7. The Treasury was informed about this briefing note.

Kaitlyn Saunders
Policy Advisor
s 9(2)(a)

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Implementing the Crypto-Asset Reporting Framework

Date:	5 April 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/147

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	8 April 2024
Minister of Revenue	**Agree** to recommendations	8 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Martin Neylan	Policy Lead	s 9(2)(a)
William Edmonds	Senior Policy Advisor	

5 April 2024

Minister of Finance
Minister of Revenue

Implementing the Crypto-Asset Reporting Framework

Executive summary

1. This report informs you about work done by the Organisation for Economic Co-operation and Development (OECD) to develop a Crypto-Asset Reporting Framework (CARF) and seeks your agreement to fund this and recognise the tax revenue increase as part of Budget 2024 and subsequently legislate for this initiative in the upcoming omnibus tax bill.

2. The CARF ensures tax administrations globally have sufficient information to enforce tax laws on taxpayers who derive income from trading cryptoassets. It is an OECD minimum standard, meaning the change must be implemented in New Zealand in 2026. There is no scope to bring this date forward and only limited flexibility to shift it out.

3. Implementing the CARF is expected to raise $50 million a year, with revenue starting in the 2027/28 fiscal year, meaning a total of $50 million over the forecast period (2023/24 to 2027/28). There is an approximate upfront cost of $6.7 million for Inland Revenue's system build and approximately $3.7 million per annum in admin funding required on a go forward basis to administer the CARF. There is a net positive operating impact over the forecast period (2023/24 to 2027/28) of $39.9 million, with an ongoing net positive operating impact of $46.3 million per annum thereafter.

4. If you agree to the recommendations in this report, the next step would be to seek Cabinet approval for changes to tax laws to be included in the upcoming omnibus tax bill which is scheduled for introduction in August 2024. If you agree to progress this measure, officials could include it in the Budget package for BM5 and ultimately in the main Budget Cabinet paper.

Background

5. Since the introduction of Bitcoin in 2009, the market for crypto-assets worldwide has experienced fast growth and development. The total market capitalisation for crypto-assets is now over $4.5 trillion dollars. Between 6% to 10% of New Zealanders own some cryptocurrency, according to three different online surveys which were conducted in 2022.[1] Our analytics show that 80% of crypto-asset activity by New Zealanders is undertaken through offshore exchanges. Inland Revenue currently has no visibility over this income.

6. The characteristics of crypto-assets pose unique challenges for tax administrations from a tax compliance perspective. Crypto-assets utilise cryptography and can be stored and transferred in a decentralised manner without reliance on traditional financial intermediaries. This has given rise to a new set of intermediaries, such as crypto-asset exchanges and wallet providers, which are subject to little regulatory oversight. In many cases, the intermediary will be located in a different jurisdiction

[1] Financial Markets Authority, *2022 Investor Confidence Survey*. Survey conducted March and April 2022
Financial Services Council, *Money And You* research report. Survey conducted January 2022
Finder Cryptocurrency adoption index, August 2022

to its users, and it is difficult for tax administrations to obtain information about their tax residents if this information is held offshore.

7. To address these challenges, a CARF has been developed and agreed at the OECD that will require intermediaries, such as crypto-asset exchanges, brokers and dealers, to provide tax authorities with income information in respect of users on their platforms. The purpose of this information exchange is to improve visibility that tax authorities have about income earned through crypto-assets and thereby support greater tax compliance. By developing a standardised annual reporting framework, the CARF could also minimise the overall compliance costs for these intermediaries compared to responding to ad-hoc requests for information from many different tax authorities.

8. Officials reported to the former Minister of Revenue on the CARF and obtained permission to consult on implementing the CARF in New Zealand. A summary of submissions received during consultation is included in this report. Stakeholders consulted were largely supportive of New Zealand implementing the CARF.

9. The CARF is considered a global minimum standard. This means that all OECD countries are expected to implement it. Consequently, the CARF is considered non-discretionary from a tax policy work programme perspective.

10. The CARF is set to apply from the 2026 calendar year, with the first exchange of information taking place in early 2027. Because this is an OECD initiative with a multilateral approach to implementation, there is no scope to bring forward and only limited flexibility to shift out the implementation of this initiative.

11. On 10 November 2023, 48 jurisdictions released the joint statement "Collective engagement to implement the Crypto-Asset Reporting Framework". Eight further jurisdictions have subsequently adhered to the joint statement. The countries that have signed the joint statement include Australia, the UK and USA, along with most of Europe. New Zealand was invited to sign the joint statement, but the timing was inappropriate given the New Zealand election.

12. Although New Zealand has been unable to sign up to the joint statement, officials consider that New Zealand's commitment to the CARF could be announced as part of Budget 2024.

Crypto-Asset Reporting Framework

13. In light of the rapid development and growth of the crypto-asset market and to ensure that recent gains in global tax transparency will not be gradually eroded, in April 2021 the G20 mandated the OECD to develop a framework providing for the automatic exchange of tax-relevant information on crypto-assets.

14. In March 2022, the OECD released an initial public consultation document on the CARF. Following consultation and some revisions in response to public submissions, the OECD published a finalised CARF on 10 October 2022.

15. The CARF provides for the collection and automatic exchange of information on crypto-assets. Under the CARF, entities that facilitate exchange transactions on behalf of customers (Reporting Crypto-Asset Service Providers) will be required to provide tax authorities with information regarding transactions in Relevant Crypto-Assets by Reportable Users.

16. At a high level, Reporting Crypto-Asset Service Providers must collect and report personal information (such as the name, address, date of birth and tax identification number) for all its Reportable Users, along with aggregate level data on all "Relevant Crypto-asset transactions" in relation to each "Reportable User". This data includes information on crypto-to-crypto transactions, crypto-to-fiat transactions, and transfers of relevant crypto-assets (such as to a wallet address). The CARF also

includes various valuation and currency translation rules, such as specifying that the amount paid or received is reported in the fiat currency in which it was reported or received.

17. Crypto-Asset Service Providers will also be required to follow a self-certification process in respect of each user to determine whether that user is a reportable user. In short, this requires that the provider goes through anti money-laundering and know-your-client requirements and obtains a signed certification from each user with relevant personal information, including confirmation of their country of tax residence.

18. Similar to the way in which the OECD information exchange works in the context of the sharing and gig economy, jurisdictions that receive information on the activities of crypto-asset users from Reporting Crypto-Asset Service Providers will be required to share that information with tax authorities of other countries that have also implemented the rules to the extent that the information relates to persons resident in that jurisdiction. Tax authorities will also receive information from other jurisdictions' tax authorities where the rules have been implemented.

19. As 80% of New Zealander's conduct their crypto-asset activity through offshore exchanges, New Zealand will benefit greatly from these information flows. There are approximately five or fewer New Zealand entities who would have to report to Inland Revenue under these rules, and Inland Revenue is expected to be a net receiver of information from other jurisdictions. Inland Revenue intends to utilise the information to support tax compliance and ensure individuals pay the correct amount of tax on their crypto-asset income.

Interaction between the Crypto-Asset Reporting Framework and the Common Reporting Standard

20. The Common Reporting Standard (CRS) is an OECD initiative that provides for the collection and exchange of financial account information. The CRS was adopted by New Zealand in 2017.

21. The CARF excludes certain assets (for example, Central Bank Digital Currencies and derivatives over crypto-assets) that are held through traditional financial intermediaries from its reporting scope. Consequently, the CARF initiative also includes amendments to the CRS to ensure that these crypto-related assets held through traditional financial intermediaries are subject to reporting.

22. There are also certain assets, such as shares issued in crypto form, which could qualify as both "Relevant Cryptoassets" under the CARF and as "Financial Assets" under CRS. The CRS contains an optional provision to switch-off reporting under the CRS if such information is reported under the CARF.

23. In addition to these changes, the OECD is also taking the opportunity to introduce a further set of miscellaneous amendments to improve the quality and usability of CRS.

24. For the purposes of this report, it is noted that the OECD "Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard" go hand in hand. This means that any commitment to the CARF as part of Budget 2024 would mean commitment to the entire OECD standard, which also contains the CRS initiatives.

25. We will report to you separately on the changes to the CRS. However, the CRS changes will not result in any additional tax revenue as the changes to the CRS are on the more minor and technical side.

Consultation on the Crypto-Asset Reporting Framework

26. Officials undertook targeted consultation in October and November 2022 on whether New Zealand should implement the CARF. A consultation letter was sent to New Zealand's main tax advisory firms, along with known players in the crypto-asset industry. Officials subsequently met with interested parties to discuss these submissions further where applicable.

27. Submitters were largely supportive of adopting the CARF in New Zealand. They recognised that adopting the OECD developed CARF is highly preferable to New Zealand developing its own bespoke reporting regime on crypto-assets. This is because having a standardised rule set adopted across jurisdictions, such as the OECD CARF, ensures a consistent worldwide standard which greatly reduces compliance costs for Reporting Crypto-Asset Service Providers compared to if every jurisdiction developed their own reporting regime.

28. Submitters also noted that it is important that Reporting Crypto-Asset Service Providers be given sufficient time before the rules apply in New Zealand to allow them to make the necessary systems changes to be able to comply with the rules.

Financial implications

29. The proposal to implement the CARF is forecast to raise $50 million per annum. This arises because Inland Revenue will have more information about crypto-asset trades of New Zealand tax residents, and that information can be used by Inland Revenue to improve general tax compliance for these taxpayers. The additional tax revenue is forecast from the 2027/28 fiscal year.

30. In order to administer the CARF, Inland Revenue would require funding for its system build and ongoing operating costs to fund compliance work. This compliance funding, equivalent to 10 FTEs per annum, ensures information received from the CARF is utilised effectively to support tax compliance.

31. An initial estimate of the departmental administration funding requirements for the CARF was undertaken in late 2022. We have updated this estimate, however these are still high-level estimates subject to final policy and design considerations. Inland Revenue will report back during the Budget 2024 process or future Budget process if there is any material change to the cost estimates requiring funding due to changes in policy or design decisions.

32. For the CARF proposal the indicative costs are estimated at $6.700 million for the capital build, $1.600 million for the operating build and $8.500 million operating over the forecast period (2023/24 to 2027/28). The operating costs include depreciation and capital charge.

	$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Tax revenue inc/(dec)	-	-	-	-	50.000	50.000
Operating impact	-	-	-	-	(50.000)	(50.000)
Capital costs						
System build	-	-	6.700	-	-	6.700
Capital (debt) impact	-	-	6.700	-	-	6.700
Operating costs						
System build	-	0.700	0.900	-	-	1.600
Ongoing operating	-	0.700	0.800	1.400	2.100	5.000
Depreciation	-	-	0.300	1.300	1.300	2.900
Capital charge	-	-	-	0.300	0.300	0.600
Operating impact	-	1.400	2.000	3.000	3.700	10.100
Total net operating impact	**-**	**1.400**	**2.000**	**3.000**	**(46.300)**	**(39.900)**
Total capital (debt) impact	**-**	**-**	**6.700**	**-**	**-**	**6.700**

33. Overall, there is a net positive operating impact of $39.900 million over the forecast period, with an ongoing net positive operating impact of $46.300 million per annum thereafter.

34. As part of the overall Budget 2024 process Inland Revenue will receive funding for some initiatives, partially-fund or fully-fund some initiatives and deliver targeted savings. The net impact is that Inland Revenue has no capacity to partially-fund or fully-fund this initiative without directly impacting service delivery and or tax revenue.

Treasury comment

35. Treasury has been consulted on this report and supports the conclusions and recommendations made by Inland Revenue.

Next steps

36. If you agree to progress the CARF as part of Budget 2024, we will work with the Treasury to include this as part of the broader Budget 2024 package to be considered at Cabinet on 29 April.

Recommended action

We recommend that you:

Minister of Finance *Minster of Revenue*

(a) **note** that the OECD's "Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard" is a global minimum standard and that all OECD jurisdictions are expected to implement it.

Noted Noted

(b) **agree** to implement the OECD's "Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard" as part of Budget 2024.

Agreed/Not agreed Agreed/Not agreed

(c) **note** that to give effect to recommendation "b", amendments will be required to the Tax Administration Act 1994, and officials will report to the Minister of Revenue on these as part of reporting on the August omnibus tax bill.

Noted Noted

(d) **agree** to include the necessary amendments in the upcoming 2024–25 omnibus tax bill to give effect to the OECD's "Crypto-Asset Reporting framework and Amendments to the Common Reporting Standard".

Agreed/Not agreed Agreed/Not agreed

Financial implications

(e) **note** that the fiscal impact of the changes is a revenue gain of approximately $50 million a year, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Tax revenue inc/(dec)	-	-	-	-	50.000	50.000
Operating impact	-	-	-	-	(50.000)	(50.000)

Noted Noted

Minister of Finance *Minster of Revenue*

(f) **note** that the indicative costs are estimated at $6.700 million for the capital build and $10.100 million operating over the forecast period (2023/24 to 2027/28):

	$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Capital costs						
System build	-	-	6.700	-	-	6.700
Capital (debt) impact	-	-	6.700	-	-	6.700
Operating costs						
System build	-	0.700	0.900	-	-	1.600
Ongoing operating	-	0.700	0.800	1.400	2.100	5.000
Depreciation	-	-	0.300	1.300	1.300	2.900
Capital charge	-	-	-	0.300	0.300	0.600
Operating impact	-	1.400	2.000	3.000	3.700	10.100
Total net operating impact	**-**	**1.400**	**2.000**	**3.000**	**3.700**	**10.100**
Total capital (debt) impact	**-**	**-**	**6.700**	**-**	**-**	**6.700**

Noted Noted

(g) **note** that the total net capital (debt) impact is estimated at $6.700 million and the net positive operating impact including an increase in tax revenue is $39.900 million over the forecast period, with an ongoing net positive operating impact of $46.300 million per annum thereafter:

	$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Total net operating impact	**-**	**1.400**	**2.000**	**3.000**	**(46.300)**	**(39.900)**
Total capital (debt) impact	**-**	**-**	**6.700**	**-**	**-**	**6.700**

Noted Noted

(h) **note** that implementation and ongoing costs are high-level estimates and are subject to final policy and design considerations and that Inland Revenue will report back during the Budget 2024 process or future Budget process if there is any material change to the cost estimates requiring funding due to changes in policy or design decisions.

Noted Noted

(i) **note** that the additional funding required to meet all expected costs for the OECD's "Crypto-Asset Reporting Framework" as described in recommendation "f" is a provisional amount that is subject to further revision.

Noted Noted

Minister of Finance *Minster of Revenue*

(j) **agree** to fund the net operating and capital impacts of the OECD's "Crypto-Asset Reporting Framework" (recommendations "e" to "g") as part of the Budget 2024 process.

Agreed/Not agreed Agreed/Not agreed

s 9(2)(a)

Martin Neylan
Policy Lead
Policy and Regulatory Stewardship

Hon Nicola Willis
Minister of Finance
/ /2024

Hon Simon Watts
Minister of Revenue
/ /2024

Policy and Regulatory Stewardship
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Briefing note

Reference: BN2024/091

Date: 7 March 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Paul Young/Josh Fowler

Subject: Interaction between the Independent Earner Tax Credit and Working for Families tax credits

Purpose

1. You have asked for information about the interaction between the Independent Earner Tax Credit (IETC) and Working for Families (WFF) tax credits (e.g. the Family Tax Credit (FTC) and In Work Tax Credit (IWTC)), including whether people who are ineligible for WFF tax credits due to their entitlement having fully abated should be excluded from eligibility for the IETC.

Background

2. Eligibility for WFF tax credits is determined according to total family income, while eligibility for IETC is determined according to the income of an individual earner.

Working for Families

a. The FTC available to a family with one dependent child will be $144 per week from 1 April 2024 (with an additional $117 per week per additional child), and the IWTC available to a family (including the proposed $25 increase) is $97.50 per week (for up to 3 children and $15 per week per additional child).

b. These tax credits abate at 27 cents on the dollar from a combined family income of $42,700. FTC abates first followed by IWTC. This means that both credits have fully abated (i.e. been reduced to zero and are no longer available) once a one-child family's combined income reaches $89,212.

Independent Earner Tax Credit

c. The IETC is a maximum payment of $10 per week (or $520 per annum) for people that earn at least $24,000 per annum and which abates at 13 cents on the dollar from $66,000 (if the upper limit of IETC is increased to $70,000).

d. People are ineligible for IETC if they receive main benefits, New Zealand Superannuation or the Veteran's Pension or are entitled to receive Working for Families tax credits. In practice, eligibility for IETC is determined on a monthly basis and a person is treated as potentially being eligible if they have not received any of the excluded types of payments within the month. This means that people cannot get WFF tax credits and the IETC within the same month, but they can get WFF tax credits and the IETC within the same income year.

3. Because of the difference in eligibility criteria (i.e. WFF eligibility is determined on family income while IETC is determined on an individual basis), a person or people in a family could still be within the income range to qualify for the IETC when they have abated out of eligibility for WFF tax credits. As they are only treated as being ineligible for the IETC if the family has actually received WFF tax credits, members of a family that has abated out of WFF tax credits could still receive the IETC if they meet the income criteria.

4. Removing IETC eligibility for people in families who have abated out of WFF tax credits would raise significant equity issues. For example, people in families without children with the same income level (above the WFF tax credit abatement level) would be able to receive the IETC but the equivalent family with a child would not receive any Government support. Some scenarios showing this are set out below.

Scenarios

Scenario: Kelvin and Jane

Kelvin and Jane are parents to Will. Both work full-time, each earning a gross minimum wage of $48,152, making their combined family income $96,304 per annum. On current settings, their family would be ineligible for either the FTC or the IWTC, which will have abated.

However, both are currently eligible for the IETC if the upper limit is increased to $70,000.

If people who were abated out of Working for Families were made ineligible for the IETC, Kelvin and Jane would receive no WFF tax credits support and no IETC. This can be compared with the following additional scenarios where the people would still be eligible for IETC.

Scenario: Ben and Cleo

Ben and Cleo are a couple who live in Wellington and are both full-time minimum wage earners meaning that their family income is $96,304 per annum (the same amount as Kelvin and Jane). As they have no children, they are ineligible for WFF. However, each will receive the IETC.

Scenario: Harold and Cassandra

Harold and Cassandra are a couple who live in Auckland. Cassandra earns approximately $200,000 per annum and Harold works in a minimum wage role and earns $48,152 per annum. Their combined household income is almost $250,000 per annum. However, Harold would be eligible for the IETC if the threshold is increased.

Administrative implications

5. While we have not had the opportunity to consider the administrative implications of excluding those who have abated out of WFF tax credits from entitlement to the IETC in detail, we have identified at least one significant administrative challenge. While Inland Revenue is able to identify families who have registered for and are eligible for WFF, it is not always able to identify those families who are ineligible for WFF (due to the impact of abatement). These families may never have registered for WFF tax credits and as such would not necessarily be recorded as families in Inland Revenue's system.

6. Addressing this would require a system change which would require all families to register for WFF tax credits (including those who are no longer eligible for any amount of WFF due to their entitlement having abated). Without such a change, individual members of families who have abated out of WFF tax credits would continue to receive some or all of the IETC.

Conclusion

7. We consider that excluding those who have abated out of WFF tax credits from receiving the IETC would raise significant policy and administrative issues. In summary:

   a. Providing Government support to a couple without children and not providing Government support to a couple with a child earning the same income would raise significant equity concerns. We do not recommend making changes to IETC eligibility that would cause this to occur.

   b. There are significant challenges in identifying those who would no longer be eligible for the IETC due to having abated out of WFF tax credits. Addressing this would likely require families to register for WFF despite not being entitled to receive any amount of WFF tax credits.

Other personal income tax package advice

8. Ministers will receive a joint report on the distributional effects of the proposed personal income tax, IETC, IWTC and Working for Families changes later this week. They will also receive a briefing note on the implementation implications of the package this week.

Consultation with the Treasury

9. The Treasury was informed about this briefing note.

Paul Young/Josh Fowler
Principal Policy Advisor/Senior Policy Advisor
s 9(2)(a)

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Briefing note

Reference:	BN2024/121
Date:	19 March 2024
To:	Private Secretary. Minister of Finance – Emma Grigg Private Secretary, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Paul Young
Subject:	**Implementing Budget 2024 Personal Income Tax Proposals**

We can deliver these proposals on 1 July 2024 but others won't be ready

1. Inland Revenue is able to implement the National party manifesto tax proposals (including Independent Earner Tax Credit and In Work Tax Credit proposals) from 1 July 2024. However, payroll service providers and employers are likely to be unable to implement the changes in time for 1 July 2024 if the changes are announced on Budget Day. We note that if any additional complexity is added to the changes proposed that would be likely to delay implementation further.

2. While Inland Revenue can implement these types of changes quite quickly, employers with complex systems are likely to take longer to make the changes. As a result, it would be necessary to give a reasonable amount of notice to enable these employers to make the changes to implement the proposals in time. We have been told that announcing the changes as part of the Budget would leave insufficient time to for some large employers to implement the changes by 1 July 2024.

3. Third party software providers are conventionally given at least **three months' notice** of payroll changes. They have explained to us that they do the development work and test the changes before sending the updated software to their customers 6 weeks before the implementation date. This enables their customers to load the payroll information for any payment dates occurring on or after the implementation date using the correct PAYE rates.

4. Not all payroll software is the same and can be changed at the same pace. Those with large and / or complex systems may require the full three months to prepare for changes, while others are able to configure, test and deploy changes more quickly. Payroll systems can be split into three broad groups:

   - Simple Commercial Off the Shelf systems (COTS) – these are typically more agile (though those with cloud systems can deploy changes somewhat faster than those providing on-premises systems)
   - Complex COTS systems – these are larger and / or more complex systems eg Novopay (MOE), Fineos (ACC compensation) and even IR (SAP). These systems are typically more effort to change/test and therefore may need a slightly longer lead-in time than simple COTS systems (especially if the provider also provides payroll systems in Australia (Australia's tax year runs 1 July-30 June) and these changes clash with Australian peak times)

- Bespoke systems – self-built systems ranging from advanced spreadsheets to mainframe systems eg MSD. They typically need the longest lead-in time to make and test changes (timings also may be affected if they need to make other changes at the same time).

5. Large public sector employers will also struggle to make the changes to their payroll systems without advance notice. MSD would need to update both their staff payroll and their benefit payment system for the changes. MSD has advised us that they need 3 months to do this. Other large public sector employers who could have issues include ACC, the Ministry of Health and the Ministry of Education. We note that a number of these organisations deal with vulnerable people and would recommend action is taken to mitigate the risk of incorrect payments being made. This is discussed below.

The changes can be made on any selected implementation date

6. The changes do not have to be made on the first day of a month but could instead be made mid-month or at the end of a month. The changes would apply to salary and wage payments made on or after the application date so a change on 31 July would simply take effect on that day.

7. Operating two sets of income tax thresholds within the one tax year will require Inland Revenue to apply composite rates for the bands of income between the old and new thresholds as part of the end of year income tax calculation (see table below for a 1 July implementation date). This is possible to calculate for any change date from a systems perspective, however we note that the number of discrepancies resulting in either a tax bill or refund at the end of the tax year are likely to increase and many more of those tax bills are likely to exceed the write-off threshold. This will increase compliance efforts for individual taxpayers who have bills and will also increase taxpayer contacts for Inland Revenue (therefore requiring additional administrative resource and effort over the coming year).

	Income Band	**Tax Rate**
1	\$0 — \$14,000	0.1050
2	\$14,001 — \$15,600	0.1225
3	\$15,601 — \$48,000	0.1750
4	\$48,001 — \$53,500	0.2063
5	\$53,501 — \$70,000	0.3000
6	\$70,001 — \$78,100	0.3075
7	\$78,101 — \$180,000	0.3300
8	\$180,001 upwards	0.3900

Contact centre challenges

8. Changing the tax thresholds from 1 July 2024 would coincide with the peak customer contact period for Inland Revenue, which sends tax assessments and requests for more information to taxpayers at this time. This results in peak volumes of calls for Inland Revenue's contact centres. Aligning the changes to the tax thresholds with this time would require Inland Revenue to make prioritisation decisions to reduce the level of service provided to some groups of taxpayers and would be likely to increase the rate of the "capping" (or termination) of phone calls to Inland Revenue and increase the time taken to respond to web messages.

9. Equally, not providing sufficient notice (at least 3 months) of payroll changes to 3rd parties will impact the amount of customer demand we would expect to receive. Our resource forecast assumed that sufficient notice would be provided, the more customers who believe they are not getting tax relief on time, the more they will contact Inland Revenue. Our implementation funding recently had the contingency element removed following Treasury advice. Inland Revenue would need to seek additional funding to cover any increased customer demand that arose due to insufficient notice.

Mitigation

10. The primary mitigation would be to delay the implementation date. Even a small change in the implementation date to 31 July would make it much more likely that most people would be correctly taxed.

11. That being said, while it would not be ideal if large payroll service providers or employers do not update their systems in time, there are mitigations to ensure that customers ultimately receive their tax cuts. First, if people are paid incorrectly in the first few pays after the implementation date, for example, their employers could make adjustments to their subsequent pays to correct for this. This can be done as part of their electronic filing process.

12. Secondly, at the end of the year the individual income tax assessment process would “square up” a taxpayer’s tax position. This square up process would correct the tax positions of people if the wage payments they received soon after the implementation date were incorrectly calculated and had not been corrected by their employers.

13. Providing early notification to large public sector providers on a budget secret basis would allow them to make changes to their systems for the implementation date. This would help to ensure that payments to vulnerable people would be made correctly.

Paul Young
Principal Policy Advisor
s 9(2)(a)

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Consequential impacts of personal income tax changes

Date:	27 March 2024	**Priority:**	Medium
Security level:	Sensitive	**Report number:**	IR2024/122

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	3 April 2024
Minister of Revenue	**Agree** to recommendations	3 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	
Paul Young	Principal Policy Advisor	s 9(2)(a)	
Josh Fowler	Senior Policy Advisor		

27 March 2024

Minister of Revenue

Consequential impacts of personal income tax changes

Purpose

1. This report provides you with:

   a. Information about the consequential impacts of the proposed changes to personal income tax (PIT) for other tax types (e.g. ESCT, FBT and PIE tax);

   b. Options for mitigating compliance cost impacts; and

   c. Recommendations for the timing of changes to other tax types.

Background

Timing and trade-offs

2. We understand you wish to implement the National party manifesto tax proposals (including Independent Earner Tax Credit (IETC) and In Work Tax Credit (IWTC) from July 2024 ("PIT changes").

3. This report is focused on the implications of the PIT changes for consequential tax types such as Residential Withholding Tax (RWT), Employer Superannuation Contribution Tax (ESCT), Fringe Benefit Tax (FBT), and tax on Portfolio Investment Entitles (PIEs). This report seeks decisions about the timing of implementing these changes.

4. As previously noted (BN2024/121 refers), Inland Revenue is able to implement PIT changes relatively quickly. However, employers with complex payroll systems are likely to need longer to amend their systems to implement changes. It will be necessary to give employers and payroll service providers a reasonable amount of notice so that payroll systems can be updated.

5. For example, third party payroll service providers are typically given at least three months' notice of payroll changes. This allows providers to undertake development work and test the changes before providing the updated software to their customers six weeks before the implementation date. Large public sector employers will also require longer timeframes to up-date their systems.

6. Decisions about the implementation dates for consequential tax types necessarily involve trade-offs between the compliance effort required to implement the changes and the point in time at which taxpayers begin to benefit from the changes. Allowing more time for implementation means that taxpayers will not begin to benefit from the consequential tax changes until the deferred implementation date.

7. The timing of implementing changes to consequential taxes will also have fiscal implications. For example, deferring implementing any changes to next year will mean taxpayers will have to wait to realise the benefit of these changes for consequential tax types, but will be fiscally positive for the government's accounts.

Discussion

8. As noted above, a key issue for implementing changes to consequential tax types lies in the trade-off between the compliance effort required to implement the changes and the time at which taxpayers will begin to realise the benefit of these changes. The specific implications for each consequential tax type are discussed below.

Resident withholding tax (RWT)

9. RWT is the tax which is withheld by the payer of interest or dividends. A common example of RWT in action is the deduction of RWT from interest payments made by banks to their depositors.

10. As interest and dividends are included in taxpayers' personal income tax calculation at the end of the year, RWT thresholds should also be changed from the date the PIT changes take effect. Applying RWT will not require the use of composite rates. Accordingly, we do not anticipate any delays or major compliance challenges associated with applying the PIT changes to RWT from July 2024.

11. We recommend changing the RWT thresholds on the same date as the changes to the personal income tax thresholds. Changing the RWT thresholds at a different date would mean that people would be more likely to have an incorrect amount of tax deducted and would be more likely to have an amount of tax receivable at their end of year personal income tax square-up process.

Fringe Benefit Tax (FBT)

12. FBT is the tax payable by employers when additional benefits are supplied to an employee (e.g., a motor vehicle available for private use, low interest loans, etc). FBT is key to the integrity of the personal income tax system, and was designed and implemented in response to employers offering employees a range of benefits which were previously untaxed.

13. Employers typically file FBT returns on an annual or quarterly basis and can choose to either pay a flat rate or attribute the benefits to each employee and calculate their FBT based on their personal marginal tax rates.

14. As previously noted (BN2024/121 refers), implementing PIT tax changes in the middle of the income tax year (i.e. 31 July 2024) will require the use of composite rates and thresholds. If these changes were to be applied to FBT from the same date, employers would need to apply these composite rates and thresholds to the additional benefits supplied to their employees over the current tax year.

15. A mid-year FBT implementation date would likely have a range of negative consequences, including increased compliance costs for employers, a decrease in the accuracy of FBT returns, increased administrative costs for Inland Revenue, and increased customer contacts (i.e. phone calls and emails).

16. By contrast, applying the PIT changes to FBT from 1 April 2025 is unlikely to produce significantly greater costs for affected parties than usual, and most importantly, avoids the complexity likely to arise from employing composite rates.

17. Accordingly, we would recommend making the changes to FBT apply from the beginning of a tax year (i.e. from 1 April). While you could choose 1 April 2024 (as employers who choose to do an FBT attribution calculation do that at the end of the tax year), we recommend 1 April 2025 to align with the other recommendations in this report. We do not hold sufficient information on the FBT a company pays to determine the individual employees that received the fringe benefits. This means that we are unable to reliably estimate the cost saving of deferring the application

of the changes to the FBT thresholds to 1 April 2025 and we would not adjust the PIT package fiscal costs for FBT.

Employer Superannuation Contribution Tax (ESCT) and Retirement Scheme Contribution Tax (RSCT)

18. ESCT is the tax which employers pay on their contributions to their employee's superannuation scheme. A common example is the tax levied on employer KiwiSaver contributions. RSCT is similar to ESCT and the paragraphs discussing ESCT below cover RSCT as well.

19. The rate of ESCT applied over a given tax year is calculated by an employer based on either the employee's earnings over the previous tax year, or else the employee's projected earnings over the coming tax year. Importantly, ESCT is a "final" tax. This means that, unlike PIT, there is no end of year "square-up" for this tax type which addresses under or overpayments by employers.

20. The fact that ESCT is a "final" tax means that the PIT changes could be applied to ESCT mid-year without the need to employ composite rates and thresholds. However, employers typically update their employees' ESCT rates at the beginning of each tax year. For this reason, we recommend that the changes to ESCT thresholds which are required due to the PIT changes be aligned to the start of an tax year (i.e. 1 April).

21. We therefore recommend implementing ESCT changes from 1 April 2025. We do not recommend making a retrospective change applicable from 1 April 2024 as this would require employers to amend and refile all employer returns which have been filed to date (i.e. those returns filed between 1 April 2024 and the date the PIT changes apply from). Additionally, any inaccurately calculated deductions (either due to human error or to delays in updating rates) will be full and final and will have flow-on effects to employee KiwiSaver balances.

22. However, there is a trade-off in adopting a 1 April 2025 implementation date, namely that employees will only see the benefit of the PIT changes for ESCT after 1 April 2025. This will be a permanent difference as ESCT is not included in people's end of year personal income tax square up and it will be fiscally positive for the government (a saving of $29 million compared to application from 31 July 2024). Overall, we would recommend an implementation date of 1 April 2025.

Prescribed Investor Rate (PIR)

23. The tax rate which applies to investors in Portfolio Investment Entities (PIEs) is based on the investors' income over previous two years. This tax rate is known as the Portfolio Investor Rate (or PIR) and is typically selected annually by each individual investor.

24. As with FBT, applying the PIT changes from mid-year would require the use of composite rates and thresholds. This means that PIEs will need to apply a new PIR to deductions from investor income for the remainder of the income tax year. By contrast, aligning the PIT changes with 1 April 2025 would align with the point at which most investors will nominate their PIR for the year.

25. As with ESCT, above, applying this change from 1 April 2025 will delay the realisation of the full benefit of the PIT changes for investors. However, this will be fiscally positive for the government (a saving of $4 million compared to application from 31 July 2024). Overall, due to the complexity and compliance costs associated with a mid-year change, we would recommend aligning the application of the PIT changes to PIE tax with 1 April 2025.

Provisional tax

26. Provisional tax is paid in instalments by taxpayers using a range of methods. The standard option can involve the payment of three instalments during the year using the taxpayer's residual income tax plus a 5% uplift.

27. We would not recommend any changes to the uplift model as the changes are relatively small compared to the amount of tax involved for higher income taxpayers. The changes will also effectively be progressively introduced with approximately 2/3 impact in the 2024/2025 tax year before full impact in the 2025/26 tax year. If taxpayers are concerned that they will be paying too much tax they can estimate their income to reduce any overpayment.

28. Taxpayers can also use the GST Ratio Method to calculate and pay their provisional tax. Inland Revenue calculates the ratio by dividing a taxpayer's residual income tax for the last tax year by total GST taxable supplies for the same year. The taxpayer then applies the ratio to their taxable supplies for each two-month GST period to calculate their provisional tax payable. We do not recommend changing the ratio calculation as we do not consider that the PIT threshold changes are significant enough to justify the additional complexity.

Fiscal costs

29. The costings in the table below reflect the costs of the consequential changes to tax types needed following the personal income tax changes. These costs have been included in the costings you have previously received for the personal income tax changes and are shown split out here for the purposes of this report. They are calculated based on application from 31 July 2024 and do not include any administrative costs to Inland Revenue (discussed above). These costs have been determined on a fiscal year basis (i.e. 1 July – 31 June).

Tax type	2024/25 ($M)	2025/26 ($M)	2026/27 ($M)	2027/28 & outyears ($M)	Total
ESCT and RSCT	39	40	37	35	**$151**
Portfolio Investment Entity Tax	4	6	7	7	**$24**

30. If you agree to defer the application of these changes to 1 April 2025, the fiscal cost for the 2024/25 year would be $10M for ESCT and RSCT and $0 for Portfolio Investment Entity Tax. This would be a total saving in the 2024/25 year of $33 million.

Next steps

31. The next steps are as follows:

    a. Decisions made in this report will be used to inform updated costings for the personal income tax changes;

    b. Following decisions on personal income tax changes, the consequential tax changes will be included in the same Cabinet paper as the personal income tax changes; and

    c. Draft legislation will be prepared to reflect the decisions made.

Consultation

32. The Treasury was consulted on the content of this report.

Recommended action

We recommend that you:

1. **Note** that selecting the date the PIT changes are applied to consequential tax types involves trade-offs between compliance effort for employers and benefit realisation for taxpayers.

   Noted **Noted**

2. **Agree** the PIT changes be applied to:

   2.1 Resident Withholding Tax (RWT) from 31 July 2025

   Agreed/Not agreed **Agreed/Not agreed**

   2.2 Fringe Benefit Tax (FBT) from 1 April 2025.

   Agreed/Not agreed **Agreed/Not agreed**

   2.3 Employer Superannuation Contribution Tax (ESCT) and Retirement Scheme Contribution Tax (RSCT) from 1 April 2025.

   Agreed/Not agreed **Agreed/Not agreed**

   2.4 Portfolio Investment Entity (PIE) tax from 1 April 2025.

   Agreed/Not agreed **Agreed/Not agreed**

s 9(2)(a)

Paul Young
Principal Advisor
Policy and Regulatory Stewardship
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2024

Hon Simon Watts
Minister of Revenue
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Briefing note

Reference: BN2024/163

Date: 4 April 2024

To: Private Secretary. Minister of Finance – Emma Grigg
Private Secretary, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Paul Young

Subject: **Personal income tax – Implications of a 31 July application date**

1. We would generally expect most employers to be able to pay their employees under the updated tax scales from 31 July. There are likely to be some exceptions and some incorrect calculations but these are able to be corrected in subsequent pay runs or as part of the end of year tax assessment process completed by Inland Revenue. More detailed comments are set out for specific groups below.

Payroll software providers

2. As previously advised (T2024/419, IR2024/072 refers), we would ideally give these businesses 3 months notice of the changes. This is based on allowing 6 weeks to complete and test the changes to allow them to provide the software to their clients 6 weeks before the implementation date. While a 31 July implementation date would only give 2 months we expect that software providers will hasten to get the updated software out to their customers as soon as possible. The software may not be able to be deployed to customers as far ahead of the implementation date as they would like, but it should still be able to be deployed to customers at least 2 weeks before the implementation date. We also note that even if employees have their tax calculated under the status quo thresholds for a payment after the implementation date, this can be corrected in subsequent pay periods or the difference will be picked up in the end of year tax assessment process.

Payroll service providers

3. Again, we would typically give these businesses at least 3 months notice of PAYE changes. If they only get 2 months notice we expect that they will still be highly motivated to get the changes in place in time. If there are any errors. they can be corrected in subsequent pay periods or the end of year tax assessment process will act as a backstop to square up employees' tax positions.

Public sector organisations with complex payroll situations

4. We expect that some public sector organisations with specific payment challenges will need longer to implement the changes with a reasonable expectation that the changes will go smoothly. This is due to the special characteristics of the payments they make and is not about their standard departmental payroll function. The organisations that we would propose providing early information to on a budget secret basis are:

- MSD – benefits, allowances and pension systems
- ACC – compensation system
- MOE (Education Payroll) – teachers' payroll system
- MOH (Health NZ) - doctors and nurses payroll system(s)

5. In order to allow these organisations more time to help them to successfully implement the changes by 31 July, it would be necessary to advise them of the changes on a Budget secret basis by the end of April. Each of these organisations will have Budget processes and we would expect them to handle this under their existing processes. One thing that we will emphasise is the need to be careful if their development or testing environments are visible to additional staff. If the Government does not choose to give these organisations advance notice Ministers could either accept that these organisations are likely to make incorrect payments or choose to defer the application date to at least the end of August

Paul Young
Principal Policy Advisor
s 9(2)(a)

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Sharing information to enable implementation of the personal income tax changes**

Date:	18 April 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/175

Action sought

	Action sought	**Deadline**
Minister of Finance	**Agree** to recommendations	24 April 2024
Minister of Revenue	**Agree** to recommendations	24 April 2024

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Maraina Hak	Policy Lead	s 9(2)(a) [redacted]
Paul Young	Principal Policy Advisor	

18 April 2024

Minister of Finance
Minister of Revenue

Sharing information to enable implementation of the personal income tax changes

Purpose

1. This report seeks a decision from Ministers on sharing Budget sensitive information on the personal income tax package with several large Government organisations that make payments to beneficiaries or claimants, or that have large and complicated payroll responsibilities. This is intended to enable these organisations to be able to make payments correctly from the application date of the personal income tax changes (as they would not have sufficient time if they found out about the changes on Budget day).

Context and background

2. The Budget is set down for reading on 30 May 2024 and you have indicated that the personal income tax changes will take effect from 31 July 2024. While Inland Revenue will be able to make the required changes in time it may be more difficult for other organisations. This only allows two months for employers, software payroll providers and software service providers to make changes to their systems and test those changes before the changes take effect.

3. This report follows our briefing note on the implications of a 31 July application date (BN2024/163). In that briefing note we identified that several public sector organisations had specific payment challenges that may require a longer implementation period. The organisations that we have identified as being likely to need extra time are:

    - Ministry of Social Development (MSD) – benefits, allowances and pension systems
    - The Accident Compensation Corporation (ACC) – compensation system
    - Health New Zealand – doctors' and nurses' payroll systems

4. Of the specified organisations, we have the most concern about Health New Zealand as it continues to run separate payrolls for each former district health board (DHB) and use multiple payroll software providers.

5. We had previously identified the Ministry of Education and Education Payroll Limited as another sector that may have issues, but they have indicated an expected implementation lead time of six to eight weeks for relatively simple tax changes so on that basis do not need to be notified in advance of 30 May 2024.

Materiality

6. The identified organisations make payments that are subject to PAYE to a significant number of beneficiaries[1], superannuitants, compensation claimants and employees. If they are unable to update their payment systems in time, incorrect amounts of tax will be deducted and the recipients (other than beneficiaries) will be likely to receive less of their payments than they are entitled to, negatively impacting the perception of the personal income tax changes.

7. While any errors can be addressed by Inland Revenue during the end of year tax assessment process, it would be highly preferred if the changes were able to be made in time. This would also significantly decrease the number of contacts that the organisations and Inland Revenue will have to deal with if payments don't meet the recipients' expectations.

Alleviating the problem

8. In order to give these organisations more time to make the changes to their systems, Inland Revenue proposes to provide advance information on the personal tax changes to them on a Budget sensitive basis. This information would be provided as soon as possible after Cabinet has approved the changes (29 April 2024) and we would ask each government organisation to sign the appropriate confidentiality requirements before providing the information. We would include this as a recommendation in the Budget Cabinet paper subject to your approval.

9. This information would be for the sole purpose of enabling them to update their systems to make correct payments to beneficiaries, superannuitants, ACC claimants and the health workforce. It would not be provided for the purpose of updating their core departmental payroll if that is separate from their other payment/payroll systems.

10. This information would be provided to the key people on a "need-to-know" basis rather than to all staff within a relevant agency. This information would be provided to assist agency staff in preparations with the instruction that it is not to be shared beyond that agency (i.e. with external payroll providers or with another agency) until the Budget is formally announced.

Payroll software providers

11. In previous advice (BN2024/121 refers) we noted payroll service providers are conventionally given at least three months' notice of payroll changes. This is designed to allow for the development work and testing required before the updated software is provided to their customers six weeks prior to the implementation date. This enables their customers to load the payroll information for any payment dates occurring on or after the implementation date using the correct PAYE rates.

12. However, we note that an announcement on 30 May 2024 would only provide employers and payroll providers with two months' notice of the personal income tax changes. Accordingly, it is likely that some providers may not have sufficient time to update their systems before the Personal Income Tax changes come into effect. This means that some taxpayers may not see the benefit of the Personal Income Tax changes in the first month following the changes coming into effect (i.e. August), although we would expect this to be corrected in the months thereafter.

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[1] As benefits are set net of tax meaning there is no deduction of PAYE (as with, for example, superannuitants and employees). The Ministry of Social Development calculates the PAYE owing on the net benefit and pays this directly to Inland Revenue. A systems change is still required for this calculation.

13. While this would not be ideal, there are mitigations to ensure that customers ultimately (if not immediately) receive their tax relief. For example:

    a. If people are paid incorrectly for a period immediately following the implementation date of 31 July, their employers could make adjustments in subsequent pay periods to correct the initial inaccuracies as part of the electronic filing process;

    b. At the end of each tax year, the individual tax assessment process would "square-up" a taxpayer's tax position. This would correct any inaccuracies which occurred in the period immediately following the implementation date, and which had not been corrected by their employers.

14. Therefore, we do not propose that Budget sensitive information be shared with third party payroll software providers as, on balance, we do not consider the risk to Budget confidentiality is outweighed by the need for certainty and the risks to accuracy for these providers.

Customer contact challenges

15. As earlier noted (BN2024/121 refers), we expect that not providing payroll software providers with at least three months' notice will result in Inland Revenue experiencing increased contacts from employers and taxpayers where payroll service providers are unable to implement the personal income tax changes on time. Increased contacts are expected across Inland Revenue's contact mediums (i.e. phone calls, web messaging and general correspondence). Responding to increased contacts would require Inland Revenue to reprioritise existing resource which would come at the expense of current services.

Consultation

16. Inland Revenue has engaged on a hypothetical basis with the identified organisations to understand the time they would expect to take to make tax changes and the issues they would expect to encounter. This feedback is set out below:

ACC	Bare minimum of eight weeks if no issues, 13 weeks to do as part of quarterly update process.
MSD	Estimate has reduced to three months (from four) and we understand they are developing and testing hypothetical solutions so may be able to deliver sooner than expected.
Health New Zealand	As noted above Health NZ runs multiple payrolls and uses a variety of software providers. They have estimated that their minimum lead in time would be three months for vendors and four to six weeks for Health New Zealand to implement and test. They are also undertaking Holidays Act remediation across 17 payrolls from July to November 2023. As part of this remediation process they do not allow changes for three months prior to Holidays Act payout. Implementing the personal income tax changes for 31 July 2024 is expected to put the Holidays Act remediation process at risk.

17. Treasury has been consulted on this paper and agrees with its recommendations.

Next steps

18. Subject to your agreement, we will include a recommendation in the Budget Cabinet paper that Cabinet will consider on 29 April that would waive Budget secrecy for these organisations. If Cabinet agrees, Inland Revenue will provide information to these organisations on a confidential basis as soon as is possible.

Recommended action

We recommend that you:

1. **Agree** that Inland Revenue can provide information on the personal income tax changes to MSD, ACC and Health New Zealand on a Budget sensitive basis following Cabinet's confirmation of the changes;

   Agreed/Not agreed   Agreed/Not agreed

   Minister of Finance   *Minister of Revenue*

2. **Note** that this information would be provided for the purpose of enabling them to update their systems to make correct payments to beneficiaries, superannuitants, ACC claimants and the health workforce.

   Noted

s 9(2)(a)

Maraina Hak
Policy Lead
Policy and Regulatory Stewardship

Hon Nicola Willis
Minister of Finance
/ /2024

Hon Simon Watts
Minister of Revenue
/ /2024

Inland Revenue
Te Tari Taake

TE TAI ŌHANGA
THE TREASURY

Briefing note

Reference: BN2024/219

Date: 21 May 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Paul Young

Subject: **Update on Public Sector Organisations' PIT change readiness**

As requested by the Minister of Finance's office, this briefing note sets out the feedback that we have received from the three public sector organisations that have been given early information on the PIT changes. Basically they all seem to be on track.

Health NZ

Health NZ advised that based on the information shared they believes it will be straightforward for Health NZ to implement as it's only a (tax rate) table change similar to what happens at the start of every tax year – no (more complicated) system changes required.

We also asked if they thought there would be impacts on their Holidays Act remediation project and they said that they didn't think so on the basis of the information shared.

ACC

All is on track for 31 Jul. They've considered possible system impacts and there are no anticipated issues. Until the Budget secrecy is lifted, they can't do full consultation around resources (that may have to be redirected from other work). They noted that some of the system change roles had been impacted by the Public Service cuts, but that the core payment roles (which seemed to be most involved in this work) have not been affected.

MSD

They say they're working on being ready. From an IT perspective, all is on track. But they are unsure about some calculations (IWTC) until after budget day. They've discussed the use of s RD11 to delay applying the changes for 1 week and will be contacting IR shortly to advise.

I note that MSD set payments for the week using their tax tables and have a system limitation on changing mid-week. Section RD 11(3) of the Income Tax Act 2004 provides that the CIR shall determine the amount of tax for a benefit payment in consultation with the MSD CE so it is likely they will suggest using the current rates for the week including 31 July and the new rates the following week and we do not have any objection to that.

As benefit rates are set net of tax the benefit recipients will most likely not notice the difference.

Paul Young
Principal Policy Advisor
Inland Revenue
s 9(2)(a)

Policy and Regulatory Stewardship
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New Zealand

T. 04 890 1500

Briefing note

Reference: BN2024/222

Date: 23/05/2024

To: Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Ella Yeatman

Subject: **Budget Sensitive - Australia and New Zealand personal income tax thresholds and rates**

1. You have asked for a briefing note comparing the Australia personal income tax rates and thresholds with the New Zealand personal income rates and thresholds.

2. Cabinet has agreed to change personal income tax thresholds in New Zealand, and this will be announced in Budget 2024. The table below shows the upcoming threshold changes, compared to current thresholds, last changed in April 2021.

2023-24		**2024-25**	
Threshold (NZD)	Rate (%)	Threshold (NZD)	Rate (%)
0 - 14,000	10.5	0-15,600	10.5
14,001 - 48,000	17.5	15,601 - 53,500	17.5
48,001 - 70,000	30	53,501 - 78,100	30
70,001 - 180,000	33	78,101 - 180,000	33
Over 180,000	39	No change	39

3. The Australian Government recently announced changes to personal income tax thresholds and rates in Budget 2024 to ease the cost-of-living pressures, as outlined in BN2024/210. The table below shows the threshold and rate changes, compared to 2023-24 income tax rates and thresholds.

2023-24		**2024-25**	
Threshold (AUD)	Rate (%)	Threshold (AUD)	Rate (%)
0 - 18,200	0	0 - 18,200	0
18,201 - 45,000	19	18,201 - 45,000	16
45,001 - 120,000	32.5	45,001 - 135,000	30
120,001 - 180,000	37	135,001 - 190,000	37
Over 180,000	45	Over 190,000	45

4. The post-budget 2024 changes to personal income tax rates and thresholds in Australia and New Zealand are shown in the table below. Note, for ease of comparison, all figures in the table are in New Zealand dollars and rounded to the nearest whole number. The current exchange rate is 1NZD = 0.92AUD (1AUD = 1.087NZ).

Rate (%)		Threshold Bracket (NZD)	
Australia	**New Zealand**	**Australia**	**New Zealand**
0	10.5	0 – 19,783	0 - 15,600
16	17.5	19,784 – 48,915	15,601 - 53,500
30	30	48,916 – 146,745	53,501 - 78,100
37	33	146,746 – 206,530	78,101 - 180,000
45	39	Over 206,530	No change

5. Given the above post-budget 2024 rates and thresholds of Australia and New Zealand, the final table outlines the relative tax burdens on several income levels. The tax burden for both countries is presented in New Zealand dollars and the average tax rate is shown rounded to one decimal point.

Annual Income ($NZD)	**Australia bill (NZD)**	**Average tax rate AUS (%)**	**New Zealand bill (NZD)**	**Average tax rate NZ (%)**
50,000	4,987	10.0	7,658	15.3
80,000	13,987	17.5	16,278	20.3
120,000	25,987	21.7	29,478	24.6
180,000	46,315	25.7	49,278	27.4
250,000	75,692	30.3	76,578	30.6
300,000	98,192	32.7	96,078	32.0

Ella Yeatman
Policy Advisor
s 9(2)(a)

Inland Revenue
Te Tari Taake

Working for Families changes for Budget 2024

Date:	23 February 2024	**Priority:**	Medium
Security level:	Sensitive - Budget	**Report number:**	IR2024/032

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report **Indicate** which proposals (if any) you would like to table at the second Budget Ministers meeting on 11 March	28 February 2024
Minister of Revenue	**Note** the contents of this report	28 February 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Eina Wong	Strategic Policy Advisor, Inland Revenue	s 9(2)(a)
Jason Batchelor	Senior Policy Advisor, Inland Revenue	

23 February 2024

Minister of Finance
Minister of Revenue

Working for Families changes for Budget 2024

Purpose of the report

1. The Minister of Revenue was invited to submit one spending initiative in the Working for Families scheme as well as savings options for Budget 2024.

2. This report outlines preliminary options and packages that could be progressed in Budget 2024. s 9(2)(f)(iv) [redacted] In order to meet timelines for Budget decisions, we seek your direction on your preferred options by 28 February.

3. The new spending initiative is a $25 per week increase to the In-work Tax Credit included within the National Party Tax Plan (the Tax Plan), as well as scaled options that include the savings initiatives. The savings options are considered in the context of the relevant Budget 2024 priorities:

   A. Addressing the rising cost of living; and

   B. Delivering effective and fiscally sustainable public services.

Executive summary

4. We understand that the Government intends to increase the In-work Tax Credit by $25 a week as part of the Tax Plan, increasing the base amount from $72.50 to $97.50 per week. This increase has been confirmed as part of the coalition agreements. This change is intended to meet cost-of-living pressures which are having significant impacts on families raising children.

5. Alongside the personal income tax changes and FamilyBoost, the options in this paper should be considered in light of broader Government objectives and initiatives. There is a clear direction for this Budget, focussing on addressing the cost of living and delivering effective and sustainable public services.

6. s 9(2)(f)(iv) [redacted]

7. To meet timelines for Budget Ministers meeting on 11 March, we seek a preliminary indication by 28 February on whether to progress one of four options for the In-work Tax Credit package:

   A. A $25 increase in the In-work Tax Credit, as per the Tax Plan - $620m over the forecast period (*officials' preferred option)*.

   B. A $15 increase in the In-work Tax Credit - $367m over the forecast period.

s 9(2)(f)(iv)

8. s 9(2)(f)(iv)

9.

10. For simplicity, the administration costs of these initiatives are not included in this paper, but are included in the primary Budget 2024 documents.

Increasing the in-work tax credit is possible for 1 July 2024

11. The proposed changes to the In-work Tax Credit can be implemented from 1 July 2024. In the tax year 2025-26, this would benefit approximately 160,000 eligible families who will receive an average of $16.97 extra per week. This will further benefit low- and middle-income New Zealand families in employment, provided they are not in receipt of a benefit.

12. We understand that you would like to include this change as part of Budget 2024, and have it enacted as part of Budget night legislation. While this is possible, it will require out-of-cycle notices of entitlements to be sent to Working for Families customers which would result in increased customer contacts.

13. Inland Revenue will need to undertake a lot of preparatory work before Budget 2024 announcements. Cabinet decisions in relation to this change are recommended for March 2024, to allow this work to begin early.

Future advice

14. The proposed personal income tax changes and In-Work Tax Credit changes will have consequential impacts for the Minimum Family Tax Credit. We will report to you shortly seeking decisions on this after you have provided feedback on the In-work Tax Credit options in this report.

15. Officials will report on whether the current statutory requirement to review the In-work Tax Credit every three years is met by Budget 2024 decisions.

16. At a later date, officials intend to provide you with further advice on current issues with Working for Families, including:

- the Working for Families abatement threshold, overlapping abatement, and the effective marginal tax rates;
- the functionality of the Minimum Family Tax Credit; and
- if Ministers would like to progress any longer-term work on Working for Families.

Officials' preferred option

17. Officials' preferred option is the $25 increase to the In-work Tax Credit which will cost $620m over the forecast period. s 9(2)(f)(iv) [redacted]

Recommended action

It is recommended that you:

1 **note** that there are commitments in the National Party Tax Plan in relation to Working for Families, including increasing the rate of In-work Tax Credit and keeping the automatic increases to Working for Families payments that currently exist in law;

Noted — *Minister of Finance*

Noted — *Minister of Revenue*

2 **note** three templates for Working for Families changes have been submitted into the Budget 2024 process:

a. $25 increase in the In-work Tax Credit;

b. s 9(2)(f)(iv) [redacted]

c. [redacted]

Noted — *Minister of Finance*

Noted — *Minister of Revenue*

In-work Tax Credit

3 **note** the four In-work Tax Credit packages for consideration in Budget;

a. an increase to the In-work Tax Credit from $3,770 to $5,070 per annum ($25 per week) from 1 July 2024 ($620m over the forecast)*[officials' preferred option]*;

b. an increase to the In-work Tax Credit from $3,770 to $4,550 per annum ($15 per week) from 1 July 2024 ($367m over the forecast);

s 9(2)(f)(iv) [redacted]

Noted — *Minister of Finance*

Noted — *Minister of Revenue*

4 **note** proposed personal income tax changes and In-Work Tax Credit changes have consequential impacts for the Minimum Family Tax Credit. We will report to you shortly seeking decisions;

Noted — *Minister of Finance*

Noted — *Minister of Revenue*

s 9(2)(f)(iv)

Future work

7 **note** that officials will provide further advice on whether the benefit and tax credit systems create financial incentives to ensure work pays and that this advice will include the following:

a. the Working for Families abatement threshold, overlapping abatement, and the effective marginal tax rates;

b. the functionality of the Minimum Family Tax Credit; and

c. whether Ministers would like to progress any longer-term work on Working for Families;

Noted	Noted
Minister of Finance	*Minister of Revenue*

8 **note** officials will report on whether the current statutory requirement to review the In-work Tax Credit every three years is met by Budget 2024 decisions;

Noted	Noted
Minister of Finance	*Minister of Revenue*

Legislation

9 **note** that these policies will be included in Budget night legislation;

Noted	Noted
Minister of Finance	*Minister of Revenue*

10 **refer** a copy of this report to the Minister for Social Development and Employment and the Minister for Child Poverty Reduction;

Refer/not referred	Refer/not referred
Minister of Finance	*Minister of Revenue*

Minister of Finance only

11 **Indicate** if you want any of the Working for Families options modelled alongside the personal income tax changes and Independent Earner Tax Credit expansion options to table at the second Budget Ministers meeting on 11 March;

In-Work Tax Credit

$25 increase to IWTC	
$15 increase to IWTC	
s 9(2)(f)(iv) [redacted]	

s 9(2)(f)(iv) [redacted]

12 **indicate** the preferred timing of any IWTC changes;

1 July 2024   1 October 2024   Other

s 9(2)(a) [redacted]

Eina Wong

Strategic Policy Advisor, Policy and Regulatory Stewardship

Inland Revenue

23 / 02 / 2024

Hon Nicola Willis
Minister of Finance

..... / ...... / ......

Hon Simon Watts
Minister of Revenue

..... / ...... / ......

Background

Working for Families

1. The Working for Families package was introduced in stages between 2004 and 2007. The package substantially increased earlier family assistance entitlements. The three key objectives of the Working for Families package are to:

   A. make work pay;

   B. supporting income adequacy and reducing child poverty; and

   C. achieve a social assistance system that supports people into work.

2. The introduction of Working for Families has increased income adequacy and reduced child poverty, primarily amongst working households. However, subsequent increases to the Family Tax Credit[1] and the introduction of the Best Start Tax Credit[2] have reduced poverty across working and 'non-working' households with children.

3. While Working for Families has achieved its key objectives for some groups, like any transfer system that is designed to target groups of the population, it has certain issues. It can result in a poor interface between benefit and work, does not respond well to changing work and family circumstances, and results in high effective marginal tax rates[3] for many families and particularly through the Minimum Family Tax Credit.[4]

National Party Tax Plan

4. The National Party Tax Plan (the Tax Plan) commitments are intended to increase the after-tax pay of low- to middle- income earners. The main objective is to shift the personal income tax brackets to compensate for inflation.

5. The proposed increase to the In-work Tax Credit is to address the cost-of-living pressures that are having significant impacts on families raising children. The increase to the In-work Tax Credit by $25 will provide families receiving the In-work Tax Credit a benefit of $16.97 per week on average.

6. Due to the interaction between the In-work Tax Credit increase and personal income tax changes, the impact on child poverty cannot be modelled until we receive guidance on the preferred design parameters of both.

Increase to In-work Tax Credit

The In-work Tax Credit is a work incentive payment

7. The In-work Tax Credit is the key instrument intended to "make work pay" within the context of the Working for Families package. It supports working parents to take up and stay in employment, by providing a boost to the earned income of low- and middle- income families to help ensure that they are better off in work than

[1] The Family Tax Credit is the main payment received by both beneficiary and non-beneficiary families.
[2] The Best Start Tax Credit provides $69 per week to all families with a child under one year old, and for lower income families with a child under 3.
[3] The percent by which a dollar increase in gross income is reduced by taxes and the abatement of social security assistance.
[4] The Minimum Family Tax Credit tops up incomes of working families and guarantees a minimum income level for those working at least 20 hours per week in low-paying jobs and who do not receive a main benefit.

they are on a benefit. The payment is income tested, and the abatement rate is 27%.

8. As well as increasing families' financial incentives to move off-benefit and into employment, the In-work Tax Credit, alongside the Family Tax Credit, contributes to reducing child poverty by increasing the incomes of low-income working families.

9. The In-work Tax Credit is paid at a maximum rate of $3,770 per year ($72.50 per week) for a family of up to three children, with an additional $780 each year ($15 per week) for each subsequent child. For instance, a family with four children would receive up to $4,550 per year ($87.50 per week) and a family with seven children would receive up to $6,890 per year ($132.50 per week).

10. Unlike the CPI indexation of Family Tax Credit and Best Start Tax Credit, which is prescribed by law, there are no requirements to automatically increase the rate of the In-work Tax Credit over time. The In-work Tax Credit was last increased in Budget 2015, from $60 a week to $72.50 a week (from 1 April 2016), as part of the Child Material Hardship package.

11. The In-work Tax Credit has helped increase incomes amongst low- and middle-income working households, however the real value of the support has diminished overtime. Over previous decades, in-work incomes have increased by significantly more than benefit incomes due to wage growth exceeding the rate of income support over an extended period. The In-work Tax Credit overtime has become less important to the decision to work compared to wages. The value of the In-work Tax Credit in relation to the minimum wage has decreased from 10.7% to 7.7% since 2016.

12. Increasing the In-work Tax Credit by $25 will increase the gap between being in and out of work. This increase will provide a greater work incentive and improve the effectiveness of the In-work tax Credit.

13. Further advice on the In-work Tax Credit and replacement ratios is provided in Appendix 1 and 2.

The In-work Tax Credit can be increased on 1 July 2024, but this timing has impacts on Inland Revenue and recipients

14. It is proposed that the In-work Tax Credit is increased by $25 a week (from $72.50 to $97.50), from 1 July 2024 as part of the Tax Plan. In the 2026 tax year, this will benefit approximately 160,000 families who currently receive the tax credit.[5] They will benefit by $16.97 per week on average, considering their entitlement is subject to abatement.

15. The increase to the In-work Tax Credit will mean more families are entitled to Working for Families (approximately 9,200 families). Any increase to the rate means that the tail of abatement is extended up the income distribution. Some of these families will no longer be eligible for the Independent Earner Tax Credit, due to the payments being mutually exclusive.[6] This can result in these families being worse off.

16. We understand that you would like to progress this change through Budget 2024 and include it in Budget night legislation. While this is possible, it will mean that out-of-cycle notices of entitlements will need to be sent to families. This could cause confusion for these families, who had already received notices in February, and lead to an increased workload for Inland Revenue. An increased number of recipients

[5] This figure is taken from the number of Working for Families claims with non-zero entitlement.
[6] An individual is only eligible for the Independent Earner Tax Credit if they are not first eligible for Working for Families tax credits.

contacting Inland Revenue will coincide with our busy time in which we issue individual income tax assessments.

17. We will need to undertake a lot of preparatory work before Budget 2024 announcements. This includes issuing communications and guidance material, as well as updating our website. Cabinet decisions in relation to this change are recommended for March 2024, to allow this work to begin early.

18. The implementation of the In-work Tax Credit can align with the personal income tax changes, which could come into force on 1 October 2024. Similar operational constraints will also apply for a 1 October 2024 delivery date.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv)

[redacted]

Further work on Working for Families

The Working for Families abatement threshold

37. As part of the coalition agreements, there is no commitment to income tax changes, including threshold adjustments, beyond those to be delivered in 2024. We understand this includes increasing the Working for Families abatement threshold from $42,700 (before tax) to $50,000 (before tax) which was proposed in the Tax Plan.

38. While changes to the Working for Families threshold are not proposed in this paper, officials strongly recommend it is considered in the near term. The most pressing issue is the potential for the Minimum Family Tax Credit threshold to exceed the Working for Families abatement threshold in April 2027 or 2028. In addition, the full-time minimum wage worker is already above the Working for Families abatement threshold ($48,284 from 1 April 2024).

39. Unless you request it sooner, we intend to provide further advice on this issue after the Budget.

---

[8] The 107% effective marginal tax rate would be possible if a family receives an abated amount of In-work Tax Credit (27%), Best Start Tax Credit (21%), Accommodation Supplement (25%), ACC levy (1.4%), and their marginal tax rate (33%). This does not include any student loan repayment. To understand how many people could be facing such a high rate of income abatement, further modelling is required.

The requirement to review the In-work Tax Credit

40. Under the Income Tax Act 2007 the Minister of Revenue, in consultation with the Minister for Social Development and Employment, must undertake a review into the amount of the In-work Tax Credit every three years. The legislative review requirement is only in relation to the amount of the tax credit, not the eligibility rules or the overall effectiveness of tax credits. As part of the Working for Families Review requested by previous Ministers, analysis on the In-work Tax Credit was undertaken. We believe this requirement for the legislative review has been met and will seek your agreement once decisions on Budget have been taken.

Administrative impacts

Inland Revenue impacts

41. To increase the base rate of In-work Tax Credit from 1 July 2024, changes will need to be implemented in Inland Revenue's START system[9] prior to this date. This allows Inland Revenue time to issue a notice of entitlement to recipients. If this does not occur by 1 June 2024, there will be several administration costs for delayed receipt of Working for Families which involves additional costs relating to system development, print and post, and administration of additional recipients contacting Inland Revenue.

42. Approximately 160,000 families will receive a higher entitlement, through the increase to the In-work Tax Credit. This group traditionally has a high contact rate with Inland Revenue due to their reliance on Working for Families support. They also seek more reassurance in getting that support. From our experience, changes to traditional timelines or changes in entitlement will cause increased concern or confusion, resulting in high levels of people contacting Inland Revenue.

43. We will seek administrative funding if this is progressed as part of the Budget process.

Impact on families

44. In-work Tax Credit recipients who also receive on-going financial assistance from the Ministry of Social Development will be required to update the Ministry of Social Development as part of meeting their obligation to advise of a change in circumstances that may affect their entitlement, including the rate payable. Impacted assistance includes Temporary Additional Support and Community Services Card.

45. For In-work Tax Credit recipients also receiving Temporary Additional Support, it is likely that for some their Temporary Additional Support will reduce as a result of the additional income they are receiving from the In-work Tax Credit. Because Temporary Additional Support is designed to decrease as people receive more income, this is an intended flow-on from the In-work Tax Credit increase. There may be a small number of non-beneficiaries who completely lose their Temporary Additional Support because their overall income deficiency will be reduced to less than $1. It is not expected that anyone currently eligible for the Community Services Card will lose eligibility due to the $25 In-work Tax Credit increase.

[9] This is Inland Revenue's computer system and stands for Simplified Tax and Revenue Technology. It was progressively implemented at Inland Revenue during its Business Transformation process.

s 9(2)(f)(iv)

[redacted]

Costings

50. The In-work Tax Credit costings in this report, and that were submitted for the Budget process, have a 1 July application date. A 1 October 2024 application date would reduce the cost in the 2024/25 year by one quarter.

Increase to the In-work Tax Credit

51. The $25 increase to the In-work Tax Credit that is estimated to have the following fiscal costs:[10]

	$m – increase/(decrease)			
Vote Revenue Minister of Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**
In-work Tax Credit Impairment of debt and debt write-offs	159 2	157 2	152 2	144 2
Total change in operating balance	161	159	154	146

52. The impairment rate represents the amount of Working for Families debt that has been generated because of the overpayment of an entitlement.

53. The scaled option, increasing the In-work Tax Credit by $15, is estimated to have the following fiscal cost:

[10] This is measured against the status quo, including the regular CPI indexation to Working for Families and an assumed increase in the Minimum Family Tax Credit threshold.

	$m – increase/(decrease)			
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
In-work Tax Credit Impairment of debt and write offs	94 2	93 1	89 1	86 1
Total change in operating balance	96	94	90	87

s 9(2)(f)(iv)

[redacted]

Consultation

56. The Treasury, Ministry of Social Development, and Department of Prime Minister and Cabinet were consulted on this paper.

Next steps

57. Following the preferred option being indicated, we will report on the cumulative impacts of Budget 2024 revenue initiatives.

58. We will report to you on the consequential amendments required for the Minimum Family tax Credit.

Appendix 1: Replacement ratios have not remained stable in recent years

1. A fundamental purpose of the In-work Tax Credit, as stated in the supporting policy paper to joint Ministers at the time it was introduced was "to improve replacement ratios, i.e., the gap between income on benefit and income when in work".[11] The relevant consideration for setting the level of In-work Tax Credit is therefore the existing "gap" between benefit levels and wages for low- and middle-income families, and how the size of the gap has moved.

2. The table below compares the incomes a coupled family and a sole-parent family could receive each working 40 hours at the minimum wage with the incomes they would receive if they did not work and were on a main benefit. The percentage of their income at 20 hours of work that would be "replaced" if they went on a main benefit is the "replacement ratio".

Replacement ratios: Sole parent and coupled family working 40 hours at minimum wage versus on benefit						
Year (applying from 1 April)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Family net income: 40 hours at minimum wage + Family Tax Credit + In-work Tax Credit	$733.71	$777.66	$816.52	$852.15	$898.46	$940.05
In-work Tax Credit as a % of family net income	9.8%	9.3%	8.9%	8.5%	8.1%	7.7%
Rate of replacement: Coupled Job Seeker Support + Family Tax Credit + Winter Energy Payment	68.9%	66.5%	67.9%	70.1%	78.6%	80.5%
Rate of replacement: Sole Parent Support + Family Tax Credit + Winter Energy Payment	62.0%	59.9%	61.4%	62.1%	64.7%	66.3%

3. These replacement ratios observe a direct transition between full-time work and receipt of a main benefit for families in a specific scenario. In reality, employment decisions are more fluid than being directly in or out of work, and there are a range of factors that contribute to these decisions beyond the marginal dollar return.

4. Decisions made on benefit rates have a direct impact on replacement ratios and are made independently of increases to the minimum wage. Changes made by the previous Government such as indexing main benefits to wage growth, and regular across the board increases to main benefits,[12] have increased the level of income a family can receive while on benefit. The full time minimum wage now sits above the Working for Families abatement threshold ($42,700), and low-income working families will have some of their Family Tax Credit abated in addition to their personal tax deductions. While work pays more than benefit, as the proportional returns to work have fallen over the previous three years the In-work Tax Credit could be increased in response.

[11] "Future Directions: Regular Adjustments of Family Income Assistance" on 19 March 2004.
[12] $25 per week increase to main benefits from 1 April 2020; $20 increase to main benefits from 1 July 2021; and $15 per week increase to main benefits from 1 April 2022.

Appendix 2: Replacement ratio

	Year (1 April – 31 March)	Net weekly wages – 40 hours @ minimum wages	Family Tax Credit entitlement[13]	In-Work Tax Credit entitlement	Total net weekly income – 40 hours @ minimum wage	Total net weekly income from Benefit[14] + Family Tax Credit + Winter Energy Payment[15]	Replacement ratio	In-Work Tax Credit as % of net income – 40 hours @ minimum wage
Sole parent working 40 hours per week at minimum wage	2018	$553.25	$107.96	$72.50	$733.71	$454.79	62.0%	9.8%
	2019	$592.12	$113.04	$72.50	$777.66	$465.99	59.9%	9.3%
	2020	$630.98	$113.04	$72.50	$816.52	$501.47	61.4%	8.9%
	2021	$666.61	$113.04	$72.50	$852.15	$528.82	62.1%	8.5%
	2022	$705.48	$127.73	$72.50	$898.46	$581.95	64.7%	8.1%
	2023	$754.06	$136.94	$72.50	$940.05	$622.99	66.3%	7.7%
Coupled family working 40 hours per week at minimum wage	2018	$553.25	$107.96	$72.50	$733.71	$505.24	68.9%	9.8%
	2019	$592.12	$113.04	$72.50	$777.66	$517.29	66.5%	9.3%
	2020	$630.98	$113.04	$72.50	$816.52	$554.36	67.9%	8.9%
	2021	$666.61	$113.04	$72.50	$852.15	$597.57	70.1%	8.5%
	2022	$705.48	$127.73	$72.50	$898.46	$706.99	78.6%	8.1%
	2023	$754.06	$136.94	$72.50	$940.05	$757.06	80.5%	7.7%

[13] The Family Tax Credit was increased on 1 July 2018, to account for this change the rate of Family Tax Credit has been averaged across the 2018 year.
[14] Main benefits were increased on 1 July 2021, to account for this change the rate of Sole Parent Support and Jobseeker Support for couples have been averaged across the 2021 year.
[15] The Winter Energy Payment was introduced on 1 July 2018 and therefore only applies here for the 2019 and 2020 years. The Winter Energy Payment is only available between 1 May – October but has been averaged across a full year for the sake of this analysis. The rate of Winter Energy Payment was temporarily doubled for the 2020 year in response to COVID-19. Because this change is temporary and would only marginally affect the results above, the standard rate of Winter Energy Payment has been used for determining replacement ratios for the 2020 year.

Due to the complex array of variables that can affect a family's level of income, these figures should be taken as provisional, and there are some important caveats to the replacement ratios above.

- The example families above are assumed to have one child. Families with subsequent children receive higher amounts of Family Tax Credit and families with 4 or more children also receive a higher rate of In-work Tax Credit. Adjusting for these varying rates adds some variance to the relevant replacement ratios but does not materially change the analysis.

- There are several other factors that can affect a family's income level both on benefit or in employment, such as child support payments, Temporary Additional Support, childcare assistance and the Accommodation Supplement. Due to complex criteria that dictate these additional factors, it was not feasible to model them in the above analysis.

- With increases to the minimum wage boosting the incomes of families in employment, entitlements to some in-work supports such as Accommodation Supplement and childcare assistance will reduce as earnings from wages are counted as income for supplementary assistance. This may affect replacement ratios over time as the returns to employment may be lower than otherwise as fewer working families are eligible for assistance or are eligible for a lower (abated) rate of assistance.

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv)

Document 16

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Consequential amendments to the Minimum Family Tax Credit following Budget decisions**

Date:	4 April 2024	**Priority:**	Medium
Security level:	Sensitive	**Report number:**	IR2024/119

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Note** the contents of this report **Refer** to the Minister for Social Development and Employment and Minister for Child Poverty Reduction	11 April 2024
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report **Refer** to the Minister for Social Development and Employment and Minister for Child Poverty Reduction	11 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Samantha Aldridge	Acting Policy Lead	s 9(2)(a)
Richard McLaughlan	Senior Policy Advisor	

4 April 2024

Minister of Finance
Minister of Revenue

Consequential amendment to the Minimum Family Tax Credit following Budget decisions

Executive Summary

1. This report seeks your decision on a consequential amendment required for the Minimum Family Tax Credit following Budget decisions. It also seeks agreement that a statutory requirement to review the In-work Tax Credit rate has been fulfilled by the proposed $25 increase.

2. Proposed changes to the personal income tax changes and the increase to the In-work Tax Credit, have consequential impacts on the Minimum Family Tax Credit. These proposals impact the net income of a Minimum Family Tax Credit recipient and influence the level of Minimum Family Tax Credit entitlement required to ensure, that at the margin, low income working families remain better off financially in full-time work than on benefit. We have considered the collective impacts of the proposals (for both the increase to the In-work Tax Credit and personal income tax changes) on Minimum Family Tax Credit recipients in this report.

3. Ministers will need to decide whether Minimum Family Tax Credit recipients gain from the In-work Tax Credit increase (option one), or not (that is, the Minimum Family Tax Credit threshold is decreased in line with the increase to the In-work Tax Credit (option two)). There is also a variation of option two which results in no Minimum Family Tax Credit recipients being made worse off (option three).

4. There are trade-offs to each option. Option one favours income adequacy and incentives to move off-benefit at the margin, whereas options two and three favour incentives to increase work hours and results in a reduction to the cost for the In-Work Tax Credit increase. Options two and three also help to address some upcoming issues with the Minimum Family Tax Credit, in particular the overlapping abatement with the Working for Families abatement threshold.

5. The consequential impacts of the personal income tax changes are very minor for Minimum Family Tax Credit recipients (the changes approximately increase incomes by $2 per week). We recommend that the tax cuts flow through under each option.

Background

The Minimum Family Tax Credit

6. The Minimum Family Tax Credit is one of the four Working for Families tax credits and is administered by Inland Revenue. The Minimum Family Tax Credit provides a financial incentive to ensure, at the margin, low income working families remain better off financially in work than they would be on a main benefit.[1] Approximately 3200 families receive the Minimum Family Tax Credit currently.

[1] A key feature of the Minimum Family Tax Credit is the work hours test. "Full time" is defined as 20 hours or more per week for a sole parent and 30 hours a week or more combined for a two-parent family.

7. Where a person qualifies for the Minimum Family Tax Credit, they will receive the payment increasing their income up to a guaranteed amount. This effectively creates a guaranteed income for working (and off-benefit) families. For the tax year beginning 1 April 2024, the Minimum Family Tax Credit threshold is $35,204 (after tax), or $677 per week (after tax).[2]

8. The Minimum Family Tax Credit abates at 100%. This means that for every extra dollar a family earns, where the income is below the guaranteed minimum amount, their entitlement reduces by one dollar.[3] Accordingly, the Minimum Family Tax Credit "makes work pay" at the minimum hours required to qualify for the credit, and the 100% abatement rate is a strong disincentive for families to work more than that. Currently, a sole parent beneficiary earning minimum wage would need to work 35 hours to overcome the 100% effective marginal tax rate[4] of the credit (i.e., they would not see an increase in take home income if they work between 20 and 35 hours per week).

How the Minimum Family Tax Credit threshold is calculated

9. The way the Minimum Family Tax Credit threshold is calculated is not set by legislation and has changed over the last few years. In April 2021, Cabinet changed the calculation as part of a series of changes to benefit settings and Working for Families rates to balance fiscal cost, financial incentives to work, and the cost of options being considered through the Working for Families Review. For example, the threshold calculation now reflects that the Winter Energy Payment is available to benefit recipients for part of the year. The current method ensures sole parents are better off working and receiving the Minimum Family Tax Credit than they would be receiving a benefit on an annual basis [CAB-21-MIN-0116.33 refers].

10. The exact calculation for the Minimum Family Tax Credit is complicated, and this paper will not attempt to fully cover it. For the tax credit system to work with the benefit system as intended, the Minimum Family Tax Credit threshold considers a range of factors such as the rate of personal income taxes, main benefits, other Working for Families tax credits, and the minimum wage to ensure that a person's:[5]

After tax earnings from employment + In-Work Tax Credit + Family Tax Credit + Minimum Family Tax Credit	is at least $1 more than	After tax earnings from employment whilst still on benefit + net income from an abated benefit + Family Tax Credit + Winter Energy Payment

11. The amounts of the Working for Families tax credits affect the calculation of the Minimum Family Tax Credit threshold. Accordingly, the proposed $25 increase to the In-Work Tax Credit will have flow on impacts for the Minimum Family Tax Credit threshold. Together, these two work incentive payments top up a person's after-tax earnings to ensure that an individual is financially better off in work without a main benefit. Any increase to the In-Work Tax Credit effectively means less of a 'top-up' is required, and technically, the Minimum Family Tax Credit threshold should decrease.

12. The proposed personal income tax cuts will also influence the Minimum Family Tax Credit calculation. Following this change, after tax earnings from employment will

[2] That is $41,483 (before tax), or $797 per week (before tax).
[3] Until the point at which the family's earnings exceed the guaranteed minimum income level and Minimum Family Tax Credit entitlement would be nil.
[4] Effective marginal tax rates show the percent by which a dollar increase in gross income is reduced by taxes and the abatement of social security assistance.

increase for both those on and off-benefit. This will subsequently increase the Minimum Family Tax Credit threshold.

13. The impacts from the In-Work Tax Credit increase and personal income tax changes have opposite effects on the Minimum Family Tax Credit threshold. However, the personal tax cuts will not fully offset the impacts from the In-Work Tax Credit increase. For ease, we present options to address both issues collectively, and have assumed that the personal income tax changes flow through under each option.

Options to address the effect of proposals on the Minimum Family Tax Credit

14. There are three options identified below. Option one would ensure Minimum Family Tax Credit recipients gain from the In-work Tax Credit increase. Option two would provide that the Minimum Family Tax Credit threshold is decreased in line with the increase to the In-work Tax Credit. Option three is a variation of option two, which results in no Minimum Family Tax Credit recipients being made worse off. Other variations to these are possible.

Systemic issues to be mindful of in assessing options

15. Decreasing the Minimum Family Tax Credit threshold strictly according to the calculation could mean that some working families would receive less income per week relative to the status quo. This raises issues as the Minimum Family Tax Credit is a "guaranteed minimum income", and some of the lowest income working families receive the tax credit. In addition to an option allowing MFTC recipients to gain from the proposed changes, we present two options, which address other benefits which are identified below.

16. These other benefits include addressing longer term issues associated with the Minimum Family Tax Credit, namely:

    16.1 *The impending overlap of the Minimum Family Tax Credit threshold and the Working for Families abatement threshold* – The Minimum Family Tax Credit threshold increases alongside benefit rates, which typically increase annually with changes to the Consumers Price Index. However, the Working for Families abatement threshold is not routinely adjusted and is currently set at $42,700 (it was last increased in 2018). It is forecast that in 2027 the Minimum Family Tax Credit threshold will overlap with the Working for Families abatement threshold. This will mean that Working for Families customers will face effective marginal tax rates of well over 100%, and the intended purposes of the individual Working for Families tax credits will be inconsistent. With no other changes, decisions will be required by Budget 2026 to increase the Working for Families abatement threshold to address this overlap. Preliminary modelling suggests that increasing the threshold to $50,000 could cost approximately $260 million p.a. Inland Revenue officials prefer options which allow you more time to consider how to mitigate this issue;

    16.2 *The earnings range over which the 100% abatement rate applies, which reduces financial incentives to work longer hours* – A key issue with the Minimum Family Tax Credit is the negative work incentive due to its 100% abatement rate. The dollar-for-dollar abatement creates a poverty trap for recipients where they are no better off from working additional hours until wages exceed the Minimum Family Tax Credit threshold and they no longer qualify; and

    16.3 *The exacerbation of the administrative difficulties resulting from the Minimum Family Tax Credit* – The Minimum Family Tax Credit has strict eligibility criteria that requires recipients to work a minimum number of hours and to accurately estimate their income. This often leads to under- or overpayments, the latter of which can lead to debt accumulation. The larger the 100% abatement range, the more customers who are at risk of this.

Option one – allow Minimum Family Tax Credit recipients to gain from the In-work Tax Credit increase and personal income tax cuts

17. Under option one, the Minimum Family Tax Credit threshold would increase marginally (by $104) following the increase to the In-Work Tax Credit and personal income tax changes on 31 July 2024. This would ensure that Minimum Family Tax Credit recipients also receive the In-Work Tax Credit increase and benefit from the personal income tax changes, which will support income adequacy and child poverty reduction. The child poverty impacts are not currently known and would need to be modelled by TAWA. It would further increase the incentive for beneficiaries to move off benefit and to take up and stay in employment particularly at 20 hours per week.

18. However, this will continue to maintain the large earnings range over which the 100% abatement rate applies for the Minimum Family Tax Credit currently. As described above, Minimum Family Tax Credit recipients are subject to significant effective marginal tax rates,[6] particularly between 20 and 35 hours of work. Accordingly, this option continues to decrease incentives to work more hours.

19. This option inflates the "guaranteed minimum income" as it is a departure from the existing calculation for the Minimum Family Tax Credit threshold that has been operating. This option would ensure that the Minimum Family Tax Credit threshold is set between $25 and $26 (rather than $1) above the after tax earnings from employment whilst still on benefit. With this option, future recommendations for the Minimum Family Tax Credit threshold on 1 April 2025 and beyond would require similar decisions.

20. This option would speed up the impending cross-over of the Minimum Family Tax Credit threshold and the Working for Families abatement threshold, or the administrative issues of inaccurate payments for these recipients.

21. This option has a fiscal cost of approximately $0.2 million per annum. This is a result of letting Minimum Family Tax Credit recipients benefit from the personal income tax changes.

22. On balance, Inland Revenue officials do not recommend this option. The Ministry of Social Development and the Child Wellbeing and Poverty Reduction Group in the Department of the Prime Minister and Cabinet support option one and their views on the options in this paper are set out in paragraphs 39 and 40 below.

Example: Mary is a sole parent, who works more than 20 hours on the minimum wage, and is in receipt of the Minimum Family Tax Credit, In-work Tax Credit and the Family Tax Credit. Her disposable income is currently $991 per week. After 31 July 2024 her income is now $1,018 per week. This is $27 more per week than under current settings.

Option two – decrease the Minimum Family Tax Credit threshold so that Minimum Family Tax Credit recipients will be worse off from the In-work Tax Credit increase

23. Under option two, the Minimum Family Tax Credit threshold would decrease by approximately $27 dollars per week when the increase to the In-Work Tax Credit is

[6] Effective marginal tax rates show the percent by which a dollar increase in gross income is reduced by taxes and the abatement of social security assistance.

introduced.[7] The decrease to the threshold would be approximately $1,404 per annum after tax. The Minimum Family Tax Credit threshold would then be readjusted with the next benefit increase as per the usual process on 1 April 2025.

24. Lowering the Minimum Family Tax Credit threshold serves its original purpose by maintaining the take home income of going off-benefit (strict calculation method). The advantage of this approach is that this will reduce the urgency of addressing the Minimum Family Tax Credit/Working for Families abatement threshold cross over, and reduce the earnings range over which the 100% abatement rate would apply (reduction of one and half hours at minimum wage), increasing the incentive to work longer hours.

25. This option will result in a reduction of $2.9 million per year for the In-work Tax Credit costing. This could lower the cost of the overall tax package.

26. The disadvantage with this option is that recipients of the Minimum Family Tax Credit may be worse off financially than option one, despite this being the intent of the benefit-tax credit interface. If a family is working less than 33 hours per week, they are likely to experience a reduction in disposable income of up to $104 per annum from reducing the Minimum Family Tax Credit guaranteed amount.

27. Although these Minimum Family Tax Credit recipients will not receive the $25 per week In-Work Tax Credit increase, it maintains the policy intent of the Minimum Family Tax Credit by keeping it in line with the benefit rates and helps improve work incentives.

Continuing the example:
Mary is a sole parent, who works more than 20 hours on the minimum wage, and is in receipt of the Minimum Family Tax Credit, In-work Tax Credit and the Family Tax Credit. Her disposable income is currently $991 per week. After 31 July 2024 her income is now $989 per week. This is $2 less per week than under current settings.

Option three – decrease the Minimum Family Tax Credit threshold so that Minimum Family Tax Credit recipients are neither better nor worse off from the proposed changes (Inland Revenue recommends)

28. Under option three, the Minimum Family Tax Credit threshold would decrease by $23 dollars per week when the increase to the In-Work Tax Credit is introduced. The Minimum Family Tax Credit threshold can be reduced in such a way that a family does not benefit from the In-Work Tax Credit change and are not made worse off. The Minimum Family Tax Credit threshold would then be readjusted with the next benefit increase as per the usual process on 1 April 2025.

29. This option ensures that there are no losers from the reduction of the Minimum Family Tax Credit threshold. It is a neutral change and can be considered a compromise between options one and two.

30. This option would also mitigate the impact of the impending cross-over of the Minimum Family Tax Credit threshold and the Working for Families abatement threshold, and the administrative issues of inaccurate payments to these recipients. However, this would not be to the same extent of option two.

31. This option will result in a reduction of $2.5 million per year for the In-work Tax Credit costing. This could lower the cost of the overall tax package.

[7] This decrease is more than $25 dollars due to the abatement of main benefits.

32. This option is a departure from the existing calculation to the Minimum Family Tax Credit threshold that has been operating, as it would ensure that the threshold is set at a rate greater than $1 above the after tax earnings from employment whilst still on benefit. Future changes to the Minimum Family Tax Credit threshold will need to consider whether to retain this departure. Generally, any point at which the threshold is set above the calculated amount (refer option two) can be considered arbitrary and not in line with the intended design of the benefits and tax credits system (e.g., option one which allows MFTC recipients to gain from the proposed changes). However, we consider with option three, such a departure is small while still offering improvements to the work incentives of the payment and not leaving any Minimum Family Tax Credit recipients worse off.

> *Continuing the example*:
> Mary is a sole parent, who works more than 20 hours on the minimum wage, and is in receipt of the Minimum Family Tax Credit, In-work Tax Credit and the Family Tax Credit. Her disposable income is currently $991 per week. After 31 July 2024 her income is now $991 per week. Her income does not change.

Requirement for the In-work Tax Credit review

33. There is a statutory requirement that the Minister of Revenue, in consultation with the Minister for Social Development, conduct a review of the In-Work Tax Credit every three years.

34. The most recent review of the In-Work Tax Credit was required to be undertaken by 30 June 2023. Officials consider that the statutory requirement has been fulfilled by work that was undertaken for the previous Government during the Working for Families review, and the decision of this Government to increase the rate in Budget 2024.[8] As such, we ask Ministers to agree that the next review of the In-Work Tax Credit be undertaken by 30 June 2026.

Discussion

Impact for Inland Revenue

35. If Ministers select any of these options, it could be included in Budget night legislation and apply from the same time as the Personal Income Tax and In-Work Tax Credit Budget 2024 changes. We understand this is likely to be on 31 July 2024, and the costings are based on this implementation date.

36. These changes will require Inland Revenue to send second notices of entitlement to affected customers. Making changes at the same time is preferable as it will create less confusion for customers.

37. This will require some administrative work for Inland Revenue as, due to the vulnerability of the Minimum Family Tax Credit customer base, Inland Revenue need to inform customers of any significant Minimum Family Tax Credit changes. We would expect significant customer contact from this.

Consultation

38. The Treasury, Ministry of Social Development (MSD), and the Child Wellbeing and Poverty Reduction Group (CWPRG) in the Department of the Prime Minister and Cabinet were consulted.

[8] This investigated how to help make work pay and assist with the costs for people in work.

39. MSD and CWPRG received an earlier partial draft of the paper for review. MSD and CWPRG support Option One as it better supports income adequacy for the lowest income working families and child poverty reduction and is consistent with the Government's intention to provide low income families with increased financial support for cost of living pressures. Out of the options, it provides the greatest financial incentives for main benefit recipients to exit benefit and enter work, and best supports the Government's priority to make work pay.

40. MSD and CWPRG do not support Option Two as it will reduce income adequacy for a group of Minimum Family Tax Credit recipients who are the lowest income working families and overwhelmingly sole parents.

41. In MSD and CWPRG's view, the incentives created by Option One for people to exit benefit and enter work, and the additional financial support for low-income working families, should not be traded off against a slight reduction in an existing disincentive for people to increase their hours of work provided by Options Two and Three.

Next steps

42. The next steps are as follows:

    42.1 Decisions made in this report will be used to inform updated costings for the In-work Tax Credit increase;

    42.2 Following decisions on the In-work Tax Credit increase, these changes will be included in the same Budget 2024 Cabinet paper; and

    42.3 Draft legislation will be prepared to reflect the decisions made.

43. Regardless of decisions made in this report, the Minimum Family Tax Credit threshold will need to be revisited at the end of this year, prior to MSD undertaking its next Annual General Adjustment process for the income year beginning 1 April 2025.

44. Officials propose providing further advice on the functionality of the Minimum Family Tax Credit, particularly the impending overlap with the Working for Families abatement threshold, later in 2024. Officials' view is that there remains a need to provide a payment to low-income working families in recognition that people should expect to see a return from working an additional hour. The Minimum Family Tax Credit in its current form does not meet this criterion and some individuals would be better off staying on a benefit.

