

In Confidence

Office of the Minister for Social Development and Employment

Office of the Minister of Revenue

Cabinet Social Outcomes Committee

Proposed amendment of the Approved Information Sharing Agreement between Inland Revenue and Ministry of Social Development to support income charging

Proposal

- 1 This paper seeks agreement in principle to proposed amendments to the Approved Information Sharing Agreement (the AISA) between Inland Revenue (IR) and the Ministry of Social Development (MSD) to support the Budget 2025 initiative to improve the accuracy and integrity of benefit payments¹, known as Income Charging Phase 2. It also seeks agreement to release the consultation document containing the proposed amendments to the AISA for public consultation.

Relation to government priorities

- 2 This proposal supports the Government's priorities to deliver savings through a more efficient public service, and to deliver more effective and responsive public services to all who need and use them.
- 3 The changes proposed are necessary to enable the Budget 2025 initiative, Income Charging Phase 2, which will realise \$381m in savings annually from 2028/2029, and reduce the burden on MSD clients to declare their salary and wage income by leveraging information shared with MSD by IR.

Executive Summary

- 4 Cabinet agreed through Budget 2025 to use PAYE salary and wage information shared by IR with MSD to improve how MSD charges income (CAB-25-MIN-0126.61 refers).
- 5 To make these changes effective, MSD needs to use salary and wage income information as soon as IR shares it with MSD. MSD is currently required to give clients 10 working days' notice (the notice period) to clients before that information can be used to calculate their rate of benefit payment.
- 6 If the notice period is not removed by July 2028, the delay from the notice period will cause debt to be created every time a client's income is charged against their benefit using IR information.

¹ "Benefit payments" refers to all income-tested financial assistance administered by MSD under the Social Security Act 2018. This includes main benefits (such as Jobseeker Support), supplementary benefits (such as the Accommodation Supplement), and hardship assistance (such as advances of benefit).

- 7 To prevent this, we propose to remove the notice period via an AISA amendment for charging PAYE income in relation to benefits effective from October 2026. This will avoid debt being established, and enable debt reduction in current integrity processes.
- 8 We are also proposing two other AISA amendments to remove the notice period for:
 - 8.1 child support income in relation to subsidies from October 2026
 - 8.2 charging PAYE income in relation to subsidies from July 2028.
- 9 We are required to consult with the Privacy Commissioner and undertake public consultation to make changes to the AISA. We propose to undertake public consultation over a six-week period from 20 April 2026 to 29 May 2026.
- 10 We are seeking agreement to release the consultation guidance and proposed AISA amendments to the public to undertake public consultation.

Background

- 11 Cabinet agreed through Budget 2025 (CAB-25-MIN-0126.61 refers) to changes to how MSD charges income, to be delivered in two phases. Phase 1, currently in effect, aims to improve benefit integrity by increasing the number of manual checks MSD staff carry out each year on salary and wage records shared by IR to MSD.
- 12 Phase 2 will be implemented from July 2028, and will allow MSD to use IR's salary and wage income information to more accurately charge salary and wages income against benefit payments, and charge salary and wage income forward from the week the client receives it.
- 13 Phase 2 is estimated to realise \$381m in savings annually from 2028/29 and will allow MSD to more accurately pay clients the right amount of benefit payments, while reducing the burden on clients to declare their salary and wage income to MSD.

Changes to the AISA are necessary to enable MSD to use salary and wage income information as soon as it is shared

- 14 Section 152 of the Privacy Act 2020 requires clients to be given 10 working days' notice (the notice period) when information shared under an AISA is used to take an action that may have adverse consequences for that client.
- 15 The notice period is intended to provide clients with an opportunity to challenge the accuracy of the information received before an adverse action (i.e. a change in benefit rate) is taken. Under section 153 of the Privacy Act, the notice period can be dispensed with if the AISA explicitly specifies that this notice period does not apply.
- 16 If the notice period is not removed by the time Phase 2 is implemented, clients would need to be given 10 working days' notice before shared income information could be charged as income against their benefit payments.
- 17 This would mean that whenever a client received salary and wage income that impacted their rate of benefit payment, MSD would calculate their rate of benefit

without using this income information; pay the client more assistance than they are entitled to receive; and establish a debt for the client once the notice period ended.

