

2022 Tax Expenditure Statement

19 May 2022

URL at 19 May 2022:

<https://www.treasury.govt.nz/publications/tax-expenditure/2022-tax-expenditure-statement>

Introduction

The purpose of this statement is to provide further 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. The concept recognises that the result is similar whether a government chooses to spend directly on, or forego revenue from, certain individuals, groups, or activities.

This voluntary disclosure improves our transparency arrangements by bringing New Zealand's financial reporting closer to OECD best-practice standards. This statement is not intended to be a statement of policy effectiveness or desirability.

All expenditures recorded in this statement include a short description. Expenditures in Tables 3 and 5 also include a policy rationale, as well as a classification by type (social, business, or other) and impact (historic, timing, or permanent).

The fiscal cost of a small sub-section of expenditures with readily accessible data is quantified in Table 2 of the statement. The government does not collect data on all tax expenditures as the compliance and administration costs of collecting additional data exceed the value that data might provide.

Changes from Previous Statements

There are only a small number of differences between the 2022 Tax Expenditure Statement and previous years' statements. Two tax expenditures have been added, although these are not new expenditures. Additionally, the Best Start Payment has been re-instated after being removed last year, and minor changes have been made to ensure consistency of descriptions.

Donated Trading Stock: Adverse Events

A permanent concession exists for donations of trading stock to non-associated persons in a farming, agricultural or fishing business affected by an adverse event (such as localised flooding). The person making the donation is not treated as deriving income equal to the market value of the trading stock, although they can still benefit from a deduction for the cost of the trading stock where this is available. The concession exists to support those affected by adverse events, but nonetheless represents a departure from a general rule.

Donated Trading Stock: COVID-19 Concession

A further temporary departure from the rule that donations of trading stock give rise to income equal to the market value of the goods was introduced in response to the COVID-19 pandemic. It was subsequently extended for a further year (ie, ending on 31 March 2023). A similar tax expenditure was enacted in response to the Canterbury earthquakes in 2011.

Best Start Payment

In the 2021 Tax Expenditure Statement, the Best Start Payment was removed because, although it is administered by Inland Revenue, it is separate from the tax system. Officials now consider that the Best Start Payment is similar to the Working for Families (WFF) tax credits, which are conventionally included in the statement for transparency purposes, despite not being formal tax expenditures. Accordingly, the Best Start Payment has been re-instated in this year's statement.

A brief explanation of how the various expenditures listed in Table 2 are calculated is provided in the *Quantification Methods* section on page 17.

What is a Tax Expenditure?

Governments can spend in a variety of direct and indirect ways. International public sector accounting standards (IPSAS 23) divide spending into three different categories: direct spending; spending through the tax system; and tax expenditures.

Table 1 – Classification of Crown spending under public sector accounting standards

	Definition	Reporting
Direct spending	Traditional spending made as a direct transfer between the Crown and different entities or individuals.	Disclosed in the <i>Financial Statements of the Government</i> and annual Budget.
Spending through the tax system	Hybrid transfers that can be taken as a cash payment or via a reduction in tax.	A predictable cash value allows these transfers to be formally appropriated and disclosed in the <i>Financial Statements of the Government</i> and annual Budget.
Tax expenditures	Individual features of the tax system that reduce an entity's tax obligation in a way that is designed to give effect to policy other than to raise revenue in the most efficient and economically neutral way.	Tax expenditures are defined in tax legislation. The 2010 statement was the first disclosure since 1984.

As tax systems differ from country to country, there is no current international consensus as to how tax expenditures should be categorised. The Treasury released a discussion on how tax expenditure reporting could be categorised to meet New Zealand's objectives in the *Treasury Policy Perspectives Paper 09/01*.