Recommended action

We recommend that you:

45. **agree** to either:

    45.1 Option one – increase the Minimum Family Tax Credit threshold to allow recipients to benefit from the In-Work Tax Credit increase (plus $104); OR

    Agreed/Not agreed Agreed/Not agreed

    45.2 Option two – reduce the Minimum Family Tax Credit threshold in line with the In-work Tax Credit increase (minus $1404); OR

    Agreed/Not agreed Agreed/Not agreed

45.3 Option three – (*Inland Revenue preferred*) reduce the Minimum Family Tax Credit so that recipients do not benefit from the In-work Tax Credit increase but are not worse off (minus $1196);

Agreed/Not agreed Agreed/Not agreed

46. **note** that option one has a fiscal cost of approximately $0.2 million per annum,

Noted Noted

47. **note** that option two and option three result in a reduction of $2.9 million per annum or $2.5 million per annum respectively that is not currently reflected in the In-work Tax Credit costing,

Noted Noted

48. **note** that officials will report on more structural issues with Minimum Family Tax Credit;

Noted Noted

49. **agree** that the statutory requirement to review the In-work Tax Credit every three years is satisfied for 2023 and that the next review will occur prior to 30 June 2026;

Agreed/Not agreed Agreed/Not agreed

50. **refer** a copy of this report to the Minister for Social Development and Employment and the Minister for Child Poverty Reduction;

Referred/Not referred Referred/Not referred

s 9(2)(a)

Samantha Aldridge
Acting Policy Lead
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2024

Hon Simon Watts
Minister of Revenue
/ /2024

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Briefing note

Reference:	BN2024/164
Date:	10 April 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Richard McLaughlan
Subject:	Relationship between the Minimum Family Tax Credit threshold and Working for Families abatement threshold

Purpose

1. Following our meeting with the Minister of Revenue on 10 April, he asked for further information on the relationship between the Minimum Family Tax Credit threshold and the Working for Families abatement threshold. In particular, the timing of relevant decision making.

2. This briefing note clarifies information provided to Ministers on 4 April relating to consequential amendments to the Minimum Family Tax Credit threshold following Budget decisions [IR2024/119 refers].

Background

3. Working for Families is a series of tax credits that are intended to help with the costs of raising a family.[1] Total expenditure on Working for Families tax credits was $2.8 billion for the 2022 income year. Working for Families tax credits are made up of the following:

   - *Family Tax Credit* – the main payment received by both beneficiary and non-beneficiary families and is not dependent on work status;
   - *In-work Tax Credit* – the main in-work payment for families who do not receive a benefit;
   - *Best Start Tax Credit* – a payment providing $73 per week to all families with a child under one year old, and for lower income families with a child under 3; and
   - *Minimum Family Tax Credit* – a payment topping up incomes of low-income working families who do not receive a benefit.

[1] Around 56% of all families (342,000) receive Working for Families as of the 2022 income year.

Minimum Family Tax Credit threshold

4. The Minimum Family Tax Credit is intended to "make work pay" by providing a financial incentive to ensure, at the margin, low income working families remain better off financially in full time work than they would be on a main benefit. Approximately 3,200 families receive the Minimum Family Tax Credit.

5. Where a person receives the Minimum Family Tax Credit, they will receive a payment increasing their income up to a guaranteed amount. This effectively creates a guaranteed income for working (and off-benefit) families. For the tax year beginning 1 April 2024, the Minimum Family Tax Credit threshold is $35,204 (after tax), or $41,483 (before tax).

6. The Minimum Family Tax Credit abates at 100%. This means for every additional dollar a family earns, where the income is below the guaranteed amount, their entitlement reduces by one dollar. Accordingly, the Minimum Family Tax Credit "makes work pay" at the minimum hours required to qualify for the credit, and the 100% abatement rate is a strong disincentive to work more hours past that.

7. The exact calculation for the Minimum Family Tax Credit threshold is complicated. However, it is broadly set at a point where someone is $1 dollar better off working and receiving the Minimum Family Tax Credit than they would be on a main benefit and not receiving the Minimum Family Tax Credit.

Working for Families Tax Credit abatement threshold

8. The Working for Families abatement threshold is the point at which the Family Tax Credit and In-work Tax Credit entitlements start to reduce at 27%. It effectively sets a level at which incomes are determined to be too high for full Working for Families entitlements.

9. The Working for Families abatement threshold is currently set at $42,700 (before tax) and is not periodically adjusted.[2] The last time the Working for Families abatement threshold increased was on 1 July 2018 when it increased from $36,350 to the current threshold as part of the Families Package.[3] Overall, its value in real terms has decreased by 15% since 2018.

10. The Working for Families system has become progressively more targeted to those on lower incomes, as abatement rates have been increased and incomes have increased faster than the abatement thresholds. While abatement ensures money is generally well directed to those who need it more, the Working for Families abatement threshold now affects those on very low incomes – this includes families on the minimum wage and some of those on a benefit.[4] The additional income these beneficiaries receive from work would reduce both their benefit payment (intended outcome), and their family tax credit payment (unintended outcome).

11. There was a National Party manifesto commitment to increase the Working for Families abatement threshold from $42,700 (before tax) to $50,000 (before tax), from 1 April 2026. However, following coalition negotiations, this was removed from the tax package.

12. Preliminary modelling indicates that increasing the Working for Families abatement threshold to $50,000 would cost approximately $260 million per annum. This would benefit approximately 160,000 families, and not just those receiving the Minimum Family Tax Credit.

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[2] Although at introduction the WFF abatement threshold was indexed to increases in the CPI, this was removed in 2012.
[3] The abatement rate also increased from 22.5% to 25% at the time, and increased to 27% in April 2022.
[4] A person earning minimum wage at 40 hours per week would earn $48,152 per annum which is above the Working for Families abatement threshold.

Impending overlap between the two thresholds

13. As a matter of course, the Minimum Family Tax Credit threshold increases every year in line with benefit rates, whereas the Working for Families abatement threshold is not routinely adjusted.

14. This means that without an adjustment, the Minimum Family Tax Credit threshold is forecast to overlap with the Working for Families abatement threshold in April 2027. This will mean that Minimum Family Tax Credit recipients, who are some of the lowest income working families, will face effective marginal tax rates of well over 100%.[5] This would mean that increasing work hours would result in less income.

15. There is also a conflict of respective policy intents if this overlap were to occur. On the one hand, the Minimum Family Tax Credit threshold is a guaranteed minimum income for low income working families. On the other hand, the Working for Families abatement threshold is set at a level at which a family's income is deemed to be too high for full entitlement. When these overlap, we would effectively be paying with one hand (paying the Minimum Family Tax Credit amount) and taking away with the other (reducing their Working for Families amount).

16. In relation to the immediate decision required for Budget 2024, Inland Revenue officials favour options two and three (identified below) that delay this impending overlap. This provides Ministers more time to consider potential options for reform in the longer term.

Immediate Budget Decision

17. We have identified that proposed changes to personal income taxes and the $25 increase to the In-work Tax Credit, have consequential impacts to the Minimum Family Tax Credit threshold [IR2024/199 refers]. In summary, they impact the total disposable income of a Minimum Family Tax Credit recipient, and the level of Minimum Family Tax Credit entitlement required to ensure, that at the margin, low income working families remain better off financially in full-time work than on benefit.

18. The report we sent to Ministers presented options that consider both the personal income tax changes and the $25 increase to the In-work Tax Credit to Minimum Family Tax Credit recipients.

19. The relevant options are as follows:

- *Option one: Allow Minimum Family Tax Credit recipients to gain from both changes* – under this option, the Minimum Family Tax Credit threshold would increase marginally by $104 on 31 July 2024 (costs $0.2 million per annum).

- *Option two: Decrease the Minimum Family Tax Credit threshold in line with existing policy, so that Minimum Family Tax Credit recipients will be worse off* – under this option, the Minimum Family Tax Credit threshold would decrease by $1,404 on 31 July 2024 (decreases cost of the tax package by $2.9 million per annum).

- *Option three: Decrease the Minimum Family Tax Credit threshold so that Minimum Family Tax Credit recipients will be no better or worse off* – under this option, the Minimum Family Tax Credit threshold would decrease by

[5] Effective marginal tax rates are a measure of the total amount lost from marginal increases in earnings due to taxes, deductions, and social assistance abatements. So, an effective marginal tax rate of 100% means that $1 of the next $1 of income earned is lost to the person, and an individual is no better off working an additional hour.

$1,196 on 31 July 2024 (decreases the cost of the tax package by $2.5 million per annum).

20. Option two is presented because it follows existing and longstanding policy for calculating the Minimum Family Tax Credit threshold. Because it results in Minimum Family Tax Credit recipients receiving $2 less per week than under current settings, we provided two alternative options in the report.

21. Option one ensures that Minimum Family Tax Credit recipients receive the In-work Tax Credit increase and benefit from the personal income tax changes, which will support incomes and child poverty reduction. It would further increase the incentive for beneficiaries to move off benefit and take up and stay in employment at the margin. It is preferred by MSD and DPMC on an income adequacy basis.

22. However, Inland Revenue recommend option three on a work-incentive basis, and it does not result in Minimum Family Tax Credit recipients being worse off or better off. It reduces the urgency of addressing the impending overlap of abatement thresholds identified above. It also reduces the earnings range over which the current 100% abatement range applies, which increases the incentive to work longer hours.

23. Because option three deviates from the standard policy, setting the threshold becomes arbitrary. Ministers could choose any threshold within a certain range depending on how much Ministers would like the recipients to gain. See Appendix One of this briefing note.

Longer-term decision on overlap between the two thresholds

24. The options identified above can result in a different time at which the Minimum Family Tax Credit threshold will overlap with the Working for Families abatement threshold. This is illustrated in Appendix One.

25. Without decreasing the existing Minimum Family Tax Credit threshold, it is forecast to overlap the Working for Families abatement threshold in April 2027. This will require decisions to be made about whether to increase the Working for Families abatement threshold in Budget 2026.

26. If Ministers choose option two or three, this overlap could be delayed until Budget 2028. As noted above, this would allow more time to consider longer term reform options. Generally, any decisions that increase the Minimum Family Tax Credit threshold, the more urgent it becomes to address this overlap.

Further advice

27. Officials have proposed providing further advice on the functionality of the Minimum Family Tax Credit, particularly the impending overlap with the Working for Families abatement threshold, later in 2024 regardless of which option is chosen. Officials' view is that there remains a need to provide a payment to low income families in recognition that people should expect to see a return from working an additional hour.

28. These issues are being investigated as part of our Working for Families Stewardship Programme.

Consultation

29. The Ministry for Social Development and the Child Wellbeing and Poverty Reduction Group in the Department of the Prime Minister and Cabinet were informed of this briefing note.

Richard McLaughlan
Senior Policy Advisor
s 9(2)(a)

Appendix One – Timing of overlap between Minimum Family Tax Credit threshold and Working for Families abatement threshold

	Minimum Family Tax Credit threshold level	Impacts on MFTC recipients' income (compares 31 July 2024 to the week before)	Impact on Minimum Family Tax Credit/Working for Families abatement crossover
Working for Families abatement threshold	$42,700 (gross) *		
Option 1: pass through of In-work Tax Credit $25 increase and personal income tax changes	$35,308 (net), $41,500 (gross)	Minimum Family Tax Credit recipients would receive $27 pw more than the week before.	April 2027
No change to current Minimum Family Tax Credit threshold	$35,204 (net), $41,483 (gross)	Minimum Family Tax Credit recipients would receive $25 pw more than the week before (no passing through of personal income tax changes)	April 2027
	You can choose any arbitrary Minimum Family Tax Credit threshold in this range so that recipients are better off by some weekly amount. (e.g., $10 pw gain)		Timing depends on the amount
Option 3: (compromise) – some pass through of In-work Tax Credit $25 and tax cuts	$34,012 (net), $39,900 (gross)	Minimum Family Tax Credit recipients would receive the same income as the week before. (i.e., no better or worse off than before)	April 2029 or later
Option 2: (follows existing policy) no pass through of In-work Tax Credit $25 increase , but pass through of personal income tax changes	$33,800 (net), $39,600 (gross)	Minimum Family Tax Credit recipients would receive $2 pw less than the week before (The Minimum Family Tax Credit threshold drops by $27, but their In-Work tax Credit payment increases by $25)	April 2029 or later

** The overlap of the Minimum Family Tax Credit threshold and the Working for Families abatement threshold occurs when the gross amounts are the same.*

Inland Revenue
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Briefing note

Reference:	BN2024/170
Date:	11 April 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Maraina Hak
Subject:	**Cover note for MFTC report [IR2024/119 refers]**

Purpose

1. At the request of the Minister of Finance's office, this briefing note provides further clarification on the impending overlap of the Minimum Family Tax Credit threshold and the Working for Families tax credits abatement threshold. This issue is relevant to your decisions related to the Budget Tax Package [IR2024/119 refers]. Because this has fiscal impacts, we need Ministers' decisions urgently.

How the Minimum Family Tax Credit operates

2. The Minimum Family Tax Credit was designed to create a financial incentive for families to work and be off a benefit. It does this by ensuring that a family who works more than 20 hours per week will always be at least $1 better off than they would be on a benefit.

3. The Minimum Family Tax Credit operates as a guaranteed floor. This means that, unlike other Working for Families tax credits, such as the In-Work Tax Credit, the Minimum Family Tax Credit is not a fixed amount – instead, the amount varies to top-up the family's income (i.e. their net salary or wages, not including Working for Families tax credits) up to the "Minimum Family Tax Credit Threshold"/guaranteed floor.

4. The threshold is currently $35,204 after tax or $41,483 before tax. This is just above what they would receive if they were on benefit.

5. If the family's income increases, then their Minimum Family Tax Credit amount correspondingly decreases by the same amount until the Minimum Family Tax Credit Threshold of $35,204 is reached.

How the Minimum Family Tax Credit is set

6. The Minimum Family Tax Credit Threshold is tied to main benefits. It increases each year on 1 April. Families that receive the Minimum Family Tax Credit also receive the In-Work Tax Credit and the Family Tax Credit (as well as their net wages or salary). When the Minimum Family Tax Credit threshold is set each year, it takes

into account these other Working for Families tax credits payments they are likely to receive, as well as the main benefit rate.

How the Minimum Family Tax Credit is designed

7. Although only 3,200 families receive the Minimum Family Tax Credit, it is an important part of the tax and benefit system as it is a work incentive payment, and its specific purpose is to encourage people off the main benefit.

8. The Minimum Family Tax Credit threshold is based on a number of factors, including marginal tax rates, benefit abatement rates, and Working for Families tax credits entitlements. This calculation is longstanding and connects the benefit and tax credit systems together. Any changes that affect these settings will affect the Minimum Family Tax Credit Threshold calculation.

9. If progressed, the increase of the In-Work Tax Credit by $25 and the personal income tax reductions are automatically incorporated in the calculation of the new Minimum Family Tax Credit Threshold. Because the calculated threshold could have negative impacts on recipients which may not be desirable, Ministers have choices about where to set it.

Options

10. There are three options for addressing the Minimum Family Tax Credit threshold. Each option has different impacts on this group of 3,200 Minimum Family Tax Credit recipients in terms of income adequacy, work incentives, and fiscal cost:

    - Option one – Allow Minimum Family Tax Credit recipients to gain from both the In-Work Tax Credit increase and the personal income tax reductions (costs $0.2 million per annum);

    - Option two – Decrease the Minimum Family Tax Credit threshold in line with existing policy, so that Minimum Family Tax Credit recipients receive less than they would currently (reduces tax package by $2.9 million per year); and

    - Option three - Decrease the Minimum Family Tax Credit Threshold so that Minimum Family Tax Credit recipients will receive the same amount that they do currently (reduces tax package by $2.5 million per year).

11. Option two is presented because it follows <u>existing and longstanding</u> policy for calculating the Minimum Family Tax Credit Threshold. Because it results in Minimum Family Tax Credit recipients receiving $2 less per week than under current settings, we provided two alternative options in the report.

12. Option one ensures that Minimum Family Tax Credit recipients receive the In-Work Tax Credit increase and benefit from the personal income tax reductions, which will support incomes and child poverty reduction. It would further increase the incentive for beneficiaries to move off the benefit and take up and stay in employment at the margin. It is preferred by MSD and DPMC on an income adequacy basis. Out of the three options, this is the most generous as it passes through the personal income tax reductions and the In-Work Tax Credit changes.

13. However, option one would not mitigate the already impending issue of the Minimum Family Tax Credit overlapping with the Working for Families tax credits abatement threshold on approximately 1 April 2027. This will mean that Minimum Family Tax Credit recipients, who are some of the lowest income working families, will face decreases in their income as they work additional hours (because of high effective marginal tax rates). A simplified example of the effect of this is shown in the box below.

14. Inland Revenue recommend option three on a work-incentive basis, and because it does not result in Minimum Family Tax Credit recipients receiving less or more than they do currently. It reduces the urgency of addressing the impending overlap of abatement thresholds identified above. It also reduces the earnings range over which the current 100% abatement range applies, which increases the incentive to work longer hours.

15. Inland Revenue acknowledges that option three would be a departure from the existing policy of setting the Minimum Family Tax Credit Threshold and is an arbitrary figure. We note, however, that option one would also be a departure from existing policy settings; and any option apart from option two would be arbitrary.

Why is the overlap of the Minimum Family Tax Credit and the Working for Families tax credits abatement threshold an issue?

16. Unlike the Minimum Family Tax Credit Threshold, which is increased every year in line with benefits, the Working for Families tax credits abatement threshold is not periodically adjusted. The Working for Families tax credits abatement threshold is currently set at $42,700 (before tax). This is the point at which the Family Tax Credit and In-Work Tax Credit entitlements start to reduce at 27%.

17. In the absence of any changes, the Minimum Family Tax Credit Threshold is forecast to overlap the Working for Families tax credits abatement threshold in April 2027. This will require decisions to be made about whether to increase the Working for Families tax credits abatement threshold in Budget 2026.

18. Preliminary modelling indicates that increasing the Working for Families tax credits abatement threshold to $50,000 would cost approximately $260 million per annum. This would benefit approximately 160,000 families, and not just those receiving the Minimum Family Tax Credit.

19. There is a conflict of respective policy intents if this overlap were to occur. On the one hand, the Minimum Family Tax Credit threshold is a guaranteed minimum income for low income working families. On the other hand, the Working for Families tax credits abatement threshold is set at a level at which a family's income is considered to be too high for full entitlement. When these overlap, we would effectively be paying with one hand (paying the Minimum Family Tax Credit amount) and taking away with the other (reducing their Working for Families tax credits amount).

20. In relation to the immediate Budget decision, if Ministers choose option two or three, decisions on how to address this overlap could be delayed until Budget 2028. As noted above, this would allow more time to consider longer term reform options.

Example of overlap:
Under this example the Minimum Family Tax Credit threshold is increased to $43,000 (before tax) and the Working for Families tax credits abatement threshold remains at $42,700 (before tax).

Mila is a sole parent who works at a supermarket for 35 hours per week on minimum wage and earns $42,900 dollars. Following the crossover, she will face an effective marginal tax rate of 128.6%. This means that for an additional $1 she earns, her tax credits reduce by $1.28 and her total income drops as a result. She is not incentivised to work any additional hours.

This is a result of the following reductions of her income via:

- 17.5% personal income tax;
- 82.5% Minimum Family Tax Credit;
- 1.6% ACC levy; and
- 27% Working for Families abatement (the additional abatement once the overlap happens).

This could be made worse if Mila has student loan repayments (12%) or receives the Accommodation Supplement (25%).

Inland Revenue
Te Tari Taake

TE TAI ŌHANGA
THE TREASURY

Briefing note

Reference: BN2024/174

Date: 12 April 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Richard McLaughlan
Maraina Hak

Subject: **Further information – changes to the Minimum Family Tax Credit threshold in line with Budget 2024 package**

Purpose

1. The Minister of Finance's office has requested clarification on:

   - which customers could be financially disadvantaged by the potential Minimum Family Tax Credit consequential changes as part of the Budget 2024 decisions;
   - whether a similar change was done in the past; and
   - how the Minimum Family Tax Credit calculation changed in 2021.

Impacts of the current Budget 2024 proposals

2. Officials presented options for changes to the Minimum Family Tax Credit threshold that flow-on from the proposed $25 increase to the In-Work Tax Credit [IR2024/119 refers]. Option two in the report was to stick to the longstanding policy, which would reduce the threshold, and would result in recipients receiving $2 less per week. This would affect all existing 3,200 families receiving the Minimum Family Tax Credit.

3. Therefore, officials presented option three which would decrease the Minimum Family Tax Credit threshold just enough so that Minimum Family Tax Credit recipients will receive the same amount that they currently receive.

Previous policies impacting the Minimum Family Tax Credit threshold

4. In 2015, the Government announced a Budget package to address child material hardship. This package included the following relevant changes to transfer payments:

   - An increase of $25 per week (after tax) in benefit rates for families with children;
   - An increase of $12.50 per week to the rate of In-Work Tax Credit; and
   - An increase of around $12 per week to the Minimum Family Tax Credit.

5. As the In-Work Tax Credit increased by $12.50 per week, the Minimum Family Tax Credit would have decreased by around $13 per week, in line with the longstanding policy. All Minimum Family Tax Credit recipients would have received less because of these changes. However, there was also a $25 benefit increase that occurred at the same time. This benefit increase lifted the Minimum Family Tax Credit threshold by around $25 per week, and resulted in a net increase of approximately $12 per week for Minimum Family Tax Credit recipients. Taken as a package, this meant that Minimum Family Tax Credit recipients were compensated.

2021 change to the formula

6. As further context, the calculation of the Minimum Family Tax Credit threshold was recently altered to be more targeted.

7. There are multiple rates of main benefits. From 2006 until December 2020, the Minimum Family Tax Credit threshold has been tied to the couples main benefit rate which is higher than the sole parent rate of main benefit. This was to ensure all eligible working families (whether they were sole parent or two-parent families) were financially better off working and receiving the Minimum Family Tax Credit than they would be on benefit. This was the Government's intent when Working for Families was introduced.

8. In December 2020, when benefit abatement thresholds were increased, Ministers decided that the Minimum Family Tax Credit calculation would no longer be tied to the couples main benefit rate and would instead be tied to the sole parent rate.

9. This meant that although the Minimum Family Tax Credit threshold was increased, it did not increase by as much as it would have if the calculation had not changed. The result of this was that couple families (who had represented about 10% of Minimum Family Tax Credit recipients) would not necessarily be better off in work and receiving the Minimum Family Tax Credit.

10. The Minimum Family Tax Credit threshold from 1 April 2021 was $30,576 (net) (tied to the sole parent rate). If the calculation had not changed, the threshold would have been $32,604 (net) (tied to the couples rate).

11. The change in calculation method was for fiscal reasons.

Maraina Hak
Policy Lead, Inland Revenue
s 9(2)(a)

Inland Revenue
Te Tari Taake

TE TAI ŌHANGA
THE TREASURY

Briefing note

Reference: BN2024/181

Date: 19 April 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Richard McLaughlan

Subject: Increase to the Minimum Family Tax Credit threshold

Purpose

1. This briefing note provides a record of a late change to the increase of the Minimum Family Tax Credit threshold, applying from 31 July 2024.

Background

2. On 4 April 2024, we reported to the Minister of Finance and Minister of Revenue on a consequential amendment required for the Minimum Family Tax Credit following Budget 2024 decisions [IR2024/119 refers].

3. Proposed changes to personal income tax and the increase to the In-Work Tax Credit have consequential impacts on the Minimum Family Tax Credit. These proposals impact the net income of a Minimum Family Tax Credit recipient and influence the level of Minimum Family Tax Credit entitlement required to ensure that, at the margin, low income working families remain better off financially in full-time work than on benefit.

4. Ministers selected option one in that report. Option one increases the Minimum Family Tax Credit threshold to allow recipients to benefit from both the personal income tax changes and the In-Work Tax Credit increase. Under this option, the Minimum Family Tax credit threshold would have been increased from $35,204 after tax to $35,308 after tax on 31 July 2024.

5. The Minimum Family Tax Credit threshold needs to increase in line with the personal income tax changes to ensure that relevant entitlement does not reduce. The increase in the figures above is by $2 a week.

Issue

6. We have been asked by the Minister of Finance's office why this increase is only $2 a week, as opposed to $2.15 a week (or $104 per annum, as opposed to $112 per annum). Other people in a similar income range, who are not in receipt of the Minimum Family Tax Credit, are expected to gain $2.15 per week because of the personal income tax changes.

7. This is the result of the way that the Minimum Family Tax Credit is calculated. Inland Revenue calculates the exact guaranteed weekly minimum income required for the Minimum Family Tax Credit threshold, then rounds this up to the nearest dollar. The same process was used for the personal income tax changes, and the $0.15 cents was incorporated into the rounding. This is because there was already more than a $0.15 cents buffer before rounding, so it did not show explicitly.

Update

8. The Minister of Finance's office has requested that we increase the Minimum Family Tax Credit threshold by a further $8 dollars so that the $0.15 cents is explicitly passed through. Under this update, the threshold will be increased from $35,204 after tax to $35,316 after tax on 31 July 2024.

9. This means that Minimum Family Tax Credit recipients will receive an increase of $27.15 from the changes to the personal tax thresholds and the In-Work Tax Credit.

10. This update will be reflected in the Budget 2024 Cabinet paper which seeks agreement to the overall tax package, and will be considered by Cabinet on 29 April.

Fiscals

11. As originally reported, the cost of increasing the Minimum Family Tax Credit threshold in line with option one would be $0.2 million to the overall tax package.

12. The increase of $8 dollars will only have a negligible cost of $15,000 per annum. This does not have a material impact on the cost mentioned above and will not impact on the overall fiscal costs of the package.

Consultation with the Treasury

13. The Treasury was informed about this briefing note.

Richard McLaughlan
Senior Policy Advisor
s 9(2)(a)

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Briefing note

Reference:	BN2024/218
Date:	21 May 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Richard McLaughlan
Subject:	**Part-year transfer recipients – worked example**

Purpose

1. The purpose of this briefing note is to show a worked example of how a distinct group of part-year beneficiaries could be worse off because of the Budget 2024 tax package.

Background

How benefits are taxed

2. Benefit rates are set "net of tax" (with tax already deducted) in the Social Security Act 2018. The Ministry of Social Development (MSD) determines how much the recipient is entitled to and subsequently grosses up that amount and works out the tax payable using the M tax code.[1] This code assumes that the benefit payment is the person's main source of taxable income for the whole year, and averages the tax owed each week. With no income changes during the year, this would result in the correct amount of tax being withheld.

How a part-year beneficiary can receive a tax refund

3. It is assumed that a main beneficiary will receive their current income throughout the whole year. If they are in receipt of a main benefit for only part of the year, their average tax rate that is withheld each week is higher in total than Inland Revenue will calculate at the end of the year. This means that they would receive a refund for the amount over-withheld at the end of the year as part of their individual income tax assessment from Inland Revenue.[2]

Budget 2024

[1] Section RD 11(3) of the Income Tax Act authorises the Commissioner in consultation with the Chief Executive of MSD to determine the amount of tax payable for main benefits, New Zealand Superannuation, and Veteran's Pensions.
[2] This is also true for a salary and wage earner whose income decreases during the year, for example.

4. As part of the Budget 2024 process, Cabinet agreed to a suite of personal income tax changes (CAB-24-MIN-0148 refers). This included adjusting the personal income tax thresholds which will be effective from 31 July 2024.

5. The Cabinet paper noted that main benefit rates will not increase automatically as these are set net of tax in legislation, as noted above.

6. However, it has been identified that approximately 5,000 households could be slightly worse off across a tax year ($1 per week on average) after the personal income tax changes. This occurs specifically in cases where they receive a main benefit for <u>part of the year only</u> (in instances where they are receiving a benefit for less than ten months).[3]

7. This occurs because the tax cuts result in the benefits being grossed up by a smaller amount. The lower gross amount means that any refund owed will also be smaller. This only occurs for someone whose benefit income (and total income) for the year is lower than expected.

8. From the perspective of the amount of benefit they receive, MSD do not consider these beneficiaries to be worse off under the personal income tax changes. This is because they will continue to receive the correct benefit amount weekly before and after the tax changes, and will not experience a reduction in their net rate of benefit on 31 July compared to 30 July. MSD acknowledges that these people would be eligible for a smaller refund from Inland Revenue compared to status quo. MSD notes that, to experience an "in hand" loss as demonstrated in the below example, people would have to have exact same circumstances year on year to notice a lower refund following the personal income tax changes.

[3] This figure was reported as 9,000 households on 17 May 2025 (T2024/1356 and IR2024/214 refers). However, Treasury have advised that their latest forecast has revised this to 5,000 households. This is an update from the previous estimate of 9,000 households but we note that the estimate is based on a sample and the group forms less than 1% of the sample. The estimate can therefore vary depending on the sample that is selected.

Worked example

Example 1

Joe finished his OE with a year of travel and arrived back in New Zealand before Christmas 2023 (aged 26). Following the stand down period, he went onto Jobseeker Support at the beginning of this calendar year and has been unable to find work. Jobseeker Support has been his sole income during the year.

The Jobseeker Support annual amount is $18,379.92, which grosses up under the current scale to $21,090.81 (annual) prior to 31 July 2024, and under the new scale to $20,955.05 (annual) from 31 July 2024.

Before the PIT changes
If Joe received Jobseeker Support for 3 months prior to the PIT changes (1 January 2024 to 31 March 2024), his gross benefit is three months of $21,090.81 (annual total) or more specifically $5,272.70.

This will be taxed as his sole income throughout the year at 10.5%.

This gives him $4,719.07 throughout the year ($4,594.98 in Jobseeker Support payments and a tax refund of $124.09).

After the PIT changes
If Joe arrived back before Christmas 2025 (same circumstances and using the same Jobseeker Support rates) and similarly went onto Jobseeker Support at the beginning of the year, he would only get Jobseeker Support for 3 months during the 2025/26 tax year (1 January 2026 to 31 March 2026). His gross benefit is three months of $20,955.05 (annual total) or more specifically $5,238.80.

This will be taxed as his sole income throughout the year at 10.5%.

This gives him $4,688.70 throughout the year ($4,594.98 in Jobseeker payments and a tax refund of $93.72). His tax refund will be <u>$30.37 less</u> than under previous conditions.

9. It should be noted that this example does not take into account the inflation indexation that will occur to main benefits on 1 April 2025. This is because we wanted to isolate the effect of the personal income tax changes on part-year benefit recipients. Adding the inflation adjustment would complicate the explanation.

Consultation

10. The Treasury and MSD were consulted about this briefing note.

11. We recommend you forward a copy of this briefing note to the Minister for Social Development and Employment for her information.

Richard McLaughlan
Senior Policy Advisor
s 9(2)(a)

Inland Revenue report: **Coalition agreement compliance funding initiative**

Date:	20 December 2023	**Priority:**	Medium
Security level:	In confidence (Budget Sensitive)	**Report number:**	IR2023/293

Action sought:

	Action sought	Deadline
Minister of Revenue	**Note** the above content for discussion with officials. **Note** we will provide a formal funding bid for consideration and approval early next year.	None

Contact for telephone discussion (if required)

Name	Position	Telephone
Peter Mersi	Commissioner	s 9(2)(a)
Lisa Barrett	Deputy Commissioner CCS-B	

20 December 2023

Minister of Revenue

Coalition agreement compliance funding initiative

Purpose

1. This report responds to your request for information on our approach for any increase in funding for Inland Revenue tax audits and to quantify the associated additional tax revenue. This report should be read in conjunction with the paper 'Inland Revenue's Tax Compliance Strategy'.

2. This report is distinct from other funding for new Government initiatives or products to be administered by Inland Revenue.

Executive summary

3. The coalition agreement between the National Party (National) and the New Zealand First Party (New Zealand First) includes a commitment to increase funding for IRD tax audits to urgently expand the IRD tax audit capacity, minimise taxation losses due to insufficient IRD oversight, and to ensure greater integrity and fairness in our tax system.

4. This paper outlines our proposed compliance approach which will form the basis of the additional compliance activities, our funding approach, and the rate of return from such an investment. The expected rate of return from a balanced mix of compliance activities is at least $1:$8.

5. We still need to consider whether additional funding will be required for compliance campaigns and compliance enhancements.

6. We would like to discuss the approach outlined in the report and we will provide you a formal bid for consideration in the New Year, to be considered as part of Budget 24.

Recommended action

7. I recommend that you:

(a) **Note** the content for discussion with officials.

Noted

(b) **Note** we will provide a formal funding bid for consideration and approval early next year.

Noted

Peter Mersi

Commissioner, Inland Revenue

Hon Simon Watts

Minister of Revenue

/ /

Background

8. Treasury sought, in preparation for its initial engagement with the Minister of Finance and providing advice on the mini-Budget statement, some preliminary information as to the scope and projected revenue from increasing funding for our compliance activities. This report provides additional information to what was initially provided to the Treasury and builds on our prior thinking.
9. The coalition agreement between National and New Zealand First includes a commitment to increase funding for tax audits:
10. "The Coalition Government will increase funding for IRD tax audits to urgently expand the IRD tax audit capacity, minimise taxation losses due to insufficient IRD oversight, and to ensure greater integrity and fairness in our tax system."
11. At a recent meeting with officials which discussed this commitment, you asked for some advice on the nature of the compliance activities and the scope of any such investment.
12. We have set out below our approach to compliance and how an increase in funding would deliver additional revenue.

Our compliance approach

13. At the heart of our approach to collecting revenue is helping customers get it right. This incorporates:
    - Designing the tax and social policy systems with compliance in mind,
    - Using analytical tools to help ensure people get things right, and
    - Stepping in when people get things wrong.

14. Our compliance approach incorporates a mix of integrated interventions to ensure the integrity and fairness of the tax system over time. These interventions include:
    - Improved analytics & intelligence application,
    - System/process improvements,
    - Debt & outstanding return collection,
    - Community compliance initiatives,
    - Audit,
    - Litigation.

15. We can scale up our compliance approach by:
    - Incorporating new sources of intelligence,
    - Employing analytical techniques to identify high-risk customers sooner,
    - Targeting and tailoring interventions through staged, behaviourally informed one-to-many approaches, including marketing,
    - Dedicating compliance staff to promptly engage with high-risk customers who may be resistant to automated approaches,
    - Utilising a test, learn, & adapt approach to continually improve the efficiency and effectiveness of compliance initiatives.

16. With a balanced mix of compliance approaches, we can accelerate the positive feedback loop through highlighting the consequences of non-compliance, increasing tax morale for those who are doing the right thing, and reinforcing the public's desirable core beliefs about tax administration fairness, which are:

    a) When I'm paying my tax, I'm doing a good thing.
    b) When I'm trying to do the right thing, Inland Revenue will help me.
    c) When someone else is trying to do the wrong thing, Inland Revenue will find them.

17. As part of our long-term vision for improving compliance, we recognise that compliance is part of the customer's ecosystem involving transactions, tax policy and processes. To this end, we envisage future improvement aligned with the OECD's concept of 'Tax 3.0'. Tax 3.0 is about reducing the opportunity for customers to get it wrong by integrating tax at the source of customer transactions, thereby removing the opportunity for non-compliance. This area is a key enabler for the Digital Eco-System work and could result in such initiatives as pay day filing. Further discussion on investment to date towards this aim will follow in a future report.

18. With most COVID-19-related demand and compliance work ending, we are rebalancing our priorities to changing behaviours in the traditional sectors that operate in New Zealand's hidden economy and in emerging online industries.

19. With this context in mind, our approach would be to allocate additional funding to a broad mix of compliance activities across the workforce/organisation, rather than specifically and exclusively to tax audits, as this maximises the return and increases integrity and fairness over time. This achieves an optimal return through an integrated, end-to-end approach.

20. While individually each component in this mix of activities will provide a positive return on investment, their combined impact will go further in promoting voluntary compliance, creating a level playing field for business, preventing insolvent customers from causing wider economic damage, and improving the overall efficiency of taxation, because everybody is paying their fair share.

21. The following provides a broad overview of several of the main types of intervention that would be a focus of this approach.

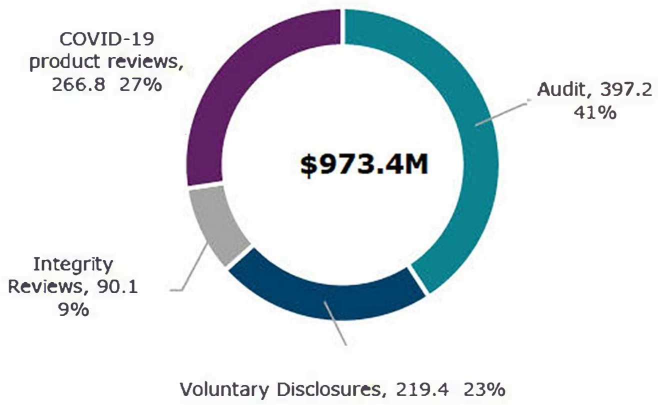
Audit

22. The primary measure of our audit compliance activity is the amount of revenue we identify or assure through our interventions. In 2022/23 we recognised $973 million of revenue from our interventions. This equated to a return of $9.04 for every dollar spent on compliance. Our compliance activity included the completion of 3,608 audits and 34 prosecutions.

23. Revenue identified through our interventions will initially appear as a contingent asset in the Crown accounts[1]. Once intervention processes are completed, such as any dispute processes, this assured revenue is recognised alongside other tax and non-tax revenue in the Crown accounts. Increased revenue from this compliance initiative would be added into the Tax forecasts developed by the Treasury, in consultation with our Forecasting and Analysis team.

24. The following chart shows the composition of the $973 million of revenue discrepancies from our interventions in 2022/23.

<u>Reported discrepancies ($ million) 2022/23</u>



Analytics, systems & processes

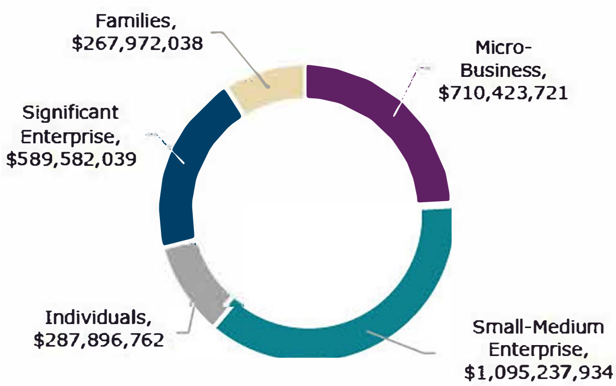
25. In addition to front-line effort, through utilising the improved capabilities of our tax administration system (START), we can incorporate advanced analytical approaches to better target at-risk customers, and further increase our return on investment compared to traditional approaches.

[1] The monthly and annual Financial Statements of the Government.

Overdue debt

26. In 2022/23 we collected $2,951 million in overdue debt. While the bulk of this revenue was generated by automated action through our billing system, it also includes effort from specialised debt compliance staff through interventions and legal action. The total general tax and Working for Families overdue[2] debt at 30 June 2023 is $5,799 million. This increases to $5,820 million when Covid 19 Resurgence Support Payment and Covid-19 Support Payment debt is included.

Overdue debt collected 2022/23



27. Overdue debt is represented in the Crown accounts as a Crown asset and is tested for impairment annually[3]. Improved collection of debt improves the overall Crown cash position and reduces the level of debt write-offs and impairment expenditure which is included within our Vote Revenue non-departmental appropriations. Expenditure on debt impairment and debt write-offs[4] totalled $1,467 million in 2022/23.

28. We have included a level of FTEs for debt collection in our compliance proposal. This would be in addition to our normal debt collection activities and system interventions.

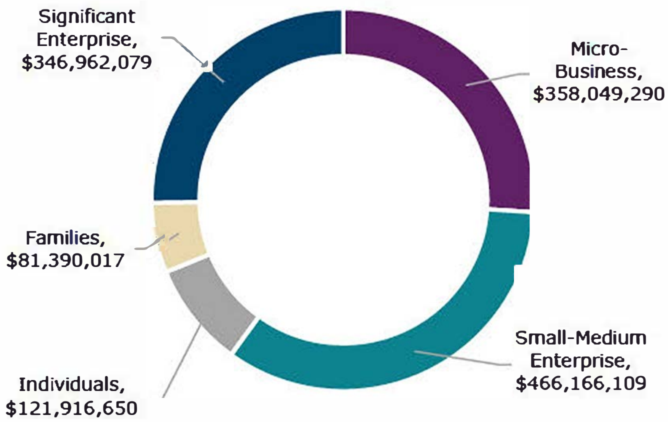
[2] Also referred to as 'past due' in the Financial Statements of the Government.
[3] Further detail on due and past due debt (receivables) is included in our 2023 Annual Report pages 171-173. This includes information on impairment rates and sensitivity analysis.
[4] This excludes debt relating to child support, student loans and the Small Business Cashflow Scheme.

Unfiled returns

29. In 2022/23 we assessed $1,375 million in revenue from overdue unfiled returns. We targeted our unfiled return activity and used analytical tools to identify unfiled returns that were likely to be of higher value. The total number of tax returns outstanding at 30 June 2023 is 1.5 million.

30. Increases to return filing increase Crown tax revenue. This is factored into the at least $1:$8 return assumption for this initiative.

Assessed revenue from overdue unfiled returns 2022/23



Costing approach

31. Work on our costing model has focused on the number of additional full-time equivalents (FTEs) that would be required for the additional compliance activity. This work indicates that $10 million of funding would approximate 70 FTEs. This would be a mix of front-line and supporting staff. The model includes the direct salary cost plus a 24 percent overhead loading which covers accommodation and the like.

32. We will leverage existing technology infrastructure and process. We still need to consider whether additional funding will be required for significant public compliance campaigns and compliance enhancements in our new core tax system.

Proposed return on investment from additional funding

33. We expect to generate a return of at least $1:$8 over time, by putting additional effort into the range of interventions outlined above. This includes tax audits. Increasing funding for these activities would increase forecasted tax revenue. This rate of return is an average across the various interventions. Some interventions which increase on-going compliance and revenue cannot be measured. Refer to the appendix for examples of specific focus areas.

34. New areas of risk have continued to emerge from criminal uses of internet technologies. In December 2022, the Commissioner issued a Revenue Alert over the development, promotion, and use of electronic sales suppression tools (ESST) that are designed to alter point-of-sale data. These tools exist only to evade tax and launder money.

35. In addition to the proposed baseline compliance funding options, we recommend an additional s 9(2)(f)(iv) investment into ESST audit compliance. We believe the use of ESSTs presents an immediate risk to the tax base and requires a dedicated focus which will include exploring regulatory development in addition to compliance interventions. Return on investment for this effort is still to be determined, but we expect that it at least will fit within the $1:$8 ratio that we'd anticipate with audit and intelligence related effort.

36. If, after investigation, we find a high level of ESST adoption in New Zealand, we intend to submit a further request for funding to support an upfront regulatory framework (as several other countries have done – for example Sweden or Fiji) as the current penalty/sanction-based framework will not provide sufficient protection to stop the erosion of the current revenue base.

37. The table below shows the return on investment for three additional funding scenarios:

- $10 million per annum – base option for scaling purposes
- s 9(2)(f)(iv)
- s 9(2)(f)(iv) – our proposed option for ESST
- s 9(2)(f)(iv) – an upper end option reflecting capacity in the market for resources with the required capability.

Scenario	Base	s 9(2)(f)(iv)	
Additional administration funding per annum	$10 million		
Additional funding for ESST	$10 million		
Additional compliance revenue per annum	$160 million		
Return on investment over time	1 to 8		
Additional FTEs	140		

38. Furthermore, there may be an opportunity in the future to scale up the investment and the return based on the outcome of the initial investment.

Capacity and capability

39. As a result of business transformation, we are a smaller and more efficient organisation, and the nature of our work has fundamentally changed. Customers are at the centre of everything we do, and our products and services are designed first and foremost with their needs in mind.

40. For more detailed information on Inland Revenue's change through Business Transformation refer to report 2023/283.

41. Our existing workforce capacity and capability has recently been focused on delivering COVID-19 initiatives, the cost of living payments and helping customers manage the current difficult economic environment. While we are reverting back to a more balanced compliance model (including debt collection, audits and investigations, an increased focus on

compliance would require a change to the mix of our workforce, particularly in their level of skills and capability and redeployment to more specific compliance activities.

42. There is a limit to the scalability of the proposed funding increases given the supply of required skills for compliance and technical analytics in the current labour market. In addition, there are considerations needed for staff accommodation which may not scale as easily beyond a certain point.

Proposed return on investment from additional funding

43. For more information about the link between this funding and Inland Revenue's financial position, please see Inland Revenue's Financial Position report 2023/283.

44. The table below shows the additional administration funding for compliance activity and the associated additional revenue over time.

	s 9(2)(f)(iv) [redacted]
Additional compliance activity funding ($million)	[redacted]
ESST addition funding	[redacted]
Additional revenue ($million)[a]	[redacted]

a. Assumes a balanced work programme over time.

45. As part of this funding proposal we have consulted with Treasury who are comfortable with our projection of at least $1:$8 return on investment, based on historical compliance performance.

Appendix

Overdue debt collection

One of our key areas of compliance focus is the collection of overdue debt. We have an automated billing cycle which collects the majority of new debt. However, for those who are resistant to automated intervention, effort is required to reengage these customers. If this fails, we will consider enforcement and litigation options, including insolvency action.

Debt collection determines the quality of the Crown asset. Debt becomes harder to collect over time, and the longer it is left without resolution, the less likely it is that the Government will have its debt paid, impairing the asset.

In addition to protecting the Crown asset, collection of overdue debt protects other creditors in the market, as when a business fails, there are often other creditors who are unsecured and unpaid.

Examples of our efforts in debt collection that we'd scale up include:

- Ability to Pay modelling
- High risk debt management
- Leveraging tax agent relationships with customers in debt

Overdue return collection

Another key focus is the collection of outstanding assessments or returns. These pose a significant challenge as not filing is an effective strategy to avoid paying tax.

Overdue returns delay the collection of the Crown asset. Many of the debt collection processes cannot commence ahead of the crystalising of the assessment, so we need customers to engage with us.

Our system reminds customers to file, but when this fails, manual effort will be required to determine if a return is required and to pursue outstanding assessments.

Enforcement options include default assessments and failure to furnish prosecutions.

Audit

Audits have the ability to amend an assessment where customers have avoided or evaded tax by misrepresenting their taxable income. In addition to amending an assessment, further penalties can be levied on the customer based on the nature of the discrepancy.

Our analytical tools screen for risk over filed returns. High risk cases are then identified for manual review. Additionally, there is a strong human intelligence component through anonymous information reports and data exchanges with external data sets cross-referenced with IR info.

Audits protect the integrity of the tax system by assuring there are consequences for tax avoidance and evasion. This is both a consequence and a deterrent.

Examples of the areas of audit activity that we could scale up include:

- Electronic sales suppression tools (ESST)
- Emerging online risks
- GST integrity rules
- High wealth individuals
- Corporate entity restructuring for tax avoidance
- Property compliance
- Use of Payment Service Provider (PSP) data

Document 23

Inland Revenue report: Inland Revenue's financial position leading into Budget 2024

Date:	21 December 2023	**Priority:**	Medium
Security level:	In confidence (Budget Sensitive)	**Report no:**	IR2023/283

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** this report.	None

Contact for telephone discussion (if required)

Name	Position	Telephone
Peter Mersi	Commissioner	s 9(2)(a)
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	
Scott McCallum	Enterprise Leader Strategic Portfolio Stewardship	

21 December 2023

Minister of Revenue

Inland Revenue's financial position leading into Budget 2024

Purpose

1. As Minister of Revenue, you are responsible for all of the appropriations[1] in Vote Revenue[2]. Your role includes approving financial submissions to Cabinet and to the Minister of Finance, for example Budget 2024 initiatives and baseline[3] updates.

2. This report provides a briefing on our current financial position, future cost pressures, and the net tax revenue impact of a proposed compliance funding increase offset by a cost savings requirement. This background information will support decisions and submissions for the upcoming Budget 2024 process.

3. This report can be read in conjunction with the following documents:
    - *Setting our priorities for the next three years*, letter from the Prime Minister to you, 18 December 2023
    - *Fiscal objectives across the term and Budget 2024 expectations*, email and letter from the Minister of Finance to you, 21 December 2023
    - our briefing to you as incoming Minister (November 2023), and
    - our report to you on compliance funding (IR2023/293 refers).

Setting priorities for the next three years

4. I will report back to you by 12 January 2024 on options for articulating your priorities to the Prime Minister, which is due by 29 January 2024.

Strategy for Budget 2024 and for the ongoing fiscal sustainability programme

5. The letter you have received from the Minister of Finance outlines Budget 2024 expectations, agency-specific savings targets and invites new spending. Key areas of focus are embedding principles of fiscal sustainability, value for money, ongoing fiscal sustainability and an Initial Baseline Exercise.

6. The main Budget 2024 expectations for Vote Revenue are:
    - We must identify options to meet a savings target of $39.6 million (6.5%) per annum from 2024/25.

[1] A parliamentary authorisation for the Crown or an Office of Parliament to incur expenses or capital expenditure.
[2] There is one exception. The Minister of Science, Innovation and Technology is responsible for the Research and Development Tax Incentive non-departmental other expense appropriation.
[3] The level of funding approved for any given spending area (e.g. Vote Revenue).

- We have been asked to consider two Coalition Government revenue initiatives:
  - the revenue associated with investment in tax compliance and audit, and
  - gambling tax changes (working with the Department of Internal Affairs).
- We have been asked to consider policy savings and revenue options associated:
  - with the maintenance of the tax system
  - s 9(2)(f)(iv)
  - savings-related options for student loans (with the Ministry of Education).
- We have been invited to submit initiatives for the revenue impacts and administration costs for the Coalition Government's tax policy commitments. Please refer to paragraph 39 for our approach to funding new policy initiatives.
- We are not invited to request a cost pressure bid for Budget 2024.

7. We have received guidance and templates from the Treasury. We will keep you and your office up to date on requirements and timeframes for this process. Please refer to paragraph 41 for the current timelines for Budget 2024.

Executive summary

8. Inland Revenue's Business Transformation programme represented a significant investment by successive Governments that enabled the department to redesign aspects of the tax and transfer system it is responsible for. We were able to simplify and standardise many of our processes and realise significant efficiencies through digitisation and the introduction of new technology. Following the transformation programme, we are a smaller and more efficient organisation compared to before changes were introduced beginning in 2017. Our fully integrated operating model is built around enabling and supporting customers while ensuring compliance. In 2022/23 we collected $104 billion of revenue and through our compliance activities identified $973 million in revenue through real time reviews, audits, voluntary disclosures by taxpayers, and reviews of applications for COVID-19 products.

9. We are on track to deliver the $495 million by 30 June 2024 administrative savings we committed to in return for the government's investment in our transformation. We are also on track, based on proxy measures given the difficulty of direct attribution, to achieve an increase in total revenue collected of over $1 billion per year from 2023/24.

10. We designed our new operating model progressively from 2017/18 to 2020/21 as part of our transformation, and made funding and resource assumptions based on what we knew at the time. A number of these assumptions have been challenged, for example those around inflation and wage pressures. Consequently, while we remain focused on realising efficiencies where we can, we have reached the point where we have relatively limited ability to absorb increasing costs, especially in a high inflation environment. Reflecting this, additional funding of $33.1 million per annum was provided through Budget 2023.

11. Our sustainability modelling indicates that despite assuming on-going efficiency dividends of 2-3% per annum, we are facing similar cost pressures in future years, primarily due to the cumulative impact of remuneration increases, and we cannot absorb these without impacting revenue and/or performance.

12. Our modelling shows that there is a correlation of 1:8 between funding and revenue from compliance activities. That is, for every $10 million increase or decrease in our operational funding, there is a consequent $80 million increase or decrease in revenue from compliance activities.

Vote Revenue appropriations

13. Vote Revenue incorporates departmental appropriations, non-departmental appropriations, and Crown revenue and capital receipts.

14. Our departmental appropriations, also referred to as our baseline, total $797 million in 2023/24 and represent the functional services we deliver on behalf of you and the Government (please refer to Appendix 1 for details). The $797 million reflects our underlying baseline of $696 million, time-limited funding of $43 million, residual transformation activities of $18 million and one-off and technical transfers of $40 million. The time-limited funding of $43 million is due to reduce to $35 million in 2024/25 and to $3 million in 2025/26.

Baseline movements $ million	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Underlying baseline	696	696	696	696	696	696	696	696	696
Time-limited funding[1]	43	35	3	3	3	3	3	3	-
Residual transformation[2]	18	-	-	-	-	-	-	-	-
One-off and technical[3]	40	-	(1)	(2)	-	-	-	-	
Depreciation transfers	-	-	-	-	10	25	12	12	-
Total baseline (base)	**797**	**731**	**698**	**697**	**709**	**724**	**711**	**711**	**696**
Annual movement		(66)	(33)	(1)	12	15	(13)	-	(15)

1. Time-limited funding in 2023/24 includes $26.5 million funding for Covid 19 demand and integrity, $5.3 million for the taxation of housing initiative, and $3 million of the Small Business Cashflow (Loan) Scheme collection activities up to 2030/31.
2. Residual activities following the transformation programme's substantive closure.
3. This includes one-off transfers from 2022/23 to 2023/24.

15. The tax revenue forecasts in the 2023 Half-year Economic and Fiscal Update (HYEFU23) reflect the reduction in our total baseline from $797 million in 2023/23 to our underlying and ongoing baseline of $696 million in 2031/32. There is no further impact to forecast tax revenue when time-limited funding ends.

16. Our tax products will account for 66% of our expenditure in 2023/24, with our social policy products accounting for 24% and other products accounting for 10% (please refer to Appendix 2 for details).

17. Our non-departmental appropriations total just over $17 billion in 2023/24. These appropriations include our social policy expenditure and tax related expenditure (please refer Appendix 3 for details.)

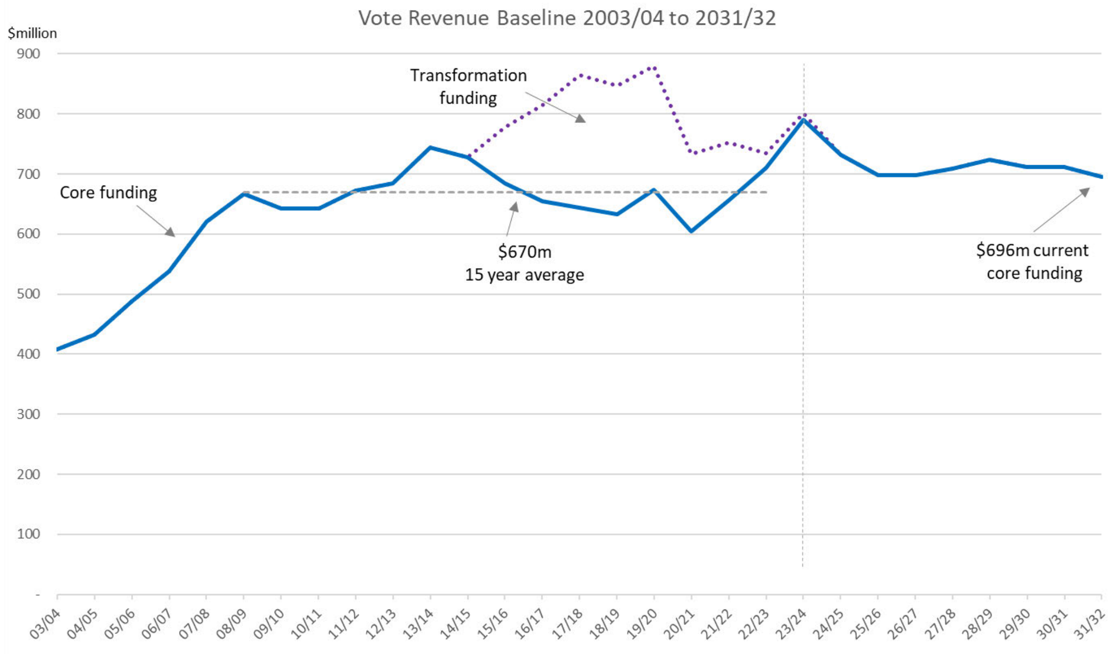
18. Crown revenue and capital receipts total $119 billion in 2023/24. This includes tax revenue, non-tax revenue, and capital receipts (please refer Appendix 4 for details.)

Departmental appropriations - our baseline

19. Our funding has been relatively flat since 2008/09 with an average baseline of $670 million. In 2031/32, our core baseline will be $696 million, excluding one-off funding for transformation, time-limited funding, and transfers between financial years.

20. During the period from 2003/04 to 2018/19 we received funding to implement and enhance non-tax initiatives such as KiwiSaver, child support, student loans and Working for Families Tax Credits.

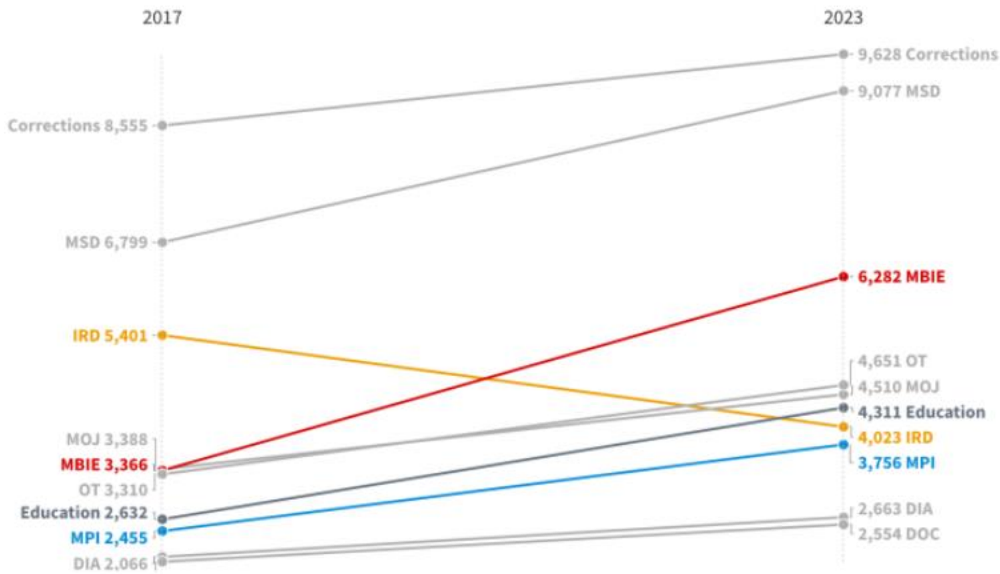
21. From 2003/04 to 2007/08 we received some funding for remuneration cost pressures. Since then, we have self-funded all remuneration and operating cost pressures through efficiencies and have self-funded many new policy initiatives.



22. Having been through a recent transformation, we are in a relatively strong position compared to other agencies. We are 25%-30% smaller in real financial terms than we were before transformation. Our actual expenditure in 2022/23 of $704 million compares to $706 million in 2014/15, nine years earlier (unadjusted for inflation).

23. We have implemented a new organisation design, removed inefficiencies, and reduced staff numbers. Our workforce reduced from 5,401 FTEs[4] at June 2017 to 4,023 FTEs at June 2023, a reduction of 1,378 (26%). Of the ten largest agencies we are reported to be the only agency to have reduced FTEs in the 2017 to 2023 period.[5]

FTE snapshots for the top 10 agencies in June 2017 and June 2023



Source: Public Service Commission annual workforce survey
* Graphic Andy Fyers/BusinessDesk

[4] FTEs – Full-time Equivalent employees.
[5] BusinessDesk article, 3 November 2023 – link.

24. Our back-office is smaller in nominal terms than it was five years ago, and now makes up only 18% of total staff (compared to 35% in 2018/19).

25. From a high of 26% in 2018/19 (mainly reflecting the external expertise required to deliver the transformation), the ratio of consultant and contractor expenditure to total workforce was 10.3% ($41.7 million) in 2022/23. We will deliver a saving of $3 million (7%) in 2024/25 as we transition some of our temporary contractors back to employees. We consider that this reduced level of expenditure on consultant and contractors in 2024/25 is about right for our business requirements.

26. Personnel costs in 2022/23 comprised 56% of our expenditure, compared to 66% in 2014/15. This reflects a reduction in the size of our workforce, including a shift from having a large in-house IT team to outsourcing this to the private sector. Information technology and telecommunications expenditure has increased as a result of the move to 'as a service' arrangements and cloud-based infrastructure, rather than owning and maintaining our own systems.

27. We lease all of our office accommodation. While the price of office accommodation continues to grow, we have maintained lease costs at around $29 million per annum through reduced staff numbers, improved space utilisation and more of our staff working from home.

28. We are more efficient in collecting revenue. In 2022/23, it cost 43 cents to collect every $100 of tax revenue, or 0.43% expressed as a percentage. This compares to 60 cents in 2020/21, 80 cents in 2014/15, and as high as $1.42 in 1992/93. Increases in tax revenue and a flat cost base are driving this improvement. Internationally[6], based on the most recent OECD 2020/21 data[7], we compare favourably to other jurisdictions (low to high): United States 0.4%, France 0.5%, New Zealand 0.6%, United Kingdom 0.7%, India 0.9%, Australia 0.9% Canada 1.2%, and Germany 1.3%, however, care needs to be taken with these comparisons due to the different nature of the tax regimes.

29. In summary, having realised significant savings through the step-change transformation, we have relatively little room to realise further efficiencies beyond 2%-3% per annum. Our primary lever for realising savings in the short term would be to further reduce staffing levels. In this situation, we would need to make deliberate choices around where to focus our efforts, and would likely impact our ability to provide the current level of customer service, and would put revenue (short and medium term) at risk.

Future cost pressures

30. In common with many agencies, our primary cost pressures in future years will be remuneration, and inflationary cost pressures in technology, as-a-service contracts, accommodation leases, and other operating costs. Managing these cost pressures will be key to our financial sustainability and the achievement of our outcomes. The table in the next paragraph sets out our forecast cost pressures.

31. To enable us to manage our baseline in future years we will be assessing fiscally neutral funding options, such as capital to operating swaps, fiscally neutral adjustments, retention of underspends, and reprioritising forecast surplus depreciation, with the

[6] The international OECD measure for administrative cost efficiency to collect tax revenue is the 'cost of collection' measure calculated as 'total operating expenditure / total net revenue collected x 100'. A low percentage indicates greater cost efficiency to collect tax.
[7] OECD (2023), Tax Administration 2023: Comparative Information on OECD and other Advanced and Emerging Economies, OECD Publishing, Paris, Annex A Data Tables, Table D.6 Resource ratios: Cost, Recurrent cost of collection (in %) - link

support of the Treasury and yourself. We acknowledge that the criteria are tight for such changes and we will only seek adjustments that are beneficial to the Government.

$million	2024/25	2025/26	2026/27	2027/28
Remuneration cost pressure	14	27	40	53
Inflationary cost pressure	4	6	7	10
Total future cost pressures	**18**	**33**	**47**	**63**
Total future cost pressures (adj.)[1]	**-**	**18**	**29**	**45**

1. Adjusted for potential fiscally neutral funding options. Approval for these options, from the Minister of Finance and yourself, would be sought as part of the Budget 2024 process and the 2023 March Baseline Update process.

Proposed savings

32. As part of the Budget 2024 Initial Baseline Exercise we have been asked to identify options to meet a savings target of $39.6 million (6.5%) per annum from 2024/25. This saving is based on a $610 million adjusted baseline calculated by the Treasury.[8]

33. Increases and decreases in our funding impact revenue and performance standards. Most of our operating costs are fixed in the short-term, so decreases in funding will generally impact both front-office and back-office staff.

34. As a broad rule, an increase of $10 million in funding increases our staff numbers by 70 to 90 FTEs with an average return of 1 to 8 in revenue from compliance activities. So, for every $10 million extra in funding, we return an additional $80 million in revenue. A decrease in funding of $10 million has the inverse impact and would reduce revenue by $80 million.

35. If funding was decreased, we could preserve a focus on compliance. However, there would be a degradation of services for customers, which would impact the achievement of our performance standards and ultimately have a longer-term negative impact on trust in Inland Revenue, with flow on consequences to voluntary compliance and revenue.

36. We have considered a range of scenarios to illustrate the impact of funding changes:

    a. *No cost pressure funding*. We manage the pre-existing reductions in our baseline funding as reflected in HYEFU 2023, and we self-fund cost pressures of $18 million in 2024/25 based on the factors set out in paragraphs 30 and 31. Thereafter our current modelling indicates that cost pressures would increase to $45 million in 2027/28. We estimate the consequence of meeting these cost pressures would be a reduction in revenue of $360 million per annum by the end of the period.

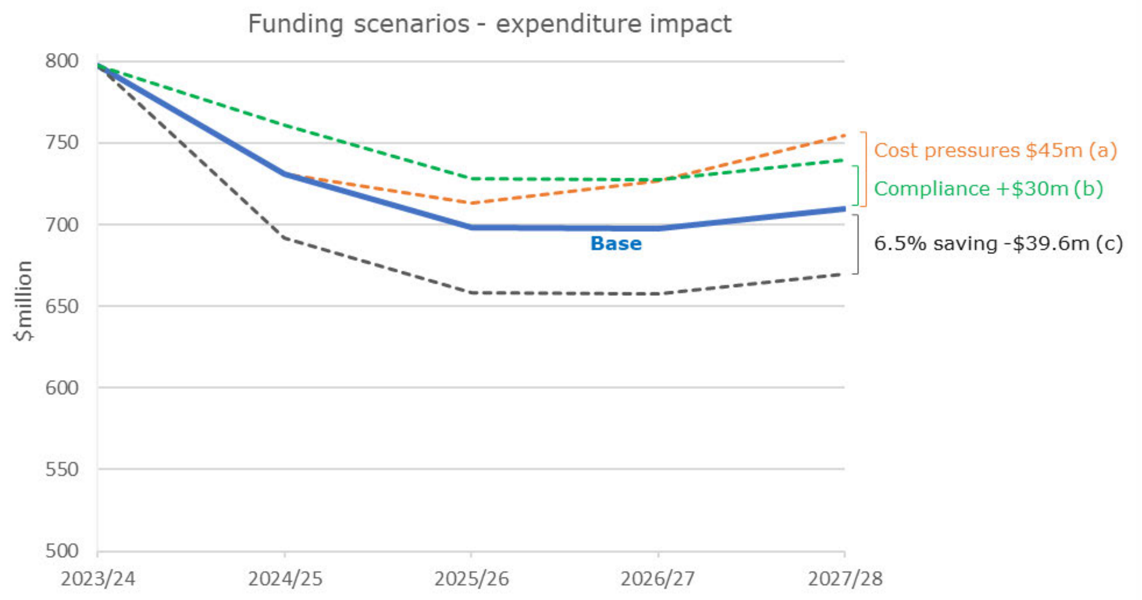
    b. *Additional compliance funding.* On its own, additional compliance funding of $30 million would increase revenue identified from compliance activities by $240 million per annum in 2027/28, a return of 1 to 8 over time.

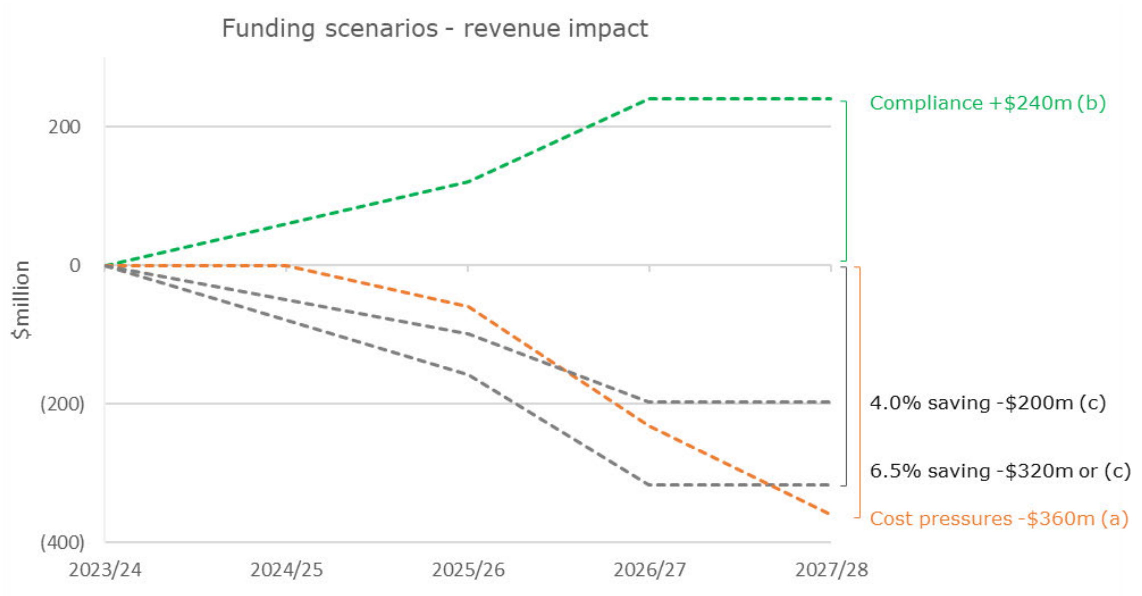
    c. *Savings of $6.5% ($39.6m)*. s 9(2)(f)(iv) [redacted]

[8] This $610 million adjusted baseline was calculated by the Treasury as an average baseline over the next four years excluding items such as depreciation and capital charge.

37. Whilst each scenario is described in isolation, the actual impact will reflect the combination of all three. Scenarios (b) and (c) effectively cancel out each other from a revenue perspective.

38. The two graphs below illustrate the impact of these scenarios from an expenditure and revenue perspective.





Approach to funding new policy initiatives

39. In previous years we have self-funded some new policy initiatives and sought additional funding for others. The principles we have applied in the past, and propose going forward are:

- *Self-fund* initiatives that leverage existing system and process functionality with low development and administration costs. This would likely include proposed initiatives for personal income tax band changes and independent earner tax credit threshold changes.

- *Seek additional Crown funding* for new tax/levy/expenditure types or initiatives with substantial additional system changes and/or administration costs. This would likely include the proposed Family Boost childcare rebate and changes for foreign gambling operators in New Zealand.

- *Seek additional Crown funding* for initiatives being led by other Ministers and agencies with impacts for Vote Revenue.

40. We will assess the cumulative impact of all provided Budget 2024 initiatives and report back to you on the application of the above funding principles.

Upcoming Treasury Budget and baseline change processes

41. The Treasury has released guidance for the Budget 2024 process. We are expecting to provide the following submissions to you:

- Key Vote Revenue priorities - In addition to your three key priorities, I will report back to you by 12 January 2024, with two further priorities for your consideration. Your response to the Prime Minister is due by 29 January 2024.
- Savings assurance process – A Treasury run process in early January 2024 to help ensure sufficient savings options are identified by agencies.
- Budget 2024 invited submissions – This includes a covering submission letter and a summary of the Initial Baseline Exercise. We will discuss and seek your approval for this prior to the Treasury submission date of 16 February 2024.

- Capital investments – In the new year the Minister of Finance will confirm if any of our capital investments are in scope of the Budget 2024 capital investment pipeline review.

- 2024 March Baseline Update (MBU24) – An opportunity for technical baseline[9] changes and changes that can be made by joint Ministers[10]. (Likely due to you in mid-February 2024.)

- 2024 Budget Economic and Fiscal Update (BEFU23) – Incorporates Cabinet Budget decisions, tax forecast and non-departmental expenditure forecasts based on updated Treasury macroeconomic forecasts (April 2024).

[9] Baseline - The level of funding approved for any given spending area (e.g. Vote Revenue).
[10] The Minister of Finance and the Vote Minister.

Recommendations

42. It is recommended that you:

1. **Note** the three principles for self-funding and seeking additional funding referenced in paragraph 39.

   Noted

2. **Note** the contents of this report.

   Noted

Peter Mersi
Commissioner, Inland Revenue

Hon Simon Watts
Minister of Revenue
/ / 2024

Appendices

Appendix 1 – Vote Revenue departmental - appropriations summary
Appendix 2 – Vote Revenue departmental - products and cost of collection
Appendix 3 – Non departmental – appropriations summary
Appendix 4 – Crown Revenue and capital receipts

Appendix 1 – Vote Revenue departmental - appropriations summary

Our total departmental operating baseline for Vote Revenue in 2023/24 is currently $797 million as at the 2023 Half-year Economic and Fiscal Update (HYEFU).

Our five core outputs (functions) are reflected as five categories within a single *Services for customers* Multi-category Appropriation (MCA). This categorisation enables the Commissioner to move resources between the five categories in the MCA to deliver outcomes.

The following table sets out the Vote Revenue departmental appropriations that comprise our baseline over the forecast period.

Vote Revenue Departmental appropriations	2023/24 BEFU23[1] $million	2023/24 HYEFU23[2] $million
Multi-category Expenses and Capital Expenditure:		
Services for customers MCA[3]		
Investigations	134	144
Management of debt and unfiled returns	98	107
Policy advice	13	14
Services to Ministers and to inform the public about entitlements and meeting obligations	310	336
Services to process obligations and entitlements	166	176
Sub-total	721	778
Departmental output expenses:		
Services to other agencies RDA[4]	2	2
Departmental other expenses:		
Residual activities following the transformation programme's substantive closure[5]	15	18
Total operating appropriations	**738**	**797**
Departmental capital expenditure		
Inland Revenue Department - Capital Expenditure PLA[6]	43	65
Total operating and capital appropriations	**781**	**862**

1. BEFU23 – 2023 Budget Economic and Fiscal Update, May 2023.
2. HYEFU23 – 2023 Half-year Economic and Fiscal Update, December 2023.
3. MCA – Multi-category Appropriation.
4. RDA – Revenue Dependent Appropriation.
5. This two-year appropriation will close at the end of June 2024.
6. PLA – Permanent Legislative Authority.

References:

- The Estimates of Appropriations 2023/24 – Finance and Government Sector B.5 Vol 4. Vote Revenue – link.

Appendix 2 – Vote Revenue departmental - products and cost of collection

Our departmental appropriations are functional in nature, however, we can also model expenditure by product type. The following table sets out our 2023/24 forecast expenditure by product and the cost of collection $100 of tax revenue.

Vote Revenue Products	2023/24 Forecast[1] $million	Percentage of total %
Tax products:		
Income tax	294	37
GST	85	11
PAYE (source deductions)	119	15
Other taxes	25	3
Sub-total	523	66
Social policy products:		
Child support	59	7
Working for Families Tax Credits	64	8
KiwiSaver	46	6
Student loan scheme	24	3
Other social policy	3	-
Sub-total	195	24
Other products:		
Covid 19 initiatives	43	5
Residual transformation activities	35	4
Sub-total	79	10
Total	**797**	**100**

Cost of collecting $100 of tax revenue	2023/24 Forecast[1] $million
Cost of tax products	523
Tax revenue (from Appendix 4)	115,838
Cost to collect $100 of tax revenue	45 cents

1. Totals are from HYEFU23 – 2023 Half-year Economic and Fiscal Update, December 2023.

Appendix 3 – Non-departmental – appropriations summary

For the 2023/24 financial year, Inland Revenue will administer just over $17 billion of non-departmental appropriations. As at BEFU 2023, this included:

- $12 billion for other expenses, including impairment of debt and debt write-offs, the initial fair value write-down relating to student loans and the Small Business Cashflow (Loan) Scheme, KiwiSaver employee and employer pass-through contributions and the research and development tax incentive.
- $5 billion of benefits or related expenses, including Working for Families Tax Credits, child support payments, KiwiSaver interest and tax credits, and paid parental leave payments.
- $5 million for capital expenditure (that is, lending) for the Small Business Cashflow (Loan) Scheme.
- just over $14 million of borrowing expenses for interest on the income equalisation scheme and the environmental restoration account.

Vote Revenue Non-departmental appropriations	2023/24 BEFU23[1] $million	2023/24 HYEFU23[2] $million
Benefits or related expenses:		
Best Start tax credit PLA[3]	339	334
Child support payments PLA	466	422
Family tax credit PLA	2,284	2,278
In-work tax credit PLA	477	474
KiwiSaver: interest	1	3
KiwiSaver: tax credit	1,093	1,058
Minimum family tax credit PLA	12	13
Paid parental leave payments	677	650
Sub-total	5,349	5,232
Non-departmental borrowing expenses:		
Environmental restoration account interest PLA	2	4
Income equalisation account interest PLA	9	10
Sub-total	11	14
Non-departmental other expenses:		
Impairment of debt and debt write-offs	931	1,200
Impairment of debt relating to child support	-	-
Impairment of debt relating to student loans	-	-
Impairment of debt relating to SBCS	-	-
Initial fair value write-down relating to the SBCS	28	2
Initial fair value write-down relating to student loans	640	601
KiwiSaver: Employee and employer contributions PLA	9,770	9,910
Research, Science and Innovation: R&D tax incentive	535	470
Sub-total	11,904	12,183
Total operating	17,264	17,429
Non-departmental capital expenditure:		
Small Business Cashflow Scheme (SBCS)	60	5
Total capital	60	5

1. BEFU23 – 2023 Budget Economic and Fiscal Update, May 2023.
2. HYEFU23 – 2023 Half-year Economic and Fiscal Update, December 2023.
3. PLA – Permanent Legislative Authority.

Appendix 4 – Crown revenue and capital receipts

Tax revenue forecasts are included within Vote Revenue. These forecasts are prepared by the Treasury, in consultation with Inland Revenue's Forecasting and Analysis team. Capital receipts are forecast by Inland Revenue.

Vote Revenue Non-departmental	2023/24 BEFU23[1] $million	2023/24 HYEFU23[2] $million
Crown revenue and capital receipts:[3]		
Tax revenue[4]	115,939	115,838
Non-tax revenue[5]	855	970
Capital receipts	2,370	2,267
Total crown revenue and capital receipts	119,164	119,075

1. BEFU23 – 2023 Budget Economic and Fiscal Update, May 2023.
2. HYEFU23 – 2023 Half-year Economic and Fiscal Update, December 2023.
3. Inland Revenue only. Excludes revenue collected by other Government agencies.
4. Tax revenue incorporates unconsolidated source deductions (PAYE), other persons' tax, fringe benefit tax, corporate tax including company tax, other direct income tax, GST and other indirect taxes administered by Inland Revenue
5. Non-tax revenue incorporates interest unwind for student loans and Small Business Cashflow Scheme (interest income due to reversing the initial fair value write-down over the life of the loan), child support penalty revenue, unclaimed monies, and interest and penalties on Working for Families Tax Credits debt.
6. Capital receipts incorporates student loan capital repayments, Small Business Cashflow Scheme capital repayments and deposits into the income equalisation and environmental restoration account schemes.

Financial Position Update to the Minister of Revenue

15th January 2024

Inland Revenue
Te Tari Taake

Introduction

This paper is in support of the Inland Revenue report: Inland Revenue's financial position leading into the Budget 2024, and contains additional information requested by the Minister.

- Function/overview of all FTEs and include all contracts and consultants (FTE figures are from end August 2023)
    - An additional breakdown of frontline, customer segment costs by customer, product and function is also included
    - OECD international comparison of cost to collect tax revenue and debt positons
- Overview on non-personnel costs and driver analysis
- Balance sheet provisions overview

Our resources are allocated based on customers and shared functions

This view of our Tier 3 structure is grouped by front line customer management and the shared services which work directly with them and back office enterprise support services and those that provide direction, policy, governance and integrity services.

Dealing directly with Customers

Customer Management

- Families — 459 FTE, $38m
- Micro Business — 324, $30m
- Significant Enterprises — 314, $40m
- Community Compliance * — 273, $28m
- Individuals* — 1082, $85m
- SME — 445, $46m
- International Revenue* — 20, $4m
- Tax Counsel Office* — 64, $12m

CCS PD&D

- Operations Support * — 70, $7m
- START Design & Delivery — 161, $63m
- Planning & Performance — 58, $4m

Supporting the customer facing capabilities

Customer Support Services*

- Legal Services — 145, $23m
- Compliance Strategy & Innovation — 23, $3m
- Intelligence & Insight — 50, $10m
- Marketing and Comms — 33, $7m
- Data Science & Analytics — 54, $15m
- Information & Knowledge — 44, $15m

Enterprise Support Services

- Finance Services — 51, $11m
- People Services — 129, $27m
- Commercial & Property — 34, $32m
  - Property
- Enterprise Services PD&D — 12, $7m
- Enterprise Service Management — 25, $5m
- Technology Services — 47, $74m

Direction, Governance & Integration

- Policy & Regulatory Stewardship — 79, $16m
- Strategic Architecture — 18, $7m
- Integrity & Assurance — 16, $3m
- Security & Privacy — s 6(c) [redacted], $3m
- Te Kāhui Tūhono — [redacted], $1m
- Corporate Legal — [redacted], $1m
- Governance, Ministerial Services — 28, $4m
- Strategic Portfolio Stewardship — 23, $4m
- Digital Eco-System — s 6(c) [redacted], $2m

Key

- Customer Segments — $267m - 43% cost, 2897 – 70% FTE
- Supporting Customer Segments — $66m – 11% cost, 405 – 10% FTE
- Technology based services — $185m - 30% cost, 408 – 10% FTE
- Property — $26m - 4% cost
- Enterprise support — $83m - 13% cost, 395 – 10% FTE

Note : Values based on **23/24 BU operating budgets** (people & non-people costs) of **$632m** rounded to nearest $m and includes cost of executive management and support . Total FTE was **4105** at Aug 23

Note : * denotes provides shared services into the customer segments.

Inland Revenue
Te Tari Taake

Non-Personnel Costs Overview (23/24 Budget)

Non-People Costs (Business Group & Investment)

$237m

36%
(of total 23/24 business group and investment operating budget)

Contractor & Consultant — $41m, 6%

- **Consultants** $8m
- **Contractors** $25m
- Outsource Services $8m

Contractors $25m
- Projects 45%
- Specialist Skills 55%

(assumes average 70 FTE for year)

IT & Telco — $133m, 20%

- START $63m
- Contact Centre $11m
- Enterprise Data & Analytics $10m
- Content, Information & Knowledge $12m
- Enterprise Services $14m
- Shared Technology Services $17m
- Workplace Services $6m

Property & Workplace — $33m, 5%

- Rental expense
- Building expenses
- Office expenses

Other — $30m, 5%

- Postage & Print
- Legal expenses
- Communications & Publicity
- Travel
- Other

Various ways to look at our customer segment effort and FTE cost

The direct customer support costs within the segments can be viewed across the difference lens of customer, product and function.

Based on **2022/23 actuals** of $235m direct costs of segments moderated to remove impact of COVID and rounded ($m)

Customer Estimated Effort

Individuals	SME	Significant Enterprises	Families	Micro Business	Com Com
54m	27m	39m	52m	52m	12m

Product Estimated cost

Taxes ($155m /66%)			Social ($78m / $34%)				Other
INC	GST	PAYE	CS	WFF	KWS	SLS	50/50
88m	32m	30m	22m	22m	15m	14m	10m

Function Estimated cost

Process	Inform	Debt and Returns	Investigations
51m	110m	33m	41m

[1] **Source:** *Product cost allocations for 2022-23 - actuals (June month-end)*

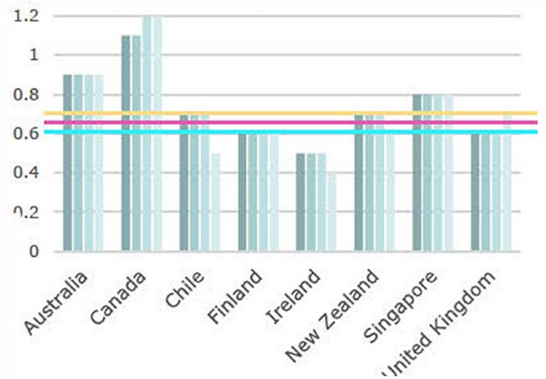
Compared to our peers, we stack up well

We regularly benchmark ourselves against our peers in the revenue collection arena, and find our key metrics of revenue per dollar of employee are incredibly efficient.

For 22/23 the result was 43 cents / $100 collected

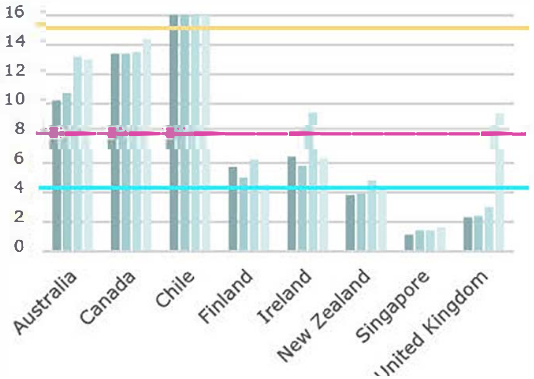
Cost to collect ratio

	2018	2019	2020	2021
Australia	0.9	0.9	0.9	0.9
Canada	1.1	1.1	1.2	1.2
Chile	0.7	0.7	0.7	0.5
Finland	0.6	0.6	0.6	0.6
Ireland	0.5	0.5	0.5	0.4
New Zealand	**0.7**	**0.7**	**0.7**	**0.6**
Singapore	0.8	0.8	0.8	0.8
United Kingdom	0.6	0.6	0.6	0.7
Average	**0.74**	**0.74**	**0.75**	**0.71**
Median	0.7	0.7	0.7	0.65



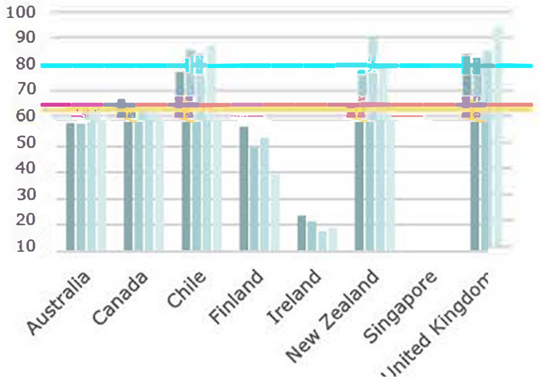
Debt to revenue ratio

	2018	2019	2020	2021
Australia	10.2	10.7	13.2	13
Canada	13.4	13.4	13.5	14.4
Chile	78.7	75.9	90.8	66.9
Finland	5.7	5	6.2	4.5
Ireland	6.4	5.8	9.4	6.3
New Zealand	**3.8**	**3.9**	**4.8**	**4.2**
Singapore	1.1	1.4	1.4	1.6
United Kingdom	2.3	2.4	3	9.3
Average	**15.20**	**14.81**	**17.79**	**15.03**
Median	6.05	5.4	7.8	7.8



Collectable debt to debt ratio

	2018	2019	2020	2021
Australia	58.7	58.4	64	65.2
Canada	66.6	64.9	61.6	63.2
Chile	76.9	85.3	84.2	87
Finland	57.3	49.6	53.1	39.3
Ireland	23.6	21.3	17.5	18.9
New Zealand	**63.7**	**77.4**	**89.8**	**79.4**
Singapore	NA			
United Kingdom	83.6	82.5	85	94.4
Average	**61.49**	**62.77**	**65.03**	**63.91**
Median	63.7	64.9	64	65.2



Key Insights

Cost to collect ratio:

- Our lower than average cost to collect ratio of 0.6 in 2021 and currently at .43 2022/23, indicates that we have a good level of efficiency within our tax collection processes, suggesting that we are successfully collecting more revenue with slightly less costs compared to other agencies

Debt to revenue Ratio:

- Our debt to revenue ratio is the second lowest of the comparable agencies, indicating that we are able to capture a sufficient amount of revenue to cover our debt obligations, providing a healthy level of financial stability and opportunity to invest in growth

Collectable debt to debt ratio:

- IR is currently sitting at a relatively higher than average collectable debt to debt ratio at 79.4, just behind the leading agency in UK. This result suggests that IR is able to effectively manage and recover debts, as 79.4% of recorded debt is likely to be recovered over a period compared to the industry average of sub 65.2%

Departmental Balance Sheet Provision Overview

1. We have 24 provision accounts – short and long term. Short term are utilised for the current financial year, long term for future financial years.

2. Unless there was a material change to the Holidays Act provisions and subsequent change to employment agreements (amending current employee entitlements) then there are no financial savings within the provision accounts.

3. We presently utilise 12 of the provision accounts, totalling $82.391m as at 31/12/2023

4. Of the 12 provisions currently utilised, 4 accounts hold most of the costs, two are employee entitlements:

    1. Accrued annual leave - $36.528m (Holidays Act provisions)
    2. Retiring allowance [long and short term] – combined total $21.457m (a protected entitlement aka grand-parented employee agreements, if employed before 1 July 1999, when an employee retires with notice they are entitled to receive an amount up to 131 days (a calculation per years of service). Each year IR has an external provider complete a revaluation of this provision based on the remaining employees, their length of service, age etc. IR presently have approximately 620 eligible employees.
    3. Forward exchange contracts - $15.522m (Treasury contracted rate for multi-year overseas commercial agreements e.g. FAST)

5. The remaining 8 provisions utilised include
    1. Employee related (Holidays Act or employee agreement) including long service leave, sick leave and redundancy - $8.128m
    2. Contractual obligations including onerous contracts and lease makegood - $0.756m

Description	Dec-23
Prov accrued leave ST	-$36,527,755
Prov retiring allowance LT	-$16,527,229
Forward exchange Contracts	-$15,521,582
Prov retiring allowance ST	-$4,930,000
Prov long service leave LT	-$4,812,650
Prov sick leave ST	-$1,620,010
Prov long service leave ST	-$1,490,000
Prov lease makegood LT	-$687,536
Prov termination benefits ST	-$132,028
Prov onerous contracts ST	-$68,387
Termination benefits LT	-$66,862
Prov TOIL ST	-$6,046
Prov emp benefits ST	-$428
Total	-$82,390,513

Inland Revenue
Te Tari Taake

Inland Revenue report: **Budget 2024 – Savings options and Assurance Panel**

Date:	29 January 2024	**Priority:**	High
Security level:	In confidence (Budget sensitive)	**Report number:**	IR2024/022

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the content of this report and discuss with officials	30 January 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Peter Mersi	Commissioner of Inland Revenue	s 9(2)(a)
Mike Nutsford	Strategic Advisor, ED&I	

29 January 2024
Minister of Revenue

Budget 2024 – Saving options and Assurance Panel process

Purpose

1) This report outlines the savings options we have identified which will form the information we are required to provide to the Assurance Panel as part of the Budget 2024 (Budget 24) process, subject to any agreed changes. We propose to discuss the savings options with you at our meeting on 30 January 2024. We will incorporate your views into the information we provide to the Assurance Panel and the formal submission of invited bids.

Background

2) The Minister of Finance wrote to you on 21 December 2023 setting out fiscal objectives across the parliamentary term and Budget 24 expectations. As part of the Budget 24 process, the Minister of Finance set up an assurance process to help ensure sufficient savings options are identified. A central agency Assurance Panel, supported by Treasury, engaged with us earlier this month on how well prepared we are in identifying saving options and if additional support may be required.

3) Prior to formal submission on invited bids (due 16 February) we are required to provide an update on our savings options identified to date and any barriers to the delivery of the savings to the Assurance Panel. This is due to the Panel on 30 January 2024. We are scheduled to meet with the Assurance Panel on Thursday to discuss our baseline savings options. The Panel provides regular updates to the Minister of Finance.

Departmental baseline savings

4) We must identify options to meet departmental baseline savings of $39.6 million a year from the 2024/25 fiscal year. This is a 6.5% reduction. In addition, we will be required in future years to find additional savings of 2 to 3 percent to meet our on-going cost pressures such as remuneration.

5) We reported to you on 21 December 2023 in IR2023/283 which covered Inland Revenue's financial position leading into Budget 24. In a subsequent discussion with you on 15 January 2024, you stated your expectation that we must identify options to generate baseline savings. You also indicated that your priority was tax administration and compliance and the collection of overdue tax. This priority is supported by the Minister of Finance's request as part of Budget 24 for a bid to be submitted seeking additional funding for increased tax compliance and audit activity. In addition, you, in conjunction with the Minister of Tertiary Education and Skills, have been asked to submit a bid on increasing Student Loans overseas based borrowers' compliance activity settings.

6) The Minister of Finance, in her 21 December letter, noted that targeted savings and revenue options, as discussed in paragraphs 26 to 33 below, could help offset some of the final baseline reduction target, subject to the nature and quantum of targeted policy savings and revenue options.

7) Based on your expectations and our discussion on 15 January 2024, we have identified options that will meet the savings target. We have assessed our ability to reduce our back office, contractors and consultants and operating expenditure to meet the savings target but s 9(2)(f)(iv) [redacted] Due to the timeframes the identification of options and analysis of the impacts is at a high level. The table below sets out the options and the associated savings. The options and their implications are discussed in the proceeding paragraphs.