- 18 This recurring debt establishment would reduce the overall savings realised through Phase 2 changes because the debt would need to be recovered from clients, which could take time. Removing the notice period will prevent these adverse outcomes from occurring when the income charging changes are implemented.

Child Support Pass-on showed that MSD and IR can share and manage income information safely and effectively

- 19 The 2023 child support income changes (Child Support Pass-on, or CSPO) involved IR sharing child support income information with MSD to be charged against benefit payments. This change impacted the benefit payments of an estimated 50,800 sole parents. Phase 2 will require changes similar those that made CSPO effective.
- 20 CSPO showed that automating income charging based on an information share with IR is reliable, and it serves as a successful precedent to follow. Both MSD and IR now have experience with implementing similar initiatives and can deliver change across a wider cohort as is intended here.
- 21 However, where CSPO differs from the proposed income charging changes is that the source of income information is from employers, rather than IR's own data. IR requires this income information from employers for tax purposes, within two working days of each payday if filing electronically. There will be cases when employers file late or the income information will not be shared in time for MSD to charge that income before it pays a client their assistance.
- 22 Reducing the time that clients can request a review before that income information impacts their assistance could increase the chance of clients being impacted by an incorrect decision, even if that decision is later reversed. Therefore, MSD will develop safeguards to address circumstances when MSD receives information too late to adjust a client's benefit before it is paid out to them, needs further information on the payment or needs to make a correction to information received.

The design of income charging changes will mitigate privacy risks

- 23 Removing the notice period is an enabler for core income charging changes proposed under Phase 2. These changes will be substantial and involve changes to legislation, system, policy and business processes, and be progressed separately to the AISA amendment. The design of those core changes will need to reflect safe use of shared information, which accounts for and addresses privacy risk.
- 24 A Privacy Impact Assessment Report and supplementary documents have been developed by officials which assess the privacy risks associated our proposals. These documents will be provided to the Privacy Commissioner to support consultation on the proposed amendments.

We propose the notice period is removed for subsidies to enable decisions on future income charging changes by the relevant Ministers

- 25 Income Charging Phase 2 only proposes legislative changes to enable automated income charging for benefits² as defined in the AISA. Automated income charging rules will not apply to assistance defined as a subsidy³ under the AISA, such as the Student Allowance and Income-Related Rent.
- 26 However, we propose the notice period for subsidies be removed now to ‘future-proof’, if in the future the relevant Ministers decide to extend automated income charging rules and processes to include subsidies.
- 27 We also propose amending the AISA to make housing subsidies more responsive to changes in child support income.
- 28 For Child Support Pass-on, the notice period in relation to child support income was removed for benefits but not subsidies. This is because officials did not consult on removing the notice period for subsidies as part of the AISA changes progressed for Child Support Pass-on. This was an unintended omission and intended to apply to the Income-Related Rent subsidy and Social Housing (eligibility for public housing and the Public Housing Register priority rating).
- 29 This has meant that staff must wait 10 working days before they can apply any changes to the amount of Income-Related Rent payable by a client, which causes negative outcomes for clients and the administration of those subsidies. For example:
- 29.1 staff need to review clients twice; once to assess their child support income and issue the notice period and a second time to recalculate the subsidy, after 10 working days have elapsed;
- 29.2 when a client’s child support income decreases, they may be entitled to more Income-Related Rent, however they must wait 10 working days for the change to have effect, which may cause financial hardship.
- 30 We recommend removing the notice period for Social Housing subsidies to allow the Income-Related Rent subsidy to be more responsive to changes in child support income.
- 31 Removing the notice period for child support income will address the known issue described above with Income-Related Rent and will only affect housing subsidies. This is because while the proposed amendments to the AISA will remove the notice period for all subsidies for the purpose of charging child support income, the operational agreements which sit under the AISA will specify that the notice period will only be removed for housing subsidies.

² The AISA definition of *benefits* includes main benefits (e.g. Jobseeker Support), supplementary assistance (e.g. Accommodation Supplement), and hardship assistance (e.g. Special Needs Grants etc.).

