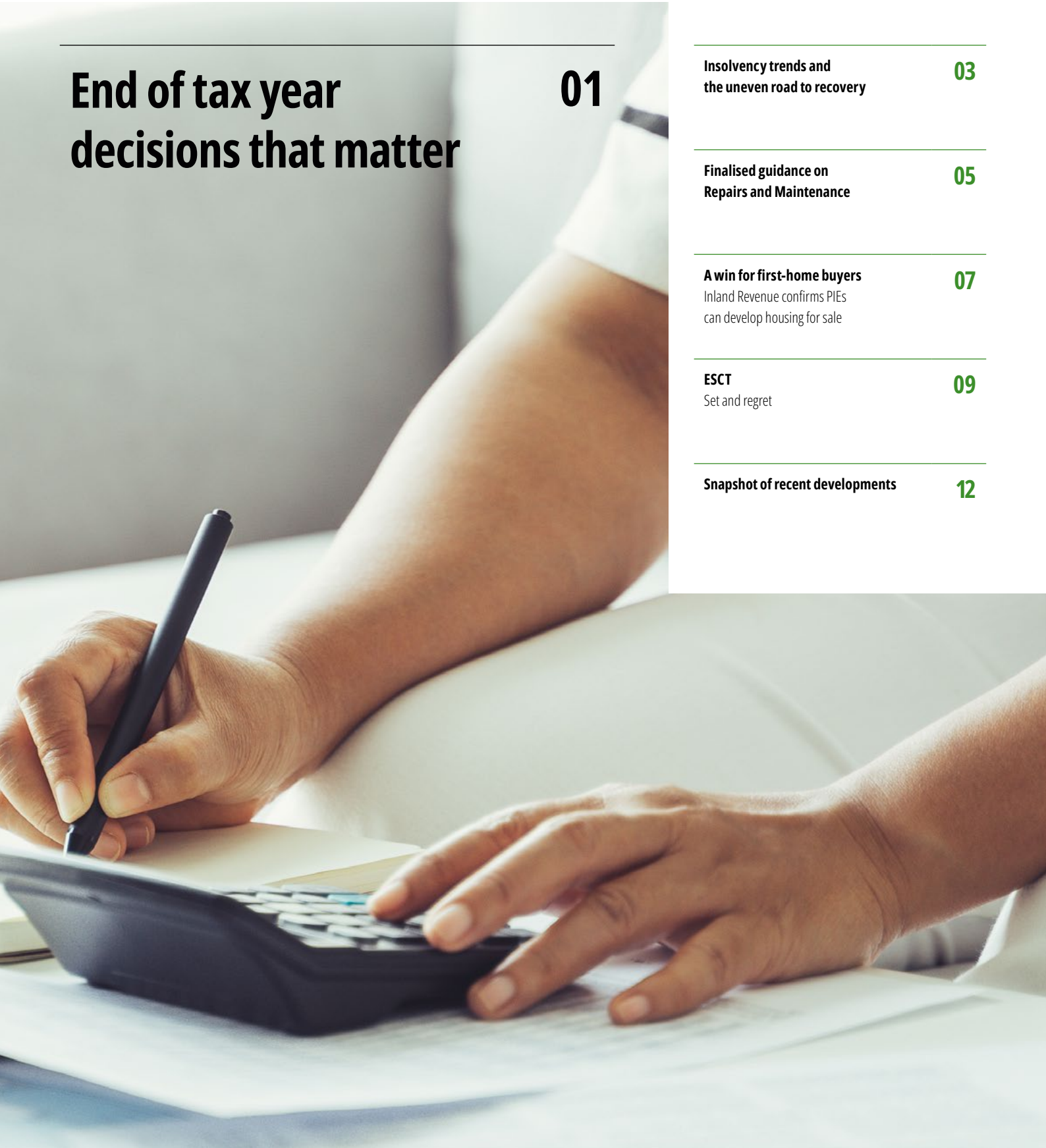
Deloitte.

March 2026

Tax Alert



End of tax year decisions that matter 01

End of tax year decisions that matter

By Andrea Scatchard, Susan Wynne and Amy Sexton

With 31 March approaching for standard balance date taxpayers, year-end remains a time where small errors can create disproportionate headaches and tax costs. So it's time for our yearly 'year-end' reminders.

Year end tax issues

Bad debts – are your debtors likely to pay?
Bad debts must be fully written off in your accounting system before year-end to be deductible.

Imputation credit accounts – do you know the balance?
For companies a debit balance at 31 March triggers penalties, regardless of your actual financial balance date. This balance needs to be carefully monitored if there have been imputed dividends paid out, tax refunds received or tax pooling deposits swapped to later dates, or a loss in shareholder continuity.

Depreciation – are you using the right rates? What about Investment Boost?
Check your fixed asset register to ensure the correct Inland Revenue tax deprecation rates are being used. New assets should also be depreciated from the beginning of the month of acquisition, rather than from the date of purchase. Pooled assets can be depreciated from the start of the year of acquisition. If you are writing off assets, make sure they are disposed of by year-end.

If you have had any depreciable assets become available for use on or after 22 May 2025 have you thought about Investment Boost? And remember the ability to claim tax deprecation on commercial and industrial buildings was removed effective 1 April 2024 for 31 March balance date taxpayers.

Low-value assets – have you purchased any?
Most assets that cost less than $1,000 are considered "low-value assets" and can be immediately deducted, rather than depreciated. But, if multiple low-value assets are purchased at the same time from the same supplier, the combined cost must be less than $1,000 for the immediate deduction to apply.

Trading stock – have you done a stocktake?
A balance date stocktake is required, and obsolete or slow-moving stock may be valued below cost where market selling value can be substantiated.

Tax losses – have there been any shareholder changes?
If you have tax losses as well as shareholder changes you need to be aware of both the shareholder and business continuity rules. A breach of these can result in your tax losses being forfeited and this is a particular compliance focus area for Inland Revenue in 2026.

