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Tax Alert

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Inland Revenue's Draft Long-Term Insights Briefing

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A tax system for all seasons

Inland Revenue's Draft Long-Term Insights Briefing

By Joe Sothcott and Robyn Walker

New Zealand's wrinkles are beginning show.

With the country's aging demographics in mind, Inland Revenue's latest draft Long-Term Insights Briefing (LTIB) considers the challenges this presents, namely that fewer working-age people will be paying taxes while more will be drawing on New Zealand Superannuation and other public services such as healthcare. Treasury projections paint a stark picture—if New Zealand's current settings are maintained, the deficit could rise to 13.3% of GDP by 2061.

To respond, the draft LTIB argues for a tax system characterised by durability and flexibility, a tax system for all seasons. The point is that while changing what is taxed—tax bases—can be costly and expensive, adjusting how much we tax is far simpler. In other words, a stable set of tax bases with adjustable rates will make it easier to raise the revenue needed to meet future demands while keeping compliance and administration costs low. Think of it like a garden hose—the lawn stays the same, but you can adjust the flow of water depending on how much you want it to grow.

This LTIB is the second produced by Inland Revenue and is out for consultation now. The Public Service Act 2020 requires government departments to publish LTIBs at least once every three years with the aim of increasing the public service's focus on the long term.

They do not represent Government policy (LTIB topics are chosen by government departments rather than Ministers), instead they seek to discuss the pros and cons of various options and promote debate.

We unpack the Inland Revenue's draft LTIB below.

Principles and systems

Part one of the LTIB is a rather academic review of the principles of the tax system. It sensibly adopts the McLeod Tax Review's golden rule for a tax system: that it should raise the required amount of revenue in the most efficient way possible all while promoting fairness. But the question is how this is best achieved while balancing the frequent tension between efficiency and equity (a subjective concept).

The LTIB explains that there are two underlying tax bases: labour income (income from working) and capital income. Capital income can be further split into three categories:

1. **The normal return** – the basic return for delaying consumption, such as interest earned on a savings account.
2. **Economic rents** – the additional return that can be expected from controlling and operationalising a valuable or scarce resource, such as renting out a house in an expensive part of town.
3. **Return to risk** – the additional over and above return expected for putting capital at risk, such as investing in the stock market.

The different bases can be taxed through different types of tax, with the four main types considered in the LTIB being:

1. **Labour income tax** – also referred to as a payroll tax. Wages and salaries are taxed but capital income is not.
2. **General income tax** – wages and salaries are taxed as well as capital income.
3. **Consumption tax** – tax is paid when goods or services are purchased (i.e., income is taxed when it is spent, not when earnt). Doesn't tax normal returns.
4. **General income tax with a rate of return allowance** – as with a general income tax, but capital income is taxed slightly differently as the normal return is not taxed (or taxed at a lower rate). This is also referred to as a dual income tax.

The four types of tax overlap each other in the type of income being taxed. With this overlap in mind different countries employ different combinations, with New Zealand operating a general income tax and a consumption tax. Inland Revenue propose that this current combination is sufficient and should be maintained, though also considering that swapping in a dual income tax system for a general income tax system could also be worth pursuing. While the LTIB notes that there is some debate about whether normal returns should be taxed, Inland Revenue conclude that the weight of evidence suggest it should be taxed, albeit perhaps at a lower rate.

For what it's worth, New Zealand is highlighted as being rather unique in its mix of taxes. New Zealand does not have a separate labour income tax, unlike many other OECD countries which have social security contributions. However, New Zealand raises more revenue from GST and corporate tax than other OECD countries. The difference in what New Zealand taxes relative to other OECD countries is illustrated below to the right.

Decomposition of difference in OECD average tax-to-GDP ratio and New Zealand tax-to-GDP ratio, 2021

Source: OECD (2024)

Income tax systems

Part two of the LTIB deals with the design of tax systems, firstly income tax. Having concluded that either a general income tax or a dual income tax could provide the desired stability and flexibility, the LTIB examines existing issues with the income tax system and how different options may address these issues.

First, taxing capital gains. New Zealand does not have a capital gains tax, and this arguably makes the income tax base not as comprehensive as it could be. Whilst Inland Revenue note that taxing capital gains would result in a more neutral treatment of different types of income, the trade-offs include increased compliance costs, the potential of capital gains being 'locked-in', penalised risk taking, and the risk of taxing only the inflation element of a gain. It is also noted that when the Cullen Tax Working Group considered a capital gains tax, they estimated it would eventually generate around 1.2% of GDP in revenue (about $3 billion based on current GDP). This is a long way away from closing the projected deficit of 13.3% of GDP in 2061, so even if New Zealand implemented a capital gains tax and it raised the estimated revenue, more will be needed to reduce the projected deficit.

Second, the interaction between personal and corporate taxation. The corporate tax rate is currently 11% lower than the highest personal marginal tax rate (28% vs 39%). The reason the corporate tax rate is lower is to ensure New Zealand is attractive to foreign investment, but a concern Inland Revenue has is that this incentivises sheltering income in a company where it is taxed at a much lower rate.

While the solution could be to lower the personal tax rates, Inland Revenue point out this may conflict with the distributional goals of different governments, not to mention revenue sufficiency. Ultimately a gap between the two rates will likely need to be tolerated.

Compared to other OECD countries, New Zealand already has a relatively high corporate tax rate, and this may make New Zealand a more unattractive destination for foreign investment. That said, Inland Revenue point though this may be comparing apples with oranges, as many countries with lower corporate tax rates operate classical tax systems where corporate income is taxed twice (first when received by the company and second when distributed to shareholders as dividends). Meanwhile, New Zealand has an imputation system intended to alleviate this double taxation. The effect of having a classical tax system is that the tax cost on residents is high, but low for non-residents. The point seemingly being suggested by Inland Revenue is that the trade-off for operating an imputation system is arguably a higher corporate tax rate.

One option to address these problems the LTIB considers is Norway's dual income tax system. Effectively, a dual income tax is a general income tax but with a lower tax rate for normal returns which is deemed at a certain rate as being the risk-free rate, similar to how the Fair Dividend Rate method works for the Foreign Investment Fund rules.

Such a system would require the taxation of capital gains. So taking an example where an individual has income of $100,000, assets valued at $500,000, and the deemed rate of return is 4%:

Current rules

Income of $100,000 is taxed at marginal tax rates.

↓

Dual income tax system

The rate of return is calculated as 4% of the value of the assets (4%*$500,000 = $20,000)

This $20,000 is the normal return and taxed at a lower rate.

$20,000 is then subtracted from the income of $100,000 to give net income of $80,000. The net income is taxed at the full marginal rates.

Consumption taxes

New Zealand's consumption tax, GST, is famously broad meaning there are very few goods and services it does not apply to. In fact, New Zealand has the highest VAT revenue ratio (which attempts to measure the broadness of GST/VAT) in the OECD. This is considered a great strength of our GST, in that its breadth allows it to be low cost but raise a lot of revenue. On paper, this makes GST a prime candidate for a rate increase to improve tax revenues.

The concern is that GST, as a flat tax, is considered by many to be a regressive tax. Treasury evidence suggests that while the proportion of income tax by households is fairly proportionate across household disposable income deciles, GST is more evenly distributed. Other academic research has also found that New Zealand's GST—like in other countries—is regressive relative to income and expenditure.

The issue New Zealand faces therefore is that while raising GST is the easiest and most cost-efficient way of increasing Government revenue, the brunt of a GST rate increase is borne by lower income New Zealanders. The solution put forward in the LTIB is to increase GST rates while simultaneously providing some type of cash transfer/tax credit to lower income households (this approach was taken when the rate of GST was increased to 15% in 2010). It is suggested that the other approach of exempting certain goods from GST does not achieve the desired effect as evidence suggests reduction in the rates of GST on particular products are not always passed through to consumer prices.

Inland Revenue ran a model where the rate of GST was increased by 3% while providing a tax credit to the 26% of households with disposable income below 60% of the median family disposable income, so they were no worse off. The result was $5.5 billion revenue raised at a cost of only $0.44 billion (net revenue of $5.06 billion). On the face of it, such an approach could be a practical solution.

What are the other options and what's not there?

The LTIB also outlines several other tax types that New Zealand does not currently have in effect but that have been floated in the past, such as, payroll taxes, wealth taxes, inheritance taxes, land and property taxes, and social security contributions. Inland Revenue's view is that the type of income being taxed by these other taxes is already covered in one way or another by a general income tax or a consumption tax. So if one of the other tax types were to be implemented, it should be a supplementary tax (rather than in lieu of the existing taxes) and consideration should be given to reducing the rates of the existing taxes to offset.

What is also interesting is what is not covered in the LTIB. In particular, there is limited discussion on the economic costs of taxation and the interaction between tax and productivity. The LTIB analysis essentially sits in a vacuum and assumes that more tax, on existing taxpayers, is the only solution to the aging population, whereas any solution will ultimately need to be a combination of revenue and expenditure changes. More fulsome discussions on these points in the final version could paint a clearer picture about the place of the tax system within the broader New Zealand economy.

If you are interested in submitting on the LTIB, Inland Revenue have set out some questions they would be interested in receiving responses on to help shape the final version of the LTIB. The deadline for submissions is 1 September 2025.

