



New Zealand Tax Guide 2014

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2014 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2014, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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MEMBER FIRM

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BASIC FACTS

Full name:	New Zealand
Capital:	Wellington
Main language:	English
Population:	4.54 million (2014 estimate)
Major religion:	Christianity
Monetary unit:	New Zealand Dollar (NZD)
Internet domain:	.nz
Int. dialling code:	+64

KEY TAX POINTS

- Income tax is payable by New Zealand resident companies on income derived from all sources. Non-resident companies pay tax on income sourced in New Zealand.
- There is no comprehensive capital gains tax. However, where a capital asset is bought for the clear purposes of resale, any profits or gains are regarded as ordinary income.
- A value added tax called goods and services tax (GST) is levied on the supply of goods and services in New Zealand.
- There is a controlled foreign company regime and there are transfer pricing and thin capitalisation rules.
- Credits are available for the lesser of foreign tax paid or New Zealand tax payable on foreign income.
- Where there is at least 66% common ownership, revenue losses can be transferred between companies. Where there is 100% common ownership, dividends between companies can be exempt, consolidated returns can be lodged and revenue and capital items can be transferred.
- A qualifying company regime exists whereby small closely held companies may pass losses directly to shareholders.
- Withholding tax must be deducted from dividends to the extent that they are not imputed. Withholding tax is also deducted from interest. Dividends, interest and royalties paid to non-residents are subject to non-resident withholding tax (NRWT).
- Income tax is payable by resident individuals on their worldwide income. Non-resident individuals pay tax on New Zealand sourced income only.

A. TAXES PAYABLE

COMPANY TAX

Income tax is payable by New Zealand resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in New Zealand.

Resident companies are companies that are incorporated in New Zealand, or have their head office or centre of management in New Zealand, or control of the company is exercised by directors in New Zealand.

The tax year usually runs from 1 April to 31 March, although different balance dates are available in certain circumstances. Tax is payable in three instalments (referred to as 'provisional tax') if a company's residual income tax (total tax less available credits) exceeds NZD 2,500 per annum.

Provisional tax is payable in three instalments on 28 August, 15 January and 7 May for 31 March balance dates. For taxpayers with a non-standard balance date, provisional tax is generally payable on the 28th day of the 5th, 9th and 13th months of the income year following the month of the balance date. Exceptions to this arise for those on July balance dates, due to public holidays and where the taxpayer has commenced business during the income year. Income tax returns must be filed with the Inland Revenue Department within four months of the balance date or by 31 March of the following year where the company is enrolled with a tax practitioner that has an extension of time arrangement.

The tax rate for companies for the 2012 income year onwards is 28%.

PARTNERSHIPS

General partnerships are not separate legal entities. This means that they have no existence separate from the individual partners that comprise them. Individual. Limited partnership structures were introduced in 2008. Limited partnerships have both separate legal status and flow through tax treatment.

TRUSTS

Taxation of trusts is based on the tax residence of the settler. In general terms, distributions to beneficiaries of resident trusts are taxed at beneficiaries' marginal tax rates, provided that distributions are made in the income year or within a defined period after the end of the income year. In contrast, distributions made to beneficiaries of foreign trusts are classified as 'taxable distributions', which will be taxed at beneficiaries' marginal tax rates regardless of the distribution date. Trustee income is taxed at the flat rate of 33%. The trust regime does not apply to unit trusts. Unit trusts are deemed to be companies and are taxed accordingly.

CAPITAL GAINS TAX

There is no comprehensive capital gains tax in New Zealand. However, where a capital asset is bought for the clear purpose of resale, any profits or gains will be regarded as ordinary income.

BRANCH PROFITS TAX

There is no branch profits tax in New Zealand. New Zealand branches of foreign companies are taxed on New Zealand-sourced income only at the corporate tax rate.

SALES TAX / VALUE ADDED TAX

There is no sales tax in New Zealand, although there are levies on sales of certain products such as alcohol, tobacco and fuel. A value added tax called goods and services tax (GST) is levied at 15% on the supply of goods and services in New Zealand. There are various exceptions including exported goods and services which are charged at 0%. Most land and buildings transactions are also zero rated as are the sale of businesses as a going concern.