³ The AISA defines *subsidies* as: Working for Families Tax Credits, Community Services Cards, Student Loans, Student Allowances, Child Support, Income-Related Rent and Social Housing under the relevant legislation referenced.

- 32 Removing the notice period will not mean that child support income is automatically charged against clients' Income-Related Rent. This is because the Income-Related Rent review process requires manual processing by staff.

We propose some AISA amendments come into effect in October 2026 to support Income Charging Phase 1 and to make subsidies more responsive to child support income

- 33 While the changes to income charging under Phase 2 are due to be implemented in July 2028, we are proposing to remove the notice period from the AISA earlier, effective from October 2026, in order to support Phase 1 of the Budget 2025 initiative for income charging.
- 34 Phase 1 came into effect from July 2025. This has allowed MSD to use the current information share with IR more effectively, by increasing the number of checks on payments made by employers to MSD's clients. It is a time-limited initiative which is due to end as Phase 2 comes into effect in July 2028.
- 35 For Phase 1, staff must wait until the notice period has passed before charging salary and wage income against benefits. Bringing forward the effect of the proposed AISA amendments would allow staff to apply income information from IR to clients' benefit entitlements as soon as possible after that information is shared with MSD. This will reduce the amount of debt established.
- 36 There is a risk that income information shared with MSD by IR is inaccurate. This is mitigated by current integrity processes that are manually performed by staff. While staff operate on the assumption that income information from IR is more accurate than income reported by clients, robust matching of information ensures that the incidence of error is minimal. Staff also are required to contact clients to advise of any changes to their entitlement, and invite the client to challenge staff decisions.
- 37 Bringing forward the amendment for child support income will make housing subsidies more responsive to changes in child support. The current AISA allows for child support income to be charged against subsidies, but due to the notice period it is not timely and therefore can cause client hardship until resolved.

The Privacy Act 2020 requires consultation on the proposed AISA amendments

- 38 Substantive amendments to an AISA, like those proposed in this paper, require consultation with the Privacy Commissioner, and people or organisations that represent the interests of people whose personal information will be shared under the change.
- 39 The Privacy Commissioner has already been engaged on the proposed changes and a statement of their initial view is provided in paragraph 63.1.
- 40 In order to fulfil the requirement to consult relevant people or organisations, we propose undertaking public consultation for six weeks from 20 April to 29 May 2026.

- 41 Consultation will be supported by the appended document, which contains the proposed AISA amendments, information on the AISA and associated impacts. It also describes the information that will be matched, what the information will be used for, and safeguards.

Consultation approach

- 42 In order to obtain feedback from the general public, we will have two consultation channels. Written submissions can be emailed or posted to MSD and targeted engagement sessions will be held with a limited number of key stakeholders.
- 43 Full details of the consultation, instructions on making a submission, and the consultation guidance document will be made available on MSD and IR's external websites and linked via the "Have Your Say" government consultation pages.
- 44 Following consultation, all input received through the consultation channels will be analysed thematically and an engagement summary produced. This summary will be provided to all stakeholders who participated in the consultation and published on MSD and IR's external websites.

We propose authority be delegated to make minor and technical changes to the proposed AISA amendments and issue drafting instructions

- 45 We propose that Cabinet delegate authority to the Minister for Social Development and Employment and the Minister of Revenue to make minor or technical changes to the proposed AISA amendments as a result of submissions received from public consultation, and to issue drafting instructions to the Parliamentary Counsel Office. We also seek Cabinet's authority to release the summary of submissions to the consulted parties to encourage good stakeholder relationships.
- 46 We additionally propose that Cabinet delegate authority to the Minister for Social Development and Employment and the Minister of Revenue to agree to the final policy change, subsequent to any amendments made as a result of public consultation. We consider this appropriate to do because:
- 46.1 Cabinet has already agreed to the core income charging policy changes through Budget 2025 decisions and acknowledged the need to amend the AISA to enable MSD to effectively implement those changes.
- 46.2 The proposed changes are limited in scope and technical in nature.
- 46.3 The Minister for Social Development and Employment and the Minister of Revenue have a statutory responsibility to have regard to submissions on the change (including the views of the Privacy Commissioner), the appropriate use of shared information for the intended purpose, and the sufficiency of safeguards.

