16 May 2025

Inland Revenue Policy Team
55 Featherston Street
PO Box 2198
Wellington 6140

By email to: hannah.simmonds@ird.govt.nz and Peter.Frawley@ird.govt.nz

Dear Hannah and Peter,

Submission to the Inland Revenue on *Taxation of amounts paid to households selling excess electricity – consultation on potential changes*

Electricity Networks Aotearoa (ENA) appreciates the opportunity to make a submission to the Inland Revenue (IRD) on the consultation paper *on Taxation of amounts paid to households selling excess electricity (consultation*).

ENA is the industry membership body that represents the 29 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses (our members are listed in Appendix A).

EDBs employ over 7,800 people, deliver energy to more than two million homes and businesses, and have spent or invested $6.2 billion in network assets over the last five years. ENA harnesses members' collective expertise to promote safe, reliable, and affordable power for our members' customers.

Introduction

We note that your consultation seems focused on whether the costs of compliance will outweigh the potential revenue. For most households, arguably yes, the compliance costs would probably outweigh the potential tax revenue. However, we do not feel that we are best placed to respond to your specific questions on this.

Moreover, our members are unlikely to be directly involved in the transaction triggering the potentially taxable income for households. Payments are likely to be made by the households' retailer rather than the distributer.

Instead, we would like to highlight some broader concerns which we believe should be within the scope of your consideration of this matter.

Scope of proposal whilst flexibility markets are evolving

Flexibility markets, including solar exports, are evolving. We recommend that any tax legislation is written in a way to acknowledge this evolution and that it is reviewed annually to ensure it remains appropriate, both in terms of its scope as well as the rates and levels of exemptions applied.

We think the IRD should consider widening the scope of the review beyond 'selling excess electricity'. In the not-too-distant future, households will be playing a much greater and participatory role in energy markets.[1] They will be financially compensated for offering flexibility services (e.g. generation, storage, and demand response etc) to the energy system resulting in lower overall system costs for all consumers.

For the purposes of the IRD's exemption review, households 'selling excess electricity' and 'selling flexibility services' are analogous and should be captured by the same exemption or other tax treatment.

With this in mind, your suggestion of a $1,000 exemption may be influenced by changing policy from the Electricity Authority (Authority). Currently, the Authority are working through their decisions after a consultation process on increasing solar export 'rebates'.[2] We understand from the appendix to their 2a proposals that the likely per customer annual rebate from distribution is only expected to be around $12. We are less clear on the likely impact from retail rebates, which are likely to be larger given the exposure to the wholesale electricity market. If all flexibility services are brought into scope, $1,000 may be too low.

Policy intent and equity

We encourage the IRD to consider the policy intent behind the proposed amendments. Is the government trying to encourage solar uptake by way of tax breaks?

The IRD may also wish to consider any perceived equity implications from the proposed changes. Why is electricity income being individually targeted by the proposed amendments?

Whilst we do not claim to be tax experts, it is our understanding that there are no 'de minimis' rules in general income tax rules but rather a criteria of 'intent'. The income becomes taxable if there is an intent to make profit, regardless, it seems, of the scale of the income. Arguably, those seeking to export their excess solar are seeking to make a profit from the activity. If you apply a de minimis to this type of income, why not other types of income, such as sales at farmers markets or 'odd-jobbing'?

If electricity sales are being treated differently from other types of similar income, it may be perceived that these are indirect 'tax breaks for the rich'. For example, in order to have excess solar to export at peak times (when payment is generally offered), a household would most likely need to have a solar and battery system. Such investments are not cheap (we estimate a range of $22,000 to $37,000) and are generally therefore only made by those in higher income brackets.

However, it is also important to highlight that any additional tax compliance burden will likely materially dissuade households from installing solar, batteries, and offering their flexible load as demand response and could be a barrier to enabling the uptake of solar and to the government's policy position of enabling electrification, for what you've already identified may deliver no significant tax revenue. This would be a very detrimental outcome for households, the wider electricity system, and New Zealand's Net Zero climate ambitions.

Whilst that may all sound a little contradictory, what we are essentially suggesting is that policy and equity decisions are made with deliberate thought, rather than through unintended consequences.

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[1] A recently published paper by the Electricity Authority outlines this evolution: Working_together_to_ensure_our_electricity_system_meets_the_future_needs_of_al_rI7Krot.pdf

[2] Energy Competition Task Force, New ways to empower electricity consumers | Our consultations | Our projects | Electricity Authority, February 2025

Beneficiaries and form of income

Another factor we think the IRD should consider is the situation where social housing suppliers such as Kāinga Ora have installed distributed generation across a housing complex. In this case, the investment has been made by the Government, but the tenants are the bill paying consumers and so are most likely to receive the benefit of the excess generation. On one hand this helps offset any equity considerations, but on the other the tenants are unlikely to be in a position to manage an additional tax obligation – particularly as any generation benefit will most likely manifest as a reduction in the power bill rather than cash in hand.

Which leads us to our final observation. As identified in section 3.2.1 of our submission on the solar rebate proposals to the Authority,[3] the way the rules by regulatory bodies are framed could impact on the tax treatment. 'Rebates' or 'negative tariffs' may have different income tax and GST implications for the parties involved.

We encouraged the Authority to seek tax and accounting advice in relation to their Task Force proposals. We reiterate that suggestion now and request that the IRD work closely with the Authority to ensure that the final decisions from both bodies have appropriately considered the full spectrum of tax impacts for retailers, distributers and customers.

If you have any questions about ENA's submission please contact Gemma Pascall, Regulatory Manager (gemma@electricity.org.nz).

Yours sincerely

Gemma Pascall

Regulatory Manager

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[3] ENA, ENA submission on ECTF initiatives 2a, 2b and 2c and Authority DGPP issues paper, 26 March 2025, section 3.2.1, pages 18-10

Appendix A: ENA Members

Electricity Networks Aotearoa makes this submission along with the support of its members, listed below:

- Alpine Energy
- Aurora Energy
- Buller Electricity
- Centralines
- Counties Energy
- Electra
- EA Networks
- Firstlight Network
- Horizon Networks
- Mainpower
- Marlborough Lines
- Nelson Electricity
- Network Tasman
- Network Waitaki
- Northpower
- Orion New Zealand
- Powerco
- PowerNet (which manages The Power Company, Electricity Invercargill, OtagoNet and Lakeland Network)
- Scanpower
- Top Energy
- The Lines Company
- Unison Networks
- Vector
- Waipa Networks
- WEL Networks
- Wellington Electricity
- Westpower