If you have any questions, please contact your usual Deloitte advisor.

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Participating Advisor Pioneering a stronger, transparent tax system

By Viola Trnski, Haidee Watkin and Jeanne Du Buisson

Inland Revenue's investigation powers have received boosts in Budget 2024 and 2025, with millions in extra funding each year being specifically assigned to increase audit and investigation activities. And it is working, with $880.8 million of additional tax being assessed from audits in just nine months from 1 July 2024 to 31 Mach 2025 (up from $460 million in 2024). It's fair to say Inland Revenue "are back" in the game and are looking for returns on investment for the Government by materially increasing audit activity. Many taxpayers are unlikely to have gone through an audit so it's a bit of an unknown quantity, with a general perception that they can be very time consuming and are best avoided if possible. That's where Inland Revenue's Participating Advisor programme can step in to provide taxpayers with an alternative option.

Participating Advisor

Inland Revenue recently announced the launch of the Participating Advisor programme. This is an initiative to enhance tax governance and compliance by giving taxpayers the option to have a reviews of certain tax types (GST, FBT and Payroll) undertaken by an approved tax advisor rather than Inland Revenue. These can be proactively undertaken by taxpayers as part of an organisation's tax governance framework, or undertaken in response to Inland Revenue attention.

Deloitte is proud to be an approved Participating Advisor for GST, FBT and Payroll reviews.

Participating Advisor is a pioneering example of how tax advisors and tax authorities can work together to promote tax governance and compliance. This new framework overlays Deloitte's traditional GST, PAYE, FBT and data analytics review products, and provides taxpayers with an additional layer of assurance that Inland Revenue will not undertake further review/ audit if Deloitte's review aligns with Inland Revenue's scope and timeframe. Feedback from organisations who have already had a Participating Advisor review (PAR) has been that the PAR has been successful in the context of Inland Revenue review and audits, as part of regular tax governance programmes and they have also been useful in the context of due diligence reviews (including vendor due diligence).

How do I initiate a Participating Advisor review?

A PAR can be initiated in two ways:

1. As part of an organisation's regular tax governance activities; or
2. In response to Inland Revenue-initiated audit/review activities, provided the scope and timeframe is agreed with Inland Revenue.

Why Participating Advisor?

In contrast to an Inland Revenue investigation, a PAR gives and organisation greater control over timing, access to a team of experts that can identify and implement opportunities (rather than only risks), and more generally, can be scheduled proactively to identify potential gaps, and ensure these are addressed so an organisation is in the best possible position going forward.

What to expect from a Participating Advisor review

Organisations should expect the same comprehensive Deloitte review products, augmented by the confidence of working with an 'approved provider'. After agreeing and documenting the review scope, our specialist teams will work with organisations through our tailored questionnaire interviews, review of return processes and sample checking.

These interviews can be scheduled around a finance team's busy workflow and in a flexible way to minimise disruption to organisations. The deliverable is a traffic light report that details the identified risks (and remediation options) and opportunities for an organisation.

Want to find out more?

The Participating Advisor framework officially went live on 1 June 2025 for GST, FBT, and Payroll reviews.

If you would like to know more, or discuss other ways you can strengthen your business's tax governance, please visit our Participating Advisor webpage, or get in touch with your usual Deloitte advisor.

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Pillar Two is changing
What does it mean for New Zealand?

By Joe Sothcott and Sam Mathews

On 4 July 2025—US Independence Day—President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. Whilst there has been a lot of coverage in the New Zealand media about the OBBBA, perhaps most relevant for Kiwis is what was absent in the version passed into law. After weeks of speculation, the US and its G7 partners reached an agreement to remove proposed section 899 from the OBBBA.

Section 899 was covered in the previous edition of Tax Alert. The section, if implemented, proposed to increase taxes for shareholders and investors into the US, or foreign businesses doing businesses in the US if they were from an 'offending foreign country'. There have been several iterations of the section in both the House of Representatives and the Senate, but an offending foreign country included countries which had an undertaxed profits rule (UTPR). The UTPR is part of the Pillar Two rules, which is the global minimum tax of 15% developed by the OECD, the G20, and the rest of the "Inclusive Framework." New Zealand adopted the Pillar Two rules, including the UTPR, from 1 January 2025.

While the United States never implemented the Pillar Two rules, US multinationals could have been subject to top-up tax up to 15% as a result of the UTPR. This led to the UTPR being deemed an 'extraterritorial tax' in the OBBBA with the hope that countries would remove their UTPRs in response (amongst other taxes objected to).

But on 28 June 2025, the G7 issued a statement announcing that an agreement that had been reached to remove section 899. The statement said that in return for the removal of section 899, there "is a shared understanding that a side-by-side system could preserve important gains made by jurisdictions in the Inclusive Framework in tackling base erosion and profit shifting and provide greater stability and certainty in the international tax system moving forward." The OECD Secretary-General issued a statement welcoming the agreement.

What does this mean for the Pillar Two/GloBE rules?

It is still not entirely clear how a side-by-side system will operate. An option includes treating the US Global Intangible Low-Taxed Income (GILTI) rules as the equivalent to the Pillar Two rules. It has been suggested this could be achieved by treating GILTI as a Qualifying Income Inclusion Rule under the Pillar Two rules. The result would be that US headquartered groups would not be subject to the Pillar Two rules (either through the Income Inclusion Rule or Undertaxed Profits Rule) because they will already be subject to GILTI. However, such an approach could introduce some practical difficulties given the design of two systems are quite different.

In particular, the GILTI regime is what is known as a blended worldwide tax regime. Under a blended worldwide regime, a single effective tax rate for an entire multinational group is found by aggregating income and taxes across multiple jurisdictions. In other words, an average tax rate is found across all the countries where a group operates. While this is considered less compliance-intensive, it does mean that groups that operate in low tax jurisdictions can offset this against the higher tax jurisdictions they operate in.

Pillar Two, meanwhile, operates on a jurisdictional basis. This means that an effective tax rate is calculated for each jurisdiction where a multinational operates. It has the opposite advantages and disadvantages to a global blended system. While the same outcome is the goal of both regimes—to ensure multinational groups pay a minimum level of tax—the different designs mean the two systems operate in different ways.

It has also been suggested the G7 agreement could be implemented by making permanent or extending the current UTPR transitional safe harbour. The UTPR transitional safe harbour removes any top-up taxable in respect to the jurisdiction of the Ultimate Parent Entity for fiscal years beginning on or before 31 December 2025 and ending before 31 December 2026 if the jurisdiction has a headline corporate income tax rate of at least 20%. The US corporate tax rate is 21% so US headquartered companies could be exempted this way, however it would also exempt several other countries who have not implemented the Pillar Two rules. There is also a question of how the UTPR transitional safe applies to subsidiaries of US headquartered groups.

The G7 statement is not clear on whether there will be changes for US based subsidiaries of parent's not headquartered in New Zealand. The Income Inclusion Rule and Qualified Domestic Minimum Top-up Tax (QDMTT), the latter of which New Zealand hasn't adopted, will likely continue as they were.

What else is impacted?

The G7 statement also said there would be consideration given to changing the Pillar Two treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits. Whether or not a tax credit is refundable within four years leads to stark differences in how it is treated in the GloBE rules.

Nonqualified refundable tax credits—those which are not refundable within four years—are likely to increase the top-up tax liability. The OECD will now explore ways to align the treatments.

What next?

OECD discussions on implementing the G7 agreement are underway. The OECD is expected to be particularly focused on achieving a 'level playing field' to avoid a situation where one tax system offers material advantages over the other. Additionally, the OECD has indicated it will work on a simplified approach for calculating effective tax rates under the Pillar Two rules to reduce compliance burdens.

In the meantime, we do not have any details of any changes at the OECD level or in any jurisdiction. At this stage, we expect most in scope taxpayers (including those in New Zealand) will continue to prepare for Pillar Two compliance—including reporting, registrations, and consideration of the safe harbours—as before with the understanding the rules may change with respect to the US. We expect this will continue to be the case until the agreements are reached at the OECD level and subsequently enacted into law.

The G7 statement was clear that the agreement that was reached was conditional on the removal of section 899 of the OBBBA. Any effort to reintroduce section 899 or an equivalent could nullify the agreement. Similarly, in their joint statement the Chairs of the House Ways and Means Committee and the Senate Finance Committee noted that "Congressional Republicans stand ready to take immediate action if the other parties walk away from this deal or slow walk its implementation." This is a space that may continue to be fluid for some time.

In related developments, negotiations on a UN Tax Framework are gaining momentum with the first negotiating sessions commencing this month. The UN General Assembly is expected to consider a Framework Convention along with two initial protocols concerning the taxation of cross-border services and dispute prevention/resolution by September 2027. Introducing an operational UN international tax framework alongside the OECD and US systems will likely further complicate the international tax landscape for taxpayers.

If you have any questions, please contact your usual Deloitte advisor.

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Pillar Two FAQs

By Joe Sothcott, Young Jin Kim and Annamaria Maclean

With the Pillar Two rules now in force in New Zealand and as we edge closer to the first registration deadlines, we take a look at the common queries and questions we have received about how the Pillar Two rules work in New Zealand (Note: answers are accurate as at August 2025).

