



Inland Revenue
Te Tari Taake

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Foreign Income Guide

for individual New Zealand tax residents



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NOTE: All information in this document is current as at the date of publication

About this guide

This guide is primarily for individuals who are New Zealand tax residents and earn foreign income. This includes transitional tax residents who are eligible for the temporary tax exemption.

It updates and replaces IR1069 Tax agents' guide for migrants and returning New Zealanders published in May 2018.

The guide complements information on Inland Revenue's general website at ird.govt.nz and our technical website at taxtechnical.ird.govt.nz.

There are references at the end of many sections to relevant publications on these websites and to sections of the Income Tax Act 2007 and the Tax Administration Act 1994. This legislation can be found at legislation.govt.nz.

International tax can be complex and this guide is unable to address all scenarios. We therefore recommend consulting a tax agent if you're unsure how the laws apply to your situation. This guide, the foreign income checklist (IR1248) and the flowchart for determining whether you're a transitional resident (IR1249) can help you with those conversations.

Voluntary disclosures

New Zealand has entered into various agreements with other countries to exchange information about taxpayers to combat global tax evasion. For example, we now receive information annually from many countries about financial accounts held by New Zealand tax residents as part of the Common Reporting Standard. We match this information electronically to our records.

There are shortfall penalties for not complying with New Zealand's tax laws. We encourage you to correct tax positions that are wrong at the earliest opportunity. If you do this by way of a voluntary disclosure, penalties may be reduced by up to 100%. For further information, see ird.govt.nz/voluntary-disclosure.

Abbreviations used in the guide

Abbreviation	Definition
BPA	Base Price Adjustment
CFC	Controlled Foreign Company
CV	Comparative Value
DTA	Double Tax Agreement
FDR	Fair Dividend Rate
FIF	Foreign Investment Fund

NOTE: This guide is correct at the time of publication but please be aware that the rules can change.

Top 10 facts

ABOUT INTERNATIONAL TAX



Your tax residency **STATUS** in New Zealand is different from your immigration status.



In general, New Zealand tax residents pay income tax on their **WORLDWIDE** income while non-residents pay on income from New Zealand.



Your worldwide income can include **FOREIGN** income even if you have not repatriated it to New Zealand or you have paid tax on it in the other country or the income is exempt in the other country.



Some rules in New Zealand may tax **CAPITAL GAINS** and may do so even though the gain has not been realised. Examples include the foreign investment fund rules and financial arrangements rules.



New tax residents and former tax residents returning after **10 YEARS** may qualify for a temporary tax exemption on most, but not all, forms of foreign income.



New Zealand will usually give a **CREDIT** for tax paid to another country, capped at the amount of tax payable here on the foreign income.



We advise you to consult a tax **AGENT** knowledgeable in international tax if you're not sure how the law applies to your situation as some of the rules can be complex.



If New Zealand has a **DOUBLE** tax agreement with another country, it may affect how your income is taxed.



There are shortfall penalties for not declaring income but they can be reduced by up to 100% if you make a **VOLUNTARY** disclosure.



Inland Revenue exchanges financial **INFORMATION** about taxpayers annually with many other countries and matches it to tax returns.

How New Zealand taxes foreign income

In general, New Zealand tax residents pay income tax on their worldwide income even if:

- the income has not been repatriated here
- the income has been taxed in another country
- the income is exempt in the other country.

Income is not necessarily limited to cash receipts but can include accrued and unrealised gains.

New Zealand has double tax agreements with a number of countries. These determine taxing rights if you're resident in more than 1 country or otherwise both countries may tax the same income.

A DTA will usually provide for a tax credit to prevent double taxation. Even if there is no agreement, New Zealand will give a credit if the tax paid overseas is of substantially the same nature as income tax here. In both cases, the credit is limited to the lesser of the amount paid or the tax that would apply in New Zealand on the foreign income.

New tax residents and some returning New Zealand tax residents may qualify for a temporary tax exemption on most, but not all, types of foreign income. This exemption generally lasts for 4 years. It does not exempt income with a source in New Zealand.

A tax resident who earns foreign income will generally not qualify for the annual automatic assessment process and will need to file an IR3 return each year. The foreign income must be converted to New Zealand dollars. The general rule is to use the applicable spot rate but other methods may be permitted or required.

In most cases, the tax year ends on 31 March. If your foreign income is under \$100,000, you may be able to elect to report certain types of income you've included in a foreign tax return according to your balance date in that country, declaring that income in the New Zealand tax year in which the foreign balance date falls. Your IR3 return will usually be due by 7 July unless you have a tax agent.

If any tax is owing, it'll usually be due by 7 February the following year but if you have a tax agent, this date is extended to 7 April. An amount could be owing, for example, where the tax deducted in the other country is less than what is applicable in New Zealand. If the amount owing exceeds \$5,000, it'll usually be necessary to start paying provisional tax.

Non-residents generally only pay income tax on income with a source in New Zealand and file IR3NR returns.

If you need to pay income tax in New Zealand, you must apply for an IRD number. New Zealand tax residents should use IR595 IRD number application – resident individual.

We also recommend registering for a myIR account on our website. This will allow you to file returns electronically should you wish to do so, manage your personal details and correspond with us through secure email.

Determining your New Zealand tax residency

It's essential to determine your tax residency status in New Zealand. As noted, New Zealand tax residents generally pay income tax on worldwide income while non-residents pay it on income with a New Zealand source.

You become tax resident in New Zealand in 1 of 2 ways.

The 183-day test

You're a tax resident in New Zealand if you've been here for more than 183 days in a rolling 12-month period. The days you arrive in or leave New Zealand count as whole days.

If you exceed 183 days, the starting date of your residency is backdated to the first of those days.

EXAMPLE

James arrives in New Zealand on 16 June 2020. He leaves on 17 September 2020 but returns again on 18 October 2020. He stays until 28 February 2021.

James exceeds 183 days on 15 January 2021, calculated as follows:

MONTH	DAY
June 2020	15
July 2020	31
August 2020	31
September 2020	17
October 2020	14
November 2020	30
December 2020	31
January 2021	15
Total days	184

The start of James's tax residency is backdated to 16 June 2020.

The permanent place of abode test

You may also become resident by acquiring a permanent place of abode even if you have not met the 183-day test. It's usually more relevant when a person leaves New Zealand.

Whether you have a permanent place of abode depends on the facts and circumstances. The key element is whether you have a dwelling in New Zealand where you habitually reside even if you spend periods of time overseas. It is not necessary that you own the property.

It may also be relevant to look at your continuing ties to New Zealand, such as your travel movements, family and social ties and the location of personal property.

EXAMPLE

In the previous example, assume James purchases a house to live in on 31 August 2020. Although he's resident from that date under the permanent place of abode test, this is superseded by the 183-day test and his residency will be backdated to 16 June 2020.