FRINGE BENEFITS TAX (FBT)

FBT is payable by employers on benefits provided to employees. The rate is up to 49.25% of the taxable value of the benefit provided.

The FBT year runs from 1 April to 31 March. FBT is payable and returns must generally be filed by the 20th day of the month following the quarters ending 30 June, 30 September, 31 December and 31 March.

KIWI SAVER

KiwiSaver is a workplace savings scheme designed to help New Zealanders save for their retirement. It is primarily aimed at employees but all New Zealand residents under the age of 65 may join a KiwiSaver scheme. All eligible employees starting a new job are automatically enrolled in a KiwiSaver scheme and must opt out if they do not want to be part of the scheme.

Employees contribute either 2%, 4% or 8% of their gross earnings. From 1 April 2013, employers are required to contribute to their employee's KiwiSaver account at the minimum of 3% of the employee's gross salary or wage.

OTHER TAXES

The gift duty regime was abolished with effect from 1 October 2011. Prior to this, gift duty applied at graduated rates to transfers of property for less than market value, unless a specific gift duty exemption applied. Other taxes include Customs and Excise Duty.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined by ascertaining gross income less all allowable deductions.

Generally, to be deductible, expenses and losses must relate directly to the derivation of gross income. Certain expenditure is specifically non-deductible and special rules apply in respect of the categories listed below.

DEPRECIATION

Depreciation rates are set by the Inland Revenue. Application can be made for a special rate.

Straight-line or diminishing-value depreciation methods can be used for each particular asset. Assets acquired on or after 19 May 2005 and which cost less than NZD 500 can be expensed immediately. From the 2012 income year no depreciation allowance is available for buildings with a useful life of more than 50 years.

RESEARCH AND DEVELOPMENT (R&D) TAX DEDUCTIONS

Taxpayers are allowed to allocate certain R&D tax deductions to tax years arising after the year in which the related expenditure is incurred. This means that deductions will not be lost if there is a shareholding change between when the expenditure is incurred and when the deduction is recognised by the taxpayer.

STOCK / INVENTORY

Trading stock is generally valued in accordance with accounting principles. Livestock is valued under specified schemes.

CAPITAL GAINS AND LOSSES

Capital gains and losses on disposal of assets are neither assessable nor deductible. The disposal of depreciable assets will involve tax adjustments where there is a loss on sale or depreciation recovered.

DIVIDENDS

Generally, dividends received by resident companies from other resident companies are taxable. Resident Withholding Tax (RWT) is deducted and payable at 33%, reduced by any imputation credits attached. Dividends can be imputed by attaching credits arising from tax paid by the company. The maximum rate at which imputation credits can be attached to dividends will be 30% of the gross dividend (cash dividend plus imputation credits) until 31 March 2013 provided the credits arose when the company tax was 30% or 33%.

In respect of income earned from the 2012 income year, the maximum imputation rate is 28%.

A credit for overseas tax paid by a company is limited to the NZ tax payable (28% from the 2012 year). Foreign dividends received by NZ companies are wholly exempt.

Tax on dividends received from entities with Portfolio Investor Entity (PIE) status are capped at 28% and are exempt income to the recipient if tax has been deducted at the correct rate.

INTEREST DEDUCTIONS

No interest deduction is allowed unless it is payable in deriving gross income or necessarily payable in carrying on a business for the purpose of deriving gross income. Companies (except in limited circumstances) are entitled to automatic interest deductions.

Thin capitalisation rules limit the interest deduction available to New Zealand entities controlled by a single non-resident. A deduction will be denied where (1) the New Zealand entity's debt/assets ratio exceeds the safe harbour percentage of 60% and (2) New Zealand group debt percentage exceeds 110% of the worldwide group debt percentage. Where these thresholds are breached, the interest

deduction is limited to that which would have been available had total debt funding not exceeded 60%. Interest allocation rules have been extended to NZ residents investing in controlled foreign companies (refer to 'controlled foreign companies' below).

LOSSES

Broadly, a company can carry forward net losses indefinitely provided a continuity of ownership (49% of minimum voting, dividend and capital rights) is maintained from the beginning of the year of the net loss, to the end of the year of carry forward.

INVESTMENT ALLOWANCES

There are no investment allowances in New Zealand.

