NEW ZEALAND TAX UPDATE
[AS AT 1 JANUARY 2026]

1. New Zealand imposes income tax on a residency/source basis. It taxes residents on total worldwide income. It taxes non-residents on New Zealand sourced income only.

2. Under domestic legislation, an individual becomes New Zealand tax resident where:

    - they have been personally present in New Zealand for 183 days in ***any*** 365 days; or

    - they have established a *permanent place of abode* (**PPOA**) in New Zealand.

3. The meaning of PPOA has occupied both the Commissioner and the Courts for some time. The Commissioner of Inland Revenue (**CIR**) appealed a decision of the High Court, which in turn overruled decisions of the **CIR** and Taxation Revenue Authority that favoured the **CIR**. The Court of Appeal has confirmed the decision of the High Court. The ordinary meaning of "to have a permanent place of abode in New Zealand" is "to have a home or property in New Zealand in which there is an enduring connection". Owning (but not occupying) a residence does not meet the test of a **PPOA**.

4. New Zealand and Hong Kong entered into a Double Tax Agreement [**DTA**] which came into effect on 1 April 2012.

5. The provisions of a **DTA** overrule domestic legislation. It is possible that a person may be deemed a tax resident in New Zealand as well as Hong Kong based on respective domestic legislation. Here the **DTA** takes precedence. Reference should be made to *Article 4* of the **DTA** which is in effect a tie-breaker test; the effect of which only one country can succeed in attaching a tax residency tag on taxes dealt with under the **DTA**.

   Unlike New Zealand (which taxes on a global basis), Hong Kong imposes tax on a territorial basis. Thus income earned outside Hong Kong is not taxed in Hong Kong. If (unbeknown) one accelerates their New Zealand tax residency (e.g. under the physical presence test) ***all*** worldwide income then becomes taxable in New Zealand. Further, whilst Hong Kong has a progressive resident tax rate (similar to New Zealand), various income splitting, exemption and rebates available in Hong Kong make the average Hong Kong tax rate far less than the top marginal tax rate in New Zealand (39%). Thus some planning may be necessary.

6. There is a *forty-eight month* domestic income tax exemption in respect to foreign sourced income (other than employment or services income) available for overseas individuals who become tax resident. The exemption is not available if the person has been an NZ tax resident within the previous 10 years. This is referred to as the *transitional residency* exemption.

7. A company is resident if it is incorporated in New Zealand or its head office, centre of management or the place from which directors exercise control is situated in NZ.

8. The taxation of a trust is determined by the residence of *its* settlors.

9. Foreign sourced income derived by a NZ tax resident is subject to NZ tax at the taxpayer's marginal tax rate. Foreign tax paid is available as a credit up to the

equivalent NZ tax imposed. Non-resident withholding tax [**NRWT**] deducted from passive income (interest/dividends/royalties) is generally available in full as a credit. This is provided either by way of the **DTA** or domestic legislation. Imputation credits attached to foreign dividends are not available as a tax credit.

10. NZ adopts a comprehensive international tax regime under which NZ residents are subject to New Zealand tax [in respect to foreign investments] under either the *Foreign Investment Fund* [**FIF**] or *Controlled Foreign Corporation* [**CFC**] regimes. Under the CFC regime, foreign sourced income of a foreign company controlled by NZ shareholders is attributed back to the NZ resident shareholder. However, where a CFC generates active income (as opposed to passive income such as interest), that active income will not be reported for New Zealand taxation purposes; nor attributed to the NZ shareholders of the foreign company.

    Where a NZ resident has an interest in a FIF there is a requirement to calculate and return income attributable to that interest. Thus income can be taxed on an unrealised basis (see paragraph 11).

11. A person has FIF income if inter alia that person has rights in a foreign company, rights under a life insurance policy issued by a non-resident and such rights/entitlement are not otherwise exempted or fall within the CFC regime.

12. Pensions and annuity benefits are taxed as received. Certain lump sum withdrawals from foreign superannuation schemes no longer come under the FIF regime. First of all there is a four year window (non-taxable) which applies separately and alongside the transitional residency exemption. Outside of the four year window, the receipt of lump sum payments will be based on the length of residence of the person in NZ.

13. Dividends derived by a NZ resident individual from a foreign company (not subject to FIF rules) are subject to NZ income tax on the gross dividend. Credit is available for foreign tax paid up to the equivalent New Zealand tax. Reference needs to be made to any double tax agreement for any variation to the above. Insofar as NZ/HK is concerned, *Article 10* deals with dividends.

