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Latest tax bill continues the focus on incremental change

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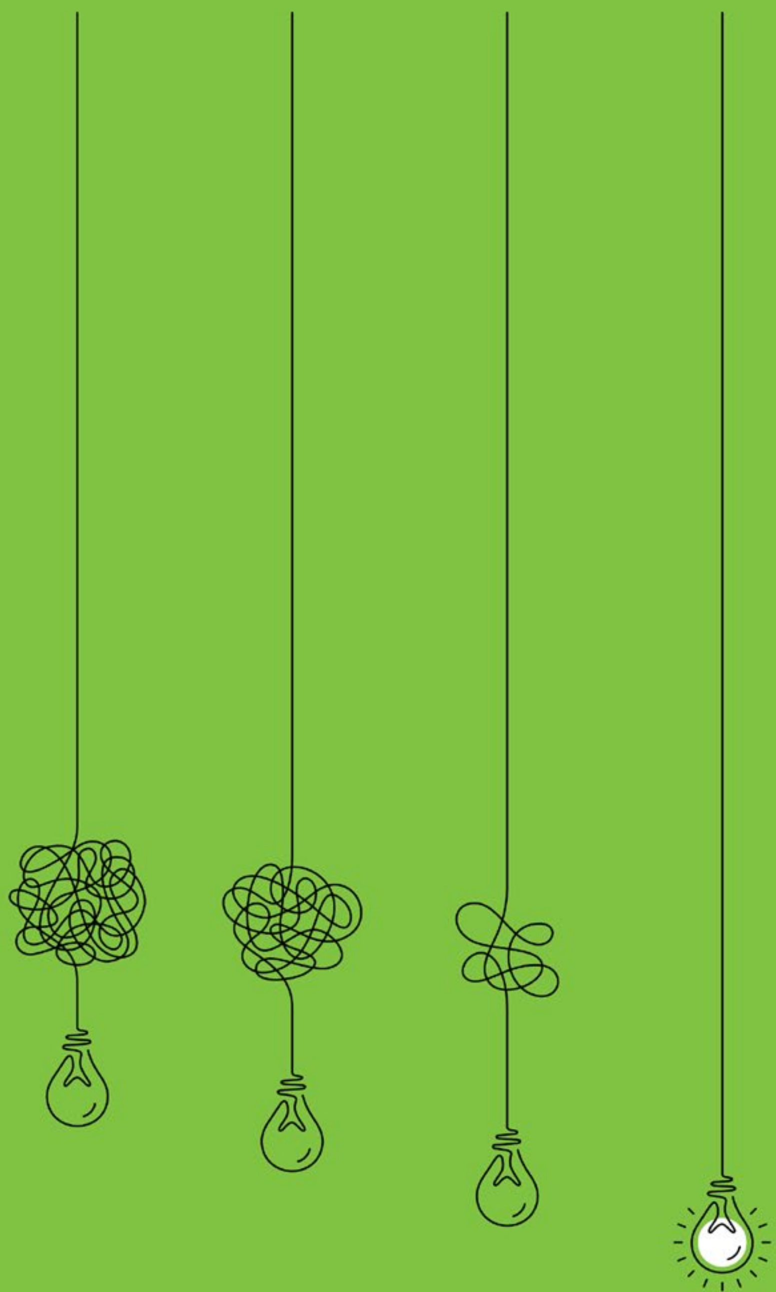

Latest tax bill continues the focus on incremental change

By Robyn Walker

As we quickly edge towards the end of the 54th Parliament, we have seen one last omnibus taxation bill tabled in Parliament, putting an end to a term marked by tax reform aimed at reducing compliance costs.

The stars of the Taxation (Annual Rates for 2026-27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) are reforms announced as part of Budget 2026, along with a plethora of other remedial changes aimed at fixing niggles and minor errors.

While Fringe Benefit Tax (FBT) and Foreign Investment Fund (FIF) reforms are the headline measures, the Bill contains over 70 other changes, almost all of which are taxpayer favourable and focused on improving tax legislation. It is not possible to cover every change when the list runs to four pages, but we can highlight those likely to be of most interest to Tax Alert readers.

FBT on motor vehicles

After being in place for more than 40 years, the FBT rules for motor vehicles are finally having a major overhaul. Refer to our separate article for more details.

Foreign Investment Fund rules

Last year's omnibus tax bill introduced a new FIF calculation method, the Revenue Account Method (RAM). The latest Bill expands eligibility to use RAM and makes several other improvements to the FIF rules, including doubling the de minimis threshold from $50,000 to $100,000, meaning fewer people need to apply the rules. Refer to our separate article for more details.

Financial Arrangement rules

The FIF rules were initially modified to ensure they did not adversely affect migrants. At that stage, people also began pointing out that the financial arrangement rules were an equal deterrent to high-net-worth individuals because of the need to bring foreign currency fluctuations to tax. The Bill provides a new option for eligible taxpayers to elect a functional currency other than NZD with effect from 1 April 2027. In practice, certain exchange rate movements against the NZD will no longer be included in financial arrangement calculations, meaning unexpected, and often unrealised, exchange rate gains or losses will not catch taxpayers by surprise. A number of other changes to the Financial Arrangement rules, predominantly with the purpose of attracting and retaining talented migrants, have also been included in the Bill. Refer to our separate article for more details.

Research and Development Tax Incentive

The Bill includes legislation for a number of changes announced in Budget 2026:

- The ability for taxpayers to apply for in-year tax credits from the 2027/28 income year
- Removing excess restrictions on mining businesses to allow R&D to be claimed on an equal footing with other businesses
- Lowering the internal software development cap from $25 million to $3 million
- Introducing a Commissioner's discretion to fix genuine errors
- Allowing partners in a partnership to use the partnership balance date when making RDTI claims

Approved Issuer Levy

The Approved Issuer Levy (AIL) has been improved in previous bills to give the Commissioner greater discretion to fix genuine errors. This Bill makes further improvements, including reducing the filing frequency for most taxpayers. Currently, AIL returns must be filed six-monthly if total AIL exceeds $500. This will change to annual filing if AIL is below $10,000. The AIL rules currently sit in the Stamp and Cheque Duties Act 1971 (SCDA). This Act once covered a range of levies and duties, all of which have been repealed except AIL. To make the rules easier to find, the SCDA will be repealed and the AIL rules moved to a new AIL-specific Act.

Charities and not-for-profits

The Tax Bill looks to resolve some areas of uncertainty for not-for-profits and also introduce new rules to allow donation tax credits to be received during the year and then be donated back to the charity being supported. Refer to our separate article for more details.

Cryptoassets

Two simplifications are coming for cryptoassets. First is the introduction of crypto-lending rules. Stablecoins will also become exempt from taxation on any gains/losses on disposals. Both of these rules will take effect from 1 April 2027.

Non-Resident Contractor Tax

Some useful simplifications are coming for NRCT, refer to our separate article for more details.

GST remedials

With GST about to have its 40th birthday, it is fitting that the Bill proposes a raft of changes to ensure it remains fit for purpose. Changes include:

- Changing the treatment of excess solar power which is exported to the grid from residential properties
- Allowing non-residents who are primarily making supplies to non-residents to exclude these supplies when determining if the $60,000 GST registration threshold is exceeded
- Simplifying the rules that apply to goods and services acquired before someone becomes GST registered
- Making a range of minor corrections to the GST grouping rules
- Allowing the Commissioner to automatically change a person's GST filing period from six-monthly to two-monthly once the relevant taxable supply threshold ($500,000) is exceeded
- Clarifying when a non-resident has a fixed or permanent place in New Zealand
- Making changes to taxable supply information rules to ensure that errors and inaccuracies are appropriately dealt with

Other remedials

The Bill contains a long list of remedial measures, including:

- Ensuring the rule allowing employers to choose whether to pay PAYE or FBT works as intended
- Removing the need for New Zealand members of a multinational subject to the Pillar Two rules to file top-up tax returns if there is no top-up tax to pay
- Ensuring that unsuccessful software projects involving Software as a Service (SaaS) qualify for the existing deduction rule
- Ensuring that ordinary and non-exclusive software licencing arrangements are not finance leases
- Aligning the loss limitation rule applying to look-through companies with the equivalent rule for limited partnerships
- A range of simplification measures for Māori authorities
- Allow shareholders to elect to have RWT withheld on dividends up to 39%, provided the payer also agrees
- Introducing a new definition of "not-for-profit organisation" to ensure that incorporated societies are eligible for rules designed for not-for-profits

Finally, it is worth noting that the Bill sets tax rates for the 2026/27 tax year. The Bill does not change any existing rates. However, as a quirk of tax law, tax rates must be confirmed by 31 March of the year to which they relate. This provides an incentive to ensure that the Bill completes the parliamentary process by 31 March 2027.

Where to from here?

The Bill has been introduced but must still go through the ordinary parliamentary process before enactment. This is complicated by the general election in November. Given that most changes are unlikely to be contentious and are generally taxpayer favourable and remedial, it seems plausible that the Bill will be reinstated and continue its legislative journey regardless of the election outcome. The election will leave the new Finance and Expenditure Committee with a compressed timeframe to consider submissions and recommend changes before the legislation returns to Parliament for enactment by 31 March 2027.

For more information about what the tax bill means for your business, please contact your usual Deloitte adviser.

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Motor vehicle FBT reform:
A new road map for employers

By Robyn Walker

After more than [40 years](#) of calculating fringe benefit tax (FBT) on motor vehicles in the same way, the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill moves us one step closer to having a new set of rules from 1 April 2027. The reforms aim to reimagine the FBT rules by making them less complex, less prone to misunderstanding and more closely targeted to the benefit received and the remuneration substituted.

The reforms refocus the FBT rules away from taxing the mere availability of a vehicle for private use and instead seek to better quantify the actual private benefit provided, based on how the vehicle may be used. Rather than requiring logbooks to be completed continually, a vehicle will be categorised when it is provided to an employee, with the level of FBT payable changing only if there is a material change in the level of private use. The existing exemptions for work-related vehicles, business trips and emergency calls will be repealed.

Currently, eligibility for the work-related vehicle exemption is restricted by the vehicle's physical characteristics, that is, it cannot be designed principally to carry passengers. Under the proposed rules, a "normal car" may also qualify for lower rates of FBT if it is used for business purposes.

At present, the quarterly taxable value of a motor vehicle benefit is based on the cost, or tax book value, of a vehicle, multiplied by the number of days in the quarter during which the vehicle was available for private use, after determining exempt days:
[GST-inclusive cost or tax book value] × [quarterly percentage] × [private-use days ÷ 90]

The new approach will simplify the equation by taking away the need to count days in the quarter or monitor exempt days:
[GST-inclusive cost or tax book value] × [quarterly percentage] × [inclusion rate]

The "inclusion rate" is a new percentage which represents the extent to which there is a benefit being provided which should be subject to FBT.

Categorisation approach

The motor vehicle categories are as set out in the table below.

Category	Features	Inclusion rate
1 – Mainly for private use (default)	Unlimited private use permitted or private use with limited restrictions Limited business use Branding not required	100%
2 – Partial private use	Private use limited to rostered days off, public holidays and/or statutory leave days as well as commuting to and from work Mainly for business use Branding required except for certain farm vehicles or if exemption received from the Commissioner of Inland Revenue	35%
3 – Limited private use farm vehicles	Private use is permitted when not working Mainly for business use on farmland Used by a shareholder-employee Branding not required	35%
4 – Minor private use	Home to work travel permitted to a single workplace Mainly used for business use Branding required	20%
5 – Minor private use	Home to work travel permitted and work involves travel to a workplace that is a project of limited duration or multiple worksites Vehicle is for business use Branding required	0%
6 – No private use pool car	No private use (other than incidental use) Exclusive business use Branding not required	0%

When considering which category is most relevant for a vehicle, some features will be more determinative of the outcome. For example:

- **Branding:** to qualify for categories 2, 4 or 5 the vehicle must be branded (subject to exclusions, discussed below)
- **Main purpose:** if the main purpose of a vehicle is to provide a private benefit, then the vehicle will fall into category 1.
- **Business use:** all categories other than 1 require the vehicle to have a business use purpose. This should be a purpose other than getting the employee to or from work; that is, the vehicle is used for some business purpose during the workday.
- **Restrictions:** categories 2 to 6 all require some level of restrictions on the level of private use by the allocated driver.

In all cases, incidental private use of a vehicle should not affect its classification. Incidental use is defined as travel that is "minor and secondary to travel between home and work" or "infrequent, or of short duration, for a limited purpose and not a substitution for remuneration". In practice, this will mean that stopping at the supermarket on the way home, or an employee making a one-off request to use a work vehicle to help move furniture, will be incidental.

