

TAXATION

The information set out below is intended to provide a general outline of New Zealand's taxation regime. Future migrants should seek specific tax advice based on their own individual circumstances before migrating to New Zealand.

THE INLAND REVENUE DEPARTMENT

In New Zealand, taxes are collected by the Inland Revenue Department (IRD) on behalf of the government. The IRD is also responsible for running a number of social support programs.

IRD NUMBERS

An IRD number is an eight-or nine-digit unique identification number issued to you by the IRD. You are required to obtain an IRD number before beginning work or starting a business in New Zealand.

You should also apply for an IRD number if you are registering for Working for Families Tax Credits or a student loan, if your child has a part time job, or if you apply for child support. You can apply for an IRD number for your children to ensure they pay a lower rate of tax on interest earned on their bank balance.

You must supply your IRD number to your employer and your bank to ensure that tax is deducted from any money you earn. If you do not have an IRD number, tax will be deducted at a no-notification rate, which is much higher than the normal rates of taxation.

THE NEW ZEALAND TAX YEAR

The New Zealand tax year begins on 1 April and ends on 31 March. It is possible, however, to change your balance date by applying to the IRD.

PAYING TAX

In New Zealand, most tax is taken at the source under the pay-as-you-earn (PAYE) system. Employers deduct tax on salaries and wages. Financial institutions deduct tax on interest as it is paid.

Typically, if you run a business in New Zealand, you will pay income tax in a series of instalments throughout the year. This amount is then reconciled with your business' actual tax liability at the end of the tax year.

If you have not paid tax on certain income (such as rental income, or self-employed income) during the year, you will be required to file a tax return at the end of the tax year to enable the IRD to calculate your tax liability. In most instances, the IRD will send you all the material you need in order to fulfil this requirement.

INCOME TAX AND RATES

All New Zealand residents are required to pay tax on their worldwide income. Non-New Zealand residents must pay tax in New Zealand on any New Zealand sourced income.



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The income tax rates (as at 1 October 2010) on every \$1 of taxable income are as follows:

Income (\$NZ)	Tax Rate for individuals, sole traders and Partners in a partnership	Tax Rate for Companies
\$0 - \$14,000	10.5 cents	28 cents
\$14,001 - \$48,000	17.5 cents	28 cents
\$48,001 - \$70,000	30 cents	28 cents
\$70,001 and over	33 cents	28 cents

Individuals must complete a tax code declaration (IR330) form in order to ensure that income tax is deducted at the correct rate. Failure to make a declaration will result in taxable income being taxed at the no-notification rate.

RESIDENT WITHHOLDING TAX

Generally speaking, payments of interest and dividends are subject to resident withholding tax (RWT). RWT is deducted at source and paid to the IRD, where it is credited against your income tax liability for the year.

The amount of RWT you are required to pay depends on your level of income, and the type of income received. It is important that you advise your interest payer of your RWT rate. This will enable the correct amount of tax to be deducted. If you elect a rate that is too low, you will have a tax bill at the end of the income year. You will also need to provide your interest payer with your IRD number.

For individuals and trusts, the RWT deduction rates for interest income are (as at 1 October 2010):

- for taxable income up to \$14,000.00 per annum – 12.5%
- for taxable income between \$14,001 - \$48,000.00 per annum – 21%
- for taxable income between \$48,001.00 - \$70,000.00 per annum – 33%
- for taxable income over \$70,001.00 per annum – 38%

If you do not choose a RWT rate for a new account, or if you fail to provide your IRD number, RWT will be deducted at the non-declaration rate of 38%.

For companies, the RWT deduction rates for interest income are (as at 1 October 2010) are 30% or 33%. The 30% rate is at the payer's option from 1 April 2010, but is compulsory from 1 April 2011.

If a company does not elect a RWT rate but has provided an IRD number, RWT will be deducted at a rate of 33%. If the company has not provided an IRD number, the default rate will be 38%.

Dividends are taxed at a flat rate of 33%.

GOODS AND SERVICES TAX

Goods and services tax (GST) is a tax on most goods and services in New Zealand, most imported goods, and some imported services. GST is generally charged at a rate of 15% (as at 1 October 2010, 12.5% before) on all taxable supplies.

GST is payable on all types of personal and real property except money, and all services except for residential tenancy services and some financial services. Limited exemptions also exist for donated goods and services sold by a non-profit body, and certain supplies which are zero-rated, including the sale of a business capable of being a going concern.

GST is a value-added tax, collected and payable to the IRD by the person supplying the goods or services. If you intend on conducting a taxable activity that makes supplies in New Zealand, you must register for GST if the following applies to you:



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GOODS AND SERVICES TAX (Con't)

- your annual turnover based on the value of your supplies for this month and the last 11 months has exceeded \$60,000.00; or
- your turnover based on the value of your supplies for this month and the next 11 months is expected to exceed \$60,000.00; or
- you supply GST and/or services with GST included in your prices, ie. taxi drivers who have included 15% in their fares.

Turnover is the total value of supplies made (excluding GST) for all your taxable activities. In a normal business, turnover will be the total value of your sales and income, including any grants or subsidies received, barter transactions and imported services.

If your taxable activity has an annual turnover of less than \$60,000.00, you don't have to register for GST, but you can if you wish.

DUAL TAX RESIDENCY

New Zealand taxes its residents on all worldwide income, regardless of where in the world that income is earned.

It is possible for you to be a tax resident in New Zealand and another country. If this is the case, and the other country also taxes its residents on worldwide income, you may be taxed twice on the same income. New Zealand has double-tax agreements with many countries; however, they decide which country has the first or sole right to tax certain types of income. If offshore income is taxed at source in a country with which New Zealand has a double-tax agreement, you will receive a tax credit, meaning that you will not pay tax on that income a second time in New Zealand.

TAX BREAKS FOR MIGRANTS

Changes to New Zealand taxation law in recent years have created major benefits for foreign investors. Specifically, under the Taxation Act 2006, new immigrants now automatically qualify for a tax exemption on their individual overseas income.

The tax exemption applies to all transitional residents. A new migrant will be deemed to be a transitional resident for at least four years after arriving in New Zealand.

Under the new tax exemption scheme, most foreign income earned by transitional residents is tax exempt, including interest, dividends, and employment and bonus income from previous employment. Only income derived from business income relating to services performed offshore, and income received from employment services provided during the exemption period will not qualify under the new tax scheme.

PRE-MIGRATION TRUSTS

Once you are no longer a transitional resident and become a New Zealand tax resident, any offshore investments you hold in your own name will be subject to New Zealand income tax.

By setting up a foreign trust structure before migrating to New Zealand, however, it is possible for you to minimise New Zealand income tax on your offshore investments after you become a New Zealand tax resident.

Intending migrants should seek specialised New Zealand taxation advice before implementing any pre-migration structure.

It is also important to obtain offshore tax advice on whether assets can be gifted to the pre-migration trust without giving rise to gift duty or inheritance tax.