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New Zealand: Law and Practice & Trends and Developments

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NEW ZEALAND

Law and Practice

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Contents

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1. Corporate Structures, Residence and Tax Treatment

1.1 Corporate Forms and Their Tax Treatment

Companies are the most common legal vehicle for most business models in New Zealand. This is due to the simplicity of operation and governance, limited liability for shareholders and the local business community's familiarity with companies.

However, the choice of legal entity and funding structure is often based on a combination of commercial and tax-related factors, such as:

- whether investors' liability is limited;
- ease of contracting;
- the ability to raise capital;
- the tax preferences of investors; or
- applicable tax rates.

In addition to companies, general partnerships and limited partnerships are often used for co-investment transactions and in certain sectors, such as project-based joint ventures and significant investment in infrastructure assets. Smaller businesses commonly utilise a sole proprietor model or a company. Other forms of trading vehicle are available (such as trading trusts) but these are less common.

Companies

A limited liability company incorporated in New Zealand under the Companies Act 1993 (NZ) ("Companies Act") is a legal entity in its own right and has a legal existence separate from that of its shareholders. In general, subject to the company's constitution and the general law, a shareholder of a company has liability limited to the amount of that shareholder's capital contribution.

A New Zealand incorporated company is taxed as a separate legal entity from its shareholders at a flat rate of 28%. New Zealand has an imputation system of corporate taxation whereby tax paid at the corporate level can be "imputed" to shareholders by attaching credits to dividends. The intention of this system is for income earned through the corporate form to be subject to only one level of taxation.

As we note below, some companies are eligible to elect "look-through company" status, allowing them to be treated as fiscally transparent for New Zealand income tax purposes.

General and Limited Partnerships

Both general partnerships and limited partnerships are commonly adopted business structures in New Zealand. A limited partnership is a separate legal person under New Zealand law, whereas a general partnership is not.

The liability of partners is unlimited for a general partnership, with each partner typically being jointly liable with the other partners for the debts and obligations of the partnership business.

A limited partnership requires at least one general partner and one limited partner. A limited partnership's general partners have unlimited liability (although a

limited liability company may also be a general partner). Each general partner is jointly and severally liable with the limited partnership itself and the other general partners for any unpaid liabilities of the limited partnership.

A limited partner of a limited partnership generally is not liable for the unpaid liabilities of the limited partnership, provided that the partner does not take part in the management of the limited partnership.

An entity treated as a partnership (general or limited) is not taxed as a separate legal entity. Instead, partnerships are fiscally transparent for New Zealand income tax purposes. Certain non-New Zealand partnerships with corporate characteristics may be treated as companies from a New Zealand perspective, depending on the relevant features of such an entity.

While transparent for income tax purposes, a limited partnership is legally a separate entity from its limited partners. It is therefore often an attractive business or investment vehicle from a commercial perspective, given the dual benefit of limited liability for investors and income tax transparency. From a tax perspective, a limited partnership allows investors to attend to their own tax position and provides a favourable option for investors with special tax characteristics (such as non-residents or entities taxed at a rate lower than the 28% company rate). Limited partnerships also facilitate access to tax losses for investors that might otherwise be "trapped" in a corporate structure.

It should be noted that partnerships are not fiscally transparent for New Zealand goods and services tax (GST) purposes.

Sole Proprietorships

A sole proprietorship is a business operated by an individual in their own legal capacity. As a sole proprietorship is not a separate legal entity, the owner has unlimited liability and is therefore personally liable for all debts of the business. This also means that any income derived by the sole proprietorship will be taxed in the hands of the proprietor in accordance with their marginal individual tax rate.

Look-Through Companies

A look-through company (LTC) is a standard New Zealand company that has elected to be fiscally transparent for income tax purposes. Accordingly, while an LTC is a separate legal entity, for income tax purposes it is treated more like a partnership and is fiscally transparent. This enables a small business to trade with limited liability but to have profits and losses taxed directly to the owners.

Income tax transparency means that the company's shareholders must pay tax on the LTC's profits directly, but similarly can offset the LTC's expenses or losses against their other income. Because of this favourable tax treatment, a company can only elect to be an LTC if, amongst other things, it has no more than five shareholders, who must be either natural persons, trustees or other LTCs.

1.2 Use and Taxation of Transparent Business Structures

The three types of transparent entities commonly used in New Zealand business are:

- general partnerships;
- limited partnerships; and
- LTCs.

General partnerships are a key type of transparent entity commonly used for certain businesses in New Zealand. The transparent nature allows for income to be taxed in accordance with each partner's own tax profile and allows tax attributes (income, expenditure, credits, etc) to flow directly to the partners rather than being trapped at a corporate level. General partnerships are commonly used by professional services firms and in the agriculture and horticulture industries.

Limited partnerships are frequently used in New Zealand in a commercial context, particularly for co-investment arrangements (including private equity) and for development or infrastructure projects that possess a significant element of risk and are capital intensive. This is primarily because the limited partnership structure limits investors' liability but is fiscally transparent for income tax purposes. This largely enables investors or limited partners to attend to their

own tax affairs, having regard to their own particular commercial circumstances.

LTCs are fiscally transparent companies that are designed as a policy matter to reduce the impact of tax on a decision for a small business to incorporate. LTCs are similar to limited partnerships in the sense that liability is limited for owners or investors, and income tax is dealt with on a "flow-through" basis. However, the LTC rules are targeted more towards closely held companies owned by individuals and are seen as being particularly useful for small start-up businesses, where it is considered likely that the new company will initially make a loss.

1.3 Tests for Determining Tax Residence

Companies

Under the Income Tax Act 2007 (NZ) ("Income Tax Act"), a company will be deemed to be a New Zealand tax resident if:

- it is incorporated in New Zealand;
- its head office is in New Zealand;
- its centre of management is in New Zealand; or
- its directors, in their capacity as directors, exercise control of the company in New Zealand (even if directors' decision-making also occurs outside New Zealand).

Where a company is deemed to be a tax resident in both New Zealand and another country with which New Zealand has a double tax agreement (DTA), the residence of the company for the purposes of applying the DTA will be established in accordance with the relevant residence article of the DTA. New Zealand's DTAs generally contain a tie-breaker test to make this determination (in most cases being the "place of effective management" test). DTAs subject to the OECD Multilateral Convention to Implement Tax Treaty Related Measures To Prevent Base Erosion and Profit Shifting (MLI) do not contain a conventional tie-breaker test, with the residence of a dual-resident entity instead being determined via mutual agreement between the treaty jurisdictions.

General and Limited Partnerships

As partnerships are not separate taxpayers for income tax purposes, a partnership cannot of itself be "resident" or "non-resident" for New Zealand income tax purposes. Instead, the tax residence of the partners is determinative for ascertaining the New Zealand income tax liabilities of the partners. Each partner is separately assessed and there is no joint partnership assessment (although a joint partnership tax return is filed for administrative purposes).

Where a partner is an individual, that individual will be deemed to be a New Zealand tax resident if they satisfy the residency tests for an individual (outlined below). Where a partner is a company, tax residency is determined using the residency tests for a company (outlined above).

Certain DTAs to which New Zealand is a party (including DTAs that are subject to the MLI) have provisions that specify when income derived by, or through, a fiscally transparent person may qualify for treaty benefits.

Sole Proprietorships (Individuals)

As income derived from a sole proprietorship is taxed in the hands of the individual, it is the residency status of the individual which is relevant. Generally, an individual will be deemed to be a New Zealand tax resident if they:

- have a "permanent place of abode" in New Zealand; or
- are personally present in New Zealand for more than 183 days in total in a 12-month period.

