Expatriate tax guide

New Zealand 2018

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Introduction

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.

Our national team has helped hundreds of expatriates and their employers navigate New Zealand's tax and employment related matters; we provide advice about tax planning opportunities, management of assignment policies and the provision of New Zealand tax filing services.

For further information on expatriate tax services in New Zealand please contact:

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Fast facts and figures

Pre arrival procedures

At this stage of your journey, nothing is required for tax purposes. However, it's wise to consider the possible impact of various New Zealand tax regimes to ensure no tax planning opportunities are missed. If a pre-migration foreign trust is to be considered it will be important to avoid triggering tax residence via preliminary visits to New Zealand in advance of establishing the trust.

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
- 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/new-zealand-visas

Tax year

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

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 tax payer uses a recognised tax agent like Grant Thornton, and has an extension of time.

Income tax rates

Individuals are taxed at progressive rates according to total taxable income. Rates for the 2018/19 income tax year are:

Total income (NZD)	Marginal rate
0 to 14,000	10.5%
14,001 to 48,000	17.5%
48,001 to 70,000	30%
Over 70,000	33%

Sample income tax calculation - 2018/2019 (Year to 31 March 2019)

	NZ $
Base employment income	100,000
Accommodation	30,000
Cost of living allowance	45,000
Gross income	175,000
Less	
Income protection insurance	(4,000)
Tax return preparation fees	(1,000)
(There are no other possible deductions in this scenario)	
Total deductions	(5,000)
Taxable income	170,000
Tax at 10.5% first 14,000	1,470
Tax at 17.5% next 34,000	5,950
Tax at 30% next 22,000	6,600
Tax at 33% final 100,000	33,000
Tax impost	$47,020

In this example there will be an additional ACC earner premium of $1,755.37. Refer to p8 for more information about ACC.

How are New Zealand residents taxed?

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 tax provisions depending on individual circumstances.

From 1 April 2006, individuals who meet the transitional resident criteria are generally eligible for up to 48 months (following the month of arrival) of relief from New Zealand tax on most types of foreign income (refer below).

Residence

Individuals who are physically present in New Zealand for more than 183 days in any 12 month period will become a 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). It's important to note that when determining whether the test is satisfied or not, part days of presence in New Zealand count as whole days.

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 the country, including thir 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 for foreign (non-New Zealand) source income; refer to expatriate concessions opposite.

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
- lose New Zealand permanent place of abode status

In determining whether the test is satisfied or not, part days of presence in New Zealand count as whole days.

Income from employment

Taxable income from employment includes salaries, wages, bonuses, lump sum payments, employer-provided accommodation benefits, and other 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.

Source of employment

New Zealand's broad sourcing rules need to be considered carefully in some cases. However, it is generally true that employment income is deemed to be sourced in the country in which the employment services are performed.

Benefits (in kind)

Employee fringe benefits are subject to fringe benefit tax (FBT). This tax is imposed on employers. Common examples of benefits subject to FBT 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 for 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 following the month of arrival. In some limited circumstances, the exemption can be for a period of up to a total of 60 months following the month of arrival. Specific advice should be sought in advance 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 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 income

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.

Personal allowances

There are no personal allowances available in New Zealand. A tax credit may be claimed by individuals for gifts of money to approved organisations.

What's taxed in New Zealand?

Capital gains tax

New Zealand has not enacted capital gains tax legislation as such, although some capital receipts may be treated as taxable income. Certain accrued/unrealised gains may also 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 particular foreign shareholdings, retirement schemes and life insurance investments. One of these regimes (the foreign investment fund regime) has recently been amended with the result that more people than previously are now subject to it.

Inheritance, estate and gift taxes

New Zealand does not impose inheritance tax, estate duties, gift duties or death duties.

Investment income

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

Social security taxes

New Zealand does not have social security taxes. However, Accident Compensation Corporation (ACC) levies are an extra charge covered by employees. The ACC scheme is a no-fault, Government-run accident insurance scheme that is funded in part by payroll levies imposed on employers and employees. The employee earner premium is fixed at 1.39% for the year to 31 March 2019, irrespective of the employee's occupation, and inclusive of GST. For the 2018/19 tax year the levy is payable for earnings up to NZD $126,286 per employee. The rate and threshold for ACC is reviewed each year.

Stock options

Gains from employment related share/option schemes are taxable. An employee share scheme (ESS) benefit is received when you purchase or are given shares from your employer free or below market value. From 1 April 2017 your employer is generally required to provide the IRD with the taxable value of the benefit. The amount that will be treated as income is the difference between the market value of the shares and the amount that you paid (if any) for them.

Your employer has the option of making tax deductions from your ESS benefits during the year. This is optional as it will not be suitable for all arrangements. However, regardless of whether your employer makes tax deduction throughout the year or not, the ESS income is reported in the employee's personal tax return in the income year in which the acquisition occurs.

The gain is taxable regardless of whether the shares are sold at acquisition date or not. Under new tax provisions, the tax event date may be modified and deferred in cases where certain restrictions or covenants apply to the employee's shares. These can effect both the timing of the tax liability and the amount of the tax liability. The ESS scheme rules will usually need to be reviewed to determine when the tax event arises.

Subsequent holding gains may also be taxable, and expert advice should be sought in such a case. If the shares are in a company which is not New Zealand tax resident (ie, an overseas company) then additional tax implications may need to be considered under the international tax rules including the foreign investment fund regime rules.

Expatriates should also seek expert advice because depending on the specific circumstances, some or all of the income may be exempt from New Zealand tax or alternatively it may be taxable but with foreign tax paid recognised as a credit on some or all of the income.

Other specific taxes

A passenger service charge (PSC) is charged for passengers arriving and departing New Zealand. This amount is included in the airfare costs and collected by the airlines. No further departure charge is necessary.

What's not taxed in New Zealand?

- Local taxes
- Wealth tax
- Real estate tax: Property rates are levied by local governments to cover local infrastructure, logistical and management costs
- Inheritance, estate and gift taxes: New Zealand does not impose inheritance tax, estate duties, gift duties or death duties.

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