Becoming non-resident

You become non-resident by being absent from New Zealand for more than 325 days in a rolling 12-month period. Your nonresidency is backdated to the first of the 325 days.

However, you cannot become a non-resident unless you cease to have a permanent place of abode.

Transitional residents and dual residents

See the sections on transitional residents (page 6) and double tax agreements (page 8), respectively.

Special cases










- If you're absent from the country in the service of the New Zealand government, you remain tax resident. This rule does not apply to your family if they travel with you.
- If you're employed under recognised seasonal employer instructions or foreign crew of fishing vessels instructions, you're not subject to the 183-day test. You remain nonresident unless you acquire a permanent place of abode.
- If you're a member of the crew of a visiting pleasure craft, you are not subject to the 183-day test. You remain nonresident if you do not stay for more than 365 days in any 2-year period and do not acquire a permanent place of abode. Other conditions need to be met.
- If you were unable to return to or leave New Zealand due to COVID-19 travel restrictions and this has affected your residency status under the day-test rules, you may be able to disregard these days. See COVID-19 variations on our tax technical website.

Help

If you're unsure about your status, you can complete and send us form IR886 or seek advice from a tax agent.

You may also be eligible to apply for a short-process ruling and obtain increased certainty. There is a fee but the ruling is binding on the Commissioner. You can make an application in myIR or use the online form on our website.

REFERENCES

-  [IR292 New Zealand tax residence, August 2019](#)
-  [IR886 New Zealand tax residence questionnaire, November 2019](#)
-  [Interpretation Statement IS 25/16 Tax residence, May 2025](#)
-  [Interpretation Statement IS 25/17 Tax Residence - government service rule, May 2025](#)
-  [Section CW 21 Amounts derived by visiting crew of pleasure craft](#)
-  [Section YD 1 Residence of natural persons](#)
-  [COV 22/06 Variation to s YD 1\(3\) and \(5\) of the Income Tax Act: Residency of natural persons](#)
-  [COV 22/08 Variation to day test for nonresident crew members in s CW 21 of the Income Tax Act 2007](#)
-  [COV 22/12 Variation to section YD 1\(5\) of the Income Tax Act 2007](#)

Temporary tax exemption for transitional residents

Transitional residents are eligible for a temporary exemption from income tax in New Zealand on most, but not all, types of foreign income.

You're eligible for the exemption if:

- you're a new tax resident
- you've been non-resident for more than 10 years before becoming tax resident again.

However, you cannot claim the exemption if:

- you or your partner have applied for Working for Families
- you've claimed the exemption before
- you opt out.

You claim the exemption by not reporting foreign income in an IR3 return. Inland Revenue encourages you to let us know.

The IR1249 flowchart will help you to determine whether you qualify.

Opting out of the exemption

You do not have to claim the exemption. You may prefer to pay tax on your worldwide income so that you can claim Working for Families or foreign losses. As you cannot change your decision, you may want to seek advice.

You advise us that you do not wish to be a transitional resident by doing any of the following:

- either you or your partner applying for Working for Families
- returning foreign income in your IR3 return
- writing to us.

Taxable income for transitional residents

Most types of foreign income are exempt for the period of the exemption.

However, you need to pay income tax on:

- foreign employment income
- foreign income from services.

You also need to pay tax on New Zealand income.

If you invest in a zero-rate portfolio investment entity, you can use a prescribed investor rate of 0% while you're a transitional resident.

Length of the exemption

The exemption starts on the first day you qualify as a tax resident.

The exemption applies until the earlier of the following events:

- you opt out
- you become non-resident
- your transitional residency period ends.

The transitional residency period ends on the last day of the 48th month after you first became tax resident. For the purposes of the rule, there is no backdating as is the case when applying the 183-day test.

EXAMPLE

Sanil arrives in New Zealand on 1 January 2020 for the first time in his life to start a job here. He buys a house on 1 February 2020.

Sanil's exemption starts on 1 January 2020 under the 183-day test. It ends on 29 February 2024 as that is 48 months after he first became a resident under the permanent place of abode test.

EXAMPLE






Steven returns to New Zealand on 1 January 2020 after having been overseas for 15 years. He travels internally before renting a property in Auckland on 15 August 2020.

Steven meets the tax residency requirements on 2 July 2020 under the 183-day test. His transitional residency starts on 1 January 2020. It ends on 31 July 2024 as this is 48 months after the end of the month in which he became a resident. The backdating rule is ignored when calculating the end date. Steven acquired a permanent place of abode in August 2020 but it is not relevant as it falls after the date used for the 183-day test.

Ceasing to be a transitional resident

You usually will not be advised when your transitional residency period ends and will need to self-assess when to start returning any foreign income in your IR3 returns.

REFERENCES

-  [IR855 Information for resident individuals who invest in PIEs, June 2021](#)
-  [IR1249 Transitional residency flowchart for individual New Zealand tax residents, June 2022](#)
-  [Interpretation Statement IS 25/16 Tax residence, May 2025](#)
-  [Interpretation Statement IS 25/17 Tax residence - government service rule, May 2025](#)
-  [Section CW 27 Certain income derived by transitional resident](#)

[Section HR 8 Transitional residents](#)

Double tax agreements

DTAs are agreements between countries which aim to prevent double taxation. They may do this by giving taxing rights to 1 country and exempting the income in the other country. Alternatively, the income may be taxable in both countries but the country of residence will usually provide a tax credit. The rate of withholding tax in the country of source will often be reduced.

They also have provisions enabling the exchange of information between countries. While the agreements follow a model convention, no 2 agreements are the same. Many DTAs are being updated as part of a global effort to combat tax practices that abuse or exploit them to minimise tax in inappropriate ways.

New Zealand's DTAs

New Zealand has DTAs with the following 40 countries or territories.

Australia	Finland	Korea	Papua New Guinea	Switzerland
Austria	France	Malaysia	Philippines	Taiwan
Belgium	Germany		Poland	Thailand
Canada	Hong Kong		Russian Federation	Turkey
Chile	India		Samoa	United Arab Emirates
China	Indonesia		Singapore	United Kingdom
Czech Republic	Ireland		Mexico	United States of America
Denmark	Italy		Netherlands	
Fiji	Japan		Norway	

To check if there are any changes, go to taxpolicy.ird.govt.nz/tax-treaties#dta
There are also links to each agreement.

Dual residents

It's possible to be a tax resident in more than 1 country. For instance, you may have become a New Zealand tax resident due to being here for more than 183 days but be resident in another country due to having a permanent place of abode there.

Individuals absent from New Zealand in the service of the New Zealand government are deemed to be tax resident here but may also qualify as a resident in the other country.

DTAs have 'tie-breaker' tests to determine which country an individual will be tax resident of for treaty purposes. The person remains a tax resident in both countries for other purposes.