Branding

Branding is required for vehicles in categories 2, 4 and 5, subject to four exemptions:

1. Grandparenting: to recognise that many vehicles are not currently branded, any vehicles owned or leased before 10 September 2026 (the date of introduction of the Bill) are exempt from branding requirements.
2. Exemption: employers will be able to apply to Inland Revenue for a branding exemption. This may be granted if branding is not appropriate because of the sensitive nature of the employer's business or the employee's role in the business, or the nature of the vehicle's operation.
3. Farm vehicles: category 2 vehicles used in a farming or agricultural business do not need to be branded
4. Rental vehicles: if a business is temporarily renting a vehicle for up to three months, that vehicle does not need to be branded.

Branding is required to be prominent and permanent on the exterior of the vehicle and must show a form of identification that the employer regularly uses in carrying on their business.

Quarterly percentage

The "quarterly percentage" referred to above was last changed in 2009. Its purpose is to approximate vehicle running costs, including depreciation, maintenance, insurance and fuel. A major difference from the current rules is that variable rates will apply based on vehicle fuel type. This means lower percentages will apply to hybrid and electric vehicles.

Current rates (all GST inclusive):

	Cost	Tax book value *(TBV)* *	Tax book value *(with investment boost)***
Quarterly calculation	(Cost x 5% x private use days) / 90	(TBV x 9% x private use days) / 90	(TBV x 10.35% x private use days) / 90

**Tax book value cannot go below $8,333 including GST*

***Tax book value cannot go below $7,317 including GST*

Proposed rates (all GST inclusive):

	Cost	Tax book value *(TBV)* *	Tax book value *(with investment boost)***
Quarterly calculation – default rate	Cost x 5% x Inclusion Rate	TBV x 9% x Inclusion Rate	TBV x 10.35% x Inclusion Rate
Quarterly calculation – hybrid vehicles	Cost x 4.9% x Inclusion Rate	TBV x 8.53% x Inclusion Rate	TBV x 10.13% x Inclusion Rate
Quarterly calculation – electric vehicles	Cost x 4.25% x Inclusion Rate	TBV x 7.44% x Inclusion Rate	TBV x 8.75% x Inclusion Rate

While the difference in percentages may seem small, they can add up to a significant difference in tax over a year (or longer) when combined with the categorisation approach.

Example:
Under the current rules an electric vehicle costing $60,000 is available for home to work travel only from Monday to Friday. The rest of the time the vehicle is used for work purposes. The FBT rate applying to the driver is 49.25%.

Under the existing rules, the vehicle is available for private use 68 days in the quarter.

The taxable value of the vehicle benefit is calculated as $60,000 x 68 days / 90 x 5%, being $2,267. At a 49.25% FBT rate, and adding on the GST adjustment, the total tax payable is $1,412 per quarter or $5,648 annually.

Under the new rules the vehicle will fall into Category 4 and have an inclusion rate of 20%. The taxable value of the motor vehicle benefit is calculated as $60,000 x 20% x 4.25%, being $510. At a 49.25% FBT rate, and adding on the GST adjustment, the total tax payable is $318 per quarter or $1,272 annually.

Overall there is a reduction in tax of $4,376 over a year.

Where to from here

The rules are intended to apply from 1 April 2027, so it is prudent for employers to start considering the potential impact on their vehicle fleets and the steps needed to ensure vehicles qualify for particular categories. Issues to consider include:

- What private use restrictions (if any) currently exist and how do these match the requirements for the new categories?
- Do any employment agreements and vehicle policies need to be altered?
- What vehicles need to be branded?
- Is it necessary to apply for a branding exemption?

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The FIFth wave:
The FIF reforms continue

By Joe Sothcott & Sam Mathews

The Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) proposes an array of tax changes, including significant reforms to the foreign investment fund (FIF) rules. We explore the proposed changes in this issue of Tax Alert.

Expanded access to the revenue account method

The revenue account method (RAM) was introduced in last year's tax omnibus bill. Broadly, the RAM allows investors to calculate income from certain foreign shares based on dividends plus 70% of any realised gains. Most in-scope investors could apply the RAM to unlisted shares, with US citizens and Green Card holders able to apply the RAM to both unlisted and listed shares (extended RAM). In-scope investors could apply the RAM rather than applying a FIF method such as the cost method or the fair dividend rate (FDR), which broadly deem taxable income to be 5% of the shares' cost or market value, regardless of whether any amounts are realised from the investment. We have written extensively about the RAM, tracing its development from the initial proposal through to enactment in March 2026.

For further background, see our previous articles:

- How's the fit? Reducing the tax barrier for migrants and returning expats *(Tax Alert February 2025)*
- A step in the right direction? The revenue account FIF method is coming—what we know so far *(Tax Alert April 2025)*
- Revenue Account Method: Government's opening move or missed opportunity? *(Tax Alert September 2025)*
- A small step: the Revenue Account Method enacted *(Tax Alert May 2026)*

One limitation of the RAM, however, is that it has been available only to new migrants and certain returning New Zealanders. As a result, only a small pool of taxpayers have been able to use the method to calculate their FIF income.

In a positive development, the Bill proposes expanding access to the RAM to all New Zealand-resident individual taxpayers from 1 April 2026. The RAM would also be available to trustees where the trust's principal settlor is a natural person who is a New Zealand tax resident.

The proposed expansion is accompanied by consequential amendments. The current rules are highly restrictive about when taxpayers can opt into or out of the RAM. The Bill introduces greater flexibility through a five-year consistency rule applying in both directions: once a taxpayer opts into the RAM, they must use it for five years; once they opt out, they cannot use it again for five years. The Bill also proposes tidy-up amendments where people are non-New Zealand resident under a double-tax agreement.

While there will be ongoing debate about whether the design of the RAM will mean it achieves it policy intent, increased access to the RAM is positive in that it provides an option for taxpayers to be taxed on a realisation basis for certain foreign share investments. Taxpayers will need to carefully weigh-up using the RAM vs standard FIF methods.

Lifting the FIF de minimis threshold

A welcome change for many investors will be the proposed increase of the FIF de minimis threshold from $50,000 to $100,000 with effect from 1 April 2026. Under the current FIF de minimis, where the total cost of all of an investor's foreign shares (subject to certain exclusions) is below $50,000, they do not have to apply the FIF rules. However, inflation has eroded the value of the threshold since it was last set in 2000. The increase to $100,000 sets a more appropriate level and fully accounts for the inflation impact. Taxpayers with costs below the threshold are still able to apply the FIF rules if they wish (subject to consistency requirements). There are also consequential changes throughout the legislation to account for the increase.

Expanded access to the attributable FIF income method

The attributable FIF income (AFI) method is currently available to certain taxpayers holding an interest of 10% or more in a FIF. Under this method, FIF income is calculated broadly by applying the controlled foreign company (CFC) rules, often resulting in only dividends, if any, being taxed. The Bill proposes a welcome change that would preserve access to the AFI method where a taxpayer's ownership interest is diluted below 10% and they retain an active role by being a director or employee of the FIF or another company in the same group, or a trustee of a trust whose settlor or beneficiary is such a director or employee.

To qualify, the taxpayer must have used the AFI method in the previous accounting period, or would have been eligible to use it had the FIF interest been subject to the FIF rules. This may apply, for example, where a FIF exemption meant the interest was not an attributing FIF interest, or where a new migrant was not subject to the FIF rules during their transitional residency period. If these requirements are met, the taxpayer's interest in the FIF would continue to be treated as meeting the 10% threshold in that year and all subsequent years, despite their economic ownership falling below 10%.

While expanding access to the AFI method in these situations is positive, unfortunately the current proposal would restrict access for a number of founders and early-stage employees or investors that are really the target of these changes. This is due to the proposed changes only looking at whether the shareholder applied the AFI method or had a 10%+ shareholding in the immediately preceding accounting period before the FIF rules fully apply. This narrow approach means that those shareholders that are diluted below 10% more than a year before the FIF rules applying (for example, because a FIF exemption expires or a migrant becomes subject to the FIF rules for the first time) would not be able to access the rules.

Two taxpayers in materially identical circumstances could therefore receive different outcomes solely because the dilution occurred one year earlier or later. Interestingly, the commentary to the Bill contains five examples on these changes, which all conclude that the taxpayer in question could now apply the AFI method. However, if the dates in all of the examples are moved out by one year, with no change to any other facts, none of these taxpayers could access the rules. Given these are the same people, with the same skills and capital that we want in New Zealand, this does not appear to be a logical outcome.

Paradoxically, the requirement to "not dilute below 10% too early" could disadvantage founders in the most successful and fastest growing businesses, which is not consistent with the policy intent of the rules (which, recognising the positive impact they have on economy, is to attract and keep these people in New Zealand). In our view, the proposal's integrity concerns are already addressed by requiring the taxpayer to have previously held an interest of at least 10%, retain a substantive active connection with the FIF via the director or employee requirement, and be able to access the necessary financial information to prepare the AFI calculations.

We hope the proposals will be tidied up during the Select Committee process, and would encourage potentially impacted taxpayers to make a submission.

Changes to the 10-year FIF exemption when listing overseas

The Bill proposes changes to the 10-year FIF exemption where a New Zealand business is acquired by a foreign company in specified circumstances (for example, a "US flip"), to account for situations where the business lists on a foreign stock exchange using a special purpose acquisition company (SPAC). A SPAC listing may disrupt the required continuity of ownership because the FIF is merged into the newly listed SPAC and the shareholders' existing shares are cancelled and replaced with shares in the SPAC, even though their underlying economic ownership has not materially changed. The proposed rule would allow the exemption to continue following this type of reorganisation, provided the other eligibility requirements are met. Although SPAC listings are the principal focus, the proposal is broad enough to potentially cover other forms of corporate reorganisation, including share-for-share exchanges, amalgamations, mergers and liquidations.

While this is a narrow change, it is great to see the FIF rules continuing to be amended to accommodate for changes in the current business and transaction environment.

Indirect interests in FIFs

The Bill also proposes changes to the rules that apply where a person holds an interest in a CFC, which in turn holds FIF interests. The rules currently restrict the FIF methods available as they apply at the CFC level, meaning for example that the RAM is not available and the standard annual FDR vs comparative value (CV) choice that would otherwise apply for listed shares is not available.

The proposals would now allow the holder of the CFC interest to calculate FIF income using any method that would have been available had they held the FIF interest directly, subject to consistency requirements.

This is a welcome change as there has been uncertainty in how the rules apply in these situations. We are aware that the current rules have not been applied correctly by some other advisers, or indeed by Inland Revenue in their review activity, so these proposals should help clarify the position and result in a sensible outcome. The proposals will apply from 1 April 2026

Concurrent use of the cost and CV methods

The proposed amendment would clarify that a taxpayer who uses the cost method for a FIF interest without a readily available market value (e.g. an unlisted share) retains the ability to choose to apply either the FDR or CV method for other FIF interests with readily available market values (e.g. listed shares) on an annual and portfolio basis.

This change is in response to some work Inland Revenue officials undertook where they concluded that this may not currently be available under existing legislation. The proposals largely confirm the approach being adopted in practice, so it will be interesting to see if Inland Revenue publish an operational statement as to whether they will look to review prior year positions (given the proposed amendment would apply from 1 April 2026).

Deloitte comment

Overall, the proposed FIF changes are a positive step towards the Government's objective of attracting and retaining talented individuals in New Zealand. Although the proposals are not yet the finished article (particularly the AFI method proposal), we welcome the Government and officials' advancement of a broad package of sensible reforms that should have a meaningful practical impact.

The FIF proposals are detailed, and this article provides only an overview of the key changes. If you have any questions about how the proposals may affect you, please contact your usual Deloitte adviser.

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A fairer approach to taxing foreign-currency financial arrangements

By Stephen Walker

While recent reforms to New Zealand's tax rules for migrants have focused on the Foreign Investment Fund rules relating to overseas shares, the Financial Arrangements rules can create even greater tax exposures and disincentives for people considering a permanent move to New Zealand.

Recent and prospective migrants, and other taxpayers, should therefore welcome the significant changes proposed in the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill).

Why change?

New Zealand's Financial Arrangements rules apply to a wide range of arrangements, including bank accounts, bonds, term deposits and loans. Income and expenditure in relation to these arrangements are generally calculated in New Zealand dollars, even where an arrangement is denominated in another currency.

For example, a New Zealand tax resident holding USD in a US bank account may have taxable income solely because the USD strengthened against the NZD during the income year, even if the account earned no interest and there were no transactions.

This often surprises migrants when their four-year transitional residence exemption expires. Many have no intention of converting their funds into NZD, yet they face unpredictable tax liabilities from exchange-rate movements that are outside their control and may never be economically realised. For some, this has been a factor in deciding to leave New Zealand or not to relocate here.

What is changing?

The Bill proposes several measures intended to reduce compliance costs and uncertainty for taxpayers with foreign-currency financial arrangements:

1. A functional foreign currency election;
2. Quarantined foreign financial arrangements, particularly to improve alignment with US tax treatment;
3. Removal of the revaluation requirement for arrangements acquired to satisfy visa eligibility requirements; and
4. Expansion of the list of arrangements that are exempt from the Financial Arrangements rules.

Functional foreign currency election

Under these proposals, individuals, family-run companies and family trusts would be able to calculate income from foreign-currency financial arrangements in a currency other than NZD.