The draft AISA amendment proposes to use the term 'PAYE income payments' to qualify what types of salary and wage income are being included

- 47 The AISA will need to define what type of salary and wage income information the notice period would be removed from, and the AISA uses legal terminology defined in the Income Tax Act 2007. The term in this Act that aligns with what will be shared for the Income Charging Phase 2 changes is “PAYE income payments”.
- 48 The Income Tax Act 2007 defines the term “salary and wages”, but this is narrower than what was agreed in the Budget 2025 decision to charge PAYE salary and wages income (CAB-25-MIN-0126.61 refers). The term “PAYE income payments” includes “salary and wages” in this Act as well as “extra pay” (e.g. redundancy payments) and “schedular payments” (e.g. income subject to Withholding Tax).

Following consultation, the AISA can be amended by Order in Council

- 49 A substantive amendment to the AISA must be approved by the Governor-General by Order in Council made on our recommendation. To achieve this, the following actions will be required:

Milestone/Activity	Timeframe
Release the draft AISA amendments and consultation guidance to support public consultation on the proposed changes to the AISA.	Starting from April 2026
Public consultation ends and submissions are taken into consideration by Ministers.	May 2026
Instruct PCO to draft an Order in Council.	July 2026
Cabinet Legislation Committee and Cabinet consider proposed AISA amendments and Order in Council and refer to the Executive Council for approval. Order in Council and AISA published in the <i>New Zealand Gazette</i> .	August 2026
AISA changes come into effect: - removing the notice period for charging salary and wages against benefits and - making subsidies more responsive to child support income.	October 2026
AISA change comes into effect: removing the notice period for charging PAYE income against subsidies, to enable decisions by relevant Ministers.	July 2028

Cost-of-living Implications

- 50 The core income charging changes may have cost-of-living impacts for clients who receive salary and wage income and receive benefit payments. However, the core changes will also mean that clients are more likely to receive their correct benefit entitlement.

- 51 The proposed AISA changes enable the core income charging changes to be more effective and timely, but do not directly have cost-of-living implications.

Financial Implications

- 52 There are minor costs involved in publicly consulting, and these can be met within existing baselines.
- 53 Note that if the proposed amendments do not receive support from Ministers, it would result in a substantial adverse impact on the achievement of expected savings from Phase 2 of income charging.

Legislative Implications

- 54 Should the proposal for the AISA amendment be agreed to, an Order in Council will be required.

Impact Analysis

Regulatory Impact Statement

- 55 The Ministry for Regulation's Regulatory Impact Analysis team has determined that the proposals to make changes to the AISA are not technically exempt from the requirement to provide a Regulatory Impact Statement.
- 56 However, they have allowed for one to not be provided on the grounds that it would substantively duplicate the Privacy Impact Assessment, and as long as partial analysis of the impacts of the proposal are included in the public consultation guidance.
- 57 As required by the Ministry for Regulation, the joint MSD and IR Quality Assurance panel has reviewed the discussion document and determined that it will lead to effective consultation and enable the development of future impact analysis.
- 58 A Regulatory Impact Statement will be completed to support the future primary and secondary legislative changes necessary to implement income charging in 2028.

Population Implications

- 59 Based on a comparison of IR salary and wage and MSD administrative data for main beneficiaries at 24 June 2024, approximately 103,000 (27 percent of main beneficiaries) earned salary and wage income at least once between 1 July 2023 and 30 June 2024. Of these beneficiaries, approximately:
- 59.1 91,000 (89 percent) received income that impacted their rate of benefit;
- 59.2 40,000 (38 percent) were Māori, 3,000 (12 percent) were Pasifika, 63,000 (61 percent) were women, and 52,000 (51 percent) were people who received benefit payments related to a health condition or disability.
- 60 The Ministry for Ethnic Communities, the Ministry for Women, the Ombudsman, the Ministry of Youth Development and Te Puni Kōkiri were interested in the impacts of

this proposal and the wider income charging work on ethnic communities (e.g. Māori), women, youth and disabled persons, as well as unhoused and transient people.