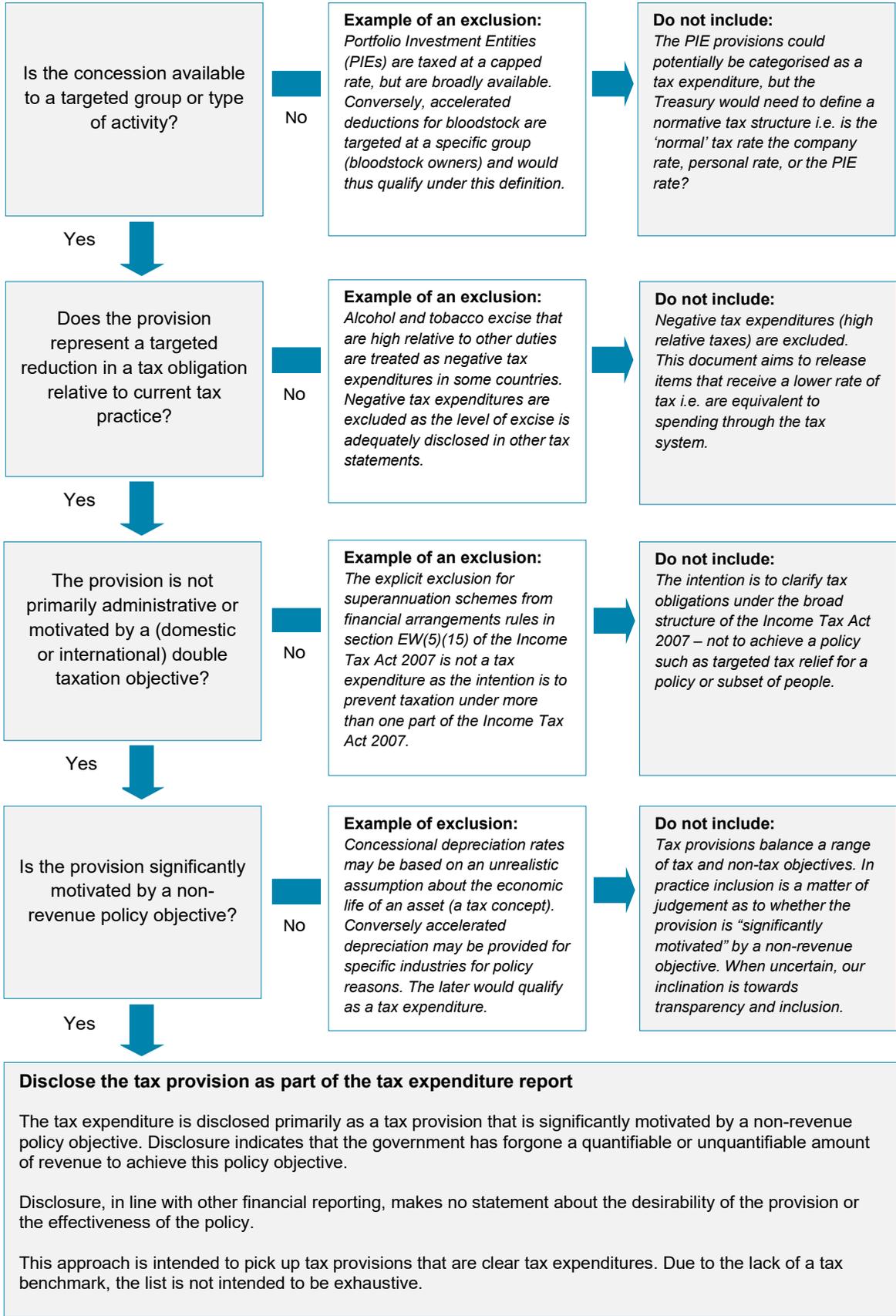
Some countries define tax expenditures indirectly relative to a normative benchmark. This approach allows countries to report a wider set of structural tax expenditures that are generally applicable.¹ This document has focused, in the first instance, on a narrow subset of tax expenditures that bear a distinct fiscal cost and represent a clear policy-motivated exemption to current tax practice.² A summary of the guiding criteria is included in Figure 1.

No attempt has been made to identify a normative tax benchmark or to comprehensively analyse tax legislation.

¹ For example, Portfolio Investment Entities (PIEs) offer all taxpayers the option of relatively 'concessional' tax treatment as a mechanism to encourage portfolio investment. While a non-revenue policy objective suggests that PIEs could be categorised as a tax expenditure, PIEs are excluded from the tax expenditure definition used in this document as PIEs are available to all taxpayers. A benchmark tax system would allow the Treasury to categorise structural features of the tax system such as PIEs, trusts, or progressive personal tax rates. A benchmark tax structure is useful where no clear exemption exists as it would define what constitutes the 'standard' tax treatment. For instance, is the 'standard rate' the company rate, PIE rate, trust rate, or one of the personal tax rates?

² The stated purpose of the *Income Tax Act 2007* is to "define, and impose tax on, net income". Tax expenditures are not motivated by a desire to raise revenue in the most efficient manner possible, but instead are significantly motivated by non-revenue policy objectives.

Figure 1 – Guiding criteria for inclusion in this disclosure document



Current Tax Expenditures

The following sections list tax expenditures drawn from the *Income Tax Act 2007* and *Goods and Services Tax Act 1985*, as at 7 April 2022. Appropriated cash payments (spending) made through the tax system (for example, *Working for Families* tax credits,³ but not COVID-19 payments administered by Inland Revenue) have also been included in the list. These do not formally meet a tax expenditure definition but have been included for transparency purposes.

The fiscal cost of a small sub-section of tax expenditures with readily accessible data has been quantified (see Table 2). The government does not collect data on all tax expenditures as the compliance and administration costs of collecting additional data exceed the value that data might provide.

