by Tax Justice Aotearoa

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# Tax Policy Statement

For a fairer, more transparent tax system

## Welcome to this Tax Policy Statement from Tax Justice Aotearoa.

Acknowledgements: Bill Rosenberg, Nick Miller, Ed Miller, Terry Baucher, Paul Barber, Louise Delany, Tayla Forward, Glenn Barclay, Kate Stone, Jimirah Baliza and Sarah Short.

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# Introduction

Tax Justice Aotearoa was formed in 2018 in recognition that "our tax system can be a powerful tool for a flourishing country, where every person enjoys the best health possible, lives in a warm and safe home, and has opportunities to learn, grow and participate in community life in ways that are fulfilling for them." We want our tax system to be that powerful tool for positive change.

Tax Justice Aotearoa  advocates a programme of tax reform for Aotearoa New Zealand that supports the growing needs for additional government revenue as a result of pressures such as climate change, a large backlog of infrastructure needs, poverty, an ageing population, inequalities, and a more unstable international economic and political environment. To do this, it should raise more revenue and be substantially more progressive than the current tax system. It should also be more transparent and be capable of responding to international events and trends, and engaging in international cooperation where it is in the interests of Aotearoa New Zealand and contributes to greater equity internationally.

The tax system has become markedly less progressive over recent decades. The top marginal income tax rate declined from 90% post-WWII to 33% in 1988, lifting to 39% today. Corporate tax rates – paid by the owners of business equity, concentrated at the top of wealth and income distributions – fell from 48% to 28%. Untaxed capital gains have become a larger component of wealthy households' income, undermining progressivity even within the personal income tax scale.

While there are many reforms that can be suggested for the tax system, those below make up our core programme.

For each we provide a summary, but more detailed papers are available or in preparation.

# Foreword

Since our establishment we have developed policy in a number of areas, including international taxation, transparency, and the taxation of wealth and the gains from wealth. These policies tended to be developed independently of each other, but as tax has become increasingly a part of the political debate we realised that we needed to develop a more comprehensive, nuanced policy statement that considers what mix of taxes would best suit Aotearoa.

Our tax system has many problems: it does not gather enough revenue, given the many challenges the country will be facing over the coming years; it relies disproportionately on income tax and goods and services tax (which is regressive), and does not tax wealth, or the gains from wealth, in any meaningful way (other than through local government rates); it could make better use of remedial taxes to drive positive behaviours, particularly in public health and the environment; it lacks transparency; and it directly contributes to inequality because it lacks genuine progressivity. Finally, our tax system, like many other government institutions, does not reflect Te Tiriti o Waitangi.

This Policy Statement addresses the first five problem areas, but not Te Tiriti. This is not to diminish the importance of Te Tiriti, given the role that taxation has played in the financial colonisation of Aotearoa, but rather reflects that more work is required and that this work needs to be conducted in partnership with Māori. We note that there is a burgeoning debate about the possibility of Māori institutions being given the right to levy (and spend) taxes. This is an important idea that is worth further exploration and we intend to do our own work on it in due course. In the meantime, we have tried to take into account the special factors affecting Māori (such as land) where possible, and consider our policy recommendations in general are likely to have a positive impact for many Māori.

It is important to understand that this Policy Statement is not intended to be a rigid policy prescription for the inadequacies of our tax system. Rather, it sets a clear direction of travel for the kind of solutions that are needed. This direction would change our tax system significantly, with changes that are long overdue, but what we are advocating has plenty of international precedents: the policies would not be out of place among other high income countries. Tax Justice Aotearoa will always be open to other ideas or evidence for different design features than those proposed here, but the Statement's purpose is to inform conversations with policy makers and to better participate in the public debate about tax.

One policy area that is not addressed here is the interrelationship between the tax system and the transfer system, and particularly the interaction between income tax and the in-work tax credit (Working for Families). This is a significant issue, but not one we had the capacity to address in this statement. What we can say is that we support the work of the Child Poverty Action Group to address the impact of high effective marginal tax rates and other issues that bedevil the system. We welcome any comments, questions or discussion arising out of this Policy Statement.

**Glenn Barclay,**
**Chairperson of Tax Justice Aotearoa**

# Executive Summary

Our Tax Policy Statement contains several different forms of tax. This describes how they could be combined into a coherent package of measures which:

- Raises sufficient revenue for future needs
- Is more progressive: it significantly reduces income and wealth inequality
- Is capable of responding to new developments and trends
- Provides the right economic incentives for equitable, sustainable and productive development

## Personal Income tax

This is the single most important source of revenue, raising almost half of total tax revenue (46% in the year to June 2025), but needs to both be more progressive and be able to raise more revenue to the extent that other revenue sources are not able to.  A progressive tax system taxes those with higher incomes proportionally more than those with lower incomes, recognising that $100 has much more impact on a person who earns $1,000 a week than if they earned $10,000 a week.

## Corporate taxes

Corporate taxes are a second important source of revenue. It is important also as a measure to reduce inequality and maintain the integrity of the whole tax system because the wealthiest individuals in Aotearoa New Zealand hold much of their wealth in financial assets such as company shares and can use inconsistencies in the system to reduce their tax liability. However there are important gaps in it. One is the taxation of the income from capital gains, which we deal with below. Another is the ability of multinational corporations to avoid company tax by various means including shifting profits to low-tax jurisdictions and thin capitalisation – loading the company with high debt, reducing its profits. Local operations of digital transnationals are particularly adept at transferring profits through arrangements such as heavy "service fees" within their national groups, a high proportion of which is almost certainly in the nature of royalties which should be taxed. Finally, there is a good economic case to tax profits that are greater than a normal rate of return at a higher rate, and at times at a much higher rate (including windfall profits), than the base rate. While there may be some room to increase corporate tax rates, we focus on plugging the gaps in the current system, and on increased transparency.

## Taxation of Trusts

Because trusts are used to avoid tax and to hide income and assets, particularly by those with high incomes or wealth, it is vital that the rules that govern the taxation, behaviour and transparency of trusts is tightened to protect the taxation system and prevent abuse. Taxes on capital gains, inheritance, gifts and wealth will be undermined if trusts are not considered.

## Taxation of the income from capital gains

Treasury, Inland Revenue, the OECD and IMF all agree that we must plug the gaping hole in Aotearoa New Zealand's tax system which largely omits the taxation of income from capital gains. As well as raising revenue, it is important both for fairness and for economic reasons. It is a big factor in the low effective tax rates of the very wealthy, and there is no good reason to income from capital gains differently to income from labour. The economy suffers from large incentives to invest where there is the prospect of capital gains – particularly land – because it inflates asset values and diverts investment that could otherwise provide jobs and increase productivity and exports.

## Wealth transfer tax

Because of growing wealth inequality in Aotearoa New Zealand, there will be growing transfers of wealth from generation to generation, in record amounts. This intensifies inequality by passing on both advantage and disadvantage, damaging equality of opportunity. Inheritances and gifts are an untaxed form of income to the recipient. An inheritance tax with a threshold that focuses on large inheritances addresses this and can raise increasing revenue. However, an inheritance tax must be accompanied by a gift tax, or it is easily avoided by passing on wealth before death. Combining these, a wealth transfer tax removes loopholes and inconsistencies, modelled by Ireland's Capital Acquisitions Tax.

## Wealth tax

A wealth tax is both a substitute for a wealth transfer tax and a capital gains tax, and a complement, ensuring that any loopholes in those taxes are covered in a different way. It also has an economic function: as economist Atif Mian and IMF researchers Kumhof and Rancière have described[1], extremes of wealth can leave the rest of the economy in an unsustainable position of rapidly rising asset values (such as unaffordable housing) and increasing debt, leading to financial crises. There is therefore a good economic reason to tax extremes of wealth (Mian) and increase the bargaining power of workers to raise their incomes (Kumhof and Rancière). OECD advice is that if countries don't have a wealth tax they should tax capital gains and inheritances. We consider that all three have a place, with the optimal design for each depending on the others. If we taxed capital gains and inheritances robustly, there could be a high wealth tax threshold focused on trusts; if not then the wealth tax would need a lower threshold and higher tax rate in order to achieve its objectives and raise comparable revenue. There have been many proposals for a land tax, which is a form of wealth tax. It has many merits, but the very wealthy hold most of their wealth in financial assets so a wealth tax is more effective in addressing high wealth inequality.

## Goods and Services Tax (GST)

Aotearoa New Zealand's GST raises a large amount of revenue, in part because it has few exemptions, which means it is relatively simple and easy to collect. It is therefore difficult to replace, but is regressive, further disadvantaging low income households. It should be reduced or a watertight way found to reverse the regressive impact.

## Transparency

Transparency is an essential overarching principle that strengthens public confidence in our tax system, helps prevent tax abuse, and provides government and the public with the basis for better informed decisions on the tax system's design.

1: See for example https://www.treasury.govt.nz/news-and-events/our-events/fiscal-policy-future-seminar-series-why-world-addicted-debt (Mian) and Kumhof, M., & Rancière, R. (2010). Inequality, Leverage and Crises (Working Paper WP/10/268; IMF Working Paper). IMF http://www.imf.org/external/pubs/cat/longres.cfm?sk=24378.0

## Health, environmental and other remedial taxes

This group of taxes does not exist primarily to raise revenue but aims to promote positive changes in the lives of individuals and society. Many such taxes have health or environmental goals, but there are others including those aimed at fairer or improved corporate behaviour. Often hypothecated taxes (those whose revenue is used for a specified purpose, such as fuel and road taxes for transport infrastructure) are in this category. Their outcomes are the main justification for their existence, and this judgement can be made on a case-by-case basis. They can be regressive and they usually cannot stand on their own to achieve their objectives, so other measures are often needed alongside them.

## International taxation issues

Tax issues cross borders because of multinational corporations and international commerce. There are many issues on which international cooperation (such as information sharing) benefits all parties, and some issues which cannot be addressed in a single country, such as profit shifting by multinational corporations to avoid tax. It is in Aotearoa New Zealand's interest to be involved in these activities and encourage greater cooperation and formal agreements which are in our interest and in the interest of other countries – particularly lower income countries – which share many of the problems we face.

## Interaction with the social welfare system

Neither the tax system nor the social welfare system can be fully understood on their own. Tax scales interact with abatements, tax credits, means tests and other features of the social welfare system. These can markedly affect effective marginal tax rates (the portion of the last dollar of income that a person retains) which can be higher for many at low and middle incomes than at the highest incomes. A particular issue is the affordability of the currently universal superannuation system, upon which there is no consensus.  This statement notes but does not address these issues.

## Administration

Without a capable and sufficiently resourced tax administration – the Inland Revenue in Aotearoa New Zealand – even the best designed tax system will fail to collect sufficient revenue and fail to convince the public that it is a fair system serving the public interest. The requirements include retaining expert and experienced staff, enough staff to effectively manage and enforce the system, modern administrative systems which make it easy for people to meet their obligations, allow flexibility in design of systems and the record keeping needed for efficiency and effective enforcement, and the international connections which are increasingly needed to prevent large scale tax avoidance and evasion. They must be capable of implementing the requirements for transparency and the ability to keep up to date with developments in tax policy both domestically and internationally, and to create effective and enforceable policy to meet changing fiscal, social, economic and environmental needs.