EXAMPLE

Walter is a dual tax resident of Germany and New Zealand but tie breaks to Germany. He derives interest from a New Zealand bank account. The bank deducts resident withholding tax as Walter is tax resident here but the rate is reduced by the DTA as for that purpose he is a tax resident of Germany.

Foreign tax credits for New Zealand tax residents

When you pay tax twice on the same income in 2 countries, a DTA will usually allow a tax credit where you're tax resident.

If you're a New Zealand tax resident, you claim foreign tax credits in your IR3 return but you're limited to the lowest amount of the:

- tax paid to the other country
- amount allowed in the DTA
- tax you would need to pay in New Zealand on the same income.

You'll need to show proof of the tax you've paid to the other country.

If there's no DTA, New Zealand will usually give a credit if the tax is substantially the same as income tax here but subject to the limitations above as to amount.

Tax sparing credits for New Zealand tax residents






A small number of DTAs allow tax sparing credits to be claimed in New Zealand in specified situations. The credits are concessionary and represent tax deemed to have been paid under the relevant DTA.

Agreements are currently in place with 7 countries.



You must complete an IR486 to claim tax sparing credits.

REFERENCES

-  [IR486 File a tax sparing disclosure return, October 2014](#)
-  [Interpretation Statement IS 14/02 Income tax - Foreign tax credits – What is a tax of substantially the same nature as income tax imposed under s BB 1?, April 2014](#)
-  [Interpretation Statement IS 25/16 Tax residence, May 2025](#)
-  [Interpretation Statement IS 25/17 Tax residence - government service rule, May 2025](#)
-  [Subpart LJ Tax credits for foreign income tax](#)

Foreign interest income and the financial arrangements rules

If you're a New Zealand tax resident and party to a financial arrangement, you may have income under the financial arrangements rules.

Financial arrangements involve a deferral between when money is provided and when it's returned. Common examples are bank accounts and term deposits.

During the life of an arrangement, the income you return (or expenditure you may deduct) is determined by whether or not you're a cash basis person. Either way, you must usually do a base price adjustment at the end of the arrangement to capture all gains (or expenditure).

Cash basis persons

If you're a cash basis person under the rules, you can return income during the life of the arrangement on a cash basis. A cash basis person is a person who either:

- has total income and expenditure from all financial arrangements on an accrual basis of \$200,000 (\$100,000 for income years prior to 2025-26)
- has total financial assets and liabilities of \$2 million or less (\$1 million for income years prior to 2025-26)

'Total' means you add items together as absolute values. For example, if you have assets of \$1,500,000 and debts of \$600,000 you have a total of \$2.1 million and are over the threshold.

A cash basis person must perform a BPA when the financial arrangement ends.

For the 2026-27 and future income years, foreign currency arrangements are tested against the threshold using their original principal amount. Convert this amount at the start date. Ignore any later exchange rate movements. Reassess the arrangement only if the principal amount itself changes.

One exception is when you're a cash basis person who ceases to be a New Zealand tax resident within a period of between 3 and 4 years depending on when you became resident. You must have been a party to the arrangement before becoming a New Zealand tax resident and when you cease to be a New Zealand tax resident.

EXAMPLE

Kapil has a bank account in India when he first qualifies as a New Zealand tax resident and a transitional resident on 1 March 2020. If Kapil becomes a non-resident before 1 April 2023 and still has the bank account, he does not have to do the BPA.

Not a cash basis person

If you are not a cash basis person, you must spread income over the life of the arrangement and do the BPA at the end. There are several methods which can and cannot be used depending on the situation. The Commissioner has also issued determinations showing how income should be calculated in a number of scenarios.

If you no longer qualify as a cash basis person, you'll need to calculate a cash basis adjustment to put yourself on a spreading basis.

Excepted financial arrangement

Some financial arrangements are called excepted financial arrangements. They have their own rules or are taxed according to general principles. Common examples are:

- variable principal debt instruments such as a current bank account with a balance always under \$50,000. From 1 April 2026 this increases to \$100,000 and no longer applies to companies.
- an interest-free loan in New Zealand dollars which is repayable on demand
- a foreign currency loan you receive as a cash basis person and you use the loan for private or domestic purposes.

You may want advice from a tax agent as the financial arrangements rules can be complex.

EXAMPLE

Hina is a New Zealand resident who is not a transitional resident. She has an account denominated in yen at a bank in Japan which she uses when she visits her family. The account pays a small amount of interest monthly and she can withdraw funds or make deposits to it at any time. The balance never goes above \$100,000.

The bank account is a financial arrangement. However, due to the size and nature of the account, it qualifies as a variable principal debt instrument. It is therefore an excepted financial arrangement, which means that the financial arrangements rules do not apply.

If the interest income is over \$200 after conversion into New Zealand dollars, Hina will need to file an IR3 return and include this income.

There are two worked examples of the financial arrangements rules in Appendix 2.

Transitional residents

If you're a transitional resident and are a party to a financial arrangement, it's regarded as an excepted financial arrangement as long as:






- no other party to the arrangement is a New Zealand resident
- the arrangement is not for the purpose of a business carried on in New Zealand by a party to the arrangement.

Interest income is exempt until your transitional residency ends. When you cease to be a transitional resident or you're party to an arrangement which ceases to be an excepted financial arrangement, the opening value of your financial arrangement will equal the market value of your accrued entitlement.

EXAMPLE

Penelope is a transitional resident and has a bank account in the United Kingdom. Her period of transitional residency ends on 31 March 2021. She's treated as having acquired the bank account at its market value in New Zealand dollars on 1 April 2021. This would include any interest accrued but not yet credited to the account.

REFERENCES

-  [PUB00396 Cash basis persons under the financial arrangements rule](#)
-  [Section CC 3 Financial arrangements](#)
-  [Section CC 4 Payments of interest](#)
-  [Subpart EW Financial arrangements rules](#)
-  [Determination G9A Financial arrangements that are denominated in a currency or commodity other than New Zealand dollars \(13 pages\), December 1989](#)

Foreign rental income

If you're a New Zealand tax resident who is not a transitional resident and own rental property overseas, you would generally need to pay tax on any rental income.

The rules for calculating income in the other country may differ from New Zealand and require you to make adjustments here. For example, you generally cannot claim a deduction for depreciation for residential property in New Zealand but you may be able to in the other country.

If the balance date in the other country is different from New Zealand, you may also need to make adjustments unless you qualify to make an election to use that balance date for relevant foreign income.

You'll also need to convert any income into New Zealand dollars.

If the property is funded by a loan, you'll need to consider how the financial arrangements rules apply. If the loan is denominated in a foreign currency, fluctuations in currencies will affect how much interest expenditure can be claimed. If the New Zealand dollar appreciates, income may result.

You may also need to deduct non-resident withholding tax or pay the approved issuer levy on payments of interest in respect of the foreign currency loan.

