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Recent developments in international taxation: New Zealand

Introduction

The New Zealand Government has proposed and clarified a number of tax measures in the last 12 months that are consistent with its tax policy framework priorities – simplifying tax and reducing compliance costs, addressing integrity risks and improving fiscal sustainability – in order to rebuild the economy.

One of the major ways these priorities have manifested is in the tax changes the government has made to encourage international investment in New Zealand and encourage high-net-worth migrants to move to New Zealand. Another key theme in New Zealand's recent approach to international taxation is caution, as the government seems keen to prevent being deemed to be a 'discriminatory foreign country' under the One Big Beautiful Bill Act, which was passed in July in the United States.¹

OECD Pillar Two rules enacted and in force in New Zealand

Early last year, New Zealand enacted legislation that adopted the OECD's Global Anti-Base Erosion (GloBE) Pillar Two Rules into domestic law, through the addition of subpart HP in the Income Tax Act 2007 (the 'Tax Act'). The rules are designed at ensuring large multinational enterprises (MNEs) pay a 15 per cent global minimum tax (GMT) on the income in every jurisdiction where that income is earned.

The adopted rules took effect from 1 January 2025 and, consistent with OECD guidelines, have two main elements: the income inclusion rule (IIR) and undertaxed profits rule (UTPR). In summary:

1. New Zealand will apply a top-up tax under the IIR. If an ultimate parent entity (UPE) headquartered in New Zealand has group profits that are taxed at less than 15 per cent in any jurisdiction, New Zealand will impose an additional tax at whatever rate is necessary to bring the total tax on the group's profits up to 15 per cent; and
2. where the IIR does not apply, the UTPR will apply to foreign MNE groups operating in New Zealand.

New Zealand's implementation of the GloBE rules does not include a qualified domestic minimum top-up tax; it instead uses a narrower domestic inclusion rule (DIIR) which will apply only to New Zealand headquartered in-scope MNEs from the income year beginning on or after 1 January 2026. The purpose of the DIIR is to ensure New Zealand retains taxing rights over the collection of top-up tax on undertaxed New Zealand profits that would otherwise be collected by another country under its GMT rules.

Interestingly, the Pillar Two rules were implemented through 'incorporation by reference'. This consists of adopting the rules by cross-referencing the OECD Model Rules. The effect of this is that any changes made by the OECD to the rules or commentary will be automatically incorporated into New Zealand law the following year. This approach was chosen over rewriting the Model Rules into the Income Tax Act because it reduces the administrative burden of the legislative process and

ensures consistency with other Pillar Two jurisdictions. Importantly, it does not result in a substantive loss of sovereignty, as Parliament retains the power to enact laws that can override any changes made at the OECD level if necessary.

Draft digital services tax legislation dropped amid US tax threats

On 20 May 2025 the New Zealand Government quietly withdrew the Digital Services Tax Bill 288-1, which would have introduced a digital services tax at 3 per cent on gross digital services revenue deemed to be earned in New Zealand. The bill had been introduced by the previous government; while no positive comments about the bill had been made by the current government its 2024 budget forecasts included amounts of revenue from the proposed tax.

The press release explaining the discharge of the draft bill did not explicitly address the One Big Beautiful Bill Act, but the fact digital services taxes are deemed to be ‘unfair’ taxes and residents of the ‘discriminatory foreign countries’ that implement them could be subject to punitive increases in US tax of 5 per cent per year (up to a maximum of 20 per cent) is likely the primary reason behind the bill’s withdrawal.

It remains to be seen whether the same fate will befall New Zealand’s UTPR, which is also deemed to be an ‘unfair foreign tax’.

Crypto-Asset Reporting Framework keenly adopted by New Zealand

The government has announced and legislated a series of amendments making New Zealand among the first to adopt the OECD’s Crypto-Asset Reporting Framework (CARF), aimed at combatting tax evasion and improving tax transparency for crypto assets.

Under this framework, New Zealand-based reporting crypto asset service providers (RCASPs) will be required to:

1. collect personal information (such as name, address, date of birth, and tax identification number) and aggregate data on all relevant crypto asset transactions for each reportable user starting from 1 April 2026; and
2. report this information to Inland Revenue (New Zealand’s tax authority) by 30 June each year, beginning on 30 June 2027.

Inland Revenue will then exchange this information with other tax authorities (to the extent it related to reportable users resident in that other jurisdiction) by 30 September each year, beginning 30 September 2027. Non-complying RCASPs and crypto asset users operating through RCASPs would be subject to civil penalties under the Tax Administration Act 1994 (TAA).

The framework aims to address the rapid growth of crypto assets, which has led to the emergence of various intermediaries like crypto asset exchanges and wallet providers. These intermediaries are often located in different jurisdictions from their users, which makes it difficult for tax authorities to obtain information about their tax residents if this information is held offshore. This has made enforcement by tax authorities on income derived by crypto assets increasingly difficult. It is hoped that this information-sharing mechanism will eliminate this difficulty, as Inland Revenue will use the information to ensure New Zealand resident users pay the correct amount of tax on their crypto asset income. For non-resident users, Inland Revenue will share this information with the relevant tax authority, who can also use it for compliance purposes.

The taxation of crypto assets has become a focus of compliance activities for Inland Revenue, which made a show last year of contacting 227,000 crypto asset users in New Zealand – undertaking around 7 million transactions worth over NZD \$8bn – to warn them about ensuring they are complying with their tax obligations. As Inland Revenue was able to collate this data and contact users with its existing information collection powers, we expect that Inland Revenue would quickly make use of information provided to it through CARF.