An eligible taxpayer could elect either:

- a single nominated functional currency for all non-NZD financial arrangements; or
- the currency in which each individual arrangement is denominated.

For example, an individual holding mainly USD cash accounts could elect to apply USD to all non-NZD arrangements. Alternatively, they could calculate each arrangement in its own denomination.

For most individuals with foreign-currency bank accounts or loans, the broad economic effect would be that movements between the elected currency and NZD are ignored.

Instead, foreign-currency interest income and expenditure would be calculated in the relevant currency and converted into NZD using an appropriate exchange rate.

The same broad approach would apply to foreign-currency bonds. The coupon and any face value changes required to be spread over the bond's term would be calculated in the relevant foreign currency and converted into NZD each year. Foreign-exchange fluctuations over the term of the bond would generally be ignored.

Several integrity measures are proposed:

- A taxpayer could not apply a single functional currency to some arrangements while applying arrangement-by-arrangement currencies to others.
- A taxpayer who elects out of the new rules and returns to the existing rules could not elect back in for five years.
- The election would not apply to higher-risk arrangements that may be used to derive exchange gains, including forward contracts, swaps, options and contracts for difference. Holding such an arrangement would not prevent the taxpayer from applying the election to other eligible arrangements.
- A person carrying on a business of trading in foreign currency or holding financial arrangements principally to derive exchange-rate gains would not be eligible.

A taxpayer could change their functional currency in a later income year if there were sound commercial reasons and the Commissioner was notified.

Transitional adjustments

A modified base price adjustment, or true-up calculation, would be required when a taxpayer:

- first elects into the functional currency rules;
- changes the functional currency applying to an arrangement;
- ceases using the rules; or
- becomes ineligible to use them.

The true-up calculation compares income and expenditure under the elected currency with the amount calculated under the previous currency. Unlike an ordinary base price adjustment, any resulting income or loss would generally be deferred until the arrangement matures or another event triggers the requirement for a final true-up (base price adjustment).

This is intended to limit the immediate cash-flow impact of entering the regime while ensuring that relevant exchange movements arising before a change in treatment are ultimately recognised.

Quarantined foreign financial arrangements

US citizens remain subject to US tax on worldwide income regardless of residence. Although foreign tax credits can mitigate double taxation, problems arise where New Zealand and the US recognise the same income at different times or characterise it differently.

New Zealand's Financial Arrangements rules may spread income over the term of an arrangement and calculate it by reference to NZD values. The US may instead recognise the equivalent income on maturity and calculate it in USD. Because the tax arises in different years, foreign tax credits may not be available when needed, resulting in double taxation.

The proposed quarantined foreign financial arrangement rules would allow income and expenditure from qualifying arrangements to be calculated on a cash-flow basis, better aligning the timing of New Zealand and overseas taxation.

The election would apply arrangement by arrangement. To qualify, the arrangement must:

- be held by a New Zealand tax resident individual;
- not have a New Zealand source;
- be subject to overseas tax in a country with which New Zealand has a double tax agreement, because of the individual's citizenship or working rights; and
- not give rise to an overseas foreign tax credit for income recognised under New Zealand's spreading rules.

A US bond illustrates the issue. Assume a five-year bond has a face value of US$30,000 and a 5% coupon. Under the current New Zealand rules, the taxpayer may be required to return both the coupon interest and unrealised gains or losses on the bond's face value. In the US, only the coupon may be taxable annually.

Consequently, a US credit may be available for New Zealand tax on the coupon but not for New Zealand tax on unrealised value changes. When the bond is disposed of, the US may tax the realised movement in value, while little or no corresponding New Zealand tax arises because that income was recognised earlier. This can produce double taxation.

Under the proposed rules, only the coupon interest would generally be taxable annually in New Zealand. Any increase in the bond's face value would be recognised through the base price adjustment at maturity. Aligning the timing of New Zealand and US taxation should allow foreign tax credits to operate more effectively.

Transitional rules would apply. A taxpayer could also apply the functional currency election to a quarantined foreign financial arrangement, subject to the relevant transitional calculations.

Visa-related financial arrangements

Active Investor Plus Visa applicants must make qualifying investments in New Zealand. These may include New Zealand-sourced financial arrangements that do not qualify for the transitional residence exemption.

As the investment may need to be made before the applicant arrives, it can be acquired before New Zealand tax residence begins. The current rules require the arrangement to be revalued when the individual becomes tax resident, potentially creating an unexpected tax liability from changes in value between acquisition and the start of residence.

Under the proposal, effective from 1 April 2025, no revaluation would be required for an arrangement acquired specifically to obtain an Active Investor Plus Visa. Its opening value would instead be its acquisition-date value. The treatment would be mandatory, preventing taxpayers from choosing whether to apply it based on the resulting tax outcome.

Expansion of exempt financial arrangements

The Bill also proposes three modifications to the list of arrangements that are excluded from the Financial Arrangements rules (the "Excepted Financial Arrangements"):

- The existing exemption for private-purpose foreign-currency loans, such as an overseas mortgage funding a personal-use property, would be extended to individuals who are not cash-basis persons.
- The exemption would extend beyond loan accounts to foreign-currency transaction accounts held for private or domestic purposes, such as personal bank accounts.
- For the existing NZ$100,000 threshold applying to variable principal debt instruments, exchange-rate movements after acquiring them would generally be disregarded. The threshold would be tested using the exchange rate when the arrangement was entered into and thereafter only when subsequent changes were made to the principal.

What does this mean?

Existing taxpayers with foreign-currency bank accounts, loans or investments should reconsider how the Financial Arrangements rules will apply to them from 1 April 2027.

For individuals with modest overseas arrangements, the expanded exemptions may be the most valuable change. Personal transaction accounts, private foreign-currency loans and certain lower-value debt arrangements could fall outside the rules entirely, removing calculations where compliance costs are disproportionate to the amounts involved.

The largest financial impact may be for higher-net-worth migrants, particularly those arriving from the US. The functional currency and quarantined arrangement rules should reduce tax on unrealised exchange movements and double taxation caused by timing differences between New Zealand and US rules. The relief for investments made to satisfy Active Investor Plus Visa requirements should also make New Zealand's tax treatment more predictable.

However, the proposals do not abolish the Financial Arrangements rules or eliminate every cross-border mismatch. Eligibility requirements, elections and transitional adjustments will still require careful consideration.

If enacted as proposed, the changes represent a meaningful shift towards taxing the underlying economic return from foreign financial arrangements rather than exchange-rate movements an individual may never realise. Existing taxpayers and prospective migrants should review their arrangements before the new rules take effect, as the most favourable treatment may not apply automatically.

If you have any questions about financial arrangements or the proposed changes, please contact your usual Deloitte adviser.

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NRCT reform: Less detective work for New Zealand businesses engaging offshore contractors

By Jayesh Dahya & Mia Robertson

Currently, engaging a non-resident contractor can require a New Zealand business to know far more than just what is happening under its own contract with the non-resident. It usually requires seeking confirmation of the non-resident's total time in New Zealand across all engagements and determining how much the contractor has been paid by other New Zealand customers.

In other words, applying the non-resident contractors' tax (NRCT) rules can involve a degree of detective work, with the New Zealand payer potentially bearing the cost if the information it receives is incomplete or incorrect.

NRCT is an interim tax deducted on gross payments and administered via the schedular payment rules through the PAYE system.

Current automatic exemptions from NRCT

Currently, there are two exemptions from NRCT that are considered when making a payment to a non-resident contractor who is doing work in New Zealand. These are:

- The 92-day rule, where non-residents must have been in New Zealand for 92 days or fewer for all jobs they undertake in New Zealand in a 12-month period (and be exempt from New Zealand tax under a Double Tax Agreement); and
- The monetary threshold, which is currently $15,000 and means that total payments to the non-resident in a 12-month period must not exceed $15,000.

Both exemptions require the payer to understand the non-resident contractor's total payments and presence in New Zealand, not just those under the payer's own contracts, which can be challenging information to gather.

As the $15,000 threshold has not increased since 2003, its value has eroded over time, meaning that largely only the 92-day rule is relied on.

Changes are coming

Things aren't all bad in the NRCT space. Inland Revenue has been aware of these issues and over time has been making strides to improve the system and its workability for payers. In 2020, changes were considered to the exemptions detailed above, however the relaxation of these exemptions came with some very detailed reporting requirements.

This time around, the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) proposes a handful of simplifications to the NRCT rules which are set out below, without the information reporting requirements. These changes are proposed to apply from 1 April 2027.

The single payer view

This will be the biggest sigh of relief for the tax community, as it legislates what is already the practical approach to managing this tax. That is, looking just at the contract between the payer and the non-resident, rather than examining the non-resident's total New Zealand presence.

Increasing the monetary threshold

The monetary threshold is set to increase from $15,000 to $75,000 under the Bill. This should provide material benefit for smaller contracts that are likely to be exempt from New Zealand tax anyway (due to the non-resident not having sufficient presence in New Zealand).

Excluding low-risk entities from NRCT

Another common-sense approach being adopted in the Bill is to exclude low-risk entities from NRCT. This applies where non-residents have an established 'taxable' presence in New Zealand, meaning that an interim tax like NRCT is not required, as they will file tax returns like other New Zealand entities.

The proposed exclusion would apply to entities that:

- have an IRD or GST number; and
- have been registered with the Companies Office for at least 24 months before the contract payment.

This will mean that branches of overseas entities and other low-risk entities that meet the above requirements will not have NRCT deducted from payments made to them.

A reminder of other good things in the NRCT space

As noted above, changes have been made over the past few years to improve the NRCT regime. We thought it would be useful to include a reminder of these changes below, as we still see some confusion in these areas:

- **There is a 60-day grace period** for a payer to meet or correct their NRCT obligations where, at the time a payment is made, it is not clear that NRCT withholding is required and a liability to NRCT subsequently arises.
- **Allowing nominated taxpayers to meet the NRCT obligations** of a non-resident contractor. This is intended to simplify compliance for non-residents who may have activities in New Zealand through different businesses. Each person, however, would be jointly and severally liable for the amount of tax due under such an arrangement. For the purposes of obtaining certificates of exemptions, a nominated person can establish a good compliance history for the non-resident contractor.
- **Allowing certificates of exemption to have retrospective effect** by allowing payments made before the exemption is issued to be covered. This would apply only to payments made in the 92 days before the person applied for an exemption.

We are hopeful that the proposed changes to the NRCT rules will make them materially easier for New Zealand businesses to comply with when doing business with non-residents, with less detective work required.

As always, if you have any questions about the application of the NRCT rules, please contact your usual Deloitte tax adviser.

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New tax limits and concessions for charities

By Angus Isherwood, Amy Sexton & Robyn Walker

The Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) is set to bring a raft of changes to the tax treatment of charities, mutual associations and not-for-profits (NFPs).

The measures are positive; intended to simplify compliance; clarify existing law; and in some instances offer additional tax concessions. In this article, we will explain the changes that are coming, and provide a reminder on the already enacted donation tax credit cap.

Donation tax credit in-year refunds and transfers

A significant proposed change relating to Donation Tax Credits (DTCs) is, from 1 April 2028, individuals will have the option to receive their DTCs refunded throughout the year, rather than having to wait to the year end. The outcome of this will mean refunds in hand quicker for those eligible. However, those earning non-reportable income (such as self-employed income) will still only be able to claim DTCs at the end of the year. The in-year refunds will be limited to the amount of reportable income that the individual has earned in the year at the time the donation is made.

Donors will also have the option to have Inland Revenue transfer their DTC refund directly to the charity they donated to – this should be achieved by a simple yes/no option in myIR. This is an administrative change that Inland Revenue hopes will nudge donors to give a little more to their chosen organisations. Charities should consider taking steps to educate donors that they can transfer the DTC refund to the charity.

Volunteers and remedials

Honoraria payments made to volunteers (that are not made to reimburse their expenses) are currently treated as schedular payments for tax purposes. The Bill proposes to allow NFPs to instead treat these payments as "salary or wages" so that they are subject to PAYE. The intention behind this change is to simplify compliance for volunteers by removing the requirement to file a separate income tax return by permitting their organisations to opt into the PAYE regime. This change simplifies the ACC position of volunteers. Importantly, it's worth noting that while payments can be treated as salary and wages, there is a specific exclusion to ensure that no KiwiSaver obligations fall on NFPs which choose this option.

The Bill includes several other changes to the tax treatment of certain not-for-profits, including:

- Support for smaller NFPs in the form of an increase in the effective tax-free threshold from $1,000 to $10,000. The technical detail for this change is covered in more detail in our related article on mutual associations and not-for-profits.
- Aligning the definition of "not-for-profit" in the Act with the definition contained in the Incorporated Societies Act 2022, effectively allowing Incorporated Societies greater access to existing tax concessions.
- Removing the income tax exemption for unregistered, non-resident charities with limited connection to New Zealand from 1 April 2028.
- Private trusts allocating income to tax-exempt beneficiaries, including charities, will generally be required to pay those amounts to the beneficiary within prescribed timeframes for the income to remain tax-exempt.