Tables 3 and 5 also provide the classification and policy rationale for individual expenditures. These were added initially to the 2017 statement to provide greater transparency, as recommended by the Open Budget Initiative and Transparency International.⁴

³ Comprises the Child tax credit, Family tax credit, In-work tax credit, Parental tax credit and the Minimum Family tax credit.

⁴ <http://www.internationalbudget.org/budget-work-by-country/findgroup/group-data/?country=nz>;
<https://www.transparency.org.nz/docs/2013/Integrity-Plus-2013-New-Zealand-National-Integrity-System-Assessment.pdf>

Table 2 – Quantified Tax Expenditures and Spending through the Tax System (\$m)

Quantified tax expenditures	Income tax years (1 April – 31 March)						
	Value of expenditure 2016/17 (actual)	Value of expenditure 2017/18 (actual)	Value of expenditure 2018/19 (actual)	Value of expenditure 2019/20 (actual)	Value of expenditure 2020/21		Value of expenditure 2021/22 (estimate)
					As at April 2022	Estimated Actual	
Charitable or other public benefit gifts by a company: deduction	30.000	46.000	34.000	32.000	20.000	32.000	32.000
Charitable or other public benefits: tax credit	262.000	277.000	286.000	289.000	277.000	298.000	297.000
Independent earner tax credit	242.000	243.000	245.000	233.000	208.000	211.000	211.000
Māori Authority donations	4.000	4.500	4.900	4.4000	5.600	5.700	5.700

Appropriated spending through the tax system	Fiscal years (1 July – 30 June)					
	Value of expenditure 2016/17 (actual)	Value of expenditure 2017/18 (actual)	Value of expenditure 2018/19 (actual)	Value of expenditure 2019/20 (actual)	Value of expenditure 2020/21 (actual)	Value of expenditure 2021/22 (forecast)
Child tax credit	0.900	0.800	0.100	0.100	discontinued	discontinued
Family tax credit	1,728.000	1,639.000	2,131.000	2,189.000	2,103.000	2,108.000
In-work tax credit	548.000	515.000	613.000	621.000	572.000	542.000
Parental tax credit	30.000	28.000	8.000	1.000	discontinued	discontinued
Minimum Family tax credit	13.000	12.000	14.000	18.000	13.000	15.000
Best Start payment	n/a	n/a	48.000	184.000	271.000	339.000
KiwiSaver tax credit	743.000	807.000	867.000	885.000	916.000	978.000
Research and Development tax credit	n/a	n/a	40.000	213.000	250.000	497.000
Interest on income equalisation reserve scheme deposits	5.100	4.600	5.000	6.500	6.500	7.000
Interest on environmental restoration account deposits	1.600	1.600	1.500	1.400	1.400	1.400

Unquantified tax expenditures ⁵	Fiscal years (1 July – 30 June)					
	Value of expenditure 2016/17	Value of expenditure 2017/18	Value of expenditure 2018/19	Value of expenditure 2019/20 (forecast)	Value of expenditure 2020/21 (forecast)	Value of expenditure 2021/22 (forecast)
Bloodstock	n/a	n/a	n/a	0.200	1.900	2.700
Mycoplasma bovis cull income tax adjustment	n/a	n/a	n/a	n/a	1.500	0.750
Donated Trading Stock: COVID-19 concession	n/a	n/a	n/a	n/a	2.000	5.000

⁵ These tax expenditures are classified as ‘unquantified’ because their forecast cost has not been updated since they were originally introduced. For more information, see page 22.

Tax Expenditures Categorisation

In the tables that follow, tax expenditures and appropriated spending are categorised by *Type* and *Impact*.

In this statement there are three *types* of tax expenditures:

- 1 **Social:** Tax expenditures that are introduced with the purpose of achieving certain social policy objectives. These can be income exemptions or deductions, such as the charitable donations deduction.
- 2 **Business:** Tax expenditures that are aimed at incentivising certain types of business or commercial activities in order to meet explicit or implicit economic policy objectives. Some examples include income exemption for bodies promoting scientific or industrial research, or the deduction for petroleum mining expenditure.
- 3 **Other:** Tax expenditures that are not expressly introduced to achieve social or business economic policy objectives. An example is the tax exemption for the allowances of the Governor General.

Tax expenditures are also categorised by their *impact*. That is, whether their effect on the current tax base results from *historic* policy settings, and/or whether they are *permanent*, that is subject to no future reversal, or that they facilitate *timing* changes which reverse in the future. Detailed definitions of these *impact* categories are as follows:

- 1 **Historic:** Tax expenditures that are no longer available for new claims, but qualifying activity from the past can still affect tax revenues. Some examples include accelerated depreciation and home ownership savings.
- 2 **Permanent:** Tax expenditures that reduce the overall amount of tax payable or increase entitlement to Crown expenditure. Some examples include income exemption for Community Trusts and the Charitable or other public benefit gifts tax credit.
- 3 **Timing:** Tax expenditures that achieve a tax deferral through allowing later recognition of income or earlier deductions that reverse over following years. An example is the film industry expenditure deduction.