Have the Pillar Two rules been enacted in New Zealand?

Yes - the New Zealand Government enacted legislation to formally implement the OECD Global Anti-Base Erosion (GloBE) Pillar Two rules in March 2024. The new Pillar Two rules will apply to multinational enterprise groups (MNE groups) with global turnover above EUR750m in two of the four preceding income years.

In addition to the 20 to 25 New Zealand-headquartered groups on Inland Revenue's radar, the Pillar Two rules will apply to inbound groups operating in New Zealand (e.g., via a subsidiary, branch or permanent establishment) that group meet the global turnover threshold of EUR750m.

The GloBE rules, as enacted in New Zealand, include:

- The Income Inclusion Rule (IIR) and Under Taxed Profits Rule (UTPR) that will apply to both New Zealand-headquartered groups and inbound groups for income years beginning on or after 1 January 2025.
- The Domestic Income Inclusion Rule (DIIR) will apply for income years beginning on or after 1 January 2026.

The Qualified Domestic Minimum Top-up Tax (QDMTT) has not been enacted in New Zealand.

Please refer to our previous Tax Alert articles on Pillar Two for an overview of the GloBE rules and our comments on the recommended next steps that groups should take to understand their exposure to these rules.

New Zealand registration requirements

New Zealand constituent entities are required to register in New Zealand six months after the end of the first fiscal year they are in scope of the GloBE rules. For example, for an entity with a fiscal year end of 31 December, the registration due date is 30 June 2026 (being six months after the end of the first year the rules apply – 1 January 2025). This also means 30 June 2026 is the earliest possible registration deadline. This applies to both New Zealand headquartered MNEs and groups with a subsidiary, branch or permanent establishment in New Zealand. Failure to register could result in a penalty of up to NZD100,000.

At this stage, it seems likely that pillar two registrations will be administered electronically via the myIR system, but as of early August 2025 it is unclear what the format of the registration will look like and the information that will need to be disclosed as part of this process (so unfortunately you can't go and get this task ticked off now as you're reading this article). It is also unclear whether Pillar Two registrations will be required for each constituent entity in New Zealand, or a nominated entity can register on behalf of all New Zealand constituent entities that are part of the same MNE group.

Based on the limited information released by Inland Revenue in the May 2024 Tax Information Bulletin, we expect the registration form will require disclosure of the identity and location of the designated filing entity for the MNE group that will be filing the GloBE Information Return (GIR) and contact details of the New Zealand constituent entity. This information will notify Inland Revenue of the country from which the GIR will be received - either New Zealand or another country through information exchange – and will provide a point of contact if the GIR is not received.

Annual Multinational top-up tax return

Based on the Pillar Two legislation that has been passed, each New Zealand constituent entity is expected to be required to file an annual multinational top-up tax return (MTTR) even if there is no top-up tax liability.

The return must be filed within 16 months of the last day of the relevant fiscal year or 20 months for the first year of application. For example, if a New Zealand constituent entity has a 31 December balance date and is first subject to the GloBE rules in the 2025 fiscal year, their first MTTR will be due on 31 August 2027 (20 months after 31 December 2025). Their second MTTR will be due on 30 April 2028 (16 months after 31 December 2026). Payment of any multinational top-up tax would also be due on the same day the MTTR is due to be filed with Inland Revenue.

Again, it is unclear whether a separate MTTR will be required for each constituent entity in New Zealand or a nominated entity can file a single MTTR on behalf of all New Zealand constituent entities that are part of the same MNE group.

As with the registration requirements, Inland Revenue is yet to release the format of the New Zealand MTTR. However, we understand it will be required to disclose the following:

- Whether or not the New Zealand constituent entity has a multinational top-up tax liability for the fiscal year;
- The amount of multinational top-up tax payable by the New Zealand constituent entity for the fiscal year (if any); and
- Any other information required by the Commissioner (no further information has been provided in relation to this).

GloBE Information Return

The GloBE Information Return (GIR) must be filed in New Zealand within 15 months from the last day of the relevant fiscal year. This is extended to 18 months for the first year of application. For example, if a New Zealand constituent entity has a December balance date and is first subject to the GloBE rules in the 2025 fiscal year, their first GIR will be due on 30 June 2027 (18 months after 31 December 2025). Their second GIR will be due on 31 March 2028 (15 months after 31 December 2026). Care will need to be taken on the timing if the multinational group is subject to the GloBE rules in another country in an earlier year.

The GIR does not need to be filed in New Zealand where it is filed on time by the Ultimate Parent Entity or Designated Filing Entity located in a jurisdiction that has a Qualifying Competent Authority Agreement with New Zealand. A Qualifying Competent Authority Agreement is a bilateral or multilateral agreement between Competent Authorities that allows for automatic exchange of information. This limits the compliance burden on MNE Groups by limiting the number of jurisdictions where the GIR is required to be filed.

The above exception does not apply to New Zealand headquartered MNE groups and Inland Revenue requires the GIR to be filed in New Zealand for income years beginning on or after 1 January 2025.

GIRs that are filed in New Zealand will follow the standard template that has been developed by the OECD.

Does New Zealand have a Qualified Domestic Minimum Top-up Tax?

New Zealand has not implemented a QDMTT for foreign owned subsidiaries operating in New Zealand.

However, New Zealand has implemented a DIIR with effect from 1 January 2026. New Zealand's DIIR functions like a QDMTT but only applies to New Zealand headquartered groups. The DIIR means New Zealand-headquartered groups do not have to pay any top-up tax on undertaxed New Zealand income (if there were any) to other countries under the UTPR.

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Operational Transfer Pricing

Real time efficiency and compliance tailored for your business

By Bart de Gouw, Liam O'Brien, Lucy Scanlon and Sam Thomlinson

The year end Transfer Pricing panic…
It's post-balance date, and your finance team has almost wrapped up its year-end accounting and financial statement preparation. You remember that the transfer pricing position should be considered. In a folder somewhere sits the company's transfer pricing policy, which maps out how the Group's various cross-border intragroup transactions should be structured and priced. Following its creation a number of years ago, some thought was given to how it should be implemented in the company's financial statements but implementation always fell to the bottom of the to do list and no action was taken. Instead the policy and documentation has become a year-end afterthought, a "check the box" document ready to be handed over to the local tax authority.

You sigh, transfer pricing always holds up the year-end process.

Sound familiar?

There is a better way – Operational Transfer Pricing

Transfer pricing does not have to be, and should not be, a year-end only process. Instead, transfer pricing can, and should, be incorporated as part of the operational business processes undertaken during the year. Integrating transfer pricing as part of the business cycle makes the year end process for confirming the transfer pricing approach and treatment a far smoother and far less time consuming process.

What is Operational Transfer Pricing?

Operational transfer pricing (OTP) is the real time implementation of the transfer pricing approach/policy into the operational processes of a business. OTP can be implemented across all sizes and stages of a business, from start-up to large and mature multi-national enterprise.

OTP is more than a compliance exercise; it's about understanding the business's transfer pricing approach (i.e., what is the approach, why is this the appropriate transfer pricing approach and how can this approach be implemented effectively within the business process, using the existing data, processes and controls in place to make transfer pricing a real time business consideration). This ensures alignment of international transactions with strategic business goals, and mitigates tax risks.

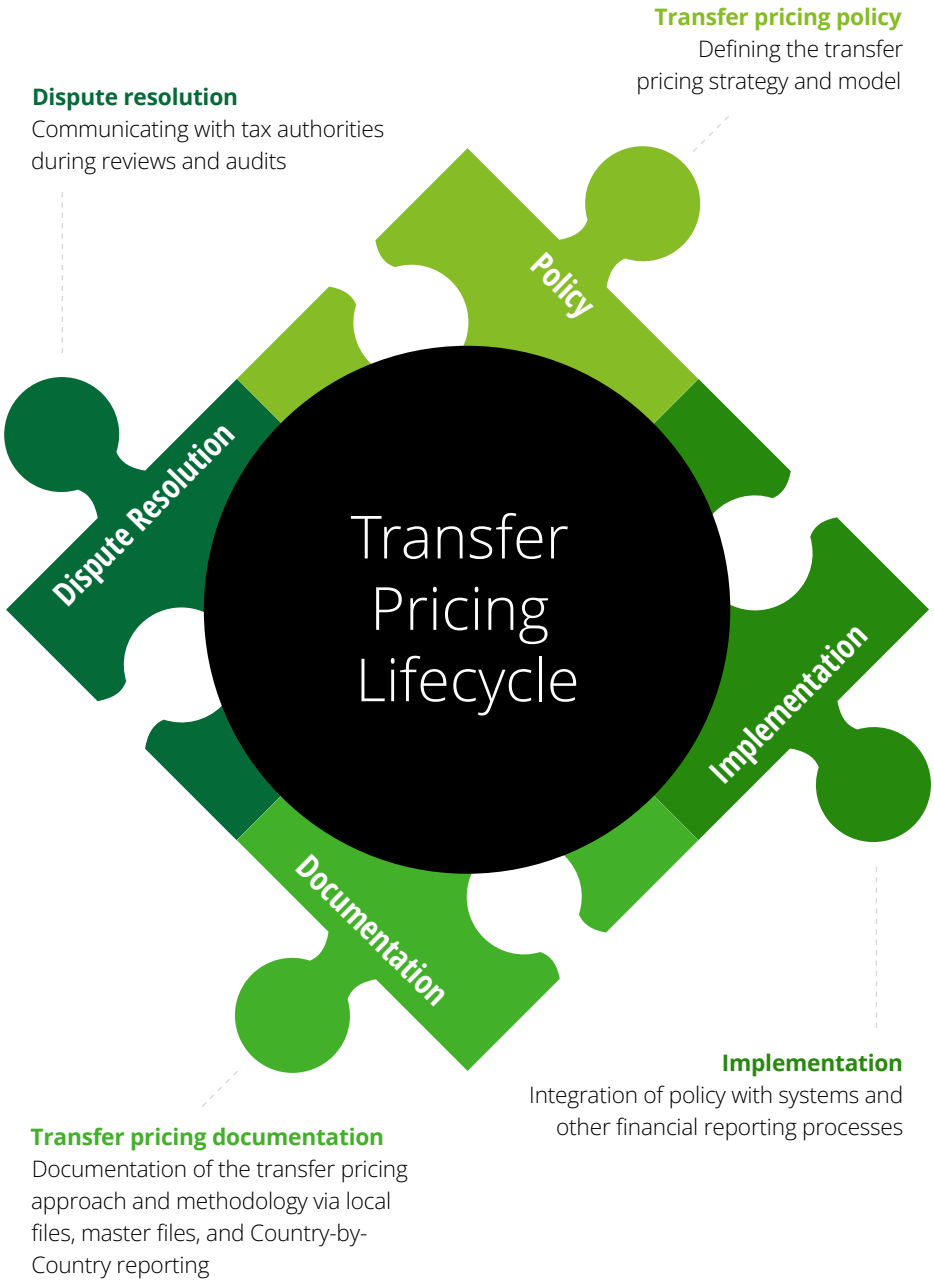
The role of OTP in the transfer pricing lifecycle