Options	Savings
Reduce departmental operating expenditure – travel, training, contractors and consultants and accommodation	$5.6 million
Reduce overtime (35% reduction)	$5 million
Reduce change capacity	$15 million
s 9(2)(g)(i), s 9(2)(f)(iv) [redacted]	
Total	**$39.6 million**

Reduction in operating expenditure

8) This option will result in the following operating expenditure being reduced as follows:

Operating expenditure	Reduction per annum
Travel and training (22% reduction)	$1.7 million
Contractors and consultants (19% reduction)	$3.0 million
Accommodation sublease	$0.4 million
Technology contract savings	$0.5 million
Total	**$5.6 million**

9) We consider that the impact of these savings is manageable and will not have a material effect on the delivery of our services. There may be a minor risk associated with the retention of staff due to the reduction in training in that they may not consider they are getting the development opportunities to pursue their career and may seek opportunities elsewhere outside of Inland Revenue. Also, the reduction in travel may have a negative employee experience in the ability to connect face to face with colleagues and leaders.

Reduction in overtime

10) At certain times of the year, we use overtime in our frontline workforce to manage large spikes in customer demand that go well above our baseline resources. Due to the tight timeframes to deliver the previous Government's COVID-19 response, the Cost-of-Living payment and the tight labour markets impact on our recruitment our required levels of overtime have gone up. On the assumption that the labour market improves, and we can hire and retain more of the right skills in our frontline workforce to manage future pressures, we will reduce the use of overtime spend. This will result in savings of $5 million per annum.

11) A reduction in the use of overtime may have implications in meeting our performance measures at peak times, such as managing customer contacts during the annual income tax assessment process. We will put in place an appropriate mitigation plan to minimise such risks.

Reduction in change capacity

12) Our change capacity is used to design and deliver the Government's Tax and Social Policy Work Programme (TSPWP), maintain the health of our systems such as our tax and social policy system (START), optimise our customer and business outcomes, and drive effectiveness and efficiency into our operations. s 9(2)(g)(i) [redacted] s 9(2)(g)(i) [redacted] s 9(2)(g)(i) [redacted] Our change capacity spans across a number of different business units and includes FAST IT developer resources.

13) As a commercial off-the-shelf (COTS) product, START requires direct support and maintenance from the provider (FAST). s 9(2)(j) [redacted] s 9(2)(j) [redacted] s 9(2)(j) [redacted] As a reference our current level of resourcing is considerably lower than that used by the Finnish Tax Administration which has double the amount of FAST resources and system design experts. Finland has a comparable population of 5.5 million and uses the same FAST system, but their tax administration only handles tax (no social policy products), yet they maintain a baseline resource twice the size of New Zealand.

14) This will be achieved by reducing the number of specialist change resources we currently have, including our contracted number of FAST IT developer resources.

15) The risks associated with this option will be the reduced ability to self-fund any new work including unexpected new Government initiatives. Delivery of the tax-related measures in Budget 24 as outlined in the coalition agreements and the Tax Plan will not be affected by this.[1] Furthermore, the setting of the Government's new TSPWP will be informed by this reduced capacity. It could take longer to scale up to deliver new initiatives.

16) In our report IR2023/283 that covered Inland Revenue's financial position leading into Budget 24, we set out our approach to self-funding the implementation and on-going administration costs of new Government initiatives. Our capacity to self-fund such initiatives in the future will reduce because of this saving option. The effect of this is that if you wish to implement changes to the tax system over this term and those changes affect Inland Revenue's systems, processes, or resourcing, Inland Revenue may be unable to deliver such changes without a corresponding increase in funding.

17) A further risk associated with this saving option, is that it will reduce our ability to resource ongoing efficiency opportunities which would have enabled us to better manage on-going cost pressures or have led to improved compliance or compliance cost reductions.

s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

[1] We have indicated in discussions to date that we will be seeking additional funding for the implementation and on-going administration of Family Boost and the gambling tax initiative.

s 9(2)(f)(iv), s 9(2)(g)(i)

[redacted]

s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

Targeted policy savings or revenue raising options

26) In addition, as part of the Initial Baseline Exercise we have been asked to submit additional significant targeted policy savings or revenue raising options.[4] The Minister of Finance's letter identifies the following areas for consideration:

Initiative	**Comment**
Revenue positive options associated with the maintenance of the tax system	The Minister of Finance expects options to be developed alongside work on setting the Tax and Social Policy work programme
s 9(2)(f)(iv) [redacted]	
Savings-related options for student loans including increasing the overseas based repayments and compliance activity settings	The Minister of Finance has indicated that this should be a joint proposal with the Minister for Tertiary Education and Skills.

Revenue positive options associated with the maintenance of the tax system

27) We have commenced work on identifying potential revenue raising options that could be developed alongside work on setting the Government's Tax and Social Policy work programme (TSPWP). We will provide further advice on these potential options as part of that work.

28) s 9(2)(f)(iv) [redacted]

[4] Initiatives that will generate savings or additional revenue of $100 million or more over the forecast period.

s 9(2)(f)(iv) [redacted]

Student loan saving options

31) In conjunction with the Ministry of Education, we have reported to you and the Minister of Tertiary Education and Skills on student policy savings-related options (Tertiary Education Report: Student loan savings for Budget 2024 (IR2024/014/1321284 refers)) and recommended that further work be undertaken for Budget 24 on the following options:

- s 9(2)(f)(iv) [redacted]
- increasing the current overseas interest formula by 1% for five years to partially cover the loss caused by the last three years of inflation
- s 9(2)(f)(iv) [redacted]
- [redacted]

32) Subject to Ministers' agreement, we will progress with a Budget savings template clarifying the scope of savings, operational details for implementation, and assessing the impacts of the options for both students and the Crown.

33) s 9(2)(f)(iv) [redacted]

s 9(2)(f)(iv) [redacted]

Next steps

34) As part of the Budget 24 Initial Baseline Exercise, you have been invited to submit the following bids:

Saving / Revenue raising initiatives
- Departmental baseline reduction
- Gambling tax changes
- Revenue associated with investment in tax compliance and audit including student loan overseas-based borrowers' compliance activities
- Revenue positive options associated with the maintenance of the tax system

s 9(2)(f)(iv)

Spending / Revenue reduction initiatives
- Restoring interest deductibility for rental property
- Adjustment of personal tax thresholds and Independent Earner Tax Credit adjustment
- Working for Families change – $25 week increase in IWTC
- Family Boost

35) In addition, we are working with Ministry of Education on the student loan related saving options. We understand that the Minister of Tertiary Education and Skills will submit this bid, if Ministers agree to this initiative proceeding.

36) We will report to you by 9 February on the above initiatives seeking your approval of the scope of the bids, the associated fiscal impacts and the implementation and on-going administrative implications. Some of these bids may be placeholder as the detailed design of the initiative is still be developed. The fiscal impacts and administrative implications will be refined and included in relevant Cabinet papers seeking final policy decisions.

37) This report will also include a draft letter to the Minister of Finance for your consideration and sign-off. The letter to the Minister of Finance is due to her by 1 pm on Friday the 16th of February together with relevant Treasury templates. Submission of the templates to Treasury via CFISnet is also due at this time.

Recommended action

38) We recommend that you:

(a) **Discuss** this report with officials at your meeting with the Commissioner on 30 January 2024.

Discussed

(b) **Note** that we will incorporate your feedback into the information to be provided to the Assurance Panel.

Noted

s 9(2)(f)(iv)

[redacted]

s 9(2)(a)

[redacted]

Peter Mersi
Commissioner of Inland Revenue

Hon Simon Watts
Minister of Revenue
/ /2024

Document 26

Inland Revenue
Te Tari Taake

Briefing note

Reference:	BN2024/039
Date:	5 February 2024
To:	Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
Copy to:	Peter Mersi, Commissioner Joanne Petrie, Executive Support Advisor to the Commissioner Governance and Ministerial Services
From:	Mike Nutsford, Strategic Advisor, ED&I
Subject:	**Baseline Savings Options – Updated Options**

Purpose

1. Attached is a copy of the note we provided to Office on Friday by way of email, setting out the revised Baseline Savings Options requested by the Minister of Revenue following the discussion with the Commissioner on Thursday, 1 February 2024.

Mike Nutsford
Strategic Advisor, ED&I
s 9(2)(a)

Note to the Minister of Revenue Re Savings

Further to our discussion yesterday on options to realise baseline savings of $39.6 million a year (6.5%), we have amended the options as follows.

Baseline saving options	Savings original	Savings Revised
1. Reduce departmental operating expenditure – travel, training, contractors and consultants and accommodation	$5.6 million	$9.6 million
2. Reduce overtime (35% reduction)	$5 million	$5 million
3. Reduce change capacity	$15 million	$15 million
s 9(2)(f)(iv) [redacted]		
Total departmental saving	**$39.6 million**	**$39.6 million**
s 9(2)(f)(iv) [redacted]		

We consider that the first two options (1 and 2) are manageable and will not have a material impact on the delivery of our services or FTEs.

We have not identified from which areas the additional operating expense savings will be realised and propose to manage this further reduction through the Departmental planning and budget setting processes.18

A reduction in our systems maintenance and change capacity (option 3) does have some risks in our on-going ability to self-fund new work including between-Budget new Government initiatives and resource ongoing efficiency opportunities which may enable us to better manage on-going cost pressures or lead to improved compliance or compliance cost reductions.

Because of the additional departmental operating expenditure savings identified of $4 million a year (option 1), s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

We will provide the further analysis and details you requested next week, along with a Report which pulls these proposals s 9(2)(f)(iv) [redacted] (and relevant policy priorities).

 Document 27

Inland Revenue
Te Tari Taake

Briefing note

Reference: BN2024/041

Date: 12 February 2024

To: Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

Copy to: Peter Mersi, Commissioner
Nick Bradley, Enterprise Leader Finance Services
Joanne Petrie, Executive Support Advisor to the Commissioner
Governance and Ministerial Services

From: Mike Nutsford, Strategic Advisor, ED&I

Subject: **Baseline Savings Options – additional information**

Purpose

1. This note provides the additional background material we undertook to provide in relation to our baseline savings options.

Background and context

2. At our discussion with the Minister of Revenue last Thursday (1 February 2024) on our baseline savings options we undertook to provide the following:
   - Information showing how our "back office" supported our frontline services.
   - More detailed information on our departmental balance sheet provisions.

Supporting information on back-office functions

3. The table below sets out Inland Revenue's operating budget for 2023/24, split into four categories:
   - Customer management - direct activity with customers
   - Customer support - supports activity with customers
   - Enterprise support - enterprise functions, e.g. Human Resources, technology
   - Direction, governance and integration – integrity functions, governance and policy.

	Total operating *$million*	People Cost *$million*	Other operating Costs *$million*	FTE (August 2023)
Customer management	267.1	255.2	11.8	2,904
Customer support	147.6	76.5	71.0	591
Enterprise support	154.9	41.1	113.6	298
Direction, governance and integration	56.9	46.9	10.1	258
Total	**626.5**	**420.0**	**206.5**	**4,052**

4. Additional information for each of the categories (excluding customer management - direct customer support) is shown in the tables below.

Customer support - supports activity with customers					
	Purpose and activities (% of total operating cost)	Total operating *$million*	People Cost *$million*	Other operating cost *$million*	Major components of other operating costs
Compliance Strategy and Innovation	Design and implementation of interventions supporting customers	3.3	3.3	0.1	-
Planning, Design and Delivery	START platform operations and change (core tax and policy system, providing majority of customer processes) Direct support of operational delivery with customers, rostering, overtime, event and channel management Customer complaints, operational planning, risk management, change planning	69.7	24.4	45.3	START professional services. Printing and post
International revenue strategy	International business customer compliance support International tax relationships (eg OECD, other tax administrations)	3.7	3.1	0.6	-
Marketing and Communications	20% internal comms 30% external website content management 50% external customer campaigns and compliance	7.3	4.7	2.5	External communications
Centre for Enterprise Data and Analytics	90% supporting frontline operations, compliance, risk and intervention design 10% corporate reporting	15.4	8.7	6.7	Specialist professional services

Legal Services	100% customer focus Advice and support for complex tax issues, disputes and compliance activities Litigation, including prosecutions, liquidations, bankruptcies and debt	23.3	18.4	5.0	Legal fees
Enterprise Information and Knowledge	60% IR external and internal website hosting, site management and technical changes 25% Information governance and external data sharing (into and out of IR) 15% internal knowledge management (tracking a cost saving opportunity, project change dependant)	15.2	6.1	9.1	Specialist professional services External tax library fees
Intelligence and Insights	90% customer segment demand, 10% Policy Customer insight (compliance and behaviours) Customer voice and measurement Intelligence – including compliance risk	9.6	7.7	1.9	Professional services

Enterprise support					
	Purpose and activities (% of total operating cost)	Total operating *$million*	People Cost *$million*	Other operating cost *$million*	Major components of other operating costs
Finance services	50% external reporting and government requirements 50% internal financial management Benchmarking confirms cost-effective compared to peers	10.9	7.3	3.7	Audit fees

People and Workplace services	People strategy, operations, advisory and workplace services Benchmarking showed that resource intensive compared to peers, opportunities for efficiencies dependant on payroll and system changes to eliminate manual processes	26.5	15.9	10.6	External recruitment fees and advertising Professional services
Commercial Services and Strategic property	80% External property cost (e.g. rent, lease costs) 20% Commercial and procurement management Benchmarking confirms cost-effective compared to peers	31.6	5.1	26.5	Property and lease costs
Enterprise Service Management	Internal corporate support services - service desk, incident management, business continuity, change and release management	5.0	3.3	1.7	Technology and licence costs
Enterprise Services Planning Design & Delivery	Internal corporate systems (HR, Finance, Commercial, Payroll, Identity)	7.2	1.8	5.4	Specialist professional services
Technology Services	Technology operations and security, external technology vendor cost (licenses and service delivery), and shared technology services (eg, network, workplace services, security)	73.8	8.0	65.8	Technology operations and licences, (software as a service)

Direction, governance and integration					
	Purpose and activities (% of total operating cost)	Total operating *$million*	People Cost *$million*	Other operating cost *$million*	Major components of other operating costs
Management units	Commissioner's office, Management across IR (excludes Policy and Tax Counsel Office)	6.6	3.7	2.9	Professional services
Tax Counsel Office	100% customer focus Technical advice about the interpretation and application of tax law. Disputes, rulings, independent reviews, public advice and guidance	11.7	11.5	0.2	-

Policy and Regulatory Stewardship	Jointly advise ministers with the Treasury on proposed changes to tax and social policy, and develop policy using the generic tax policy process.	15.7	15.0	0.7	-
Strategic Architecture	90% architecture (eg, technology, business, security) and support for design and delivery of change (business analyst and test practice) 10% strategy	6.7	4.7	2.0	Specialist professional services
Information Security Office	Chief Information Security Officer, Privacy Officer Specialist external security support	3.4	0.6	2.8	Specialist professional services
Integrity and Internal Assurance	50% internal assurance 50% internal fraud and integrity	2.7	2.3	0.5	-
Te Kāhui Tūhono	IR's Māhutonga strategy Māori-Crown relations Te Reo Māori and tikanga Māori support and capability	1.2	1.0	0.2	-
Corporate Legal	Internal legal support	1.4	1.2	0.2	-
Strategic Portfolio Stewardship	50% external reporting 50% enterprise planning, portfolio and change management, risk management, investment and benefits management	3.9	3.2	0.7	
Digital Ecosystem	Digital strategy and ecosystem partner engagement	1.4	1.1	0.3	-
Governance, Ministerial and Executive Services	Executive support and executive governance support Ministerial complaints Ministerial services including drafting replies to Parliamentary written questions, OIA requests and ministerial correspondence Secondees to Ministers' offices	3.7	3.6	0.1	-

Departmental balance sheet provisions

5. The table below sets out the main components of our departmental balance sheet as at 30 June 2023, with a brief description of each component. The two provision account categories are highlighted.

Balance sheet category	*June 2023 $million*	*Description*
Assets		
Debtor Crown	243	Crown investment into Inland Revenue [a].
Debtors and prepayments	13	Working capital.
Cash	53	Working capital.
Assets and financial instruments	317	Predominantly intangible assets for software and business process design.
	626	
Liabilities		
Creditors, payables and accruals	29	Working capital.
GST payable	11	Working capital.
Employee entitlements	83	Provision. See section below.
Other liabilities	1	Provision. See section below.
Forward exchange contracts	12	Unrealised losses
Surplus repayable to the Crown	41	Short-term payable to Crown.
	177	
Taxpayers' funds		
Taxpayers' funds	449	Similar to equity in the private sector.
	449	

a. Includes capital injections, capital withdrawals and 'depreciation'. Is used for our capital replacement programme, for example future START replacement.

6. Within our *Liabilities* we have ten provisions totalling $84 million as at 30 June 2023. These provisions are categorised as either *employee entitlements* or *other liabilities*. Our provisions combine both short-term (current financial year) and long-term (future financial years) components.

7. In the slide pack we provided to the Minister on 15 January 2024, we indicated that we had 24 provision accounts. This referred to the 24 account codes in our general ledger that we use as inputs into our Annual Report note disclosures. In our previous briefing we also indicated that we had twelve provision accounts. Appendix 1 provides a reconciliation between these twelve accounts and the ten we describe in this briefing note.

8. We have a separate non-departmental balance sheet (Schedule of Non-Departmental Assets and Schedule of Non-Departmental Liabilities) that records our assets and liabilities for our tax and social policy activities. This includes items such as tax receivables and student loan debt.

Provisions – employee entitlements

9. We have eight employee entitlement provisions totalling $83 million. These provisions reflect employment agreement provisions across our three collectives[1] and the requirements of the Employment Relations Act 2000 and Holidays Act 2003. These provisions mainly relate to leave entitlements.

[1] PSA, TaxPro and NUPE.

Employee entitlements	*$million*	*Description*
Annual leave	31	Employee annual leave entitlements
Accrued salaries and wages	19	Payroll related. Changes each month depending on pay dates.
Retiring leave	22	Annual independent actuarial valuation.
Long-service leave	7	Annual independent actuarial valuation.
Termination benefits	0.4	For example, redundancy payments.
Sick leave	2	Unused entitlements.
Time off in lieu	0.01	Unused entitlements.
Other	2	Miscellaneous
	83	

10. The only employee provision that we can directly influence is the provision for annual leave. We can encourage staff to utilise more of their annual leave balance. This would create a one-off expense credit.

Provisions – Other liabilities

11. We have two other liability provisions totalling $0.8 million. These are accounting provisions associated with our accommodation leases. These provisions vary over time depending on our accommodation contractual terms. We manage these provisions through good lease management and sub-leasing of any temporary surplus space.

Employee entitlements	*$million*	*Description*
Lease make good	0.7	For leasehold improvements
Onerous contracts and less incentives	0.1	For accommodation leases.
	0.8	

Mike Nutsford
Strategic Advisor, ED&I
s 9(2)(a)

Appendix 1 – Comparison of provision accounts

The following table provides a comparison between the ten provisions described in this briefing note compared to the ten provisions noted in the previous briefing noted.

Key points to note:

- For this briefing we have used the published 30 June 2023 actuals as reported in our 2023 Annual Report note disclosures
- The previously noted 'Forward exchange contracts' is an unrealised loss on forward covered foreign exchange contracts that is recalculated each month. This forward cover is mainly in USD for the software maintenance contract to the United States supplier of our tax system. This unrealised loss is a liability rather than a provision.
- The 'Accrued salaries and wages' reflects an accrual between pay dates. The amount was nil as at 30 December 2023 due to the timing of the pay date that month.

This briefing note	Jun 2023 $million	Previous briefing note	Dec 2023 $million
Annual leave	30.962	Prov accrued leave ST	36.528
Accrued salaries and wages	18.908		-
Retiring leave	21.930	Prov retiring allowance LT	16.527
		Prov retiring allowance ST	4.930
Long-service leave	6.900	Prov long service leave LT	4.813
		Prov long service leave ST	1.490
Termination benefits	0.367	Prov termination benefits ST	0.132
		Termination benefits LT	0.067
Sick leave	1.620	Prov sick leave ST	1.620
Time off in lieu	0.006	Prov TOIL ST	0.006
Other	2.114	Prov emp benefits ST	0.000
Lease make good	0.688	Prov lease makegood LT	0.688
Onerous contracts and less incentives	0.068	Prov onerous contracts ST	0.068
Total provisions	**83.563**	Total provisions	**66.869**
		Forward exchange Contracts	15.522
		Total	**82.391**

LT – Long-term, ST – Short-term

Inland Revenue
Te Tari Taake

Inland Revenue report: **Budget 2024 – Proposed Initial Baseline Exercise Submission for Vote Revenue**

Date:	12 February 2024	**Priority:**	High
Security level:	In confidence (Budget Sensitive)	**Report number:**	IR2024/023

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents and discuss with officials.	By the meeting with officials on 13 February 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Peter Mersi	Commissioner of Inland Revenue	s 9(2)(a) [redacted]
Mike Nutsford	Strategic Advisor, ED&I	
Darren Cheevers	Domain Lead Finance Services	

12 February 2024

Minister of Revenue

Budget 2024 – Proposed Initial Baseline Exercise Submission for Vote Revenue

Summary

1. This report seeks your approval of the proposed Initial Baseline Exercise Submission for Vote Revenue that you have been invited to submit for consideration as part of Budget 2024. It provides information on the scope of the initiatives, the associated financial and full-time equivalent (FTE) impacts as well as implementation and on-going administrative implications.

2. s 9(2)(g)(i) [redacted] Subject to your feedback, we will submit final documents for your approval on Thursday, 15 February.

   - s 9(2)(g)(i) [redacted]

   - s 9(2)(g)(i) [redacted]

Background

3. The Minister of Finance wrote to you on 21 December 2023 setting out the fiscal objectives across the parliamentary term and Budget 24 expectations. The Minister also invited you to submit initiatives to be considered as part of the Budget 24 Initial Baseline Submission exercise.

4. The initial submission is the second stage of the Budget 2024 process. Ministerial decision-making on the initiatives to be included in Budget 2024 and Cabinet agreement of the Budget 2024 package will occur in March/April. We will revise costs and benefits throughout this process based on Ministerial and Cabinet decisions. We have included in Appendix 10 the timetable for Budget 2024.

5. We propose submitting Budget templates for the following initiatives. We are confirming with The Treasury the appropriate initiative category for each initiative, for example 'savings – revenue options' versus 'new spending'. The noted appendices provide descriptions and summary detail for each initiative. This detail will form the content of the full Budget 2024 templates to be submitted on 16 February.

Savings - baseline reduction target

- Reduce operating expenditure (Appendix 1)
- Reduce systems maintenance and change capacity (Appendix 1)
- s 9(2)(f)(iv)

Savings - targeted policy savings

- Nil – Inland Revenue was not required to submit targeted policy savings.

Savings - revenue options

- Online casino taxes (Appendix 2)
- s 9(2)(f)(iv)
-

Cost pressures

- Nil – Inland Revenue was not invited to submit a cost pressure funding initiative.

New spending

- Investment in compliance: tax compliance and audit including student loan overseas-based borrowers' compliance activities (Appendix 3)
- Restoring interest deductibility for residential rental property (Appendix 4)
- Personal income tax thresholds and Independent Earner Tax Credit (Appendix 5)
- In-Work Tax Credit: increase by $25 per week (Appendix 6)
- Family Boost: Vote Revenue and Vote Social Development (Appendix 7)

Capital Pipeline Review

- Nil (see paragraphs 11 to 12).

6. The costs and benefits of the following initiatives have already been agreed as Budget 2024 pre-commitments and are not included in this report or our Budget 2024 submission. These changes will be included in the 2024 Budget Economic and Fiscal Update tax and expenditure forecasts, unless otherwise noted below.

   - Working for Families Tax Rates increases – Order in Council (CAB-230-MIN-065 refers). Included in the 2023 Half-Year Economic and Fiscal Update.
   - Changes to the 39% trustee tax rate (CAB-24-MIN-0015 refers).
   - Bright-line test adjustment (CAB-23-MIN-490 refers).
   - Commercial buildings depreciation (CAB-23-MIN-490 refers).

7. We will provide you with advice shortly on developing the Tax and Social policy work programme s 9(2)(f)(iv) s 9(2)(f)(iv) These initiatives can be progressed as either a between Budget initiative or a Budget 2025 initiative.

8. The Minister of Finance, in the letter of 21 December 2023, noted that targeted savings and revenue options could help offset some of the baseline reduction target, subject to the nature and quantum of targeted policy savings and revenue options.[1]

9. In addition, the Minister of Finance asked for a joint bid from you and the Minister of Tertiary Education and Skills on savings-related options for student loans, including increasing the overseas-based borrowers' repayments and compliance activity settings.

10. In relation to the request regarding savings-related options for student loans, you and the Minister of Tertiary Education have indicated that the focus should be on overseas-

[1] The letter identified the following initiatives as targeted savings and revenue options:

- Revenue positive options associated with the maintenance of the tax system
- s 9(2)(f)(iv)
- Savings-related options for student loans.

based borrower compliance and in particular those borrowers living in Australia and/or returning to or visiting New Zealand. We have included this compliance activity in the investment in compliance and audit bid (see Appendix 3).

11. The Minister of Finance wrote to you on 25 January 2024 outlining the process for capital initiatives in Budget 24 across three areas:

- review of investments to identify reprioritisation options (Capital Pipeline Review)
- cost pressures for investments in delivery
- new capital initiatives.

12. We do not have any investments within scope of the Capital Pipeline Review or require new funding for cost pressures for investments in delivery.

13. We will provide copies of the near-final templates that will be required to be submitted to The Treasury on Friday, 16 February, to your Office early this week. The information in this report reflects the information in the templates.

14. The Treasury templates required to be submitted as part of this process provide information on the scope of the initiative and the associated fiscal and cost implications. They also include information on:

- whether the bid aligns with the Government's Budget priorities
- cost and benefits analysis including the costs breakdown and FTEs numbers and information on how the funding implications of the initiative can be scaled down, and
- delivery and equity implications.

Financial impacts of proposed Budget 2024 initiatives

15. This section of the report sets out the financial impacts of the currently proposed Budget 2024 initiatives for:

- Vote Revenue: Departmental
- Vote Revenue: Non-departmental (which includes tax revenue and tax expenditure), and
- Vote Social Development (for the Family Boost initiative).

16. The initiatives in this report include a mix of revenue and expenditure. We have used the following Treasury conventions for representing numbers, unless otherwise indicated:

- Expenditure – positive eg $x.xxx million
- Savings – negative eg ($x.xxx) million
- Revenue increase – negative eg ($x.xxx) million
- Revenue decrease – positive eg $x.xxx million.

17. The figures in this report and templates are for the five-year forecast period being the 2023/24 to 2027/28 financial years.

18. Some of the financials in this report are provisional, with final policy and design decisions pending for some initiatives. We will update the financials as decisions are made through the Budget 2024 process. Our cost estimates incorporate appropriate contingencies based on the relative certainty of policy and design details for each initiative. We will revise these contingencies down as decisions are made and details agreed.

19. You will receive subsequent policy reports on options for various initiatives. Those reports will provide updated costs and ranges for options being considered.

20. Based on current initiatives we have assessed that we have the change capacity to deliver these initiatives and base maintenance of the tax system. Our change capacity is however very tight with little room for more activity to be added.

Our departmental position prior to Budget 2024

21. Our departmental operating budget (baseline), prior to Budget 2024 decisions, is forecast to decrease by $87.837 million (11%) over the forecast period as time-limited funding and one-off funding from previous initiatives expires. The temporary increase in our baseline in 2027/28 relates to the current profile of depreciation funding.

	$ million – increase / (decrease)				
Vote Revenue – Departmental	2023/24	2024/25	2025/26	2026/27	2027/28
Departmental baseline*	797.292	731. 280	698.164	697.446	709.455
Annual movement	-	(66.012)	(33.116)	(0.718)	12.009
Cumulative movement	-	(66.012)	(99.128)	(99.846)	(87.837)
Cumulative movement %	-	(8%)	(12%)	(13%)	(11%)

* As at the 2023 October Baseline Update and the 2023 Half-year Economic and Fiscal Update.

22. Within our departmental baseline we will be managing cost pressures that compound to $63.000 million in 2027/28. Our primary cost pressure is remuneration. We were not invited for a cost pressure bid this year, however with our collective agreements coming up for negotiation in the second half of 2024/25, we will be seeking approval to submit a budget bid in 2025 to assist in meeting these cost pressures. We will need to determine how we manage these cost pressures while minimising the impact on our outcomes.

	$ million – increase / (decrease)				
Vote Revenue – Departmental cost pressures	2023/24	2024/25	2025/26	2026/27	2027/28
Inflation	-	4.000	6.000	7.000	10.000
Remuneration	-	14.000	27.000	40.000	53.000
	-	18.000	33.000	47.000	63.000

23. Our FTEs on 30 June 2023 were 4,023. Our FTEs on 30 June 2024 are forecast to be temporarily higher than this level due to our current year focus on managing customer demand, such as web correspondence. For this year and the next two years the level of our FTEs will effectively reduce by 377 to reflect the expiration of time-limited funding, for example 'responding to COVID-19 demand and maintaining capability and integrity', administering the 'Cost of Living payment', and the 'taxation of housing' initiative.

	$ million – increase / (decrease)				
Time-limited funding – FTEs	2023/24	2024/25	2025/26	2026/27	2027/28
Annual movement	(23)	(64)	(290)	-	-
Cumulative movement	(23)	(87)	(377)	(377)	(377)

OBEGAL and operating balance

24. The operating impacts for the initiatives in this report are those that impact the Crown operating balance before gains and losses (OBEGAL) on an accounting accruals basis. Where appropriate we separately note any gain, losses and cash impacts for initiatives.

25. Capital impacts of initiatives will impact the Crown's net debt.

Summary of proposed capital and operating impacts of the proposed initiatives

26. Based on the currently proposed initiatives there is an OBEGAL impact (operating cost) of $16,580.200 million over the forecast period. The net capital impact across the

forecast is relatively small at $14.000 million. s 9(2)(f)(iv) [redacted]

	$ million – increase / (decrease) cost / (saving)					
Summary of proposed initiatives	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Net operating cost:						
s 9(2)(f)(iv) [redacted]						
Net operating cost	7.300	2,588.100	3,567.700	4,723.400	5,693.700	16,580.200
Capital cost:						
• Departmental (IR & MSD)	6.000	8.000	-	-	-	14.000
Net capital cost	6.000	8.000	-	-	-	14.000

s 9(2)(f)(iv) [redacted]

Net operating impacts for (OBEGAL) the Crown – all initiatives

27. From an operating perspective there is a net cost for the Crown of $16,580.200 million over the forecast period. This net cost is predominantly due the reduction in revenue, based on the upper range estimate, from the personal income tax threshold adjustments and the Independent Earner Tax Credit change.

	$ million – increase / (decrease) cost / (saving)					
Net operating cost – all initiatives	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Departmental (IR)	2.000	52.600	39.400	33.400	33.400	160.800
Departmental (MSD)	0.300	1.800	1.500	1.500	1.500	6.600
Non-departmental (IR)	5.000	2,533.700	3,526.800	4,688.500	5,658.800	16,412.800
Net operating cost	7.300	2,588.100	3,567.700	4,723.400	5,693.700	16,580.200

Net operating impacts for the Crown – targeted baseline reduction savings

28. The targeted baseline reduction of $39.600 million per year totals $158.400 million over the forecast period.

- $14.600 million – reduction in operating expenditure
- $15.000 million – reduction in systems maintenance and change capacity
- s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

29. s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

30. [redacted]

s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

Summary of departmental operating impacts

31. We have provisionally costed the total departmental operating impact of all Budget 2024 initiatives at $167.400 million over the forecast period.

	$ million – increase / (decrease) cost / (saving)					
Departmental operating impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – baseline reduction:						
• Operating expenditure	-	(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
• Systems maintenance and change capacity	-	(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
• s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]	-	s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]				
	-	s 9(2)(f)(iv) [redacted]				
Savings – revenue options						
• Online casino taxes	0.500	0.800	0.800	0.800	0.800	3.700
s 9(2)(f)(iv) [redacted]						
	0.500	s 9(2)(f)(iv) [redacted]				
New spending						
• IWTC increase	0.200	0.100	0.100	0.100	0.100	0.600
• Family Boost (IR)	0.500	17.300	13.300	13.300	13.300	57.700
• Family Boost (MSD)	0.300	1.800	1.500	1.500	1.500	6.600
• PIT adjustment and IETC	0.800	14.000	6.400	0.400	0.400	22.000
• Investment in compliance	-	s 9(2)(f)(iv) [redacted]				
• Interest deductibility	-	-	-	-	-	-
	1.800	s 9(2)(f)(iv) [redacted]				
Total net operating cost	2.300					
Total net operating cost (IR)	2.000					
Total net operating cost (MSD)	0.300	1.800	1.500	1.500	1.500	6.600

Summary of departmental capital impacts

32. We have provisionally costed the total departmental capital impact of all Budget 2024 initiatives at $14.000 million over the forecast period.

	$ million – increase / (decrease) cost / (saving)					
Departmental capital impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – revenue options						
• Online casino taxes	1.500	-	-	-	-	1.500
s 9(2)(f)(iv) [redacted]						
	1.500	s 9(2)(f)(iv) [redacted]				
New spending						
• IWTC increase	0.500	-	-	-	-	0.500
• Family Boost (IR)	0.500	1.000	-	-	-	1.500
• Family Boost (MSD)	2.000	4.000	-	-	-	6.000
• PIT adjustment and IETC	1.500	1.000	-	-	-	2.500
• Investment in compliance	-	-	-	-	-	-
• Interest deductibility	-	-	-	-	-	-
	4.500	6.000	-	-	-	10.500
Total capital cost	6.000	8.000	-	-	-	14.000
Total capital cost (IR)	4.000	6.000	-	-	-	10.000
Total capital cost (MSD)	2.000	2.000	-	-	-	4.000

Summary of non-departmental operating impacts including tax revenue

33. We have provisionally costed the total non-departmental operating impact of all Budget 2024 initiatives at $16,412.800 million over the forecast period.

	$ million - increase / (decrease) cost / (saving)					
Non-departmental operating impacts*	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – baseline reduction:						
• Operating expenditure	-	-	-	-	-	-
• Systems maintenance and change capacity	-	-	-	-	-	-
s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]						
Savings – revenue options						
• Online casino taxes	-	(45.000)	(47.000)	(49.000)	(52.000)	(193.000)
• s 9(2)(f)(iv) [redacted]						
New spending						
• IWTC increase	-	161.000	159.000	154.000	146.000	620.000
• Family Boost	-	174.000	171.000	167.000	165.000	677.000
• PIT adjustment and IETC^	-	1,993.000	2,697.000	4,042.000	4,969.000	13,701.000
• s 9(2)(f)(iv) [redacted]						
• Interest deductibility	5.000	360.000	785.000	855.000	915.000	2,920.000
	s 9(2)(f)(iv) [redacted]					
Total net operating cost	[redacted]					

* Non-departmental operating impacts include tax revenue and non-departmental expenditure. Increases in revenue (and decreases in expenditure) are shown as negatives values and are in brackets.

^ Upper range used. Refer Appendix 5 for further detail.

Summary of employee impacts

34. We have provisionally estimated the impact on employees (FTEs) of all Budget 2024 initiatives as a net increase of 369 FTEs by 2027/28.

	Full Time Equivalent staff – increase / (decrease)				
Employees	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Savings – baseline reduction:					
• Operating expenditure	-	-	-	-	-
• Systems maintenance and change capacity	-	(62)	(62)	(62)	(62)
• s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]					
Savings – revenue options					
• Online casino taxes	3	3	3	2	-
• s 9(2)(f)(iv) [redacted]	-	-	-	-	-
• [redacted]	-	-	-	-	-
	3	3	3	2	-
New spending					
• IWTC increase	-	-	-	-	-
• Family Boost	3	136	105	105	105
• PIT adjustment and IETC	6	109	49	-	-
s 9(2)(f)(iv) [redacted]					
• Interest deductibility	-	-	-	-	-
	s 9(2)(f)(iv) [redacted]				
Total					

35. Whilst there is a net increase in FTEs this is offset by FTE reductions from the expiration of previous time-limited funding (refer paragraph 23). The net effect is an increase of 415 FTEs in 2024/25 and a decrease of 8 FTEs in 2027/28 and outyears.

	Full Time Equivalent staff – increase / (decrease)				
Employees	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Budget 2024 initiatives	s 9(2)(f)(iv) [redacted]				
Time-limited funding	(23)	(97)	(377)	(377)	(377)
Net FTE impact	s 9(2)(f)(iv) [redacted]				

Sources of departmental funding and options for self-funding – preliminary advice

36. Next week we will provide advice on sources of funding that could reduce the cost impact of the initiatives. Any options for sources of funding are dependent on the overall cost of all Budget 2024 initiatives that impact Vote Revenue, including initiatives that may arise from other Ministers that impact our Vote.

37. From a capital perspective we will likely propose self-funding $10.000 million capital relating to Inland Revenue. We allow for a level of capital policy change each year. This level of capital self-funding can be achieved without adversely impacting our current short-term and long-term capital plan. We propose seeking funding for $6.000 million capital for MSD (Family Boost).

38. Next week we will advise on any possible self-funding options for operating costs.

39. There have been two initiatives recently approved by Cabinet as Budget 2024 pre-commitments. We self-funded the estimated $0.900 million of operating costs for

systems changes by incorporating these initiatives into our existing systems maintenance and change programme. We will provide advice to you on what further operating costs we may be able to self-fund in this way.

Recently self-funded initiatives - operating	2023/24 $million	Cabinet minute
Working for Families Tax Credit rate increase	0.200	CAB-23-MIN-0465
Change to the 39% trustee tax rate	0.700	CAB-24-MIN-0015
	0.900	

Consultation

40. In developing these proposals and preparing these bids, Inland Revenue consulted with the Ministry of Foreign Affairs and Trade, the Ministry for Housing and Urban Development, s 9(2)(f)(iv) the Ministry of Social Development, the Ministry of Education, the Treasury, and the Department of the Prime Minister and Cabinet.

41. We have provided the Treasury a copy of this report.

Next steps

42. Subject to your feedback, we will submit final documents for your approval and signature on Thursday, 15 February 2024 together with advice on any possible self-funding options for operating costs.

43. Also, early next week we will provide your office with final drafts of the Treasury templates for each of the Budget initiatives to be submitted as part of the initial baseline exercise.

Recommended action

44. We recommend that you:

(a) **Note** the contents of this report

Noted

(b) **Discuss** this report with officials at the scheduled meeting with the Commissioner on 13 February 2024.

Discussed

s 9(2)(a) [redacted]

Peter Mersi
Commissioner of Inland Revenue

Hon Simon Watts
Minister of Revenue
/ /2024

Appendices:

- Appendix 1 – Savings - baseline reduction target
- Appendix 2 – Online casino taxes
- Appendix 3 – Investment in compliance
- Appendix 4 – Restoring interest deductibility for residential rental property
- Appendix 5 – Personal income tax thresholds and Independent Earner Tax Credit
- Appendix 6 – In-Work Tax Credit: increase by $25 per week
- Appendix 7 – Family Boost
- s 9(2)(f)(iv) [redacted]
-
- Appendix 10– Key dates for Budget 2024

Appendix 1 – Savings - baseline reduction target

1. We were requested to develop options for an ongoing $39.600 million (6.5%) per annum baseline reduction target from 2024/25.

2. As we have previously explained, our Business Transformation programme was more than a technology project. It included an organisational redesign of our structure and the way we work as an organisation. As a result, we removed any inefficiency across both our front-line and back-office services.

3. Based on your expectations and our recent discussions on savings options we propose the following options to meet the savings target. We have assessed our ability to reduce our back office, contractors and consultants and operating expenditure to meet this target. We are not working on any projects or initiatives that the Government does not see as a priority such as the high wealth individuals project and reporting on the Tax Principles Reporting Act (now repealed). s 9(2)(f)(iv), s 9(2)(g)(i)
s 9(2)(f)(iv), s 9(2)(g)(i)

4. As part of our internal financial sustainability assessment, we have identified three proposed areas to deliver this level of savings.

	$ million – increase / (decrease) cost / (saving)					
Savings – baseline reduction	2023/24	2024/25	2025/26	2026/27	2027/28& outyears	Total
(a) Reduction in operating expenditure	-	(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
(b) Reduction in systems maintenance and change capacity	-	(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
s 9(2)(f)(iv), s 9(2)(g)(i)						
Total departmental savings	-	(39.600)	(39.600)	(39.600)	(39.600)	(158.400)
s 9(2)(f)(iv), s 9(2)(g)(i)						
Total net operating savings	-	(21.600)	(21.600)	(21.600)	(21.600)	(86.400)
FTEs	-	s 9(2)(f)(iv), s 9(2)(g)(i)				

(a) Reduction in operating expenditure

5. Our baseline savings option consists of a $14.600 million a year reduction in operating expenditure including a reduction in overtime as follows.

	$ million
Travel and training	(1.700)
Consultants and contractors	(3.000)
Accommodation	(0.400)
Technology	(0.500)
Reduction in overtime	(5.000)
Other efficiencies	(4.000)
	(14.600)

6. Apart from the reduction in overtime, the $9.600 million per year reduction in our operating expenditure will not have a material impact on our service delivery. We note that $4.000 million of other efficiencies will be managed through our internal departmental planning and budgeting setting process.

7. There may be a minor risk associated with the retention of staff due to the reduction in training in that they may not consider they are getting the development opportunities to pursue their career and may seek opportunities elsewhere outside of Inland Revenue. Also, the reduction in travel may have a negative employee experience in the ability to collaborate face to face with colleagues and leaders.

8. At certain times of the year, we use overtime in our frontline workforce to manage large spikes in customer demand that go well above our baseline resources. On the assumption that the labour market improves, and we can hire and retain more of the right skills in our frontline workforce to manage future pressures, we will reduce the use of overtime spend. This will result in savings of $5.000 million per year.

9. The reduction of $5.000 million a year in overtime may have an implication in meeting our performance measures at peak times, such as managing customer contacts during the annual income tax assessment process. We will put in place an appropriate mitigation plan to minimise such risks.

(b) Reduction in systems maintenance and change capacity

10. This baseline savings option consists of a $15.000 million a year reduction in our systems maintenance and change capacity.

11. Our change capacity is used to design and deliver the Government's Tax and Social Policy Work Programme (TSPWP), maintain the health of our systems such as our tax and social policy system (START), optimise our customer and business outcomes, and drive effectiveness and efficiency into our operations. You have indicated that once the Government's immediate commitments are delivered, as outlined in the coalition agreements and the 100-day plan, s 9(2)(g)(i) [redacted] Our change capacity spans across a number of different business units and includes external service provider (FAST Enterprises) system developer resources.

12. As a commercial off-the-shelf product, START requires direct support and maintenance from the provider (FAST). s 9(2)(j) [redacted]
s 9(2)(j) [redacted]

13. This saving will be achieved by reducing the number of specialist change resources we currently have across different business groups, including our contracted number of FAST system developer resources.

Reduction by capability	FTEs
Inland Revenue roles	
Managers and project leads	(5)
Change resources	(45)
ICT	(5)
Legal, HR and finance	(2)
Other	(5)
	(62)
External providers	(20)
Total	(82)

14. The risks associated with this option will be the reduced ability to self-fund any new work including unexpected new Government initiatives. Delivery of the tax-related measures in Budget 2024 as outlined in the coalition agreements and the Tax Plan will not be affected by this. Furthermore, the setting of the Government's new TSPWP will be informed by this reduced capacity. It could take longer to scale up to deliver new initiatives.

15. In our report IR2023/283 that covered Inland Revenue's financial position leading into Budget 2024, we set out our approach to self-funding the implementation and on-going administration costs of new Government initiatives. Our capacity to self-fund such initiatives in the future will reduce because of this saving option. The effect of this is that if you wish to implement changes to the tax system over this term and those changes affect our systems, processes, or resourcing, we may need to seek additional funding.

16. A further risk associated with this saving option, is that it will reduce our ability to resource ongoing efficiency opportunities which would have enabled us to better manage on-going cost pressures or have led to improved compliance or compliance cost reductions.

s 9(2)(f)(iv), s 9(2)(g)(i)

[redacted]

s 9(2)(f)(iv), s 9(2)(g)(i)

[redacted]

s 9(2)(f)(iv), s 9(2)(g)(i)

[redacted]

Appendix 2 - Online casino taxes

1. To deliver on the National Party's Tax Plan, which was agreed in coalition agreements, it is proposed that from 1 July 2024 Inland Revenue will collect a new gaming duty on online casino gambling. Gambling provided by online casinos will remain subject to GST. The initiative is estimated to collect additional tax revenue of $193.000 million over the forecast period.

2. Inland Revenue is seeking new capital and operating funding for the required system changes and compliance activity for the new gaming duty and related obligations such as GST and the problem gambling levy.

Fiscal and FTE implications - summary

3. The following table summarises the estimated operating, capital and FTE impact of this initiative.

	$ million –cost / (saving)					
Online casino takes	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating						
• Departmental	0.500	0.800	0.800	0.800	0.800	3.700
• Non-departmental	-	(45.000)	(47.000)	(49.000)	(52.000)	(193.000)
Total net operating cost/ (saving)	0.500	(44.200)	(46.200)	(48.200)	(51.200)	(189.300)
Total capital cost	1.500	-	-	-	-	-
FTEs	3	3	3	2	-	

Fiscal implications – non departmental

4. We have estimated that this new gaming duty will generate additional tax revenue as follows:

	$ million –expense / (saving)					
Non-departmental operating impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Revenue (increase)	-	(45.000)	(47.000)	(49.000)	(52.000)	(193.000)
Total operating saving	-	(45.000)	(47.000)	(49.000)	(52.000)	(193.000)

5. To estimate this additional tax revenue it was necessary to make assumptions, and the estimates are sensitive to these assumptions. The main risks with the assumptions are:

   - There is limited data on the size of the total market for online gambling. We have used data on the GST currently collected from online gambling operators as we consider this is the most reliable way to estimate the gross betting revenue on which the GST and duty could be collected.
   - The forecast revenue estimates are sensitive to the growth rate assumption used (assumed to be 5% per annum). There could be either much higher growth or a declining amount of online gambling spending.
   - In response to a significant increase in taxes and associated compliance costs, some foreign gambling operators may block their New Zealand customers or focus on promoting gambling by customers in other markets which are more profitable. Because of this we have assumed that higher effective tax rates and compliance costs will reduce the amount of gambling activity on which the taxes are collected. However, the size of these impacts is very uncertain. There is a risk that the proposal has a larger or smaller impact on the tax revenue collected than we have assumed.

Implementation and on-going administration costs

6. The initial estimates of Inland Revenue's costs to implement and administer this initiative include $2.000 million (includes $1.500 million capital) for implementation, and $3.200 million (includes $0.900 million depreciation and $0.300 million capital charge) for ongoing administration.

	$ million – increase / (decrease) cost / (saving)					
Departmental impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Salaries and wages	0.500	0.400	0.400	0.450	0.500	2.250
Overhead	0	0.100	0.100	0.050	0	0.250
Depreciation and capital charge	-	0.300	0.300	0.300	0.300	1.200
Total operating cost	0.500	0.800	0.800	0.800	0.800	3.700
System changes	1.500	-	-	-	-	1.500
Total capital cost	1.500	-	-	-	-	1.500

Scaling options

7. Given this initiative is to raise additional tax revenue, we have not considered options to scale down the funding of this initiative.

Risks of delivery

8. There is an implementation risk that some foreign gambling operators may not have sufficient time to adjust their systems and commercial practices to comply with the new requirements before 1 July 2024 and may block their New Zealand customers or become non-compliant. This risk can be reduced by aligning the design of new taxes closely with existing GST obligations (that is, have the taxes imposed on Gross Betting Revenue (GBR) and allow foreign gambling operators to provide quarterly tax returns) and by announcing and legislating the changes shortly after Cabinet decisions have been made. This could be included in an Amendment Paper to the Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill which must pass into law before 31 March 2024. Accordingly, the overall impact of this risk is considered low.

Next steps

9. We are preparing a draft Cabinet paper for the Ministers of Finance, Internal Affairs, and Revenue to consider. The paper will seek Cabinet approval to the proposed tax changes, and for Department of Internal Affairs to develop a potential licensing system for online gambling operators.

Appendix 3 – Investment in compliance

1. The Government has agreed, as part of its coalition agreements, to increase funding for Inland Revenue compliance activity including tax audits to ensure greater integrity and fairness in the tax system. This initiative also includes increased funding to improve compliance by overseas-based borrowers. This initiative supports Cabinet's Budget 24 priority of delivering effective and fiscally sustainable public services by increasing tax revenue to the Government so that it can be applied to expenditure priorities.

2. This initiative proposes scaling up the number of staff across a range of compliance areas and will include analytical and support staff to enable more efficient working. Examples of the specific focuses that would benefit from an increase in resources include:

   - the use of electronic sales suppression tools (ESST)
   - emerging online risks such as digital content creation and crypto assets
   - using our new analytical tools and 3rd party data (Payment Service Provider data)
   - focusing on filing integrity
   - high wealth individuals
   - corporate entity restructuring for tax avoidance
   - property compliance
   - overseas-based student loan borrower compliance using border enforcement and third-party intervention (with a focus initially on borrowers living in Australia)
   - analytical modelling for Propensity/Ability to Pay and the expected value of outstanding tax returns
   - high value risk debt management
   - high value overdue tax return collection.

3. Based on historical compliance performance we project a return of at least \$8:\$1 for compliance and ESST activities. This \$8:\$1 return on investment is a combination of the revenue return (assessments of additional tax) and impairment reversal (collection of overdue debt).

Fiscal and FTE implications - summary

4. The following table summarises the estimated operating, capital and FTE impact of this initiative.

	\$ million – cost / (saving)					
Increase compliance activity	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating		s 9(2)(f)(iv) [redacted]				
• Departmental	-					
• Non-departmental	-					
Total net operating saving	-					
Total capital cost	-					
FTEs	-					

Fiscal implications – non-departmental

5. The following table summarises the estimated additional tax revenue and impact on non-departmental appropriations of this initiative.

Non-departmental operating impacts	$ million – cost / (saving) 2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Compliance and ESST		s 9(2)(f)(iv) [redacted]				
Revenue (increase)	-					
Expenditure reversal - Impairment of Debt and Debt Write-offs	-					
SLS - OBB						
Expenditure reversal - Initial Write-Down relating to Student Loans	-					
Total operating saving	-	(				

6. s 9(2)(f)(iv) [redacted]

7. The initial repayment of debt for Student Loans OBB work is set at $5:$1 for the 2024/25 fiscal year, and moves to $8:$1 from the 2025/26 fiscal year and for outyears. This repayment of debt will increase the fair value of the existing student loans, with the increase being recorded as a gain in the Financial Statements of the Government. This gain affects operating balance but not OBEGAL and is not therefore included in the benefits above. It is assumed that the ongoing increase in compliance will have a nominal positive impact on the Initial Fair Value Write-Down of new student loans of s 9(2)(f)(iv) [redacted]

8. These assumed returns are based on the time required to scale up interventions and to build the required skills and capability under market conditions.

Additional baseline funding

9. To implement and deliver this initiative the following additional funding is being sought.

Departmental	$ million – cost / (saving) 2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Salaries – Compliance	-	s 9(2)(f)(iv) [redacted]				
Salaries – SLS-OBB	-					
Administration and support	-					
Operating expenses	-					
Total operating cost	-					
Total capital cost	-	-	-	-	-	-

10. This equates to the following FTE increase.

Increase by capability	FTEs
Managers and team lead	s 9(2)(f)(iv) [redacted]
Policy Analyst	
Analysts	
ICT professionals and technicians	
Legal, HR and Finance	
Other Professionals	
Inspectors and Regulatory Officers	
Contact centre	
Clerical and Administrative Workers	

11. The investment values s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted] reflect an optimised return on investment, balanced by the level of skill we can successfully retain and recruit to deliver these returns.

12. Overheads for compliance and ESST are set at a lower rate than SLS OBB on the basis that skilled staff (with lower overhead costs) would be retained to complete this work therefore requiring less recruitment, whereas SLS OBB would require more recruitment and training of new staff.

13. A balanced approach which allocates funding across a broad mix of compliance activities means there are a range of roles, both frontline and supporting, that the funding will be optimally applied to.

Scaling options

14. The funding request for this initiative is scalable. Any amount within upper and lower boundaries can be applied to achieve the required return on investment.

15. These boundaries are set based on costs associated with recruitment, upskilling/training, building and then commencing the new campaign efforts, building and utilising data and insight programmes, working with any external suppliers where appropriate and ensuring our change capacity is sufficient to manage all of this.

16. Therefore, in order to harness the economies of scale available, we consider that the minimum investment for compliance work s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted]

17. The proposed s 9(2)(f)(iv) [redacted] is our upper limit based on the rate of return in current market conditions. If we received additional funding, we consider that the rate of return may fall due to our internal change capability, labour market capacity and gradually diminishing stock of higher value non-compliance cases. However, as we evaluate our performance of this initiative, we will gain a better understanding of further opportunities to scale investment. This will be signalled to Government at the appropriate time.

18. Electronic sales suppression is a new revenue risk, and we consider that the minimum level of funding needed to begin to address this risk is s 9(2)(f)(iv) [redacted] As mentioned in the previous report, (IR2023/293 Coalition agreement compliance funding initiative refers) we may seek additional funding in the future to manage this emerging risk.

19. s 9(2)(f)(iv) [redacted]

s 9(2)(f)(iv)

Risks of delivery

20. In relation to the overseas-based borrowers compliance activity we have existing partners/supplier in place to provide location services and / or debt collection services. There will be a limit on how much they can increase the provision of these services which we are still to determine.

21. A key risk for deploying compliance interventions is having a sufficiently skilled workforce. A mitigation for this is expecting a lower return on investment during the first two years of funding. This enables enough time to be allocated to recruitment, upskilling and professional development of our people to ensure that they have the capability to deliver the longer-term return.

22. A similar risk for deploying integrity interventions is that they can take time to mobilise and embed. For example, an audit process can take more than 12 months to conclude when factoring in disputes and litigation procedures. However, other interventions associated with unfiled tax returns and undisputed debt can be scaled up more quickly to deliver a faster return of investment.

Next steps

23. We intend to undertake some further work on developing a framework to enable us to report on the actual returns and impacts from this proposed investment.

Appendix 4 - Restoring interest deductibility for rental properties

1. The Government has agreed, as part of its coalition agreements, that it will phase in the ability to claim interest deductions on residential investment property.

2. The initiative re-introduces the ability for owners of residential property (e.g., rental properties) to claim full deductions for their interest expenditure. Under current law, the ability to claim interest deductions has been removed in full for properties acquired after 27 March 2021 and is being phased out for properties acquired before that date, with deductions denied in full, from 1 April 2025. The initiative proposes to progressively re-introduce the ability to claim interest deductions for all residential investment properties as follows:

Income tax year	Percentage of interest deductions allowed
1 April 2023 to 31 March 2024	50%
1 April 2024 to 31 March 2025	80%
1 April 2025 onwards	100%

Fiscal and FTE implications - summary

3. The following table summarises the operating, capital and FTE impact of this initiative.

	$ million – cost / (saving)					
Restoring interest deductibility for rental properties	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating						
• Departmental	-	-	-	-	-	-
• Non-departmental	5.000	360.000	785.000	855.000	915. 000	2,920.000
Total net operating cost	5.000	360.000	785.000	855. 000	915.000	2,920.000
Total net capital cost	-	-	-	-	-	-
FTEs	-	-	-	-	-	

Fiscal implications – non-departmental

4. The fiscal impact of reintroducing interest deductibility is $2.920 billion over the forecast period as per previous advice to your office (BN2023/284 refers), as follows:

	$ million – cost / (saving)					
Non-departmental operating impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Revenue (decrease)	5. 000	360.000	785.000	855.000	915.000	2,920.000
Total net operating cost	5.000	360.000	785.000	855.000	915. 000	2,920.000

Implementation and on-going administrative costs

5. Restoring interest deductibility will require small system changes. There will be an initial system development and implementation, which will primarily include changes to annual tax returns and taxpayer guidance such as myIR calculators. These changes will be included in the April 24 annual release.

6. We received no funding for this initiative, as we absorbed the cost into our annual release, so there is no funding to return to the Crown.

7. Change management, providing guidance, and education campaigns about the new policy proposal, and supporting current and new customers, will be required over the next two years as interest deductibility is phased back in.

Scaling options

8. As parameters for the phased reintroduction of interest deductibility will be agreed by the Government, we consider that a scaled option is not applicable for this initiative.

Risks

9. The main risk with this initiative is confusion in how the rules are moving from phasing out interest deductibility to phasing it back in. There will no longer be a need to distinguish between properties that were bought before or after 27 March 2021, but taxpayers will still need to consider whether they qualify for an exemption (allowing full deductibility) while interest deductibility is being phased back in.

Next steps

10. We recently reported to you, the Minister of Finance and the Associate Minister of Finance (Minister Seymour) on 1 February 2024 (IR2024/027 Restoring interest deductibility for residential property refers) seeking decisions on the phasing back in of interest deductibility. We understand that Ministers intend to seek Cabinet approval of these policy decisions by early March 2024.

Appendix 5 - Personal income tax thresholds and Independent Earner Tax Credit

1. The Government has agreed, as part of its coalition agreements, that it will provide personal income tax relief as envisaged in the National Party Tax Plan and that ACT's income tax policy concepts are to be considered as a pathway to delivering that tax relief[4]. This initiative will contribute to the Budget priority of addressing the rising cost of living.

2. Officials have been providing advice to Ministers on the possible design options / features to provide such tax relief. At this point in time, we do not have the required ministerial direction to develop a high-level design option to enable the implications and impacts (including fiscal and administrative costs) to be assessed and costed. Accordingly, this initiative bid is a placeholder bid so that it is included in the initial baseline exercise. It is based on any tax relief applying from 1 July 2024 and the range covers the cost estimates of several possible personal tax relief options.

Fiscal and FTE implications – summary

3. The following table summarises the operating, capital and FTE impact of this initiative. These are indicative placeholder cost estimates with the tax revenue (non-departmental) impacts based on the upper end of the indicative range.

	$ million – increase / (decrease) cost / (saving)					
Personal income tax thresholds and IETC	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating						
• Departmental	0.800	14.000	6.400	0.400	0.400	22.000
• Non-departmental*	-	1,993.000	2,697.000	4,042.000	4,969.000	13,701.000
Total net operating cost	0.800	2,007.000	2,703.400	4,042.400	4,969.400	13,723.000
Total capital cost	1.500	1.000	-	-	-	2.500
FTEs	6	109	49	-	-	

*Upper end of the indicative range.

Fiscal implications – non-departmental

4. The cost of the personal income tax proposals is estimated to be between $6,070 million and $13,701 million. The costings will be refined as decisions are made on the design of a policy option to provide personal income tax relief.

Implementation and on-going administrative costs

5. The initial estimates of our costs to implement and administer the changes include $3.500 million (includes $2.500 million capital) for implementation, and $22.000 million for ongoing administration. These costings will be refined as decisions are made on the design of a policy option to provide personal income tax relief.

[4] This is subject to no earner being worse off than they would be under National's plan.

	$ million – cost / (saving)					
Departmental	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Salaries and wages	0.700	11.000	5.000	-	-	16.700
Overhead	0.100	2.500	1.000	-	-	3.600
Depreciation and capital charge	-	0.500	0.400	0.400	0.400	1.700
Total operating cost	0.800	14.000	6.400	0.400	0.400	22.000
System changes	1.500	1.000	-	-	-	2.500
Total capital cost	1.500	1.000	-	-	-	2.500

6. Our current estimate is that up to 115 customer services officers would be required for the consolidated impact period between 1 July 2024 and 31 October 2024, reducing to 43 customer services officers from 1 November 2024 to 30 June 2025, with additional resourcing required through to 31 March 2025. Supporting resources such as Team Leaders will also be required at a rate of 1:15.

Scaling options

7. As this is a placeholder bid, we have indicated scaling will involve reducing the amount of tax relief to be provided. The implementation date could also be deferred, and this would reduce the cost of the proposals.

Risks to delivery

8. The main risks to implementation and delivery of this initiative are as follows:

- Due to the large number of public and private sector organisations such as employers and financial institutions being required to implement the proposed changes, there is an increase in the risk of errors arising during the implementation process (and therefore of individuals receiving incorrect amounts of after taxed income).
- 3rd Party Payroll Providers will be required to update systems and roll out software updates in time for payroll dates on and after the 1st of July 2024. The short timeframe available for these providers to make changes (outside our standard tax change window) raises the risk of employers becoming non-compliant and individuals not receiving the benefit of the tax relief. In addition, some large organisations and government departments that use bespoke payroll solutions will also need to make significant adjustments to their systems to ensure individuals continue to be taxed correctly. The mitigation for this is to announce early or allow industry engagement prior to Budget 2024.
- An inadequate number of trained Customer Service Officers are available to support customer enquiries for this initiative both for the immediate implementation period and for the end of year square up process from May 2025. The mitigation for this is to announce early or allow engagement with providers and recruitment activity to start prior to Budget 2024.

Next steps

9. We understand that the Minister of Finance intends to meet with the Associate Minister of Finance (Minister Seymour) on 13 February 2024 to discuss an option to take forward to provide tax relief.

Appendix 6 - In-Work Tax Credit: increase by $25 a week

10. The Coalition agreements provide for a $25 per week increase to the In-Work Tax Credit (IWTC) to address the rising cost of living[5]. The increase will apply from 1 July 2024. The increase will improve income adequacy for low to middle income families and improve the financial incentives to work.

11. In the 2026 tax year, this initiative will benefit approximately 160,377 IWTC recipients who currently receive the credit. They will benefit by $16.97 per week on average given that some recipients will be subject to abatement.

Fiscal and FTE implications – summary

12. The following table summarises the operating, capital and FTE impact of this initiative.

	$ million – increase / (decrease) cost / (saving)					
Working for Families change - $25 a week increase in-work tax credit	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating						
• Departmental	0.200	0.100	0.100	0.100	0.100	0.600
• Non-departmental	-	161.000	159.000	154.000	146.000	620.000
Total Operating cost	0.200	161.100	159.100	154.100	146.100	620.600
Total Capital cost	0.500	-	-	-	-	0.500
FTEs	-	-	-	-	-	-

Fiscal implications – non-departmental

13. This bid will increase the Benefits or Related expenses appropriation for the IWTC by:

	$ million – cost / (saving)					
Non-departmental operating impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Expenditure: In-Work Tax Credit	-	161.000	159.000	154.000	146.000	620.000
Total operating cost	-	161.000	159.000	154.000	146.000	620.000

Implementation and on-going administrative costs

25. There will be capital and operating costs associated with the implementation and on-going administration of this initiative. We will self-fund these costs through our existing maintenance and development programme for core systems.

Scaling options

14. We costed an increase of $15 per week rather than $25 per week as an alternative. We note that such a reduction in the weekly amount will still improve income adequacy for low to middle income families but to a lesser degree. This will reduce the fiscal cost of this initiative by $253.000 million over the forecast period.

Risks

15. We do not envisage any risks with the implementation and delivery of this initiative.

[5] National Party's Tax Plan.

Next steps

16. Officials propose to report to you, the Minister of Finance and Minister for Social Development and Employment on this matter soon.

Appendix 7 - Family Boost

1. This initiative provides funding to create a new tax credit for parents of children enrolled in early childhood education (ECE) with qualifying providers from 1 July 2024. This is a Coalition agreements' commitment and contributes to addressing the rising cost of living priority.

2. The tax credit would pay 25 percent of eligible parents' ECE fees up to an equivalent of $75 a week. The maximum amount would abate at an equivalent family income of $140,000 a year until it is fully abated by $180,000. Fee invoices would be submitted every three months by registered parents and the tax credit calculated on a three-monthly basis. Payment would be made direct to parent's bank accounts by IR. The tax credit would be in addition to other ECE subsidies and other child payments.

3. This bid is based on the high-level design of the tax credit you and the Minister of Finance agreed to (IR2023/269 Key Direction on Family boost tax credit refers). This high-level design is modelled along the lines of the donation tax credit. Further policy details will be considered by Ministers over the next few months, which may impact the costs of the bid.

Fiscal and FTE implications - summary

4. The following table summarises the operating, capital and FTE impact of this initiative.

	$ million – increase / (decrease) cost / (saving)					
Family Boost	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating						
• Departmental (IR)	0.500	17.300	13.300	13.300	13.300	57.700
• Departmental (MSD)	0.300	1.800	1.500	1.500	1.500	6.600
• Non-departmental	-	174.000	171.000	167.000	165.000	677.000
Total operating cost	0.800	193.100	185.800	181.800	179.800	741.300
• Departmental (IR)	0.500	1.000	-	-	-	1.500
• Departmental (MSD)	2.000	4.000	-	-	-	6.000
Total capital cost	2.500	5.000	-	-	-	7.500
FTEs	3	136	105	105	105	

Fiscal implications – non-departmental

5. This bid will increase non-departmental expenditure by:

	$ million – cost / (saving)					
Non-departmental	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Expenditure: Family Boost	-	174.000	171.000	167.000	165.000	677.000
Total operating cost	-	174.000	171.000	167.000	165.000	677.000

6. This estimate of fiscal impact is sensitive to the assumption of the number of families who take up the tax credit.

Implementation and on-going administration costs - departmental

7. The initial estimates of Inland Revenue's costs to implement and administer the changes include $2.200 million (includes $1.500 million capital) for implementation and $57.000 million (includes $0.900 million depreciation and $0.300 million capital charge) for ongoing administration.

	$ million – expense / (saving)					
Departmental	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Salaries and wages (IR)	0.400	13.900	10.400	10.400	10.400	45.500
Salaries and wages (MSD)	0.300	0.300	-	-	-	0.600
Overhead (IR)	0.100	3.100	2.600	2.600	2.600	11.000
Depreciation and capital charge (IR)	-	0.300	0.300	0.300	0.300	1.200
Depreciation and capital charge (MSD)	-	1.500	1.500	1.500	1.500	6.000
Total operating cost	0.800	19.100	14.800	14.800	14.800	64.300
System changes (IR)	0.500	1.000	-	-	-	1.500
System changes (MSD)	2.000	4.000	-	-	-	6.000
Total capital cost	2.500	5.000	-	-	-	7.500

8. The departmental and non-departmental costs are sensitive to the assumption made of the number of parents that would apply each year, which impacts the amount paid to parents and the number of staff required to process claims.

Scaling options

9. We have not considered in detail any scaling options. It would be possible to scale the initiative by either:

- Lowering the level at which the payment is abated from $140,000 to, say $100,000
- Reducing the cap on ECE fees from $300 a week to, say, $200 a week
- Reducing the percentage refunded from 25% to, say, 10%.

10. Any reduction in the amount paid would have a direct negative impact on the ability of the proposal to help reduce the cost of living pressures on families.

11. There would be limited impact on operational costs – to the extent the scaling reduced the size of the eligible population it could reduce the ongoing operational costs of interacting with customers. It would not impact the direct implementation costs such as the system build.

Risks associated with delivery

12. The main risks associated with the implementation and delivery of this initiative are:

- ECE providers may not update their systems to provide parents with the necessary information to apply for a tax credit. Consultation with the sector is planned to determine the likelihood of this risk.
- An inadequate number of trained Customer Service Officers are available to support customer enquiries and manual processes for the first filing/payment date. The mitigation for this is to allow engagement with childcare providers and recruitment activity to start prior to Budget 2024.
- The implementation may take longer than expected.

Next steps

13. We have been directed to redraft the Cabinet paper provided to Ministers in January 2024. We will also seek agreement to major policy settings. We understand that Ministers are tentatively targeting the Cabinet Business Committee meeting on 6 March 2024 for the consideration of this initiative.

14. Following Cabinet agreement, we will undertake sector consultation and provide further reports seeking agreement to be more minor policy settings. These may have fiscal impacts.

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv)

Appendix 10 – Key dates for Budget 2024

Reference – Treasury Circular TC 2023/15

Date	Milestone	Status
December 2023	Invitation letters communicating savings targets and inviting cost pressure and new spending initiatives sent to lead Ministers. Budget 2024 templates and guidance issued.	Completed
December - Mid February 2024	Required ongoing engagement with Treasury and central agencies on draft initial baseline submissions through the assurance process. Treasury to provide progress update to Budget Ministers ahead of final submissions.	Completed
Week of 29 January 2024	Draft Savings overview to be submitted for assurance process. 1pm Friday 16 February 2024 Budget 2024 Initial Baseline Exercise submissions due.	Completed
Mid-February 2024	Treasury assessment of Budget 2024 Initial Baseline Exercise submissions.	Current
Late February – April 2024	Budget 2024 package development (including bilateral meetings and Budget Ministers meetings).	Future
April 2024	Financial recommendations for Budget 2024 package. Cabinet agrees Budget 2024 package.	Future
April-May 2024	Production phase (Estimates documents).	Future

Document 29

Inland Revenue report: Budget 2024 – Initial Baseline Exercise Submission for Vote Revenue – Vote Minister Signoff

Date:	16 February 2024	**Priority:**	High
Security level:	In confidence (Budget Sensitive)	**Report number:**	IR2024/055

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report. **Approve, forward** the original to the Minister of Finance and **return** a copy to Inland Revenue the *Budget 2024 Initial Baseline Exercise Summary* template (Annex 1) **Sign, forward** the original to the Minister of Finance and **return** a copy to Inland Revenue the *Budget 2024 Initial Baseline Exercise Submission Vote Revenue* letter to the Minister of Finance (Annex 2).	1pm, Friday 16 February 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Peter Mersi	Commissioner of Inland Revenue	s 9(2)(a) [redacted]
Mike Nutsford	Strategic Advisor, ED&I	
Darren Cheevers	Domain Lead, Finance Services	

16 February 2024

Minister of Revenue

Budget 2024 –Initial Baseline Exercise Submission for Vote Revenue – Vote Minister Sign-off

Summary

1. This report seeks your approval and sign-off for the templates to be submitted to the Minister of Finance for the Budget 2024 Initial Baseline Exercise Submission for Vote Revenue. This report follows from our previous Budget 2024 report and discussions (IR2024/023 refers).

2. There are two mandatory summary templates for your approval and submission:
   - Budget 2024 Initial Baseline Exercise Summary Template (Annex 1)
   - Budget 2024 Initial Baseline Exercise Submission Vote Revenue (Annex 2)

3. There are eleven detailed initiative templates that we have shared with your office for review.

4. Subject to your approval and sign-off, we will upload all of the templates on your behalf into The Treasury CFISnet system by 1pm, Friday 16 February. There are opportunities to update these templates during the process as ministerial and Cabinet decisions are made.

5. The next phase in the Budget 2024 process is The Treasury assessment of these initiatives. In late February to April the Bi-lateral and Budget Minister meetings will occur. We will provide further information as required to support you during these phases of the process.

Background

6. The Minister of Finance wrote to you on 21 December 2023 setting out the fiscal objectives across the parliamentary term and Budget 2024 expectations. The Minister also invited you to submit initiatives to be considered as part of the Budget 2024 Initial Baseline Submission exercise.

7. The initial submission is the second stage of the Budget 2024 process. Ministerial decision-making on the initiatives to be included in Budget 2024 and Cabinet agreement of the Budget 2024 package will occur in March/April. We will revise costs and benefits throughout this process based on Ministerial and Cabinet decisions. We have included in Appendix 1 the timetable for Budget 2024.

8. There are two mandatory summary templates for your approval and submission:
   - **Budget 2024 Initial Baseline Exercise Summary Template** (Annex 1)
     This mandatory template provides:
     - an overview of the combined financial impact of all initiatives being submitted for consideration (section 1)

- o information on alignment with Government priorities (section 2)
  - o planning for managing within baselines (section 3).

  The content in this template has primarily been summarised from the following documents:
  - o Your 'My priorities for the Revenue portfolio' letter to the Prime Minister dated 26 January 2024.
  - o Our 'Budget 2024 – Proposed Initial Baseline Exercise Submission for Vote Revenue' report to you (IR2024/023 refers).
  - o The letter from yourself to the Minister of Finance on 'Inland Revenue Baseline Savings Target Options'.

- **Budget 2024 Initial Baseline Exercise Submission Vote Revenue** (Annex 2)
  This mandatory templated letter summarises the Vote Revenue led initiatives for consideration as part of Budget 2024.

9. We propose submitting templates for the following initiatives for consideration in the Budget 2024 process.

Savings - baseline reduction target
- Inland Revenue baseline savings – reduction in operating expenditure.
- Inland Revenue baseline savings – reduction in systems maintenance and change capacity.
- s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

Savings - targeted policy savings
- s 9(2)(f)(iv) [redacted]
- [redacted]

Savings - revenue options
- Nil.

Cost pressures
- Nil – Inland Revenue was not invited to submit a cost pressure funding initiative.

New spending
- Investment in tax compliance activities (including overseas-based student loan borrowers).
- Online casino gambling tax changes.
- Restoring interest deductibility for residential rental property.
- Personal Income Tax and Independent Earner Tax Credit threshold changes.
- In-Work Tax Credit – rate increase.
- FamilyBoost.

Capital Pipeline Review
- Nil – No initiatives meet the criteria for this review process.

10. We have updated the templates to incorporate your feedback on the investment in compliance, student loan initiatives s 9(2)(f)(iv) [redacted]

11. The costs and benefits of the following initiatives have already been agreed as Budget 2024 pre-commitments and are not included in our Budget 2024 submission. These changes will be included in the 2024 Budget Economic and Fiscal Update tax and expenditure forecasts, unless otherwise noted below.

- Working for Families Tax Rates increases – Order in Council (CAB-230-MIN-065 refers). Included in the 2023 Half-Year Economic and Fiscal Update.
- Changes to the 39% trustee tax rate (CAB-24-MIN-0015 refers).

- Bright-line test adjustment (CAB-23-MIN-490 refers).
- Commercial buildings depreciation (CAB-23-MIN-490 refers).

12. At this stage we are only aware of one other initiative being led by another Minister that may have an impact on Vote Revenue: *Increase the overseas-based borrower interest formula by 1% for the next 5 years to cover loss in value due to 3 years of inflation* (Minister of Education). We will share this detail with your office if this initiative is submitted.

s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]

Financial impacts of proposed Budget 2024 initiatives

14. This section of the report sets out the financial impacts of the currently proposed Budget 2024 initiatives for:
    - Vote Revenue: Departmental
    - Vote Revenue: Non-departmental (which includes tax revenue and tax expenditure)
    - The Ministry of Social Development (MSD) for the FamilyBoost initiative and Personal income tax thresholds, and
    - s 9(2)(f)(iv) [redacted]

15. Some of the financials for initiatives are provisional, with final policy and design decisions pending. We will update the financials as decisions are made through the Budget 2024 process. Our cost estimates incorporate appropriate contingencies based on the relative certainty of policy and design details for each initiative. This provides an upper range for cost estimates. We will revise these contingencies down as decisions are made and details agreed.

16. We have made some minor updates to the estimates submitted in our earlier report (IR2024/023 refers), for example finalisation and incorporation of cost estimates from MSD s 9(2)(f)(iv) [redacted]

17. In consultation with The Treasury, we have made the following changes:
    - We have re-categorised the online casino taxes initiative from 'Savings – revenue options' to 'New spending'.
    - s 9(2)(f)(iv) [redacted]

18. You will receive subsequent policy reports on options for the policy related initiatives. Those reports will provide updated costs and ranges for options being considered.

Summary of proposed capital, operating and FTE impacts of the proposed initiatives

19. Based on the currently proposed initiatives there is an OBEGAL impact (operating cost) s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted] Appendix 2 provides a breakdown of these costs by initiative.

s 9(2)(f)(iv) [redacted]

Net operating impacts for (OBEGAL) the Crown – all initiatives

21. From an operating perspective there is a total cost to the Crown of s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted] This net cost is predominantly due the reduction in revenue, ~~based on the upper range estimate~~, from the personal income tax threshold adjustments and the Independent Earner Tax Credit change.

	s 9(2)(f)(iv) [redacted]
Net operating cost – all initiatives	
Departmental (IR)	
Departmental (MSD s 9(2)(f)(iv) [redacted]	
Non-departmental (IR)	
Net operating cost	

Sources of departmental funding and options for self-funding

22. At this stage of the process, we have submitted the full operating and capital costs for each initiative. During the next phase of the process, we will assess the total financial impact of all proposed initiatives that proceed and the outcome of our upcoming 2024 March Baseline Update (MBU 24) submission to inform the level of potential self-funding possible.

23. There have been two initiatives recently approved by Cabinet as Budget 2024 pre-commitments. We self-funded the estimated $0.900 million of operating costs for

systems changes by incorporating these initiatives into our existing annual systems maintenance and change programme.

Recently self-funded initiatives - operating	2023/24 $million	Cabinet minute
Working for Families Tax Credit rate increase	0.200	CAB-23-MIN-0465
Change to the 39% trustee tax rate	0.700	CAB-24-MIN-0015
	0.900	

Consultation

24. In developing these proposals and preparing these bids, Inland Revenue consulted with the Ministry of Foreign Affairs and Trade, the Ministry for Housing and Urban Development, s 9(2)(f)(iv) the Ministry of Social Development, the Ministry of Education, the Treasury, and the Department of the Prime Minister and Cabinet.

Recommended action

25. We recommend that you:

(a) **Note** the contents of this report and the proposed initiatives being submitted for consideration for Vote Revenue.

Noted

(b) **Approve, forward** the original to the Minister of Finance and **return** a copy to Inland Revenue the Budget 2024 Initial Baseline Exercise Summary template (Annex 1)

Approved / not approved.

(c) **Sign, forward** the original to the Minister of Finance and **return** a copy to Inland Revenue the Budget 2024 Initial Baseline Exercise Submission Vote Revenue letter to the Minister of Finance (Annex 2).

Signed / not signed.

s 9(2)(a)

Peter Mersi
Commissioner of Inland Revenue

Hon Simon Watts
Minister of Revenue
/ /2024

Appendices:

- Appendix 1 – Key dates for Budget 2024.
- Appendix 2 – Summary financials and FTEs by initiative.

Appendix 1 – Key dates for Budget 2024

Reference – Treasury Circular TC 2023/15

Date	Milestone	Status
December 2023	Invitation letters communicating savings targets and inviting cost pressure and new spending initiatives sent to lead Ministers. Budget 2024 templates and guidance issued.	Completed
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April 2024	Financial recommendations for Budget 2024 package. Cabinet agrees Budget 2024 package.	Future
April-May 2024	Production phase (Estimates documents).	Future

Appendix 2 – Summary financials and FTEs by initiative

(A) Summary departmental operating impacts

	$ million – increase / (decrease) cost / (saving)					
Departmental operating impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – baseline reduction:						
• Reduction in operating expenditure	-	(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
• Reduction in systems maintenance and change capacity	-	(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]						
	-	(39.600)	(39.600)	(39.600)	(39.600)	(158.400)
s 9(2)(f)(iv) [redacted]						
New spending						
• IWTC - rate increase	0.200	0.100	0.100	0.100	0.100	0.600
• FamilyBoost (IR)	0.500	17.300	13.300	13.300	13.300	57.700
• FamilyBoost (MSD)	0.300	1.800	1.500	1.500	1.500	6.600
• Online casino gambling tax changes	0.500	0.800	0.800	0.800	0.300	3.200
• PIT and IETC threshold changes	0.800	14.000	6.400	0.400	0.400	22.000
• PIT and IETC threshold changes (MSD)	0.800	0.400	-	-	-	1.200
s 9(2)(f)(iv) [redacted]						
• Restoring interest deductibility	-	-	-	-	-	-
	s 9(2)(f)(iv) [redacted]					
Total net operating cost						
Total net operating cost (IR)						
Total net operating cost (MSD						
s 9(2)(f)(iv) [redacted]						

(B) Summary departmental capital impacts

	$ million – increase / (decrease) cost / (saving)					
Departmental capital impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
s 9(2)(f)(iv) [redacted]						
New spending						
• IWTC – rate increase	0.500	-	-	-	-	0.500
• FamilyBoost (IR)	0.500	1.000	-	-	-	1.500
• FamilyBoost (MSD)	2.000	4.000	-	-	-	6.000
• Online casino gambling tax changes	1.500	-	-	-	-	1.500
• PIT and IETC threshold changes	1.500	1.000	-	-	-	2.500
• Investment in tax compliance (incl. SLS OBB)	-	-	-	-	-	-
• Restoring interest deductibility	-	-	-	-	-	-
	6.000	6.000	-	-	-	12.000
Total capital cost	s 9(2)(f)(iv) [redacted]					
Total capital cost (IR)						
Total capital cost (MSD)	2.000	4.000	-	-	-	6.000

(C) Summary non-departmental operating impacts

	$ million – increase / (decrease) cost / (saving)					
Non-departmental operating impacts*	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – baseline reduction:						
• Operating expenditure	-	-	-	-	-	-
• Systems maintenance and change capacity	-	-	-	-	-	-
s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]						
s 9(2)(f)(iv) [redacted]						
New spending						
• IWTC – rate increase	-	161.000	159.000	154.000	146.000	620.000
• FamilyBoost	-	174.000	171.000	167.000	165.000	677.000
• Online casino gambling tax changes	-	(45.000)	(47.000)	(49.000)	(52.000)	(193.000)
• PIT and IETC threshold changes^	-	1,993.000	2,697.000	4,042.000	4,969.000	13,701.000
s 9(2)(f)(iv) [redacted]						
• Restoring interest deductibility	5.000	360.000	785.000	855.000	915.000	2,920.000
Total net operating cost		s 9(2)(f)(iv) [redacted]				

* Non-departmental operating impacts include tax revenue and non-departmental expenditure. Increases in revenue (and decreases in expenditure) are shown as negatives values and are in brackets.

^ Upper range used.

(D) Summary of employee impacts

	Full Time Equivalent staff – increase / (decrease)				
Employees	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Savings – baseline reduction:					
• Reduction in operating expenditure	-	-	-	-	-
• Reduction in systems maintenance and change capacity	-	(62)	(62)	(62)	(62)
s 9(2)(f)(iv), s 9(2)(g)(i) [redacted]					
s 9(2)(f)(iv) [redacted]					
New spending					
• IWTC – rate increase	-	-	-	-	-
• FamilyBoost	3	136	105	105	105
• Online casino gambling tax changes	3	3	3	2	-
• PIT and IETC threshold changes	6	109	49	-	-
s 9(2)(f)(iv) [redacted]					
• Restoring interest deductibility	-	-	-	-	-
Total		s 9(2)(f)(iv) [redacted]			

	Full Time Equivalent staff – increase / (decrease)				
Net impact on employees after the cessation of time-limited funding	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
s 9(2)(f)(iv) [redacted]					
Time-limited funding	(23)	(97)	(377)	(377)	(377)
s 9(2)(f)(iv) [redacted]					

1805

Annex 1 - Budget 2024 Initial Baseline Exercise Summary Template

Section 1: Overview

Summary of proposed operating baseline changes through Budget 2024

Vote Revenue Departmental (019)	Impact $m increase/(decrease)					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**	**Total**
Total submitted for baseline reduction target	-	(29.600)	(29.600)	(29.600)	(29.600)	(118.400)
If required: s 9(2)(f)(iv) [redacted]	-	s 9(2)(f)(iv) [redacted]				
Total amount of revenue options	-	-	-	-	-	-
Total savings/revenue proposed	-	s 9(2)(f)(iv) [redacted]				
If invited: cost pressure funding sought	-	-	-	-	-	-
If invited: new spending sought	s 9(2)(f)(iv) [redacted]					
Total new funding sought	[redacted]					
Net impact of all Budget 2024 proposals	[redacted]					

Section 2: Alignment with Government Priorities

Revenue portfolio priorities

The three Revenue Portfolio priorities identified by the Minister of Revenue, as advised to the Prime Minister on 26 January 2024, are:

1. Deliver tax relief to middle-income New Zealanders.
2. Develop a Revenue Strategy and Tax and Social Policy Work Programme.
3. Achieve any departmental cost savings agreed with the Minister of Finance as part of Budget 2024, while focusing on Inland Revenue's core business of collecting the revenue necessary to pay for the things New Zealanders value and delivering entitlements to those eligible for them.

Key features in baselines

The Vote Revenue departmental operating budget (baseline), prior to Budget 2024 decisions, is forecast to decrease by $87.837 million (11%) over the forecast period as time-limited funding and one-off funding from previous initiatives expires. The temporary increase in our baseline in 2027/28 relates to the current profile of depreciation funding.

	$ million – increase / (decrease)				
Vote Revenue – Departmental	2023/24	2024/25	2025/26	2026/27	2027/28
Departmental baseline*	797.292	731.280	698.164	697.446	709.455
Annual movement	-	(66.012)	(33.116)	(0.718)	12.009
Cumulative movement	-	(66.012)	(99.128)	(99.846)	(87.837)
Cumulative movement %	-	(8%)	(12%)	(13%)	(11%)

* As at the 2023 October Baseline Update and the 2023 Half-year Economic and Fiscal Update.

Within this baseline the department is managing cost pressures that compound to $63.000 million in 2027/28. The primary cost pressure is remuneration. The department was not invited for a cost pressure bid this year, however with collective agreements coming up for negotiation in the second half of 2024/25, the department may seek a budget bid in 2025 to assist in meeting these cost pressures. The department is assessing how to manage these cost pressures while minimising the impact on our outcomes.

	$ million – increase / (decrease)				
Vote Revenue – Departmental cost pressures	2023/24	2024/25	2025/26	2026/27	2027/28
Inflation	-	4.000	6.000	7.000	10.000
Remuneration	-	14.000	27.000	40.000	53.000
	-	18.000	33.000	47.000	63.000

The department's FTEs on 30 June 2023 were 4,023. FTEs on 30 June 2024 are forecast to be temporarily higher than this level due to the current year focus on managing customer demand, such as web correspondence. For this year and the next two years the level of FTEs will effectively reduce by 377 to reflect the expiration of time-limited funding, for example ‘responding to COVID-19 demand and maintaining capability and integrity’, administering the ‘Cost of Living payment’, and the ‘taxation of housing’ initiative.

	$ million – increase / (decrease)				
Time-limited funding – FTEs	2023/24	2024/25	2025/26	2026/27	2027/28
Annual movement	(23)	(64)	(290)	-	-
Cumulative movement	(23)	(87)	(377)	(377)	(377)

Savings proposal

Inland Revenue’s recent Business Transformation programme included a complete organisational redesign and most of the efficiencies in the organisation have been realised, including a significantly reduced contractors and consultants spend. The department has advised that there are no low value programmes that could be stopped or reduced, and it is not delivering or undertaking any programmes that do not align with our priorities.

The targeted baseline reduction of $29.600 million per year totals $118.400 million over the forecast period for Vote Revenue. There are two components to the savings:

- $14.600 million – reduction in operating expenditure
- $15.000 million – reduction in systems maintenance and change capacity.

	Ranking of savings proposals for 6.5%	**Ranking of spending proposals (if invited)**
1.	Reduce operating expenditure	1
2.	Reduce systems maintenance and change capacity	2

Tagged contingencies

There are no unused tagged contingencies assigned to Vote Revenue that are available for reprioritisation.

Section 3: Planning for Managing Within Baselines

Managing cost pressures

The department is managing departmental cost pressures that compound to $63.000 million in 2027/28. The primary cost pressure is remuneration. The department was not invited for a cost pressure bid this year, however with collective agreements coming up for negotiation in the second half of 2024/25, the department may seek a budget bid in 2025 to assist in meeting these cost pressures. The department is assessing how to manage these cost pressures while minimising the impact on our outcomes.

	$ million – increase / (decrease)				
Vote Revenue – Departmental cost pressures	2023/24	2024/25	2025/26	2026/27	2027/28
Inflation	-	4.000	6.000	7.000	10.000
Remuneration	-	14.000	27.000	40.000	53.000
	-	18.000	33.000	47.000	63.000

	$m					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**	**Total**
Operating cost pressures to be managed in baselines	-	18.000	33.000	47.000	63.000	161.000
Capital cost pressures to be managed in baselines (if not signalled through capital pipeline review)	-	-	-	-	-	-

Annex 2 - Budget 2024 Initial Baseline Exercise Submission – Vote Revenue

s 9(2)(g)(i)

[redacted]

s 9(2)(g)(i)

Document 30

Inland Revenue report: Budget 2024 and other matters

Date:	19 February 2024	**Priority:**	Medium
Security level:	Budget Sensitive	**Report no:**	IR2024/063

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report. **Consider** and **refer** the attached draft letter to the Minister of Finance (Annex 2).	Tuesday, 20 February 2024, Officials meeting

Contact for telephone discussion (if required)

Name	Position	
Nick Bradley	Chief Financial Officer	s 9(2)(a)
Darren Cheevers	Domain Lead, Finance Services	
Mike Nutsford	Strategic Advisor, ED&I	

19 February 2024

Minister of Revenue

Budget 2024 and other matters

Purpose

1. This report provides information on the following matters:

    a. Consultant and contractor response letter to the Minister of Finance

    b. Implications of the disestablishment of the New Zealand Productivity Commission for Inland Revenue

    c. Budget 2024 initiatives led by other Ministers that impact student loans, and

    d. Vote Revenue 2024 March Baseline Update submission.

2. The first item is on our Officials meeting agenda for Tuesday 20 February 2024. We can also discuss the other items if required.

Consultant and contractor response letter to the Minister of Finance

3. On Tuesday 13 February 2024 the Minister of Finance wrote to you on *Reducing Consultant and Contractor Expenditure* (refer Annex 1). The Minister of Finance indicated a minimum operating savings target of 17% for consultants and contractors (C&C) expenditure. For Vote Revenue this equates to $7.096 million per annum.

4. We engage C&Cs to complement our internal resources. This may be for work of a specialist nature which requires expertise and experience that we do not retain permanently or that we have outsourced on a permanent basis or for defined periods.

5. The table below shows our operating expenditure on C&C over the past ten years.

Consultants and contractors	*14/15*	*15/16*	*16/17*	*17/18*	*18/19*	*19/20*	*20/21*	*21/22*	*22/23*
Operating *$m*	56	89	116	125	137	112	67	75	42
Workforce ratio[1]	13%	18%	22%	24%	26%	22%	15%	18%	10%

6. Our transformation programme required specialist skills and knowledge and is the main reason for the increase in engagement of C&C up to the end of the 2021/22 financial year. As we completed transformation, engagement levels with C&C have reduced in subsequent financial years. Post transformation we continue to utilise the skills and expertise of partners to support, maintain and continuously optimise the technology solutions implemented. With agreement from the Public Service Commission, we have removed such 'support partners' from our C&C reporting since 2022/23.

7. Our expenditure on operating C&C was $41.7 million in 2022/23. We have previously agreed with the Public Service Commission a target of $37.4 million for 2023/24, a reduction of $4.3 million (10%). As noted in our Budget 2024 saving submission we propose to reduce our expenditure on C&C by a further $3 million from 2024/25. This a

[1] This is the ratio used by the Public Service Commission.

combined reduction of $7.3 million (17.5%). This slightly exceeds the 17% expectation from the Minister of Finance.

8. The table below compares our 2022/23 actual C&C expenditure to our forecasts for 2023/24 and 2024/25.

Consultants and contractors Operating spend	Actual 2022/23	Target for 2023/24 *advised to PSC*	Target for 2024/25 *in B24 submission*	MoF Target for 2024/25 *MoF 17%*
Contractors and consultants *$million*	41.7	37.4	34.4	34.6
Compared to 2022/23 *$million*	-	(4.3)	(7.3)	(7.1)
Compared to 2022/23 *%*	-	(10%)	(17.5%)	(17%)
Workforce ratio *%*	10.3%	~8%	~8%	~8%

9. I confirm that we are on track to deliver this change in consultant and contractor expectations and to exceed the 17% operating savings target.

10. Whilst we are forecast to achieve the 17% target our expenditure on C&C may fluctuate in some years, particularly in years when we do large system technology upgrades to our core systems.