Look-Through Companies

LTCs are transparent and akin to partnerships for income tax purposes. This means it is the tax residence of the owners or shareholders which is determinative for the purposes of ascertaining the New Zealand tax liability.

1.4 Applicable Corporate and Individual Tax Rates

Companies

Companies are taxed at a flat rate of 28%. New Zealand does not have variable corporate tax rates.

New Zealand's imputation credit regime allows income tax paid at the company level to be "imputed"

to shareholders by attaching credits to dividends. The imputation rules derive from the tax policy that a company is taxed as a proxy for its shareholders. The rules address the double taxation that would otherwise occur when profits earned by a company are taxed and those profits are then subsequently used by the company to pay taxable dividends to shareholders.

General and Limited Partnerships

Partnerships are treated as transparent for income tax purposes, meaning income derived by a partnership and other tax items (for example, gain, expenditure, credit) flow through to its partners (in proportion to their agreed interests in the partnership's income). Therefore, the income tax rate for income derived by a partnership will be determined in accordance with how each partner is taxed in its own right. For this reason, partnership structures are often used where investors have different tax profiles (for example, non-residents subject to different rates of tax under a DTA, or tax-exempt or lower tax entities).

Sole Proprietorships

As income derived from a sole proprietorship is taxed directly to the individual, the income tax rate will depend on the individual's marginal tax rate. Individuals are subject to taxation at progressive marginal tax rates, with the prevailing maximum rate being 39% (for income in excess of NZD180,000).

Look-Through Companies

LTCs are generally treated like partnerships for income tax purposes. This means that the income tax rate for income derived by an LTC will be determined in accordance with how each shareholder is taxed in its own right.

2. Corporate Tax Regime

2.1 Taxable Profits

For companies, New Zealand income tax is levied on taxable income, being a company's net income minus any available tax losses.

Net income is determined by subtracting annual total deductions from annual gross income. Available tax losses may comprise any tax losses of the company carried forward from prior income years or tax losses able to be offset from other companies in the same corporate group. The resulting net amount is the taxable income.

Amounts of income, deduction and loss are determined under the Income Tax Act. Common with other jurisdictions, this may differ from a taxpayer's accounting or financial reporting profit, as adjustments may be required for exempt or excluded income and non-deductible expenses. There may be restrictions on when and how losses are used. However, financial reporting standards are relevant for certain rules in the Income Tax Act regarding the recognition of income or expenditure, including New Zealand's financial arrangements rules applicable to debt instruments (amongst other financial arrangements).

In general, income will be allocated to the income year in which the amount is derived. However, specific provisions or timing rules of the Income Tax Act may require the adoption of a particular method for recognising the derivation of income and expenditure, which bring forward or defer the recognition of income or expenditure for tax purposes.

2.2 Technology Investments

Research and Development

The Income Tax Act contains rules providing for research and development (R&D) tax credits. The legislative policy is to provide a tax credit as an incentive to a person for performing or contracting for the performance of activities to create new knowledge or new or improved processes, services or goods. Eligibility for the credit is generally sector/industry agnostic and focuses on the nature of activities and the types of cost incurred.

A 15% tax credit in respect of eligible R&D expenditure exceeding NZD50,000 is available to businesses undertaking eligible R&D activities in New Zealand (with 10% of the overall expenditure permitted to consist of activity outside New Zealand). The relevant expenditure must have a sufficient connection with the prescribed R&D activity, and must be "required for" and "integral to" such activity. Examples of expenditure generally eligible include salary and wages, appli-

cable overheads, the cost of consumables and depreciation of eligible assets.

A person who is entitled to an R&D tax credit must seek pre-approval from Inland Revenue and also make certain annual filings with their tax return.

Where an R&D tax credit is available, it can be used to satisfy a person's income tax liability. To the extent they have remaining R&D tax credits after the satisfaction of their income tax liability, a person may be able to obtain a refund of the credit in certain cases, or can otherwise carry the credits forward to a subsequent income year. If credits are eligible to be carried forward, the rules permitting a person to do so are the same as those for tax losses (ie, they must satisfy 49% continuity of ownership or meet a substantially-similar business test).

2.3 Special Incentives

New Zealand's tax system is broadly neutral across industries. Nonetheless, there are industry and transaction-specific rules that take into account the unique needs or circumstances of certain taxpayers. Industries that are the subject of specific rules include petroleum mining, forestry, horticulture and agriculture, racing (ie bloodstock), the film industry and certain types of financing transactions (for example, securitisation).

For investment funds (targeting real property, financial or securities based investments), New Zealand's "portfolio investment entity" (PIE) regime offers investors concessionary (capped or, in some cases, nil) investor tax rates. Strict criteria apply to the types of entity that can be a PIE and the types of investors who can hold PIE interests. The PIE regime is commonly used in listed fund, retirement savings and property investment industries.

2.4 Loss Relief

Carrying Tax Losses Forward

Under the Income Tax Act, a company may carry forward any unused tax losses to a subsequent income year if certain shareholding continuity tests are satisfied. A tax loss may be carried forward and offset against net income in a subsequent income year if at least 49% of the company's voting interests (or market value interests) are held by the same persons across the income years. Market value interests are essentially a person's total market value of shares and share options in a company, and become relevant where substantive control or economic interests in a company may not be fully represented by voting interests.

Despite a breach of this ownership continuity test, a company may still be eligible to carry forward its unused tax losses in circumstances where there has been no major change in the nature of the business activities carried on by the company. This alternative test was introduced in 2020 as part of the government's COVID-19 relief measures. Despite the introduction of this alternative "business continuity" test, value is seldom attributed to tax losses in the M&A context where the transaction would result in a breach of the ownership continuity test. This is because of the largely subjective and to-date untested nature of the "business continuity" test.

A company's unused tax losses may also be made available to another company in circumstances where a group of persons holds common voting interests (or market value interests) of at least 66% in respect of each company over the applicable "continuity period".

Carry Back of Tax Losses

As part of the COVID-19 relief measures, the government also enacted a temporary loss carry back scheme for the 2020 and 2021 years. However, this is no longer applicable and New Zealand does not have any general rules that allow for the carrying back of income tax losses.

2.5 Deduction of Interest

As a general rule, the Income Tax Act allows most companies (other than qualifying companies and LTCs) to deduct interest expenditure regardless of whether it is incurred in deriving assessable income or relates to capital expenditure.

New Zealand has a global interest deductibility test for companies, such that there is no requirement for a nexus with the derivation of gross income. The purpose of this global approach to interest deductibility is that the use of the particular funds borrowed should be irrelevant to the question of deductibility

– a deduction is available anyway. Interest deductions for corporates are limited under New Zealand's interest deductibility rules, not by reference to the use of the borrowed funds, but in the case of cross-border related-party funding, via the detailed thin capitalisation and transfer pricing regimes.

This ability for companies to automatically deduct interest does not, however, extend to interest expenditure that is related to certain mixed-use assets.

The deductibility of interest expenditure that is incurred in relation to residential rental properties was previously limited, but was fully restored in April 2025.

2.6 Consolidated Tax Grouping

Two or more companies that have 100% common ownership may elect into New Zealand's consolidated group regime, under which companies that form a consolidated group are treated as a notional single entity for tax purposes and are jointly and severally liable for the entire group's tax. If an election is made, it is not mandatory for all companies that are 100% commonly owned to be members of the consolidated group; the consolidated group will comprise only those companies that elect to be members of the group.

Subject to certain requirements, companies within a wholly-owned group may also elect to form an imputation group, to apply the imputation regime to those companies on a group basis. Given the commonality of New Zealand and Australian companies dual-listing on the New Zealand and Australian stock exchanges, imputation groups may consist of entirely New Zealand companies, entirely Australian companies, or a mixture of both.

