Inland Revenue
Te Tari Taake

8 April 2024

[redacted]

Dear [redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 19 March 2024. You requested the following:

> *Hi there, I would like to know the total amount of extra tax collected as a result of the removal of interest as a deductible expense, per property or per tax entity. If the latter, I'd like to know what kind of tax entities paid that amount. I would also like to know what method was introduced at the time to measure this. Thank you so much in advance*

Information being refused

Your request for information relating to tax per property is refused under section 18(g) of the OIA, as the information is not held by Inland Revenue, and we do not believe it is held by another agency.

Regarding your request for information relating to tax per entity, the information you have request is considered sensitive revenue information under section 18 of the Tax Administration Act 1994 (TAA) because it directly identifies a taxpayer. Accordingly, your request is refused under section 18(c)(i) of the OIA, as releasing this information would be contrary to section 18 of the TAA.

However, I trust that the information provided below, which looks at aggregate totals broken down by the type of entity reporting the interest expense, will be of assistance.

Information being released

Income tax returns have, since the 2021-22 income year, contained a question asking taxpayers to disclose whether they incurred interest from residential property. The question asks for both the total interest on residential property, the interest expense that they have claimed, and the reasons for their claim.

This information, in conjunction with questions relating to residential rental income and deductions, can be used to generate estimates of the tax impact created by interest deductions. These estimates are complicated by the existence of several other policies relating to income from residential rental property (notably the brightline test and residential loss-ringfencing), and by the evolving way in which this income is treated on tax returns.

There are at least three ways in which the tax impact of denying interest deductions might be measured:

1 Total denied interest expenses multiplied by an average tax rate. This method ignores the impact of loss ringfencing and losses more generally and is not one that we have used.
2 The difference between the tax calculated on taxable income and the tax calculated on taxable income less denied interest expenses. This method ignores the interaction between denying interest expenses and residential loss ring-fencing. It gives an indication of the magnitude of the tax effect of interest denial if it were treated in isolation.
3 The difference between tax calculated on taxable income, and tax calculated on taxable income where residential rental income is reduced by denied interest expenses to the point where net rental income is zero. This measure is the closest to the tax effect realised in the year that the interest expense was denied and takes account of the interaction between interest denial and loss ringfencing.

We have produced estimates using measures 2 and 3 which are reported in the following table, split by the type of entity affected. Please note that income tax returns for the 2022-23 income year were not due until 31 March for taxpayers with an agent and extension of time for filing. Results for this year shown in the table are incomplete and represent a progress figure only. Note too that in 2021-22, 25% of interest expenses were denied for half of a year, while in 2022-23, 25% of interest expenses were denied for the full year. Numbers reported are $millions and rounded to the nearest $0.1 million. Data was extracted from Inland Revenue systems on 22 March 2024.

	2021-22 Income year		**2022-23 Income year (progress figures)**	
	Method 2	**Method 3**	**Method 2**	**Method 3**
Companies	4.7	3.5	10.3	7.6
Individuals	52.5	27.0	122.7	62.7
Trusts	16.9	13.0	29.2	23.0
Total	**74.0**	**43.5**	**162.2**	**93.3**

Table: Estimates of tax impact of denying interest deductions, by entity type ($m)

Right of review

If you disagree with my decision on your OIA request, you can ask an Inland Revenue review officer to review my decision. To ask for an internal review, please email the Commissioner of Inland Revenue at: CommissionersCorrespondence@ird.govt.nz.

Alternatively, under section 28(3) of the OIA, you have the right to ask the Ombudsman to investigate and review my decision. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

If you choose to have an internal review, you can still ask the Ombudsman for a review.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (www.ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, will be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely

Sandra Watson
Policy Lead, Forecasting and Analysis