Setting up your Business in New Zealand

Issues to consider

New Zealand (NZ) has a relatively deregulated and open economy and is consistently ranked as one of the easiest countries in which to do business. The World Bank Doing Business 2018 Report ranks NZ first in the world for ease of doing business.

As well as simplicity the tax system has the major attractions of predictability and fairness.

Of course one of the major attractions of NZ is the more relaxed living philosophy and lifestyle which seems to be more obtainable than in many other countries.

However local knowledge of the legal, accounting and taxation framework is essential when looking to set up or do business in NZ. This document provides a brief summary of the practical issues you will need to consider.

What type of Business structure should we use?

Foreign investors can operate in NZ through whatever entity they choose and the most common ones used are locally incorporated companies or a branch of a foreign entity.

1. Limited Company

- Provides limited liability.
- Can be foreign owned or a subsidiary company.
- Must have at least one local director.
- The Register of Companies maintains a file for each Company and details must be updated annually.
- Corporation tax to be paid on Company profits.
- A "Large" company with more than 25% foreign ownership must file audited financial statements with the Register of Companies. There is no requirement to file the overseas Parent Company's Statements.
- Large as above is defined for the NZ Company as greater than $10 million turnover or $20 million assets for the two preceding years.

2. **Branch (of an overseas business)**

- Not a separate legal entity but an extension of the overseas parent company.
- No limited liability or ring fencing of the NZ operations.
- Must register with the Registrar of Companies.
- Corporation tax is payable on NZ profits.
- Must file audited group financial statements if total assets for the group are more than $20 million or total revenue for the group is more than $10 million. If the NZ business is large (total assets over $60 million or total revenue over $30 million) then both the group and branch financial statements need to be filed with the Register of Companies.

3. **Look Through Companies**

- Incorporated as a company but treated like a Partnership for income tax purposes.
- All profits or losses flow through each year to shareholders in proportion to shareholdings.
- Subject to loss limitation rules.
- Can have non-resident shareholders.

4. **Other trading Entities**

- Individual (sole trader)
- Trust
- Partnership
- Limited Partnership

Corporation Tax

- Currently a flat rate of 28%.
- NZ operates a dividend imputation system whereby tax paid at the company level can effectively be credited against shareholder tax liabilities on dividends received. These credits may be restricted when paid offshore.
- NZ resident companies are subject to tax in respect of worldwide income. Non-resident companies are liable for tax only on income earned in NZ.

Cross Border Transactions

- Generally NZ rules follow the OECD guidelines to ensure an arm's length basis to protect the NZ tax base.
- Thin capitalisation rules apply to ensure that NZ taxpayers do not deduct a disproportionately high amount of worldwide group interest expense.

Employment Taxes

NZ operates a PAYE system (Pay as you earn) and employers are required to deduct this tax from wages and salaries paid to employees.

NZ has Compulsory Accident Insurance (ACC) and employees are subject to this tax (approx. 2%) which is included with the PAYE. The levy is capped at a fixed level of earnings. This levy provides for loss of earnings and medical expenses as a result of workplace or recreational injury or disability.

NZ has a voluntary work based superannuation scheme (Kiwisaver) and employers are required to make a compulsory contribution of 3% of gross salaries for those employees who choose to join the scheme.

- There is no payroll tax.
- There is no social security tax.
- There is no health care tax apart from ACC as above.
- There is a fringe benefit tax system (FBT) which can impose a tax on benefits supplied to employees.

Personal Taxation

There are rules to determine tax residency in NZ which can be quite complex and professional advice is advised.

Current personal income tax rates are:-

Income to $14,000	10.5%
$14,000 - $48,000	17.5%
$48,000 - $70,000	30.0%
$70,000 and over	33.0%

- Tax returns are filed on an individual basis and there is no provision for amalgamation of household income.

- There are transitional resident rules which generally exempts such persons from NZ tax on foreign income for the first 4 years of residency, which can be of great benefit.
- NZ tax residents are taxed on their worldwide income.

Other Taxes

NZ has a simplified tax system where taxes that apply in many other countries do not apply in NZ.

- There is no capital gains tax except in some special cases.
- There is no inheritance, estate or wealth tax.
- There is no stamp duty.
- There is no gift duty.
- There is no local or state taxes apart from property rates levied by local councils.

Goods and Services Taxes

NZ operates a Goods & Services Tax (GST) similar to VAT which is a consumption tax borne by the final private consumer. It is imposed throughout the chain of production and therefore applies in respect of business to business transactions. The current rate of GST is 15%.

- Registration is mandatory for the supply of goods or services exceeding $60,000 over a 12 month period.
- GST returns are required to be filed on either a one month, two month or six month basis according to taxpayer requirements and annual turnover.
- There are very few exemptions from GST.

Other Matters

- A wide range of free trade agreements and pro-competitive regulations make NZ an ideal base for expansion in the Asia Pacific region.
- More than 80% of the value of imported goods into NZ are tariff – free.
- GST is payable to NZ Customs on goods imported into NZ and is generally recoverable by GST registered persons or entities.
- NZ has double tax treaties (DTA) with 40 countries which generally provides relief from double taxation.
- Non-resident withholding tax (NRWT) is applied to dividends, interest and royalties paid to non-residents. NRWT is generally a final tax and the rates will often depend upon the DTA applicable.

To discuss your requirements please contact the International Office on
+44 (0) 1245 449266 or email us directly.

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