There is also a similar regime for New Zealand GST. Two or more companies that have 66% common ownership may also register for GST as a group. The group will be treated as a notional single entity for GST purposes and must choose one GST-registered member to be its representative. The representative is generally primarily responsible for the administrative aspects associated with the GST regime, including invoicing and filing tax returns.

2.7 Capital Gains

New Zealand does not have a comprehensive capital gains tax regime. However, there are deeming rules that may apply to treat certain receipts as income that would otherwise conventionally be regarded as capital in nature (including, for example, in relation to various real estate transactions and assets acquired with the dominant intention of disposal for profit).

One such rule is the so-called "bright-line test" applicable to the sale of certain residential property. A gain made in circumstances where a residential property (other than a person's principal residence) is bought and sold within the two-year bright-line period is deemed to be income even if it would otherwise be a capital gain.

For New Zealand tax purposes, any capital gains derived by a company are generally only able to be distributed to shareholders in a tax-free form if the relevant company is liquidated. The risk otherwise is that the distribution is treated as a taxable dividend.

With no general tax on capital receipts, New Zealand also limits the deductibility of capital expenditure. The distinction between capital and revenue expenditure is primarily determined through tests developed under case law.

2.8 Other Taxes on Transactions

In addition to its income tax regime, New Zealand also imposes a broad-based value-added tax on the supply of all goods and services in New Zealand, referred to as GST, at the rate of 15%. Certain transactions (including exported goods and services and sales of land between GST registered persons) attract a 0% rate of GST (known as being "zero-rated" for GST purposes). Supplies of financial services and residential accommodation are treated as exempt supplies and are therefore not subject to GST.

New Zealand does not have stamp duty or any other transaction taxes.

2.9 Other Notable Taxes

Although companies in New Zealand will not be subject to any other notable New Zealand taxes (other than income tax and GST), there are certain specific

regimes that apply within this framework, in particular in relation to employee benefits and remuneration. These include the employment tax collection regimes (pay as you earn, or PAYE) and the fringe benefit tax that applies in respect of non-cash benefits provided to employees. These regimes require separate registration and impose reporting and withholding or tax payment obligations on employers. Employers can also be required to withhold tax in relation to an employee's superannuation contributions, and to make payment of certain levies calculated by reference to employee wages to fund New Zealand's accident compensation regime (known as "ACC").

3. Corporations and Non-Corporate Businesses

3.1 Form of Closely Held Local Businesses

Most businesses in New Zealand adopt the corporate form, operating through a limited liability company. According to the New Zealand Companies Office, there were more than 744,000 incorporated companies in New Zealand as of 31 December 2025. Companies that meet certain requirements (including having no more than five shareholders) may elect into the LTC rules to enable tax transparency.

3.2 Individual and Corporate Rates

There is a difference in New Zealand between the corporate tax rate (28%) and the highest marginal individual tax rate (39%).

Individual professionals are entitled to determine the trading structure of their business, including whether to use a company or to trade as a partnership or in their own name. However, in doing so, such individuals must consider the general anti-avoidance provision found in New Zealand's Income Tax Act (see **7.1 Overarching Provisions**). This is an issue that has been considered by the courts, and case law outlines how New Zealand's general anti-avoidance provision should be interpreted in light of individual professionals structuring their businesses to gain a tax advantage.

If an arrangement to derive income utilising a company structure has tax avoidance as its purpose or effect, it will be considered void as against the Commissioner, who may act to counteract any tax advantage obtained from or under such an arrangement.

New Zealand also has a specific anti-avoidance provision which, subject to certain thresholds, operates to attribute income from personal services to a person in circumstances where an associated entity of that person contracts with a third party to provide services and those services are performed by that person. Essentially, this is designed to ensure that the relevant person cannot interpose a company between themselves and the third party with which they are contracting to reduce their tax liability.

3.3 Restrictions on Retention of Earnings by Closely Held Corporations

There are no specific rules in the Income Tax Act that prevent the accumulation of earnings by closely held companies for investment purposes or otherwise. However, the accumulation of earnings by a company may be a relevant factor taken into account in determining whether an off-market share cancellation (ie share buy-back) by a company should be treated as a dividend (rather than a tax-free capital transaction) for New Zealand tax purposes.

3.4 Taxation of Individuals on Shares in Closely Held Corporations

Receipt of Dividends

New Zealand's Income Tax Act provides that a dividend paid by a New Zealand resident company to an individual is income of that individual, and is taxable at that individual's marginal tax rate (as discussed in **1.4 Applicable Corporate and Individual Tax Rates**). This tax may be imposed and collected via withholding, under New Zealand's resident withholding tax rules or non-resident withholding tax rules.

New Zealand has an imputation regime that is designed to eliminate the double taxation of corporate earnings that are subsequently distributed to a company's shareholders. Imputation credits arise when a company pays tax on its income at 28%. The company can then attach up to NZD0.28 of imputation credits to each NZD0.72 of cash dividend it pays to its shareholders, to avoid double taxation. The share-

holder can then use these imputation credits to offset their tax liability.

This means that, where a dividend is fully imputed, the company's earnings (being taxed at the company level and then again in the hands of the shareholder) will ultimately be taxed at the shareholder's personal marginal tax rate. For example, a fully-imputed dividend of NZD100 (being NZD72 cash and NZD28 imputation credits) may give rise to an individual tax liability of NZD39. The individual can use the NZD28 imputation credits to satisfy a portion of that liability, and pay only an additional NZD11 in cash.

Gain on Sale of Shares

Shares held by an individual shareholder in a closely held company will generally be held on capital account (ie, held for investment purposes), which means that the sale of those shares will give rise to a non-taxable capital gain. However, in certain circumstances (for example, where a shareholder is in the business of dealing in shares or acquired the shares with the dominant purpose of disposal for profit), any gains made on the sale of shares may be deemed to be income and taxed accordingly at the shareholder's marginal tax rate.

3.5 Taxation of Individuals on Shares in Public Corporations

New Zealand makes no distinction as to how individuals are taxed on dividends from closely held companies compared to publicly traded companies. The same can be said regarding gains made on the sale of shares (see **3.4 Taxation of Individuals on Shares in Closely Held Corporations**).

4. Taxation of Inbound Investments

4.1 Application of Withholding Taxes

New Zealand has the following withholding taxes that apply to returns on inbound investment.

Interest

Subject to certain exceptions, interest that is paid to non-residents will generally be subject to withholding tax at 15%, although this may be reduced to 10% under an applicable DTA.

New Zealand does not have a general exemption from interest withholding tax for widely held debt. There is, however, an option for borrowers to reduce the withholding tax rate on interest paid to non-resident lenders to 0% by making certain registrations and paying a levy (known as the approved issuer levy, or AIL). A borrower will generally be eligible for this in respect of interest paid to a lender that is not associated with the borrower. The AIL regime is intended to reduce the burden on New Zealand borrowers of having to "gross up" interest paid to non-resident lenders for New Zealand non-resident withholding tax.

The AIL applies at the rate of 2% of the gross amount of interest paid. It is payable by the borrower and is imposed as a levy rather than as a tax. Accordingly, it is unlikely to be creditable against foreign tax payable by the lender on its New Zealand interest income. The levy is generally deductible against income of a corporate borrower, however, with the result that most corporate borrowers in New Zealand would be expected to bear only 1.44% of the cost of the levy.

Dividends

Dividends paid to non-residents are generally subject to non-resident withholding tax at a rate of 15% (to the extent fully imputed under New Zealand's imputation regime discussed at **3.4 Taxation of Individuals on Shares in Closely Held Corporations**) or 30%, subject to the availability of tax treaty relief. However, the rate of non-resident withholding tax for such dividends may be reduced to 0% where the dividend is fully imputed and where the recipient has a 10% or greater direct voting interest in the payer.