# Income tax

Tax Justice Aotearoa proposes increasing higher income tax rates on the highest incomes through moving the top tax bracket to $150,000. The additional revenue is used to lower tax rates on lower and middle incomes through a small tax-free bracket and introducing a new tax bracket for lower incomes at around $40,000. The net revenue effect is modestly positive ($1,100 million or 2.0 % higher) and the changes meet the goals of increased progressivity in the income tax system and lifting after tax income for those on lower incomes. Additional revenue to fund government activity and increase income transfers for those on lower incomes can be raised from other sources (e.g. a capital gains tax), but we also describe abating the tax-free threshold at high incomes, bringing additional revenue to $1,400 million.

**With the goals of increasing progressivity of the tax system and raising additional revenue in mind the following points are important:**

A tax-free band for lowest incomes such as those below $5,000 involves a tax reduction of $525 per year or $10 per week for everyone with taxable income over $5,000 and represents around $2.2 billion revenue reduction (using 2024 tax data).

Recovering the reduced revenue from the greater progressivity from those in the highest tax brackets requires large income tax increases for the highest incomes above $150,000 (e.g. from 33% to 50%).

In addition, the tax-free threshold can be abated for high incomes, recovering some of the lost revenue.

Average tax is lower for incomes below $53,000 and largely unchanged for those up to $80,000.

This would increase the progressivity of the income tax system and raise modest significant additional revenue.

Changes to income tax rates need to be seen in the context of other revenue raising options (e.g. CGT).

## Background

Decisions about the income tax rates and tax brackets/thresholds of income at which they apply have a large impact on income distribution and impact very directly the daily lives of all those who are earning income and paying tax (some 4.5 million people). In 2024 the National-led government introduced changes to tax thresholds designed to achieve 'tax relief' for lower- and middle-income earners. The current Income tax brackets were introduced from 1 August 2024 and applied for the tax year ending 31 March 2025[2]. Using the available modelling data (based on 2024 tax revenue) Figure 1 shows $58.7 billion in revenue raised from 4.6 million people paying income tax. Note that most recent tax revenue figures from the Inland Revenue Annual Report 2024 show around half of tax revenue comes from individual income tax and the revenue reached $58.9 billion in 2024 (51% of total revenue $115.4billion)[3].

### Figure 1: Personal income tax revenue at tax rates 1 August 2024 (based on 2024 tax revenue)

| Taxable Income | | | | | |
|---|---|---|---|---|---|
| Lower threshold | Upper threshold | Marginal tax rate (MTR) | Individuals | Average tax rate | Total tax at this MTR $M |
| 0 | 15,600 | 10.5% | 921,652 | 10.5% | 6,463 |
| 15,600 | 53,500 | 17.5% | 1,790,293 | 14.1% | 17,894 |
| 53,500 | 78,100 | 30.0% | 788,464 | 18.1% | 11,210 |
| 78,100 | 180,000 | 33.0% | 984,931 | 23.9% | 15,853 |
| 180,000 | 180,000+ | 39.0% | 153,780 | 32.1% | 7,324 |
| | | | 4,639,120 | | 58,744 |

Tax Justice Aotearoa policies support greater progressivity in income taxes. This paper models indicative figures for changes to tax brackets and changes to the existing tax rates as follows:

Introducing **a tax-free threshold** for the lowest incomes based on making **the first $5,000 earned tax-free** ($2.16 billion cost).

Adding an additional tax bracket for lower incomes between $40 - 60,000 with the aim of graduating the marginal tax steps. The lowest tax rate 10.5% would apply to the first $15,000 income above the tax -free threshold (below $20,000), the next $20,000 at 17.5% (below $40,000), 24% for income below $60,000 (i.e. slightly above current Living Wage annual income) and 30% for incomes below $80,000. The top tax rate would cut in at $150,000 at 50%.

Abating the tax-free threshold for the highest income tax bracket. For the 1.1 million people earning above $80,000 the tax-free threshold benefits them $525 each per annum and collectively $572million. Using the UK abatement approach would recover some proportion of this.

2: 2024 & 2025 New Zealand PAYE Tax Rates - MoneyHub NZ
3: IRD Annual Report 2024 https://www.ird.govt.nz/about-us/publications/annual-corporate-reports/annual-report/annual-report-2024

Using the Inland Revenue tax calculator (the Aggregate Personal Income Tax Revenue Estimate Tool)[4] it is possible to do some indicative modelling of the impact on tax revenue and the amount paid by people at different income levels. Please note that the modelling is only approximate but is a reasonable indication of the sums involved.

This modelling does not account for other income assistance such as Working for Families (WFF) that has a real impact on effective marginal tax rates[5].

**Figure 2: Alternative personal income tax brackets (based on 2024 revenue)**

| Taxable Income | | | | | |
|---|---|---|---|---|---|
| Lower threshold | Upper threshold | Marginal tax rate (MTR) | Individuals | Average tax rate | Total tax at this MTR $M |
| 0 | 5,000 | 0.0% | 624,100 | 0.0% | 0 |
| 5,000 | 20,000 | 10.5% | 460,010 | 6.5% | 5,985 |
| 20,000 | 40,000 | 17.5% | 1,189,440 | 10.7% | 10,013 |
| 40,000 | 60,000 | 24.0% | 657,810 | 15.0% | 9,800 |
| 60,000 | 80,000 | 30.0% | 616,590 | 18.3% | 8,302 |
| 80,000 | 150,000 | 33.5% | 825,190 | 23.1% | 13,296 |
| 150,000 | 150,000+ | 50.0% | 265,980 | 35.4% | 12,506 |
| | | | 4,639,120 | | 59,902 |

## Tax-free threshold $5,000 and abatement

This estimates the reduction in personal income tax revenue of making the first $5,000 income at 0% tax rate at just under $2.2 billion. Around 624,000 individuals had incomes below $5,000 with an average income per person of $783 and contributing $82 million in tax revenue (0.13% of total tax revenue).

Average tax is lower for the 94% of earners (4.4 million) with incomes below $150,000, though for the 1.7 million people with incomes between $53,000 and $150,000, the differences in tax paid are less than 3%.

It is also proposed that the tax-free threshold be abated like the UK system, starting at $80,000 with a modest abatement rate that increases at higher incomes with the aim of being fully abated by the time the highest tax bracket at $150,000 is reached. This abatement is **not included** in Figure 2 above, but an abatement at a rate of 7.1% over the full $80,000 to $150,000 range, would claw back an additional $950 million annually (a total revenue increase of $2,100 million), taking the marginal tax rate from 33.5% to 35.9%. This would affect around 1,091,000 individuals, around 24% of those paying personal income tax, although 272,000 of them with incomes under $94,000 would still be paying lower tax.

## Increased progressivity

Introducing additional tax brackets makes for more progressivity in personal income tax and reduces the size of the steps for those earning below $150,000.

4: https://www.treasury.govt.nz/publications/model/aggregate-personal-income-tax-revenue-estimate-tool
5: See The Cost of Working More: Understanding Effective Marginal Tax Rates in New Zealand's Tax and Transfer System (AN 25/01) | The Treasury New Zealand

# Corporate tax and the digital economy

## The company tax rate

The company tax rate is currently 28% and could be somewhat higher while maintaining business investment. There are a number of reasons for this. The first is that there's no empirical evidence that a lower or higher rate will move the dial on investment and increase growth. In any case, the headline rate is deceptive: for example, other countries tax capital gains, which would increase their effective company tax rates, and companies here can access the Research and Development Tax Incentive which reduces the rate. Secondly, each percentage point of the rate raises around $650m in revenue, which would need to be found elsewhere or public services reduced if the rate was cut. Thirdly, talk of emulating a relatively low-corporate-tax country like Ireland is unrealistic given its proximity to major markets and its membership of the EU – not to mention that Ireland has a much broader tax base than Aotearoa New Zealand overall. Lastly the rate is important for the integrity of the tax system: the bigger the gap between the corporate tax rate and the higher rates of income tax, the more business and investment decisions will be skewed by tax considerations and the more opportunities there are for tax avoidance.

## Imputation

The imputation system for dividends should be reviewed. It is a disincentive to reinvest retained profits in productive business assets. The removal of the imputation system combined with the introduction of targeted incentives to invest in business assets should be considered in order to boost productivity and job creation. Concerns about double taxation are not shared by many other countries who use the classical system of taxation (or a variation of it) and it is not an issue in other parts of New Zealand's tax system, notably the imposition of GST on already taxed income.

## Interest limitation rule

We support the introduction of an interest limitation rule which restricts interest deductions to a maximum of 30% of EBITDA. This could be modelled on similar rules adopted widely in the OECD including Australia, the UK and the European Union and would apply in addition to existing thin capitalisation rules. This is a rule which is relatively simple to administer because it is applied mechanically and will prevent, for example, the tax base being adversely impacted by highly leveraged buy-outs from offshore investors. It should be less controversial because it has already been widely adopted and is sanctioned by the OECD. Finally, Inland Revenue has lost much of its industry expertise in determining market interest rates for transfer pricing purposes using analytical tools such as those developed by Bloomberg and Standard & Poor's. The 30% fixed ratio significantly reduces the need for this level of industry knowledge. The rule, if applied widely to all borrowing (not just related party or guaranteed debt) as it is in some jurisdictions would also be a disincentive to smaller companies taking on unrealistic amounts of debt.

## Loans to shareholders

There is a major threat to the integrity of the tax system in the form of loans made to shareholders or associated persons of closely held companies (where there is only a small number of shareholders who control the company). If loans are not repaid then the recipient is in effect receiving an untaxed dividend or salary payment. The government estimates there was nearly $29 billion in outstanding shareholder loans in the year ended March 2024 and in 2025/26 consulted on changes to the taxation of these loans[6]. We strongly support the introduction of rules similar to those seen in other jurisdictions (for example a long-established regime in the UK). This would, broadly speaking, see tax imposed on the value of such loans made to shareholders by closely held companies, unless they were repaid. As well as supporting the integrity of the tax system, such rules would encourage funds being retained within smaller companies, reducing the risk of them getting into financial difficulty.

## Corporate tax surcharge

A corporate tax surcharge should be introduced for certain industry sectors. This could be modelled on the UK's banking surcharge – currently 3% – which recognises the unique structural risks to the economy posed by the banking sector. The UK surcharge is in addition to a small levy based risk weighting of liabilities and a levy under the UK's Financial Services Compensation Scheme. Other countries (such as Ireland) also have a surcharge. The banks are "too big to fail" and therefore the government is effectively the guarantor of last resort. A similar rationale would also apply to support a levy for companies owning or managing vital infrastructure where the government would have to step in if the company failed. This could be relevant to any infrastructure projects funded and managed under public private partnerships. A surcharge should also be designed for use in other sectors where there is a lack of competition enabling companies to earn higher profits than would otherwise be the case, such as the supermarket and energy sectors. It could be levied in consultation with the Commerce Commission.