Donation tax credit cap

- The introduction of a maximum entitlement threshold for donation tax credits (DTCs) was enacted in legislation as part of Budget 2026. This cap will apply to donations made by individuals on or after 1 April 2027. From that date, individuals will be able to claim a maximum DTC of $33,333.33, calculated on the lower of total donations of $100,000 or the donor's total taxable income. The cap will not apply to donations made by companies, trusts and Māori authorities as these entities retain their current tax deduction treatment for qualifying donations.
- Inland Revenue has estimated that around 350 donors will be affected by this change. This represents 0.1% of the total number of taxpayers claiming DTCs. However, these donors account for roughly 10% of the total donations that are eligible for DTCs.

Final thoughts

Overall, the Bill delivers a positive package for charities and not-for-profits. While the DTC cap has not been without controversy, the remaining changes are aimed at enhancing the DTC regime, reducing compliance burdens and improving certainty for the sector.

If you have any questions about how the rules will apply to your organisation, please contact your usual Deloitte adviser.

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Mutual understanding restored: Tax Bill provides welcome certainty for not-for-profits

By Phillip Claridge

In February 2025 the income tax positions of many not-for-profit organisations without specific tax exemptions were thrown into doubt. This followed an interpretive change flagged by Inland Revenue that, if it were correct, would make membership subscriptions for these organisations taxable. This potentially impacted a wide range of entities including unions, professional organisations and residents' associations.

In a positive development, the Taxation (Annual Rates for 2026–27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) brings us closer to drawing this issue to a close by proposing a sensible legislative solution. If the Bill is enacted as drafted, most affected not-for-profits should be able to continue treating genuine membership subscriptions as non-taxable. The position in relation to income from trading and other activities is unchanged, so these amounts remain subject to the ordinary income tax rules (that is, generally taxable).

The Bill also proposes a significant increase in the statutory deduction available to smaller taxable not-for-profits, from $1,000 to $10,000, together with a corresponding income tax return filing exemption.

How did we get here?

Many not-for-profits that do not qualify for a specific income tax exemption, such as the exemptions for registered charities and qualifying amateur sports bodies, are treated as "mutual associations" for income tax purposes.

The common law principle of mutuality recognises that a person cannot make a taxable profit by trading with themselves. By extension, amounts contributed by members to an association for their collective benefit also should not be income of the association.

New Zealand's tax legislation overrides much of the mutuality principle. In particular, income from trading activities can be taxable even when the transaction is with a member. However, mutuality continues to apply to genuine membership subscriptions, fees and levies paid as a condition of membership rather than as consideration for particular goods or services. That is, for mutual organisations, these member subscriptions should not be subject to income tax.

In April 2025, Inland Revenue released a draft operational statement proposing a significant change in approach (this draft had been signalled in February that year). Relying on the Australian decision in *Coleambally Irrigation Mutual Co-operative Ltd v FCT*, Inland Revenue suggested that mutuality could not apply where an organisation was prohibited from distributing funds to its members.

That interpretation was potentially far-reaching. Non-distribution clauses are standard for many New Zealand not-for-profits and are effectively required for societies incorporated under the Incorporated Societies Act 2022. Inland Revenue's proposed approach could therefore have made subscriptions taxable for a large number of organisations, even though those subscriptions had historically been treated as non-taxable.

We discussed the potential impact in our [June 2025 Tax Alert.]

What does the Bill propose?

The Bill proposes a new section CW 44B of the Income Tax Act 2007 (ITA 07). Broadly, under this section an amount derived by a qualifying not-for-profit organisation will be exempt income if it would not have been income but for the organisation being prohibited from making distributions to its members.

The accompanying commentary confirms that the amendment is intended to override the effect of Coleambally in New Zealand. It applies to organisations meeting a new definition of "not-for-profit organisation", including incorporated societies registered under the Incorporated Societies Act 2022.

Importantly, the Bill does not make not-for-profits generally exempt from income tax. Rather, it preserves the expected treatment of amounts that would have been non-taxable under mutuality if the organisation had not been subject to a non-distribution requirement.

If enacted as it stands, this means that:

- Genuine membership subscriptions, fees and levies that would otherwise fall within the mutuality principle (but for a prohibition on distributions) should be exempt income, that is, non-taxable;
- The associated expenditure will generally be non-deductible; and
- The mutuality rules do not apply to income from other sources (including member trading activities) and these amounts will generally be taxable under the ITA 07.

The change would apply from the 2027–28 income year.

The $10,000 statutory deduction

The Bill also proposes to increase the statutory deduction available to eligible taxable not-for-profits under section DV 8 from a maximum of $1,000 to a maximum of $10,000.

The new deduction will be more tightly targeted:

- An eligible not-for-profit with net income of $10,000 or less, calculated before the deduction, will generally be able to deduct an amount equal to that net income;
- An organisation with net income exceeding $10,000 will receive no statutory deduction; and
- Associated not-for-profit bodies, such as regional or district branches of a national organisation, will not each qualify separately for the deduction.

Eligible organisations with net income of $10,000 or less before the deduction will also generally not be required to file an annual income tax return unless Inland Revenue specifically requests one. We expect this should simplify compliance obligations for small not-for-profit organisations that don't already benefit from a tax exemption.

Next steps and further guidance?

Overall, the Bill lands in a sensible place. It preserves the established treatment of genuine membership subscriptions, removes an unnecessary threat to organisations with standard non-distribution clauses, and provides meaningful compliance relief for smaller not-for-profits.

The proposals do provide a timely reminder that the longstanding position in New Zealand is that most income derived by not-for-profits is taxable, unless the organisation benefits from a specific tax exemption. This means, for example, that charges to members for goods, events or services all generally fall within the income tax net. It is important that all not-for-profits turn their minds to their income tax obligations, and do not simply assume that they benefit from an exemption.

While the proposed change draws a line under the treatment of member subscriptions, the rules in this area can still be challenging to apply. In our view it is important that Inland Revenue provides updated practical guidance alongside the legislation, covering both the treatment of income and also how expenses should be treated (including expenses in the nature of 'overheads' that are connected to both taxable and exempt income). Immediately prior to the publication of this Tax Alert, Inland Revenue issued a draft operational statement (ED 0265 – available here) which, in its current form goes some way to doing this. If you would like to comment on the draft statement consultation closes on 11 December 2026.

If you would like to discuss how the proposals may affect your organisation, please contact your usual Deloitte adviser.

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Pillar Two registration lessons and next steps

By Angus Isherwood, Young Jin Kim & Annamaria Maclean

We note that the following article on the Pillar Two rules will apply to multinational enterprise groups (MNE groups) with global turnover above EUR750m in two of the four preceding income years. If you are unsure whether the rules would apply to you, please contact your usual Deloitte adviser.

30 June 2026 marked the first Pillar Two registration deadline for multinational enterprise (MNE) groups with a **31 December balance date** with operations in New Zealand. As expected with the introduction of a new legislative framework, the first round of Pillar Two registration presented some practical challenges that needed to be worked through. Nevertheless, a significant number of registrations were successfully completed by the deadline.

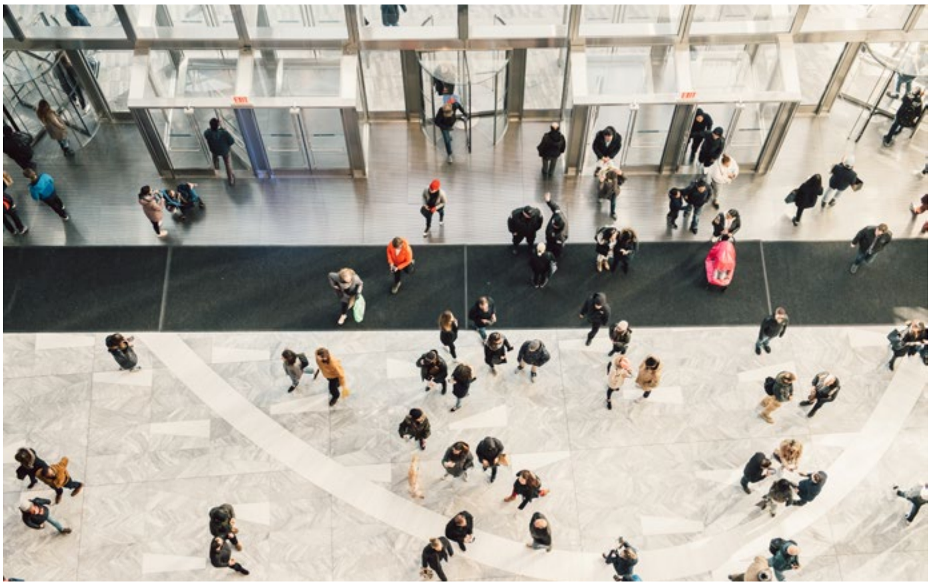
Attention now turns to the next major registration deadline: 30 September 2026 for MNE groups with a 31 March balance date.

Based on our experience with the first round of Pillar Two registrations, we outline below the key practical lessons and considerations for groups that have registered or are preparing to register.

- **Keep registration details up to date:** The information provided at registration remains effective until it is amended. The MNE group or its designated filing entity is responsible for promptly updating the registration if any registered details change.
  Updates may be required where there is:
  - A new ultimate parent entity;
  - A change in the entity filing the GloBE Information Return (GIR);
  - Changes to the New Zealand constituent entities included in the registration; or
  - Where the registered Group is no longer subject to the GloBE rules.
- **Late registrations:** Inland Revenue is actively identifying MNE groups that may be required to register under the Pillar Two rules and following up where registration has not occurred by the deadline. For any late registration, Inland Revenue expects an explanation for the delay. Failure to register could result in a penalty of up to NZD100,000.
- **Early action required for 30 June MNE groups:** MNE groups with a 30 June balance date must register for Pillar Two in New Zealand by 31 December 2026. As this deadline coincides with the Christmas/New Year holiday office closure period, Groups should plan ahead and complete their registrations early. Inland Revenue does not currently intend to extend the deadline.
- **Joint Ventures:** Inland Revenue has confirmed that joint ventures (JVs) should not be included as a constituent entity in the registration if the JVs are accounted for under the equity method in the MNE group's consolidated financial statements. The JVs will be separately disclosed in the GloBE information return (GIR).
- **Permanent Establishments**: New Zealand permanent establishments (PEs) of an entity which are included in the MNE Group's consolidated financial statements on a line-by-line basis (i.e. consolidated) are constituent entities in their own right and should be separately included in the registration.
- **In-scope for part year:** It has been confirmed that MNE groups must register even when they are only in scope for a part year. This includes when an MNE group is disposing of or dissolving its New Zealand operations.
- **Change of UPEs:** Where the UPE of the MNE group changes during the first fiscal year of registration, as part of the notification process, Inland Revenue expects the filing entity to submit the registration with details of both the old and new UPE's information.

In our experience, Inland Revenue encourages early engagement where unusual circumstances or complexities may delay registration. Raising these issues before the deadline is generally more likely to lead to a better outcome than providing an explanation for a late registration upon request.

For further information on Pillar Two registrations, please refer to our earlier Tax Alert FAQ article.



Updates in the tax bill: Annual Multinational top-up tax return

The recently released Taxation (Annual Rates for 2026-27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill (the Bill) provides further clarity on the multinational top-up tax return (MTTR) filing requirements. MTTRs are the next major New Zealand compliance obligation for in-scope entities, with the first filing deadline falling on 31 August 2027 for MNE groups with a 31 December balance date.

The Bill has now provided some additional details on the MTTR filing requirements, most of which is welcome news for in-scope MNE groups as it should significantly reduce compliance costs.

In summary, the proposed changes in the Bill are as follows:

- A MTTR will not be required where New Zealand constituent entities of in-scope MNE Groups have no top-up tax liability (for example, where top-up tax is only payable under another jurisdiction's Income Inclusion Rule (IIR)).
- Where a MTTR is required, a single top-up tax return can be filed by a designated filing entity, on behalf of all group entities with a top-up tax liability.
- A remedial to allow the transitional UTPR safe harbour rules to apply, as intended, to MNE Groups with 52/53 week fiscal years

The commentary on the Bill also confirms that, where a MNE Group is not required to file an MTTR in New Zealand, the Group's GIR will be treated as that entity's assessment. The time bar for amending the assessment should run from the date the GIR is filed. However, where the GIR is filed in another country then the taxpayer needs to ensure that the foreign competent authority is obliged to exchange that information with New Zealand (under a Qualifying Competent Authority Agreement) to ensure the time bar applies.

We are also requesting additional guidance on how the MTTR filing requirement may apply to Partially Owned Parent Entities (POPEs) or New Zealand headquartered MNE Groups.

If you have any questions about Pillar Two registrations or proposed changes in the Bill, please contact your usual Deloitte adviser.