The withholding tax rates for dividends described above are generally capped at 15% in the case of persons resident in a country with which New Zealand has a DTA. Lower dividend withholding tax rates (typically 5% or in some cases 0%) apply under certain of New Zealand's DTAs, including those with Australia, Canada, China (PRC), Hong Kong SAR, Japan, Mexico, Samoa, Singapore, Turkey, the United States and Vietnam. The lower rates are available for dividends paid to a shareholder that is a company meeting relevant minimum ownership requirements and certain other criteria.

Royalties

For royalties paid to non-residents, the rate of withholding tax imposed under domestic law is also 15%. Again, however, this rate may be reduced to 10% under an applicable DTA. In some of New Zealand's more recently negotiated DTAs, the rate in respect of royalties may be further reduced to 5%.

4.2 Key Treaty Jurisdictions for Inbound Investment

The framework of New Zealand's DTAs generally follows that of the OECD Model Tax Convention.

New Zealand currently has 41 DTAs in force, covering almost all of its major trading partners (including Australia, China, Japan, the United States, South Korea and the United Kingdom). These bilateral tax treaties seek to reduce tax impediments to cross-border trade and investment, and to assist tax administration. New Zealand is also in negotiations with other jurisdictions to implement DTAs that will further broaden New Zealand's DTA network.

New Zealand is party to a variety of tax information exchange agreements to facilitate the exchange of tax-related information with countries where no DTA is applicable.

The ratification of the MLI also strengthens New Zealand's position when it comes to international taxation, by modifying New Zealand's existing tax treaties.

4.3 Tax Authority Scrutiny of "Treaty Shopping" Practices

The MLI entered into force in New Zealand on 1 October 2018 and introduces an anti-abuse rule called the "principal purpose test" into many of New Zealand's DTAs. This test is found in Article 7 of the MLI and acts to deny the benefits of a DTA where one of the principal purposes of using a treaty country entity by a non-treaty country resident is to obtain the benefits of the tax treaty. The principal purpose test does not apply to all of New Zealand's DTAs.

4.4 Transfer Pricing Issues for Inbound Investors

The most significant transfer pricing issues for inbound investors operating through a local corporation are generally the pricing around the inbound sale of goods and interest costs on related-party debt. According to New Zealand's Inland Revenue, the most common multinational business form encountered in New Zealand is foreign-owned wholesale distributors or those that purchase and on-sell goods without significant transformation.

4.5 Challenges to Related-Party Limited Risk Distribution Arrangements

While no transfer pricing dispute has yet progressed through the courts in New Zealand, there have been instances where Inland Revenue has challenged the use of related-party limited risk distribution arrangements for the local sale of goods or provision of services.

4.6 Local Transfer Pricing Rules and OECD Standards

New Zealand adopted changes to its transfer pricing regime in 2018 to better align with the OECD's transfer pricing guidelines. These amendments included the adoption of restricted transfer pricing in relation to inbound debt. New Zealand's transfer pricing approach is generally guided by OECD transfer pricing guidelines, and the Income Tax Act notes explicitly that New Zealand's rules are intended to apply consistently with the OECD guidelines.

4.7 Transfer Pricing Disputes and Mutual Agreement Procedures

While no transfer pricing dispute has progressed through the New Zealand courts, it is an area of increasing interest to Inland Revenue, and transfer pricing matters are actively investigated and challenged. This is due to the material risk to the New Zealand revenue base and due, in particular, to the monetary amounts that are often involved in cross-border transactions between related parties.

The mutual agreement procedure (MAP) will generally be utilised as part of a transfer pricing dispute with Inland Revenue, and transfer pricing matters are typically resolved under the MAP. This is a key reason why no transfer pricing dispute has yet progressed to the courts.

5. Taxation of Non-Local Corporations

5.1 Compensating Adjustments

A taxpayer may be party to two or more cross-border arrangements regarded as involving non-arm's length pricing, and one of those arrangements may be adjusted as part of a transfer pricing dispute (whether pursuant to a settlement or otherwise). In those circumstances, the taxpayer may be permitted a compensating adjustment in relation to the other cross-border arrangements.

In broad terms, where the consideration under a transfer pricing arrangement is adjusted, a taxpayer may be entitled to relief in the form of a compensating adjustment in relation to a "compensating arrangement" where:

- the same parties are involved in the transfer pricing arrangement and the relevant compensating arrangement;
- the transfer pricing arrangement and the compensating arrangement involve the same type of goods, services, money, other intangible property or anything else, or there is a link between the pricing under the two arrangements; and
- the adjustment under the transfer pricing arrangement takes place in the same income year or in the year immediately before or after that income year.

For the purposes of calculating the taxpayer's income tax liability, the actual amount either paid or received by the taxpayer under the compensating arrangement is able to be substituted with an arm's length amount.

5.2 Local Branches and Local Subsidiaries

A non-resident company may have a taxable presence in New Zealand by carrying on business in New Zealand either through a fixed establishment (or "branch") or by incorporating a local subsidiary.

If operating through a New Zealand branch, a non-resident company will only be subject to New Zealand income tax on any income that is deemed to have a New Zealand source. That taxation does not differ from the taxation of a New Zealand resident company deriving the same amounts.

Conversely, a New Zealand incorporated subsidiary of a non-resident company will be considered a New Zealand tax resident and will therefore be subject to New Zealand income tax on its worldwide income.

Most of New Zealand's DTAs contain non-discrimination articles that would generally be expected to apply in the event New Zealand were to adopt disparate treatment for non-resident companies operating in New Zealand compared to New Zealand resident companies.

5.3 Capital Gains of Non-Residents

Unlike many other OECD countries, New Zealand has no comprehensive capital gains tax regime. However, the definition or concept of income for New Zealand tax purposes does include profits and gains from certain transactions that would conventionally be regarded as capital in nature (see **2.7 Capital Gains**). This treatment is consistent for both residents and non-residents.

Any gain derived from the sale of shares in a New Zealand company by a non-resident would be taxed under New Zealand law only where the gain is regarded as income (and not a capital gain) that is sourced in New Zealand. In any event, DTA relief may be available depending on the jurisdiction of residence of the non-resident and the nature of the shares being sold.

5.4 Tax Implications of Change of Control

The indirect change of control of a New Zealand company generally should not of itself trigger an income tax charge or liability for duties. In limited circumstances, the transfer of shares in a foreign company may give rise to tax risk in New Zealand, if (i) those shares were held on revenue account (ie, not held for purposes of investment) and (ii) the shares derive most of their value from real property situated in New Zealand. New Zealand is permitted to impose tax on such transfers only under certain DTAs.

An indirect change of control may affect a New Zealand company's ability to carry forward tax losses and imputation credits. The carry forward of tax losses and imputation credits has a shareholder continuity requirement of 49% and 66% respectively (see **2.4 Loss Relief**).

While a company's direct shareholding may not change, the voting interests (and market value interests) held by a corporate shareholder are subject to a "look-through" rule when determining shareholder continuity, and are treated as being held by the shareholders of the corporate shareholder. The effect of the look-through rule is that corporate chains of ownership are traced through to the ultimate shareholders.

5.5 Formula-Based Income Attribution

As a general principle, no specific formulas are used to determine the income of foreign-owned local affiliates selling goods or providing services in New Zealand.

5.6 Deductibility of Intra-Group Management and Administrative Charges

There is no standard applied in allowing a deduction for payments by New Zealand companies for management and administrative expenses. This includes local affiliates of multinational groups paying for intra-group services. However, such transactions are subject to the arm's length principle under New Zealand's transfer pricing regime.

