

GST registration threshold background information

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To: Ministerial Advisory Group for the Early Childhood Education Funding Review

From: Graeme Morrison, Policy Lead – Indirect Tax

Subject: Background on GST registration threshold for ECE funding review Ministerial Advisory Group

Overview

This paper provides answers to questions posed by the Ministry of Education on the GST registration threshold. This information is intended to help the Ministerial Advisory Group (MAG) for Early Childhood Education understand Inland Revenue's position on not supporting GST exemptions in this area.

How policy for GST applies

- 1. Is there current work on adjusting relevant GST policy settings (especially thresholds and exemptions) either on the Tax Policy Work Programme, or other current work MAG should be aware of?*

No. The Tax and Social Policy Work Programme currently does not include any initiatives related to the GST registration threshold or the introduction of GST exemptions.

- 2. Are there other industries or contexts where similar concerns have arisen, and what has been the policy response? Are there precedents for changing GST settings for specific industries?*

New Zealand has a broad-based GST system. This means it applies to most goods and services provided in New Zealand. This keeps the tax simple, fair and efficient. It also allows it to apply at a lower rate of 15% (compared to the OECD average of 19.3%).

There are no precedents for providing industry-based exemptions from GST in New Zealand.¹

Calls to increase the GST registration threshold have primarily come from service-based industries, particularly small businesses and sole traders who argue that the current \$60,000 threshold is too low. A recent petition to Parliament in 2024 sought an increase to the threshold - to \$130,800 with annual inflation adjustments thereafter. The Government considered the petition and decided not to increase the GST registration threshold at that time.²

¹ New Zealand provides broad GST exemptions for certain sectors such as financial services (valuing financial service margins incurs unmanageable compliance costs) and residential rent (to maintain neutrality with owner-occupied housing). These exemptions are for sound policy reasons and are common across GST/VAT systems globally. The NZ system does not provide for any industry-based exemptions on a more granular scale.

² Ministerial Response to the referral of the Petition of Alisha Riley on Increase the GST threshold, <https://share.google/BGFIoEtTvpz5AbHrV>

There are four main reasons New Zealand's GST system does not include concessions or special regimes for certain sectors. Introducing these would:

- Undermine efficiency and neutrality by distorting choices.
- Add complexity and compliance costs for taxpayers and Inland Revenue.
- Create fiscal costs that require offsetting through higher taxes or reduced spending.
- Set a precedent that invites pressure for further carve-outs, eroding the tax base.

For these reasons, successive governments and independent reviews of New Zealand's tax system have concluded that GST concessions are not the right tool for delivering targeted support. Direct funding is more transparent and effective. Inland Revenue continues to be of this view.

IR view of questions and suggestions for home-based ECE from MAG engagement

3. Do the impacts described by home-based ECE providers align with IR understanding of how GST applies and of taxpayer feedback on GST, in particular:

a. Concerns that the GST registration threshold is not updated regularly as costs of provision and earnings increase

The purpose of the GST registration threshold is to recognise the trade-off between maintaining the broadest possible tax base and the associated compliance costs for taxpayers and administration costs for Inland Revenue of GST registration. The purpose is not to provide an inherent concession to small businesses.

Historically, GST compliance costs were higher under a paper-based system than they are today with the advantages of electronic filing and the availability of digital accounting packages and invoicing systems.

Frequent changes to GST registration thresholds in other countries has produced unintended impacts, such as "bunching", where businesses deliberately constrain their turnover to remain below the registration threshold. This limits economic growth.

Maintaining a relatively low registration threshold can act as a deterrent to bunching because the threshold is set at a level that many businesses will naturally exceed, thereby reducing the incentive to cap turnover artificially. Moreover, a higher threshold can lead to market imbalances, as it allows businesses just below the threshold to gain a competitive advantage over GST-registered firms, reducing neutrality and undermining the integrity of the tax system.

When GST was introduced in 1986, the threshold was \$24,000. Inflation-adjusted to 2025, that would be about \$68,000, which is still quite similar to today's \$60,000 threshold.

b. Disincentives for educators to exceed GST registration threshold of \$60,000

Whenever a bright-line rule like the GST registration threshold exists, businesses on either side are treated very differently, but that distinction is unavoidable in any threshold-based system.

As for the reasons outlined above, from a pure GST policy perspective, officials do not support an increase to the GST registration threshold. Increasing the GST registration threshold risks distortions as it lets businesses just below the threshold undercut GST-registered competitors. Increasing the threshold further exacerbates that problem as it provides more businesses with an opportunity to operate below the threshold.

Officials note that GST registered taxpayers can claim a deduction of the GST component of their costs, so there are also benefits from GST registration (although officials

acknowledge this benefit is much less pronounced in a service-based industry where costs are generally low).

c. Transaction and administration costs of GST registration for educators

As above, these have decreased over time with greater access to accounting packages and the ease of electronic filing. These compliance costs are fairly faced by all small businesses that exceed the threshold, including educators.

d. Home-based networks unable to claim GST on funds passed on to educators, if educators are not GST registered or do not exceed threshold

Inland Revenue does not consider it appropriate to allow a GST deduction when no GST has been incurred within the design of the GST system. GST operates on a credit-invoice mechanism: deductions are only available to offset actual GST charged on taxable supplies. This safeguards against tax cascades (where GST is embedded multiple times in the same product at different stages of production or distribution) and ensures neutrality.

Creating a deduction in the absence of GST would:

- Break the integrity of the GST framework by introducing a benefit unrelated to tax paid.
- Create a windfall for recipients rather than correcting a tax distortion.
- Undermine the neutrality between different service delivery models, because the Crown already collects GST on the full funding provided, regardless of whether providers are registered for GST or not.

In short, Inland Revenue does not consider GST to be the right instrument for delivering concessions when no GST liability exists. If the policy intention is to provide additional support, this should be done through direct funding mechanisms rather than altering GST credit rules.

4. What is IR's view, from its tax policy perspective, of

a. the policy case for different treatment of these issues in home-based ECE?

Do not support for all the reasons outlined above. GST works best when applied broadly. The threshold is not a concession, it is about balancing compliance costs, which have fallen dramatically with digital filing. Raising the GST registration threshold risks distortions, letting businesses just below the limit outprice GST-registered competitors. Providing an exemption for home-based ECE providers would be unfair to other industries that may have an equally meritorious claim for a concession, introduces complexity and undermines revenue collection.

b. the issues to consider and merits of different responses (e.g. raised or lowered thresholds, exemptions from coverage for home-based ECE, changes to business models or other alternatives to changing tax treatment)

Do not support for the reasons stated above.

Mechanisms for change

5. What would the mechanisms be, and where do decision rights sit, for change to thresholds or scope of GST coverage?

Any change to the GST rate, scope or threshold must be done through primary legislation by an Act of Parliament. The change would include amendments to the Goods and Services Tax Act 1985 and would require Cabinet approval.

The Minister of Finance and Minister of Revenue are jointly responsible for recommending changes to Cabinet on tax policy. If tax policy officials from Inland Revenue and The Treasury considered that there was a policy case for change, they could report to both Ministers seeking their agreement to take a paper to Cabinet recommending a change. A GST exemption would come at a fiscal cost to the Government and would require funding, such as through the Budget process.

6. Are there any specific process steps beyond the usual legislative process?

No – process as per answer to above question.

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