11. We will provide progress reports to you on a quarterly basis as part of our quarterly performance reports.

12. Annex 2 provides a draft letter of response to the Minister of Finance for your consideration and referral.

Implications of the disestablishment of the New Zealand Productivity Commission for Inland Revenue

13. We have been providing support services to the New Zealand Productivity Commission (the Commission) since it was established in April 2011. The services we provide include finance and HR services and the provision of a finance, HR and payroll system. We also provide legal and information technology services as requested.

14. We charged the Commission a nominal fee of $60,000 per annum for these services. This fee does not fully cover our people and system costs but provided a cost-effective solution for the Crown. We provided these services to the Commission by reprioritising work activities for existing staff. There are no teams dedicated to these activities.

15. Legislation[2] has now been enacted to disestablish the Commission with effect on 29 February 2024.

16. We are currently working with The Treasury and the Commission to undertake transition and disestablishment activities.

17. We will retain financial and HR data in our system for the next seven years, at no cost to the Treasury.

18. As part of the 2024 March Baseline Update, we will reduce Revenue Other and our baseline by $60,000 from 1 July 2024 to give effect to the end of these services. There are no specific reductions in our employee numbers given the integrated nature of this work.

[2] New Zealand Productivity Commission Act Repeal Act 2024.

Budget 2024 initiatives led by other Ministers that impact student loans

19. On Friday 16 February we were advised that the following three initiatives had been submitted by the Ministry of Education.

    - Health Workforce – Training 50 more doctors (Minister of Health)
    - Fees Free – Replacing First-Year with Final-Year Fees Free (Minister for Tertiary Education and Skills)
    - Managing Tertiary Education and Training System Pressures: Increased Fees (Minister for Tertiary Education and Skills).

20. These initiatives will impact our Vote Revenue non-departmental appropriations, for example our Initial fair value write-down relating to student loans. We will confirm with the Ministry of Education if there are any departmental impacts for Vote Revenue to implement and deliver these initiatives.

21. We will advise you during the Budget process if there are any other initiatives being led by other Ministers that impact Vote Revenue and the financial impact of all these initiatives.

Vote Revenue 2024 March Baseline Submission for Inland Revenue

22. On Tuesday 20 February 2024 we will submit our 2024 March Baseline Update submission to you for Vote Revenue. Your submission letter is due to the Minister of Finance by 1pm Wednesday 28 February.

23. The submission is limited to decisions that can be made by joint Ministers, being the Vote Minister and the Minister of Finance.

24. Set our below are the key items we are proposing for our submission:

    a. Return to the Crown: one-off administrative savings - $15 million

       A return to the Crown of $15 million in administration savings in 2023/24.

    b. In-principle expense and capital transfer (IPECT) - $15 million

       An IPECT for managing customer demand and timing of expenditure of up to $15 million from 2023/24 to 2024/25. The in-principle amount would be confirmed in the 2024 October Baseline Update.

    c. Return to the Crown: one-off transformation depreciation funding - $30 million

       A return to the Crown of $30.000 million for unrequired transformation depreciation funding in 2023/24.

    d. Return to the Crown: residual transformation activities - $1.100 million

       A return to the Crown of $1.100 million funding for the completion of the Residual activities following the Transformation Programme's substantive closure appropriation.

    e. Disestablished New Zealand Productivity Commission - $0.060 million

       A reduction in revenue Other of $0.060 million due to the cessation of support services to the to be disestablished New Zealand Productivity Commission.

Recommendations

25. It is recommended that you:

25.1. **Note** the contents of this report.

Noted

25.2. **Consider** and **refer** the attached draft letter to the Minister of Finance (Annex 2).

Referred

s 9(2)(a)

Nick Bradley
Enterprise Leader Finance Services
19 / 02 / 2024

Hon Simon Watts
Minister of Revenue
/ / 2024

Annexes:

a) Annex 1 - Letter from the Minister of Finance
b) Annex 2 - Draft response letter to the Minister of Finance

Annex 1 – Letter from the Minister of Finance

Office of Hon Nicola Willis

Minister of Finance
Minister for the Public Service
Minister for Social Investment
Associate Minister of Climate Change

Hon Simon Watts

Dear Simon

REDUCING CONSULTANT AND CONTRACTOR EXPENDITURE

Our Government is committed to getting the government's books back in order and ensuring taxpayer funds deliver positive outcomes for New Zealanders. Reducing reliance on contractors and consultants is a key priority to support this work.

Our Fiscal Sustainability Programme is seeking savings of at least $400 million a year in contractor and consultant expenditure across the Public Service and Crown entities. This represents a 17 percent decrease on the $2.37 billion spent in 2022/23, and you should view this as a minimum when you look to make your own savings in this area.

All public sector agencies, including New Zealand Police, New Zealand Defence Force, and statutory Crown entities, will need to play their part to achieve our fiscal sustainability objectives. I expect your agencies to be providing active leadership to achieve a significant reduction in this type of expenditure, including taking action to realise immediate savings.

I also expect monitoring departments to be working with Crown entity boards to ensure they are active in driving greater value-for-money and significantly reducing expenditure on contractors and consultants in Crown entities. I have recently written to all Crown entity board chairs to communicate my expectations.

Agencies will be required to provide regular and robust reporting to the Public Service Commission to demonstrate progress in significantly reducing expenditure on contractors and consultants. Ministers should be tracking progress on a regular basis. Please keep me informed of any risks that could impact your agency's progress in delivering this change so appropriate action can be taken early.

I ask that you discuss these expectations with chief executives across your portfolios to ensure we are on track to deliver change. The Public Service Commission is available to support you.

I would like to thank you for your leadership and support as we deliver the changes needed to restore fiscal discipline and ensure expenditure is delivering real results for New Zealanders.

Yours sincerely

Hon Nicola Willis
Minister of Finance
Minister for the Public Service

Copy to: James Palmer, Chief Executive, Ministry for the Environment
Peter Mersi, Chief Executive, Inland Revenue

s 9(2)(g)(i)

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Preliminary tax forecasts for the 2024 Budget Economic and Fiscal Update**

Date:	27 February 2024	**Priority:**	Low
Security level:	In Confidence - Budget	**Report number:**	IR2024/075

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report **Refer** report to Minister of Finance	5 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Sandra Watson	Policy Lead (Forecasting and Analysis)	s 9(2)(a) [redacted]

27 February 2024

Minister of Revenue

Preliminary tax forecasts for the 2024 Budget Economic and Fiscal Update

Executive summary

Purpose

1. The purpose of this report is to inform you of updated tax forecasts, incorporating new information since the 2023 Half Year Economic and fiscal update (HYEFU) was published. The report is for your information and no decisions are sought.

Context and background

2. Tax forecasts will be updated for the 2024 Budget Economic and Fiscal Update (BEFU) and the preliminary BEFU tax forecasts reported here are a step in the process providing a basis for decision making. These preliminary forecasts are not published.

3. The preliminary tax forecasts were completed by the Treasury on 20 February 2024, using macroeconomic forecasts (also from the Treasury) of 12 February 2024, and incorporating results to January 2024.

4. The figures discussed in this report are for the revenue (accrual-based) measure of tax covering a five-year fiscal outlook to 30 June 2028. Figures are unconsolidated, which means they include the tax that the government pays to itself.

Changes to forecasts since HYEFU

5. For the five years from 2023/24 to 2027/28 inclusive, the Treasury have revised down their tax forecasts in all years. There is an -$88 million revision in the current year and in subsequent years the revisions range from -$2.1 billion in 2025/26 to -$3.5 billion in 2027/28.

6. The downwards revisions flow from a softer economic outlook across the forecast period for employee compensation (affecting PAYE), consumption (GST), and net operating surplus (other persons and company tax).

7. An offsetting factor in the current year is that stronger returns to investment are expected to boost company tax. Interest RWT forecasts have also been revised up, reflecting ongoing strength in outturns and also suggesting stronger investment returns than was incorporated at HYEFU.

8. The December Mini-Budget changes are now explicitly included in the tax forecasts, in particular boosting the company tax profile. We have also incorporated a reversal to Smokefree legislation and have assumed that interest deductibility for residential rental housing is reinstated.

Next steps

9. The final round of BEFU tax forecasting closes on 15 April 2024 incorporating Budget decisions. BEFU is scheduled to be released on 30 May 2024.

Recommended action

We recommend that you:

10. **note** the contents of this report, and

    Noted

11. **refer** a copy of this report to the Minister Finance for their information.

    Referred/Not referred

s 9(2)(a)

Sandra Watson
Policy Lead (Forecasting and Analysis)
Policy and Regulatory Stewardship

Hon Simon Watts
Minister of Revenue
/ /2024

Background

12. Tax forecasts will be updated for the 2024 Budget Economic and Fiscal Update (BEFU), replacing the previous published forecasts from the 2023 Half-Year Economic and Fiscal Update (HYEFU). There are two steps to updating tax forecasts for BEFU: this unpublished preliminary forecasting round, followed by a final forecasting round which incorporates Budget policy decisions, and which will be published. Preliminary forecasts aim to provide a basis for decision making, and are not used for monthly reporting.

13. This report informs you of changes, since HYEFU, in the Treasury's preliminary tax forecasts for BEFU. These forecasts were completed on 20 February 2024 with the following inputs:

    13.1 tax results to January 2024;

    13.2 macroeconomic forecasts produced by the Treasury, which were finalised on 12 February 2024; and

    13.3 policy changes decided since HYEFU, up to and including 15 February 2024.

14. The figures discussed in this report are for the revenue measure of tax (accrual-based). The forecasts cover a five-year fiscal outlook to 30 June 2028. Figures are unconsolidated, which includes the government paying tax to itself.

Changes to the Treasury's unconsolidated tax forecasts since HYEFU 2023.

Table One – Changes in the Treasury's unconsolidated tax revenue forecasts since HYEFU 2023

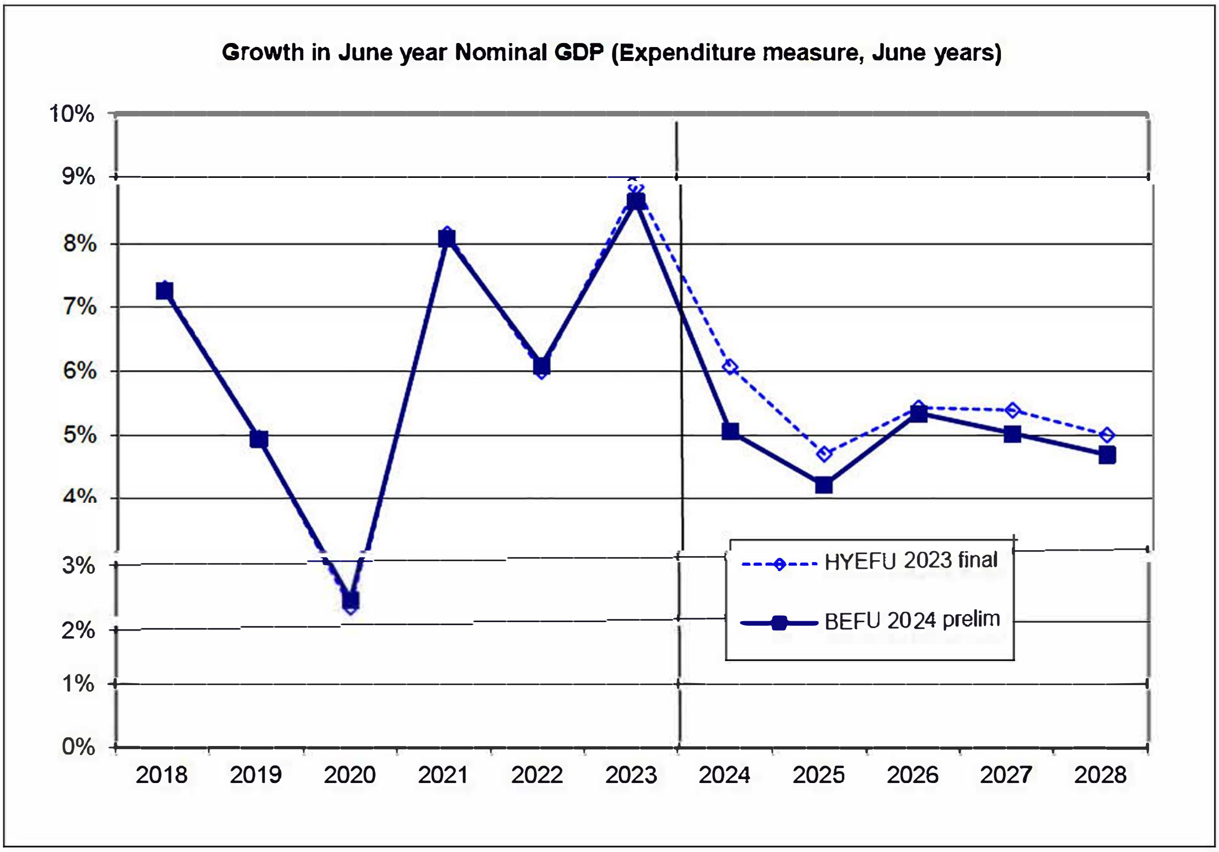
June years, $ millions	2023/24	2024/25	2025/26	2026/27	2027/28
The Treasury					
HYEFU 2023 Treasury forecast	*135,881*	*144,017*	*152,982*	*161,517*	*169,765*
Changes for BEFU forecasts:					
Source deductions[1]	78	(685)	(1,204)	(1,739)	(2,143)
Other persons[2]	(700)	(399)	(529)	(756)	(1,033)
Corporate taxes[3]	425	(947)	231	(179)	(169)
GST (including Customs GST)	27	(589)	(553)	(696)	(930)
Resident withholding tax (RWT) on interest	236	155	169	253	240
Other taxes[4]	(154)	(368)	(307)	8	558
Total change since HYEFU	**(88)**	**(2,833)**	**(2,193)**	**(3,109)**	**(3,477)**
Preliminary BEFU 2024 Treasury forecast	**135,793**	**141,184**	**150,789**	**158,408**	**166,288**

[1] PAYE and employer superannuation contributions tax (ESCT)
[2] "Other persons" is income tax from individuals, trusts, and Māori authorities less any credits for tax withheld by others such as PAYE or RWT. It is mainly provisional tax, but also includes annual square-ups for wage and salary earners.
[3] Company tax, residents withholding tax on dividends, and non-resident's withholding tax (on interest, dividends, and royalties).
[4] Mainly customs and excise, road user charges, and motor vehicle licensing fees.

15. For the five years from 2023/24 to 2027/28 inclusive, the Treasury have revised down their tax forecasts in all years, ranging from -$88 million in the current year to -$3.5 billion by 2027/28.

16. In the current 2023/24 fiscal year there are offsetting revisions, but other persons is $700 million smaller than HYEFU, reflecting lower expectations for profitability. Company tax results are also currently below HYEFU forecast, but an upwards revision anticipates stronger results in the coming months from the financial investment sector.

Revisions to the macroeconomic outlook



17. The updated macroeconomic forecasts are signalling a similar shape, but less strength, in the growth profile compared to HYEFU forecasts. In particular there is reduced growth in historic and near-term operating surplus[5], softer growth in employee compensation beyond the current year, and also reduced nominal consumption growth throughout.

18. The operating surplus series now reflects revisions to history following the latest quarterly GDP release from Statistics New Zealand. These revisions tipped growth in 2022-23 March year operating surplus from positive (+1.7%) to negative (-1.8%), affecting the starting point for subsequent growth in other persons and company tax revenue.

19. A near-term positive factor for company tax is that returns from the financial investment sector are now expected to be stronger in the current fiscal year.

20. Employee compensation is displaying stronger growth than HYEFU in the current year, but softer (than HYEFU) growth is anticipated in subsequent years, progressively reducing forecast PAYE. Aggregate wages and salaries are now

[5] Operating surplus is the profitability measure in the National Accounts.

expected to be $3.3 billon smaller in 2028 than was indicated at HYEFU, and this is a major factor in downwards revisions to PAYE.

21. Consumption growth is weaker throughout, prompting the downwards revisions to GST.

22. Forecasts for key macroeconomic drivers influencing tax forecasts are summarised in Table Two below.

Table Two - Key macroeconomic series underpinning the BEFU preliminary tax forecasts

The Treasury's HYEFU 2023 and preliminary BEFU 2024 forecast macroeconomic indicators	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Nominal GDP (Annual growth - June years)					
HYEFU 2023	6.1%	4.7%	5.4%	5.4%	5.0%
BEFU 2024 prelim	5.1%	4.2%	5.3%	5.0%	4.7%
Net Operating Surplus (Annual growth - March years)					
HYEFU 2023	3.2%	4.8%	6.1%	6.6%	6.2%
BEFU 2024 prelim	1.1%	6.4%	6.7%	6.7%	6.2%
Compensation of Employees (Annual growth - June years)					
HYEFU 2023	6.2%	4.8%	5.2%	5.0%	4.6%
BEFU 2024 prelim	7.7%	3.7%	4.9%	4.5%	4.1%
Nominal Consumption (Annual growth - June years)					
HYEFU 2023	4.6%	4.0%	4.9%	4.7%	4.5%
BEFU 2024 prelim	3.9%	3.1%	4.8%	4.5%	4.3%
90-day bank bills (Levels - March year averages)					
HYEFU 2023	5.68%	5.58%	4.35%	3.33%	2.75%
BEFU 2024 prelim	5.65%	5.28%	4.23%	3.48%	2.88%

Unconsolidated Tax Outturns[6] to January 2024 relative to HYEFU

23. HYEFU forecasts incorporated results to October. Compared to HYEFU forecasts, results in the subsequent three months to January 2024 show:

- Unconsolidated tax revenue is close to forecast, but this measure will be $677 million below forecast once consolidated with the biggest negative variances from other persons and consolidated company tax.
- Unconsolidated cash receipts are $1.1 billion below forecast, with the biggest negative variances again in company tax and other persons.

[6] This section refers only to taxes administered by Inland Revenue plus Customs GST. This framing is used for monthly variance reporting by Inland Revenue.

24. For both tax types, the second provisional tax instalment in January was smaller than last year, and for other persons was smaller than the first instalment of August 2023.

25. Although company tax revenue is tracking below HYEFU forecast, some improvement of company tax relative to HYEFU is expected in the coming months, particularly from the financial investment sector with annual PIE taxation now expected to be higher than HYEFU forecast.

26. Interest RWT is tracking above forecast, also suggesting stronger returns to investment than was incorporated at HYEFU.

Policy changes decided since HYEFU

27. These preliminary forecasts do not yet incorporate Budget 2024 policy decisions. Policy changes decided since HYEFU and before 15 February 2024 are now incorporated and are disclosed in Table Three below. The table includes the December 2023 Mini Budget items which were announced after the underlying tax forecasts at HYEFU were closed.

Table Three – Policies decided since HYEFU 2023 (rounded to $1 million):

June years, $ millions	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Commercial building depreciation denial from 1 April 2024	-	57	1120	567	567
Residential housing interest deductibility	(5)	(360)	(785)	(855)	(915)
Brightline* reversion to two years	(22)	(45)	(45)	(45)	(45)
PAYE consequential of welfare benefit indexation change to CPI	3	6	(25)	(53)	(75)
39% trustee rate amendments (estate carve out, de minimis, energy consumer trusts)	-	(1)	(7)	(2)	(2)
Application date for Pillar 2 GLOBE rules	-	-	-	(7)	-
Total – new policies	**(24)**	**(343)**	**258**	**(395)**	**(470)**

*Brightline fiscal estimates are larger after 2027/28.

28. The building depreciation fiscal estimates have a double impact in 2025/26 due to information lags from return filing. Once returns arrive incorporating the change, they simultaneously trigger subsequent year estimations.

29. The reinstatement of deductibility of interest for residential rental properties is included in these forecasts in advance of the Cabinet decision on the assumption that it is more likely than not to proceed. As this item is still subject to final Cabinet decision, these figures may change for the final BEFU forecasts.

30. Although the Brightline change fiscal estimates assume a July 2024 application date, a fiscal loss from an earlier behavioural change (in the form of property sales deferral) has been allowed for. Brightline fiscal estimates will be bigger than $45 million after 2027/28 because the previous ten-year Brightline settings had a delayed fiscal impact.

31. In addition to the items in Table three, these preliminary tax forecasts have incorporated a reversal of the Smokefree Environments and Regulated Products

(Smoked Tobacco) Amendment Act 2022, following the Cabinet decision of 18 December 2023.

32. There has also been a forecasting adjustment to allow for a confirmed non-taxable status for the upcoming Reserve Bank's depositor compensation scheme. This adjustment removes approximately $40m per year from forecast company tax from 2025/26 onwards. Previous baseline forecasts assumed the scheme would be taxable, and that its introduction would be tax neutral given the offsetting deductions of depositors.

Risks and ongoing uncertainties

33. We are still uncertain about profitability in both 2022-23 and 2023-24 with larger corporates generally not filing for 2022-23 until late-March.

34. Portfolio investment entities (PIEs) file annually in late April. Returns to PIEs have been volatile in recent years and can have large swings; in this case we have incorporated an upwards swing in their tax payable, but the degree of recovery is uncertain.

35. One upside risk is the degree to which larger than usual dividends are declared this year in advance of the 39% trustee tax rate taking effect. Additional dividend withholding tax could be over and above the amounts included here.

36. In all three of the above examples the relevant information will arrive after final BEFU forecasts are completed. All three items present a potentially highly variable risk to April results which will be reported against final BEFU forecasts.

37. Policy change factors can also influence tax revenue in ways that are difficult to accurately predict on a monthly basis especially if there is a behavioural response to changed settings: the reaction to the (pending) 39% trustee rate being a current example.

38. An overarching risk is that the wider economic outlook remains uncertain. Although not as volatile as COVID-affected years, factors such as inflation, higher mortgage costs, and immigration trends have caused uncertainty, with some factors offsetting others but with the net outcome unclear. Global geopolitical risks also continue to disrupt.

Consultation

39. The Treasury have been consulted on this report. The Treasury reported their preliminary forecasts to the Minister of Finance on 22 February.

Next steps

40. January results are being reported to you this week, IR2024/070 refers.

41. The final round of BEFU tax forecasting closes on 15 April 2024 and will be further informed by February and, to the degree they are finalised, March results. Final figures will incorporate Budget decisions.

42. BEFU is scheduled to be released on 30 May 2024.

In confidence (Budget sensitive)

Briefing note

Reference:	BN2024/086
Date:	7 March 2024
To:	Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
Copy to:	Peter Mersi, Commissioner James Grayson, Deputy Commissioner Joanne Petrie, Executive Support Advisor to the Commissioner Nick Bradley, Enterprise Leader Finance Services Governance and Ministerial Services
From:	Mike Nutsford, Strategic Advisor, ED&I
Subject:	**Budget 2024 - Bilateral meeting with Minister of Finance**

Purpose

1. This note provides some background material for the Minister of Revenue to support his bilateral discussion with the Minister of Finance in relation to the Vote Revenue initiatives submitted for consideration as part of Budget 2024. The bilateral meeting is scheduled for Monday 11 March at 3.30 to 4.00 pm and officials can attend to support Ministers. A pre-meeting between the Minister and the Commissioner is scheduled for 3.00 to 3.30 pm.

Background and context

2. As part of the Budget 2024 process, the Minister of Finance indicated in her letter of 21 December 2023 an intention to have bilateral meetings with portfolio Ministers. The Office has requested some background material for the Minister's use to support his discussion with the Minister of Finance.

3. We understand that the bilateral meeting is likely to focus on the departmental baseline savings rather than the policy and other initiatives.

Summary of bids information

4. As part of the Initial Baseline Exercise, 10 Minister of Revenue led initiatives were submitted for consideration as part of Budget 2024 as follows:

Savings - baseline reduction target:

- Inland Revenue baseline savings – reduction in operating expenditure.
- Inland Revenue baseline savings – reduction in systems maintenance and change capacity.

s 9(2)(f)(iv)

New spending initiatives:

- Investment in tax compliance activities (including overseas-based student loan borrowers).
- Online casino gambling tax changes.

- Restoring interest deductibility for residential rental property.
- Personal Income Tax and Independent Earner Tax Credit threshold changes.
- In-Work Tax Credit – rate increase.
- FamilyBoost.

5. Annex A shows the overall bid information submitted on 16 February for all of the above initiatives.

6. In addition to the above initiatives, we are aware of the following initiatives led by other Ministers that may have impacts for Vote Revenue. We are uncertain about the status of these initiatives, but we will provide further information when provided to us. The funding associated with these initiatives is not reflected in this briefing note. These initiatives are likely to be outside of the scope of the bilateral meeting.

   - s 9(2)(f)(iv)
   - Health Workforce - Training 50 new doctors (Minister of Health)
   - Managing Tertiary Education and Training System Pressures: Increased Fees (Minister for Tertiary Education and Skills)
   - Fees Free – Replacing First-Year with Final-Year Fees Free (Minister for Tertiary Education and Skills)
   - Increasing the Student Loan Scheme overseas interest formula by 1% for 5 years (Minister for Tertiary Education and Skills).

Approach to baseline saving options

Requirement to identify options to meet the savings target of $39.6 million a year (6.5%)

7. The Minister has worked with the Commissioner to identify the most appropriate savings options from across Vote Revenue. These conversations have focussed on areas such as low value programmes, programmes that do not align with the Government's priorities and non-essential back-office functions including contractor and consultant spend.

8. The Commissioner considers that because Inland Revenue's Business Transformation programme included a complete organisational redesign, most of the efficiencies in the organisation have been realised, including a significant reduction in employee numbers and contractors and consultants spend. Also, Inland Revenue has advised that there are no low-value programmes that could be stopped or reduced, and it is not delivering or undertaking any programmes that do not align with Government priorities. Initiatives such as tax principles reporting have already ceased.

Information on back-office functions

9. Inland Revenue's structure is grouped around front-line customer management, customer support, enterprise support and activities that provide direction, policy, governance and integrity services. The table below shows how Inland Revenue's operating budget for 2023/24 is split across these categories:

   - Customer management - direct activity with customers - includes system operations and change, and advice on the interpretation of application of tax law
   - Customer support - supports activity with customers - includes the analysis and identification of compliance risks, external website content management and external customer campaigns including compliance
   - Enterprise support - includes human resources, finance, and technology
   - Direction and governance – includes integration, integrity and policy.

	Total operating[1] *$million*	People cost *$million*	Other costs *$million*	FTE (August 2023)
Customer management	267	255	12	2,904
Customer support	148	77	71	591
Enterprise support	155	41	114	298
Direction and governance	57	47	10	258
	627	420	207	4,051

1. Excludes depreciation and capital charge expenditure.

Consultants and contractors

10. Inland Revenue engages consultants and contractors (C&Cs) to complement its internal resources. This may be for work of a specialist nature which requires expertise and experience that we do not retain permanently or that we have outsourced on a permanent basis or for defined periods.

11. Our expenditure on operating C&C was $41.7 million in 2022/23. We have previously agreed with the Public Service Commission a target of $37.4 million for 2023/24, a reduction of $4.3 million (10%). As noted in our Budget 2024 saving submission we propose to reduce our expenditure on C&C by a further $3 million from 2024/25. This is a combined reduction of $7.3 million (17.5%). This slightly exceeds the 17% expectation from the Minister of Finance.

Marketing and communications staff

12. Marketing and communications activities sit within the Customer support category (supports activity with customers) and its main purpose and activities have an external focus in relation to external website content management and external customer campaigns including compliance campaigns. We have proposed no specific change to the level of marketing and communications staff, but we will continue to review these levels as part of achieving our outcomes.

Baseline reduction target savings

13. Inland Revenue proposed three baseline reduction target saving options for the Minister's consideration to achieve the $39.600 million per annum (6.5%) target as follows:

	$ million – increase / (decrease) cost / (saving)					
Savings	2023/24	2024/25	2025/26	2026/27	2027/28& outyears	Total
(a) Reduction in operating expenditure	-	(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
(b) Reduction in systems maintenance and change capacity	-	(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
s 9(2)(f)(iv) [redacted]						
Total departmental savings	-	(39.600)	(39.600)	(39.600)	(39.600)	(158.400)
s 9(2)(f)(iv) [redacted]						
Total net operating savings	-	s 9(2)(f)(iv) [redacted]				

14. s 9(2)(f)(iv) [redacted]

Risks associated with savings options (a) and (b)

15. The reduction in operating expenditure (option a) includes savings in travel, training, overtime and consultants and contractors. Apart from the reduction in overtime, the

saving will not have a material impact on our service delivery or front-line staff numbers. The reduction of ~$5.000 million a year in overtime may have an implication in meeting our performance measures at peak times, such as managing customer contacts during the annual income tax assessment process.

16. The risks associated with the reduction in system maintenance and change capacity (option b) will be the reduced ability to self-fund any new system and process implementation work including between-Budget new Government initiatives. Delivery of the tax-related measures in Budget 2024 as outlined in the coalition agreements and the Tax Plan will not be affected by this. Furthermore, the setting of the Government's new Tax and Social Policy Work Programme will be informed by this reduced capacity. It could take longer to scale up to deliver new initiatives. A further risk associated with this saving option, is that it will reduce our ability to resource ongoing efficiency opportunities which would have enabled us to better manage on-going cost pressures or have led to improved compliance or compliance cost reductions.

s 9(2)(f)(iv), s 9(2)(g)(i)

[redacted]

s 9(2)(f)(iv), s 9(2)(g)(i)

[redacted]

Approach adopted

21. The approach adopted was to identify 6.5% of savings from a combination of baseline savings and targeted policy savings and revenue options. This was on the basis that the Minister of Finance 21 December 2023 letter indicated that targeted policy saving, and revenue options could help partially offset some of Inland Revenue's baseline reduction target.

s 9(2)(f)(iv)

[redacted]

Targeted policy saving and revenue raising options

25. Our report of 29 January 2024 (IR2024/022 – Budget 2024 – Savings options and Assurance Panel refers) identified potential targeted policy savings or revenue raising options that could be developed for consideration as part of Budget 2024. The Minister of Finance's letter of 21 December 2023 identified the following areas for consideration:

Initiative	Comment
Revenue positive options associated with the Maintenance of the tax system	The Minister of Finance expects options to be developed alongside work on setting the Tax and Social Policy work programme
s 9(2)(f)(iv) [redacted]	
Savings-related options for student loans including the overseas-based repayments and compliance activity settings	The Minister of Finance has indicated that this should be a joint proposal with the Minister for Tertiary Education and Skills.

s 9(2)(f)(iv) [redacted]

Student loan scheme and overseas-based borrowers compliance

29. The initiative to increase student loan overseas-based borrowers compliance activity settings has been included in the Investment in compliance activities initiative. This s 9(2)(f)(iv) [redacted]

Additional savings requested by Treasury

30. s 9(2)(g)(i) [redacted]

31. The additional savings they have identified total $7.000 million capital and $31.150 million operating over the forecast period, as follows:

[2] Operating balance before gains and losses.

- Vote Revenue to self-fund all additional operating costs in 2023/24 ($1.500 million), all depreciation and capital charge ($5.000 million) and all capital ($7.000 million). We identified this as potential savings for Treasury to consider.
- A 30% reduction in operating for the FamilyBoost and Personal Income Tax (including IWTC $25 increase) initiatives s 9(2)(f)(iv)

32. The Treasury are not seeking to identify potential savings options in relation to the online gambling, compliance and baseline savings bids.

33. The 30% reduction broadly equals the design and policy contingency that we included in our initial baseline submission due to uncertainty at that time associated with the policy and design which may result in added delivery complexity. The impact of this reduction, subject to the final policy and design decisions including application dates, is likely to be at the service level and may have debt write-off implications in relation to the PIT changes.

34. At this stage in the process and until we have certainty of the new spending policy and design decisions and what those decisions mean from a delivery and on-going administration perspective, we propose to indicate in our advice on these initiatives that, if necessary, we will seek additional funding during the Budget 2024 process or at a later date to deliver these initiatives if this risk materialises. This requirement will be reflected in our advice to Ministers on these initiatives, bilateral meetings and in relevant Cabinet papers.

35. Annex C shows the overall revised bid information – bids submitted on 16 February excluding the additional savings identified above.

36. We attach in Annex D the letter the Minister sent to the Minister of Finance outlining his approach to the baseline savings.

Our 2024 March Baseline Update Submission

37. In our 2024 March Baseline Update submission (IR2024/54 refers) the Minister approved the return of funding to the Crown of $41.100 million in 2023/24. Whilst this savings does not contribute to the Budget 2024 savings requirement it does have a positive impact on the Crown's operating balance over the forecast period. The savings included:

- Return of one-off administrative savings - $15.000 million
- Return of one-off transformation depreciation funding - $30.000 million
- Return of residual transformation funding - $1.100 million.

38. In our baseline update you also approved a submission to the Minister of Finance for an in-principle expense transfer (IPET) of up to $15.000 million from 2023/24 to 2024/25 to manage our initiatives and work programme. If approved by the Minister of Finance this transfer would be confirmed in the 2024 October Baseline Update, after the 2023/24 financial statements have been audited. A decision on this IPET from the Minister of Finance is expected in late March.

39. In a tight fiscal environment, it is useful to have the ability to make these fiscally neutral transfers across financial years to manage our initiatives and work programme. The proposed additional self-funding of new spending initiatives sought by the Treasury tightens our fiscal position in 2024/25 and outyears and makes the approval of this transfer more important.

Mike Nutsford
Strategic Advisor, ED&I
s 9(2)(a)

Annex A – Funding implications

Operating funding implications - departmental

The following table sets out the departmental operating impacts of Budget 2024 initiatives. The table shows our original 16 February March submission s 9(2)(f)(iv) [redacted] including the proposed self-funding proposal by The Treasury.

s 9(2)(f)(iv) [redacted]

Capital funding implications - departmental

The following table sets out the departmental capital impacts of Budget 2024 initiatives. The table shows our original 16 February March submission totalling **$7.000 million** capital. We proposed self-funding this capital amount, as the level of capital spend is within what we allow for this type of change each year. There is no impact on our capital plans associated with self-funding this $7.000 million.

	$ million – increase / (decrease) cost / (saving)					
Departmental operating impacts	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Net operating cost (submitted)	4.000	3.000	-	-	-	7.000
Self-fund	(4.000)	(3.000)	-	-	-	(7.000)
Net operating cost (revised)	-	-	-	-	-	-

Annex B – Savings

The following table show the departmental and non-departmental operating savings. This excludes non-departmental tax revenue and debt impairment benefits from the increased compliance initiative and new spending initiatives.

	$ million – increase / (decrease)					
Operating Savings	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings target						
Base for savings		610.000	610.000	610.000	610.000	2.440.000
Savings target percentage		(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)
Targeted savings		(39.600)	(39.600)	(39.600)	(39.600)	(158.400)
Baseline savings submitted						
Operating expenditure[1]		(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
Maintenance and change[1]		(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
Subtotal		(29.600)	(29.600)	(29.600)	(29.600)	(118.400)
%		(4.9%)	(4.9%)	(4.9%)	(4.9%)	(4.9%)
Additional savings[1]						
s 9(2)(f)(iv) [redacted]						
s 9(2)(f)(iv) [redacted]						
Savings total						
Baseline savings submitted		(29.600)	(29.600)	(29.600)	(29.600)	(118.400)
s 9(2)(f)(iv) [redacted]						
Subtotal - departmental		(40.950)	(37.200)	(35.000)	(34.900)	(148.050)
s 9(2)(f)(iv) [redacted]						
Total		s 9(2)(f)(iv) [redacted]				
%						

1. Departmental saving
2. s 9(2)(f)(iv) [redacted]
3. Plus a savings of $1.500 million in 2023/24 for a total saving of $31.150 million.

Annex C – Budget initiatives

The original departmental operating impact of the initiatives submitted on 16 February March s 9(2)(f)(iv) [redacted] The first table shows the self-funding as a single line. The second table applies this saving to each initiative.

	$ million – increase / (decrease)					
Departmental operating impacts - gross	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – baseline reduction:						
• operating expenditure	-	(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
• maintenance and change	-	(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
	-	(29.600)	(29.600)	(29.600)	(29.600)	(118.400)
s 9(2)(f)(iv) [redacted]						
New spending						
• IWTC - rate increase	0.200	0.100	0.100	0.100	0.100	0.600
• FamilyBoost	0.500	17.300	13.300	13.300	13.300	57.700
• Online casino gambling tax	0.500	0.800	0.800	0.800	0.300	3.200
• PIT and IETC	0.800	14.000	6.400	0.400	0.400	22.000
s 9(2)(f)(iv) [redacted]						
• Interest deductibility	-	-	-	-	-	-
	2.000	90.200	78.600	72.600	72.100	315.500
Net operating cost (original)	2.000	61.600	49.800	43.400	42.800	**199.600**
• Proposed self-fund	s 9(2)(f)(iv) [redacted]					
Net operating cost (revised)						

	$ million – increase / (decrease)					
Departmental operating impacts – net of self-fund	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Savings – baseline reduction:						
• Operating expenditure	-	(14.600)	(14.600)	(14.600)	(14.600)	(58.400)
• Maintenance and change	-	(15.000)	(15.000)	(15.000)	(15.000)	(60.000)
	-	(29.600)	(29.600)	(29.600)	(29.600)	(118.400)
s 9(2)(f)(iv) [redacted]	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
New spending						
• IWTC - rate increase	-	-	-	-	-	-
• FamilyBoost	-	11.900	9.100	9.100	9.100	39.200
• Online casino gambling tax	0.500	0.500	0.500	0.500	-	2.000
• PIT and IETC	-	9.450	4.200	-	-	13.350
• s 9(2)(f)(iv) [redacted]						
• Interest deductibility	-	-	-	-	-	-
	s 9(2)(f)(iv) [redacted]					
Net operating cost (revised)						

Hon Simon Watts

Minister of Climate Change
Minister of Revenue

16 February 2024

Hon Nicola Willis
Minister of Finance
Parliament Buildings
Wellington 6011

Dear Nicola

Inland Revenue baseline savings target options

I am writing to set out my views on the baseline savings target options being submitted as part of the Budget 2024 Initial Baseline Exercise for Inland Revenue. Attached to this letter is the completed Ministerial letter you requested by 16 February 2024 and the associated summary information.

As outlined in your letter of 21 December 2023 which set out the fiscal objectives across the term and Budget 2024 expectations, I have worked with the Commissioner of Inland Revenue to identify the most appropriate savings options from across Vote Revenue. I have focussed on areas identified in the letter, such as low-value programmes, programmes that do not align with our priorities and non-essential back-office functions, including contractor and consultant spending.

You asked that I identify a 6.5% reduction from targeted policy savings and revenue options and suggested some areas to be explored. You indicated in your letter that these options could help partially offset some of Inland Revenue's baseline reduction target. I am pleased to confirm I have identified an s 9(2)(f)(iv) reduction. This reduction is a combination of baseline savings (4.8% of the eligible base of $610 million) as 9(2)(f)(iv) in the 2024/25 fiscal year.[1] The Commissioner has assured me these numbers are accurate and can be delivered. The baseline savings options being submitted are on the following page.

s 9(2)(f)(iv)

Private Bag 18041, Parliament Buildings, Wellington 6160
s.watts@ministers.govt.nz

Baseline savings target options - 6.5%	Savings per year (2024/25)	Savings over the forecast period
Reduce departmental operating expenditure – travel, training, contractors and consultants, accommodation, overtime and other efficiencies	$14.6 million	$58.4 million
Reduce systems maintenance and change capacity (reduction of 62 FTEs and 20 external provider FTEs)	$15.0 million	$60.0 million
Departmental saving	**$29.6 million**	**$118.4 million**

s 9(2)(f)(iv)

The Commissioner has informed me that because Inland Revenue's Business Transformation programme included a complete organisational redesign, many organisational efficiencies have been realised, including significantly reduced contractors and consultant spending. This work on baseline savings will further optimise that work and ensure we deliver the most efficient and cost-effective services possible.

While some reductions in consultant spend have been achieved through Inland Revenue's Business Transformation programme, I will work closely with Inland Revenue to identify further opportunities to reduce reliance on consultants in line with this government's priorities and commitments.

I agree with your view that revenue-positive options associated with the maintenance of the tax system should be developed alongside work on setting the Tax and Social Policy work programme. I have instructed my officials to consider this when advising on setting our work programme.

s 9(2)(f)(iv)

Your letter also mentioned working with the Minister of Tertiary Education and Skills to provide advice on savings-related options for student loans, including increasing overseas-based repayment and compliance activity settings. I understand that the Minister of Tertiary

[2] The savings range from $3.9 million in the 2024/25 year to $79.9 million in the 2027/28 year.

Education and Skills is considering a policy savings-related option for inclusion in the baseline exercise.

I agree there should be a focus on student loan overseas-based borrowers' compliance, particularly on borrowers living in Australia and borrowers who come to New Zealand using Inland Revenue's "arrest" powers. This compliance activity has been included in the wider Inland Revenue compliance and audit bid.

Finally, in relation to the bid to increase our investment in tax compliance (including overseas-based borrowers), this is estimated to generate additional tax revenue and savings in relation to impairments of s 9(2)(f)(iv) [redacted]. To generate this additional tax revenue and savings will require an investment in Inland Revenue's compliance activities of s 9(2)(f)(iv) [redacted]. This is based on an expectation that the return on this investment will build up to $8:$1 in the later years of the forecast.

I would be happy to provide any further information or assistance as required.

Yours sincerely

Simon

Hon Simon Watts
Minister of Revenue

Inland Revenue
Te Tari Taake

Briefing note

Budget Sensitive

Reference:	BN2024/115
Date:	19 March 2024
To:	Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
Copy to:	Peter Mersi, Commissioner Lisa Barrett, Deputy Commissioner, CCS-B James Grayson, Deputy Commissioner, CCS-I David Carrigan, Deputy Commissioner, PaRS Joanne Petrie, Executive Support Advisor to the Commissioner Denise Wright, Management Support CCS-B Carolyn Patchell, Management Support CCS-I Nick Bradley, Enterprise Leader Finance Services Governance and Ministerial Services
From:	Mike Nutsford
Subject:	Budget 2024 - Summary of information provided to Treasury

Purpose

1. The Treasury has requested advice on a number of initiatives being considered as part of Budget 2024. The material we have provided will be incorporated into advice Treasury will provide the Minister of Finance to support the next Budget Ministers' (BM3) discussion scheduled for the week commencing 25 March 2024. This note summarises the information provided.

2. There are four new potential savings initiatives that Budget Ministers have asked for advice on which impact Vote Revenue:

    - s 9(2)(f)(iv) [redacted]
    - [redacted]
    - [redacted]
    - [redacted]

3. As an outcome of the Budget 2024 bilateral meeting on Monday 11 March we have revised the following initiative:

    - Investment in tax compliance activities (including overseas-based student loan borrowers).

Background and context

4. As part of the Budget 2024 initial baseline exercise the Minister submitted a bid entitled "Investment in tax compliance activities (including overseas-based student loan borrowers)" on 16 February 2024 for consideration as part of Budget 2024. This bid was discussed at Budget 2024 bilateral meeting on 11 March 2024.

5. We recently informed you that Treasury has asked for our advice on the following four policy initiatives for consideration of part of the Budget process. The requests from Budget Ministers were for advice on:

s 9(2)(f)(iv)

- [redacted]

6. Our overarching advice on all these initiatives, were they to be progressed, is that Inland Revenue would be unable to absorb any associated departmental implementation and administration costs based on the cumulative impact of all currently proposed Budget 2024 initiatives and decisions affecting Vote Revenue. We would therefore seek funding for departmental operating and capital costs for each initiative if they were to be progressed.

7. We also advised against progressing any of these initiatives for Budget 2024 until officials have had further time to develop policy and implementation advice on the options, which would also include, where appropriate, public consultation to determine the impact of them on taxpayers and other third parties.

8. The earliest possible implementation timing of each initiative is discussed below. This is based on our current understanding of Inland Revenue's policy, system and change priorities, which we note will be subject to change following decisions on the Government's Tax and Social Policy Work Programme (TSPWP). If Inland Revenue resources needed to be shifted to developing and delivering the initiatives below, this might mean that non-Budget 2024 initiatives currently under way or initiatives included on the TSPWP would need to be slowed down (or vice versa, with TSPWP initiatives being progressed sooner, and the initiatives below being slowed down). The extent to which these trade-offs may be relevant would depend on the number of initiatives advanced and their legislative timeframes. Also, as part of our baseline saving initiatives, our change capacity will reduce from 1 July 2024.

9. We have summarised our advice to Treasury on these measures below. The estimated fiscal impact of all measures is reduced by the associated administration costs that we estimate we would need to seek funding for. The fiscal impact and costings below are based on early analysis and are subject to further refinement.

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv)

[redacted]

s 9(2)(f)(iv) [redacted]

Investment in tax compliance activities (including overseas-based borrowers)

28. As part of the initial baseline exercise, the investment in compliance activities bid s 9(2)(f)(iv) [redacted]

29. We were informed at the Budget bilateral discussion that this bid had been scaled down s 9(2)(f)(iv) [redacted]

30. Treasury has requested that we provide the following information on this bid to feed into advice to the Minister of Finance for the next Budget Ministers' meeting:

- the areas of focus for the scaled down bid
- the revised fiscal impact of the scaled down bid.

31. The split of the scaled down bid between tax compliance activities and student loan overseas-based borrowers' activities will be $25 million a year and $4 million a year respectively. More specifically in relation to the $25 million for tax compliance activities we propose to initially allocate $11 million for audit activities, $5 million for electronic

suppression tools (ESST) compliance activity, $3 million for unfiled returns compliance, and $6 million for debt collection. The mix of the $25 million will change over time based on compliance risk and return on investment considerations.

32. s 9(2)(f)(iv) We consider that we are able to increase the speed of the return on investment to 4:1 in year 1 and 8:1 in year 2 and thereafter through our plan to scale-up our capability (including retraining existing staff), use of intelligence information (including analytics tools and third-party data) and our compliance targeting approach. We consider that by initially focussing on unfiled returns and the collection of overdue tax for those customers Inland Revenue can see have an income activity and/or own assets of value, such as property, we will be able to generate a return of 4:1 in the 2024/25 fiscal year. We will leverage our data and analytics capability to identify where we can gain the highest return. The return from other activities such as audit will take time to ramp up and build momentum. Building broader capability to enable IR to address more complex compliance work will also take time.

Areas of compliance focus

33. The primary target areas of our additional compliance activity will initially be:

- hidden economy
- organised crime
- high wealth individuals
- trusts compliance
- property compliance
- corporate entity restructuring for tax avoidance
- online risks such as crypto assets
- income suppression, for example electronic sales suppression tools (ESST)
- overseas-based student loan borrowers using border enforcement and third-party suppliers to collect debt and/or locate borrowers
- increased prosecutions and other legal remedies
- unfiled returns (NZ and overseas), and
- customers who have the ability to pay outstanding debt in full (NZ and overseas).

Fiscal impacts of additional investment in compliance activities

34. The tables below show the Crown OBEGAL impact of the revised compliance initiative with a comparison to the initial initiative.

Table 1: Net impact on OBEGAL – initial vs revised

	$million - cost / (saving)					
Compliance initiative	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
s 9(2)(f)(iv)						
March submission (revised)	-	(88)	(190)	(190)	(190)	**(658)**
Net impact on OBEGAL (Increase/(decrease))	-	s 9(2)(f)(iv)				

Table 2: Net impact on OBEGAL – revised detail

	$million - cost / (saving)					
Compliance initiative – March submission (revised)	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Dept. expense - additional compliance and ESST activity	-	25	25	25	25	100
Dept. expense - additional student loans activity	-	4	4	4	4	16
Tax revenue - audit assessments and unfiled returns	-	(73)	(147)	(147)	(147)	(514)
Other revenue - student loan interest unwind	-	(15)	(15)	(15)	(15)	(60)
ND expense - impairment of debt and debt write-offs (rev.)	-	1	1	1	1	4
ND expense - impairment of debt and debt write-offs	-	(27)	(55)	(55)	(55)	(192)
ND expense - IFWD student loans	-	(3)	(3)	(3)	(3)	(12)
Impact on OBEGAL	**-**	**(88)**	**(190)**	**(190)**	**(190)**	**(658)**

35. s 9(2)(f)(iv)

36. s 9(2)(f)(iv)

Mike Nutsford
Strategic Advisor, ED&I
s 9(2)(a)

Vote Revenue: 2024 Budget Economic and Fiscal Update forecasts for non-departmental expenditure appropriations and other Budget 2024 matters

Date:	19 April 2024	**Priority:**	High
Security level:	In Confidence (Budget Sensitive)	**Report no:**	IR2024/102

Action sought

	Action sought	Deadline
Minister of Finance	**Approve** recommendations Concurrent approval with Minster of Revenue due to Budget timeframes.	26 April 2024
Minister of Revenue	**Approve** recommendations **Sign and refer** report to the Minister of Finance	26 April 2024

Contact for telephone discussion (if required)

Name	Position		
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)		s 9(2)(a)
Sandra Watson	Policy Lead, Forecasting & Analysis		
Rachel Parker	Domain Lead, Finance Services		
Darren Cheevers	Domain Lead, Finance Services		

19 April 2024

Minister of Finance
Minister of Revenue

Vote Revenue: 2024 Budget Economic and Fiscal Update forecasts for non-departmental expenditure appropriations and other Budget 2024 matters

Executive summary

1. Inland Revenue submitted forecasts for non-departmental appropriations to the Treasury for the 2024 Budget Economic and Fiscal Update (BEFU 2024) on 16 April 2024. The forecasts in this report incorporate actual results to February 2024 (and draft March results where available) and are based on the Treasury's macroeconomic forecasts of 5 April 2024. The forecasts include all Cabinet and Joint Minister decisions that impact Vote Revenue up to 16 April 2024 and decisions anticipated ahead of the Cabinet meeting on 29 April 2024.

2. This report seeks your joint approval for the forecast changes to non-departmental appropriations that are reflected in BEFU 2024, and which are not established under a permanent legislative authority (PLA). Forecast changes to appropriations which are established under a PLA do not require approval but are also provided for your information.

3. The major forecast changes since the 2023 Half Year Economic and Fiscal Update (HYEFU 2023) for non-PLA appropriations[1] requiring Joint Ministers' approval are:

   - The current year forecast for the *Impairment of debt and debt write-offs* has increased by $700 million for the remainder of the 2023/24 year and a further $680 million over the forecast period based on forecast debt and impairment levels. The increase is predominantly due to the current difficult economic conditions that are continuing to have an impact on customers' ability to pay.

   - The *Initial fair value write-down for student loans* has decreased by $220 million over the forecast period mainly due to a decrease in discount rates since HYEFU 2023. A decrease in the discount rate increases the value of future repayments decreasing the write-down forecasts. A $20 million buffer has been included to cover any unexpected lending over the remainder of the year.

4. For PLA appropriations[1], the major forecast change since HYEFU 2023 is:

[1] A full list of the non-PLA and PLA appropriations is given at Appendix A.

- The appropriation for *KiwiSaver: employee and employer contributions* sent to scheme providers has been revised down by $440 million in 2023/24 calibrating to recent results and by larger amounts in subsequent years reflecting a combination of changed modelling assumptions and a weaker outlook for the labour market, most notably wage growth. This appropriation facilitates a pass through from employers to KiwiSaver providers and does not affect the operating balance.

5. A list of Ministerial decisions, anticipated decisions and forecast changes since HYEFU 2023 and Joint Minister approvals granted at the March Baseline Update 2024 (MBU 2024) are contained within the body of this report.

6. The *Research and Development (R&D) Tax Incentive* appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). We are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology for forecast changes to this appropriation (IR2024/103 refers).

7. Appendix B sets out the forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format (3 tables covering MBU 2024, BEFU 2024 and the Supplementary Estimates 2024). The tables include tax forecasts prepared by the Treasury.

8. This report also seeks your joint approval for wording changes to the Vote Revenue departmental *Services for Customers* Multi-Category Appropriation (MCA) to make it more relevant and reflective of our delivery approach. The wording changes remove outdated terminology and describe more accurately the services we deliver.

9. We have consulted on this 2024 Budget Economic Fiscal Update submission with the Treasury.

Recommended action

10. We recommend that you:

(a) **note** the BEFU 2024 forecasts in this report incorporate actual results to February 2024, are further informed by preliminary results for March 2024, are based on the Treasury's macroeconomic forecasts of 5 April 2024, and were submitted to the Treasury on 16 April 2024.

Noted Noted

(b) **note** the following Cabinet decisions have been incorporated into BEFU 2024 for Vote Revenue non-departmental appropriations:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
FamilyBoost tax credit Progressing the FamilyBoost Tax Credit (CAB-24-Min-0089)	**-**	**174.000**	**171.000**	**167.000**	**165.000**
Impairment of debt and debt write-offs					
Investment in Compliance Activities - Return on Investment [A]	-	(26.000)	(54.000)	(54.000)	(54.000)
In-Work Tax Credit - Rate Increase [A]	-	2.000	2.000	2.000	2.000
Total Impairment of debt and debt write-offs	**-**	**(24.000)**	**(52.000)**	**(52.000)**	**(52.000)**
Initial fair value write-down relating to student loans					
Final-year Fees Free - Impacts Related to Student Loans [A]	-	79.000	90.000	76.000	60.000
Health Workforce – Training 25 more doctors [A, B]	-	0.139	0.284	0.436	0.744
Increasing Student Loan Scheme Overseas Interest Formula - Impacts Related to Student Loans [A]	-	(0.247)	(0.195)	(0.133)	(0.076)
Investment in Compliance Activities - Return on Investment [A]	-	(3.000)	(3.000)	(3.000)	(3.000)
Increasing Tuition Fees - Impacts Related to Student Loans[A]	-	12.224	13.857	14.110	14.361
Total Initial fair value write-down relating to student loans	**-**	**88.116**	**100.946**	**87.413**	**72.029**
In-Work Tax Credit In-Work Tax Credit – Rate Increase[A]	**-**	**146.000**	**157.000**	**152.000**	**144.000**
Minimum Family Tax Credit					
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme Main Benefit Indexation to CPI (CAB-23-MIN-0490)	-	0.300	(1.300)	(2.700)	(3.200)
Personal Income Tax and Independent Earner Tax Credit threshold changes [A]	-	0.200	0.220	0.220	0.220
Total Minimum Family Tax Credit	**-**	**0.500**	**(1.080)**	**(2.480)**	**(2.980)**
Total Operating	**-**	**384.616**	**375.866**	**351.933**	**326.049**

[A] Cabinet minute number pending Cabinet decisions on 29 April 2024.
[B] Initiative is still subject to formal agreement by Budget Ministers

Noted

Noted

(c) **note** the following forecast increases to non-departmental appropriations jointly approved by you at the March Baseline Update 2024:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental other expenses:					
COVID-19 Resurgence Support Payment [C]	0.050	-	-	-	-
COVID-19 Support Payment [C]	0.160	-	-	-	-
Non-departmental benefits or related expenses:					
KiwiSaver: interest [D]	0.500				
Total Operating	**0.710**	**-**	**-**	**-**	**-**

[C] Fiscally neutral adjustment from Inland Revenue Departmental budget, MOF letter to MOR dated 25 March 2024
[D] IR2024/054, MOF letter to MOR dated 25 March 2024 refers

Noted Noted

(d) **approve** the following forecast changes to appropriations for non-departmental benefits or related expenses that are not established under a permanent legislative authority, with a corresponding impact on the operating balance and net core Crown debt:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental benefits or related expenses:					
KiwiSaver: tax credit	10.000	(15.000)	(17.000)	(18.000)	(17.000)
Paid parental leave payments	5.000	-	-	(10.000)	(15.000)
Total Operating	**15.000**	**(15.000)**	**(17.000)**	**(28.000)**	**(32.000)**

Approved/Not approved Approved/Not approved

(e) **approve** the following forecast changes in appropriations for non-departmental other expenses that are not established under a permanent legislative authority, with a corresponding impact on the operating balance and net core Crown debt:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental other expenses:					
Initial fair value write-down relating to student loans	(42.000)	(84.116)	(64.946)	(32.413)	3.971
Impairment of debt and debt write-offs	700.000	600.000	40.000	20.000	20.000
Impairment of debt relating to child support	20.000	-	-	-	-
Impairment of debt relating to the SBCS	50.000	-	-	-	-
Total Operating	**728.000**	**515.884**	**(24.946)**	**(12.413)**	**23.971**

Approved/Not approved Approved/Not approved

(f) **note** the following forecast changes to non-departmental benefits or related expenses, non-departmental borrowing expenses, and non-departmental other expenses, that are established under a permanent legislative authority:

	$ million – increase / (decrease)				
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental benefits or related expenses - PLA:					
Best Start tax credit	6.000	1.000	(1.000)	(9.000)	14.000
Child support payments	10.000	-	-	-	-
FamilyBoost tax credit	-	-	-	-	-
Family tax credit	3.000	(7.000)	(18.000)	(90.000)	108.000
In-work tax credit	(25.000)	4.000	14.000	11.000	37.000
Minimum family tax credit	(1.000)	(1.500)	(0.920)	(1.520)	(1.020)
Total change – inc/(dec)	**(7.000)**	**(3.500)**	**(5.920)**	**(89.520)**	**157.980**
Non-departmental other expenses - PLA:					
KiwiSaver: Employee and employer contributions [E]	(440.000)	(800.000)	(1,080.000)	(1,280.000)	(1,470.000)
Non-departmental borrowing expenses – PLA:					
Environmental Restoration account interest	-	(0.200)	(0.400)	(0.600)	(0.800)
Total change – inc/(dec)	**(447.000)**	**(803.700)**	**(1,086.320)**	**(1,370.120)**	**(1,312.820)**
Total Operating*	**(7.000)**	**(3.700)**	**(6.320)**	**(90.120)**	**157.180**

[E] The KiwiSaver contributions appropriation does not affect the operating balance.

Noted Noted

(g) **note** that the *Research and Development (R&D) Tax Incentive* appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE) and that we are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology for changes to this appropriation (IR2024/103 refers).

Noted Noted

(h) **agree** that all proposed changes to appropriations for 2023/24, covered by the recommendations above, be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Agreed/Not agreed Agreed/Not agreed

(i) **note** that the Table 2 Baseline Changes Reports (attached) for Vote 20 set out the forecast changes for Vote Revenue Crown (non-departmental) for the 2023/24 March Baseline Update (preliminary forecasts), the 2023/24 Supplementary Estimates (SUPPS 2023/24 – final forecasts) and the 2024 Budget Economic and Fiscal Update (BEFU 2024 – final forecasts).

Noted Noted

(j) **agree** the amended wording for the *Services to Customers* Multi-Category Appropriation, and for this to then be included in the Estimates of Appropriations 2024/25 (refer Appendix C for detail of changes).

Agreed/Not agreed Agreed/Not agreed

s 9(2)(a)

Nick Bradley
Enterprise Leader Finance Services - Chief Financial Officer
19 / 4 / 2024

Hon Nicola Willis
Minister of Finance
/ 4 /2024

Hon Simon Watts
Minister of Revenue
/ 4 /2024

Background

11. Inland Revenue submitted forecasts for non-departmental appropriations to the Treasury for the 2024 Budget Economic and Fiscal Update (BEFU 2024) on 16 April 2024. These forecasts are based on the Treasury's BEFU 2024 macroeconomic forecasts of 5 April 2024, and they incorporate actual results to February[2] 2024. A list of the non-departmental expenditure appropriations is attached in Appendix A.

12. This report seeks your joint approval for forecast changes to appropriations that are not established under a permanent legislative authority (PLA). Forecast changes to appropriations established under a PLA do not require approval and are also provided for your information.

13. Forecasts are compared to amounts appropriated for the 2023 Half-year Economic and Fiscal Update (HYEFU 2023).

14. Some of the appropriations that are not established under a PLA include buffers for the Supplementary Estimates, being the 2023/24 year (only). These buffers are intended to reduce the risk of these appropriations breaching in the remainder of the year without legislative authority.

15. Appendix B sets out the forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format. These tables include tax forecasts prepared by the Treasury.

Non-departmental benefits or related expense appropriations

16. The following table sets out the forecast changes for non-departmental benefits or related expenses that are not established under a permanent legislative authority.

	$ million				
Non-departmental benefits or related expenses	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
KiwiSaver: interest					
HYEFU 2023	2.500	2.500	2.500	2.500	2.500
BEFU 2024	3.000	2.500	2.500	2.500	2.500
Ministerial approval MBU-24 – inc/(dec)	0.500	-	-	-	-
KiwiSaver: tax credit					
HYEFU 2023	1,058.000	1,116.000	1,163.000	1,211.000	1,260.000
BEFU 2024	1,068.000	1,101.000	1,146.000	1,193.000	1,243.000
Forecast change - inc/(dec)	10.000	(15.000)	(17.000)	(18.000)	(17.000)
Paid parental leave payments					
HYEFU 2023	650.000	685.000	730.000	775.000	815.000
BEFU 2024	655.000	685.000	730.000	765.000	800.000
Forecast change - inc/(dec)	5.000	-	-	(10.000)	(15.000)
Total forecast change – inc/(dec)	**15.000**	**(15.000)**	**(17.000)**	**(28.000)**	**(32.000)**
Total Ministerial approval MBU-24 – inc/(dec)	**0.500**	**-**	**-**	**-**	**-**

[2] The timetable was such that only preliminary results for March were available before forecast close-off.

17. The forecast for the *KiwiSaver: interest* appropriation has been increased by $0.5 million in the 2023/24 year to reflect growth in interest rates[3]. Joint Minister approval for this increase was granted at MBU 2024 (IR2024/054, MOF letter to MOR dated 25 March 2024 refers). As this appropriation does not have a permanent legislative authority, this higher forecast reduces the risk of breaching the appropriation. The increase has not been carried into future years as interest rates are expected to ease.

18. The *KiwiSaver: tax credit* appropriation covers government contributions to KiwiSaver schemes. This is calculated as 50% of annual personal contributions and capped at $521.43 per person. The underlying forecast remains unchanged from HYEFU 2023 in the 2023/24 year but a $10 million buffer has been added for the Supplementary Estimates to prevent any breach in appropriation without legislative authority for the remainder of the year. The decrease in the forecast appropriation from 2024/25 reflects a downward revision in the forecast for nominal wage growth compared to HYEFU 2023. This will lead to smaller contributions from some people who don't meet the full credit entitlement threshold, which means lower government contribution.

19. Underlying forecasts for the *Paid parental leave* appropriation have not been changed in the near term but a $5 million buffer in the current year has been added for the Supplementary Estimates to prevent any breach in appropriation without legislative authority for the remainder of the year. Modest downward revisions in the outyears reflect weaker growth forecasts for average weekly earnings, which reduces the fiscal cost of future indexation.

Non-departmental capital expenditure

20. There has been no change to forecasts of non-departmental capital expenditure (not established under a permanent legislative authority).

	$ million				
Non-departmental Capital Expenditure	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Small Business Cashflow Scheme COVID 19					
HYEFU 2023	5.000	-	-	-	-
BEFU 2024	5.000	-	-	-	-
Forecast change – inc/(dec)	-	-	-	-	-

21. Applications for lending for the Small Business Cashflow Scheme ceased on 31 December 2023. The forecast of $5 million for the 2023/24 year allows for any late processing of loan applications.

Non-departmental other expenses

22. The following table sets out the forecast changes for non-departmental other expenses that are not established under a permanent legislative authority. These forecast changes require your joint approval.

[3] The interest rate payable is the use of money interest rate, which is regularly revised with reference to market interest rates.

	$ million				
Non-departmental other expenses	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
COVID-19 Resurgence Support Payment					
HYEFU 2023	-	-	-	-	-
BEFU 2024	0.050	-	-	-	-
Ministerial approval MBU-24 – inc/(dec)	0.050	-	-	-	-
COVID-19 Support Payment					
HYEFU 2023	-	-	-	-	-
BEFU 2024	0.160	-	-	-	-
Ministerial approval MBU-24 – inc/(dec)	0.160	-	-	-	-
Initial fair value write-down relating to student loans					
HYEFU 2023	601.000	629.000	640.000	651.000	663.000
BEFU 2024	559.000	633.000	676.000	706.000	739.000
Forecast change – inc/(dec)	(42.000)	(84.116)	(64.946)	(32.413)	3.971
Cabinet decisions – inc/(dec)	-	88.116	100.946	87.413	72.029
Initial fair value write-down relating to the Small Business Cashflow Scheme COVID-19					
HYEFU 2023	2.000	-	-	-	-
BEFU 2024	2.000	-	-	-	-
Forecast change – inc/(dec)	-	-	-	-	-
Impairment of debt and debt write-offs					
HYEFU 2023	1,200.000	1,100.000	960.000	980.000	980.000
BEFU 2024	1,900.000	1,676.000	948.000	948.000	948.000
Forecast change – inc/(dec)	700.000	600.000	40.000	20.000	20.000
Cabinet decisions – inc/(dec)	-	(24.000)	(52.000)	(52.000)	(52.000)
Impairment of debt and debt write-offs relating to child support					
HYEFU 2023	-	-	-	-	-
BEFU 2024	20.000	-	-	-	-
Forecast change – inc/(dec)	20.000	-	-	-	-
Impairment of debt relating to the SBCS					
HYEFU 2023	-	-	-	-	-
BEFU 2024	50.000	-	-	-	-
Forecast change – inc/(dec)	50.000	-	-	-	-
Total forecast change – inc/(dec)	**728.000**	**515.884**	**(24.946)**	**(12.413)**	**23.971**
Total Cabinet decisions – inc/(dec)	**-**	**64.116**	**48.946**	**35.413**	**20.029**
Total Ministerial approval MBU-24 – inc/(dec)	**0.210**	**-**	**-**	**-**	**-**

COVID-19 payments

23. At MBU 2024, you jointly approved a fiscally neutral adjustment of $210,000 from the Inland Revenue departmental budget to two non-departmental appropriations (COVID-19 Resurgence Support Payment and COVID-19 Support Payment), MOF letter to MOR dated 25 March 2024 refers.

Initial fair value write-downs

25. he *Initial fair value write-down relating to student loans* appropriation has decreased by $42 million in 2023/24 and increased between $4 million and $76 million per year in out-years. The net decrease of $42 million in 2023/24 includes the addition of a $20 million buffer added for the Supplementary Estimates to avoid any unappropriated expenditure as this is not covered by a permanent legislative authority. The increase in this appropriation from 2024/25 is due to higher lending forecasts due to the pending Final-year Fees Free Cabinet decision partially offset by a decrease in discount rates. A decrease in the risk adjustment resulted in a decrease in the discount rate, increasing the value of future loan repayments.

	$ million				
Initial fair value write-down relating to student loans – breakdown of movement	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Rates changes	(33.000)	(64.000)	(64.000)	(62.000)	(60.000)
Lending	(29.000)	68.000	100.000	114.000	136.000
Buffer	20.000	-	-	-	-
Total forecast and Cabinet decisions– inc/(dec)	**(42.000)**	**4.000**	**36.000**	**52.000**	**76.000**

26. The below table sets out the pending Cabinet decisions impacting the Initial fair value write-down relating to student loans appropriation since HYEFU 2023.

	$ million				
Initial fair value write-down relating to student loans – Cabinet decisions	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Final-year Fees Free - Impacts Related to Student Loans [F]	-	79.000	90.000	76.000	60.000
Health Workforce – Training 25 more doctors [F G]	-	0.139	0.284	.436	0.744
Increasing Student Loan Scheme Overseas Interest Formula - Impacts Related to Student Loans [F]	-	(0.247)	(0.195)	(0.133)	(0.076)
Investment in Compliance Activities – Return on Investment [F]	-	(3.000)	(3.000)	(3.000)	(3.000)
Increasing Tuition Fees - Impacts Related to Student Loans [F]	-	12.224	13.857	14.110	14.361
Total Cabinet decisions – inc/(dec)	**-**	**88.116**	**100.946**	**87.413**	**72.029**

[F] Cabinet minute number pending Cabinet decisions on 29 April 2024.
[G] Initiative is still subject to formal agreement by Budget Ministers

27. There have been no changes to forecasts for the *Initial fair value write-down relating to the Small Business Cashflow Scheme COVID-19* appropriation. Application for the Scheme lending ceased on 31 December 2023. A small amount has been accrued for any final claims still to be processed and the associated write-down. At year-end the financial impact of any changes in default and repayment assumptions for outstanding loans is recorded against the *Impairment of debt relating to the SBCS* appropriation. Refer paragraph 40 for more information.

Impairments

28. At MBU 2024, we indicated a forecast outturn for our impairment related appropriations of $1,220 million and that buffers of up to $350 million may be required to reduce the risk of unappropriated expenditure from material movements in fair value in the last three months of the year. The below table sets out an update to the MBU position. At BEFU 2024, our updated outturn is now $1,910 million and the amount of buffers required has reduced to $60 million based on interim valuation results.

	2023/24 $ million						
	MBU 2024 Estimate					**Final BEFU 2024**	
Non departmental annual appropriations (non-PLA)	Current appropriation limit/ forecast HYEFU 2023	Forecast changes for MBU 2024	Forecast expected outturn MBU 2024	Estimated buffers for BEFU 24	Appropriation *upper limit MBU 2024*	Forecast expected outturn BEFU 2024	Buffer BEFU 2024
Impairment of debt and debt write-offs	1,200.000	-	1,200.000	200.000	1,400.000	1,900.000	-
Impairment of debt and debt write-offs relating to child support	-	-	-	20.000	20.000	-	20.000
Impairment of debt relating to student loans	-	-	-	50.000	50.000	-	-
Impairment of debt relating to the SBCS	-	20.000	20.000	80.000	100.000	10.000	40.000
Subtotal	1,200.000	20.000	1,220.000	350.000	1,570.000	1,910.000	60.000
Other annual appropriations (non-impairment)				50.000			35.000

Impairment of debt and debt write-offs

29. Since HYEFU-23, the *Impairment of debt and debt write-offs* appropriation has increased by $700 million in 2023/24, $576 million in 2024/25 and decreased by between $12 million and $32 million in outyears. The below table sets out the movements in the appropriation.

	$ million				
Impairment of debt and debt write-offs	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Investment in Compliance Activities - Return on Investment [H]	-	(26.000)	(54.000)	(54.000)	(54.000)
In-Work Tax Credit - Rate Increase [H]	-	2.000	2.000	2.000	2.000
Cabinet decisions	**-**	**(24.000)**	**(52.000)**	**(52.000)**	**(52.000)**
Forecast changes	700.000	600.000	40.000	20.000	20.000
Total forecast changes	**700.000**	**600.000**	**40.000**	**20.000**	**20.000**
Total movement – inc/(dec)	**700.000**	**576.000**	**(12.000)**	**(32.000)**	**(32.000)**

[H] Cabinet minute number pending Cabinet decisions on 29 April 2024

30. In recent months, Inland Revenue has started to return to a more balanced work programme as customer assistance and work relating to the COVID support products has finished. This has seen an increased focus on a range of compliance activities from education and community engagement through to investigations and audit activity. Our activity focuses on areas where we consider there to be the highest risk and highest returns.

31. Despite this rebalancing of activity, total overdue debt has increased just under 12% in the first nine months of 2023/24. Growth in debt levels for the same period over the last three years has been nominal. The increases seen year to date have been largely in debt relating to employer deductions and GST which tend to be an early indicator that a business is experiencing cashflow issues. Around one third of customers with GST or employer debt only have debt relating to 2023/24, indicating that for many of our customers this year has been tougher than previous years and the current difficult economic conditions are continuing to have a significant impact on customers' ability to pay. Given the clear growth in debt for GST and employer deductions, particular attention is being given to these tax types. For example, we are running a direct marketing (emails and letters) campaign focusing on the construction industry. Participants in this industry have one of the highest levels of unfiled returns and overdue payments with a high proportion of this being associated with GST and employer deductions. We are initially targeting 40,000 construction companies within the coming months.

32. As previously reported (IR2024/141 refers), we have identified an error with reporting overdue income tax debt relating to customers who used tax pooling in prior years. We have confirmed the accounting treatment for this error with Audit New Zealand and will recognise the full impact of the error ($253 million), including the related impairment in 2023/24.

33. Overdue debt balances have seasonal patterns and are therefore difficult to predict. The income tax due dates in February and April result in significant increases in overdue debt between 1 April and 30 June each year. GST also typically increases substantially in the last quarter following the filing and payment date for the GST period ending 31 March which is due 7 May (a significant value and volume of 2 monthly and 6 monthly GST returns fall due).

34. During the last three months of 2022/23, debt levels grew by 20%, or just under $1 billion, which was almost double the level of growth seen in previous years. Based on both the increased growth seen in the first nine months of the year and the continued economic pressures we know our customers are facing, we are forecasting year end debt to be $8.3 billion, i.e. a 23% growth on the March 2024 balance and 43% growth on 30 June 2023.

Year on year comparisons $ million (rounded)	30 Jun 2020 Actual	30 Jun 2021 Actual	30 Jun 2022 Actual	30 Jun 2023 Actual	30 Jun 2024 Forecast
Breakdown of appropriation:					
Impairment	946	69	(26)	713	1,112
COVID-19 remissions	-	118	176	231	108
Write-offs	411	695	512	523	567
Tax pool and COVID-19 correction	-	-	-	-	113
Total Impairment of debt and debt write-offs	**1,357**	**882**	**662**	**1,467**	**1,900**
Total overdue debt	**4,247**	**4,384**	**4,846**	**5,820**	**8,300**
% Average impaired value	**77%**	**76%**	**68%**	**69%**	**65%**

35. The level of debt impairment and write-off of debt expenditure is directly related to the level and age of debt and any changes in impairment rate.

36. The $700 million increase in the 2023/24 impairment expense since HYEFU 2023 consists of three main components;

- the 23% increase in tax debt forecast for the remainder of the year (refer para 33 above) added almost $600 million to the previous forecast;
- the correction of two errors which combined have increased the expense by $113 million since HYEFU 2023; and
- a small increase in forecast impairment rate and adjustment to forecast write-offs.

37. The $113 million adjustment relates to the net impact of two reporting errors. Firstly, $253 million of the increase from HYEFU 2023 relates to the correction of the tax pooling adjustment noted in paragraph 31 above. s 9(2)(g)(i) [redacted].

38. We are forecasting that debt levels, before any increased compliance activity from the compliance initiative, will continue to grow at elevated rates in 2024/25 before aligning back to growth rates seen in previous years from 2025/26. This has had a consequential impact on the forecast impairment of debt and debt write-off expense.

Other impairments

39. The *Impairment of debt and debt write-offs relating to child support* appropriation for 2023/24 reflects the interim valuation for the scheme and includes a buffer of $20 million to cover any material differences between the interim and final impairment results at year-end. The interim valuation was conducted by PricewaterhouseCoopers in March 2024 and resulted in a forecast appropriation gain of $20 million. The buffer represents 1% of the forecast year-end nominal debt position. In July 2024, the external valuer will further update the valuation of our child support debt balances using up-to-date data on debt levels, repayments and relevant macroeconomic factors.

40. At MBU 2024 we indicated that a buffer of $50 million may be required for the *Impairment of debt relating to student loans* appropriation for 2023/24. An interim valuation was conducted by PricewaterhouseCoopers in March 2024 and resulted in a forecast appropriation gain of $156 million, being a reversal of impairment. As such, we do not require any buffer. The final valuation will include updated borrower data for 31 March 2024 and updated cashflow forecasts, including further monitoring of the compliance of overseas based borrowers. Any volatility in macroeconomic assumptions is treated as remeasurement, which is not appropriated.

41. The outlook for the *Impairment of debt relating to SBCS* has improved by $50 million since MBU 2024. The 2023/24 appropriation reflects the interim valuation for the scheme and includes a buffer of $40 million to cover any material differences between the interim and final impairment results at year-end. The interim valuation was conducted by PricewaterhouseCoopers in March 2024 and resulted in a forecast impairment of $10 million. The buffer represents 4% of the forecast year-end nominal debt position. In July 2024, the external valuer will further update the valuation of the Scheme for changes in default and repayment assumptions for outstanding loans.

Non-departmental benefits or related expenses - PLA

42. The following table sets out the forecast changes for non-departmental benefits or related expenses which are established under a permanent legislative authority (PLA).

	$ million				
Non-departmental benefits or related expenses - PLA	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Best Start tax credit *					
HYEFU 2023	334.000	338.000	334.000	342.000	335.000
BEFU 2024	340.000	339.000	333.000	333.000	349.000
Forecast change - inc/(dec)	6.000	1.000	(1.000)	(9.000)	14.000
Child support payments					
HYEFU 2023	422.000	453.000	462.000	471.000	480.000
BEFU 2024	432.000	453.000	462.000	471.000	480.000
Forecast change - inc/(dec)	10.000	-	-	-	-
FamilyBoost tax credit					
HYEFU 2023	-	-	-	-	-
BEFU 2024	-	174.000	171.000	167.000	165.000
Cabinet decisions – inc/(dec)	-	174.000	171.000	167.000	165.000
Family tax credit *					
HYEFU 2023	2,278.000	2,323.000	2,294.000	2,375.000	2,312.000
BEFU 2024	2,281.000	2,316.000	2,276.000	2,285.000	2,420.000
Forecast change - inc/(dec)	3.000	(7.000)	(18.000)	(90.000)	108.000
In-work tax credit *					
HYEFU 2023	474.000	430.000	410.000	407.000	386.000
BEFU 2024	449.000	580.000	581.000	570.000	567.000
Forecast change - inc/(dec)	(25.000)	4.000	14.000	11.000	37.000
Cabinet decisions – inc(dec)	-	146.000	157.000	152.000	144.000
Minimum family tax credit *					
HYEFU 2023	13.000	13.000	13.000	13.000	13.000
BEFU 2024	12.000	12.000	11.000	9.000	9.000
Forecast change - inc/(dec)	(1.000)	(1.500)	(0.920)	(1.520)	(1.020)
Cabinet decisions – inc(dec)	-	0.500	(1.080)	(2.480)	(2.980)
Total forecast change – inc/(dec)	**(7.000)**	**(3.500)**	**(5.920)**	**(89.520)**	**157.980**
Total cabinet decisions – inc/(dec)	**-**	**320.500**	**326.920**	**316.520**	**306.020**

* Working for Families Tax Credits.

43. The *Best Start tax credit* appropriation has been increased in the 2023/24 year to reflect an additional fortnightly payday not included at HYEFU, with a return to the normal number of paydays in 2024/25. Inflation is now expected to be softer than at HYEFU 2023 and as a result, the next indexation of Best Start has been pushed out a year to 1 April 2027, but is a larger indexation event of 7.06%, compared to the previous forecast of 5.83% a year earlier. An additional payday also impacts 2027/28.

44. Forecasts of *Child support payments* to custodians have been largely left unchanged apart from a small upwards revision of $10 million in 2023/24, reflecting slightly stronger collections from non-custodians than previously forecast.

45. The *FamilyBoost tax credit* appropriation is new, reflecting announcements of 25 March 2024 (CAB-24-Min-0072 refers).

46. There has been a small upwards adjustment to the 2023/24 *Family Tax Credit* appropriation in 2023/24 with offsetting factors of an additional payday in the 2023/24 entitlement period, and higher incomes increasing abatement. The latter factor flows through as a smaller starting point for growth into subsequent years, albeit tempered by slightly softer wage growth than forecast at HYEFU 2023 and hence less abatement over time. As with Best Start, a now softer inflation forecast has deferred the next indexation, with a larger adjustment now forecast to occur one year later, and an additional pay period is also now incorporated into 2027/28.

47. The *In-Work Tax Credit* (IWTC) appropriation has been revised down in 2023/24 reflecting that HYEFU 2023 forecasts had over-provisioned for lump sum claims. The main driver in increased IWTC forecasts from 2024/25 onwards is the $25 per week increase in entitlements from 31 July 2024 (Cabinet minute number pending Cabinet decisions on 29 April 2024). A lessor factor is that a softer wage growth profile leads to less abatement and hence increased entitlements. The lagged indexation of the Family tax credit also has a small impact on the out years as IWTC entitlements do not abate[4] until the Family tax credit is exhausted.

48. The Minimum Family Tax Credit appropriation has had a minor downward revision in 2023/24, reflecting recent results which are expected to continue for the remainder of the year. For subsequent years there are multiple change factors affecting forecasts of the Minimum Family Tax Credit (MFTC). The first factor is the Mini Budget switch to CPI indexation of net welfare benefits (CAB-23-MIN-0490 refers). The minimum family tax credit guaranteed income is generally set each year with reference to net welfare benefit rates[5]. The switch to indexing net benefits to CPI as opposed to wage growth has a consequence that the guaranteed amount (to which after-tax incomes are "topped up) will no longer grow as fast as wages. There will be less top up needed as wages grow, resulting in a decrease in forecast expenditure over time. Additionally, the pending July 2024 changes to tax and the In-Work tax credit have required consequential changes to the guaranteed MFTC amount.

	$ million				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme Main Benefit Indexation to CPI (CAB-23-MIN-0490)	-	0.300	(1.300)	(2.700)	(3.200)
Personal Income Tax and Independent Earner Tax Credit threshold changes [H]	-	0.200	0.220	0.220	0.220
Cabinet decisions	**-**	**0.500**	**(1.080)**	**(2.480)**	**(2.980)**

[H] Cabinet minute number pending Cabinet decisions on 29 April 2024

[4] An ordering rule applies with the Family Tax Credit abating first.

[5] The goal in setting the Minimum Family Tax Credit guaranteed amount is to ensure a working family is better off than a similar family also retaining an abated welfare benefit. Net benefits, Winter Energy payment, other Working for Families credits, and take-home wages are taken into account.

Non-departmental borrowing expenses - PLA

49. The following table sets out the forecasts for non-departmental borrowing expenses that are established under a permanent legislative authority.

	$ million				
Non-departmental borrowing expenses - PLA	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Environmental restoration account interest					
HYEFU 2023	4.300	4.500	4.700	4.900	5.100
BEFU 2024	4.300	4.300	4.300	4.300	4.300
Forecast change - inc/(dec)	-	(0.200)	(0.400)	(0.600)	(0.800)
Income equalisation interest					
HYEFU 2023	10.000	7.000	7.000	7.000	7.000
BEFU 2024	10.000	7.000	7.000	7.000	7.000
Forecast change - inc/(dec)	-	-	-	-	-
Total forecast change - inc/(dec)	**-**	**(0.200)**	**(0.400)**	**(0.600)**	**(0.800)**

50. The *Environmental Restoration* account and *Income Equalisation* account allow for timing changes for tax on qualifying income or expenditure. The environmental restoration account allows a deduction (up-front) to the extent that up-front amounts deposited in the scheme are earmarked for environmental restoration expenditure on later withdrawal. Interest is payable each year on the balance still held by the Crown. The forecast for the interest appropriation has been reduced to reflect a changed forecasting assumption, changing from a gradually growing scheme balance over time to a stable scheme balance over time.

51. The main income equalisation account allows qualifying taxpayers from the primary sector to smooth their taxable income across years. Amounts deposited in the scheme are demand driven, and the forecasts for the interest appropriation are based on providing for the potential of additional deposits. The forecast for the interest appropriation has remained unchanged from HYEFU 2023. The 2023/24 appropriation is larger than in future years because of a currently high scheme balance, which we expect to decline as the year progresses.

Non-departmental other expenses - PLA

52. The following table sets out the forecasts for non-departmental other expenses that are established under a permanent legislative authority.

	$ million				
Non-departmental other expenses - PLA	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
KiwiSaver: Employee and employer contributions					
HYEFU 2023	9,910.000	11,020.000	12,110.000	13,160.000	14,270.000
BEFU 2024	9,470.000	10,220.000	11,030.000	11,880.000	12,800.000
Total forecast change – inc/(dec)	**(440.000)**	**(800.000)**	**(1,080.000)**	**(1,280.000)**	**(1,470.000)**

53. The appropriation for *KiwiSaver: employee and employer contributions* sent to scheme providers covers contributions to KiwiSaver schemes made through Inland Revenue as an administrator (either directly or via PAYE from employers). The appropriation does not cover contributions made by savers directly to KiwiSaver providers. The fiscal impacts of this appropriation on the financial statements of the Government are fiscally neutral as the appropriation reflects a pass through of funds to providers.

54. The 2023/24 forecast has been revised down calibrating to lower than forecast outturns for the year-to-date relative to HYEFU 2023 and prompting a dampening of forecast assumptions as to how much the growth in average contributions will continue to exceed average growth in wages more generally. Additionally, the forecast for nominal wage growth has been revised down since HYEFU 2023 across the forecast period. This coupled with the changed modelling has resulted in a downward revision for each year across the forecast period.

Research and Development (R&D) Tax Incentive

55. The *Research and Development (R&D) Tax Incentive* appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). We are separately seeking approval from the Minister of Finance and the Minister of Science, Innovation and Technology (IR2024/103 refers) for forecast changes. The following changes are included for your information.

	$ million				
Vote Revenue **Minister of Research, Science & Innovation**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Other Expenses Research, Science and Innovation: R&D Tax Incentive					
HYEFU 2023	470.334	568.168	628.742	712.000	766.000
BEFU 2024	461.334	556.168	615.742	697.000	750.000
Forecast change – inc/(dec)	**(18.000)**	**(12.000)**	**(13.000)**	**(15.000)**	**(16.000)**
Joint Minister decision – inc/(dec) RDTI admin errors (IR2024-162)	**9.000**	**0.000**	**0.000**	**0.000**	**0.000**

Other matters

Services for Customers appropriation changes

56. We have reviewed the wording within the Vote Revenue departmental *Services for Customers* Multi-Category Appropriation (MCA) to make it more relevant and reflective of our delivery approach. The wording changes remove outdated terminology and describe more accurately the services we deliver. Appendix C contains the detail of these changes.

57. The Minister of Revenue has previously approved these changes (IR2024/040 refers). We now seek your joint approval for these changes.

Appendix A – Vote Revenue non-departmental appropriations

The forecasts cover the following non-departmental expenditure appropriations (with an asterisk identifying expenditure items that are established under a permanent legislative authority):

Benefits or related expenses:

- Best Start tax credit*
- Child support payments*
- FamilyBoost tax credit*
- Family tax credit*
- In-work tax credit*
- KiwiSaver: interest
- KiwiSaver: tax credit
- Minimum family tax credit*
- Paid parental leave payments

Borrowing expenses:

- Environmental restoration account interest*
- Income equalisation interest*

Capital expenditure:

- Small Business Cashflow Scheme COVID-19

Other expenses:

- Cost of Living payment
- COVID-19 Resurgence Support Payment
- COVID-19 Support Payment
- Initial fair value write-down relating to student loans
- Initial fair value write-down relating to the Small Business Cashflow Scheme COVID-19
- Impairment of debt and debt write-offs
- Impairment of debt and debt write-offs relating to child support
- Impairment of debt relating to the SBCS
- Impairment of debt relating to student loans
- KiwiSaver: Employee and Employer contributions*
- R&D Tax Incentive

Appendix B – Table 2 reports for Vote Revenue non-departmental appropriations

The *Table 2* reports attached set out the forecast changes for Vote Revenue Crown (non-departmental) in a tabulated format since HYEFU 2023. These tables include tax forecasts prepared by the Treasury.

The *Table 2* reports attached are for:

- 2023/24 March Baseline Update (preliminary forecasts);
- 2023/24 Supplementary Estimates (SUPPS 2023/24 – final forecasts);
- 2024 Budget Economic and Fiscal Update (BEFU 2024 – final forecasts).

Appendix C – Recommended changes to the wording of departmental appropriations

The table below contains the current and recommended changes (in red font) to the wording of our *Services for Customers* Multi-Category Appropriation (MCA).

2023-24 current Estimates wording	2024-25 proposed changes
Overarching Purpose Statement The single overarching purpose of this appropriation is to deliver a customer-centric, integrated tax and entitlement service experience for New Zealanders that is agile and intelligence-led.	**Overarching Purpose Statement** The overarching purpose of this appropriation is to deliver services for customers effectively and efficiently, enabling them to meet their obligations and receive their entitlements easily.
What is Intended to be Achieved with this Appropriation This appropriation is intended to ensure customers find it easy to meet their tax and social policy obligations and receive the payments they are entitled to, through services that inform the public about entitlements and obligations, services that process entitlements and obligations and compliance activities including investigations and the management of debt and unfiled returns.	What is Intended to be Achieved with this Appropriation This appropriation is intended to ensure customers find it easy to meet their tax and social policy obligations and receive the payments they are entitled to. Inland Revenue does this through the provision of policy advice, and by delivering services that assist and inform customers about entitlements and obligations, process entitlements and obligations, undertake compliance activities and manage debt and unfiled returns.
MCA categories	
Investigations This category is limited to Inland Revenue undertaking investigation, audit and litigation activities. What is Intended to be Achieved for this category This category is intended to protect the integrity of the tax system through early interventions, investigation, audit and litigation activities.	**Services to protect the integrity of the tax system and functions the Commissioner administers** This category is limited to Inland Revenue undertaking investigation, audit and litigation activities. What is Intended to be Achieved for this category This category is intended to protect the integrity of the tax system and functions the Commissioner administers through early interventions, investigation, audit and litigation activities.
Management of Debt and Unfiled Returns This category is limited to activities to prevent returns and debt becoming overdue, and to collect unfiled returns and overdue payments, whether for the Crown, other agencies or external parties. What is Intended to be Achieved for this category This category is intended to achieve the timely and efficient collection of revenue owed.	**Services to manage debt and unfiled returns** This category is limited to activities to prevent returns and debt becoming overdue, and to collect unfiled returns and overdue payments, whether for the Crown, other agencies or external parties. What is Intended to be Achieved for this category This category is intended to achieve the timely and efficient collection of revenue owed.
Services to Ministers and to inform the public about entitlements and meeting obligations This category is limited to the provision of services to help Ministers fulfil their responsibilities to Parliament and the New Zealand public, other than policy decision-making responsibilities, and to provide information and assistance to the public to make them aware of their obligations and entitlements, and to engage, advise and support other international tax agencies. What is Intended to be Achieved for this category This category is intended to provide services and information to help taxpayers and other customers meet their payment obligations and receive payments they are entitled to, and help Ministers fulfil their responsibilities to Parliament and the New Zealand public.	**Services to Ministers and to assist and inform customers to get it right from the start** This category is limited to the provision of services to help Ministers fulfil their responsibilities (other than policy decision-making) to Parliament and the New Zealand public, to provide information and assistance to customers about their obligations and entitlements, and engage, advise and support other international tax agencies. What is Intended to be Achieved for this category This category is intended to provide services and information to help taxpayers and other customers meet their filing and payment obligations and receive payments they are entitled to, and help Ministers fulfil their responsibilities to Parliament and the New Zealand public.

2023-24 current Estimates wording	2024-25 proposed changes
Services to Process Obligations and Entitlements This category is limited to the registration, assessment and processing of tax obligations and other entitlements, including associated review and Crown accounting activities, and the collection and sharing of related information with other agencies. <u>What is Intended to be Achieved for this category</u> This category is intended to deliver efficient and effective registration, assessment and processing of tax obligations and other entitlements. This contributes to the availability of revenue to fund government programmes as well as ensuring that taxpayers and other customers receive payments they are entitled to.	**Services to process obligations and entitlements** This category is limited to the registration, assessment and processing of tax obligations and other entitlements, including associated review and Crown accounting activities, and the collection and sharing of related information with other agencies. <u>What is Intended to be Achieved for this category</u> This category is intended to deliver efficient and effective registration of customers, and assessment and processing of tax obligations and other entitlements. This contributes to the availability of revenue to fund government programmes as well as ensuring that taxpayers and other customers receive payments they are entitled to.
Policy advice This category is limited to the provision of advice, including second opinion advice and contributions to policy advice led by other agencies, to support decision-making by Ministers on government policy matters, including international engagement and advice. <u>What is Intended to be Achieved for this category</u> This category is intended to provide policy advice to support decision-making by Ministers on tax and social policy matters, to protect and maintain the integrity of the tax system while ensuring that our tax system is as simple as possible and is internationally competitive.	**Policy advice** This category is limited to the provision of advice, including second opinion advice and contributions to policy advice led by other agencies, to support decision-making by Ministers on government policy matters, including international engagement and advice. <u>What is Intended to be Achieved for this category</u> This category is intended to provide policy advice to support decision-making by Ministers on tax and social policy matters, to protect and maintain the integrity of the tax system while ensuring that our tax system is as simple as possible and is internationally competitive.