5.7 Restraints on Related-Party Borrowing

Related-party borrowing by a foreign-owned New Zealand company is subject to New Zealand's thin capitalisation and transfer pricing regimes. These rules essentially determine the extent to which interest paid on such borrowings may be deductible for New Zealand tax purposes, having regard to the relative amount of New Zealand borrowing (in the case of thin capitalisation) or the pricing or terms of the borrowing (in the case of transfer pricing). It is also necessary to consider New Zealand's hybrid mismatch rules in the context of related-party borrowing and whether a deduction is fully available for interest costs.

6. Taxation of Foreign Income of Local Corporations

6.1 Foreign Income Exemptions

Companies resident in New Zealand are subject to New Zealand income tax on their worldwide income. The main exception to that principle is an exemption that applies to dividends received by a New Zealand resident company from a foreign company.

Generally, where a New Zealand resident company derives assessable income from a foreign source in a country that has a DTA with New Zealand, that foreign income should not be subject to foreign income tax (provided that the New Zealand resident company does not have a permanent establishment in that country to which the foreign income is attributable). Interest, dividends and royalties that have a foreign source and that are derived by a New Zealand resident company may be subject to foreign income tax, but this will generally be limited under an applicable DTA.

Where a New Zealand resident company derives assessable income from a foreign source that is subject to foreign income tax, it may be entitled to a foreign tax credit for any foreign income tax paid on that income.

6.2 Non-Deductible Local Expenses

The Income Tax Act provides that a person is denied a deduction for an amount of expenditure or loss to the extent to which it is incurred in deriving exempt income. A New Zealand holding company deriving only exempt income in the form of dividends from foreign subsidiaries, for example, would not be expected to be able to claim deductions for its expenditure.

6.3 Dividends From Foreign Subsidiaries

The general position is that dividends received from foreign companies are treated as exempt income of New Zealand resident companies and are therefore not taxable. This rule is subject to certain exceptions, including where dividends are derived by a "portfolio investment entity" (essentially a certain type of New Zealand collective investment vehicle).

6.4 Taxation of Intangibles Developed by Local Corporations

Intangible assets developed by New Zealand companies are able to be used by non-resident subsidiaries without the latter incurring local corporate tax. Corporate tax would generally be expected to arise for the local company, because a royalty or other charge would typically be paid by the non-resident subsidiary to the New Zealand-based owner of the asset. The use of the intangible asset may be subject to New Zealand's transfer pricing regime if the considera-

tion provided by the non-resident subsidiary is not in accordance with the arm's length principle.

6.5 Controlled Foreign Corporation-Type Rules

New Zealand has a comprehensive controlled foreign company (CFC) regime, under which income may be attributed to New Zealand resident shareholders in respect of their interests in non-local subsidiaries. The CFC rules apply to New Zealand residents holding an income interest of at least 10% in a CFC (essentially being a foreign company controlled by five or fewer persons resident in New Zealand).

Attributed CFC income of a person is taxable income and may arise irrespective of any dividends paid by the non-local subsidiary.

No attribution of income will generally be required if the CFC passes an "active" business test. A CFC will pass the active business test if it has passive income that is less than 5% of its total income. In broad terms, "passive" income would include rent, royalties, certain dividends and interest. For these purposes, the relevant income amounts are measured using either financial accounting or tax measures of income.

The position is different for non-local branches of New Zealand companies, given that a branch is strictly a part of the same legal entity for New Zealand tax purposes. No attribution of income therefore occurs under the CFC rules (as there is no separate foreign company controlled by New Zealand residents).

6.6 The Substance of Non-Local Affiliates

The New Zealand CFC rules do not make any distinction based on the substance of the non-local affiliate.

6.7 The Sale of Shares in Non-Local Affiliates

New Zealand does not have a comprehensive capital gains tax regime. However, the definition or concept of income does include profits and gains from certain transactions that would conventionally be regarded as capital in nature (see **2.7 Capital Gains**).

Shares held by a New Zealand company in a non-local affiliate would typically be expected to be held as capital assets, as the shares form part of the structure of the corporate group. Any gain derived on a disposal of those shares should accordingly not give rise to a New Zealand income tax liability (as being attributable to the realisation of a capital asset).

7. Anti-Avoidance Provisions

7.1 Overarching Provisions

The Income Tax Act contains a general anti-avoidance provision, which provides that a tax avoidance arrangement will be voided against the Commissioner for income tax purposes. A "tax avoidance arrangement" is defined as an arrangement that has tax avoidance as its sole purpose or effect, or as one of its purposes or effects if the tax avoidance purpose or effect is not merely incidental.

Pursuant to relevant New Zealand case law in this area, the essential question is whether an arrangement, viewed in a commercially and economically realistic way, makes use of a specific legislative provision in a manner that is consistent with Parliament's purpose for that provision. If it does, the arrangement should not, by reason of that use, be a tax avoidance arrangement.

The Income Tax Act also empowers the tax authority to counteract any tax advantage that a person obtains from or under such an arrangement, including by reconstructing the arrangement in a manner that removes the tax advantage.

In addition to the general anti-avoidance provision, the Income Tax Act contains a range of specific anti-avoidance provisions that relate to the application of particular provisions in the Act and particular transactions or arrangements.

8. Audit Cycles

8.1 Regular Routine Audit Cycle

New Zealand's Inland Revenue does not have a regular or routine audit cycle. Commencement of an audit may arise under several different circumstances, including:

- the review of a particular transaction or return;
- a focus by Inland Revenue on an industry or activity; or
- random selection and initiation of an audit.

However, large enterprises in New Zealand are subject to periodic and ongoing risk assessments by Inland Revenue, which may give rise to an audit.

In recent years, Inland Revenue had taken a notably reduced approach to audit investigations due to resourcing being deployed elsewhere to administer COVID-19 measures and Inland Revenue's own business transformation. However, Inland Revenue has since increased its audit and investigation activity, and the government has increased funding for Inland Revenue to expand its audit capability.

9. BEPS

9.1 Adoption of BEPS Recommendations

New Zealand's Inland Revenue is responsible for the development of the BEPS action plan in New Zealand and has generally supported the OECD's initiative of a co-ordinated, global solution to the BEPS problem, the Two-Pillar Solution and the recommended BEPS package of 15 actions.

In terms of BEPS recommended changes that have already been implemented in New Zealand, many were enacted in June 2018 as part of the Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018, as follows:

- *Interest limitation:* Rules were introduced regarding certain related-party loans between a non-resident lender and a New Zealand resident borrower. A restricted transfer pricing approach may be required, which looks to credit ratings of borrowers at high risk of BEPS and the typical characteristics of third-party debt.
- *Hybrids:* Comprehensive hybrid mismatch rules were introduced to neutralise the effects of hybrid mismatch arrangements. These rules are based on OECD recommendations, with appropriate modifications to accommodate the New Zealand tax environment.
- *Transfer pricing:* New Zealand's transfer pricing legislation was amended to align with the 2017 OECD transfer pricing guidelines and to strengthen Inland Revenue's ability to monitor and enforce the new transfer pricing rules.
- *Permanent establishment:* New Zealand introduced an anti-avoidance rule for large multinationals (with over EUR750 million of consolidated global turnover) using a corporate structure intended to avoid having a permanent establishment (PE) in New Zealand. This rule operates on a complementary basis to the OECD's widened "PE" definition under the MLI.
- *Other measures:* Rules were also introduced in relation to certain administrative matters, such as additional powers for Inland Revenue to request information from large multinational groups for the purposes of a tax investigation of that group.

In addition, country-by-country reporting has been implemented in accordance with OECD recommendations. This applies only to a select number of corporate groups headquartered in New Zealand, and each year Inland Revenue provides those groups with the relevant templates and guidance notes from the OECD.