Transfer pricing conscious businesses routinely action the policy and documentation phases of the lifecycle by engaging transfer pricing specialists to assist with the development of an appropriate model to remunerate the relevant parties for their contributions and then preparing annual documentation to support the results as being arm's length.

> ***A transfer pricing policy is only as good as its implementation***

However, what is often missed (and what leads to the transfer pricing panic scenario outlined upfront) is effective implementation of the transfer pricing policy into a business's existing financial processes to ensure that transfer prices are determined accurately and on a timely basis. Businesses often view transfer pricing as an activity that forms part of its year-end compliance process (often adding time to the process and leading to adjustments), rather than as a key part of its everyday financial management function and general Tax Governance Framework. A transfer pricing policy is only as good as its implementation, and documentation is only a valuable defence mechanism if the underlying results it is aiming to support are correctly calculated (i.e., you cannot support and document a policy that has not been implemented).

Tax authorities generally appreciate that transfer pricing solutions should be proportionate to a business's operations and transfer pricing risk. However, it is still important that the calculation of cross-border related party transactions is appropriately implemented into a company's routine processes.



What does OTP look like for a business?

OTP is scalable to every business size and maturity with the approach dependent on where a business is in its business cycle and the complexity of related party transactions.

For large multi-nationals, OTP can gather the appropriate information across multiple sources and implement/automate robust processes and checks to ensure real time implementation. For start-ups, firstly the Transfer Pricing Policy is determined in alignment with the strategic growth goals. Once the rationale and purpose of the Transfer Pricing Policy is understood, the appropriate calculations are explained and incorporated into the business cycle in a manner appropriate for the business.

The importance of OTP

Out of date OTP can quickly become an issue for a business, for a number of reasons, including Inland Revenue risk reviews/audits, statutory audits for financial reporting, or through interest from other external stakeholders, particularly in regulated industries.

OTP is particularly important to cross-border businesses because of:

- **Inland Revenue's increased compliance activity –** like anything in the world of tax, it is always better to get ahead of any potential issues before becoming the focus of review/audit activity. As part of the general increase in Inland Revenue funding, Inland Revenue's specialist transfer pricing team has also been reinforced with additional case leads and technical specialists.
- **Widespread availability of information –** tax authorities, both in New Zealand and overseas, have never been in a better position to perform transfer pricing audits and to process information, including information obtained through the exchange of Country-by-Country Reporting and other automatic information exchanges between tax administrations.
- **Customs and indirect tax impacts –** Importers who need to change the value of goods after importation (due to quarterly or annual transfer pricing adjustments which effect cost of goods sold) can be subject to fines and penalties on underpaid GST and customs duty (noting that the Provisional Values Scheme is a useful tool for mitigating such exposure from a New Zealand perspective). As such it is important that transfer pricing has been considered early and followed throughout the year to ensure no unexpected customs problems arise later.
- **Issues can be long lasting and difficult to unwind –** issues arising from the improper implementation of a transfer pricing policy can create unforeseen consequences, such as:
  - Tax deductibility – the deductibility of intercompany expenses relies on expenditure being allocated to the correct entity in line with a business's transfer pricing policy. The risk of not implementing a transfer pricing approach in real-time is that a revenue authority could consider that there is no actual legal transaction, or that expenditure recognised in an entity has no nexus with its income generating activities, potentially leaving deemed transfer pricing income in one jurisdiction but no deduction in the other jurisdiction.
  - Tax losses trapped– if processes have not been put in place to ensure the accurate implementation of transfer pricing policies, then tax losses may be recognised in the wrong jurisdiction. To the extent a profitable return is expected by the foreign jurisdiction but the entity has returned losses, these losses may not be allowed to be utilised, effectively trapping the losses offshore. Alternatively, paying too much tax offshore (and not enough in New Zealand) could lead to double taxation.
  - Tax obligations missed – if a business does not think about intercompany transactions upfront, it might miss some tax obligations in relation to those transactions. An example is the inappropriate payment of a business's final instalment of provisional tax where, instead of performing timely transfer pricing calculations, year-end transfer pricing adjustments are made post instalment date leading to potential exposure to interest and penalties. Another example is royalties and interest transactions, both of which have withholding tax obligations on payment and likely penalties for late payment.
  - Sale and exit – if the ultimate goal is to eventually exit, transfer pricing will likely come up as part of the due diligence process. Potential acquirers will want to see that an appropriate transfer pricing approach has been implemented and documented. Not accurately implementing the transfer pricing policy can be identified as a tax risk that can impact the purchase price.
- **General operational inefficiencies –** clearly defined, established and (most importantly) a well understood OTP process can help businesses spot potential issues in real time, reduce retrospective adjustments, reduce manual efforts, reduces the risk of manual errors through process controls and support business continuity where team members responsible leave a business. This can help reduce payroll/consulting costs and exposure to interest or penalties where errors cause tax shortfalls.

So, what next?

A transfer pricing policy is only as good as its implementation. Ignoring transfer pricing can be a year-end headache and lead to far reaching consequences that are often unforeseen and costly to mitigate. OTP incorporates the transfer pricing policy as part of the business processes, transforming transfer pricing to a real time process and keeping a business (whatever the size and stage) ahead of errors and surprises.

If you are ready to swap "afterthought" for action, please contact your usual Deloitte advisor.

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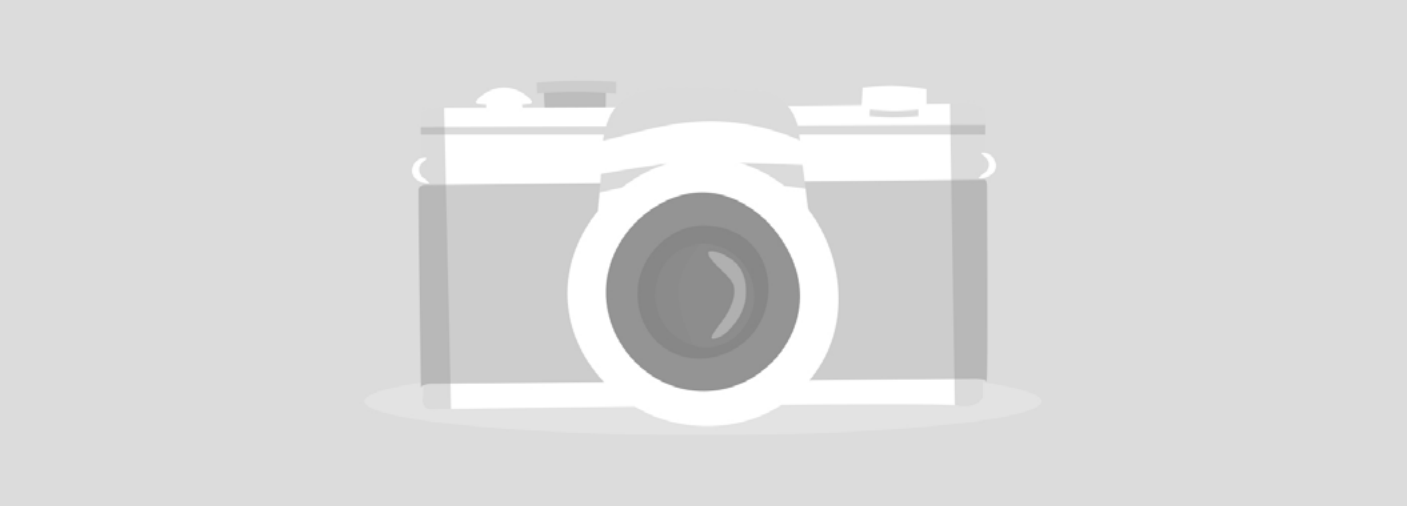
Snapshot of recent developments



Tax legislation and Policy Announcements

Information releases

Inland Revenue published information releases with documents relating to the following:

- GST and unincorporated joint ventures discussion document
- Taxation (Use of Money Interest Rates) Amendment Regulations 2025
- Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025
- Fringe Benefit Tax – options for change
- Submissions received on Taxation and the not-for-profit sector
- Taxation (Annual Rates for 2024-25, Emergency Response, and Remedial Measures) Act

Public remedials log updated

The Inland Revenue public remedials log has been updated as at June 2025. The log records remedial legislative issues that Inland Revenue Policy is considering.