Table 2: Baseline Changes Report, 2023/24 MBU, Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Benefits or Related Expenses								
Best Start Tax Credit (PLA)								
Non-Dept Other Appropriation								
Best Start Tax Credit	Fcst Adj	-	1,000	(1,000)	(10,000)	8,000	CO (18) 2	On going
Child Support Payments (PLA)								
Non-Dept Annual Appropriation								
Child Support Payments	Fcst Adj	-	-	-	-	-	CO (18) 2	On going
Non-Dept Other Appropriation								
Child Support Payments	Fcst Adj	5,000	-	-	-	-	CO (18) 2	On going
Family Tax Credit (PLA)								
Non-Dept Annual Appropriation								
Family Tax Credit	Fcst Adj	-	-	-	-	-	CO (18) 2	On going
Non-Dept Other Appropriation								
Family Tax Credit	Fcst Adj	(2,000)	10,000	(13,000)	(90,000)	34,000	CO (18) 2	On going
In-Work Tax Credit (PLA)								
Non-Dept Other Appropriation								
In-Work Tax Credit	Fcst Adj	(2,000)	23,000	45,000	38,000	44,000	CO (18) 2	On going
KiwiSaver: Interest								
Non-Dept Annual Appropriation								
Kiwisaver: Interest	Fcst Adj	500	-	-	-	-	CO (18) 2	On going
KiwiSaver: Tax Credit, Contribution and Residual Entitlement								
Non-Dept Annual Appropriation								
KiwiSaver: Tax Credit	Fcst Adj	-	(9,000)	(9,000)	(10,000)	(6,000)	CO (18) 2	On going
Minimum Family Tax Credit (PLA)								
Non-Dept Annual Appropriation								
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme_Main Benefit Indexation to CPI	Cabinet	-	-	-	-	-	CAB-23-MIN-0490	On going
Minimum Family Tax Credit	Fcst Adj	-	-	-	-	-	CO (18) 2	On going
Non-Dept Other Appropriation								
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme_Main Benefit Indexation to CPI	Cabinet	-	300	(1,300)	(2,700)	(3,200)	CAB-23-MIN-0490	On going
Minimum Family Tax Credit	Fcst Adj	(1,000)	(300)	300	(1,300)	(3,800)	CO (18) 2	On going
Paid Parental Leave Payments								
Non-Dept Annual Appropriation								
Paid Parental Leave Payments	Fcst Adj	-	-	(5,000)	(15,000)	(15,000)	CO (18) 2	On going

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Total changes - Benefits or Related Expenses		**500**	**25,000**	**16,000**	**(91,000)**	**58,000**		
Non-Departmental Other Expenses								
COVID-19 Resurgence Support Payment								
Non-Dept Annual Appropriation								
Trf from Unit 19 Services to Customers MCA to Unit 20 CSP and RSP	FNA	50	-	-	-	-	CO (18) 2	On going
COVID-19 Support Payment								
Non-Dept Annual Appropriation								
Trf from Unit 19 Services to Customers MCA to Unit 20 CSP and RSP	FNA	160	-	-	-	-	CO (18) 2	On going
Impairment of debt relating to the SBCS								
Non-Dept Annual Appropriation								
Impairment of debt relating to the SBCS	Fcst Adj	20,000	-	-	-	-	CO (18) 2	On going
Initial Fair Value Write-Down Relating to Student Loans								
Non-Dept Annual Appropriation								
Initial W/D Relating to Student Loans	Fcst Adj	(31,000)	(19,000)	(36,000)	(37,000)	(40,000)	CO (18) 2	On going
KiwiSaver: Employee and Employer Contributions (PLA)								
Non-Dept Other Appropriation								
KiwiSaver Contributions	Fcst Adj	(230,000)	(350,000)	(390,000)	(430,000)	(440,000)	CO (18) 2	On going
Research, Science and Innovation: R&D Tax Incentive								
Non-Dept Annual Appropriation								
R&D Tax Incentive	Fcst Adj	(6,000)	(9,000)	(11,000)	(14,000)	(17,000)	CO (18) 2	On going
Total changes - Non-Departmental Other Expenses		**(246,790)**	**(378,000)**	**(437,000)**	**(481,000)**	**(497,000)**		
Tax Revenue								
Companies								
Non-Dept Revenue								
Companies	Fcst Adj	322,000	(893,750)	(427,750)	(413,500)	(383,500)	CO (18) 2	On going
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme_Commercial buildings depreciation	Cabinet	-	42,750	840,000	425,250	425,250	CAB-23-MIN-0490, IR2024-054	On going
Restoring Interest Deductibility for Residential Property	Cabinet	-	(90,000)	(196,250)	(213,750)	(228,750)	CAB-24-MIN-0054	On going
Fringe Benefit Tax								
Non-Dept Revenue								
Fringe Benefit Tax	Fcst Adj	9,000	2,000	11,000	16,000	13,000	CO (18) 2	On going
Goods and Services Tax (IRD)								
Non-Dept Revenue								

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Goods And Services Tax (IRD)	Fcst Adj	424,000	(128,000)	(112,000)	(202,000)	(359,000)	CO (18) 2	On going
Other Indirect Taxes								
Non-Dept Revenue								
Other Indirect Taxes	Fcst Adj	30,000	11,000	9,000	7,000	7,000	CO (18) 2	On going
Other Persons								
Non-Dept Revenue								
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme	Cabinet	-	(30,750)	235,000	96,750	96,750	CAB-23-MIN-0490, IR2024-054	On going
Other Persons	Fcst Adj	(700,000)	(97,250)	(168,250)	(209,500)	(441,500)	CO (18) 2	On going
Proposed Changes to the 39 Percent Trustee Tax Rate	Cabinet	-	(1,000)	(7,000)	(2,000)	(2,000)	CBC-24-MIN-0012, CAB-24-MIN-0015	On going
Restoring Interest Deductibility for Residential Property	Cabinet	-	(270,000)	(588,750)	(641,250)	(686,250)	CAB-24-MIN-0054	On going
Source Deductions								
Non-Dept Revenue								
Source Deductions	Fcst Adj	78,000	(685,000)	(1,204,000)	(1,739,000)	(2,143,000)	CO (18) 2	On going
Withholding Taxes								
Non-Dept Revenue								
Withholding Taxes	Fcst Adj	339,000	149,000	184,000	276,000	258,000	CO (18) 2	On going
Total changes - Tax Revenue		**502,000**	**(1,991,000)**	**(1,425,000)**	**(2,600,000)**	**(3,444,000)**		
Non-Tax Revenue								
Child Support Collections								
Non-Dept Revenue								
Child Support Collections	Fcst Adj	5,000	-	-	-	-	CO (18) 2	On going
Interest on Impaired Student Loans								
Non-Dept Revenue								
Interest on Impaired Student Loans	Fcst Adj	(4,000)	4,000	5,000	9,000	14,000	CO (18) 2	On going
Other non-tax revenue								
Non-Dept Revenue								
Other	Fcst Adj	5,000	5,000	5,000	5,000	5,000	CO (18) 2	On going
Small Business Cashflow Scheme interest unwind								
Non-Dept Revenue								
SBC interest unwind	Fcst Adj	1,000	(8,000)	(13,000)	(16,000)	(18,000)	CO (18) 2	On going
Unclaimed Monies								
Non-Dept Revenue								
Unclaimed Monies	Fcst Adj	15,000	4,030	4,030	4,030	4,030	CO (18) 2	On going
Working for Families Tax Credit Interest and Penalties								
Non-Dept Revenue								
WfFTC Interest and Penalties	Fcst Adj	2,000	2,000	2,000	2,000	2,000	CO (18) 2	On going
Total changes - Non-Tax Revenue		**24,000**	**7,030**	**3,030**	**4,030**	**7,030**		

s 9(2)(a)

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Capital Receipts								
Small Business Cashflow Scheme receipts								
Non-Dept Revenue								
Small Business Cashflow Scheme receipts	Fcst Adj	17,000	18,700	6,900	6,400	(16,000)	CO (18) 2	On going
Student Loans - Receipts								
Non-Dept Revenue								
Student Loans - Receipts	Fcst Adj	(55,000)	(72,000)	(77,000)	(104,000)	(119,000)	CO (18) 2	On going
Total changes - Capital Receipts		**(38,000)**	**(53,300)**	**(70,100)**	**(97,600)**	**(135,000)**		

Classification Key

Short Name	Description	Reference
Cabinet	Cabinet policy decision	Approvals are sought in cabinet papers (refer to cabinet manual), with authority given via a cabinet minute. The authority for change should reference both supporting documents.
ECT	Expense and Capital Transfer	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding within an appropriation across financial years.
ECT ip	Expense and Capital Transfer in-principle	Defined in (Cabinet Office Circular). The portion of an ECT that can't be accurately quantified so the transfer amount has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calcultion, or Crown Revenue.
FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

s 9(2)(a)

Table 2: Baseline Changes Report, 2023/24 Supps, Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2023/24 $000	Authority for Change	Final Year Funding
Benefits or Related Expenses				
Best Start Tax Credit (PLA)				
Non-Dept Other Appropriation				
Best Start Tax Credit	Fcst Adj	6,000	CO (18) 2	N/A
Child Support Payments (PLA)				
Non-Dept Other Appropriation				
Child Support Payments	Fcst Adj	5,000	CO (18) 2	N/A
Family Tax Credit (PLA)				
Non-Dept Other Appropriation				
Family Tax Credit	Fcst Adj	5,000	CO (18) 2	N/A
In-Work Tax Credit (PLA)				
Non-Dept Other Appropriation				
In-Work Tax Credit	Fcst Adj	(23,000)	CO (18) 2	N/A
KiwiSaver: Tax Credit, Contribution and Residual Entitlement				
Non-Dept Annual Appropriation				
Kiwisaver: Tax Credit, Contribution and Residual Entitlement	Fcst Adj	10,000	CO (18) 2	N/A
Paid Parental Leave Payments				
Non-Dept Annual Appropriation				
Paid Parental Leave Payments	Fcst Adj	5,000	CO (18) 2	N/A
Total changes - Benefits or Related Expenses		**8,000**		
Non-Departmental Other Expenses				
Impairment of Debt and Debt Write-Offs				
Non-Dept Annual Appropriation				
Impairment of Debt and Debt Write-Offs	Fcst Adj	700,000	CO (18) 2	N/A
Impairment of Debt and Debt Write-Offs Relating to Child Support				
Non-Dept Annual Appropriation				
impairment of Debt and Debt Write-offs Relating to Child Support	Fcst Adj	20,000	CO (18) 2	N/A
Impairment of debt relating to the SBCS				
Non-Dept Annual Appropriation				
Impairment of debt relating to the SBCS	Fcst Adj	30,000	CO (18) 2	N/A
Initial Fair Value Write-Down Relating to Student Loans				
Non-Dept Annual Appropriation				

	Classification	2023/24 $000	Authority for Change	Final Year Funding
Initial W/D Relating to Student Loans	Fcst Adj	(11,000)	CO (18) 2	N/A
KiwiSaver: Employee and Employer Contributions (PLA)				
Non-Dept Other Appropriation				
KiwiSaver Contributions	Fcst Adj	(210,000)	CO (18) 2	N/A
Research, Science and Innovation: R&D Tax Incentive				
Non-Dept Annual Appropriation				
R&D Tax Incentive	Fcst Adj	(12,000)	CO (18) 2	N/A
RDTI admin errors	Cabinet	9,000	IR2024-162	N/A
Total changes - Non-Departmental Other Expenses		**526,000**		
Tax Revenue				
Companies				
Non-Dept Revenue				
Companies	Fcst Adj	(2,480,000)	CO (18) 2	N/A
RDTI admin errors	Cabinet	(9,000)	IR2024-162	N/A
Fringe Benefit Tax				
Non-Dept Revenue				
Fringe Benefit Tax	Fcst Adj	(9,000)	CO (18) 2	N/A
Gaming Duties				
Non-Dept Revenue				
Gaming Duties	Fcst Adj	(13,000)	CO (18) 2	N/A
Goods and Services Tax (IRD)				
Non-Dept Revenue				
Goods And Services Tax (IRD)	Fcst Adj	(272,000)	CO (18) 2	N/A
Other Indirect Taxes				
Non-Dept Revenue				
Other Indirect Taxes	Fcst Adj	(3,000)	CO (18) 2	N/A
Other Persons				
Non-Dept Revenue				
Other Persons	Fcst Adj	(351,000)	CO (18) 2	N/A
Source Deductions				
Non-Dept Revenue				
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme_Main Benefit Indexation to CPI	Cabinet	3,227	CAB-23-MIN-0490	N/A
Source Deductions	Fcst Adj	59,773	CO (18) 2	N/A
Withholding Taxes				
Non-Dept Revenue				
Withholding Taxes	Fcst Adj	507,000	CO (18) 2	N/A

	Classification	2023/24 $000	Authority for Change	Final Year Funding
Total changes - Tax Revenue		**(2,567,000)**		
Non-Tax Revenue				
Interest on Impaired Student Loans				
Non-Dept Revenue				
Interest on Impaired Student Loans	Fcst Adj	(28,000)	CO (18) 2	N/A
Small Business Cashflow Scheme interest unwind				
Non-Dept Revenue				
SBC interest unwind	Fcst Adj	(10,000)	CO (18) 2	N/A
Unclaimed Monies				
Non-Dept Revenue				
Unclaimed Monies	Fcst Adj	50,000	CO (18) 2	N/A
Total changes - Non-Tax Revenue		**12,000**		
Capital Receipts				
Environmental Restoration Accounts Scheme				
Non-Dept Revenue				
Environmental Restoration	Fcst Adj	(7,000)	CO (18) 2	N/A
Small Business Cashflow Scheme receipts				
Non-Dept Revenue				
Small Business Cashflow Scheme receipts	Fcst Adj	(20,500)	CO (18) 2	N/A
Student Loans - Receipts				
Non-Dept Revenue				
Student Loans - Receipts	Fcst Adj	(38,000)	CO (18) 2	N/A
Total changes - Capital Receipts		**(65,500)**		

Classification Key

Short Name	Description	Reference
Cabinet	Cabinet policy decision	Approvals are sought in cabinet papers (refer to cabinet manual), with authority given via a cabinet minute. The authority for change should reference both supporting documents.
ECT	Expense and Capital Transfer	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding within an appropriation across financial years.
ECT ip	Expense and Capital Transfer in-principle	Defined in (Cabinet Office Circular). The portion of an ECT that can't be accurately quantified so the transfer amount has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calcultion, or Crown Revenue.
FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.

RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

Table 2: Baseline Changes Report, 2024 Budget (BEFU), Vote 20 - 0: IRD Crown - Revenue (IRD-Crown).

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Benefits or Related Expenses								
Best Start Tax Credit (PLA)								
Non-Dept Other Appropriation								
Best Start Tax Credit	Fcst Adj	-	-	-	1,000	6,000	CO (18) 2	On going
Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Family Tax Credit	Fcst Adj	-	(17,000)	(5,000)	-	74,000	CO (18) 2	On going
FamilyBoost Tax Credit (PLA)								
Non-Dept Other Appropriation								
Progressing the FamilyBoost Tax Credit	Cabinet	-	174,000	171,000	167,000	165,000	CAB-24-MIN-0089	On going
In-Work Tax Credit (PLA)								
Non-Dept Other Appropriation								
In-Work Tax Credit	Fcst Adj	-	(19,000)	(31,000)	(27,000)	(7,000)	CO (18) 2	On going
In-Work Tax Credit - Rate Increase	Cabinet	-	146,000	157,000	152,000	144,000	Decision TBC	On going
KiwiSaver: Tax Credit, Contribution and Residual Entitlement								
Non-Dept Annual Appropriation								
Kiwisaver: Tax Credit, Contribution and Residual Entitlement	Fcst Adj	-	(6,000)	(8,000)	(8,000)	(11,000)	CO (18) 2	On going
Minimum Family Tax Credit (PLA)								
Non-Dept Other Appropriation								
Minimum Family Tax Credit	Fcst Adj	-	(1,200)	(1,220)	(220)	2,780	CO (18) 2	On going
Personal Income Tax and Independent Earner Tax Credit threshold changes	Cabinet	-	200	220	220	220	Decision TBC, T2024/419, IR2024/072	On going
Paid Parental Leave Payments								
Non-Dept Annual Appropriation								
Paid Parental Leave Payments	Fcst Adj	-	-	5,000	5,000	-	CO (18) 2	On going
Total changes - Benefits or Related Expenses		**-**	**277,000**	**288,000**	**290,000**	**374,000**		
Non-Departmental Borrowing Expenses								
Environmental Restoration Account Interest (PLA)								
Non-Dept Other Appropriation								
Environmental Restoration Acct Interest	Fcst Adj	-	(200)	(400)	(600)	(800)	CO (18) 2	On going
Total changes - Non-Departmental Borrowing Expenses		**-**	**(200)**	**(400)**	**(600)**	**(800)**		
Non-Departmental Other Expenses								
Impairment of Debt and Debt Write-Offs								

s 9(2)(a)

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Non-Dept Annual Appropriation								
Impairment of Debt and Debt Write-Offs	Fcst Adj	-	600,000	40,000	20,000	20,000	CO (18) 2	On going
Investment in Compliance Activities – Return on Investment	Cabinet	-	(26,000)	(54,000)	(54,000)	(54,000)	Decision TBC	On going
In-Work Tax Credit - Rate Increase	Cabinet	-	2,000	2,000	2,000	2,000	Decision TBC	On going
Initial Fair Value Write-Down Relating to Student Loans								
Non-Dept Annual Appropriation								
Final-year Fees Free - Impacts Related to Student Loans	Cabinet	-	79,000	90,000	76,000	60,000	Decision TBC	On going
Health Workforce – Training 25 more doctors	Cabinet	-	139	284	436	744	Decision TBC	On going
Increasing Student Loan Scheme Overseas Interest Formula - Impacts Related to Student Loans	Cabinet	-	(247)	(195)	(133)	(76)	Decision TBC	On going
Increasing Tuition Fees - Impacts Related to Student Loans	Cabinet	-	12,224	13,857	14,110	14,361	Decision TBC	On going
Initial W/D Relating to Student Loans	Fcst Adj	-	(65,116)	(28,946)	4,587	43,971	CO (18) 2	On going
Investment in Compliance Activities – Return on Investment	Cabinet	-	(3,000)	(3,000)	(3,000)	(3,000)	Decision TBC	On going
KiwiSaver: Employee and Employer Contributions (PLA)								
Non-Dept Other Appropriation								
KiwiSaver Contributions	Fcst Adj	-	(450,000)	(690,000)	(850,000)	(1,030,000)	CO (18) 2	On going
Research, Science and Innovation: R&D Tax Incentive								
Non-Dept Annual Appropriation								
R&D Tax Incentive	Fcst Adj	-	(3,000)	(2,000)	(1,000)	1,000	CO (18) 2	On going
Total changes - Non-Departmental Other Expenses		**-**	**146,000**	**(632,000)**	**(791,000)**	**(945,000)**		
Tax Revenue								
Companies								
Non-Dept Revenue								
Companies	Fcst Adj	-	(1,267,000)	(911,000)	(153,000)	331,000	CO (18) 2	On going
Disposals of Trading Stock at Below Market Value	Cabinet	-	(1,000)	(4,000)	(4,000)	(4,000)	ECO-24-Min-0004, CAB-24 -Min-004	On going
Investment in Compliance Activities – Return on Investment	Cabinet	-	33,000	66,000	66,000	66,000	Decision TBC	On going
Personal Income Tax and Independent Earner Tax Credit threshold changes	Cabinet	-	-	(6,000)	(7,000)	(7,000)	Decision TBC, T2024/419, IR2024/072	On going
Fringe Benefit Tax								
Non-Dept Revenue								
Fringe Benefit Tax	Fcst Adj	-	(8,000)	(10,000)	(9,000)	(9,000)	CO (18) 2	On going
Gaming Duties								
Non-Dept Revenue								

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Gaming Duties	Fcst Adj	-	(13,000)	(13,000)	(14,000)	(15,000)	CO (18) 2	On going
Online casino gambling tax changes	Cabinet	-	45,000	47,000	49,000	52,000	CAB-24-MIN-0072	On going
Goods and Services Tax (IRD)								
Non-Dept Revenue								
Goods And Services Tax (IRD)	Fcst Adj	-	(282,000)	(582,000)	(508,000)	(383,000)	CO (18) 2	On going
Investment in Compliance Activities – Return on Investment	Cabinet	-	25,000	50,000	50,000	50,000	Decision TBC	On going
Other Indirect Taxes								
Non-Dept Revenue								
Other Indirect Taxes	Fcst Adj	-	6,000	8,000	7,000	7,000	CO (18) 2	On going
Other Persons								
Non-Dept Revenue								
Crypto-Asset Regulatory Framework – Tax Revenue	Cabinet	-	-	-	-	50,000	IR2024/147	On going
Investment in Compliance Activities – Return on Investment	Cabinet	-	15,000	31,000	31,000	31,000	Decision TBC	On going
Other Persons	Fcst Adj	-	(737,000)	(807,000)	9,000	(18,000)	CO (18) 2	On going
Personal Income Tax and Independent Earner Tax Credit threshold changes	Cabinet	-	(176,000)	(726,000)	(697,000)	(533,000)	Decision TBC, T2024/419, IR2024/072	On going
Source Deductions								
Non-Dept Revenue								
Discontinuation of the Wage Supplement - Impact on Tax Revenue	Cabinet	-	(1,632)	(1,804)	(1,994)	(1,994)	Decision TBC	On going
Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme_Main Benefit Indexation to CPI	Cabinet	-	5,580	(25,165)	(53,218)	(75,017)	CAB-23-MIN-0490	On going
Personal Income Tax and Independent Earner Tax Credit threshold changes	Cabinet	-	(1,629,000)	(1,814,000)	(1,819,000)	(1,863,000)	Decision TBC, T2024/419, IR2024/072	On going
Source Deductions	Fcst Adj	-	(22,948)	(241,031)	(384,788)	(435,989)	CO (18) 2	On going
Withholding Taxes								
Non-Dept Revenue								
Personal Income Tax and Independent Earner Tax Credit threshold changes	Cabinet	-	(11,000)	(40,000)	(37,000)	(35,000)	Decision TBC, T2024/419, IR2024/072	On going
Withholding Taxes	Fcst Adj	-	(127,000)	(7,000)	(57,000)	(20,000)	CO (18) 2	On going
Total changes - Tax Revenue		**-**	**(4,146,000)**	**(4,986,000)**	**(3,533,000)**	**(2,813,000)**		
Non-Tax Revenue								
Child Support Collections								
Non-Dept Revenue								
Child Support Collections	Fcst Adj	-	-	(1,000)	(1,000)	-	CO (18) 2	On going
Interest on Impaired Student Loans								
Non-Dept Revenue								
Final-year Fees Free - Impacts Related to Student Loans	Cabinet	-	3,000	10,000	18,000	25,000	Decision TBC	On going
Health Workforce - Training 25 more doctors	Cabinet	-	3	14	33	64	Decision TBC	On going

	Classification	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	Authority for Change	Final Year Funding
Increasing Student Loan Scheme Overseas Interest Formula - Impacts Related to Student Loans	Cabinet	-	1,355	1,277	1,295	1,332	Decision TBC	On going
Increasing Tuition Fees - Impacts Related to Student Loans	Cabinet	-	264	1,020	1,793	2,657	Decision TBC	On going
Interest on Impaired Student Loans	Fcst Adj	-	(88,622)	(104,311)	(87,121)	(69,053)	CO (18) 2	On going
Investment in Compliance Activities – Return on Investment	Cabinet	-	15,000	15,000	15,000	15,000	Decision TBC	On going
Small Business Cashflow Scheme interest unwind								
Non-Dept Revenue								
SBC interest unwind	Fcst Adj	-	(19,000)	(8,000)	(2,000)	1,000	CO (18) 2	On going
Total changes - Non-Tax Revenue		**-**	**(88,000)**	**(86,000)**	**(54,000)**	**(24,000)**		
Capital Receipts								
Environmental Restoration Accounts Scheme								
Non-Dept Revenue								
Environmental Restoration	Fcst Adj	-	(7,000)	(7,000)	(7,000)	(7,000)	CO (18) 2	On going
Small Business Cashflow Scheme receipts								
Non-Dept Revenue								
Small Business Cashflow Scheme receipts	Fcst Adj	-	1,800	(8,300)	(12,400)	(100)	CO (18) 2	On going
Student Loans - Receipts								
Non-Dept Revenue								
Student Loans - Receipts	Fcst Adj	-	-	33,000	62,000	106,000	CO (18) 2	On going
Total changes - Capital Receipts		**-**	**(5,200)**	**17,700**	**42,600**	**98,900**		

Classification Key

Short Name	Description	Reference
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ECT ip	Expense and Capital Transfer in-principle	Defined in (Cabinet Office Circular). The portion of an ECT that can't be accurately quantified so the transfer amount has been approved in-principle. 1st time can count in fiscal forecasts is OBU.
Fcst Adj	Forecast Adjustments	Defined in (Cabinet Office Circular). Adjustments to the forecast expenditure of PLAs or where there is a pre-determined cost calcultion, or Crown Revenue.
FLoS	Front-Loading of Spending	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Bringing forward expenditure to create lasting cost savings.
FNA	Fiscally Neutral Adjustment	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring funding between appropriations within a financial year.
RoU	Retention of Underspends	Defined in (Cabinet Office Circular Financial changes that can be approved by Joint Ministers). Transferring underspends to the next financial year.
RoU 50%	Retention of Underspends @ 50%	Defined in CO Circular. Portion of an ROU can't accurately quantify so the transfer amount of 50% of an underspend has been approved in-principle. 1st time can count in fiscal forecasts is OBU.

Tech Adj	Technical adjustment	Defined in (Cabinet Office Circular). Technical accounting adjustments with no cash impact to the Crown, MYA spending profile changes, non-controversial appropriation title or scope changes.
Return Sav	Return of savings to the Crown	Returning savings to the Crown is always encouraged. Departments can achieve this by constantly looking for efficiency gains through improvements in processes and technology.
Crwn Liab	Recognition of Existing Crown liability	Crown liabilities need to be recognised as soon as possible. These affect Non-Departmental Appropriations.
Other	Other changes outside the above criteria	There should be very few changes outside the above criteria, so if there are any they require extra scrutiny.

Vote Revenue: 2024 Budget Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation

Date:	19 April 2024	**Priority:**	High
Security level:	In confidence (Budget Sensitive)	**Report no:**	IR2024/103

Action sought

	Action sought	Deadline
Minister of Finance	**Approve** recommendations	26 April 2024
Minister of Science, Innovation and Technology	**Approve** recommendations **Refer** report to the Minister of Finance	24 April 2024
Minister of Revenue	For your information	24 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a)	
Rachel Parker	Domain Lead Finance Services		

19 April 2024

Minister of Finance
Minister of Science, Innovation and Technology

Vote Revenue: 2024 Budget Economic and Fiscal Update submission for the Research and Development Tax Incentive appropriation

Executive Summary

1. This paper asks you to note the changes to the forecast costs of the Research and Development Tax Incentive (RDTI) and seeks your approval for the corresponding changes to the RDTI appropriation.
2. The RDTI appropriation is managed under Vote Revenue using forecasts developed by the Ministry of Business, Innovation and Employment (MBIE). The Minister of Science, Innovation and Technology is responsible for the appropriation.
3. Inland Revenue submitted the updated forecast for this appropriation to the Treasury on 16 April 2024 for the 2024 Budget Economic and Fiscal Update (BEFU 2024). Forecast changes in this report for BEFU 2024 are compared against the 2023 Half-year Economic and Fiscal Update (HYEFU 2023). The forecasts include all Cabinet and Joint Minister decisions that impact Vote Revenue up to 16 April 2024.
4. The forecasts are based on MBIE's RDTI fiscal-cost forecast, which currently extends to 2031/32. MBIE's RDTI forecast is in turn based on the Treasury's BEFU macroeconomic forecasts of GDP as at 5 April 2024.
5. MBIE's RDTI forecast relates to all RDTI-related expenditure. A portion of this relates to expenditure that is not managed under Vote Revenue – specifically, the transitional support payment (CAB-21-MIN-0111 refers) and the in-year payment (DEV-22-MIN-0062 refers). Hence these are excluded from the Vote Revenue BEFU 2024 forecast:

	$ million				
RDTI forecast – BEFU 2024	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Out-years**
MBIE RDTI total fiscal-cost forecast	557.000	596.000	645.000	697.000	750.000
Less the transitional support payment	(57.000)	0.000	0.000	0.000	0.000
Less the in-year payment	(38.666)	(39.832)	(29.258)	0.000	0.000
RDTI within Vote Revenue	**461.334**	**556.168**	**615.742**	**697.000**	**750.000**

6. The forecast is prepared on the basis that Inland Revenue will manage the in-year payment process through the tax system from the 2025/26 income tax year. In January 2024 a decision was made by the Minister of Science, Innovation & Technology to early terminate the temporary RDTI in-year payment loan scheme. The impact on MBIE's appropriations from this decision is not reflected in the in-year payment line in the above table as the details are still being worked through. This decision does not impact on the forecast for Vote Revenue's appropriation as it excludes the MBIE in-year payments.

7. We are seeking your joint approval for the following forecast and appropriation changes within Vote Revenue since HYEFU 2023:

	$ million				
Vote Revenue **Minister of Science, Innovation and Technology**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Out-years**
Other Expenses Research, Science and Innovation: R&D Tax Incentive					
HYEFU 2023	470.334	568.168	628.742	712.000	766.000
BEFU 2024	461.334	556.168	615.742	697.000	750.000
Forecast change – Inc/(dec)	**(18.000)**	**(12.000)**	**(13.000)**	**(15.000)**	**(16.000)**
Joint Minister decision – Inc/(dec)	**9.000**	**0.000**	**0.000**	**0.000**	**0.000**
Total change – Inc/(dec)	**(9.000)**	**(12.000)**	**(13.000)**	**(15.000)**	**(16.000)**

8. The decrease in forecast across all years is due to updated forecasts of gross domestic product (GDP) from the Treasury that predict slower growth than was previously forecast in HYEFU 2023.

9. This decrease was offset in 2023/24 by a $9 million increase in appropriation due to a Joint Minister decision to enable the Commissioner of Inland Revenue to accept or vary late RDTI applications and returns in circumstances where a business is a member of a wholly owned group and has filed for the RDTI under the wrong entity name (IR2024/162 refers).

10. We have identified that the Vote Revenue appropriation title is no longer fit for purpose due to the change in the title of the Minister responsible for this work. We seek your approval for the following core data title.

Non-departmental other expenses: **Research, Science and Innovation: R&D Tax Incentive** Reason for change: The responsibility for this appropriation has changed from the Minister of Research, Science and Innovation to the Minister of Science, Innovation and Technology.		
	Current	**Proposed**
Appropriation Title	Research, Science and Innovation: R&D Tax Incentive	Science, Innovation and Technology: R&D Tax Incentive

Budget 2024 Estimates documentation

11. The Minister of Science, Innovation and Technology is responsible for RDTI, but it is appropriated under Vote Revenue. As part of the Budget process, the Minister of Revenue will sign-off the Vote Revenue Estimates documentation on behalf of the Minister of Science, Innovation and Technology for this appropriation.

Consultation

12. The Treasury and Ministry of Business, Innovation and Employment have been consulted on this report.

Recommended action

1. It is recommended that you:

(a) **note** the following Joint Minister decision that has been approved since HYEFU 2023:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Research, Science & Innovation**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Joint Minister decision RDTI admin errors (***IR2024/162)***	9.000	0.000	0.000	0.000	0.000
Total Operating	**9.000**	**0.000**	**0.000**	**0.000**	**0.000**

Noted Noted

(b) **approve** the following forecast changes to the Vote Revenue Research and Development Tax Incentive appropriation, with a corresponding impact on the operating balance:

	$ million – increase / (decrease)				
Vote Revenue **Minister of Science, Innovation and Technology**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Out-years**
Non-departmental Other Expenses: Research, Science and Innovation: R&D Tax Incentive	(18.000)	(12.000)	(13.000)	(15.000)	(16.000)
Total Forecast change – Inc/(dec)	**(18.000)**	**(12.000)**	**(13.000)**	**(15.000)**	**(16.000)**

Approved/Not approved Approved/Not approved

(c) **agree** that all proposed change to appropriations for 2023/24, as shown in the above recommendations, be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Agreed/Not Agreed Agreed/Not Agreed

(d) **approve** the change in the title of the Vote Revenue appropriation:

	Current	**Proposed**
Appropriation Title	Research, Science and Innovation: R&D Tax Incentive	Science, Innovation and Technology: R&D Tax Incentive

Approved/Not Approved Approved/Not Approved

s 9(2)(a)

Nick Bradley
Enterprise Leader Finance Services - Chief Financial Officer
19/4/2024

Hon Nicola Willis
Minister of Finance

/4/2024

Hon Judith Collins
Minister of Science, Innovation and Technology

/4/2024

Inland Revenue report: Budget 2024 - Estimates and Supplementary Estimates for Vote Revenue

Date:	23 April 2024	**Priority:**	High
Security level:	In confidence – Budget sensitive	**Report no:**	IR2024/104

Action sought

	Action sought	Deadline
Minister of Revenue	**Sign and forward** the attached Supplementary Estimates document and letter to the Minister of Finance. **Note** the attached draft Estimates document and draft letter to the Minister of Finance.	1pm, Friday 26 April for the Supplementary Estimates Monday, 29 April for the Estimates.

Contact for telephone discussion (if required)

Name	Position	Telephone
Darren Cheevers	Enterprise Leader Finance Services (Chief Financial Officer) - Acting	s 9(2)(a)
Rachel Parker	Domain Lead Finance Services	

23 April 2024

Hon Simon Watts
Minister of Revenue
Parliament Buildings
WELLINGTON

Dear Minister

Budget 2024 - Estimates and Supplementary Estimates for Vote Revenue

Action required

Attached, for your review and approval **by 1pm Friday 26 April** are:

- the documentation for the **2023/24 Supplementary Estimates** for the appropriations that you are responsible for in Vote Revenue
- a letter to the Minister of Finance for the 2023/24 Supplementary Estimates.

We are awaiting Cabinet decisions on some Budget 2024 initiatives that impact Vote Revenue. We will submit final documents next week for your review, approval and forwarding to the Minister of Finance **by 1pm Friday 3 May**:

- the draft documentation for the **2024/25 Estimates** for the appropriations that you are responsible for in Vote Revenue, and
- a draft letter to the Minister of Finance for the 2024/25 Estimates.

Background

The Budget 2024 process requires that the following documents are completed and submitted to the Minister of Finance:

- 2023/24 Supplementary Estimates by 1pm Friday 26 April.
- 2024/25 Estimates by 1pm Friday 3 May

The due date for the 2024/25 Estimates reflects that we are awaiting Cabinet decisions on some Budget 2024 initiatives that impact Vote Revenue, with decisions likely to be finalised by Cabinet on Monday 29 April.

The process requires that one of the appropriation Ministers responsible for appropriations in the Vote, on behalf of all appropriation Ministers with appropriations in the Vote, confirms to the Minister of Finance that this material is correct and in a form suitable for publication.

The Estimates documents have been through an appropriate quality assurance process and are free of material errors and omissions. The Treasury and ourselves will correct any non-material errors in these documents that may be identified prior to publication.

Budget initiatives

The Estimates documents include the following Budget 2024 initiatives:

Initiatives (departmental):

- Crypto-asset Regulatory Framework – Implementation and Operating Costs
- FamilyBoost – Operating Costs
- Final-year Fees Free – Operating Costs
- Investment in Compliance Activities – Operating Costs
- Online Casino Gambling Tax Changes
- Personal Income Tax and Independent Earner Tax Credit Threshold Changes – Operating Costs[1]
- Reduction in Operating Expenditure – Inland Revenue
- Reduction in Systems Maintenance and Change Capacity – Inland Revenue.

Initiatives (non-departmental):

- Amendments to 39% Trustee Rate
- Crypto-asset Regulatory Framework – Tax Revenue
- Deny Depreciation Deductions for Commercial and Industrial Buildings
- FamilyBoost
- Final-year Fees Free – Impacts Related to Student Loans
- In-Work Tax Credit – Rate Increase[1]
- Increasing Medical School Enrolments for the 2024 Intake (previous Government initiative)
- Increasing Student Loan Scheme Overseas Interest Formula – Impacts Related to Student Loans
- Increasing Tuition Fees – Impacts Related to Student Loans
- Investment in Compliance Activities – Return on Investment
- Main Benefit Indexation
- Online Casino Gambling Tax Changes
- Personal Income Tax and Independent Earner Tax Credit Threshold Changes[1]
- Restoring Interest Deductibility for Residential Rental Property
- Training 25 more doctors – Impacts Related to Student Loans.

Technical initiatives:

- Return of Funding for Agricultural Emissions Pricing Scheme - Implementation and Operating Costs
- Shared Approach to Back-office Transformation.

Note:

1. These initiatives are subject to approval by Cabinet but have been included based on known Cabinet decisions.

The non-departmental appropriations and forecasts for tax and social policy are based on the final Treasury macroeconomic forecasts dated 5 April 2024. The forecasts for tax revenue are from the Treasury tax forecasting team.

The Supplementary Estimates documents

I confirm that the information provided for your approval:

- is consistent with the policies and performance expectations of the government, and has been prepared in accordance with the Public Finance Act 1989
- is consistent with the proposed appropriations to be set out in the Appropriation (2023/24 Supplementary Estimates) Bill, as entered by Inland Revenue into the Treasury's CFISnet system
- is consistent with existing appropriations, financial authorities, and Cabinet decisions up to 21 April 2024 and expected outcomes from Cabinet on 29 April 2024
- has been prepared in the required format, and in accordance with the guidance that has been issued by the Treasury
- has been appropriately reviewed by Inland Revenue's senior management team – with a particular focus on areas where new strategic information, such as statements about what an appropriation is intended to achieve, is now required, and
- has been through an appropriate quality assurance process and is free of material errors and omissions.

There is one other appropriation Minister associated with Vote Revenue. The Minister of Science, Innovation and Technology is responsible for the non-departmental other expenses appropriation for *R&D Tax Incentive payments*. The Budget process requires that all appropriation Ministers review the Estimates documentation relating to the appropriations for which each is responsible. One appropriation Minister, on behalf of all appropriation Ministers associated with the Vote, should then confirm to the Minister of Finance that the Estimates documentation for the Vote is fit for publication. The Minister of Science, Innovation and Technology is separately signing-off funding movements for this appropriation and has noted that you will be signing the Vote Revenue Estimates documents (IR2024/103 refers).

On Friday 19 April 2024 we sent a report to the Minister of Finance and Minister of Science, Innovation and Technology requesting a change in the title of the R&D Tax Incentive appropriation to reflect the change in the title of the Minister's portfolio under this Government. Once approved, this change will be updated into the Estimates document.

Recommendation

I recommend that you

1. **Review, sign and forward** the following two documents:
   - the documentation for the **2023/24 Supplementary Estimates** for the appropriations that you are responsible for in Vote Revenue, and
   - a draft letter to the Minister of Finance for the 2023/24 Supplementary Estimates.

Signed and forwarded

2. **Review and note the following two documents:**
   - the draft documentation for the **2024/25 Estimates** for the appropriations that you are responsible for in Vote Revenue, and
   - a draft letter to the Minister of Finance for the 2024/25 Estimates.

Review and noted

3. **Note** that we are awaiting Cabinet decisions on some Budget 2024 initiatives that impact Vote Revenue and that we will submit final Estimates documents next week for your review, approval and forwarding to the Minister of Finance by 1pm Friday 3 May.

Note

Peter Mersi
Chief Executive and Commissioner of Inland Revenue

Attachments:
a) a letter to the Minister of Finance for the 2024/25 Estimates (Draft)
b) a letter to the Minister of Finance for the 2023/24 Supplementary Estimates
c) 2024/25 Estimates and Supporting Information (Draft), and
d) 2023/24 Supplementary Estimates and Supporting Information.

s 9(2)(g)(i)

[redacted]

s 9(2)(g)(i)

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Final tax forecasts for the 2024 Budget Economic and Fiscal Update**

Date:	23 April 2024	**Priority:**	Low
Security level:	In Confidence - Budget	**Report number:**	IR2024/151

Action sought

	Action sought	Deadline
Minister of Revenue	**Note** the contents of this report **Refer** report to Minister of Finance	30 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Sandra Watson	Policy Lead (Forecasting and Analysis)	s 9(2)(a)

23 April 2024

Minister of Revenue

Final tax forecasts for the 2024 Budget Economic and Fiscal Update

Executive summary

Purpose

1. The purpose of this report is to inform you of finalised tax forecasts for the 2024 Budget Economic and Fiscal Update (BEFU 2024). The report is for your information and no decisions are sought.

Context and background

2. The BEFU 2024 tax forecasts were completed by the Treasury on 16 April 2024, using macroeconomic forecasts (also from the Treasury) of 5 April 2024, and incorporating finalised tax results to February 2024 and preliminary results for March 2024.

3. The figures discussed in this report are for the revenue (accrual-based) measure of tax covering a five-year fiscal outlook to 30 June 2028. Figures are unconsolidated, which means they include the tax that the government pays to itself.

4. These tax forecasts incorporate BEFU 2024 policy decisions, but needed to anticipate the outcome for some decisions not yet finalised at the time the tax forecasts were closed off. If final costings and/or final decisions are different to those assumed, any disparity will most likely be incorporated as a central adjustment to the tax forecasts discussed in this report. The BEFU 2024 moratorium on decisions with fiscal implications commences on 29 April 2024.

Changes to forecasts since HYEFU

5. For the five years from 2023/24 to 2027/28 inclusive, and relative to forecasts from the 2023 Half-Year Economic and Fiscal Update (HYEFU) the Treasury have revised down their tax forecasts in all years. These revisions total -$28.4 billion across the forecast period, of which +$2.0 billion reflects tax policy change from the December Mini-Budget (the detailed HYEFU tax forecasts were closed before this was announced) and -$11.7 billion reflects net tax policy change between December 2023 and BEFU 2024, including changes to the personal tax scale.

6. In the current year, which is largely unaffected by the policy changes, there is a -$2.6 billion revision. In subsequent years the revisions range from -$6.9 billion in 2024/25 to -$5.8 billion in 2027/28.

7. Underlying downwards revisions since HYEFU flow beyond the current year and reflect a softer economic outlook across the forecast period for employee compensation (affecting PAYE), nominal consumption and near-term residential investment (GST) and near-term net operating surplus (other persons and company tax).

8. The finalisation of 2022-23 income tax returns has revealed a softer base for income tax (company tax and other persons) than was assumed at HYEFU. A partially offsetting factor in the current year is that stronger returns to the investment sector

are expected to boost company tax at the end of April, but the overall revision since HYEFU remains negative.

9. Interest RWT forecasts have been revised up, reflecting stronger investment returns than was incorporated at HYEFU. Withholding tax on dividends is stronger in the current year reflecting significant dividend payouts to trusts in advance of the 39 percent trustee rate taking effect.

Next steps

10. Finalised cabinet decisions will be incorporated into the Budget, most likely as a central adjustment by the Treasury.

11. BEFU is scheduled to be released on 30 May 2024. April tax results will be reported to you shortly after thereafter, with variance reported against BEFU 2024 forecasts.

Recommended action

We recommend that you:

12. **note** the contents of this report, and

    Noted

13. **refer** a copy of this report to the Minister Finance for their information.

    Referred/Not referred

s 9(2)(a)

Sandra Watson
Policy Lead (Forecasting and Analysis)
Policy and Regulatory Stewardship

Hon Simon Watts
Minister of Revenue
/ /2024

Background

14. Tax forecasts have been updated for the 2024 Budget Economic and Fiscal Update (BEFU 2024), replacing the previous published forecasts from the 2023 Half-Year Economic and Fiscal Update (HYEFU). This report informs you of changes since HYEFU in the Treasury's tax forecasts for BEFU 2024. These forecasts were completed on 16 April 2024 with the following inputs:

    14.1 tax results to February 2024, and preliminary results for March;

    14.2 macroeconomic forecasts produced by the Treasury, which were finalised on 5 April 2024;

    14.3 policy changes decided since HYEFU tax forecasts were finalised, up to and including 15 April 2024; and

    14.4 anticipated outcomes for policy changes signalled for BEFU 2024 but which have not yet received full Cabinet signoff by 15 April, and for which some costings were not yet finalised.

15. The figures discussed in this report are for the revenue measure of tax (accrual-based). The forecasts cover a five-year fiscal outlook to 30 June 2028. Figures are unconsolidated, which includes the government paying tax to itself.

Changes to the Treasury's unconsolidated tax forecasts since HYEFU 2023.

Table One – Changes in the Treasury's unconsolidated tax revenue forecasts since HYEFU 2023

June years, $ millions	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
The Treasury					
HYEFU 2023 Treasury forecast	*135,881*	*144,017*	*152,982*	*161,517*	*169,765*
Changes for BEFU forecasts:					
Source deductions[1]	141	(2,333)	(3,286)	(3,998)	(4,519)
Other persons[2]	(1,051)	(1,297)	(2,031)	(1,413)	(1,503)
Corporate taxes[3]	(1,646)	(2,314)	(657)	(301)	214
GST (including Customs GST)	(195)	(805)	(979)	(998)	(1,030)
Resident withholding tax (RWT) on interest	325	149	155	183	188
Other taxes[4]	(155)	(294)	(42)	297	814
Total change since HYEFU	**(2,581)**	**(6,894)**	**(6,840)**	**(6,230)**	**(5,836)**
Preliminary BEFU 2024 Treasury forecast	**133,300**	**137,123**	**146,142**	**155,287**	**163,929**

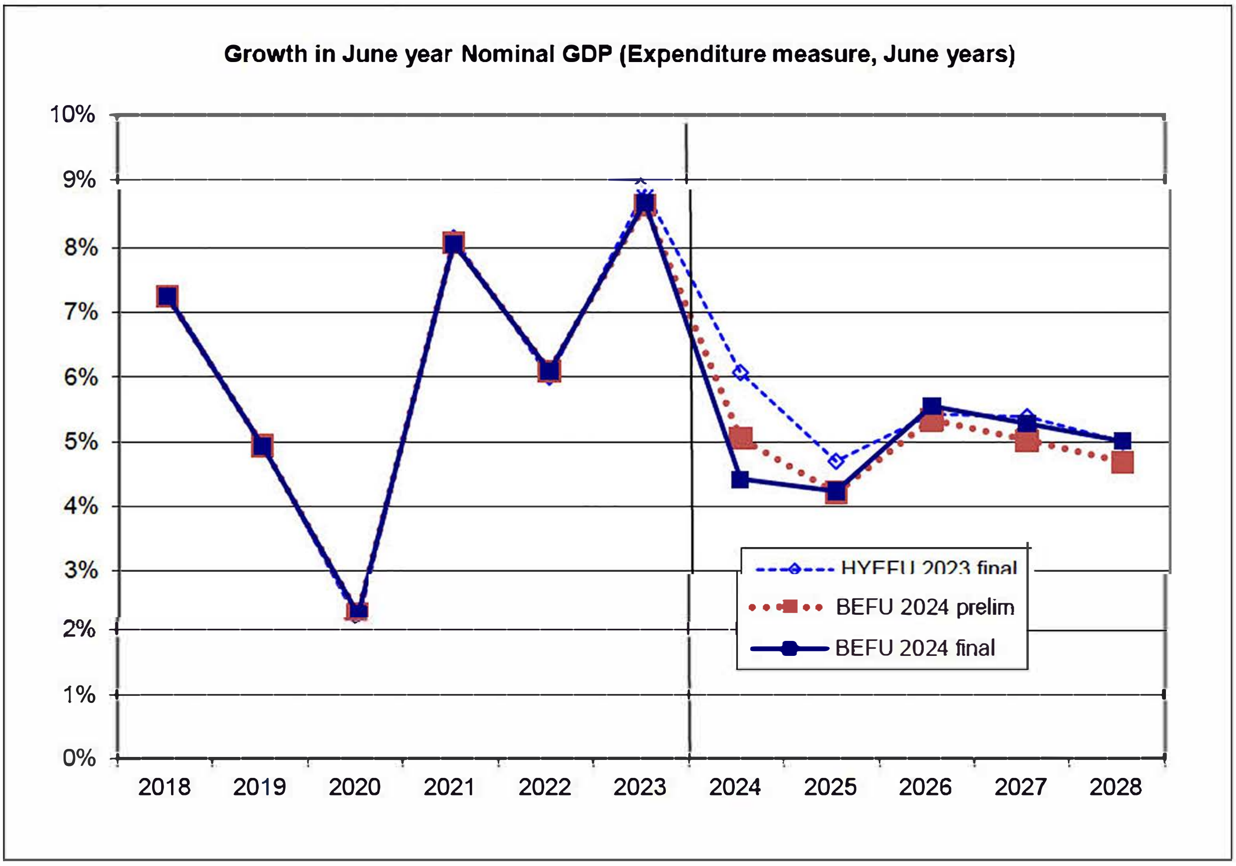
[1] PAYE and employer superannuation contributions tax (ESCT)
[2] "Other persons" is income tax from individuals, trusts, and Māori authorities less any credits for tax withheld by others such as PAYE or RWT. It is mainly provisional tax, but also includes annual square-ups for wage and salary earners.
[3] Company tax, residents withholding tax on dividends, and non-resident's withholding tax (on interest, dividends, and royalties).
[4] Mainly customs and excise, road user charges, and motor vehicle licensing fees.

16. For the five years from 2023/24 to 2027/28 inclusive, the Treasury have revised down their tax forecasts in all years, with a revision of -$2.6 billion in the current year and revisions ranging from -$6.9 billion in 2024/25 to -$5.8 billion in 2027/28.

17. Policy changes singe HYEFU totalling a net -$9.7 billion significantly affect all but the current year and are detailed below in paragraph 34.

18. In the current 2023/24 fiscal year there are some partially offsetting revisions, but the main change arises from downwards revisions to company tax and to other persons. As 2022-23 tax returns were finalised, results for both tax types were lower than had been anticipated, and this, together with a softer macroeconomic profile reduces expectations for profitability in the near term.

Revisions to the macroeconomic outlook



19. The updated macroeconomic forecasts provide less near-term growth than HYEFU forecasts and are also weaker in the near term than was signalled when we reported the preliminary BEFU 2024 forecasts, albeit with a stronger recovery now expected from 2026 onwards.

20. Relative to HYEFU there is reduced growth in historic and near-term operating surplus[5], softer growth in employee compensation beyond the current year, and reduced nominal consumption growth until the final forecast year. Residential investment forecasts now show significantly sharper declines in 2024 and 2025 but there is a return to strong growth from 2026.

21. The downwards revision to operating surplus in the near term is consistent with the weaker profit growth showing on 2023 tax returns and with 2024 currently showing little in the way of provisional tax growth. One near-term partially offsetting positive factor for company tax is that returns from the financial investment sector are now

[5] Operating surplus is the profitability measure in the National Accounts. We use this indicator to forecast company tax and other persons revenue. Recent revisions to this measure have reduced estimates of growth in 2023.

expected to be stronger than HYEFU in the current fiscal year. Annual returns from Portfolio Investment Entities (PIEs) are due on the last day of April.

22. Employee compensation is displaying stronger growth than HYEFU in the current year, but softer (than HYEFU) growth is anticipated in subsequent years, progressively reducing forecast PAYE. Aggregate wages and salaries are now expected to be $4.7 billion smaller in 2028 than was indicated at HYEFU, reducing PAYE.

23. Consumption growth is weaker throughout until the final year, prompting the downwards revisions to GST. GST forecasts are also influenced by a much softer outlook for residential investment in the near term.

24. Forecasts for key macroeconomic drivers influencing tax forecasts are summarised in Table Two below.

Table Two - Key macroeconomic series underpinning the BEFU 2024 final tax forecasts

The Treasury's HYEFU 2023 and BEFU 2024 forecast macroeconomic indicators	2023/24	2024/25	2025/26	2026/27	2027/28
Nominal GDP (Annual growth - June years)					
HYEFU 2023	6.1%	4.7%	5.4%	5.4%	5.0%
BEFU 2024 final	4.4%	4.2%	5.6%	5.3%	5.0%
Net Operating Surplus (Annual growth - March years)					
HYEFU 2023	3.2%	4.8%	6.1%	6.6%	6.2%
BEFU 2024 final	0.6%	4.7%	8.0%	7.5%	7.0%
Compensation of Employees (Annual growth - June years)					
HYEFU 2023	6.2%	4.8%	5.2%	5.0%	4.6%
BEFU 2024 final	7.3%	3.9%	4.7%	4.4%	4.2%
Nominal Consumption (Annual growth - June years)					
HYEFU 2023	4.6%	4.0%	4.9%	4.7%	4.5%
BEFU 2024 final	3.9%	3.2%	4.5%	4.6%	4.6%
90-day bank bills (Levels - March year averages)					
HYEFU 2023	5.68%	5.58%	4.35%	3.33%	2.75%
BEFU 2024 final	5.65%	5.30%	4.15%	3.25%	2.75%
Residential investment (Annual growth- June years)					
HYEFU 2023	-1.0%	-0.8%	2.0%	4.7%	6.5%
BEFU 2024 final	-4.6%	-5.9%	7.0%	6.4%	5.6%

Unconsolidated tax results[6] to March 2024 relative to HYEFU

25. HYEFU forecasts incorporated results to October 2023. Compared to HYEFU forecasts, results in the subsequent five months to March[7] 2024 show:

- Unconsolidated tax revenue at $0.5 billion below forecast, with the biggest negative variance from company tax.
- Unconsolidated cash receipts at $1.5 billion below forecast, with significant negative variances in company tax, GST and net other persons.

26. As filing of 2023 income tax returns has finalised, both company tax and other persons have received negative adjustments having accrued revenue at too high a rate with estimations during the year. Terminal tax receipts in April are expected to be smaller than usual this year. The softer results for 2022-23 have flow on implications for growth into subsequent years, and nominal operating surplus growth into 2023-24 is now expected to be negligible.

27. As a partial offset there has been particular strength in dividend withholding tax this year with strong dividend payments to trusts in March in advance of the 39 percent trustee tax rate taking effect. We expect this strength to continue into April reflecting dividend decisions taken in March.

28. As stated earlier, we also expect strong annual returns from PIEs this year.

29. Interest RWT continues to track above forecast, also suggesting stronger returns to investment than was incorporated at HYEFU.

30. PAYE is above, but reasonably close to, HYEFU forecast.

Tax Policy changes from the December Mini-Budget

31. Policy changes from the December 2023 Mini Budget were not explicitly included in the HYEFU tax forecasts, which had closed off earlier. For completeness they are repeated in Table Three below, as they are a component of the overall revisions discussed in this report, collectively totalling a revenue gain of +2.0 billion.

Table Three – Mini-Budget Policies affecting tax forecasts (rounded to $1 million):

June years, $ millions	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Commercial building depreciation denial from 1 April 2024	-	57	1120	567	567
Brightline* reversion to two years	(22)	(45)	(45)	(45)	(45)
PAYE consequential of welfare benefit indexation change to CPI	3	6	(25)	(53)	(75)
Total – Mini Budget affecting tax forecasts	**(19)**	**18**	**1,050**	**469**	**447**

*Brightline fiscal estimates are larger after 2027/28.

[6] This section refers only to taxes administered by Inland Revenue plus Customs GST. This framing is used for monthly variance reporting by Inland Revenue.
[7] At the time of forecast close off we only had preliminary figures for March 2024, and these may change when finalised.

32. The building depreciation fiscal estimates have a double impact in 2025/26 due to information lags from return filing. Once returns arrive incorporating the change, they simultaneously trigger subsequent year estimations.

33. Although the Brightline change fiscal estimates assume a July 2024 application date, a fiscal loss from an earlier behavioural change (in the form of property sales deferral) was allowed for. Brightline fiscal estimates will be bigger than $45 million after 2027/28 because the previous ten-year Brightline settings had a delayed fiscal impact.

Tax Policy changes decided since the Mini-Budget

34. In addition to the policies disclosed in Table Three, policies decided since the December Mini-Budget and included in these BEFU 2024 tax forecasts are disclosed in Table Four. Because the tax forecasts were finalised prior to the final Cabinet meeting for BEFU 2024, items marked with an asterisk are tentatively included and are subject to change. These policies total a rounded -$11.7 billion across the forecast period.

Table Four – Policies decided since the December Mini-Budget and incorporated for BEFU 2024 (rounded to $1 million):

June years, $ millions	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Residential housing interest deductibility^	-	(360)	(785)	(855)	(915)
39% trustee rate amendments (estate carve out, de minimis, energy consumer trusts)	-	(1)	(7)	(2)	(2)
Application date for Pillar 2 GLOBE rules	-	-	-	(7)	-
Disposal of trading stock to non-associated person or done organisations	-	(1)	(4)	(4)	(4)
Reverse previous transport policies	-	(180)	(480)	(720)	(720)
Replace with new transport policies (fuel excise/RUC/licensing of vehicles)	-	66	198	622	1161
Online casino gambling duty	-	45	47	49	52
Compliance funding for Inland Revenue, impact on tax revenue	-	73	147	147	147
Crypto asset reporting framework*	-	-	-	-	50
Personal rates, IETC, and consequential adjustments*	-	(1,816)	(2,586)	(2,560)	(2,438)
R&D tax credit administrative issue	(9)	-	-	-	-
Reversal of minimum wage supplement – PAYE impacts	-	(2)	(2)	(2)	(2)
Total – Policies since the December Mini-Budget	**(9)**	**(2,176)**	**(3,472)**	**(3,332)**	**(2,671)**

^No longer contains a retrospective element in 2023/24.

*Yet to be confirmed by Cabinet as at 15 April 2024, subject to change.

Other changes now factored in

35. In addition to the items in Tables Three and Four, the tax forecasts have incorporated a reversal of the Smokefree Environments and Regulated Products (Smoked Tobacco) Amendment Act 2022, following the Cabinet decision of 18 December 2023.

36. There was also a forecasting adjustment to allow for a confirmed non-taxable status for the Reserve Bank's depositor compensation scheme. Previous baseline forecasts assumed the scheme would be taxable, and that its introduction would be tax neutral given the offsetting deductions of depositors. Incorporating the confirmed status reduces company tax forecasts by -$23.2 million in 2025/26, -$24.6 million in 2026/27, and -$26.2 million from 2027/28 onwards.

Risks and ongoing uncertainties

37. Portfolio investment entities (PIEs) file annually in late April. Returns to PIEs have been volatile in recent years and can have large swings; in this case we have incorporated an upwards swing in their tax payable, but the degree of recovery is uncertain.

38. The degree to which larger than usual dividends are declared this year in advance of the 39% trustee tax rate taking effect is a further risk. Additional dividend withholding tax could be over and above the amounts included here. Beyond the upside risk in the near-term, there will be an ongoing risk around what the new 'normal' will look like after such a large spike in dividends.

39. In both of the above examples the relevant information will arrive after final BEFU forecasts are published. They present a potentially highly variable risk to April results which will be reported against final BEFU forecasts soon after these forecasts are tabled.

40. Policy change factors can also influence tax revenue in ways that are difficult to accurately predict on a monthly basis especially if there is a behavioural response to changed settings: the reaction to the 39% trustee rate being a current example.

41. Further uncertainty surrounds the timing and strength of the recovery in income taxes from the current softness. BEFU forecasts now include a strongly pro-cyclical recovery in the second half of the forecast period.

Consultation

42. The Treasury have been consulted on this report. The Treasury reported their preliminary forecasts to the Minister of Finance on 19 April.

Next steps

43. As BEFU 2024 policy decisions are finalised (and/or any policy costings are updated) any required changes to these forecasts will most likely[8] be incorporated as central adjustments. A moratorium on policy decisions with fiscal implications commences 29 April 2024 and is in place until the 30 May 2024 publication date for BEFU 2024.

44. March results are being reported to you this week, with variances reported against HYEFU 2023 forecasts. The first month of tax results to be reported against BEFU 2024 forecasts is April 2024, which will be reported once Budget 2024 is tabled.

[8] An alternative is a resubmission of the tax forecasts at the detail line-item level by contributing agencies, but such an approach can disrupt other Budget processes.

April results contain some risk as annual PIE taxation, due on the last day of the month, can be highly volatile.

45. We have also today been informed of an adjustment by the Ministry of Transport to their forecasts of motor vehicle licensing fees. The change is yet to be integrated into that total tax revenue forecast, but when incorporated will further reduce the tax forecasts by around $250 million across the forecast period.

Inland Revenue report: Budget 2024 - Estimates for Vote Revenue

Date:	1 May 2024	**Priority:**	High
Security level:	In confidence – Budget sensitive	**Report no:**	IR2024/196

Action sought

	Action sought	Deadline
Minister of Revenue	**Sign and forward** the attached Estimates document and letter to the Minister of Finance.	1pm, Tuesday 7 May or earlier if possible.

Contact for telephone discussion (if required)

Name	Position	Telephone
Nick Bradley	Enterprise Leader Finance Services (Chief Financial Officer)	s 9(2)(a)
Darren Cheevers	Domain Lead Finance Services	
Rachel Parker	Domain Lead Finance Services	

1 May 2024

Hon Simon Watts
Minister of Revenue
Parliament Buildings
WELLINGTON

Budget 2024 - Estimates for Vote Revenue – Vote Minister sign off

Action required

Attached, for your review and approval by 1pm Tuesday 7 May are:

- the documentation for the **2024/25 Estimates** for the appropriations that you are responsible for in Vote Revenue
- a draft letter to the Minister of Finance for the 2024/25 Estimates.

You have previously reviewed and approved the **2023/24 Supplementary Estimates** (IR2024/104 refers).

Background

The Budget 2024 process requires that the following documents are completed and submitted to the Minister of Finance:

- 2023/24 Supplementary Estimates (previously approved)
- 2024/25 Estimates by 1pm Tuesday 7 May (or earlier if possible).

You have previously reviewed and approved the 2023/24 Supplementary Estimates (IR2024/104 refers).

We provided a draft of the 2024/25 Estimates to you last week (IR2024/104 refers). This draft was pending Cabinet decisions on two Budget 2024 initiatives that impact Vote Revenue. On 29 April, Cabinet confirmed final decisions for these two initiatives:

- Personal Income Tax and Independent Earner Tax Credit Threshold Changes, and
- In-Work Tax Credit – Rate Increase.

A full list of Budget 2024 initiatives that impact Vote Revenue is provided in Attachment A.

The 2024/25 Estimates document

Appropriation Ministers associated with Vote Revenue

The process requires that one of the appropriation Ministers responsible for appropriations in the Vote, on behalf of all appropriation Ministers with appropriations in the Vote, confirms to the Minister of Finance that this material is correct and in a form suitable for publication.

You are responsible for all appropriations under Vote Revenue with the exception of one appropriation. The Minister of Science, Innovation and Technology is responsible for the non-departmental other expenses appropriation for *R&D Tax Incentive payments*. The Minister of Science, Innovation and Technology has separately signed-off funding movements for this appropriation and is aware you will be signing the Vote Revenue Estimates documents (IR2024/103 refers).

Document review process

The Estimates documents have been through an appropriate quality assurance process and are free of material errors and omissions. The Treasury and ourselves will correct any non-material errors in these documents that may be identified prior to publication.

The non-departmental appropriations and forecasts for tax and social policy appropriations are based on the final Treasury macroeconomic forecasts dated 5 April 2024. The forecasts for tax revenue are from the Treasury tax forecasting team.

Since the draft version of the 2024/25 Estimates we sent to you last week we have updated the forecasts for the following two initiatives based on Cabinet decisions of 29 April 2024:

- Personal Income Tax and Independent Earner Tax Credit Threshold Changes
- In-Work Tax Credit – Rate Increase.

We have also made minor editing changes as required.

The Estimates document – Chief Executive endorsement

I confirm that the information provided for your approval:

- is consistent with the policies and performance expectations of the government, and has been prepared in accordance with the Public Finance Act 1989
- is consistent with the proposed appropriations to be set out in the Appropriation (2024/25 Estimates) Bill, as entered by Inland Revenue into the Treasury's CFISnet system
- is consistent with existing appropriations, financial authorities, and Cabinet decisions up to 29 April 2024
- has been prepared in the required format, and in accordance with the guidance that has been issued by the Treasury
- has been appropriately reviewed by Inland Revenue's senior management team – with a particular focus on areas where new strategic information, such as statements about what an appropriation is intended to achieve, is now required, and

- has been through an appropriate quality assurance process and is free of material errors and omissions.

Recommendation

I recommend that you

1. **Review, sign and forward** the following two documents:
   - the documentation for the 2024/25 Estimates for the appropriations that you are responsible for in Vote Revenue, and
   - a draft letter to the Minister of Finance for the 2024/25 Estimates.

Signed and forwarded

Peter Mersi
Chief Executive and Commissioner of Inland Revenue

Attachments:
a) Budget 2024 initiatives that impact Vote Revenue
b) Draft letter to the Minister of Finance for the 2024/25 Estimates
c) 2024/25 Estimates and Supporting Information

Attachment A - Budget 2024 initiatives that impact Vote Revenue

The Vote Revenue Estimates document includes the following Budget 2024 initiatives:

Initiatives (departmental):
- Crypto-asset Regulatory Framework – Implementation and Operating Costs
- FamilyBoost – Operating Costs
- Final-year Fees Free – Operating Costs
- Investment in Compliance Activities – Operating Costs
- Online Casino Gambling Tax Changes
- Personal Income Tax and Independent Earner Tax Credit Threshold Changes – Operating Costs
- Reduction in Operating Expenditure – Inland Revenue
- Reduction in Systems Maintenance and Change Capacity – Inland Revenue.

Initiatives (non-departmental):
- Bright-line test adjustment
- Crypto-asset Regulatory Framework – Tax Revenue
- Deny Depreciation Deductions for Commercial and Industrial Buildings
- Discontinuation of the Wage Supplement – Impact on Tax Revenue
- FamilyBoost
- Final-year Fees Free – Impacts Related to Student Loans
- In-Work Tax Credit – Rate Increase
- Increasing Student Loan Scheme Overseas Interest Formula – Impacts Related to Student Loans
- Increasing Tuition Fees – Impacts Related to Student Loans
- Investment in Compliance Activities – Return on Investment
- Main Benefit Indexation based on CPI
- Online Casino Gambling Tax Changes
- Personal Income Tax and Independent Earner Tax Credit Threshold Changes
- Proposed Changes to the 39 Per Cent Trustee Rate
- Restoring Interest Deductibility for Residential Rental Property
- Training 25 more doctors – Impact Related to Student Loans.

Technical initiatives:
- Return of Funding for Agricultural Emissions Pricing Scheme - Implementation and Operating Costs
- Shared Approach to Back-office Transformation.

s 9(2)(g)(i)

Inland Revenue
Te Tari Taake

Briefing note

Reference: BN2024/204

Date: 23 May 2024

To: Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Nick Bradley, Enterprise Leader Finance Services

Subject: **Budget 2024 Vote Revenue information**

1. The Office has requested Budget 2024 Vote Revenue information for the Minister's information and use on Budget Day. This is to assist the Minister in responding to any questions relating to cost savings and new spending for Budget 2024 for Vote Revenue.

2. We will provide the Minister with separate material to support him with the Taxation (Budget Measures) Bill early next week.

3. Attached, is the information requested. We have grouped the information as follows:

   - Key Budget 2024 information
   - Key Budget 2024 data for the Minister of Finance
   - Budget 2024 initiative summary
   - Baseline savings initiatives
   - Revenue raising - investment in compliance activities
   - Tax relief initiatives
   - Summary of other Vote initiatives that impact on Vote Revenue
   - Summary of Vote Revenue led initiatives.

4. Further detailed information for Vote Revenue will be available in the following Budget 2024 documents when published (the final documents and page references are not yet known at this time):

   - The Estimates of Appropriations 2024/25 - Finance and Government Administration Sector B.5 Vol.4 – Vote Revenue
   - The Supplementary Estimates of Appropriations 2023/24.

5. We will provide further information and content as it becomes available from the Treasury.

6. Figures in **blue** are key figures that match Budget Day documents. All other figures are contained in the detail of the Estimates documents or are unpublished.

Nick Bradley
Enterprise Leader Finance Service (Chief Financial Officer)
s 9(2)(a)

Budget 2024 for Vote Revenue

Key Budget 2024 information

Budget 2024 tax relief initiatives

- The tax relief initiatives include:
  - Changes to the personal income tax thresholds: **$2.4 billion** average operating impact per year ($9.5 billion total[1]).
  - Extending the Independent Earner Tax Credit: **$194 million** average operating impact per year ($775 million total).
  - Increasing the In-Work Tax Credit: **$155 million** average operating impact per year ($620 million total).
  - Introducing Family Boost: **$182 million** average operating impact per year ($726 million total).

Additional funding for Vote Revenue

- Inland Revenue receives a net increase in operating funding of **$69 million** over the forecast period. This includes an increase of $116 million for additional compliance activities, an increase of $71 million for other new spending initiatives and savings of $118 million.

- New funding of **$116 million** over the forecast period for additional compliance activities equates to **213 FTEs** a year and a return of **8:1** to the Crown in additional revenue and operating cost savings. The return is 4:1 in the first year, as the department scales up its compliance capacity and capability.

- The additional compliance activity was a commitment from the coalition agreement between National and New Zealand First to increase audit activity. The additional compliance activity covers tax and associated products ($25 million per year) and overseas-based student loan borrowers ($4 million per year).

- The **8:1** compliance activity benefit in 2025/26 is forecast to increase tax revenue by **$147 million** per year, increase other operating revenue by **$15 million** (from additional interest unwind on student loans), reduce tax debt impairment by **$54 million** and reduce initial fair value write-down relating to student loans by **$3 million**.

Workforce impacts

- Inland Revenue's workforce is funded in Budget 2024 to increase by a net **334 FTEs** in 2024/25. This includes **396 FTEs** for new spending initiatives less **62 FTEs** for savings.

- The actual workforce increase will be lower as Inland Revenue will redeploy existing resources to new spending initiatives and the Vote Revenue baseline was already reducing due to time limited funding from previous Budget initiatives.

- There is no reduction to Inland Revenue's frontline as a result of Budget 2024.

- Inland Revenue's front office[2] makes up **82%** of expenditure.

[1] Over the four-year period - 2024/25 to 2027/28.
[2] For Inland Revenue, front office includes frontline activities and direct frontline support - technology, analytics and accommodation. Back-office activities include planning, finance, human resources and corporate legal.

Delivering baseline saving reductions

- Inland Revenue is delivering a **$29.6 million** **(5%)** ongoing saving per year through the baseline saving initiative which was confirmed through the decision-making phase of the Budget 2024 process.

- Inland Revenue's recent transformation (2017-2022) enabled significant efficiencies including an organisational-wide restructure. Inland Revenue has 18% less FTE than in 2017 (as at 30 April 2024).

- Inland Revenue is partially self-funding new Budget 2024 spending initiatives in 2024/25 of around $9 million in operating and $2 million in capital.

Key Budget 2024 data for the Minister of Finance

Workforce FTEs

• Number of FTE positions in 2017	5,401 as at 30 June 2017 During transformation and prior to transformation savings.
• Number of FTE positions prior to savings initiatives being implemented	4,023 as at 30 Jun 2023 (26% reduction) 4,413 as at 30 Apr 2024 (18% reduction). This increase is driven by more frontline resources.
• Percentage increase in FTE numbers since 2017	1,378 (26%) decrease as at 30 June 2023 988 (18%) decrease as at 30 Apr 2024

Operating expenditure

• Percentage increase/decrease in operating expenditure since 2017	$78m (10%) decrease in operating and personnel expenditure. This was one of the outcomes of our Business Transformation.

Baseline savings and workforce impacts

• Baseline savings exercise target (i.e. 6.5 or 7.5 per cent)	$39.6m (6.5%) target
• Savings achieved as a result of baseline savings exercise	$29.6m (5%) per year achieved - $14.6m reduction in operating expenditure (including travel, training, accommodation, overtime, and consultants and contractors) and $15m reduction in systems maintenance and change capacity.
• Savings from targeted policy savings	$10m average per year ($39.9m over the forecast period) for the crypto-asset reporting framework.

Workforce impacts

• How many, if any FTE, positions have been disestablished	None.
• How many of those positions are vacant	Not applicable.
• How many actual people have lost roles	No permanent FTEs will lose their role through Budget 2024 baseline savings initiatives. There will be a reduction in consultants and contractors.

• Name/purpose of programmes impacted by baselines savings exercise. • Nature of impact on programmes impacted by baseline savings exercise (e.g. programme disestablished or funding reduced or responsibilities transferred to other part of organisation)	There will be a reduction in Inland Revenue's ability to self-fund any new initiatives and changes to the tax and social policy system that affects system, processes or resourcing may need to be funded. Also, Inland Revenue's ability to resource ongoing efficiencies will reduce. There are no other specific programmes of work impacted by the two savings initiatives.

Budget 2024 initiative summary

The two tables below summarise the Budget 2024 Vote Revenue related initiatives.

Notes:

- These figures are across the five-year forecast period (2023/24 to 2027/28) except if otherwise indicated.
- Non-departmental (IRD-Crown) includes impacts on revenue and expenditure.
- Departmental includes implementation and administration costs.
- The figures below show the impact on the Budget 'operating allowance'. For some initiatives there is no impact on the Budget operating allowance but there is an impact on the Crown 'operating balance'. 'Operating balance only' items include non-departmental fair value write-down of student loans and interest on impaired student loans.

Table 1 - Vote Revenue led initiatives with impacts for all Votes

Cost/(saving) - $million	Forecast period (All votes)			2024/25 (IR only)	
	Non-departmental Operating	Departmental Operating	Departmental Capital	Departmental Operating	FTEs
Government commitments					
FamilyBoost[1]	**677**	49	**6**	14	95
Investment in compliance activities[2]	**(702)**	**116**	-	29	213
Online casino gambling tax changes	**(193)**	**3**	-	1	-
Personal income tax and Independent Earner Tax Credit threshold changes[1]	10,269	15	**1**	9	78
In-Work Tax Credit - rate increase	**620**	-	-	-	-
Restoring interest deductibility for residential rental property	**2,915**	-	-	-	-
	13,586	183	7	53	**386**
Savings and revenue					
Reduction in operating expenditure	-	**(58)**	-	(15)	
Reduction in systems maintenance and change capacity	-	**(60)**	-	(15)	(62)
	-	(118)	-	(30)	**(62)**
Budget 2024 pre-commitments					
Digital services tax	**(320)**	-	-	-	-
Mini Budget					
Bright-line test adjustment	**180**	-	-	-	-
Deny depreciation deductions for commercial and industrial buildings	**(2,311)**	-	-	-	-
Targeted policy savings and revenue					
Crypto-asset regulatory framework	**(50)**	**10**	**7**	1	-
	(2,501)	**10**	**7**	1	-
	11,085	75	14	24	**324**

1. Multiple votes impacted.
2. Non-departmental operating balance impact is a $774 million increase.

Table 2 – Budget 2024 other initiatives with Vote Revenue impacts only

Cost/(saving) - $million	Forecast period			2024/25	
	Non-departmental Operating	Departmental Operating	Departmental Capital	Departmental Operating	FTEs
Other Vote initiatives					
Discontinuation of the wage supplement[1]	7	-	-	-	-
Final-year fees free[2]	-	3	1	-	10
Increasing student loan scheme overseas interest formula[3]	-	-	-	-	-
Increasing tuition fees[4]	-	-	-	-	-
Training 25 more doctors[5]	-	-	-	-	-
Main benefit indexation based on CPI[6]	138	-	-	-	-
	145	3	1	-	10

1. Vote Social Development.
2. Vote Tertiary Education - Student loan scheme non-departmental operating balance impact of $249 million.
3. Vote Tertiary Education - Student loan scheme non-departmental operating balance impact of ($6) million.
4. Vote Tertiary Education - Student loan scheme non-departmental operating balance impact of $49 million.
5. Vote Health - Student loan scheme non-departmental operating balance impact of $1 million.
6. Vote Social Development.

Table 3 – Summary of workforce impacts for Inland Revenue

Initiative	FTEs
New spending initiatives	
FamilyBoost	95
Investment in compliance activities	213
Personal income tax and IETC threshold changes	78
Final-year fees free	10
	396
Baseline savings	
Reduction in operating expenditure	-
Reduction in systems maintenance and change capacity	(62)
	(62)
Net workforce movement	**334**

The funding for 95 FTEs to support FamilyBoost in 2024/25 is predominantly for frontline staff to manage queries from customers and process applications. As this is a new product, Inland Revenue expects there will be an increased level of demand from customers as well as increase in the number of applications requiring manual action in the first year.

The funding for 78 FTEs to support the personal income tax threshold and Independent Earner Tax Credit changes for 2024/25 is predominantly for frontline staff to manage queries from customers and engagement with payroll providers. This reduces to 34 in 2025/26 and nil from 2026/27. This also includes administering the In-Work Tax Credit rate change.

Baseline savings initiatives

The following savings table is an excerpt from the draft Budget Day documentation.

Table 4 – Agency breakdown of targeted policy savings and baseline reductions

Agency breakdown	Savings target average[1] %	Savings target average[1] $million	Baseline reduction average[2] $million	Target policy savings and revenue average $million
Inland Revenue Department	6.5%	39.6	s 9(2)(f)(iv) [redacted]	9.3

[1] Operating annual average across 5 years (2023/24 to 2027/28).
[2] Operating annual average across 5 years (2023/24 to 2027/28). This is based on the final Budget 2024 package agreed by Ministers.

We are testing with the Treasury their methodology for calculating these figures and the use of a five-year average (2023/24 to 2027/28) rather than a four-year average (2024/25 to 2027/28. s 9(2)(f)(iv) s 9(2)(g)(i) [redacted]

The table below provides our view of the calculations.

Table 5 – Agency breakdown of targeted policy savings and baseline reductions

Agency breakdown	Savings target Average[1] %	Savings target Average[1] $million	Baseline reduction average[1] $million	Targeted policy savings and revenue average[1] $million
Baseline savings				
Reduction in operating			14.6	-
Reduction in systems maintenance and change capacity			15.0	-
Target policy savings				
Crypto-asset reporting framework			-	10.0
Inland Revenue Department	6.5%	39.6	29.6	10.0

[1] Operating annual average across 4 years (2024/25 to 2027/28).

Reduction in operating expenditure

This savings initiative returns **$14.6 million** per year operating funding for expenditure such as travel, training, accommodation, overtime, and consultants and contractors. ($58.4 million over the forecast period.)

We have committed to a reduction of $3 million in consultants and expenditure. There are no specific savings targets for the other items. In total this permanent saving will be achieved.

Reduction in systems maintenance and change capacity

This savings initiative returns **$15 million** per year operating funding for expenditure on systems maintenance and change capacity ($60 million over the forecast period).

The savings relate to no longer funding 62 subject matter experts and internal testers ($7 million) and our technology support partner – s 9(2)(j) [redacted] ($8 million).

The saving is structured to reduce system enhancement activities and retain maintenance at a level that does not put our systems at risk over the longer-term.

Inland Revenue has committed to deliver this saving, noting that in any given period the savings may not fully result in a reduction in systems enhancement and change capacity. The savings reflect a reduced enhancement plan and assume a reduced level of new Government initiatives requiring systems changes that can be self-funded.

If in future years, there is a requirement to deliver a larger Government change/initiative programme then the department will seek additional funding to contract in additional capacity from support partners and increase Inland Revenue resources. Consequently, the FTE impacts may fluctuate from year to year.

The savings were committed to prior to finalisation of the Government's work programme in 2024/25. The programme includes system changes for FamilyBoost, personal income tax threshold changes, other Budget 2024 initiatives and the proposed 2024 Tax Bill. Additional funding has been provided for the majority of this new work, with Inland Revenue self-funding the balance. Planning is underway to deliver the Government's programme and the savings.

s 9(2)(f)(iv) [redacted]

Question and answers

What was Inland Revenue's baseline savings target?

Inland Revenue's baseline savings target was 6.5% which equated to $39.6 million. The agreed saving was 5% or $29.6 million.

Why doesn't Inland Revenue have to meet a 6.5% baseline savings target?

Inland Revenue completed its transformation programme in 2022. This transformation delivered a significant reduction in the department's workforce and operating costs. The business case benefits were achieved.

The recent transformation limits the opportunity for further baseline savings without impacting front-line staff. As a revenue raising agency any reductions in front-line staff would have a negative impact on revenue and debt that exceeds the cost saving benefit to the Crown.

A reduction of $1 million in the frontline services has an estimated revenue impact of $8 million – 8:1.

What are the impacts of these initiatives on front-line services?

There is no direct impact on frontline services as a result of these savings, other than a reduction in overtime.

Do these saving initiatives result in a reduction of FTEs and if so how many?

The reduction in systems maintenance and change capacity has a reduction of 62 FTEs. This relates to our internal testers and subject matter experts who support change activity.

Will this reduction in FTEs' result in redundancies and what is the change process for managing this?

There are no redundancies associated with Budget 2024 outcomes.

What is the impact of the reduction in system maintenance and change capacity?

The reduction in systems maintenance and change capacity will:

- reduce Inland Revenue's ability to self-fund any new initiatives, including unexpected new Government initiatives, and increase the likelihood of longer lead-times of new initiatives. Changes to the tax and social policy system that affect systems, processes, or resourcing may need to be funded.

- reduce Inland Revenue's ability to resource ongoing efficiency opportunities. These efficiency opportunities would allow Inland Revenue to:
    - better manage on-going cost pressures
    - identify initiatives to improve compliance, and
    - identify initiatives to reduce compliance cost.

Revenue raising – investment in compliance activities

This initiative provides funding for Inland Revenue to increase compliance activity on tax and student loan overseas-based borrowers, including those returning, or visiting New Zealand of $29 million per year ($116.0 million over the forecast period).

The return on this investment is an expected return of 8:1 and is a combination of additional operating revenue and reductions in operating expenditure on debt impairment and initial fair value write-down of student loans as follows:

Table 6 – Return on investment for compliance activities

ROI - $million	2023/24	2024/25	2025/26	2026/27	Outyears	Total
Compliance investment	-	25	25	25	25	100
Return						
Tax revenue – (increase)	-	(73)	(147)	(147)	(147)	(514)
Impairment of debt and debt write-offs	-	1	1	1	1	4
Impairment of debt and debt write-offs – reversal	-	(27)	(55)	(55)	(55)	(192)
	-	(99)	(201)	(201)	(201)	(702)
Return on investment	-	4:1	8:1	8:1	8:1	

Table 7 – Return on investment for student loans compliance activities

ROI student loans - $million	2023/24	2024/25	2025/26	2026/27	Outyears	Total
Compliance investment	-	4	4	4	4	16
Return						
Student loan interest unwind (revenue)	-	(15)	(15)	(15)	(15)	(60)
Initial fair value write-down student loans	-	(3)	(3)	(3)	(3)	(12)
	-	(18)	(18)	(18)	(18)	(72)

Question and answers

What compliance activities will this additional funding be used for?

The primary target areas of our additional compliance activity will initially be:

- hidden economy
- organised crime
- high wealth individuals
- trusts compliance
- property compliance
- corporate entity restructuring for tax avoidance
- online risks such as crypto assets
- income suppression, for example electronic sales suppression tools (ESST)
- overseas-based student loan borrowers using border enforcement and third-party suppliers to collect debt and/or locate borrowers
- increased prosecutions and other legal remedies
- unfiled returns (NZ and overseas), and
- customers who have the ability to pay outstanding debt in full (NZ and overseas).

In relation to student loan overseas based borrowers, what compliance activities will be undertaken?

The primary activities for delivering additional compliance will initially be:

- designing targeted track and trace campaigns to locate our overseas borrowers
- designing targeted debt campaigns and trialling other interventions to increase compliance of our overseas-based borrowers
- an increased focus on collection of overdue payments from those in Australia, as this is where the largest known population of overseas-based borrowers reside
- a greater focus on those that cross the New Zealand border as our ability to engage these borrowers when they re-enter New Zealand increases, and
- engaging in legal enforcement action against borrowers who continually refuse to meet their repayment obligations.

Is this additional funding time-limited?

The additional funding and benefits are permanent.

Why is there a difference in additional revenue between the 2024/25 and the 2025/26 and out years?

This reflects the time to scale-up audit activities and the additional tax revenue to be assessed and collected. Inland Revenue will initially focus on unfiled returns and the collection of overdue tax for those customers that it can see have an income activity and/or own assets of value such as property. This activity will be the main source of additional tax revenue and cash in the 2024/25 fiscal year.

How may additional FTEs will be employed by Inland Revenue for this compliance activity?

The number of additional funded FTEs is 213.

Tax relief initiatives

Changes to personal income tax (PIT) thresholds **- $2.4 billion** average operating impact per year ($9.5 billion total[3]).

Cost / (Saving) - $million	Total
Non-departmental operating	
Personal income tax – tax revenue	8,512
NZ super and veteran's pension	982
Student allowance	14
Other support	(12)
Public housing	(3)
	9,493
Departmental operating	
Vote Revenue	14
Vote Social Development	2
	16
Total operating – forecast period	9,509
Average per year – 4 years	**2,377**

Extending the Independent Earner Tax Credit - **$194 million** average operating impact per year ($775 million total).

Increasing the In-Work Tax Credit **- $155 million** average operating impact per year ($620 million total).

Introducing FamilyBoost **- $182 million** average operating impact per year ($726 million total).

Cost / (Saving) - $million	Total
Non-departmental operating	
Vote Revenue – FamilyBoost payment	677
	677
Departmental operating	
Vote Revenue	43
Vote Tertiary Education	0.5
Vote Social Development	6
	49
Total operating – forecast period	726
Average per year – 4 years	**182**

[3] Over the four-year period - 2024/25 to 2027/28.

Summary of other Vote initiatives that impact on Vote Revenue

There are six initiatives led by other Ministers that impact on Vote Revenue as follows. The tables below show the impacts on Vote Revenue i.e. not the full impact of the initiative.

Discontinuation of the wage supplement (Vote Social Development)

The Government is ceasing the design and implementation of a wage supplement to replace minimum wage exemptions permits.[4] The discontinuance of the wage supplement decreases tax revenue by $7.424 million over the forecast period. This is a reversal of the increase in tax revenue in Budget 2023 associated with introduction of a wage supplement.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown) – tax revenue	-	1.632	1.804	1.994	1.994	7.424	-

Final-year fees free (Vote Tertiary Education)

The Coalition agreement between National and NZ First includes a commitment to replace first-year fees fee with a final-year fees free scheme. This initiative provides funding to Inland Revenue for the implementation and administration costs of this change of $2.525 million operating and $0.700 million capital expenditure over the forecast period. This includes an additional 10 FTEs in 2024/25. s 9(2)(f)(iv) [redacted] n addition, this initiative impacts the non-departmental initial fair value write-down on student loans and the interest on impaired student loans. The net impact is $251.525 million (cost) over the forecast period.

Vote (operating allowance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	0.320	0.435	0.735	1.035	2.525	0.700
Revenue (IRD-Crown)	-	-	-	-	-	-	-
Revenue (Total) cost/(saving)	-	0.320	0.435	0.735	1.035	2.525	0.700

Vote (operating balance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	0.320	0.435	0.735	1.035	2.525	0.700
Revenue (IRD-Crown)	-	76.000	80.000	58.000	35.000	249.000	-
Revenue (Total) cost/(saving)	-	76.320	80.435	58.735	36.035	251.525	-

Increasing student loan scheme overseas interest formula (Vote Tertiary Education)

This initiative increases the student loan overseas-based borrowers interest formula by 1 percent for five years. Inland Revenue is self-funding the implementation and administration costs of $1.940 million operating and $0.150 million capital expenditure over the forecast period. In addition, this initiative impacts the non-departmental fair value write-down and the interest on impaired student loans of $5.910 million (saving) over the forecast period.

Vote (operating allowance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	-	-	-	-	-	-

Vote (operating balance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	(1.602)	(1.472)	(1.428)	(1.408)	(5.910)	-

[4] Budget 2023 included an initiative to provide funding ($37.312 million over the forecast period) to MSD to allow for a wage supplement to replace Minimum Wage Exemption permits.

Increasing tuition fees (Vote Tertiary Education)

This initiative enables tertiary education providers to increase tuition fees charged to learners by up to six percent in 2025. As this initiative will increase student loan borrowing, it impacts on the initial fair value write-down and interest on impaired student loans by $48.818 million (cost) over the forecast period.

Vote (operating allowance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	-	-	-	-	-	-

Vote (operating balance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	11.960	12.837	12.317	11.704	48.818	-

Training 25 more doctors (Vote Health)

This initiative increases the medical school enrolment funding cap to provide 25 additional places a year, starting from 2025. As this initiative will increase student loan borrowing, it impacts on the initial fair value write-down and interest on impaired student loans by $1.489 million (cost) over the forecast period.

Vote (operating allowance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	-	-	-	-	-	-

Vote (operating balance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	0.136	0.270	0.403	0.680	1.489	-

s 9(2)(g)(i)

Summary of Vote Revenue led initiatives

The tables below list the Budget 2024 initiatives that impact Vote Revenue appropriations: Departmental and Non-departmental (IRD-Crown).

Bright-line Test Adjustment

This initiative shows the decrease in tax revenue from changing the bright-line test to 2 years from 1 July 2024.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown) – tax revenue	-	45.000	45.000	45.000	45.000	**180.000**	-

Crypto-asset Regulatory Framework

This initiative provides funding for the development and administration of the Crypto-asset Reporting Framework and shows the increased tax revenue from implementation. The Crypto-asset Reporting Framework is a global minimum standard developed by the Organisation for Economic Co-operation and Development to ensure tax administrators globally have sufficient information to enforce tax laws on taxpayers who derive income from trading crypto-assets.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	1.400	2.000	3.000	3.700	**10.100**	**6.700**
Revenue (IRD-Crown) – tax revenue	-	-	-	-	(50.000)	**(50.000)**	-
Revenue (Total) cost/(saving)	-	1.400	2.000	3.000	(46.300)	(39.900)	-

Deny Depreciation Deductions for Commercial and Industrial Buildings

This initiative shows the increase in tax revenue from denying depreciation deductions for commercial and industrial buildings.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown) – tax revenue	-	(57.000)	(1,120.000)	(567.000)	(567.000)	**(2,311.000)**	-

Digital Services Tax

This initiative reflects increased revenue from the introduction of the digital services tax legislation as a backstop to a multilateral solution being developed by the Organisation for Economic Co-operation and Development.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown) – tax revenue	-	-	(129.000)	(93.000)	(98.000)	**(320.000)**	-

FamilyBoost

This initiative provides funding to create a new FamilyBoost tax credit for eligible parents of children enrolled in early childhood education (ECE) from 1 July 2024. The tax credit will reimburse up to 25 percent of a household's ECE fees to a maximum of $150 per fortnight, paid quarterly after taking into account ECE subsidies such as 20 hours ECE, and childcare subsidy payments. This initiative also provides funding to

Inland Revenue, the Ministry of Education, and the Ministry of Social Development for the implementation and administration cost of this tax credit.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	13.900	11.100	9.100	9.100	**43.200**	-
Revenue (IRD-Crown)	-	174.000	171.000	167.000	165.000	**677.000**	-
Revenue (Total) cost/(saving)	-	187.900	182.100	176.100	174.100	720.200	-
Education	-	0.175	0.100	0.100	0.100	**0.475**	-
Social Development	0.242	1.604	1.322	1.322	1.322	**5.812**	**5.550**
Total (Budget operating allowance)	0.242	189.679	183.522	177.522	175.522	726.487	5.550

Investment in Compliance Activities

This initiative provides funding for, and shows an increase in tax revenue to be returned from, Inland Revenue's increased compliance activities on tax and student loan overseas-based borrowers, including those returning to, or visiting, New Zealand. The $72 million total impact over the forecast for additional student loan collections impacts the operating balance but not the operating allowance ($774 million less $702 million).