If you receive rent from residential property, even if it is overseas, you may be subject to the ring-fencing rules from the 2020 tax year if your rental property makes a loss. These rules restrict the expenses you can claim in a year and require excess deductions to be carried forward to the following year.

You may also need to consider the mixed-use asset rules where you have a rental property overseas which is used privately and unused for 62 or more days a year. If you make a loss, you may have to carry it forward.

If you also pay tax in the other country, you may be able to claim a foreign tax credit. This would be limited to the New Zealand tax payable on the income.

There are other gains which you may make from property – see the section on Foreign property gains on page 14.







Help

We have issued 2 interpretation statements dealing with rental income from overseas property (IS 20/06 and IS 20/07). The IS 20/07 has a worked example showing how the financial arrangements rules apply to a foreign currency loan. These statements are supported by an approval explaining options for converting foreign income and expenses into New Zealand dollars.

The IR264 guide explains the rules for people who rent out residential property or holiday homes. There is more guidance on expenses you can and cannot deduct, the ring-fencing rules, depreciation of chattels, the bright-line tests and the mixed-use asset rules. The guide is equally relevant if the property is overseas.

Other publications provide assistance on specific topics.

REFERENCES

-  [IR3G Individual income tax return guide](#)
-  [IR3R Rental income schedule](#)
-  [IR264 Rental income, April 2022](#)
-  [IR1226 Residential property deductions worksheets, June 2020](#)
-  [Interpretation Statement IS 10/01 Residential rental properties – depreciation of items of depreciable property, March 2010](#)
-  [Interpretation Statement IS 12/03 Income tax – deductibility of repairs and maintenance expenditure – general principles, June 2012](#)

REFERENCES CONTINUED

-  Interpretation Statement IS 14/02 Income tax - foreign tax credits – what is tax of substantially the same nature as income tax imposed under s BB 1?, April 2014
-  Interpretation Statement IS 16/05 Income tax – foreign tax credits – how to claim a foreign tax credit where the foreign tax paid is covered by a Double Tax Agreement, October 2016
-  Interpretation Statement IS 20/06 Tax issues arising from owning foreign residential rental property, July 2020
-  Interpretation Statement IS 20/07 Application of the financial arrangements rules to foreign currency loans used to finance foreign residential rental property, July 2020
-  Interpretation Statement IS 21/09 Income tax - foreign tax credits - how to calculate a foreign tax credit, December 2021
-  FX 20/01 Approval – foreign residential rental property amounts – currency conversion, July 2020
-  Tax Information Bulletin Vol 31 No 8 September 2019 – ring fencing
-  QB 11/01 Residential investment property or properties in Australia owned by New Zealand resident – NRWT treatment of interest paid to Australian financial institution, March 2011
-  QB 19/07 How do the mixed-use asset income tax rules apply to a dwelling that I sometimes rent out as short-stay accommodation and sometimes privately?, May 2019
-  QB 20/01 Can owners of existing residential rental properties claim deductions for costs incurred to meet Healthy Homes Standards?, June 2020
-  Section CC 1 Land
-  Section DA 2(3) Exempt income limitation
-  Section EG 1 Election to use balance date used in foreign country
-  Section RF 2 (2B) Non-resident passive income – interest exceptions
-  Section RF 12 interest paid by approved issuers or transitional residents
-  Subpart EL Allocation of deductions for excess residential land expenditure

Foreign property gains

If you're a New Zealand tax resident who is not a transitional resident and purchased a property overseas with the intention of selling it, any gains may be taxable even if the property was your main home and even if you also paid tax overseas.

EXAMPLE

Robbie is a New Zealand tax resident who is not a transitional resident. He goes on holiday to the Gold Coast and is persuaded that buying a condo in a new development would be a smart investment. He does so with the intention of selling it and making a quick profit. As Robbie bought the property with the intention of selling it, any gain would be taxable. This would also be the case if Robbie planned to rent it for a while until he could find a buyer.

Profits are also likely to be taxable if you have a history of buying and selling properties.

Bright-line rules

Under the bright-line rules, if you bought a residential property between 1 October 2015 and 28 March 2018 and sold it within 2 years, any gain may be taxable regardless of your intention.

Similarly, any gain may be taxable if you purchased a property on or after:

- 29 March 2018 and sell it within 5 years
- 27 March 2021 and sell it within 5 years if it is a new build
- 27 March 2021 and sell it within 10 years.

The bright-line rules can apply to your main home in certain circumstances.

EXAMPLE

Assume in the above example that Robbie buys the condo on 25 March 2019 with the intention of using it as a holiday home but sells it on 19 June 2020 due to COVID-19 travel restrictions. As the property is not Robbie's main home, any gain would be taxable under the bright-line rules despite a lack of intention to sell it.

Business of dealing in land


If you or an associate are in the business of dealing in land, developing or subdividing land or erecting buildings, in general the amounts derived from disposing of the land within 10 years of acquiring it will be taxable whether or not the land was acquired for the business. If the land was acquired for the business, the amounts derived on disposal will generally be taxable whenever that occurs.


There are exclusions for residential homes and business premises but they do not apply if there is a pattern of buying and selling.


If you are not in a land-related business, you may also be taxable on amounts derived from:


- schemes for the development or division of land begun within 10 years of acquisition
- selling land within 10 years of acquiring it and 20% of the increase is due to certain factors.

REFERENCES

 [IR313 Buying and selling residential property, April 2020](#)

 [IR361 Tax and your property transactions, May 2020](#)

 [IR833 Bright-line residential property sale information, June 2021](#)

 [Sections CB 3 to 5 Schemes for profit and personal property](#)

 [Sections CB 6A to 23B Land](#)

Foreign investment fund rules

Our guide IR461 Foreign investment funds explains the FIF rules in more detail. This page summarises the guide.

The FIF rules apply to New Zealand tax residents who are not transitional residents. They may be relevant if you hold rights in any of the following during an income year:

- a direct income interest in a foreign company
- a FIF superannuation interest
- a foreign life insurance policy.

There is a list of exemptions from the FIF rules in the guide. Even if an exemption applies, you may have tax obligations under other rules in respect of your rights.

For example, there is an exemption from the rules if the cost of all your rights is equal to or under \$50,000 at all times in an income year and you're a natural person. If the exemption applies and you derive income from foreign dividends, these will be taxable under the general rules rather than the FIF rules.

If no exemptions apply, you'll have an attributing interest and need to choose a method for each right to calculate your FIF income. There are restrictions on your choices. If you do not make a choice at the time you're required to file a return, you'll generally be limited to the FDR and CM methods at a later date, which could result in paying more tax. The 5 methods are:

- fair dividend rate (FDR)
- comparative value (CV)
- deemed rate of return (DRR)
- cost method (CM)
- revenue account method
- attributable FIF income method.

There are limitations on claiming losses depending on which method you use.