As discussed in **4.2 Key Tax Treaty Jurisdictions for Inbound Investment**, New Zealand has signed and ratified the MLI in an effort to prospectively modify its existing DTAs.

More recently, the OECD Pillar Two Global Anti-Base Erosion (GloBE) tax rules have been implemented in New Zealand. The Pillar Two rules are incorporated into New Zealand law by reference to the OECD Model Rules, commentary and published administrative guidance.

Both the "Income Inclusion Rule" (applying when a New Zealand-based multinational has undertaxed income in another country) and the "Undertaxed Profits Rule" (UTPR – the back-up rule where multinationals operate in countries that do not implement the GloBE rules) took effect in New Zealand from 1 January 2025. The "Domestic Income Inclusion Rule" (DIIR) for in-scope New Zealand-headquartered groups (applying when a New Zealand-based multinational

enterprise has undertaxed income in New Zealand) took effect on 1 January 2026.

9.2 Government Policy and Objectives Approach

The New Zealand government has generally adopted a positive attitude to the implementation of BEPS and remains committed to ensuring that highly digitalised multinational enterprises that derive material amounts of income from New Zealand are liable for their "fair share" of New Zealand tax.

New Zealand continues to support the implementation of Pillar Two, but the implementation of Pillar One remains less certain. Inland Revenue has confirmed that New Zealand will exercise its discretion not to adopt the aspects of Pillar One formerly referred to as "Amount B" (being an optional simplified and streamlined transfer pricing approach). As a result, New Zealand's existing transfer pricing rules and current practice will continue to apply notwithstanding the introduction of this approach in other jurisdictions.

"Amount A" of Pillar One has yet to be finalised, and New Zealand continues to monitor progress.

Although New Zealand introduced a Bill in August 2023 providing for a comprehensive Digital Services Tax (DST) as an alternative to Amount A, the Bill did not progress to legislation and was formally abandoned in May 2025. This decision reflected the government's publicised view that New Zealand should prioritise an internationally co-ordinated solution, and that a unilateral DST was no longer required. The DST will therefore not be implemented in the absence of a future change in governmental policy.

As noted in **9.1 Adoption of BEPS Recommendations**, New Zealand has implemented the Pillar Two initiatives.

9.3 International Tax

International tax measures have a relatively high public profile in New Zealand, given the country's geographical location and dependence on international trade. New Zealand is, and has historically been, a net importer of capital and therefore depends on robust international tax rules in relation to inbound capital investment in particular. The implementation of BEPS recommendations has generally been regarded as being consistent with that sentiment.

9.4 Competitive Tax Policy Objectives

Like many other jurisdictions, New Zealand has a desire to ensure that its tax policy is competitive internationally. As noted in **9.3 International Tax**, New Zealand has a high dependence on inbound capital so it is important that the relevant tax settings are competitive, in order to attract investment and maximise growth. However, at the same time, there is a desire for the New Zealand tax system to be robust and a general view that New Zealand is likely to be better off if it focuses on where it has a competitive advantage rather than introducing specific incentives. In relation to BEPS, the New Zealand government has noted that, while New Zealand is starting from a good position relative to many other OECD countries, taking further steps to address BEPS is an important priority.

9.5 The Competitive Tax System

No key features of the New Zealand tax system have been identified as being at risk or vulnerable as a result of BEPS pressures.

9.6 Hybrid Instruments and BEPS Implementation

In 2018, New Zealand enacted a comprehensive set of rules regarding hybrid and branch mismatches. These rules incorporate the core aspects of the recommendations in the OECD reports regarding hybrid and branch mismatches of 2015 and 2017, with certain modifications for the New Zealand context.

9.7 Interest Deductibility and Territorial Tax Regime

New Zealand does not have a territorial tax regime whereby tax is paid on New Zealand-sourced income only. As a general principle, New Zealand taxes its residents on their worldwide income.

9.8 Controlled Foreign Corporation Reform

This is not applicable in New Zealand.

9.9 Anti-Avoidance Rules

The implementation of BEPS measures in New Zealand has also meant an increased focus on the use of

tax treaties to facilitate tax avoidance. New Zealand has introduced a new anti-avoidance rule for large multinationals using a corporate structure intended to avoid having a permanent establishment in New Zealand. In addition, through the MLI, there has been a focus on "treaty shopping" by multinationals and the ability for New Zealand to deny treaty benefits to companies that are using treaties to avoid tax. In conjunction with the BEPS reforms, New Zealand amended the law to provide that its general anti-avoidance rule overrides tax treaties where applicable.

9.10 Transfer Pricing and IP Taxation

New Zealand has made changes to its transfer pricing rules in response to the BEPS initiatives. Rather than radically changing the rules, the amendments as a result of BEPS are generally seen as strengthening the application of those rules by adopting economic substance and reconstruction provisions (consistent with the OECD's transfer pricing guidelines). As a result, in certain cases the legal form may be disregarded where it does not align with economic substance, and transactions that would not be entered into by parties acting at arm's length can similarly be disregarded or reconstructed.

New Zealand's non-resident withholding tax regime extends to the payment of royalties to non-residents. This existing framework reduces the incentive for multinationals to shift intellectual property offshore to generate deductible payments that reduce profits in New Zealand.

9.11 Country-by-Country Reporting and Transparency Provisions

As an administrative matter, Inland Revenue had an existing practice of requiring New Zealand-headquartered multinationals groups to file a "country-by-country" report. This applied to groups with annual consolidated group revenue of EUR750 million or more in the previous financial year and for all income years beginning on or after 1 January 2016.

However, as part of the wide-ranging BEPS initiatives introduced in 2018, a specific legislative provision was introduced that requires country-by-country reports to be filed. The codification of this requirement was considered to be useful in the context of the BEPS reforms as it provided an explicit signal to the affected multinationals and other countries of New Zealand's commitment to country-by-country reporting.

9.12 Digital Economy Businesses

New Zealand has two GST regimes targeting digital economy businesses operating largely from outside New Zealand in relation to:

- low-value imported goods; and
- cross-border remote services and intangibles.

Collection of GST on Low-Value Imported Goods

In 2019, New Zealand introduced measures to require non-resident suppliers to register and return GST on low-value imported goods that are supplied to New Zealand-resident customers. Low-value goods are physical goods valued at NZD1,000 or less.

To remain consistent with New Zealand's domestic GST regime, non-resident suppliers supplying New Zealand-resident customers with low-value imported goods are only required to register and return GST when the value of these supplies exceeds (or is expected to exceed) NZD60,000 in a 12-month period. In addition, such suppliers are not required to return GST on supplies made to New Zealand GST-registered businesses. It should be noted that suppliers operating through electronic marketplaces can have GST charged on their supplies by the electronic marketplace (despite the supplier itself not reaching the NZD60,000 threshold).

GST on Cross-Border Remote Services and Intangibles

In 2016, New Zealand introduced measures to require certain non-resident suppliers to register and return GST on remote services provided to New Zealand-resident customers. Services where, at the time of the performance of the service, there is no necessary connection between the physical location of the customer and the place where the services are performed will be subject to these rules.

Again, to remain consistent with New Zealand's domestic GST regime, non-resident suppliers supplying New Zealand-resident customers with remote services are only required to register and return GST when

the value of these supplies exceeds (or is expected to exceed) NZD60,000 in a 12-month period. Such suppliers are also not required to return GST on supplies made to New Zealand GST-registered businesses.

9.13 Approach to Digital Services Taxation

As noted in **9.2 Government Policy and Objectives Approach**, New Zealand introduced a Bill in August 2023 providing for a comprehensive DST in New Zealand (as an alternative to Amount A under Pillar One). However, in May 2025, the government announced that it had decided not to proceed with the proposed DST and the Bill was subsequently formally abandoned. There have not been any announced policies or proposals to address digital taxation since that decision was made.