## Digital services

In the digital and wider technology sector, there is an urgent need for further measures to combat multinational tax avoidance. Tax Justice Aotearoa continues to support a Digital Services Tax (despite the government having withdrawn its legislation); the OECD's proposals on addressing tax challenges in the digital sector despite weaknesses, subject to final outcomes[7]; and the Tax Convention whose development has begun in the United Nations (see the section on international taxes for more detail). However further work should be carried out to identify potential alternatives given that neither of the first two measures now look likely to see the light of day soon due to events in the US and the third may take many years to reach fruition. Further discussion on this issue is covered in the section on International issues.

Revenue is generated largely through the right to exploit the intellectual property (IP) of the multinational group because IP is what drives digital businesses. Alternative approaches could include the application of withholding taxes on payments which are in substance royalty/licence fees under existing double taxation treaties. The wider application of royalties withholding tax – deriving, for example from payments which are in substance for the exploitation of brand IP – should be considered. The Australian Tax Office has taken a lead in broadening the taxation of royalties. Although it was unsuccessful in a recent High Court case against PepsiCo, most commentators do not consider that the loss will be widely applicable, particularly where the arrangements are between related parties, and further cases involving so called "embedded royalties" may be expected. Australia is also undertaking a consultation on the tax treatment of software licensing payments. Tax Justice Aotearoa should closely monitor developments across the Tasman in these areas.

6: "Improving taxation of loans made by companies to shareholders: an officials' issues paper", Inland Revenue, December 2025, p.9, available at https://www.taxpolicy.ird.govt.nz/consultation/2025/taxing-company-loans-to-shareholders.

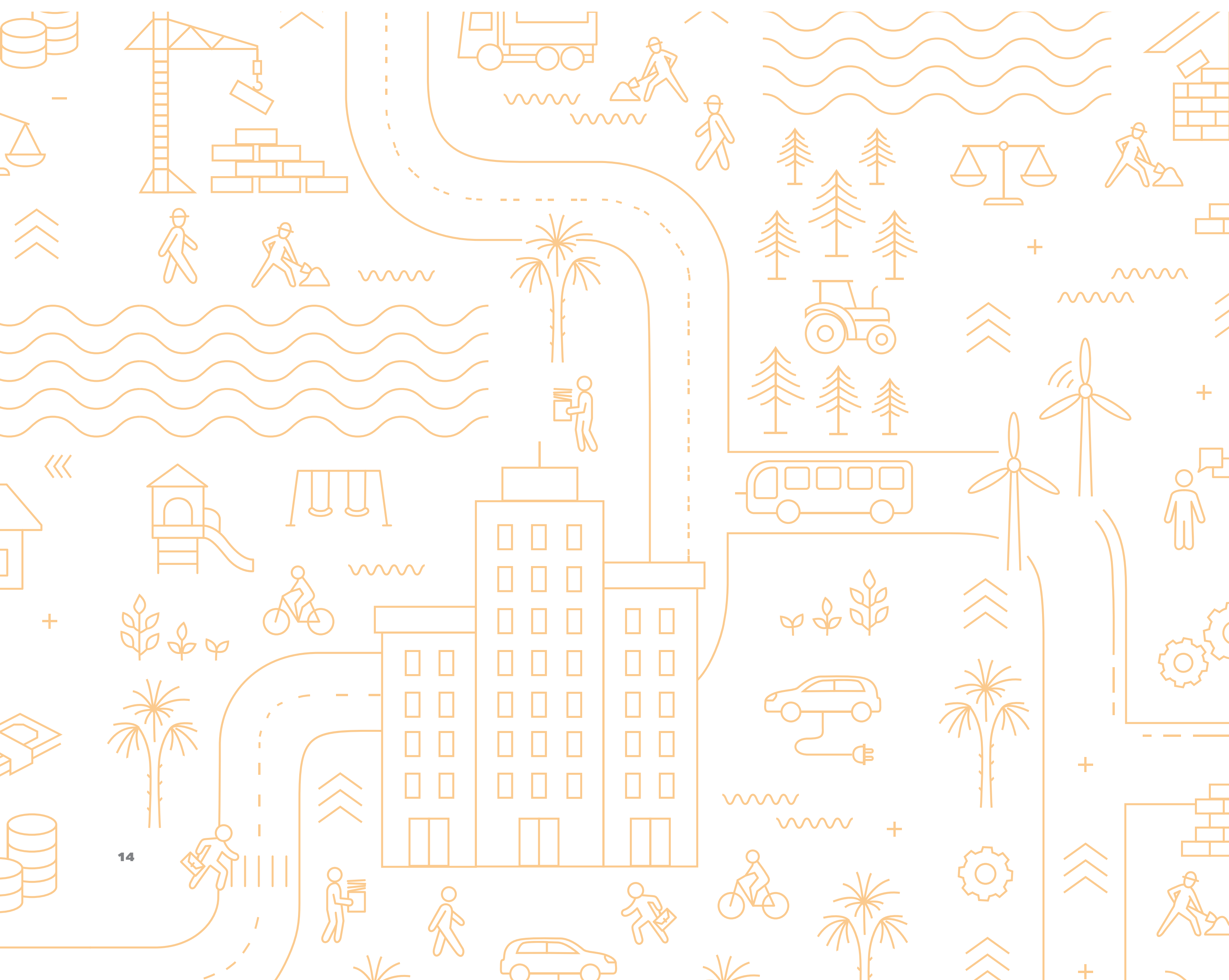
7: The OECD agreement on tax avoidance – "Base Erosion and Profit Shifting" – under its Two Pillar approach. For the ax Justice Aotearoa view on these proposals, see the International Taxes section.

## Diverted Profits Tax

In 2017 Australia implemented a "Diverted Profits Tax" to deter tax avoidance by multinationals, imposing a 40% penalty rate on arrangements lacking economic substance, primarily designed to secure a tax benefit. It applies to companies with more than $1b in global revenue and $25m in Australian revenue, on a "pay now, argue later" basis. Gathering modest revenue, its impact is primarily to encourage more accurate financial reporting, particularly by multinational digital service providers. It would complement our existing BEPS rules, as well as future digital service taxes.

## Transparency

Legislation should be enacted compelling all companies operating in Aotearoa New Zealand to publicly disclose the revenues earned from transactions made in this country or from it. Such transparency is the first step in considering whether new legislation is needed to ensure that such companies pay the correct amount of tax in Aotearoa New Zealand on profits from their operations here. There are several major businesses who continue to report their local revenue as part of the total profit of their offshore parent companies including, for example, Netflix and the two major credit card companies. This does not allow New Zealand tax authorities and people to monitor their activities for tax purposes. (See also the separate section on transparency.)



# Taxation of trusts

## Background

Aotearoa New Zealand (and Australia) appear to be outliers for their large use of trusts when comparing trust tax return filings with other jurisdictions.

As of 31 March 2023, Inland Revenue had 426,000 trusts[8] registered with it, including non-active trusts. However, there are likely to many more which are not registered with Inland Revenue. Estimates of the total number of trusts in Aotearoa New Zealand range between 600,000 and 700,000. There are 22 persons per trust which files a tax return. Once trusts registered with Inland Revenue but not required to file are considered the ratio falls to 12:1. The number is even lower when all trusts are counted.

A significant amount of wealth is held within trusts. Inland Revenue calculated that as of 31 March 2023, total assets reported by all trusts and estates totalled $528bn (17.5% of New Zealand's total net worth of $3,017bn or equivalent to 134% of GDP)[9] and an average of $2.3m per reporting trust. This is likely to be an underestimate because of underreporting.

The volume of trusts and the wealth they hold has significant policy implications for tax reform. They have significant potential for tax minimisation. Reintroducing an inheritance tax may raise little revenue unless other measures are taken because so much wealth is already within trusts.

Furthermore, the combination of so many trusts and a perpetuity period of 125 years may mean that a tax on the income from capital gains is unlikely to raise significant sums from trusts (mainly because the value is already locked in and relatively few transactions will occur).

Unlike the Register of Companies there is practically no public information available anywhere about who controls or might benefit from a trust. The only public information is Inland Revenue's recent summary reports on trusts which are registered with it following increased disclosure requirements from December 2020.

## What should be done?

A level playing field for tax should be created between assets held in trusts and those held by individuals and companies outside trusts. The legal status of trusts for other purposes should not change but the ability to shelter assets from tax possibly for generations should disappear. The need to address the tax position of trusts will be critical if capital gains tax and inheritance tax or a capital acquisition tax are introduced.

8: Trust data from IRD Trust Disclosures 2023 at https://www.taxpolicy.ird.govt.nz/publications/2025/trust-disclosures-post-implementation-review
9: GDP and Net Worth as at 31 March 2023. GDP from InfoShare table SNE023AA; Net Worth from InfoShare table SNE248AA (Statistics NZ).

## Transparency

The first step is to increase transparency by establishing a comprehensive register of trusts including details of settlors and trustees and (above a certain monetary threshold), details of assets held in the trust including shareholdings in companies. Providing these details to Inland Revenue should be a legal requirement with penalties for non-compliance. Additional disclosure requirements should be mandatory on a transactional basis where the trust is conducting business with the public.