For a natural person who has an attributing interest in a listed foreign company, the choice will usually be between the FDR and CV methods. The FDR method taxes 5% of the market value of the shares at the beginning of a year. Dividends are not taxed separately under this method. There may be a need to make an adjustment if any shares are bought and sold in the same year. The CV method compares the closing market value with the opening market value after adjusting for items such as purchases, sales and dividends.

There are limitations on choices of method, the same method must be applied across all FIFs of the same type for that year unless other restrictions apply. In cases where the CV method results in losses, these generally cannot be claimed.

There are rules for how to convert foreign amounts into New Zealand dollars.

There are special rules as to how foreign tax credits are calculated in the case of FIF income.

Some rights need to be disclosed in your annual return.

Foreign dividend income and the foreign investment fund rules

If you're a New Zealand tax resident who is not a transitional resident and own shares in a foreign company, the FIF rules may apply.

You need to calculate FIF income from a shareholding in a foreign company when:

- the total cost of all your FIF interests is over \$50,000
- the shareholding is not exempt from the rules.

If you or your shareholding are exempt from the FIF rules, other rules apply. You'll usually need to include any dividends you receive in your IR3 return and may have to pay tax on any gains from trading or buying with the purpose of sale.

EXAMPLE

Molly is a New Zealand tax resident who is not a transitional resident. On 30 April 2020, she bought some shares in a Japanese company costing the equivalent of \$30,000. On 30 November 2020, she received a dividend of \$1,000 after conversion into New Zealand dollars. As the cost of Molly's shareholding is under \$50,000 and she has no other FIF interests, the FIF rules do not apply. Molly would include dividend income of \$1,000 in her IR3 return for the year ended 31 March 2021. In this case, Molly is exempt from the requirement to disclose her interest.

Even if the cost of your FIF interests is under \$50,000, you can elect to apply the FIF rules but there are restrictions on switching into and out of them.

Exemptions

Some of the more common exemptions are:

- certain shareholdings in ASX-listed Australian companies
- certain holdings in Australian unit trusts
- income interests of 10% or more in controlled foreign companies.

These are only exemptions from the FIF rules but you need to consider whether other rules apply. For example, dividends from ASX-listed Australian companies are taxed on a cash basis.

Calculating your FIF income

All 5 methods may be relevant depending on your circumstances.

If your FIF income is calculated using a method other than the attributable FIF income method, dividends and any other gains from your shareholdings except fee rebates do not need to be included in your IR3 return.

EXAMPLE

Apu is a New Zealand tax resident who is not a transitional resident. He has an account with a financial advisor in India and owns shares in several companies there but none of his holdings are 10% or higher.

On 1 April 2020, the market value of his portfolio in New Zealand dollars is \$4 million. On 31 March 2021, the value of his shares is \$3 million due to currency and share price fluctuations. He does not buy and sell any shares in the year which would require an additional calculation called a quick sale adjustment. He receives dividends of \$50,000.

Under the FDR method, Apu's FIF income is 5% of \$4 million, which is \$200,000.

Apu is eligible to compare this result with the CV method, which gives a loss of \$950,000 (\$3 million + \$50,000 - \$4 million). The rules permit Apu to choose the result under this method. However, he cannot deduct this loss against other income or carry it forward, so Apu would have FIF income of zero. He does not need to include the dividends in his IR3 return. Since there is no FIF income, foreign tax credits cannot be claimed.

Entering the FIF rules











When your transitional residency period ends or you become a tax resident if you cannot claim the temporary exemption, your shareholding is usually treated as having been acquired at market value immediately after the change of residency.

EXAMPLE

Michael is a New Zealand tax resident who is a transitional resident. His transitional residency period ends on 31 December 2020. At the time, the market value of his shares after conversion into New Zealand dollars is \$200,000.

Under the FDR method, the value of his shares at the beginning of the tax year on 1 April 2020 is zero. As long as he does not buy and sell any shares between 1 January and 31 March 2021, he will not need to do a quick sale adjustment and, his FIF income will be zero.

REFERENCES

-  **IR458 Interest in a foreign investment fund disclosure schedule for individuals and closely-held entities (myIR form)**
-  **IR461 Guide to foreign investment funds, November 2021**
-  **International Tax Disclosure Exemption ITR30, updated annually**
-  **ird.govt.nz - Foreign Investment Fund Australian listed share exemption tool**
-  **Section CD 36 Foreign investment fund income**
-  **Section CQ 5 When FIF income arises**
-  **Section CQ 6 Calculation of FIF income**
-  **Section CX 57B Amounts derived during periods covered by calculation methods**
-  **Subpart EX Controlled foreign company and foreign investment fund (FIF) rules**
-  **Section 61 Tax Administration Act 1994**

Foreign pension income and the foreign investment fund rules

If you're a New Zealand tax resident who is not a transitional resident and are a beneficiary or member of a foreign superannuation scheme, you may have to calculate FIF income and include it in your IR3 return. If this is the case, you do not have to include related pension payments.

If the FIF rules do not apply, the pension payments received from a foreign superannuation scheme are taxable and need to be included in your IR3 return.

When the FIF rules apply

You need to calculate FIF income from an interest in a foreign superannuation scheme in the following circumstances:

- the total cost of all your FIF interests is more than \$50,000
- the foreign superannuation scheme is a FIF superannuation interest.

Even if the cost of your FIF interests is under \$50,000, you can elect to apply the FIF rules but there are restrictions on switching into and out of them.

A foreign superannuation scheme is one that is registered overseas. A FIF superannuation interest is an interest in a foreign superannuation scheme in two situations:

- you were a New Zealand tax resident when you acquired the interest or were treated as one under a double tax agreement
- you were a non-resident when you acquired the interest and complied with the FIF rules for an income year before 1 April 2014, returned that income in returns filed before 20 May 2013 and continue to return the income on that interest.

If you acquired the interest while a non-resident and continue to apply the FIF rules correctly, you do not pay tax on lump sum withdrawals. If you do not qualify to use the rules or choose not to continue using them, you'll need to consider the foreign superannuation rules.

Other exemptions may apply and you should check the IR461 guide.

Calculating your FIF income

The applicable methods will be the FDR, CV and CM.

Where market value is relevant, it is equal to the total costs of acquiring the rights if it is not reasonably practical to calculate the actual value and no material gains have been derived.

EXAMPLE









Craig is a New Zealand tax resident who is not a transitional tax resident. For a number of years, Craig paid into a foreign superannuation scheme based in the United States. The cost of his contributions in New Zealand dollars was \$250,000 and he has no other interests in FIFs. He now receives an annual pension of \$5,000 from the scheme.

As Craig acquired the interest while he was a New Zealand tax resident and the cost of his FIF interests is over \$50,000, he must apply the FIF rules. Craig is a natural person and would probably choose between the FDR or CV methods to calculate his FIF income. He does not need to include the cash payments in his IR3 return. Craig may need to make a disclosure.