Act Commentary: Taxation (Budget Measures) Act 2025

On 25 June 2025, Inland Revenue published the Act Commentary for the Taxation (Budget Measures) Act 2025. The Act commentary provides an explanation of the changes made by the Act, which introduces Investment Boost, along with changes to KiwiSaver and Working for Families.

Increased filing fees

The Charities (Taxation and Charities Review Authorities — Appeals Process) Amendment Regulations 2025 (SL 2025/97) came into force on 1 July 2025 and amend the Charities (Taxation and Charities Review Authorities — Appeals Process) Regulations 2024. The regulations increase the fee payable for filing a notice of appeal with the Taxation and Charities Review Authority under s 58C of the Charities Act 2005 from $173.91 to $180.00 (excluding GST).

The Taxation Review Authorities Amendment Regulations 2025 (SL 2025/114) came into force on 1 July 2025 and amend the Taxation Review Authorities Regulations 1998. The regulations increase the fee for filing a notice of claim with a Taxation Review Authority from $533.00 to $552.00 (including GST).

The Customs and Excise Amendment Regulations 2025 (SL 2025/95) come into force on 1 July 2025 and amend the Customs and Excise Regulations 1996. The regulations increase the fee payable for an application for appeal to a Customs Appeal Authority from $533.00 to $552.00 (including GST).

Regulations issued for new goods and cargo fees

The Customs and Excise (Fees) Amendment Regulations 2025 (SL 2025/90) came into force on 1 July 2025 and amend the Customs and Excise Regulations 1996 to adjust certain fees that are set by the principal regulations.

Government proposes adjustments to FamilyBoost

On 7 July 2025, the Minister of Finance announced proposed changes to the FamilyBoost scheme:

- Lifting the threshold for maximum eligible income from $45,000 to $57,286 per quarter ($180,000 to $229,100 annual household income)
- Increasing the amount that an eligible family can claim from 25% of ECE costs to 40% or a maximum of $1,560 (up from $975) each quarter
- Slowing the abatement rate from 9.75% to 7% for household income over $35,000 per quarter

These changes are intended to apply for early childhood education costs incurred in the 1 July to 30 September 2025 quarter onwards.

These are only proposals at this stage and legislation will be introduced to give effect to these changes. Inland Revenue has published answers to common questions on the proposals. Inland Revenue will also update guidance material when changes are enacted.

Inland Revenue Statements and Guidance

Inland Revenue: Determination of expenditure incurred relating to payments made by New Zealand Clinical Research to volunteers

On 29 April 2025, Inland Revenue issued DET 25/02: Determination of expenditure incurred relating to payments made by New Zealand Clinical Research to volunteers. This determination applies to payments made by New Zealand Clinical Research Group (NZCR) to people who volunteer to participate in clinical medical trials run by NZCR. The determination applies for the period 1 April 2025 onwards and applies to set an amount of expenditure, up to a maximum of $150, for which each payment made by NZCR to participants is a reimbursement of actual expenses incurred by the volunteer.

National Average Market Values of Specified Livestock Determination 2025

On 26 May 2025, Inland Revenue issued NAMV 2025: National Average Market Values of Specified Livestock Determination 2025. For the purpose of section EC 15, the national average market value of specified livestock for the 2024-25 income year is set out in the determination.

Tax Information Bulletin: June 2025

On 3 June 2025, Inland Revenue issued TIB Vol 37, No 5 (June 2025), which includes the following:

New legislation

- Public Act 2025 No 09: Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Act 2025
- SL 2025/64: Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2025
- SL 2025/65: Taxation (Use of Money Interest Rates) Amendment Regulations 2025

Operational statements

- OS 25/03: Authority to Act for Tax Agents, Representatives and Nominated Persons: Access to a Client's Inland Revenue Information

Interpretation statements

- IS 25/14: Income tax - arrangements involving tax losses carried forward under the business continuity rules
- IS 25/15: Look-through companies and disposal of residential land under the bright-line test

Questions we've been asked

- QB 25/07: What is the income tax treatment of gift cards and products provided as trade rebates or promotions?
- QB 25/08: When is land acquired for a purpose or with an intention of disposal so that the amount derived from the sale is income?
- QB 25/09: When do I have a "regular pattern" of transactions that prevents me from using exclusions from the land sale rules for my residence or for my main home?
- QB 25/10: On what date is a person treated as acquiring land for the purposes of the land sale rules?
- QB 25/11: When is the bright-line start date for the 2-year bright-line test?
- QB 25/12: How does the bright-line test apply to the sale of a subdivided section?
- QB 25/13: When is the sale of a lifestyle block excluded from the bright-line test?
- QB 25/14: When does the business premises exclusion to the bright-line test apply?
- QB 25/15: How do the bright-line rollover relief provisions apply to transfers of residential land between associated persons?

Case summaries

- CSUM 25/05: NZTCRA rejects argument that an interest amount paid under a relationship property agreement was deductible as an expense under the Income Tax Act 2007
- CSUM 25/06: NZTCRA finds work to convert retail space to office space in commercial building was capital in nature
- CSUM 25/07: NZTCRA finds remediation work on unit was capital in nature

Technical decision summaries

- TDS 25/08: Disposal of shares following amalgamation
- TDS 25/09: Distribution and resettlement of trusts
- TDS 25/10: Source of income and foreign tax credits
- TDS 25/11: Deductions, zero-rating and shortfall penalties
- TDS 25/12: Deductions and shortfall penalties

Inland Revenue: Extra funding to support more compliance work

On 4 June 2025, Inland Revenue outlined how will use increased funding in this year's budget to boost collection activities and invest more in tax compliance.

Inland Revenue will use the additional funding to focus on new activities around things like:

- further increasing audits and debt collection in areas of high risk and/or value
- investigations into specific sectors such as property, organised crime, the hidden economy and trusts
- improved use of data and intelligence to more quickly identify and target discrepancies and pursue debt
- shifting from a manual to an automated process to collect data from third parties, such as banks
- investigating more targeted compliance activity measures.

Draft Interpretation Statement: Student Loans – Overseas borrowers and their obligations

On 6 June 2025, Inland Revenue issued: PUB00497: Student Loans – Overseas borrowers and their obligations. It discusses when a student loan borrower will be a New Zealand-based borrower and when they will be an overseas-based borrower. A borrower's status as New Zealand-based or overseas-based will determine whether interest accrues on their loan and will impact their repayment obligations. The deadline for comment has closed.

Inland Revenue: Updated Public Guidance work programme

On 9 June 2025, issued an updated public guidance work programme. This records the public guidance projects that Inland Revenue's Tax Counsel Office are working on.

Inland Revenue: 2025 CPI adjustment to standard-cost amounts for household services

On 9 June 2025, Inland Revenue published the CPI adjustments to the standard-cost amounts for the 2025 income year, reflecting the annual movement of the CPI of 2.5%

- DET 09/02 (CPI 2025): 2025 CPI adjustment for Determination DET 09/02: Standard-cost household service for childcare providers
- DET 19/01 (CPI 2025): 2025 CPI adjustment to DET 19/01: Household boarding service providers
- DET 19/02 (CPI 2025): 2025 CPI adjustment to DET 19/02: Short-stay accommodation

Inland Revenue: 2025 CPI adjustment for square metre rate for the dual use of premises

On 9 June 2025, Inland Revenue published the CPI adjustment for OS 19 03 (CPI 2025): 2025 CPI adjustment to Operational Statement OS 19/03: Square metre rate for the dual use of premises.

Inland Revenue: Square metre rate for home office calculations 2025

On 10 June 2025, Inland Revenue announced the square metre rate for home office calculations has been set at $55.60 for the 2025 income year (1 April 2024 to 31 March 2025).

Inland Revenue: Tax agent survey results (Jan-Mar 2025)

On 11 June 2025, Inland Revenue announced the survey results of the January-March 2025 Tax Agents Voice of the Customer (TAVOC) survey.

Inland Revenue: Determination relating to per diem allowances paid in the screen production industry

On 11 June 2025, Inland Revenue issued DET 25/03: Determination of amount of a particular payment (being per diem allowances paid in the screen production industry) that shall be regarded as expenditure incurred relating to those payments. Where any resident or non-resident contractor, or resident or non-resident entertainer receives a per diem allowance in relation to services provided to a screen production while working away from their town of normal residence and that allowance is a schedular payment, the sum of $100 per day shall be regarded as expenditure incurred in the production of the payment. If the total amount of the payment is less than $100 per day, the total amount of the payment shall be regarded as expenditure incurred in the production of the payment.