- 61 We note that an evaluation on distributional impacts will be done through the core work towards Phase 2 of income charging.

Human Rights

- 62 There are no human rights implications from this paper.

Consultation

- 63 The Department of Prime Minister and Cabinet, the Treasury, Crown Law Office, Ministry for Regulation, Ministry for Pacific Peoples, Ministry for Women, Te Puni Kōkiri, Ministry of Justice, Te Tari Whakatau - Office of Treaty Settlements and Takutai Moana, the Office of the Privacy Commissioner, Ministry for Business Innovation and Employment, Ministry of Housing and Urban Development, Whaikaha - Ministry of Disabled People, Ministry for Ethnic Communities, the Office for Seniors, the Youth Service, Ministry of Youth Development, the Ombudsman, Oranga Tamariki—Ministry for Children and the Parliamentary Counsel Office have been consulted on this paper.
- 64 The Office of the Privacy Commissioner (OPC) has provided feedback on the draft AISA amendments, consultation guidance document and PIA. They have also provided the following statement:
- 64.1 OPC supports the proposal to consult on the proposed amendments to the IR-MSD AISA, to inform Cabinet’s final decision about whether and how to amend the AISA. OPC emphasises the importance of implementing appropriate safeguards if the AISA is amended. The Privacy Commissioner will provide his view on the proposals once he has had an opportunity to consider the outcomes of the public consultation.
- 65 MSD will also be providing a more detailed privacy assessment to OPC as a part of the statutory requirement to consult with OPC on changes to the AISA.

Communications

- 66 Subject to Cabinet approval, the consultation guidance document will be formatted for publication and publicly released via the MSD and IR websites and linked via the government consultation “Have Your Say” pages at <https://www.govt.nz/browse/engaging-with-government/consultations-have-your-say/>

Proactive Release

- 67 We propose that this Cabinet paper is released following the conclusion of consultation on the proposed AISA amendments.

Recommendations

The Minister for Social Development and Employment and the Minister of Revenue recommend that the Committee:

IN C O N F I D E N C E

- 1 note that Cabinet agreed through Budget 2025 (CAB-25-MIN-0126.61 refers) to improve the accuracy and integrity of benefit payments in two phases, with Phase 1 having taken effect from July 2025 and Phase 2 to be implemented from July 2028;
- 2 note the Privacy Act 2020 requires 10 working days' notice (the notice period) be provided to allow clients to dispute the correctness of their personal information shared under the Approved Information Sharing Agreement between MSD and IR (the AISA), and that under s 153 of the Privacy Act, the notice period can be dispensed with if the AISA explicitly specifies that this notice period does not apply;
- 3 agree in principle to amend the AISA to remove the notice period to allow MSD to charge PAYE income against benefits from October 2026 and subsidies from July 2028, in order to realise the full savings and benefits from Phase 2;
- 4 agree in principle to amend the AISA to remove the notice period for public housing and the Public Housing Register and charging child support income against Income-Related Rent from October 2026;
- 5 note any proposed changes to the AISA require MSD and IR to undertake public consultation;
- 6 agree to release the consultation guidance document containing the proposed amendments to the AISA for public consultation, which will run from 20 April 2026 to 29 May 2026;
- 7 authorise the Minister for Social Development and Employment and the Minister of Revenue to make minor and technical changes to the consultation guidance document and proposed AISA amendments prior to its public release;
- 8 authorise the Minister for Social Development and Employment and the Minister of Revenue to provide a summary of consultation feedback for release to the public following public consultation;
- 9 authorise the Minister for Social Development and Employment and the Minister of Revenue to agree to the policy change and to make minor and technical changes to the proposed AISA amendments following public consultation;
- 10 invite the Minister for Social Development and Employment and the Minister of Revenue to issue drafting instructions to the Parliamentary Counsel Office for an Order in Council to amend the AISA.

Authorised for lodgement

Hon Louise Upston

Minister for Social Development and
Employment

Hon Simon Watts

Minister of Revenue

Appendices

- 11 Appendix 1: Consultation Guidance: Enabling MSD to use PAYE income information as soon as Inland Revenue shares this with MSD