EXAMPLE

Bryan is a New Zealand tax resident and acquired an interest in a foreign superannuation scheme when he was non-resident. He has reached retirement age and started to receive monthly payments. Assuming the FIF rules do not apply, he must convert the monthly payments to New Zealand dollars and include them in his IR3 return.

REFERENCES

-  IR257 Overseas pensions and annuity schemes, July 2020
-  IR461 Guide to foreign investment funds, November 2021
-  International Tax Disclosure Exemption ITR30, updated annually
-  Section CF 1 Benefits, pensions, compensation, and government grants
-  Section CQ 5 When FIF income arises
-  Section CQ 6 Calculation of FIF income
-  Section CX 57B Amounts derived during periods covered by calculation methods
-  Subpart EX Controlled foreign company and foreign investment fund (FIF) rules

Foreign life insurance policies and the foreign investment fund rules

If you're a New Zealand tax resident who is not a transitional resident and have the right to benefit from a life insurance policy, you may have to calculate FIF income and include it in your IR3 return. This only applies when the policy is not offered or entered into in New Zealand.

Exemptions

You do not need to calculate FIF income if the total cost of all your FIF interests is under \$50,000. However, you can elect to apply the FIF rules but there are restrictions on switching into and out of them. See the IR461 guide for other exemptions which may apply.

When measuring the cost of your interests, premiums are excluded if they relate only to term life insurance and do not increase the surrender value.

Calculating your FIF income

The applicable methods will be the FDR, CV and CM.

Where market value is relevant, it equals the surrender value but only for the purpose of calculating the cost of a person's rights when they enter the rules due to a change of residence or where an exemption no longer applies.

Income received solely from a death benefit under a life insurance policy is not FIF income. This applies if:

- the contracting party (being the person or the deceased) entered into a binding contract giving rise to the benefit when not a New Zealand tax resident
- the contracting party had not been a New Zealand tax resident or had not been a New Zealand tax resident for the previous 10 years at the time of entering into the contract
- the benefit was not increased by a voluntary action after the contracting party became resident.

EXAMPLE

Andy is a New Zealand tax resident who is not a transitional resident. He acquired an interest in a life insurance policy by an overseas insurer five years ago and the total cost of his FIF interests is over \$50,000. Andy would need to calculate FIF income from the policy and may need to make a disclosure.

REFERENCES

-  [IR458 Interest in a foreign investment fund disclosure schedule for individuals and closelyheld entities \(myIR form\)](#)
-  [IR461 Guide to foreign investment funds, November 2021](#)
-  [Section CQ 5 When FIF income arises](#)
-  [Section CQ 6 Calculation of FIF income](#)
-  [Subpart EX Controlled foreign company and foreign investment fund \(FIF\) rules](#)

Foreign social security pensions

If you're a New Zealand tax resident who is not a transitional resident and receive a social security pension from another country, you'll usually have to pay tax on it here.

If the other country also deducts tax, you may be able to claim a foreign tax credit in your return.

However, you cannot do this if a double tax agreement gives New Zealand sole taxing rights. In these cases, you'll need to apply to the administrator of the pension scheme in the other country for a refund.



If you receive a social security pension from the United Kingdom, you should read QB 14/12 for information on how to apply for a refund of tax deducted there.

You'll probably have to pay provisional tax in New Zealand if no tax is deducted from your pension before you receive it.

Some DTAs give the other country sole taxing rights so this income does not need to be returned in New Zealand.

If you receive your pension from overseas via the special banking option, it'll be deposited into a bank account at Westpac. Work and Income will withdraw the funds and pay you the equivalent amount of New Zealand Superannuation after deducting New Zealand tax. Depending on your circumstances, you may not need to file an IR3 return. This might be the case where you have no other income.

New Zealand has a special banking option with the following countries:



-  Australia
-  Ireland
-  Netherlands
-  United Kingdom.

Help

Our IR258 guide has examples explaining the rules applying to pensions from several countries.

There is also a chart for you to track payments and convert them into New Zealand dollars.

REFERENCES

-  [IR258 Overseas social security pensions, April 2020](#)
-  [QB 14/12 Income tax - foreign tax credits for amounts withheld from United Kingdom pensions, 2014](#)

Foreign superannuation scheme withdrawals and the foreign investment fund rules

If you're a New Zealand tax resident who is not a transitional resident and have an interest in a foreign superannuation scheme, you might have to pay tax on lump sum withdrawals or transfers.

The taxable amount is calculated according to 1 of 2 methods.

There is a 4-year exemption for some withdrawals or transfers.

Before considering the foreign superannuation rules, you need to determine whether the FIF rules apply - see the section on Foreign pension income and the foreign investment fund rules on page 18.

Temporary exemption for lump sum withdrawals

There is a temporary exemption for lump sum withdrawals if you first acquired the interest in the foreign superannuation scheme while you were a non-resident. You must not have previously claimed the exemption.

Unlike the temporary exemption for transitional residents, there is no requirement for returning New Zealand tax residents to have been non-resident for 10 years.

The exemption starts on the date you become a New Zealand tax resident. It ends 48 months after the month in which you first became resident ignoring the backdating rule in the 183 days test.

EXAMPLE

Markus returns to New Zealand on 1 July 2020 after working overseas for 3 years. He becomes a New Zealand tax resident again under the permanent place of abode test on 30 September 2020. While overseas, Markus acquired an interest in a foreign superannuation scheme. The FIF rules do not apply.

Markus' exemption starts on 1 July 2020 and ends on 30 September 2024. During this period, there is no tax on lump sum withdrawals from Markus' scheme.

Note that Markus does not qualify as a transitional resident as he was not a non-resident for at least 10 years before becoming resident again. As a result, he'll need to pay tax on his worldwide income from 1 July 2020.

Calculating your income from a foreign superannuation scheme

If the FIF rules do not apply and you do not qualify for an exemption, you're liable for tax in the following situations:

- you've received a lump sum from a foreign superannuation scheme
- you've transferred your foreign superannuation scheme into a New Zealand or Australian superannuation scheme
- you've transferred your superannuation interest to another person.

You also have to apply these rules if the FIF rules do not apply because the total cost of all your FIF interests is under \$50,000. This is known as a low-value FIF superannuation interest.

You calculate your income using 1 of 2 methods. Both of these methods require you to calculate your duration of tax residence to determine your 'assessable period'.





The schedule method is the default option. In general, it taxes any withdrawals based on the number of years you have been a New Zealand tax resident and the contributions you have made. Any difference between the amount of the withdrawal and the amount calculated is exempt.

The formula method is more complicated and taxes actual investment gains that have accrued to your scheme while you have been a New Zealand tax resident. It can only be used for defined contribution schemes when a number of conditions have been met.

EXAMPLE

Refer to the IR257 guide for examples.