Vote (operating allowance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	29.000	29.000	29.000	29.000	**116.000**	-
Revenue (IRD-Crown)	-	(99.000)	(201.000)	(201.000)	(201.000)	**(702.000)**	-
Revenue (Total) cost/(saving)	-	(70.000)	(172.000)	(172.000)	(172.000)	(586.000)	-

Vote (operating balance impact)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	29.000	29.000	29.000	29.000	116.000	-
Revenue (IRD-Crown)	-	(117.000)	(219.000)	(219.000)	(219.000)	(774.000)	-
Revenue (Total) cost/(saving)	-	(88.000)	(190.000)	(190.000)	(190.000)	(658.000)	-

In-Work Tax Credit - Rate Increase

This initiative provides funding for a $25 per week increase to the In-Work Tax Credit (a tax credit for families normally in paid work who have children) from 31 July 2024.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown)	-	150.220	162.220	155.220	152.220	**619.880**	-

Online Casino Gambling Tax Changes

This initiative shows the increase in revenue from the collection of a gaming duty on online casino gambling. This initiative also provides funding to Inland Revenue for the implementation and administration costs of these changes.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	0.500	0.800	0.800	0.800	0.300	**3.200**	-
Revenue (IRD-Crown) – tax revenue	-	(45.000)	(47.000)	(49.000)	(52.000)	**(193.000)**	-
Revenue (Total) cost/(saving)	0.500	(44.200)	(46.200)	(48.200)	(51.700)	(189.800)	-

Personal Income Tax and Independent Earner Tax Credit Threshold Changes

This initiative adjusts the current income tax thresholds (including the parameters of the Independent Earner Tax Credit) to provide tax relief and allow New Zealanders to keep more of their income. This initiative also provides funding to Inland Revenue and the Ministry of Social Development for the implementation and administration costs of these threshold adjustments.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	9.450	4.200	-	-	**13.650**	-
Revenue (IRD-Crown) – tax revenue	-	1,759.887	2,553.706	2,543.514	2,430.373	**9,287.480**	-
Revenue (Total) cost/(saving)	-	1,769.337	2,557.906	2,543.514	2,430.373	9,301.130	-
Housing and Urban Development	-	(0.218)	(0.578)	(1.064)	(1.085)	**(2.945)**	-
Social Development	0.132	96.848	221.416	327.235	340.069	**985.700**	**1.439**
(Total) cost/(saving)	0.132	1,865.967	2,778.744	2,869.695	2,769.357	10,283.895	1.439

Tax revenue breakdown – IR	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown) – Non-IETC	-	1,607.106	2,337.531	2,335.862	2,231.940	8,512.439	-
Revenue (IRD-Crown) – IETC	-	152.781	216.175	207.652	198.433	775.041	-
Revenue (Total) cost/(saving)	-	1,759.887	2,553.706	2,543.514	2,430.373	9,287.480	-

Total cost breakdown (all votes)	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Non-IETC	0.132	1,713.186	2,562.569	2,662.043	2,570.924	9,508.854	1.439
IETC	-	152.781	216.175	207.652	198.433	775.041	-
(Total) cost/(saving)	0.132	1,865.967	2,778.744	2,869.695	2,769.357	10,283.895	1.439

Reduction in Operating Expenditure – Inland Revenue

This savings initiative returns funding from efficiencies found across Inland Revenue, enabling reductions in expenditure such as travel, training, accommodation, overtime, and contractors and consultants. This initiative contributes to the baseline savings target for the Inland Revenue Department.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	(14.600)	(14.600)	(14.600)	(14.600)	**(58.400)**	-

Reduction in Systems Maintenance and Change Capacity – Inland Revenue

This savings initiative returns funding for systems maintenance and finding efficiencies through aligning change capacity work at Inland Revenue. The change capacity programme is designed to deliver the Government's Tax and Social Policy Work Programme, and optimise customer and business outcomes. This initiative contributes to the baseline savings target for the Inland Revenue Department.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (Departmental)	-	(15.000)	(15.000)	(15.000)	(15.000)	**(60.000)**	-

Restoring Interest Deductibility for Residential Rental Property

This initiative shows the decrease in tax revenue from introducing a phased approach to restoring interest deductibility for residential rental property.

Vote	2023/24	2024/25	2025/26	2026/27	2027/28	*Operating Total*	*Capital Total*
Revenue (IRD-Crown) – tax revenue	-	360.000	785.000	855.000	915.000	**2,915.000**	-

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Key Direction on FamilyBoost tax credit

Date:	15 December 2023	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2023/269

Action sought

	Action sought	Deadline
Minister of Finance	**Indicate** a preferred option **Refer** to the Minister of Education and the Minister for Social Development and Employment	21 December 2023
Minister of Revenue	**Indicate** a preferred option	21 December 2023

Contact for telephone discussion (if required)

Name	Position	Telephone
Kerryn McIntosh-Watt	Policy Director, Inland Revenue	s 9(2)(a) [redacted]
Murray Shadbolt	Principal Policy Advisor, Inland Revenue	

15 December 2023

Minister of Finance
Minister of Revenue

Key Direction on FamilyBoost tax credit

Executive summary

Purpose of this report

1. This report seeks direction on the progression, design, and delivery of FamilyBoost.

Background and current landscape

2. Officials have reviewed the National Party's pre-election policy documents and coalition documents which indicate the Government wants Inland Revenue to administer a new product named FamilyBoost. This product will support families to meet their early childhood education (ECE) costs.

3. The policy as described in the pre-election policy documents is built around utilising the flow of parents' fee information from ECE providers to government agencies, including Inland Revenue. Data on ECE fees paid per household is not currently collected by or exchanged between government agencies. For this reason, we are unable to develop and deliver FamilyBoost as described from 1 July 2024. Accordingly, officials have considered what form of FamilyBoost could be feasibly implemented by that date.

4. We have progressed a possible alternative design option for FamilyBoost based around the National Party's pre-election policy documents, noting there are some trade-offs required for a 1 July 2024 delivery date. To meet this date, we require urgent decision-making regarding the design and direction of FamilyBoost. These decisions are needed to develop systems and draft legislation.

Options

5. We understand that the focus of FamilyBoost is to assist low-to-middle income working families with the high cost of living, by providing targeted assistance with ECE costs. The documents outlined a product that would provide a refund to parents based on their household income and net ECE costs after other relevant support was taken into account.

6. If the Government proceeds with FamilyBoost, this report outlines two options for implementation:

   - **Option 1** – A basic refund model set up by 1 July 2024 and with payments made to parents from October 2024, with the intention of continued improvement to the integrity processes and customer experience of this product over time, or

- **Option 2** – Extend the timeline for implementation to allow FamilyBoost to be built as outlined in National's pre-election policy documents. This option would allow for in-depth consultation with the ECE sector, but does carry the risk that ECE providers will be unable to update their systems to be compatible with the product envisaged. This may result in a further consideration by officials of the other options post-consultation.

7. Officials seek your direction as to whether advice on alternative or intermediary options based on utilising existing systems (**Option 3**) should be prepared. This would be less targeted with potentially higher cost, but could be delivered more quickly with less impact on parents.

Legislation

8. We understand the Minister's preference is for Budget legislation in 2024. However, the window between Budget night legislation and the intended implementation date of 1 July 2024 would be very small for ECE providers who will be unaware of the details of the proposal (due to Budget secrecy requirements). More information about these risks is included below.

9. We recommend that, if Ministers wish to proceed with the development of a product with a delivery date of 1 July 2024, the legislation be included as an amendment to the upcoming Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill. We anticipate earlier notice of changes will increase buy-in from the sector and enable them to better meet customer demand for 1 July 2024.

Next steps

10. We seek your decision on which option should be developed. If Ministers wish to proceed with option 1, officials require urgent decisions on the direction and design of FamilyBoost. We also seek agreement for targeted external consultation with the ECE sector. We will report again with a series of detailed policy and operational design decisions for option 1.

11. If you agree to option 2, we will consult with the sector and prepare a more detailed proposal with a view to align delivery more closely to the original intent of the policy. We also note that we can provide advice on alternative options (option 3), and we are available to meet and discuss with you any of the options outlined in this report.

Recommended action

We recommend that you:

1. **note** that there is a range of existing support available to help parents and caregivers meet ECE costs, and a new product may introduce additional complexity into the ECE funding and tax systems;

    Noted — *Minister of Finance*
    Noted — *Minister of Revenue*

2. **confirm** that the primary objective of FamilyBoost is to increase the incomes of families who have children in ECE;

    Agreed/Not agreed — *Minister of Finance*
    Agreed/Not agreed — *Minister of Revenue*

3. **note** that FamilyBoost as envisaged in pre-election policy documentation cannot be delivered by 1 July 2024 due to system and data challenges;

    Noted — *Minister of Finance*
    Noted — *Minister of Revenue*

4. **note** that if Ministers wish to proceed with delivering additional financial support by 1 July 2024, we require urgent decisions on the direction and design of an alternative product;

    Noted — *Minister of Finance*
    Noted — *Minister of Revenue*

5. **agree** to progress one of these options:

    EITHER (introduce a new product)

    Option 1 – introduce a basic refund in arrears model for 1 July 2024 with continued improvements over time;

    Agreed/Not agreed — *Minister of Finance*
    Agreed/Not agreed — *Minister of Revenue*

    OR

    Option 2 – develop FamilyBoost across approximately two to three years to more closely align with the policy settings contained in pre-election documents;

    Agreed/Not agreed — *Minister of Finance*
    Agreed/Not agreed — *Minister of Revenue*

    OR (support through existing systems)

    Option 3 – request officials from relevant agencies provide further advice on extending support to parents and caregivers of children under five-years-old based on existing products and systems;

    Agreed/Not agreed — *Minister of Finance*
    Agreed/Not agreed — *Minister of Revenue*

6. **agree**, if option 1 is to be progressed, to legislate the required changes through one of the following options and **instruct** officials to prepare drafting instructions:

   Amendment to Multinational Tax Bill – include the changes via an amendment paper at the Committee of the Whole House stage, in the Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill (officials' preferred option);

Agreed/Not agreed *Minister of Finance*	Agreed/Not agreed *Minister of Revenue*

   OR

   Budget 2024 legislation – introduce a bill containing the changes as part of the Budget day package;

Agreed/Not agreed *Minister of Finance*	Agreed/Not agreed *Minister of Revenue*

7. **agree** to officials consulting with stakeholders in the ECE sector on delivery options for options 1 and 2, with particular focus on the collection of fees information;

Agreed/Not agreed *Minister of Finance*	Agreed/Not agreed *Minister of Revenue*

8. **note** that the departmental and non-departmental financial implications of the selected policy option, including details of any new appropriation required, will be quantified and provided in a subsequent report;

Noted *Minister of Finance*	Noted *Minister of Revenue*

9. **refer** this report to the Minister of Education and the Minister for Social Development and Employment.

   Refer/not referred
   Minister of Finance

s 9(2)(a) [redacted]

Kerryn McIntosh-Watt
Policy Director
Policy and Regulatory Stewardship
Inland Revenue

Hon Nicola Willis Minister of Finance / /2023	**Hon Simon Watts** Minister of Revenue / /2023

Background

12. We have reviewed the National Party’s pre-election policy documents and coalition agreement which indicate Ministers want Inland Revenue to administer a new product named FamilyBoost to support families in alleviating the impact of early childhood education (ECE) costs. Accordingly, we have considered design options for a new product, noting there are some trade-offs required for a 1 July 2024 delivery date. In proceeding with delivering a new product, we require urgent decision-making on the direction and design of the policy.

13. The Government administers several schemes to support the cost of ECE for families by increasing their available income (*see Appendix 1: Current ECE and support landscape*). Due to the lack of fees data, it is currently difficult for any government agency to provide advice on ECE affordability for parents and caregivers.

14. The proposed FamilyBoost policy has similarities to the existing Childcare Subsidy in that it is a means tested subsidy scheme. However, it uses the tax system to make payments directly to parents as opposed to providing subsidies to ECE providers on behalf of parents.

FamilyBoost in a tax and transfer context

15. We generally support policy intervention to aid parents and caregivers in meeting ECE costs, but Inland Revenue officials also recommend any decisions on FamilyBoost be considered within the context of the wider ECE support system, of which Inland Revenue does not have oversight. It may be more efficient to utilise more-targeted existing products as alternatives to FamilyBoost. However, we recognise that a new product may better suit Ministers’ objectives.

16. From a tax policy perspective, FamilyBoost deviates from existing tax settings. Since the major tax reforms in the 1980s, personal costs can no longer be deducted from wages and salaries to reduce the individual’s tax liability. In recognition of the increased costs to individuals, the government of the day reduced income tax rates and in the ECE context, introduced a bulk funded ECE system via government subsidies. Overall, these changes aimed to minimise the compliance and administrative costs associated with individuals having to claim deductions by filing tax returns and providing evidence of payments to ECE providers. The decisions made on the design and implementation of FamilyBoost will have implications for the wider tax and transfer system. We will provide this further context in subsequent reporting.

The roles of different agencies

17. Should alternatives to FamilyBoost be explored, we suggest that it may be worthwhile considering another agency for the delivery. Inland Revenue has comparative strengths in delivering payments to broad groups of people where requirements are easily automated and where income is a key criterion. Other agencies may be better placed to provide more targeted support or where sector specific information is critical. The most effective delivery agent will depend on the relative priorities of the Government.

18. We have consulted with both the Ministry of Education (MoE) and the Ministry of Social Development (MSD) in preparing this advice. MoE note they are not well placed to assist Inland Revenue with delivering FamilyBoost in the short-medium term because FamilyBoost requires payment of funds directly to parents. MoE currently has no relationship with parents and does not make payments to ECE providers based on parents’ circumstances.

19. MoE has an existing mechanism to collect attendance data and systems which store each child's name, date of birth and National Student Number (NSN), collectively known as the Early Learning Information collection (ELI).[1] ELI could be used to collect fee information but would need to be adapted. We expect this would take significant time (at least a year) and require consultation with ECE and student management system providers.

20. The Childcare Subsidy administered by MSD is a payment provided directly to childcare providers on behalf of parents that is conditional on parental income and intended to reduce childcare costs before they are invoiced to the parent or caregiver. Applications for the Childcare Subsidy are processed manually. Currently, there are approximately 35,000 recipients of the Childcare Subsidy. It is estimated that 130,000 low and middle-income families will receive FamilyBoost. MSD consider that extending delivery mechanisms used for the Childcare Subsidy to FamilyBoost recipients would have significant operational impacts.

Problem definition

Families are struggling with the high cost of living

21. The Government has indicated it considers New Zealand families are finding it difficult to cope with high cost of living pressures due to the current high inflation environment. High ECE costs have implications for families' income inadequacy, work incentives and ECE participation rates, which could increase child poverty over the longer term.

Fees data is crucial for FamilyBoost, but is not currently available

22. Delivering FamilyBoost as envisaged to alleviate the high cost of living for families will require fees information linked to individual parents or caregivers and the children in their care. Inland Revenue has some of the data required to administer FamilyBoost (i.e., income data and bank account information for some potential recipients) but other essential data is held by ECE providers and parents (i.e., ECE fee payments and enrolment/attendance details). ECE providers do not comprehensively provide fees information to government agencies.

23. Under Budget 2023, as part of the extension of the 20 Hours ECE policy to two-year-olds, MoE had begun scoping a data collection by which ECE providers would provide the Ministry with their average hourly fee. However, this data collection would not provide information on the actual fees paid by individual families and would not link fees data to each child. MoE has not yet collected this information and would not have capacity to run a rescoped data collection ahead of 1 July 2024.

24. MSD do receive information on fees from some ECE providers if the parent is applying for the Childcare Subsidy. However, this is a relatively small subset of families. Of this subset, about 25% are fully subsidised by MSD and therefore pay no ECE fees. These families will not receive FamilyBoost.

25. Information of actual fees paid by families is unlikely to be held in a uniform format across all providers. This lack of standardisation may pose compatibility issues when creating a system that aggregates fees data and automates payments. Small ECE providers may struggle to adapt to new information collection requirements.

26. Because of these difficulties, it will not be possible to create a seamless, automatic fees data collection system as outlined in the pre-election documents by 1 July 2024. Accordingly, in the below *Options analysis* section, we have outlined

[1] Although ELI does not yet include kōhanga reo early learning providers.

alternative models for progressing the FamilyBoost scheme within the Government's desired timeframes.

Other data required for FamilyBoost

27. Any ECE support product that pays out directly to individuals will require a registration process to access the following key pieces of data:

- The amount of ECE fees paid by parents – to determine eligibility for the payment as well as the amount of the payment.
- The relationship status of the applicant – to avoid double claiming of the same fee payments.
- Income of both the applicant and partner, if applicable – to determine household income and assess eligibility and any required abatement amount.
- Child enrolment data – to enable Inland Revenue to run integrity checks on FamilyBoost registrations and claims.
- Bank account information – for the payment of FamilyBoost.

There are some risks in delivering FamilyBoost

28. There are several risks which may affect any of the options outlined in this report.

29. **Provider capture**: ECE providers may increase fees and absorb some or all of any new payment and the associated compliance costs. When 20 Hours ECE came into effect, fees payable by parents and caregivers did drop. However, fees have risen again to the point that the free hours are largely captured.[2] Fee structures for many ECE providers are not always transparent and there is a high risk that increases in fees over time capture at least some of the benefits of FamilyBoost for parents.

30. **Complexity reducing take-up:** There is a risk that a new product will add complexity to an already complex income support system where parents need to interact with another government agency such as MSD to claim ECE support (*see Appendix 1: Current ECE and support landscape*). Additional compliance burden may affect take up rates and cause confusion for parents.

31. **Limited target group**: FamilyBoost may favour some family or household structures or types of ECE service over others. The model targets low-to-middle income families with formal ECE costs, but some working families use informal childcare or pay no fees. Also, the proposed FamilyBoost payment does not change with the number of children, meaning larger families will receive relatively less help with their ECE costs.

32. **Integrity**: Families who are more able to change the timing and amount of their earnings and the timing of reporting their taxable income may also present an integrity risk. s 6(c) [redacted] This risk is already present for other payments and is not significantly higher for FamilyBoost.

33. **Consultation with the sector**: Discussions with MoE have indicated that the ECE sector has, in the past, raised strong concerns regarding increased compliance and administrative costs imposed by government. Some of these concerns relate to having limited administrative capacity and the commercial sensitivity of fees

[2] StatsNZ data, cited by Child Poverty Action Group: Ritchie, Jenny (2023). *Overhaul early childhood education so it supports child wellbeing. CPAG 2023 Policy Brief on early childhood care and education.* Open Access *Te Herenga Waka-Victoria University of Wellington.* Report. https://doi.org/10.25455/wgtn.23625216

information. Obtaining sector buy-in through clear communication and early engagement is important to ensure ECE providers are able and willing to implement FamilyBoost.

Analysis of possible solutions

34. We have interpreted the primary objective of FamilyBoost as increasing the incomes of families who have children in ECE, taking into account other support they receive and targeting assistance by level of household income.[3] This interpretation is based on the emphasis in the pre-election policy documents on providing direct payments to parents as opposed to increasing the subsidies to ECE providers. There are three broad options for progressing FamilyBoost.

35. The first option is to implement a more basic product that can be ready by 1 July 2024 but relies on recipients providing Inland Revenue with their fees information alongside other departures from the pre-election policy design to keep the product as administratively simple as possible.

36. The second option is to push back the implementation date to spend additional time developing a product more closely aligned with the settings outlined in pre-election policy documents. The primary trade-off between these first two options is the date the product can be implemented by and the level of effort required by potential recipients. Finally, officials note we can provide further advice on other options if neither of these are suitable. These could involve extending existing support mechanisms. The advantages and disadvantages of each option are outlined below.

Option 1: Refund model delivered by 1 July 2024

37. If the Government is committed to delivering payments in 2024, Inland Revenue have designed a product where parents or caregivers submit invoices directly to Inland Revenue via myIR. Inland Revenue will then calculate the refund based on their most recent income information. Parents will be able to receive payments from October 2024 onwards. The calculation of these refunds will be final upon submission of the invoice and will not be adjusted if more recent income information becomes available. Consequently, customers should not incur debt and there will be no "square-up" process when assessing annual income tax returns.

38. This model utilises information Inland Revenue already holds and minimises the additional information required to deliver a payment. New information sharing systems and agreements to collect and pass on fees information will not be required to be developed by MoE or ECE providers. This approach is a variation of the current donations tax credit model, with the additional complication that ECE costs are ongoing and income is combined for couples rather than based on individual income.

What would this refund model look like?

39. We suggest the following as a workable proposal for a 1 July 2024 application date:

- **Registration:** Eligible families would register with Inland Revenue to receive this payment, which would be 25% of their net ECE fees as per invoices submitted via myIR every three months (using fee invoices for the previous three months). The combined income threshold of $140,000 abating to $180,000 and the cap on fees of $300 per week would reflect equivalent three-month amounts. Families with children enrolled in multiple providers will need to supply multiple invoices.

[3] The pre-election policy documents indicated payments would abate from $140,000 household income and abatement completely at $180,000 household income

- **Payments and timing:** Inland Revenue could begin collating income data from 1 July 2024. Entitlement to FamilyBoost would be on a 'per quarter' basis. Customers could register for the product from mid/late September 2024, confirming relationships and child ECE enrolment, with customers also gathering invoices from July to October. The first payment to parents would be available starting from 1 October 2024.

- **Income basis:**
  - For customers with reportable income[4] only, Inland Revenue would calculate their household income based on the previous three months of available income data. This would reduce compliance effort from a customer perspective and payments would relate to relatively recent income levels. Payments could be made in one three-monthly lump sum or split over more frequent paydays.
  - For customers with self-employed and schedular income, Inland Revenue would calculate the amount based on the customers' most recent income tax return. This means the income used is significantly lagged from the family's current ECE costs and earnings. However, this eliminates the need to wait until well after the end of the current tax year for an individual income tax return to be filed before the FamilyBoost entitlement can be calculated.
  - The tax system is generally based on individual income while FamilyBoost is based on household income. Using combined household income will require parents to confirm their relationship status and will generate additional complications if one or both are self-employed. Each partner would be assessed on the basis of the most recent income information available to Inland Revenue. To ensure that income reflects the same period (three months), a self-employed person's annual earnings from their most recent tax return would be split by four and combined with the most recent three months' earnings for the other partner.

> **Example:**
>
> *Thomas and Phillipa request their FamilyBoost payment in October 2024. Thomas receives wages, so Inland Revenue uses his wages paid between 1 July to 30 September 2024 of $20,000, as filed by his employer. Phillipa is self-employed. Her last income tax return declared $50,000 in income for the tax year 1 April 2022 – 31 March 2023. Her income for this quarter will be calculated as $12,500 ($50,000 / 4). The family's income is $32,500 for this quarterly FamilyBoost claim, equivalent to $130,000 annual income.*

- **Changes in circumstances:** When customers submit their invoices each quarter, they will be asked to confirm their relationship status, children's details and that their child remains enrolled in a qualifying ECE provider. Each FamilyBoost 'claim' is a point-in-time check of whether applicants qualify. This approach reduces the burden on customers to keep their records continuously up to date with Inland Revenue for this product, while allowing for a simpler calculation of a refund entitlement based on these declared details.

Risks and trade-offs of Option 1

40. **Low take-up due to compliance burden on parents:** FamilyBoost would require significant effort by recipients to access the product which may create a barrier to product uptake, particularly for parents of young children who are already time

[4] That is, salary/wage and other types of earnings which IR receives from employers, banks and so on during the tax year via payday filing.

poor. We anticipate parents would generally upload receipts electronically via myIR, similar to the current donations tax credit process. They would also confirm the family's circumstances each time they claim.

41. **Timing impact on work incentives:** There would be a lag from the cost incurred to the refund payment – that is, fees paid between 1 July and 30 September are partially reimbursed in October, and so on each quarter. If Ministers are concerned about work incentives, there is a risk this support does not help alleviate the cost of being in work rapidly enough for it be a factor in the decision making of those on the margins of returning to work or increasing their hours.

42. **Use of lagged income avoids debt:** In order to use current income figures, families would need to estimate their income. Inland Revenue does not know taxpayers' actual annual income until well after the end of the tax year (particularly for the self-employed). While estimates of income during the year are required for households registered for Working for Families tax credits[5], this group may differ from the group eligible for FamilyBoost. We consider it generally preferable to use a lagged 'full and final' assessment where each payment is assessed and paid out, rather than a payment where customers must estimate their income and circumstances with a later square up based on actual details. This preference is because estimation models tend to have a higher incidence of debt.

43. **But lagged income is less timely:** Using lagged income would mean the payment is full and final, reduces the burden of estimating income and reduces the possibility of incurring debt. However, for customers with highly variable income there may be periods in which they do not qualify for FamilyBoost (for example, where a bonus received in a previous quarter pushes the family over the income cap).

44. **Take-up limited by ECE providers' systems:** Some ECE providers, particularly smaller ones, may be unable to update their invoicing systems to regularly provide parents with the information required to be eligible for FamilyBoost by 1 July 2024. Consequently, some parents who wish to apply for FamilyBoost may not be able to do so, further reducing or delaying take-up. Parents may also seek information from ECE providers about FamilyBoost, which smaller providers may struggle to supply.

45. **Peak period of demand for Inland Revenue:** In July each year, Inland Revenue has a peak period of customer contact due to the annual income tax assessment and refund process. Individuals will receive communication from Inland Revenue advising if they have an amount to pay or are due a refund. These notifications result in increased queries from taxpayers. Customers who have WFF entitlements often need additional support as the end of year process is linked to WFF refunds and overpayments. These queries would need to be dealt with by Inland Revenue staff who would likely be involved in supporting FamilyBoost. Consequently, there may be reduced levels of customer support available.

46. **Entrenching a less than ideal product:** An improved version of this refund model or a replacement model could be designed and implemented at a later date. However, there is a risk that a longer-term solution is never agreed or funded and the shorter-term proposal becomes permanent by default. This can be a problem with transfer payments as support becomes difficult to replace with another product without negatively impacting some members of the target group, which could require significant funding to mitigate. Any updated model will have to be administered simultaneously with the original model to accommodate backdated claims, increasing administrative complexity and cost.

[5] WFF uses 'family scheme income', a broader definition of income designed to more closely reflect the resources families have to meet their day to day living expenses. This definition is unique to WFF.

Detailed impacts of option 1

47. Inland Revenue's product design and delivery team have indicated that the system effort to build FamilyBoost will likely require a minimum of 100 working days, with the potential to take longer if complications arise. This is a high-level analysis, with further details on timing and costs to be confirmed as the policy is finalised.

48. Along with system changes, Inland Revenue will need to undertake extensive change management including developing guidance, training material for staff, and communication and marketing to customers to educate them on how to apply for FamilyBoost. Typically, Inland Revenue has a higher incidence of customer contact for social policy products (that is, child support, WFF and Paid Parental Leave). We anticipate a high degree of contact when FamilyBoost is set up, and that there will also be a high level of ongoing enquires. Based on behaviour from similar customer groups and similar processes it is therefore expected that the administrative impact of option 1 as proposed will be significant.

49. We anticipate customers will contact us about several aspects of FamilyBoost, including general information about the product, enquires about the registration and claim processes, eligibility, receipt submissions, declined receipts and general payment queries. If information needs to be manually verified, there will also be increased 'touch points' for staff. Where possible, automation will be utilised. However, lot of existing information held by Inland Revenue for other products cannot be re-used as it is held for a different customer base than FamilyBoost will have. Allowing products to 'talk' to one another within START (Inland Revenue's core tax system) is not straightforward, and key information regarding the ECE fees must come from an external source for this new payment. The size of the impact for this solution is expected to be large and will be validated once design is finalised.

Option 2: Extend timeline for implementation

50. In the pre-election policy documents, it was clear that FamilyBoost payments would be calculated based on existing data collected from ECE providers. This feature would require creating information flows from ECE providers to Inland Revenue and is intended to make the product appear automated to the recipients and reduce compliance costs for recipients.

51. We consider it would take two to three years to consult with the sector, design, build and test relevant systems to ensure the data is high quality, secure, reliable and timely before implementation of FamilyBoost. Internal consultation at Inland Revenue indicates that onboarding new providers to use gateway services (that is, enabling their software to interact directly with IR systems via a suite of application programming interfaces) takes approximately nine months. We will need to consult with the ECE sector to determine more precisely how long this will take.

52. Allowing time for better information-sharing options to be developed between departments and ECE providers will be more efficient in the long term and reduce the burden on parents. It will also allow greater oversight of fees, reduce the risk of provider capture, and reduce the immediate cost of the proposal. It also reduces the risk of entrenching a less effective solution with high compliance costs for parents and caregivers.

53. Option 2 also carries risks. The first is that delaying implementation will push out the benefit of this payment for parents. The second major risk is that consultation with the ECE sector may conclude that it is both difficult and expensive for ECE providers to change their systems to allow for this more seamless product. If this occurs, officials will reconsider the other options listed and provide updated advice.

Detailed impacts of option 2

54. A high-level assessment of option 2 has identified the sizing of the initial system development (post policy development) as having an 'extra-large' impact due to the complexity of requirements, data sharing and integration with new software providers. This means system development would take a minimum of 300 working days and could be up to 1,000 days, while the overall delivery period is estimated at eighteen months. This assessment assumes that the current design parameters are treated as final and that software providers and ECE providers have their systems ready to begin integration testing with Inland Revenue's systems. The components of this timeline are set out in the table below, but it should be noted that there is a high degree of potential variation in the estimated timeframes.

55. Option 2 benefits from greater automation and is expected to require lower effort from customers to access. Lower compliance burden on the customer is expected to lead to fewer customer contacts, resulting in reduced ongoing administrative costs. In contrast, the complexity of the system build is likely to require greater upfront system construction costs.

Dates	Timeline	Estimated time
January to March 2024	Development of final policy parameters with ministers Consultation with ECE sector using MoE contacts	3 months
April 2024	Drafting legislation	1 month
May 2024 – October 2024	Enacting legislation	1 – 6 months
May 2024 – October 2024	Development and set up of information sharing with other government agencies Inland Revenue design, development and testing.	Have allowed 6 months (note: this is unable to be accurately assessed without knowing final design)
August 2024 – April 2025	Onboard new software providers to interact with IR systems. Inland Revenue design, development and testing continues.	9 months
May 2025 – October 2025	Software providers design and develop. During this time, IR will also run security and integrity testing, training of frontline staff, communication and marketing to parents, etc. Inland Revenue design, development and testing continues.	6 months
November 2025 – December 2025	Rollout from software providers to ECEs	2 months
January 2026 – March 2026	Marketing campaign for parents Training for staff	2 – 3 months
April 2026	Possible go-live date for FamilyBoost	

Option 3: Exploring alternatives through further advice

56. If neither of the above options suit the Government's needs, we have considered some alternative ways to deliver income relief to parents and could provide advice to you on these alternatives. We have not considered these options in depth as they do not target ECE fees directly. However, if Ministers are willing to expand the targeted population, options that expand upon existing tax credits could be delivered faster than the two-to-three-year estimate for option 2.

57. Alternative options that use data already held in Inland Revenue's systems would likely involve expanding or adjusting the Working for Families tax credits scheme because this is already targeted to families (albeit at different income levels to the FamilyBoost target population). For example:

   - The In-work tax credit could be further increased in order to assist families with the costs of being in work. This is a straightforward change and could likely be implemented by 1 July 2024, in addition to the 2024 rate change already agreed to, provided this decision is made urgently. It is likely this would have a high fiscal cost as the In-work tax credit is not targeted by the age of the child or ECE costs, but provided to all parents who are in paid work and have dependent children.
   - s 9(2)(f)(iv) [redacted]
   - [redacted]

58. These existing products are not targeted at exactly the same group of recipients as the FamilyBoost proposal and changes to them are likely to have a substantial fiscal cost. In particular, it may not be feasible to connect a WFF-style payment with ECE costs without creating significant complexity. However, expanding existing Inland Revenue support would be more timely and operationally efficient than creating a new product. It would likely reach a wider range of families who use different kinds of childcare, both formal and informal, but may not reach all families who may have qualified for FamilyBoost given it is currently abated away at lower income levels.

Consultation with the ECE sector is crucial

59. The implementation of FamilyBoost will have substantial impacts on the ECE sector. These impacts are expected to fall upon parents, ECE providers and student management system software providers, alongside other unidentified stakeholders. We recommend consulting with the ECE sector on both the design and implementation aspects of the policy to ensure a workable product. Previous feedback from the sector on recent policy changes, such as the extension of 20 hours ECE to two-year-olds, has revealed a strong preference for early consultation. MoE are able to support Inland Revenue in this consultation to enable officials to make use of their existing knowledge and relationships in the sector.

60. Officials would like to consult with sector stakeholders on the collection and exchange of ECE fees information. If a product is designed that uses ECE fees as a parameter there will be an impact on the administrative processes of ECE providers as they will be required to provide information in a specific format either to parents or directly to MoE/Inland Revenue.

61. Most ECE providers use a student management system to input and collate child data. These systems are also the portal through which many providers supply children's data to MoE. It is possible that changes to these systems will be required for ECE providers to meet the requirements of FamilyBoost.

62. Inland Revenue has no existing stakeholder relationship with student management systems providers but our experience with payroll software providers indicates system changes often take at least several months to implement. It will also take time to connect new software providers into Inland Revenue's systems. Consultation with student management system providers will be necessary to establish the extent and feasibility of the required system changes and the timeframe for their implementation. We intend to collaborate with MoE to establish relationships with stakeholders.

63. At a minimum, targeted consultation with ECE providers will be required for all options, in order to determine industry concerns around possible options and determine what information is available to shape the design. Consultation may also increase the sector's buy-in for implementing the required changes as they do not have a direct financial incentive.

64. There are some risks with early ECE sector consultation. It will not be possible to discuss product implementation without discussing the product's design. Consequently, product designs under consideration will become public knowledge prior to the completion of the standard Budget process, removal of Budget secrecy, or any Government announcements or decision-making. Officials consider this to be a necessary trade-off for the creation of a viable product. While we understand Ministers' preference is for Budget night legislation, using the Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill would allow more time for officials to discuss with the sector and allow Inland Revenue and the sector to better prepare for FamilyBoost implementation.

Financial implications and potential options to scale option 1

65. The fiscal impact of the changes to appropriations will be approximately $175 million a year, declining over outyears,[6] with a corresponding impact on the operating balance and net core Crown debt. This costing is lower than the costing contained in pre-election policy documents. The figure provided is based on the 25% refund rate, $75 per week maximum payment, $140,000 abatement threshold and $180,000 income cap set out in pre-election policy documents. All these parameters are adjustable and could impact the final costing. Phasing in FamilyBoost over several years would also lower the cost in the initial periods. This phase in could be accomplished through a stepped approach to any (or multiple) of the above parameters.

66. A new Vote Revenue non-departmental appropriation will likely be required for this appropriation. Inland Revenue will work with the Treasury to determine the type and scope of this new appropriation and we will seek approval for this appropriation in a future report.

[6] The decline in outyears is due to wage growth, partially offset by annual CPI adjustments to ECE costs.

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 and outyears**
Non-departmental appropriations: FamilyBoost	**-**	**174**	**171**	**167**	**165**
Total operating	**-**	**174**	**171**	**167**	**165**

Significant impact for all options

67. There will be additional significant departmental capital and operating costs to implement and deliver any new FamilyBoost product. The level of these costs will be dependent on the policy options. Further details on the departmental and non-departmental financial implications, including details of any new appropriation required, will be provided in a subsequent report.

68. Substantial lead in time will be required for any new systems development. The cumulative impact of changes across multiple tax products will also impact delivery timelines. Customers and Inland Revenue will be experiencing multiple tax setting changes in a short window, which may impact build times and customer take up. If a 1 July 2024 date is chosen, this coincides with Inland Revenue's peak tax season.

Conclusion

69. The Government has signalled they want to provide income support for families with children in ECE. The three options we have outlined include developing a refund model with significant trade-offs but which is deliverable in 2024, extending the time to develop the seamless FamilyBoost product as outlined in the pre-election documents, or exploring alternatives in further advice.

70. If Ministers wish to progress with a new product we recommend option 2, to take more time to build a more fit-for-purpose proposal to be delivered in two to three years, collecting fees data and creating better automated information flows. However, if Ministers wish to move forward with an implementation date of 1 July 2024, we will continue work on option 1.

71. Alternatively, if neither is preferred, we recommend Ministers commission further advice on alternative options. These options could include exploring the feasibility of expanding existing support products by 1 July 2024 or a later date.

Next steps

72. If you agree to continue with option 1, we will:

- Report again in January 2024 on detailed policy and operational decisions,
- Begin preparing for highly targeted consultation with the ECE sector to take place in February to March 2024,
- Include FamilyBoost in the upcoming Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill as this would give Inland Revenue and the sector more time to prepare for FamilyBoost,
- Begin detailed discussions on implementation,
- Begin drafting a Cabinet paper for February 2024.

73. If you prefer option 2 and extending the timeframes for development, we will:

- Prepare a more detailed proposal, timeframes and consultation plan which more closely align with the pre-election policy documents,
- Begin preparing for more in-depth consultation with the ECE sector,

74. If you prefer option 3, officials can provide advice on more detailed alternative proposals using existing systems along with possible implementation dates.

75. We recommend that a copy of this report is referred to the Minister of Education and the Minister for Social Development and Employment.

76. We are available to discuss the contents of this report with you at the next departmental meeting.

Appendix 1: Current ECE and support landscape

1. Just over 181,000 children attended licensed early childhood services in 2022 at the time of the Early Childhood Education Census. Children attended for an average of 21.6 hours per week. Participation rates are highest for 3- and 4-year-olds, where 80% and 84% of children in the respective age groups were attending ECE in 2022. There were 4,597 licensed services operating at the time of the 2022 ECE Census.

2. Formal ECE/childcare in New Zealand consists of early childhood services regulated (licensed) under the Education and Training Act 2020 and associated regulations. These services may be:

    - led by teachers (eg, kindergartens) and/or by parents (eg playcentres),
    - provided in English, Te Reo Māori, Pacific or other languages,
    - provided in centres, homes and hospitals.

3. Licensed services are used as the approved providers for the Ministry of Social Development's (MSD) Childcare Subsidy and are the only services eligible for the Ministry of Education's (MoE) ECE subsidies.

4. There are several existing schemes either providing support for parents to meet provider fees or directly contributing to provider costs with parents left to cover any remaining provider fees. Mostly these schemes involve payments direct to the ECE service providers to reduce the fees charged to parents.

5. **The ECE Subsidy and 20 hours ECE** are administered by MoE. The former is a universal subsidy that must be paid to services for all children aged 0-5 years within defined hourly or weekly caps, while the latter is a higher level of subsidy for 3 – 5-year-olds attending a licensed early childhood service which has opted into the subsidy. 20 hours ECE is also subject to daily and weekly caps. Both subsidies provide the vast majority of government funding to ECE services and are paid directly to ECE service providers. MoE subsidies are 'universal'. Every child of age receives the same subsidy regardless of parental circumstances. Subsidies are paid 'on behalf' of a child to a provider with payment triggered by a child's attendance at an ECE provider.

6. **The Childcare Subsidy** is administered by MSD and paid directly to the ECE service provider on behalf of parents for children up to the age of six (various conditions). This subsidy is normally paid for up to nine hours of ECE a week if not working, studying or training, and up to 50 hours a week if the parent(s) are working, disabled, or meet other conditions required by MSD. There were approximately 18,000 recipients of this subsidy across October 2023, of which roughly 5,000 had their ECE costs fully covered by the subsidy.

7. **The donation tax credit scheme** is administered by Inland Revenue. Individuals can claim 33.33% of donations up to the amount of their taxable income. ECE payments can be claimed if they are optional and go to general fund (and the service is an approved donee organisation/charity). Individuals must submit a receipt with required information on it in order to be able to claim the refund.

8. **The Working for Families tax credit scheme** is also administered by Inland Revenue. It has two components which are relevant for this report. The first is the In-work tax credit, a payment which helps to offset some of the costs of parents being in paid work, and the BestStart tax credit, which recognises the costs parents face for a young child (under three years old).

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Cabinet paper – FamilyBoost direction

Date:	16 January 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/005

Action sought

	Action sought	Deadline
Minister of Finance	Agree to recommendations Authorise the lodgement of the attached Cabinet paper	10 am Thursday 25 January prior to Cabinet
Minister of Revenue	Agree to recommendations Authorise the lodgement of the attached Cabinet paper	10 am Thursday 25 January prior to Cabinet

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead, Inland Revenue	s 9(2)(a) [redacted]
Murray Shadbolt	Principal Policy Advisor, Inland Revenue	s 9(2)(a) [redacted]

16 January 2024

Minister of Finance
Minister of Revenue

Cabinet paper – FamilyBoost direction

1. You asked for a Cabinet paper to be prepared following the report officials provided you last year on FamilyBoost [IR2023/269], which outlined issues, risks and alternative options. Attached is a draft Cabinet paper that sets out these issues, risks and options and seeks Cabinet's direction on a way forward.

2. The Cabinet paper proposes that Cabinet:

   - Indicate their preferred option for providing financial support to parents and their preferred legislative vehicle,
   - Authorise Ministers to instruct officials to begin drafting legislation (if the basic refund model by 1 July 2024 is preferred), and
   - Note that detailed policy decisions on the basic refund model will be reported back to Cabinet shortly.

3. If you have no changes to make to the draft Cabinet paper, it should be authorised and lodged with Cabinet office by 10 am Thursday 25 January 2024 so that it may be considered by Cabinet on Tuesday 30 January 2024. A paper direct to Cabinet would require permission from the Prime Minister as chair of Cabinet. Alternatively, the Cabinet paper could be considered at the first available Cabinet Committee meeting, noting that the dates of these meetings beyond January are still to be set by the Cabinet Office. Officials note, however, that pushing out Cabinet consideration of this paper would further narrow the window for delivering a FamilyBoost product by 1 July 2024 (if that is the option ultimately preferred by Cabinet). We therefore strongly recommend the attached paper be discussed at Cabinet on 30 January, as delays will pose a risk to potential implementation dates.

4. A regulatory impact assessment will be attached to the Cabinet paper when it is lodged. We attach a draft version for your information (note that it is undergoing internal panel review and editing). The section of the draft Cabinet paper on the regulatory impact assessment will be updated with the final wording from the review panel on whether it meets requirements or not closer to lodging on the 25 January.

5. The Cabinet paper, associated minutes, key advice and reports would be proactively released when the FamilyBoost legislation is introduced into Parliament, rather than 30 days after consideration, given it is Budget sensitive. Inland Revenue will confirm this release with Ministers closer to the time.

6. Speaking notes will be sent to your offices for your use at Cabinet on 30 January, or at a subsequent Committee meeting, and for coalition party consultation (if required).

Minister of Education information

7. Following our report to you last year, the Minister of Finance asked the Minister of Education for information on:

- Establishing Early Childhood Education (ECE) fee data collection to support FamilyBoost and the Government's wider understanding of ECE investment and how it is used.

- Specifics on how the Ministry of Education (MoE) intends to use the $6.6m in departmental funding previously allocated to support fee data conditions for 20 Hours ECE and whether this could be repurposed to support FamilyBoost.

- Possible mitigations for the risk of ECE providers increasing fees in response to FamilyBoost.

8. MoE provided a response back to the Minister of Education to support discussions with the Minister of Finance [Metis Number: 1320611 refers]. We have included the following material from MoE's note in the Cabinet paper:

   - It takes time to implement change in information provisions, with changes to provide child-level fee information to MOE expected to take a year to implement,

   - How fees are structured for parents, with the common use of various discounts on advertised fees,

   - Information on the funding MoE received on data collection from Budget 2023.

Treasury comments on Ministry of Education FamilyBoost advice

9. The analysis in this section has been provided by the Treasury and is included here as it relates to the FamilyBoost Cabinet paper.

10. The Treasury has reviewed the Ministry of Education's FamilyBoost advice in our Vote Education capacity and suggest Ministers may wish to take further actions with regard to:

    10.1 treatment of the remaining $6.6 million of 20 Hours ECE departmental funding, and

    10.2 designing potential data collections to support FamilyBoost.

Ministers may wish to seek assurance that the remaining departmental funds allocated to support the Budget 2023 20 Hours ECE initiative are not spent between now and Budget 2024…

11. The Treasury's understanding at Budget 2023 was that the majority of MoE departmental funding was for implementing new funding conditions associated with 20 Hours ECE, which have since been reversed. Consequently, we recommend that those funds should either be explicitly repurposed to support data collection for FamilyBoost or returned to the centre.

12. We are concerned that MoE's advice notes that the funds have also been used to "offset wider pressures in administering ECE funding and reflected costs from other Budget 2023 ECE initiatives that have not been removed". The paper also notes MoE will provide further advice on the treatment of the remaining funds in January to inform decisions through Budget 2024. Ministers may wish to seek assurance from MoE that, unless decisions are taken now (refer paragraph 14 below), no remaining funding will be spent until decisions are confirmed through Budget 2024 (we understand from MoE there is approximately $6.6 million remaining). This assurance will preserve optionality around either repurposing this funding toward fee data collections to support FamilyBoost, or returning it to the centre.

… Or alternatively, those remaining funds could be returned or repurposed as part of the next FamilyBoost Cabinet paper

13. We also note that, rather than deciding about the remaining departmental funding at Budget 2024, this could be done sooner through the next FamilyBoost Cabinet paper on detailed design decisions. If Ministers would like to progress this approach, we ask that you indicate this in the recommendations.

If Ministers wish to progress further work on the design of potential ECE data collections to support FamilyBoost, there are options about which agency should lead this

14. MoE's Rapid Response notes that further advice can be provided on an approach to design and build ECE sector data collections if required. Note that depending on the design of the FamilyBoost scheme, data collection may either be critical for its functioning (e.g., if scheme payments are based on child attendance data sought directly from ECE providers), or at the very least would supplement and inform decision making about the policy and its success (e.g., by enabling policymakers to monitor impacts on sector fees). Any data collection efforts to support FamilyBoost would also support improved understanding of the impacts of Government investment in the ECE sector generally.

15. The Minister of Finance has agreed, and the attached draft Cabinet paper seeks to confirm, that officials will consult stakeholders in the ECE sector on delivery options for FamilyBoost, and on the feasibility of the collection of fees information [report IR2023/269 '*Key direction on FamilyBoost tax credit*' refers]. The outcomes of that consultation process will be a valuable input to further work around potential design of ECE sector data collections.

16. We note that if, following sector consultation, Ministers wish to proceed with further work to design ECE sector data collections, there are choices around which agency would be best to lead this. Ministers may wish to seek further advice from agencies on their view of their potential role in ECE sector data collections at that time. In the Treasury's view, each of Inland Revenue, MoE, and MSD may need to be involved in data collections to some extent, and may be potential candidates to lead the design and implementation. While MoE is the obvious lead for ECE data collection due to its relationships with providers, each agency has capability and infrastructure that could be built upon for this purpose. For example, MSD already collects fee data for those providers receiving the MSD Childcare Subsidy. Further, while Inland Revenue does not currently have established relationships with the sector, it has much more sophisticated IT capabilities that might be advantageous in the long-term and provide greater possibilities for how data is utilised.

Next steps

17. Financial decisions on FamilyBoost would be considered in the next report to Ministers alongside detailed design decisions and in the next Cabinet paper.

18. The attached draft Cabinet paper includes current forecasts of fiscal costs, based on a basic refund model option starting after July 2024, but does not include information on administrative costs (which will vary depending on the direction chosen). Inland Revenue are working with the Treasury on how to present administrative costs across the range of Budget 2024 initiatives.

Consultation

19. As well as contributing to a section in this report, the Treasury have been consulted on the draft of the Cabinet paper as well as on the development of the analysis in the draft Regulatory Impact Statement.

20. The Ministry of Social Development and Ministry of Education have also been consulted on the draft Cabinet paper but under shortened timeframes. They may provide additional views on FamilyBoost and the potential implications on their respective portfolios through their respective Ministers. For example, the FamilyBoost tax credit would be in addition to childcare subsidy and the Ministry of Social Development may have specific views on how the two payments could work together. Agencies can provide further advice in later detailed policy reports on any issues.

Next Steps

21. This table sets out the timing for the Cabinet paper (assuming the paper goes directly to Cabinet on 30 January 2024). Alternatively, it could be considered at the next available Cabinet Committee meeting in February.

Date	Action	Comment
16-25 Jan	Feedback from Ministers' offices on draft Cabinet paper provided to officials	We will incorporate any changes and provide an updated draft Cabinet paper
16-25 Jan	Ministerial and coalition partner consultation	
16-25 Jan	Officials finalise RIS to attach to Cabinet paper	A final copy will be sent on the 24th along with updated wording to include in the Cabinet paper RIS section
22 Jan	*Wellington Anniversary Day*	
24 Jan	*Ratana event*	
25 Jan	Ministers' offices to lodge Cabinet paper with Cabinet office	A Cabinet lodgement form is required to be filled in by the office
25 Jan	Speaking notes provided	
29 Jan	*Auckland Anniversary Day*	
30 Jan	Paper goes to Cabinet	The PM would need to provide permission to take a paper direct to Cabinet

22. Officials will send up advice to Ministers on detailed policy questions on FamilyBoost as soon as possible after confirmation of the direction FamilyBoost will take. This will include a draft Cabinet paper to seek Cabinet confirmation of the policy design and to agree financial implications and process for funding against Budget 2024.

23. The detailed policy decisions will enable Inland Revenue to begin building the eligibility rules and product into their system, and for legislation to be drafted. It will also provide information to support consultation with the ECE sector on what changes would be required to enable the payments to be made.

24. Legislation would be introduced either in late March (for the current omnibus tax bill) or in May for Budget night legislation depending on Cabinet's decision. A draft Cabinet paper for the Cabinet Legislation Committee or CBC will be provided a month prior to that time to seek permission to introduce legislation.

25. The Cabinet paper and key documents would also be proactively released shortly after legislation is introduced.

Recommended action

Inland Revenue recommends that you:

1. **authorise** the lodgement of the attached Cabinet paper with the Cabinet Office by 10 am Thursday 25 January 2024 for:

   EITHER

   1.1 Cabinet to consider at its meeting on 30 January 2024 (officials' recommendation);

   Authorised/Not authorised | Authorised/Not authorised

   Minister of Finance | *Minister of Revenue*

   OR

   1.2 to be considered at a later Cabinet Business Committee meeting (date to be determined);

   Authorised/Not authorised | Authorised/Not authorised

   Minister of Finance | *Minister of Revenue*

2. **note** that a regulatory impact assessment will be completed and statement attached to the Cabinet paper when lodged; and

   Noted | Noted

   Minister of Finance | *Minister of Revenue*

3. **note** that speaking notes will shortly be provided to your office for your use at the Cabinet meeting and to assist you with coalition party consultation.

   Noted | Noted

   Minister of Finance | *Minister of Revenue*

Treasury comments on Ministry of Education FamilyBoost advice

The Treasury recommends that the Minister of Finance:

Regarding treatment of the remaining $6.6 million of 20 Hours ECE departmental funding:

EITHER

4. **seek assurance** from MoE that remaining departmental funds allocated to support the Budget 2023 20 Hours ECE initiative are not spent between now and Budget 2024, when decisions on repurposing or returning it will be made;

   Authorised/Not authorised

   Minister of Finance

   OR

5. **consider** reallocating this funding to further work on ECE data collections to support FamilyBoost, or returning it to the centre, as part of the next FamilyBoost Cabinet paper;

   Authorised/Not authorised

   Minister of Finance

Regarding next steps for designing potential data collections to support FamilyBoost:

6. **note** that depending on the design of FamilyBoost, data collection may either be critical for its functioning, or at the least would supplement and inform decision making about the policy and its success;

   Noted

   Minister of Finance

7. **note** feedback received through the upcoming ECE sector consultation process on delivery options for FamilyBoost, and on the feasibility of the collection of fees information will be a valuable input to further work around potential design of ECE sector data collections;

   Noted

   Minister of Finance

8. **note** that, if Ministers wish to proceed with further work to design ECE sector data collections following sector consultation, you may wish to seek further advice from Inland Revenue, MSD, and MoE on their potential role in the data collection process.

   Noted

   Minister of Finance

9. **refer** this report to the Minister of Education and the Minister for Social Development and Employment.

   Referred/not referred

   Minister of Finance

s 9(2)(a) [redacted]

Maraina Hak
Policy Lead
Policy and Regulatory Stewardship
Inland Revenue

Hon Nicola Willis
Minister of Finance

/ /2024

Hon Simon Watts
Minister of Revenue

/ /2024

Document 42

Inland Revenue
Te Tari Taake

Policy and Regulatory Stewardship
Kaupapa me te Tiaki i ngā Ture
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Briefing note

Reference:	BN2024/013
Date:	19 January 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Murray Shadbolt and Kathleen Littlejohn
Subject:	**FamilyBoost details for Option 1**

1. You have requested some additional information relating to the development of the FamilyBoost tax credit. These questions relate to Option 1, a basic refund model of payment, as described in the Cabinet paper sent 16 January 2024 (*IR2024/005 refers*). It should be noted that further policy development and costings information for FamilyBoost is dependent on the high-level model chosen and the subsequent series of detailed policy decisions which are yet to be made. This means there is a high level of assumption in information being provided at this early stage.

Early childhood education landscape

2. Information requested relating to the overall landscape of the ECE sector will be provided next week along with the costings information (see below).

Cost estimates of Option 1

3. The Cabinet paper sets out an approximate fiscal cost for Option 1 but does not detail operational or administrative costs. We have spoken with Inland Revenue's operational and financial teams who have indicated a rough estimate of these costs can be provided early next week.

4. We have been advised that the costs and operational impacts will be incurred over multiple years and ongoing into outyears. They are deemed 'extra significant', reflecting the fact that a new product is being introduced into the tax and transfer system requiring system changes, internal and external education and communications, and ongoing frontline support for a customer base known for making phone calls.

5. This estimate will likely result in a 'range'-style costing (i.e., between x and y cost), and be based on the following assumptions:

- The costing is based on the Cabinet paper's high-level description of Option 1, with a 1 July 2024 start date and payments available from 1 October,
- An approximate population of 130,000 eligible families, plus additional assumptions around how many children are born each year and will qualify in future,
- Assuming a quarterly claim model, where receipts are submitted every three months and an eligibility check is completed,

- Approximately 80% take-up rate of FamilyBoost (some people will be fully subsided by MSD, use free services or will just not apply),
- Assuming the quarterly payment is full and final by default, with a potential of around 5% of customers possibly needing to be reassessed if their situation or the information Inland Revenue holds significantly changes,
- An initial registration process for customers,
- Some level of compliance activity and integrity checks.

6. As a benchmark for Ministers to consider relative costs, the Ministry of Education received around $2 million to run a data collection exercise from Early Childhood Education (ECE) providers and another $4 million for related operational costs in Budget 2023. This proposal had no frontline impact and was to be a one-off event building on existing systems and payments. By contrast, developing FamilyBoost Option 1 would involve building a new product and operating an ongoing system with a significant amount of frontline contact obtaining information from parents.

7. We note that it is difficult to predict the amount of additional customer service support that will be required for Inland Revenue to administer a new product. As noted in the Cabinet paper, products which relate to children and families (such as child support or Working for Families Tax Credits) typically generate a large number of customer queries which may impact Inland Revenue's overall customer service capacity.

8. Any change in the assumptions we have made could have a more than minor impact on the costings. Some of the potential detailed policy decisions yet to be made could also have more than a minor impact on operational costs.

9. Please note officials are currently working on the full Budget bid costings which will feed into the general Budget process.

System build

10. Inland Revenue's high-level assessment of the system build for Option 1 is 'large'. This means that building Option 1 into START, the core tax system, is estimated to take between 100 and 300 business days for this type of project.

11. This estimate assumes that the working days begin when final policy decisions have been made, and that no additional rules or requirements are added over and above what is broadly laid out in the Cabinet paper. Assuming detailed decisions are made by the end of February 2024, this minimum build time falls towards the end of July 2024.

Invoices versus receipts

12. The paper notes that, under Option 1, parents would be asked to provide invoices for their childcare costs and submit these when making a claim for FamilyBoost. We note that there is no direct financial incentive for ECE providers to provide customers with either receipts or invoices in a format specified by Inland Revenue. We intend to consult with providers to find minimum standards that would do the least disruption to their existing business models.

13. However, there are several reasons why officials believe that invoices would be more suitable than using receipts:
    - Invoices will be provided directly to the person responsible for paying the ECE fees (a clear connection between the cost incurred and the refund);
    - Providing invoices is already a standard part of most ECE's business models and not impose an additional undue burden on ECE providers. They are more likely to have the necessary information on them, such as the name of the child, the period covered by the child's attendance and a breakdown of fees and donations;

- We are unsure if all ECE providers issue their customers with a receipt after payment of an invoice;
- Using a single document, the invoice, will likely be simpler for customers to understand, rather than introducing new second document. For example, some customers may be time-poor, less financially literate, or have English as their second language. Reducing complexity where possible may increase take up of the credit.

14. During policy discussions on FamilyBoost, questions have been raised about possible integrity risks. s 6(c) [redacted]

    - s 6(c) [redacted]
    - s 6(c) [redacted]
    - s 6(c) [redacted]

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Briefing note

Reference:	BN2024/016
Date:	26 January 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Murray Shadbolt, Kathleen Littlejohn and Damien Mancer
Subject:	**Additional info for Cab paper pt 2 and context on the ECE landscape**

1. You have requested some additional information relating to the development of the FamilyBoost tax credit. These questions relate to Option 1, a basic refund model of payment, as described in the draft Cabinet paper sent 16 January 2024 (*IR2024/005 refers*). It should be noted that further policy development and costings information for FamilyBoost is dependent on the high-level model chosen and the subsequent series of detailed policy decisions which are yet to be made. This means there is a high level of assumption in information being provided at this early stage.

2. Some of the requested information was provided in BN2024.013 *FamilyBoost details for Option 1*, particularly around why the refund model would, if developed further, use invoices rather than receipts as proof of fees paid. Below is further information relating to the early childhood education (ECE) landscape, which has been provided to us by the Ministry of Education (MoE), and some more detailed information on the administrative costs of Option 1.

Early childhood education landscape

Context and exclusions

3. The unit of measurement in most MoE databases is the licence. In the case of centre-based services, a licence usually corresponds to a single site (in a small number of instances, a provider may have two or three licences on a single site). For home-based services, the licence relates to a network of homes that can change over time.

4. In the ECE payment system, multiple licences may be grouped under a single service provider. Where this is the case, the MoE pays the service provider subsidies relating to all licences under the service provider. The data below provides information on how many licences each service provider has. The following service types have been excluded from this extract:

    - Playcentres
    - Kōhanga reo

- Hospital-based services[1]
- Casual education & care services.[2]

5. MoE's service provider data does not give a good indication of the administrative capability for playcentres and kōhanga reo (more information provided in the paragraphs below).

Additional information on playcentre

6. Playcentre Aotearoa is the service provider for all 380 playcentres – i.e., this organisation receives funding for all playcentres. s 9(2)(ba)(i) [redacted] Individual playcentres are run by parent volunteers. Playcentre enrolments are low (5% of children in ECE, approximately 8,300 children) and on average, children enrolled in playcentres attend just four hours per week. Playcentres have lower funding rates than other licensed ECE services. This, combined with the volunteer nature of the service type, means that MoE considers they are unlikely to be well placed to absorb additional administrative burden.

7. Playcentres charge donations rather than fees, so the FamilyBoost policy may not apply to them.

Additional information on kōhanga reo

8. Te Kōhanga Reo National Trust is the service provider for all kōhanga reo – the Trust receives the subsidy funding for all 413 kōhanga. Some kōhanga are opted into the new kaimahi pay scheme, and where this is the case the Trust top-slices some of the subsidy funding to provide a centralised payroll for staff in those kōhanga. For kōhanga not opted into the scheme, MoE understands that the Trust passes on the subsidy funding to the individual kōhanga in full.

9. Even though the Trust is a national body that kōhanga affiliate to, each kōhanga is also independent and will often be trusts themselves with a whānau board. The nature of the relationship between the Trust and individual kōhanga is fundamentally different to the relationship between a kindergarten association and the licensed kindergartens within it, or Kindercare and the licensed services within that company. The Trust does not run individual kōhanga.

10. Individual kōhanga reo have autonomy over their fee schedules. MoE understands that the Trust has very little oversight over fee schedules within individual kōhanga reo. In 2022, around 7,800 children attended kōhanga (4% of all children in ECE). Kōhanga reo's policy is that children enrol for 30 hours per week to ensure transmission of te reo Māori.

11. In National's pre-election policy documents, families with children attending kōhanga reo are envisioned as being eligible for FamilyBoost.

[1] Hospital-based services are located on hospital wards and are for children receiving treatment in hospital. They do not charge fees and do not have stable enrolments – their data is not relevant for Family Boost.
[2] There are three casual education and care services – they are all single licence services. Two are located on ski fields and one at Sylvia Park shopping centre. We consider these are not relevant for Family Boost policy development.

Results

12. The majority of children in ECE attend an education and care service (71%, approx. 128,000 children in 2022). This is followed by kindergartens (14%, approx. 25,000 children) and home-based (6%, approx. 11,000 children).

13. The majority of these type of services are run by small organisations – either as a standalone licence (45% of licences) or in a small chain of 2-5 licences (17% of licences).

Table 1: Service providers by size (number of licences within the service provider) – education & care services, kindergartens, and home-based services only. Data as at 23 January 2024.

	No. Service providers	% of service providers	Total licences in category	% of total licences
Single licence	1626	85%	1626	45%
2-5 licences	239	12%	618	17%
6-9 licences	18	1%	130	4%
10-20 licences	11	1%	158	4%
21-30 licences	11	1%	272	8%
31+ licences	9	0%	812	22%
Total	**1914**	**100%**	**3616**	**100%**

14. There are a small number of very large providers. The nine largest providers are listed in the table below.

Table 2: List of 9 largest service providers from table 1

Organisation name	Ownership type	Licences by service type			Total licences
		Education & care	Kindergarten	Home-based	
Busy Bees	Company	31			31
Barnardos	Charitable Trust	22		13	35
Kindercare	Company	49			49
Central Kids Kindergarten Association	Charitable Trust		52		52
KidsFirst Canterbury-Westland Kindergartens	Incorporated Society		66		66
Evolve Education	Company	99			99
He Whānau Manaaki o Tararua	Incorporated Society		108	2	110
Auckland Kindergarten Association	Incorporated Society	4	107		111
BestStart Educare	Charitable Trust	259			259

Cost estimates of Option 1

15. Any change in the assumptions we have made could have a more than minor impact on the costings. Some of the potential detailed policy decisions yet to be made could also have more than a minor impact on operational costs. These financial impacts and costings are based on the list of assumptions stated in BN2024/013 provided on 19 January 2024.

Operational impact

16. Inland Revenue's operational and financial teams have advised that in order to set up and then provide ongoing support for FamilyBoost, the department will require additional staff to meet increased demand for phone and web message enquiries. There will also be staff needed to verify receipts as they are provided, and to conduct compliance activity (such as integrity checks for valid receipts and for any gaming or fraudulent behaviour). The total impact on Inland Revenue is considered to be very significant.

System impact

17. The system build for FamilyBoost is rated 'significant'. This reflects building a new tax product into the core tax and revenue system.

Budget bid

18. Please note officials are currently working on the full, formal Budget bid which will feed into the general Budget process. This bid will enable Inland Revenue to verify its assumptions and assess the total impact of FamilyBoost across the department. This Budget bid will be provided to the Minster of Revenue in early February 2024.

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: FamilyBoost detailed design decisions and draft Cabinet paper

Date:	14 February 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/030

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations Authorise the lodgement of the attached Cabinet paper	10 am Thursday 29 February prior to Cabinet
Minister of Revenue	**Agree** to recommendations Authorise the lodgement of the attached Cabinet paper	10 am Thursday 29 February prior to Cabinet

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead, Inland Revenue	s 9(2)(a) [redacted]
Murray Shadbolt	Principal Policy Advisor, Inland Revenue	s 9(2)(a) [redacted]

14 February 2024

Minister of Finance
Minister of Revenue

FamilyBoost detailed design decisions and draft Cabinet paper

Executive summary

Purpose

1. You have asked for a Cabinet paper setting out the refund in arrears model of FamilyBoost provided in the report sent to you last year [IR2023/269]. Attached is a draft Cabinet paper that sets out this model and seeks Cabinet's approval to the settings, costs, and next steps. A draft Regulatory Impact Statement, to be provided to Cabinet alongside the Cabinet paper, is also attached.

2. This report also seeks decisions on the detailed design of the FamilyBoost tax credit to be included in the final policy design presented to Cabinet. Adjustments will be made to the attached draft Cabinet paper to reflect the decisions made in this report.

3. Recommendations on design characteristics are included in the body of the report, adjacent to discussion of the characteristic. Except where specified, characteristics would have limited interaction with each other and are largely independent.

Context and background

4. You have indicated that you wish to seek Cabinet approval for a tax credit to provide income support to families with early childhood education (ECE) costs, referred to as FamilyBoost in this report.

5. The tax credit will be provided as a lagged 'refund' of up to $975 for each three-month period ($75 a week), calculated using ECE fees and household income for the previous three-months. Income data will be derived from existing information held by Inland Revenue and ECE fees data will be uploaded by parents in the form of an invoice as part of the registration and application process.

6. Direction has already been given to some of the details of characteristics of the FamilyBoost tax credit, including the income abatement threshold, maximum entitlement and ECE requirements. This report seeks decisions on refining these characteristics so that detailed legislation can be drafted and system details can be designed.

7. We also seek decisions on design characteristics that have not been discussed to date. For these features, the design choice selected will not inhibit the ability of the tax credit to function but may have impacts on the product's cost, complexity, and delivery timelines. To the extent possible, the impact of choices against these factors are indicated in this report. It has not been possible to provide precise figures for all alternative options due to the timeframes, lack of data, high level of modularity and interaction with other design choices.

Materiality

8. While the choices presented in this report are not fundamental to the deliverability of the FamilyBoost product, it is not possible to progress product development and implementation until they are decided. Cabinet approval is also needed before product implementation can commence.

9. Delays to the design decisions and Cabinet approval may extend delivery timelines and delay the date that FamilyBoost can be operational by. If Cabinet approval has not been received by 1 April 2024 the delivery date of FamilyBoost would need to be reassessed.

10. We are aware that ministers are considering adjusting the delivery timelines for other proposed Inland Revenue products. Consideration should be given to how overlapping delivery periods may impact Inland Revenue's delivery capacity.

Costings

11. This report seeks decisions that may impact the costings contained in this report. These costings have been provided provisionally and will be updated to reflect any subsequent decisions prior to the Cabinet papers lodgement.

12. The annual non-departmental costs of providing the FamilyBoost tax credit would be $174 million, declining over outyears.[1]

13. The Inland Revenue departmental costs of FamilyBoost would be $1.4 million in one-off implementation costs and approximately $13 million in annual ongoing costs. The Ministry of Social Development will also have more minor departmental costs to implement consequential changes.

14. This Cabinet paper also seeks approval for the Ministry of Education to return funding they had received in Budget 2023. We are waiting on confirmation of the amount of the cost savings from the Ministry of Education and Treasury to include in the Cabinet paper. We have put a placeholder in the financial section of the paper for this, which will be checked and updated closer to lodging.

Next steps

15. Following your decisions in this paper, officials will make any necessary adjustments to the attached draft Cabinet paper. Following ministerial consultation and once you are satisfied with the Cabinet paper it should be authorised and lodged with the Cabinet office. If this is done by 29 February it can be considered at the Cabinet Economic Policy Committee on 6 March before being taken to the full Cabinet on 11 March.

16. The Cabinet paper seeks agreement to delegate further technical and administrative design decisions to you, as joint-Ministers. Once Cabinet approves the FamilyBoost policy, including delegated authority to make further decisions, officials will provide you with a second report with further administrative design decisions. This will cover topics such as the length of time someone has to file a claim (setting a time bar) and the approach to penalties for fraud.

17. Officials will also begin consulting with ECE providers, student management system (SMS) providers and other stakeholders in the ECE sector. We will provide you with a report on the outcome of these consultations and any recommended changes that arise out of this process.

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[1] The decline in outyears is due to wage growth, partially offset by annual price increases to ECE costs. This assumes no CPI indexation to the maximum cap on fees or income abatement threshold.

Recommended action

We recommend that you:

1. **Indicate** in the body of this report where you agree or do not agree with a recommendation on key policy design.

   Indicated | Indicated

   Minister of Finance | *Minister of Revenue*

2. **Note** that the high level indicative fiscal impact of the FamilyBoost policy is approximately $174 million a year in non-departmental costs, a one-off departmental cost of approximately $2 million and ongoing departmental costs of approximately $13 million a year.

   Noted | Noted

   Minister of Finance | *Minister of Revenue*

3. **Note** that if Cabinet approval has not been received by 1 April 2024 the delivery date of FamilyBoost will need to be reassessed.

   Noted | Noted

   Minister of Finance | *Minister of Revenue*

4. **authorise** the lodgement of the attached Cabinet paper with the Cabinet Office by 10 am Thursday 29 February 2024 to be considered at Cabinet Economic Policy Committee on 6 March 2024.

   Agreed/Not agreed | Agreed/Not agreed

   Minister of Finance | *Minister of Revenue*

5. **refer** this report to the Minister for Social Development and Employment, Minister of Education and the Associate Minister of Education.

   Referred/Not referred

   Minister of Finance

s 9(2)(a) [redacted]

Maraina Hak
Policy Lead
Policy and Regulatory Stewardship
Inland Revenue

Hon Nicola Willis
Minister of Finance

/ /2024

Hon Simon Watts
Minister of Revenue

/ /2024

Introduction

1. This report requests approval to lodge the attached draft Cabinet paper and associated Regulatory Impact Statement that seeks agreement to legislate and implement the FamilyBoost tax credit. The purpose of the tax credit is to provide income support to families with early childhood education (ECE) costs.

2. In addition, this report also seeks approval for key policy decisions. In the interest of time, these policy settings have provisionally been included into the draft Cabinet paper but are subject to your approval. Recommendations have been included alongside discussions of each policy issue and officials' preferences have been indicated.

3. These policy decisions will strongly influence the system design and cost of FamilyBoost, and therefore require Cabinet approval. However, there are additional minor design decisions that are of an administrative or technical nature that are not included in this report and draft Cabinet paper. This may include, for example, administrative decisions regarding the extent to which refunds are able to be backdated or amended in past years. Instead, the draft Cabinet paper will be seeking a delegated authority from Cabinet for the Minister of Finance and the Minister of Revenue to make these decisions.

4. A delegated authority is preferred for administrative and technical policy decisions, including for potential unforeseen maintenance matters prior to and following FamilyBoost's initial implementation date. This delegation to Ministers ensures technical and administrative policy matters are dealt with efficiently, consistent with Cabinet's decisions on substantial policy settings.

5. These technical and administrative policy decisions are to be included in a subsequent report to Ministers following Cabinet approval of the delegated authority.

Description of FamilyBoost policy design

6. The proposed design of FamilyBoost is a product where parents or caregivers register their details initially and then submit their prior three months' ECE invoices directly to Inland Revenue via myIR (Inland Revenue's online services log-in). Inland Revenue would then calculate the refund based on the most recent income information Inland Revenue holds. For wage and salary earners, income information would be taken from the prior three-monthly period (the same period that the ECE invoices had been issued for). For self-employed people, it would be calculated from their most recent income tax return.

7. The system could go live from 1 July 2024, with parents able to receive payments from October 2024 onwards. These refund calculations would be final upon submission of the invoice and would not be adjusted if other income information becomes available.[2] Consequently, parents should not incur debt and there would be no "square-up" process when assessing annual income tax returns. Payments would be made in a three-monthly lump sum (a maximum of $975) following the processing of the FamilyBoost claim. At each three-monthly interval parents would be asked to confirm or update their details, including current relationship status, alongside submitting new invoices.

8. There are a number of risks with the proposed design. You have been informed of these risks in a previous report [IR2023/269], and they have been included in the attached draft Cabinet paper to enable Cabinet to make fully informed decisions.

[2] For example if an employer incorrectly calculated holiday pay and made a correction at a later date.

Flow on effects of FamilyBoost on other products

9. As a tax credit, there would be no flow-on impact to income tax (the refund is not taxable) and it would not be treated as income for any other tax credit, or for calculating child support liabilities.

10. Creating another tax credit has potential flow on effects for other products, particularly those income or means tested. Several Ministry of Social Development (MSD) products could be impacted by the introduction of FamilyBoost. MSD has provided some initial analysis of these impacts acknowledging the outstanding design decisions and seeks decisions on them in the attached Cabinet paper.

11. We recommend that FamilyBoost is not considered income for student loan repayment purposes or determining student allowance payments.

Eligibility settings

Eligibility of five-year olds in ECE

12. In National's pre-election policy documents, FamilyBoost was described as being available for 'families with children aged five and under'. Reference is also made to 'households with a child under five'. These are two different groups, one which includes households with five year old children and one which excludes them. Once children reach six years of age they are legally required to be enrolled in primary school and are therefore unable to be enrolled in ECE services. We seek confirmation that the intent of the policy is to be available for all families that have children enrolled in licensed ECE providers, regardless of their age.

13. Including five year olds who attend ECE within the scope of the FamilyBoost policy would also align the policy with other ECE support policies such as the ECE Subsidy and 20 Hours ECE which provide funding for five year olds.

14. Not including five year olds also has the potential to create a funding gap for families with five year olds who are not yet attending primary education (which they are not required to do until the child turns six). Consequently, these families would face higher costs than families with younger children, or where the child is ready to attend primary school at a younger age. In 2022, just under 3,000 five-year olds attended an ECE service out of a total ECE population of around 180,000 children.

15. Introducing an age cap of five years old would also increase the administrative complexity of the policy by requiring an additional age verification step in the application process and monitoring invoices to decline any that relate to when the child turned five.

16. Introducing an age cap of five years old would reduce the population eligible for FamilyBoost and, consequently, lower the fiscal cost of the policy. However, this cost decrease is likely to be small given the low number of five-year olds who attend ECE.

Recommendations

Agree that FamilyBoost is available for all families with children enrolled in licensed ECE providers, regardless of age (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that FamilyBoost is only available for families with children under five enrolled in licensed ECE providers.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Eligibility for applicants who are not caregivers

17. We recommend that FamilyBoost is only made available to parents or caregivers or their partners who are also the payer of ECE fees. That is, their name is on the ECE invoice and they have registered that they are the parent or caregiver of the children enrolled in ECE services.

18. The FamilyBoost tax credit could be made available to one of two groups of people.

    - It can be made available to parents and caregivers on the basis they are the principal caregiver for the child, for whom ECE fees have been paid (regardless of who pays the fees), or
    - it can be made available to the person who pays the child's ECE fees (regardless of their relationship to child).

19. These options can be combined so that FamilyBoost would only be made available for caregivers where they are also the payer of the ECE fees.

20. An example of where a payer is not the parent is where a grandparent may have agreed to pay for their grandchildren's ECE costs and the ECE provider directly invoices the grandparent who makes regular payments. All other decisions and costs are met by the parents who are considered the principal caregiver.

21. All of these options are implementable for an initial product. s 6(c) [redacted] [3] s 9(2)(f)(iv) [redacted]

22. Verifying applicants' relationship with the child as part of the initial build would add another step for Inland Revenue frontline staff in processing any FamilyBoost application which may increase application processing times, delay the receipt of payment, and increase administrative costs.

23. Targeting only parents and caregivers signals the intent of FamilyBoost to provide income support to families and not to the ECE sector more generally. Targeting the payer of the ECE fees would signal that the policy is about supporting people to pay for ECE fees and less about directly supporting families.

24. However, there is also a policy justification for providing FamilyBoost to others who may be paying for a child's ECE fees, such as grandparents or godparents. The reason for another party paying for the child's ECE fees will likely be because the parent or caregiver would struggle themselves to meet the cost of ECE fees. The non-parent payer (e.g., grandparent) will also face cost of living pressures from increases in ECE costs and would also be subject to the abatement of the tax credit

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[3] s 6(c) [redacted]

based on their income, leaving them within the target income group of this policy. If the primary purpose is to relieve the costs of people paying for ECE then the primary focus could be on the person paying the fees, rather than on whether they are the principal caregiver. This would mean the support is not going directly to families, but to people who are supporting those families. It is unknown how prevalent non-caregivers paying for ECE is, but it is expected to be relatively low.

25. There are some possible integrity risks associated with allowing non-parents to access FamilyBoost if they pay childcare fees. Where the parents earn over $180,000 but have their ECE fees paid by another party that earns under $180,000 then that party may be able to access FamilyBoost where the parent would not be able. This in and of itself does not present an integrity risk or a policy concern so long as the other party is paying the ECE fees out of their own income and is not being compensated by the parent. If they are being compensated, the parent would effectively be paying their own children's ECE fees but doing so through an intermediary in order to access government support. These claims would be difficult to discover, and relatively easy to set up unless FamilyBoost is restricted to principal caregivers only.

26. Another risk scenario is where the child of a high income parent has their fees paid for by a low income but high asset person, such as a retired relative. This risk would also be present for low income high asset parents, but is less exploitable than when non-parents can access FamilyBoost.

27. s 6(c) [redacted]

28. Where another person is paying the fees, the invoice would not be addressed to the principal caregiver of the children. Authorising payment to the principal caregiver where they are not the payer would then need to be based on the children being named on the invoice and matched to the registration details of the principal caregiver. This does open up some integrity risks. We would recommend only paying the refund where the principal caregiver is also named on the invoice as responsible for payment.

29. Limiting FamilyBoost to only be available to parents who pay fees would have a lower fiscal cost and better integrity but be more administratively complex than just looking at who the payer is.

Recommendations

Agree that FamilyBoost will only be available for the principal caregiver/partner where they are also the payer of ECE fees (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that FamilyBoost will only be available for the principal caregiver (regardless who the payer is).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that FamilyBoost will be available to any payer of ECE fees.	
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Multiple children

30. Currently, the design of FamilyBoost is ambivalent to the number of children a family has in ECE. A family with two children in ECE and $600 weekly ECE fees would receive the same support as a family with one child in ECE and $300 weekly ECE fees due to the maximum fee cap. If ministers wish to implement a product by 1 July 2024, it will not be possible to change FamilyBoost to set the fees cap on a per child basis rather than a per household basis. However, accounting for multiple children would better address the cost of living and barriers to work faced by parents of young children, resulting in more equitable outcomes for children and families and reflecting the policy intent of FamilyBoost.

31. The impact of increases in the cost of ECE would be greater for families with more children in ECE. As currently designed, families with greater increases in ECE costs would receive the same amount of the FamilyBoost tax credit as those with lower increases in ECE costs. FamilyBoost would consequently be less effective at increasing incomes, lowering barriers to work or increasing ECE attendance for families with multiple ECE-age children than those with only one child.

32. Families with children spaced further apart may be able to access the full support of FamilyBoost for every child (as they only have one child in ECE at a time). This outcome may be considered inequitable or as penalising having multiple children who are close together in age.

33. Some families with multiple children in ECE may be able to access ‘sibling discounts’ at some centres which may partially offset this discrepancy. However, not all providers offer such discount and some families will have children attending different ECE providers, possibly due to the differing needs of the child or availability of spaces.

34. Other government supports provided to alleviate the cost of having a child, such as the Family tax credit, 20 Hours ECE, the ECE Subsidy and the Childcare Subsidy increase with the number of children to accommodate their additional costs.

35. Additional support for multiple children could be included in the FamilyBoost policy. This would require changing the FamilyBoost entitlement from a ‘per household’ model to a ‘per child’ model. Effectively, this would increase the maximum cap on eligible fees where the applicant is paying for multiple children.

36. If the cap is increased for additional children, officials assume FamilyBoost would abate at the same rate across a larger range of income, meaning families with more than one child earning over $180,000 would qualify for payments. Other abatement options could be explored.

37. Moving to a ‘per child’ entitlement would significantly increase the build complexity of FamilyBoost. It would not be possible to deliver a model with ‘per child’ entitlement by 1 July 2024. Early estimates, contingent on further policy design details, suggest that delivering a ‘per child’ model would take an additional 9-15 months and have a corresponding increase in build costs.

38. Providing an entitlement for every ECE-aged child rather than every household with ECE-aged children would increase the population for FamilyBoost and result in a corresponding increase in the fiscal cost of the policy. Early estimates, contingent on further policy design details, suggest that this would amount to a roughly $50 million annual increase in the cost of the policy.

39. Shifting from a 'per household' to a 'per child' model could occur as part of the continual improvements to the FamilyBoost product following its initial implementation. We can provide further advice on options for this potential transition at a later date as part of a package on possible future improvements to the basic refund model following implementation.

Recommendations	
Agree that FamilyBoost will have a 'per household' cap, and for officials to provide further advice on transitioning to a 'per child' cap at a later date (officials' preferred option).	
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*
OR	
Agree that FamilyBoost will have a 'per household' cap, regardless of the number of children they have attending ECE.	
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*
OR	
Agree that FamilyBoost will have a 'per child' cap, noting that this is not deliverable by 1 July 2024.	
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Children in shared care

40. A further question, related to the above two, is whether both parents will be able to claim FamilyBoost where they are no longer in a relationship and have ECE costs when the ECE costs are associated with a child in shared care. We recommend that the full FamilyBoost tax credit be available to both parents in this scenario.

41. If each parent receives an invoice for over $300 weekly for their child to attend ECE, then under a model where they are both eligible for FamilyBoost they would each receive a tax credit of $75. This results in a total of $150 being able to be claimed weekly based on the ECE attendance of one child. Their ECE costs could be from different providers or from the same providers with different invoices.

42. In this scenario, more support is accessible for a child in shared care with separated parents who each pay ECE costs than for a child with parents who are still together or for where there is shared care but only one parent is responsible for paying ECE costs.[4] This access to more support could allow the child to attend more or better quality ECE. This could be perceived as inequitable and providing an advantage to children with separated parents. In general families who are separated face higher costs and challenges than families who are not separated so there is some justification for providing additional support.[5] It may also incentivise fraud where parents claim to be separated but remain together. The requirement to also produce an invoice addressed to each parent would mitigate this risk.

[4] There may be private arrangements for the other parent to reimburse the ECE paying parent. Inland Revenue would have no oversight of such arrangements.
[5] In cases of shared care both separated parents can claim the full in-work tax credit, where they meet all other eligibility criteria. However, only the primary caregiver is able to claim the Childcare Subsidy.

43. The inequities in the outcome described above are further accentuated in comparison to families who have multiple children. The effective 'per child' payment for one child with separated parents would be $150, while the effective 'per child' payment for a family with three children attending ECE would be $25 (one-third of $75).

44. Denying one parent's ability to claim FamilyBoost is possible, with some increase in build complexity. However, this scenario could also be viewed as inequitable where the parent has real ECE fees associated with the child and has their income adequacy impacted by high ECE costs. To limit the increase in build complexity, this design would allow the first parent to claim to receive FamilyBoost. This may not be the parent who has the highest ECE costs or is responsible for the larger portion of care which may result in inequitable outcomes for some families.

45. Apportioning FamilyBoost, either based on relative care or relative ECE costs, is possible but would require the creation of an ongoing family record which would significantly increase the build complexity and delay delivery timelines well beyond a 1 July delivery date. The increased complexity would also be more difficult for parents to understand and for Inland Revenue to administer and would require a disputes mechanism and additional proof of shared care.

46. Limiting both parents' ability to claim in cases of shared care may result in some fiscal savings but this may be offset by the increase in administrative costs. This change would only impact scenarios where there is shared care and both parents have separate ECE costs. This scenario is expected to only pertain to a small portion of the population.

47. On balance, we consider it more equitable to provide both separated parents with full access to FamilyBoost where they both pay ECE costs separately. This option would also have lower administrative and build costs.

Recommendations

Agree that FamilyBoost would be available to both parents when a child is in shared care (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that FamilyBoost would only be available to one parent when a child is in shared care and this would be the first parent to claim.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that FamilyBoost would be apportioned between parents when children are in shared care, noting this would push out the delivery date.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Eligibility of non-natural persons for FamilyBoost

48. If FamilyBoost is available to people who are not the child's parent or caregiver there is a further question about non-natural persons. We do not recommend that non-natural persons be eligible for FamilyBoost.

49. In some cases, it is possible that a child's ECE fees may be paid by a non-natural person, such as a charitable organisation targeting child poverty or a trust set up to pay for a child's education.

50. Pre-election policy documents refer to households and many of the eligibility criteria, such as household income, are designed only with natural persons in mind.

51. A separate set of eligibility criteria could be created for non-natural persons. This would in effect be a separate product and have its own capital and operational costs to build.

52. Allowing non-natural persons to be eligible for a form of FamilyBoost may encourage people to restructure their financial arrangements to access the FamilyBoost policy where they may be otherwise ineligible (e.g., because their income is too high). This possibility is unlikely as the level of refund would not justify the high costs of setting up this arrangement.

53. The donations tax credit, which is also conditioned on the provision of a receipt, is not claimable by non-natural persons. Denying non-natural persons access to FamilyBoost would therefore be consistent with existing policy.

54. Alongside the additional cost of delivering this expanded product, allowing non-natural persons to be eligible for FamilyBoost would expand that eligible population and have a higher fiscal cost.

Recommendations

Agree that non-natural persons should not be eligible for FamilyBoost (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that officials explore options for alternative eligibility criteria for non-natural persons.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

In-work test

55. A reference is made in pre-election policy documents to FamilyBoost 'supporting working parents'. This reference is only made in one place and is not repeated in many other descriptions of FamilyBoost. We recommend that FamilyBoost is available to all parents with ECE costs, regardless of whether they are in work.

56. If you wish for FamilyBoost only to be available for applicants who are in work this would add significant complexity to the policy's design, especially if FamilyBoost is available to people who are not the principal caregiver (where the test would be easily subverted by private arrangement).

57. Inland Revenue does deliver products that are conditioned on the recipient being in work (such as the In-work tax credit). However, these in-work tests have substantial complexity, with additional provisions having to be designed to account for groups such as self-employed people, those only employed for portions of the year, and those who receive income replacement payments such as paid parental leave or those administered by the Accident Compensation Commission (ACC).

58. The point-in-time nature of FamilyBoost assessment also does not naturally lend itself to an in-work test. Aligning the approach with the one used for identifying partners, a point-in-time check for a particular day in the three-month period, would only test if the person was employed on that one particular day. This could result in a number of inequitable outcomes where the results of the FamilyBoost claim are not a fair reflection of the parent's circumstances for the majority of the three-month period. Likewise, asking people to confirm they normally worked in the period would effectively be a high-trust self-declaration.

59. Designing a more sophisticated model would require further policy work and would increase the complexity of the application process, placing further burden on families and Inland Revenue operational staff.

60. Additionally, the use of household income results in there potentially being multiple principal caregivers who may have different work statuses. Further decisions would therefore also need to be made around whether the in-work test applies to both caregivers or only one. For the existing In-work tax credit only one member of the household is required to be in work as it is part of a package tested on the circumstances of the family. However, if the purpose of the FamilyBoost payment is to encourage families' second earner to return to work then it would require all parents to be subject to the criteria to be effective.

61. There is not a straightforward policy justification for excluding beneficiaries from eligibility for FamilyBoost. The cost of living for those not in work is impacted in a similar manner to those who do work by increases to the cost of ECE. Beneficiaries and others who do not work are also not excluded from other forms of ECE support such as the ECE Subsidy and 20 Hours ECE and up to 9 hours per week of Childcare Subsidy. Additional Childcare Subsidy hours are available to those who are in work or in training.

62. The high cost of ECE also serves as a *de facto* in-work test. As the costs of ECE can be avoided if there is a non-working caregiver and can represent a substantial portion of household income, parents who are not in work already face strong incentives not to send their child to ECE. Those with higher ECE costs are likely to be in working households. Additional incentives, such as an in-work eligibility requirement for FamilyBoost, are not necessary to encourage a return to work and may be seen as unnecessarily discriminatory when many caregivers who are not in-work are likely to have other reasons not to be.

63. Denying access to FamilyBoost to those not in work may potentially have human rights implications that are inconsistent with the obligations set out in the Bill of Rights Act 1990. These inconsistencies may emerge as part of the Bill of Rights legislation vetting process. In particular, an in-work test may be considered discrimination on the grounds of employment status or disability, both prohibited grounds of discrimination. Notably, Inland Revenue does already administer a tax credit, the In-work tax credit, that requires the recipient to be in-work and where the discrimination has been found to be justified.

64. Excluding those not in work from eligibility for FamilyBoost would reduce the targeted population and may result in a lower fiscal cost. However, it would also increase the administrative impact of the policy and associated delivery costs and may not meet the primary objective of increasing the income of families with ECE costs.

Recommendations

Agree that FamilyBoost will only be conditional on the payment of ECE fees and not the work status of the applicant (officials' preferred option).

Agreed/Not agreed — Agreed/Not agreed

Minister of Finance — *Minister of Revenue*

OR

Agree that FamilyBoost will be conditional on the work status of the applicant and the payment of ECE fees. Officials will provide further options on how this could be implemented.

Agreed/Not agreed — Agreed/Not agreed

Minister of Finance — *Minister of Revenue*

Payment to applicants with no tax liability

65. FamilyBoost would be a tax credit. Some tax credits, such as the donations tax credit, requires a residual income tax liability for the credit to be offset against. We recommend that no such condition be applied to FamilyBoost.

66. We understand from pre-election policy documents and public comments by ministers that, as the FamilyBoost payment is intended to be a direct payment and not a deduction on individuals' tax bills, it is not intended to require the applicant to have paid tax. For example, a self-employed person who has made a loss and therefore has no tax liability would still be eligible for the FamilyBoost payment as long as they had eligible ECE costs.

67. As eligibility for this tax credit would be assessed periodically throughout the year and income tax is only finalised at year end there is not an easy way to prospectively check if someone has tax liability in that year before Inland Revenue would make the FamilyBoost payment. This problem is exacerbated by a prior year's income return being used to assess income for self-employed applicants.

68. It is possible to perform retrospective checks following the filing of the applicants' tax return, but this would introduce a 'square up' feature into the product that has the possibility of creating taxpayer debt and has been avoided to ensure product simplicity and deliverability. Creating debt only for people without taxable income could be seen as inequitable as this group may have the least ability to pay. The FamilyBoost design does not currently have this feature and introducing it would significantly increase the build complexity of the product and ongoing operational costs. This feature would not be deliverable by 1 July 2024.

69. It is expected that the size of the group with no tax liability will be low, especially if tax paid by the applicant's partner is taken into account. It is therefore likely that the additional administrative cost of relating FamilyBoost more directly to tax liabilities is likely to exceed any revenue saved by not making payments to those who have no tax liability.

Recommendations

Agree that FamilyBoost should be available to applicants who have no tax liability (officials' preferred option).

Agreed/Not agreed — Agreed/Not agreed

Minister of Finance — *Minister of Revenue*

OR

Agree that FamilyBoost should not be available to applicants who have no tax liability and that this should be addressed via the introduction of a square-up process.

Agreed/Not agreed | Agreed/Not agreed

Minister of Finance | *Minister of Revenue*

Ongoing indexation of FamilyBoost

70. You may wish to introduce automatic indexation of the FamilyBoost policy when this policy is implemented to ensure that the support is not eroded by inflation.

71. There are a couple of aspects of FamilyBoost that could be indexed: the maximum payment and/or the abatement threshold.

72. There are a number of indicators that FamilyBoost could be indexed against. These include wage inflation and consumer price inflation.

73. If FamilyBoost is not automatically indexed, then any adjustments to the amount received would require decisions to be made as part of the budget process. Past experience indicates that this is likely to lead to a decline in the value and coverage of the policy over time.