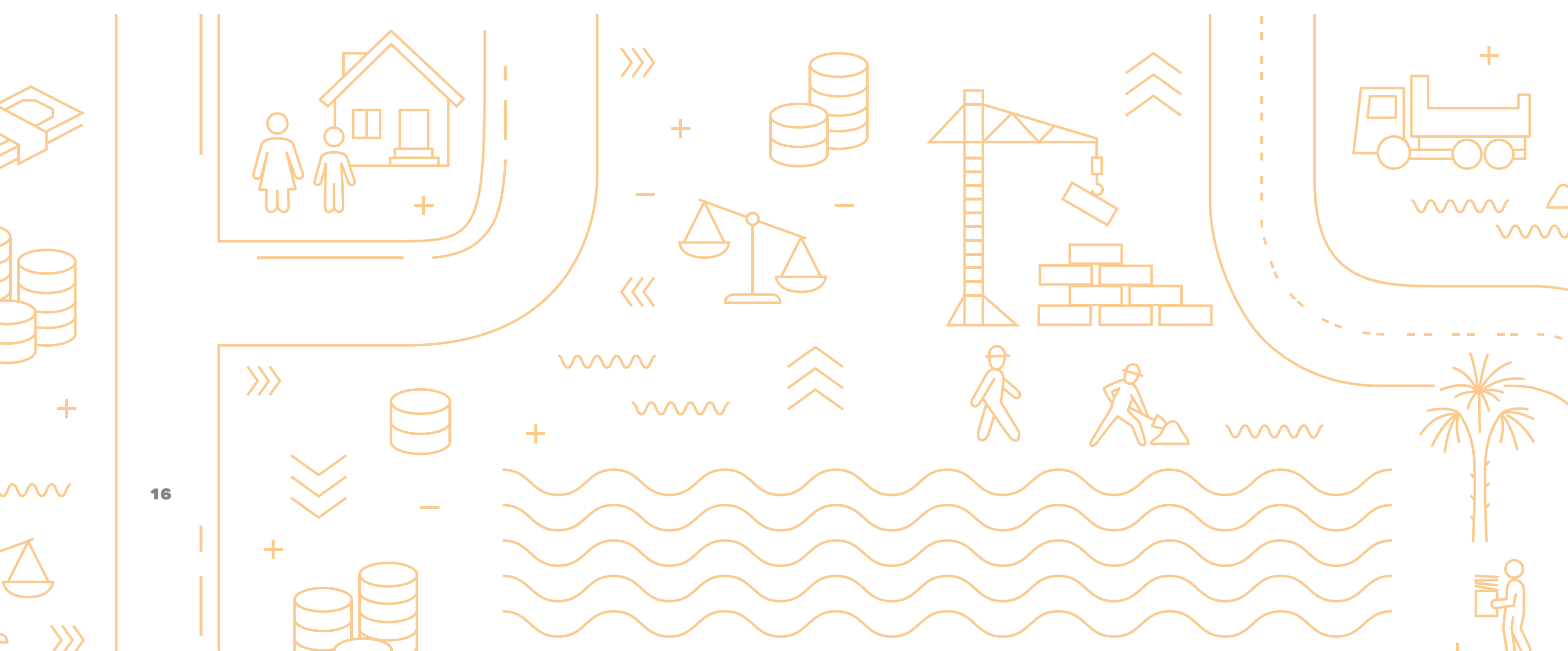
Greater use should be made of inter-governmental information sharing to track assets, clamp down on avoidance and form the basis for a future global wealth tax. (See a separate section for further recommendations on transparency.)

## Intergenerational levy

A common structure that wealthy individuals and families use is to hold the businesses they own through a trust. Sometimes they operate through a "dividend trap company" which sits above operating companies and is controlled by trusts. Often assets are held in such structures for extended lengths of time, and hence would not attract any tax on the income from capital gains (CGT), or even intergenerationally, and would not be subject to an inheritance tax.

The logic of an annual or periodic levy on assets and undistributed income held in such trusts or in dividend trap companies is very simple. It recognises that these assets are outside the scope of capital gains tax or inheritance tax while they continue to be held in the trust and creates a method to collect equivalent revenue, levelling the playing field. If a new trust regime, a CGT and a wealth transfer tax are introduced simultaneously, trusts could transfer assets to beneficiaries on day 1 which would then have a day 1 market value base cost reducing any future CGT liability. However any subsequent transfer back into a trust would trigger CGT and the asset would then be subject to the trust levy while it remained in the trust.

An intergenerational annual levy of 1% on assets above a threshold of $5 million held in trusts, assessed across associated trusts, would catch the main assets they hold for long periods, avoiding CGT or inheritance taxes. It is an essential accompaniment to the introduction of a CGT or wealth transfer tax.



## Removing the tax advantages of trusts

There are valid reasons to form trusts and hold assets in them. However, tax minimisation or avoidance should not be one of those reasons. It creates a large hole in the tax system which is most easily taken advantage of by the already most advantaged – those with high wealth. The intergenerational levy is one step towards removing this advantage.

Further, any primary residence exemption from a CGT or wealth tax should, as in Australia, not apply to property if it is held in a trust. To qualify, it should be owned by the individuals living there.

> The trustee tax rate should be aligned with the highest personal tax rate (currently 39%)

> Aotearoa New Zealand should introduce rules similar to the US 'Grantor Trust' and UK 'Settlor-interested trust' regimes to attribute income to settlors of trusts rather than the grantors

> Distributions of current year income to beneficiaries should be limited to within the tax year

These changes would largely put an end to the tax advantages enjoyed by trusts and bring assets and income within the tax base which itself will have been broadened.

For those who want to keep assets within trusts for non-tax reasons, there is nothing in any of these proposed measures which prevents them from doing that. They simply forgo a tax advantage from doing so. Specific consideration will need to be given to trusts holding Māori land which is unlikely to be sold and has many owners as for a tax on capital gains.

# Taxation of income from capital gains

Aotearoa New Zealand, like the great majority of high income countries, should tax the income from capital gains: that is, an increase in the value of assets. Typically this is the profit gained from selling an asset such as land or shares at a higher price than it was purchased for.

Income from capital gains is like any other income. Because capital gains are mainly received by those with higher incomes or wealth, leaving them untaxed is unfair and encourages the wealthy to use capital gains to minimise the tax that they pay. The 2017-19 Tax Working Group found in its final report[10] that in 2014/15, 70% of the wealth that could be subject to taxing capital gains was in the hands of the wealthiest 10% of people in Aotearoa New Zealand. The absence of a tax on income from capital gains is a large part of the reason why the richest 311 wealthy individuals in Aotearoa New Zealand were found by Inland Revenue in 2023[11] to be paying tax on their economic income at an average of just 9.4%, less than half the level of middle-income people: around 80% of the income of the wealthiest New Zealanders came from untaxed capital gains.

The following are the main features of a tax on the income from capital gains that Tax Justice Aotearoa would support. The 2017-19 Tax Working Group's final report Volume II is a blueprint for taxing income from capital gains covering all the most important features. Some of the following is drawn from it, and while Tax Justice Aotearoa does not endorse every aspect of the blueprint, it is a very useful source when considering different design options including many details and features not included here for brevity[12].

## The Tax

Because income from capital gains is like any other source of income, in principle taxation of the income from capital gains should be taxed at the same rate as other income. Too low a rate continues the risk of tax avoidance and in other countries raises major concerns about lower tax rates for the wealthy.

Losses on sale should be claimable only against future capital gains for tax purposes. For some easily tradeable assets which present a high risk of tax manipulation, losses should be claimable only against capital gains of assets of the same type. Other protections may be needed.

In recognition that a small business may in effect incorporate the retirement savings of the owner, there should be a concessionary tax rate like that for KiwiSaver for an owner selling their business after they reach the age of 65. This would be a once-off concession during the owner's lifetime.

10: Tax Working Group. (2019). Future of Tax: Final Report Volume I - Recommendations. New Zealand Government. https://taxworkinggroup.govt.nz/resources/future-tax-final-report.html, p.61. Part II of the report contains a detailed design of extending taxation to capital gains.
11: Inland Revenue. (2023). High-wealth individuals research project report. Policy and Regulatory Stewardship, Inland Revenue. https://www.ird.govt.nz/hwi-research-project
12: Tax Working Group. (2019). Future of Tax: Final Report Volume II - Design Details of the Proposed Extension of Capital Gains Taxation. New Zealand Government. https://taxworkinggroup.govt.nz/resources/future-tax-final-report.html

## What assets should it cover?

Coverage should be comprehensive in that it should include all forms of significant assets, whether in New Zealand or overseas. So it should cover land and buildings, shares, business assets and intangible property such as patents and crypto assets. However there should be an exemption for the principal family home because public acceptance is unlikely without it. There should be a limit on the value of the principal family home that is tax-exempt to avoid the "mansion" effect of developing the family home to avoid tax.

There should also be an exemption for Māori land which is unlikely to be sold and has many owners including Māori Freehold Land under Te Ture Whenua Māori Act 1993. There should also be special provisions, designed in consultation with Māori, for transfers related to Tiriti settlements. Small assets valued below a defined limit and which typically do not increase in value, such as appliances, furnishings, cars and small boats for personal use should also be exempt.

There would be deductions for the cost of improvements made by the owner. For overseas assets, any capital gains tax paid to the foreign government would be deducted from tax owed in Aotearoa New Zealand.

## When should it be applied?

The tax should be payable when an asset is sold (that is, on realisation) or transferred. However in certain limited circumstances, "rollover" is appropriate: tax is not paid at the time of transfer, but when it is sold the gain in value is calculated as if the transfer had not occurred.

The death of the owner of taxable assets should be a realisation event. A bequest of the principal family home to another close family member who has been living in it for some years and continues to use it as their principal family home should be allowed rollover. We note that the tax could also be designed to encompass an inheritance tax.
If an asset is destroyed by natural disaster or similar, or sale is forced by a Public Works Act compulsory acquisition, the replacement asset is entitled to rollover.

## Who should the tax apply to?

The tax should apply to all types of owners including individuals, companies and trusts. There will need to be special provisions to ensure integrity of the system covering such matters as intra-company transfers and changes in the trustees of a trust or death of a settlor, and other cases such as the taxation of managed funds (like KiwiSaver) and foreign shares.

## How are assets valued?

Initial valuations should be based on a "Valuation Day" set when the tax comes into force. Gains are calculated from the value at that day. At other times, the value in most circumstances is determined by the difference between the arms-length sale price and its cost or purchase price.

Where an arms-length sale does not occur and at Valuation Day, valuations can be by actual value where this is easily obtainable (e.g. listed shares) or arm's-length valuation, such as by a professional valuer. For land-based property, an approved online calculator could be used by default, with right of appeal at the cost of the owner. Other methods can be considered. A year or more time could be allowed for Valuation Day valuations where they are complex.

# Wealth tax[13]

Aotearoa New Zealand faces significant wealth inequality, with the top 1% controlling nearly a quarter of all wealth. Yet as shown in the introduction, the tax system has become markedly less progressive over recent decades. Comprehensive analysis by Inland Revenue in 2023 revealed that the wealthiest families pay effective tax rates of just 9.4% on their economic income, far below middle-class wage earners who pay around 20%. Treasury research using new methods reveals wealth concentration exceeding earlier survey estimates. The top 10% hold 67% of household wealth while the top 1% control 26%. Household wealth increased from 5.5 times national income in 1990 to 9 times in 2023, driven primarily by asset price inflation rather than productive investment. A tax on net wealth would be effective in reducing this growing inequity.

## Design Considerations

The 2023 wealth tax proposal advanced by the Sixth Labour Government featured a 1.5% annual tax on net wealth above $5 million, exempting family homes, personal use assets such as cars and appliances, and Māori collective assets. It was estimated to raise a projected $3.5-4 billion annually. Critical design settings for any wealth tax include:

**Threshold:** Higher thresholds reduce revenue and alter the targeting of the tax. They may also reduce administrative complexity and political resistance.

**Tax base:** A comprehensive base with minimal exemptions prevents tax-motivated restructuring and ensures different asset types are treated equally. Each exemption creates boundary effects and gaming opportunities that undermine revenue, progressivity, and fairness. Still, primary residences are often excluded. As with taxes on capital gains and inheritances, certain Māori collective assets should also be exempt.