REFERENCES

-  IR257 Overseas pensions and annuity schemes, July 2020
-  IR1024 Tax rules for foreign superannuation lump sums, May 2014
-  Section CF 3 Withdrawals from foreign superannuation scheme
-  Section CW 28B Foreign superannuation withdrawal in initial period of residency
-  Section CW 28C Foreign superannuation withdrawal exceeding given amount
-  Section CW 29 Reinvested amounts from foreign superannuation schemes in Australia
-  Section CW 29B Amounts from Australian complying superannuation schemes reinvested in KiwiSaver schemes

Foreign dividend income and the controlled foreign company rules

If you're a New Zealand tax resident who is not a transitional resident and have an income interest of 10% or more in a CFC, you may have to pay tax on income attributed from that company.

A CFC arises if a group of 5 or fewer New Zealand tax residents has more than 50% in 1 of 4 control interest categories or controls the exercise of shareholder decision-making rights in a foreign company.

A CFC also arises when a single New Zealand shareholder holds a control interest higher than 40% in a foreign company and other conditions are met.

If your income interest is 10% or over but the foreign company is not a CFC, you'll also need to consider modified CFC rules to calculate attributable FIF income.

The rules can be complex and you may need advice from a tax agent.

Exemptions

You do not have to calculate income under the CFC rules in either of the following cases:

- the CFC is a non-attributing active CFC
- the CFC is a non-attributing Australian CFC.

Basically, a non-attributing active CFC has passive income, such as interest, dividends and rents, which is not more than 5% of gross income in an accounting period. A non-attributing Australian CFC is resident in Australia and subject to income tax there.

In these cases, you include any dividends you receive in your IR3 return.

Calculating your CFC income

Your CFC income is found by multiplying your income interest in the CFC by the net attributable income of the company.

There are detailed rules for the calculation of each item in the formula.

If you have an attributed loss, it must generally be carried forward and offset against CFC/attributed FIF income derived from the same country.

If your income interest is over 10% in a CFC, you may be able to use modified rules in limited circumstances. These rules are the same as those applied for calculating FIF income under the attributable FIF income method.

Disclosures

Unless you are exempt, you must make a disclosure of an income interest of 10% or more in a CFC electronically on form IR458. We publish a list of people who are exempt each year.

If you do not make a disclosure, we can issue a default assessment.

It's an offence not to make a disclosure or to give false information to Inland Revenue.

Special anti-avoidance rules

You also have CFC income if the following conditions apply:

- you have an attributing interest in a FIF
- you use the attributable FIF method
- the FIF receives a taxable distribution from a noncomplying trust.

You also may have attributed CFC income if a non-attributing active CFC or a non-attributing Australian CFC derives income from personal services and you have an income interest of 10% or more.










EXAMPLE

Miles is a New Zealand tax resident who is not a transitional resident. He heard incorrectly that he can reduce his tax bill by forming a company in Bermuda and earn interest tax free.

However, as the company is a CFC and more than 5% of its income is passive, it must attribute income to Miles who has to pay tax in New Zealand on it.

In addition, Miles would have to make a disclosure of his interest in the company.

REFERENCES

-  IR458 Foreign Investment fund/Controlled foreign company disclosure(s) (myIR form)
-  International Tax Disclosure Exemption ITR30, updated annually
-  Section CD 1 Dividend
-  Section CQ 1 Attributed controlled foreign company income
-  Section CQ 2 When attributed CFC income arises
-  Section CQ 3 Calculation of attributed CFC income
-  Subpart EX Controlled foreign company and foreign investment fund rules
-  Section 61 Tax Administration Act 1994
-  Part 9 Tax Administration Act 1994

Foreign beneficiary income and taxable distributions from trusts

If you're a New Zealand tax resident who is not a transitional resident, you're generally taxable on your worldwide income. This can include beneficiary income and taxable distributions from any trust or estate overseas.

Beneficiary income

Beneficiary income is current year income derived by trustees which has either:

- vested in you as a beneficiary during the income year
- been paid to you in the income year or within certain time frames after the end of the year.

EXAMPLE

Henry is a New Zealand tax resident who is not a transitional resident. His rich uncle, also a New Zealand tax resident, has settled a trust for his nephews and nieces. The New Zealand trustees derive income from assets in the United Kingdom and Australia which vests in the interest of Henry in the 2021 income year. Henry would report the income in his IR3 return for that year.

Taxable distributions

Taxable distributions are other distributions made by the trustees to you other than beneficiary income, such as undistributed income from previous years, capital gains and corpus.

The taxation of taxable distributions depends on the classification of the trust.

If the trust is a complying trust, distributions other than beneficiary income are exempt. Complying trusts are usually settled by a New Zealand tax resident and the trustees have paid tax on all of the trust's income.

If the trust is a foreign trust, distributions other than beneficiary income, certain capital gains and corpus are taxable for the recipients at their marginal rates. Foreign trusts are basically those settled by non-residents.

If the trust is a non-complying trust, distributions other than beneficiary income and corpus are taxable. Non-complying trusts are those which are neither complying nor foreign trusts.

There are special ordering rules to determine the make-up of a distribution.

If you're a beneficiary of a foreign or non-complying trust, you'll need to attach a completed IR307 to your IR3 return.

If you receive taxable distributions from a non-complying trust, follow the instructions in the IR3 guide when completing the return as taxable distributions are taxed separately at a higher rate of 45%.

If you receive money or property from overseas, including inheritances, we advise you to read Interpretation Statement IS 25/18. It explains distributions from foreign trusts and clarifies some areas of difficulties due to some countries not using the same concept of a trust as New Zealand.

Special rule

There is a special rule which applies where you become a tax resident after having been a non-resident for fewer than 5 years. In this situation, you're taxed on your beneficiary income and distributions from foreign and non-complying trusts for the period of your absence.

Transitional residents

If you're a New Zealand tax resident who is a transitional resident, you're generally only taxed on income or taxable distributions with a source in New Zealand.

EXAMPLE












The Happy Trust was settled by Judith, a resident of the United Kingdom, for her grandchildren. One of them is Melissa, who is a New Zealand tax resident and not a transitional resident.

The trustees in the United Kingdom allocate current year interest income to the beneficiaries in equal shares.

Melissa will convert the income into New Zealand dollars and include it in her IR3 return. She can claim any tax paid in the United Kingdom as a foreign tax credit limited to the amount of New Zealand tax payable on the income. She'll also need to complete an IR307 as the trust is a foreign trust.

If Melissa was a transitional resident, she would not need to include the income in her IR3 return.