Table 3 – Tax Expenditures Included in the Income Tax Act 2007

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Accelerated depreciation	<i>Sections DO 4-5, 12, DP 3, DZ 17-18, EE 31 -Accelerated write-off</i>	The ability to depreciate capital items faster than their economic life reduces income by a greater amount in earlier years (deferring tax payments). This covers both primary sector amortisation and fixed asset depreciation.	To encourage investment in depreciable assets.		✓		✓	✓	
Defence Force ⁶ accommodation	<i>Section CE 1D -Exemption</i>	Accommodation provided to a member of the Defence Force – difference between market rental value and rental charged is exempt income.	NZDF staff are required to accept postings anywhere in the country. Some housing is on base and under certain restrictions.			✓			✓
Ministers of religion accommodation	<i>Section CE 1E -Exemption</i>	Owned and rental accommodation supplied by religious bodies to their ministers - cap on the amount used to value the benefit of the accommodation.	Subsidised accommodation enables and encourages ministers, who are generally low wage earners, to better perform their religious duties and provide a service to their communities (often the expectation is parishioners can visit their home).			✓			✓
Allowances of the Governor-General	<i>Section CW 16 -Exemption</i>	Allowances and benefits received by the Governor-General and former Governor-Generals under the <i>Governor-General Act 2010</i> are exempt from tax.	Administrative convenience, as the Governor-General's allowance covers both personal and office expenses.			✓			✓
Bloodstock: accelerated deductions	<i>Sections EC 38-48 -Accelerated write-off</i>	Both the timing and rate of write downs are accelerated when compared with an economic approach.	To encourage the ownership and breeding of stallions and broodmares.		✓			✓	

⁶ Employer provided accommodation and accommodation payments provide a private benefit to the employee and should be taxed. In instances described here, there is little benefit to the employee, because the accommodation or payments arise from the requirements of the employer or the job.

