

# Taxation of expatriate employees in **New Zealand**

Expatriates taking up employment in New Zealand will be subject to our comprehensive tax rules and work permit requirements. Liability to tax will be principally determined by the employee's tax residence status and the source of the relevant income.

Expatriate tax teams in Grant Thornton's New Zealand member firms can assist expatriates and their employers in dealing with New Zealand tax and employment related matters including advice on tax planning opportunities, management of assignment policies and the provision of New Zealand tax filing services.

## Pre-arrival procedures and employment visas

Work permits may be required in some situations. A visa or permit to work in New Zealand is not required where a person is:

- a New Zealand citizen or holds a New Zealand residence permit; or
- an Australian citizen, or an Australian resident with a current permanent residence visa or a current resident return visa.

For more information visit the New Zealand Immigration website [www.immigration.govt.nz](http://www.immigration.govt.nz).

## Tax year

The New Zealand fiscal year runs from 1 April to 31 March.

## Charge to tax

Tax residents of New Zealand are taxed on worldwide income, whereas tax non-residents are generally taxed on New Zealand source income only. These general rules may be modified by certain domestic concessions and tax treaty provisions depending on individual circumstances. In addition, from 1 April 2006 individuals who meet the transitional resident criteria are eligible for up to 48 months of relief from New Zealand tax, from the month following the month of arrival, on most types of foreign income. In some limited circumstances the exemption can be for a period of up to a total of 60 months from the month following the month of arrival (refer below).

## Residence

Individuals who are physically present in New Zealand for more than 183 days in any 12 month period will become tax

resident of New Zealand from their first day of presence within that relevant 12 month reference period (i.e. tax residence status applies retrospectively).

Individuals with New Zealand permanent place of abode status will also be treated as New Zealand tax resident. The permanent place of abode test looks at the person's connections to New Zealand, including the person's residential housing/accommodation arrangements in New Zealand. Exposure to New Zealand tax may be modified under the terms of relevant tax treaties.

From 1 April 2006 a person who becomes tax resident may also qualify as a **transitional tax resident** if they have not previously been a New Zealand tax resident or have been non-resident for at least 10 consecutive years. Transitional residents qualify for specific income tax exemptions in respect of foreign (non-New Zealand) source income - refer to expatriate concessions below.

To become a tax non-resident an individual needs to:

- be absent from New Zealand for more than 325 days in the twelve-month period following departure; **and**
- lose New Zealand permanent place of abode status.

## Income from employment

Taxable income from employment includes salaries, wages, bonuses, lump sum payments, the benefit of employer-provided accommodation, and benefits arising under employment-related share purchase schemes and option schemes. Certain payments to or on behalf of employees may qualify for tax-free treatment. For example, payments that compensate an employee for certain categories of work-related expenditure.

## Benefits in kind

Employee fringe benefits are subject to fringe benefit tax. This tax is imposed on employers. Common examples include motor vehicles, low-interest loans and discounted goods.

## Expatriate concessions

Non-resident employees may be exempt from New Zealand tax on income relating to the performance of short-term

employment duties in New Zealand (depending on specific circumstances).

From 1 April 2006 transitional residents are exempt from New Zealand tax in respect of their foreign-source income apart from any foreign employment income or service income derived during their transitional resident exemption period.

The transitional resident exemption provides significant tax planning opportunities and can apply for up to 48 months from the month following arrival (and longer in limited circumstances – see above). Specific advice should be sought to ensure planning opportunities are maximised. Transitional residents who have offshore losses can elect out of the foreign income exemption. Individuals considering such an election should obtain specialist advice.

### Relief for working outside New Zealand

If an individual ceases to be a New Zealand tax resident under domestic law or via the application of a double tax treaty then in general terms New Zealand will only impose tax on New Zealand sourced income.

### Relief for foreign taxes

New Zealand tax residents are given credit for foreign tax paid on foreign-source income. In general terms the tax credit recognised in New Zealand will be limited to the lesser of the foreign tax paid or the New Zealand tax applicable to the foreign income.

### Deductions against compensation

General tax deductions against employment income are limited to the cost of preparing the annual tax return and income protection insurance premiums. Deductions for other costs incurred by employees in deriving employment income are specifically prohibited. Employers may compensate employees on a tax-free basis for certain types of expenditure incurred by employees in undertaking their employment duties.

### Income tax rates

Individuals are taxed at progressive rates according to total taxable income. Rates for the 2007/08 income tax year are:

Total income (NZD)	Marginal Rate
0 to 38,000	19.5%
38,001 to 60,000	33.0%
over 60,000	39.0%

### Personal allowances – 2007/08

There are no personal allowances available in New Zealand.

Three common types of rebates claimed by individuals are for:

- gifts of money to approved organisations (up to a maximum of NZD \$630)
- qualifying payments made for the service of a housekeeper and
- individuals no older than 18 years of age.

### Tax returns and compliance

New Zealand operates a self-assessment regime whereby taxpayers file an annual tax return and self-assess the tax liability for the year. The filing date for an individual's tax return is 7 July following the 31 March year-end balance date. The filing due date is extended to the following 31 March

where the taxpayer uses a recognised tax agent (such as Grant Thornton).

### Social security taxes

The Accident Compensation scheme is funded (in part) by payroll levies imposed on employers and employees. The employee earner premium is fixed at 1.4%, with a threshold of \$102,922 (maximum levy of \$1,440.91) for the 2009 income year. This is irrespective of the employee's occupation, and inclusive of GST. The rate of ACC earner premium is reviewed each year.

### Investment income

Passive income flows such as interest and dividends are taxable at the individual's marginal income tax rate.

### Capital gains

New Zealand has not enacted capital gains tax legislation as such, although some capital receipts may be treated as taxable income. In addition certain accrued / unrealised gains may be taxable. Specific taxing regimes apply to tax gains from certain property disposals, and gains arising from financial instruments such as deposits and bonds, and gains on certain foreign shareholdings, retirement schemes and life insurance investments.

### Local taxes

There are no local taxes imposed on the income of individuals in New Zealand.

### Wealth taxes

There is no wealth tax in New Zealand.

### Inheritance and gift taxes

New Zealand does not impose inheritance tax, estate duties or death duties. However, gift duty is imposed in respect of disposals of property for inadequate consideration. Liability to gift duty arises in respect of gifts:

- by persons domiciled in New Zealand irrespective of where the subject property is situated; or
- by persons not domiciled in New Zealand where the subject property is situated in New Zealand.

### Tax planning

With correct planning advice employee allowances and benefits may be structured to achieve tax efficiency. In all cases tax planning analysis and structuring advice should occur before the assignment commences.

Grant Thornton's Expatriate Tax teams can advise expatriates on these and related opportunities.

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