REFERENCES

-  IR307 Schedule of beneficiary's estate or trust income
-  Interpretation Statement IS 24/01 Taxation of trusts, February 2024
-  Interpretation Statement IS 25/16 Tax residence, May 2025
-  Interpretation Statement IS 25/17 Tax residence - government service rule, May 2025
-  Interpretation Statement 25/18 Income tax - Whether money or property received by New Zealand tax residents from overseas is income from a foreign trust, August 2025
-  Section CV 13 Amounts derived from trusts
-  Section CV 15 Amounts derived from trusts while person absent from New Zealand
-  Section CW 53 Distributions from complying trusts
-  Section CW 54 Foreign-sourced amounts derived by trustees
-  Section CX 59 Taxable distributions from non-complying trusts
-  Subpart HC Trusts

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If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about the disputes process at ird.govt.nz/disputes.

Appendix 1 – Converting foreign currencies

The general rule is that foreign amounts should be converted to New Zealand dollars using the applicable spot rate.

The Commissioner currently publishes tables giving mid-month and end-of-month spot rates. These tables can be found here: ird.govt.nz/overseas-currency.

To calculate the New Zealand dollar amount, divide the foreign amount by the rate in the table. Spot rates for other days can be provided by trading banks and other reputable sources. You may also be able to use the mid-month rate as a proxy for the spot rate on a day during the same month.

Specific conversion rules for foreign investment funds

If you apply the FIF rules and do not use the attributable FIF method, you can use either the spot rate or the average of the close of the trading spot exchange rate for the 15th of the months falling in the relevant period. You should use the same method for all your interests.

The Commissioner publishes the rolling 12-month mid-month table for periods of exactly 12 months. If the period is shorter or longer than 12 months, use the mid-month table to derive an average rate. This is done by adding the rates for the relevant months and then dividing by the number of months.

Specific conversion rules for financial arrangements

The Commissioner has published a number of determinations setting out how income or expenditure from certain financial arrangements should be calculated. Determination G9A is likely to be the most useful for most individuals. See Appendix 2 for 2 worked examples using this determination.






Specific conversion rules for controlled foreign companies and the attributable FIF method





The calculations can be complex and you may need the help of a tax agent.

Permitted method for foreign rental income

The Commissioner has published an approval for individuals with foreign rental income. This approval sets out acceptable methods for converting such income to New Zealand dollars. The methods may suit some individuals rather than using spot rates.

REFERENCES

-  FX 20/01 Approval – foreign residential rental property amounts – currency conversion, July 2020
-  FX 21/01 Foreign exchange rates, December 2021
-  EX 21 Attributable CFC amount and net attributable CFC income or loss: calculation rules
-  EX 50 Attributable FIF income method
-  EX 57 Conversion of foreign currency amounts: most methods

-  LK 3 Currency conversion
-  Subpart YF Currency conversion
-  90AC Tax Administration Act 1994 Determinations relating to financial arrangements
-  Determination G9A Financial arrangements that are denominated in a currency or commodity other than New Zealand dollars, December 1989

Appendix 2 - Financial arrangements rules - worked examples using Determination G9A

The calculations can be complex and we recommend the use of a tax agent if you're unsure of the methodology.

Example 1 – foreign currency term deposit

Kapil is a New Zealand tax resident who is not a transitional resident. He is not a cash basis person and has a balance date of 31 March.

On 1 October 2018, he opens a term deposit for INR 3 million at an Indian bank. The term is for one year and interest compounds at 7% six-monthly. The bank deducts non-resident withholding tax (NRWT) at 10%.

Calculate the closing book value as at 31 March 2019 in Indian rupees

e = 0 (opening tax book value)
+f = 3,000,000 (consideration given by Kapil)
+g = 105,000 (base currency income is $3,000,000 * 7% * 180/360$)
-h = 10,500 (consideration given to Kapil being NRWT paid to the tax department in India)
-l = 0 (base currency expenditure)
CTBV = 3,094,500.

Calculate income for the year ended 31 March 2019 in New Zealand dollars

a = 65,833.70	CTBV in NZD ($3,094,500/47.0048$ spot rate at 31/3/19)
+b = 223.38	'h' in NZD ($10,500/47.0048$ spot rate at 31/3/19)
-c = 0	'e' in NZD
-d = 62,591.28	'f' in NZD ($3,000,000/47.9300$ spot rate 30/9/18)

The result is \$3,465.80. As the amount is positive, it's income (sections EW 14 and CC 3). There is a foreign tax credit of \$223.38.

Calculate income for the year ended 31 March 2020 in New Zealand dollars

You do not use a spreading method in the year a financial arrangement matures but calculate the base price adjustment instead.

a = $((3,094,500 + (3,094,500 * 7% * 180/360)) / 44.1408) + (10,831 / 44.1408) + 223.38 - 62,591.28$ (consideration received less consideration given during the arrangement)
-b = 3,465.80 (income in previous years)
+c = 0 (expenditure in previous years)
+d = 0 (amount remitted)

The result is \$6,970.56 and is income (sections EW 31 and CC 3). There is a foreign tax credit of \$245.37.

Most of the income arises from the New Zealand dollar devaluing against the Indian rupee during the life of the arrangement.

Example 2 – foreign currency current account

Kapil also opens a current account on 1 October 2018 at the same bank in India. Interest is calculated daily and compounds quarterly. The bank deducts non-resident withholding tax at 10%.

The bank account can be analysed as follows:

Date	Deposits	Interest	NRWT	Withdrawals	Balance	Rate	NZD deposits	NZD interest	NZD NRWT	NZD withdrawals
1/10/18	2,600,000				2,600,000	47.9300	54,245.78			
31/10/18				1,300,000	1,300,000	48.4223				26,847.13
31/12/18		13,000	1,300		1,311,700	46.8547		277.45	27.75	
31/1/19	2,000,000				3,311,700	49.1405	40,699.63			
31/3/19		14,000	1,400		3,324,300	47.0048		297.84	29.78	
Totals	4,600,000	27,000	2,700	1,300,000			94,945.41	575.29	57.53	26,847.13

Calculate the closing book value as at 31 March 2019 in Indian rupees

e = 0 (opening tax book value)
+f = 4,600,000 (consideration given by Kapil)
+g = 27,000 (base currency income)
-h = 2,700 + 1,300,000 (consideration given to Kapil)
-l = 0 (base currency expenditure)
CTBV = 3,324,300.

Calculate income for the year ended 31 March 2019 in New Zealand dollars

a = 70,722.56	CTBV in NZD (3,324,300/47.0048)
+b = 26,904.66	'h' in NZD (57.53 + 26,847.13)
-c = 0	'e' in NZD
-d = 94,945.41	'f' in NZD

The result is \$2,681.81 and is income (section EW 14 and CC 3). There is a foreign tax credit of \$57.53.

Note that the account is not a variable principal debt instrument as the balance exceeded \$50,000 during the year.

If the account was a variable principal debt instrument, it'd be an excepted financial arrangement. Kapil would report income on the basis of cash receipts (\$575.29 income with a foreign tax credit of \$57.53 as per the above table).