Shareholder loans – are changes coming?
Back in December 2025 Inland Revenue opened consultation on proposed changes to the taxing of shareholder loans. While the outcome of this consultation is not yet known, it is an opportune time to review any shareholder loan balances and put plans in place to ensure loan balances remain manageable and you are following the (current) correct tax treatment, including charging interest on loan balances at the prescribed rate (currently 5.77%).

Other tax issues to consider

Fourth-quarter FBT returns

31 March is also the end of the FBT year, irrespective of financial balance date. Annual FBT returns and returns for the March quarter are due to be filed by 31 May 2026. For employers still defaulting to the 63.93% standard rate this is an opportunity to consider using the various alternate rate options available to reduce FBT payable.

Kilometre (mileage) calculations

If you reimburse staff for mileage, 1 April is the date when baseline odometer readings should be taken which will help determine which kilometre reimbursement rate applies.

GST mixed-use taxable and non-taxable supplies

If you are GST registered and have assets that are used to make both GST taxable and GST exempt or non-taxable supplies, you may need to make an annual change of use adjustment in the GST return period that includes your balance date.

GST on non-deductible entertainment

While thinking about GST, it's also a good time to make sure that you have made any required GST adjustments to account for the GST on any non-deductible entertainment expenses from the 2025 year. If you have missed this, you may be able to catch this up in your March GST return.

UOMI and tax pooling

With the Inland Revenue use of money interest rate currently at 8.97 % on outstanding tax payments, tax pooling may offer a way to reduce the effective rate of interest. Tax pooling can also provide the flexibility to make your tax payments at times that suit your own cashflow patterns.

Tax on KiwiSaver contributions

If you have employees, you need to review the ESCT rates that apply to your employer KiwiSaver contributions as these may change on 1 April based on earnings levels over the last 2 years.

1 April also brings a number of changes to the KiwiSaver contribution rates as detailed in our February 2026 article.

Year-end is a busy time and is the time to lock in defensible tax outcomes before statutory cut-offs. So if you have any questions, take away the stress by talking to your usual Deloitte advisor.

Contact

Andrea Scatchard
Partner
ascatchard@deloitte.co.nz
+64 7 838 4808

Susan Wynne
Partner
swynne@deloitte.co.nz
+64 7 838 7923

Amy Sexton
Associate Director
asexton@deloitte.co.nz
+64 9 953 6012

Insolvency trends and the uneven road to recovery

By Rob Campbell, Amy Sexton, Lily Choun and Luke Cameron

Inland Revenue's renewed focus on reining in tax debt, combined with ongoing economic pressure, has been a key driver to formal insolvency appointments reaching their highest level in 15 years. As Inland Revenue is the largest petitioning creditor in court-appointed insolvencies, this outcome is unsurprising and signals sustained stress across the business sector and a slow, uneven recovery.

In this article Rob Campbell from Deloitte's Restructuring and Turnaround team examines the insolvency data, its implications, and the outlook for recovery.

Types of formal appointments | 2000-2025 annually

Source: Companies Office

Increases in formal insolvency appointments

Formal insolvency appointments include liquidations, receiverships and voluntary administrations and Deloitte has studied the data on these appointments since 2000. Since 2021, appointments have increased steadily, reaching 3,080 in 2025, the highest level in 15 years.

The December quarter of 2025 recorded 932 appointments, making it the second-highest December quarter on record, exceeded only by Q4 2008 during the global financial crisis.

Sector Hotspots and Trends

Construction

Construction accounted for 24% of all company failures in 2025 and remains the most affected sector, with 747 formal appointments. This represents a 14% year-on-year increase. Q4 2025 recorded 197 appointments, the highest quarterly figure for this sector since Deloitte began collecting sector-specific data in 2022.

The sector continues to face weak demands, elevated build costs, cashflow pressure and a thinning project pipeline. Insolvency risk remains concentrated among smaller contractors, with subcontractor failures amplifying stress across the supply chain.

Implications and outlook

Strong project oversight and robust due diligence remain essential. This includes credit and reference checks, understanding group structures, reviewing up-to-date financial statements, and assessing GST and PAYE compliance, particularly given increased Inland Revenue enforcement. Best practice also includes securing bank performance bonds, confirming retention funds are held in trust and obtaining appropriate guarantees where relevant.

Despite interest rates easing from mid-2024, construction GPD declined from Q4 2023 following earlier OCR tightening that reduced consents and elevated costs. As activity typically lags monetary policy, recovery is expected to be gradual and uneven, favouring larger, well-capitalised businesses.

Accommodation and Food Services (Hospitality)

Accommodation and Food Services recorded a sharp rise in formal appointments with 380 appointments in 2025, a 53% year-on-year increase. Q4 2025 recorded 149 company failures, around 80 percent higher than recent quarters.

While these figures were inflated by the collapse of a group of 50 related companies, insolvency levels remained elevated even when this group is excluded, reflecting sustained sector-wide pressure.

Implications and outlook

Smaller and highly leveraged operators are most exposed. High fixed costs, ongoing wage and input inflation and limited pricing power leave many businesses vulnerable to modest demand shocks or seasonal downturns. Rising insolvencies have increased risk exposure for landlords, suppliers and financiers. Tighter credit and leasing conditions may further constrain weaker operators and accelerate closure and consolidation.

Improving consumer confidence towards late 2025, largely in Auckland and Wellington, may offer near-term optimism in a recovery for this sector. However, confidence remains modest by historical standards and cost pressures persist. Insolvency risk is expected to remain elevated in the near term, with a recovery likely to be slow and uneven, led by larger, better capitalised businesses.

Other sectors of note

Rental, Hiring and Real Estate Services recorded 326 formal appointments in 2025. A sustained improvement is unlikely until property market confidence stabilises and demand for commercial leasing and equipment hire returns to more normalised levels.

Retail Trade recorded 230 formal appointments in 2025. While easing inflation and interest rate relief may provide some stabilisation in late 2025, insolvency risk is expected to remain elevated, with recovery uneven and skewed toward larger, well capitalised retailers with greater pricing flexibility and scale.