9.14 Offshore IP Provisions

New Zealand has not introduced any transfer provisions dealing specifically with the taxation of offshore-based intellectual property. It is legislatively prescribed in New Zealand's transfer pricing rules that those rules are to be applied consistently with the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (July 2022 edition). In that sense, the guidance on intangible assets and supply arrangements contained in Chapter VI of the OECD Transfer Pricing Guidelines is incorporated into New Zealand law.

The payment of royalties by New Zealand residents for the use of offshore-owned intellectual property is a current focus of Inland Revenue. Licensing arrangements with offshore-based related parties or associates present a risk to the New Zealand tax base if outbound payments are not priced in accordance with the arm's length principle. The transfer of intellectual property out of New Zealand is also a focus of Inland Revenue, particularly where an intellectual property asset is sold and then licensed back to the original owner.

Trends and Developments

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Russell McVeagh

Russell McVeagh is a leading full-service New Zealand law firm and employs approximately 300 staff and partners. The firm is committed to operating on the cutting edge of legal practice, with award-winning lawyers who are internationally recognised for their thought leadership, depth of experience and ability to translate complex legal issues into client success stories. It has particular expertise in banking and finance (including securitisation and financial markets regulation), corporate and commercial (including M&A), tax, competition/antitrust, employment, health and safety, resource management (including energy), litigation, restructuring and insolvency, property and construction, technology and digital, and public law and regulation. The tax team has extensive corporate tax experience and provides advice on a wide variety of issues relating to financing and capital raising, M&A, business establishment and reorganisations, investment products, PPPs and infrastructure investment, employee remuneration packages, customs and excise, transfer pricing, and tax investigations and disputes.

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The past year has seen a range of significant developments in New Zealand's tax landscape. These include a marked increase in Inland Revenue's audit and enforcement activity, a suite of policy measures aimed at encouraging investment and supporting economic recovery, ongoing domestic tax policy reform across a number of targeted areas and further development in New Zealand's international tax settings.

Audits, Enforcement and Investigations

Following significant increases in overall levels of tax debt in the last five years, 2025 marked a notable tightening in New Zealand's tax compliance environment. Increases in the number of audits, investigations and enforcement actions Inland Revenue have been supported by increased Government investment in Inland Revenue's enforcement capabilities and a commitment from Inland Revenue to intensify compliance action. Budget 2025 delivered an uplift in funding for Inland Revenue, with an additional NZD35 million per annum commitment from the Government alongside the continuation of earlier funding. This investment was directed at increasing Inland Revenue's audit presence, strengthening its debt collection functions and improving its data and intelligence infrastructure. Together, these measures form part of the Government's broader fiscal strategy to improve the integrity of the tax system, minimise compliance costs and support fiscal sustainability.

This additional resourcing has translated into a materially more active compliance environment. For the 2024–25 period, Inland Revenue reported a significant increase in audit activity, with a large focus on New Zealand's largest businesses. This has resulted in an additional NZD880.8 million in assessed tax in the year to 31 March 2025. There has also been an uplift in cash collections from overdue debt and student loan repayments – demonstrating the early impact of the strengthened enforcement posture.

A notable feature of the evolving enforcement landscape is Inland Revenue's increased use of liquidation proceedings as a method of recovering unpaid tax debts. In the year to 31 March 2025, Inland Revenue-initiated liquidations were up 67.5% compared with the same period in the previous year, reflecting a firmer stance towards businesses with outstanding tax liabilities. This trend has coincided with a broader rise in company liquidations in New Zealand – showing an approximate 26% year-on-year increase. It is expected these trends will continue into the 2026 and 2027 tax years.

Government Initiatives to Increase Investment

As set out in the Government's Tax and Social Policy Work Programme, current tax policy settings are being shaped by an objective of supporting economic recovery. In practice, this has involved a focus on tax measures intended to influence taxpayer behaviour, such as incentivising investment, supporting productivity and maintaining New Zealand's competitiveness as an investment jurisdiction. Reform has generally been targeted, rather than broad-based.

Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Bill

A range of investment-focused initiatives were included in the recent Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures)

Bill (the "Bill"). Introduced in August 2025, the Bill is currently awaiting its second reading and is expected to be enacted before 31 March 2026.

The proposals put forward in the Bill include a series of rules and regimes intended to facilitate mobility of global talent, attract skilled migrants and reduce compliance barriers for internationally active businesses and individuals. Key measures include:

- A new "non-resident visitor" regime that is aimed at easing the tax consequences for visitors to New Zealand and "digital nomads" who engage in remote work while in the country. The proposed rules would allow eligible individuals to undertake limited cross-border remote work while in New Zealand for nine months without creating personal tax residence or New Zealand income tax obligations for themselves or their non-resident employer. The regime includes eligibility criteria and conditions intended to define the scope of the concession, and is intended to encourage remote-working visitors to stay in New Zealand for longer.
- A new calculation method for calculating foreign investment fund (FIF) income. New Zealand's FIF regime brings New Zealand tax residents to tax annually on certain interests in foreign funds and companies, regardless of whether income has been realised from such investments. Motivated by an acknowledgement that such a regime can make New Zealand an unattractive destination to resettle, the proposed new calculation method would allow certain investments subject to the FIF rules to be taxed on a realisation basis. This new calculation method would be available in specified circumstances, including when an individual migrates to New Zealand or returns after an absence of at least five years. The proposal is intended to modify the application of the FIF rules for qualifying interests acquired before the individual becomes a New Zealand tax resident. It is expected that a modified version of the proposal will also be available to United States citizens who are tax resident in New Zealand, who may struggle to obtain United States tax credits for taxes paid under the FIF regime on unrealised income.
- A tax deferral regime for employee share plans or schemes offered by unlisted companies. Presently, employees are generally subject to tax in New Zealand on the date their entitlements to benefit under a workplace plan vest. The new proposal aims to defer the taxing point from vesting to a future liquidity event, such as the sale of shares or the employer company publicly listing, or when the employee disposes of their rights to the shares. It is proposed the employer company (not the employee) would be entitled to elect whether or not to apply the regime. It would also defer the time at which the employer company is entitled to a deduction for the benefit provided to the employee (which generally aligns with the employee's taxing date).

Investment Boost tax deduction

Another development that aimed to increase investment in New Zealand is the introduction of the Investment Boost, a depreciation acceleration regime applying to qualifying capital assets acquired on or after 22 May 2025. Under this regime, businesses are able to claim an immediate deduction for 20% of the cost of eligible assets, with the remaining cost subject to standard depreciation rules.

To qualify, the asset must be (1) new (or, as discussed below, new to the New Zealand tax base), (2) first available for the business to use on or after 22 May 2025, and (3) depreciable for tax purposes. Eligible assets also include new commercial and industrial buildings; however, residential rental buildings are exempt. The regime extends to second-hand assets sourced from overseas, provided they have not previously been used in New Zealand. Certain aspects of the regime currently remain unclear, and further guidance or legislative clarification is expected to confirm the scope and practical application of the rules.

The Government anticipates that the Investment Boost will improve economic growth, lifting New Zealand's GDP by approximately 1%, with associated wage and capital stock gains, over the next 20 years.

Thin capitalisation reform to support infrastructure investment

In May 2025, Inland Revenue released an officials' issues paper examining whether New Zealand's current thin capitalisation settings may be discouraging

foreign investment in privately-owned infrastructure projects in New Zealand. New Zealand's thin capitalisation rules are designed to limit the amount of debt that foreign-owned entities can use to fund their New Zealand operations, by effectively reversing interest deductions where an entity's level of debt exceeds prescribed thresholds (generally 60% of the overall assets and 110% of the debt levels of the worldwide group).