14. Where an investor owns less than 10% of a foreign company (referred as a *portfolio investment*), NZ has introduced a *fair dividend rate* [**FDR**] regime to tax deemed foreign dividends. The **FDR** has been set at 5% of the market value [**MV]** in a portfolio investment. Australian listed investments (in general) are excluded from the FDR regime. The FDR is deemed to be the return (including dividend) from the investment in the offshore shares on an annual basis.

Assume a taxpayer holds offshore shares with a market value [**MV**] of NZ$100k at 1 April 2024. During the year the taxpayer acquires another NZ$20k, which is held at 31 March 2025. During the year ended 31 March 2025, the taxpayer receives a dividend of NZ$3k. Shares have a MV of NZ$121k at 31 March 2025. Under **FDR** the taxpayer would be taxed on NZ$5k (5% of NZ$100k). However, if a non corporate taxpayer can show his actual return is less than NZ$5k, he would be taxed on that lesser amount. In the illustration, the taxpayer has received dividends of NZ$3k plus gain of NZ$1k to equal NZ$4k. As a result, tax would be imposed on NZ$4k in the 2025 income year. Corporate taxpayers do not have this option under the **FDR** method.

15. Unlike much of the Western world, NZ does not have a general capital gains tax [**CGT**].

However, with the intended objective of making more residential homes available to New Zealanders, a tax regime was introduced to apply an income tax to sales of New Zealand residential rental property [**RRP**]. Under the Labour Government, **RRP** acquired after 27 March 2021 attracted tax if sold within 10 years of acquisition (this is referred to as the *bright-line* test). When the current Coalition Government was elected in November 2023, that period was reduced from 10 years to 2 years. There are certain exemptions, the primary one being one's *main home*.

There was a short term denial of interest deductions against **RRP** rentals. Commencing from 1 April 2024, landlords can deduct 80% of their mortgage interest cost as an expense. From 1 April 2025 the deduction is fully restored [the exception is *new builds*, which have always been exempt from interest limitation rules].

16. Refer attached schedule for current tax rate for individuals, companies and trusts.

New Zealand does not have a wealth tax, stamp duty or death duties.

17. NZ resident companies and NZ subsidiaries of a foreign company are taxed on net income after allowable deductions.

18. Non-resident withholding tax [**NRWT**] is charged on dividends, interest and royalties remitted from NZ to non-residents. The rate is generally 15% (interest/royalties) and 30% (dividends). In respect to countries with which NZ has a double tax treaty, NRWT is reduced to 5% or 15% (dividends) and 10% (interest/royalties).

NRWT on dividends can be 0% (for over 10% shareholding) or 15% (for less than 10% shareholding) if dividends are fully imputed.

NRWT on interest can be substituted with a 2% approved issuer levy [**AIL**] which is payable by the borrower [the 2% itself is tax deductible]. This is not available where the parties (lender/borrower) are associated.

19. Investment in a *Portfolio Investment Entity* [**PIE**] allows returns to be taxed at a maximum 28%. Some investors will be taxed as low as 10.5%.

20. An investor, who is not resident in NZ, can receive income that has a zero rate of tax attracted. This incentive to attract foreign investment is known as a *notified foreign investor* [**NFI**]. An NFI can invest in a *Portfolio Investment Entity* [**PIE**] via

a zero-rate PIE.

21. ***Advice/Warning***

Migrants/returning expats do ***need*** to take professional advice prior to moving to NZ. There is increasing cooperation among tax authorities worldwide to ensure taxpayers meet their global tax obligations. New Zealand Inland Revenue are currently actively conducting reviews to ensure taxpayers have correctly recorded income from foreign investments. In a number of cases, migrants/returning expats have received entitlements (e.g. pension/lump sum payments/ dividends/interest), which are not subject to tax in the country of source, but which are liable for tax in New Zealand [unless exempted as a *transitional resident*].

22. **What if I do get it wrong?**

Where income has not been declared; or expenses wrongly claimed, NZ imposes a costly penalty regime. The resulting additional core tax is then subject to accumulating late payment penalty, accumulating use of money interest and, in some instances, shortfall penalties.

A rule of thumb method is that one can treble the amount of core tax to take into account the combination of penalties referred above. A voluntary declaration (in other words one gets to Inland Revenue before they get to you) will generally reduce the impact of shortfall penalties.

Disclaimer:

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Tax Rates
(Effective from 1 July 2024)

Company	Flat Rate	28.0%
Trustee		33.0%
Individuals	Income to $15,600 pa	10.5%
	$15,601 - $53,500	17.5%
	$53,501 - $78,100	30.0%
	$78,101 - $180,000	33.0%
	Over $180,000	39.0%