Transport, Postal and Warehousing recorded 174 formal appointments in 2025. While demand may improve as economic conditions stabilise, a sustained recovery is likely to require stronger freight volumes and easing cost pressures. Insolvency risk is expected to remain elevated in the near term, with recovery favouring scale operators and integrated logistics providers.

Read the full New Zealand Insolvency Trends report here.

The impact of ballooning tax debt

Following the withdraw of pandemic-era support, Inland Revenue tax debt has risen significantly, reaching over $9b as at June 2025. While 94% of taxpayers continue to pay their tax on time, maintaining the fairness and integrity of the tax system and supporting New Zealand's broader economic outlook will, in part, depend on Inland Revenue's prompt response to this growing issue.

Inland Revenue has indicated that is intensifying enforcement activity, supported by increased resources, expanding the use of automated enforcement decision making tools, and encouraging taxpayers with outstanding debt to enter into instalment arrangements at an early stage.

Deloitte welcomes Inland Revenue's recognition of the scale of the issue and the steps taken to improve public reporting of tax debt defaulters and increasing enforcement activity. Inland Revenue is not intended to serve as a lender of last resort and should not be used as such by businesses that are no longer economically viable.

Recovery will be uneven and slow

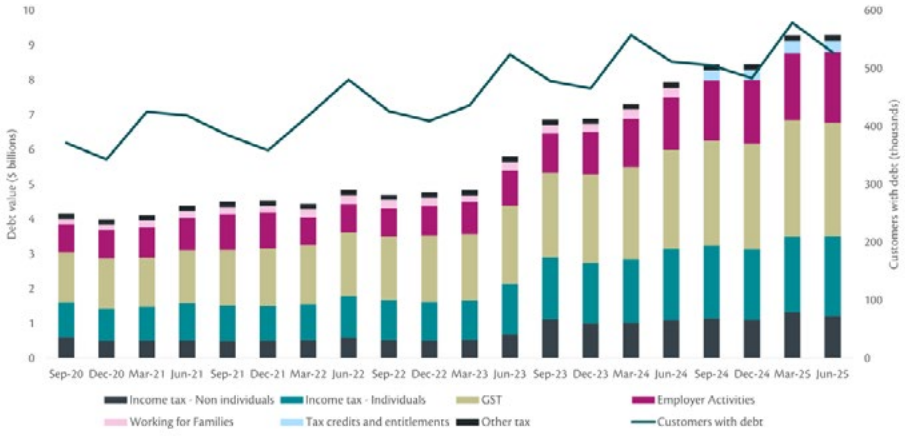
While easing inflation and prospective interest-rate relief may support conditions later in 2026, insolvency risk is expected to remain elevated in the near term. Recovery is likely to favour larger, better-capitalised businesses and consolidation is likely to be observed across several sectors.

Renewed Inland Revenue enforcement and investigation activity is expected to remain a key driver of insolvency appointments, reinforcing a slow and uneven recovery.

Deloitte supports businesses to reduce risk and maximise value. Navigating change, whether driven by growth or financial stress, is critical to sustainable performance. Please contact your usual Deloitte adviser to discuss how we can help.

Total amount of tax and entitlement debt, quarterly by product up to 30 June 2025

Source: Inland Revenue



Contact

Rob Campbell
Partner
Turnaround & Restructuring
robecampbell@deloitte.co.nz
+64 9 975 8561

Amy Sexton
Associate Director
Tax
asexton@deloitte.co.nz
+64 9 953 6012

Lily Choun
Manager
Turnaround & Restructuring
lchoun@deloitte.co.nz
+64 9 306 4431

Luke Cameron
Senior Analyst
Turnaround & Restructuring
lucameron@deloitte.co.nz
+64 9 975 8652

Finalised guidance on Repairs and Maintenance

By Angus Isherwood, Amy Sexton and Robyn Walker

Earlier this month, Inland Revenue finalised their guidance on the general principles of deductibility of repairs and maintenance expenditure, following on from the draft guidance released in November last year. Overall, the principles remain largely unchanged from the draft version and our November 2025 Tax Alert article covers key takeaways from the draft guidance when considering whether expenditure is capital or revenue. The focus of this article is on the minor tweaks in the finalised Interpretation Statement.

Capital v Revenue 101

As a brief reminder, the capital limitation denies a deduction for an amount of expenditure to the extent to which it is of a capital nature. Presuming the general permission has been satisfied, expenditure on repairs and maintenance is of a revenue nature and therefore deductible, if (1) it does not reconstruct, replace or renew the whole of the asset and (2) does not change the asset's character. Otherwise, the expenditure is of a capital nature and not immediately deductible. Capital costs may be deductible over time as depreciation deductions, meaning the analysis is particularly important in relation to buildings which have a 0% depreciation rate.

Changes in the final guidance

What does "significant" expenditure mean?

Generally, the greater the expenditure on repair, the more likely it is to be considered of a capital nature. In the finalised guidelines Inland Revenue has provided greater clarity that "significant" expenditure in the context of an asset's improvement means significant relative to the asset's value, rather than in absolute terms. However, the Commissioner noted that cost alone is not a reliable indicator of the nature of expenditure. Repairs that incur substantial costs are not necessarily of a capital nature, provided they do not change the property's character.

The nature and extent of the work done to the asset

The question on how to determine the nature and extent of work done to an asset was illustrated in the draft guidance with a number of examples, include two involving roof repairs which cast doubt over the material difference between revenue and capital expenditure.

The two examples given were as follows:

- Example 12: The roofing of a lean-to garage attached to a property has a cement-based corrugated roofing sheets that has cracked and started leaking. The original material is not available, so the property owner opts to use a readily available steel roofing material that is pre-painted and requires less maintenance. The cost of replacing the garage roof is revenue in nature, as the use of the different material is not extensive, does not result in a reconstruction, replacement or renewal and does not improve the property beyond restoring the garage's functionality.
- Example 13: An entire property is covered by the same material as Example 12 which has cracked and started leaking. Again the original material is not available. The property owner uses a more superior material which is pre-painted and more durable as it is the entire roof over all key living areas. In this case, the work done on the property has gone beyond the use of an equivalent material to affect a repair: the property's character has been changed, and therefore the cost of the work is capital in nature.