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Bloodstock deductions	<i>Sections EC 47C</i>	Added by the Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Act 2019. The policy allows new investors in qualifying yearlings to claim tax deductions as if they have a bloodstock breeding business.	To encourage the ownership and breeding of stallions and broodmares.		✓				✓
Bodies promoting amateur games and sports: exempt income	<i>Section CW 46 -Exemption</i>	Income derived by a club, society or association is exempt income, providing it is established to promote an amateur game or sport and no funds are used for private pecuniary profit.	To encourage amateur games or sports which have the purpose of promoting physical activity across generations for the general well-being of society.	✓					✓
Bodies promoting scientific or industrial research: exempt income	<i>Section CW 49 -Exemption</i>	Income derived by a society or association established mainly to promote or encourage scientific or industrial research is exempt income, providing the society or association is approved by the Royal Society of New Zealand and no funds are used for private pecuniary profit.	To encourage research that is of national interest, and ensure these institutions are on a level playing field with other tax exempt organisations.		✓				✓
Certain income derived by transitional residents: exempt income	<i>Sections CW 27 and HR 8 -Temporary exemption</i>	New tax residents (both immigrants and returning New Zealanders) can gain a temporary tax exemption for up to four years on most foreign-sourced income (NZ tax on foreign-sourced income is higher than some other countries).	To reduce the costs to NZ businesses associated with recruiting highly skilled and mobile individuals; remove tax barriers that may inhibit international recruitment to NZ; and grow development of a competitive and innovative economy.			✓			✓
Charitable or other public benefit gifts by a company: deduction	<i>Section DB 41 -Deduction</i>	A company is allowed a deduction for a charitable or other public benefit gift of cash when made to an entity described in section LD 3(2) or listed in schedule 32 of the Income Tax Act 2007. This deduction is limited by net income.	To incentivise charitable donations.	✓					✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Charitable or other public benefit gifts by an individual: tax credit	<i>Subpart LD -Deduction</i>	An individual who makes a charitable or other public benefit gift is, under certain conditions, allowed a refundable tax credit. This applies to cash donations only and is limited by taxable income.	To incentivise charitable donations.	✓					✓
Charities deregistration exemption for community housing providers	<i>Section HR 12 -Exemption</i>	Charities that predominately provide community housing are exempt from section HR 12 (tax on deregistration of charities) in qualifying circumstances.	To ensure that assets and income accumulated while an entity was exempt from income tax as a charity is destined for charitable purposes.	✓					✓
Charities: exempt income	<i>Sections CW 41, 42,43 -Exemption</i>	Business, non-business and charitable bequests are exempt income for registered charitable entities. The exemption does not apply to business income to the extent that the charity carries out its charitable purposes outside New Zealand.	To support the carrying out of charitable purposes and encourage individuals to leave bequests to charities.	✓					✓
Community housing: exempt income	<i>Section CW 42B -Exemption</i>	Income derived by community housing entities is exempt income.	To help promote home ownership for New Zealanders who would not otherwise be able to afford to buy a house. Supports community housing providers that offer pathways to home ownership to low-income households but may no longer be considered charitable entities.	✓					✓
Community trusts: exempt income	<i>Section CW 52 -Exemption</i>	Income derived by the trustee of a community trust is exempt income.	To assist with providing community benefits for the good of the public.	✓					✓
Donated trading stock – adverse events	<i>Section GC 1(5)(b)</i>	Relief from the deemed income rule in GC 1 to ensure business are not disincentivised from making donations in response to adverse events.	To support businesses in the agricultural, farming and fishing sector affected by adverse events.	✓					✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Donated trading stock – COVID-19	<i>Section GZ 4 and GZ 5</i>	Temporary relief from the deemed income rule in GC 1 for time limited period to ensure that businesses are not disincentivised from making donations in response to COVID-19.	To remove any tax-related disincentive to donate trading stock in response to COVID-19.	✓					✓
Environmental restoration accounts: deductions	<i>Subpart EK -Deduction</i>	Persons who carry out an activity outlined in Schedule 19 of the Income Tax Act 2007 may reduce their taxable income in a year by depositing taxable income with Inland Revenue. The schemes allow taxable income to be transferred between years thereby smoothing taxable income.	To facilitate income smoothing.		✓			✓	
Environmental restoration accounts: interest	<i>Section EK 6</i>	The scheme pays interest on the balance of the account.	To compensate for the loss of the use of money.		✓			✓	
Farming business expenditure: accelerated deductions	<i>Sections DO 1-3, DO 10 -Deduction</i>	Certain deductions granted for improvements and enhancements to land for farming can be expensed rather than treated as capital and amortised, eg, fencing.	To increase the productive capacity of existing farms and the quality of the nation's exports.		✓			✓	✓
Film industry expenditure: accelerated deductions	<i>Section DS 1-4 -Deduction</i>	Expenditure incurred acquiring film rights or film production expenditure can be expensed over a specified time frame.	To encourage the development of the New Zealand screen production industry.		✓			✓	
Forestry encouragement grant: accelerated deductions	<i>Section DP 5 -Deduction</i>	Forestry expenditure incurred by a person who derives a forestry encouragement grant that is not grant related is immediately deductible.	To encourage the planting of woodlots and ensure an adequate supply of timber for future need.		✓		✓	✓	
Forestry expenditure: accelerated deductions	<i>Section DP 1 -Deduction</i>	Expenditures associated with forestry (eg, planting or tending costs) can be expensed rather than capitalised against harvest proceeds.	To encourage the establishment of new forests.		✓			✓	