**Trust Treatment:** Anti-avoidance rules must prevent splitting of assets across multiple trusts. Look-through rules attributing trust assets to settlors, or lower thresholds for trusts, can address this challenge.

**Valuation:** Most assets have readily available market values. Pragmatic valuation methods for hard-to-value privately-held businesses include book values (as in Norway), automated estimations from comparable market values (Switzerland), or periodic professional valuations with growth adjustments in between (Spain).

**Liquidity:** Concerns about asset-rich, cash-poor taxpayers are real, but the UK Wealth Tax Commission found liquidity constraints genuinely affect relatively few taxpayers. Higher thresholds and progressive tax rates combined with limited provisions for deferrals of tax payments reduce the burden in those cases.



13: See the forthcoming background paper for sources and further details.

## Economic Effects

Distinguishing genuine economic effects from pure tax avoidance is crucial. Much "capital flight" represents unproductive financial shuffling without real economic impact – moving bank accounts or restructuring legal ownership while the underlying production remains unchanged. Empirical evidence including from Sweden and Denmark suggests modest real economic responses to wealth taxation. A specific issue for Aotearoa New Zealand is the Australian tax exemption for non-Australian sourced investment income and capital gains for 'temporary residents', making the status attractive for wealthy New Zealanders wanting to avoid taxes. It could be addressed by measures such as an exit tax.

A wealth tax could improve the use of our resources (allocative efficiency) by reducing resources devoted to making unproductive excessive profits (rent-seeking activities). Extreme wealth concentration enables regulatory capture and disproportionate political influence. Innovation concerns appear overstated given that breakthroughs typically have little to do with individual wealth accumulation.

## International experience and modern advantages

European wealth taxes retreated during the 1990s-2000s under pressure from unrestricted tax competition and outdated administrative systems, and by policy-makers' choices to retreat rather than improve enforcement. Modern wealth taxation benefits from enhanced cross-border information sharing, sophisticated data systems and automated verification, and systematic third-party reporting. Multilateral tax coordination efforts, including OECD initiatives on tax transparency and the global minimum tax framework, create an environment more conducive to wealth taxation. Exit taxes can limit tax-motivated migration. Spain, Norway, and Switzerland currently maintain wealth taxes, demonstrating that they are still viable if appropriately designed and enforced. New proposals are being advanced in many countries.

## Indicative revenue estimates

Treasury modelling suggests substantial revenue, even relying on data recognised to underestimate the top extreme of wealth. Revenue depends on how much wealth is held by those at the top of the distribution, the behavioural response to the tax (which in turn depends on design and enforcement), the threshold and the rate. The following estimates reconstruct and update methods and data in publicly available Treasury advice.

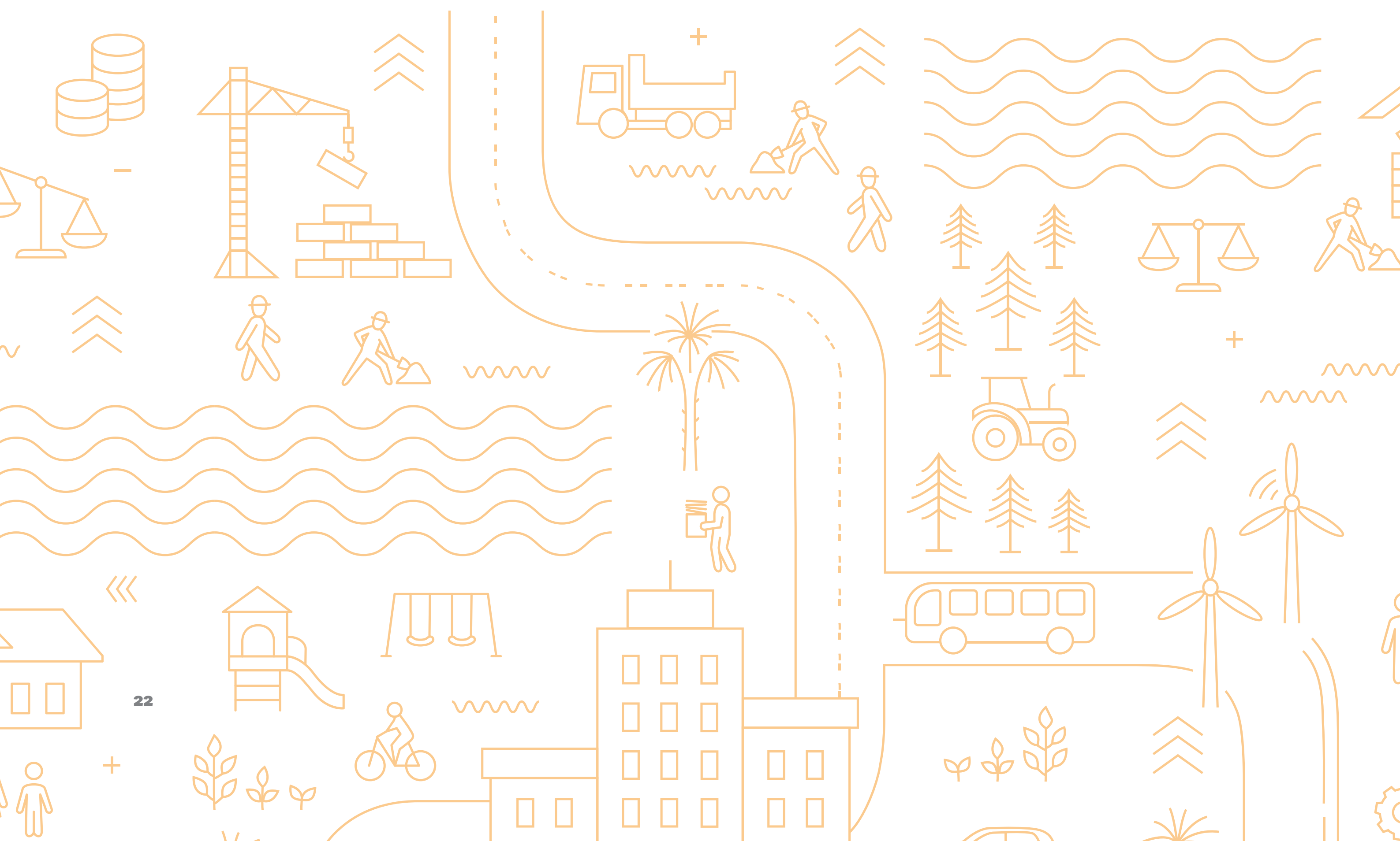
### Revenue estimates for a net wealth tax from update to Treasury model

| 2027/28 implementation, $NZD billion annually | | | | | | |
|---|---|---|---|---|---|---|
| Threshold | Rate | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 |
| $3m | 1.00% | $3.9 - 4.7b | $4.1 - 4.9b | $4.1 - 4.9b | $4.4 - 5.3b | $4.6 - 5.5b |
| $3m | 1.50% | $5.5 - 6.6b | $5.7 - 6.8b | $4.1 - 4.9b | $6.2 - 7.4b | $6.4 - 7.7b |
| $3m | 2.00% | $7.0 - 8.3b | $7.2 - 8.6b | $4.1 - 4.9b | $7.8 - 9.3b | $8.1 - 9.6b |
| $5m | 1.00% | $2.6 - 3.1b | $2.7 - 3.3b | $4.1 - 4.9b | $3.0 - 3.6b | $3.1 - 3.7b |
| $5m | 1.50% | $3.7 - 4.4b | $3.8 - 4.6b | $4.1 - 4.9b | $4.1 - 4.9b | $4.3 - 5.1b |
| $5m | 2.00% | $4.7 - 5.6b | $4.9 - 5.8b | $4.1 - 4.9b | $5.2 - 6.2b | $5.4 - 6.5b |
| $10m | 1.00% | $1.3 - 1.8b | $1.4 - 1.9b | $4.1 - 4.9b | $1.5 - 2.1b | $1.6 - 2.2b |
| $10m | 1.50% | $1.9 - 2.6b | $2.0 - 2.7b | $4.1 - 4.9b | $2.1 - 2.9b | $2.2 - 3.0b |
| $10m | 2.00% | $2.4 - 3.3b | $2.5 - 3.4b | $4.1 - 4.9b | $2.7 - 3.6b | $2.8 - 3.8b |

Note: excludes owner-occupied property and household durables

## Conclusion

A net wealth tax is a viable policy response to Aotearoa New Zealand's growing wealth inequality, revenue inadequacy, declining tax progressivity and demonstrated unfairness. The revenue potential is significant, with estimates ranging from $1.3-9.6 billion annually depending on design parameters. Success depends critically on design integrity. With appropriate policy choices around enforcement and multilateral cooperation, a wealth tax can restore progressivity to New Zealand's tax system while generating substantial revenue for public priorities. There is no question around technical feasibility, only around political commitment to equitable and adequate taxation.



# Wealth transfer tax

With wealth inequalities even greater than income inequalities, and growing, it becomes increasingly urgent that inequality is not passed on from generation to generation, becoming greater each time. We therefore support a Wealth Transfer Tax. This includes forms of inheritance and gift tax.

Data on the current size of inheritances in Aotearoa New Zealand does not exist, mainly because estate duties were abolished in 1993 and formally repealed in 1999. However Inland Revenue's 2023 High-wealth Individuals research reported the 311 families received approximately $400 million (in 2025 dollars) in gifts and inheritances in the decade 2010-2020[14]. The OECD reports that inheritances are a growing share of private wealth in countries studied by Thomas Piketty and colleagues, and inheritances are unequally distributed, benefitting wealthier households more[15].

While many parents understandably value passing on money or other assets to their children, it is the excesses that should be avoided. Acquiring wealth through inheritance serves no economic purpose: it does not reward the recipient for hard work or innovation but is simply a windfall. Yet it gives some people an advantage, sometimes substantial, solely due to who their parents were. That leaves less available for others to start out in life, and weaker public services to assist them. They may find it hard to progress in work or business when competing against those with the advantage of wealth, compounding inequalities and reducing equality of opportunity.

A wealth transfer tax would not prevent inheritance, and most designs allow some assets to passed on without taxation while taxing larger bequests. Such taxes are common among OECD countries: in 2019, 24 of its 37 countries had wealth transfer taxes of some kind, generally based on inheritance. At present these taxes provide only a small proportion of current revenue (up to 1.5%, but averaging only 0.5% of total tax revenue), but because of the increasing size of inheritances they are a useful new potential source of revenue, as well as serving a social and economic purpose. Wealth transfer taxes must be carefully designed to ensure that they are effective in achieving the above objectives. In particular, inheritance taxation should be accompanied by gift taxes to prevent tax avoidance by gifts during the wealth-holder's lifetime. It is more equitable to tax recipients rather than the deceased estate, as it allows progressive taxation according to the position of the recipient and thus encourages splitting the estate, reducing concentration of wealth. A common feature is to allow some of the bequest to be tax free up to a threshold. This can make the tax more progressive and reduce administrative costs, but if it is too high then the tax becomes ineffective.