The consultation paper identifies concerns that the current 60% safe-harbour ratio may be too restrictive for capital-intensive projects that rely heavily on third-party, limited-recourse debt and that do not qualify for an existing "public-private partnership" exemption (generally only available for specified public-private co-investments). Reform is intended to facilitate greater foreign participation in privately-owned infrastructure projects in New Zealand and ensure that the tax settings do not impose unintended barriers to financing these projects.

The issues paper outlines two possible reform pathways:

- First, a rule targeted at infrastructure projects that would effectively extend the existing public-private partnership concession to privately-developed infrastructure projects. Under the current concession, higher levels of debt are permitted for qualifying projects, provided the debt is third-party, limited recourse debt. The proposed approach would make a similar concession available to infrastructure projects that are privately owned and developed, but which do not fall within the current rules.
- Alternatively, a more general rule under which interest would be fully deductible where the relevant debt meets specified criteria. The consultation paper indicates that such criteria could include requirements that the debt is advanced by an unrelated third-party lender and is used exclusively to fund commercial activities in connection with New Zealand. Other requirements proposed include limiting recourse to the New Zealand assets of the borrowing entity and restricting access to the concession to borrowers that are New Zealand residents.

Submissions on the proposals closed in June 2025; however, Inland Revenue has indicated that consultation on the issues is ongoing, with further development required before any legislative changes are progressed. In any event, the Government has allocated NZD65 million over four years to support rule changes arising from the review.

Looking Forward

Shareholder loans

In December 2025, Inland Revenue released a consultation paper proposing targeted reforms to the tax treatment of shareholder loans made by New Zealand resident companies to individual shareholders. The main proposal seeks to treat new loans made to such shareholders as dividends if the loans are not repaid within a specified statutory repayment period. A NZD50,000 de minimis threshold has been suggested to exclude small-value loans from companies to shareholders to ensure that compliance is not overly burdensome. Existing loan balances would not be subject to the new rule unless materially varied, although they would count towards the de minimis threshold.

Officials have also proposed a complementary rule to tax any outstanding shareholder loan balances at the time a company is removed from the Companies Register. This is intended to provide a clear and enforceable point at which income arises.

The initial consultation on these proposals has only recently closed, and the reforms remain at an early stage of policy development. Further consultation and refinement is expected before any legislative changes are progressed.

Capital gains tax

Tax policy continues to be a prominent feature of New Zealand's political environment as the country moves towards a general election in November 2026. New Zealand does not have a comprehensive capital gains tax, and debate over the enactment of a capital gains tax is not an uncommon feature of New Zealand election cycles. Notwithstanding the lack of *comprehensive* capital gains tax, certain gains traditionally regarded as capital may be brought to tax under the existing rules by treating these amounts as income.

Capital taxation is therefore already an established feature of the current tax system.

Against this backdrop, New Zealand's Labour Party has confirmed that it will campaign on a form of targeted capital gains tax, applying only to gains made on the disposal of residential and commercial investment properties (ie, real property). The proposal seeks to exclude all other asset classes including the family home, farms, and personal property such as KiwiSaver (a form of national retirement savings account), shares and business assets. It is intended to only apply to gains realised after 1 July 2027. Notably, these gains will be taxed at a rate of 28%, aligning with the current company tax rate and the rate at which New Zealand resident individuals are taxed on investments in "portfolio investment entities" (generally, widely held investment vehicles).

This proposal signals that tax settings – particularly those affecting investment assets – are likely to remain a point of focus throughout the election cycle. At the time of writing, detailed tax policy positions have yet to be released by other political parties, including those forming the current coalition Government.

Not-for-profit sector

Alongside broader political discussion, Inland Revenue has continued its programme of targeted engagement on specific sectors. In November 2025, Inland Revenue commenced targeted consultation on the not-for-profit sector, following earlier rounds of public consultation held throughout 2025. At present, New Zealand's not-for-profit and charitable sectors enjoy considerable support through the tax system, including in the form of income tax exemptions for charitable entities, donation tax credits for donors who make donations and GST concessions for certain non-profit bodies.

Inland Revenue's consultation is part of a review to determine the effectiveness of these concessions. It focuses on three areas: (1) the effectiveness of the charities business income tax exemption, (2) the development of a new regime for donor-controlled charities, and (3) a range of integrity and simplification measures for not-for-profits.

Inland Revenue has indicated that it intends to review submissions by early 2026, with the purpose of ensuring that the tax settings for the sector remain aligned with their underlying policy objectives and continue to support coherence within the wider tax system. This review follows extensive engagement during earlier consultation phases, including proposals that were subsequently scaled back following public and sector-wide feedback. Given that context, and the proximity to the election, further reform in this area may prove politically sensitive and it remains uncertain whether substantive changes will be progressed in the near future.

International Tax Landscape

New Zealand's international tax settings have continued to develop through the course of the year, reflecting a combination of targeted domestic policy priorities and engagement with international initiatives. At the same time, the Government has emphasised the importance of preserving overall stability and coherence in the cross-border tax framework, with a focus on supporting investment, enhancing transparency and remaining aligned with global standards.

Updates to New Zealand's DTA network

As set out in the Government's Tax and Social Policy Work Programme, New Zealand remains active in expanding and updating its double tax agreement (DTA) network with its key trading partners, and is currently negotiating a number of DTAs and Protocols with new and existing counterparty jurisdictions.

As at early 2026, work is underway on a series of replacement DTAs with Australia, Fiji, the Netherlands and the United Kingdom, alongside negotiations for new agreements with Hungary, Portugal and Slovenia. Updated protocols are also being negotiated with Germany and South Korea, reflecting a broader programme to ensure that New Zealand's treaty settings continue to support its trade and investment relationships.

In addition, New Zealand has signed but not yet brought into force DTAs with Croatia and Iceland. A Second DTA Protocol with Belgium is also signed but is not yet in force, together with tax information exchange agreements with Bermuda and St Kitts &

Nevis. These will all enter into force once the relevant countries have notified each other that they have completed the necessary domestic procedures.

Adoption of international transparency standards: cryptocurrency reporting

Another development in New Zealand's international tax policy is the adoption of the OECD's Crypto-Asset Reporting Framework (CARF). The CARF was incorporated into domestic legislation through the Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Matters) Act 2025, enacted on 29 March 2025.

Under the new rules, from 1 April 2026, New Zealand-based reporting crypto-asset service providers must collect detailed user and transaction information and report this information to New Zealand's Inland Revenue. The reporting obligations require entities or individuals that provide services facilitating the exchange or conversion of crypto-assets for or on behalf of customers to collect and provide aggregate data on relevant crypto-asset transactions and to maintain records for at least seven years. Crypto-asset users will also have obligations to supply information to service providers where necessary for compliance with the CARF. Monetary penalties will apply in cases of non-compliance for both service providers and users. Users may face penalties of NZD1,000 for the failure to provide information, whereas service providers may face penalties of up to NZD100,000 for failure to take reasonable care to comply with their obligations.

The introduction of the CARF aligns New Zealand with emerging global standards on crypto-asset transparency and reflects increased emphasis on cross-border information exchange and integrity within the tax system.

Withdrawal of the Digital Services Tax Bill

Finally, in May 2025, the current coalition Government formally abandoned efforts by the previous government to enact a digital services tax. The previous government introduced a Bill that would have imposed a 3% levy on New Zealand-sourced digital revenues of large multinational entities that met specified criteria. The Bill did not progress through the House and remained tabled, pending further action by the Government. However, the Government has since announced that international developments on the progress of the OECD Pillar One solution has made domestic action unnecessary and potentially counterproductive. As a result, the current Government is not expected to pursue a digital services tax or any similar unilateral measures.

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