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### **New Zealand Tax on Foreign Investment Interest**

At recent seminars in Bangkok/Singapore, a number of questions were raised on the level of tax to be deducted from interest earned on funds deposited by non-residents in New Zealand financial institutions. Prima facie such interest is subject to non-resident withholding tax (NRWT). Where New Zealand has a double tax agreement with the country of residence of the person depositing funds in New Zealand, NRWT is deducted at the rate of 10%. At the seminars I detailed the option of a 2% tax. This option is referred to as an *approved issuer levy* (AIL). AIL is then deducted at the rate of 2%. There was discussion about the complexity of the forms needed to attract the 2% AIL rather than the 10% NRWT.

The *form filling* does not have to be completed by the person depositing funds into an interest bearing account. That is done by the borrower (e.g. a bank). Such borrowers qualify to deduct 2% where they are an "approved issuer". All a lender (the non-resident with the funds) has to do is to advise the borrower (e.g. bank) that they are not resident in New Zealand. They do need to provide their overseas residential address. There may be other forms that the borrower requires the lender to execute (e.g. to comply with money laundering rules). But the lender need not worry themselves about complexity of forms to ensure that they have 2% tax deducted from their interest rather than the statutory 10% NRWT.

A borrower is granted approved issuer status by NZ Inland Revenue. It is the borrower that registers. The lender does not need to register or complete the securities document that may be found on the website.

Unfortunately there is no provision to recover NRWT that may have been deducted when in fact the lender (depositor) has been non-resident. As a lender of funds into a New Zealand financial institution, you need to:

- i) Ask the borrower to confirm that they have *approved issuer status* for the purposes of AIL.
- ii) Advise the borrower (e.g. bank) of your overseas residential address.

- iii) Complete any other in-house forms required by the borrower for their internal purposes.

If the person depositing the money in a New Zealand financial institution is resident in a country that does not have a double tax agreement with New Zealand, NRWT is deducted at a rate of 15%.

**Disclaimer:**

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