There will be specific factors that need to be taken into account regarding Māori collectively owned assets which cannot be split up or sold. These should be exempt from a wealth transfer tax though many are likely to be below the threshold for an individual household in any case.

14: Inland Revenue. (2023). High-wealth individuals research project report. Policy and Regulatory Stewardship, Inland Revenue. https://www.ird.govt.nz/hwi-research-project. Reading from Figure 15.1 and inflating by CPI from 2015 to 2025.
15: OECD findings in this section are from: OECD. (2021). Inheritance Taxation in OECD Countries (OECD Tax Policy Studies no. 28). OECD Publishing. https://doi.org/10.1787/e2879a7d-en

While this summary does not detail the design of wealth transfer tax, there are at least three ways to achieve the objectives. They have many common features and in many ways are just different ways of implementing the same desired outcome. Each could adopt features of the others.

One is to extend the taxation of income from capital gains to inheritances and gifts. This has some awkward design features and we do not propose to pursue it further. The other two are as follows.

## A standalone inheritance tax

This would tax heirs receiving inheritances above a defined value threshold. There may be a single tax rate on the remaining value or a progressive tax scale (taxing higher inheritances at a greater rate or taking the circumstances of the heir into account), and the threshold and the rate can be varied according to the recipient. Typically a spouse of the deceased person (marriage, civil union or de facto partner) would be lightly taxed or not taxed at all, and children of the deceased would be taxed at a lower rate than other recipients. However there is reason not to favour the children of the deceased (it may disadvantage other heirs who start from a less advantaged position for example). Like taxes on the income from capital gains and on wealth, there may also be special treatment of the principal family home.

To prevent avoidance, the inheritance tax should be accompanied by a gift tax designed with this purpose in mind.

## A lifetime transfer tax covering gifts and inheritances

A lifetime transfer tax records the income from gifts and inheritances over the recipient's lifetime, and taxes them all on the same basis once the total has passed a certain threshold.

An example is Ireland's "Capital Acquisitions Tax" (CAT). Its tax is at a fixed rate of 33%[16].

All income from gifts and inheritances is recorded. The total is compared with thresholds and once they have been exceeded, tax is paid on any additional income. There is an exemption for gifts up to €3,000 a year from the same person. A spouse is exempt from the tax. Otherwise, the threshold varies according to the recipient's relationship to the giver: at 2 October it was €400,000 for a child and for a grandchild under 18 whose parent has died. For other close relations such as brother, sister, parent, grandparent, grandchild, niece or nephew the threshold was €40,000. For all others the threshold was €20,000.

The tax payer is expected to record the income with the Irish Revenue department (the equivalent of Aotearoa New Zealand's Inland Revenue) once the total income is more than 80% of the threshold. Revenue has online facilities and forms for the purpose.

**Recommendation:** That Aotearoa New Zealand should adopt a wealth transfer tax in the form of a lifetime transfer tax, covering both gifts and inheritances, similar to the Capital Acquisitions Tax in Ireland.



16: Details from https://www.citizensinformation.ie/en/money-and-tax/tax/capital-taxes/capital-acquisitions-tax/

# Goods & Services Tax

New Zealand's Goods and Services Tax (GST) is regressive: people with low incomes on average pay a greater proportion of their incomes in GST than those on high incomes[17]. The reliance of the tax system on GST should be reduced, and not increased. However we recognise that reducing our dependency on GST is difficult because it raises such a large proportion of tax revenue – around 25% over the last three years (after taking account of one government agency taxing another). It will depend on new forms of taxation being implemented which are fairer on people with low incomes.

GST does have the advantage that it taxes visitors to Aotearoa New Zealand such as tourists, helping to pay for the facilities and services that they use. Removing GST from some items such as food which are regarded as necessities is often suggested as a way of making it less regressive. However it is very difficult to draw easily administered and enforced lines between "essential" and "non-essential" types of goods and service, and the lost revenue would have to be made up from elsewhere – such as a higher rate of GST. The reduction in regressivity is very small from excluding food[18]. It is better to take steps to reduce the rate of GST.

On the other hand, there should be further consideration of applying GST to financial services which is a major hole in coverage. This was investigated by the 2017-19 Tax Working Group but considered too difficult. As well as considering feasible ways to implement it, analysis would be needed to check that it did not worsen the regressivity of GST.

A method has been suggested to reduce the regressivity of GST which is to provide GST refunds to low-income consumers at the time when they buy goods or services[19]. The Inland Revenue in its 2025 Long-term Insights Briefing[20] investigated a periodic rebate to low income households equal to the average GST paid by similar sizes and ages of households. It found it was lower cost and better targeted than increasing social welfare benefits by the impact on CPI of a GST increase as part of normal inflation indexation. While this is a feasible compensation method, it runs the risk of being devalued by successive governments over time as has happened with other benefits and rebates. The link between the GST rate and the rebate would need at the least strong statutory protection. In addition, its relationship to normal compensation for CPI increases is unclear. It is not as immediate or clearly linked as a rebate of GST at point of sale would be. Such a real-time rebate is technically feasible. Tax Justice Aotearoa supports further investigation of these options for Aotearoa New Zealand but prefers a reduced rate of GST.

17: It is sometimes argued that GST is not regressive on people's expenditure, and therefore is not a concern with regard to exacerbating inequality. However a significant reason for it not being regressive on expenditure is the impact of income inequality itself: higher income people tend to save a bigger proportion of their incomes than those on low incomes can afford and saving (or financial transactions generally) is not liable for GST and neither is overseas travel, which is purchased more by higher income people. It is also suggested that expenditure is smoothed over a person's life and so is a better basis for considering inequality: even if people find it hard to meet costs, partly due to GST, when they are young, the position will be evened up when they get older. This is small consolation to a young family struggling to make ends meet, and they have no assurance that they will in fact be in a better financial position when they get older. We therefore consider the income measure is appropriate to consider GST's distributional impact

18: Ball, C., Creedy, J., & Ryan, M. (2014). Food Expenditure and GST in New Zealand (Working Paper TWP 14/07; New Zealand Treasury Working Papers). The Treasury. https://www.treasury.govt.nz/publications/wp/food-expenditure-and-gst-new-zealand-wp-14-07

19: For example Swistak, A., & de la Feria, R. (2024). Designing a Progressive VAT (Working Paper WP 2024/078; Working Paper Series). International Monetary Fund. https://www.imf.org/en/Publications/WP/Issues/2024/04/05/Designing-a-Progressive-VAT-546923

20: Inland Revenue. (2025). Stable bases and flexible rates: New Zealand's tax system—Draft Long-Term Insights Briefing. Inland Revenue Department. https://www.taxpolicy.ird.govt.nz/consultation/2025/ir-ltib, p.101-104.

# Health, environmental & other remedial taxes

This group of taxes does not exist primarily to raise revenue, but aim to promote positive changes in the lives of individuals and society. The main examples of such taxes are those with health or environmental goals (and we refer to them as 'health and environmental taxes' for brevity), but others, including those aimed at fairer or improved corporate behaviour, are also in this group.

## Health, environmental and other remedial taxes

Health, environmental and other remedial taxes are those whose primary purpose is:

> To promote positive changes in the behaviour or activity of individuals or organisations - changes that are positive for the people concerned and/or wider society; or to ensure that individuals or organisations pay the true cost of their activities.

An example of the first kind are tobacco taxes aiming to encourage people to not smoke. The reason for such taxes is the severe damage to the health of both the person who smokes and those who inhale the smoke involuntarily, and increased likelihood of costs to health services. A sugar tax would be another example. An example of the second kind is the waste disposal levy which taxes waste sent to some waste disposal facilities such as landfills to reflect the cost of that waste.

## Purposes beyond raising revenue

Remedial taxes do not necessarily exist primarily for the purpose of raising revenue. Indeed, if they are successful in changing behaviour, the revenue will reduce. But some of these taxes do in fact raise substantial revenue. For example, tobacco taxes still raised $1.5 billion in revenue in the year to December 2024[21]. After changes made to the Waste Disposal Levy in the 2024 Budget it was expected to raise $253 million in the year to June 2025[22] which is used for waste minimisation activities, increasing recycling, funding contaminated site remediation and certain landfills, and in a change in 2024, other environmental programmes.

"Hypothecation" of these types of taxes – tagging their revenue for spending on specific declared purposes – is common but not universal. For example tobacco taxes are not tagged. In a wider sense, however, such taxes contribute to the costs of treating people with diseases caused by tobacco use, as well as public campaigns to reduce smoking. Hypothecation is a way to improve public acceptance of the tax but reduces flexibility for the government in making best use of its revenue. On balance, Tax Justice Aotearoa supports wider use of hypothecation.

21: Treasury Tax Outturn Data Monthly History December 2024, accessed 17 February 2025 from https://www.treasury.govt.nz/publications/tax-outturn-data/tax-outturn-data-december-2024

22: Budget 2024 Estimates of Appropriations 2024/25: Revenue, accessed 17 February 2025 from https://budget.govt.nz/budget/2024/data-library.htm

## Corporate behaviour

An excess profits tax, which places an additional tax on companies when their profits are above a level that is considered reasonable, may be a way to reclaim the excess profits for the public good or to discourage excess profit making. Where sectors have limited competition for structural reasons which are difficult to change, they could conceivably be permanent features, alongside regulation. A "windfall" profits tax levied at times such as a public emergency, would discourage companies from anti-competitive or opportunistic behaviour to the detriment of the public, and redistribute the excess profits to mitigate the harm they cause. A tax on the income from capital gains could be considered a remedial tax in that it reduces the attraction of speculation and removes the tax advantage it provides to ownership of land-based assets.

## Multi-purpose taxes

Some remedial taxes have more than one purpose. Statistics New Zealand estimates that in the year to March 2022, $7.1 billion was raised in environmental taxes. Most of these were from energy (57%) and transport (42%)[23]. Among these were fuel and road taxes whose primary purpose is to fund transport infrastructure and operations, such as public transport and roads, but they can also be regarded as promoting health or environmental objectives in providing an incentive to use public transport or active means of transport (such as walking and cycling) and ensuring that transport infrastructure users meet at least part of the cost of their activities. Auctioning Emissions Trading Scheme units is also regarded as an environmental tax by Statistics New Zealand. The primary purpose of the Emissions Trading Scheme has environmental objectives in requiring emitters of greenhouse gases to pay at least part of the cost of the effects of those emissions, thus contributing to meeting our climate change commitments.

## Not a silver bullet

The Emissions Trading Scheme illustrates an important aspect of remedial taxes. While the current scheme has major design problems and gaps, it is most unlikely that even correcting those would mean the scheme would completely achieve the objective of meeting targets for the necessary emission reductions. Other regulatory, incentive and practical support measures are almost certainly needed. In general, while it is vital that health and environmental taxes are carefully designed to achieve the desired changes, they rarely are all that is needed.