The distinction between the two examples was somewhat unclear.

In the final guidance, the Commissioner amended has amended Example 13 to make clear that the property owner had the option of choosing a material of similar quality (as in Example 12) but instead opted for a superior material. Therefore, repairs are capital in nature if the property owner has the choice of using a different, equivalent material but instead uses a higher quality material to improve the property.

A new example (Example 14) has been added to clarify that replacing a property's entire roof does not automatically make the expenditure capital:

- A property owner is advised by their building contractor that piecemeal repairs are unlikely to fix their roof which has been leaking for years. The property owner replaces the roof in its entirety, using a material which is equivalent to the original. The cost of the work undertaken is revenue in nature.

What about leaky buildings?
Inland Revenue's view is that expenditure on remedial work for leaky buildings is highly likely to be of a capital nature, given the property's character frequently must be changed to solve its inherent defect. If the building is improved beyond its original defective position, then the work is not a repair. The cause of the defect may be relevant; however, the Commissioner's focus is on the work that is carried out.

With that said, there is limited scope for remedial work to be deductible, where both the nature and extent of the work is minor, and the building's character does not change. However, this is a narrow exception, and property owners should expect most remedial work to leaky buildings to be non-deductible. This includes situations where work is only done on parts of the building.

Acknowledging the likely heightened interest in this issue, Inland Revenue have produced a new leaky buildings fact sheet to accompany the finalised statement, which summarises how the repairs and maintenance principles apply to leaky buildings.

Don't forget about Investment Boost
While outside the scope of the guidance, Inland Revenue has made explicit reference to the availability of the Investment Boost scheme for depreciable, non-residential property, which may allow for a one-off 20% deduction of capital expenditure used to improve property, notwithstanding the current 0% depreciation rate available for buildings. The Investment Boost applies to new depreciable assets that first became available for use on or after 22 May 2025.

In light of the complexities in this area, we recommend reaching out to your usual Deloitte tax advisor the next time you undertake work on asset or if you would like to find out more about Investment Boost.

Contact

Angus Isherwood
Consultant
angisherwood@deloitte.co.nz
+64 9 975 8617

Amy Sexton
Associate Director
asexton@deloitte.co.nz
+64 9 953 6012

Robyn Walker
Partner
robwalker@deloitte.co.nz
+64 4 470 3615

A win for first-home buyers

Inland Revenue confirms PIEs can develop housing for sale

By Joe Sothcott, Phil Claridge and Alex Mitchell

Inland Revenue has quietly released a short draft Questions We've Been Asked (QWBA) that could have an outsized impact on New Zealand's housing market.

The question posed is whether portfolio investment entities (PIEs) can derive eligible PIE income from developing land, subdividing it, and/or erecting buildings for sale. In a welcome outcome, Inland Revenue's draft answer is yes.
The conclusion clears the way for PIEs (including KiwiSaver funds) to invest in residential and commercial developments that are built to sell, not just to rent. Below, we look at how this issue arose, what the draft statement says, and why it's good news for housing supply and investment flexibility.

How did we get here?

In 2024, Inland Revenue launched a policy consultation proposing to amend the PIE rules to specifically exclude income from land development activities as being eligible. The policy rationale included comment that Inland Revenue's view was that such activity is not eligible under the existing law, so this would be a "clarification".

We had concerns with this – with both the policy rationale and what was being implied about the existing law. From a policy perspective, we were concerned with limiting options to invest for PIEs by excluding land development. The PIE regime was designed to allow New Zealanders to invest and save for retirement through collective investment vehicles, without being disadvantaged relative to those with the means to invest directly. Many Kiwis have used (and continue to use) land as a savings vehicle. For some, this is owning a rental property. For others it is small-scale development – this is evident to anyone that has walked through the established suburbs of our major cities and seen the number of subdivided sections. We didn't have a policy objection to this sort of activity (and commercial development) being open to PIEs.

A number of submitters, including Deloitte, asked Inland Revenue to pause and formally clarify its view of the current law before moving ahead with any legislative change. To its credit, Inland Revenue did this, resulting in the draft QWBA we now have.

The current draft statement

In a shift away from the view expressed in 2024, the Tax Counsel Office (TCO) has now issued the draft QWBA with a positive outcome for PIEs. The statement confirms that income from developing land, subdividing it, and/or erecting buildings for sale can be eligible PIE income under s HM 12 of the Income Tax Act 2007 (the Act).

In plain terms, the reasoning is straightforward. Section HM 12 allows PIEs to earn income from disposing of certain property. Section HM 11 says that property includes interests in land. Selling land (whether developed or not) is still selling land (and as such should fall within s HM 11). This was the view we took when we engaged with Inland Revenue on this in 2024.

This conclusion will not surprise those familiar with the Act. Sections CB 7, CB 9, CB 10, CB 11, CB 12, or CB 13 (the land provisions), which broadly apply to development and building activities, simply tax amounts derived "from disposing of land". When the land provisions are read in conjunction with ss HM 11 and HM 12, it is difficult to imagine how Parliament could have made it any clearer that those activities were "eligible activities" for PIEs.

While in our view the answer seems clear, readers of the draft QWBA could walk away with the opposite impression. Although reaching the right conclusion, parts of the draft seem to argue the opposite. It considers a view that Parliament "intended" a distinction between active and passive investment (with land development not being "passive"), before conceding that this intention wouldn't be persuasive to a New Zealand Court. We agree this distinction wouldn't be persuasive to a New Zealand Court, because Parliament's actual intention is best evidenced by the plain words of the Act.

In our view taxpayers would be best served if the QWBA focused its attention on the clear arguments for the conclusion.