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Friendly societies: exempt income	<i>Section CW 44 -Exemption</i>	Specified income derived by a friendly society is treated as exempt income.	To support friendly societies and credit unions.	✓					✓
Fringe benefit tax: partial exclusion for charities	<i>Section CX 25 -Exemption</i>	Generally, fringe benefits provided to employees not involved in a charity's business are exempt FBT.	The cost of complying with FBT obligations would be onerous and reduce the funds available for charitable purposes.	✓					✓
Funeral Trusts: exempt income	<i>Section CW 45 -Exemption</i>	Interest or a dividend derived by a trustee in a funeral trust is exempt income.	To reduce compliance costs for sickness, accident and death funds that would need to restructure to be recognised as friendly societies.	✓					✓
Herd improvement bodies: exempt income	<i>Section CW 51 -Exemption</i>	Income derived by a herd improvement association, or society established mainly to promote an improvement in New Zealand dairy cattle, is exempt income, providing no funds are used for private pecuniary profit.	Originally, herd improvement bodies were considered of national significance.		✓				✓
Income equalisation schemes: deduction	<i>Subpart EH -Deduction</i>	Persons working in forestry, fishing, or farming entities may reduce their taxable income in a year by depositing taxable income with Inland Revenue. The schemes allow taxable income to be transferred between years thereby smoothing taxable income.	To facilitate income smoothing.		✓			✓	
Income equalisation schemes: interest	<i>Section EH 6</i>	The scheme pays interest on the balance of the account.	To compensate for the loss of the use of money.		✓			✓	
Income for military or police service in operational area: exempt income	<i>Sections CW 23-24 -Exemption</i>	Specified income derived by members of the New Zealand Defence Force (or the police) serving in an operational area can be treated as exempt income.	To increase equity and reduce the administrative burden across the New Zealand Defence Force and the Police.			✓			✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Income from conducting gaming-machine gambling: exempt income	<i>Section CW 48</i> <i>-Exemption</i>	Gross gambling proceeds from gaming-machine gambling are exempt income if the person complies with the <i>Gambling Act 2003</i> . Note that turnover is separately taxed.	To reduce compliance costs as income is used for authorised purposes, which generally have an income tax exemption.			✓			✓
Independent earner: tax credit	<i>Section LC 13</i> <i>-Tax Credit</i>	Individuals whose income is between \$24,000 and \$44,000, and who are not receiving certain forms of income, are entitled to a tax credit of \$520. This credit abates once annual income rises above \$44,000.	To improve incentives to participate in the workforce.	✓					✓
Interest on home vendor mortgages: tax credit	<i>Sections LZ 6-8</i> <i>-Tax Credit</i>	A tax credit may be available for interest from a home vendor mortgage, providing it was approved by the Housing NZ Corporation, on or before 5 August 1982.	To encourage home ownership.	✓			✓		✓
Jurors' and witnesses' fees: exempt income	<i>Section CW 26</i> <i>-Exemption</i>	Fees paid by the Crown to jurors and its witnesses, other than expert witnesses, are exempt income.	To encourage public involvement in law enforcement by increasing the net payment to witnesses. Cost savings for the Department of Justice who administer the payments, which outweigh the tax foregone.	✓					✓
Local and regional promotional bodies: exempt income	<i>Section CW 40</i> <i>-Exemption</i>	The income derived by a charitable association or society is exempt income if it is primarily established for beautification purposes.	To encourage local and regional beautification/advertisement.	✓					✓
Māori Authorities: donations	<i>Section DV 12</i> <i>-Deduction</i>	A Māori authority is allowed a deduction for a cash donation that it makes to a Māori association as defined in the Māori Community Development Act 1962. It is also allowed a deduction for charitable or other public benefit cash gifts. This deduction is limited by net income.	To incentivise charitable donations.	✓					✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Mycoplasma bovis	<i>Sections CZ 37, EZ 4B, EZ 80 and EZ 81</i>	The income and deduction spreads only apply to breeding cattle culled under the Biosecurity Act 1993, that were valued at cost, and are quickly replaced.	To neutralise, for equity reasons, the unexpected income arising from the government decision to eradicate Mycoplasma bovis in New Zealand.			✓		✓	
Non-profit organisations	<i>Section DV 8 -Deduction</i>	Non-profit organisations are entitled to an income tax deduction for the lesser of \$1,000 and their net income.	To reduce compliance costs.	✓					✓
Non-resident oil rig and seismic vessel operator - tax exemption	<i>Section CW 57 -Exemption</i>	Income derived by non-resident operators of oil rigs and seismic vessels is exempt from taxation.	To prevent rig operators leaving New Zealand before 183 days and a separate operator having to come in to finish the job.		✓				✓
Payments of interest post-war credits: exempt income	<i>Section CW 5 -Exemption</i>	Interest derived by a person under section 2 of the <i>Income Tax (Repayment of Post-War Credits) Act 1959</i> of the United Kingdom Parliament is exempt income.	To reduce compliance costs, as interest on post-war credits was already exempt from tax in the UK.	✓					✓
Payments of interest on farm mortgages: exempt income	<i>Section CW 6 -Exemption</i>	50 percent of the interest that an individual derives from a mortgage securing a loan made by a seller of a farm is exempt income, if the Rural Banking and Finance Corporation of New Zealand approves the mortgage.	To encourage young farmers.		✓				✓
Petroleum mining expenditure: accelerated deduction	<i>Subpart DT, sections EJ 12-20 -Deduction</i>	Development expenditure is written off over an accelerated seven-year period.	To make the NZ mining industry more competitive internationally (and similar to the rules in Australia)		✓			✓	
Plain clothes allowances	<i>Section CW 17CC -Exemption</i>	In very limited circumstances a plain clothes allowance paid to an employee who is also provided with a uniform can be tax exempt.	To reduce compliance costs. Consistent with longstanding practice.			✓			✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Research and Development (R&D) – cashing out tax losses	<i>Subpart MX -Cash-out of losses</i>	In qualifying circumstances, a company that conducts R&D and incurs tax losses may cash out the tax value of the research and development part of the tax losses. This is repayable against future profits, or in certain other circumstances.	To reduce bias against investment in R&D start-ups arising from the current treatment of tax losses.		✓			✓	
Scholarships and bursaries: exempt income	<i>Section CW 36 -Exemption</i>	Any scholarship or bursary payment for attendance at an educational institution is exempt income, except for a basic grant or an independent circumstances grant under the <i>Education Act 1989</i> .	To assist education development.	✓					✓
TAB and racing clubs: exempt income	<i>Section CW 47 -Exemption</i>	Income derived by the New Zealand Racing Board, New Zealand Thoroughbred Racing, Harness Racing New Zealand, and the New Zealand Greyhound Racing Association is exempt income. Note that betting turnover is separately taxed.	To support the racing sector..		✓				✓
Te Pou Tupua	<i>Section CW 40C and the Te Awa Tupua (Whanganui River Claims Settlement) Act 2017 -Exemption</i>	Income received by Te Pou Tupua is exempt from income tax so long as it is applied for the purposes set out in the <i>Te Awa Tupua (Whanganui River Claims Settlement) Act 2017</i> .	Treaty of Waitangi settlement.			✓			✓
Te Urewera Board	<i>Section CW 40B and the Te Urewera Act 2014 -Exemption</i>	Te Urewera Board's income (generally from concessions) is exempt from tax so long as it is applied for the purposes set out in the <i>Te Urewera Act 2014</i> .	Treaty of Waitangi settlement.			✓			✓