For example, gambling taxes raise the cost (and reduce the returns) of gambling and so discourage it. But gambling is driven by and associated with many negative social circumstances. If those are not also attended to, problem gambling is unlikely to reduce sufficiently, or undesirable practices will turn up in another form – perhaps in illegal or even more damaging behaviours than gambling. A gambling tax should therefore be accompanied by measures to address the social drivers of problem gambling.

23: Environmental-economic accounts: Data to 2022, Statistics New Zealand, accessed 17 February 2025, from https://www.stats.govt.nz/information-releases/environmental-economic-accounts-data-to-2022/

## Remedial taxes may be regressive

Health and environmental taxes may cost people on low incomes or who are otherwise disadvantaged proportionately more. Māori may be particularly affected by environmental taxes for example. This is not a conclusive reason to avoid such taxes but it should be a consideration in their design and there should be accompanying measures to relieve income pressures on those effected. These could include raised benefits or Working for Families tax credits, or provision of alternatives (such as good public transport services when taxes raise the cost of running private motor vehicles). Such measures should not negate the purpose of the tax nor reward those, such as polluters, who have been engaged in damaging behaviour.

## Conclusion

Tax Justice Aotearoa supports, in principle, health and environmental and other remedial taxes which promote positive changes in the lives of individuals and society. However it looks to like-minded groups with relevant expertise to take a lead in recommending policy regarding particular taxes or new tax proposals. Tax Justice Aotearoa will examine proposals as they arise and decide whether to support them. In many cases they will need to be accompanied by other measures to be effective and to ensure that people on low incomes or who are otherwise disadvantaged are not further disadvantaged.

# Transparency

Tax transparency is an essential element of tax systems and tax justice. Transparency can address tax abuse and ensure that accurate and comprehensive information on tax matters is available to government and international agencies, nongovernmental organisations, and the general public. It is a practical requirement for implementing positive tax policy, and increases tax revenue potential.

Tax transparency makes it possible to understand and answer questions such as:

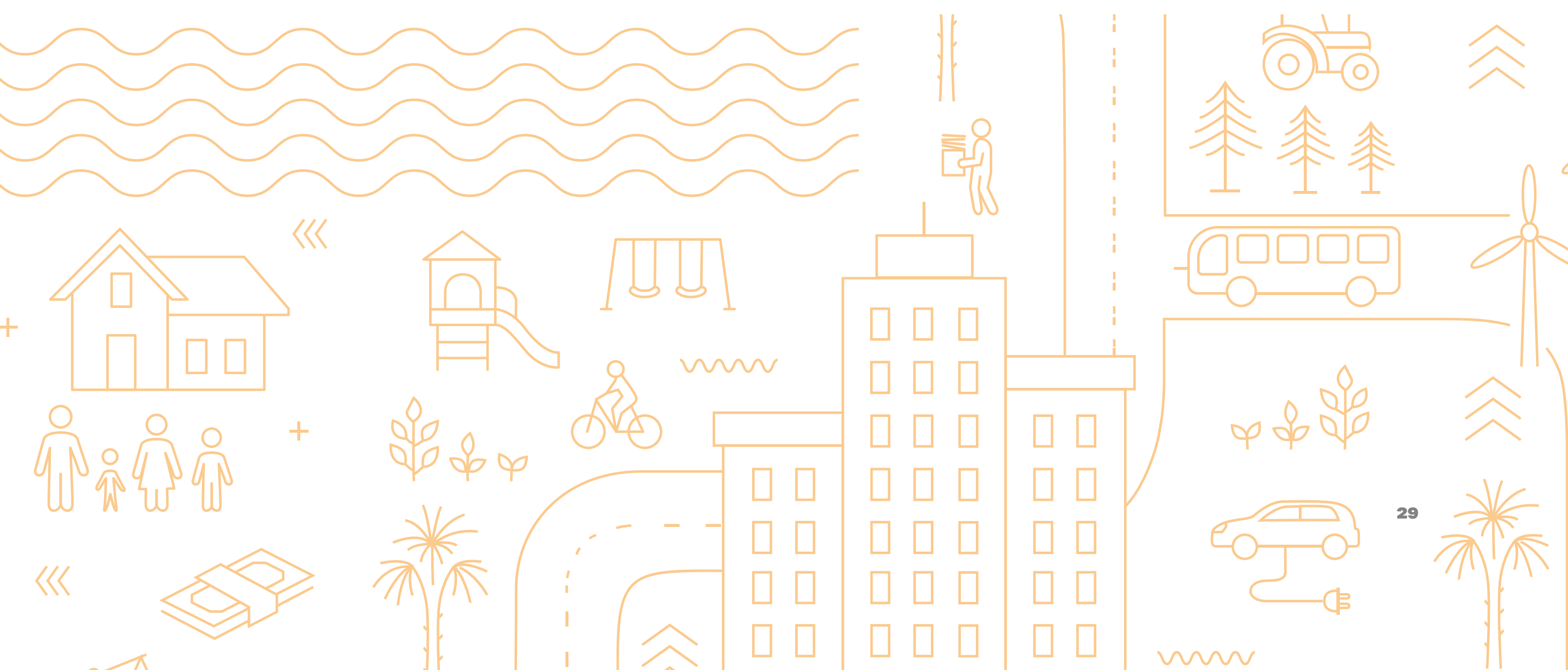
- in which country, is wealth held?
- what is the nature and extent of assets?
- where and how is profit made?
- who controls wealth?
- who pays taxes and how does it relate to their incomes and wealth?

In Aotearoa New Zealand, the public has limited or no information on a wide range of tax issues which means that it is difficult or not possible to answer such questions.

## Six strategies & recommendations for advancing transparency

**1. Automatic Exchange of Information (AEOI):** This scheme is about establishing where and in which country wealth is held. Under it, financial institutions are required to identify their foreign, non-resident customers to their local tax authority and disclose certain financial information about them. That tax authority then provides the information to the tax authorities of the customer's home country. AEOI was implemented in Aotearoa New Zealand from 2017, but it has significant limitations. Developing countries have had difficulty implementing it and AEOI information is not publicly available.

**Recommendation:** that Aotearoa New Zealand supports strategies for enabling full participation of all states in AEOI; and ensures public access to aggregated AEOI information.



**2. Country-by-Country Reporting and Public Country by Country Reporting:** Country-by-Country Reporting (CbCR) is an OECD-led initiative that aims to understand how multinational enterprises (MNEs) conduct their global operations and transfer functions and costs between their associated companies. CbCR requires MNEs to provide information to tax authorities in their countries of residence, which then report to tax administrations in other countries relevant to the MNE. Many countries have now adopted CbCR, including Aotearoa New Zealand. However, the reporting requirements only apply to businesses with annual consolidated group revenue over EUR 750 million. Some countries have extended CbCR to public Country by Country Reporting (PCbCR):

In 2021 the European Union adopted a Directive that requires public disclosure of income taxes paid for all 27 EU Member States and a list of "non-cooperative jurisdictions" for tax purposes. The list has only 11 countries and few of them are considered tax havens by civil society organisations.

In 2024 Australia adopted more comprehensive PCbCR rules that require multinationals with combined global revenue of over A$500 million and A$10 million in Australia to report on revenue and profit figures for subsidiaries in a list of 41 tax havens and offshore secrecy jurisdictions. This list is much more comprehensive than the EU list.

**Recommendation:** Adopt a Public Country-by-Country Reporting legal framework in Aotearoa New Zealand for public access to information gained from MNEs. It should be based on Australia's world-leading framework, providing consistency in business regulation between our two countries. Like in Australia, information should be based on the Global Reporting Initiative's GRI 207 framework.

**3. Beneficial ownership:** 'Beneficial owners' are individuals (actual people) who ultimately own or control a corporate entity such as a company or trust. They are distinct from legal owners, which may be another entity of some kind. Access to details of beneficial ownership is essential in order to understand tax obligations, collect the right amount of tax and prevent crime and corruption.

This is achieved by establishing registers of beneficial owners, for which Canada and the European Union have helpful models. In 2018 the Ministry for Business, Innovation and Employment released a discussion paper on beneficial ownership in Aotearoa New Zealand but work appears to have ceased.

**Recommendation:** that Aotearoa New Zealand develops a register of beneficial owners of companies and other incorporated entities such as trusts, with comprehensive information. Such registers should be publicly accessible with discretion to refuse only on a case-by-case basis.

**4. An asset register:** The concept of an 'assets' register, or wealth register, draws on familiar institutions such as registers for land ownership, companies, and motor vehicles. It is relevant to the recommendation for a register of beneficial ownership.

Asset registers could be national, international, or interconnected. The non-governmental Independent Commission for the Reform of International Corporate Taxation has produced a roadmap to a Global Asset Registry, and has begun applying the idea to the UK.

**Recommendation:** Tax Justice Aotearoa recommends that an asset/wealth register, with ownership details, be developed in order to advance transparency and ensure tax compliance by business entities and people with significant assets.

**5. Standards for ensuring independent, accurate, comprehensive and usable data and information:** The public (and tax authorities) need to be able to know that the information they receive is accurate, verifiable, comprehensive, independent, usable, and able to be shared across several domains and jurisdictions. Information required for tax transparency strategies such as AEOI and CBCR/Public CBCR depends on standards. Accounting and financial standards on which information often depends are rarely neutral and may be designed to suit private interests.
The OECD approved a Common Reporting Standard (CRS) in 2014, amended in 2023. A more independent standard was developed by the Global Reporting Initiative (GRI 7) and is used in the Australian legal framework for public country-by-country reporting.

**Recommendation:** That Aotearoa New Zealand adopts, and advocates for international adoption of, independent, accurate and comprehensive reporting standards. At present the Global Reporting Initiative (GRI 207) produces the best available standard.

**6. Richer public statistics and information on tax in Aotearoa New Zealand:** Informed public debate on our tax system depends on rich and readily available public information sources. Some disaggregated data is available on the Inland Revenue website, but only aggregate information is available from Statistics New Zealand and Treasury. For example, there is no regular publicly available information on company tax paid in different industries, or personal tax paid by source of income, gender or other characteristics. The Australian Tax Office is required to report annually on the revenue, taxable income and tax payable of companies with revenue above $A100 million, exposing the companies that contribute fairly to the national tax base and those that do not. There is a wealth of information in Inland Revenue's databases which could be published regularly in summarised form protecting confidentiality. The 2017-2019 Tax Working Group made several recommendations on improving the availability of such statistics, including research (such as into high wealth individuals), Census questions and collection of additional information.
Currently, privately owned companies do not have to file their annual financial statements with the Companies Office. Some of them are large companies or groups. For tax and other matters of public interest the financial position of companies above a certain size should be available to the public.