Why this matters: real asset development

The confirmation that land development income can sit comfortably within the PIE regime has some important real-world implications.

More homes, more options

Rather than being limited to "build-to-rent" or "buy-to-rent" land investment models, PIEs have the option to invest in projects including those that deliver housing at scale, potentially resulting in a material boost in supply. This could involve either a "build-to-rent-or-sell" or "build-to-sell" approach. The flexibility inherent in this mixed approach aligns far better with modern planning, design, and infrastructure goals.

Unlocking long-term capital

The potential untapped capital is also material. Based on the Reserve Bank's statistics, as at December 2025, KiwiSaver funds alone held around $143 billion worth of assets, with a further $91.6 billion in retail unit trusts (most of which are PIEs).

We are not suggesting that these PIEs should undertake development activities, but they now have certainty that this is an option - the change is a capital unlock. If existing PIEs judge it appropriate and consistent with their wider strategy, they can now more easily do so without putting their PIE status at risk. They might do this directly, or via investment in a PIE operated by a manager specialising in development activity.

Why this matters: a question of interpretation

Part of what makes this issue interesting is not just the outcome, but how Inland Revenue got there and what this might imply in other contexts.

Inland Revenue's initial view (which would have excluded land development income) relied heavily on an idea that PIEs were only ever meant to hold "passive" investments, not "active" ones. The problem with that view is that the words active and passive don't appear anywhere in the PIE legislation.

Instead, the phrases appear primarily in background papers and reports prepared by officials when the PIE rules were first introduced and in relation to subsequent amendments (even then, the references are somewhat limited). While those materials might be helpful context with respect to officials' intentions, New Zealand Courts have been clear they are an unreliable method of evidencing Parliamentary intent. The Court makes this plain in Commissioner of Inland Revenue v Roberts [2019] NZCA 654 (Roberts) stating:

> *The task of the Court is to interpret the words used in the statute, not paraphrases, and in particular imprecise paraphrases, used in discussion papers and officials' reports.*

As Clearspan Property Assets Limited v Spark New Zealand Trading Limited [2017] NZHC 277 (Clearspan) notes, what the Courts should focus on is the wording of the statute:

> *The rule of law must still stand for the proposition that it is the law that rules, not those who make the law or apply the law or interpret the law. The law is the text.*

Put simply, when Courts interpret tax law, they start (and usually finish) with the statute itself. The text is paramount. It is fundamental that Courts do not read extra ideas into tax legislation, especially if those ideas conflict with the actual words of the legislation. While the QWBA ultimately concludes that the text is paramount, some of the discussion leading up to this could be clearer as to how Inland Revenue approaches statutory interpretation. This is of course fundamental to taxpayers and will form a key part of our submission.

Next steps

The deadline for submissions on the draft QWBA is 15 April 2026.

If you have any questions about the draft statement or PIEs and land development, please contact your usual Deloitte advisor.

Contact

Joe Sothcott
Consultant
jsothcott@deloitte.co.nz
+64 9 975 8500

Phil Claridge
Director
pclaridge@deloitte.co.nz
+64 4 470 3850

Alex Mitchell
Partner
alexmitchell@deloitte.co.nz
+64 4 470 3778

ESCT
Set and regret

By Mila Robertson and Robyn Walker

With Inland Revenue sharpening its audit focus, Employer Superannuation Contribution Tax (ESCT) compliance has been coming under greater review. Checking your calculations now means fewer surprises when IR comes knocking.

Every dollar that employers contribute to KiwiSaver and other complying funds should have ESCT deducted. However, determining the correct ESCT rate can be tricky and from our experience often fraught with errors.

How do you calculate the right ESCT rate for your employees?

It's conceptually simple, the rate that ESCT is deducted at is based on your employees' marginal tax rates at 1 April each year.

- However, there are some fishhooks to be aware of when determining the rate, which is based on the employee's expected earnings for the year, inclusive of employer contributions to their retirement scheme (referred to as "the ESCT rate threshold amount"). At a high level, the rules mean that:
- If your employee has worked in your business for the full prior year (1 April to 31 March), then you can look back at their prior year earnings and employer contributions to determine the ESCT rate threshold amount.

If your employee has not worked in your business for the full prior year, then you need to make an estimate of their salary and wage earnings, inclusive of your employer contribution.

This means that usually for the first two years of employment for new employees, employers need to more actively consider what is an appropriate rate for your employee and undertake an estimate.

ESCT should then be deducted per the rates below:

ESCT Rate Threshold Amount	ESCT Rate
$0 - $18,720	10.5%
$18,721 - $64,200	17.5%
$64,201 - $93,720	30%
$93,721 – $216,000	33%
$216,001 upwards	39%

Topical Issues

In recent years Inland Revenue's new computer system has been utilised to pick up on when employers are deducting the incorrect ESCT rate on employer contributions to KiwiSaver.

We understand that Inland Revenue have, in some cases, been looking at the ESCT rate employers have deducted, compared to the employment income reported via the wider PAYE system to check for inconsistencies.

As Inland Revenue looks back on ESCT rates applied with the benefit of hindsight, it is important that employers take increased care in determining the rates. We recommend that where estimates are required that these are documented and retained in case of future review.

Common mistakes we see in practice:

- Forgetting to estimate how much you expect your new employees will earn, to determine their ESCT rates.
- If last year was an employee's first year on employment, their ESCT rate was likely based on an estimate. Don't forget to recalculate it in year two using their expected full year earnings.
- A "set and forget" mentality being applied to ESCT rates, where the rates are not getting reviewed each year. This means that if a pay-rise or other circumstance has changed an employee's marginal tax rate year-on-year that this may not be picked up.
- An over-reliance on payroll software. While some payroll software can take a lot of the hassle out of your ESCT compliance, manual checks should still be undertaken as best practice. We recommend that at the beginning of each tax year spot checks are run in situations you expect could be more prone to issues.