Inland Revenue: Decision Support Collections Tool live now

On 17 June 2025, Inland Revenue advised that they had launched a new analytical tool to support collections activity. The tool analyses taxpayer information and provides tailored recommendations for Inland Revenue to take the right action at the right time, based on each taxpayer's situation.

Inland Revenue: Update on issue – Progress on debit interest charged from the terminal tax due date on provisional tax

On 17 June 2025, Inland Revenue announced the remediation work they have been doing doing to address the issue of debit interest being charged on provisional tax from the wrong due date has been progressing. Most accounts have been fixed, and the remaining ones are on track to be updated in the coming few weeks.

A small group of taxpayers are also affected by some other provisional tax issues which Inland Revenue identified from 17 March. These are being managed in line with standard processes, and work is ongoing to resolve them.

Inland Revenue: No change to FBT rules for double cab utes

On 17 June 2025, Inland Revenue issued a statement to clear up a misunderstanding by some commentors about the effect of new FBT proposals, particularly those for double cab utes. Inland Revenue Deputy Commissioner (Policy) David Carrigan says it's a myth that utes have always been FBT free.

Carrigan also noted "The government has not made any final decisions in relation to potential changes to the FBT regime and Ministers are currently considering the feedback received from submitters on the Inland Revenue issues paper with a view to refining those proposals."

Inland Revenue: Problem gambling levy change

On 18 June 2025, Inland Revenue announced that the new problem gambling levy applies from 1 July 2025 and replaces the old levies. The levies are set every 3 years.

Inland Revenue: Horticulture sector in the spotlight

On 18 June 2025, Inland Revenue announced it is seeing a few concerning practices in the horticulture sector, including people being paid under the table. In the past 10 months Inland Revenue has found $45m of undeclared tax in the horticulture industry.

Inland Revenue: Paid parental leave rate change

On 23 June 2025, Inland Revenue issued an update on the paid parental leave rates. From 1 July 2025, eligible employees and self-employed people will see an increase in the parental leave payment from $754.87 to $788.66 each week before tax. The minimum rate for self-employed people will increase from $231.50 to $235.00 each week, which is equal to 10 hours worked each week at the adult minimum wage.

Operating Statement: The Commissioner of Inland Revenue's search powers

On 30 June 2025, Inland Revenue published OS 25/04 The Commissioner of Inland Revenue's search powers. The statement outlines the procedures the Commissioner of Inland Revenue will generally follow when exercising the Commissioner of Inland Revenue's search powers under sections 17, 17C and 17D of the Tax Administration Act 1994 and the Search and Surveillance Act 2012.

Operating Statement: Section 17B Notices

On 30 June 2025, Inland Revenue published OS 25/05: Section 17B Notices. The statement outlines the procedures the Commissioner of Inland Revenue will generally follow when issuing notices, including to third parties, under s17B of the TAA 94.

Public Guidance Work Programme updated

On 30 June 2025, Inland Revenue issued an updated Public Guidance work programme. This is the final work programme for the Inland Revenue financial year.

Inland Revenue: Flooding – Nelson, Tasman and Marlborough

On 30 June 2025, the Minister of Agriculture and Minister for Rural Communities declared a medium scale adverse event for the Nelson, Tasman and Marlborough regions as a result of flooding.

To help affected farmers and growers Inland Revenue have made a "class of case" determination for the Income Equalisation Scheme to allow:

- Late deposits for the 2025 income year up to 31 May 2026.
- Early withdrawals if the deposit was made prior to the Ministerial announcement on 30 June 2025.

More information about this event and the help available to farmers and growers is available here.

If contacting Inland Revenue, in myIR use the subject 'June flooding' or call on the disaster line 0800 473 566.

Tax Information Bulletin: July 2025

On 1 July 2025, Inland Revenue issued the Tax Information Bulletin for July 2025, which includes the following:

Determinations

- NAMV 2025: National Average Market Values of Specified Livestock Determination 2025
- OS 19 04 (KM 2025): Kilometre rates for the business use of vehicles for the 2025 income year
- 2025 Consumers Price Index adjustment to standard-cost amounts for household services (childcare, boarding services, or short-stay accommodation)
- 2025 CPI adjustment to Operational Statement OS 19/03: Square metre rate for the dual use of premises
- Det 25/02: Determination of expenditure incurred relating to payments made by New Zealand Clinical Research to volunteers
- Det 25/03: Determination of amount of a particular payment (being per diem allowances paid in the screen production industry) that shall be regarded as expenditure incurred relating to those payments

Ruling

- BR Prd 25/03: Extraordinary Pay Limited

Interpretation statements

- IS 25/16: Tax residence
- IS 25/17: Tax residence – government service rule

Question we've been asked

- QB 25/16: Income tax – How do the income tax rules apply when a close company provides short-stay accommodation?

Case summaries

- CSUM 25/08: Absence of evidence makes it impossible to prove nexus with the expenditure and the claimed deductions
- CSUM 25/09: Lack of complete financial records secures TCRA win for the Commissioner in major income suppression case

Technical decision summaries

- TDS 25/13: Income tax – land transferred within a consolidated tax group
- TDS 25/14: Business restructure

Inland Revenue: Two-step verification compulsory for all myIR users by 5 October 2025

On 2 July 2025, Inland Revenue announced two-step verification will be compulsory for all myIR users by 5 October 2025, in the following stages:

- 28 July 2025 – Individual taxpayers who file IR3 returns and customers who pay provisional tax
- 25 August 2025 – Individual taxpayers who are registered for any of the following: paid parental leave, Working for Families Tax Credits, child support and FamilyBoost
- 5 October 2025 – All remaining taxpayers

Inland Revenue: Income for FamilyBoost

On 7 July 2025, Inland Revenue provided an update on FamilyBoost processing. FamilyBoost entitlement depends on family income. Inland Revenue need both parents' returns to be filed before they can work out entitlements.

Inland Revenue: Claiming Investment Boost – how to include in income tax returns

On 11 July 2025, Inland Revenue advised claimed Investment Boost should be recorded the same as depreciation and included in the Financial statements summary - IR10, or attached financial accounts. For example, if you buy a new asset for $10,000 on 23 May 2025, include the Investment Boost amount of $2,000 (20%) as depreciation in Box 52 of the Financial statements summary - IR10.

Questions we've been asked: Can I claim a deduction for expenses I incur on repairing a recently acquired capital asset?

On 11 July 2025, Inland Revenue issued QB 25/17: Can I claim a deduction for expenses I incur on repairing a recently acquired capital asset? The answer is no as the capital limitation in section DA 2(1) prevents you from claiming a deduction because the expenses are of a capital nature. However, where the capital asset is an item of depreciable property, you may be able to claim a depreciation loss based on the amount of the expenses.

Questions we've been asked: Does GST apply to a deposit the seller retains in a cancelled land sale agreement?

On 15 July 2025, Inland Revenue issued QB 25/18: Does GST apply to a deposit the seller retains in a cancelled land sale agreement? It replaces 'GST consequences of a cancelled contract TIB Vol 17, No 4 (May 2005): 26'. The answer is that no, GST does not apply to the deposit because the seller makes no supply of land or any other supply in return for the deposit.

Inland Revenue: 2025 Child support payments - receiving carers

On 16 July 2025, Inland Revenue provided a table of child support payment dates through to December 2025.

Inland Revenue: Determination the FDR method may not be used by investors in the iShares Global Aggregate Bond ESG SRI UCITS ETF – EUR hedged (Accumulating) share class

On 17 July 2025, Inland Revenue issued FDR 2025/05: Determination the fair dividend rate method may not be used to calculate FIF income by investors in the iShares Global Aggregate Bond ESG SRI UCITS ETF – EUR hedged (Accumulating) share class. Any investment by a NZ resident investor in the EUR hedged (Accumulating) share class of the iShares Global Aggregate Bond ESG SRI UCITS ETF (ISIN IE000APK27S2), a sub-fund of iShares III Public Limited Company (iShares III), to which none of the exemptions in ss EX 29 to 43 of the Income Tax Act 2007 apply, is a type of attributing interest for which the investor may not use the FDR method to calculate FIF income for the interest when the investment is hedged to NZD by the NZ resident investor.

Inland Revenue: Total income not liable for ACC earners' levy - field not pre-populating

On 22 July 2025, Inland Revenue announced they had found an error where the total income not liable for ACC earners' levy field was not pre-populating in IR3 web returns that was fixed on 1 July. Since then, income tax returns filed in myIR have not been affected. Inland Revenue are correcting income tax returns for taxpayers. The updated returns will show the correct amount of earnings not liable for ACC.

Inland Revenue will send a notification in myIR to the web logon that submitted the return, advising when Inland Revenue have updated the tax position. If a tax agent filed the return, they will get the notification. If a taxpayer filed the return, they will get the notification directly. For a small group of taxpayers, Inland Revenue will need more time to correct their returns.