**Recommendation:** That Inland Revenue should be required to regularly publish a broader range of tax statistics, directly or through Statistics New Zealand, drawing on administrative sources, research, surveys and Census questions. Like Australia, Inland Revenue should also be required to report taxable income and tax payable for companies with revenue over NZ$100 million. All privately-owned New Zealand companies should be required to file a publicly available financial statement with the Companies Office if their total group assets exceed $50 million, revenue exceeds $25 million, or if they had a significant contract with, or proportion of revenue from, central or local governments.

# International issues

## Introduction

International tax law relates to the taxing of activity that takes place in two or more countries. Cross-border tax rules are set out in both the national laws of individual countries and international treaties between two or more countries. National laws such as the corporate tax rate have implications for corporate behaviour both cross-border and within the country. There is no overall comprehensive international tax treaty.

## Background

The international tax regime largely reflects the interests of the high income countries which developed it. The rules determine, among other things, which jurisdictions have the right to impose tax on multinational entities (MNEs). The traditional emphasis is on where the MNE is physically based. The rules also seek to avoid the possibility of 'double taxation' where a company operating in more than one country is taxed in all countries on the same income.
This has led, over the last century or so, to the reverse issue: a MNE may take advantage of these rules to pay minimal or zero taxes. Such unjust consequences have been amplified by increasing globalisation and digitalisation of business entities and the economy.

The international tax regime is neither fair nor effective. Insufficient tax is often paid by companies and individuals who operate in more than one jurisdiction. Tax competition between different states results in a 'race to the bottom'. The rules lend themselves to many forms of tax abuse and criminal activity. Until recently nations of the Global South have had little influence in developing tax rules that give weight to their interests.

A basic question is what tax obligations MNEs have in the different countries in which they operate; and which criteria are used to allocate those obligations between countries, such as physical location, product sales, number of employees, and nature of activities.

Two major international projects respond to these issues:

a: The OECD-led Base Erosion and Profit Shifting project (BEPS)

b: A proposed International Tax Convention, administered by the United Nations (UNTC)

Principles guiding Tax Justice Aotearoa position on these matters include equity (between countries and within them); fairness (particularly regarding taxing rights); efficiency and efficacy.

## BEPS

The BEPS first phase, initiated in 2013, led to several specific reforms. Some have already been implemented; others are in various stages of development. These include measures that promote tax transparency (Automatic Exchange of Information (AEOI), Country-by-Country Reporting (CbCR)), and a number of actions to reduce corporate tax avoidance. These are touched on in the Corporate Tax and the Digital Economy section of this document.

The OECD second phase ('BEPS 2'), addresses issues related to the digital economy. The OECD has also attempted to gain involvement from emerging economies with its Inclusive Framework. This has resulted in a two-pillar solution. Pillar One focuses on where tax should be paid by MNEs operating in different jurisdictions ('taxing rights'). Pillar Two attempts to address the 'race to the bottom' by establishing minimum corporate tax rates for very large companies.

Pillar One offers two possible methods for apportioning tax obligations: in broad terms, by revenue ('Amount A') or by marketing and distribution activities ('Amount B'). Only 'Amount A' seems likely to be accepted.

In October 2023, the text of a Multilateral Convention (MLC) was approved, giving effect to an Amount A solution. As of time of writing, it was not yet open for adoption. The MLC, and its approach to tax allocation is criticised[24] for not aiming at a comprehensive overhaul of the international tax system. Tax Justice Aotearoa recognises that while the MLC is a step towards greater fairness in tax allocation, it is far from ideal.

If and when the MLC is open for adoption, Tax Justice Aotearoa will consider an appropriate Aotearoa New Zealand response. As noted in the section on Tax Transparency, Tax Justice Aotearoa continues to advocate for public international country-by-country reporting, and extension of its scope to assist in successful implementation of both the MLC and formulary apportionment in general[25].

Aotearoa New Zealand has enacted legislation that is intended to give effect to Pillar Two[26].

## Proposal for a Digital Services Tax

A Digital Services Tax Bill was introduced in Aotearoa New Zealand in August 2023, largely as a backstop if multilateral agreement (e.g. the MLC) was not successful. The Bill was discharged in May 2025. For discussion of a Digital Services Tax, and Tax Justice Aotearoa recommendations, see the corporate tax section.

24: Eg by the Independent Commission for the Reform of International Corporate Taxation (ICRICT)
25: Formulary apportionment is treating a MNE as a single international entity and for taxation purposes using some formula to share its total income among the countries in which it operates.
26: The Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Act, Subpart HP at https://www.legislation.govt.nz/act/public/2024/0011/latest/whole.html#LMS844309

## Proposed UNTC

Development of a UNTC arose, in part, from the Global South's dissatisfaction with OECD processes, which excluded non-members in its important early stages, and results. The General Assembly agreed in 2023 to "Promotion of inclusive and effective international tax cooperation at the United Nations", and negotiations are underway.
Tax Justice Aotearoa is currently aligned with other NGOs on many issues around sustainability, human rights, and the environment. An issue already recognised as needing further discussion is formulary apportionment of tax obligations, also evident in the above work of the OECD.

Tax Justice Aotearoa has strongly advocated development of the Convention as a multilateral approach. This is not yet successful: Aotearoa New Zealand opposed the Convention's development with Canada and Australia, and our government does not as yet have any public position on the matter. Tax Justice Aotearoa will continue to strongly support UNTC, but recognises the risks in not having other options.

The risks with the UNTC include: its development may be unpredictable, it may eventually not go ahead, it may not be adopted by sufficient countries, and it may not be specific enough to be helpful. It may require years of development and implementation.

Tax Justice Aotearoa will continue to strongly advocate for a multilateral approach and specifically the UNTC. We may also consider interim measures.  These could include consideration of the proposed OECD MLC, a revived Digital Services Tax, more use of withholding taxes,  or other half-way measures.

# Tax administration

Without a capable and sufficiently resourced tax administration – the Inland Revenue in Aotearoa New Zealand – even the best designed tax system will fail. The need for Inland Revenue to be proactive not only in collecting and analysing data but also in deploying appropriate resources to enforce tax legislation has never been greater.

## Quality data

The quality of data collected both from domestic sources and increasingly under international exchanges of information is crucial in applying existing tax rules to prevent large scale avoidance and evasion. Data is also critical in many of the areas discussed in this statement such as the taxation of inter-generational wealth held in trusts, valuation of capital assets for the purpose of capital gains tax and cross border transactions involving New Zealand subsidiaries of multinational groups.

## Sufficient staff with the right expertise and tools

Data alone is not sufficient. Inland Revenue, after a period from 2017 to 2022 in which it shed 30% of its staff , including some of its most experienced specialists, must recruit and retain people with the skills and expertise to be able to analyse an increasing volume of information and assess tax risks. This is necessary to increase the number and quality of targeted audits it carries out, particularly focusing on larger taxpayers where the highest tax risk lies. Audit activity is consistently extremely cost effective work, yielding about $8 for every $1 invested according to Inland Revenue's annual reports. The yield for audits of larger taxpayers is usually much higher. However, those annual reports also show that the amounts invested by Inland Revenue in investigation work (and in debt management) fell by about 50% up to 2022-3.

| Reporting period (Year to 30 June) | Expenditure on Investigations, audit and litigation | Reported discrepancies for every dollar spent | Indicative discrepancies | Management of debt and outstanding returns | Total Outstanding Debt |
|---|---|---|---|---|---|
| 2015-16 | $164.249m | $7.91 | $1.229bn | $149.593m | $4.7bn |
| 2016-17 | $168.338m | $8.31 | $1.399bn | $146.315m | $3.0bn* |
| 2017-18 | $140.164m | $7.86 | $1.102bn | $131.625m | $3.1bn |
| 2018-19 | $134.706m | $7.54 | $1.016bn | $119.258m | $3.5bn |
| 2019-20 | $109.720m | $8.75 | $0.960bn | $87.731m | $4.2bn |
| 2020-21 | $124.325m | $7.17 | $0.891bn | $90.093m | $4.4bn |
| 2021-22 | $113.325m | $9.88*** | $1.120bn | $89.863m | $4.8bn |
| 2022-23 | $107.634m | $8.92** | $0.960bn | $85.511m | $5.8bn |
| 2023-24 | $102.665m | | | $83.886m | $8.4bn |
| 2024-25 | $122.605m | | | $107.788m | $9.1bn |

*$1.8bn of aged and irrecoverable debt written off.
**Now described as "identified value of compliance activities over associated costs" – the measure moves away from solely looking at discrepancies identified in audits and other enforcement work and now includes voluntary disclosures and real time integrity reviews. Had the previous measure been used, it is likely that the discrepancies would have been significantly lower.
***Likely to have been distorted by one very large discrepancy of over $250m.

Debt management is a particularly critical area in which the department needs to improve its performance with tax debt growing exponentially since 2020, reaching over $9bn in 2026. The failure to collect this revenue has a negative impact on the fiscal position and the ability to fund our public services. At the same time there needs to be more sensitive treatment of debt which results from circumstances such as domestic violence and relationship breakups.

More broadly, the analytical software systems in which Inland Revenue has invested through its Business Transformation programme are useful tools and have undoubtedly increased the efficiency with which large amounts of data are managed but cannot of themselves replace the judgement and perspective of well trained and experienced officials.

## Effective enforcement, collection and policy development

Strong data analysis capabilities underpin effective enforcement and collection. Enforcement, including, as noted above, the proactive management of tax debt, is crucial to the integrity of the tax system not only to protect the revenue base but also to demonstrate to all taxpayers that those who seek to avoid their tax obligations will be detected and investigated. Anything less risks undermining trust in the tax system as a whole.

Other tools to assist enforcement and encourage compliance could include government procurement requirements for responsible tax behaviour by companies.

Timely and effective enforcement requires significant numbers of trained audit staff supported by experienced specialists. It is therefore essential that Inland Revenue invests significant amounts in training its staff, retaining them and recruiting outside the department if necessary to fill gaps it may have in skills, experience and expert knowledge. The same is true of Inland Revenue's tax policy function. It is critical to recruit and retain staff who have the capability and bandwidth to monitor and respond to developments in tax policy both domestically and internationally, and to create effective and enforceable tax policies to meet changing needs.

## Transparency

Inland Revenue should also be looking to improve the overall transparency of the tax system through measures discussed in this paper such as public country by country reporting.

It needs powers to conduct the research which is necessary for the public to understand how the tax system is working and to inform good policy making. An example is section 17GB of the Tax Administration Act 1994 which enabled the revealing 2023 High Wealth Individuals research[27] and which the government is currently proposing to repeal.

It must also be responsive to requests from the public for information about the administration of tax and ensure the right resources, skills and systems are in place for this to happen.

## Dispute settlement

Tax disputes can be expensive and time-consuming. Consideration should be given to the establishment of a public taxpayer advocacy service and dispute resolution system which would operate independently of Inland Revenue and focus on resolving tax disputes at an early stage and at minimum cost to the taxpayer.

27: Inland Revenue. (2023). High-wealth individuals research project report. Policy and Regulatory Stewardship, Inland Revenue. https://www.ird.govt.nz/hwi-research-project