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Election tax policies, part 3

By Robyn Walker

Tax policy can decide elections, and Election 2026 may be no exception. Election campaigns inevitably involve fiscal promises, and those commitments must be funded through reprioritised spending, additional debt, higher tax or another mechanism.

With the election less than two months away, Tax Alert will be summarising what is on offer as details emerge. In the last two editions, we've covered the detailed policies released by the Green Party and The Opportunity Party, and the Labour Party. This month, we look at what new taxes Te Pāti Māori has proposed before considering the alternative of "no new taxes" offered by ACT and the National Party.

Te Pāti Māori

A range of new tax options is proposed in the Te Pāti Māori tax policy, some of which will be familiar from the Green Party proposals. The proposals seek to raise significant amounts of new tax revenue and partially redistribute that revenue through personal tax reform.

The new taxes

A progressive wealth tax would be introduced for anyone with net wealth in excess of $2 million. Those with wealth between $2 million and $5 million will be liable for a 1.5% wealth tax. Additional wealth between $5 million and $10 million would be taxed at 2% and wealth in excess of $10 million would be taxed at 2.5% per annum.

- The company tax rate, for all businesses, would be increased back to 33%.
- An "international profit transfer tax" of 5% would apply to the value of profits transferred offshore.
- A land banking tax of 33% would be implemented, as would a 2% vacant house tax.
- A 5% stamp duty would be introduced for residential property sales. There would be an exemption for first home buyers, if the home costs less than $1 million.

In addition to the new taxes, Te Pāti Māori proposes to increase investment into the Inland Revenue, Serious Fraud Office, the Financial Markets Authority and the NZ Financial Intelligence Unit. The policy indicates that funding would increase by $1 billion, however this amount may be the expected "gains" as a consequence of increased funding of a lower amount because it's shown as an amount of additional revenue, rather than an expense, in the policy costing.

Spending

The majority of expected new revenues would be spent on personal tax rate changes. These rate changes are intended to result in lower taxes being paid by 97% of New Zealanders, primarily as a result of a tax-free threshold for the first $30,000 of income.

$0 to $30,000	0%
$30,001 to $60,000	15%
$60,001 to $90,000	33%
$90,001 to $180,000	39%
$180,001 to $300,000	42%
$300,001 and over	48%

The second area of spending is referenced as "no GST on kai". However, rather than proposing to remove GST from food, the policy would introduce a new targeted tax rebate for people earning $60,000 or less. The value of the credit is not specified, but the policy describes it as being "equivalent to 8 weeks of kai".

Comment

It is difficult to comment on many of the policies due to the lack of detail provided as to what the tax would apply to and how. As covered in our first article in this series, wealth taxes are uncommon because they can result in capital flight, meaning mobile wealth would be likely to relocate out of New Zealand. This proposed wealth tax applies at a much lower level than proposed by the Green Party ($10 million) and therefore would impact on significantly more New Zealanders.

When it comes to stamp duties, these were recently analysed by Inland Revenue in its 2026 Long Term Insights Briefing (LTIB). The LTIB is broadly sceptical of stamp duties. It notes that stamp duties, which tax property and other transfers, raise only modest and volatile revenue because receipts depend on transaction volumes rather than underlying wealth or income.

Their main drawback is economic inefficiency: by imposing a large upfront cost on moving, they discourage households and businesses from relocating even where doing so would be beneficial, creating "lock-in" effects similar to those associated with capital gains taxes. They also raise horizontal equity concerns because frequent movers bear far more tax than long-term owners.

From a tax policy perspective, delivering "no GST on kai" through a rebate, rather than removing GST from food, is a sensible approach. Previous studies have shown that GST exemptions are not a cost-effective way of targeting social assistance and, in many cases, the greatest benefit goes to higher-income earners, who often spend more on food.

The addition of $1 billion of funding to Inland Revenue and other agencies is significant. As noted above, the fiscal costings released by Te Pāti Māori show this amount as additional revenue rather than expenditure, so it's either a mathematical error or expected additional revenue gathered rather than funding.

Generally political parties cost policies over four years, however it is unclear whether the Te Pāti Māori policy costing are over this period or on a single year basis. For example, the proposed changes to personal tax rates are forecast by Te Pāti Māori to cost $13.4 billion, however a Treasury tax rate calculator models the annual cost of the proposed thresholds as over $14 billion. Comparing some of the fiscal costings to those provided by the Green Party for similar changes supports the notion that all proposed amounts are annual estimates. The fiscal costing provided by Te Pāti Māori is set out below.

Tax Policy Component	Estimated fiscal impact ($b = billion)
Person tax rate changes	$13.9b (decrease)
No GST on Kai	$2.8b (decrease)
Targeted wealth tax	$8.8b (increase)
Reset the company tax rate	$3.4b (increase)
International profit transfer tax	$1.0b (increase)
Land banking tax	$2.8b (increase)
Vacant house tax	$1.7b (increase)
Stamp duty	$2.1b(increase)
Reduce fraud and tax evasion ($1 billion investment)	$1.0b(increase)

ACT Party and the National Party

Both parties are campaigning on a fairly simple promise of "no new taxes". There isn't much more to say on this policy, other than it inherently relies on a combination of reductions in some areas of government expenditure or growing the economy (and consequently increasing tax revenues) to fund new spending areas.

While many New Zealanders are content with the idea of paying no more tax (as a generalisation, most people are more comfortable with the idea of other people paying more tax), the "no new taxes" policy leaves some questioning whether this is appropriate when government expenditure on superannuation and health is expected to rise with an ageing population (not to mention the current debt situation). Ultimately, tax is not the sole solution to those challenges, but the policy places the onus on those parties to explain how looming demographic issues can be resolved by pulling other policy levers.

It's likely that both parties will have more to say about taxes closer to the election. While there is a pledge for "no new taxes", that doesn't mean that there can't be proposed changes to existing taxes. The ACT Party have already proposed some reforms to how cryptocurrency is treated and National has hinted there is a potential for favourable changes to the research and development tax credit and tax thresholds, if this fits with their Budget Responsibility Rules after the Pre-Election Economic and Fiscal Update is released on 29 September.

Conclusion

Tax reform is firmly back on the political agenda for Election 2026. Tax Alert will continue to monitor election tax policies as they are released.

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An overdue software update:
Inland Revenue turns its head to the cloud

By Alex Kingston, Liam O'Brien & Hamish Butterworth-Snell

On 2 September 2026, Inland Revenue released its draft interpretation guideline [PUB00266](PUB00266) on the classification of payments made by New Zealand entities to non-residents in connection with software transactions (the draft guideline).

Whilst the focus of the draft guideline is on classifying the transactions, it also summarises the relevant income tax implications, including whether the payments should be treated as royalties, business or rental income, services income, or non-taxable.

The final version of the guideline will replace IG0007 (2003 guideline), which was released at a time when DVD players were becoming mainstream, smartphones had not appeared, and the streaming giants were unheard of.

Despite the 23-year age gap, the draft guideline expressly states that no change in Inland Revenue's interpretative position is intended. Instead, it clarifies how that position applies to modern software payments. However, there are several updates to be aware of, especially around cloud computing transactions.

Cloud computing services

As a refresher, cloud computing is the on-demand delivery of computing resources or services such as software, infrastructure, and storage over a network. The three main cloud computing service models are:

- Software as a service (SaaS)
- Platform as a service (PaaS)
- Infrastructure as a service (IaaS)

When analysing these transactions for tax purposes, the focus is on the legal rights and obligations created by the arrangement and the nature of the supplies agreed between the parties, rather than the contractual labels used by the parties or the intended commercial outcome of the arrangement.

Possible tax outcomes

The tax treatment of cross-border software arrangements is highly fact-dependent. Key tax questions include:

- Does the non-resident derive income with a New Zealand source?
- Is the payment a royalty that may give rise to non-resident withholding tax (NRWT)?
- Is the payment subject to non-resident contractors' tax (NRCT)? If so, do any of the NRCT exemptions apply?
- Does the payment contain multiple different components, requiring apportionment?
- Could the financial arrangement rules re-characterise the payment?

It is also important to consider the effect of any applicable double tax agreement (DTA). Relevant issues include:

- Whether a DTA can reduce a withholding tax rate or affect the availability of an exemption.
- Whether the overseas company has a permanent establishment (PE) in New Zealand, resulting in profits attributable to the PE being subject to New Zealand income tax.
- How a payment is characterised under the relevant DTA, for example as business profits, a royalty, or interest.

These questions can be difficult to answer, particularly where arrangements are documented through bespoke contracts that combine services and intellectual property rights. Inland Revenue's draft guidance includes 22 detailed examples illustrating how different arrangements may be treated. Rather than attempting to cover each of the draft guidance examples here, our examples below illustrate common arrangements and the potential tax implications. These examples are necessarily simplified and general in nature, and outcomes will depend on the specific contractual terms and circumstances. In addition, the examples do not consider whether the non-resident provider may have separate New Zealand tax obligations.

Cloud computing examples

Example A. Direct SaaS subscription

A New Zealand company (NZ Co) subscribes to cloud-based software hosted overseas and can configure certain features but cannot modify the software or exploit its copyright. NZ Co receives only on-demand access to the software and no rights to exploit the underlying copyright.

Expected tax outcome:

- No royalties should arise from this transaction because there are no rights to exploit the underlying copyright/intellectual property.
- No NRCT should apply (broadly because the transaction involves the provision of SaaS and does not involve personnel in New Zealand).

Example B. Basic reseller arrangement

NZ Co acts as a non-exclusive reseller of cloud-based software hosted by an overseas supplier (Foreign Co), undertaking marketing and on-selling access to New Zealand customers. Foreign Co retains the copyright and NZ Co receives no rights to reproduce or otherwise commercially exploit the software.

Expected tax outcome:

- No royalties should arise from this transaction (for the same reason as Example A).
- No NRCT should apply (for the same reason as Example A).

Example C. Value-added reseller arrangement

NZ Co acts as a value-added reseller (VAR) of Foreign Co's cloud-based software. NZ Co provides additional services (rather than just re-selling access), including implementation, data migration and customisation, and receives substantive rights to adapt the software, access Foreign Co's confidential know-how and use its intellectual property. As these rights are substantive rather than incidental, the arrangement is treated as a mixed transaction comprising cloud-based services, copyright and other intellectual property rights, and know-how.

Expected tax outcome:

- An exercise will be required to apportion the consideration on a reasonable basis.
- The portion of the consideration relating to use of copyright, other intellectual property rights and know-how is treated as a royalty and is generally subject to NRWT at 15% (subject to a reduced rate applying under a DTA). Investment income reporting obligations should also arise.
- The remaining portion of the payment, i.e. relating to the cloud computing services component, should not be considered a royalty nor subject to NRCT (for the same reasons as in Examples A and B).

Deloitte comment

The term VAR is a new concept introduced since the 2003 guideline. Whether a VAR arrangement gives rise to a royalty will depend on the legal rights granted. The presence of customer services may not be sufficient to give rise to royalties. However, in some cases, a VAR may be granting IP use or confidential know-how. These rights may fall within the definition of a royalty which would create a mixed transaction as seen above. Interesting cases are likely to arise around whether resellers are drawing on their own expertise with a particular software despite also having access to a software provider's confidential information.

Other software examples

Example D: Licence to copy and sell software

NZ Co receives a non-exclusive right from Foreign Co to make unlimited copies of its software and sell those copies to New Zealand customers for a regular fee. As Foreign Co retains ownership of the copyright and NZ Co's rights are limited in scope and duration, the arrangement is treated as a copyright licence rather than an outright sale or assignment of those copyright rights.

Expected tax outcome:

- The payments are royalties due to NZ Co receiving the right to commercially exploit the underlying copyright rights, and are generally subject to NRWT at 15% (subject to a reduced rate applying under a DTA). Investment income reporting obligations should also arise.

Deloitte comment

This scenario is likely to be equally relevant for original equipment manufacturer arrangements (OEM arrangements), where a New Zealand software developer embeds its foreign suppliers' software and technology into the product supplied to its own customers. Often such OEM arrangements will give rise to a royalty, provided they require exploitation of copyright or other intellectual property rights.

Example E: Development and modification services

NZ Co engages Foreign Co to develop a new computer program to NZ Co's specifications, with NZ Co assuming the development risk and owning the resulting copyright and other intellectual property. Despite the agreement being described as a "license" and the payments being labelled as "royalties", the arrangement is classified as a supply of development services because NZ Co bears the development risk and owns the resulting copyright rights.

Expected tax outcome:

- No royalties should arise because NZ Co owns all of the underlying copyright/intellectual property rights, and no payment is for use of the service-provider's copyright rights.
- No NRCT should apply assuming work is carried out fully offshore.

Deloitte comment

Not all software-related service fees are treated as ordinary services. A service fee may be a royalty where the service enables the customer to apply or use an underlying copyright or know-how that itself gives rise to a royalty. By contrast, a fee for ordinary helpdesk support to help customers use off-the-shelf software should not constitute a royalty.