74. Including indexation in the initial policy will increase the fiscal cost of the policy. The current costing assumes no indexation of thresholds or cap, but an increase in wages and ECE costs over time – hence the declining fiscal cost in outyears. Including indexation may increase the administrative impacts of the policy but these impacts would not be much greater than ad hoc periodic reviews and revisions of the policies parameters. The administrative cost of indexing would be met within existing funding as business as usual annual adjustments.

75. There are a range of indexation approaches across tax thresholds, Working for Families rates and thresholds and child support, as well as in the benefit system. One indexation method could be to index the maximum payment and abatement threshold to consumer price inflation. The fiscal cost of this approach, subject to further policy design, is provided below to assist Ministers' decision making.

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 and outyears**
Indexation of FamilyBoost	**-**	**-**	**9**	**16**	**20**
Total operating	**-**	**-**	**9**	**16**	**20**

76. While officials would recommend automatic indexation of FamilyBoost to maintain its relative value and purpose over time, there may be greater priorities to use the fiscal cost to index other products first. If you want to index FamilyBoost officials will provide further advice on indexation design options and other products that have a greater priority for indexation.

Recommendations

Agree that officials will provide further advice on indexation of family payments (officials' preferred option).

Agreed/Not agreed | Agreed/Not agreed

Minister of Finance | *Minister of Revenue*

OR
Agree that FamilyBoost will not be automatically indexed to inflation.
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

MSD Policy interactions

77. As FamilyBoost will provide additional financial support to families, there will be interactions with MSD assistance. Based on October 2023 figures, 45% of Childcare Subsidy clients could potentially benefit from FamilyBoost.

78. To ensure FamilyBoost meets the Government's intent of providing additional financial support for families on top of MSD childcare subsidies, MSD proposes that FamilyBoost payments are not treated or charged as income and cash assets for MSD financial assistance. This would align with Inland Revenue's intention to not regard FamilyBoost payments as family scheme income or taxable income.

79. Depending on final design decisions for FamilyBoost, system and legislative changes may be required to allow MSD to exempt the payments as income and cash assets unless an exemption is met under existing rules. This work will be developed further once key design decisions have been made.

80. Within the corresponding Cabinet paper MSD have requested that Cabinet note that decisions around the form and method of the FamilyBoost payment are required before MSD can establish whether or not the payment will be treated or charged as income and cash assets existing rules.

81. MSD are also seeking Cabinet agreement in principle to authorise the Minister for Social Development and Employment to make policy decisions to ensure the FamilyBoost payment is not treated or charged as income and cash assets for MSD financial assistance.

Conclusion

Financial implications

82. Implementing the FamilyBoost tax credit would require a new Vote Revenue appropriation. The Ministers of Revenue, Minister of Social Development and Employment, and Minister of Education have been invited to submit a Budget bid for FamilyBoost, which will occur through the standard Budget process about the same time as this report and Cabinet paper are considered.

83. The attached draft Cabinet paper seeks policy decisions, with funding decisions for FamilyBoost sought as part of the Budget Cabinet paper in April. We will continue to work with the Treasury between now and lodgement date to finalise this approach. Funding decisions made as part of the wider Budget process would not impact our ability to consult with the sector provided that Cabinet agrees to the Budget secrecy waiver.

84. The decisions made in this report may impact the costings provided below. Depending on the decisions, these changes could increase or decrease the cost of the policy. Updated costings will be provided to you in the paper you take to Cabinet. Further decisions, such as phasing in FamilyBoost over several years or adjusting thresholds or rates, would also change the cost of the policy.

85. The figure provided is based on the 25% refund rate, $75 per week maximum payment, $140,000 abatement threshold and $180,000 income cap set out in pre-election policy documents. All these policy parameters are adjustable and could impact the final costing. These costings assume 100% uptake of FamilyBoost.

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 and outyears**
Non-departmental appropriations: FamilyBoost	-	**174**	**171**	**167**	**165**
Total operating	**-**	**174**	**171**	**167**	**165**

86. The implementation costs of FamilyBoost would be low but ongoing administrative costs would be high. This high cost is a result of the process being more compliance heavy for both customers and Inland Revenue than originally envisaged (due to the lack of information sharing). The following table provides details on the operational and administrative costs at this point in time:

FamilyBoost	**$million**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total**
One-off implementation cost	Capital	0.500	1.100	-	-	-	1.600
	Operating	0.200	0.500	-	-	-	0.700
	Total	**0.700**	**1.600**	-	-	-	**2.300**
Ongoing cost	Operating	0.300	15.400	12.700	12.700	12.700	53.800
	Depreciation	-	0.200	0.200	0.200	0.200	0.800
	Capital charge	-	0.080	0.080	0.080	0.080	0.320
	Total	**0.300**	**15.680**	**12.980**	**12.980**	**12.980**	**54.920**
Ongoing FTE administration		**1.5**	**84.6**	**70**	**70**	**70**	-

MoE changes:

87. The Minister of Finance has agreed in a previous report to return to the centre money previously allocated to the Ministry of Education to collect data on ECE fees in connection with the expansion of 20 Hours ECE to two-year olds. This change will be included in the attached Cabinet paper for Cabinet approval. However, the exact amount of this funding to be returned is still subject to decisions to be made by the Minister of Education. A placeholder has been included in the draft Cabinet paper for this figure to be inserted into.

MSD changes

88. MSD would have some capital and operational costs associated with exempting FamilyBoost payments from being treated as income and cash assets for MSD financial assistance. These costs are dependent on the final policy design of FamilyBoost, but are set out in the table below:

	$m – increase/(decrease)				
Vote Social Development Minister of Social Development	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 and outyears**
Total operating	0.242	1.604	1.3215	1.3215	1.3215
Total capital	1.854	3.696	0	0	0
Total cost	**2.096**	**5.300**	**1.3215**	**1.3215**	**1.3215**

Communications

89. The attached Cabinet paper seeks the waiver of Budget secrecy, as previously agreed [IR2023/269 refers], to allow us to begin consultation with the ECE sector. Our expectation is that once we begin ECE sector consultation the policy details of FamilyBoost will effectively become public knowledge.

90. For this reason, you may wish to announce FamilyBoost and some of its detailed design prior to officials commencing consultation with the sector. This would take the form of a pre-Budget announcement and allow the Government to communicate FamilyBoost's design directly to the New Zealand public. The trade-off is the risk of appearing to determine the final policy design before consultation occurs.

Consultation

91. The Ministry of Social Development, Ministry of Education, and Treasury have contributed to this report. We have consulted with the Department of Prime Minister and Cabinet.

Next steps

92. Following your decisions in this paper, officials will make any necessary adjustments to the attached Cabinet paper. Once you are satisfied with the Cabinet paper it should be authorised and lodged with the Cabinet office by 29 February so that it can be considered at the Cabinet Economic Policy Committee on 6 March before being taken to the full Cabinet Committee on 11 March.

93. Once Cabinet approves the FamilyBoost policy, officials will provide you with a second report with further administrative design decisions.

94. Officials will also begin consulting with ECE providers, student management system providers and other stakeholders in the ECE sector. We will provide you with a report on the outcome of these consultations and any recommended changes that arise out of this process.

95. This table sets out the timing for the Cabinet paper:

Date	Action	Comment
14-28 Feb	Feedback from Ministers' offices on draft Cabinet paper provided to officials	We will incorporate any changes and provide an updated draft Cabinet paper
14-28 Feb	Ministerial and coalition partner consultation	
29 Feb	Cabinet paper lodged with Cabinet office	
1 Mar	Speaking notes provided	
6 Mar	Paper considered by Cabinet Economic Policy Committee	
11 Mar	Paper considered by Cabinet	
12 Mar	Officials provide report on FamilyBoost administrative design decisions	This report cannot be sent up until after Cabinet has approved the attached Cabinet paper as it requires Ministers to have a delegated authority
1 Apr	The delivery date would need to be reassessed if decisions have not been made by this time	

96. Budget night legislation would be introduced on 30 May. A draft Cabinet paper for the Cabinet Legislation Committee or the Cabinet Business Committee will be provided a month prior to that time to seek permission to introduce legislation.

97. The Cabinet paper and key documents would also be proactively released shortly after legislation is introduced.

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Briefing note

Reference: BN2024/062

Date: 16 February 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Murray Shadbolt, Harper Burtenshaw and Elizabeth Lee

Subject: **Additional information on FamilyBoost consultation and income test**

1. You have requested some additional information relating to consultation and income test for the FamilyBoost tax credit.

Consultation

2. The implementation of FamilyBoost will have impacts on the ECE sector, including parents, ECE providers and student management system software providers. Officials will therefore need to consult with the sector as early as possible to enable any changes to be made in time. Early consultation may also increase buy-in for implementing required changes especially given ECE providers do not have a direct financial incentive to adapt to any requirements.

3. Given the potential impacts on the sector, there are strong merits to providing enough time for consultation before implementation. This is also important because feedback from consultation may highlight potential risks that make the need for potential policy design changes apparent or require the implementation of risk management strategies. This is particularly a concern for any design settings that need to be legislated on Budget night, given there would be no select committee stage.

4. Officials plan to begin consultation with the sector as soon as possible after FamilyBoost has been approved by Cabinet. The consultation plan is in its early stages at this time, and a full plan will be finalised by mid-March. We understand the sector representatives are keen to talk to Inland Revenue officials.

5. Inland Revenue officials intend to work closely with the Ministry of Education to develop a detailed consultation plan which covers a range of ECE centres and student management systems providers.

6. Some of the umbrella groups cover over a 1,000 services, and there are a small number of student management software providers that cover around 80% of services. Home-based and rural areas (outside of internet coverage) may be more difficult to get feedback from as part of the consultation. MOE are also providing advice on services that they find are more difficult to engage with from Wellington, and where regional offices could help reach a wider range of groups.

Timetable

Month	Event
Mid March	Cabinet paper
Mid-March – April	Consultation
Mid-March – April	Potential pre-Budget announcement
Mid-May	Feedback on consultation
30 May	Budget and legislation

Budget Secrecy

7. We are asking Cabinet to agree that officials begin consulting with the sector on possible impacts and requirements for FamilyBoost delivery, despite the usual Budget secrecy requirements. With this agreement, Cabinet acknowledges that the information used to consult with the sector on the intended design of FamilyBoost will likely be made public given the large groups of people involved. As such, Ministers may want to consider making a pre-Budget announcement before consultation would be undertaken.

8. The consultation will focus on better understanding the sector and how they set fees and provide invoices, and to understand the characteristics of parents of those services. To do so we will need to discuss some aspects of the design that ECE providers will be directly involved with. We would not be discussing the financial costs.

Income Test

9. As set out in the manifesto, the income test is based on household income. In the design proposed it will be for the previous three months. Income data will be derived from existing information held by Inland Revenue. This household income is only for the parent/parents of the children in ECE and does not include income of other household members (other children, grandparents, boarders etc). This is the same as Working for Families tax credits, except we will be using reportable/taxable income rather than the broader family scheme income. We have recommended receipt of FamilyBoost not be conditional on households being in work or having income tax liabilities so that self-employed parents who make tax losses can qualify provided they have ECE fees.

Inland Revenue
Te Tari Taake

TE TAI ŌHANGA
THE TREASURY

Briefing note

Reference: BN2024/078

Date: 4 March 2024

To: Revenue Advisor, Minister of Finance – Emma Grigg
Revenue Advisor, Minister of Revenue – Lonnie Liu
Private Secretary, Minister of Revenue – Helen Kuy

From: Andraya Heyes

Subject: **Additional information on the Communications Plan for the FamilyBoost tax credit**

1. The Minister of Finance's office has requested additional detail on Inland Revenue's proposed Communications Plan for the FamilyBoost tax credit, including how Inland Revenue will ensure families are fully aware of, and are supported across, the various stages for accessing the payment.

2. This note outlines official's thinking so far on the Communications Plan for FamilyBoost, noting that the FamilyBoost policy is due to be considered by the Economic Policy Cabinet Committee on 20 March and Cabinet on 25 March. We can provide Ministers with a more detailed Communications Plan once it is fully developed closer to Budget Day.

Communications Plans

3. As part of Inland Revenue's standard procedure, Communications Plans are developed for all key policy changes. These plans involve identifying internal and external stakeholders and leading them through Inland Revenue's usual communications approach of "awareness", "understanding", and "support".

4. These Communications Plans are on top of our usual communication and support activities, such as the contact centre, self-service contact centre, and website messaging to answer general customer queries and provide myIR support. As the FamilyBoost product relies on families using myIR, we can reutilise previous campaigns where we ran social media and pre-recorded messages on our phone service that directed people on how to log into myIR to support families having access issues.

5. Inland Revenue also has Community Compliance teams that answer front-of-house queries at Inland Revenue centres' and provide community education through workshops and visits to community areas. While specific details on how the Community Compliance teams could be utilised for FamilyBoost is yet to be determined, these teams will be ready to provide families with general help and education regarding FamilyBoost.

Pre-Budget day

Internal Communications

6. FamilyBoost is expected to result in increased customer contact as per Inland Revenue's experience with the introduction of other tax credits. As such, in the lead up to the Budget announcement, Inland Revenue will be preparing a range of internal education material, including video content, web-guides, and training sessions to ensure staff can effectively support customer applications and respond to families' queries for all stages of the process via calls, web mails, or in-person.

External Communications

7. *Pre-Budget announcement:* If ministers decide to make a pre-Budget announcement on FamilyBoost, we can work with your offices to provide you with any materials you may need to support the announcement. We will not be able to provide any additional information to customers on Inland Revenue's website beyond the announcement until the legislation on FamilyBoost is enacted.

8. *Consultation with the sector:* Prior to Budget Day and subject to Cabinet approval, we propose to consult with the Early Childhood Education (ECE) sector. Consultation provides an early platform to build a relationship with the sector, ensure they understand and are supported in their role within the delivery of the payment to families (particularly regarding invoices), and test how receptive the sector is to passing on information to families once FamilyBoost is enacted.

Budget Day

9. We will work with the offices to develop material to support ministers on Budget Day; the day proposed for FamilyBoost legislation to be passed through all stages under urgency. Budget communication materials include draft press releases, factsheets, and FAQs, including reactive Q&As to support ministers in answering possible questions. Any media queries we receive will be referred to the Ministers' offices.

10. We will also ensure that messaging on Inland Revenue's website is consistent with Ministers' Budget Day communications. A FamilyBoost webpage will be published to explain what the tax credit is, who is eligible, and how to apply.

11. Internal staff will also begin to be briefed from Budget Day using previously created internal education materials. As such, any queries from customers after Budget Day will initially be redirected to the FamilyBoost webpage until staff are prepared to answer customer queries via calls, web mails, or in-person.

12. The Communications team will also begin briefing the advertising agency to co-develop campaign creatives for late June/early July.

Post-Budget

13. Once legislation has been passed, external communications and advertisements would begin in late June/early July. These external communications will follow a three-phase staged approach to support the key stages in the application process:

Application stages	Communication Activity	Campaign Dates
Families collect invoices from 1 July	Phase one – raise awareness of FamilyBoost and inform families to keep their ECE invoices.	July – August
myIR FamilyBoost registrations open from 1 September	Phase two – educate families about how to register for FamilyBoost	September
myIR FamilyBoost application for the first quarterly payment opens on 1 October	Phase three- educate families about how to claim payments for FamilyBoost	October

14. Following the three phases, there will be ongoing quarterly campaigns in January, April, July, and October to remind families about claiming payments.

Communicating to families

15. Communications to families will be delivered via various channels nation-wide including social media advertising, digital advertising, search advertising, radio (including Te Reo content for iwi radio), out-of-home advertising (bus shelters, retails centres, etc) and editorial articles. Aside from content provided for Iwi radio and direct to Kōhanga Reo, these communications will be provided in English.

16. All advertising will direct customers to a dedicated FamilyBoost webpage which will host all the detailed information about FamilyBoost. The content for this webpage has not been developed. However, information on this page could include different family-caregiver scenarios[1] for families and useful information for ECE providers. We will work through whether other content such as explainer videos should be included on this page.

Communicating to ECE providers

17. Inland Revenue will do targeted direct marketing communications to ECE providers using the Ministry of Education's publicly available ECE Directory[2].

18. These communications will provide guidance on invoice requirements and supply content that ECE providers can then pass on to families who attend their centres (or to families asking about attending their centres). Information provided to Kōhanga Reo will be translated into Te Reo.

19. These communications will provide the most direct channel to currently eligible families and families looking to enrol their child into ECE. We will reach families not in contact with ECE providers via Inland Revenue's own channels, as outlined in paragraph 15.

20. While ECE centres are a key stakeholder, there are also other potential channels of communication, including government, industry organisations (Early Childhood Council) and other key associations and trusts which Inland Revenue will utilise and pass content on to.

[1] These scenarios will be useful to explain complicated family structures, including shared care.
[2] This distribution list contains all licensed ECE services, including contact details, and is updated nightly.

Funding

21. FamilyBoost communications will be covered by the budget set aside for Inland Revenue's "Working for Families awareness campaign". There has been $80k - $120k set aside for the initial launch.

22. Following this, Inland Revenue will measure the return-on-investment (including regular check-ins to optimise activity) of these communications and will determine a budget for quarterly reminder campaigns from there.

Pip Knight
Service Leader Marketing and Communications - Inland Revenue
s 9(2)(a)

Summary of Communications Activities

23. The below table outlines the key milestones and adjacent communication activities for ease of reference.

Pre-Budget Day	Budget Day	Families collect invoices	Registrations open	Applications for the first quarterly payment open
April	*May*	*July-September*	*September*	*October*
• **Pre-Budget Day announcement** [to be confirmed by Minister]. • **Consultation begins with the ECE sector** [subject to Cabinet approval]. • Inland Revenue prepares internal communications material (e.g., web guides).	• Budget Day materials provided to the offices' to support **Budget Day announcement(s)** • **FamilyBoost legislation enacted.** • **Publish the FamilyBoost webpage** • Inland Revenue's Communications teams to begin briefing to the advertising agency to **co-develop campaign creatives.** • Inland Revenue's internal staff to be briefed using internal communications material.	• External communications **phase one – raise awareness** of FamilyBoost and why to keep ECE invoices. o To families: digital marketing (social media and search advertising), radio, out-of-home advertisements, and editorial articles. o To ECE providers: e-marketing and e-newsletter guides and content.	• External communications **phase two – educate families about how to register for FamilyBoost.** o Same channels as phase one.	• External communications **phase three – educate families about how to claim payments for FamilyBoost.** o Same channels as phase one.

Inland Revenue's usual communication and support activities, including website information and customer query support via the call centre, self-service call centre and website messaging. The Community Compliance team also provide in-the-field support and education within communities.

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: FamilyBoost shared care scenarios and risks

Date:	8 March 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/087

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	13 March 2024
Minister of Revenue	**Agree** to recommendations	13 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead, Inland Revenue	s 9(2)(a) [redacted]
Murray Shadbolt	Principal Policy Advisor, Inland Revenue	s 9(2)(a) [redacted]

8 March 2024

Minister of Finance
Minister of Revenue

FamilyBoost shared care scenarios and risks

Executive summary

Purpose

1. You have agreed that the FamilyBoost tax credit will only be available to one household when a child is in shared care and that this household will be selected following a 'first come first served' approach.

2. Inland Revenue has begun developing the detailed design of this model for implementation following Cabinet approval.

3. This report describes how the model would work and sets out a range of scenarios that may occur to ensure that your decision is fully informed.

4. There is no perfect model for shared care, but if you are not comfortable with the scenarios set out in this report we have included two alternative models, which will have their own risks and trade-offs.

5. These two alternative models are:

   5.1 Full eligibility for FamilyBoost for both households of the child in shared care;

   5.2 Maximum of 50% eligibility for both households if they have a child in shared care.

6. Officials' advice is that, on balance, the full eligibility model is preferable as this best meets your objective of increasing the incomes of families who have children in ECE [IR2023/269 refers]. Both households will be facing rising cost of living pressures and this would result in fewer outcomes that are likely to be perceived as unfair or inequitable.

7. We are progressing work on the 'first come first served' model of FamilyBoost for shared care situations. No further decisions are needed to continue this work. If you decide not to proceed with this model, these decisions should be made before the lodgement of the FamilyBoost Cabinet paper on 14 March to ensure your views are reflected in the paper.

8. Due to the complex and sometimes tense context of shared care, we expect that decisions around this feature could generate public attention and scrutiny.

Next steps

9. If you decide to make any changes to the proposed FamilyBoost policy as a result of this report, we will reflect these changes in FamilyBoost Cabinet paper.

10. The FamilyBoost Cabinet paper is currently out for ministerial consultation. If any necessary changes emerge during the consultation these will be made prior to the paper being lodged with the Cabinet office on 14 March 2024.

11. We recommend that you refer a copy of this report to the Minister for Social Development and Employment, Minister of Education and the Associate Minister of Education for their information.

Recommended action

We recommend that you:

EITHER

1. **confirm** that the FamilyBoost tax credit will use a 'first come first served' model as previously agreed to, where the only the first application processed will be eligible;

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

2. **agree** to one of the following two alternative options for determining the eligibility of families with children in shared care to the FamilyBoost tax credit:

2.1 Option 1 – a model where both households are eligible for the maximum FamilyBoost entitlement (official's preferred option); OR

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

2.2 Option 2 – a model where both households will only be eligible for 50% of the maximum FamilyBoost entitlement;

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

3. **refer** this report to the Minister for Social Development and Employment, Minister of Education and the Associate Minister of Education.

Referred/Not referred

Minister of Finance

s 9(2)(a)
[redacted]

Maraina Hak
Policy Lead, Policy and Regulatory Stewardship
Inland Revenue

Hon Nicola Willis	**Hon Simon Watts**
Minister of Finance	Minister of Revenue
/ /2024	/ /2024

Background

12. In a previous report (IR2024/030) you agreed that, for households with children in shared care, FamilyBoost tax credit would only be available to one parent and that this would be the first parent to claim.

13. Following your decision, Inland Revenue has begun developing the detailed design for this approach. This further work has highlighted some risk scenarios, which may result in abuse of the system or public attention and scrutiny. These risks were set out in the previous report at a high level, however, we provide more detailed descriptions in this report to ensure that you are fully informed.

14. This report seeks confirmation of your preferred approach for households with children in shared care. If you no longer wish to proceed with your original decision, it is possible to instead use the 'full entitlement for both households model', presented in the previous report.

15. Alternatively, we have developed a new option that allows both households to receive FamilyBoost but limits the entitlement of households with a child in shared care to 50% of the maximum entitlement ($37.50 per week or $487.50 a quarter). A description of these alternative options and their risks and trade-offs is included in this report.

Model design

16. The model for implementing FamilyBoost is based on a "per household" entitlement. This works for most family structures, including traditional structures and in situations where only one parent has a shared care child in a paid ECE service. The complexity is around what to do with two households who share a child between them within a "per household" approach to entitlement. You have previously agreed to the household who applies first being approved. To ensure that we are able to implement a 'first come first served' model by the first application date of 1 October we are required to use a design approach that does not require the creation of "family profiles" in the system or use apportionment of the payment based on the level of care or ECE fees.

17. For households with children in shared care, the design approach we are able to implement may result in there being a race to see who is able to get their application in the fastest every three months.

18. Under this design approach, a FamilyBoost application would be rejected if the children listed on the application are the same as the children listed on another application that had already been received. Children would be identified via their IRD numbers, which would be included in the FamilyBoost application.

19. A FamilyBoost application would not be rejected if not all of the children were the same. If one of the households had a child in shared care and another child who was not in shared care, with both children attending ECE, they would remain able to claim FamilyBoost.

20. Households would still be able to claim FamilyBoost for children they have sole care of even when they also have a child with shared care in ECE.

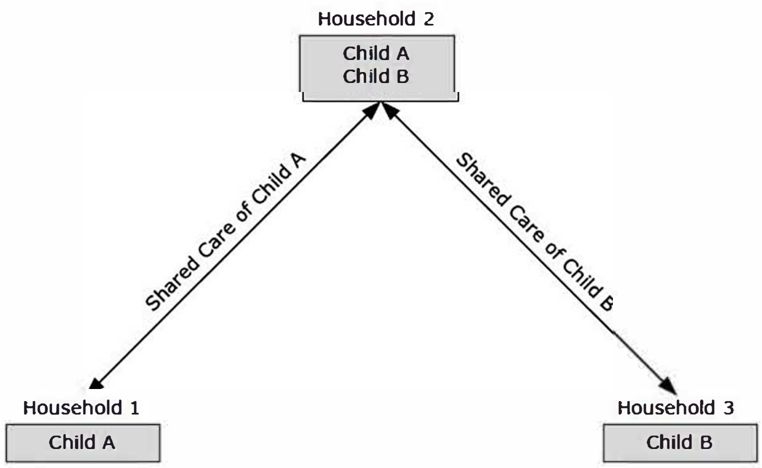
Example 1:

Karen and Josh are separated and have a child, Sam, whom they share care of. Josh also has another child, Amy, with his current partner Charlotte. Karen pays ECE fees for Sam, and Josh pays ECE fees for Sam and Amy. When Karen claims FamilyBoost, she lists Sam on her application and her application is approved. When Josh claims FamilyBoost he lists Sam and Amy on his application. As 'Sam and Amy' does not match 'Sam', Josh's FamilyBoost application is also approved.

21. Due to data limitations, it would not be possible to exclude the fees paid for the child in shared care from the second FamilyBoost application. This may sometimes result in the household receiving additional payments that would not be available for a household with only children in shared care. This will not be the case where the ECE fees of the child in the sole care of the household already exceeds their maximum entitlement. That is, having the shared care child included in the application does not result in any additional entitlement if the full $75 per week is reached just on the fees from the child in sole care.

22. In scenarios where there is a household with two children in shared care, but where the care is shared with a different household for each child, all three of the households will be able to claim FamilyBoost as there will be three different 'sets' of children; Child A, Child A and B, and Child B. As none of these 'sets' are identical the applications would all be accepted by the system.

Example 2: Three households sharing the care of two children



Each household will be able to claim FamilyBoost as they all have a different 'set' of children.

23. While there are not many households in these situations, these and more complex arrangements do exist. Following the 'first come first served' approach requires Inland Revenue to construct a process for handling disputes around whether the child is in shared care. This will require the creation of a review process, which will result in an increase in operational costs. As with any policy, people who feel they have been treated unfairly under the law can also present their case to an ombudsman or apply for a judicial review.

24. Inland Revenue is involved in these types of familial disputes around care of children for Working for Families tax credits and child support purposes. Disputes relating to these products use significant time and resources for the department and can lead to under and overpayments. Introducing a new definition of 'care' for FamilyBoost may cause confusion for parents and could also exacerbate already tense dynamics between separated parents.

Scenarios

25. Below are seven scenarios and what the outcomes will be for households as a result of the 'first come, first served' model.

The FamilyBoost rules will work for the majority of scenarios where only one household makes ECE payments

26. The FamilyBoost rules will work in the vast majority of situations, even where multiple households have ECE costs and only one parent is claiming FamilyBoost.

27. The below scenarios encounter no issues under the 'first come, first served' approach:

Scenario 1: No shared care, parents are together

28. Sally and John have a child, Tim. Sally and John are in a relationship and live together. John works as a tile layer and earns $110,000 annually. Sally works casually at her local supermarket and earned $5,000 in the last three-month period. Tim attends the local ECE provider on days when both Sally and John are working. In the last three-month period Sally and John have $2,000 of ECE costs.

29. Sally has collected her last three months of ECE invoices and applies for FamilyBoost. She is paid out $500.

Scenario 2: No shared care, parents are separated

30. Daryl and Jane have a child, Nick. Daryl and Jane are separated and Jane has full time care of Nick. Jane is self-employed as a beautician and earned $50,000 in the last year she filed her income tax return. She is eligible for the Childcare Subsidy, but has not applied. Jane has ECE costs of $2,500 in the previous three-monthly period. She applies for FamilyBoost and is paid out $625.

31. Daryl is unable to claim FamilyBoost as Nick is not in his care and he does not have any ECE invoices.

Scenario 3: Shared care with only one ECE payment

a) *One parent pays fees with a private reimbursement*

32. Mark and Hannah are separated. They have two children under five, Jessica and Dylan, who they share care of in a one week on, one week off arrangement. Jessica and Dylan attend a daycare in Christchurch five days a week, regardless of which parent they are staying with, at a cost of $531 a week or $6,903 across the three-month period. Mark pays for the full ECE fees directly to the centre and then applies for FamilyBoost. As he earns $128,000 per year, he receives the $975 maximum entitlement. Hannah compensates him for the weeks the kids are in her care by paying 50% of the residual cost, $2,864.

b) *One parent pays fees, the other parent incurs no ECE costs*

33. Tom and Lucy have shared care of their child, Andy, with Tom having four days a week care and Lucy three days. They have agreed that when Tom has Andy, Tom will pay for full time ECE at a cost of $400 a week while Lucy, a part time relief teacher at the local school, looks after Andy at her home when she had his care. Tom earned $120,000, applies for FamilyBoost and receives the maximum entitlement of $975 for the quarter. As Lucy does not pay ECE fees she is not able to apply for FamilyBoost.

In some scenarios the 'first come, first served' model would create a race to apply

Scenario 4: Equal shared care and separate payments

34. Susan and Pete are separated and share care of their child, Andrew, in a one week on, one week off arrangement. Andrew attends a different ECE centre depending on whether he is living with Susan or Pete. Susan and Pete have identical fees in the July - September period of $1,650 and both earn under $140,000, so both have an entitlement to $412.50.

35. Pete applies for FamilyBoost on 1 October and receives his $412.50 FamilyBoost payment. Susan is taking care of Andrew on that day and forgets to apply. Susan applies the following day, 2 October. Susan is told she is ineligible for the FamilyBoost payment as it has already been claimed by Pete. As Pete is scheduled to have Andrew over New Year's, her friend recommends she set a reminder to apply on 1 January immediately after the New Year countdown.

In some scenarios, one household would be able to prevent the other household from receiving FamilyBoost

36. There is an issue that the 'first come first serve' approach means households, who only have a small FamilyBoost entitlement, can prevent (either deliberately or inadvertently) the other household (who may have a larger FamilyBoost entitlement) to the payment. It could be argued that the household with the larger entitlement is "more entitled" to the payment due to having a larger share of the child's ECE costs:

Scenario 5: Shared care, level of care aligns with level of fees

37. Henry and Alice are separated and have an adversarial relationship. Henry has care of their child, James, on Fridays and Saturdays. James attends kindergarten on Fridays, which has low fees of $15 a day. Alice has care of James from Sunday to Thursday. During the week Alice sends James to Advancing Minds Preschool at a cost of $208 per week.

38. On 1 October, Henry applies for FamilyBoost with his $195 quarterly fees and $170,000 annual income. His application is approved and he is paid out $48.75. Alice, who has an annual income of $65,000, applies later that day for a FamilyBoost tax credit of $676. As her application came in after Henry's it is processed later and is denied as FamilyBoost has already been claimed for James.

39. Alice disputes with Inland Revenue that Henry has legitimate care of James, as she takes care of him for most of the week and pays for the majority of his ECE fees. A review is undertaken by Inland Revenue, which concludes that Henry's application was legitimate as he has care of James and has ECE fees from Cozy Kids Kindergarten, which is a licensed ECE provider. Alice is told that the only way for her to access FamilyBoost is to make sure she applies before Henry in the future.

40. Alice believes that she is being treated unfairly and complains to the Parliamentary Ombudsman and her local MP.

Scenario 6: Shared care, level of care diverges from the level of fees

41. Sarah and Fred have shared care of their child, Monique. Monique spends Wednesday with Sarah and the rest of the week with Fred. They alternate weekends. When Monique is with Fred, she attends Pukekohe Kidz Kindergarten, where Fred also volunteers, at a cost of $100 a week. As Sarah lives in Manurewa, she wants Monique to be closer to her on the days where she has care, so she enrols her in Beautiful Minds Early Childhood Education Centre on Wednesdays. As she is only enrolling her for one day, Beautiful Minds charges a premium of $200 a week.

42. Fred applies for FamilyBoost early on in October. With his annual income of $55,000, his partner's annual income of $100,000 and three-monthly ECE fees of $1,300, he receives a FamilyBoost tax credit of $325.

43. Sarah receives her ECE invoice for September on the 16th of October as her centre was having technical issues with their payroll software. When the centre sends the invoice, they also inform her that she is eligible to claim FamilyBoost. Sarah lodges a FamilyBoost application. Her application is denied as a FamilyBoost claim has already been lodged for Monique. Sarah calls Fred to see how much he received from FamilyBoost. When she finds out that he received $325 and she would have been eligible for $650 she calls Inland Revenue and asks them to pay her the difference of $325. Her request is denied.

Scenario 7: Care of the child changes during the three-month period

44. George and Ann are separated and have a child, Julia. Julia has been living with Ann until 12 July, when a court awarded George sole custody. Julia has been attending PlayWell ECE centre, for which Ann has been paying $200 a week. In the July-September three-monthly period she has a total ECE cost of $400.

45. George moves Julia into Saint Thomas' Day Centre, where he pays a weekly ECE cost of $250, he has a total ECE cost of $2,750 in the three-monthly period.

46. Both George and Ann earn under the $140,000 abatement threshold. Ann applies for FamilyBoost and declares that Julia is in her care, as she was at the time and receives a $100 FamilyBoost tax credit.

47. George also applies for a $687.50 FamilyBoost tax credit but his application is denied as Ann has already received FamilyBoost. He disputes that Ann has care of Julia, as he has a court order giving him sole care. His complaint is reviewed but as Ann did have care of Julia and ECE fees in the July-September three-monthly period it is determined that her claim was legitimate and therefore that George is unable to claim FamilyBoost for that period.

This approach means there will be some outcomes that could be perceived as inequitable or unfair

48. The scenarios above are not an exhaustive set of situations that might arise as a result of the 'first come first served' approach. Not all scenarios will result in negative outcomes or complaints and it depends on the degree of shared care, whether both parents have paid ECE fees and their ability to reach private agreements. The above scenarios do, however, demonstrate how this approach would result in outcomes that would be perceived as unfair or inequitable by parents who, but for applying for the credit second, would be entitled to the payment. If you are not comfortable with any of the above scenarios there are two alternative approaches to shared care that can be taken, each with its own trade-offs and issues.

Alternative approaches

Both households have maximum entitlement to FamilyBoost

49. This is the scenario set out in a previous report (IR2024/030). In this scenario, both parents are able to separately access the full $75 a week ($975 a quarter) FamilyBoost payment if they meet the other eligibility criteria (i.e., have care of the

child, a household income under $140,000 and are able to produce ECE invoices with fees up to $300 per week[1]).

50. Under this approach, Inland Revenue does not need to get involved in familial dynamics and disputes would not arise over who had care or the relative percentages of ECE fees paid. There would be some increase in fiscal costs but there would also be lower operational costs as there would be no need for a full disputes unit or dealing with complaints. As shared care will result in a natural division of ECE fees across two households we do not anticipate that the costs would be substantially higher than if there was only one household with full time care of the child.

51. Perceptions of unfairness and inequitable outcomes could also arise under this approach, given it would allow households with relatively little care of a child or relatively low ECE costs to access the FamilyBoost payment. The larger amount of support accessible to a child where their parents are separated, relative to children in households where parents have not separated, may also be perceived as unfair. FamilyBoost being explicitly tied to the amount of a household’s ECE costs act as a natural counterweight to these risks.

52. As noted in our previous report to you, there is also a risk that parents that remain together under this model may be incentivised to fraudulently claim they are separated in order to access a greater FamilyBoost payment. Inland Revenue has a number of tools it can use to mitigate this risk, s 6(c) [redacted]

53. Inland Revenue’s preferred approach remains this option, for the reasons set out above and in the previous report. The objective of FamilyBoost is to increase the income of families with children in ECE facing rising cost of living pressures. As both households in a shared care arrangement will be facing these pressures there is a sound policy rationale for this approach.

Households with children in shared care are only eligible for 50% of the maximum entitlement

54. A further alternative model is to allow both parents of a child in shared care to claim FamilyBoost but to limit their maximum payment to 50% of the entitlement of a household without a child in shared care.

55. This model avoids the race to apply in the ‘first come first served' model and limits the perception of double payment under the full entitlement model, but would have its own potentially inequitable outcomes that may also receive public scrutiny.

56. The 50% cap would be a blunt instrument, as there are a variety of shared care arrangements which do not involve an even care split. It seeks to balance simplicity with allowing more households to apply than under the ‘first come, first served’ model. It may result in fewer complaints about people being unable to apply but there may still be complaints from people who feel that the 50:50 spilt is unfair.

57. There are two ways this approach could be implemented, both of which would require parents to self-declare whether their child is in shared care.

58. The first approach is that applicants would be asked to declare if they had a child in shared care. If they did, their maximum entitlement would be automatically reduced by 50%. While simple, this could be seen as unnecessarily punitive for some

[1] Where one of the households has an income between $140,000 and $180,000 that household would not be entitled to the full $975 payment but instead the equivalent abated payment.

families. For example, where an applicant has the majority of care and ticks 'yes' to shared care, but the second parent only has care of the child on weekends, or where the second parent does not send the child to a formal ECE provider and therefore incurs no childcare cost despite sharing care.

59. The second approach is to ask applicants to declare if their children are in shared care and if the other household also has ECE costs. If they do, their maximum entitlement would be automatically reduced by 50%.

60. Households may not be aware of whether another household is incurring an ECE cost. This could result in incorrect applications for the full FamilyBoost amount which would be paid out. If the second household were to apply at a later date, we would reassess the original household's application, which may result in the creation of significant debt, particularly if the second household applies for multiple three-monthly periods or for a previous year. The debt for claiming a year of full FamilyBoost when only entitled to 50% would be approximately $2,000, although further design decisions around debt and backdated claims are yet to be worked through.

61. This would create a higher incidence of debt for FamilyBoost in a way that has been avoided in the other two models (where debt would mainly be incurred as a result of fraud) and that goes against the 'full and final' approach that would otherwise apply to the FamilyBoost applications.

62. A 50% reduction to a household's maximum entitlement would be significant for some households. Under either approach, this reduction creates an incentive for households to not declare shared care or shared ECE costs. These applications would be fraudulent but would be unlikely to be detected until the second household makes a FamilyBoost application. At this point, the first household's application would be reassessed and they may incur debt.

63. This approach would have a comparable fiscal cost to the 'first come first served' approach but is anticipated to have higher operational costs due to the need for additional reassessments and result in greater system complexity.

Conclusion

64. There is no option which provides a complete solution to the complex (and sometimes tense) issue of households with children in shared care. As outlined above, there is potential for winners and losers under any of the options. Regardless of the option chosen, we expect that decisions on this feature of the rules will generate public attention and scrutiny. Depending on the option chosen, the perceived unfair or inequitable outcomes would fall on different household groups.

65. Ultimately, it is for ministers to decide which approach best aligns with your overall objectives for the tax credit, taking into account your risk appetite around which household groups stand to potentially gain or lose under each option. These risks include Inland Revenue being required to insert itself in familial dynamics to assess when a child is in a parent's care and frustrations emerging where a parent who would be otherwise entitled to FamilyBoost is denied it because the child's other parent has also accessed FamilyBoost.

66. Inland Revenue is currently progressing a design using the 'first come first served' approach decided on by ministers and will be deliverable for an initial application date of 1 October 2024. Processes for handling disputes around care would not be in place by this date. This approach is also set out in the Cabinet paper that is currently out for ministerial consultation.

Next steps

67. If you decide to make any changes to the proposed FamilyBoost policy as a result of this report we will reflect these changes in FamilyBoost Cabinet paper.

68. The FamilyBoost Cabinet paper is currently out for ministerial consultation. If any necessary changes emerge during the consultation these will be made prior to the paper being lodged with the Cabinet office on 14 March 2024.

69. We recommend that you refer a copy of this report to the Minister for Social Development and Employment, Minister of Education and the Associate Minister of Education for their information.

Sensitive

Office of the Minister of Finance

Office of the Minister of Revenue

Cabinet Economic Policy Committee

Progressing the FamilyBoost tax credit

Proposal

1 This paper seeks policy approval from Cabinet for the proposed design and delivery of FamilyBoost and corresponding funding decisions. FamilyBoost is a manifesto and coalition agreement commitment for the Government and is designed to provide income support to families with early childhood education (ECE) costs.

Relation to government priorities

2 The Government is committed to introducing 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.

3 The cost of childcare can create a barrier to entering the workforce, particularly for the second earner in a household. We expect that FamilyBoost will increase the financial returns from being in work, making work more worthwhile for families with young children by directly assisting them with the cost of childcare.

Executive Summary

Background

4 The National Party's pre-election policy documents outlined the design and key parameters of a new product named FamilyBoost, to be administered by Inland Revenue, to support families with meeting their ECE costs. This product was part of the overall tax plan detailed in the coalition agreements and was also confirmed in the Speech from the Throne.

5 The policy as described in the pre-election policy documents is designed around utilising the flow of parents' fee information from ECE providers to government agencies, including Inland Revenue. We have been advised by officials that data on household ECE fees is not currently collected by, or exchanged between, government agencies. For this reason, Inland Revenue is unable to develop and deliver FamilyBoost as described by 1 July 2024. Officials have, however, been developing a form of FamilyBoost which could be feasibly implemented by that date if decisions are made now.

Decision sought from Cabinet

6 Inland Revenue officials have progressed an alternative design for FamilyBoost based on the parameters set out in National Party's pre-election policy documents. The proposed design, advantages, risks and timing of this version of FamilyBoost are detailed below. There are significant trade-offs required to retain the planned 1 July 2024 delivery date.

7 To meet this date, Cabinet is asked to approve high-level decisions regarding the direction and design of FamilyBoost. These decisions are needed to develop systems, draft legislation and provide as much time as possible for consultation with the ECE sector. If Cabinet approval has not been received by 1 April 2024, the delivery date of FamilyBoost would need to be reassessed.

8 This paper details key design decisions and seeks the approval of Cabinet to delegate other technical and administrative decisions on the product's design and implementation to us as Ministers.

9 This paper also seeks Cabinet agreement to pre-commit the funding required to implement and deliver the FamilyBoost policy against Budget allowances.

Background

10 FamilyBoost will be a payment aimed at supporting families facing cost of living pressures by helping in alleviating the impact of ECE costs. The original design of FamilyBoost had envisaged that the new payment would utilise fees information collected from ECE providers and passed to Inland Revenue to combine with families' income information for a seamless payment. Inland Revenue would pay refunds on a fortnightly basis direct to parents. The payments would be a 25% refund of residual ECE fees up to $300 per week after existing supports were taken into account, with the refund amount capped at $75 per week. The payment would abate from household income of $140,000, reducing to nil at $180,000.

11 The original design would have required ECE fees information linked to individual parents or caregivers and the children in their care. While Inland Revenue has some of the data required to administer FamilyBoost (i.e., income data and bank account information for some potential recipients), other essential data is held by ECE providers (i.e., ECE fee payments and enrolment/attendance details) and parents/caregivers (i.e., relationship status and children in their care). Importantly, ECE providers do not comprehensively provide fees information to government agencies.

12 The Ministry of Education (MoE) has an existing mechanism to collect attendance data which stores each child's name, date of birth and National Student Number, known as the Early Learning Information system (ELI).[1] While ELI could be used to collect fees information, this would take time and it would need to be significantly adapted. MSD also receives fee information from some low-income families in order to administer the Childcare Subsidy. However, this is a more limited group than the group targeted by FamilyBoost.

[1] ELI does not yet collect information on children enrolled in Te Kōhanga Reo.

13 As the fees information relied on for the original design is neither collected nor exchanged, it is not possible to put in place the FamilyBoost product, as originally described, by 1 July 2024.

14 Officials have advised us that collecting fees data to support FamilyBoost would take significant time (approximately two to three years). It would involve new data collection and sharing arrangements, more complex systems build, and require consultation with ECE and student management system providers. We have considered the option of extending the timeline for implementing FamilyBoost, so that a more seamless system, which more closely resembles the original design, could be developed and built. However, this option is outweighed by the need to provide immediate relief to families facing cost of living pressures now. Therefore, we propose that Cabinet endorse the FamilyBoost product as outlined below, which can be delivered this year by Inland Revenue, noting the trade-offs and risks detailed in this paper.

Other options considered

15 As noted above, we considered a slower build and implementation of FamilyBoost, more closely aligned to what was originally envisaged. Another broad option we considered included expanding or adjusting the existing support products for families, ECE costs and school donations (see Appendix 1 for more details). Expanding existing products would require paying to a broader group of families than the FamilyBoost policy is intended to support and would have an impact on fiscal costs (for example, increasing the In-work tax credit would be simple, but would provide payments to families with children up to the age of eighteen). This meant the alternatives would not deliver support in a way that was aligned with the policy intent of FamilyBoost.

FamilyBoost proposal

Description

16 We have agreed to a basic refund-style payment, modelled on the donations tax credit, where parents or caregivers submit invoices directly to Inland Revenue via myIR (Inland Revenue’s online services log-in). Inland Revenue would then calculate the refund based on the most recent income information Inland Revenue hold. However, rather than submitting invoices as and when they are received, parents would submit invoices once every three months.

17 If a family is entitled to existing ECE support, such as the Childcare Subsidy, we expect the family would be invoiced the remaining amount of fees payable. FamilyBoost would be calculated based on 25% of this remaining amount up to the capped amount. Due to the shift to a three-monthly period the payment would be made as a lump sum following the family’s FamilyBoost application. The annual household income and weekly refund caps would use their equivalent three-monthly amounts.

18 The legislation would apply from 1 July 2024. Parents would start collecting invoice information from that date, and would be able to receive payments from October 2024 onwards. Refund calculations would be final upon submission of invoices every three months and would not be adjusted if other income information becomes available at a

later date. Consequently, parents should not incur debt and there would be no "square-up" process when assessing annual income tax returns.

19 This model utilises actual past income information already filed with Inland Revenue and minimises the additional information required to deliver a payment. New information sharing systems and agreements to collect and pass on fees information would not be required to be developed by MoE or ECE providers for delivery of the payment. An information sharing agreement with MoE may later be developed for verification and integrity purposes. As noted above, this approach is a variation of the current donations tax credit model, with the additional complications that ECE costs are ongoing and income may be calculated by combining the income of a couple rather than taking individual income and will abate the payment.

20 This design carries several significant risks. Key risks include the high burden on parents or caregivers to provide information which may affect the rate of take up, and the risk that pressure on Inland Revenue's overall customer service capacity will mean parents are not well supported to navigate a new high compliance product. This is discussed in more detail at paragraph 34 below, along with details of Inland Revenue's communications plan at paragraphs 76 to 80.

Changes to enable 2024 delivery

21 This table outlines the proposed product, highlighting where key changes have been made in order to deliver FamilyBoost this year:

Parameter	Original outline	Proposal
Fees information	Passed automatically to Inland Revenue	Provided by parents in the form of invoices every three months
Income	Based on current household income, abating between \$140,000 - \$180,000 (annual income)	Based on household's taxable income for the previous three-monthly period (and/or most recent tax return), abating between \$35,000 - \$45,000 (three-monthly income)
Assessment period	Annual	Three monthly
Payment	Fortnightly	Lump sum every three months
ECE provider requirements	Possibly some changes to information exchanges	Some providers may need to update invoicing to meet minimum requirements
Debt	Not discussed	Minimal reassessments. Use of previous income means payments to parents are full and final, except where customers incur debt as a result of fraudulent applications.

Key design parameters

22 Some aspects of this proposed product require decisions as soon as possible in order to steer the development and system build of FamilyBoost. We have made these decisions with advice from officials and ask Cabinet to endorse the directions chosen:

22.1 **Eligibility of children in ECE**: FamilyBoost should be available for all families with children enrolled in licensed ECE providers, regardless of age (i.e., children up to the age of 6 years). This aligns childcare support products across agencies so that they serve the same group of children.

22.2 **Multiple children**: most social policy transfer payments, including Childcare Subsidy and Working for Families tax credits (WFF), scale for the number of children in a household. The pre-election design was ambivalent to the number of children in a household, setting the maximum payment on a per household basis. Scaling FamilyBoost to set the maximum payment for every ECE-aged child rather than every household with at least one ECE-aged child would increase the population for FamilyBoost and result in a corresponding increase in fiscal cost. Early estimates, contingent on further policy design details, suggest that this would amount to a roughly $50 million annual increase in the cost of the policy. As a fundamental change to the payment, it would significantly extend the time to build and implement the payment beyond 2024. Therefore, we will retain the per household maximum for the basic refund model and seek further advice for a future option.

22.3 **Eligibility for applicants who are not caregivers**: FamilyBoost should be available to the parent or caregiver of a child where they are also the person who pays the ECE fees (rather than being available to any payer of ECE fees, not necessarily the child's parent). Restricting the payment to caregivers and payers only will better target the payment and reduce the fiscal cost.

22.4 **Children in shared care**: FamilyBoost will be able to be claimed by both parents of a child in shared care, provided they meet at least a portion of the ECE costs. This removes the complexity of determining levels of care of a child in order to apportion payments. Both child support and WFF tax credits have complex systems to determine and dispute decisions around the sharing of care. Replicating these for FamilyBoost would slow delivery time and increase complexity for parents as processes around this issue would need to be developed and factored into system design. This decision would only impact parents who have shared care of a child and where both parents have separate ECE costs. Where separated parents share care of their child and their ECE costs, this will form a natural limitation on the amount each person can claim as neither is meeting the full cost of ECE for that child. Refunds for each parent will continue to be limited to 25% of the cost paid up to the limit of $300 per week per parent as with other FamilyBoost claims, and each parent will need to provide an invoice addressed to themselves, helping to ensure against fraudulent or duplicate payments being claimed. A team will also be set up to perform integrity checks on FamilyBoost claims, meaning shared care claims will be checked as part of this.

22.5 **Eligibility of non-natural persons for FamilyBoost**: if a trust or other non-natural person is the payer of ECE fees, they will not be eligible to claim this payment. This aligns with existing tax product settings and reduces integrity risks, but will likely increase departmental costs due to the need to check invoices for non-natural persons.

22.6 **No in-work test**: FamilyBoost will not be conditional on the work status of the applicant. An 'in-work' test brings significant administrative complexity, increased customer contact, and integrity checks. It can generally be assumed that those with high ECE costs are likely to be in paid work.

22.7 **Payment to applicants who have no tax liability**: linking FamilyBoost directly to residual income tax will create more complexity and will require closer monitoring. It is also a poor fit for the three-monthly model because income tax relates to a full tax year and can rule out self-employed people with tax losses who are incurring high ECE fees in order to work. We therefore propose there is no test against overall income tax paid for FamilyBoost eligibility.

22.8 **Ongoing indexation of FamilyBoost**: we propose that FamilyBoost will not be automatically indexed to inflation at its implementation. This is primarily due to fiscal cost and is in line with the proposals for income tax threshold changes. The approximate fiscal cost of indexing the maximum payment and abatement threshold to consumer price inflation is an increase of $9 million in the 2025/26 year, $16 million in the 2026/27 year and $20 million for the 2027/28 year. These figures reflect one approach to indexation.

23 We propose subsequent technical and administrative decisions are delegated by Cabinet to the Ministers of Finance and Revenue. These further design decisions include issues such as how far the time bar (a legislative cap on backdated refunds) should extend, and how debt should be managed.

24 We propose some design parameters, such as the issue around scaling for number of children, shared care processes or updates to thresholds or caps, be revisited in future years in order to improve FamilyBoost. This would allow recommended policy options to be implemented over time and early data and feedback to be used to inform future decisions.

Customer experience

25 Because ECE fees information is not collected or automatically exchanged, the resulting design of FamilyBoost places a greater effort on parents than originally intended. Parents will need to contact Inland Revenue every three months to manually claim the tax credit, providing their ECE invoices as evidence of fees paid. This may be complex for some parents, particularly where these parents are already in receipt of other types of support for the children in their care, such as WFF or Childcare Subsidy. It will be more familiar to parents who claim the donations tax credit.

26 This table provides an indicative outline of the process:

Timing	Customer action
From 1 July 2024	FamilyBoost legislation is enacted. Marketing and communications go out to parents to explain the new product and advise them to begin collecting ECE invoices in order to claim FamilyBoost.

	Parents begin retaining ECE invoices.
September 2024 (to be confirmed)	Parents register for FamilyBoost via Inland Revenue's online services, myIR. They will need to confirm their relationship status, child details (including their child(ren)'s National Student Number, if applicable), confirmation of enrolment in a licensed ECE service and confirm their bank account number.
October 2024	First claims for FamilyBoost. These first claims will relate to the previous quarter (that is, 1 July – 30 September 2024). When a parent makes a claim, using MyIR, they will need to complete an online confirmation form which confirms their circumstances (relationship, child(ren) enrolled in ECE) and attach their invoice(s). Inland Revenue will use the income information held in their system. The approved refund amount for the previous quarter is paid into the parent's bank account.
October to December 2024	Parents continue to retain ECE invoices
January 2025	Next three-monthly claim for FamilyBoost, with parents following the same claim and confirmation process as in October.

27 A detailed example of this process is provided in *Appendix 2: FamilyBoost scenario*.

28 Officials will provide advice to us by December 2024 on options to reduce the compliance costs on parents, such as having fees information provided directly from ECE providers to Inland Revenue, as well as other potential policy options to improve on the basic refund model, that would take some time to implement. This will build on the feedback from consultation with the sector and software providers.

Impact on the Ministry of Social Development

29 As FamilyBoost payments are intended to provide additional income to households on top of existing Ministry of Social Development (MSD) childcare subsidies, there may be interactions with other forms of MSD financial assistance. Based on October 2023 figures, 45% of Childcare Subsidy clients could potentially face interactions between FamilyBoost and MSD assistance.

30 We propose that the Minister for Social Development and Employment is authorised to make policy decisions which ensures that FamilyBoost meets the Government's intent of providing additional financial support for families. This means ensuring that FamilyBoost payments are not treated or charged as income and cash assets for MSD financial assistance. This would align with the proposal to not regard FamilyBoost payments as family scheme income or taxable income for income tax purposes. Depending on final design decisions for FamilyBoost, this may require system and legislative changes.

31 The alternative of treating or charging FamilyBoost payments as income or cash assets would mean MSD clients could face a reduction in their financial assistance, including childcare assistance, and would not see the full benefit of the additional support

provided through FamilyBoost. This could also negatively impact the uptake of FamilyBoost by MSD clients due to concern around how their MSD assistance may be impacted. It would also require comprehensive changes to systems and resources, and may need legislative change, including with other Ministries such as Health and Education that could not be delivered in time for payments from October 2024.

32 Financial implications are discussed at paragraph 62 - 64 below.

Risks and trade offs

33 Some trade-offs and design decisions are necessary in order to enable FamilyBoost to be delivered by 1 July 2024 with payments in October. Some of these decisions carry risks:

33.1 **Low take-up due to compliance effort required**: the compliance burden on busy parents or caregivers may result in lower take-up. Parents will be required to log in to myIR every three-months to complete their FamilyBoost claim and provide supporting invoices. Some parents may choose not to do this, may lack confidence or have other barriers to claiming, preventing the support from reaching those who may have the greatest need for it. Additionally, those with low ECE fees may choose not to claim. Inland Revenue will develop a communications plan to educate parents on the new product and how they can apply.

33.2 **Low work incentive impact due to payment lag**: there would also be a lag from the parent incurring the cost to the time of the refund (i.e., fees paid between 1 July and 30 September are partially reimbursed in October, and so on each quarter) which may reduce the work incentive of the tax credit. Some parents may not be able to afford the three months of fees upfront, and it may be more affordable for them to not work or work less.

33.3 **Full and final claims based on previous period's income**: using lagged income and a 'point in time' eligibility check provides certainty, avoids reassessment of entitlements and minimises the creation of debt. Inland Revenue would retain the power to reassess only in cases of manifest unfairness and at the discretion of the Commissioner of Inland Revenue. The corresponding risk of using past income is that it may not reflect a family's current circumstances. For parents with highly variable income, such as the self-employed or people who receive bonuses or commissions, there may be periods in which they have low current income but do not qualify for FamilyBoost. Alternatively, parents who would not be entitled to payments under an annual income assessment model may now have some periods in which they are entitled to payments.

33.4 **Risks relating to ECE providers**: Some ECE providers may be reluctant to or refuse to update their invoicing systems to regularly provide parents with the information required to be eligible for FamilyBoost by 1 July 2024, particularly as there is no direct financial incentive to do so. Similarly, other ECE providers, particularly smaller ones, may be unable to update their invoicing systems in time. Invoicing can often be done through student management systems providers, meaning ECE services have limited control over this. Furthermore, it is not clear to officials how sophisticated the invoicing systems for smaller ECE services are. Consequently, some parents who wish to apply for FamilyBoost may not be able to do so, further reducing or delaying take-up. There is also a risk of fraud where the amount charged in invoices is not a true reflection of the actual cost to the parent, or are in relation to children who do not exist or are not enrolled.

33.5 **Customer impacts**: July is the peak period of customer contact for Inland Revenue due to the annual income tax assessment and refund process. Parents and caregivers tend to contact Inland Revenue frequently at this time as their WFF entitlements are finalised. There is likely to be a high level of overlap between WFF and FamilyBoost customers, who may need extra support to familiarise themselves with the process for a new type of payment in addition to the usual high demand for WFF support at this time. This could result in high call volumes and long wait times for customers who are trying to contact Inland Revenue with queries about FamilyBoost.

In order to reduce the administrative costs, Inland Revenue will provide online applications only (which may exclude some customers, particularly those without access to a device or who have limited internet access) and will not provide additional support to ECE providers to enable to them to implement FamilyBoost. These trade-offs may reduce take up or mean a negative customer experience. Parents can submit a paper invoice by scanning or photographing it, but FamilyBoost claims will need to be submitted via Inland Revenue's online login service. Inland Revenue has a range of channels to assist higher needs customers, such as recommending the use of tax agents or nominated persons to act on their behalf, providing support through front of house services and community compliance staff, and referring parents to third party support such as Citizens Advice Bureau.

33.6 **Basic refund model becomes permanent solution:** an improved version of this refund model or a replacement model could be designed and implemented at a later date. However, there is a risk that a longer-term solution is never agreed or funded and the basic refund model option becomes permanent by default. Transfer payments can be difficult to replace with another product without negatively impacting some members of the target group, which could require significant funding to mitigate. Any updated model would have to be administered simultaneously with the original model to accommodate backdated claims, increasing administrative complexity and cost.

Consultation

Consultation with the ECE sector

34 The implementation of FamilyBoost will have impacts on the ECE sector, including parents, ECE providers and student management system software providers. Officials will therefore need to consult with the sector as early as possible.

35 We understand that, in their previous discussions with MoE, the ECE sector raised strong concerns about increased compliance and administrative costs imposed by government. s 9(2)(g)(i) [redacted] The sector has therefore also indicated a strong preference for early consultation to prepare for any policy changes. Early consultation may increase buy-in for implementing required changes especially given ECE providers do not have a direct financial incentive to adapt to any requirements.

36 As the product uses ECE fees as a parameter, there will likely be an impact on the administrative processes of ECE providers as they will be required to provide information in a specific format. Currently, 89% of ECE providers use a student management system to input and collate child data, which many providers use to make funding claims to MoE and some use to develop invoices for parents. It is possible that changes to these systems will be required for ECE providers to meet the requirements of FamilyBoost. This may increase compliance costs for ECE providers, and these costs may then be passed on to parents. For the basic refund model, it is anticipated that these costs will be limited to updating invoices to include the required information. Any additional costs will become apparent from the consultation with the sector.

37 Only 11% of ECE providers either do not use student management systems, or are ineligible to submit data to MoE via these systems. A large proportion of these providers are kōhanga reo. MoE is currently working to connect kōhanga reo to ELI by the end of the year. There are other ECE providers who do not fall within the mainstream group or have specific barriers to data integration, such as those who may not have the technology to provide electronic invoices for parents, or where they and their customer base (parents) may have unreliable internet access generally, such as rural communities. Adequate time for consultation that facilitates outreach to these providers as part of the consultation will be important to ensure a range of operating models within the sector is accounted for in the FamilyBoost design.

38 While ECE providers may not have a direct financial incentive to implement FamilyBoost changes specifically, we note the sector currently receives significant government funding in the form of subsidies (currently $2.7 billion per annum). Consultation with the ECE sector as part of the FamilyBoost work programme presents an opportunity for discussion about improving data on ECE fees charged to parents. There is a need to strike a balance between not overburdening providers, giving transparency to parents, and enabling government to understand the impact of subsidies. We will seek further advice from officials on options to improve ECE fee data collections either as part of, or as a complement to, FamilyBoost following this sector consultation.

Consultation options and Budget secrecy

39 We are asking Cabinet to agree that officials begin consulting with the sector on possible impacts and requirements for FamilyBoost delivery, despite the usual Budget secrecy requirements. With this agreement, Cabinet acknowledges that the information used to consult with the sector on the intended design of FamilyBoost will likely be made public. As such we could make a pre-Budget announcement before consultation. We are seeking agreement from Cabinet to make a pre-Budget announcement on the FamilyBoost policy.

40 This consultation would take place as soon as possible after this Cabinet paper is agreed, to ensure the sector has time to prepare any changes needed to assist with FamilyBoost implementation. It would also inform the content of legislation to be introduced on 30 May, Budget Day, and highlight any risks or changes to detailed policy decisions that we would need to make.

41 Consultation will focus on better understanding the sector and how they set fees and provide invoices to parents. To do this, some aspects of the design that ECE providers will be involved with will need to be discussed. No financial costs or policy details unrelated to the ECE sector will be discussed. This gives us some flexibility with how much detail on FamilyBoost we provide in a pre-Budget announcement. For example, we could say that work on FamilyBoost is underway and that officials will be working with the sector on how to make it as easy as possible with final announcements to be made at Budget, or we could provide greater details of the proposed model set out in this paper.

42 Alternatively, we could wait until 30 May to make any announcements and consultation could take place after Budget. This would remove the requirement for a pre-Budget announcement but would result in limited time for design and implementation changes to be made on FamilyBoost policy by the ECE sector before 1 July. There is a risk that the 1 July date may need to be pushed back if consultation highlights changes that need to be made with implementation or if ECE services are not able to update the format of their invoices in time.

Cost-of-living Implications

43 High ECE costs relative to incomes have implications for families' income adequacy, work incentives and ECE participation rates, which could increase child poverty over the longer term. FamilyBoost is intended to help alleviate these pressures by increasing family incomes.

44 Officials anticipate FamilyBoost will assist with income inadequacy in the current high cost of living environment. However, it must be noted that without data on actual ECE costs it is difficult to anticipate and measure the impact of the policy. s 9(2)(f)(iv) [redacted]

Population Implications

45 The policy is in the early stages of development; however, there has been high-level consideration of some potential population impacts. This is detailed in the table below. The policy appears to primarily target support to households with high ECE costs and does not scale for larger families, which may have some implications for different groups.

46 The child poverty impacts of FamilyBoost are being considered as part of the wider tax plan package, which includes changes to income tax, the Independent Earner tax credit and WFF. The Treasury are also currently preparing advice on the overall child poverty impacts of the wider tax plan.

Population group	How the proposal may affect this group
Low-income households	Support will go to families who have children in paid ECE care. Households which are unable to meet a large upfront cost for childcare will not benefit from a rebate-style scheme. To the extent that low-income families are already subsidised by other agencies, utilise unpaid childcare[2] or cannot afford higher fee services, the funding will be distributed more to middle income families. A 2023 Inland Revenue survey on the donation tax credit showed that only 57% of customers are aware of the scheme, and awareness is higher for those earning more[3].
Ethnicity	Māori and Pasifika families are overrepresented in low-income households and tend to have a lower uptake of childcare. Pasifika have the lowest overall proportion of childcare hours, at 41%, compared with 53% for Māori, 54% for Asians, and 60% for Europeans. Rates of receiving a childcare subsidy are highest for Māori, at 46%, then Pasifika at 41%, Europeans at 29%, and Asians at 25%.[4] This will affect the rate at which FamilyBoost provides further benefit to families, on top of other entitlements.
Women	Women are more likely to be secondary earners in a household and more responsive to incentives to work. FamilyBoost may have a positive impact as it would allow parents to keep more money from working or increasing hours of work.
Rural communities	Rural communities may have limited access to childcare options. While FamilyBoost may help with costs where access is possible, it will not increase availability of childcare which may be the more crucial barrier to work for some parents.

Legislative Implications

47 We propose that FamilyBoost be introduced as part of Budget day legislation for Budget 2024. Budget day legislation will provide a small window between Budget day and the intended implementation date of 1 July 2024. Officials will begin consultation with the ECE sector as soon as possible to enable the sector to make any adjustments to systems or materials required to support FamilyBoost delivery. More information on this is detailed above relating to consultation and below relating to communication.

Financial Implications

48 The financial implications of developing and implementing the new payment are significant. The estimated overall operating cost (non-departmental and departmental) of the proposed FamilyBoost policy is $723 million over the forecast period, with a corresponding impact on the operating balance and net debt.

[2] StatsNZ 2017 data indicates approx. 76,500 children aged 0-2 are cared for by a grandparent, family member, neighbour, or parent outside of the household (informal care) https://figure.nz/chart/PSiVcHOO5PWco1ZP
[3] IR customer survey, August 2023. Customers were 34% of customers were not claiming any of their donations. Of customers earning over $120,000, 74% were aware of the Donations tax credit scheme.
[4] https://www.motu.nz/assets/Uploads/Use-of-childcare-after-access-issues-note-FINAL.pdf.

Non-departmental cost

49 The non-departmental cost of the proposed FamilyBoost policy is estimated to be $677 million over the forecast period with a corresponding impact on the operating balance and net debt. The cost is $174 million per annum, declining over the forecast period and into outyears.[5] This costing is lower than the pre-election policy document costing. It should be noted that this costing excludes indexation, and if indexation is introduced in future this will increase costs into the latter half of the forecast period and outyears.

50 The costing provided below is based on the 25% refund rate, $75 per week maximum payment, $140,000 abatement threshold and $180,000 income cap. All these policy parameters are adjustable and could impact the final costing. Phasing in FamilyBoost over several years would also lower the cost in the initial periods. This phase-in could be accomplished through a stepped approach to any (or multiple) of these parameters. These costings assume 100% uptake of FamilyBoost.[6]

	$m – increase/(decrease)					
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & outyears**	**Total**
Non-departmental appropriations: FamilyBoost Tax Credit PLA	-	174	171	167	165	677
Total operating	**-**	**174**	**171**	**167**	**165**	**677**

Establishing an appropriation

51 In order to authorise expenditure for the payment of FamilyBoost once agreed by Cabinet and consistent with the proposed legislation (once introduced), a new non-departmental appropriation in Vote Revenue will be required from 1 July 2024. This paper seeks agreement to establish this appropriation as a permanent legislative authority (PLA), meaning that there is permanent uncapped authority to incur expenditure, and future expenditure forecast changes impact fiscal forecasts but are not charged against allowances. This is consistent with similar Benefits or Related Expenses (BOREs) administered by Inland Revenue such as the Best Start Tax Credit. Due to the uncertainty around the timing of when expenditure may need to be recognised, a PLA is recommended to minimise the need to seek additional Parliament authority through the year and mitigate the risk of unauthorised spending. In addition, as there are no levers that the Government or agencies can use to minimise expenditure for FamilyBoost payments other than changing policy settings, it is also appropriate for the forecast changes to be managed outside of allowances as is consistent with other PLAs and forecast annual appropriations.

52 Treasury officials consider the FamilyBoost appropriation meets the bar for establishment as a PLA. It should be noted that the initial non-departmental cost of FamilyBoost will be charged against Budget allowances as it is the result of a policy decision, however, subsequent forecast changes (i.e. shifts in expenditure due to

[5] The decline in outyears is due to wage growth, partially offset by annual CPI adjustments to ECE costs.
[6] Actual take-up is expected to be lower but until the process has been in place for a few years an accurate take-up rate will not be known.

increased uptake or timing of rebate claims) to the non-departmental cost of FamilyBoost will not be charged against allowances (but will still impact operating balance before gains and losses and net debt) provided that Cabinet agrees to establish the appropriation as a PLA. The fiscal impacts of any policy changes will still be managed against Budget allowances.

Implementation and administrative costs

53 Implementation costs are relatively low but ongoing administrative costs are high. This is because the process is more compliance heavy for both customers and Inland Revenue than originally envisaged (due to the lack of existing information sharing).

54 Departmental operating costs associated with implementation and administration of the proposed FamilyBoost design are estimated to be $45.012 million over the forecast period, with a corresponding impact on the operating balance and net debt. This is split between Inland Revenue ($39.200 million over the forecast period), and MSD ($5.812 million over the forecast period).

55 Since the original submission of the new spending template for FamilyBoost, MoE has identified an operating cost of $0.475 million over the forecast period to implement and delivery data matching with Inland Revenue.

56 There will also be a one-off capital cost for the implementation of the proposed FamilyBoost design which is estimated to be $7.050 million. This is split between the Inland Revenue Department ($1.500 million), and MSD ($5.550 million). Inland Revenue will self-fund their $1.500 million capital cost.

Financial implications for Inland Revenue

57 The following table provides details on the implementation and administration costs for Inland Revenue:

	$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Total operating	**-**	**11.900**	**9.100**	**9.100**	**9.100**	**39.200**

58 Inland Revenue will self-fund the $0.500 million operating costs in the 2023/24 year.

59 Inland Revenue will also self-fund the $1.500 million capital cost of implementing FamilyBoost, as well as the associated depreciation and capital charge operating costs which total $1.200 million over the forecast period.

60 The original cost estimates factored in a contingency to reflect uncertainty about policy and design decisions at that time. Whilst some of this uncertainty has reduced there is a risk that final policy decisions, design decisions, consultation impacts and/or other impacts increase costs above the scaled-down moderated estimates. If this risk eventuates, Inland Revenue advise they may need to seek additional costs during this Budget process.

Financial implications for the Ministry of Social Development

61 As mentioned in paragraphs 29 – 33, FamilyBoost payments may interact with other MSD financial assistance, though further policy decisions on this are still to be taken by the Minister of Social Development and Employment. Managing this interaction would require comprehensive changes to systems and resources.

62 MSD costs are subject to change, but the table below provides initial estimates indicative of operational changes required in the event an income and cash asset exemption is applied to forms of MSD assistance which don't count tax credits as income. If payments are to be considered as income and cash assets, operational costs will be significantly higher due to the additional processes required.

63 There may be an additional operational impact to MSD as a result of new data sharing for audit processes. At this stage it is not known how many audits may be initiated each quarter therefore MSD are unable to provide cost of this change until further detail on volumes is known.

	$m – increase/(decrease)					
Vote Social Development Minister of Social Development and Employment	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Operating	0.242	1.604	1.322	1.322	1.322	5.812
Capital	1.854	3.696	-	-	-	5.550
Total Operating	**0.242**	**1.604**	**1.322**	**1.322**	**1.322**	**5.812**
Total Capital	**1.854**	**3.696**	**-**	**-**	**-**	**5.550**

Financial implications for the Ministry of Education

64 MoE will incur costs to implement data matching with Inland Revenue. Data matching between MoE and Inland Revenue to check that children are enrolled in ECE for the period in which FamilyBoost is claimed would support early detection of fraudulent claims. MoE estimates that setting up such a data match and running it four times a year will cost $0.475 million over four years, shown in the table below.

65 As a result of the wider cost saving process, MoE is not in a position to absorb this cost within its baseline. MoE would not be able to progress data matching without the funding below being included in the FamilyBoost initiative.

	$m – increase/(decrease)					
Vote Education Minister for Education	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Total operating	**-**	**0.175**	**0.100**	**0.100**	**0.100**	**0.475**

Funding approach

66 The Minister of Revenue, Minister for Social Development and Employment, and Minister of Education jointly submitted a Budget bid for FamilyBoost on 16 February 2024 with initial cost estimates. As noted in the sections above, the initial cost estimates have been updated to account for Inland Revenue partially self-funding as well as the costs being down-scaled as part of the Budget initiative moderation approach. This paper seeks a pre-commitment against the Budget allowances for the implementation and administration of FamilyBoost.

67 The current indicative costings outlined in this paper have been prepared on the basis of the current broad policy parameters of FamilyBoost as set out in this paper. There are a number of additional decisions of a minor and technical nature still to be made by Joint Ministers to finalise the details of the policy, which may result in changes to the departmental costings. If changes to the departmental costs of the policy arise as a result of these subsequent decisions, departments will either absorb these costs within baselines, seek any additional funding, or return any excess funding via the Budget 2024 final Cabinet paper.

Impact Analysis

Regulatory Impact Statement

68 RIS requirements apply to this proposal due to the introduction of new legislation. A RIS has been completed and is included with this Cabinet paper.

69 The Quality Assurance panel from Inland Revenue has reviewed the "A child care tax credit – "FamilyBoost"" regulatory impact statement (RIS) prepared by Inland Revenue and considers that the information and analysis summarised in the RIS partially meets the quality assurance criteria. This is because the scope of the options analysis has been constrained by the lack of time to fully consider other options given the directive by the Government to provide the benefit through a tax credit mechanism. A comprehensive analysis of those other options outlined in the RIS may have provided a more appropriate option.

70 In addition, the panel considered that the problem definition could be clearer but given the direction, assumptions and limitations imposed on the analysis there is limited scope to further define the problem the policy is addressing.

71 Consultation with the sector has not been undertaken. The RIS would have benefited from feedback from consultation, including the views of the stakeholders on the options considered in the RIS.

Climate Implications of Policy Assessment

72 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Human Rights

73 This policy does not appear to have any implications in relation to human rights. A Bill of Rights check will be undertaken when legislation is drafted.

Use of External Resources

74 External resources such as contractors or consultants will be partially utilised for the one-off system implementation costs but are not required for ongoing delivery of this policy. Inland Revenue may utilise its third-party resource provider for any temporary customer service activity as part of its normal agile delivery model.

Communications

75 FamilyBoost has been announced as part of the National party's pre-election manifesto and included in coalition agreements. It was mentioned in the Speech from the Throne.

76 Depending on decisions made on the approach to consultation, the Minister of Finance will consider whether to make a further announcement on FamilyBoost prior to Budget 2024, given that we are seeking permission for officials to undertake consultation with ECE providers prior to Budget day.

77 Inland Revenue are developing a Change and Communications Plan to promote FamilyBoost prior to and during implementation to ensure people are fully aware of the payment and to assist take-up of the credit. This plan would include change management activities such as internal website updates, process materials/guided help, staff information sessions and detailed training, so that frontline staff are able to respond to queries and provide effective support to eligible families.

78 The plan would also involve external communication activities, including stakeholder presentations, content creation for websites, emails/social media, and newsletters for Inland Revenue and other agencies' channels. Furthermore, when consulting with the ECE sector, Inland Revenue will assess whether ECE providers are receptive to helping inform parents of FamilyBoost, which would provide the most direct communication to families, including redirecting those families to the appropriate Inland Revenue resources. Early sector consultation is therefore important to forming the final Communications Plan.

79 Officials will also work with our offices to prepare material for Budget day announcements.

Proactive Release

80 This Cabinet paper will be proactively released after the relevant legislation introducing a FamilyBoost payment is introduced.

Recommendations

The Ministers of Finance and Revenue recommend that the Committee:

1 **note** that while there is a range of existing support available to help parents and caregivers meet ECE costs, some parents still face high ECE costs;

2 **note** that FamilyBoost as envisaged in pre-election policy documentation cannot be delivered by 1 July 2024 due to system and data challenges;

3 **note** that other options, such as the expansion of existing supports and a longer build time for FamilyBoost, have been considered by Ministers;

4 **agree** to progress the proposed basic refund model of FamilyBoost for 1 July 2024 with payments in October 2024 and continued integrity improvements over time;

5 **note** that officials will report to the Ministers of Finance and Revenue by December 2024 on future policy options to reduce the compliance impact on parents and other potential improvements on the basic refund model;

6 **note** that in order to authorise expenditure for payments of FamilyBoost, a new non-departmental appropriation in Vote Revenue will be required from 1 July 2024;

7 **note** that officials recommend the new appropriation be established as a permanent legislative authority (PLA) meaning that there is permanent uncapped authority to incur this expenditure, and future expenditure forecast changes impact fiscal forecasts but are not charged against allowances;

8 **agree** to establish the following new appropriation, limited to FamilyBoost tax credit payments made to eligible recipients under section 185 of the Tax Administration Act 1994;

Vote	Appropriation Minister	Title	Type	Scope
Revenue	Minister of Revenue	FamilyBoost Tax Credit PLA	Benefits or Related Expenses	This appropriation is limited to FamilyBoost payments made to eligible recipients under section 185 of the Tax Administration Act 1994

9 **agree** to a performance exemption for this new FamilyBoost tax credit appropriation as the appropriation is one from which resources will be provided to a person or entity other than a department under s15D(2)(b)(ii) of the PFA, as additional performance information is unlikely to be informative because this appropriation is solely for FamilyBoost tax credit payments under the Income Tax Act 2007. Performance information relating to the administration of the payment will be provided under the Services for customers multi-category appropriation under the Services to process obligations and entitlements category;

10 **approve** the following changes to Vote Revenue appropriations in accordance with Section 185 of the Tax Administration Act 1994 reflecting the changes described in

recommendations 7 and 8 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
Benefits or Related Expenses: FamilyBoost Tax Credit PLA	-	174.000	171.000	167.000	165.000
Total Operating	**-**	**174.000**	**171.000**	**167.000**	**165.000**

11 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 4 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote Revenue					
Minister of Revenue					
Multi-Category Expenses and Capital Expenditure:					
Services for customers MCA					
Departmental Output Expense:					
Investigations	-	2.400	1.800	1.800	1.800
Management of debt and unfiled returns	-	0.600	0.500	0.500	0.500
Services to Ministers and to inform the public about entitlements	-	8.300	6.300	6.300	6.300
Services to process obligations and entitlements	-	0.600	0.500	0.500	0.500
Vote Social Development					
Minister for Social Development and Employment					
Multi-category Expenses and Capital Expenditure					
Improved Employment and Social Outcomes Support					
Departmental Output Expense:					
Administering Income Support (funded by revenue Crown)	0.242	1.604	1.322	1.322	1.322
Ministry of Social Development:					
Capital injection	1.854	3.696	-	-	-
Vote Education					
Minister for Education					
Primary and Secondary Education (MCA)					
Departmental Output Expenses:					
Support and Resources for Education Providers	-	0.175	0.100	0.100	0.100
Total Operating	**0.242**	**13.679**	**10.522**	**10.522**	**10.522**
Total Capital	**1.854**	**3.696**	**-**	**-**	**-**

12 **note** that the above changes to appropriations in recommendations 11 for 2023/24 will be reported and disclosed in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

13 **agree** that the expenses incurred under recommendations 10 and 11 above be charged as a pre-commitment against the Budget 2024 operating allowance and the multi-year capital allowance;

14 **agree** to delegate authority to the Minister of Finance to make any necessary technical amendments to the financial recommendations and the new appropriation if required;

15 **note** the pre-committed costs for FamilyBoost are based on the current broad policy parameters, and may be subject to minor changes as Joint Ministers finalise detailed and technical policy decisions;

16 **note** that if additional funding is required by agencies following confirmation of final policy decisions, agencies will either absorb these costs within baselines or seek further funding through the Budget 2024 Cabinet paper;

17 **instruct** departments, once final fiscal costs are determined, to return any excess funding to the centre through the Budget 2024 process;

18 **agree** to delegate further technical, minor policy and administrative FamilyBoost design decisions to the Minsters of Finance and Revenue;

19 **agree** to legislate the required changes to Inland Revenue Acts, which gives effect to the basic refund model for FamilyBoost, through Budget 2024 legislation (i.e., introduce a bill containing the changes as part of the Budget day package);

20 **instruct** officials to prepare drafting instructions;

21 **note** that the Minister of Finance will consider whether to make a public statement on FamilyBoost prior to Budget 2024;

22 **agree** to waive Budget secrecy requirements to allow officials to consult with stakeholders in the ECE sector on the design and implementation of FamilyBoost, with a particular focus on the collection of fees information and minimum requirements for fee invoices;

23 **note** Ministers of Finance, Education, and Revenue will seek further advice from officials on options to improve ECE fee data either as part of, or as a complement to, FamilyBoost following sector consultation;

24 **note** that the form and method of the FamilyBoost payment is still to be finalised and these decisions will be needed before the Ministry of Social Development can establish whether or not the payment will be treated or charged as income and cash assets under the welfare system's existing income and cash asset charging rules;

25 **note** that if the FamilyBoost payment is treated or charged as income and cash assets for financial assistance administered by the Ministry of Social Development, FamilyBoost payments may result in a reduction in assistance for Ministry of Social Development clients and may not meet the Government's ambition of providing additional support for childcare costs to low-and-middle-income families on top of the Ministry of Social Development childcare subsidies;

26 **note** that if the FamilyBoost payment is treated or charged as income and cash assets for Ministry of Social Development financial assistance, the Ministry of Social Development will not be able to make the relevant operational changes in time for first payments in October 2024;

27 **authorise** the Minister for Social Development and Employment to make policy decisions to ensure the FamilyBoost payment is not treated or charged as income and

cash assets for financial assistance administered by the Ministry of Social Development;

28 **invite** the Minister for Social Development and Employment to instruct the Parliamentary Counsel Office, if required, to draft amendment regulations to give effect to the decision in recommendation 27.

Authorised for lodgement

Hon Nicola Willis	Hon Simon Watts
Minister of Finance	Minister of Revenue

Appendix 1: Existing childcare support is provided by several agencies

1 There are several existing schemes providing parents with support to meet costs for children in their care, including products targeted specifically at the cost of ECE.

2 MoE administers the **ECE Subsidy** and **20 Hours ECE**. The former is a universal subsidy that is paid to services for all children aged 0-5 years within defined hourly and weekly caps, while the latter is a higher level of subsidy for 3-5 year-olds attending a licensed early childhood service which has opted into the subsidy. 20 Hours ECE is also subject to daily and weekly caps. Both subsidies provide the vast majority of government funding to ECE services and are paid directly to ECE service providers. In 2021/22, the ECE Subsidy provided $958 million and 20 Hours ECE provided $1.146 billion. The Government has reversed the extension of 20 Hours ECE to two-year-olds but is maintaining the 4.6% increased funding rates for 20 Hours ECE announced in Budget 2023 [CAB-23-MIN-0490 refers].

3 MSD administers the **Childcare Subsidy**, which is paid directly to the ECE service provider on behalf of parents for children up to the age of six (with various conditions). This subsidy is normally available for nine hours of ECE a week if the parent(s) are not working, studying or training, and up to 50 hours a week if the parent(s) are working, disabled, or meet other conditions required by MSD. It cannot be used for the same hours as 20 Hours ECE. The estimated expenditure for Childcare Assistance in 2021/22 year was $135.6 million, noting that Childcare Assistance also includes other products such as the Out of School Care and Recreation Subsidy (OSCAR) subsidy.[7]

4 Inland Revenue administers the **Working for Families tax credit scheme** which support parents in meeting the day-to-day costs for their children. WFF payments are made direct to the parents' bank account. The In-work tax credit is a payment which helps to offset the costs of parents being in paid work. The BestStart tax credit recognises the costs of supporting children under three. Inland Revenue also administers the **donations tax credit scheme**. Individuals can claim 33.33% of donations up to the amount of their taxable income. ECE payments can be claimed as a donation if they are optional and go to a general fund (and the service is an approved donee organisation or charity). Individuals must submit a donation receipt with required information on it to claim the refund.

[7] Vote Social Development - Vol 9 Social Services and Community Sector - The Estimates of Appropriations 2022/23 - Budget 2022 (treasury.govt.nz)

Appendix 2: FamilyBoost scenario

The table below shows how FamilyBoost would work using the proposed model for the first and second quarters of eligibility.

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

Communications	Information	Registration	Invoice claim	Income	Calculation	Payment
Thomas and Phillipa hear the pre-Budget announcement confirming FamilyBoost will be available later this year. Marketing on Inland Revenue's social media pages make it clear they will need their invoices to claim. Phillipa talks to their daycare who confirms their invoices are being updated to ensure they will be valid for refund claims.	From 1 July, Phillipa begins saving the family's ECE invoices digitally, ready to upload into myIR.	In September, Phillipa registers for FamilyBoost via myIR. She confirms they have two children in a qualifying daycare, her and Thomas' relationship status, the children's National Student Numbers and the bank account for future FamilyBoost payments.	In October, Phillipa logs onto the account and submits the first claim. She checks the online form confirming their relationship status, ECE information and income details are unchanged. She uploads the supporting invoices in her name, confirming the family have been charged $6,903 in daycare costs for the period.	Thomas receives wages, so Inland Revenue uses his gross wages paid between 1 July to 30 September 2024 of $22,100, as filed by his employer. Phillipa's income for this quarter will be calculated as $12,500 ($50,000 / 4). Their combined income for the quarter is $34,600.	No abatement is needed as the family's earnings for the quarter are under the three-monthly abatement threshold of $35,000. The daycare costs of $6,903 exceed the maximum cap of $3,900 for the quarter ($300 per week). The calculation is therefore: 25% of $3,900 = $975	The family receives $975 into their bank account. From 1 October, the family will need to begin collecting invoices for their next FamilyBoost claim in January, for the period 1 October 2024 – 31 December 2024. Thomas' wages for the Oct-Dec 24 period would be used alongside a quarter of Phillipa's annual income.

Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Progressing the FamilyBoost Tax Credit

Portfolio **Finance / Revenue**

On 20 March 2024, the Cabinet Economic Policy Committee:

1 **noted** that while there is a range of existing support available to help parents and caregivers meet early childhood education (ECE) costs, some parents still face high ECE costs;

2 **noted** that FamilyBoost as envisaged in pre-election policy documentation cannot be delivered by 1 July 2024 due to system and data challenges;

3 **noted** that other options, such as the expansion of existing supports and a longer build time for FamilyBoost, have been considered by Ministers;

4 **agreed** to progress the basic refund model of FamilyBoost for 1 July 2024, as outlined in the submission under ECO-24-SUB-0033, with payments in October 2024 and continued integrity improvements over time;

5 **noted** that officials will report to the Ministers of Finance and Revenue (joint Ministers) by December 2024 on future policy options to reduce the compliance impact on parents and other potential improvements on the basic refund model;

6 **noted** that, in order to authorise expenditure for payments of FamilyBoost, a new non-departmental appropriation in Vote Revenue will be required from 1 July 2024;

7 **noted** that officials recommend the new appropriation be established as a permanent legislative authority (PLA), meaning that there is permanent uncapped authority to incur this expenditure and future expenditure forecast changes impact fiscal forecasts but are not charged against allowances;

8 **agreed** to establish the following new appropriation, limited to FamilyBoost tax credit payments made to eligible recipients under section 185 of the Tax Administration Act 1994;

Vote	Appropriation Minister	Title	Type	Scope
Revenue	Minister of Revenue	FamilyBoost Tax Credit PLA	Benefits or Related Expenses	This appropriation is limited to FamilyBoost payments made to eligible recipients under section 185 of the Tax Administration Act 1994

9 **agreed** to a performance exemption for the new FamilyBoost tax credit appropriation, as:

9.1 the appropriation is one from which resources will be provided to a person or entity other than a department under s15D(2)(b)(ii) of the Public Finance Act 1989;

9.2 additional performance information is unlikely to be informative because this appropriation is solely for FamilyBoost tax credit payments under the Income Tax Act 2007;

9.3 performance information relating to the administration of the payment will be provided under the *Services for customers* multi-category appropriation under the *Services to process obligations and entitlements* category;

10 **approved** the following changes to Vote Revenue appropriations in accordance with Section 185 of the Tax Administration Act 1994 reflecting the changes described in paragraphs 7 and 8 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
Benefits or Related Expenses: FamilyBoost Tax Credit PLA	-	174.000	171.000	167.000	165.000
Total Operating	**-**	**174.000**	**171.000**	**167.000**	**165.000**

11 **approved** the following changes to appropriations to give effect to the policy decision in paragraph 4 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote Revenue Minister of Revenue					
Multi-Category Expenses and Capital Expenditure:					
Services for customers MCA					
Departmental Output Expense:					
Investigations	-	2.400	1.800	1.800	1.800
Management of debt and unfiled returns	-	0.600	0.500	0.500	0.500
Services to Ministers and to inform the public about entitlements	-	8.300	6.300	6.300	6.300
Services to process obligations and entitlements	-	0.600	0.500	0.500	0.500

Vote Social Development **Minister for Social Development and Employment** Multi-category Expenses and Capital Expenditure Improved Employment and Social Outcomes Support Departmental Output Expense: Administering Income Support (funded by revenue Crown)	0.242	1.604	1.322	1.322	1.322
Ministry of Social Development: Capital injection	1.854	3.696	-	-	-
Vote Education Minister for Education Primary and Secondary Education (MCA) *Departmental Output Expenses:* Support and Resources for Education Providers	-	0.175	0.100	0.100	0.100
Total Operating	**0.242**	**13.679**	**10.522**	**10.522**	**10.522**
Total Capital	**1.854**	**3.696**	**-**	**-**	**-**

12 **agreed** that the changes to appropriations in paragraph 11 above for 2023/24 will be reported and disclosed in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

13 **agreed** that the expenses incurred under paragraphs 10 and 11 above be charged as a pre-commitment against the Budget 2024 operating allowance and the multi-year capital allowance;

14 **authorised** the Minister of Finance to make any necessary technical amendments to the financial recommendations and the new appropriation if required;

15 **noted** that the pre-committed costs for FamilyBoost are based on the current broad policy parameters, and may be subject to minor changes as joint Ministers finalise detailed and technical policy decisions;

16 **noted** that if additional funding is required by agencies following confirmation of final policy decisions, agencies will either absorb these costs within baselines or seek further funding through the Budget 2024 Cabinet paper;

17 **directed** departments, once final fiscal costs are determined, to return any excess funding to the centre through the Budget 2024 process;

18 **authorised** joint Ministers to make further technical and minor policy and administrative FamilyBoost design decisions as required;

19 **agreed** to introduce a bill which makes the required changes to Inland Revenue Acts to give effect to the basic refund model for FamilyBoost, as part of the Budget 2024 legislation package;

20 **invited** joint Ministers to issue drafting instructions to Inland Revenue to give effect to the above decisions;

21 **noted** that the Minister of Finance will consider whether to make a public statement on FamilyBoost prior to Budget 2024;

22 **agreed** to waive Budget secrecy requirements to allow officials to consult with stakeholders in the ECE sector on the design and implementation of FamilyBoost, with a particular focus on the collection of fees information and minimum requirements for fee invoices;

23 **noted** that the Ministers of Finance, Education, and Revenue will seek further advice from officials on options to improve ECE fee data either as part of, or as a complement to, FamilyBoost, following sector consultation;

24 **noted** that the form and method of the FamilyBoost payment is still to be finalised and these decisions will be needed before the Ministry of Social Development (MSD) can establish whether or not the payment will be treated or charged as income and cash assets under the welfare system's existing income and cash asset charging rules;

25 **noted** that if the FamilyBoost payment is treated or charged as income and cash assets for financial assistance administered by MSD, FamilyBoost payments may result in a reduction in assistance for MSD clients and may not meet the Government's ambition of providing additional support for childcare costs to low-and-middle-income families on top of the MSD childcare subsidies;

26 **noted** that if the FamilyBoost payment is treated or charged as income and cash assets for MSD financial assistance, MSD will not be able to make the relevant operational changes in time for first payments in October 2024;

27 **authorised** the Minister for Social Development and Employment to make policy decisions to ensure the FamilyBoost payment is not treated or charged as income and cash assets for financial assistance administered by MSD;

28 **invited** the Minister for Social Development and Employment to instruct the Parliamentary Counsel Office, if required, to draft amendment regulations to give effect to the decision in paragraph 27 above.