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Veterinary services bodies: exempt income	<i>Section CW 50 -Exemption</i>	Income derived by a veterinary association, club, or society established mainly to promote efficient veterinary services in New Zealand is exempt income, providing no funds are used for private pecuniary profit.	Originally, the bodies were seen to be of national significance.		✓				✓

Table 4 – Approved Appropriated Spending Made through the Tax System

Appropriated spending	Sections	Comment	Type			Impact		
			Social	Business	Other	Historic	Timing	Permanent
Child tax credit	<i>Section MZ 2</i>	Families with a pre-existing entitlement dating from before 31 March 2006 are able to claim a tax credit for dependent children. Additional access to this tax credit is no longer available.	✓			✓		✓
Family tax credit	<i>Section MD 3</i>	Families are entitled to an income tested tax credit or cash payment for children aged 18 years or younger.	✓					✓
In-work tax credit	<i>Section MD 10</i>	Families with children 18 years or younger that work the required number of hours per week are entitled to an income tested in-work tax credit.	✓					✓
KiwiSaver tax credits	<i>Section MK 1-8</i>	The savings of participants in the KiwiSaver scheme are entitled to a tax credit.	✓					✓
Parental tax credit	<i>Section MD 12</i>	A tax credit may, under certain conditions, be paid to families with a newborn baby for the first 70 days (ten weeks) after the baby is born.	✓					✓
Minimum Family tax credit	<i>Section ME 1</i>	A tax credit may be available to ensure that the annual income (after tax) of a family with dependent children 18 or younger does not fall below the specified threshold (\$26,572 from 1 April 2019).	✓					✓
Best Start payment	<i>Section MG</i>	Families are entitled to a tax credit for the first year of a child's life. The credit may, under certain conditions, continue to be paid to families with a dependent child until the child turns three years old.	✓					✓
Research and Development tax incentive	<i>Subpart LY</i>	Eligible entities are entitled to a tax credit of 15% for expenditure on R&D activity. Expenditure has to be primarily in New Zealand and at least \$50,000 (subject to exceptions), and no more than \$120 million.		✓				✓

Table 5 – Tax Expenditures Included in the Goods and Services Tax Act 1985

Tax Expenditure	Sections/ Classification	Comment	Policy Rationale	Type			Impact		
				Social	Business	Other	Historic	Timing	Permanent
Input tax (GST) recovered by registered non-profit bodies	<i>Section 20 (3K) -Deduction</i>	GST input tax is able to be recovered where the input tax does not factually relate to taxable supplies made by a non-profit body.	Except for input tax relating to exempt supplies, a non-profit body should be able to recover all other input tax whether or not it relates to the making of taxable supplies. This ensures, for example, that input tax can be recovered in relation to donations.			✓			✓

Quantification Methods

Quantified Tax Expenditures

Charitable or other public benefit gifts by a company: deduction

This item is sourced from the Income Tax return for companies (IR4). The values returned are the amount of donations made; the tax expenditure associated with these donations is the amount of donations multiplied by the company tax rate prevailing for the tax year in which the donations are returned.

Analysis of filing patterns for the 2019/20 income year suggests that approximately 98 percent of claims for donation-related deductions are generally available by early April the following year. However, due dates for 2020/21 tax returns have been extended to 31 May 2022, and previous filing patterns will not apply for this year. Consequently, the estimate for claims in 2020/21 are held at the same level as the 2019/20 year. The estimate for 2021/22 is, in the absence of better information, held at the same level as the estimate for 2020/21.

Charitable or other public benefits: tax credit

This item is sourced from the tax credit claim form (IR526) and from Employment Information for payroll giving.

Analysis of filing patterns for the IR526 return for the 2019/20 income year suggests that approximately 93 percent of claims for tax credits in the 2020/21 year will be received by April 2022. Consequently, for the estimated actual figure for 2020/21 we have assumed a scale up on the credits received by 7 April 2022.

The estimate for 2021/22 is, in the absence of better information, held at the same level as the 2020/21 estimate.