Changes to encourage high-net-worth migration

Inland Revenue has recently proposed changes to the New Zealand foreign investment fund (FIF) regime, which broadly taxes foreign share investments held by residents by deeming an amount of income based on an attribution method (eg, the fair dividend rate method deems annual income equal to 5 per cent of the market value of the investment).

The proposed changes, which would come into effect through an omnibus tax bill expected to be introduced in August, are aimed at encouraging foreign investment by reducing the tax burden on migrants and returning New Zealand expats. The current FIF regime disincentivises migrants from entering New Zealand because their FIF income is calculated on unrealised gains and deemed income rather than on realisation. This causes further difficulties for migrants subject to citizen-based taxation (ie, the US) as they may face double taxation upon disposal of their investment (although US residents may be able to claim a tax credit in the US for FIF taxation paid).

The proposal aims to resolve this disincentivising effect by introducing a new method to calculate taxable income from foreign portfolio investments, known as the revenue account method (RAM). The RAM would allow in-scope migrants to calculate their FIF income from illiquid investments on a realisation basis; it also extends this benefit to all investments, whether liquid or illiquid, for migrants who are subject to citizen-based taxation. This proposal will only apply to new migrants and returning New Zealanders (who have been non-resident for at least five years) only, not existing New Zealand residents.

Further tax changes to encourage foreign direct investment and high-net-worth migration are possible in respect of New Zealand's financial arrangements tax rules. Other legislative and policy changes are being made in immigration, foreign investment and trade.

Thin capitalisation rule changes to encourage foreign direct investment in privately owned infrastructure assets

Inland Revenue has released an officials' issues paper titled *Thin Capitalisation Settings for Infrastructure*. The paper invites submissions on proposed reforms aimed at addressing the limitations of the current thin capitalisation rules, particularly for foreign direct investment in privately owned infrastructure assets. The preferred reform option set out in the paper is extending an existing exemption for public-private partnerships (which reduces amounts of interest denied/income deemed under the thin cap rules) to be extended to infrastructure developed for private ownership.

The proposed reform would only apply to new projects (greenfield and some major brownfield upgrades) and covers traditional infrastructure, plus a list of qualifying project types (potentially including large-scale residential developments). However, only third-party debt with recourse confined to the project's assets/income would be fully deductible under the proposal.

Non-resident marketplace operators subject to GST

On 1 April 2024, changes to the Goods and Services Tax Act 1984 came into force that mean goods and services tax (GST) applies to supplies of short-term accommodation and transport services made in New Zealand through an electronic marketplace (eg, supplies of short-term accommodation made through Airbnb).

The new rules treat the marketplace operator as having supplied the relevant services made available through their platform, effectively shifting the obligation to collect GST from the underlying service supplier to the marketplace operator. GST needs to be collected regardless of whether the service supplier is itself GST registered. Both New Zealand resident and offshore operators are subject to the rules.

The key points from the amendments are:

- online marketplace operators registered for GST must collect and return a 15 per cent GST on accommodation services provided, performed or received in New Zealand. This applies even where the person supplying the accommodation is not GST registered;
- suppliers of accommodation who are not GST-registered will receive a flat rate credit of 8.5 per cent, paid by the marketplace operator. This credit acknowledges the costs incurred in providing short-stay and visitor accommodation;
- for GST-registered suppliers, the marketplace operator will collect and return GST of 15 per cent. These suppliers will treat their supplies through the marketplace as zero-rated and can continue to claim GST as usual. Registered suppliers are not eligible for the flat-rate credit; and
- some larger suppliers will have the option to opt out of these rules and continue to account for GST as they normally would.

New Zealand continues to expand its treaty network

New Zealand has a network of 41 double taxation agreements in force with its main trading and investment partners, and is currently negotiating new treaties with Croatia, Hungary, Iceland, Portugal and Slovenia. New Zealand is a party to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI) and has made very few reservations to articles of the MLI.

A hefty dose of remedials – international tax remedials in the 2025 Annual Rates Bill

The government has introduced several international tax remedials in the Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Bill that was enacted earlier this year. The thin capitalisation rules on the calculation of non-debt liabilities and the debt percentage of the group have been amended. In summary, the amendments:

- exclude interest-free loans from a trust's settlor when calculating the trust's non-debt liabilities, provided the settlor's contributions amount to 10 per cent or more of the trust's total settlements. The reasoning for this exclusion is that interest-free loans from a settlor to a trust are comparable to interest-free loans from a shareholder to a company, which are already excluded. Therefore, it makes sense to exclude settlor loans as well;
- extend the exclusion from non-debt liabilities for providers of interest-free loans and holders of redeemable shares who are members of the same wholly owned group of companies, to also include non-corporate members (such as a settlor of a trust, trustee of a trust, or individual); and

- correct the link between the calculation of group debt percentage and the requirement to adjust an excess debt entity's interest deduction, to ensure that entities with non-debt liabilities greater than the total assets are required to reduce their total interest deductions.

The foreign tax credit (FTC) rules and trust rules have been amended to correct the unintended effect of trust beneficiaries obtaining a larger FTC than they should be entitled to. This was caused by the interaction between the trust rules and the FTC rules.

The FTC rules permitted the FTC to be capped at the lower of the foreign tax paid on the income, or the tax that would have been paid minus deductions, if not for the FTC (referred to as 'notional liability'). The trust rules enable beneficiaries to get a deduction when a trust incurs expenses, as it requires the deductions to be taken at the trustee level despite the income being distributed to the trust's beneficiaries. The beneficiaries therefore get the FTC as they are the ones with the taxable income. This results in the beneficiaries getting a larger FTC as the deductions are removed from the notional liability calculation. The amendment rectifies this by requiring the relevant deductions taken at the trust level to be accounted for when calculating the beneficiaries' FTC.

¹ One Big Beautiful Bill Act, H.R.1, 119th Cong. (2025)