CONTROLLED FOREIGN COMPANIES

New Zealand operates a controlled foreign companies' (CFC) regime to ensure that foreign-sourced income is included in the New Zealand resident's tax return.

CFCs with less than 5% attributable income (e.g. passive income such as rent, royalties, dividends and interest) or CFCs that are Australian resident and subject to Australian tax are not required to calculate CFC attributed income.

A foreign company will be regarded as a CFC where five or fewer New Zealand residents hold at least a 50% interest or have 'de facto' control.

FOREIGN INVESTMENT FUNDS

The Foreign Investment Fund regime complements the CFC regime and seeks to tax New Zealand residents on an accrual basis where the resident holds a non-controlling interest in a foreign entity.

C. FOREIGN TAX RELIEF

Credits are available for the lesser of the foreign tax paid or the New Zealand tax payable on the foreign income.

D. CORPORATE GROUPS

Where there is 66% (or greater) common ownership, tax losses can be transferred by New Zealand resident companies by way of subvention payments (where a profitable company makes a payment to a loss company up to the amount of that loss) or direct offset. Dividends between companies with 100% common ownership (a wholly owned group) are exempt.

Where there is 100% common ownership, consolidated tax returns can be lodged, and revenue and capital items transferred within the group.

QUALIFYING COMPANY

Under the qualifying company regime, small closely held companies (five or fewer shareholders) which meet certain criteria may pass losses directly to shareholders. Capital dividends may also be paid effectively tax-free.

LOOK-THROUGH COMPANY

A new look-through company regime was introduced from 1 April 2011. A look-through company has separate legal personality for corporate law purposes but shareholders are taxed on the underlying profit and loss based on their proportionate share of interests held.

E. RELATED PARTY TRANSACTIONS

New Zealand has comprehensive transfer pricing and thin capitalisation rules to counter arrangements that seek to reduce the taxable income of New Zealand entities by shifting profits to related entities not resident in New Zealand.

F. WITHHOLDING TAXES

A 33% withholding tax must be deducted from dividends with a credit for imputation credits attached (refer to 'Dividends' above.) Withholding tax is also deducted from interest with limited exemptions.

Dividend, interest and royalty payments made to non-residents are subject to non-resident withholding tax (NRWT). The NRWT rate depends on whether the non-resident is a taxpayer of a country which has a double tax agreement with New Zealand. (Please refer to Section I below).

NRWT (Non-Resident Withholding Tax) payable on a fully imputed dividend paid to a non-resident is 0% if the non-resident has a 10% or more direct voting interest in the paying company; or the non-resident has less than a 10% direct voting interest in the company but the post-treaty tax rate for the dividend is less than 15%.

Non-resident shareholders with less than 10% direct voting interests in the paying company are able to receive a supplementary dividend and foreign investor tax credit with imputed dividends. The foreign investor tax credit offsets the 15% non-resident withholding tax deducted.

Withholding tax is also deductible from payments made to non-resident contractors, with exemptions available in certain circumstances.

Where interest is paid to non-associated parties, a 2% levy can apply on election instead of NRWT.

G. EXCHANGE CONTROL

There are no exchange controls in New Zealand. While foreign investment into New Zealand is encouraged, sensitive assets are protected by the Overseas Investment Act 2005. Consent must be obtained from the Overseas Investments Office for the acquisition of significant business assets (exceeding NZD 100 million), sensitive land (non-urban land of more than five hectares, offshore islands, land adjacent to lakes and the foreshore, or land of conservational or historical significance) and fishing quotas.

H. PERSONAL TAX

Income tax is payable by New Zealand residents on their worldwide income. Non-resident individuals pay tax on New Zealand-sourced income only.

An individual is resident in New Zealand if personally present for more than 183 days in any 12-

month period or if the individual has a 'permanent place of abode' in New Zealand. Individuals arriving to live in New Zealand may qualify for a temporary tax exemption on foreign income as a transitional resident. All foreign-sourced income will be exempt, except for employment income connected with employment performed while resident in New Zealand and income from services. The exemption applies to the first 48 months (four years) following arrival in New Zealand. To qualify, an individual cannot have been tax-resident in New Zealand during the previous ten years.

Income tax is payable on gross income less allowable deductions. Gross income includes employment income, business income, rents, interest and dividends.