The (small) payroll giving component of the donations reported in this expenditure is available within 20 days of the end of the month in which the donation was made, and actual data is used for both the 2020/21 and 2021/22 years. This table was updated before the 20th of April, but the value of credits claimed tends to be small enough to have little impact on the annual figure reported here.

Independent Earner Tax Credit

The Independent Earner Tax Credit (IETC) can be claimed at year end, or during the year through the PAYE system. For the year-end claims, the amount is compiled directly from IR3 tax returns or personal tax summaries (for years prior to 2018/19) and from IR3 tax returns or automatic square-up (from 2018/19).

For years prior to 2018/19, some people have claimed IETC through the PAYE system and have not squared up at year end. For these people, the amount of IETC claimed is imputed monthly from the PAYE earnings of people who have selected 'ME' tax codes for their PAYE. This monthly imputation annualises the earnings of that particular month and imputes entitlement on the basis of these monthly earnings, not on the basis of the annual earnings.

The final step in quantification of IETC for any given return period is an estimate for late claims. Data is complete for periods up until 2019/20. Analysis of filing patterns for the 2019/20 income year suggests that approximately 98 percent of claims for IETC from personal tax returns are generally available by early April the following year. Consequently, data for 2020/21 uses the claims information available at 7 April 2022 with an allowance for later claims.

The estimate for 2021/22 is, in the absence of better information, held at the same level as the estimate for 2020/21.

Māori Authorities: donations

This item is sourced from the Income Tax return for Māori authorities (IR8). The values returned are the amount of donations made; the tax expenditure associated with these donations is the amount of donations multiplied by the Māori authority tax rate for the tax year in which the donations are returned.

Analysis of filing patterns in the 2019/20 income year suggests that approximately 99 percent of claims for donation-related deductions are generally available by April the following year, and additional claims for a deduction are not large. Consequently, data for 2020/21 uses the claims information available on 7 April 2022 with a small allowance for later claims.

The 2021/22 year is estimated to be similar to 2020/21.

Research and Development tax credit

The Research and Development tax incentive took effect from the start of the 2019/20 income year. Forecasts are prepared by the Ministry of Business, Innovation and Employment as part of the Government's Budget process, and historical values are as reported in Inland Revenue's Annual Report.

Appropriated Spending Through the Tax System

Child tax credit, family tax credit, in-work tax credit, parental tax credit, Best Start, and minimum family tax credit

Historical values for these Working for Families tax credits are based on actual expenditure on these credits. These items are also formally forecast as part of the Government's Budget process, and the values reported in the Tax Expenditure statement are taken from these forecasts.

KiwiSaver tax credit

The KiwiSaver tax credit reflects the combined expenditure on (historically) Kickstart, Member Tax Credit and interest payments made by Inland Revenue relating to the period when contributions to members' scheme providers are held by Inland Revenue.

Historical values for these tax credits are based on actual expenditure on these credits. This item is also formally forecast as part of the Government's Budget process, and the values reported in the Tax Expenditure statement are taken from these forecasts.

Income Equalisation Reserve Scheme Interest

Deposits held in Income Equalisation Reserve Scheme accounts attract interest if the deposit is left in the scheme for a period of at least 12 months.

Historical values for these interest payments are based on actual interest expenditure. This item is formally forecast as part of the Government's Budget process, and the values reported in the tax expenditure statement are taken from these forecasts.

Environmental Restoration Account Interest

Deposits held in Environmental Restoration accounts attract interest.

Historical values for these interest payments are based on actual interest expenditure. This item is formally forecast as part of the Government's Budget process, and the values reported in the tax expenditure statement are taken from these forecasts.

Unquantified Tax Expenditures

Bloodstock

Changes to the bloodstock tax rules introduced in Budget 2018 were expected to cost a total of \$4.8 million in the first three years of implementation. The table shows expected costs as determined when the policy was legislated. Ongoing expenditure is not specifically measured.

Mycoplasma bovis cull income tax adjustment

An option was enacted in early 2021 that enables the spread of certain income and deductions arising from the cull of livestock affected by *Mycoplasma bovis*. The government had previously decided that *Mycoplasma bovis* would be eradicated from New Zealand, using the powers under the Biosecurity Act 1993. The spreading option terminates after the 2027/28 income year. This treatment was expected to cost \$1.5 million in the 2020/21 fiscal year, and \$0.75 million in 2021/22, with the cost being recouped in subsequent fiscal years as the treatment relates to timing.

Donated trading stock: COVID-19 concession

Disposal of trading stock to unrelated parties at below market value (donations of trading stock) were granted a temporary concession from 31 March 2020 to 31 March 2023 at Budget 2021. This concession was recently extended to 31 March 2024. The table shows expected costs as determined when the policy and subsequent extension were legislated.