14 May 2024

[redacted]

Dear [redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), transferred to Inland Revenue from the Minister of Revenue 1 May 2024. You requested the following:

> *"14 Feb Inland Revenue Briefing Note BN2024/058: Additional options for interest limitation phasing"*

I am releasing, attached as **Appendix A,** the document in scope of your request with some information withheld under section 9(2)(a) of the OIA, to protect the privacy of a natural person.

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, may 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

[redacted]

Paul Fulton
Acting Policy Lead, Policy and Regulatory Stewardship

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Briefing note

Reference:	BN2024/058
Date:	14 February 2024
To:	Revenue Advisor, Minister of Finance – Emma Grigg
From:	Chris Gillion
Subject:	**Additional options for interest limitation phasing**

1. This briefing note provides you with further options and costings on phasing back in interest deductibility for residential investment property.

2. This follows up on an aide memoire sent to the Minister of Finance on 13 February 2024 outlining a range of possible options for phasing back in interest deductibility (T2024/322) on top of the option proposed in the draft Cabinet paper (IR2027/027 refers).

3. Further options for interest limitation phasing are presented on the following page.

	2023/24	2024/25	2025/26	2026/27	2027/28 and outyears	**Total over forecast period**
Status quo	50%	25%	0%	0%	0%	
Cabinet paper	50%	80%	100%	100%	100%	
Fiscal cost ($m)	-5	-360	-785	-855	-915	**-2,920**
Option 1	*50%*	*50%*	*75%*	*100%*	*100%*	
Fiscal cost ($m)	0	-225	-730	-860	-920	**-2,735**
Option 2	*50%*	*50%*	*80%*	*100%*	*100%*	
Fiscal cost ($m)	0	-225	-745	-860	-920	**-2,750**

4. These costings were modelled using the same assumptions and caveats as for those in the previous aide memoire, and are restated here:

- The costs are expressed relative to the status quo and were produced using the same model as was used for the draft Cabinet paper. Figures are presented in June fiscal years and are rounded to the nearest $5 million.
- The model uses macroeconomic data from the Half Year Economic and Fiscal Update 2023 and assumes the implementation of the changes to the personal income tax system from the National Party's Back Pocket Boost document.
- The phasing options here assume no changes to settings for the 2023–24 income year, and therefore zero fiscal cost in that year. This differs from previous advice (and the draft Cabinet paper) where there was a fiscal cost for the 2023–24 year because all taxpayers would be permitted to deduct 50% of interest incurred, including those with recently acquired rental properties.
- Note the fiscal impacts differ slightly between the Cabinet paper and the new phasing options even for options that allow the same proportion of interest in a given year. This is owing to updated tax return data being used to model the new options, as well as the different treatment in 2023–24 as described in the above bullet-point.
- Note that the relationship between the proportion of interest allowed and the fiscal cost is not linear. For example, decreasing the proportion of interest allowed in 2027/28 from 100% to 50% does not decrease the fiscal cost in that year by half. This is because the modelling takes account of loss-ringfencing rules. Interest expenses that are allowed by the interest denial rules, but not claimable in the same year because of loss-ringfencing are accumulated and claimed when the residential income allows for it. This means that in the options that allow a larger proportion of interest to be deducted, there is a larger stock of these unclaimed interest expenses that are carried forward into future years.

5. The Treasury was informed about this briefing note.

Chris Gillion
Policy Lead
s 9(2)(a)