What to do if there is an error

The approach to take to an error will differ depending on the number of impacted employees, the duration of the error and whether there is an underpayment or overpayment of tax. A simple isolated error may be able to be easily corrected by filing an IR344 employment information amendment form or amending the PAYE filing online via myIR. An error which spans many employees and many pay periods may be more complex to resolve.

The challenge with ESCT corrections typically occurs when the employer's contribution has been calculated correctly, but the wrong proportion has been allocated between Inland Revenue (tax) and the Superannuation Scheme (savings). We understand that, in both instances, the allocation between ESCT and KiwiSaver can be corrected by Inland Revenue via amending PAYE filings.

However, when too much money has been allocated to the KiwiSaver fund (i.e. the ESCT rate is too low), this needs to be carefully managed and communicated with the employee, as changing the PAYE filing would remove money from the employees KiwiSaver fund. Given this can be challenging to manage and explain to the employee, employers will sometimes choose to 'gross up' the additional amount that went to the KiwiSaver fund, to square up the ESCT due. This means no amount is refunded out of the employees' KiwiSaver and instead the employer pays an additional amount of ESCT.

Correction Examples

When you've paid Inland Revenue too little and amend the PAYE filing

If ESCT has been underpaid and you ask that IR amend the PAYE filing to change the allocation between ESCT and KiwiSaver.

Rogers Rabbits Ltd makes a 3.5% employer contribution to its employee's KiwiSaver funds. After reviewing its ESCT rates, Rogers Rabbits realised it had some employees on the wrong ESCT rates.

Originally, Roger Rabbits was deducting ECST from contributions to Sophie at a rate of 17.5% but should have been using 30%. Sophie's gross earnings for the last 20 pay periods were $24,000 ($1,200 per week) - the employer did not consider the employer contribution when determining what ESCT rate should be applied.

The gross employer contribution is $24,000 x 3.5% = $840.

ESCT on this at 17.5% would result in a net employer contribution of $693 and $147 of ESCT.

ESCT on this at 30% would result in a net employer contribution of $588 and $252 of ESCT.

Roger Rabbits would then need to correct this by amending its PAYE filings, or contacting Inland Revenue via another channel to increase the ESCT from $147 to $252 and decrease its net employer contribution from $693 to $588.

When you've paid Inland Revenue too little and decide a gross up is required

If ESCT has been underpaid, it can be complicated to communicate with employees that there has been an ESCT error and money will be removed from their KiwiSaver to rectify this error.

Therefore, if ESCT has been underpaid employers may wish to leave the funds in the employees KiwiSaver and gross up the ESCT to reflect this additional benefit.

The net employers' contribution to the superannuation scheme will remain the same, while ESCT is adjusted through the gross-up formula. This results in total contributions in excess of the default amounts.

Rogers Rabbits Ltd makes a 3.5% employer contribution to its employee's KiwiSaver funds. After reviewing its ESCT rates, Rogers Rabbits realised it had some employees on the wrong ESCT rates.

Originally, Rogers Rabbits was deducting ESCT from contributions to Hiran at a rate of 17.5% but should have been using 30%. Hiran's gross earnings for the last 20 pay periods were $24,000 ($1,200 per week) - the employer did not consider the employer contribution when determining what ESCT rate should be applied.

The gross employer contribution is $24,000 x 3.5% = $840.

ESCT on this at 17.5% resulted in a net employer contribution of $693 and ESCT of $147.

Since the ESCT was underpaid, Rogers Rabbits can use the following to calculate the correct ESCT:

[(tax rate ÷ (1 − tax rate) × contribution to fund) − tax already paid]

= [(.30 / (1-.30) x $693) - $147] = $150

Rogers Rabbits needs to increase the ESCT amount from $147 to $297 without making any modifications to the net employer contribution of $693 previously made to Hiran's KiwiSaver provider.

The net result of these calculations is that Hiran retains the original $693 contribution to his KiwiSaver fund, but his overall "value" of employer contributions has increased to $990 (you can check this is right, as 30% of $990 is $297.

You will see that this option is more costly to Roger's Rabbit than the example in (a), as an additional $150 needs to be paid.

When you've paid Inland Revenue too much

If ESCT has been over-deducted, Inland Revenue can transfer the excess amount to the superannuation fund.

Rogers Rabbits Ltd determined it was also deducting ESCT from Ian's contributions at a rate of 33% but should have been using 30%. Ian's gross earnings for the return were $7,000.

The gross employer contribution is $7,000 x 3.5% = $245

ESCT on this at 33% would result in a net employer contribution of $164.15 and $80.85 ESCT.

ESCT on this at 30% would result in a net employer contribution of $171.50 and $73.50 ESCT.

Rogers Rabbits needs to correct this by contacting Inland Revenue and arranging to decrease the ESCT from $80.85 to $73.50 and increase the net employer contribution from $164.15 to $171.50.

What to do if you identify an error?

If you've got it wrong, we recommend that employers should front-foot this with Inland Revenue.

Simple errors can often be self-adjusted via amending your PAYE filings in myIR or directly via your payroll software. The employment information amendment forms (IR344) can also be completed if there are isolated errors, although this is a more manual process.

For bigger errors over longer periods, the best way to approach this usually is via the Voluntary Disclosure process, as this will help with the management of penalties and also demonstrates sound tax governance when an error is found. In these cases, Inland Revenue will address with you how best to resolve the relevant issues.

We also recommend that impacted employees are notified.

For more information or if you have any questions in relation to your ESCT compliance, please contact your usual Deloitte tax advisor.

Contact

Mila Robertson
Manager
mirobertson@deloitte.co.nz
+64 4 470 3851

Robyn Walker
Partner
robwalker@deloitte.co.nz
+64 4 470 3615

Snapshot of recent developments

Tax legislation and Policy Announcements

Investment Boost driving real investment, lifting productivity

On 12 February 2026, Minister of Finance Nicola Willis issued a press release on Investment Boost which states that the policy is having positive outcomes through changing investment behaviour, boosting projects, increasing scale and lifting productivity.