ATO position

In coincidental timing, the Australian Taxation Office (ATO) finalised its position on 4 September 2026 regarding when a payment under a software intermediation arrangement is subject to withholding tax in Taxation Ruling TR 2026/2. In contrast to Inland Revenue's position, the ATO takes a broader interpretation of when a royalty may arise in a cloud-computing context. This makes it difficult for global software companies trying to navigate different tax authority interpretations. Deloitte Australia has published an article summarising the ATO's position.

Final thoughts

Overall, the draft guideline provides welcome confirmation of Inland Revenue's approach to cross-border software payments made by New Zealand residents, and it is positive that Inland Revenue's position is broadly aligned with the international approaches in the OECD Model Tax Convention and the US regulations in respect of classifying common software transactions.

One aspect of the draft guideline that could create complications and would benefit from further consideration is whether a time-limited software licence could be treated as a finance lease. If so, such an arrangement may be re-characterised for tax purposes as a deemed sale and loan, with payments split between principal and interest repayments, leading to withholding tax and DTA complexity. Inland Revenue has indicated that the interaction between the finance lease rules and the characterisation of software payments may produce unintended outcomes, and has proposed an amendment in the Taxation (Annual Rates for 2026-27, FBT Simplification, Foreign Investment Fund, and Remedial Measures) Bill (the Bill). The proposed amendment would change the definition of "finance lease" so that ordinary and non-exclusive software licensing arrangements would generally not be considered finance leases.

Finally, the draft guideline also coincides with an amendment in the Bill in respect of unsuccessful software development. It is encouraging to see Inland Revenue continue to consider software-related tax issues that are raised by the industry.

Submissions on the draft guideline close on 31 October 2026. Please contact your usual Deloitte adviser if you would like to discuss how the draft guideline may apply to your business's software arrangements.

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Counting the cost: Treasury lifts the veil on how tax policy proposals are costed and managed

By Angus Isherwood, Joe Sothcott and Robyn Walker

For those with an interest in tax policy, one important area that has long remained shrouded in mystery is the fiscal costings attached to tax policy proposals. This is surprising, given that a proposal's fiscal impact is often a decisive factor in whether it proceeds, and the costings produced by Inland Revenue and, to a lesser extent, the Treasury provide the Government's authoritative view of that impact.

This matters in practice because the fiscal treatment of a proposal can determine whether an otherwise sound remedial, integrity or simplification measure is able to proceed. In a welcome development, the Treasury has lifted the veil with the August release of its Guidance Document on the Fiscal Management of Tax Policy Proposals. This issue of Tax Alert considers what the guidance covers, what it reveals about how tax policy is made in New Zealand (including the role of the Budget operating allowance and the Tax Policy Scorecard) and where the process might go from here.

Fiscal management approach and the allowances

The Guidance Document examines how the fiscal management approach (FMA) applies to tax policy. The FMA comprises the Government's budgeting conventions, which are intended to ensure policy decisions are consistent with the fiscal strategy of the Government of the day.

It identifies three mechanisms for managing the fiscal impacts of tax policy decisions (collectively referred to as the "allowances"):

1. **Budget Operating Allowance**: Funding set aside in each Budget for new policy initiatives and changes to existing policy resulting from Ministerial decisions.

2. **Between-Budget Contingency:** The portion of the operating allowance reserved for policy changes requiring funding between Budgets.

3. **Tax Policy Scorecard:** The default mechanism for managing tax policy proposals that increase or decrease tax revenue. The Scorecard is measured over a five-year period and must remain between zero and \$200 million. It is intended for policies that improve the tax system, rather than proposals designed to advance broader economic or social policy objectives, or more structural changes to the tax system.

The Guidance Document explains that Ministers ultimately decide how a proposal's fiscal impacts are managed. The default is to use one of the allowances, although impacts may flow directly through to the Government's fiscal indicators. This typically occurs where the impact is indirect, Ministers have limited discretion in the decision-making process, or the change is not attributable to a policy decision, such as revisions to tax revenue forecasts.

Fiscal costings

Officials are required to estimate the direct fiscal impact of a policy using available information and data sources. The starting point is to establish the counterfactual, being the revenue expected to be collected if no change were made to existing policy and legislative settings.

This requires considering whether the subject matter of the proposal is already reflected in tax revenue forecast baselines. Adjustments may be needed following a change in interpretation, new information or expected enforcement activity, but generally not for little-known issues, matters subject to the Commissioner's care and management powers, or where a policy change is responding to an adverse event from which the Government was not expecting to receive revenue (for example, depreciation recovery arising from insurance proceeds).

Once the counterfactual has been established, there are three approaches to fiscal costings:

1. **Zero-cost:** No fiscal impact is attributed where the fiscal effect is expected to be nil, or where direct increases and decreases in revenue offset one another.

2. **Notional costing:** If the expected fiscal impact is non-zero but below \$0.2 million per annum and insufficient information is available, a positive or negative impact of \$0.2 million per annum is assigned. This equates to \$1 million over the five-year forecast period.

3. **Detailed costing:** Where the fiscal impact is expected to exceed \$0.2 million per annum, a detailed fiscal analysis is required.

Detailed costings incorporate first-order consequential effects on other tax types. For example, changes to FBT can affect corporate income tax collections. Material and quantifiable behavioural responses are also taken into account. The Guidance Document notes that the costing for the 39% trustee tax rate increase reflected possible changes in company profit retention, trust dividend income and beneficiary distributions.

Where broader secondary economic effects can be reliably quantified, officials may recommend disclosing a net fiscal impact that incorporates broader economic effects alongside the direct fiscal impact. Investment Boost is one example where this approach was adopted.

However, this is not the default position. Treasury generally favours disclosure of direct fiscal impacts only, on the basis that wider economic effects are more appropriately captured through aggregate economic and fiscal forecasts. The Guidance Document notes that international practice in this area continues to evolve.

The Guidance Document also confirms that stakeholders can contribute to fiscal impact analysis through the Generic Tax Policy Process. When the Government releases its Tax and Social Policy Work Programme, officials generally provide Ministers with broad indications of whether proposals are fiscally positive, negative or neutral, and their likely scale. As policy design develops, stakeholder input can help improve the accuracy of detailed costings and identify design issues that might otherwise go unrecognised. However, the scope for consultation may be constrained where Budget secrecy applies.

Fiscal impacts arising from a change in interpretation

The Guidance Document also considers situations where the courts or Inland Revenue adopt a statutory interpretation that is inconsistent with broader policy intent, current Government policy, or established taxpayer practice.

A change in interpretation can affect tax revenue forecasts where the interpretation differs from prevailing taxpayer practice. The Guidance Document states that these impacts generally flow directly through to the Government's fiscal indicators, rather than being charged against an allowance, provided they are considered reasonably probable (that is, more likely than not to occur).

Factors relevant to assessing reasonable probability include whether taxpayers can avoid the tax outcome through alternative structures or arrangements, whether the Commissioner is likely to exercise their care and management powers, and whether Ministers have signalled an intention to amend the legislation.

Where Ministers decide to change the law, officials will generally present the fiscal impact of restoring the position to the original policy intent, existing Government policy, or prevailing taxpayer practice. As this involves an exercise of Ministerial discretion, the Guidance Document states that the fiscal impact will usually be managed through one of the allowances.

This creates a divergence between the treatment of the fiscal impact arising from the change in interpretation and the fiscal impact of subsequently reversing that outcome through legislation. The result is that the fiscal costings can be prohibitive in restoring the law to the previous interpretation, practice, or policy intent, which is often criticized as a weakness in the current system.

The Guidance Document does acknowledge that, on occasion, officials may recommend that the fiscal impact of the legislative amendment also flow directly through to the fiscal indicators. Officials note that this generally arises where Ministers have very limited practical discretion other than to restore the previous position.

The Guidance Document also refers to an "up-down" or "down-up" approach where a change in interpretation has not yet been incorporated into forecast baselines. In these circumstances, the fiscal effects of both changing and not changing the law can be netted against one another. For transparency purposes, officials present both fiscal outcomes to Ministers, highlighting the discretionary nature of the policy decision.

Non-compliance and care and management

The Guidance Document also considers situations involving significant taxpayer non-compliance.

Where the Commissioner applies the care and management provisions to an issue pending a legislative amendment, a forecast adjustment will generally not be required. Where compliance is partial or mixed, officials estimate the expected level of compliance and incorporate that assumption into the proposal's fiscal costing. While this approach is sensible in principle, fiscal costings may overstate existing compliance in some areas and, in turn, inflate the estimated cost of a proposed policy change. Recent proposals to modernise the FBT rules provide one example; earlier efforts to simplify the tax treatment of donated trading stock provide another.

Irregular impacts over time

The Guidance Document also addresses situations where fiscal impacts are unevenly distributed over time. Treasury may recommend using an extended assessment period where the timing of costs and benefits differs materially outside the standard five-year forecast period and doing so improves transparency.

Deloitte comment

In Deloitte's view, the Guidance Document is a welcome first step. While it usefully outlines the system at a high level, practical examples showing how particular fiscal costings have been calculated would provide much-needed clarity. Key assumptions, counterfactuals and any behavioural adjustments underpinning material costings should also be made more transparently available. Greater transparency would help address the concern among tax policy observers that costings can appear arbitrary or insufficiently grounded.

More broadly, the Guidance Document should be a launchpad for improving the FMA, not the final word. Although Ministers ultimately decide how fiscal impacts are treated, officials' recommendations under the FMA will generally carry significant weight. It is therefore important that responsibility for improving the system is not avoided. In particular, Deloitte would support sensible changes that produce symmetrical, net-nil fiscal treatment where legislation restores a previously widely accepted position.

The Guidance Document also notes that treatment of broader "second-round" effects is also evolving internationally, and New Zealand should help lead that development so fiscal costings present a more complete picture of the wider impacts of tax policy changes. Consideration should also be given to whether the default notional costing of $0.2 million per annum remains appropriate for policies whose fiscal impacts are difficult to quantify.

Overall, the Guidance Document provides a useful foundation for understanding how the fiscal impacts of tax policy proposals are assessed and managed. The next step should be greater transparency, supported by practical examples and continued refinement of the FMA, to promote more consistent, balanced and well-informed tax policy decisions. If you have any questions, please reach out to your usual Deloitte advisor.

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A new era for leave entitlements in New Zealand

By Lauren Foster, Shirley Walls & Darren Wood

The Employment Leave Act 2026 received Royal assent on 6 August 2026 and will come into force on 6 August 2028, replacing the Holidays Act 2003. The Act introduces a new framework for how leave entitlements are earned, taken and paid, and includes a two-year transition period before commencement. Until then, employers must continue to comply with the Holidays Act 2003.

Why the change was needed

Documents from MBIE describe what is wrong with our current legislation as:

"Employers struggle to understand and apply the Holidays Act 2003 correctly, leading to employees not getting their correct entitlements. Administrative burden and compliance costs are high for employers, and despite good intentions, non-compliance is widespread and ongoing across both the public and private sectors. In the current legislation, many provisions are unclear, complex, difficult to apply for diverse working arrangements, and hard to systematise in payroll systems.

Fixing the system will reduce errors, save time, and lower costs for businesses. These changes will simplify how leave is earned, taken, and paid – so that employers know what they need to do, and employees know what they should be getting."

Implementation timeline

6 August 2026	**The Employment Leave Act 2026 received Royal Assent.**
2026 to 2028	Employers, payroll providers and other stakeholders prepare for implementation. (Current Holidays Act requirements continue to apply).
6 August 2028	**The Act comes into force and replaces the Holidays Act 2003.**
First pay period	The new rules apply from the beginning of each employee's first pay period starting on or after 6 August 2028.

Key features of the enacted framework

The key features of the Employment Leave Act 2026 are broadly consistent with the proposals consulted on during the reform process. The Select Committee and public submission process resulted in several refinements that provide additional clarity and flexibility in the administration of the new framework, rather than fundamental changes to the overall policy intent.

1. **Annual Leave based on hours worked**
   Employees earn Annual Leave, from day one, in direct proportion to contracted hours of work. Annual Leave accrues at a rate of 0.0769 hours (4/52) per 'contracted' hour.

2. **Sick Leave based on hours worked**
   Employees earn Sick Leave, from day one, in direct proportion to contracted hours of work. Sick Leave accrues at a rate of 0.0385 hours (2/52) of Sick Leave per 'contracted' hour. There will be a cap of 160-hours, once hit, the cap will stop new accrual until the employee has used some of their stored entitlement.

3. **Provision of Leave entitlements during unworked periods**
   Annual Leave and Sick Leave accrue when an employee is on paid leave under any legislation and when on parental, jury and volunteers leave. It does not accrue when an employee receives accident compensation and is not working or on any unpaid leave.

4. **Using Annual Leave**
   Employees can use accrued leave hours to take any part of a day off work. Annual Leave is taken in hours against contracted hours. Leave can be taken on days an employee would have worked their contractual hours under their employment agreement, or a roster created when leave is requested. If an employee doesn't have days of work in their employment agreement, they must agree to a 'notional roster' for leave purposes that would be used if a roster had not been created when leave is requested
   An employee can request to 'cash up' 25% of their Annual Leave as at their last 12-month employment anniversary in each 12-month period. This means that, where an employee has a large Annual Leave balance, there will be more flexibility to cash it up.

