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Moving to New Zealand

Moving to New Zealand has become a popular proposition for many of late.

However, there are some important taxation considerations to understand as part of the migration process.

Background

New Zealand has a relatively simple and efficient taxation system by world standards. For most people, the main areas of taxation are income tax and Goods and Services Tax (GST).

In New Zealand, the Inland Revenue Department (IRD) is the taxation authority. In most cases, new residents will need to obtain an IRD number. This can be a relatively straightforward process, but you will need to provide certain information to the IRD as part of this application. You may also need to open a bank account in New Zealand before you are granted an IRD number.

You will need an IRD number if you would like to purchase real estate in New Zealand. As this can take several weeks, we recommend you get this sorted as early as possible.

In addition to individuals, there are other entities/structures that also have taxation obligations in New Zealand. The most common are:

- Companies (whether incorporated in New Zealand or overseas).
- Trusts.
- Partnerships.
- Limited partnerships.

There are specific rules that apply to each of these entities that you will need to understand. This is especially the case with trusts that were originally settled before moving to New Zealand. These should be reviewed as early as possible due to complex rules that may apply.

Income Tax

Individuals who are tax residents of New Zealand or derive income from New Zealand will be subject to income tax in New Zealand. This will generally involve filing an annual income tax return, although, depending on the individual and type of income derived, this may not be required in some cases.

The most relevant income tax rates in New Zealand are:

Person / Entity	Income Threshold	Tax Rate
Individual	$0 - $14,000	10.5%
	$14,001 - $48,000	17.5%
	$48,000 - $70,000	30%
	$70,001 and over	33%
Company	All income	28%
Trust	Trustee income*	33%

**Taxation from distributions on trusts can vary depending on the classification of a trust.*

A key consideration for new residents to determine their income tax exposure is assessing whether they are a tax resident of New Zealand. There are two tests to determine this:

1. The quantitative test (applies if a person is in New Zealand for more than 183 days in a 12-month period).
2. The qualitative test (applies if a person has ties in New Zealand sufficient to have a permanent place of abode in New Zealand).

Tax residents of New Zealand are required to return their worldwide income in New Zealand. However, New Zealand has Double Tax Agreements with numerous countries that can provide some relief from double taxation.

Transitional residency rules are an important consideration for new tax residents. They allow a person an optional income tax exemption of four years from the date they become a New Zealand tax resident.

The exemption applies to certain foreign sourced passive income, interest, dividends, etc. It does not apply to employment or service income.

To claim this exemption the individual must either be a tax resident in New Zealand for the first time or must not have been a tax resident of New Zealand for the previous ten years.

The exemption generally applies to foreign dividends, foreign interest, foreign rent, etc. With opportunities to transfer pensions with tax advantages during the period of the exemption, it can present a significant savings opportunity for immigrating individuals and families.

Withholding tax can apply to certain types of income, such as interest and dividend income. The type of withholding tax will depend on the tax residency of the individual.

Non-resident withholding tax (NRWT) will apply to offshore mortgages. This requires NRWT on interest payments to an offshore bank to be withheld and paid to IRD. In this circumstance, it might be worth considering eligibility for the approved issuer levy (AIL) regime. This is a concessionary regime which allows an individual to pay a 2% levy to an offshore bank instead of the standard NRWT which is usually 10-15%.

GST

GST is a consumption based tax that applies to the purchase of most goods and services in New Zealand. GST usually applies at 15%. In some cases, it is possible for a transaction to either be exempt from GST or apply at 0% (zero-rated supply).

GST can sometimes apply to property transactions and if the vendor is GST registered, it can increase the cost of purchase by 15%.

If an individual undertakes an activity or business, they will often need to be registered for GST and account for GST on income while claiming GST on certain costs. The filing obligations for most will either be a return every six or two months.

Other taxes

New Zealand does not have a comprehensive capital gains tax although capital gains can be subject to tax in some cases. For instance, the sale of land can be subject to taxation in specific cases, depending on the land in question and other relevant factors.

An example of this is if residential land is sold within five years of its acquisition, it will be subject to taxation unless an exemption applies.

New Zealand does not impose any taxation on transactions, such as Stamp Duty. Further, Estate Duty and Gift Duty also do not apply.

Overseas Investment rules

The Overseas Investment Amendment Act requires overseas persons to satisfy residency criteria when entering a sale and purchase agreement for residential land. If they do not satisfy this, it is likely the person must demonstrate to the Overseas Investment Office either:

- A commitment to reside in New Zealand;
- How they will increase housing supply, or;
- How the purchase will benefit New Zealand in some way.

The key consideration is even though you may have permanent residency it does not automatically exempt you from the rules.

Overseas Bank Accounts/Debt Instruments

These are generally subject to taxation under the Financial Arrangement Rules, which consider movements over the life of the asset. This can give rise to movements in foreign exchange being taxable.

Overseas Equity Investments

Investments in overseas equities will usually be subject to either the Foreign Investment Fund (FIF) or Controlled Foreign Company (CFC) regimes. A key characteristic of these regimes is income is often deemed to arise based on specific calculations rather than what has physically been derived.

The CFC rules provide for New Zealand residents who have a controlling interest in foreign companies. The income from these investments that is taxable in New Zealand depends on how much passive income the foreign company derives.

The FIF regime provides for deemed income to be derived regardless of actual income derived. For individuals, the income is generally based on 5% of the market value of the shares at the start of the year/period or the actual gain/loss made on the shares during the period.

Additionally, if you are a director/ trustee or shareholder/ beneficiary of an overseas entity, it is important to consider whether those entities could also be subject to New Zealand taxation as result of your move.

Overseas Pensions and Life Insurance policies

There are specific rules that apply to the taxation of overseas pensions and life insurance policies. How these rules apply, depend on several factors that should be reviewed as soon as possible.

Other factors for consideration

It is important to note your tax residency status is separate to residency status for immigration purposes and is dealt with separately.

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Please contact your Findex adviser to find out how we can assist you.

Greg James

Senior Partner
Tax Advisory

+64 9 303 4586
+64 27 504 9148

greg.james@findex.co.nz
greg.james@crowe.nz

Jarod Chisholm

Senior Partner
Tax Advisory

+64 3 474 5833
+64 21 379 060

jarod.chisholm@findex.co.nz
jarod.chisholm@crowe.nz

Daniel Gibbons

Partner
Tax Advisory

+64 3 450 1884
+64 27 256 9159

daniel.gibbons@findex.co.nz
daniel.gibbons@crowe.nz

Ryan Watt

Partner
Tax Advisory

+64 9 303 4586
+64 22 014 4504

ryan.watt@findex.co.nz
ryan.watt@crowe.nz

Alex Davidson

Associate Partner
Tax Advisory

+64 3 546 0153
+64 27 439 4254

alex.davidson@findex.co.nz
alex.davidson@crowe.nz

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