A fact sheet accompanies the press release with Inland Revenue survey data. Among firms aware of the policy, 40% increased their investment, with 11% reporting a significant increase directly due to the incentive. Nearly half of firms planning investment over the next five years say the policy is positively influencing those plans.

Initial findings can also be found in this Briefing Note to Ministers.

Reduction of FBT interest on employment-related loans

On 23 February 2026, the Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2026 Order in Council was published and came into force on 27 February 2026. The amendments reduced the rate of interest that applies for fringe benefit tax purposes to employment-related loans from 6.29% to 5.77%. The new rate applies for the quarter beginning 1 January 2026 and for subsequent quarters.

Reports to Ministers in 2026

On 25 February 2026, Inland Revenue updated its list of reports and briefing notes to Ministers.

FEC reports back on the Taxation (Annual Rates for 2025-26, Compliance Simplification, and Remedial Measures) Bill

On 9 March 2026, the Finance and Expenditure Committee reported back on the Annual Rates Bill.

Also released was the Inland Revenue Departmental Report on the Bill and a number of other related reports, which can be found on the Parliament website. The April issue of Tax Alert will review the final form of the legislation and any major reforms in the Bill.

Inland Revenue Statements and Guidance

Tax Information Bulletin: Vol 38, No 1 (February 2026)

On 2 February 2026, Inland Revenue issued TIB Vol 38, No 1 (February 2026):

New legislation

- SL 2025/260: Income Tax (Tax Credit) Order 2025
- SL 2025/271: Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations (No 3) 2025
- SL 2025/310: Taxation (Use of Money Interest Rates) Amendment Regulations (No 2) 2025
- SL 2025/259: Tax Administration (Extension of Application Deadline for Research and Development Tax Credits) Order 2025

Interpretation statement

- IS 25/26: The Commissioner's duty of care and management – section 6A of the Tax Administration Act 1994

Question we've been asked

- QB 25/22: Do the purchase price allocation rules alter the tax book values of Farmland Improvements and listed horticultural plans under subpart DO?

Case summary

- CS 26/01: Court approves proposal under the Insolvency Act 2006 despite Commissioner's objection

Determination: Declaration that the January 2026 severe weather event is an emergency event for the purposes of family scheme income

On 3 February 2026, Inland Revenue issued DET 26/01, declaring the January 2026 severe weather event as an emergency event for the purposes of family scheme income.

Inland Revenue: 'Income tax - more information' requests reminder

On 4 February 2026, Inland Revenue advised that if you have been issued an 'Income tax – more information' request, please check and complete it as soon as you can. This will help you be aware of your tax position and receive any refunds entitled to, including Working for Families.

Inland Revenue: Provisional depreciation rate for battery energy storage systems (modular)

On 4 February 2026, Inland Revenue issued PROV28: Provisional depreciation rate for battery energy storage systems (modular). The Commissioner of Inland Revenue set a a depreciation rate for Battery Energy Storage Systems (modular) as a new asset class. These are used to store energy generated during off-peak periods for use during peak-demand periods, or available as an energy backup system when power generation is unable to meet energy demand or is out of service.

Asset class	Estimated useful life (years)	DV rate (%)	SL rate (%)
Battery Energy Storage Systems (modular)	15.5	13	8.5

Draft Operational Statement: Returns of capital: Off-market share cancellations – bright line tests and the Commissioner's notice requirements and other matters

On 9 February 2026, Inland Revenue released an operational statement on ED0267: Returns of capital: Off-market share cancellations – bright line tests and the Commissioner's notice requirements and other matters. It follows the release of IS 25/19: Income tax – Whether an off-market share cancellation is made in lieu of the payment of a dividend which explains how the anti-avoidance rule in s CD 22(6) (the "in lieu of dividend" test) and the relevant factors in subs (7) apply to an amount a company pays a shareholder on an off-market cancellation of shares.

The focus of the draft operational statement is on the technical requirement in the bright line test for a share cancellation resulting in a capital reduction of 10% to 15% for the Commissioner of Inland Revenue to have given a notice under s CD 22(8) that no part of the payment on the share cancellation is in lieu of a dividend under subs (6).

The draft statement also includes an outline of when and how to request a notice, what information to provide when requesting a notice, the practical implications when a notice is issued or the Commissioner of Inland Revenue declines to issue a notice, and the taxation consequences if any capital distribution is later found to be a dividend.

If any capital distribution is later found to be a dividend, this statement also notes the potential effect of the time bar, whether imputation credits can be attached and RWT obligations.

The consultation closes on 23 March 2026.

Updated Public Guidance Work Programme

On 10 February 2026, Inland Revenue updated the public guidance work programme 2025-26.

Inland Revenue: Increase to IRD number validation upper limit

On 10 February 2026, Inland Revenue announced that as part of their annual updates, IRD number validation will be updated to support higher numbers. The maximum valid IRD numbers will increase from 150,000,000 to 200,000,000.

Most organisations will not need to do anything, with the length of IRD numbers remaining at 9 digits, and changes will be managed by their intermediaries or digital service providers. Only organisations using custom systems, or who perform manual IRD number checks, will need to make sure their IRD number validation recognises and accepts numbers in the new range.

This maximum valid IRD number increase will be included in updated specification documents (such as Payday Filing File Upload Specifications), available on Inland Revenue's website from April 2026.

Inland Revenue: Planning for system outage

On 11 February 2026, Inland Revenue announced a planned system outage for Saturday 14 March 6am. During this time, online services – including myIR, SPK2IR and Gateway Services – will be unavailable. Systems are expected to be available again by Sunday 15 March 6pm. Saved drafts in myIR will not be affected.

Inland Revenue: Changes to how Inland Revenue estimate benefit income

On 18 February, Inland Revenue reminded that from 1 April 2026 they are changing how benefit income is estimated for clients receiving Working for Families payments. The key points are:

- Benefit income will be calculated like PAYE income.
- When a benefit starts, Inland Revenue will first use the Ministry of Social Development exchange rate, then update using Ministry of Social Development employment information.
- Benefit income will appear in the income estimate tab on the FAM account.
- Benefit details can be seen in myIR (but not edited).
- Early interventions will include those on benefits if income looks 'off track'.