Rachel Clarke
Committee Secretary

Attendance (see over)

Present:
Rt Hon Christopher Luxon
Rt Hon Winston Peters
Hon David Seymour
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Shane Jones
Hon Simeon Brown
Hon Erica Stanford
Hon Judith Collins
Hon Todd McClay
Hon Tama Potaka
Hon Matt Doocey
Hon Melissa Lee
Hon Simon Watts
Hon Chris Penk
Hon Andrew Bayly
Hon Andrew Hoggard
Hon Mark Patterson
Simon Court MP
Jenny Marcroft MP

Officials present from:
Office of Hon Judith Collins
Office of Hon Simon Watts
Office of Hon Andrew Bayly
Officials Committee for ECO

Cabinet

Minute of Decision

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Report of the Cabinet Economic Policy Committee: Period Ended 22 March 2024

On 25 March 2024, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 22 March 2024:

Not in scope

ECO-24-MIN-0033	**Progressing the FamilyBoost Tax Credit** Portfolios: Finance / Revenue	CONFIRMED

Not in scope

Not in scope

Rachel Hayward
Secretary of the Cabinet

Document 51

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **FamilyBoost: Technical and Administrative Policy Settings**

Date:	27 March 2024	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2024/065

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Refer** this report to other Ministers for their information	4 April 2024
Minister of Revenue	**Agree** to recommendations	4 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Kerryn McIntosh-Watt	Policy Director, Inland Revenue	s 9(2)(a) [redacted]
Murray Shadbolt	Principal Policy Advisor, Inland Revenue	s 9(2)(a) [redacted]

27 March 2024

Minister of Finance
Minister of Revenue

FamilyBoost: Technical and Administrative Policy Settings

Executive summary

Purpose

1. This report seeks further decisions on the administrative and technical design of the FamilyBoost tax credit (FamilyBoost). To ensure our ability to legislate, construct and implement the product in time for a 1 July 2024 commencement date we are seeking decisions by 4 April 2024. Some the decision topics are also likely to come up in consultation discussions occurring early April.

Context and background

2. Cabinet has approved the creation of the FamilyBoost tax credit that will provide income support to families with early childhood education (ECE) costs [CAB-24-MIN-0089 refers]. This tax credit will use a refund in arrears model and commence with effect from 1 July 2024, with parents first being able to apply for payment from October 2024. Cabinet has agreed to the funding and broad design features of FamilyBoost.

3. Cabinet has also delegated authority to the Minister of Finance and the Minister of Revenue to make decisions on the technical and administrative design features of FamilyBoost. These are decisions that are more focused on how Inland Revenue should administer the tax credit in practice and in relation to specific circumstances, such as where there is fraud. The delegated authority empowers the Ministers of Finance and Revenue to make the decisions sought in this paper without requiring further Cabinet consideration.

4. In May we will provide draft legislation for your approval setting out the required features of the tax credit to be included in Revenue Acts, reflecting the decisions Cabinet and you jointly make, to submit to the Legislation committee.

Materiality

5. Following Cabinet's approval to the broad design, the detailed design and build of FamilyBoost has commenced. This work can continue without knowing the decisions set out in this report but delays to these administrative policy decisions being made may eventually result in delays to product delivery timelines. This is due to the interactions between the features described in this report and the broader product design. In particular, decisions from this report need to be included in the draft legislation.

6. Some required design changes may emerge through the consultation process, particularly around the required information on invoices or what is acceptable evidence. Our expectation is that these changes would not have major interactions with other aspects of the system build and be unlikely to have significant impacts on the product delivery timeline. We will report back to you on the outcome of consultation once the consultation period has concluded.

Next steps

7. Following the pre-budget announcement, we have initiated engagement with key stakeholders in the ECE sector, including student management system vendors and ECE providers. We are preparing a communication plan and drafting legislation.

8. We have commenced the system build for FamilyBoost and will be initiating the hiring and training of the Inland Revenue staff who will administer FamilyBoost.

Recommended action

We recommend that you:

1. **indicate** in the body of this report where you agree or do not agree with a recommendation on administrative policy design.

   Indicated — *Minister of Finance*

   Indicated — *Minister of Revenue*

2. **refer** this report to the Minister for Social Development and Employment, Minister of Education and the Associate Minister of Education.

   Referred/Not referred

   Minister of Finance

s 9(2)(a) [redacted]

Kerryn McIntosh-Watt
Policy Director
Policy and Regulatory Stewardship
Inland Revenue

Hon Nicola Willis
Minister of Finance

/ /2024

Hon Simon Watts
Minister of Revenue

/ /2024

Introduction

Background

9. Cabinet has agreed to the creation of a new tax credit, called the FamilyBoost tax credit, to help increase the incomes of families with early childhood education (ECE) costs [CAB-24-MIN-0089 refers]. This includes the broad policy and high level operational outline of the tax credit, including key eligibility settings such as the amount and income threshold. Cabinet has also agreed to delegate the authority to make technical and administrative policy decisions on the design and implementation of FamilyBoost to the Ministers of Finance and Revenue.

10. This report seeks further technical and administrative design decisions for the FamilyBoost product. It is important that these decisions are finalised before 4 April 2024 so that the product build can target a 1 July 2024 commencement date and payments in October 2024. In particular, the timeline is required to include the decisions from this report into the draft legislation to be provided to you in early May.

11. As with the delivery of any new product, there is some timeline uncertainty as unanticipated hurdles can arise during the system build or consultation. We will keep you informed of any issues that arise that may result in the dates set out above not being achieved.

12. The report also expands upon some of the product features that are necessary as a result of the design decisions already made for FamilyBoost, for your information.

Decisions sought

13. The decisions sought in this report are either administrative or technical in nature. While they will impact the final shape of the product and are important for its administration, these decisions are not expected to significantly impact the majority of parents', caregivers', or ECE providers' experience with the FamilyBoost product.

14. Some of these decisions may have fiscal impacts. These fiscal impacts are not expected to significantly alter the costing for the FamilyBoost product. Exact costs have not been given in this report due to the modularity of policy design and lack of available data. For example, there is a decision on whether to include optional fees in the definition of fees that can be claimed. Inland Revenue does not have any information on the amount of optional fees charged across the sector.

15. As indicated in the Cabinet paper, where additional funding is required following confirmation of final policy decisions, agencies may seek further funding through the Budget 2024 Cabinet paper.

16. Recommendations have been included alongside discussions of each policy issue and officials' preferences have been indicated.

Whether the definition of ECE fees includes optional fees

17. We recommend that all fees for the delivery of ECE services are eligible for FamilyBoost, regardless of whether those fees are mandatory or optional.

18. On top of their base fees for attendance, many ECE providers charge for optional extras such as for field trips or the provision of food, nappies or sunscreen for children that attend their services. This could suit situations where parents prefer to supply lunches or nappies directly rather than pay the provider to supply them. These optional charges could be excluded from eligibility for FamilyBoost on the basis they are not absolutely necessary for attendance.

19. While we have not yet discussed this with the ECE sector, our understanding is these optional fees are not always differentiated from the mandatory fee on invoices or financial statements. They may be elected into when the child is first enrolled and combined with the mandatory fee into a single payment.

20. The current design relies on information from invoices. If optional fees were to be excluded from FamilyBoost, it would require parents or invoices to identify where a charge is optional. Requiring the collection of this additional information would increase the compliance burden on parents and/or providers and would require a significant level of additional manual review and evaluation of FamilyBoost applications. There are significant risks that it would not always be possible to identify optional fees and that FamilyBoost payments would continue to be made in relation to these fees. Excluding optional fees is expected to increase FamilyBoost's operational costs.

21. Requiring ECE services to separately list optional fees from the base fee on all their invoices may require changes to the systems they use to prepare invoices. This would likely be viewed unfavourably by the ECE sector, who have previously expressed strong concerns about increased compliance and administrative costs imposed by government especially around fee information.

22. While some providers cover these services through optional fees, others may offer the same services but fund them through higher mandatory payments for everyone attending the centre. Allowing these higher mandatory fees to be eligible for FamilyBoost when optional fees used to provide the same service are not could result in FamilyBoost incentivising ECE providers to use higher mandatory fees instead of optional itemised fees. Higher mandatory fees becoming more prevalent may reduce parental choice and lead to higher and less transparent ECE prices.

23. Allowing optional fees to be part of the definition of ECE fees is consistent with the objective of FamilyBoost, to improve families incomes to help with the cost of ECE as part of a wider cost of living crisis.

24. The Childcare Subsidy administered by the Ministry of Social Development is not available in connection with optional fees. As part of the welfare system the focus of the Childcare Subsidy is on providing support for essential costs only, in this case just the mandatory attendance fees. This is possible because the Ministry receives the ECE provider's hourly rate directly from the ECE provider as part of the Childcare Subsidy application. Replicating this approach for the entire FamilyBoost population would increase the compliance burden on providers and significantly increase operational costs without providing any direct compliance incentive.

25. s 6(c) [redacted]

26. s 6(c) [redacted]

27. Allowing optional fees to be claimed for FamilyBoost would have a higher fiscal cost than base fees alone. As we do not currently hold information on the size of optional fees, or the extent they are used across the sector, we would not be able to quantify this cost until after consultation with the sector. This higher fiscal cost would be partly offset by lower administrative costs associated with not having to check invoices for optional fees and denying or amending applications. In addition, if over time more providers shifted optional fees into the mandatory fee in response to excluding optional fees, then the fiscal costs become much closer in outyears.

Recommendations

Agree that FamilyBoost will be available for all ECE fees, regardless of their optionality (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree optional fees will not be eligible for FamilyBoost.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Donations

28. We recommend that FamilyBoost not be available for donations made to an ECE provider. That is, a donation should not be considered part of the definition of ECE fees.

29. On top of their base fees, and optional fees, some ECE providers may ask for donations to support the work of the service. These donations could show up on the invoices that are provided to parents. Donations differ from optional fees in that they must go into a general fund and are not specifically associated with any goods or services provided to the parent's child. This is similar to the way some schools ask for donations separate from course costs. These donations are sometimes presented in a way that leads parents to interpret them as compulsory, despite there being no legal obligation to pay. Parents often face significant pressure to provide these donations.

30. These donations should be differentiated from the mandatory or optional fees on invoices or financial statements as, to be a donation, they do not have to be paid, do not incur GST, and payment is not enforceable. How they are differentiated on invoices will be confirmed through consultation.

31. It is possible that parents can claim a donation tax credit for donations paid. A donation tax credit can only be claimed for donations that are made to registered charities or donee organisations under the Income Tax Act 2007. Some providers will be charities or donee organisations.

32. Where the provider is a registered charity or donee organisation, individuals will be able to receive a donations tax credit equal to 33⅓% of the value of the donation, up to a cap of 33% of the individual's taxable income. This rate is higher than the rebate rate of FamilyBoost. Donations can be 'split' between couples. Not all donations to providers will be eligible for the donations tax credit as not all providers will be registered charities or donee organisations. Fees for education services cannot be claimed as a donation.

33. We recommend that donations be excluded from ECE fees that are eligible for FamilyBoost, as the payments have different purposes and are not in any way substitutable. We recommend people can continue to claim donations tax credits for donations made to education providers. The alternative is to allow households to receive both FamilyBoost and the donations tax credit for the same payment and receive an effective rebate rate of 58⅓%.

34. FamilyBoost and donations tax credits are separate products with separate processes. Parents will have to claim twice through MyIR: once for FamilyBoost (using the invoice) and again for the donations tax credit (using the official donations receipt). As with any process, there is risk of errors and parents may inadvertently claim the wrong amount in the wrong process. We have existing mechanisms to minimise risks of errors.

Recommendations

Agree that donations cannot be used to claim FamilyBoost (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that donations can be used to claim FamilyBoost and also to claim a donations tax credit, noting that this will result in two payouts for the same payment.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Payment: offset of other tax debt

35. We recommend that FamilyBoost cannot be used by the Inland Revenue to offset other Inland Revenue debt.

36. A person registered for FamilyBoost may have debts owing to Inland Revenue for income tax, Working for Families tax credits, student loans or child support. The amount of a person's FamilyBoost entitlement could be immediately used to offset a debt owing to Inland Revenue. This effectively would give Inland Revenue preferential treatment as a creditor and would reduce the administration and compliance costs of chasing up debt.

37. There are a range of credit and debit offset rules for other tax products. Credits and debits for income tax and Working for Families are automatically offset for the tax year in which they occur (due to the nature of Working for Families as a tax credit). If there is a residual Working for Families credit, a taxpayer can voluntarily request this be used to offset further debt, but this is the decision of the recipient and is not automatic.

38. This approach ensures that Working for Families continues to alleviate child poverty even where the parent is in debt to Inland Revenue.

39. While using FamilyBoost payments to offset other Inland Revenue debt would not result in a change in parents' net financial position it would have significant impacts on parents' cash-in-hand and ability-to-spend. This is not consistent with the objective of directly increasing households' income to address cost of living concerns. It would consequentially result in lower wellbeing, worse incentives to work and lower take up of additional ECE hours for their children.

40. There is no fiscal cost associated with whether or not FamilyBoost credits are used to offset debt with Inland Revenue. The system build for FamilyBoost would have to include offset rules if the decision was made to offset, with minor additional operational costs and time associated with the additional rules. If there is no offset, the usual Inland Revenue debt collection rules will continue to apply to other tax debt.

41. FamilyBoost would use a 'full and final' assessment so model it would not generate debt associated with FamilyBoost except in cases of fraud or genuine error. As such, there is some benefit to considering a model which allows FamilyBoost payments to immediately offset FamilyBoost debt.

Recommendations

Agree that FamilyBoost is paid out and not withheld and used to offset debts owed to Inland Revenue, except in relation to FamilyBoost debt as a result of fraud or error (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Agree that FamilyBoost can be used to offset debts owed to Inland Revenue.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Ability to reevaluate prior periods

42. We recommend that Inland Revenue have the authority to reassess FamilyBoost applications in rare cases such as where their outcomes are manifestly unfair.

43. FamilyBoost is intended to use a 'full and final' assessment model which is paid out based on the income information available at the time of application. This model avoids the creation of debt, and provides parents with greater certainty. The model uses historical data (income information from up to two years prior) to determine income, ensuring prompt payments for self-employed parents. However, in some cases people may have had dramatic changes in their income that would result in a significantly different entitlement if up-to-date income information was able to be used. These changes in income can be especially pronounced for families with young children, as parents move into and out of work to care for the child.

44. Where parents know their income has fallen significantly, they could choose to delay their application for FamilyBoost until they have provided a more recent income return for the period of the FamilyBoost application. However, this can result in delays to them accessing their entitlement and some may not realise the impact the difference in their income across the two periods may have when they apply. This, and other situations, could be considered to be manifestly unfair, especially if the income drop is not a result of their actions but of circumstances beyond their control, or even government actions.

Example 1:

Annette and Jamie have a child attending ECE for whom they pay $300 a week in fees. Annette is self-employed as a barrister and earned $200,000 in the 2024 tax year. Jamie is a substitute teacher and earns an average of $1,000 a month. Annette becomes pregnant and steadily reduces the amount she is working until she gives birth to her second child in the middle of 2025 and goes on paid parental leave. In the 2025 tax year Annette earns $100,000, including her paid parental leave. As her tax agent has a tax return filing date extension, she has until 31 March 2026 to file her 2025 tax return and so does not do so immediately.

The new child has significant health issues and support is not available. Annette decides not to return to work to allow her to take full-time care of the child's medical needs. A local ECE provider has the facilities to take the child and support the health needs for short periods at high cost, providing some respite. Annette and Jamie agree that he will return to full time employment as a teacher, for which he will receive a salary of $60,000 dollars.

As Annette and Jamie's annual income for 2026 will be $60,000, well below FamilyBoost's abatement threshold, they apply for a $975 FamilyBoost payment based on the ECE fees of their eldest child. In the stress of life they don't realise the tax agent has not filed the latest tax return yet. To calculate their entitlement, Inland Revenue takes Jamie's actual income for the three month period of $15,000 and adds $50,000, a quarter of Annette's income from the most recent year she has filed, in 2024. As $65,000 is greater than the three monthly household income cap of $45,000, Annette and Jamie's FamilyBoost application is denied.

Annette is unable to make another application as she is flagged as already having applied for the period and the FamilyBoost applications are full and final. If the tax agent had already submitted her 2025 tax return, Annette and Jamie would have received $487.50. If Annette had notified Inland Revenue that she would not be earning self-employment income in the 2026 tax year and she was out of the workforce, her actual income for the previous three months, $0, would be used and she would be entitled to the full $975 FamilyBoost payment.

After her FamilyBoost application is denied, Annette calls up Inland Revenue and informs them that she is no longer receiving self-employment income and asks for her FamilyBoost payment to be reassessed. Inland Revenue removes the 'self-employed' flag from her income profile for future applications, and depending on the decisions in this report, either does not have the ability to reassess the application that Annette has already made, or reassesses the application and pays out FamilyBoost.

45. Allowing Inland Revenue to decide to reassess a FamilyBoost application when the outcome is manifestly unfair provides a pathway for Inland Revenue to remedy situations where the outcome is unfair and clearly goes against the spirit and objectives of the FamilyBoost policy. Such cases are expected to come to Inland Revenue's attention when a parent gets in contact regarding the outcome of their FamilyBoost payment.

46. Not providing a pathway for Inland Revenue to provide relief may result in parents attempting to seek recourse via other means, such as through judicial review or contacting local representatives or media.

47. Allowing Inland Revenue to reassess a small percentage of applications has been built into the initial costings. Reassessments are additional work that is likely to be manual rather than automated so the grounds for review should be kept tight to manage the administrative costs. For example, reassessments would not be available "on demand" or for small changes in income.

Recommendations **Agree** that Inland Revenue is able to reassess FamilyBoost applications where the outcome is manifestly unfair (officials' preferred option). Agreed/Not agreed   Agreed/Not agreed *Minister of Finance*   *Minister of Revenue* OR **Agree** that Inland Revenue is not able to reassess FamilyBoost applications, maintaining the 'full and final' approach. Agreed/Not agreed   Agreed/Not agreed *Minister of Finance*   *Minister of Revenue*

Penalties for debt

48. We recommend that, where debt is created, FamilyBoost debt not have a bespoke penalties and interest regime and instead align with Inland Revenue's existing income tax penalties and interest regime that applies across most Inland Revenue debt.

49. FamilyBoost is designed to be a 'full and final' payment to avoid generating any debt for FamilyBoost customers. However, where applicants have engaged in fraud to inappropriately access FamilyBoost, they incur a debt equal to the amount of the entitlement they should not have received. Other debt may arise in relation to administrative error or human error on the part of Inland Revenue or the applicant.

50. Inland Revenue has a penalties and interest regime that applies to many of its products. The purpose of penalties is to encourage voluntary compliance and to penalise a breach of tax obligation, while the purpose of interest is to compensate the Crown for not having the use of its funds.

51. Inland Revenue has the ability to enforce the collection of debt owed to it, such as by garnishing pay or bank accounts. Inland Revenue also has the ability to write off debt in various circumstances, such as where the debt has a small balance or in cases of hardship. These powers would be extended to cover FamilyBoost debt.

52. Some Inland Revenue products, such as child support, have unique penalty and interest regimes designed to cater to the unique three-party arrangement of child support.

53. The FamilyBoost product creates a relationship between Inland Revenue and the applicant. This relationship does not have any unique complexities and is comparable to the relationship that exists for income tax and Working for Families tax credit products.

54. Applying the existing penalties and interest regime to FamilyBoost debt will encourage compliance and help preserve the integrity of the tax system and minimise administrative costs. Where the debt arises as a result of fraud other remedies, including prosecution, would be able to be pursued where appropriate.

55. In practice, where a reassessment is performed and FamilyBoost debt arises, this would mean that the debtor would be granted a 30 day grace period to make the repayment, after which they would begin to accrue interest. If the debt arose a result of fraud the debtor could face additional penalties on the sum of the debt.

56. The interest and penalties regime would not be reflected in FamilyBoost's fiscal costings. Constructing a bespoke penalties and interest regime would have higher administrative and build costs than using existing interest and penalties regimes.

Recommendations	
Agree that FamilyBoost debt will use Inland Revenue's generic income tax penalties and interest regimes (officials' preferred option).	
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*
OR	
Agree that FamilyBoost debt will use a bespoke penalties and interest regime, which officials will provide further advice on.	
Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

Time bar for application for rebate

57. We recommend that a four-year time bar be implemented to limit parents' ability to make historic claims consistent with existing time bar rules for other tax products. Without a time bar parents would have an unlimited period of time to make a claim, potentially creating a large contingency liability over time.

58. FamilyBoost will only be available for periods following 1 July 2024, regardless of whether a time bar is introduced. Parents would not be able to claim for fees charged before 1 July 2024. The time bar refers to how long parents can wait before putting in an application and expect it to still be considered.

59. There are two main reasons to implement a time bar. Firstly, a time bar minimises the administrative costs associated with historic claims and, if changes to FamilyBoost are made in the future, allows for outdated policy settings to 'age out'. Aging out ensures compliance staff do not need to continuously be trained in every iteration of the FamilyBoost rules.

60. Secondly, a time bar would ensure the payment maintains some connection to the policy objectives of FamilyBoost to provide income support to parents with ECE costs. Allowing claims from over four years ago would result in parents being able to claim FamilyBoost payments in relation to children who are no longer in ECE and for whom they no longer have the associated cost pressures. Allowing these late claims would not support the policy objective of FamilyBoost.

61. By design, FamilyBoost can be applied for retrospectively. This also allows people to wait until more updated self-employed income is filed before applying for FamilyBoost. This introduces a question as to how long applicants should have to be able to claim for ECE costs.

62. The key data used to assess FamilyBoost is the fees information, which should be provided by ECE services promptly, and the household income information. Income information will be based on what Inland Revenue currently holds and is backward looking. However, it is a design intention that self-employed people are able to wait to apply for FamilyBoost until after they have submitted their tax return for the FamilyBoost period to enable the most accurate income information to be used. If using a tax agent, a tax return does not need to be filed until a year after the end of the income period. If there is a dispute it can often take a further two years

before the return is finalised. We recommend that any time bar be long enough to accommodate this period.

63. Income tax returns and returns for other Inland Revenue products (such as KiwiSaver and student loans) all have a four-year time bar. Aligning the length of the time bar for FamilyBoost with these products maintains design consistency and will be easier to communicate to customers. This period would be long enough to cover almost all parents who have extensions or delays in filing income information. There are no significant reasons to introduce a time bar that is longer than four years. The time bar would apply to the three monthly application for the tax credit (four years after the end of the three monthly period the application relates to).

64. Introducing a time bar would avoid FamilyBoost having additional administrative costs as we will no longer have to process claims that are beyond the time bar's period. It does put the onus on parents to get their information filed within the four years.

Recommendations

Agree that there will be a time bar of four years for access to FamilyBoost (officials' preferred option).

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Indicate the length of the time bar for access to FamilyBoost.

Length of time bar: _______________	_______________
Indicated/Not indicated	Indicated/Not indicated
Minister of Finance	*Minister of Revenue*

Ongoing policy responsibility for FamilyBoost

65. Not all products delivered by Inland Revenue have their ongoing policy responsibility sit with the Minister of Revenue. The policy responsibility for Paid Parental Leave sits with the Minister for Workplace Relations and Safety; for KiwiSaver is jointly held by the Ministers of Commerce and Consumer Affairs and Revenue; and for Working for Families is jointly held by the Ministers for Social Development and Employment and Revenue.

66. We seek confirmation as to who will be responsible for ongoing (post-implementation) policy responsibility for this product, whether it is the Minister of Revenue, another minister, or a combination of ministers. These minister(s) would receive advice on the ongoing maintenance of the product and be the primary decision maker for potential minor policy changes and improvements. They would bring significant policy changes to Cabinet for consideration such as changes in the fees cap. They would also be responsible for responding to ministerial correspondence, OIAs and media queries.

67. By default, the Minister of Revenue would retain operational responsibility for the delivery of any product administered by Inland Revenue and the spending through Vote Revenue. The Minister of Finance would also maintain some responsibility for any decisions with fiscal impacts.

68. Different agencies have different operational capabilities and subject matter expertise. Consequently, depending on your objectives, FamilyBoost may be more

efficiently managed out of a non-Revenue portfolio. For example, there are clear interactions between FamilyBoost and the funding of ECE, part of the portfolio responsibilities of the Minister of Education. There may also be alignment between FamilyBoost and the Childcare Subsidy, where responsibility is held by the Minister of Social Development and Employment.

69. Regardless of where the ultimate portfolio responsibility sits, agencies would consult each other on any policy changes as a matter of standard practice. Inland Revenue does not hold strong views on where portfolio responsibility for the FamilyBoost policy sits.

Recommendations

Agree that the Minister of Revenue will hold sole ongoing policy responsibility for FamilyBoost.

Agreed/Not agreed	Agreed/Not agreed
Minister of Finance	*Minister of Revenue*

OR

Indicate that another minister will hold sole ongoing policy responsibility for FamilyBoost.

Portfolio Minister: _______________	_______________
Indicated/Not indicated	Indicated/Not indicated
Minister of Finance	*Minister of Revenue*

OR

Indicate that another minister will jointly hold ongoing policy responsibility with the Minister of Revenue for FamilyBoost.

Portfolio Minister: _______________	_______________
Indicated/Not indicated	Indicated/Not indicated
Minister of Finance	*Minister of Revenue*

Other matters for awareness

70. There are a long list of design settings that will be built for FamilyBoost to ensure it can meet the variety of different scenarios that families could face. By default we will follow the design patterns that already exist for similar products, mostly the donation tax credit and the Working for Families tax credits. For your information we have briefly listed some of them here:

- When deciding if income falls within a specific three month period, we will use the pay day specified in the return. For example, employment information will indicate the pay period wage and salary was earned, such as a fortnight, and a pay day. If the pay day falls within the three month period the whole amount will be included even if some days in the fortnight fall into a following three month period. Likewise, dividends may be earned on shares held over a year but paid out on a specific day. The dividend income will be allocated to the three month period the payment date falls in.
- The applicant's relationship status (used for determining if a partner's income is included in the household income assessment for a three month period) will be based on their relationship status on the final day of the

FamilyBoost period. This will be a point in time confirmation (were you in a couple relationship on this day). We would not be able to make adjustments where a person was in a relationship for a portion of the three months. Current definitions of couple relationship will apply.

- The tax credit will be available for children who are enrolled in licensed providers. This means the tax credit is not available for informal care or unlicensed childcare such as babysitting. Inland Revenue will verify whether a service is licensed by checking the details with the Ministry of Education. From time to time a licensed provider may be reclassified as 'provisional' This could occur after a change in management for example. We propose that parents at ECE centres who hold a provisional license would still qualify, and the tax credit would only be declined if the service fully lost its licensed status.

- For self-employed parents we will use last available annual income we hold for them. This could be from the prior tax year, or the tax year two years ago. We will use the nominal amount recorded for that period to determine "current three monthly period" income. We would not perform any inflation adjustment to the past income. Not performing an adjustment is simpler and favours the parent.

- Information sharing arrangements will be established with MoE and we will investigate whether a similar agreement is required for MSD. These arrangements will be focused on data that will be used for compliance and integrity checks rather than in calculating entitlement. For example, checking that named ECE providers exist and are licensed, that children are enrolled, and whether parents have received childcare subsidies for those children. We would also seek to use data from the information sharing to inform future policy advice, research and evaluations. The authorising provisions would be in the Budget night legislation.

Additional matters

Financial implications

71. Cabinet has pre-committed funding towards FamilyBoost. The decisions made in this report may result in minor changes to the fiscal cost of FamilyBoost. Any change will be finalised through the budget process.

Administrative implications

72. The decisions may also result in changes to the implementation and on-going administration costs of FamilyBoost. These changes may also be reflected in the budget process or may be met through baseline funding.

Next steps

73. We recommend that you refer a copy of this report to the Minister for Social Development and Employment, Minister of Education and Associate Minister of Education.

74. Following the pre-budget announcement, we have initiated targeted consultation with key stakeholders in the ECE sector, including student management system providers and ECE providers. We aim to better understand the change implementation required by the sector and channels of communication we could employ to maximise take-up.

75. We are preparing a communications plan that will ensure families are fully aware of, and are supported across, the various stages for accessing the payment. This plan involves preparing internal staff and, to the extent possible, ECE providers to support in communications to families.

76. We will be enacting FamilyBoost into law through the Budget night legislative package. FamilyBoost will be included alongside other tax changes in one bill. This bill will be presented to the Cabinet Legislation Committee for final approval.

77. We have commenced the system build for FamilyBoost and will be initiating the hiring and training of the Inland Revenue staff who will administer FamilyBoost.

Inland Revenue
Te Tari Taake

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Briefing note

Reference:	BN2024/178
Date:	19 April 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
From:	Murray Shadbolt, Elizabeth Lee and Harper Burtenshaw
Subject:	**Interim update on FamilyBoost consultation**

Purpose and background

1. On 24 March 2024, Cabinet agreed to waive Budget secrecy requirements to allow officials to consult with stakeholders in the Early Childhood Education sector (the sector).

2. The purpose of this pre-Budget targeted consultation was to identify key risks within the sector related to the invoicing requirement placed on caregivers to receive FamilyBoost. With caregivers having to begin collecting invoices from 1 July, consultation has centred around understanding minimum information required on invoices. This information will inform any invoicing, or payment-related changes required by the sector after official Budget day confirmation of FamilyBoost.

3. Engagement with the sector is ongoing and will be summarised in a report which Ministers will receive 3 May 2024. This briefing note contains an update on the progress of the consultation as of 19 April 2024.

Consultation update

4. Immediately following the announcement of FamilyBoost on 25 March 2024, Inland Revenue officials began engagement with officials from the Ministry of Education (MOE) to better understand the early childhood education (ECE) sector and leverage existing liaison relationships to arrange discussions about FamilyBoost efficiently.

5. We understand most licensed ECE providers use a student management system (SMS) to collect and report data to MOE, and those SMS usually also provide an invoicing function. Consultation has therefore been targeted towards SMS vendors, ECE providers and sector representatives.

6. Up to this point, we have engaged with a variety of stakeholders groups within the sector, either through online hui, email correspondence, or in person. These groups include SMS vendors, representative bodies (Early Childhood Advisory Council, Early Childhood Council, Office of Early Childhood Education, home-based

representative groups), ECE providers (kindergartens, small providers and large franchises), MOE's lead regional ECE advisors and accounting software providers.

7. It has been our goal to gain insights from a range of ECE providers varying in size, demographic and location. The size of ECE providers can vary from being a single licence centre to a franchise with 31+ licences. We have been specifically inquiring about invoicing and payment practices, with the goal to find any barriers in the sector which would prevent parents from receiving the FamilyBoost payment (for example inconsistent or absent invoicing practices across service providers). Several providers indicated their invoicing practice and ability to change invoices was reliant on the SMS they used.

8. Engaging with SMS vendors has been an important part of the engagement process. Our focus has been on understanding the way they operate their invoicing function and to gain any insight into the flexibility of making system changes.

Current gaps

9. Currently, kōhanga reo make up the majority of the licensed providers that do not currently use a SMS. However, we understand many use accounting software for their invoicing. We are looking to engage with them to better appreciate their current administrative practices. We intend to meet with the Te Kōhanga Reo National Trust in the coming weeks, before we report to you with final consultation outcomes.

Preliminary findings

10. Overall, the sector has been happy to engage with officials on FamilyBoost and appreciated the early engagement as they anticipate changes in their administrative practice.

11. So far, officials have not identified any risks that would require changes to the FamilyBoost policy settings or drafting of legislation on the basis of requiring invoices. The sector seems to have fairly consistent invoicing practices. An exemption is the home-based services, where invoice practices vary considerably. The sector-members we have spoken to seem generally receptive to making changes required to make their invoicing processes more workable for caregivers and IR to apply for and issue the payment. They point out the impact this would have on their administrative practice and associated costs on them.

12. Some SMS vendors and ECE providers have queried our invoice uploading process, stating that they believe it would be more efficient for SMS and providers to send fees and invoicing data directly to Inland Revenue, eliminating the need for caregivers to self-upload invoices upon receiving them from the providers. We want to mitigate the expectation of service providers that this is a viable option in the immediate future. We have communicated that the current invoicing model was chosen as it would be least disruptive to providers existing administrative practices. Given that not all SMS vendors have the same level of system sophistication to facilitate supplying data direct to Inland Revenue, especially given the short timeframe.

13. We have also received several 'dummy' invoices from which we have learned about a range of fee charging practices and policies. For example, some providers charge options fees (e.g. covering sunscreen and sunhats) while some include this in the base fee.

14. Both SMS vendors and ECE providers raised concerns about the additional administrative burdens they will face as a result of the invoicing model. They foresee increased assistance required for caregivers who may lack adequate access to technology and English fluency, which may increase administrative burdens on staff.

15. Providers have also noted administrative changes will be required to meet information requirements. Individual providers such as nannies sometimes issue one invoice that caregivers establish automated payments for, and no further invoices will be issued unless there is a change in the fee payable. Smaller providers who rely on accounting software such as Xero, that have a customisable invoicing function will have to manually add and update additional fields if they do not already issue invoices with information we will require on invoices. Providers who rely on SMS for invoicing have noted they are not always able add new fields, and therefore will rely on the SMS vendor to change the required invoice information.

16. Some SMS vendors have noted that adding a field on the invoice should we require information not already provided may require expenses to develop.

17. Some SMS and ECE providers have raised the idea of a 3-month summary of fees for a parent as an alternative to weekly or fortnightly invoices. If the summary statements contain the required information this seems like a sensible alternative.

Next Steps

18. Targeted consultation on invoicing and payment arrangements is likely to wrap up at the end of April. We aim to maintain any stakeholder relationships within the sector so that we can engage later for the implementation and uptake of the payment. This would likely involve contacting providers to supply communications material and to make sure they feel comfortable with providing compliant invoices and assisting caregivers to apply for the payment.

19. We aim to report on the outcome of this targeted consultation in full at the beginning of May.

Murray Shadbolt
Principle Policy Advisor
s 9(2)(a)

Document 53

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **FamilyBoost tax credit: feedback from external consultation and payment requirements**

Date:	8 May 2024	**Priority:**	Medium
Security level:	Sensitive - Budget	**Report number:**	IR2024/169

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report **Agree** to whether optional fees should be eligible for FamilyBoost **Refer** a copy of this report to the Minister for Social Development and Employment, Minister of Education, Minister of Revenue, and Associate Minister of Education	20 May 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead, Inland Revenue	s 9(2)(a) s 9(2)(a)
Murray Shadbolt	Principal Policy Advisor, Inland Revenue	s 9(2)(a) s 9(2)(a)

8 May 2024

Minister of Finance

FamilyBoost tax credit: feedback from external consultation and payment requirements

Executive summary

Purpose

1. This report:

    1.1 notes key messages extracted from targeted external consultation undertaken on FamilyBoost;

    1.2 outlines the minimum information required for a FamilyBoost application and forms for acceptable payment evidence, based on the evidence gained from consultation; and

    1.3 seeks confirmation that optional early childhood education (ECE) fees are eligible for FamilyBoost.

2. Consultation has not resulted in any significant changes to our advice on the FamilyBoost policy settings. Therefore, this report seeks to reaffirm your previous conditional agreement to optional ECE fees being eligible for FamilyBoost and does not request any further changes.

Background

3. On 24 March 2024, Cabinet agreed to waive Budget secrecy requirements to allow Inland Revenue officials to consult with stakeholders in the ECE sector (the sector). Immediately following this announcement, officials began targeted consultation with various parts of the sector.

4. The current refund model of FamilyBoost requires caregivers to submit invoices to myIR on a quarterly basis. Caregivers would have to collect invoices that were received for the ECE fees accrued in that quarter to be eligible for payment.

5. The purpose of this pre-Budget targeted consultation was to identify key risks and concerns held by the sector. Particular interest was given to concerns relating to the minimum invoice requirements and concerns related to the policy being unworkable.

Overarching themes

6. Generally, the sector was receptive to speaking with officials about FamilyBoost and appreciated the opportunity for early engagement. They have not identified significant risks or implications relating to the delivery of FamilyBoost.

7. As anticipated, the sector had some concerns about the potential compliance burden imposed by FamilyBoost's minimum invoice requirements. Some services discussed the potential administrative burden placed on them created by the need to help parents/caregivers with FamilyBoost take-up and applications. While other stakeholders, such as student management system vendors and homebased providers, voiced concerns around potential changes that may be required to invoicing practices.

8. There were mixed responses on the accessibility of FamilyBoost's fully digital design. Some providers voiced that most parents/caregivers had sufficient access to technology to apply for FamilyBoost. However, other ECE providers noted that many of their families spoke English as a second language or were grandparents without high levels of English or digital literacy.

9. There was a consistent response from the sector around the interaction between FamilyBoost and other government ECE subsidies. Several ECE providers and governing bodies voiced apprehension around the introduction of another ECE subsidy and felt that it was becoming increasingly difficult for some providers and caregivers to keep track of the various means of support available to them.[1]

10. The sector was interested in having further input into the long-term design of FamilyBoost. Most notably, they suggested direct information sharing between student management system vendors, ECE providers and Inland Revenue. They also noted that changes to private sector software would come at a cost.

Minimum information required and forms of acceptable payment evidence

11. The main objective of targeted consultation was to gain a general understanding of current invoicing practices across the sector. Therefore, consultation questions (see Appendix 2) were predominantly focused on invoicing and payment processes.

12. As a result of early engagement, we have been able to determine the minimum information required on invoices to make the invoice eligible for FamilyBoost. Early determination and communication of the minimum information requirements will help reduce the administrative burden for ECE providers as they will have time (between Budget day and July) to adjust their invoicing practices to ensure they provide caregivers with eligible invoices. Our approach has been to minimise disruption to existing invoicing practices as much as possible and build on existing business practices and models. However, we did find there is a variety of business models used in the sector for invoicing and payment.

13. We consider the minimum information required on invoices administered by ECE providers and submitted by parents/caregivers should contain the following information:

    13.1 Child details

        13.1.1 Full name as registered with Inland Revenue

    13.2 Payer/Caregiver details

        13.2.1 The payer should be the applicant parent/caregiver

        13.2.2 Caregiver/payer's full name as registered with Inland Revenue

    13.3 Provider details

        13.3.1 Licence number as registered with the Ministry of Education

        13.3.2 Provider name and specific ECE service address as registered under the licence number

        13.3.3 GST number (if applicable)[2]

    13.4 Fee details

        13.4.1 Sub-total of amount payable (after any and all subsidies/discounts)

        13.4.2 Period the amount payable covers

[1] There was also concern around Inland Revenue administering the payment, thus requiring caregivers to apply for multiple subsidies from multiple agencies.
[2] This is an existing requirement for a GST invoice.

13.4.3 Invoice issue date

14. In addition to the above requirements, we have also concluded that one of the two document format options below could be accepted as proof of ECE fees:

    14.1 Invoices issued during the quarter that include the minimum information required, or

    14.2 A quarterly (three-monthly) statement that summarises the invoices that were issued within the period that includes the minimum information required. We are still working through how this statement can be formatted in a way that will be processable by our systems, as there will be a high volume of information on the summary statement.

15. We are working through the administrative processes for when an invoice does not meet the minimum requirements, for example, whether an application is declined or whether further information is requested.

Optional Fees

16. You have previously agreed – subject to consultation – to allow all charges on invoices to be eligible for FamilyBoost, including 'optional' fees (IR2024/065 refers). Following consultation, we continue to recommend all charges on the invoice be eligible for FamilyBoost. The variance among ECE providers' invoicing practices and fee policies means that requiring a split between 'mandatory' and 'optional' fees would impose significant compliance burdens on the sector for very little reduction in fiscal cost. It would also likely lead to more ECE providers charging for 'optional' services as part of base fees, as occurs at some ECE providers now.

17. s 9(2)(b)(ii) [redacted]

Appropriation estimate

18. The original costing for FamilyBoost was developed based on limited information and before the policy design and implementation decisions had been determined. During policy development and consultation we have gained more information around how the sector operates and how the FamilyBoost policy will operate, including the decision to allow optional fees. As part of Budget 2024, Inland Revenue reviewed the implications these decisions might have and confirm the appropriation of $174 million per year agreed to by Cabinet remains valid and no change is required, unless optional fees are excluded.

Next steps

19. We are continuing to work towards engaging with Te Kōhanga Reo National Trust.

20. We are currently finalising the marketing and communications plan. This plan covers both the internal and external communication activities that support the Budget announcement of FamilyBoost, registration and quarterly application. We intend to provide a summary of the communications plan to your office in the week commencing 13 May.

21. We will continue engagement with the sector post-Budget, with a focus on payment uptake, communications and longer-term changes. This engagement will inform the December report on FamilyBoost on future policy options to reduce the compliance burden on caregivers and the sector and other potential improvements, as detailed in the March 2024 Cabinet paper *Progressing the FamilyBoost tax credit*.

8 May 2024

FamilyBoost tax credit: feedback from external consultation and payment requirements

Background

22. Due to the short timeframe between Budget Day and the date from which caregivers begin collecting eligible invoices (1 July 2024), officials sought and received a Budget secrecy waiver from Cabinet on 24 March 2024 (CAB-24-MIN-0089 refers). This waiver allowed officials to consult with stakeholders in the early childhood education (ECE) sector to understand current invoicing and other payment practices.

23. Targeted consultation with the sector was carried out between 25 March and 1 May 2024. Officials have engaged with a variety of stakeholders groups within the sector, either through online hui, email correspondence, or in person. These groups include student management system vendors, representative bodies (Early Childhood Advisory Committee, Early Childhood Council, Office of Early Childhood Education, home-based representative groups), ECE providers (kindergartens, small providers and large franchises), the Ministry of Education's lead regional ECE advisors and accounting software providers. A full list of those consulted is provided in Appendix 1. We anticipate continuing correspondence with the sector after Budget to communicate the required changes to their invoicing practices.

24. The outcomes of this consultation did not highlight any significant changes to FamilyBoost's policy design. It confirmed known risks and identified additional challenges to implementation to be managed.

25. We also received several policy and design suggestions which were outside the scope of the consultation purpose, as they are more long-term in nature. However, they will be useful insights to inform the December 2024 report.

Student management system vendors

26. Nearly every licensed ECE provider must use a student management system or the Ministry of Education-owned alternative offering called "ELI (Early Learning Information) Service Portal" to electronically submit data to the Ministry of Education. Only kōhanga reo, casual education and care services[3] and hospital-based services are exempt from this requirement - though the Ministry of Education are currently working towards kōhanga reo being onboarded with a student management system vendor. This translates to approximately 90% of ECE providers using a student management system vendor or ELI Service Portal, of which, around 95% are serviced by three vendors.

27. The primary function of a student management system is to facilitate the collection of information via the Ministry of Educations' Early Learning Information system, collecting and storing information on children's enrolment and attendance, and assigning them a National Student Number. The Early Learning Information system also collects and stores the annual ECE return data and the returns information for ECE operational funding. Student management system vendors are bound to a series of specifications and undergo regular changes as required by the Ministry of Education.[4] These specifications are largely centred around data reporting at child and service level.

[3] i.e. ECE providers at ski fields and a shopping mall.
[4] These specifications are stipulated under the Early Learning Information Connection Agreement with the Ministry of Education.

28. Any additional functionality, such as reports and invoicing to parents are optional functions provided by the student management system vendor and is not something that the Ministry of Education has oversight over. Despite this, almost all student management system vendors provide an invoicing function, and this invoicing function is frequently used by ECE providers. For ECE providers that use the Ministry of Education's ELI Service Portal alternative offering, their invoicing is likely provided either in-house or through another accounting software provider.

Early childhood education providers

29. With approximately 4433 licensed ECE providers across New Zealand, the sector is highly diverse with operating models varying depending on the provider's size, funding, location, and type of childcare provided. We therefore anticipated high levels of variation in operational and administrative practices across the sector. Early engagement with the sector has helped officials to understand invoicing or other payment arrangements present across different parts of the sector.

30. However, we found most ECE providers were using some form of invoicing practice, if not using a student management system vendor for invoicing already. These student management system vendor invoices are created using a template-like system. The degree of customisation of invoices available to the ECE services varied across vendors. ECE providers also predominantly communicated with caregivers via digital platforms, such as invoices being emailed out or uploaded to online portals.

Feedback received relating to the invoicing requirement

Existing invoicing practices

31. We asked a range of questions to ECE providers and representative bodies, including but not limited to those listed in Appendix 2. If the providers used invoicing, we focused on understanding how invoices were issued and what information is on their current invoices. This helped us identify what information is generally provided on the invoices and could be included as a minimum information requirement with minimal cost, and how modifiable their invoices were.

32. We also requested 'dummy' invoices from sector members. Common insights we received from these example invoices were:

    32.1 Most invoices had the child's name, though some providers only used their first name.

    32.2 Most invoices had the bill payer's name and address, and only one had no bill payer information whatsoever.

    32.3 Most invoices had the provider's name, branch name (if applicable), address, phone number and GST number.

        32.3.1 While in most cases the address and phone number provided were specific to the centre (e.g. a regional branch of a franchise), there were invoices where the head office's (as the invoice issuer) details were provided with only the centre name available.

        32.3.2 Similarly, home-based providers' invoices had the head office's details, with minimal information about the specific provider (e.g. one invoice only had the educator's name on the invoice).

    32.4 We have seen no invoices where the providers include their licence number or the child's National Student Number on the invoices.

32.5 All invoices showed the issue date and the period covered.

33. There were several points of difference across various invoices and operating models:

33.1 Some providers charged and itemised optional fees (e.g., sun hat) while others only had a flat hourly fee.[5]

33.2 Some accounted for any subsidies in the hourly fee while some showed any subsidies (including Work and Income payments) as a separate line-item deductible from the total fees.

33.3 Some issued individual invoices per child in a household while some issued one invoice for all children attending the provider from a household.

33.4 s 9(2)(b)(ii) [redacted]

33.5 Some providers were able to send split invoices for caregivers in a shared care scenario – e.g. by percentage or by days in care, while some providers were unable to do so and would send a single invoice to the nominated billpayer with the expectation any shared cost was managed privately.

33.6 Invoices were most commonly issued weekly or fortnightly, but in some cases were issued over longer periods. Some invoices were issued in advance and some were issued in arrears.

33.7 Re-issuing of invoices was described as common, especially among providers who invoiced in advance. This was due to not only differences in fees actually incurred (e.g. child spent less time at the provider than booked for) but also due to timing issues relating to subsidies (e.g., Work and Income subsidies will sometimes be backdated and applied retrospectively).

General feedback about the invoicing requirement

Three-monthly summary statement

34. Throughout consultation officials tested the idea of a three-monthly invoicing statement, which had been raised with us early in the consultation. This statement would summarise the total amount payable by the caregiver in a quarter and replace the need for weekly or fortnightly invoices to be uploaded. This statement would reduce the administrative burden on caregivers from needing to save a large number of invoices and providers to reissue lost invoices.

35. ECE providers who use a student management system vendor for invoicing welcomed this idea so long as this option was built-in by the student management system vendor. Otherwise, they would have to manually develop and issue the statements. The three major student management system vendors were also open to this idea, s 9(2)(b)(ii) [redacted]

36. We are currently determining what information should be required on these three-monthly statements to be an acceptable alternative to invoices. At this stage, we anticipate that the minimum information requirements for invoices will also apply to these summary statements.

37. It is also likely that a three-month summary may reduce some issues s 6(c) [redacted]

[5] Fees policies for a number of ECE providers indicated that services such as food, sun hats and sunscreen were included in the base hourly fee.

s 6(c) [redacted]

38. We should note however, that a three-month summary, while more efficient, should not fully replace the ability to upload weekly invoices. There are some risks using three-monthly statements in situations where a child moves ECE service during a quarter, or an ECE service closes halfway through a quarter. Additionally, not all ECE services may be able to provide three-monthly statements.

Sector's strong reliance on student management system vendors

39. There appears to be a strong reliance on student management system vendors for implementing any changes needed to make invoices eligible for FamilyBoost applications.

40. ECE providers who use student management system vendors for invoicing, noted the invoices were usually fixed in format and populated by information uploaded to the vendor. Therefore, if the invoices required modification that vendors could not implement, ECE providers may have to turn to manual invoicing, seek other options or simply not provide eligible invoices to caregivers who in turn would not be able to claim FamilyBoost.

41. Some student management system vendors highlighted that due to the design of FamilyBoost requiring fees information, compliance costs were unfairly imposed on them. Even minimal changes to invoice templates requires development and resourcing.

42. s 9(2)(b)(ii) [redacted]

43. The ongoing reliance on student management system vendors also stresses the importance of continued engagement with them when looking at long-term FamilyBoost improvements, which would require a greater development effort by these vendors.

Additional information to add to invoices – National Student Number and ECE provider licence numbers

44. Initially, officials proposed collecting National Student Numbers directly from caregivers as an integrity measure to verify that a child did attend a service.[6] However, most providers have informed us that the National Student Number is solely used for Early Learning Information reporting and is not something that caregivers are usually aware of or that is included on invoices. Consequently, there may be data quality issues with collecting National Student Numbers directly from caregivers that negate the integrity benefit gained. Further, as kōhanga reo are currently exempt from Early Learning Information reporting obligations not all children attending kōhanga reo have been assigned a National Student Number yet.

45. Officials no longer intend the National Student Number to be a minimum requirement for a valid FamilyBoost invoice or to request the National Student

[6] Proposal of using and collecting National Student Numbers was outlined in the 24 March Cabinet paper – *Progressing the FamilyBoost tax credit.*

Number from caregivers as part of the FamilyBoost application. The invoice would require the child's name and we will ask parents to provide the child's IRD number as part of the registration process. We are working towards an information sharing arrangement with the Ministry of Education, which would effectively use the National Student Number as a tool for more efficient integrity checks to verify that the child attended the ECE service.

46. The current proposed information sharing approach is that Inland Revenue will provide the Ministry of Education with identifying information about the child and their ECE enrolment. The Ministry of Education will use this information to match against data they hold in the Early Learning Information system. Once the child's enrolment is confirmed, the Ministry of Education will provide Inland Revenue with the child's National Student Number to simplify future data matches.

47. Each ECE provider has a unique Ministry of Education licence number. We propose that ECE licence numbers are included as a minimum requirement on invoices. Requiring this licence number should protect against invoices from unlicensed or fake providers being used to claim FamilyBoost. This licence number will also be used to assist the Ministry of Education's data matching. This number is particularly useful given a number of ECE providers have very similar names.

48. Student management system vendors and ECE providers indicated that adding the Ministry of Education licence number to the ECE providers' address line would be possible using current systems and would not require substantial effort. It would also help confirm for caregivers that their ECE provider is licensed, a requirement of FamilyBoost.

49. To protect the privacy of caregivers and their children, information shared between the Ministry of Education and Inland Revenue will only be used for the administration of FamilyBoost.

Homebased providers

50. Homebased providers seem to have the most inconsistent or absent invoicing practices in the sector. This seems to be due to the personal relationship between the educator and caregiver i.e., nannies. Homebased educators often have a direct debit payment set up between the caregiver and themselves, they may invoice for the first few weeks and then stop, or not invoice at all.

51. To ensure that caregivers using homebased services can upload eligible invoices and receive payment, we will need to focus some post-budget communication on making sure that homebased services are ready and prepared to produce consistent and compliant invoices.

The use of invoices rather than receipts

52. A common concern across the sector was the requirement for the submission of invoices rather than receipts. Or alternatively, a concern with the focus on the amount that is charged to the parent as ECE fees rather than the amount of fees that are paid to the centre. This largely stemmed from the fact that invoices are not proof of payment, and that parents may be in debt or behind on payments to the centre. An invoice only represents a payable amount – which can be subject to change as many invoices are issued in advance rather than in arrears and does not show whether the amount has been paid. ECE providers were particularly concerned that caregivers would claim FamilyBoost when they have not paid their fees as charged on the submitted invoices. Some were concerned parents would use provisional invoices rather than final invoices.[7]

[7] Some ECE providers issue provisional invoices in advance in anticipation of enrolment days and may issue a final invoice if the parent does not use the full number of days, or receives a public holiday credit.

53. Our decision to use invoices rather than receipts was primarily based on invoicing being a common administrative practice for arranging payment across the sector. Receipts or statements of payments are far less common, though invoices sometimes show credits for payments made. We considered that the use of invoices would be the least disruptive option for the sector and, therefore, requiring them (over receipts) would ensure FamilyBoost could be implemented by October, with invoices relating to fees from 1 July eligible for the refund. Following consultation, we still consider using invoices to be appropriate for the greatest group of ECE providers and parents. We consider questions of debt or non-payment by parents to centres to be a private business matter and should not be an additional criterion for FamilyBoost.

54. Another reason against the use of receipts is that FamilyBoost is a payment that is made directly to parents/caregivers to assist with cost of living pressures, with reference to their ECE expenses. It is not for anyone else who may have paid the ECE fees but who do not have day-to-day care of the child to whom the fee relates (CAB-24-MIN-0089 refers). Our engagement with ECE providers has highlighted that it is clear from existing invoices who has been charged with fees, and we will inform parents that final invoices should be submitted not provisional ones. Our engagement has also highlighted that a significant number of providers do not have good information on who has paid a child's fees, only whether or not a payment has been received.[8] If we were to use receipts, we would need to restrict FamilyBoost payments to parents based on proof of payment of fees. This would create significant additional compliance for ECE providers, as the requisite receipts would unlikely be ready in time for parents to be able to start claiming FamilyBoost.

General feedback received about the design of FamilyBoost and the ECE environment

55. While our consultation discussions focused primarily on the invoice requirements for the current design of FamilyBoost, the sector also provided more general feedback on FamilyBoost's framework and possible long-term design.

56. We have summarised key themes below, which we recommend you note. Officials will report further in December 2024 on some of these themes.

Digital access

57. Given the application process for FamilyBoost is completely digital (i.e., caregivers are unable to submit paper forms to apply), the potential for digital exclusion was a point of concern for sector representatives and was raised during consultation.

58. Many providers noted invoices and other communications were usually issued via email, and therefore most caregivers had some minimum level access to the internet and a digital device.

59. However, some providers still highlighted there may be some caregivers who may have insufficient access to technology or may lack digital literacy to download and save invoices, and upload them on a quarterly basis. They foresee this issue being exacerbated by population or age differences, e.g., older caregivers such as grandparents may struggle to complete the online application process, and some caregivers may face socioeconomic barriers to regularly access technology. Furthermore, some providers also noted some of their caregivers who spoke English as a second language may struggle with the application process even with adequate digital access.

60. Noting these concerns, some ECE providers said they provide support systems to their caregivers, such as having laptops available at the centres for caregivers to

[8] There is no way of knowing whether or not these payments have come from others – for example, grandparents or third parties.

use and support staff available to walk caregivers through the application process. However, these levels of resourcing are not available to ECE providers universally. Some providers raised their concerns that FamilyBoost was likely to significantly increase their administrative burdens as caregivers are more likely to contact them for assistance.

61. The sector has therefore raised the importance of clear guidance and information to mitigate the impacts of FamilyBoost's lack of digital accessibility.

Interaction with other ECE payments and subsidies

62. Many ECE providers commented on the interaction of different subsidies and funding mechanisms within the ECE sector. The various types of assistance for the sector available from different agencies resulted in several queries around whether Inland Revenue was the best agency to deliver FamilyBoost. The lack of streamlining was raised as being confusing for both providers and caregivers, and creating further administrative burden.

63. Several providers spoke about the interaction which FamilyBoost may have with other ECE government subsidies and payments, including 20 Hours ECE and equity funding, and indicated that it makes the sector funding more complicated. We understand the Ministry of Education has been asked for advice on a potential review into ECE funding, and this review may be the right avenue for addressing these concerns should it progress.

Direct information sharing between IR and student management system vendors

64. s 6(c) [redacted] suggested a direct interface between the student management system and Inland Revenue to drive the payment of FamilyBoost could be introduced in the future. The idea would be for the student management system, with children's enrolment and attendance data and the fee policy and information of each provider, would communicate this information directly to Inland Revenue. This would eliminate the need for caregivers to apply for the payment.

65. As was noted in a previous report and briefing note (IR2023/269 and BN2024/178 refers), we have communicated this was not a short-term option as there is limited time for system build. It also does not align with the intent of finding an option that would be least disruptive to the sector so eligibility and take-up could be maximised. This is because not all student management systems share the same level of sophistication in terms of design and resourcing to develop such interface in a short span of time.

66. While it may be an option to be considered as a long-term design, an in-depth analysis will be required to determine the viability of such an interface with Inland Revenue's existing systems and resources. There are also some equity concerns as not all centres use a student management system or use one only for Early Learning Information reporting purposes. This could potentially result in some caregivers having to manually upload invoices, while others benefit from the information share. It will also require consideration of what information caregivers would be required to supply to ECE providers and other processes required to ensure information is up to date.

Poor targeting of lower-income households

67. Many ECE providers with low fees noted that given the administrative burdens placed on caregivers and the relatively small amount households may be entitled to receive from FamilyBoost, take-up may be low for their customers.

68. The providers remarked their fees were deliberately and consistently kept low to enhance equitable access to ECE. This means the maximum benefit clients may be

entitled to would be relatively small as they would only be entitled to 25% of an already low fee. They therefore believed FamilyBoost was unlikely to benefit those most in need of relief from cost of living pressures – which tended to be customers of low-fee ECE providers.

69. The providers also noted that the quarterly payments do not alleviate the upfront costs of ECE fees.

Outstanding areas of risk

Te Kōhanga Reo

70. As noted above, kōhanga reo are currently exempt from connecting to the Early Learning Information system to submit data to the Ministry of Education. This means officials have little information about the use of student management system vendors among kōhanga or their other administrative practices. We have attempted to engage with Te Kōhanga National Trust Board (the Trust), especially considering there are more than 400 kōhanga across New Zealand.

71. We are still in the process of arranging a conversation with the Trust by leveraging existing relationships with the Trust within Inland Revenue. Consequently, we continue to lack understanding of the invoicing and payment practices of kōhanga reo.

72. s 9(2)(ba)(i) [redacted]

73. We will continue to attempt to engage with the Trust to better understand the implications of FamilyBoost's minimum invoice requirements for kōhanga reo.

Increases or introduction of fees

74. Various parts of the sector raised that some ECE providers may be encouraged to raise their fees. The justification given was that providers would understand caregivers as being entitled to a payment that would offset the increased fees. s 9(2)(b)(ii) [redacted]

75. You have previously indicated that you would seek advice from officials on how ECE fees data could be improved through the data collected for FamilyBoost. This advice is not covered by this report, but improved ECE fees information could act as a mitigation for the risk of ECE providers increasing fees.

Time taken for compliance

76. Given the variance in administrative and operational practices by ECE providers, it is likely that different parts of the sector will move at different speeds towards providing eligible invoices. Other changes impacting sector groups may also contend

with working towards compliance. For example, homebased providers are anticipating a change in charging for 20 hours of ECE on 3 June, which will compete with FamilyBoost requirements for resourcing.

77. ECE providers' need to adjust to the invoicing requirements for FamilyBoost may mean some caregivers may miss out on the first full payment if their providers fail to provide eligible invoices in time. While we are planning early communication on eligibility criteria with the sector following Budget day, we cannot guarantee full participation by the sector on time. Parents will be able to submit eligible invoices later when they become available, they will have up to four years to submit claims.

Increased public scrutiny

78. It is possible that the invoicing requirement and, FamilyBoost in general, attracts public scrutiny once the final details are clear on Budget day. The final design will not address all the concerns raised by the sector during consultation. Furthermore, while we have engaged with the sector early to understand their challenges, not all variance in invoicing practices will have been addressed and the proposed design would still impose new compliance costs on the sector should they wish to assist their customers to be eligible for FamilyBoost. As noted earlier, we will continue to engage with the sector post-Budget with the view to reporting on future options which could reduce the compliance burden on caregivers and the sector.

Optional Fees

79. On top of their base fees for attendance, many ECE providers charge for optional extras such as for field trips or the provision of food, nappies or sunscreen for children that attend their services. Inland Revenue has recommended, and you have agreed (subject to the outcome of consultation, IR2024/065 refers), that all fees for the delivery of ECE services are eligible for FamilyBoost, regardless of whether those fees are mandatory or optional.

80. This recommendation was based on what was known at the time about not all ECE providers differentiating optional fees from 'mandatory fees' on invoices. Requiring this split was considered likely to impose significant compliance burdens on the sector for little reduction in fiscal cost.

81. Upon consultation, we have confirmed that there is significant variance in fee policies across the sector. This variation may be due to a difference in business models or it may be due to services that are considered 'optional' by one provider being considered a core part of ensuring the children enrolled at another provider have equitable access to education. For example, a provider with a rural branch told us they arrange a pick-up and drop-off service for children to ensure they are able to attend the service. However, this drop-off service does not incur an 'optional fee'. Other providers in urban centres with lower barriers to attendance may have an additional charge for providing such a service.

82. Furthermore, it is unclear what fees constitute as 'optional'. While items may be charged separately on the invoice, e.g. 'sunblock' and 'late-pick up fee', it is unclear on the invoice whether these payments were optional or if caregivers would have been liable to pay these fees regardless.

83. Excluding optional fees would generate significant administrative burden for ECE providers because it would require significant changes in existing business and invoicing practices to clearly list the fees separately. Even if this change in practice were to occur it would be difficult for Inland Revenue to verify whether fees were accurately categorised on invoices. Additionally, excluding optional fees may discriminate between providers with different business models which may result in

inequitable outcomes or be viewed negatively by the sector. Consequently, Inland Revenue recommends you confirm that optional fees are eligible for FamilyBoost.

84. Optional fees were explicitly included in the revisions of the FamilyBoost costing as part of Budget 2024 estimates. Consequently, maintaining your earlier decision to allow optional fees to be eligible for FamilyBoost will not result in an increase in the $723 million cost over the forecast period agreed to by Cabinet and included in the FamilyBoost pre-budget announcement. Conversely, deciding now to exclude optional fees from FamilyBoost would result in a reduction in the costing.

85. Inland Revenue does not hold any reliable data on the proportion of optional fees charged by providers. Based on the best information available, Inland Revenue has assessed that the savings from excluding optional fees would be $5.5 million across the forecast period, approximately $1.4 million per annum, set out in detail in the table below.

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 and outyears**
Non-departmental appropriations: FamilyBoost	-	**(1.400)**	**(1.400)**	**(1.400)**	**(1.300)**
Total operating	-	**(1.400)**	**(1.400)**	**(1.400)**	**(1.300)**

86. The above figures account for the potential market impacts of some providers excluding a proportion of their optional fees from FamilyBoost and absorbing these fees into their base fees to ensure the fees qualify for the payment. Inland Revenue considers that this market response is plausible and providers may find this approach simpler than updating their invoicing practices to clearly delineate mandatory and optional fees. Ultimately, whether these optional costs are included in base fees would depend on the market dynamics in a given area.

87. If this scenario eventuates, some parents (who were not previously paying for optional fees) may not receive the full benefit of FamilyBoost as they would now be required to pay previously optional fees. This may also reduce parental choice around what services they wish their early childhood education to provide. As these previously optional fees may become mandatory and therefore eligible for FamilyBoost, similar costs to the Crown may eventuate regardless of whether optional fees are eligible for FamilyBoost.

Treasury comment

88. Treasury officials understand that it has not been possible for Inland Revenue to reliably estimate the financial implications of including optional charges for FamilyBoost. This is because officials do not have an adequate information base to estimate the quantum of optional charges in the sector currently. However, Inland Revenue has provided high-level costings to support decision-making. The Treasury has significant concerns about this policy decision being made without an accurate understanding of the policy impact and consequent fiscal implications, noting we were not consulted on the initial policy advice on extending FamilyBoost support to additional charges related to the ECE service.

89. Inland Revenue has indicated that the cost of including optional charges will not be fully confirmed until the policy has been implemented. However, Inland Revenue has also indicated it will not be possible to identify if the driver of any increased costs of FamilyBoost are due to optional charges versus other factors. Therefore, any increased costs as a result of the inclusion of optional charges cannot be

decoupled from other forecast changes so will flow-through to OBEGAL by default, rather than being managed through Budget allowances.

90. As the timing of this decision sits within the Budget moratorium period and we believe there are fiscal implications, confirming this decision now is in breach of Budget moratorium rules. We understand the timing of this decision falling within the moratorium period is due to the requirement to complete consultation before reporting back, and the urgency of finalising policy settings in order to finalise the FamilyBoost legislation for Budget night. Inland Revenue has confirmed they believe the current forecast and amount in the Budget 2024 package has enough headroom to capture the impacts of the decision, due to costing in optional charges to the initial estimates. This indicates that, should you decide not to include optional charges, this will require a downwards adjustment to the current forecast (i.e., a saving) which would happen at our next forecast round.

91. You could consider making a decision to exclude optional charges at this time, but revisiting this after FamilyBoost has been implemented, and more is known about the costs and uptake. This would mean that optional charges would not be eligible for FamilyBoost when it is launched. Inland Revenue will be reporting back in December on FamilyBoost, and could provide further advice on optional charges at that time.

Next steps

92. We will continue to work towards engaging with Te Kōhanga Reo National Trust.

93. We are currently finalising the marketing and communications plan. This plan covers both the internal and external communication activities occurring to support the Budget announcement of FamilyBoost, registration and quarterly application. We intend to provide your office with the communications plan in the week commencing 13 May.

94. We will continue engaging with the sector post-Budget, with a focus on payment uptake, communications and longer-term changes. This engagement will inform the December report on FamilyBoost on future policy options to reduce the compliance burden on caregivers and the sector and other potential improvements, as detailed in the March 2024 Cabinet paper *Progressing the FamilyBoost tax credit*.

Recommendations

We recommend that you:

1. **note** the feedback received from external consultation;

   Noted

2. **note** the minimum information required and forms of acceptable payment evidence, which is expected to include a three-monthly summary statement of fees charged; and

   Noted

3. **note** your previous conditional agreement for optional fees to be eligible for FamilyBoost subject to the outcomes of consultation (IR2024/065 refers),

   Noted

Subsequent to consultation EITHER

4. **agree** that FamilyBoost will be available for all ECE fees, regardless of their 'optionality' (Inland Revenue's preferred option);

   Agreed / Not agreed

OR

5. **agree** that FamilyBoost will not be available for optional fees;

   Agreed / Not agreed

6. **note** that if you agree to recommendation 4, there will be no fiscal change;

   Noted

7. **note** that if you agree to recommendation 5, there will be fiscal saving of approximately $1.4 million per annum;

   Noted

8. **approve**, if you agree to recommendation 5, the following changes to the relevant appropriation, with a corresponding impact on the operating balance and/or net core Crown debt, which will be reflected at our next forecast round;

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 and outyears**
Benefits or Related Expenses: FamilyBoost Tax Credit PLA	-	**(1.400)**	**(1.400)**	**(1.400)**	**(1.300)**
Total operating	**-**	**(1.400)**	**(1.400)**	**(1.400)**	**(1.300)**

   Approve / Not approve

9. **note** that if you agree to recommendation 5, there will be compliance and administration costs for the ECE sector and Inland Revenue;

Noted

10. **note** that the Budget moratorium is currently in place and no papers with fiscal and/or appropriation implications can be agreed by Cabinet, Cabinet Committee or joint Ministers until Budget Day [CAB-24-MIN-0148];

    Noted

11. **note** that if you agree to recommendation 4 or 5 this decision has fiscal implications and is therefore is a breach of the Budget moratorium;

    Noted

12. **refer** a copy of this report to the Minister for Social Development and Employment, Minister of Education, Minister of Revenue and the Associate Minister of Education.

    Refer / Not referred

s 9(2)(a) [redacted]

Maraina Hak
Policy Lead
Policy and Regulatory Stewardship

Hon Nicola Willis
Minister of Finance
/ /2024

Appendix 1 – List of sector stakeholders consulted with

Early childhood education providers

- BestStart
- BusyBees
- CentralKids
- Educare
- Kidsfirst
- New Shoots
- Ngā Puna Reo o Aotearoa
- Te Aho o Te Kura Pounamu (The Correspondence School)
- Whānau Maanaki Kindergartens

Student management system vendors and accounting software providers

- Discover
- EDGE
- HomeZone
- InfoCare and APT (These two vendors are owned by the same parent company, JUICE Technologies, who engaged with us on behalf of both.)
- JuniorLogs
- Xero

Representative groups

- Early Childhood Council
- Homebased providers group
- Office of Early Childhood Education
- Early Childhood Advisory Committee, whose membership base consists of:
    - Advocates for Early Learning Excellence
    - Barnardos New Zealand
    - BestStart
    - Christian Early Childhood Education Association of Aotearoa
    - Early Childhood Council
    - Early Childhood Leadership
    - Early Intervention Association of Aotearoa New Zealand
    - The Federation of Rudolf Steiner Waldorf Schools in New Zealand
    - Home Early Learning Organisation

- Hospital Play Specialists Association
- Montessori Aotearoa New Zealand
- Ngā Puna Reo o Aotearoa
- NZEI Te Riu Roa
- New Zealand Home-based Early Childhood Education Association
- New Zealand Kindergartens Inc.
- Playcentre Federation of New Zealand
- Pasifika Advisory Group
- Te Kōhanga Reo National Trust
- Te Aho o Te Kura Pounamu - The Correspondence School
- Te Rito Maioha Early Childhood New Zealand.

Appendix 2 – List of questions posed to stakeholders

1) Questions asked to early childhood education providers

a) Invoicing

i) Do you formally invoice for fees?
ii) How do you invoice?
iii) Do you use a Student Management System provider for invoicing? Or is invoicing done in-house?
iv) What information is on a 'typical' invoice?
   (1) Child's full name?
   (2) National Student Number?
   (3) Breakdown of the fees? (Are fees split on the invoice for other things such as lunches, sunscreen)
   (4) The period the invoice covers?
   (5) ECE name and address and GST number?
   (6) Payer details – e.g. name?
   (7) Invoice issue date?
   (8) Is the Ministry of Social Development subsidy shown on the invoice or is this amount deducted prior to issuing the invoice to the caregiver?
v) How are these invoices issued?
   (1) Invoicing period?
   (2) Are invoices issued per parent or per child (e.g if multiple children from one household attend one centre are they issued per child or per parent)?
   (3) Are they ever reissued (e.g. to adjust for absences)?

b) Payment arrangements

i) If you do not use invoicing, what other payment arrangements do you use?

c) Communication with caregivers

i) We want to make sure that as many people as possible are aware of FamilyBoost and can claim it. Your existing communications channels could be very useful for this.

2) Questions asked to student management system vendors and accounting software providers

a) General

i) What software do you use

   (1) Are they desktop or web-based?
   (2) Are there any versions used by ECE providers that are no longer supported?

ii) What information do your systems require ECE providers to input (e.g. student names, fee information)?

b) Invoicing

   i) Do the ECE providers that use your systems use the invoicing function you provide?

      (1) If so, how many use this function?

   ii) Are your invoices standardised, or are they customised for each ECE provider? Are there any consistency across the invoices if they are different for each provider, e.g. are the information on invoices the same? The general layout?
   iii) What information is on a 'typical' invoice?
   iv) Child's full name?
      (1) National Student Number?
      (2) Breakdown of the fees? (Are fees split on the invoice for other things such as lunches, sunscreen etc.)
      (3) The period the invoice covers?
      (4) ECE provider details? e.g. name, address and GST number?
      (5) Payer details – e.g. name? Invoice issue date?
      (6) Is the Ministry of Social Development subsidy shown on the invoice or is this amount deducted prior to issuing the invoice to the caregiver? Any discounts or credits?
   v) How are invoices issued?
      (1) What is the most common invoicing period?
      (2) Are invoices issued per parent or per child (e.g if multiple children from one household attend one centre are they issued per child or per parent)?
      (3) Are they ever reissued (e.g. to adjust for absences)?

c) Other forms of payment arrangements

   i) Are you aware of any ECE providers that do not utilise the invoicing function your systems provide?
   ii) Do your systems provide other services that facilitate other forms of payment arrangements?

d) Change implementation

   i) If we require certain information in the invoices, how easy/difficult will it be to update your system with this new information?
   ii) Will there be costs for ECE providers who use your system to use the invoicing function?

e) Enrolment of the child

   i) We understand that information around child enrolment is collected and provided to the Ministry of Education. We are interested in any insights you may have on the effectiveness and accuracy of this information and process.

Inland Revenue
Te Tari Taake

Policy and Regulatory Stewardship
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Briefing note

Reference:	BN2024/212
Date:	16 May 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg Revenue Advisor, Minister of Revenue – Lonnie Liu Private Secretary, Minister of Revenue – Helen Kuy
Subject:	**Tactical communications plan for Budget 2024**

1. Inland Revenue's tactical communications plan for FamilyBoost and income tax changes has been attached to this briefing note for the Ministers' information.

Context for providing the tactical communications plan

2. The Minister of Finance had previously signalled their preference to see the finalised communications and marketing plan for FamilyBoost.

3. As such officials are sharing this tactical plan to provide visibility to the Ministers that Inland Revenue has a comprehensive plan to deliver FamilyBoost and income tax changes, ensuring Inland Revenue's people and customers are aware and ready for the changes.

4. Whilst this is our planned approach, it will also be constantly reviewed and adjusted based on customer need.

Consultation with the Treasury

5. The Treasury was not informed about this briefing note as it relates to Inland Revenue's marketing function as opposed to policy advice.

Pip Knight
Service Leader Marketing and Communications - Inland Revenue
s 9(2)(a)

Tactical External Communications plan for FamilyBoost, Personal Income Tax (PIT)

Note: when referencing PIT, this includes the changes to Independent Earners Tax Credit (IETC), Minimum Family Tax Credit (MFTC) and In Work Family Tax Credit (IWTC) and Paid Parental Leave (PPL)

- For the internal communications, Inland Revenue will be preparing a range of education material, including video content, web-guides, and training sessions to ensure staff can effectively support customer applications and respond to families' queries for all stages of the process via calls, web mails, or in-person.

- The external communications are outlined in the following table:

When – Delivered/In market	What – Channel/tactic	Who - Audience	Why – Purpose
Phase One – Readiness: April-May			
April - June	FamilyBoost: Face to face engagements with ECE	ECE sector including ECE centres, bodies, software providers. Key government organisations e.g. MoE	To ensure the system design and invoice requirements are fit-for-purpose and feasible To ensure they have the information they need to support the introduction of FamilyBoost
30 May	Website – Alert Banner and Update section of the Homepage to include a reference to the Budget announcement and link to the Beehive website	Customers	To ensure people landing on our website are made aware of the Budget announcement and know where to go for more information
30 May	Tax agent subscription newsletter & news item update *manually delayed to ensure it can be released after the announcement*	Tax agents	To ensure tax agents know about the Budget announcement.
30 May	Social media generic post directing customers to the Beehive website	Customers	General awareness about the proposed changes pointing customers to the Beehive page

	All social channels		
31 May	Email to payroll software providers	Payroll Software providers	To ensure they're aware of the changes required
Phase Two – Awareness: June-September - "FamilyBoost is coming – Save your invoices" "PIT what it means for me"			
~4 June immediately after enactment.	Website – New sections and update to alerts & Update Includes: • New FamilyBoost section • Personal Income Tax Threshold campaign landing page and include changes to IETC, MFTC, IWTC and PPL Note: the IR threshold & FB calculators and specific guides will not be available until July	Tax agents, all individuals, Families ECE providers Other interested stakeholders Employers	To provide information about all the changes enacted i.e. and to link relevant people to relevant content
~ 4 June	Social media on the new Budget items including, i.e. • PIT • IWTC • IETC • MFTC • PPL	Use custom audiences to target key users i.e. employers get information on what they need to do. Families get messaging on what it means for them/what they need to do. Individuals get messaging on what it means for them, what they may need to do i.e. update RWT	To ensure we're letting relevant customers know about changes that will impact them
~4 June	Direct marketing (emails)	ECE providers	To ensure ECE providers are aware of FamilyBoost and are clear on the

			information requirements for invoices from 1 July
~4 June	Translated content this includes printable pdfs that can be downloaded from our website	Families ECE providers	To provide ECEs with translated FamilyBoost content e.g. posters/flyers to share with families at their ECE centres. These would be provided via the direct marketing mentioned above
~4 June	Front of House slides in our branches These will get updated at each relevant stage i.e. 31 July for PIT, Sept & Oct for FamilyBoost	Anyone using our front of house services	To provide key messaging on the changes to people who use our front of house services. This will include clear URL's on where they need to go for more information
June	Webinar (TBC if required)	ECE providers	To ensure ECE providers are aware of FamilyBoost and are clear on the information requirements for invoices from 1 July
4 June	Call/webinar with Payroll Software providers	Payroll Software providers	To hear more about the changes they're required to make for PIT and to answer any question they may have
Mid June	Tax agent cohort and key stakeholder group meeting(s)	Tax agents	What's been announced and what they need to know and do and where to go for more information
June-September	Website – Homepage promotional tiles: -FamilyBoost -PIT	Families ECE providers Other interested stakeholders Individuals and employers	To direct people who have come organically to our website to the detailed webpages on FamilyBoost and PIT
June-September	Search advertising	Families	Before 1 July it is to ensure families are aware of FamilyBoost and where to go for more information And from 1 July it is to ensure families are saving their invoices, ready to claim FamilyBoost in October

June-March	Search advertising	PIT	To ensure Individual and employers are aware of the changes and can be directed to relevant information for their needs for the current tax year
June-September	Social media advertising	Families	Before 1 July it is to ensure families are aware of FamilyBoost and where to go for more information And from 1 July it is to ensure families are saving their invoices, ready to claim FamilyBoost in October
June-September	Digital media advertising	Families	As above
June-September	Outdoor advertising	Families	As above
June-September	Mainstream and ethnic radio advertising	Families	As above
June-September	Online editorial article	Families	As above
June-September	Explainer video	Families	As above
1 July	Proactive Media release	Families ECE providers	To ensure families are aware of FamilyBoost and most importantly the need to save invoices from 1 July, ready to claim FamilyBoost from October To ensure ECE providers are providing families with invoices containing the correct information
July (date depends on when Notice of entitlements are sent to customers)	Proactive media release (TBC)	PIT families	To ensure families are aware of how the PIT changes impact them and when they will begin to see the new amounts in the fam payments
July	Social media advertising	All income earners Personal Income Tax	Personal Income Tax thresholds are changing from 31 July. What you do or don't need to do
July	Social media	Using customers audience to with : IWTC audience MFTC audience IETC audience PPL audience	What is changing and why

July	Direct marketing (and depending on size of audience targeted social too)	PIT customers who need to do something i.e. update their RWT with their bank/tailored tax codes/ change required for secondary tax threshold	What is changing and what they need to do and by when.
Post 31 July	Secondary tax video	Individuals with secondary income	Update the secondary tax explainer video to include new thresholds
Phase Three for FamilyBoost – Understanding: October-November – "Claim FamilyBoost"			
October-November	Website – Updated homepage promotional tile - – Updated creative/messaging	Families ECE providers Other interested stakeholders	To direct people who have come organically to our website to the detailed FamilyBoost webpages
October-November	Search advertising – Updated creative/messaging	Families	To ensure families are aware of FamilyBoost and can now claim FamilyBoost for July-September costs in myIR
October-November	Social media advertising – Updated creative/messaging	Families	As above
October-November	Digital media advertising - Updated creative/messaging	Families	As above
October-November	Outdoor advertising – Updated creative/messaging	Families	As above
October-November	Mainstream and ethnic radio advertising - Updated creative/messaging	Families	As above
October-November	Explainer video – Updated creative/messaging	Families	As above
Phase Three for PIT: Understanding when the threshold changes and what it means for my tax return			
March – April 2025	External Website – end of the tax year	Income earners & employers	What happens at the end of the tax year with the new thresholds. How is my tax calculated. For employers: introducing corresponding ESCT, PIE, FBT, DWT items that go live 1 April 2025

March – April 2025	Social media	Custom audiences & targeting for Income earners & employers	As above
March – April 2025	Direct marketing	Employers	Introducing corresponding ESCT, PIE, FBT, DWT items that go live 1 April 2025 and what they need to do
March – April 2025	Digital advertising and explainer video (TBC)	Income earners	What happens at the end of the tax year with the new thresholds. How is my tax calculated
Phase Four – Support: Quarterly reminders "Remember to claim FamilyBoost"			
January and April	Website – Updated homepage promotional tile Updated creative/messaging	Families ECE providers Other interested stakeholders	To direct people who have come organically to our website to the detailed FamilyBoost webpages
January and April	Search advertising – Updated creative/messaging	Families	To remind families to claim FamilyBoost for October-December costs in myIR To remind families to claim FamilyBoost for January-March costs in myIR
January and April	Social media advertising – Updated creative/messaging	Families	As above
January and April	Digital media advertising - Updated creative/messaging	Families	As above
January and April	Outdoor advertising – Updated creative/messaging	Families	As above
January and April	Mainstream and ethnic radio advertising - Updated creative/messaging	Families	As above
January and April	Explainer video – Updated creative/messaging	Families	As above

Tactical Communications plan for FamilyBoost, Personal Income Tax (PIT)

Note: when referencing PIT, this includes the changes to Independent Earners Tax Credit (IETC), Minimum Family Tax Credit (MFTC) and In Work Family Tax Credit (IWTC) and Paid Parental Leave (PPL)

When – Delivered/In market	What – Channel/tactic	Who - Audience	Why – Purpose	Who – Responsible for delivery
Phase One – Readiness: April-May				
April - June	FamilyBoost: Face to face engagements with ECE	ECE sector including ECE centres, bodies, software providers. Key government organisations e.g. MoE	To ensure the system design and invoice requirements are fit-for-purpose and feasible To ensure they have the information they need to support the introduction of FamilyBoost	PDD Marketing Policy
April – June	FamilyBoost: Detailed training and information sessions for internal IR	Targeted sessions for our Families segment and Community Compliance team (front-of-house people)	To ensure they're ready to support customers once legislation is enacted	PD&D ICM Families
16 May	Internal IR: CCS Leads Kōrero	All CCS leaders	Come together virtually/in offices to discuss the delivery and communication plan for our people post Budget announcement	Internal Comms

30 May onwards. After the Government has announced the Budget	Internal IR: Te Matawai / Guided Help content	Individuals segment for PIT Families segment for FamilyBoost Community Compliance (front-of-house people)	To ensure they're ready to support customers once legislation is enacted	PD&D ICM Families
30 May	Internal IR: People Leaders update email/intranet content	All IR people leaders	To ensure they're aware of FamilyBoost and PIT and other Budget items and have information available to support their teams..	Internal Comms
30 May	Internal IR: Snapshot on our Intranet	CCS People	To ensure all CCS frontline people are aware of FamilyBoost & PIT and other Budget items where to go to find more information	Internal Comms
30 May	Internal: Haukāinga Featured News & Viva Engage Intranet posts	All IR people	As above	Internal Comms
30 May	Internal: Email from Families lead, Sue, to Families team	IR Families team	To ensure the full Families segment are aware of FamilyBoost & PIT, and what this means for them. Answer specific queries they will have	Internal Comms Families
30 May	External: Website – Alert Banner and Update section of the Homepage to include a reference to the Budget announcement and link to the Beehive website	Customers	To ensure people landing on our website are made aware of the Budget announcement and know where to go for more information	WWCD

30 May	External: Tax agent subscription newsletter & news item update *manually delayed to ensure it can be released after the announcement*	Tax agents	To ensure tax agents know about the Budget announcement.	WWCD
30 May	External: Social media generic post directing customers to the Beehive website All social channels	Customers	General awareness about the proposed changes pointing customers to the Beehive page	Marketing
31 May	External: Email to payroll software providers	Payroll Software providers	To ensure they're aware of the changes required	External relationships
Phase Two – Awareness: June-September - "FamilyBoost is coming – Save your invoices" "PIT what it means for me"				
~4 June immediately after enactment.	External: Website – New sections and update to alerts & Update Includes: • New FamilyBoost section • Personal Income Tax Threshold campaign landing page and include changes to IETC, MFTC, IWTC and PPL Note: the IR threshold & FB calculators and specific guides will not be available until July	Tax agents, all individuals, Families ECE providers Other interested stakeholders Employers	To provide information about all the changes enacted i.e. and to link relevant people to relevant content	WWCD And Marketing
~ 4 June	External: Social media on the new Budget items including, i.e. • PIT • IWTC	Use custom audiences to target key users i.e. employers get information on what they need to do.	To ensure we're letting relevant customers know about changes that will impact them	Marketing

	• IETC • MFTC • PPL	Families get messaging on what it means for them/what they need to do. Individuals get messaging on what it means for them, what they may need to do i.e. update RWT		
~4 June	External: Direct marketing (emails)	ECE providers	To ensure ECE providers are aware of FamilyBoost and are clear on the information requirements for invoices from 1 July	Marketing/External Relationships
~4 June	External: Translated content this includes printable pdfs that can be downloaded from our website	Families ECE providers	To provide ECEs with translated FamilyBoost content e.g. posters/flyers to share with families at their ECE centres. These would be provided via the direct marketing mentioned above	Marketing/External relationships WWCD
~4 June	External: Front of House slides in our branches These will get updated at each relevant stage i.e. 31 July for PIT, Sept & Oct for FamilyBoost	Anyone using our front of house services	To provide key messaging on the changes to people who use our front of house services. This will include clear URL's on where they need to go for more information	Marketing
June	External: Webinar (TBC if required)	ECE providers	To ensure ECE providers are aware of	Marketing

			FamilyBoost and are clear on the information requirements for invoices from 1 July	FamilyBoost project team
4 June	External: Call/webinar with Payroll Software providers	Payroll Software providers	To hear more about the changes they're required to make for PIT and to answer any question they may have	External relationships/PD&D?
6 June	Internal: Te Punga o te Waka: Senior Leaders / CCSLT hui	All IR executive leaders	To come together virtually/ in offices as a leadership team to come to a shared agreement on what all the Budget announcements mean for IR and how to support our people.'	Strategic Advisors (Tania Sellers & Mike Nutsford) Internal Comms
6 June	Internal: Commissioners Update Intranet message	All IR people	An executive view on what Budget announcements means for IR	Corporate Narrative Internal Comms
Mid June	External: Tax agent cohort and key stakeholder group meeting(s)	Tax agents	What's been announced and what they need to know and do and where to go for more information	External relationships
Mid June	Internal: IR People leaders Kōrero	CCS, ES	Virtual meeting with leaders and people to discuss changes, check in with people	Internal Comms Business Units
June-September	External: Website – Homepage promotional tiles: -FamilyBoost	Families ECE providers Other interested stakeholders	To direct people who have come organically to our website to the detailed webpages on FamilyBoost and PIT	Marketing WWCD

	-PIT	Individuals and employers		
June-September	External: Search advertising	Families	Before 1 July it is to ensure families are aware of FamilyBoost and where to go for more information And from 1 July it is to ensure families are saving their invoices, ready to claim FamilyBoost in October	Marketing
June-March	External: Search advertising	PIT	To ensure Individual and employers are aware of the changes and can be directed to relevant information for their needs for the current tax year	Marketing
June-September	External: Social media advertising	Families	Before 1 July it is to ensure families are aware of FamilyBoost and where to go for more information And from 1 July it is to ensure families are saving their invoices, ready to claim FamilyBoost in October	Marketing
June-September	External: Digital media advertising	Families	As above	Marketing
June-September	External: Outdoor advertising	Families	As above	Marketing
June-September	External: Mainstream and ethnic radio advertising	Families	As above	Marketing

June-September	External: Online editorial article	Families	As above	Marketing
June-September	External: Explainer video	Families	As above	Marketing
1 July	Internal: Snapshot	All IR people	To let our people know FamilyBoost is now in effect	CCS PDD Internal comms
1 July	Internal: Viva Engage	All IR people	To let our people know FamilyBoost is now in effect	Internal comms
1 July	External: Proactive Media release	Families ECE providers	To ensure families are aware of FamilyBoost and most importantly the need to save invoices from 1 July, ready to claim FamilyBoost from October To ensure ECE providers are providing families with invoices containing the correct information	Media Marketing
July (date depends on when Notice of entitlements are sent to customers)	Proactive media release (TBC)	PIT families	To ensure families are aware of how the PIT changes impact them and when they will begin to see the new amounts in the fam payments	Marketing/Media
July	Internal Snapshot intranet message	All IR people	To let our people know about the PIT changes coming 31 July and that social media & direct is about to start	Internal comms
July	External: Social media advertising	All income earners Personal Income Tax	Personal Income Tax thresholds are	Marketing

			changing from 31 July. What you do or don't need to do	
July	External Social media	Using customers audience to with : IWTC audience MFTC audience IETC audience PPL audience	What is changing and why	Marketing
July	External: Direct marketing (and depending on size of audience targeted social too)	PIT customers who need to do something i.e. update their RWT with their bank/tailored tax codes/ change required for secondary tax threshold	What is changing and what they need to do and by when.	Marketing
Post 31 July	External: secondary tax video	Individuals with secondary income	Update the secondary tax explainer video to include new thresholds	Marketing
Phase Three for FamilyBoost – Understanding: October-November – "Claim FamilyBoost"				
October-November	External: Website – Updated homepage promotional tile - – Updated creative/messaging	Families ECE providers Other interested stakeholders	To direct people who have come organically to our website to the detailed FamilyBoost webpages	Marketing WWCD
October-November	External: Search advertising – Updated creative/messaging	Families	To ensure families are aware of FamilyBoost and can now claim FamilyBoost for July-September costs in myIR	Marketing
October-November	External: Social media advertising – Updated creative/messaging	Families	As above	Marketing
October-November	External: Digital media advertising - Updated creative/messaging	Families	As above	Marketing

October-November	External: Outdoor advertising – Updated creative/messaging	Families	As above	Marketing
October-November	External: Mainstream and ethnic radio advertising - Updated creative/messaging	Families	As above	Marketing
October-November	External: Explainer video – Updated creative/messaging	Families	As above	Marketing
October-Nov	Internal: Viva Engage or similar intranet content	All IR	Stories highlighting how our people are helping customers	Internal Comms
Phase Three for PIT: Understanding when the threshold changes and what it means for my tax return				
March – April 2025	Internal: Te Matawai internal guided help	All IR	What happens at the end of the tax year with the new thresholds. How is tax calculated. For employers: introducing corresponding ESCT, PIE, FBT, DWT items that go live 1 April 2025	PD&D ICM
March – April 2025	Internal: Snapshot, Featured News, Viva Engage, Commissioners Update (perhaps more)	All IR	What happens at the end of the tax year with the new thresholds. How is tax calculated. For employers: introducing corresponding ESCT, PIE, FBT, DWT	WWCD

			items that go live 1 April 2025	
March – April 2025	External Website – end of the tax year	Income earners & employers	What happens at the end of the tax year with the new thresholds. How is my tax calculated. For employers: introducing corresponding ESCT, PIE, FBT, DWT items that go live 1 April 2025	WWCD
March – April 2025	External: Social media	Custom audiences & targeting for Income earners & employers	As above	Marketing
March – April 2025	External: Direct marketing	Employers	Introducing corresponding ESCT, PIE, FBT, DWT items that go live 1 April 2025 and what they need to do	Marketing
March – April 2025	External: Digital advertising and explainer video (TBC)	Income earners	What happens at the end of the tax year with the new thresholds. How is my tax calculated	Marketing
Phase Four – Support: Quarterly reminders "Remember to claim FamilyBoost"				
January and April	External: Website – Updated homepage promotional tile Updated creative/messaging	Families ECE providers Other interested stakeholders	To direct people who have come organically to our website to the detailed FamilyBoost webpages	Marketing WWCD

January and April	External: Search advertising – Updated creative/messaging	Families	To remind families to claim FamilyBoost for October-December costs in myIR To remind families to claim FamilyBoost for January-March costs in myIR	Marketing
January and April	External: Social media advertising – Updated creative/messaging	Families	As above	Marketing
January and April	External: Digital media advertising - Updated creative/messaging	Families	As above	Marketing
January and April	External: Outdoor advertising – Updated creative/messaging	Families	As above	Marketing
January and April	External: Mainstream and ethnic radio advertising - Updated creative/messaging	Families	As above	Marketing
January and April	External: Explainer video – Updated creative/messaging	Families	As above	Marketing