Inland Revenue: Claiming Investment Boost – update

On 23 July 2025, Inland Revenue announced that for the 2025 tax year, businesses should record Investment Boost in their income tax returns in the same way as depreciation. 2025 Income tax return forms have already been published, and many have already been filed. Inland Revenue are currently working on how businesses should record these amounts for the 2026 and future tax years. Inland Revenue will provide more guidance when details are finalised.

Draft Interpretation Statement: Income tax - business activity

On 24 July 2025, Inland Revenue published PUB00478: Income tax – business activity. This interpretation statement gives guidance on whether and when a taxpayer is carrying on a "business" for income tax purposes. This is relevant to whether a person has income from a business under section CB 1 and to other provisions in the Income Tax Act 2007 where carrying on a business is a requirement. The deadline for submissions is 5 September 2025.

Draft Question we've been asked: Can a farmer who leases land deduct the tax book value of horticultural plants on the land when the lease ends?

On 4 August 2025, Inland Revenue issued PUB00491: Can a farmer who leases land deduct the tax book value of horticultural plants on the land when the lease ends? The lessee farmer cannot deduct the remaining diminished value of the expenditure in the income year the lease ends. The ability to deduct the remaining diminished value of the plants is passed to the landowner farmer in the income year the lease ends. The lessee farmer is allowed an amortisation-like deduction in each income year for expenditure on planting horticultural plants on land leased by that farmer, except in the income year in which the lease ends and they cease to carry on a farming business on the land. If after the end of the lease the landowner carries on a farming business on the land with the plants, the landowner farmer assumes the lessee farmer's tax book values for the horticultural plants in the income year the lease ends and continues the annual amortisation-like deduction of the plants. The deadline for submissions is 15 September 2025.

Draft Question we've been asked: Do the purchase price allocation rules alter the tax book values of Farmland Improvements and listed horticultural plants under subpart DO?

On 4 August 2025, Inland Revenue issued PUB00492: Do the purchase price allocation rules alter the tax book values of Farmland Improvements and listed horticultural plants under subpart DO? The answer is no, the purchase price allocation rules in sections GC 20 and GC 21 do not override the rules in subpart DO that specify the tax treatment of Farmland Improvements and listed horticultural plants. Under subpart DO, if the purchaser carries on a farming business on the farmland the purchaser assumes the seller's tax book values for the improvements and plants in the year of the sale and continues the annual amortisation-like deduction of the improvements and plants. The deadline for submissions is 15 September 2025.

Draft Interpretation Statement: GST – Meaning of payment

On 28 July 2025, Inland Revenue issued PUB00520: GST – Meaning of payment. This interpretation statement discusses the meaning of "payment" for GST purposes. The meaning of payment is relevant for determining the time of supply, the tax period for which you return output tax or for which you claim an input tax deduction, and eligibility for a secondhand goods input tax deduction. The deadline for submissions is 10 September 2025.

Draft Interpretation Statement: GST – Secondhand goods input ion

On 28 July 2025, Inland Revenue issued PUB00514: GST – Secondhand goods input tax deduction. This draft interpretation statement discusses the requirements that must be met for a registered person to claim a secondhand goods input tax deduction. This includes, among other things, a discussion of the requirement that the goods be secondhand and the meaning of secondhand. This interpretation statement also discusses exceptions and restrictions on the amount of secondhand goods input tax deduction that can be claimed, including where the supplier and the recipient are associated persons.

Inland Revenue have also issued two fact sheets. The fact sheet GST – Meaning of secondhand supports the interpretation statement by summarising the meaning of secondhand. The fact sheet GST – Secondhand goods input tax deduction requirements – summary supports the interpretation statement by summarising the requirements.

The deadline for submissions is 10 September 2025.

Question we've been asked: GST listed services rules: When is a supply of listed services made through an electronic marketplace?

On 28 July 2025, Inland Revenue issued QB 25/19: GST listed services rules: When is a supply of listed services made through an electronic marketplace? The QWBA discusses one of the key requirements for when the GST listed services rules apply. That is, the supply must be made by an underlying supplier to a recipient through an electronic marketplace operator. It explains that this requirement is satisfied when the marketplace is involved in, and facilitates, supplies between underlying suppliers and recipients.

Question we've been asked: GST listed services rules: How do the rules apply when there is a supply of listed services and other goods or services?

On 28 July 2025, Inland Revenue issued QB 25/20: GST listed services rules: How do the rules apply when there is a supply of listed services and other goods or services? The QWBA discusses some issues with identifying the relevant supplies for the GST listed services rules. It explains what listed services are and how to apply the GST listed services rules if a supply includes listed services with other goods or services.

Inland Revenue: Change to notification preferences in myIR

On 30 July 2025, Inland Revenue announced that from 8 July 2025, they will no longer send both email and SMS notifications for alerts in myIR. If the 'both' option was selected, the notification preference has been updated to email only.

Tax Information Bulletin: August 2025

On 1 August 2025, Inland Revenue issued Tax Information Bulletin Vol 37 No 7 (August 2025). It includes the following:

Operational statements

- OS 25/04: The Commissioner of Inland Revenue's search powers
- OS 25/05: Section 17B Notices

Question we've been asked

- QB 25/17: Income tax: Can I claim a deduction for expenses I incur on repairing a recently acquired capital asset?

Case summaries

- CSUM 25/10: Risk of double recovery due to potential enforcement action by Inland Revenue does not prevent profit forfeiture orders under proceeds of crime regime
- CSUM 25/11: Risk of double recovery due to potential enforcement action by Inland Revenue does not prevent profit forfeiture orders under proceeds of crime regime

Technical decision summaries

- TDS 25/15: GST – input tax deductions, grants, omitted sale
- TDS 25/16: Charitable trust – transfer of assets

Technical Decision Summaries

TDS: Business restructure

On 6 June 2025, Inland Revenue issued TDS 25/14: Business restructure. It related to a restructure of a businesses (the Arrangement). The Tax Counsel Office determined the Arrangement did not result in income.

TDS: GST – input tax deductions, grants, omitted sale

On 12 June 2025, Inland Revenue issued TDS 25/15: GST – input tax deductions, grants, omitted sale. It related to input tax deductions being claimed. The Tax Counsel Office concluded that the input tax deductions claimed by the Taxpayer were not allowed.

TDS: Charitable trust – transfer of assets

On 26 June 2025, Inland Revenue issued TDS 25/16: Charitable trust – transfer of assets. It related to the trustees of a charitable trust transferring trust assets to a new trust. The Tax Counsel Office determined no income would arise from the transfer of the property.

TDS: Application of schedular payment rules

On 11 July 2025, Inland Revenue issued TDS 25/17: Application of schedular payment rules. It concerns the procurement of board directorship services by Company A from non-resident individuals through contractual arrangements with Company A's offshore subsidiaries. It concludes that the PAYE rules did not apply to the Director Services Payments or Director Remuneration Payments under ss RD 2 and 3.

TDS: Sale of intellectual property, shares and ongoing provision of services (private ruling)

On 25 July 2025, Inland Revenue issued TDS 25/18: Sale of intellectual property, shares and ongoing provision of services. It concerned a New Zealand company marketing assets offshore through subsidiaries. An Overseas Holding company acquired the overseas assets and intellectual property, while a New Zealand subsidiary took ownership of the New Zealand based assets and provided services to the Overseas Holding Company for arm's-length fees. The Tax Counsel Office concluded only the New Zealand Subsidiary was a NZ tax and GST resident, the sale and service fees to the overseas holding company were zero-rated for GST, the New Zealand subsidiary's only income was the service fees, the overseas holding company had only potential dividend income from the New Zealand subsidiary, and the New Zealand subsidiary could deduct expenses related to earning service fees.

Tax cases summaries

CSUM: Lack of complete financial records secures Taxation and Charities Review Authority win for the Commissioner of Inland Revenue

On 13 December 2024, the Taxation and Charities Review Authority issued a decision in Disputant 1, Disputant 2, Disputant 3, Disputant 4, Disputant 5, Disputant 6 v The Commissioner of Inland Revenue [2024] NZTRA 004. The Commissioner's assessments were upheld, though it was noted the Commissioner had breached the Disputants' right to a fair trial (in a separate criminal prosecution).

CSUM: Absence of evidence makes it impossible to prove nexus with expenditure and the claimed deductions

On 16 January 2025, the Taxation and Charities Review Authority issued a decision in The Disputant v The Commissioner of Inland Revenue [2025] NZTCRA 01 (TCRA). The Disputant was a lawyer who operated his legal practice personally. The Taxation and Charities Review Authority upheld the income tax assessments by the Commissioner of Inland Revenue because the evidence failed to establish a material link between the disputed expenditure and the receipt or expectation of income.

CSUM: Taxation and Charities Review Authority rejects argument that an interest amount paid under a relationship property agreement was deductible as an expense

On 17 April 2025, Inland Revenue summarised A v Commissioner of Inland Revenue [2025] NZTCRA 02. Mr A sought to deduct interest expenses of $18,069.31 in his 2016 income tax return. This amount related to interest Mr A was required to pay his ex-wife under a relationship property agreement. The Authority held there was an insufficient nexus between the interest payments and Mr A's assessable income and disallowed the deduction.