5. **Using Sick Leave**
   For every hour an employee takes off work, they will use an hour of accrued leave. Employees can use accrued Sick Leave hours to take any part of a day off work.
   Sick Leave can be taken on days, and against any hours, an employee would have worked under their employment agreement or that they had accepted at the time of the leave request. In practice this will mean any hours the employee has agreed to on a roster can be taken as leave if they request it.

Like Annual Leave, a notional roster will be used where an employment agreement doesn't have specific days and/or hours of work.

6. **Notional Rosters**
Where the employment agreement includes a contractual obligation to work but doesn't specify all of the information needed to determine someone's leave entitlements (such as days of the week and times contracted hours are worked or the number of hours of work for a salaried employee) the employment agreement must include a notional roster that includes those details.

7. **Salaried employee – working extra hours**
In the situation where the agreement specifies salary will compensate the employee for some additional hours, there is no leave accrual or leave compensation payment payable. If a salaried employee receives additional wages for those hours, the leave compensation payment will be payable at a rate of 12.5% of the ordinary hourly salary rate.

8. **Waged employee – working extra hours**
Any extra hours worked by a waged employee, on top of contracted hours, will not accrue Annual or Sick Leave, but a Leave Compensation Payment will be paid at the time the hours are worked. The rate will be 12.5% of an employee's ordinary hourly wage rate.

9. **Casual employees**
All employees with no contracted hours will receive a Leave Compensation Payment instead of accruing Annual and Sick Leave for every hour they work. The rate will be set at 12.5% of an employee's ordinary hourly wage rate and paid in every pay period. The Leave Compensation Payment is in lieu of accruing both Annual Leave and Sick Leave and is a calculation based on the value of both these entitlements (7.69% for Annual Leave and 3.85% for Sick Leave, with a small addition to recognise other factors (e.g. the insecurity of additional and casual hours of work).
The Leave Compensation Payment will be a separate component of pay and must be shown separately in employee's records and pay statements.

10. **Payment of Leave**
The same hourly leave pay rate will be used for all types of leave. It will be based on an employee's lowest wage rate for the day of leave (for example, if an employee takes a contractual night shift as leave and would have received time and a half for the whole night shift, the hourly leave pay rate will be the time and a half rate).
For those on piece rates (where an employer is paid for the number of pieces produced, e.g. for the number of buckets of apples picked) the hourly leave pay rate will also include an hourly average of piecework wages calculated overpay periods starting in the previous 52 weeks.
In addition to the hourly leave pay rate, fixed allowances (such as an accommodation allowance) will be paid in full during leave, like normal.
Other components of pay, like bonuses, commissions and variable allowances (such as for ad hoc special duties) will not be included in the hourly leave pay rate.

11. **Parental Leave**
Employees will continue to accrue leave during Parental Leave based on the standard hours they worked immediately before commencing Parental Leave. Where an employee's hours were temporarily reduced prior to commencing Parental Leave, the temporary reduction will be disregarded and leave accrual will instead be based on the employee's standard hours before the reduction occurred.
When Annual Leave is taken after return to work, it will be paid like leave taken at any other time would be (which will be an increase in minimum entitlement compared with the status quo).

12. **Bereavement and Family Violence Leave**
All employees will be able to access Bereavement and Family Violence Leave from day one.
Leave entitlements will continue to be recorded as days-based entitlements, consistent with the current Holidays Act 2003 framework. Employees may take leave as whole days or partial days.

13. **Public Holidays Observed**
A day is an Otherwise Working Day (OWD) if an employee would have worked it under their employment agreement (including based on an agreed pattern of days of work).
There will be a new test for determining whether an employee would have worked on the day, when it is not clear in an employment agreement. The new test is based on whether the employee has worked on the day of the week the Public Holiday falls for 7 of the preceding 13 weeks.
A day will not, however, be considered an OWD, if it is reasonable to expect the employee would not have worked on it due to Parental Leave, Volunteers' Leave, Accident Compensation or Unpaid Leave.

14. **Public Holidays Worked**
Employees will accrue Alternative Holiday hours at a rate of one hour for every hour worked on a Public Holiday, that is an otherwise working day.
Employees who work only part of their contracted hours on a public holiday will be paid time-and-a-half for the hours worked and public holiday leave pay for the contracted hours not worked. This leave payment will likely be recorded using a payroll code such as "Public Holiday Not Worked."

15. **Pay Statements**
Employers will be required to provide clear pay statements each pay period itemising pay and leave in a way that's transparent and easy to understand.
Pay statements will need to include a subset of information from employees' records - sufficient for employees to determine whether their pay and leave have been calculated correctly.

There will be flexibility around how an employer provides the pay statement - it could be provided directly in a physical or digital form or made accessible to employees via an online portal.

Workforce groups most impacted by the Employment Leave Act

While the Employment Leave Act will affect all employees, we expect the most significant impacts to be experienced by employees with variable hours or remuneration. This includes casual employees, employees with irregular or fluctuating work patterns, employees who regularly work additional hours, and those whose earnings include commissions, bonuses, incentives or allowances. These employees are expected to experience the greatest changes in the way leave entitlements are accrued, calculated and reported under the new framework.

What employers should do now

- Confirm governance and ownership across payroll, HR, employment relations, technology, finance, data and change.
- Complete an impact assessment across workforce groups, including salaried, waged, variable-hours, part-time and casual employees.
- Engage payroll, HRIS and time and attendance vendors on product roadmaps, configuration requirements and release timing.
- Review employment agreements, collective agreements, policies and rosters for information needed under the new hours-based framework.
- Assess payroll and leave data quality, including standard hours, additional hours, casual hours, work patterns, leave balances and pay elements.
- Design balance conversion, cutover and reconciliation approaches, supported by clear audit trails.
- Build a risk-based testing programme covering calculations, interfaces, employee records, pay statements and exception scenarios.
- Plan communications and training for payroll teams, HR, managers and employees.
- Continue to meet all Holidays Act 2003 obligations until the new Act takes effect, including addressing any known historical compliance issues.

Important transition point

There is no immediate change to employees' current statutory leave entitlements or the way leave must be calculated.

The current Holidays Act 2003 remains the law until 6 August 2028.

How Deloitte can help

Navigating legislative change can be challenging, but Deloitte is here to support you. Our team of payroll specialists can help you understand the Employment Leave Act 2026 and prepare your organisation for the transition from the Holidays Act 2003 to the new framework.

- **Assess:** Legislative briefings, readiness reviews, workforce and payroll impact assessments, system capability reviews, data and leave record assessments.
- **Design:** Future-state payroll processes, Leave policy design, employment and collective agreement reviews, operating model design and transition roadmaps.
- **Implement:** Requirements, vendor engagement, payroll and HRIS support, configuration assurance, testing support, balance conversion validation, cutover and programme delivery.
- **Adopt:** Change impact assessment, employee and manager communications, training, governance, stakeholder engagement and capability uplift.
- **Assure:** Go-live readiness, independent testing assurance, post-implementation health checks, controls reviews and ongoing compliance support.

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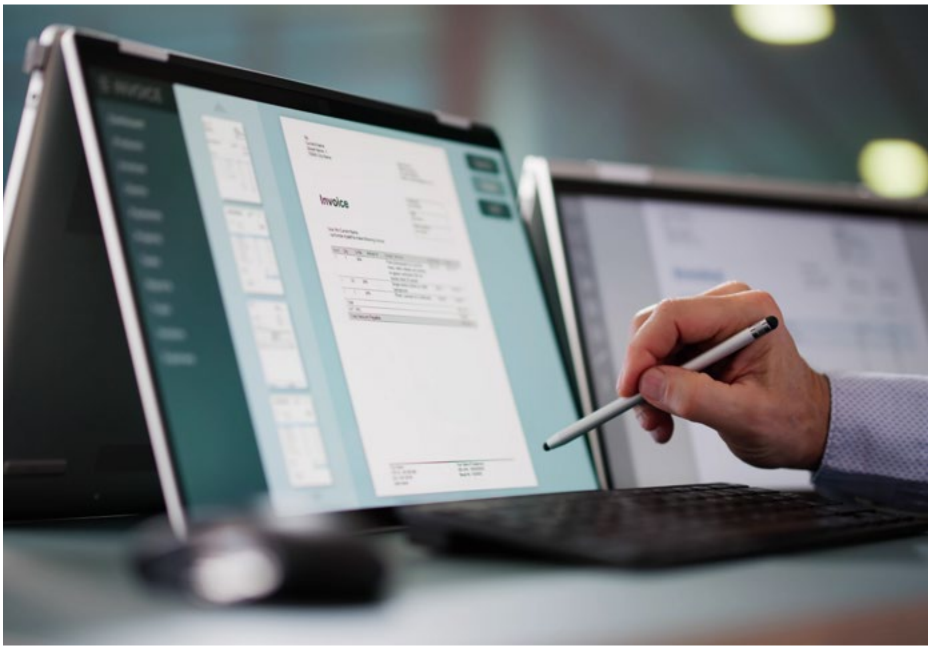
Ready, Set, E-invoice:
New rules arrive in 2027 for B2G

By Jeanne Du Buisson & Haidee Watkin

A new chapter in the New Zealand Government's e-invoicing mandate will begin on 1 January 2027. Large suppliers will soon be required to send e-invoices when dealing with government agencies that issue or receive more than 2,000 domestic trade invoices each year. For large suppliers looking to secure government contracts, it is time to ensure that you are ready to comply with the new e-invoicing requirements before the start of 2027.



First things first: are you a large supplier?

A New Zealand entity is considered a large supplier if it meets either one of the two tests:

- Asset test: The total assets of the entity and its subsidiaries exceed $66 million as at the balance date of each of the two preceding accounting periods; or
- Revenue test: The total revenue of the entity and its subsidiaries exceed $33 million in each of the two preceding accounting periods.

What will need to be e-invoiced?

The mandate applies to domestic trade invoices. Broadly, these are invoices for goods or services supplied in New Zealand by an entity carrying on business in New Zealand, where the payment is in New Zealand dollars.

Not every invoice will be caught. Certain cross-border transactions, transactions denominated in foreign currencies and invoices issued by suppliers that do not meet the large supplier threshold will fall outside the scope of the mandate.

The mandate only applies to invoices that a government agency would ordinarily issue or receive as part of its day-to-day business. It is not intended to capture unusually large or complex transactions (such as those connected with major infrastructure projects), where further checks and approvals would generally be required before payment is made.

How will e-invoices be exchanged?

The New Zealand Government has adopted the PEPPOL framework for e-invoicing. PEPPOL provides a secure network through which suppliers and government agencies can exchange e-invoices directly between their accounting systems.

An e-invoice is more than an invoice sent by email. Instead of attaching a PDF, the invoice information is sent electronically from one accounting system to another. This can reduce manual handling and make invoices quicker and easier to process.

Earlier e-invoicing requirements focused on ensuring that government agencies could receive and send e-invoices. Bringing large suppliers into the mandate is the next step and encouraging the uptake of e-invoicing across the wider New Zealand business community.

Which payments fall outside the mandate?

Some transactions will not require an e-invoice, including:

- Employee expense reimbursements;
- Rent and lease payments;
- Credit card statements;
- Finance payments;
- Insurance premiums; and
- Regular payments under an ongoing contract where an invoice is not required.

What should large suppliers do now?

Although the new requirements will not take effect until 1 January 2027, large suppliers that prepare early will be better placed to implement e-invoicing in their dealings with government agencies. As a first step, businesses should confirm whether they meet the large supplier test, review their current invoicing processes and consider what changes may be needed to implement PEPPOL e-invoicing.

If you would like to discuss e-invoicing or how Deloitte can support your invoicing transformation journey, please contact your usual Deloitte adviser.

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CRS 2.0: Time to Act

By Vicky Yen & Troy Andrews

Effective 1 April 2026, New Zealand adopted CRS 2.0, representing the most significant overhaul of the Common Reporting Standard (CRS) since its introduction.

The revised framework broadens the scope of financial institutions and financial products (so that e-money and central bank digital currencies are now subject to reporting), tightens due diligence obligations, and expands the information that financial institutions are required to collect and report.

New Zealand is leading the way by being among the first wave of jurisdictions to implement CRS 2.0, meaning that our Australian cousins will be looking to us for tips and tricks rather than the other way round. The first reporting period under the new regime is for the year ending 31 March 2027, with reporting due by 30 June 2027.

Inland Revenue has largely completed its system development and testing, and will be providing XML testing services to support New Zealand financial institutions' preparatory reporting activities. For those using Inland Revenue's Excel reporting template, the final version is expected to be released from 5 January 2027. All early filings for the 2027 reporting period have been suspended until January 2027, which may present practical challenges for financial institutions that intend to wind up before that date.