Inland Revenue: Best Start Tax Credit

On 18 February 2026, Inland Revenue reminded that from 1 April 2026 Best Start will be income tested from the 1st year, aligning it with the approach already used in years 2 and 3. The annual rate will increase to $4,041.

Determination: Declaration that the February 2026 severe weather event is an emergency event for the purposes of family scheme income

On 19 February 2026, Inland Revenue issued DET 26/02: Declaration that the February 2026 severe weather event is as an emergency event for the purposes of family scheme income. The affected regions were:

- Waipā
- Ōtorohanga
- Rangitīkei
- Manawatū
- Banks Peninsula

The severe weather event is declared to be an emergency event for the purposes of section MB 13(2)(r)(i) of the Income Tax Act 2007. The period relating to the event is set from 14 February 2026 to 31 August 2026

On 20 February 2026, Inland Revenue encouraged affected taxpayers or the agents of affected taxpayers by the recent severe weather event to contract Inland Revenue if their business or personal income is affected.

Inland Revenue: Closing down a business – improvements to the process

On 20 February 2026, Inland Revenue announced they are improving the steps for closing down a business, so they are easier to follow.

From early March 2026, a standard form will be available to request a letter of no objection for removal from the New Zealand Companies Office register.

The form is 'Company or limited partnership removal from the register: Request for a letter of no objection to removal - IR315A'. It will be added to this page on Inland Revenue's website.

Inland Revenue: National standard costs for specified livestock

On 23 February 2026, Inland Revenue issued a determination on The National Standard Costs for Specified Livestock for 2026. It applies to any specified livestock on hand at the end of the 2025-26 income year where the taxpayer has elected to value the livestock under the national standard cost scheme for that income year, for the purposes of s EC 23. The national standard costs are set out here.

Product Ruling: Tax treatment for provision of low/self-powered vehicles by an employer

On 23 December 2025, Inland Revenue issued product ruling BR PRD 25/08, Northride New Zealand Limited. Inland Revenue clarified the tax treatment of employment schemes relating to the leasing of self-powered or low-powered commuting vehicles (such as bicycles, electric bicycles, scooters and electric scooters) by a third-party company to an employer, for the benefit of their employee(s). The third-party company (Northside) provided employers with the necessary digital tools and Intellectual Property to allow the employer to implement an employee bike scheme for its employees, with the option of a salary sacrifice left to the employer's discretion.

The ruling is effective from 23 December 2025 to 23 December 2028.

Product ruling: Goodman Property Trust

On 2 March 2026, Inland Revenue published BR Prd 26/01 Covenant Trustee Services Limited as trustee of the Goodman Property Trust. The Ruling relates to the Applicant's payment of a distribution to its unitholders of an amount equal to the value of its directly held assets on a pro-rata basis and whether this payment is excluded in come of the unitholders under s CX 56C. The arrangement will occur as part of a broader transaction that involves the contemporaneous corporatisation of Goodman Property Trust (GMT) and stapling of shares in the 'corporatised GMT' and GMT Manager (a licensed manager) to form a single tradeable security (stapled security).

The ruling is effective from 27 February 2026 to 26 February 2027.

Inland Revenue: Employment form updates

Inland Revenue have updated various employer publications.

- The new IR333 (Employer obligations) provides a guide to registering as an employer, deducting tax, filing, paying, and record-keeping and is the main starting point for new employers.
- The IR337 (completing employment information forms factsheet) has been updated for clarity.
- The IR356 (IR56 workers handbook) replaces the previous IR56 taxpayers handbook. IR56 workers are private domestic workers, NZ based employees of overseas employers, embassy staff and US Antarctic Program workers.

Tax Cases

Technical Decision Summary: Opening value of FIF income calculation (Private Ruling)

On 18 February 2026, Inland Revenue issued TDS 26/01: Opening value of FIF income calculation. It confirms that where a taxpayer ceases transitional residence partway through an income year and applies the Fair Dividend Rate (FDR) method, the opening value of their Foreign Investment Fund (FIF) interests can be nil. In this case, the applicant became a New Zealand tax resident in December 2020, had an approved 31 December balance date, and their transitional residence ended on 31 December 2024; they held FIF interests at that date and calculated FIF income for the year ending 31 December 2025 using FDR. The Tax Counsel Office concluded that the opening value of each FIF interest for that year was nil because the deemed acquisition occurred after the start of the income year, and that the general anti-avoidance provision in s BG 1 did not apply, as this outcome was consistent with Parliament's intent under the transitional residence and FIF rules, including that no FIF income arises in the year of acquisition (aside from quick sale income).

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

Deloitte.

Sign up to the
Tax Alert at **deloitte.co.nz**

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

Amy Sexton

+64 (9) 953 6012

asexton@deloitte.co.nz

Auckland
Deloitte Centre, Level 20, 1 Queen Street,
Auckland, 1010
+64 (0)9 303 0700

Hamilton
Deloitte House, 24 Anzac Parade,
Hamilton, 3216
+64 (0)7 838 4800

Christchurch
151 Cambridge Terrace, Christchurch Central,
Christchurch, 8013
+64 (0)3 363 3800

Auckland – North Shore
Level 2, 55 Corinthian Drive, Albany,
Auckland-North Shore, 0632
+64 (0)9 303 0700

Rotorua
Level 2, 1176 Amohau Street,
Rotorua, 3010
+64 (0)7 343 1050

Dunedin
Otago House, 481 Moray Place,
Dunedin, 9016
+64 (0)3 474 8630

Tauranga
Level 2, Northern Quarter, 45 The Strand,
Tauranga 3110
+64 (0)9 303 0700

Wellington
Level 12, 20 Customhouse Quay,
Wellington, 6011
+64 (0)4 470 3500

Queenstown
Level 2, 10 Memorial Street,
Queenstown, 9300
+64 (0)3 901 0570