CSUM: Taxation and Charities Review Authority finds work to convert retail space to office space in commercial building was capital in nature

On 17 April 2025, Inland Revenue summarised P Ltd v Commissioner of Inland Revenue [2025] NZTRA 03. The Taxation and Charities Review Authority found in favour of the Commissioner of Inland Revenue, confirming assessments made in relation to the income tax years ending 31 March 2017 to 2019. The assessments disallowed deductions for construction and finishing work on a commercial property on the basis the payments were capital in nature. The Taxation and Charities Review Authority found the evidence supported the Commissioner of Inland Revenue's position that the work was capital in nature and upheld the Commissioner of Inland Revenue's assessments. The work involved seismic strengthening and adding a new glass façade to modernise the building's appearance.

CSUM: Taxation and Charities Review Authority finds remediation work on unit was capital in nature

On 22 April 2025, Inland Revenue summarised P v Commissioner of Inland Revenue [2025] NZTRA 04. The Taxation and Charities Review Authority confirmed the Commissioner of Inland Revenue's assessments for the income tax years ending 31 March 2015 and 2017 disallowing deductions claimed for remedial work undertaken on the disputant's unit. The remedial work to fix weathertightness issues changed the character of the asset and was capital in nature.

CSUM: High Court dismisses judicial review of deductions to decline proposals for relief under s 177 of the TAA

On 30 June 2025, Inland Revenue issued a summary of Anthony v Commissioner of Inland Revenue [2025] NZHC 1382. At issue is the interpretation of provisions of the Tax Administration Act 1994 and the Commissioner of Inland Revenue's obligation to collect the highest net revenue that is practicable within the law. The Court found it has broad discretion in deciding whether to accept relief proposals and must balance considerations of maximising recovery from individual taxpayers with broader public interest considerations including, importantly, the integrity of the tax system.

CSUM: Risk of double recovery due to potential enforcement action by Inland Revenue does not prevent profit forfeiture orders under proceeds of crime regime

On 30 June 2025, Inland Revenue issued a summary of Commissioner of Police v Masonic Limited and others [2025] NZCA 205. The Court of Appeal granted the Commissioner of Police's appeal, agreeing with the Commissioner of Police and Commissioner of Inland Revenue that where tax has been evaded and not subsequently paid to the Commissioner of Inland Revenue, the tax evader has benefited from significant criminal activity, and a profit forfeiture order should be made. The court rejected the view that the Commissioner of Inland Revenue's ability to recover unpaid tax means there can be no benefit to the offender.

Deloitte Global

US: A closer look: Inside the new tax law

Deloitte US have published analysis of the One Big Beautiful Bill Act. A closer look: Inside the new tax law offers a detailed discussion of the Act and makes observations on key provisions. The appendix includes a series of side-by-side comparisons showing how the Act's provisions align with those in the House and Senate bills and with the tax law as in effect—generally in 2025— depending on the effective date of the relevant provision.

European VAT Refund Guide 2025

The European VAT refund guide has been updated. It summarises the rules and procedures to obtain a VAT refund in 32 European countries.

OECD Updates

Tax Transparency in Asia 2025

On 26 May 2025, the OECD Global Forum on Transparency and Exchange of Information for Tax purposes published Tax Transparency in Asia 2025.

Consolidated text of the Common Reporting Standard (2025)

On 2 June 2025, the OECD published an official consolidated text of the Common Report Standard, incorporating the amendments made, resulting from the comprehensive review of the Standard.

Peru deposits its instrument of ratification of the Multilateral BEPS Convention

On 11 June 2025, the OCD announced that Peru has deposited its instrument of ratification for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS Convention). As of June, 89 jurisdictions have either ratified, accepted, or approved the BEPS Convention resulting in the modification of over 1600 treaties. Around 400 additional treaties will be modified once the BEPS Convention will have been ratified by all Signatories.

Mobilising domestic resources in low- and middle-income countries

On 11 June 2025, the OECD published a working paper applying the Domestic Resource Mobilisation Framework to social protection financing. The Framework identifies country-specific tax policy measures and estimates their tax revenue potential to mobilise additional domestic resources in low- and middle-income countries.

Antigua and Barbuda signs the Multilateral BEPS Convention

On 18 June 2025, the OECD announced that Antigua and Barbuda signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. It becomes the 105th jurisdiction to sign the BEPS Convention.

36 new peer review results released

On 26 June 2025, the OECD released 36 new peer review results under BEPS Action 14 on Mutual Agreement Procedures (MAP).

Intergovernmental fiscal transfers and fiscal equalisation in a time of consolidation

On 30 June 2025, the OECD published a work paper examining how selected countries adapt their fiscal equalisation systems under fiscal pressures, identifying design features that preserve inter-regional fairness while maintaining efficiency.

Tax Transparency in Africa 2025: Africa Initiative Progress Report

On 1 July 2025, the OECD issued Tax Transparency in Africa 2025.

OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors (G20 South Africa, July 2025)

On 17 July 2025, the OECD published the Secretary-General's tax report setting out recent developments in international tax co-operation, including the OECD's support of G20 priorities such as the implementation of the BEPS minimum standards, the Two-Pillar Solution, and tax transparency, as well as updates regarding the April Inclusive Framework Plenary meeting and initiatives to find simplification and reduce compliance burdens.

Taking Stock of Progress on Transparency and Exchange of Information for Tax Purposes

On 17 July 2025, the OECD published its report to G20 Finance Ministers and Central Bank Governors taking stock on transparency and exchange of information for tax purposes since the inception of the G20.

Report on the work of the Inclusive Forum on Carbon Mitigation Approaches

On 17 July 2025, the OECD published a report from the Secretary-General to G20 Finance Ministers and Central Bank Governors presenting the latest developments with the Inclusive Forum on Carbon Mitigation Approaches (IFCMA).

Global Forum releases latest batch of peer reviews on transparency and exchange of information

On 21 July 2025, the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) published five new peer review reports on transparency and exchange of information on request (EOIR). The reports for Honduras, Madagascar, Mongolia, Oman, and Trinidad and Tobago were approved by the Global Forum's dedicated Peer Review and Monitoring Group in June 2025 and subsequently adopted by the Global Forum members.

OECD publishes second batch of updated transfer pricing country profiles with new insights on hard-to-value intangibles and simplified distribution rules

On 22 July 2025, the OECD announced the release of a new batch of updated transfer pricing country profiles, including New Zealand.

The transfer pricing country profiles focus on the key transfer pricing aspects of each country domestic tax legislation including: the arm's length principle; methods, comparability analysis; intangible property; intra-group services; cost contribution agreements; documentation; administrative approaches to avoiding and resolving disputes; safe harbours and other implementation measures.

OECD publishes data exchange formations for Pillar Two and CARF, issued updated FAQs

On 30 July 2025, the OECD published two XML Schemas and associated User Guides to support the reporting and exchange of information under the Global Minimum Tax (GMT) and the Crypto-Asset Reporting Framework (CARF).

- The GloBE Information Return (Pillar Two) Status Message XML Schema allows Competent Authorities that have received information through the GloBE Information Return (GIR) XML Schema to report back to the sending Competent Authority whether the information was provided in line with the agreed GIR validation rules. These rules, aimed at ensuring quality GIR data, are set out in detail in this document.
- The updated version of the Crypto-Asset Reporting Framework (CARF) XML Schema supports the automatic exchange of information pursuant to the CARF, as approved by the OECD in 2023 and contains a number of technical adjustments on the CARF XML Schema approved in 2024.

The OECD has also issued a new set of frequently asked questions (FAQs) to provide interpretative guidance on the CARF and the amended Common Reporting Standard. These FAQs help to ensure consistency in the implementation of both standards.

Zimbabwe signs Multilateral Convention to tackle tax evasion and avoidance

On 31 July 2025, the OECD announced Zimbabwe has signed the Multilateral Convention to tackle tax evasion and avoidance, bringing the total number of participating jurisdictions to 151.

Ring-Fencing Mining Income

On 31 July 2025, the OECD published a practice note aiming to clarify what ring-fencing means in the context of mining taxation, the advantages of adopting ring-fencing rules, and how to mitigate potential challenges through robust tax policy design and effective tax administration practices. It describes and evaluates the different options for designing ring-fencing rules based on the experience of resource-rich countries and highlights key implementation issues that have emerged. This practice note will help governments of resource-rich countries decide if ring-fencing rules are necessary and, if they are, how to design them to safeguard the timing of government revenues. Each resource-rich country will have to consider, prior to implementation, the appropriateness, including the positive and negative aspects of a ring-fencing regime as a policy option given their fiscal conditions and taxation framework.

Inventory of Tax Technology Initiatives

The OECD has published the Inventory of Tax Technology Initiatives, which contains information on technology tools and digitalisation solutions implemented by more than 100 national tax administrations.

Tax Administration 3.0: From Vision to Strategy

The OECD has published a report on Tax Administration 3.0.

Recognising progress and reducing burdens in the BEPS minimum standards

The OECD has published a document presenting recommendations endorsed by Inclusive Framework at the April 2025 plenary meeting and includes, as an annex, the revised peer review methodology for the Forum on Harmful Tax Practices' work on BEPS Action 5, approved during that meeting.

Note: The items covered here include only those items not covered in other articles in this issue of Tax Alert.

Deloitte.

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Queries or comments regarding Tax Alert including joining our mailing list, can be directed to the editor.

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