Employment income (salary/wages) has tax payments (PAYE) deducted from each salary/wage payment.

Self-employed individuals and those receiving income with no tax deducted at source pay provisional tax in three instalments based on their previous year's taxable income, with a final payment within 11 months after balance date (or 13 months after balance date where the taxpayer is enrolled with a tax practitioner).

The income tax rates for individuals are as follows:

Taxable Income (NZD)	Rate of Tax
0 - 14,000	10.5%
14,001 - 48,000	17.5%
48,001 - 70,000	30%
70,001 and over	33%

ACCIDENT COMPENSATION (ACC) LEVIES

All employees must pay an ACC earner's levy to cover the cost of non-work related injuries. Earner's levy is charged at a flat rate which may vary for each year. For the 2014 income year, the rate of ACC earner's levy is NZD 1.70 per NZD 100 of earnings for earnings up to NZD 116,089. For employees, the levies are collected by the employer and paid to the Inland Revenue Department as part of the PAYE payments.

Employers are liable to pay a residual claims levy. Self-employed persons pay a self-employed work levy and the earner levy. The residual claims levy rate is determined by the type of activity carried on by the self-employed person.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest ¹ (%)	Copyright / Royalties / Know-How payments ² (%)
Non-resident corporations and individuals:			
Non-treaty countries:			
General	30 final	15 final	15 final

	Dividends (%)	Interest ¹ (%)	Copyright / Royalties / Know-How payments ² (%)
Fully imputed	15 final ³	-	-
Fully imputed non-cash	Nil final	-	-
Treaty countries:			
Australia ⁴	0/5 ⁴	10 ⁴	5
Austria	15	10	10
Belgium	15	10	10
Canada ¹³	5/15	10	5/10
Chile	15	10/15 ⁵	5
China	15	10	10
Czech Republic	15	10	10
Denmark	15	10	10
Fiji	15	10	15
Finland	15	10	10
France	15	10	10
Germany	15	10	10
Hong Kong ⁶	0/5/15 ⁷	10	5
India	15	10	10
Indonesia	15	10	15
Ireland	15	10	10
Italy	15	10	10
Japan ¹³	15	10	5
Korea	15	10	10
Malaysia	15	15	15
Mexico	0/5	10	10
Netherlands	15	10	10
Norway	15	10	10
Philippines	15	10	15
Papua New Guinea ¹³	15	10	10
Poland	15	10	10
Russia	15	10	10
Singapore ⁹	5/15 ⁷	10	5
South Africa	5/15 ¹⁰	10	10
Spain	15	10	10

	Dividends (%)	Interest ¹ (%)	Copyright / Royalties / Know-How payments ² (%)
Sweden	15	10	10
Switzerland	15	10	10
Taiwan	15	10	10
Thailand	15	10/15 ⁷	10/15 ⁷
Turkey ¹¹	5/15 ⁷	10/15 ⁷	10
United Arab Emirates	15	10	10
United Kingdom	15	10	10
United States ¹²	0/5/15 ⁷	10	5

NOTES:

- 1 Final tax in most cases unless parties are related.
- 2 Royalty payments for know-how or to related parties may be subject to further tax by the contracting state.
- 3 Refer to para F above: NRWT will be 0% if non-resident holds 10% or more direct voting interest.
- 4 Withholding tax on dividends reduces to 5% if an investing company has at least 10% of the voting power in the paying company.

Withholding tax is 0% for interest paid to lending or financial businesses provided the 2% approved issuer levy is paid on NZ sourced interest.
- 5 Reduction to withholding rates introduced retrospectively from 1 May 2010.
- 6 New DTA with Hong Kong in force from 9 November 2011 with application for withholding taxes from 1 April 2012.
- 7 Refer to DTA for details of when lower rates apply.
- 8 There is no reduction under the treaty - the domestic rate applies.
- 9 New DTA with Singapore in force with application for withholding taxes from 1 October 2010.
- 10 Withholding tax on dividends reduces to 5% if the beneficial owner is a company holding at least 25% of the paying company's capital.
- 11 New DTA with Turkey in force 28 July 2011, application for withholding taxes from 1 January 2012.
- 12 New DTA with USA in force from 12 November 2010, with application for withholding taxes from 1 January 2011.
- 13 These DTAs are signed but not yet in force.



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