While the reporting deadline may appear some way off, the implementation runway is shorter than many institutions appreciate. The changes can affect the full CRS compliance lifecycle, including entity and account classifications, client onboarding, self-certification and due diligence procedures, data capture, supporting technology, and annual reporting processes.

Financial institutions may also need to undertake client outreach to remediate data gaps under the revised rules. As always, getting ahead with a clear plan is important.

Financial institutions that have not already commenced their CRS 2.0 implementation programmes should do so as a priority. Beyond compliance, CRS 2.0 also presents an opportunity to strengthen the broader governance and controls environment. Institutions can use the transition to address data quality issues, streamline existing processes, reduce the risk of reporting errors and non-compliance, and improve clients' overall experience. Given the interconnected nature of CRS to operational processes related to client relationship management and AML/CFT frameworks, it will be key to bring the right team members on your implementation journey.

If you would like to discuss the implications of CRS 2.0 for your organisation, please contact your usual Deloitte advisor. We also invite you to join our upcoming webinar on **21 October 2026** where we will discuss implementation priorities, common challenges, and provide an update on the evolving compliance and regulatory landscape.

Register for the webinar

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Snapshot of recent developments

Tax legislation and Policy Announcements

GST treatment of levies

Over the last three years, legislative charges, including levies, have gradually been brought within the GST net under legislation enacted from 1 July 2023. This process culminated on 1 July 2026, when all legislative charges became subject to GST.

Historically, the GST treatment of these charges could be confusing. Similar legislative charges were not always treated consistently for GST purposes. Some attracted GST, while others did not, and in certain cases, taxpayers had binding rulings confirming that a particular levy was not subject to GST.

From 1 July 2026, any legislative charges, including fees or levies (but excluding taxes, fines and penalties), are deemed to be consideration for a supply of goods or services. As a result, these legislative charges are now subject to GST.

For most businesses this shouldn't have an impact, as the GST charged will be recoverable, but depending on how invoices are coded and reviewed, the prior treatment could be rolled forward. As this is potentially the first year with differing treatment, this is the year to review the treatment of invoices and ensure that GST is being claimed where it previously hasn't been charged.

Treasury: Aggregate Personal Income Tax Revenue Estimate Tool

On 25 August 2026, Treasury updated its Aggregate Personal Income Tax Revenue Estimate Tool. The Tool is Excel-based and allows the user to modify the tax brackets, the tax rates, and the indirect and company tax offset, and outputs an estimated change in revenue along with plots of the marginal tax rates and the average tax rates.

Information Release: Approval for Approved Information Sharing Agreement between Inland Revenue and Customs

On 27 August 2026, Inland Revenue issued an information release which includes documents relating to the Approval for Approved Information Sharing Agreement between Inland Revenue and Customs.

Inland Revenue Technical Updates

Inland Revenue: Tax Information Bulletin – August 2026 (Vol. 38, No 7)

On 3 August 2026, Inland Revenue issued its August 2026 Tax Information Bulletin. The Tax Information Bulletin covers the following recent tax developments:

Rulings

- BR Prd 26/03 – 26/06 Reach Media New Zealand Limited
- BR Prd 26/07 Ministry of Education

Question We've Been Asked

- QB 26/04 Income tax – Bare trusts and mortgages

Case summaries

- CSUM 26/08 High Court dismisses judicial review
- CSUM 26/09 High Court concludes the TCRA was correct in finding work done on commercial building was capital in nature
- CSUM 26/10 The TCRA confirms the Commissioner's denial of deductions was correct

Technical decision summaries

- TDS 26/07 Employee allowances – tax exemption and PAYE treatment
- TDS 26/08 Disposal of property and shortfall penalties
- TDS 26/09 Excepted financial arrangement

Public Rulings: GST – Directors' fees and board members' fees

On 6 August 2026, Inland Revenue issued three public rulings (BR Pub 26/01 – 26/03) relating to the GST treatment of directors' fees and board members' fees. These replace rulings BR Pub 23/01 – 23/03, which have been withdrawn. The replacement was necessary as a recent amendment to section 6(4) of the GST Act 1985 means parts of those previous publications are now incorrect.

The Fact Sheet and Question We've Been Asked (QB 26/05) associated with the rulings have also been updated.

Question We've Been Asked: GST - Directors or board members who provide services through a personal services company

On 6 August 2026, Inland Revenue issued Question We've Been Asked QB 26/05: *GST – Directors or board members who provide services* through a personal services company. This item replaces QB 23/07 and considers whether a personal services company (PSC) can register for GST where it provides the services of a director or board member who could not register for GST if acting in their personal capacity. Inland Revenue concludes that a PSC can register for GST where it contracts directly with the company or organisation and carries on a taxable activity. Where the director or board member contracts directly with the company but pays their fees to a PSC employer, section 6(4) of the GST Act will apply to treat those fees as consideration for a supply of services by the PSC to the company or organisation.

Interpretation Statement – Income Tax: payments by employers on the death of an employee to executors and family

On 17 August 2026, Inland Revenue published interpretation statement IS 26/13: *Income Tax: payments by employers on the death of an employee to executors and family.* The statement considers whether amounts paid by employers on the death of an employee are taxable to the recipients, which could include executors and family members. The statement also considers the deductibility of payments made by employers, whether employers have PAYE obligations in respect of payments, and the duties of executors to file tax returns for the deceased employee and any estate that may arise.

Determination: Tax Administration (Fringe Benefit Tax, Interest on Loans) Determination 2026

On 26 August 2026, Inland Revenue issued determination DET 26/06: *Tax Administration (Fringe Benefit Tax, Interest on Loans) Determination 2026.* The determination increases the prescribed interest rate for employment-related loans from 5.77% to 6.07% for the quarter beginning 1 October 2026.

Tax Cases and Technical Decision Summaries

Case Summary: The Taxation & Charities Review Authority confirms the Commissioner's denial of deductions was correct

On 28 July 2026, Inland Revenue issued case summary CSUM 26/10: *The Taxation & Charities Review Authority confirms the Commissioner's denial of deductions was correct*. The case concerned a taxpayer who claimed deductions for education, motor vehicle and home office expenses, together with GST input tax deductions for various pre-registration costs. The Authority found that the taxpayer's business had not commenced until November 2020 and upheld the Commissioner's denial of the claims, finding that the expenses were either incurred before the business commenced, unrelated to the business, or insufficiently substantiated. The Authority also upheld the denial of the GST claims and confirmed that shortfall penalties for not taking reasonable care were properly imposed.

Case Summary: Court of Appeal upholds the High Court's award of indemnity costs to the Commissioner

On 10 August 2026, Inland Revenue published case summary CSUM 26/11: *Court of Appeal upholds High Court award of indemnity costs to the Commissioner.* The case concerned a taxpayer who commenced judicial review proceedings after the District Court struck out his defence to Inland Revenue debt recovery proceedings and a bankruptcy notice was issued. The Court of Appeal upheld the High Court's award of indemnity costs, finding that the judicial review was properly viewed as a hopeless case and an attempt to delay recovery action and indirectly challenge the underlying tax assessments. The Court also confirmed that reliance on legal advice does not necessarily prevent an award of indemnity costs.

Technical Decision Summary: GST – amalgamation

On 14 August 2026, Inland Revenue published technical decision summary TDS 26/10: *GST – amalgamation.* The summary considers a private ruling on the GST consequences of an amalgamation involving several wholly owned group companies. The Tax Counsel Office concluded that the companies were eligible to form a GST group prior to the amalgamation and that no GST liabilities arose from the transfer of assets to the amalgamated company. The ruling also confirmed that certain deemed supplies made on the deregistration of an unincorporated body were zero-rated and that the anti-avoidance provision in section 76 of the GST Act did not apply to the arrangement.

Technical Decision Summary: Income tax – amalgamation

On 14 August 2026, Inland Revenue published technical decision summary TDS 26/11: *Income tax – amalgamation.* The summary considers a private ruling on the income tax consequences of an amalgamation involving a group of wholly owned companies. The Tax Counsel Office concluded that the amalgamation qualified as a resident's restricted amalgamation, allowing various rollover relief provisions in subpart FO to apply so that no income, losses or depreciation recovery arose on the transfer of shares, amortising property and certain intercompany loans. The ruling also confirmed that anti-avoidance provisions did not apply, as the amalgamation was undertaken for commercial purposes to simplify the group structure and reduce compliance costs.

Technical Decision Summary: Property as trading stock

On 28 August 2026, Inland Revenue published technical decision summary TDS 26/12: *Property as trading stock.* The summary considers a private ruling on whether a commercial building and fit-out held by a property developer qualified as trading stock for Investment Boost purposes. The Tax Counsel Office concluded that the building and fit-out were trading stock, finding that the taxpayer's dominant purpose was to sell the property in the ordinary course of its business. In reaching this conclusion, it noted that the taxpayer was established to develop and sell the property, had actively marketed it to potential purchasers, and leased the building primarily to enhance its attractiveness to buyers.

Inland Revenue Media Releases and Other Updates

Inland Revenue: Care required when advising clients on salary sacrifice arrangements

On 29 July 2026, Inland Revenue advised that employers may have PAYE and FBT obligations if an employee's salary sacrifice arrangement is not valid. Inland Revenue is seeing tax agents provide generalised advice to employers on what constitutes a valid salary sacrifice arrangement.

However, whether a salary sacrifice is valid depends on the specific facts of each case and is determined by case law. Additionally, where an employee salary sacrifices an amount to buy a bicycle or other low-powered vehicle, the employer may be required to account for GST on the supply, even if the vehicle is provided by a third party.

Inland Revenue does not approve or endorse specific arrangements, but there are product rulings relating to bicycles and other low-powered vehicles on its Tax Technical website.

Inland Revenue: Working for Families fraud ends in home detention

On 29 July 2026, Inland Revenue issued a media release detailing the home detention sentence imposed on an Auckland woman who had claimed Working for Families tax credits that she was not entitled to.

Inland Revenue: Gisborne couple sentence for tax fraud

On 30 July 2026, Inland Revenue published a media release detailing the sentencing of a Gisborne couple who had committed tax fraud in relation to Working for Families, GST and income tax.

Inland Revenue: Overdue tax and late tax returns – automated messages

On 20 August 2026, Inland Revenue issued an update on overdue tax and late tax returns. Inland Revenue will be contacting groups of taxpayers who have overdue tax over $100 throughout August and September. Some of these taxpayers also have overdue tax returns. Taxpayers may also receive a pre-recorded call or voice message reminding them to pay the overdue tax and file their tax return.

Inland Revenue: Bogus expenses claims are fraud

On 26 August 2026, Inland Revenue published a media release stating that it has identified a coordinated scheme of people claiming bogus expenses and thereby committing fraud. Inland Revenue has stopped nearly 3,000 fraudulent amended returns, including 542 received in one night, preventing a total of $4.015 million in bogus claims. Those claiming such expenses may face repayment obligations, a 150% evasion shortfall penalty and prosecution.

Inland Revenue: Home detention for tax evasion

On 28 August 2026, Inland Revenue published a media release detailing the home detention sentence imposed on a New Plymouth woman who was charged with 31 counts of tax evasion.

Inland Revenue: Changes to the taxpayer ruling and determination application process

On 28 August 2026, Inland Revenue advised that from 14 September, applications for private, product and status rulings—including unilateral advance pricing agreements (UAPAs)—must be submitted through myIR. The same requirement will apply to applications for financial arrangement and depreciation determinations. Only the application channel is changing: the information required and the ruling process will remain the same. Inland Revenue has also published answers to questions raised about the new application process on its Tax Technical website.

Inland Revenue: myIR business account registration changes

On 31 August 2026, Inland Revenue advised that from 12 September 2026 it will be removing the ability to register for GST and EMP tax accounts during the non-individual IRD number application process. Instead, taxpayers will need to complete the non-individual IRD number application first, then apply separately for EMP and GST. EMP and GST registrations will be available for non-restricted users in the Intermediary centre under 'client registration'.

There is no change to the Companies Office process, and taxpayers incorporating a company can still register for GST and EMP when applying for an IRD number.

Inland Revenue is also introducing a new online registration for non-resident GST on remote services (GORS) and Low value imported goods (LVIG) called 'Register for GST as an overseas business', which will require GST information to be provided as part of the registration process.

International Tax updates

Hungary Authorises Signing of Tax Treaty with New Zealand

On 7 August 2026, the Hungarian government authorised the signing of the new income tax treaty between Hungary and New Zealand.

A New Tax System (Wine Equalisation Tax) (New Zealand Producer Rebate Foreign Exchange Conversion) Determination 2026

On 10 August 2026, the Australian Department of the Treasury published *A New Tax System (Wine Equalisation Tax) (New Zealand Producer Rebate Foreign Exchange Conversion) Determination 2026*, which is now in force. The determination sets out how eligible New Zealand wine producers must convert amounts expressed in foreign currencies into Australian dollars when calculating their producer rebate entitlement under the Wine Equalisation Tax regime.

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

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