Crossing the ditch

A guide for Australian businesses setting up in New Zealand

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As with any territory, New Zealand has its own particular nuances, its own tax legislation, tax authority, accounting standards and immigration rules. As the leading professional firm in New Zealand, PwC has significant experience helping businesses invest into New Zealand and providing ongoing support to manage this process.

This guide provides you with an overview of the issues you need to consider when setting up business in New Zealand.

### People

**PAYE** Businesses intending to employ people in New Zealand must register with Inland Revenue. The filing requirements differ depending on the number of people employed.

**Fringe benefit tax** If businesses provide a benefit to employees outside of normal salary and wages, the employer may be subject to fringe benefit tax (FBT). There are several differences between the FBT regimes of New Zealand and Australia. For example, Australia offers exclusions for motor vehicles but New Zealand will generally treat all vehicles as a taxable supply.

**Entertainment expenditure** New Zealand has a unique regime that differentiates the extent of deductibility (for income tax purposes) depending on the type of the entertainment expense. For example, the tax treatment of entertainment costs for staff, clients and suppliers each have subtle differences.

**Contractors** Tax obligations for contractors differ to the tax obligations of employees. New Zealand taxpayers should ensure that staff and contractors are classified appropriately.

### Income tax

**Income tax** To pay income tax in New Zealand, businesses must register with Inland Revenue. Income tax returns must be filed annually.

**Residency** Although a business may make sales in New Zealand, this does not automatically make it liable to income tax. To be a New Zealand tax resident, a business must have sufficient presence. Some businesses registered with the Companies Office may not have an income tax obligation.

**Provisional tax** Taxpayers must pay provisional tax in three equal instalments over a year. The instalments are calculated based on an uplift of prior year returns or an estimate of the current year’s tax liability. If tax is underpaid, use of money interest (UOMI) and late payment penalties may apply.

**Balance date** Businesses registered with Inland Revenue are automatically assigned a 31 March balance date. To change this (i.e. to align with the group/parent balance date), a request must be made to Inland Revenue.

**Record keeping** Taxpayers must request permission from Inland Revenue to keep their accounting records offshore.

### Immigration

While Australian citizens and returning residents can work in New Zealand without visas, there are strict immigration compliance rules for any other foreign passport holders wishing to work in New Zealand.

### GST

**Registration** You will need to register for GST if you sell goods or services in New Zealand in excess of NZ$60,000 per annum. The filing requirements differ depending on the level of annual turnover.

If you only operate via a cost centre in New Zealand (and don’t make any sales/receive any income) you can still register for GST and recover GST costs incurred.

**GST recovery** Registering for GST is the only mechanism for recovering GST on costs incurred in New Zealand and does not in itself create a liability for income tax purposes.

**Filing** Returns can be filed online or by post. If you wish to file your own returns online (as opposed to using a tax agent) you need to contact Inland Revenue to register for the ‘myIR’ online system.
**Customs**

**GST on import** The physical importation of goods into New Zealand is subject to import GST (at the standard rate of 15%) and customs duty (depending on the type of products imported).

**Registration** You need to register with New Zealand Customs if you wish to import products. Additional documentation is required for non-resident importers wishing to register for customs purposes.

**Deferred payment** Customs charges can be deferred as opposed to being payable upfront at the time of importation by applying to be on the deferred payment scheme with New Zealand Customs.

**Transfer pricing**

**Profit splitting** Like most other OECD countries, New Zealand has transfer pricing rules to ensure the proper amount of profit derived by a multinational group is attributed to its New Zealand operations. The attribution of profits should be a fair reflection of the activities performed (e.g. the provision of services or local sales activities), risks assumed and assets used by the New Zealand business, not the group’s trading activities in New Zealand.

**Arm’s length principle** Transfer pricing rules are based on the arm’s length principle. Broadly, transacting at arm’s length means ensuring the transfer price is what would have been agreed in the open market.

**Documentation** Inland Revenue does not expect taxpayers to prepare transfer pricing documentation that is disproportionate to the amount of tax revenue at risk. However, taxpayers should provide a trail evidencing how transfer prices have been determined and why transfer prices are consistent with the arm’s length principle.

**Thin capitalisation** Like other countries, New Zealand has a thin capitalisation regime that in certain circumstances limits the deductibility of interest expenditure for foreign owned businesses. The thin capitalisation position of a business is determined by reference to its debt to asset ratio.

**Financial reporting**

**Reporting requirements** For balance dates commencing from 1 April 2014, companies that do not fall within the definition of ‘large’ are no longer required to prepare general purpose financial reports complying with GAAP standards. Minimum financial reporting requirements for these companies are still required by Inland Revenue. Financial statements prepared to meet Inland Revenue’s requirements do not need to be audited.

An overseas company or subsidiary of an overseas company is considered large if it has, in the two preceding accounting periods:
- assets of greater than $20 million; or
- revenue greater than $10 million (NZD).

Newly incorporated companies have a two year amnesty and are not required to complete GAAP accounts during this period. Financial statements are only required from the third year if newly incorporated companies are large in each of the first two years of operation.

**New Zealand resident directors** A Bill that is nearing enactment will require companies to have at least one director who is a resident in New Zealand (note – they do not have to be a citizen) or is a resident in an ‘enforcement country’. We expect this amendment to come into force from 1 July 2015. Companies will have six months to comply with this provision.
Get in touch

If you would like to discuss any of the issues in this guide, or any other matter relating to doing business in New Zealand, please contact us.

We look forward to hearing from you.

**Ravi Mehta**
T:  (09) 355 8233  
M: 021 463 403  
E:  ravi.s.mehta@nz.pwc.com

**Michael Tan**
T:  (09) 355 8770  
M: 021 261 3877  
E:  michael.s.tan@nz.pwc.com

**Hadleigh Bunce**
T:  (09) 355 8142  
M: 027 757 5575  
E:  hadleigh.c.bunce@nz.pwc.com